

StageTwoStrategies

A weekly look at problem-solving by second-stage companies.

StageTwoStrategies is a weekly feature that analyzes a recent business decision by a second-stage company. For more second-stage coverage, go to crainsdetroit.com/secondstage.

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ATLAS WHOLESALE FOOD CO.

Location: Detroit

Description: A food service distributor serving metro Detroit clients including **Fishbones, National Coney Island, Wayne State University, Wayne County, MGM Grand Hotel and Casino and Livonia Public Schools.**

President: Peter Kotsis

Founded: 1949

Employees: 22

Revenue: \$9.5 million in 2009, projected \$10.5 million in 2010.

Problem to be solved: Atlas spent the better part of the century's first decade in the red due to the growth of large wholesale food competitors like **Sysco Corp.** and **Gordon Food Service.**



Kotsis

To become profitable again, the company, which had served restaurants, moved into new markets, such as schools and jails. This helped sales, but also created a logistical nightmare. More suppliers meant Atlas paid more for deliveries to its east-side warehouse.

"We didn't always need a lot of product for each delivery," said Mike Kotsis, COO and third generation of the Kotsis family. "When suppliers deliver products, they charge us more for fewer products."

To save on costs, Atlas would over-order to fill a supplier's truck. Those products would sit

in the warehouse longer, which tied up cash and space.

Solution: Atlas began managing its own freight by contracting with Boise, Idaho-based food-service distribution company **Golbon's** to pick up products from across the country.

"By arranging our own freight, suppliers give us pickup pricing, which is the most competitive rate," Kotsis said. "We are able to create a full truckload, providing us with the ability to rotate our product faster, minimize cash outflow and free up freezer space."

Kotsis said the company can now be more "just in time," buying only what it needs to supply clients instead of stocking up.

Atlas was able to boost inventory on a variety of products by 25 percent while reducing overall inventory by 7.5 percent — saving more than \$5,000 per month.

Risks and considerations: Because Atlas now manages the freight pickups and deliveries, Kotsis and the company's lead buyer have to coordinate when the trucks arrive at each supplier — up to three per truckload.

Because the company had expanded to cover schools and hospitals, its product line became more diverse. More products meant the need for better tracking, Kotsis said.

Atlas made a \$6,000 investment in software to solve the issue.

And because each truck now carried dozens of products, Atlas also had to streamline its unload-

ing process at the receiving dock.

Expert opinion: Gary Carrington, a director specializing in manufacturing and distribution at **Deloitte L.L.P.**, said logistics issues stemming from product and company growth are common.

"Proliferation is always an issue," he said. "You must look at the impact, and how you plan resources is a major concern."

There's been an increase in the use of third-party logistics firms in the distribution industry, Carrington said.

"A lot of companies are not freight specialists," he said. "Third-party logistics are becoming a more and more recognized way of doing business."

The order-management process also becomes stressed under growth, Carrington said. It's common for these companies to have back-ordered deliveries, which end up hurting customer service.

"Companies need a process to handle growing orders and properly account for product," he said. "Companies that haven't done proper planning end up with a very large backlog."

To be successful, a distribution company needs to be flexible and efficient, he said. Cycle timing is critical.

"You've got to move your product faster and be flexible to move different products at different times quickly," he said. "Customers will lose loyalty quickly if you're not servicing them correctly."

—Dustin Walsh

If your second-stage company has recently made a tough business decision, contact Michelle Darwish, entrepreneurship editor at *Crain's Detroit Business*, at mdarwish@crain.com.

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Oakwood Heritage plans orthopedic center

BY JAY GREENE
CRAIN'S DETROIT BUSINESS

Oakwood Heritage Hospital in Taylor is embarking on a \$31 million surgical services expansion project intended to create an orthopedic center of excellence for four-hospital **Oakwood Healthcare.**

At the heart of the three-year project will be a specialized bone and joint center that will accommodate thousands of patients over the next 20 years who will require knee or hip implant surgeries, said Kelly Smith, COO of Oakwood Heritage.

"We estimate ... there will be a 670 percent increase in elective (knee replacement) procedures and a 174 percent increase in hip replacements over the next 20 years as the baby boomers age," Smith said.

The surgery expansion also will complement two new residency programs at Heritage Hospital in orthopedic surgery and physical medicine/rehabilitation sponsored by the **Wayne State University School of Medicine.**

During the next three years, the two residency programs will train 20 orthopedic and 12 physical medicine residents, Smith said.

Smith declined to project revenue for the new orthopedic center.

However, the hospital is projecting this year to do 550 inpatient orthopedic procedures and 650 outpatient orthopedic procedures. Nationally, the average cost of a hip and knee replacement is \$45,000.

"We are doing this based on community need and to create an excellent training ground and a great place for staff to work," Smith said. "We need to cover our costs and have a good return."

Over the past several years, Oakwood has been converting Heritage into a specialty hospital for a variety of services, including behavioral health, wound care and hyperbaric oxygen services, pain management and sleep disorders.

"We have had major investments in the campus, and the flavor has changed in the last year to be more reflective of a specialty-

based approach," Smith said. "We still have general surgery services, but we are focusing our energies on these other specialty services."

Oakwood Heritage's three-phase project includes:

- Creation of a 12-bed private patient suite unit for orthopedic patients. It will be staffed by certified and specialty trained personnel. The project will be completed in July.

- Construction of eight, 700-square-foot operating rooms and 40 pre-operative and post-operative rooms. The ORs will include four, \$400,000 state-of-the-art computer navigation systems for precision implant surgery. Groundbreaking will begin in May with completion during the summer of 2011.

- Addition of a new dedicated entrance for the orthopedic center that will include a new canopy, parking lot, common areas and registration desks. The project is to begin in the summer of 2011 and be completed at the end of 2012.

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