Business Case: Third-Party Supply Chain Solutions

A McLANE WHITE PAPER

April 2009

Convenience store owners and operators are faced with many challenges in their increasingly competitive marketplace. Unstable gasoline prices, an uncertain economy and fluctuating commodity pricing have left many organizations searching for creative ways to improve operations. Increasingly, store chains are rethinking the way their supply chain operates in order to find a competitive advantage. This business case white paper describes how McLane has partnered with Wawa, a growing 570-store chain that is headquartered in Pennsylvania and services a five-state region, to develop a ground-breaking custom supply chain solution. This partnership has resulted in shorter lead times, fewer delivery trucks, more efficient store labor scheduling and, ultimately, a better experience for Wawa's customers.

INTRODUCTION

In the hyper-competitive convenience store business, differentiation is all about the little things. One company that does the little things necessary to develop—and maintain—a unique identity is Wawa, a dynamic, Pennsylvania-based 570-store chain with locations throughout New Jersey, Pennsylvania, Virginia, Maryland and Delaware.

Their core purpose is "to simplify our customers' daily lives." They do so by providing a large fresh food selection and award-winning, freshly brewed coffee in stores designed to build long-term relationships with their customers.

From their early days delivering dairy products door-to-door, to the founding of their first food store in 1964, to the addition of gasoline sales at many of their locations in 1996, Wawa's corporate initiatives have been driven by customer demand. But with organic growth came a complex, disjointed supply chain. Soon, they were faced with delivery challenges and the potential for poor customer experiences.

Wawa has always been willing to adapt to changing conditions. Change, in this case, meant partnering with an industry-leading supply chain vendor to consolidate their own supply chain. The result? A custom-built supply chain solution that has resulted in fresher food at their stores, fewer out-of-stocks and increased demand—all while protecting their profit margins.

FINDING THE SOLUTION

Wawa's distribution challenge was similar to that of many convenience stores: Adding new products or new product categories frequently meant additional vendor trucks stopping at each location.

In some cases, their stores would see 15–20 delivery trucks in a day. Many deliveries occurred at peak customer times, exacerbating the problem. Coupled with difficulties some vendors had in keeping Wawa's shelves stocked, it was evident that the system was already beyond its practical capacity.

In 1999, Wawa set out to reinvent their supply chain. Willingness to change to address market conditions has always been a hallmark of the Wawa organization—in fact, "embrace change" is one of the company's core values. But for Wawa, change is not whimsical. It is carefully considered, based on clearly defined goals. In this case, the goal was a distribution system designed around the needs of each store, and ultimately Wawa's customers. Wawa recognized the inherent challenges in the process, having studied the efforts of other companies to establish their own in-house distribution facilities. Wawa knew that they needed a supply chain partner with expertise and ample capital resources in order to make the project a success.

There was a lot to consider. Unlike many convenience stores, Wawa's focus on fresh food meant that their distribution solution needed to resemble a restaurant supply chain, with multiple temperature zones for product in the warehouse as well as on the trucks. The solution had to be able to handle the combination of prepared food items, supplies and cigarettes, which are cross-docked and loaded with warehoused merchandise for delivery. Wawa also required that beverages arrive at the store pre-cooled and ready to drink. This meant that large portions of the supply chain—including storage, loading and delivery trucks—had to be maintained at 34 degrees Fahrenheit.

The size of the Wawa stores (often lacking back-room space) meant that delivery schedules would have to be precisely coordinated and flexible to ensure stores had neither too much nor too little inventory. Some stores would receive up to six deliveries per week during peak seasons, while smaller stores might get only three deliveries per week. They needed a system that could adjust to seasonal demand changes. And they needed a facility that could operate seven days per week, 365 days per year.

Wawa's requirements demanded a custom solution. To maintain 100% tracking and visibility, they required

that all products be scanned during loading as well as at delivery. Wawa's need for a highly customized solution meant that they required more than a vendor—they needed a partner. Wawa found that partner in McLane, one of the largest supply chain providers in the United States. McLane brought extensive experience, a reputation for dependability and consistency, and the comfort of a debt-free, well-established company. McLane's vast distribution network provided infrastructure redundancy in the event of problems. In McLane, Wawa found a true partner willing to roll up their sleeves and tackle the complexities of the problem head-on.

In order to scope the program, McLane and Wawa relied on experts from within their respective organizations as well as the distribution logistics consultants who had been hired to help select the partner. Wawa and McLane were both willing to invest the time required and didn't rush to an expedient answer. The facility design, systems, automation and construction were all managed by McLane resource experts with input from Wawa and the vendors responsible for building the various components.

McLane began working with Wawa in 2002. Both Wawa and McLane were committed to building the right solution at the highest levels of their respective organizations. Not being a franchise model, Wawa had the luxury of building the solution for all their stores and ensuring that it would be implemented across the board. With that level of focus and attention, it was only a matter of time before a working model could be defined that would take into account all of Wawa's needs. By early 2003, they had a defined scope of work.

The solution was to build a custom distribution center in New Jersey—convenient to all of Wawa's stores, as well as key Wawa suppliers. McLane would build, own and run the facility on behalf of Wawa and manage the logistics of distribution to the 570+ Wawa stores. The proposed solution was ideal for Wawa: it provided all the advantages of a dedicated facility, but it was owned and run by a third party.

BUILDING THE SOLUTION

Construction began in September 2003 and was completed in March 2004. Outbound operations began one month later, in May 2004.

The New Jersey Distribution Center is a prime example of a modern facility. The building covers 220,000 square feet and was designed to accommodate expansion of up to an additional 50 percent. The distribution center is divided into five distinct temperature zones, from ambient-temperature areas for paper and dry goods to freezer zones kept at minus 10 degrees Fahrenheit. Cold chain integrity is maintained with cool docks that are kept at a constant 34–38 degrees. Roller-bearing conveyors and forklifts efficiently move product from storage to the docks, and a staff of 410 McLane teammates coordinates the delivery efforts.

Getting product to the stores is no less customized. McLane took advantage of their relationship with trailer suppliers to commission 70 custom-built multi-temperature trailers. Product is delivered and placed in pre-defined locations in each store. The trucks are manned by 114 McLane drivers who ensure that products arrive on time.

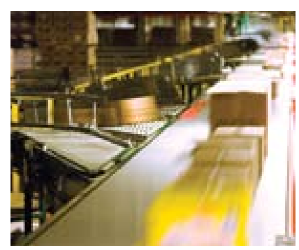
But implementing a solution of this magnitude requires more than a willing vendor. Wawa needed a commitment from their associates at the store level. Wawa's store general managers—among the most tenured in the industry—are critical to their operation. They represent Wawa's direct connection to their customers, and they needed to feel a part of the solution. Wawa spent the year prior to the roll out preparing their store general managers to ensure that the transition happened smoothly.

Streamlined delivery was critical to store-level buy-in. The process—designed for efficient unloading and superior service at each store—remains largely unchanged today. Before its arrival, store associates cone off a parking space (when available) for the truck so that the driver can proceed directly to the designated area and begin the unloading process.

Product is placed at key locations throughout the store, with the majority of the cases being delivered inside the cooler. This allows store associates to easily stock the product after the delivery. Drivers scan each case as it comes off the truck, and the store associate responsible for checking in the product signs an electronic invoice on the driver's handheld unit at the conclusion of the delivery.

The contract is as innovative as the infrastructure. Both McLane and Wawa recognized that this should not be a short-term solution. As a result, the contract covers a 30-year period, ensuring the long-term commitment of both parties. The compensation package is performance based, with penalties and bonuses built in, tied to pre-defined criteria. Goals for on-time delivery, fill rates and inventory turns are all set higher than the industry standards. As an incentive, if McLane can exceed these set numbers, they can earn additional revenue from Wawa. Conversely, if McLane cannot achieve the minimum standard set by Wawa, they are penalized financially. Most goals have a "neutral zone" with no incentives or penalties for either party.

During the implementation process, McLane and Wawa learned a great deal about each other's business. The ability to compromise and adjust as circumstances dictated became apparent very early on. So did balancing the cost of the solution with Wawa's needs.



LIVING THE SOLUTION

Today, after five years, Wawa is seeing striking results from their third-party supply chain solution.

The improved delivery frequency and accuracy has allowed Wawa to reduce overall inventory levels while improving service levels. Though originally scoped for daily store delivery, most stores are on an every-other–day schedule (some stores receive additional deliveries during the summer). McLane consistently exceeds the goals called for in the contract. In-stock accuracy is above 99.9%, and on-time delivery is better than 98%. Store general managers enjoy a great relationship with the McLane drivers and, in the most recent store survey, gave the McLane Distribution Center a 95.4% satisfaction level. Most importantly, the Wawa stores and the McLane distribution center team have developed a great understanding and respect for each other.

But it is the little details that have really made the solution work. Wawa had identified water and Gatorade delivery as a customer service problem because they were delivered to the stores at room temperature. If a customer arrived just after the cooler had been restocked, they weren't going to get a cold drink. Wawa and McLane came up with the audacious solution of chilling water and Gatorade at the distribution center and delivering them cold to the stores. By eliminating the possibility of room-temperature drinks, they increased customer satisfaction. Additionally, because Wawa was now cooling Gatorade in one location instead of more than 570, it resulted in extra savings as well.

The level of collaboration continues to be strong. Wawa maintains a small staff at the McLane facility in New Jersey that serves as the bridge between Wawa and McLane. This team helps ensure that each company's operations and merchandising groups are aligned. By doing so, they can combine Wawa's familiarity with their stores and customers with McLane's vast experience in inventory management to help ensure optimal inventory levels. This group also helps to manage the relationship between the distribution facility and the individual stores.

Ultimately, the relationship between McLane and Wawa has grown into a true partnership. Unlike a traditional vendor/client relationship, McLane and Wawa are fully invested in each other's business. The integration of the two businesses is so tight that it is increasingly difficult to tell who works for whom. From the very progressive compensation schedule (with performance-based penalties and bonuses built in) to their approach to planning and budgeting, McLane and Wawa operate as a unit. The exercise has been a resounding success for both companies with an ever-increasing level of integration.

THE FUTURE

Differentiation is about the little things, but one big thing makes both McLane and Wawa comfortable about their ability to meet future needs: flexibility.

It was built into the solution from the outset. Both parties have demonstrated the willingness—and the ability—to adjust and change. The close collaboration has moved from being a luxury to a near necessity.

An uncertain, moribund economy, unstable gas prices and other market forces present convenience store owners with daunting challenges. Success in this environment will hinge on the ability to adjust quickly—while continuing to do the little things well. Thanks to their ground-breaking business relationship, McLane and Wawa are uniquely positioned not just to survive, but to thrive.

To find out more about our third-party supply chain solutions, call (800) 299-1401 or visit www.mclaneco.com/goto/thirdparty