

## Newsworthy: A Global Supply Chain Success Story

### Up, Up, and Away

By Deborah Aarts, MM&D (Materials Management & Distribution), Canada's Supply Chain Magazine, May 27, 2009

Ask any eight-year-old: Spin Master Ltd makes cool stuff. Brands like Air Hogs, Bakugan Battle Brawlers, and Moon Sand have propelled the Toronto, Ontario-based company to the top tier of the North American toy market. Today, children in more than fifty countries around the world seek out its products, and the number is growing.

The company has gone from being a small start-up with a few SKUs [stock-keeping units] to a global powerhouse at the vanguard of an ultra-competitive, fast-moving market.

This large a transformation wouldn't have been possible without a modern supply chain. Five years ago, Spin Master didn't have one. Now, it does—one that's efficient and nimble enough to work with the Walmarts of the world, no less.

Spin Master was born in Toronto in 1994 when three university pals banded together to sell a novelty product called the Earth Buddy. The toy—a small figurine that sprouted plant “hair”—turned out to be a hit. Inspired, the trio sought out new brands and two years later launched Air Hogs, a series of air-pressured toy aircraft that continue to fly off shelves today. Growth has followed the company ever since.

As is common with many growing companies, Spin Master's supply chain was something of an afterthought, ranking far below revenue growth and market share on the priority scale.

By its tenth anniversary, the company was attempting to storm ahead, planning new products and expansion around the world—all while its methods of sourcing and distributing product lagged far behind.



The Air Hogs Hydro Rocket received a children's choice award for kids eight years and older from the Canadian Toy Testing Council in 2001.

The crux of the problem was inefficient data management. All information pertaining to orders and shipments was entered, analyzed, and communicated manually with a seemingly endless series of Excel files.

As it is today, most of the company's product was manufactured in Asia and sent out from Hong Kong. Scott Cleaver, Spin Master's vice-president of supply chain and operations, remembers the problems the manual process created.

“Once we established an order at the factory, we didn't have any time to make changes. There was no baseline information anywhere...Someone here would call the factory and say ‘we need to cancel fifty,’ and the factory would ask ‘Is that in addition to the fifty we cancelled yesterday?’ No one knew.

“So our factories were very frustrated with us. After a while, they were as confused as we were about what we really wanted.”

Once an order was (finally) determined, product was shipped from Asia to Vancouver, where it was sent by rail or truck to Toronto for distribution. Visibility into in-transit shipments was practically non-existent.

“To get a status on inbound shipments, we'd be making about five hundred calls a day,” says Kennedy. “We'd have to ask about everything. ‘Is it on the boat or in the port? Is it with Customs? Has the trucking company taken it to the train? Where are the trains? What is the ETA for Mississauga?’”

The company's Canadian distribution operations were split between six warehouses in the greater Toronto area, run by four different 3PLs [third-party logistics].

Each warehouse was unique. Some were paper-based, with inbound/outbound deliveries and inventory managed on a card basis. Some used an automated system augmented by manual processes. None was able to communicate with Spin Master with sufficient speed and depth.

All these inefficiencies took up a tremendous amount of Spin Master's resources. Its head office was packed to the rafters with paper, filing cabinets, and increasingly frazzled employees.

“We found we were very busy, but we weren't able to accomplish that next step for growth,” adds Kennedy. “People loved us. They loved our product, they loved our creativity, but it wasn't reflected in our business growth.”

Amid all this chaos, Spin Master had its sights set on a lofty goal: global expansion. But by 2004, it was

glaringly obvious this couldn't happen without some serious operational change.

After much discussion, the company decided to invest in a new enterprise resource planning (ERP) platform.

After careful evaluation, the company chose ERP supplier SAP.

The system had built-in conversion tools, which were able to funnel in the massive amounts of data from the old Excel files. Suppliers and vendors were given controlled access portals to the system, so they could have access to the same information, regardless of whether they used SAP.

Slowly, Spin Master brought everyone—all employees, all departments, all partners—onto the same platform. This gave everyone access to common information about virtually anything in the company's supply chain. This "single version of the truth," as Kennedy calls it, would form the foundation for the company's future activity.

The system went live in February 2006.

Within thirty days of the implementation, Spin Master had full visibility between its Toronto and Hong Kong offices, and the benefits have not stopped rolling in.

Since go-live, the company has more than doubled in size. It manages more than five hundred active SKUs at any given time—and the mix is constantly changing, depending on what children deem "cool."

On the international front, Spin Master now serves the U.S. through a warehouse in Seattle. It has warehouses in France and the United Kingdom, and logistics partners in Hong Kong and Yantian, China. Earlier this year, it opened its first facility in Mexico.

In Canada the company is down to a single warehouse—an automated facility in Toronto run by Metro Canada Logistics.



Spin Master co-CEOs Ronnen Harary (left) and Anton Rabie (right) along with Chief Creative Officer Ben Varadi (centre) and an Air Hogs Switchblade.

At all locations, everyone has access to the same information in real time.

"I can tell you what's ready at a factory to be shipped any day of the week across any one of the SKUs we have in the company, across any of the factories we have," explains Kennedy. "We have in-transit visibility to every shipment leaving the factory, we know every delivery date, we know the ship it's on, the container it's in, the day it's arriving at the port. We know when it's cross-docked, which train it's on and when it's arriving.

"We have the visibility to allow us to work with our 3PLs to optimize loads, negotiate better terms and look for ways to save more money collectively. We've been able to give those providers more business as a result, so their business is improving, too."

The benefits of this also travel down the supply chain.

"I can also tell you what the demand side of our business is, in terms of what our retailers are looking for—what their point-of-sale needs are, what their inventory needs are, what they have in stock at their DCs [distribution centres]. And we can determine whether our supply chain has sufficient in-transit or staged [ready to ship] inventory at any minute of the day," Kennedy says.

In early 2008, with employees fully versed in the system, the company began phase two of the implementation: incorporating analytics. Staff members now aggregate and correlate data about how retail customers are choosing and promoting products. Doing this gives the company the ability to line up orders from the factory right down to the end consumer's choice. This information has helped the company shorten lead times, increase forecast accuracy and collaborate better with retailers on potential sale items and promotions.

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#### □ Questions

1. What do the following acronyms stand for?
  - a. SKU
  - b. 3PLs
  - c. DCs
2. Explain what is meant by "in-transit visibility."
3. What information does Spin Master get from the retailers that sell its products?
4. How does Spin Master use the information it gets from retailers?