CSCMP's Supply Chain [QUARTERLY]

FINANCE GLOBAL LOGISTICS MANUFACTURING PROCUREMENT [STRATEGY] TECHNOLOGY

ASICS keeps pace *with growing demand*

ASICS America's single distribution center couldn't keep up with surging demand for its athletic shoes and apparel. Changing its distribution pattern and adding another warehouse helped the company manage both current sales and future growth.

BACK IN 2008, ASICS America was having trouble keeping ahead of demand for its athletic shoes and apparel. Sales for the North American branch of the Japanese manufacturer were growing by 21 percent annually, which turned out to be both a blessing and a curse. While the gains in revenue and market share were welcome indeed, the strong sales performance also caused ASICS' single U.S. distribution center (DC) to reach capacity. That resulted in service slowdowns and raised concerns about the company's ability to handle future growth.

"We realized a year ago that with the growth we were having as a company, our current distribution model was not going to support the business in the next couple of years," says Gary Jordan, chief supply chain officer for ASICS America.

Clearly the manufacturer needed more distribution capacity, and soon. Before it could act, Jordan and his colleagues needed to answer two questions: How could the company quickly get a handle on current growth? And what would be the most cost-effective way to develop capacity to support future expansion? To answer those questions, ASICS America conducted an analysis of its distribution system. The

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results of that exercise led the manufacturer to have some of its orders bypass the DC; expand the use of its third-party logistics (3PL) provider; and build a second distribution center. Here's a look at what ASICS America has accomplished so far and its plans for the future.

Stretched to the limit

ASICS was founded in 1949 in Kobe, Japan as a manufacturer of basketball shoes. Its name is an acronym for the Latin phrase *anima sana in corpore sano*, which translates to "a sound mind in a sound body." Today the company makes athletic footwear, apparel, and accessories for a broad spectrum of sports, and its worldwide sales total around US $2.4 billion. ASICS America, which serves the United States, Canada, and Mexico, is based in Irvine, California, USA.

ASICS America uses contract manufacturers in China, Vietnam, and Indonesia to make its shoes and clothing. Those items are shipped in ocean containers to the ports of Los Angeles and Long Beach. On average, the company imports 2,200 40-foot-equivalent containers each year into the United States.

Back in 2008, the company's U.S. supply chain was fairly straightforward. The logistics service provider APL Logistics (APLL) unloaded ASICS' ocean containers at its Torrance, California, facility. It then reloaded most of the merchandise into 53-foot trailers for over-the-road shipment to ASICS' 350,000-square-foot distribution center in Southaven, Mississippi. That facility, located near Memphis, Tennessee, handled orders for most of ASICS America's 3,000 retail customers in the United States. At that time, Southaven carried about 23,000 stock-keeping units (SKUs) and typically held about US $100 million of inventory.

APLL also handled about 6 percent of the imported goods as "DC bypass shipments," which skipped Southaven and went directly to a customer. These generally were full container loads of product destined for customers on the West Coast, Jordan says.

ASICS had anticipated and prepared for rapid growth, spending millions of dollars in 2005 and 2006 to retrofit the Southaven facility and boost throughput to 50,000 units per day. But even so, the 21-percent sales growth in 2008 was taxing the company's distribution capacity. That year, Southaven was shipping 70,000 or more units daily and had even seen volumes as high as 110,000 units per day. "We had reached a point where we were not going to get any more out of [that distribution center]," Jordan says.

At the same time, ASICS America was coming under another sort of pressure. Retail customers had begun requesting value-added services, such as garment-on-hanger shipments, which the Southaven facility could not accommodate. Moreover, bricks-and-mortar retailers that also engaged in online sales were asking the manufacturer to ship individual orders to customers, but the current facility wasn't designed to support a direct-to-consumer business. In short, capacity constraints were not only slowing down order fulfillment, they were also preventing ASICS America from serving new customers and markets. "We couldn't handle that type of business out of our current distribution network," said Jordan, "and it was limiting our sales opportunity."

A two-part plan

When it became clear that the current distribution strategy was no longer adequate, an in-house team at ASICS America began an analysis of the company's distribution network, poring over data for sales, shipments, order types, frequency of orders, and SKUs. The team recommended shifting some distribution operations to the West Coast to provide relief for the Mississippi DC. But it also determined that ASICS couldn't handle that task on its own, largely because it didn't have the ability to provide the kind of service customers on the West Coast needed for their particular order types, Jordan says.

At that point, Jordan brought in the supply chain consulting firm Fortna Inc. of Reading, Pennsylvania, USA to get a second opinion on how best to solve the capacity problem. Fortna had worked with ASICS America previously on the upgrade of its Southaven facility a few years earlier. After reviewing the data the project team had collected, Fortna sought and reviewed such additional information as customer types and ordering profiles, inbound container and transfer costs, the third-party logistics provider's capabilities, and information system capabilities. The consulting firm also studied the cost of handling different order types at the Southaven facility versus handling them in California.

In 2009, Fortna made two recommendations: handle more cargo at the West Coast instead of shipping it to Southaven, and construct a second distribution center close to the Southaven site.

Fortna's analysis indicated that establishing a West Coast operation to break down imported containers and build mixed loads for shipment to customers in the western United States could save ASICS America millions of dollars. The manufacturer decided to move quickly on that recommendation, setting a target of diverting 20 percent of its incoming merchandise directly to customers.

The task of handling those shipments would fall to a third-party logistics provider, a more economical and efficient option than setting up and running a facility on its own. ASICS America opted to retain its current provider for the new assignment after Fortna determined that APLL's prices for the required services were in line with the market. The fact that time was of the essence also encouraged the footwear and apparel maker to expand the existing relationship. "We realized that our sales-growth projections did not allow us the time to do a full [request for quotation from other 3PLs] on this," said Jordan. "That played into our decision to leave the business with APL Logistics."

To accommodate the new plan, APL Logistics shifted its work for ASICS to a multitenant facility located in City of Industry, a municipality in California. There the 3PL breaks down some of the inbound containers to create mixed loads and runs a pick-pack operation that serves retailers in the western region of the United States. APLL recently began price ticketing and labeling products for those customers as well.

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To help ASICS reduce its inbound transportation costs, APL Logistics has started to ship some containers by intermodal rail service from City of Industry to the Southaven DC. Jordan's group decides the routing before containers arrive at Los Angeles or Long Beach. "During the in-transit period, when the shipment is on the water, the determination is made whether the container stays in the City of Industry facility, goes over the road, or goes intermodal," Jordan explains. He expects to eventually move about half of the Mississippi-bound containers by rail.

Diverting shipments at the West Coast does not save money on outbound freight because ASICS America's retail customers generally pick up their shipments at the City of Industry facility. The primary benefit of that system is that it has helped the company manage rising freight volumes. So far, ASICS has reduced the volume of merchandise moving through Southaven by 14 percent, keeping throughput there manageable. It also has reduced overall handling costs because more shipments are going directly to customers as full container loads. In addition, the cargo diversion improves customer satisfaction because more customers get their orders shortly after the ocean vessel arrives rather than having to wait for them to be processed in Southaven.

Prepared for the future

Now that the West Coast operation is up and running, ASICS America has begun work on the second recommendation for a revamped supply chain: a new, larger DC located near its original facility. In April 2010, it broke ground for construction of a 520,000-square-foot DC in Byhalia, Mississippi, about 20 miles from the current distribution center. Fortna will oversee design, procurement, and installation of the material handling systems for the new building.

The Byhalia facility, slated for completion in April 2011, will be designed to handle 140,000 units per day in a single-shift operation. It will focus on shipping footwear, while the Southaven location will distribute apparel and accessories and store additional footwear during high-volume months.

ASICS America will also have enough land on the 38-acre Byhalia site to accommodate future expansion. That expansion may happen sooner rather than later, judging from the way sales have been going. Sales growth last year tallied just under 10 percent—a strong showing despite the recession. This year the footwear company expects sales growth in the range of 13 to 14 percent.

As Jordan well knows, changing a distribution network requires more than simply building and staffing facilities. Although the need to change ASICS America's distribution network was obvious, he notes, it wasn't easy to get everyone to support the project. That's because ASICS America had previously operated two DCs before it consolidated into the single Southaven facility back in the early 1990s; many members of the distribution staff had painful memories of the difficulties involved in managing multiple facilities and balancing inventory. By promising support during the transition, Fortna was able to convince them that the project's goals were achievable, Jordan says.

Based on his experience, Jordan has some advice for other supply chain executives who are considering a distribution network redesign: engage someone outside the company to evaluate the options and to make recommendations. "You need a fresh set of eyes," he says, "because you don't want to allow tribal knowledge to limit your vision or thinking." △

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