

Weitzen Paper Company Optimizing Outbound Logistic Costs

After announcing disappointing financials for the 2008 Fiscal year, Weitzen Paper Company decided that it would be taking a hard look at several business areas to reduce costs and improve customer satisfaction. After some preliminary analysis, the key areas that were identified were outbound logistics costs and forecasting procedures.

Kathryn “Kathy” Weitzen (Chief Operating Officer for Weitzen Paper) was tasked with evaluating the 2008 logistics cost performance and developing methodologies that would improve 2009 performance. Her evaluation not only has to consider the two key areas as a whole, but also more strategic items such as the correct number of distribution centers, impact of current publishing market, individual distribution center (DC) performance, etc.

Company Background

Weitzen Papers was founded in the early 1970s by Rob Weitzen as a small newspaper covering stories around the state of Indiana. After years of being in the newspaper business, Mr. Weitzen decided to leverage his strong business acumen and move into the paper production business. Weitzen Papers soon became a niche player to serve mass-market paperback book publishers. Weitzen Papers prided itself on being able to offer its customers low pricing and exceptional services. Weitzen Paper’s success was also attributed to its ability to manage cash and inventory effectively.

Weitzen currently operates three (3) distribution centers (DC) in the following cities: Indianapolis, IN; Pittsburgh, PA and Rochester, NY. The 2008 annual output of each distribution center is listed.

Distribution Center (DC) Location	Annual Output
Indianapolis, IN	250 Tons
Pittsburgh, PA	130 Tons
Rochester, NY	235 Tons

Table 1 – Distribution Center Annual Output

Weitzen Paper currently serves four (4) publishers in the following cities: Boston, MA, New York, NY, Chicago, IL and St. Louis, MO. The 2008 annual order of each distribution center is listed.

Publisher Location	Annual Order Amount
Boston, MA	75 Tons
New York, NY	230 Tons
Chicago, IL	235 Tons
St. Louis	70 Tons

Table 2 – Annual Publisher Order Volume

The current cost in dollars per ton for delivery from each Distribution Center to each Publisher is described in the following table:

From / To	Boston	New York	Chicago	St. Louis
Indianapolis	\$475	\$350	\$100	\$170
Pittsburgh	\$250	\$185	\$230	\$305
Rochester	\$215	\$170	\$300	\$420

Table 3 – Delivery Cost Per Ton

2008 Book Publishing Market

New York, NY, March 31, 2009: The Association of American Publishers (AAP) today released its annual estimate of total book sales in the United States. The report, which uses data from the Bureau of the Census as well as sales data from eighty-one publishers inclusive of all major book publishing media market holders, estimates that U.S. publishers had net sales of \$24.3 billion in 2008, down from \$25.0 billion in 2007, representing a 2.8% decrease. In the last six years the industry had a compound annual growth rate (CAGR) of 1.6%.

Trade sales of adult and juvenile books fell 5.2 percent from 2007 to \$8.1 billion, CAGR fell to 2.1 percent. Growth was found in paperbound books for children and adults, with growth rates of 6.4% and 3.6% respectively. Sales in the hardcover fell 12.4% in children's hardcover and 13% in adult hardcover.

Over the period covered by the estimated data, the CAGR for hardbound books was 0.4% for adult books and 1.5% for juvenile. Paperbound books grew 3.9% and 2.8% over the 6 years.

Educational titles had a mixed year. Sales in the Elementary (EI-Hi) category, those books produced for K-12 education, fell 4.4% to \$6.1 billion in 2008, CAGR for this category was 0.8%. The Higher Education category, which includes sales of college textbooks, fared better. Total sales reached \$3.8 billion this year up 2.7% on 2007. This brought the CAGR for college textbooks to 3.8%

Mass Market paperbacks decreased 3.0% and brought the category CAGR to -1.9%. Total sales were \$1.1 billion in 2008. Book clubs and mail-order fell for the sixth year to \$600 million, a fall of 3.4%.

Audio book sales for 2008 totaled \$172 million, down 21% on the prior year, CAGR for this category is still healthy at 3.1%. E-books continue to grow significantly, sales reached \$113 million in 2008, up 68.4%.

Religious book sales dropped 7.6% to \$724m in 2008. However over the period of the estimate it has still performed well with CAGR of 4.5%.

Mass-Market Paperback Industry

In the mass-market paperback market, books are sold through multiple channels. They are typically sold at low-end stores such as supermarkets, drug stores, mall stores, and some bookstores. The distinctions between different types of book markets are becoming blurred, but it is still true that mass-market books are usually less expensive and are either paperback or in a jacketless hardcover. Mass-market books are often written by house writers, or are reissues of previously published trade books in a less expensive format.

Given the challenges in the mass-market paperback industry, as well as the internal financial goals at Weitzen, Kathy had to consider what would make the most sense to optimize logistics and lower costs. She had tough choices to make; all while ensuring that Weitzen Paper maintains its desire and commitment to offer impeccable service to its customers.

Things To Consider

- (1) If the annual outbound shipping cost (Total Cost From Distribution Centers to Publishers) was \$127,000 in 2008, did Weitzen minimize its outbound shipping cost?
- (2) If the 2008 outbound shipping cost was not minimized, how much savings could have been achieved in 2008?
- (3) What would be the volume allocation from each distribution center to each publisher under the 2008 scenario?
- (4) Assuming 2009 demand for each publisher drops 3% (Boston = 73 Tons, New York = 223 Tons, Chicago = 228 Tons, & St. Louis = 68 Tons) from 2008 levels
 - a. What would be the optimal outbound shipping cost (Total Cost From Distribution Centers to Publishers)?
 - b. Assuming annual outputs amounts remain consistent (Table 1), what would utilization rates be for each Distribution Center (DC)?
- (5) Given the recent history of the mass-market paperback industry, what recommendation would you make to Weitzen Paper Company?
- (6) What macro trends should be considered in the evaluation of the book publishing market?
- (7) Based on historical sales (2002 – 2008) of mass-market sales publications, how would you forecast the next three (3) years (2009 – 2011) of sales for mass-market publications?