

For companies striving to comprehend the complexities of today's growing 3PL market, attending eyefortransport's 3rd Eur

For companies striving to comprehend the complexities of today's growing 3PL market, attending eyefortransport's 3rd European 3PL Summit provided an important networking opportunity, writes Malavika Srinath, Research Analyst, Logistics & Supply Chain Mana

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Delegates from more than a hundred companies convened at the Royal Garden Hotel, London on the 26th and 27th of October 2005, anticipating presentations, panels and interactive sessions, all based on the key issues surrounding global logistics. The event was sponsored by its industry players like Prologis, SAP, Teleroute and the Global Institute of Logistics.

#### **October 26th**

At 8.50 am on the first day of the conference, the doors opened to a welcome address by Chairman Colum Joyce, European Representative of IMRG (Europe). With a view to understanding the macro picture, he examined the changing global transportation environment. The transportation industry makes up approximately 10% of the total EU economy, which highlights its critical role within European business. Despite the industry's heavy consumption of fuel, maximum fuel wastage occurs due to delays in transportation systems. With growing concerns about the welfare of the environment, fuel efficiency is an issue impacting every organisation involved in logistics operations.

Another key development in the recent years has been the movement of manufacturing and distribution operations towards countries like India and China, shifting the "points of supply" eastwards. It is not surprising, therefore, that by 2015, emerging markets like Russia, China and India will overtake developed markets like Italy, Germany, Japan and eventually even the USA.

So how do companies meet the globalisation challenge? According to John Pattullo EMEA CEO of Exel, the world's # 2 air freight forwarder, a single minded customer focus is the answer.

"Customers want end to end integrated supply chain solutions", he says. Exel's revenues hover around the € 11 billion mark and its customers include 75% of the world's largest non-financial companies - Unilever, Toys R Us and Johnson & Johnson, to name a few. Its global shipments will see an upward surge as a result of its recent collaboration with Deutsche Post World Net and will undeniably put these two companies at the top of the preferred supply chain partner list. It will also fulfil DHL's aim of delivering all logistics solutions from one source. Peter Kruse CEO Express Europe Deutsche Post AG, stressed on the importance of "planned flows", which he felt was the solution to the question of increased service standards and reliability. This is of specific importance to DHL, especially because 50% of its € 40 billion revenues in 2004 came purely from logistics operations.

It has become increasingly important for logistics service providers to find solutions to the changing market environment. The downward pressure on industry prices, the increasing commoditisation of the 3PL service offering along with the challenges thrown forth by weak economic growth in the EU require that companies plan their course of action. 3PL customer Gillette provided some unique insights into the process companies undergo while choosing a 3PL partner, answering questions about evaluation and selection criteria. "For us, potential candidates had to offer integrated, first-class solutions at cost-competitive prices", says Maarten Schreppers, who was in charge of selecting a 3PL provider for Gillette Iberia. "We also look for companies whose management goals are aligned with ours". But how does a 3PL retain its customers? The answer is communication. "If (logistics providers) are not able to deliver what they promised, be honest to the customer about it." Exel won the contact for Gillette Iberia.

To truly understand successful supply chain models, it is necessary to see real-life examples of logistics operations at a variety of levels. One such example is that of the Yantian International Container Terminals, a modern port, in China. It was awarded by the Global Institute of Logistics for best industry practice and it effectively controls the flow of goods in and out of the region in which it is located. As a result, it is heavily impacted by changes in the Chinese logistics market. With China being an emerging global market for logistics, this port will undoubtedly see heavier traffic flows in the near future.

So with globalisation looming ahead, 3PLs will find it increasingly challenging to retain customers if they cannot provide worldwide solutions. Panel discussions headed by Managing Directors, Consultants and CEO from companies like IBM and CapGemini shed some light on how 3PLs could retain customers. Also present was the CEO of In Kind Direct, an organisation that distributes to 3700 charities across the U.K. As an answer to questions on the best approach 3PLs should take to keep their customers happy, Robin Boles from In Kind Direct said "One size does not fit all. 3PLs need to understand the uniqueness of each customer." The 3PL users stressed that their providers needed to see things from the customer's point of view tailor their approach to suit individual partners, while maintaining their reliability. On the other hand, they said, a 3PL's understanding of the customer's needs is also dependent on how customers structure their requirement.

#### **In essence, the message to 3PL providers was simple –**

- Be reliable
- Be innovative
- Communicate with your customer – especially if you cannot deliver what you promised
- Remember that your customers' customers are also your customers
- Quality in delivery is important
- Competitive pricing and an integrated service are key
- The sharing of risk and rewards needs to be written into the contract from the beginning
- Value added services should be a natural part of a 3PL's core offering

While this message is relevant and important to understand, 3PLs are also keen to communicate that innovation on their part needs to be supported by an investment from their customers. While companies like Gillette are starting to put their resources into developing technology like RFID, the industry is still sceptical about heavy investments in this area. From the point of view of 3PLs, Asset and Process collaboration with other service providers will bring down the costs of offering new technology to customers. But the market as a whole seems largely unconvinced about the potential return from implementing this kind of technology.

Nevertheless, both providers and customers know that supply chains are slowly being transformed with increasing globalisation and investments in technology are becoming inevitable. Richard Hunt, CEO of Aviance felt it important to address how companies should adapt to short timelines, lower costs and learn how to handle overcapacity. Following this line of discussion closely, the session on Collaborative Logistics highlighted how collaboration within supply chains will lead to cost-savings and increase efficiencies in service deliveries.

Collaboration within supply chains is becoming a necessity as a result of globalisation. It is critically important for service providers to maintain their competitive edge and increase market shares – both relatively expensive activities that involve constant technological and process innovation. By collaborating with other players in the industry, costs can be lowered and economies of scale realised.

#### **October 27th**

The focus on Day 2 remained on increasing the efficiency within supply chain business models. Real-life case studies illustrated unique problems that some 3PLs face. For example, John Parkinson, Chairman of XPart (a division of CAT Logistics Services in the U.K) brought to light that even an insolvent company like MG Rover needed supply chain management. In essence, XPart was operating the supply chain of an almost non-existent company which still required parts to be moved and distributed. Using the Rover case study, Parkinson discussed how being process focussed helped Service Part Management and also helped improve a customers' supply chain.

Discussions surrounding improved supply chains were inevitably followed by sessions on Fourth Party Logistics (4PL), a concept that remains fully undefined even today. Although companies like Accenture attempted to give the concept some structure, Frost & Sullivan found that there was no standard definition in the industry. Reinhard Schullerus from the 4PL provider KN LeadLogistics was instrumental in heading the first panel session, fielding questions like "In what instances does a 4PL set-up work for a company?" Essentially, a 4PL is the customised answer to supply chain business problem, without a pre-fixed model or method of operation. Service offering will change depending on the needs of the customer.

The heated debate on 4PLs and their definition continued during the second panel session of the day, moderated by Cecilia Cabodi who is a Programme Manager for the Logistics focus area within Frost & Sullivan. Also heading the discussion were leaders from 3PL providers UPS and Gefco as well as the Global Head of Distribution from CapGemini. During the session, there was a strong feeling that logistics service providers, who were aspiring to be 4PLs, needed to adapt country-wide instead of region-wide strategies, to ensure that all the needs of individual customers were met. On the other this would undeniably raise the costs of providers, thereby making services more expensive for customers. So would the answer be to provide extremely customised, costly solutions or to focus on the economies of scale offered region-wide solutions? Frost & Sullivan believes that by 2010, the market will possess a clearer understanding of the concept of "4PL" and its definition will be more homogeneous due to sector expertise in understanding a customer's business needs. So when is a 4PL partnership most effective? When the solution offered by the 4PL is extremely customised.

Clearly, since markets are moving further east, emerging markets like Eastern Europe hold huge investment opportunities for both 3PLs and 4PLs. With emerging markets come security issues, and questions of where companies should invest.

Whether companies were looking for tangible business leads, or looking to maintain relationships with existing clients or even simply just looking to raise awareness of their services, the networking party at the end of Day 1 presented the perfect opportunity. In addition, when Day 2 of the conference ended, companies had all afternoon to network and meet potential partners. The Summit successfully brought CEOs, Presidents and Chairmen from global 3PLs together with leaders from other multi-national companies.

At the end of the two days, delegates took away with them a good knowledge of the trends and forecasts in the industry, as well as potential opportunities that would help to make their globalisation a reality. This two day brainstorming session was a strategic branding opportunity for all participating companies, with insightful sessions bolstered by informative exhibition stalls – all of which were aimed at helping companies cope with the changing supply chain environment. For companies that missed out on the benefits of being present at this convention, it is a consolation to know that there is always next year.