



## Menlo Works with Healthcare Customers in Streamlining Supply Chains

Dayton, New Jersey USA Site Visit

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By

Evan Armstrong

### Key Personnel:

David Swanson, General Manager – Geistlich Biomaterials

Morgan Anderson, Senior Director of Operations

Brian Murphy, Business Development Director – CIG

Steven Zeltzer, Senior Program Manager

Dan Geroe, Operations Manager

### *Menlo Worldwide Logistics Overview*

In 2012, Menlo Worldwide Logistics generated gross revenue of \$1.7 billion and net revenue of \$639 million. Its global staff of approximately 7,500 manages operations in 20 countries on five continents. Menlo's warehousing footprint includes 138 facilities with over 20 million square feet of space. Menlo has tier-one inbound supply chain management and finished goods distribution capabilities. Its I.T. capabilities, including its recent addition of Oracle-TM's transportation management system, provide Menlo with solid supply chain management and optimization capabilities.

Menlo was an early adapter of the Lean management approach. Much of its focus has been to drive operational standardization across Menlo's global operations. The methodology has driven positive results both for Menlo's profitability and for securing high-margin, performance sensitive customers. The table below shows the number of Kaizen (process improvement) Events held at Menlo since 2005, the number of staff trained in Lean principles, and the level of savings achieved. In addition, it shows the number of facilities that have achieved specific goals/criteria to become Bronze through Gold certified.

### Menlo's Lean Continuous Improvement Milestones

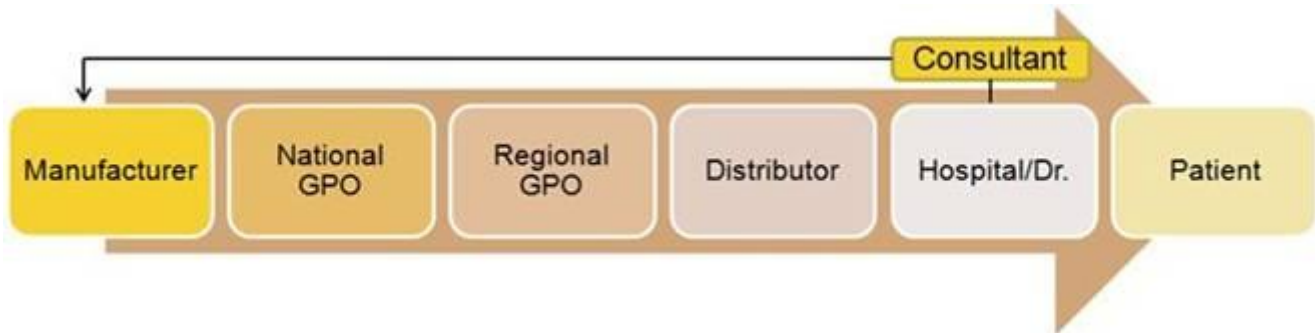
	2005	2006	2007	2008	2009	2010	2011	2012
<b>Kaizen Events</b>	75	216	378	463	594	966	1157	1584
<b>Associates Trained</b>	80	220	1607	1325	1512	6770	5534	5812
<b>Bronze Certification</b>	1	1	28	12	32	13	21	26
<b>Silver Certification</b>	0	0	4	9	7	17	9	10
<b>Gold Certification</b>	0	0	0	0	0	0	2	2
<b>LEAN SAVINGS PER YEAR</b>	\$1.59 M	\$2.27 M	\$5.75 M	\$8.13 M	\$13.57 M	\$26.40 M	\$32.13 M	\$50 M+

### ***Driving Lean Supply Chain Efficiencies in Healthcare***

Menlo is finding the Healthcare industry very accepting of its Lean six-sigma management approach in driving waste out of supply chains. Its major Healthcare industry accounts include 3M Medical Supplies & Devices, ArjoHuntleigh, and Geistlich Biomaterials.

The current state of the Healthcare supply chain consists of manufacturers, national and regional group purchasing organizations (GPOs), and distributors involved in purchasing and supplying goods to hospitals and doctors. With multiple parties involved in a supply chain, inefficiencies often develop.

### **Today's Healthcare Supply Chain**



In a recent meeting with Menlo customer David Swanson, general manager of Geistlich Biomaterials, Dental Division (supplier of dental bone and tissue regeneration materials for prosthetic tooth implants) and Morgan Anderson, senior director of operations from Menlo, the following Healthcare delivery system inefficiencies were highlighted:

- Materials inventories are increasing, cycles times are growing, and manufacturers' margins are shrinking.
- Hospitals need to move to an end-to-end supply chain system mindset. There is a general lack of end-to-end supply chain understanding within an industry with many operational silos.
- The "mental model" needs to be changed from supply chain meaning only logistics to meaning end-to-end value network and attracting C-level decision makers.
- Historically there has been strong reluctance to change within the industry. Third-party logistics providers (3PLs) have gained some ground by starting small and growing through operational results.
- Patient outcome is key in the Affordable Healthcare Act and supply chains will need to work from the patient backwards.

Menlo is working directly with Healthcare manufacturers such as Geistlich to improve profit margins and speed up supply chains in the following ways:

- Reduce distributors' role in product ownership to improve hospital and manufacturer margins and lower inventory carrying cost.
- Align doctors and hospitals for product purchasing and greater buying power.
- Help health systems enforce contract pricing provided by National GPOs.
- Provide the operational expertise for different types of healthcare kits to be delivered directly to a patient bedside.
- Implemented a Healthcare Centers of Excellence approach starting in Eersel, Netherlands to build specific operational capabilities for Healthcare customers.

The next two sections of this report give background information Menlo's relationship with Geistlich and our detailed operations review of Menlo's Dayton, NJ Healthcare value-added warehousing and distribution operation below.

### ***Geistlich – Menlo Relationship Startup***

Geistlich Biomaterials began working with Menlo in 2012 in an effort to streamline its customer supply chain by transitioning its distributor centric distribution model to a 3PL model in order to improve service performance levels, inventory visibility, and lower overall distribution costs. Menlo designed a new domestic U.S. supply chain for Geistlich centralized at its multi-client Dayton, NJ value-added warehousing and distribution operation.

### ***Operations Review: Dayton, NJ Healthcare Value-Added Warehousing & Distribution Operation***

Menlo's 250,000 square foot Dayton, NJ warehouse operation is partitioned into Healthcare and non-Healthcare customer operations. The Healthcare operation runs from 8 A.M. to 8 P.M. five days a week and is housed in 90,000 square feet of space. There is 70,000 square feet of ambient warehouse space and 20,000 square feet is cordoned off in a modular temperature controlled (at 58-86 degrees Fahrenheit) section of warehouse.

The Healthcare operation has a warehouse staff of 40 and fulfills approximately 620 orders per day from over 4,000 different SKUs (stock keeping units) of product inventory for two customers. Most items are each picked, packed, and shipped. Based upon its performance metrics and level of process improvements, the operation is about to be awarded Menlo's Bronze Lean Certification.

Special logistics requirements for the Dayton Healthcare operation include lot control, expiry date management, temperature and humidity controlled storage, and inside deliveries to hospitals and offices.

For one of its Healthcare customers, products are received from manufacturing operations in New Jersey, Germany, France, and Sweden. The Dayton operation manages finished goods inventories of products including ventilators and cardiovascular monitors, operating room light fixtures, surgical patches and materials, and many lines of spare/service parts.

The operation utilizes Menlo's Provia WMS (warehouse management system) and two legacy systems. Over the next six months, the operation will be converting to a combination of SAP's ERP (enterprise resource planning) system and Menlo's WMS.

As orders "drop" from SAP, picking is managed by work zones. From picking, items are brought to two pack stations in the ambient warehouse and one pack station in the temperature controlled warehouse. After orders are packed out, they are then staged for carrier pickup. Approximately 90% of orders are small package, 7% are shipped LTL (less than truckload), and 3% are full truckload.

Menlo performs poly bagging for multiple lines of parts as a value-added service. The operation's on-time shipping performance was 99.8% and net inventory accuracy was 99.996% at the time



*Ambient warehouse pack lines*

of our visit.

The entire Geistlich operation is housed in a section of the temperature controlled warehouse. It consists of stored product and one pack line. Product is received from Geistlich's manufacturing operation in Switzerland and is putaway and stored in racks.

The operation is managed using Menlo's "SIMS" WMS. Outbound orders are all small package shipments destined to oral surgeon and dentist offices.

At the time of our visit, Menlo's on-time shipping and inventory accuracy performance was 100% and the operation had generated an annual warehousing cost savings of over 15% for Geistlich.



*Geistlich section of the temperature controlled warehouse*

### ***Menlo Healthcare Operations Summary***

Menlo has added significant business over the past three years. It continues to expand its customer base and is growing into new vertical industries. Menlo's growth in Healthcare is a testament to this industry diversification. As additional Healthcare companies put additional focus on supply chain performance, we expect that Menlo's Lean principled operations will be a significant asset.

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