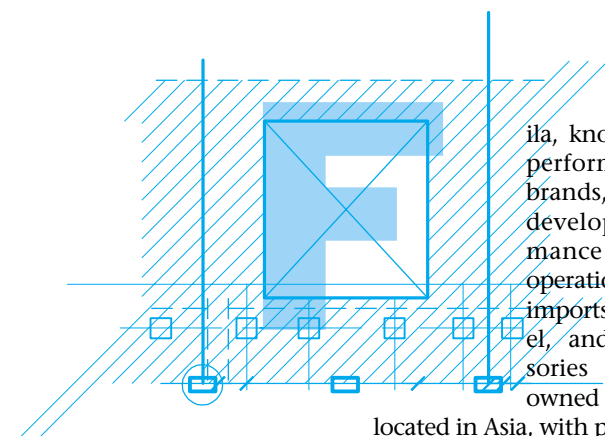


A Shoe-in for High-Performance, Fila Thinks Global, Acts Local



Fila boots old logistics practices and implements a world-class decentralized supply chain system to sneak up on the competition.

Fila, known for its high-performance sports brands, is working to develop high-performance transportation operations. Fila USA Inc. imports footwear, apparel, and fashion accessories through wholly owned sourcing centers located in Asia, with production spread across the continent.

Until a few years ago, a major Italian holding company owned Fila, says Andrea Greco, vice president, global supply chain for Fila USA. The supply chain function in Italy “controlled the Asia shipping department, selected the freight forwarder, and managed all aspects of Asian outbound freight to different subsidiaries, including the United States,” he notes. “It was a centralized supply chain.”

This was a less-than-optimal arrangement. “The destination requirements weren’t built into the relationship with the freight forwarder selected in Italy,” Greco says. In addition, cutting costs was the top priority — up to a point.

“As long as the freight forwarder provided the lowest possible rates to put the product on a plane or boat, that was most important,” he says.

Lowest cost at origin, however, often did not result in the lowest total supply chain cost. Problems such as delays

and inaccuracy in customer orders created cost on the destination side. Lack of visibility was also a problem, with information often unavailable until close to final customer delivery dates.

Variety of product and range of clients brought additional complexities. In addition to merchandise made to stock, some product was made to order and shipped to order via the U.S. West Coast, often through the same channels.

Tackling this situation was one of Greco’s first priorities when he joined Fila USA two and a half years ago. Working in concert with headquarters in Italy, Fila USA issued a Request for Information (RFI) to five potential providers in the spring of 2002. The RFI spelled out destination requirements in terms of information, processes, and procedures. Fila then developed evaluation criteria, with service levels and systems integration on par with cost.

LAYING THE GROUNDWORK

Fila USA began laying the groundwork for a successful transition by involving all the functions in the United States that would be affected, including customer service, information technology, inbound logistics and purchasing organizations, as well as the distribution center and customs broker.

The company also involved origin offices, reviewing pieces of provider

BLUEPRINT OF EXCELLENCE



Fila reengineers its logistics business model to a U.S.-centric one, boosting its North American footprint.

proposals that affected them, including rates, origin fees, factory procedures, and systems requirements. Through this involvement, the company ensured that each office's specific requirements could be included in the new arrangement, and gained buy-in from those that would be affected by it.

One provider responding to the RFI was Kuehne & Nagel International AG, Schindellegi, Switzerland. Kuehne & Nagel USA staff met extensively, analyzing Fila's proposed business model, and reviewing organizational and historical constraints, capabilities, and corporate cultures.

Over the summer, however, the pre-sales process came to a halt when the Italian holding company sold Fila, which became a subsidiary of Sports Brand International. During the next eight months, Fila and Kuehne & Nagel actively continued mutual exploration and discussions, eventually building up a level of comfort and understanding.

The RFI/RFQ process was re-launched in the spring of 2003, once Fila became a subsidiary of Sports

Brand International. Fila selected Kuehne & Nagel as its new freight forwarder in July, and the two companies mobilized to make the change in August.

Dedicated teams from both sides immediately began tackling the complex implementation process. This included re-engineering Fila's business model to one that was Fila USA-centric, rather than the previous model where the Fila sourcing center was in the middle, making decisions for the regions.

Fila contracted with a consultant to lead the initial transition. The project team met for two intensive weeks of planning, mapping out the "as is" processes and developing the "to be" processes that would form the basis and direction of transition and implementation, notes Frank Sumerler, Kuehne & Nagel's global key account manager for Fila USA.

"We agreed to appoint an overall project leader, who would use project management software to document, synchronize, and monitor tasks, accountabilities, and timelines across



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— ANDREA GRECO
Vice President
Global Supply Chain
Fila USA

companies and geographies," he says.

Under the "as is" model, Fila designed and ordered products based on anticipated volumes, then executed against the forward plan. The flexibility and visibility of the "to be" model allows Fila to revisit and redefine the forward plan as the product is being manufactured, which will improve inventory management, improve service, and cut costs.

Under the "to be" model, Kuehne & Nagel starts managing orders 30 days before they are ready to be shipped, managing against the date retail stores need the product in the United States rather than against a shipping date.

The project also includes building a direct information exchange between Fila and its partner, and automating the massive amounts of documentation required for global trade through the use of Kuehne & Nagel's web-based visibility tool.

TO BE OR NOT TO BE

The project team developed a joint project plan and spent the next eight weeks presenting their proposed "to be" model and gathering feedback. For example, the project team met in Hong Kong with Fila's sourcing center there and visited several larger vendors to solicit input on the proposed processes.

The team presented the final model at a supplier conference held in Hong Kong, which was attended by nearly 50 factories from all over Asia.

"We presented the changes that were expected, and what was expected of them," Greco says. While they had some questions, suppliers were largely receptive to the change. "We expected a lot more resistance than we got," he says.

The new model changes suppliers' responsibility for the product, thus influencing when they can invoice Fila. As a result, "we couldn't change it

all at once, in the middle of the season," Greco says.

Fila is phasing in the new model, making some changes immediately, and others in the first quarter of this year. "That's part of what makes this change so complex," he notes.

SETTING AN AGGRESSIVE PACE

The project team elected to start transitioning business in October, with the goal of having all Asian origins live by December. "That was an aggressive pace for such a complex project," Greco notes, but Fila wanted to have major pieces of the transition in place in time for the critical holiday season.

"I told Kuehne & Nagel that, while we were transforming our supply chain, one thing had to be very clear," he recalls. And that was, despite implementing a multitude of changes going into the holiday season, product had to be shipped and received on time.

The first step was to transfer freight from Fila's previous freight forwarder to Kuehne & Nagel. The new model was rolled out country by country, starting in Hong Kong, then moving to China, Indonesia, Mauritius, Cambodia, Bangladesh, and other countries where Fila sources product. Kuehne & Nagel had one-to-one meetings with the factories in each origin, and trained them on new systems and processes, adapting the standard operating procedures to local requirements.

"We ensured that the factories involved had a very clear understanding of requirements, and had the opportunity to voice their concerns," Greco says.

Because the new model is being phased in, the full effect of Fila's changes won't be felt until the first and second quarters of the year. Already, however, Kuehne & Nagel has replaced manually-produced Advanced Ship-ment Notifications with those generat-

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A STRONG RELATIONSHIP
WITH A NEW 3PL,
BUILT ON TRUST AND RESPECT,
WITH ALL MOVING TOWARD
A COMMON VISION,
TRANSFORMED FILA'S
SUPPLY CHAIN.



ed automatically, improving information timeliness and accuracy.

Kuehne & Nagel's information system automatically captures and provides more transportation data, reducing the need for data entry by Fila's logistics operation. The system also automates document management by scanning external documents into the system as they are produced, and making them visible in a "push" fashion as needed.

In addition, "Kuehne & Nagel-produced documents are digitally imaged automatically from operating systems, which accelerates the paperwork flow," Sumerler notes.

Documents are now "immediately available for anybody who needs them, including Fila inbound and outbound, customer service, the distribution center, and our broker," Greco explains. "We now have immediate visibility and tracking capability and the ability to manage by exception."

SHIPMENT AND P.O. INFO ON DEMAND

On-demand web access to purchase order and shipment information is available on a secure platform. "In the event of a disruption to planned timelines or quantities, simultaneous multi-party alerts with exception routines keep product managers, the customs broker, the DC, and inbound logistics informed of the problem," Greco says.

Kuehne & Nagel is also optimizing transportation, marrying up multiple shipments from the same origin to build a full container. This has enabled Fila to reduce shipping costs and increase space utilization while meeting customer requirements.

Despite its aggressive timeline, implementation of this complex project has been very successful.

"It has been relatively problem-free; we haven't missed any major deadlines in terms of getting product to the cus-

tomers," Greco says. He attributes the project's success to several factors:

- ▷ Recognition by the company of the magnitude of the change, and the resulting decision not to pursue other significant changes until the project is working properly.
- ▷ Involving affected parties in the selection of Fila's new 3PL and in the development of the "to be" model.
- ▷ Collaboration throughout the Fila organization and supported by affected units, such as purchasing.
- ▷ A highly effective project team, led by Cheri Weaver, Fila's inbound logistics manager, working key team members from distribution, IT, and customs compliance, and a dedicated team from Kuehne & Nagel. "We really have the 'A' team," working on this project," Greco says.
- ▷ A strong relationship with the new 3PL, built on trust and respect, moving toward a common vision of Fila's transformed supply chain.

While the new business model is being implemented, Fila and Kuehne & Nagel are already working on the next step, reports Frank Sumerler: "a joint project that will streamline a web-based vendor booking platform, which will not only accelerate information flow, but will also capture carton contents and UCC information earlier in the downstream flow."

This carton-level detail will enable Fila to optimize distribution center operations and reap additional cost benefits.



Kuehne & Nagel, Inc.
10 Exchange Place Floor 19
Jersey City, NJ 07302
201-413-5500
www.kuehne-nagel.com