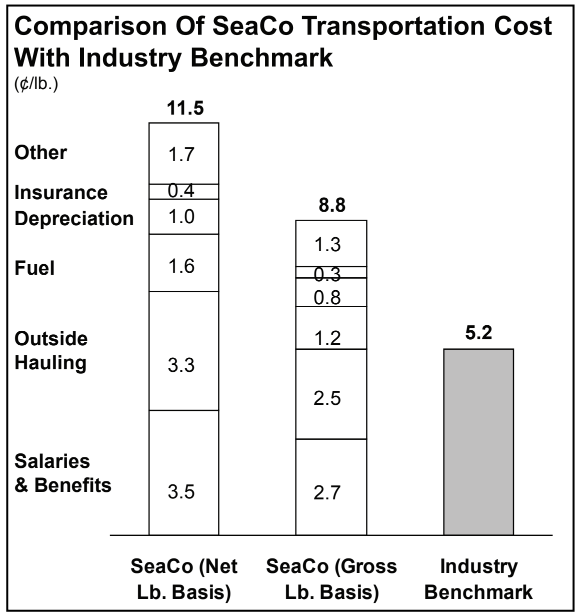
Distribution Cost Reduction At National Seafood Company: Cleaning Up Distribution As A First Step In Establishing A Growth-Supporting Distribution Platform

The Challenge: In sync with its strategy to become a national distributor of multiple seafood species, SeaCo, a private equity portfolio seafood company, had acquired FishCo, a $100 MM seafood processor. Faced with independent distribution centers at each of its two divisions, SeaCo needed to create an integrated platform to support its growth strategy, and engaged Gotham to help. Initial conversations with SeaCo management revealed that FishCo's distribution costs significantly exceeded industry benchmarks. A three-phased approach was proposed to first clean up FishCo's distribution system and position it to meet SeaCo's vision, which entailed: (1) reducing distribution costs at FishCo; (2) interim integration of SeaCo and FishCo distribution; and (3) creation of a national distribution platform for distributing multiple seafood species in the longer term.

The Partnership:

Analysis: The joint Gotham/ FishCo team conducted a two-week diagnostic to identify key levers of the cost reduction opportunity and to size them. The team began by creating a representative weekly logistics profile for the division based on mapping the products shipped on each truck route. To create this map, the team collated annual shipment and order data and actual loading sheets for a sample week. The analysis flushed out several causes of the excessive distribution costs: (1) failure to segment operations between fresh (50% of sales) and frozen products, which have less stringent delivery constraints; (2) under-utilization of owned fleet (only filled 77% on average going out, and typically empty during the return); (3) 2nd trip incentives for drivers, which resulted in 50% higher pay vs. industry average; (4) use of larger-than-required packaging for certain popular products, with associated non-value-added shipping volume; (5) lack of production planning wreaking havoc downstream; (6) no disciplined policies for minimum order size and time of placement of order; (7) insufficient loading bays for fresh products.



Strategy: From the identified causes, the joint team formed ingoing hypotheses on the key cost levers and then categorized them according to the speed with which savings could be captured: (1) quick hits (e.g., changing the package size for certain fresh packs, increasing fleet utilization by improving route planning); (2) process and policy changes that could be achieved in 3-4 months (e.g., order policies and upstream processes, including production planning, inventory management and loading layout); and (3) cultural changes that would require 6-8 months to realize (e.g., driver compensation structure).

Execution: The findings and recommendations were discussed with SeaCo's senior management team. After SeaCo management had bought-in to the recommendations, they were discussed in a wider meeting with the FishCo managers and associated initiatives were launched. The FishCo team has begun implementing the packaging size initiative and has installed route optimizing software to improve its route planning, with the other initiatives underway.

The Results: SeaCo and FishCo managers targeted distribution cost savings of $1.5-2MM on a $7MM cost basis. Within 2 months of implementing the 'quick hit' initiatives, annualized savings of $1MM are expected. SeaCo is well positioned for an efficient integration of its distribution systems by the end of this year.

575 Lexington Avenue, 24th Floor • New York, NY 10022 • Tel: 212.497.9200 • Fax: 212.497.9210 • www.gcpny.com