



Logistics Association of Australia Ltd

THE COMING TOGETHER OF TNT LOGISTICS AND FIAT

The following continues the series of articles from Amelia Chan, winner of the Logistics Development Award 2000 sponsored by Chep Australia and supported by TMP Worldwide Executive Recruitment (formerly Morgan & Banks).

Perhaps one of the highlights of my trip was my visit to Benetton in Treviso. Benetton is one of the most internationally renowned brands for sportswear and trendy life-style clothing.

Ninety per cent of production for Italy and overseas occurs in Treviso, a prosperous rural town north of Venice. Output is 20,000 boxes per day.

My two preceding papers on TNT-FIAT and TNT-Lavazza focused on the third party relationship. In this paper, I would like to share my learnings from a company which has made a strategic decision to own the majority of its logistics functions.

Owning competencies in supply chain

Benetton will only own the parts of the supply chain where it has the volume and competence to do so. Ownership enables the communication distance between different parties to be minimised, and the result is maximum control of output quality.

Benetton even spins and dyes its own yarn. The result is a superior product which creates a distinct marketing advantage. For example, Benetton's woolen clothing can be subjected to machine washing.

Below are examples of logistics areas owned by Benetton.

Warehousing

At Treviso is located the sole warehouse for local and global markets. The warehouse ships 20,000 boxes per day, that is, the days' production. Benetton's philosophy is to hold minimal stock.

There is no need for intermediate warehouses as its automated systems allows Benetton to pick individual shop orders for the 6000 shops dispersed across 110 countries.

Automation allows 19 staff in total to operate the three shifts per day.

Even the warehousing design uses technology which is so ahead of the times as to be almost futuristic. I believe it is the only warehouse structure in the world which utilises suspension bridge technology, this steel-supported warehouse requires no columns, which significantly aids traffic flow.

Forwarding

Formerly Benetton used forwarding houses. However, Benetton found the communication channels too slow and insufficiently integrated, so it set up its own in-house forwarder, Benelog.

As Benelog is itself the forwarder, Benetton only uses shipping lines and air lines with no forwarders. Benelog always ships full container loads. Its purpose is not to take on third-party customers, however it does consolidate the containers of manufacturers whose lines are sold in Benetton shops.

In Japan, due to regulatory requirements, Benetton uses third-party forwarding.

Lessons from the head of Benetton logistics

I was most privileged to meet Giancarlo Chiodini the Managing Director of Benetton Logistics. Below are some of the lessons he taught me.

- Logistics is a culture of managing information flow

In the decade after the war (1955), companies concentrated on production since there was a shortage of goods, After production had filled the gap in supply (1965), these companies found they required to push their product by focusing on selling. Then in the next decade (1975), the companies found they needed to create a pull for their product by marketing to consumers. Subsequently to manage the complexities of the total supply chain, the role of a company was to manage the information flow between the different departments

It is my opinion that much of Benetton's success is due to the fact that their head of logistics foresaw the change in role for logistics years before other companies did. Logistics needed to move on from managing a product to managing a system. It was the role of logistics to flow information between the different departments.

- Logistics is about partnerships

Each party needs to stick to certain commitments or rules. For Example: -

- Shops are expected to forecast accurately eighty percent of the season's requirements. This has to be completed ten months before the start of the season. In turn, Benetton Logistics will ship the order by sea freight in full and on time.
- Shops can place twenty percent of their requirements on urgent order. Benetton Logistics will use airfreight to guarantee arrival at the store seven to ten days after the order is placed.
- Shops are to place accurate orders and no returns are allowed, even at end of season. Benetton Logistics is to hold no additional stock at end of season.

- Logistics is not always a cost, but can be an enabler.

The role of logistics is much more than a distribution cost center for warehousing and transport. Logistics can drive profits for the company by being an enabler of additional sales. For example, by using airfreight and ensuring speedy custom formability's, Benetton shops are able to respond rapidly to unexpectedly high demand from consumers such as at end of season sales.

- Forget Buzz-words

For the number of lines Benetton produces coupled with the seasonality for demand, to run production on JIT would result in excessive manufacturing costs. Rather, eighty percent of Benetton production is able to be scheduled ten months out. Benetton holds seven to ten days' stock on this volume.

Lessons for Australia

- Intermediary warehouses are not always the answer to customer service
I could not help thinking how tempted sometimes Australian manufacturers are to set up state warehouses in the hope of providing a better service for customers, Yet Benetton's sole warehouse for its customers (ie Benetton shops) around the world is in rural Italy.

I believe that some companies which have problems with poor information flow with the customer mistakenly think that setting up in intermediary warehouse is the solution. Rather, Benetton invests heavily in upgrading its information systems each budget year. Agents of Benetton in each country take orders from the shops and the agent's systems are directly linked to Benetton's customer service department.

- Airfreight is not always bad

Generally speaking, we in Australia tend to frown upon incurring airfreight costs. Yet in the case of Benetton, airfreight was the mode of transport which permitted incremental end of season sales.

- Services level agreements are a must

My opinion is that it does not matter how many parties are in the supply chain, so long as each party knows what they are accountable for and can be monitored.

Benetton's supply chain is a complicated one with many parties, yet appears to run quite seamlessly due to the rules and commitments which each party is expected to fulfill. I find it amazing that the operations of Benetton remain so slick even with:

- Hundreds of small Italian sub –contractors
- The country agents servicing the shops in the 110 countries where Benetton operates; and
- 6000 shops to reach us the consumer.

If you would like to discuss any of the issues in this paper, please feel free to contact her on ameliachan @Kellog.com