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Outsourced ASP/VMI Platform Appeals to Chicago Rawhide's Manufacturing Clients

By Gary N. Bowen, Business Writer



When's the last time you heard of a firm acquiring new business **because** it outsourced? That's what's beginning to happen to Chicago Rawhide (CR), a heavy manufacturing subsidiary of Swedish-based SKF.

Recently, according to CR's Director of Electronic Commerce, Craig Young, "a new client chose to implement our remote-hosted, ASP-based Vendor

Managed Inventory (VMI) service primarily because it **is** outsourced," in this particular case to Cincinnati, Ohio's Enterprise Data Management's (EDM) Datalliance service.

Chicago Rawhide is a leading distributor of hydraulic fluid sealing devices for trucks, autos, farm equipment, aircraft, heavy machinery, and machine tool manufacturers. CR also supplies SKF bearings to vehicle service markets in North America. All these products are paramount to continued operational durability. The right parts and correct quantity must be on the customers (or distributors) shelf to support their customer demands. So on-time delivery has a ripple effect for every manufacturing client.

Ten years ago the firm detected an operational challenge to remaining competitive: it had to find the best possible way to manage inventory and delivery of these vital goods to distributor customers throughout North America on-time.

CR's executives researched several inventory management methods and found the ideal solution was the emerging Vendor Managed Inventory (VMI) model. VMI is essentially a means of optimizing supply chain performance in which the supplier assumes responsibility for maintaining portions of the customer's inventory levels. Manufacturers have access to their distribution clients' inventory and generate purchase orders resulting in delivery of these items.

VMI's benefit to CR was that it could chart and anticipate each client's manufacturing needs individually. The advantage to the client is one less headache during the

assembly process.

"We knew our company and customers would benefit substantially from VMI," says CR's Young. "We asked them and they expressed strong preference for this model. The challenge at that time was that we didn't have the resources or detailed knowledge to seriously pursue VMI. So we tabled the idea for awhile."

After the competitive advantages of VMI became clearer, Chicago Rawhide determined to incorporate it into its infrastructure. But since CR didn't have the internal resources to develop VMI on its own, there was only one practical option: outsource to a firm with experience!

Outsourcer's ASP, Experience, and Support Key To Success

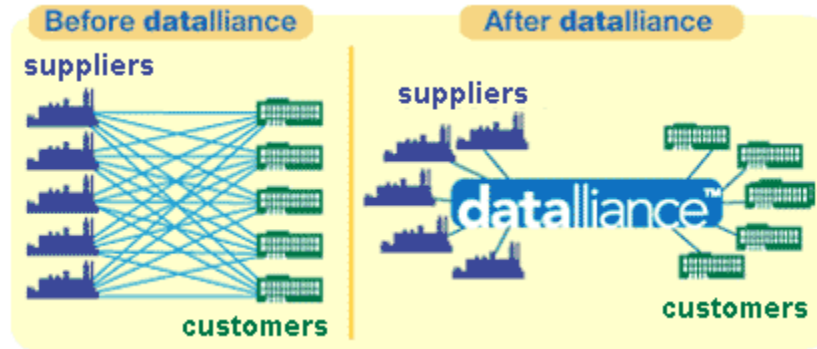
"Our objectives were simple, yet very strategic: We believed VMI would increase product sales and improve efficiencies for both our distributors and us," says Young.

"Clearly, in this environment, component suppliers are under increasing pressure to improve and expand their VMI programs," says Matthew Sheerin, an analyst at Thomas Weisel Partners LLC, New York, which specializes in consulting database enterprises. "Parts suppliers and distributors [like CR] must diversify their business models and further exploit their available IT and logistics capabilities."

Many of the VMI systems CR investigated were traditional software packages that required installation, testing, and customization; they required hardware investment, more IT staff, and a lot of time to implement. None of them appealed to Young, especially since his organization didn't have the staff; this made outsourcing even more appealing.

"Our primary concern was the ability to review and report inventory activity daily and execute replenishment orders for a high number of individual parts on a weekly basis. EDM's Datalliance was our answer. In retrospect, the Application Service Provider (ASP) model that's employed turned out to be just as important as the system functionality because of staffing and also our dubious ability to ramp-up with our internal resources at hand."

"Remote data management and hosting is our specialty," says EDM's CEO Carl Hall. "Our clients get all the benefits of local hosting without the prohibitive financial and resource commitments of having VMI on-site."



Some of EDM's other manufacturing VMI customers include Rockwell International, Raytheon, and ArvinMeritor.

Increased ROI, Lower Cost And Happy Customers: Quickly!

Incorporating EDM's Datalliance ASP model allowed Chicago Rawhide to ignore typical hardware and software issues. It was also cheaper, offering a start-up cost saving of almost 60 percent over the software purchased solution (the obligation of added staff and infrastructure also factored). CR also realized full return on its investment in less than a year.

Scalability is not an issue. As more distributors join the program, Chicago Rawhide's ASP/VMI ensures it can supply the ever-increasing volume of customers and parts without interruption. This enables Young and his associates to focus on core issues.

"Because of these attractive features, we're seeing an increase in outsourced-based VMI relationships, for all the right reasons," adds Thomas Weisel's analyst Sheerin.

One of the first distributors to utilize Chicago Rawhide's outsourced ASP/VMI was Midwest Wheel, a major customer with five distribution warehouses. In only eight months, Midwest Wheel increased sales 14 percent, decreased inventory 13 percent, increased inventory turns 50 percent, maintained in-stock performance at 99 percent, and decreased administrative costs of inventory replenishment by half. All improve its customer service and efficiency.

The success of the EDM/Chicago Rawhide outsourcing VMI partnership has similarly benefited other customers, and Midwest Wheel's immediate gains have inspired it to bring even more inventory management business to Chicago Rawhide.

Lessons from the Outsourcing Journal

- The outsourced Application Service Provider (ASP) Vendor Managed Inventory (VMI) model that Datalliance employs for its client Chicago Rawhide is turning out to be just as important as overall system functionality.

- Combining a powerful outsourced ASP platform with effective VMI is becoming the proven benchmark in managing distributors inventory.
- One distribution client of this powerful combination increased sales 14 percent, decreased inventory 13 percent, increased inventory turns 50 percent, maintained in-stock performance at 99 percent, and decreased administrative costs of inventory replenishment by half in only eight months.

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