



GLOBAL LOGISTICS & SUPPLY CHAIN STRATEGIES

www.SupplyChainBrain.com

100 GREAT SUPPLY CHAIN PARTNERS

Penske Helps Eaton Leverage Its Global Network

Eaton Corporation is a \$13bn diversified industrial manufacturer with worldwide leadership in four distinct markets: electrical systems and components, fluid power systems, intelligent truck drivetrain systems and automotive powertrains. With more than 79,000 employees, it sells products to customers in more than 150 countries. Much of Eaton's recent international growth has been through acquisitions around the world. To maximize the benefits of this expansive growth, a key supply chain strategy for Eaton has been to gradually optimize the supply chains for its many manufacturing facilities around the world.

Third-party logistics companies have been a major force in implementing this strategy, known as One Eaton. Penske Logistics has been an important player in this strategy since 2005 when it became the lead logistics provider for Eaton's truck and automotive divisions in the U.S. Penske proved itself with these businesses, so in 2006 Penske became Eaton's LLP for all four of its European divisions, including truck, automotive, electrical and fluid power. Penske's European role has been specifically focused on driving leverage in the logistics arena as a key component of the One Eaton strategy. This is particularly important because of the many acquisitions that have helped Eaton grow its European business. Penske manages the inbound and outbound transportation to more than 50 plants in Europe.

"A key priority for Penske's involvement in Europe is to leverage Eaton's scale to drive efficiency in our supply chain network and to ensure high levels of service," says Mario Hegewald, director of global logistics for Eaton. "The challenge is that each business runs a unique supply chain model with different KPIs. Creating an overall supply chain structure that can accommodate these different businesses is the challenge that we have asked Penske to help us with."

For example, Eaton's many manufacturing plants in Europe use their own ordering systems, which create a challenge when it comes to efficient transportation management. Without going to huge expense and time required for implementing a new, uniform ordering system for all of these manufacturing plants in different countries, Penske has been able to work across the many disparate ordering systems so the order informa-

tion is in a standardized format. This has resulted in optimized logistics operations, especially transportation tendering, and all of the things that follow. The reality is that it is time consuming and costly to do all of these hookups.

In order to drive supply chain benefits, the first thing that Penske has to do is get freight under management (FUM). FUM leads to shipment visibility both in terms of

them how they're doing in both qualitative and quantitative terms through a formal process, it can be painful," says Hegewald. "There is still room for improvement, but this scorecard process has been key to changing how we work together."

As a long-term partner with Eaton, Penske knows that it needs to constantly reinvigorate its relationship by finding new opportunities for transportation, distribution

"Creating an overall supply chain structure for these different businesses is the challenge we asked Penske to help us with."

— Mario Hegewald of Eaton

frequency and in terms of the providers being picked. This leads almost automatically to increased efficiency as Penske is able to use its position in the marketplace to drive down freight rates. This freight leveraging is the low-hanging fruit. After this step comes transportation optimization, which is only possible when you have visibility to the frequency and characteristics of shipments. Finally, Penske moves into optimizing the overall networks. Eaton has seen benefits from all three categories of effort, but the big bang will come as Penske uses the data they have gathered to evaluate and improve Eaton's distribution networks. As a general rule, Penske has been able to drive out between five and seven percent of the overall transportation costs they have accountability for every year since they began working for Eaton.

Eaton evaluates Penske and all of its 3PLs and LLPs in both a quantitative and qualitative way using a scorecard that blends metrics for productivity, cost-out, innovation, service level and project management. The quantitative metrics such as cost and service improvement are easy to measure, but the subjective elements are more difficult to quantify. For example, innovation means bringing new project opportunities with an attractive return on investment to the forefront.

"Service providers say they want to hear the voice of the customer, but when you tell

and consolidation, says Joe Gallick, Penske's senior vice president of sales.

"We do a great deal of tactical planning, such as supply chain mapping, value analysis and IT work," he says. "While this hands-on logistics work is complicated, the real challenge is working with the people and the culture."

Much of the innovation centers on change management, which requires gaining buy-in from all of the many divisions and people involved, especially among the new companies that Eaton has acquired. The challenge for an LLP like Penske is how to take all of these different business units in different parts of the world that have their own way of operating and their own culture and get the organization to behave as one.

According to Hegewald, Penske has demonstrated a willingness to do what it takes to drive improvement, including investing and bringing Six Sigma resources to bear to develop processes and overcome problems. Penske is doing something right. In 2006, Eaton gave Penske the highest grade of all its LLP partners, and recognized it as a premier partner again in 2007.

