Product Lifecycle Logistics

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Teachable Moments

A New Supply Chain for a Changing Industry

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When an industry is facing serious change, companies must adapt in order to survive. Publishing is one of many industries in which shifts in available technology platforms and consumer behavior are forcing companies to rewrite their game plans. And to thrive—not just survive—these companies have to change how they operate, maybe even how they think.

How will they do it? There is no simple answer, but a solution cannot be found without addressing the supply chain.

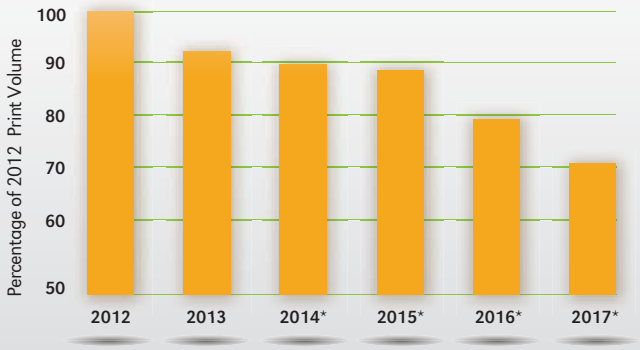
The very notion of what defines a "book" has changed. Bound paper is being replaced, and so, for publishers such as McGraw-Hill Education, there is far less inventory and far more digital applications. And, "going digital" doesn't just mean online curriculum and eBooks. It also means digital printing, which allows for small-quantity customization and printing (e.g., when a professor requires only a few chapters from a textbook).

Clearly, changes like this have a significant impact on the supply chain, because there is less inventory, more unused warehouse space and growing workforce challenges. Most publishers, including McGraw-Hill Education, are working with a fixed system—a fixed structure, fixed overhead and a fixed pricing model—because it's been successful in the past.

However, this business model is no longer viable for the changing market.

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Turning the Page on a Changing Industry



*Projected

McGraw-Hill Education's declining print volume tells the story of a publishing industry in transition. By 2017, print volume is projected to drop approximately 40 percent from 2012.

"Having your own warehouse with your own people to run it is no longer a core competency for publishers," says David Gilley, Senior Vice President of Business Development for GENCO. "By engaging a third-party logistics (3PL) provider, publishers can focus on their true core competencies—understanding their customer and delivering the solutions they need now and in the future—and we can focus on the supply chain."

The Right Time. The Right Solution.

McGraw-Hill Education has already successfully adapted to the demands of its customers—who run the gamut from pre-K to professional education—with digital books, programs and 100 percent interactive curricula.

"Our digital solutions, such as LearnSmart, SmartBook and Connect, are highly regarded by our customers and growing rapidly, but we still have a large base of customers that use print. It is more important than ever to make sure that we're delivering to all customer expectations—in both print and digital—but adapt our physical operations to our increasingly digital demand," says Ken Brooks, Senior Vice President, Global Supply Chain Management at McGraw-Hill Education.

To maintain this success moving forward, McGraw-Hill Education needed to reform its supply chain. GENCO's task was to work with McGraw-Hill Education to effect this change, while bringing new value every step of the way.

To do so, GENCO addressed the operations, design and labor of the supply chain, targeting four essential goals:

1. Mitigate risk
2. Transfer assets
3. Establish a variable pricing model
4. Build a flexible platform

It's evident that these goals apply to both immediate and future needs, which is vital for a rapidly evolving industry. "Even though traditional publishing is in decline," says Gilley, "no one can predict *the rate* of decline. We know print isn't going away completely, so there is an unknown element to the pricing model."

To add to this list of unknowns, Gilley suggests that just because print is ebbing, "doesn't mean that sales or overall revenue is declining," because digital sales are going up.

To meet the four goals, and to overcome the challenges of an unknown model, it came down to making a lot of shifts—strategic ones, such as changing to a variable pricing model from a fixed pricing model, and tactical ones, including moving assets and risks into the hands of GENCO.

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1. Mitigate risk

For McGraw-Hill Education, risk came in two forms: (1) the company's large supply chain management workforce, and (2) excessive warehouse space that was too large for the company's dwindling inventory.

The McGraw-Hill Education team, says Gilley, is a product of the mature publishing industry and a company that cares about its people. "If you go into any warehouse and take a snapshot," he says, "you'll find highly tenured employees. Their business is very healthy, they've maintained good employee relationships, they have strong loyalty among their team, and they offer excellent benefits."

GENCO was able to help McGraw-Hill Education maintain its workforce levels by moving 300 employees, its entire supply chain staff, to the GENCO payroll. "Those 300 employees who keep McGraw-Hill Education warehouses running smoothly have gone from working for a publishing company to working for a 3PL, but their jobs haven't changed. It's a unique process, and the transition went very smoothly," says Gilley.

Now employed by GENCO, these "teammates," as GENCO calls them, could be strategically assigned to a consolidated warehouse system, and Lean principles—along with labor management tactics, such as staggered shifts—could be implemented.

When it came to McGraw-Hill Education's other significant element of risk, warehouse space, GENCO transferred the company's real estate assets and made smarter, more efficient use of warehouse space.

2. Transfer assets

McGraw-Hill Education was using facilities that were under long-term leases approaching their end dates within the next few years. GENCO identified opportunities to consolidate McGraw-Hill Education's warehousing—eliminating unused space while ensuring that peak inventory levels could still be fulfilled.

GENCO would take on the leases for each of McGraw-Hill Education's existing facilities, including the unconsolidated warehouse space. And although absorbing the equipment, along with the infrastructure, was also explored, it was not seen as an immediate need for the partnership.

3. Establish a variable pricing model

All of the elements of McGraw-Hill Education's supply chain were fixed costs (buildings, managers, employees, etc.). These costs were rotating and based on volume, and because of the dwindling inventory, the numbers were a "moving target," as Gilley puts it.

McGraw-Hill Education needed a highly variable model, and GENCO needed to find a way—in addition to taking on financial responsibility for the warehouse space—to unearth additional revenue. The plan: GENCO would attempt to fill the excess, unused warehouse space with other operations.

"It's a revival of the idea of 'co-opetition,'" says Gilley. "What we see with McGraw-Hill Education, which we don't often see with other companies, is their willingness to open up to other businesses, even if they are competing publishers, in order to be as efficient as possible."

The concept is simple. Filling warehouse space to capacity means customers are utilizing the same distribution centers, and everyone is saving money. Beyond that, the idea of co-opetition is one tactic that can help stabilize an industry in which all players are experiencing similar challenges.

Gilley adds that this strategy creates potential revenue that McGraw-Hill Education simply could not have created on its own. "Our ability to bring in customers and fill the empty space is highly unique," he says. "We are offsetting what was previously an unavoidable loss, and providing a new revenue source for their assets."

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4. Build a flexible platform

The flexibility of a national distribution network is another capability that McGraw-Hill Education could acquire only through a GENCO partnership. With nearly 130 facilities spread across the country—and several within the Columbus, Ohio, area, where McGraw-Hill Education has significant operations—GENCO's network creates maximum flexibility. And because the network is non-asset-based and non-asset-biased, the publisher gets all of the benefits with very little risk.

GENCO's flexible distribution network also presents ample opportunity for the McGraw-Hill Education (now GENCO) teammates. These teammates will have access to all of GENCO's internal job postings, helping to place them in other positions as staffing needs in McGraw-Hill Education's facilities continue to decline. These jobs may also be retained by GENCO's efforts to fill the unused warehouse space with new customers.

Committed to Continuous Improvement

Crystal Welker, Vice President of Solution Design and Continuous Improvement at GENCO, understands that the successful partnership between GENCO and McGraw-Hill Education doesn't end with the aforementioned solutions. "Our priority is continuous improvement," she says. "And we don't just talk about it. We deliver on it, or we pay for it."

Welker is referring to GENCO's commitment to achieve 12 percent savings through continuous-improvement efforts over the next three years, with a minimum of 4 percent savings the first year. It's just one more way GENCO puts "skin in the game," says Welker. "These commitments are in many of our contracts, because we know it's something we can do for our customers."

And what is it that enables GENCO to deliver ongoing improvement time and time again? Welker says that it's the company's approach—one that focuses on continuous improvement as a cultural shift, rather than a singular initiative or goal. "It's about getting everyone involved," she says. "We are driving the culture to make everyone look at opportunities for continuous improvement. It's not a management issue. We expect everyone to do it."

In the case of McGraw-Hill Education, GENCO is focused on getting 90 percent of teammates to participate in a continuous-improvement activity each year. And, to ensure that the entire team buys in on the concept, GENCO provides training on Lean principles over several months at every level of the company.

While the teammates are getting up to speed, GENCO's continuous-improvement team is investigating other opportunities to eliminate waste and make strides toward an even more efficient supply chain. "We're looking at technology for warehousing and distribution, parcel, sustainability—every possible area that can be improved," says Welker.

And throughout the process, identifying ways to improve is driven by exploration and collaboration. Together with McGraw-Hill Education, GENCO will engage in value stream mapping, a collaborative process designed to develop ideas that improve the partnership over the next several years.

Value stream mapping begins with plotting every step of the current supply chain. Then, areas of waste, redundancy, poor communication or information gaps are identified. New solutions are devised for these pitfalls, and the final picture is often very different—a streamlined, simplified version of the same supply chain.

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The Future is Now



Value stream mapping reveals what's really important and weeds out waste and redundancy, resulting in a streamlined, efficient process.

From there, the team creates a "value chart," identifying what represents a high return but is more difficult, and vice versa. And finally, the initiatives and goals are scheduled on a continuous-improvement calendar.

Welker and the team also work with a corporate engineering group that analyzes the supply chain from an engineering perspective and identifies additional areas of improvement. And, along the way, they continue to invest in and explore technology for the customer. "We are always moving forward with R&D," Welker adds. "We have two or three pilots going on at all times. Not all technology works in all warehouses, so we vet it, test it, explore it. There is a lot we can bring to the table."

The GENCO Difference

In its partnership with McGraw-Hill Education, GENCO has a clear objective: With a changing profile and a large amount of capital investment, the company needed to shift. To continue to be successful in the new digital world of publishing, McGraw-Hill Education needed to mitigate risk, eliminate some of its assets, and inject variability in its distribution network and pricing model.

As Gilley explains, this is not something that McGraw-Hill Education could have done without a 3PL provider—and more specifically, without GENCO. "Not every 3PL is in a financial position to offer what we can," he says. "And where we really brought strategic value was taking on those employees and assets. We made the commitments we did because we knew the infrastructure was very useful and could accommodate additional business."

Beyond the financial obligations and expertise that GENCO brings to the table, a successful partnership with McGraw-Hill Education is—and will be—defined by a commitment to an industry in which the final chapter has yet to be written.

"We view our partnership with GENCO as positioning us strongly for the future, regardless of where the future leads," says Brooks. "We're already seeing benefits from their strong supply chain capabilities and will be leveraging them in our future efforts."

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