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Is speed or substance best for logistics?

Demands placed on logistics suppliers are increasing as service organisations want reduced cost. But do they want more? And who is best placed to give it to them – the big player or the specialist? Mark Turner investigates.

Outsourcing of logistics operations is a growing business in British industry according to research group Datamonitor (see news). And service is one of the prime drivers and innovators in the movement. It is easy to see why. The acquisition, storage, movement and delivery of parts and people are prime influencers in service levels and they cost a great deal of money to do. Logistics is also a very specialist operation that is easy to do badly.

So increasingly service companies are looking to outsource to specialist partners to help them be both more competitive and more efficient according to David Gumm, operations director for leading consultancy SkyScape Solutions. He said: ‘Service companies expect to increase volume without increasing fixed costs.’ But he added outsourcing is not all about costs. ‘Customers expect both return on investment (ROI) and customer satisfaction. Customer satisfaction is very important to logistics companies but so is value for money. However they understand that any organisation that concentrates solely on cost at the expense of service quality will lose out to the competition.’

However, growth in this approach to service logistics has not necessarily been a smooth one. Mark Garritt, the managing director of ByBox field service operations which provides a secure location service, said that there has been a ‘knee jerk reaction’ from the "give more for less" brigade but now he sees a greater degree of intelligence being applied to the situation.

‘They are asking what is the bottom line effect if each of our engineers were able to complete an additional job each day; what if we were 100% efficient with our warranty claims and how much can we save by reducing our stock holding?’ Sharon Boyes Schiller, the managing director of SkyScape, also sees a fashion but believes it is a hard nosed business approach to a changing world. ‘In a business where turnover is vanity, profit is sanity and cash is king – most customers look at the cash value of the changes in process which they are implementing’ she says. ‘Changes which don't significantly improve the bottom line (profitability) but simply move money around within a corporation have fallen out of favour. Customer satisfaction needs to be quantified as to its cash value to keep its place at the table, and many companies are measuring the risk of losing large corporate accounts due to low customer satisfaction in order to provide that quantification.’

It is being recognised that using logistics to support customer service needs an integrated process rather a series of isolated actions. With a coordinated approach to the whole process comes the wider range of benefits says Gavin Hartland of inventory management software company Servigistics. ‘It would be great to reduce expenditure, save money and improve service structures. It is far easier to achieve these three goals together than to target any one of them in isolation. If you address these objectives with an integrated solution you enjoy the benefits of the resulting interactions.’

Not least of which, he says, is that saving money allows for greater investment. General manager of logistics operation TNT Sameday, Rob Leek believes that all customers look for reliability. ‘Of course, customers are looking to use good logistical structures, reduce expenditure and save money. But there’s a big danger in this market place if cutting costs and saving money are the only things you’re after. If it’s at the expense of goods not getting there on time, or in pristine condition, the loss of earnings if a telecommunications network goes down far outweighs any cost savings you have made at the beginning.’

Most observers agree that investment in service logistics is on the up but more importantly it is being targeted. ‘For the smart players, it will be intellectual investment; time and brain power basically,’ said Garritt. ‘There is always a smarter way of achieving the end game. If 2005 is anything to go by, the winners will be those who invest their time and energies at looking at smarter ways to work than parting with hard cash.’

Hartland advocates that companies spend less ‘but in the right areas, thus improving quality of service’. He said: ‘Companies are becoming increasingly aware of the greater ROI that service offers in relation to new sales and appreciate the opportunities this area offers – now they must convert that appreciation into profit.’ Of course ROI is usually a cash measure and the easiest thing to measure is cash spent – because it is easiest it is often the most frequently used.

But does that paint the true picture? With measuring logistics performance, other factors – sometimes not easily related to hard cash – are coming into favour according to Jenni Greenwood, field logistics manager at DHL. ‘ROI is the driver for the majority of the projects that DHL complete. However, the measurement of non-tangible benefits is becoming more common. Customer satisfaction is the most significant consideration after cost and is seen by many to contribute to financial success.’

Garritt says helping customers to understand and measure the softer benefits is critical to both partners ‘because we’re not and don’t plan to be the cheapest’. He says the two need to work closely together. ‘The trick is getting your customers to share with you the true tangible benefits. Many prefer to keep the absolute detail discreet; I’m sure this is because they worry that if they told us the true value, we’d put up our prices. Those not so cynical have shared some fascinating and rewarding facts.’

One such customer, a well-known household repair company, reports savings of over £500,000 because it is provided with visibility and measurement on the returns cycle. Garritt says: ‘Stock is now where it should be, warranty claims are being submitted on time. Their total spend with ByBox is not dissimilar to their savings from this – a free service maybe?’

Because of that possible perception he adds: ‘It’s critical that as a business we truly understand the benefits of the services we provide and what the future demands of the customer are, from this we can make sure we invest our time, efforts and cash in the areas that will offer the maximum benefit for our customers.’

Ben Dearman, the group business development director of service provider Concorde Logistics, agrees most customers measure return in cash spent but adds: 'The more enlightened customers are able to assess the impact on inventory investment and how that also drives expenditure. We have saved a major solutions provider around 45% of their hub costs by consolidation and reorganisation – that equates to around £0.5M per year. This did, of course, enable savings to be passed on or improved margin.'

Garritt’s customer also highlights one of the commonly neglected area of service logistics which, while it has a lesser impact on customer service, it is critical for cost. Reverse logistics – or getting removed or spare parts back from the customer’s site and either into the workshop (and inventory) or scrapped – has traditionally been poorly considered. Instead many businesses, even those that treat service as a cost centre, have thrown money at meeting a service level agreement with a customer without a thought about the return costs and more importantly the cost of poorly managed inventory (see Downton p26).

But this, too, is changing according to Dave Gumm. ‘Most companies are now waking up and smelling the coffee in the often neglected process of reverse logistics,’ he says. ‘The old trade-off of inventory versus service still remains, but the balance can be shifted towards service improvement without increasing inventory by smartening reverse logistics processes.’ Garritt warns it needs serious attention and not bandwagon chasing. ‘It’s very fashionable to talk about reverse logistics. But we realised early on that it’s not that clever or indeed difficult to deliver a spare part to the correct person, at the right time,’ he says. ‘The clever part is to understand the value of providing a bullet proof return logistics platform.’

However DHL’s Greenwood sees a continuing emphasis on out bound logistics in her business because of consumer demand. ‘A growing consumer business is driving a sizeable flow of outbound inventory, satisfying the reactive break-fix commitments,’ she says. ‘This is unlikely to change in the immediate future and as such the industry must continue to focus on getting product out into the field, or risk losing reputation and market share. But she appreciates that reverse logistics is set to rise up the service agenda. ‘The reverse logistics flow is equally important, as here lies the opportunity for the industry to yield cost savings. The important issue that the industry is facing today is the continual challenge to find an efficient returns process which meets expectations on cost, reliability, traceability and lead time.’

Like outbound logistics though, the issue for most commentators is not about throwing money at the issue but devoting some brain power. ‘The issue being neglected is that companies must move from routine-driven to intelligence- driven actions. Investing manpower in repairing resources that can be more cost effectively replaced is in nobody's interest,' observes Gavin Hartland. 'Service organisations need to recognise the problems they face, and make fully informed decisions on the best course of action to solve them, tracking all relevant parts and resources in the process. Because of the increasing complexity of logistics solutions and also the need for economies of scale there has been an increase in merger and acquisition activity in the market such as DHL acquiring Exel and Concorde buying TechXpress.

Not surprisingly, perhaps, DHL's Jenni Greenwood sees this as a 'very beneficial development for field service organisations/ customers' such as reduced internal purchasing costs leading to higher profitability. 'The logistics market activity has produced some larger players who can offer a wider range of services, she says. 'The provision of an end-to-end supply chain from one company has enabled field service organisations of all sizes to have purchasing leverage, putting in place more formalised contracts and to begin passing some of its business risk back to the third parties. Despite the current state of the logistics market however, it is challenging to find one provider who can offer absolutely all services, therefore niche players still have a place in the market by supplying specialist services under a complete solution banner through the larger 3PLs.'

Dearman observes that Concorde's merger with TechXpress 'is a good thing for the industry because it pulls together two very complementary businesses and gives us the financial strength of a company (Unitrans) who don't actually have any operations in Europe but give us the opportunity to become more global.' But he is not so keen on consolidation in general. 'Consolidation reduces competition but synergies will (theoretically) allow lower cost. Consolidation may mean fewer "ideas" and "creativity" and certainly I don't believe that the creation of the mega-corp DHL is good for customers.'

Boyes Schiller accepts that argument but sees a disadvantage to the customer 'when outsourcing is the handful of pan-European vendors versus very geographically limited competitors'. She believes the customer is now looking to a different type of supplier. 'There is a parallel here in that companies now looking to decentralise their distribution strategy are now turning to niche players on a country or regional basis.' There is no clarity on whether M&A activity is a good thing for customers in general (if indeed they are ever considered when the process is happening) or where the service sector is too small and specialised for it to have a say in the direction of the major freight shifters.

'I'm not convinced this is always great news for the end customer or the consumer,' says Garritt. 'Generally, acquisitions and mergers result in less choice, greater expense, and lack lustre performance. Our market is very specialised, so I'll take some convincing that our sector will be the benefactor of the current round of mergers and acquisitions.' The emerging logistics giants will clearly need to apply some brain to their brawn as nimble and quick witted specialists come to the aid of field service companies. However the supply industry shapes up in 2006 they are likely to be interesting times.