

SYSCO MANAGES INVENTORY ACROSS 74 LOCATIONS

With Help From Manhattan

OPERATIONS

U.S. Broadline and Redistribution Centers: 74

MANHATTAN SOLUTIONS

Replenishment, Demand Forecasting, Transportation Management



CHALLENGE

Sysco's inventory managers needed multi-echelon systems to manage the company's demand forecasting and inventory replenishment for its rapidly growing, ever-evolving business.

SOLUTION

Manhattan's solutions enable Sysco to forecast at the lower levels and project future orders between the customer-facing unit and RDC. System flexibility allows Sysco to move product from supplier manufacturing points or supplier DCs into its RDCs, or directly into the warehouse network.

PROGRESS & RESULT

Sysco balances inventory investment against customer service objectives to better manage working capital and improve cash flow. They achieved increased buyer efficiency (PO placement complete by noon), improved year-over-year inventory DSO and reduced aged/obsolete inventory.

"[The Manhattan] system is very flexible. We can move product from supplier manufacturing points or supplier DCs into our RDCs. We can also move product directly into the warehouse network of our operating companies. It's easy to switch from one supplier to another when the need or opportunity shifts."

RAY MORGENSTERN, SENIOR DIRECTOR, SUPPLY CHAIN, INVENTORY MANAGEMENT, SYSCO

NEW FLEXIBILITY FOR INVENTORY MANAGEMENT

at Sysco

425,000 CUSTOMERS EXPECT GREAT SERVICE

Inventory managers at Sysco Corporation had a dilemma. They needed systems to manage the company's demand forecasting and inventory replenishment. And they knew the company would change constantly. Should they improve the systems they built in-house or buy new systems from a software provider?

More than 12 years later, Sysco still uses Manhattan's Inventory Optimization solutions to manage demand forecasting and inventory replenishment. Sysco is now the largest foodservice distributor in North America, with annual revenue of more than \$48 billion.

Sysco's customers include restaurants, travel services, schools, retailers, health care facilities and government organizations. Combined, they buy about 400,000 products from Sysco, including produce, dairy, meats, seafood, frozen, canned and dry foods, and beverages. Besides food, Sysco offers items such as paper goods and janitorial supplies.

Ray Morgenstern, Sysco's senior director of supply chain inventory management, credits Manhattan with helping his company meet the exacting standards of Sysco's customers. They expect the company to fill their orders within eight to 24 hours.

SYSTEMS MANAGE INVENTORIES IN 74 LOCATIONS

Manhattan's forecasting and replenishment systems manage finished goods inventories for what Sysco calls its Broadline business. Sysco's U.S. broadline and redistribution network comprises a total of 74 facilities. Each U.S. operating company serves as a "forward warehouse" that ships to Sysco's customers.

Sysco orders its products from thousands of suppliers, both domestic and international. Goods flow from vendor to customer in one of three paths:

1. Vendor orders may ship to one of two RDCs. The RDCs, in Florida and Virginia, store inventory and serve as break-bulk facilities. They ship multi-vendor, palletized loads to the company's operating companies in nearby states.
2. Vendor orders may ship directly to operating companies. This is the common path for locally produced items, for fresh foods and for operating companies far from the RDCs.

"We and many other customers have solid relationships with Manhattan's customer services team. They know this side of Sysco's business as well as we know it. They're extraordinarily valuable, and they're a big part of the reason why we're so comfortable with Manhattan."

3. Some operating companies may order from others. This path makes sense when large operating companies buy enough volume to achieve economies of scale for smaller ones nearby.

PLANNERS GENERATE SKU-LEVEL FORECASTS AND REPLENISHMENT ORDERS

Teams of planners work at the company's Houston headquarters and in the operating companies. Collectively, they manage about 400,000 SKUs. Each operating company stocks from 6,000 to 15,000 items.

SYSTEM MANAGES MULTIPLE ECHELONS OF INVENTORY

The system works differently for the RDCs than for the operating companies. Rather than forecasting demand for the RDCs, it rolls up projected orders each RDC receives from the operating companies it serves. The system then places consolidated RDC orders to vendors.

When Sysco evaluated systems, they asked each software vendor a key question: Should they generate demand forecasts at both the operating companies and the RDCs? If so, how would Sysco reconcile discrepancies between lower-level and higher-level forecasts?

"We chose this system because it was the only one we saw that solved this problem," Morgenstern says. "It enabled us to forecast at the lower levels. And it projected future orders between the customer-facing unit and the redistribution center. The math and strategy were good."

"This system is very flexible. We can move product from supplier manufacturing points or supplier DCs into our RDCs. We can also move product directly into the warehouse network of our operating companies," he says. "It's easy to switch from one supplier to another when the need or opportunity shifts."



NEW HUB-AND-SPOKE CAPABILITY ENABLES GREATER EFFICIENCY

As Sysco moves to the latest version of the Inventory Optimization software, Morgenstern says he looks forward to implementing a new capability called “hub and spoke.” He says it will help improve efficiency at the operating companies that ship to other operating companies.

Such warehouses must manage a mix of both dependent and independent demand. They generate demand forecasts for their shipments to customers and roll-up orders from the Sysco operating companies to which they ship. Now they can combine both capabilities within the Manhattan solution.

MANAGEMENT OF WORKING CAPITAL DELIVERS BIGGEST BENEFITS

Morgenstern says Manhattan’s IO system helps Sysco manage working capital and improve cash flow. It does so by enabling financial managers and inventory analysts to balance inventory investment against customer-service objectives. The system enables inventory planners to set service-level goals by item and by location. Then it calculates the right safety stock levels to achieve these goals. This capability can improve working capital by tens of millions of dollars.

“With increased buyer efficiency, we can now complete purchase order placement by noon. In addition, our year-over-year inventory DSO improved significantly and we’ve been able to reduce aged and obsolete inventory.”

Morgenstern also sees an opportunity in better forecast accuracy. He thinks Sysco can improve forecast accuracy by 2% to 5% by upgrading to Manhattan’s Demand Forecasting solution.

As forecast accuracy improves, the Inventory Optimization system automatically reduces safety stock. As safety stock goes down, inventory investment decreases without compromising fill rates.

SYSCO ENJOYS LONG-TERM RELATIONSHIP WITH SERVICES TEAM

“We and many other customers have solid relationships with Manhattan’s customer services team,” Morgenstern says. “They know this side of Sysco’s business as well as we know it.”

“If I call them to ask how some functional capability would work and whether it’s appropriate for what we’re trying to accomplish, I know I’ll get a straight answer,” adds Morgenstern. “They’re extraordinarily valuable, and they’re a big part of the reason why we’re so comfortable with Manhattan.”

