

SUPPLY CHAIN IN THE C-SUITE:

DELIVERING GROWTH WITHOUT BOUNDARIES

Will Heywood (00:09):

Welcome to “All business. No Boundaries.”, a collection of supply chain stories by DHL Supply Chain, the North American leader in contract logistics. I’m your host Will Heywood. This is a place for in-depth discussions on the supply chain challenges keeping you up at night. We’re breaking beyond the boundaries that are limiting your supply chain. Let’s dive in. Today’s episode is Supply Chain in the C-Suite: Driving Growth Without Boundaries. My guests are Scott Barbour, CEO of Advanced Drainage Systems, Pat Coyle, Vice President of Supply Chain also at ADS, and Mark Kunar, our Executive Vice President at DHL Supply Chain. Welcome to you all. Thanks for being here as well. So we have a couple of firsts today. The first first is that we have a CEO of a publicly listed company as a guest. So that’s the first time in 12 or 13 episodes. So thank you, Scott, for joining us. And the second is we’ve come out of the cave and are face-to-face, in-person. Our first “All Business. No Boundaries.” podcast in the same room. So thanks for having us out to the ADS headquarters today, and I look forward to the discussion. So first I’d just like to have you introduce yourselves, give a little bit of a synopsis of your career and your role in the companies that you serve today. So, Scott, can you kick us off, please?

Scott Barbour (01:22):

Thanks, Will. And welcome, it’s good to have you all here for these couple of first. My name’s Scott Barbour, I’m the President and CEO at Advanced Drainage Systems, commonly called ADS. I’ve been here about three and a half years in this role. I came after a long career at Emerson Electric. I was there for just about 27 years. My background is really in products and operations, long career there in product management, engineering, running plants, lots of planning activities in that. And I was primarily, during that career, in Sidney, Ohio, just west of here. I was Copeland, also lived in Hong Kong, running the Copeland operation in Asia then came back and moved to Columbus and ran a pretty good size business group there and then came from there to ADS three and a half years ago.

Will Heywood (02:14):

Great. Thanks. Pat, over to you.

Pat Coyle (02:16):

Yeah, I’ve been with ADS for two and a half years now. I’m responsible for the supply chain and logistics customer service and in the planning organization, which is your traditional supply planning and demand planning. I came from Goodyear Tire and Rubber Company. I spent about 13 years with that group doing about the same job with them and I came over here to really focus in on our customer experience and improving our customer service trips, customer service levels.

Will Heywood (02:42):

Great. Thanks. And Mark?

Mark Kunar (02:44):

Thanks, Will. I’m Mark Kunar. I’ve been with DHL for about 25 years now. So I’ve only had one other employer. That’s pretty rare. I think Scott and I, we’re probably similar in that context. I worked for Pricewaterhouse before then. With DHL I’ve had various roles from commercial finance roles to operations. I actually met Pat when I was the Vice President of Operations for our Goodyear Tire and Rubber account. And today I work with the business in our strategy, marketing, transportation, and a couple of our business units, including our engineering and manufacturing group, which is kind of where ADS falls.

Will Heywood (03:21):

Great. Thanks. So on ADS, it is a publicly listed company, but I don't think it's a retail consumer brand and all that well known. So, Scott, I wondered if you might tell us a little bit about who Advanced Drainage Systems is, the customers you serve, where you operate, a little bit of the history of the company?

Scott Barbour (03:38):

Well, we are a publicly listed company our ticker symbol on the New York Stock Exchange is WMS: water management solutions. We've been public, I think for about six years, about 2 billion in revenue, a billion market cap. It has seen pretty good growth. We are really very focused on the stormwater management space and the on-site septic space really are a manufacturer, but we also have this very large logistics and distribution component. We have a private fleet and that's what Pat was really kind of brought in for, and we're darn glad he's here to help us manage that because early on, I really saw that it was a very different business from the manufacturing piece of it. So we really look at it as two different operations today. And, you know, we've done a lot to reposition the company, how we present ourselves. We have this great sustainability story. We manage water, a precious resource. We do this with this very high content of recycled material. We do this, you know, increasingly operating our fleet in an efficient and sustainable manner. So we're kind of lucky this sustainability thing came on quite quickly and we were able to really just package what we do and how we do business around that message. And it's been amazing kind of the uptake we've gotten on that particularly over the last couple of months where we've really moved that part of our story, which was developing over those first couple of years, I was here and we moved to the front of the deck and attracted several new investors and lots of new attention. We're not a retail name, but in that stormwater management or water management portion of the economy or the building products, we're really highly relevant and quite proud of that. We're well known for what we do, almost iconic in what we do. And we do a lot of really cool things for our customers, not only in terms of our products but in terms of what I call that service component of our value proposition, which is incredibly important to us.

Will Heywood (05:46):

Okay, and what types of customers do you typically serve? Do you have sort of categories of them?

Scott Barbour (05:49):

Sure. About 50% of the business roughly is non-residential. So if you are building a distribution center, which you all are very familiar with, or you're building any type of site development, we're kind of the first guys on the ground. That's when our products go in. So anything over, let's say five acres, has a fair amount of regulation around it, on how that stormwater is managed. So it rains, there's an impervious surface, a roof, a parking lot. There's a fairly well-known set of regulations on how you get that water off that site and back into the watershed and, you know, clean at the right pace so things don't flood. And that's important because I think it leads to a higher quality of life. As part of our sustainability positioning, no one likes to live in a place that floods, if your basement floods or your street floods. And really our products and the design work we do with engineering firms and contractors really lead to all that being done well. A good portion of the business is residential, about 35% now, I think. A lot of that is the onsite septic, that infiltrator our other division does. On the ADS side, we also sell a lot of pipes when you do residential developments. So ADS is very involved at the front end when dirt's being moved for a new residential development infiltrator in their onsite septic products is at the backend as a home is being completed. And we've seen a nice uptick in that business as people have been moving to the suburbs or maybe very rapidly growing areas just outside of a metropolitan area, we call them micropolitan, where maybe the municipal sewage plant isn't keeping up and someone would need a leach field to complete their home. And then 10% of the business is agriculture. That's where we started was an agricultural field drainage row crops, corn, and soybeans, very nice business for us, super high service content in that business being on time, being able to schedule the planning activities that Pat talked about. And then we have an international component primarily in Canada, in Mexico. We're basically a North American company.

Will Heywood (08:03):

Great, thanks. That's helpful. So Pat, maybe turning to the supply chain agenda and kind of how we wound up together here today and before today. Can you talk a little bit about when you came into the business, what your objectives were overall, how you got to know Mark and us at DHL Supply Chain, and where you are on that journey?

Pat Coyle (08:25):

Yeah. So, you know, Mark said, we met a lot of years ago, when I came into ADS, Scott mentioned the fleet we have. The fleet is really designed as a strategic advantage for us. It delivers to our trade customers, it goes to job sites, it goes to agricultural fields, and that's a really big part of our service component to our customers. And then we have what I consider non-core pieces of our business that don't really fit into our traditional fleet and what it's able to do. And a lot of that was part of our retail proposition and our retail customers. When I came in, I noticed that a lot of our resources were being dedicated to this retail component and it was taking away from our trade customers. And so we worked with DHL to come up with a new idea, a new way to be able to service those customers in a better way. We're in the middle of that journey of opening up distribution centers and traditional boxes. We have one in the Northeast and one in the Southeast right now, and we're planning on more across the United States to be able to service those customers. And it's not just about moving products in there and getting them out. It's really about increasing the density of loads or customers being more efficient and then transferring that efficiency back to the traditional fleet that we have and being able to service more customers and being able to service them better.

Will Heywood (09:45):

Great. And the fleet size is approximately what?

Pat Coyle (09:48):

We have about 500 units in our power units and about 2000 trailers within our fleet. And our fleet is very unique because it's all customized equipment. We have specialized trailers to haul pipe, we have a lot of flatbeds and drop decks that we use to service our customers, we have specialized equipment to go into agricultural fields to service those customers. So this is a very unique fleet that we have.

Will Heywood (10:13):

Yeah. Interesting.

Scott Barbour (10:14):

I mentioned earlier that we started to kind of separate out our activities, what I call the four wall manufacturing, and its unique set of challenges and managerial objectives versus the fleet. And Pat was really very important in that because the more we separated that the more opportunities we saw. So while he kind of undersold that retail being in there and being run on that private fleet, it was really what I would call jamming up our ability to use that trade fleet as it was designed. And we really took a very different approach in thinking about that. How do you get that retail out and put it where it belongs from equipment, from density? You know, what were there, how many stores in Northeast? 700 or something like that, that we were servicing out of that private fleet. It was kind of messy to tell you the truth. And our equipment was being used increasingly, particularly during certain periods of time, to service that and not great density, lots of stops. You know, we were trying all kinds of things to manage that, and it really was tough. So we kind of pulled that out, put these into these centers in the Northeast and the Southeast. Not only did our delivery performance go up, so the retail customers that went up for our trade customers too, which was a big objective of the program.

Pat Coyle (11:36):

We've talked a lot about the fleet side of this. There's also a component within our yards, which are our distribution centers that we have within our factories. They got way more efficient as well. And if you think about what they were designed for, it's for stick pipes, big, long pipes. It's not really made for those small retail loads that we deliver to stores. So it was difficult for operators to be able to load those trucks efficiently. And so moving that away from them got those guys more productive, and really helped us with that trading piece of it. So it's really two components of the warehousing piece and then the transportation piece that we saw efficiencies coming from.

Scott Barbour (12:13):

After I was hired, I told our board, you know, after like three weeks, I was like, wow, you said this was kind of a simple manufacturing company. We're just making pipe. It's really quite complex. You know, not only that four-wall manufacturing but that logistics and transportation has a lot of different nooks and crannies to it that gave us the opportunity, frankly, to not only do a better job for our customers but do that more efficiently and is driven a lot of good performance.

Will Heywood (12:39):

So I want to press on that a little bit. Mark, from the DHL perspective, when we were introduced to this sort of unique set of circumstances and requirements, what was our initial reaction? How did the team approach the solution?

Mark Kunar (12:52):

Yeah, actually the first opportunity that we worked with ADS was probably another one of those classic examples where they had a decentralized process of basically working on all the loads that the fleet couldn't handle, they were working through a brokerage type spot by network. And so our first kind of task was how do we take that from a decentralized network to a centralized network? How do we gain visibility to what we're spending? How do we gain visibility to how many loads actually are per day for each plant? And then put it under a more traditional contracted carrier type network. So many of the sites were using individual brokers at each one of the sites. And as we continued to work through the program and actually over the last three years, we ran into this other thing called a capacity crunch in the transportation network. So even with that, we've changed our strategy to move more towards asset-based carriers. Now, many of these carriers are, as Pat said, low deck carriers and flatbed carriers. So they are a unique bunch of carriers, but that was actually the first entry. And then Pat described a little bit more around the retail.

Will Heywood (14:03):

I wanted to kind of drawback on supply chain as a function in general. So we supply chain guys like to think about how important we are in the day-to-day world that we live in, but Scott with you having sort of a broader purview within ADS, how do you think about supply chain supporting the value that ADS delivers? Where do you sort of see it in the hierarchy of the company or how the pieces fit together?

Scott Barbour (14:28):

I call them two primary levers in the company. I mean, we go to market well, it's a pretty high touch sale, as a matter of fact, it is a fairly highly engineered sale, which is a little surprising given the nature of the product. But then, you know, the other thing we do is manufacture and deliver, which is all in our supply chain. So probably 90% of the people in the company are either in the go-to-market piece or in that supply chain piece. We've mentioned this service component several times. And that's super important to differentiate, to be competitive, to kind of create stickiness with your customers. So it's pretty high, very high on our agenda. In fact, I'd say, you know, almost all of our major strategies are in those two areas. You know, we're doing things to develop products more rapidly and investing in our material science and engineering too. But, we have to do those two things well. You know, go to market well, we've got to operate that supply chain, we have to execute. And that kind of comes back to being part of a public company, a relatively new public company. You really need to do what you say you're going to do. That's how you build credibility with the analysts that follow you or the investors that you've attracted. Over time, that builds credibility. It builds some, I call it capital, you know, for you because things don't always go right. And when they don't go right, you need a bit of that. Now, fortunately for us, the last three and a half years, things have pretty much gone right. But I say that because, if you're doing what you say you're going to do, people can count on you, investors can count on you, customers can count on you. It begins a flywheel effect because you can layer other things on top of that. Other products, other services, other approaches, an acquisition, a new product. An investor the other day told me one of the things he liked about how we talk about the company and how we've performed is he sees a compounding effect in our performance. And that's pretty cool, I think. I've worked a long time, many different businesses, and you work really hard to get to that point where you're getting that compounding or that flywheel effect. And the work we've been doing with DHL is part of that flywheel. As we are able to execute better in the Northeast or the Southeast or new Miami, one of our newest activities, that gives us then more that we can then go and do. That's how you grow. That's how you improve your profitability, your cash flow, generate the options that you want to have to grow your business.

Will Heywood (17:02):

Yeah. Great. Great. So I want to step back to sustainability. And Pat, just thinking about it purely with the supply chain hat on. How do you guys think about driving sustainability within the supply chain activities in your business? How do you measure that? Where are you in terms of what you ultimately want to achieve?

Pat Coyle (17:21):

Yeah, so I think there are a couple of elements to that question. I think the first one is around our fleet and the sustainability of our fleet. Became a Safeway carrier over the last 12 months. So that's a very big feat for us. It's a lot of work as you know, to

get to that. It gave us a lot of what I call street credit around our commitment to sustainability has done a lot of work around MPG, around making sure that we're reaching our payloads and that we're focusing in on really good pieces of sustainability that we can go after. When I think about DHL in helping us in that journey, it's really been around core versus non-core. When we have these retail pieces in our portfolio, it is very difficult for us to get good pavement. It's very difficult for us to sustain really good miles per gallon. And so giving that to DHL, to really optimize that through TMS or different mechanisms that you have, really enabled us to really focus in on our fleet side of it. And that's been a really nice piece or story there. And we'll continue to do that as we grow this program across the US. I'll also say on the common carrier side and Mark, you mentioned a little bit about the control tower that we have set up. That's really giving all of our locations the time to be able to focus in on the sustainability piece, not only the sustainability from what we've described, but also driver safety and making sure that our drivers are effective in what they do, and they're getting the proper training to stay safe whenever they're delivering. So I think a combination of all of that has really helped us with our sustainability.

Will Heywood (18:59):

Yeah. Great. And Mark, I know this is a hot topic within the supply chain industry, overall, maybe jumping off of what ADSL is doing, what are we seeing in other corners of the business?

Mark Kunar (19:10):

Yeah, just from an ADS perspective, I think when we started doing the retail business, many of the retail loads were delivering two to three stops per truck, and we were at five and a half. And then through continuous improvement, I think we're around six now. So a lot of it was just kind of frame power, just working out how are we going to stack these trucks to get, there's a lot of air in these vehicles, so we focus a lot of time on getting the right equipment to service as well. So these are very light payloads. So we have to make sure that we're picking the right equipment when we go out and pick the right trucks and then on the control tower side as well. And we started to work through a process where we're evaluating all the Safeway carriers about giving visibility to ADS that says, hey, these are your Safeway carriers. You know, this might be a nickel more than this carrier over here. This carrier has a much higher rating from a standpoint of their contribution towards a sustainable fleet. So we're working on both of those items. You know, one other thing that Pat mentioned earlier was the fact that they were just using the wrong equipment to pick the product out in the yard. So they're using these big 10,000-pound diesel forklifts out in the yard, in the middle of all the elements. We've converted that all to an electric fleet, which is from a brown power standpoint is about an 81% improvement from a GreenPower, it's almost a hundred percent improvement on your sustainability and your carbon footprint. So that's been another nice area of focus for us as well. It's about getting the right piece of equipment to do the right task. And that's where we've really seen the gains.

Will Heywood (20:46):

Great. So Scott, just building on this, a couple of really nice tactical examples there, but as a value creation lever, sustainability has been sometimes more of a marketing thing than a real way to drive the P and L. Are you seeing that changing or have you seen that differently at ADS?

Scott Barbour (21:06):

We see it quite differently because before I got here, very important elements of sustainability were built into our P and L. And, it's not only the service components Pat mentioned getting better miles per gallon, better load density, more efficiency, using the right equipment, which all kind of takes down your greenhouse gas emissions. You know, that that's natural, the other piece is this very high use of recycled material that we use about more than 50, I think it's 55% of the black pipe we manufacture the high density, polyethylene pipe we manufacture uses recycled material. We're very large recyclers ourselves, the second largest recycler in the country. So within that four walls of manufacturing, you know, there's a big recycling activity in there increasingly like we split out the logistics and transportation. We're splitting that out and looking at it separately because when you do that, all these things we've talked about today, we saw those when we kind of separated them out. And I think we'll see more opportunities there. So for us, it's a driver of our P and L, it's what we've been doing for many, many years. Frankly, we're just trying to take the next steps and executing that game. And we're talking about it more and moving it to the front of our deck. And I think that's pretty good. I think we're lucky in that sense, as sustainability has become such a topic among investors, has become such a topic in society really we fit right into that. And the fact that we manage a precious resource, water, is kind of even better. It's not like we're a packaged goods guy, trying to use more recycled, we're doing this to really make the environment a better place.

Will Heywood (22:48):

Yeah. So you think this is here to stay?

Scott Barbour (22:50):

Yeah, I do. I do. And I, this isn't walking back. There's no way this is walking back. Not only is it the right thing to do, but I think people increasingly like us at ADS are finding it is a natural part of working their P and L and in fact, even their balance sheet because you're going to increase your investments in these areas as you go forward.

Will Heywood (23:12):

Good. So it'll stay at the front of the deck, then.

Scott Barbour (23:14):

It'll stay at the front of the deck. Yeah.

Will Heywood (23:15):

Good. Good. All right. Well, listen, thanks very much for hosting us today. And for joining us, we really appreciate your time, appreciated the discussion learning more about your business and a unique solution that DHL and ADS have combined on from a supply chain standpoint.

Scott Barbour (23:30):

You're welcome. It was a first for us to our first podcast today. So thank you very much.

Will Heywood (23:35):

Hopefully not the last.

Pat Coyle (23:35):

Yes. Thank you.

Will Heywood (23:37):

All right. Thank you. If you enjoyed the conversation today, please share it with a friend and rate us on Apple Podcasts. You can find online at dhl.com/allbusinessnoboundaries and follow us on LinkedIn and Twitter @DHLSupplyChain. We'll see you next time.