



FedEx Customer Success Story **Philips Semiconductor**

Philips and FedEx engineer a high-speed, supercharged supply chain.

- **With FedEx automation and integration, customer response time was shortened from two weeks to less than five days.**
- **FedEx International Priority DirectDistribution[®] allows international orders to be shipped factory-direct to customers.**

Things move fast in the semiconductor industry and Philips Semiconductors is no exception. One of the leading semiconductor manufacturers in the United States and the world, Philips delivers high-tech components to some of the country's best-known telecommunications, consumer electronics, automotive, and computer companies.

As Philips' customers demanded faster service, the company realized its supply chain was not equipped to handle the shortened cycle time efficiently. Philips needed a better solution.

So, in 1997, Philips' Logistics Director for North American Sales, Jim Harbinson, began a search for someone who could help. "We spent a year talking to forwarders and integrators," Harbinson says. "We looked at their systems, their infrastructures, and their ability to integrate with us and track shipments. We especially wanted a company that was willing to dedicate resources to our business."

Philips ultimately tapped FedEx to engineer a solution. The new integrated system is paying off in reduced cycle times and is generating additional savings for Philips across their entire supply chain.

Different sources, different systems.

Customer demands for faster delivery strained Philips' complex network of plants in seventeen countries. Each source plant had a different shipping operation, which resulted in Philips having to manage a complicated network of thirty airlines, six customs brokers, and eight freight carriers.

In all, the fragmented supply chain meant a two-week total transit time. And at any given moment, the information about product in transit was spotty at best. As customers began demanding products faster than the company could deliver, Philips began stocking buffer supplies of product in remote depots, adding inventory.

Philips knew the situation was costly and had to be resolved. Each day, an average of \$2 to \$4 million in pipeline inventory was inaccessible. Customers experienced slow response and late shipments.

"Our customers and our sales team demanded better service and responsiveness," Harbinson says. "We were not competitive from a fulfillment standpoint and knew we could do better."

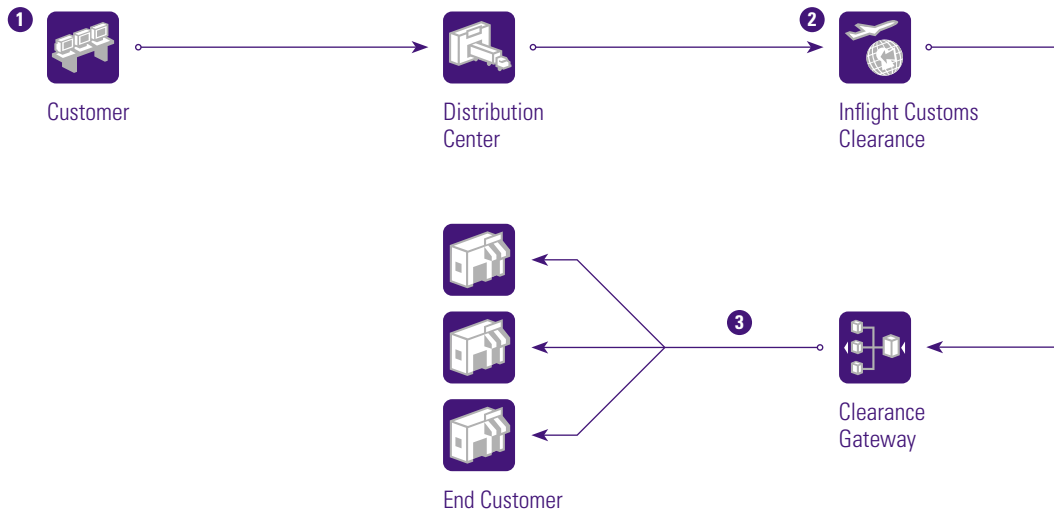
FedEx delivers radically reduced cycle times.

Philips' search for an answer led it to FedEx.

"We didn't want someone just to quote freight rates. We wanted someone to engineer a process. Everyone wanted our business but no one could really demonstrate the combination of worldwide reach, speed, reliability, integrated information access, and willingness to invest in the infrastructure and staff support we needed," Harbinson says.

Order Management Process

1. Customers place their orders, which are received at the Philips North American headquarters and routed to one of Philips' seventeen international manufacturing plants.
2. Using FedEx International Priority DirectDistribution, multiple orders are electronically consolidated and cleared through customs as a single bulk shipment.
3. Orders arrive at the FedEx Express Hub where the single bulk shipment is deconsolidated to the individual shipment level and dispatched for direct delivery to customers.



FedEx was the only company that met Philips' tough requirements. "FedEx has the ability to integrate all the locations," according to Harbinson, "and was willing to help us build a better system."

For FedEx, the first step was to take over Philips' California warehouse operation and move it to a more central location in Memphis, Tennessee. This allowed FedEx to handle and oversee product distribution to end-customers.

Concurrently, many of Philips' international airfreight shipments were converted to FedEx services for fast-cycle, time-definite delivery.

Finally, a high percentage of Philips' international orders were earmarked for conversion to FedEx International Priority DirectDistribution. This further streamlined their supply chain by allowing Philips to send multiple international orders to their US customers in a single, large shipment. After expedited FedEx-enabled brokerage and customs clearance, the shipment is broken down within the hub of destination for direct delivery to individual customers.

Equally important to the transportation solutions was the FedEx expertise in shipment visibility. By linking all Philips' customer purchase-order numbers to FedEx, FedEx gave Philips visibility of all inventory. The function is integrated seamlessly into Philips' manufacturing and customer-service networks.

Satisfying customers and slashing costs.

The most important result of the program is increased customer satisfaction. "Now we can support sales growth and customer demands for safety stock without adding inventory," Harbinson says, "and our end-customers have much more confidence in our ability to meet delivery commitments consistently."

Overall global customer response time is down from more than two weeks to less than five days. And in North America, the Memphis warehouse can fulfill all domestic orders overnight. The system is so advanced, products often bypass warehouses altogether and ship directly from the source in one country to the customer in another. For example, many products shipped from the Philips location in Bangkok are packed and labeled by US customer order, then bulk-shipped as part of a single international air express freight movement. This bulk shipment is separated upon clearance of customs and delivered directly to the customers. This is the advantage of FedEx International Priority DirectDistribution.

The internal benefits are equally powerful. Millions of dollars in pipeline inventory have been converted to usable product, and outsourcing warehouse operations to FedEx is generating additional labor savings. Plus, replacing dozens of carriers with one is resulting in a radical reduction in paperwork and invoices.

Harbinson couldn't be more satisfied. "By consolidating with FedEx and focusing our combined resources on fine-tuning an integrated system, we have improved our performance and simplified our business," he says. "I have one provider for the bulk of my customer supply-chain needs, the same provider for continuing system improvements, and the same provider for improving costs."

"Our customers will continue to demand ever-better and ever-faster results," he adds. "Now our supply chain is capable and competitive. It really delivers the goods."

For more information about this and other FedEx solutions, please visit our Web site at fedex.com.