



Logistics Association of Australia Ltd

LAA DEVELOPMENT AWARD – GENERAL INSIGHTS

The following is the last in the series of excellent articles from Amelia Chan, winner of the Logistics Development Award 2000 sponsored by Chep Australia and supported by TMP Worldwide Executive Recruitment.

In my final paper, I would like to summarise some of my “take-homes” from my trip.

Australia should not take its good logistics practices for granted.

I was surprised that in the US and in Europe, using a third party provider to pool pallets is a strategic decision. By contrast, a manufacturer or supplier in Australia generally would not consider owning its pallets and uses the services of either CHEP or LOSCAM.

CHEP, (Commonwealth Handling and Equipment Pooling), was established in Australia as early as 1946. After the war, the Americans left behind their pallets. For decades, Australians have been accustomed to the benefits of pooling; pallets move between customers with maximum efficiency and a 3rd party specialist provides expertise in tracking and control.

However, CHEP was not established in Italy until 1991. CHEP Italy was mostly run by the staff who ran CHEP in Spain. Sales representatives in Europe face a set of conditions that we in Australia have moved away from a long time ago. CHEP’s main competitor in Europe is exchange where the supplier itself owns the pallets.

In such a system, it is not uncommon to find customers “keeping” the manufacturer’s pallets with the result that costs are passed all the way down the supply chain. That is, the manufacturer, builds losses into a higher price to customers who pass increase in price to consumers.

Retailers in Europe know how to save costs.

In Europe, it is second nature for the shopper to pick low value groceries directly off pallets in the store. Examples include bottled water, toilet paper, and cleaning aids. This practice is historic, and is driven by the high labour costs in Europe. It is cheaper for the manufacturer to pay retail floor space than for labour to unpick individual items from pellets onto shelves

However, items which are picked onto shelves are the ones requiring display, such as premium sauces.

I believe that with Aldi's entry into Australia, we can learn a lot on how to save logistics costs through "shelf management". Firstly, Aldi has already proven Australian consumers are not adverse to picking their goods themselves directly from pallets. Secondly, it is my opinion that with the ACTU test cases on a limit to working hours, labour costs will continue to increase and drive Australian retailers to consider the European format.

Another unique logistics practice I saw were returnable plastic crates being used for display. This is a new product created for the European grocery sector.

The crate maximizes space utilisation as it can be folded when not storing items. Aesthetically, they are so attractive as to be used for display. CHEP, unlike its competitors in Europe, washes the crate after each use. CHEP Italy's specialised washing equipment is in Milan.

I believe that Aldi will push Australian systems to the limit. Firstly, European retailers tend to keep pallets in the store; this will test pallet tracking systems. Secondly, Aldi's pallet specifications will test the capability of manufacturing and logistics systems. The cost effect on production, warehousing and transport must be worked through.

CHEP Australia has already sourced the returnable plastic crate in readiness for Aldi's entry. CHEP has a specialised washing equipment facility in Homebush, Sydney.

Finding the balance between third party and owned.

I saw best practice firms in both types of logistics operations....

Third Party

Where the manufacturers core competency is not logistics, a third party provider can provide the operational discipline which results in significant bottom line benefits to its customer.

For example, FIAT inbound benefited from the rigorous traffic flow improvements introduced by TNT in the handling of inwards receipts from suppliers. Lavazza coffee benefited from the strict adherence to cut-off times which TNT drove across route customer ordering.

Owned

The Benetton owned warehouse was capable of picking individual store orders for more than 6000 global locations , and ran on seven to ten days maximum stock. Benetton also had the volume to run its own in-house forwarder; and its customers from anywhere in the world can receive delivery seven to ten days after their order is placed. On the other hand, Benetton's drivers were contracted.

Thus, there is no hard and fast rule for whether to own logistics or to outsource. However, the manufacturer must firstly decide on what are its core competencies.

Finding the balance between automated and manual.

Neither is there a rule that points to automated warehousing being best practice.

Benckiser; the European detergents company, has reverted to manual picking in order to handle the large number of lines. The same warehouse in the rural town of Mira in Northern Italy was the only machine in Europe which is capable of identifying which pallets require picking.

TNT Spare Parts operates FIAT aftermarket distribution to dealers using automated high-bays for slow movers and a flexible, minimally automated warehouse for the critical items.

UPS' warehouses are based in Louisville, Kentucky. Although its warehouses are all run on RF, many of their warehouses had no conveyors and no robots.

Thus, finding the balance between automated and manual warehousing systems is the key to an efficient operation.

Air-freight is not necessarily bad.

For TNT Spare Parts, in-night air-freight of urgent orders enable significant reductions of stock in FIAT warehouses in the UK, France, Belgium and Germany. Further, air-freight also enabled the closure of the Southern Italy warehouse.

UPS has strategically chosen to locate close to Louisville airport in order to service the internet market, UPS can accept orders as late as 10pm for next day delivery.

Choose customers carefully.

UPS does not deal in sectors where there is no ready replacement value e.g. it does not do apparel as it cannot value a five year old pair of jeans which has

been returned. In the apparel industry, returns are greater than 20%, - higher than the bread game where returns are generally 17% maximum.

Although UPS operates the eleventh largest Airline, it generally does not take passengers with the exception of staff, or on weekends where loads require balancing. UPS has chosen strategically not to enter the field of consumer orders, ticketing and the like.

TNT Logistics in Italy has selected not to distribute finished goods (cars to the dealers) presumably due to the inappropriate return after investment in a specialised truck fleet.

Best practise logistics runs on partnerships.

GroceryWorks.com's partnership with the retailer Safeways has enabled it to offer a price point to consumers which is comparable to a supermarket price point.

Through the service level agreement, set up by TNT Spare Parts for FIAT, TNT has achieved cost reduction levels higher than the contractual targets.

Australia tends to have service level agreements with third party providers, but it is rare to find internal service level agreements. An exception is in the case of Woolworths which has logistics service level agreements between its distribution centers and the stores. A world class example for Australian firms is to consider is the Benetton case, where Benetton shops and Benetton logistics are expected to stick to specific ordering and fulfillment rules.

Logistics has the potential to generate business.

Logistics is more than a cost centre. As Logistics is the point in the supply chain closest to the consumer, logistics is in a unique position to add value to the supply chain.

For example, UPS programmes phones, runs returned computers through its specialised washers, repairs computers, and in Sweden even tunes guitars. Benetton Logistics, because of slick air-freight and forwarding, enables additional end of season consumer demand to be met.

Conclusion – Both Australian suppliers and retailers are fortunate to have the European logistics practices as a model. For example, returnable plastic crates have been in Europe for some years, and we can learn from the European experience. However, the decision making processes in our companies must be streamlined so that decisions are made quickly. Whilst we are still deciding whether to implement, the smart logistics practices brought in by overseas competitors such as Aldi will mean that we will fall behind the competition in crucial areas of cost savings. Thus, although Australia has been

doing smart things for decades, we can be still smarter and we should act quickly. Aldi's entry into Australia provides a much needed impetus to push us along.

We should not accept the status quo in how to handle the supply chain in Australia.

If you would like to discuss any of the issues in this paper, please feel free to contact Amelia on Amelia.chan@kellogg.com.