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## Beyond transport rates - a guide to improvement opportunities in logistics

# TRUCKING AROUND?

**T**RANSPORTATION IS SOMETHING many companies consider they have optimized to such an extent that not much can be improved. The high degree of competition in the forwarding industry, a continuous focus on transport rates and improved logistics key performance indicators (KPIs) are often cited as reasons why only marginal improvement opportunities are left.

There are however a number of levers driving the total transportation and logistic costs and a lot of opportunities still to improve services and reduce costs.

Beyond the common concentration on the price per tonnage kilometer, it is necessary to look at the whole process influencing total logistic costs. Significant improvements can be made in terms of total transportation costs if parameters such as total transportation time, planning processes, storage requirements, transport networks and modes can be altered.

### LAST MINUTE

Transport service levels are typically defined by transportation lead times and delivery reliability and accuracy. There is often an excessive focus on transport lead times and trying to get the goods to the customers as quickly as possible. A lot of transport departments have defined standard service levels but frequently find themselves rushed by a large percentage of "exceptional" shipments, leading to supplementary transport costs that are not charged back to the customer. Further analysis reveals that these 'exceptions' occur on a daily basis, the reason being the lack of differentiation of service levels — the 'one size fits all' approach.

One solution is to define service levels based on incurred costs and differentiated customer requirements. Granting shorter lead times for standard products and common ship-to-areas in comparison with non-standard products and uncommon, remote destinations are examples for differentiated service levels. If a need for fast shipment of low volume quantities to remote locations

exists then a differentiated approach will serve to highlight the business case of such a service.

Of course logistics service levels need to be matched against the customer service model and customer profitability to avoid over- or under-servicing of customers. Eventually they have to become part of the customer segmentation model. Differentiating the logistics service model will allow for prioritization of customer orders and support recapture of supplementary logistics costs while improving delivery performance indicators. Additionally, it can serve as a differentiating factor if properly implemented.

In a production environment, transport planning typically starts after the detailed production plan has been agreed between planning and production departments and has been released. Even more last minute, transportation planning is often completed only a few days before goods are ready for shipment.

Short planning horizons often result in added logistic costs because too few trucks or wagons are available at standard rate. The consequence is a need to substitute with express deliveries or to split shipments into different delivery dates, affecting the customer service level.

Integrating the transport planning process into overall supply chain planning processes provides more possibilities to optimize interfaces and will, ultimately, lower logistics costs.

One option is to use available historical and forecast demand and production data and create transportation forecasts weeks and months in advance. Just as with production planning these plans can then be updated the closer one gets to the shipment date. Working more closely with forwarders in this process or outsourcing the process completely will improve the accuracy of the plan even further.

The integration of the planning process will enable the suppliers to allocate capacity in advance or allow for better combination of shipments.

Fulfillment of promised delivery time windows is key to customer satisfaction. Customers need to feel secure and

have to be able to rely on promised delivery times in order to optimize their own inventory and material handling.

Active tracking of customer orders normally stops when the goods leave the warehouse gate or have been loaded. Afterwards, goods are often treated as “goods in transit” without transparency of their physical transit status. The exact delivery date is calculated, not physically tracked. Consequently, transparency and control over the flow of goods is limited.

Including a KPI for delivery reliability as a service requirement from transportation providers will help close the gap. It will create the necessity to track arrival of every shipment rather than tracking the exceptions. It will ensure the extension of the quality of service to the customer’s warehouse. The delivery KPI can also be tied to bonus clauses with the transport providers.

A common perception is that logistics suppliers do not have the capabilities to physically track the status of goods in transit. Analyzing the top logistics providers and their service portfolio shows a different picture.

The top players in the forwarding industry – supranational or national – offer a variety of solutions ranging from online visibility of physical location to the provision of an electronic copy of the receipt confirmation. Alternatively it is even possible to track successful deliveries by mobile phone. Tracking deliveries gets rid of the ‘black box’ after goods leave the warehouse gate. It helps improve customer service and enables proactive claims management.

Many unforeseen events can influence delivery service. Delays can occur en route to the customer, goods may be damaged through inaccurate material handling practices or goods may not arrive in full to name a few.

Through an extension of the information process all the way to the customer’s doorstep, it is possible to develop a proactive claims process that deals with the issue before the customer needs to file a claim. Technology to support this information process is readily available and already in use by postal and logistics companies around the globe. The argument of increased logistics costs through implementation of a detailed tracking mechanism will be offset through reduced costs for claims, a leaner claims organization, and significantly improved customer service.

#### RECONSIDERING THE OPTIONS

Once a specific mode of transport is chosen alternatives are rarely considered or re-evaluated. Reasons are manifold – from the convenience of sticking with solutions that work or of maintaining relationships with existing suppliers, to the general perception that railways are less flexible than trucks.

In times of liberalization of railroads across Europe, deliveries by rail are becoming more competitive – especially if combined with cross-docking capabilities. For high volume and long distance deliveries a mix of rail and truck can be an option. This is true especially if implemented together with improved planning processes.

Delivering directly to the customer (or via cross-docking stations) can reduce transport costs and improve service levels at the same time.

Of course a thorough business case has to be made for realigning the modes of transportation, taking all cost drivers and service requirements into consideration.

#### REDUCING SPEND

To reduce transport costs companies tend to concentrate on the direct spend for each route and each provider. Spend is usually fragmented and negotiated on a local level. The typical approach is a yearly negotiation based on the “usual” terms. Successes are celebrated in terms of demonstrated transport cost reductions or stability over a period of time based on the status quo. Rarely are some of the other parameters considered.

The biggest result can be achieved if the spend is considered as a whole and differentiated service levels are taken into account. As a prerequisite for holistic sourcing a warehouse network redesign and a subsequent evaluation of the required transportation modes should be completed.

The warehouse network that companies use is often the result of historic decisions and tied to specific logistics companies. Modeling shipment patterns and geographic demand and mapping it against the existing warehouse network often provides new insights.

Simulations with these models show that new optimums can be reached if warehouse networks are realigned. This again opens up new opportunities in terms of sourcing and selection of providers to service logistics requirements.

The answer to this exercise is typically not the sourcing of all services from one forwarder but the ability to offer larger bundles to fewer suppliers based on more and differentiated tender criteria.

This combined with new, mathematically modeled, logistics networks and better-integrated planning processes will help reduce direct transportation spend.

Large-scale logistics concepts rely heavily on standardization and centralization of processes. These typically collide with the local responsibility for transportation and logistics and the local profit and loss responsibility.

A lot of benefits can be captured through a more cen-

tral view and management of logistics in order to reach the network optimum. This does not imply the obsolescence of a local need for logistics but emphasizes the need for an overall approach.

Another thing to consider is how far logistics functions need to be in-house and how far can they be outsourced to logistics specialists? The transportation planning function is one that is often kept in-house while also being duplicated by the parties executing the logistics.

Various external parties have established themselves as full service providers to manage their customer's logistics. Their proposition is based on a holistic execution of the process. They typically offer services such as transportation planning, forwarding, customs services, and warehousing and inventory management.

The benefit for the customer is the ability to reduce logistics costs with the capabilities of a specialist. The specialist is potentially able to combine the transport networks of various customers.

Outsourcing of some logistics capabilities also allows for a direct reduction of organizational complexity and a clear and contractual definition of logistics KPIs and service levels, something most companies fail to achieve if logistics are managed internally.

It is necessary to take a greenfield approach to transportation and logistics from time to time, especially with the ongoing consolidation in the logistics industry and new and more consistent availability of global services. It is necessary to consider all parameters that drive total transportation requirements and constraints. Releasing some of these constraints will provide a broader basis for optimization and endorse long-term market success. **PPI**

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