



Saving \$12.5 Million at Covidien

With strategic acquisitions resulting in expanded product offerings but disparate supply chain processes, Covidien sought to implement a technology solution to help consolidate and rationalize its supply chain. After selecting i2 as its solutions provider, Covidien implemented i2 solutions in 10 company initiatives. i2 solutions enabled Covidien to save a total of \$12.5 million on those initiatives, with the healthcare manufacturer achieving a full return on its investment in as little as six months.

As the average life expectancy increases, the already immense healthcare industry is projected to expand even further. With more healthcare manufacturers emerging to stake a claim in the growing market, established companies must find ways to stay competitive and expand market share.

With a portfolio including disposable medical supplies, monitoring equipment, medical instruments, and bulk analgesic pharmaceuticals, Covidien conducts most of its business through distributors, but a significant percentage involves direct selling to healthcare facilities and retailers.

Recognizing the need to enter new healthcare markets to stay competitive, Covidien made a series of acquisitions throughout the 1990s that gave the manufacturer additional product offerings. While those acquisitions made Covidien the world's second-largest healthcare manufacturer, the organization had disparate computer systems and distribution centers.

"We needed to rationalize and integrate our supply chain and to consolidate our number of distribution centers," said Peter Sturtevant, Covidien's Vice President of Supply Chain Solutions in Transportation. "We also wanted to provide a single, one-stop source to our customers so that they can place a single purchase order, and receive the product from a single distribution facility."



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Challenges

- Rationalize supply chain
- Consolidate distribution centers
- Eliminate disparate supply chain processes by creating integrated system

Solutions

- Implement automated supply chain planning to replace manual spreadsheets
- Create go-to-market strategies for manufacturing lines and distribution centers
- Use segmented data to create accurate modeling for capital expense requests

Results

- Saved total of \$12.5 million in supply chain costs, achieving full ROI in as little as 6 months
- Improved inventory returns and fill rates
- Consolidated warehouses

Company Description

Covidien is a leading manufacturer and supplier of medical devices worldwide. The company's portfolio includes disposable medical supplies, monitoring equipment, medical instruments, and bulk analgesic pharmaceuticals, sold under such names as US Surgical, Kendall, Mallinckrodt, Nellcor Puritan Bennett, and others. Covidien has an annual revenue of \$8.6 billion.

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***—Peter Sturtevant
Vice President of Supply Chain
Solutions in Transportation***



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Why i2?

Covidien was introduced to i2 via its European operations, which used i2 solutions with great success.

“I used i2 solutions in Europe and I was impressed with the product offering there,” Sturtevant said. “I had done some modeling earlier in my career and when I first visited i2 to look at its products, I found that i2 Supply Chain Strategist™ was a logical fit for us.”

i2 Supply Chain Strategist is designed to enable enterprises to analyze and design their supply chains to best meet business objectives. i2 Supply Chain Strategist can support key strategic decisions at each stage of the supply chain—from raw materials procurement to finished goods distribution.

“Supply Chain Strategist was the best technical fit because it operates separately,” Sturtevant said. “I have my own team that is involved with strategic studies in the area of distribution. Since Supply Chain Strategist operates on a single stand-alone platform, we could make this decision within the logistics organization. While IS supported our adoption of Supply Chain Strategist, I could manage the process internally within my logistics function and not involve the entire corporate IS organization.”

i2's Contribution

Covidien uses Supply Chain Strategist to analyze its network design and to optimize its supply chain.

“Supply Chain Strategist enables us to create our go-to-market strategy,” Sturtevant said. “It helps us to determine the optimal number of distribution centers and what markets we service from each. With Supply Chain Strategist, we are able to go all the way back to the manufacturing line and help them determine where they should move machines based on where our customers are located.”

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i2 solutions enabled Covidien to rationalize its supply chain through an automated process—a vastly different approach for the healthcare manufacturer.

“Prior to implementing i2 solutions, we were doing supply chain planning with Excel spreadsheets, rating and re-rating based on our freight payment database,” Sturtevant said. “It clearly wasn’t a robust system.

We had limited influence with the manufacturing organization. They would tell us that they were going to move a product line to a new plant, and we would simply give them the costs associated with that move. It was very generic and it wasn’t nearly as detailed and specific as Supply Chain Strategist.”

Covidien’s Results

Covidien has implemented Supply Chain Strategist in 10 company initiatives—saving the manufacturer a total of \$12.5 million to date.

i2 solutions have created this savings for Covidien in four key areas. The first is what Covidien calls out-freight, which is transportation to the customer. The second is in-freight, which is the transportation from Covidien’s manufacturing or sterilization facility and vendors into the forward distribution center. Warehousing expenses, which

are the costs related to running products through the distribution center, is the third area. And the final cost area is Covidien’s inventory investment.

“In the past, Covidien made all of its decisions based on total logistics and that total supply chain cost structure,” Sturtevant said. “Supply Chain Strategist has allowed us to break those components apart and dissect the whole supply chain. On every project that we have used Supply Chain Strategist, we have realized seven-figure savings. Several of these projects had ROIs of six months or less. We’ve had some projects that have had ROIs of 12 to 18 months, with most of these projects achieving savings in the very first year.”

i2 solutions have also enabled Covidien to make more effective logistics decisions. The healthcare manufacturer has a formal process called CER—capital expense request—that helps the company ensure that it receives a return on investment on any major decision within two years.

“With Supply Chain Strategist, we have been able to input the data on transportation, warehousing, inventory, and logistics decisions into our CER process,” Sturtevant said. “Our senior financial management is now very confident that our modeling will reflect what actually occurs when we implement a new project.”

i2 solutions have improved Covidien's ability to get the right product to the right place at the right time—something that the manufacturer's customers have recognized.

"Using Supply Chain Strategist to analyze our inventory investments, we consolidated three public warehouses to a single, shared-service Covidien facility in Joliet, Illinois," Sturtevant said.

"As a result, we've improved our inventory turns and provided much better service and fill rates. Customers are receiving products from a single location as opposed to the past, where they could have received products from three different locations."



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