

Logistics Strategy and Operations

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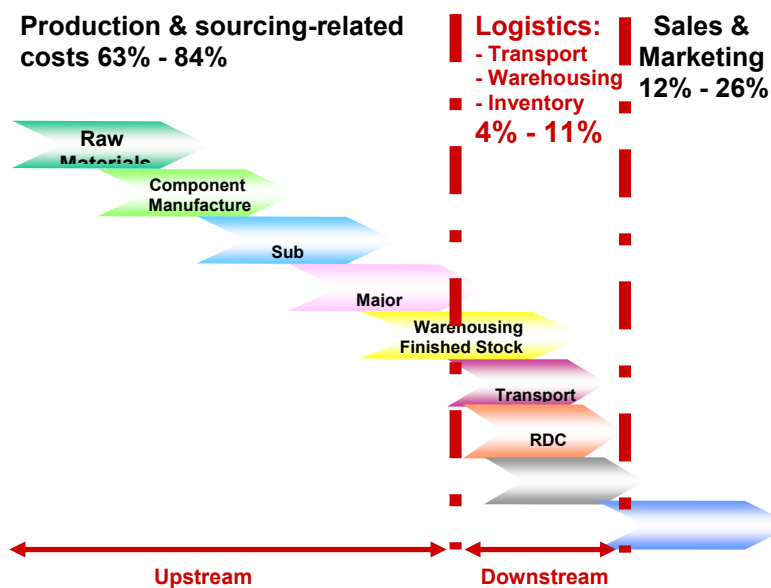
Introduction

- Focus primarily on logistics strategy and operations:

What typically goes wrong and what to do about it

- Using manufacturing and supply industries for ease of illustration, but many of the issues are universal
- Highlighting key issues in supply chains and identifying pragmatic solutions

Logistics costs in the business context



Points to note

*Low priority on the corporate radar (@ 6% of net sales)
Represented by Junior Board members or a subsidiary function of a Senior member
Management is usually focused primarily on controlling costs (satisfying customers tends to be a secondary priority - except in a crisis!)*

Strategy reviews are “snapshots”

Simplified supply chains of this type look good on paper at a point in time when the review takes place but.....



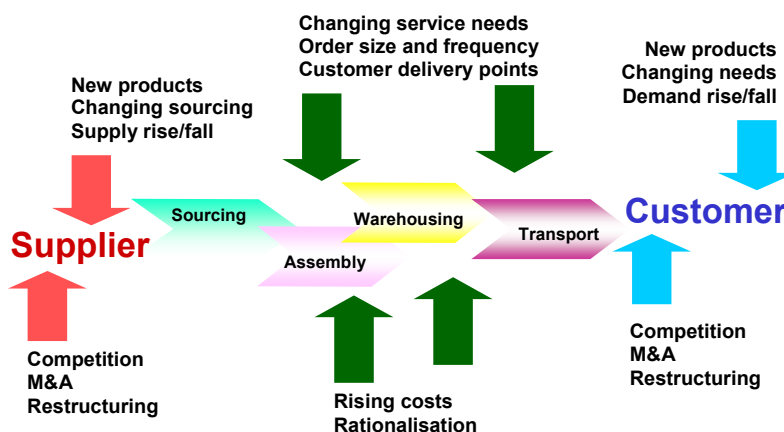
Ask what happens to logistics costs and service if the growth does not materialise!!

Points to note

Logistics becomes important during strategy reviews
Reviews typically cover 3, 5 or more years time horizons
Priorities generally are:
Rationalisation and cost cutting
Preparing for growth and limiting cost increases
Customer service

Logistics is not “constant” over time

.....supply chains are continually changing (often in subtle ways) under pressure from market forces:

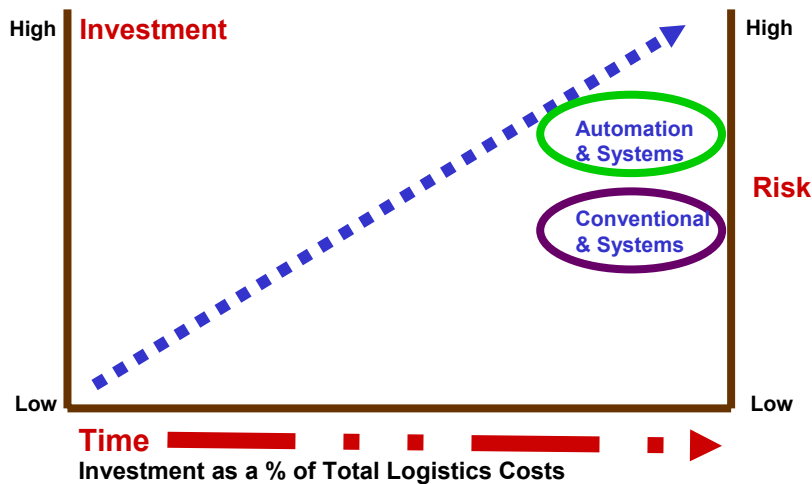


Points to note

The interaction of businesses in a dynamic marketplace also changes logistics needs
Typically 5 year reviews are too long a time-horizon
Establish and closely monitor KPI's
Check every two years whether the fundamentals of the original logistics strategy still make sense

Risk profile of investment over time

.....in the light of market changes over time, high levels of investment need careful sensitivity analysis



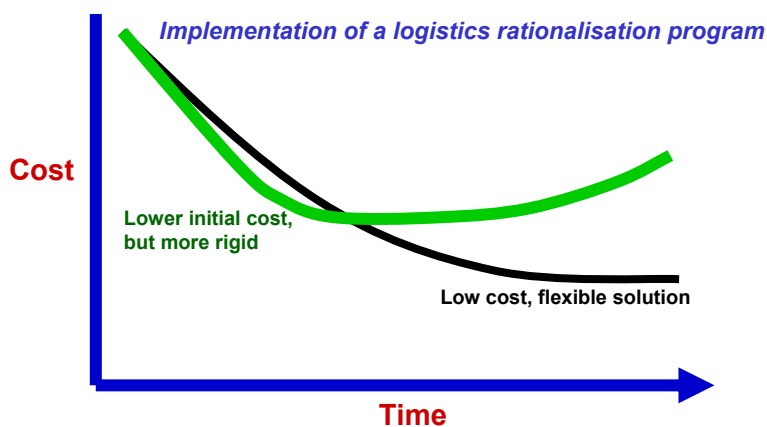
Points to note

This logic applies to both automated and more conventional solutions
Cost effectiveness in Automation is heavily dependent on key "stability" factors over time:

- High Volumes
- Consistency in product types
- Consistency in order profile and timing

"Lean" versus "agile"

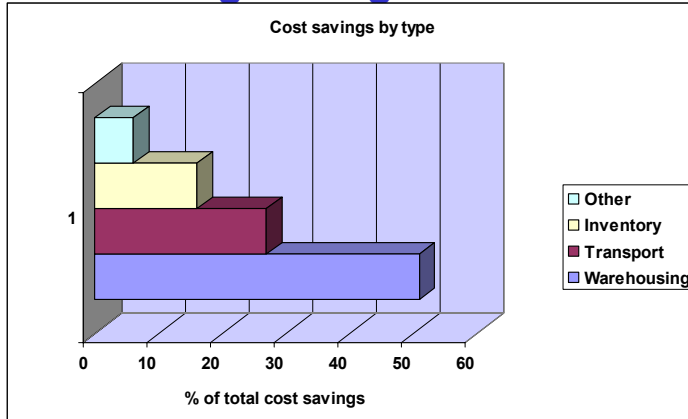
....."optimising" operating costs at the expense of flexibility (agility) over time is a high risk strategy



Points to note

The (apparent) lowest cost solution often proves costly over time
In practice, a high % of logistics costs are effectively fixed for any given supply chain
Reducing the flexibility further by committing to a more rigid & a higher % fixed cost base is where the increased risk lies

Cost savings in logistics rationalisation



A note on Systems

Point solutions like transport planning and inventory management modules often directly improve performance. Integrated systems while providing greater transparency of sales and stock data in relation to the supply chain tend also to be expensive, more complex and administratively demanding so rarely feature in our savings analyses

Points to note

Survey of our team's career experience

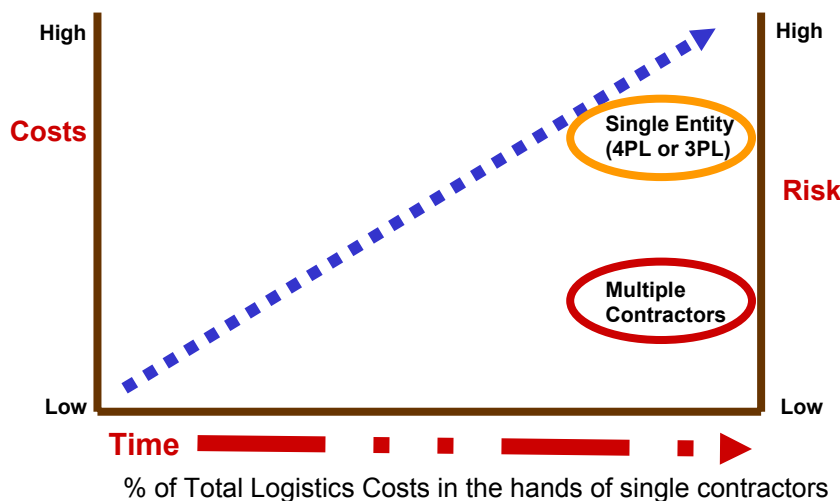
Closing warehouses and reducing labour is the key method

Transport benefits usually derive from a combination of more direct delivery & better vehicle utilisation

Reducing inventory uses less space and improves productivity

Outsourcing and spans of control

....outsourcing is about the mechanics of delivering customer service at least cost, not about losing control

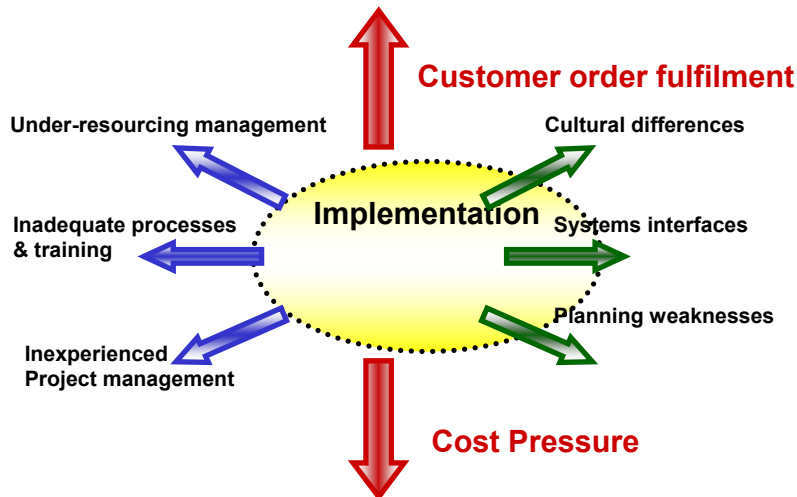


Points to note

4PL and 3PLs are focused on revenue (and therefore profit) protection
Customers need to be focused on service & cost performance & ensuring flexibility
Limit the enthusiasm for long-term agreements with single contractors

Implementation is a key part of strategy

...if the mechanics of implementation are not thought through and costed, then the strategy is incomplete



Points to note

Logistics implementations are qualitatively different from many others in business:

- Immediate impact on customers
- fast pace and turn round of orders
- acute focus on cost
- complex nature of the operations at a detailed level
- cultural differences

People and cultural issues

- Businesses typically do not invest in high quality managers in “low cost logistics”
- This usually extends to under-resourcing large change programs in terms of quality and numbers
- Major cultural & educational differences between average employees in logistics and elsewhere
- Particularly evident when implementing new systems in logistics – what happens when the clever guys go?
- 3PLs focus on transport and warehousing and have limited expertise in overall supply chain management

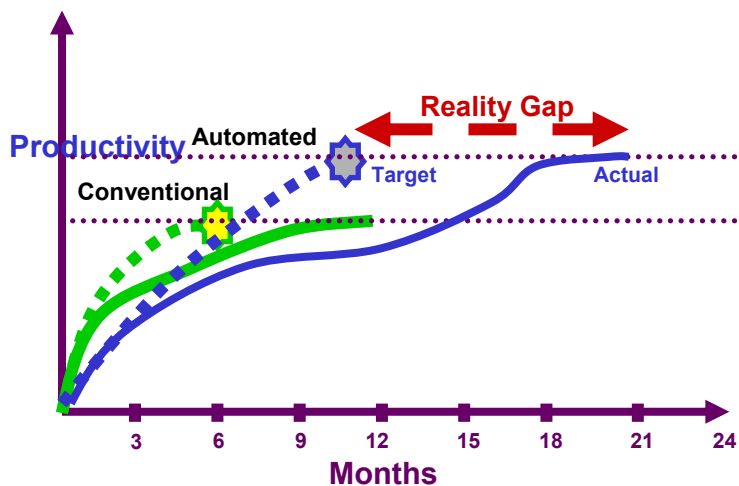
Points to note

If you are considering major change programs in logistics, then bring in additional operational and planning expertise and resources to avoid failure

The investment cost is minimal compared to the impact on costs and customer service of failing change programs

Implementation and productivity

...the larger and more complex the investment the longer it takes to meet target costs and productivity



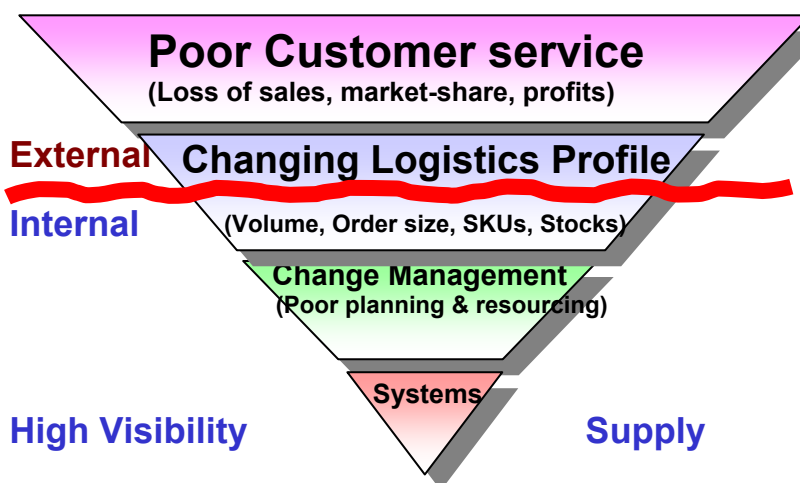
Points to note

Experience teaches that a "good" implementation is one where the least pain is suffered!
Invest in planning and management
Recognise the typical impact on productivity (and review returns on investment)
Systems & people interfaces are where it normally goes wrong

Cost increases in logistics

Low Visibility

Demand

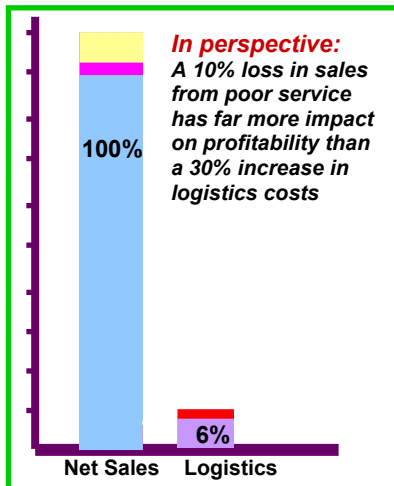


Points to note

Compass Logistics team experience
Changes in order sizes and timing, or number of SKUs or delivery frequencies can increase costs
The single biggest cost to a business derives from poor customer service in logistics which leads to lost sales & profit
Focus on customer service not just costs

The importance of customer service

.....even a short-term erosion of logistics service to customers can have a long-term impact on profits



It is important to balance service against cost

Points to note

A focus only on cost in Logistics strategy is a recipe for failure in the long-term
Poor customer service is a hallmark of secondary and tertiary suppliers (who are early losers in periods of fierce competition)
Interestingly, our experience is that businesses which are poor at service are often also high cost

Customer service in logistics strategy

- Define the customer service proposition – **find out what your customers want and expect!**
- Industry surveys repeatedly show that customers want reliability:



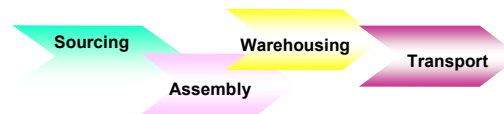
- High levels of product availability
- Delivery reliability – arrive at agreed date/time (rather than very short lead-times)
- Low prices (but not at the expense of consistent service)
- Fast and accurate response to simple order status enquiries (75% of calls to call centres!)

Points to note

Determine the customer service proposition with sales & marketing functions
Communicate with your customers
The logistics function has to deliver the defined customer service at least cost
Monitor customer satisfaction with the logistics service

Customer service and operations

....market forces and changes within companies combine to create service and cost pressures



- Increasing customer service failure when combined with vocal customer complaints secures Board room attention and action quickly
- Cost pressures which are primarily a function of changes in customer service requirements are potentially more damaging over the long-term

Points to note

The discontinuities in supply chains over time account for many of the short-term issues within the operating environment
Developing Key Performance Indicators and interpreting them sensibly is a good way of identifying early warning of trouble ahead

Fixing things when they go wrong

....in our experience, issues identified as the causes of cost or service problems are usually only symptoms

- Failing picking and packing operations – order processing and management
- Goods inward processing – inventory management
- Transport congestion – warehouse picking scheduling
- Inventory inaccuracy – systems weaknesses
- Reducing productivity – shift patterns
- Weak availability – timing of processing

Points to note

Compass Logistics experience covers:

- *Rapid response & crisis management*
- *Troubleshooting in third party operations*
- *Recovery plans*
- *Logistics solutions that work*
- *Recruitment of managers & interims*

The devil is usually in the detail

Narrowly focused assessments often miss the point

Closing remarks

- Supply chains are always changing and developing
- Costs may be a relatively small proportion of net sales, but the impact on customer service is major
- Identify customer needs and track changes
- Build flexibility into your supply chain
- The least cost solution is rarely sustainable over time
- Planning and resourcing implementation is critical
- Think broadly when things go wrong – rarely is anything quite what it seems