



## Logistics Association of Australia Ltd

# RATIONALIZATION AND LEAD LOGISTICS PROVIDERS

The Logistics Development Award is sponsored by CHEP Australia

### **BREAKING NEWS**

In the March 2003 edition of 'The Letter', the Linfox Group announced the structure of Linfox Logistics following the integration of the recently purchased Mayne Logistics business.

Linfox stayed with its customer focused 'business streams' structure. The 10 business streams (which include Armaguard, Beverage and Retail) all draw corporate support from seven 'support function' groups. It is revealing to compare the new Linfox Logistics structure to that of Toll Holdings. Notably, Linfox Logistics continue to view 'Strategy and Business Development' as a support function. Within the Toll Holdings structure, with its emphasis on technology as a driver of growth, the 'Business Development' function faces the customer. There is still no equivalent to the 'Toll Solutions' business unit in the new Linfox Logistics structure.

### **INTRODUCTION**

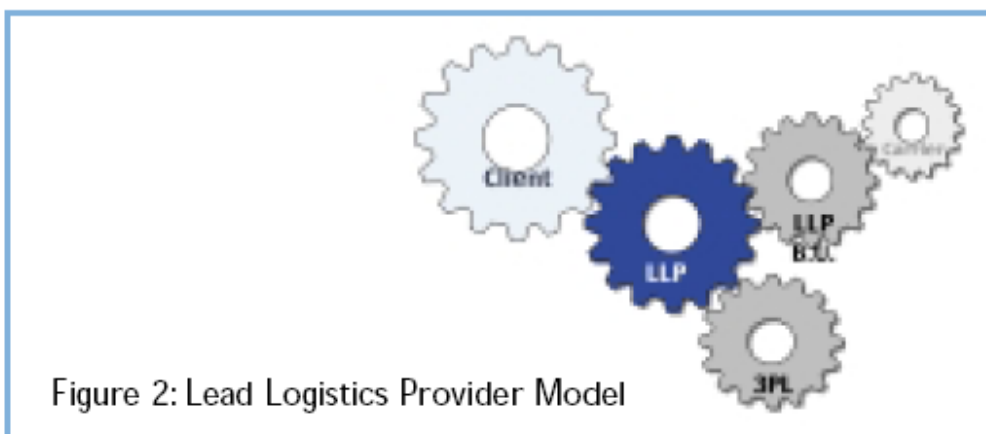
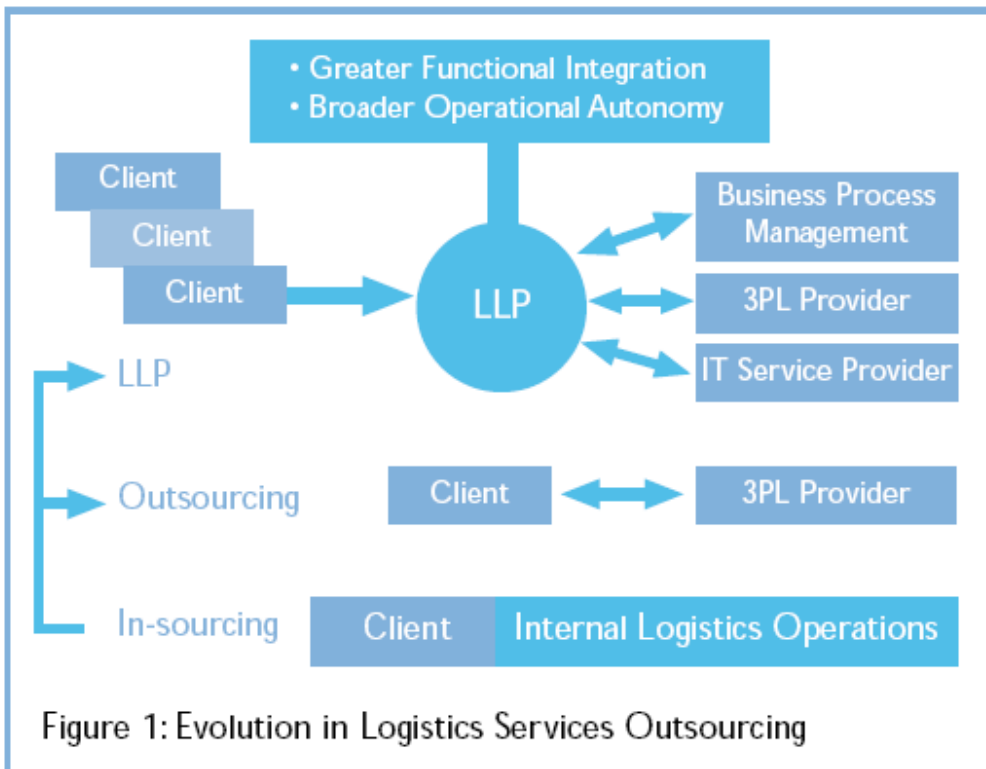
In earlier articles I have discussed the role of technology in driving rationalization, principally through lowering the threshold size of customers that big logistics businesses can service. This article will share with LAA members the details of a joint presentation on lead logistics providers given at the CLM Conference by Nortel Networks and Kuehne & Nagel Lead Logistics (KNLL). It aims to demonstrate the centrality of technology to achieving lead logistics (or 4 PL) arrangements. Interestingly, this article should also offer hope to smaller logistics players, indicating there is a future for them in an industry increasingly dominated by mega-players.

### **Defining Lead Logistics**

With more businesses in the past 10 years bundling more logistics services for outsourcing, fewer logistics players have the capability to provide the required range of services. What delineates 3PL from 4PL is the insertion of a lead logistics provider (fourth party) between the client and any other logistics providers (see figure 1). The lead logistics provider (LLP) becomes the single point of contact for the client and co-coordinates on behalf of the client the provision of the full range

of logistics services required. These can be delivered by business units operated by the LLP or by 3PL providers (see figure 2).

Technology is central to the success of the LLP. The LLP in effect becomes a technology hub employing enabling processes and technologies to manage the day-to-day activities of service providers and contracts to meet the client's logistics services requirements.



### Nortel Networks

Tom Dorval, Vice President of Logistics at Nortel Networks and Dave Stubbs, Executive Vice President and General Manager at KNLL gave a joint presentation at the CLM Conference.

Nortel is an industry leader and innovator in world communication and information exchange. It does business in more than 150 countries, supplying:

- Service provider and enterprise customers with communications technology and infrastructure.
- Value-added IP data, voice and multimedia services.
- Enterprise networks, wireless networks, and optical networks.

In 1997, the Nortel supply chain had a 90% fixed-asset cost structure. It was decided to award business to 3PL providers who then took over the three distribution centres (DC). There were 400 business entities associated with the international supply chain. During 1999 and 2000, Nortel experienced rapid growth. The number of DC exceeded 20 (mostly outsourced) and the number of associates grew to 1800. With the 'telco bust' in early 2001, Nortel chose to move its supply chain to an 85% variable-cost structure. Cost and inventory reduction became the number one priority. This led, in 2002, to Nortel deciding to divest its logistics business.

The 4PL path was selected, as there was no 3PL provider who could do it all globally for Nortel. Nortel was seeking a fourth party to:

- Manage a variable logistics infrastructure to meet the changing and dynamic requirements of both the supply chain and customers (especially meeting increasing demands for "mergein- transit' capabilities).
- Assist Nortel in achieving the following best in class measurable performance targets:
  - Customer Request Date Performance
  - Clean Orders (pick/pack/ship)
  - Inventory Accuracy
  - Supply-chain intervals
  - Cost performance
- Manage logistics for Nortel at a reduced cost through improved processes, efficiencies, and integration of technology.
- Transition Nortel employees and associated responsibilities seamlessly to their organisation without impact to clients and customers.
- Most importantly, do this collaboratively.

With a LLP, Nortel could restrict its logistics activity to providing the leadership for logistics performance and focus more on its core competencies of production, production planning, sales forecast, marketing, R&D and public relations.

### **Kuehne & Nagel**

Nortel chose Kuehne & Nagel (KN).

Headquartered in Schindellegi, Switzerland, KN is a non-asset-based provider employing more than 17,500 people in 600+ locations across 90 countries. 2001 revenue was over US\$5bil (see figure 3). The KN priorities

in the first 90 days were fourfold:

- Establish the KNLL organisation (transition 92 employees in 18 countries and employ an additional 10 KN employees).
- Operate the "as-is" environment (maintain stability for Nortel's customer base).
- Communicate with 3PLs (clear message of KNLL objectives and establish trust).
- Establish "rules of engagement", including:
  - Escalation process
  - Management oversight
  - Monthly operational reviews
  - Quarterly business reviews
  - Joint Steering Committee

The next period (3 to 12 months) was focused upon cost rationalisation. KNLL priorities were:

- Partnering with world-class service providers capable of supporting deliverables
- Develop relationships with service providers based on trust and sharing mutual goals and objectives
- Cost reduction
- Service provider changes through an independent 3PL selection process, comprising:
  - Formal RFP process
  - Objective review and selection
  - Global strategy for service providers

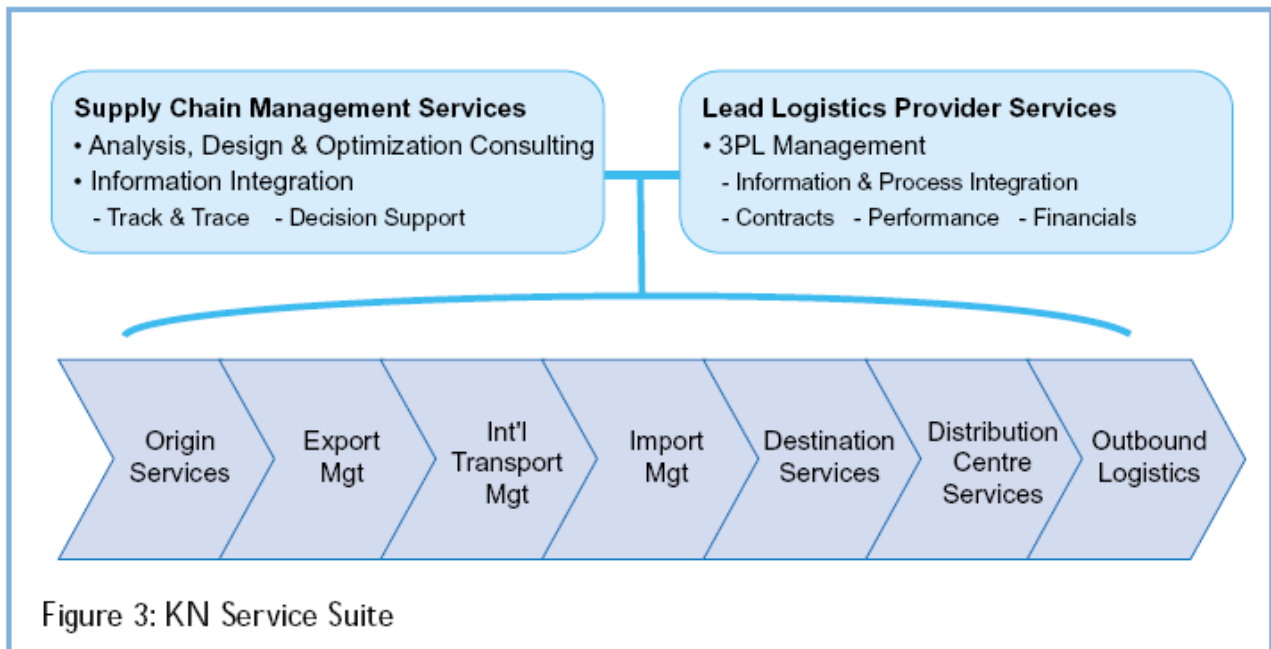
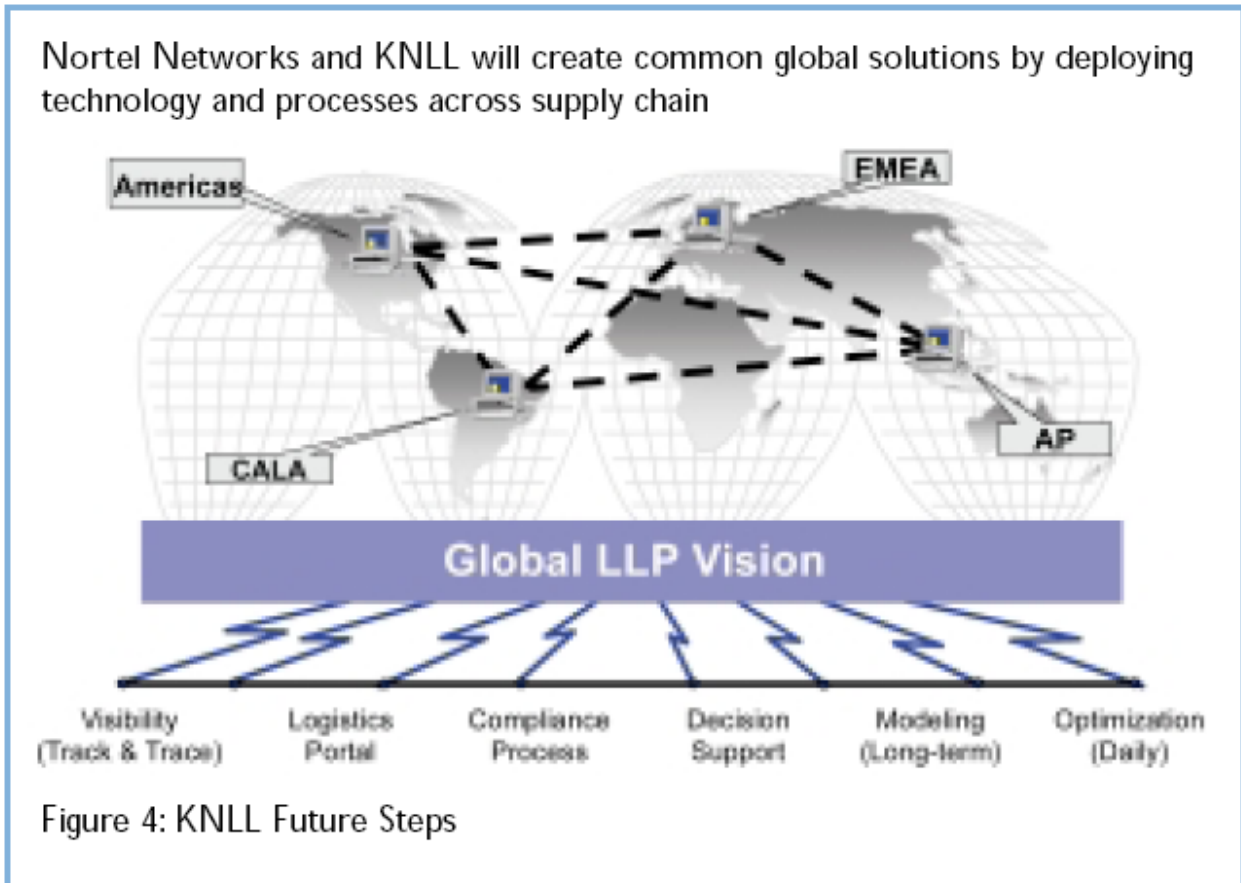


Figure 3: KN Service Suite

The future (one year plus) will be focused upon migrating to the merge-in-transit model. In short, this aims to marshal products near the customer in order to minimise handling, transportation and inventory. To do this, the KNLL priority is

to complete the IT platform. KNLL also intend to pursue upstream integration with suppliers (coordinate CM/OEM shipments and have greater involvement in order management (design order flows and commitments) and demand and capacity planning (see figure 4).



### Application in Australia

To be a LLP requires a focus upon technology platforms and processes to integrate delivery of a wide range of logistics services from a range of providers in accordance with the requirements of a client. Toll Holdings is the only Australian logistics company currently investing sufficient capital into technology in order to position itself to be a genuine LLP for Australian business.

Why does this offer hope to the smaller logistics players in Australia? As Toll Holdings focuses its effort upon being the LLP (becoming the technology hub) it may leave much of the physical transport and warehousing to the more efficient of the smaller contractors.

I am in possession of a detailed electronic version of the Nortel/KNLL presentation (in Microsoft PowerPoint format). I will gladly electronically forward it to any interested readers.

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