

Hard Rock Cafe Turns to Outsourced Logistics

BY BRIAN ALBRIGHT

Collectors of Hard Rock Cafe paraphernalia may have better luck finding souvenirs in stock when they visit the music-themed restaurant chain's North American locations. Hard Rock Cafe International Inc. is outsourcing logistics for its signature souvenirs and apparel in an effort to improve service levels to its stores and cut costs.

The company has selected USCO Logistics, a subsidiary of Kuehne & Nagel, to take over distribution and replenishment of collectible and fashion merchandise for its cafes, hotels, and casinos in North America.

The consultancy Avicon Inc. helped Hard Rock design its outsourcing strategy, which the company hopes will improve working capital, operating margins, and customer service levels.

"We hired Avicon as a strategic advisor to determine if outsourcing was the best model to attain the

functionality and cost efficiencies we needed for our retail apparel and gifts operations," says Tony Paladino, director of planning, distribution, and logistics at Hard Rock Cafe.

Naugatuck, Conn.-based USCO will manage distribution of items representing 85,000 stock-keeping units to more than 47 Hard Rock cafes, hotels, and casinos from its multi-customer distribution centers in Cerritos, Calif.; Plant City, Fla.; Louisville, Ky.; Toronto, Ontario; and through a fourth party in Mililani, Hawaii. The Louisville facility will also handle fulfillment for Hard Rock's online sales.

Previously, Hard Rock leased facilities at several locations in the U.S. and Canada, using third-party carriers to make weekly deliveries to its venues. According to Paladino, the company wanted to reduce its transportation costs and in-transit times. The existing facilities also used very little automated material-handling equipment, although bar code tracking was in place.

"Upgrading those facilities would have involved a high cost, and the company was unwilling to make that sort of capital invest-

ment," says Paladino.

With Avicon's help, Paladino's team evaluated several logistics providers. USCO won out because of its facility locations, good marks from its clients, and price. Paladino expected the transition to be complete by mid-January 2004.

Projected benefits from the outsourcing initiative include reducing North American warehouse space by 44%; reducing operation costs by 20%; improving service levels by 22%; optimizing transportation costs and contract terms; improving efficiency; and providing real-time, Web-based supply chain visibility.

Because the USCO facilities will hire staff based only on the volume of transactions, payroll costs will peak and ebb with demand. Paladino also expects to reduce the cost per mile for transport.

Avicon is working with the company to develop a better assortment planning process and helped the company rationalize its product line, which should reduce inventory. Paladino wants to start moving more frequent, smaller shipments and increase inventory turns by at least a point and a half. **FS**

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