
Efficiencies and Cost Savings Can be Reached via Intelligent Routing

Strategic Planning Uses Technology to Analyze Past Data to Make Realistic Projections

By Michael McCarthy

WASHINGTON, DC – Foodservice distributors who thrive through these challenging times will be those who define a clear business strategy designed to grow sales and differentiate them from the competition. It almost goes without saying that operational excellence and a constant vigilance for cost saving opportunities and ways to gain efficiencies are two pillars supporting such a strategy.

Routing the delivery fleet is one operations process where there are opportunities to add efficiencies and cut costs, with support from many hardware and software products. In a recent web seminar, “Proactive Territory Planning,” Greg Muth, product manager, UPS Logistics Technologies, discussed strategic or proactive routing, and the ways technology provides data for key decisions. Although Muth used UPS Logistics Systems software to demonstrate his conclusions, he noted that other vendors offer similar products. Muth stressed the need to start with overall transportation strategy.

“Do you have a high sales/high service focus? Or, do you have an operations/lower cost focus? Or, are you someplace in the middle? Wherever you are, pick a place,” he advised.

“Traditional routing usually focuses on daily tactical route planning, which often relies on individual memory and experience,” Muth said. “This often leads to ‘reactive’ route planning when volume fluctuates or someone needs an off-day delivery. Then there is the chaos when Joe, the regular dispatcher, goes hunting for a few days.”

“Technology can provide objective answers, plus identify areas of opportunity.” Strategic or proactive planning uses technology to analyze past data to make realistic projections for the future. Reiterating his point on strategy, Muth pointed out that “Proactive planning requires looking at things with a big picture perspective” while adding that distributors should regularly ask: “How are our current operations meeting our strategic goals?”

Technology can provide objective answers, plus identify areas of opportunity. Performing what-if analysis is important. The UPS executive suggested using the process to analyze scenarios like the effects of moving into a new market, adding a new facility, or changing routes on a seasonal basis. “One distributor who was reaching capacity in his facility was able to see the effects of a new facility on his customer delivery,” Muth said. He also suggested distributors could use the ability to quickly plan for special circumstances as a selling point with new customers.

Muth described two major routing theories: standard and dynamic. Standard involves the same route, start time, driver, and vehicle and would be used when seeking consistently high levels of customer service. Dynamic routing involves varied routes, drivers, start times, and vehicles and offers the greatest potential initial and long-term savings.

Theoretically, distributors wanting to ship product at the lowest possible cost would favor dynamic routing. In reality, distributors develop hybrid routing programs. In one example, using “standard route fragments,” 80% of customers are routed dynamically; standard routing is used for the top 20% as identified by profitability. “Zone dynamic routing” uses best practices from both standard and dynamic routing to increase efficiencies while still maintaining high customer service.

Muth explained the three-step process of proactive territory planning: territories are geographic groupings of customers; routing is done in the territory.

Step one is inputting customer information: how much, how often, and when they can receive. Customers’ service patterns, when and how often any location may be visited, are included. If a customer can be visited on any one of five days a week, there are five possible service patterns.

Step two is identifying territories. “Cluster territories” are used most frequently. Benefits include drivers remaining in the same geographic area plus the ability to handle geographic and equipment constraints. Spoke designs, where territories resemble daisy petals widening out from the distribution center, are sometimes used. “When defining the territory, you must look at the resources you have, your fleet equipment, the account types, service times, time windows, and the route balance” Muth said

Step three is assigning the days for the individual routes.

“Distributors should carefully consider trade-offs between high customer service levels and the lowest possible costs.” What are some of the benefits? According to Muth, proactive routing helps in understanding new sales opportunities, improving top line growth; it helps identify savings opportunities in operations, improving bottom line profitability, and provides objective data on the cost effectiveness of premium services, helping with differentiation. In one case study presented in the web seminar, a foodservice distributor reduced his fleet equipment by 38% and his annual miles driven by 400,000.

Foodservice distributors should carefully consider trade-offs between maintaining high customer service levels and finding the lowest possible costs. It is arguable that foodservice is unique in distribution because drivers do so much more beyond just driving. Distribution executives interviewed for this article agreed that their drivers are really salespeople; ambassadors for their companies. One senior distribution executive stated, "to many of our customers, that driver and that truck is our company to the customer."

Some distributors report using standardized routing for regular deliveries in order to maintain the personalized contact between customers and regular drivers. Dynamic routing is used for off day deliveries or emergencies. Dynamic routing also makes sense for night-drops and key-drops in which the driver does not come into regular contact with the customer staff.

Routing should coordinate with the rest of the company. In "Controlling Costs through Better Routing," presented at the 2007 IFDA Foodservice Distribution Conference & expo (October 7-9 in Louisville) Jon Birdwell, assistant operations manager, Ben E. Keith Foods, Oklahoma Division, and Sabrina Stewart-Mosley, product manager, UPS Logistics Technologies, said that the router, helped by technology, can have a significant effect on the distributor's bottom line. (See article in Oct. 26 edition of ID Report.) However, he cannot improve routing efficiencies without coordinating the work and sharing information with drivers, DSRs and management. Otherwise, the resulting chaos will defeat even his most valiant effort at creating workable routes.

The routing techniques discussed in the recent UPS Logistics Technologies seminar give foodservice distributors another tool to cut costs from the supply chain. Proactive routing provides key data for making decisions to help grow both top line sales and bottom line profitability, and provide differentiation. The key question before setting out: will this support our business strategy?