



Foreway

WHITE PAPER

Transportation Program Helps Sappi Improve Response at a Lower Cost

Reduced Sappi's Prices and Helps keep Sappi Competitive

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Challenge

Increase production and transportation efficiencies, decrease costs, and improve customer satisfaction.

Solutions

- On-site, integrated logistics management
- Carrier management
- Load planning and consolidation
- Integration of production and shipping functions
- Accurate data and cost reports
- Track and Trace program

Results

- Eliminated 75,000 sq. ft. warehouse
- Headcount reduction
- Increased customer satisfaction
- Increased operational and transportation efficiencies
- Optimized visibility throughout supply tiers
- Ongoing transportation cost reductions

Carrier management is among Foreway's greatest strengths, allowing them to be extremely responsive to customer requests.

Business Scenario

Sappi is the world's leading producer of coated fine paper used in annual reports, catalogs, brochures, magazines, and other publications. The billion dollar company operates manufacturing facilities and distribution centers throughout North America, Europe, and Africa. Sappi's Muskegon, Michigan mill transports 260 million tons of paper each year to regional distribution centers and end-user customers across the U.S.

The Challenge

Like many manufacturers who excel at their core competencies, Sappi recognized that some of its key managers were spending more time on the complex challenges of logistics management than on strategic issues. Sappi's Muskegon mill scheduled multiple LTL shipments each day, resulting in damaged freight and increased transportation costs. More than 50 transportation providers made up Sappi's carrier base. A lack of communication between internal sales representatives (ISRs) and customers—and between ISRs and production staff—resulted in the need to shuttle million-pound orders to an off-site, 75,000 sq. ft. warehouse. Paper was then brought back to the mill for final cutting prior to delivery. Data submitted by Sappi's freight payment agency was filled with errors. Load-building decisions were based on the faulty data, leading to inaccurate analyses. In addition, Sappi staff spent significant time converting cost-per-mile invoices into cost-per-ton measurements (an imperfect conversion at best) in an effort to determine the paper's total landed cost.

STRATEGIC BUSINESS SOLUTIONS

On-Site Management

In 2000, Foreway—already a preferred contract carrier at Sappi's Muskegon mill—approached Sappi management with a solution to reduce shipping costs to two of the paper manufacturer's regional distribution centers (RDCs). Foreway was awarded on-site management of the mill's dedicated freight program, including switcher and yard management services. Foreway's use of lightweight equipment immediately reduced the number of RDC shipments each day. Foreway on-site staff implemented daily meetings with production, operations, supply chain, transportation, and shipping managers, and quickly mastered Sappi's legacy systems. Within four months, Foreway helped Sappi save \$1 million in transportation costs. An on-site, integrated logistics program was gradually phased in over the course of the next two years, beginning with carrier management.

Carrier Management

Impressed by Foreway's performance with the dedicated distribution fleet, Sappi entrusted the 3PL with carrier management at the Muskegon mill, effectively reducing its carrier base from 50+ to just one.

Foreway began by re-qualifying Sappi's core carrier base, standardizing the accessorial sheet, and establishing a more shipper-friendly fuel surcharge. Foreway manages screening and auditing of all carriers, while building solid carrier relationships.

Carriers appreciate that Foreway, a fleet operator itself, understands their business. Foreway routinely uses the same carriers on the same routes, building dedication to regular customers and improved customer service. By consistently providing preferred carriers with steady freight, Foreway increases carrier loyalty and improves carrier service to Sappi. Carrier management is among Foreway's greatest strengths, allowing them to be extremely responsive to customer requests. This expertise also saves Sappi substantial auditing time.

Customer Direct Freight Program

Consolidation of LTL Shipments - When Foreway first proposed managing Sappi's "Customer Direct" program, which ships direct to end-users, the three-month pilot program guaranteed 4% annual savings. In reality, Foreway improvements quickly produced 10% annual savings. Foreway has integrated Sappi's technology and transportation processes, using Sappi's legacy order system to plan freight movement. LTL shipments are combined to make full truckloads, with scheduled stop-offs. The elimination of 99% of Sappi's daily LTL shipments significantly reduces damaged goods and improves freight efficiency. Improved planning also reduces the number of trucks to load and cuts shipping dock time. Foreway's integrated management of Sappi's logistics program frees Sappi staff to spend more time on strategic objectives.

Improved Customer Communications - Because production schedules weren't coordinated with transportation constraints, million-pound orders were routinely sent to a warehouse and shipped back to the mill for final cutting once the customer was ready to accept delivery. Foreway quickly learned that the order information Sappi ISRs entered didn't always reflect the customer needs. Foreway became the liaison between the customer and Sappi's production department. Foreway staff determines exact delivery needs based on the customer's constraints for receiving and printing, and shares that data with production. With increased visibility of the end-user's needs, production is able to work from a plan that integrates transportation. Product can be configured directly from the manufacturing floor, eliminating unnecessary handling. Within six months of implementation, Foreway's management of the Customer Direct program helped eliminate the need for a leased 75,000 sq. ft. warehouse and shuttle service to and from the off-site facility. Sappi no longer needs to maintain staff to manage inventory. Foreway boosted customer satisfaction with Sappi. On-time performance increased while costs decrease. Foreway continues to produce ongoing annual logistics cost reductions for Sappi.

Intermodal Shipping - Having improved customer communication and established an integrated logistics model, Foreway is able to arrange cost-effective intermodal transportation whenever appropriate. If a specific type of paper is produced two weeks before a customer can accept shipment, Foreway ships the order intermodal, which gets the product off the floor, significantly reduces shipping costs, and yields on-time delivery.

Cost-Per-Ton Program

Prior to 2002, Sappi's freight payment agency provided cost-per-mile (CPM) invoices, which Sappi's finance staff then converted for cost-per-ton (CPT) measurements to determine the paper's total landed cost. Because the conversion of CPM to CPT is imperfect at best, Sappi wasn't accurately capturing its transportation costs.

Foreway scrubbed the data that came from the freight payment agency, uncovering significant errors; Sappi had been basing load-building decisions on inaccurate data. Foreway recommended converting the Muskegon mill to a cost-per-ton-by-zone model.

Based on the success of Foreway's program at the Muskegon mill, Sappi now requires all 3PL vendors, nationwide, to provide CPT billing. The cost-per-ton-by-zone model reduces the likelihood of freight payment agency errors. Sappi finance and sales departments take the rate-per-ton and apply it directly to the cost-to-sell per ton, eliminating the guesswork inherent in per-mile pricing conversion and enabling Sappi to capture its true transportation costs.

Track and Trace Program

Prior to implementation of Foreway's transparent Track and Trace program, customers with questions about a shipment called a Sappi service representative, who would check with the trucking company, wait for a return call, and get back to the customer with an answer. Today, customers call the direct "Sappi Track and Trace" line and are given the answers they need, on

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the spot, by a Foreway specialist who has complete visibility of the entire supply chain. Foreway raised the bar on customer service to levels other Sappi facilities now try to achieve.

Ongoing Improvements and Programs

Sappi's on-site Foreway key account managers routinely seek out ways to reduce logistics-related costs. Foreway staff sees and hears what's going on, and proposes other programs to cut Sappi's costs. Their integrated logistics approach keeps pushing Sappi's costs down.

Foreway found a cost-saving opportunity in Sappi's 'broken box' program. The mill's substantial amounts of scrap paper were loaded in large cardboard boxes onto a leased trailer, and a scrap paper dealer was paid to accept it. Foreway designed and implemented an improved program that uses dedicated trailers—eliminating the need for boxes—and deals directly with the end user of the scrap paper, who takes it for free. The new program saves Sappi \$150,000 per year.

Because of Foreway's reliability and service, Sappi requested they take over transportation planning for the Muskegon mill pulp program. With the business being handled so well, Foreway has helped increase sales. And if Sappi needs a truck today, Foreway delivers today.

Foreway's 'Best Practices' Applied Nationwide

In 2001, Sappi acquired a former Potlatch mill in Cloquet, MN. Foreway was asked to help the Cloquet staff implement a logistics program. Foreway key account managers participated in conference calls and visited the new plant, but found that much of the Cloquet staff was resistant to change. Meanwhile, the expanding Muskegon program was proving that outsourcing in general—and Foreway's integrated model in specific—reduced costs and allowed the Midwest distribution manager to focus on strategic issues instead of day-to-day tactical concerns. Ultimately, Foreway's exact program rolled out in an RFP to the nation's top 3PLs for all Sappi facilities, and in August 2003, Foreway was awarded the contract for the Cloquet mill.

When Foreway arrived in Cloquet, they found that strong cultural differences persisted, typical of two organizations involved in a buy-out. Sappi management knew they could trust Foreway to manage the needed changes. Cloquet's six-person transportation department was replaced by two Foreway key account managers who were well equipped with change management skills as well as the model that needed to be implemented.

Foreway now runs the same program in Cloquet as in Muskegon, producing increased efficiencies, improved communication, reduced headcount, and reduced transportation and warehousing costs.

RESULTS

Foreway maximizes loads, reducing Sappi's prices and keeping Sappi competitive. It also improves on-time performance, making Sappi attractive to customers. Foreway has helped Sappi greatly improve customer satisfaction while saving millions of dollars each year. Foreway's integrated logistics management allows Sappi managers to refocus their time and energy on strategic issues, leaving ongoing tactical improvements and day-to-day logistics management to Foreway. Foreway is committed to improving material handling efficiency and effectiveness while producing the lowest cost per move. Clearly, that objective has been met in the case of the Sappi partnership. As Vern Holtzlander, Foreway operations manager at the Sappi Muskegon mill, says, " 'How to get it there' is not Sappi's competency, nor should it be. They make paper. It's our job to manage processes, technology and data to get it delivered in the best, most cost-effective way possible."

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Foreway Transportation, Inc. provides customer-specific carrier services designed to help clients better manage their inbound and outbound logistics for increased transportation efficiency.

When We Commit, We Cover.

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