Corporate UK

a quick guide to: logistics due diligence

In this quick guide, *Neil Middleton* of Bisham Consulting explains the basics:

Introduction

Logistics is an area which is increasingly seen as a major cost savings opportunity to help fund M&A and investment transactions. Unfortunately, many notional savings plans, often based on dubious industry benchmarks, fail in practice because insufficient attention is paid to customer service and the actual capacity and performance of the logistics operations. The devil is in the detail. A logistics due diligence review aims to identify opportunities and risks in the pre-investment process.

What is meant by Logistics and Supply Chain Management?

Supply Chain Management (SCM) may be defined as the efficient application of resources: cash and people, to the movement of goods from source of supply, through any manufacturing or distribution process to the end consumer or business customer. Logistics is sometimes used as a synonym for Supply Chain. However, logistics is often used in the narrower sense of the physical distribution operations, people and processes (i.e. customer service, transport, warehousing, inventory and related information systems and technology). It has this narrower meaning in this article.

Why carry out a logistics due diligence?

Investors are looking to build confidence in the successful outcome of a deal. This comes in part from lowering the investment risks through a better understanding of the operational capacity and capability of the logistics operations. Some typical questions are as follows. What opportunities are there for cost savings and reductions in working capital? Does the organisation have the ability to deliver them in practice and how do we achieve them? Should we outsource transport and warehousing? How much inventory do I need to achieve target service levels? What spare capacity is there and how scalable are the current operations? How effective is the IT in support of operations? Can we cut costs and still maintain good customer service? Can I cut stocks, release some of the investment and increase my customer service? A logistics due diligence review helps define the opportunities and the pitfalls. The more access there is to detailed operational information, the better the quality of the risk assessment.

What typically goes wrong in investment deals from a logistics perspective?

Logistics operations are at the sharp end of long and often complex supply chains. Significant variations in supply and demand combined with the customer demand for increasing service levels often makes them highly pressurised environments in which to work. In our experience, the main problems usually come from a lack of capacity in the logistics operation to absorb additional stock and throughput volumes and from unrealistic expectations about the pace of change achievable in complex distribution networks. Supply Chains also require collaboration amongst a number of different groups: suppliers, sub-contractors, outsourcing partners, the operation and procurement departments of the business, etc. and a lack of coherence in strategy, in the understanding of the process and information flows and constraints will lead to very inefficient and higher risk logistics operations. So, careful implementation planning is an essential component of effective strategy work. Without it, there is a high risk that savings targets will not be achieved, and worse still, customer service is compromised with consequent risks to market share.

What is your general approach?

It partly depends on what specific areas we are asked to consider. In general terms, however, it is important to undertake site visits and interview local management which gives us a feel for facilities and equipment, products and processes, standards of performance and management capability. These observations are compared against our own management experience and backed up by analysis. We do sometimes use benchmarks, but only when we are sure they are relevant to the actual profile of the business concerned. The best results are achieved when we obtain current operational volume and resource information in addition to costs. This allows us to use our planning software to model the physical distribution operations and examine strategic options for improvement.

What does it cost?

The costs depend on the scale of the target business, the complexity of the logistics operations and the range of areas covered. Typically studies of this kind range from £30,000 to £60,000, though brief overviews can cost as little as £12,000 to £15,000.

What can Investors expect from the process?

Investors can expect a practical report setting out:

- An understanding of the logistics operations
- Strategic and operational logistics challenges
- Quick wins
- Capital investment requirements
- Operational and Capital cost savings
- The logic of a development plan
- An outline implementation plan and timescales
- A risk assessment

The depth and breadth of the report depends on whether the client is looking for a quick overview or a more detailed study and on the availability of data and access to management and operations.

Name: Neil Middleton

Title: Director

Company: Bisham Consulting

Contact:

The Old Brewery House, 74 High Street, Marlow, SL7 1AH

Tel: 07767 377270

01628 487000

www.bishamconsulting.com

About Bisham Consulting:

Bisham Consulting specialises in logistics and supply chain consultancy. Staffed by senior managers from industry, we are very commercial and practical in our approach. The principal focus of our business is in transport (air, sea, road and rail), warehousing, inventory, customer service and the associated information systems and technology. We have experience of handling most types of goods as operators and consultants in a wide range of market sectors. It is the combination of our strategic and operational expertise which makes our logistics solutions work. We can add value to investors by spotting the opportunities, identifying the risks and helping them with implementations.