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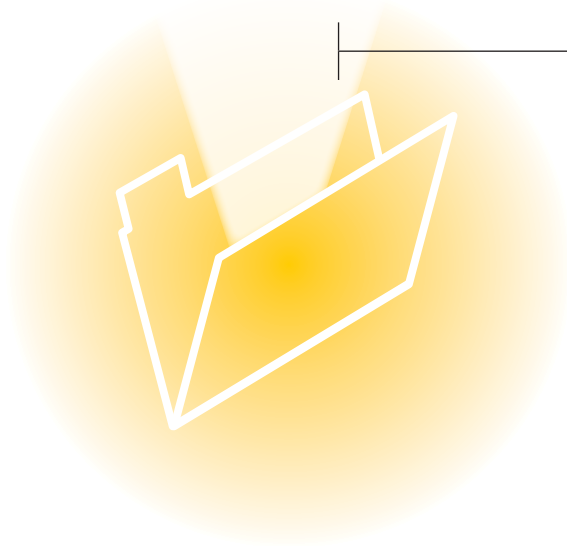
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## Casebook | by Mike Breslin

### THIRD-PARTY LOGISTICS

## Logistics Outsourcing: An Active Culture at Dannon

**P**eople started eating yogurt in what is now Eastern Europe more than 5,000 years ago. Today, yogurt has become one of the fastest-growing categories in the U.S. food industry. As the worldwide leader in yogurt production and one of the top two producers in the United States, The Dannon Company's growth rate is even higher than the industry average.

U.S. production takes place at three facilities located in Ohio, Texas, and West Jordan, Utah, near Salt Lake City. The West Jordan plant is 13 years old, occupies approximately 300,000 square feet, employs 200 people, and draws from 130 to 150 SKUs to output its products.

As Dannon's second-largest U.S. facility, West Jordan produces a variety of formats and sizes, ranging from 3.1-ounce drinks to 32-ounce yogurt containers. The facility produces the Danimals, Dan-o-nino, Activia, Dannon Blended, and Light & Fit brands.

West Jordan is the primary source plant serving the western states of Arizona, California, Colorado, Nevada,

Utah, and the Pacific Northwest. "We've designed our network to maximize service to customers and consumers," says John P. Sczerba, Dannon's director of western region operations. "Our plant and distribution centers are strategically located so we can reach more than 90 percent of our customers within 24 hours."

Dannon's network design provides flexibility and speed to serve customers quickly, reduces transport time and costs, and delivers on the company's sustainability initiatives, while ensuring product freshness.

"We are very fortunate to be in such a rapidly growing category within the food industry," says Michael J. Neuwirth, senior director of public

Partnering with a 3PL  
keeps Dannon's supply  
chain light and fit.

relations for The Dannon Company and Danone Waters of America. "However, as our production needs continue to grow, spatial constraints in the manufacturing plants are a huge issue. That's the main reason we pursued an outsourcing initiative for the Utah plant."

### A TASTE FOR OUTSOURCING

About two years ago, Dannon contracted with Aspen Logistics, a Temecula, Calif.-based third-party logistics company providing warehousing, distribution, transportation, and value-added supply chain services. Aspen is a woman-owned business with revenues of approximately \$60 million, employing more than 600 workers. Over the past several years, Aspen has grown considerably and now serves the food, confectionery, pharmaceutical, and pet products industries.

"Dannon has been proactively involved in logistics outsourcing for at least 20 years," Sczerba notes. "One of our core strengths is that we have established a standard, formal process not only for our partnership with Aspen, but for all the initiatives we've undertaken with outside vendors and suppliers."

Prior to partnering with Aspen, Dannon stored and managed materials on site at the West Jordan plant. But as the business expanded and continued to add production capacity, floor space became a premium.

"Outsourcing to Aspen allowed us to alleviate spatial constraints and materials handling complexities at the plant," Sczerba says. "The relationship also provides better control and visibility across a wide range of ingredients and materials. And it enables us to capitalize on Aspen's inventory management and materials handling expertise."

In short, outsourcing the management of many materials and ingredients to Aspen has freed Dannon's time and resources to focus on its core strength: making quality yogurt products.

Aspen Logistics first came to Dannon's attention due to its reputation as a quality 3PL in the western U.S. region and close proximity to the West Jordan plant.

One of Aspen's facilities is only 15 miles from the Dannon plant. In the Salt Lake City area, Aspen operates four warehouses totaling approximately 500,000

Typically Aspen receives orders from Dannon 24 hours in advance, specifying which products the yogurt company wants delivered the next day within a



Dannon's manufacturing facility in West Jordan, Utah (above) is the second-largest of the company's three U.S. plants, producing Light & Fit, Activia, and Danimals, among other yogurt products.

square feet. About 350,000 square feet are temperature-controlled at 65 degrees, 15,000 square feet are refrigerated at 38 to 40 degrees, and the balance comprises ambient storage or office space. Aspen also operates four warehouses in California and one in Columbus, Ohio.

### ON TIME, JUST IN TIME

The working partnership between Dannon and Aspen evolved over time, says Jim Emmerling, Aspen's executive vice president. "We first started providing Dannon with warehousing and transportation of dry ingredients and packaging material," he says. "Dannon advised its carriers to deliver shipments to Aspen's Salt Lake City facility. Dannon's suppliers arrange the transportation from point of origin to delivery to our warehouse, and choose the delivery date and time. Aspen accepts appointments to take custody, control, and care of the materials."



specified time window. Overnight, the 3PL picks orders and stages them for loading on an Aspen truck first thing in the morning. If, for example, the specified delivery time to Dannon is 8 a.m., Aspen can deliver within a one-hour window, as early as 7:30 a.m. or as late as 8:30 a.m., but it must fall within that window.

"In the past two years, not a single delivery has been outside of an appointment time," Emmerling claims.

Dannon is currently using Aspen's warehouse to manage various raw materials and ingredients kept under temperature-controlled conditions, as well as more than one dozen kinds of fruit totes (fruit and fruit flavoring



storage vessels that must be kept refrigerated between 38 and 40 degrees).

“We are now able to place replenishment orders six to 10 hours in advance of our plant production runs, and use Aspen’s transport capabilities to bring product back into the plant,” says Sczerba.

Fresh milk, the primary commodity in making yogurt, is delivered directly to the West Jordan plant via refrigerated tanker trucks. Aspen delivers the dry dairy ingredients used in many yogurt products. Dannon retains inventory management of plastic roll stock used to mold yogurt cups and cup label wraps, metallized rolls used to make lids, and corrugated cardboard for cartons.

“The West Jordan facility employs one of the most modern packing designs to be developed over the past few years,” Sczerba says. “Today we’re working with all our suppliers to reduce the amount of inventory we store or maintain at the plant. And we are going to engage them more in our just-in-time inventory strategy.”

### **DANNON’S VENDOR SELECTION PROCESS**

Dannon employs a “tried-and-true vendor qualification process,” according to Sczerba. “We dedicate time to formulate a strategy, define the specific goals and objectives of the outsourcing program, and ensure that it aligns with our

storage was paramount in the selection criteria.

After prospective service providers were identified, the West Jordan facility worked closely with another Dannon department, Sourcing and Supplier Development (SSD).

SSD prepared a formal RFP to obtain information and pricing from the vendors that West Jordan was interested in partnering with. “Once the vendors answered the RFP, our internal team worked with SSD to evaluate responses,” says Sczerba. “We looked to see if the vendors answered all our questions, met our criteria, and delivered quality charters and emission statements so we could be sure the partnership would align.”

### **SETTING ITS SITES**

After it selected the finalists, the Dannon team conducted formal site visits. “Site visits are very important,” Sczerba says. “They give us the opportunity to observe the facility for quality and appearance, and to meet face-to-face with the management team and support staff who may become our partners and the shepherds of our business.

“Developing the human relationship is extremely important to us,” he adds. “Dannon places a high value on our employees, and we truly view our outside service providers as part of our team.”

According to Sczerba, Aspen Logistics won the Dannon contract for five reasons:

- 1.** Proximity and location, warehouse capacity, and workforce criteria.
- 2.** A positive, proactive approach to understanding and embracing Dannon’s business needs.
- 3.** The professionalism of the management team and front line staff, and their flexibility and attention to details during the RFP and assessment process.
- 4.** The results of an interview process with Aspen customers that provided insight into the 3PL’s abilities and gauged customer satisfaction.
- 5.** Aspen’s system and process excellence.

Systems design and integration



Production lines are loaded with overhead robotic cranes. In a fully automated, ultra-high-speed process, roll sheet plastic is fed into a packaging machine, where it is thermo-molded into cups that are immediately filled with product. Lids are then affixed to seal the container.

Dannon maintains its roll stock and corrugated materials on site to meet special handling requirements and provide fast response time to the production floor.

### **Dannon uses Aspen Logistics’ Salt Lake City warehouse to manage raw materials, yogurt ingredients, and fruit totes.**

business mission and vision.”

After providers are qualified, Dannon defines its expectations of how the third party may be able to help support the strategy. Through an internal collaboration process, Dannon selects viable vendors that meet the established criteria. In the case of West Jordan, a vendor that could provide ambient and cold

with the capability of delivering a seamless, flawless implementation were critical to the Dannon-Aspen relationship.

"We use two systems to manage Dannon's operations," Emmerling explains. "One is Aspen's radio frequency, bar-coded, task-directed warehouse management system. We also use equipment provided by Dannon to scan product into its Enterprise Resource Planning (ERP) system so procurement personnel can see if they have sufficient quantities on hand, or if they have reached a re-order point."

As product arrives at Aspen's receiving dock, it is first scanned into Dannon's ERP system to confirm that the shipment matches an order. Aspen applies a license plate to each pallet, which is scanned into the WMS to designate the best location in the zoning strategy for storage, inventory control, and lot rotation.

"Expanding and integrating new partners into your systems can become complex," notes Sczerba. "The Dannon and Aspen business information and technology teams worked long and hard to perform the testing in advance of the go-live.

"What we seek in our relationships with vendors is absolute system capabilities and the ability to conduct repeated tests before we go live with an

application," he adds. "Then, when we do go live, systems shortfalls are not part of our concern."

"Since the partnership began, the dry portion of the business has expanded," Emmerling notes. "More providers are

"In the future, we plan to challenge ourselves to apply even more synergies," he says. "We anticipate pursuing opportunities with both valuable third-party logistics partners as we continue to grow." ■

shipping product to us rather than to Dannon, so we are now delivering larger loads more frequently.

"Approximately six months ago, Dannon asked us to establish a refrigerated storage area for fruit totes," Emmerling adds. "Now we are handling perishable products that we hold between 38 to 40 degrees and deliver to Dannon on a refrigerated trailer."

### A 3PL WIN-WIN

In March 2010, Dannon opened a new customer distribution center in Salt Lake City with another 3PL, Exel Logistics. Based on the new site's proximity to Aspen, Dannon was able to leverage the Aspen fleet. After Aspen delivers a load of raw ingredients to West Jordan, the truck is reloaded with finished goods and delivered to Exel.

"The partnership with Exel and Aspen Logistics has been a win-win for Dannon as well as for our participating vendors," says Sczerba. "It provides excellent synergies and allows us to control costs, reduce emissions, and alleviate parking lot and dock congestion.



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