INSPIRING PROCUREMENT EXCELLENCE

# Global Digest

# Logistics

April 2017

## Background

CASME RoundTable meetings on the procurement of logistics services were held in London, New Jersey, Melbourne and Sao Paulo during February and March 2017. The following main topics were discussed:

- Scope and strategy
- Operations
- Warehousing
- Third party logistics (3PL) and fourth party logistics (4PL) services
- Freight management
- Future trends and strategies.

This Digest provides the key points, good practices and insight into future trends identified by CASME members around the world. Full notes from each meeting are available on the subscriber-only Resource Centre.

### Scope and strategy

- The scope of logistics procurement varies according to the industry in which a company operates and the scale of its operations. Logistics most frequently incorporates freight transportation and other services relating to the movement and storage of inbound and outbound goods, including:
    - Transportation modes by road, rail, air, and sea
    - Freight forwarding
    - Warehousing operations
    - Outsourcing to 3PL or 4PL service providers
    - Packaging
    - Customs clearance.

  Tools such as a transportation management system (TMS) or warehouse management system (WMS) may also be included
- No single strategy is being used by organisations to source logistics services. Some companies are leveraging spend by using fewer full-service logistics providers to achieve economies of scale and price advantages, while others are dividing the work among multiple providers to mitigate risk
- Most organisations outsource part, or all, of their logistics requirements to a 3PL or 4PL provider. For complex requirements in global organisations, a combination of insourcing, outsourcing, 3PL/4PL strategies and multiple suppliers is often necessary to cover diverse product lines, regions and regulatory requirements
- Logistics is managed on a global, regional and local basis, often with global strategies cascading down through procurement teams that tend to be integrated with Operations or Supply Chain
- Cost savings are not usually the main priority for logistics procurement teams and their stakeholders. Efficient logistics can be a business differentiator; therefore on-time delivery, service quality, risk management and regulatory compliance are often top priorities
- To build credibility with stakeholders, it is essential for procurement professionals to respect their stakeholders' expertise, understand their requirements, and to learn their terminology, so that it is possible to communicate and collaborate with them effectively
- Procurement needs to be aware of new legislation being introduced around the world, in order to monitor the organisation's and suppliers' compliance. Logistics strategies continue to be adapted to comply with new legislative and regulatory requirements in various countries. Examples include the Chain of Responsibility (CoR) and Heavy Goods Vehicles (HGVs) in Australia, and the requirement for shippers to prepay all tollgate fees in Brazil.

### Operations

- Due to the complexity and cost of transitioning suppliers, contract terms with logistics providers tend to be a minimum of three to five years, often with the option to extend one year at a time. However, maintaining fixed prices over the duration of a long-term contract can be difficult in some regions, especially where there are constant fluctuations in inflation and currency exchange rates, such as in Brazil and other Latin American countries

- Key performance indicators (KPIs) are implemented to monitor logistics providers' operational performance. To maximise the benefit of KPIs, they should be limited in number, aligned with business priorities, agreed to by stakeholders, understood by suppliers, and regularly reviewed
- Approaches to motivate good supplier performance include applying a bonus/malus or gain-share model, and including in contracts the right to terminate for performance failure
- Some companies have begun to consolidate their requirements with those of other companies that use the same freight suppliers within a type of consortium buying model. The same approach is increasingly being applied to warehousing, especially when the company is renting warehouse space from a large freight company that deals with numerous clients at the same time. This approach is only successful if the participants have similar requirements and their logistics activities can be performed at the same locations. Shared asset programmes are more common in Europe than in the USA
- The process of customs clearance tends to be placed with 3PL and 4PL service providers, or with a broker, in order to benefit from their expertise
- Environmental, health and safety (EHS) teams are often responsible for monitoring and auditing the storage and shipment of hazardous materials.

## Warehousing

- Many organisations are consolidating their warehousing requirements in order to centralise their operations and better serve their customers. For locations in which the warehouses are company-owned, some organisations will outsource the operational requirements to third parties
- Technology such as visual pallet builders, electric personal transportation devices, radio frequency identification (RFID) and warehouse management systems (WMSs) have provided the necessary process improvements and efficiencies to reduce labour intensive activities throughout the various warehousing functions. However, many of these advancements have not yet been deployed in some regions or countries
- Establishing disaster recovery plans with outsourced warehouse service providers is an important component of business continuity planning
- In most regions, activity-based costing and cost plus are remuneration models commonly used for warehousing services. Detailed data is required to help determine the fixed and variable costs associated with warehouse logistics operations. Gain-share models may be appropriate with 3PL providers. Savings tend to be greatest in the first year of contracts; therefore, a sliding scale may be used. Fixed price models are more common in Europe.

## 3PL and 4PL services

- When using a 3PL or 4PL provider, the management of logistics is outsourced to a third party that acts as an integrator of services. It is essential to clearly define the scope and determine what will be performed by the main provider, what will be subcontracted to others, and what will be retained in-house. Trust, clear communication and a good relationship are key to success
- Sourcing is one function that is sometimes retained in-house instead of allowing 3PL/4PL service providers to do so on the company's behalf. Alternatively, Procurement may conduct annual strategic sourcing events to establish preferred suppliers, and allow the service provider to manage day-to-day operational sourcing with these
- A 4PL may perform 'control tower' services for planning and managing logistics operations, enabling the management of multiple suppliers and the associated administration. An in-house or third-party control tower may be used rather than relying on a 4PL provider, or there may be several control towers in place; for example, one for each country or hub within a region
- When outsourcing to a 3PL or 4PL provider, it is important to retain in-house personnel with the relevant experience to oversee providers. When in-house logistics experts are removed from the process, people with limited experience can cause large losses. For example, by not co-ordinating loading and unloading times and sequences, resulting in perishable goods remaining outside of refrigerated areas
- In addition to managing and purchasing transportation and warehousing services and the associated labour on behalf of their clients, 3PL and 4PL companies often provide technological tools to support logistics processes and manage inventory. They also assist with meeting corporate policies for payment terms
- Remuneration models for 3PL and 4PL providers include open book plus a mark-up, or a fixed fee with a shared savings; however, savings tend to be greatest in the first year and this needs to be taken into account in contracts. Additionally, contracts generally include the ability for adjustments based on service and volume changes.

### Freight management

- Companies apply different approaches to the management of freight services; it may either be performed by Procurement or the logistics department. In some companies, a procurement team member is located with the logistics team, or vice versa. The intention is to have an internal client with logistics expertise operating within Procurement, or someone with sourcing expertise working within Logistics
- Contract terms for freight management services range from one to three years, and tend to incorporate all the company's freight requirements
- Price may not be the primary consideration regarding the movement of critical items, for which capacity and service reliability tend to be the highest priorities
- As the requirements for international air freight continue to increase, more airlines are becoming directly involved in the movements of freight of all kinds. However, air freight services are not being purchased directly in all countries
- Although the sea freight market is relatively stable in the USA, rates are expected to increase substantially worldwide as consolidation in the market continues and less equipment and capacity is available for use. Some organisations are extending contracts with minimum volume guarantees to ensure capacity
- Gaining an understanding of inbound freight costs by asking suppliers to separate material costs from freight costs is essential for benefitting from the potential cost savings opportunities
- E-Auctions have become popular for logistics services, particularly for road transportation from approved carriers
- Fuel is an important component of pricing, for which the rates may be fixed on a quarterly or annual basis, and linked to a public index with adjustment parameters to allow for price fluctuations.

## Future Trends and Strategies

- Regulatory changes, such as $CO_2$ reduction initiatives impacting strategies and costs, as well as an increasing focus on sustainable sourcing
- Companies are expected to increase their use of rail and intermodal freight services
- The increased use of automation is anticipated, such as driverless trucks and drone deliveries, which will reduce future costs
- Direct home deliveries are expected to increase significantly in most regions, causing reduced capacity in the small parcel delivery market. Transport networks such as Uber are regarded as being a possible alternative in some regions, but not others due to insurance and driver liability issues.

## Resource Centre Links

The following are links to the full meeting notes for each region:

Australasia, Melbourne

Europe, London

Latin America, Sao Paulo

North America, New Jersey.

## Important



**CASME is the trading name of Market Focus Research Limited**
**Head Office:** 1 Holt Barns, Frith End, Bordon, GU35 0QW, United Kingdom
Telephone: +44 1420 488355 Fax: +44 1420 478412
www.casme.com info@casme.com

**Americas**
51 JFK Parkway, First Floor West, Short Hills,
New Jersey 07078 USA
Tel: +1 973 218 2566, Fax: +1 973 218 2401

**Asia**
1 Fullerton Road, #02-01 One Fullerton,
Singapore 049213
Tel: +65 6832 5584, Fax: +65 6408 3801

**Australasia**
Circular Quay, Level 34 AMP Tower,
50 Bridge St, Sydney NSW 2000
Tel: +61 2 8216 0942, Fax: +61 2 8216 0701