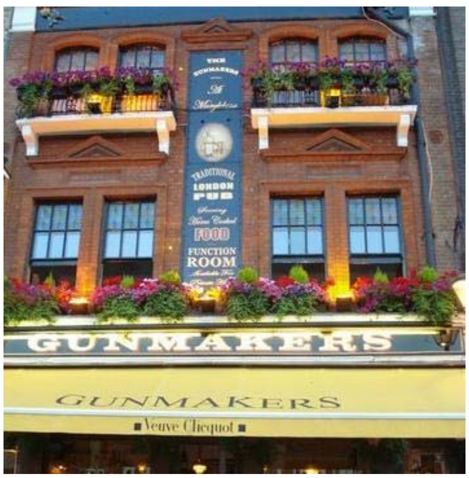
Logistics Costs and Cost-cutting

The latest CILT Supply Chain Network on 21 July 2008 was an open discussion, chaired by Kirsten Tisdale of Aricia Limited – one of the founders of the group. It was a slightly different format to the usual presentation, but as usual, the event was in the function room of a central London pub. The evening started with round-the-table introductions with participants noting successes or difficulties in cutting costs, and raising points they were interested in hearing about from others. The group of twenty consisted of a broad mix of users, providers, specialists and other parties with logistics interests including: Aricia Limited, Clare Bottle Ltd, Davies Turner, Delice de France, English Farming and Food Partnerships, Entertainment UK, Expeditors, Lundesjö Consulting, Marks & Spencer, Modular Telecoms, Premium Personnel, Purchasing & Supply Chain, Tetley, University of Bedford and West London Lifelong Learning Network.



Popular network venue

If there's one message that came out of the discussion on logistics costs and cutting them, it's that fuel isn't top of the group's agenda - or at least not unless it tops $200 a barrel. In road freight, plenty of European competition is helping to keep rates down, but it's accepted that fuel has to be paid for, and there are mechanisms to deal with price changes: escalators, BAF, etc - although there was a feeling that there would be more reaction if it was the base rates that went up, rather than the surcharges!

For many logistics users the combination of price deflation hammering the margin, product inflation (particularly out of the Far East) and currency changes where contracts had been in, for example, Euros, has been much more of an issue than fuel. So, in the same way that oil companies now explore fields that wouldn't once have been considered economic, the current focus is on every cost and what can be done to reduce it.

Users tend not to be looking for quick fixes, but for ways to control costs in a sensible and manageable way, with challenges including controlling costs in a quickly growing business, and costs incurred in varied and remote parts of the world. The challenges for 3PLs include controlling costs in a multi-client environment and looking for ways in which they can help their customers cut costs. One user was driving costs down by reducing management fees in open book contracts.

Collaboration came up as an area of focus on more than one occasion. One example was facilitating the partnership between up- and down-stream supply chains. Another was driven by an acceptance that freight rates aren't going to go down, so a different approach is needed. But the complexity of bringing two or more companies' supply chains together isn't to be underestimated. Indeed, anything that requires change to customer service such as revised delivery windows can present difficulty in making operational change – there was felt to be a disconnect between, for instance, companies' commitment to the green agenda and customer service requirements on the ground, with too many parties with their own genuine interests: stores with respect to product availability, margin for buyers, profit for hauliers…

But in other areas there can be a strong link between cost-efficiencies and environmental initiatives, with a particular focus on energy usage – one delegate described how his company carefully checked and signed off every temp's time sheet, but with electricity (because you can't see or touch it), when the monthly bill for £35,000 came in, until recently, it was just pushed straight through to accounts. The big areas are heating and lighting, and if you're not careful you're paying to heat a building with lights, then paying to use air handling units to move that hot air around, and then possibly paying to heat that space again because the hot air's been moved elsewhere!

It's important to understand what bit of equipment is using what power before you can start to address the issue – for example, carrying out an energy audit. Using natural light wherever possible, and daylight and motion sensors are good ways of cutting costs. Switching from dual tube fluorescents to single tubes is effective. If you're introducing automation, consider the whole life costs with sensors that let conveyors rest when there's no activity. It's also important to use company intelligence across departments – can what's being done in retail outlets be applied to DCs? Where new buildings are being commissioned, "state of the art" technology can raise the capital cost significantly, but real energy efficiency can then be achieved with savings of about 20% in comparison with more traditional specification.

Another area that was discussed under the environmental heading was companies wishing to improve their "green" miles with moves from road to rail. Length of movement is key, with the accepted length of movement to achieve a breakpoint being 5-600 miles – easily achieved in a movement from, say, the Midlands to Milan. A cost driver that no longer exists for rail is the 44 Tonne exception for road journeys to and from rail terminals as part of a combined transport journey – this did provide an incentive to change operations to be rail-friendly, which has now been removed by allowing heavier vehicles on the road. Lack of capacity and priority of passenger trains were also discussed as issues in this area.

There was a brief discussion on alternative fuel and energy supplies, although from a green point of view some advantages are felt to be questionable. For example, is the cost of producing that solar panel included in the equation? And what 's the overall green cost of importing biofuel?

Networking discussion

There was also a short discussion about waste in retail outlets, driven in part by our demand as consumers for availability. And it's now easier to pay to dispose of the excess than to give it to charity, because of legislation. Selling cheap at the end of the day could result in brand trashing, and selling off to charities is seen as likely to provoke the wrong type of media attention! One company is investigating burning food waste to make energy.
There was a return to the topic of collaboration at this point in the discussion – namely, whether supermarkets could share stock of perishable items, but this would require last minute labelling and is likely to be unpopular from a brand viewpoint.

Packaging is seen as a cost issue by both sides of the user / provider partnership. The user finding that the cost of product packaging is rising, while at the same time providers are finding it costly to dispose of used transit packaging – what used to be an earner is now a significant cost.

A number of areas warranted fuller discussion if time had allowed:

- There's continued focus on areas such as stockholding and returns levels.

- Using voice data systems can help to reduce call centre costs (and disappointment!).
- Fleet replacement - one piece of advice being not to do it all at once if you have a large fleet, but to break the requirement into chunks to avoid creating your own "noise" in the market
- The savings that can be achieved through compliance in customs procedures along with cashflow improvements

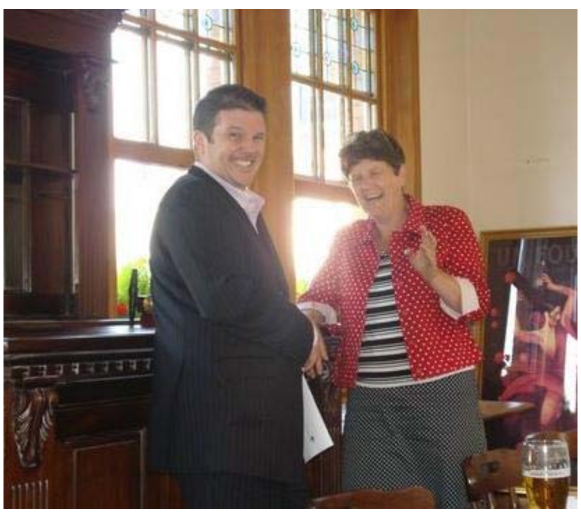
The recruitment market was described as very active at the moment – at the top end, with companies looking to secure supply chain expertise to manage their operations better, as well as those looking to keep costs down on a day to day basis by using temporary labour to give flexibility in the operation.

The need to concentrate on the basics as well as looking to new initiatives was stressed: one member of the group with an HGV licence, who kept his hand in with some agency driving, produced collection documentation from a member company of a major pallet network for three separate collections – a scruffy post-it note with eight words, about half of which he'd added himself after making enquiries about where these customers were actually located!

Kirsten Tisdale
Aricia Limited
www.aricia.ltd.uk

Thank you to Yongmei Bentley, University of Bedford for providing photographs of the event.

The Supply Chain Network is part of the Chartered Institute of Logistics & Transport's London Region activities. It's been running for four years, and was set up as a networking and learning opportunity for younger people working within the supply chain in retailers, manufacturers and logistics providers - we use the word 'young' loosely, ages ranging from 20s-50s - a beating pulse is the important factor. We have a very good mix of younger members, women and ethnic minorities, as well as white middle-aged males typical of the logistics industry!



A lighter networking moment!

The group numbers about 50 people, with 20 typically at any one meeting. We meet every month or so in the function room of a central London pub. Networking normally starts from 6pm onwards with snacks at 6.30pm and a 'formal' presentation from 7pm, with more networking afterwards. We aim to have a mix of 'experts' and presentations from within the group - the objective is discussion rather than a formal presenter at the front, with presenters encouraged to bring issues as well as experience to the table. The environment is very informal with everyone on barstools and little in the way of audio-visual equipment..

We are always looking for new members. You can find out more about the group on the Supply Chain Network page of CILT's website: http://www.ciltuk.org.uk/pages/lrsupch, or get in touch with Kirsten Tisdale at http://www.aricia.ltd.uk/contact.aspx - just put 'Supply Chain Network' in the comments box on the contact form that this link takes you to, as well as completing your contact details.