



SHOWCASE



ACE Hardware Reduces Inventory by Increasing Lead Time Dependability

Company Overview:

Founded in Chicago in 1924, Ace Hardware Corporation has grown to become America's neighborhood hardware retailer, with over 5000 US locations supported by 15 world-class distribution centers, supplying over 65,000 products. "Ace ... The Helpful Place" is the most recognized slogan in the home-improvement industry, reflecting the helpful advice and product choices available at Ace Hardware. Ace retailers have built its annual retail sales to more than \$13 billion.

Business Process and Problem Definition:

Ace wanted to reduce inventory levels at its DCs, but at the same time needed to maintain a low level of out-of-stock instances for its stores. Ace knew that improving inventory turns and reducing cycle time would require reducing the lead time on items inbound to the DCs.

Because ACE experienced low lead time dependability from suppliers, the ERP system used

the longest item lead time when placing orders with suppliers and accumulated excessive safety stock as a result. Ace wanted fixed order-ship time commitments from its suppliers and also timely and accurate ready-to-ship data (for command and control and for visibility).

Internal operations added to the problem -- the DCs had no visibility to the Buyer "want" date, so receiving appointments were not connected to the required dates and goods often arrived well after the Buyers needed them. The DCs needed to implement timely and accurate appointment scheduling for all loads, and to receive faster. The appointment scheduling needed to align with the Buyer's want date and with an overall order-ship cycle compression.

Lack of visibility into performance prevented Ace's Inventory Control department from monitoring suppliers' commitments and schedules and following-up on problematic shipments. Lack of Business Intelligence prevented Ace from identifying the source of the problem (i.e., supplier, carrier) for each instance of a late delivery.

Solution:

Ace implemented LeanLogistics' Supplier Inbound initiative to control inbound shipments from its suppliers and to address the lead time dependability issues. Ace is employing the On-Demand TMS® Supplier Portal and converting suppliers to freight collect terms. This allows Ace to assume the right-of-routing, achieving greater control and improving performance on freight collect, and to specify the carrier through transactional route instructions to those suppliers shipping pre-paid. Ace will ultimately



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implement more than half of its suppliers (several thousand, which represents the majority of Ace's business).

The visibility and performance history create report cards for suppliers and carriers, highlighting problematic lanes and partners and supporting a continuous improvement program. By importing supplier lead time variability by week by DC into the ERP system, Ace automatically creates valid order lead times.

Success with the On-Demand TMS® implementation convinced Ace to proceed with a corporate-wide initiative to reduce inventory, to increase inventory turns, and to increase lead time dependability. This project's emphasis is on creating a holistic order-ship schedule that compresses unnecessary delays from every pipeline station.

Ace conducted an extremely successful order-ship cycle time compression pilot with a limited number of suppliers. The suppliers committed to a consistent (fixed), short order-ship cycle; the carriers committed to timely and accurate pick-up and delivery; and the Ace DCs assigned specific day-of-week delivery/unload schedules. This lead time reduction program is now being expanded to a much larger number of key suppliers.

Value Proposition:

The successful pilot implementation reduced stock significantly without increasing out-of-stock situations. The result has been a 20% reduction in inventory for the goods from these suppliers. Once the order-ship schedule is compressed, the ERP safety stock computation and component attributes are adjusted to insure excess safety stock is eliminated (since cycle time is a key determinant of safety stock).

DC personnel are very enthusiastic about the amount of space saved in the DCs. Dependable lead times allow Ace to increase the amount of goods that are flowed-through the DCs, further reducing standing inventory. Visibility to Buyer want dates results in effective appointment scheduling and assembly of store shipments.



Fourteen DCs are now operational with major suppliers who represent significant item volume. Since commencing the implementation in April of this year, Ace has implemented over 400 suppliers to date and additional suppliers are being converted at an aggressive pace.

Significant freight bill savings have been realized as a result of automating, auditing, and comparing rates. Shifting business to lower cost carriers with comparable performance resulted in a cycle of carrier competition and modified pricing that repeated itself unsolicited multiple times.

Currently, Ace has saved 12.9% on the annual freight bill from one origin to the rest of its network (over \$2 million). Other examples abound and Ace expects to save over \$5 million annually against an \$80 million freight bill.

Mr. Brian Cronenwett, Director of Supply Chain-Distribution and Logistics at Ace, enthused, "Inbound visibility and control is the wave of the future. It facilitates our plan to reduce inbound cycle times and increase lead time dependability so that we can cut inventory and maintain our existing Distribution Center facilities." 🍌

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