



Logistics Association of Australia Ltd

WOOLWORTHS – on track

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Introduction

It is an exciting time to be working in the Australian Supply Chain industry. Challenges are being presented at a greater rate than ever before in the form of increased environmental awareness, community impact from road and traffic congestion, an aging workforce, fluctuating fuel prices and changing regulatory regimes. There is greater pressure on financial results following the Global Financial Crisis and the subsequent fall in demand and economic activity. However, these challenges also create opportunities, in particular there is an increased willingness to challenge the status quo and evaluate alternatives. It was in this environment and this context that Woolworths developed its National Transport Strategy in 2008/9 to provide direction for the next five to ten years. One significant element that came from the strategy was a desire to increase the use of rail as a transport mode for the retailer. The development of that strategy and subsequent delivery of the capability on its first corridor is the subject of this paper.

The initiative

Woolworths developed a National Transport Strategy that aimed to achieve many outcomes; key among these were improving safety, improving the impact its supply chain has on the environment and the community, maintaining or improving cost and service to the customer (Woolworths' stores). A major initiative identified in the strategy to help deliver these outcomes was the need increase the amount of freight moving on rail. The scope of the initiative was to not only deliver the required change of mode, from road to rail, but to do so with an appropriate business model to increase operational control and strategic influence to make the change a success where previous use of rail had not supported required service levels.

The first part of the initiative was to develop a business model for rail freight, building on the current industry model but seeking to improve service, reliability and accountability. Woolworths' identified 5 key levels in the intermodal rail industry. First is the customer, the owner of the freight who determines what must be shipped where it travels and when. Secondly is the freight forwarder who will work to consolidate volumes within freight networks to optimise containers or wagons and balance corridors. Thirdly is the rail operator who will manage rail operations, locomotives, wagons and terminals to achieve acceptable returns from asset

intensive businesses. Fourthly is the track and infrastructure owner who must maintain the physical track network and manage access to it. Lastly is the Government, be it Federal or State, which in most cases has overall ownership of the rail infrastructure corporation and control of the relevant regulatory bodies that govern rail operations and safety. Woolworths believe that if the freight owner has sufficient scale and size and has freight moving in complimentary directions on a corridor that the freight owner could largely replace the role of the freight forwarder and take on a direct relationship with the rail operator. Underpinning these decisions is also growing confidence in rail infrastructure and its reliability following significant work performed by the ARTC with funding injections from a number of Federal Government initiatives over the last 3 years.

The second part, following the creation of a business model, was the implementation of this operation. The existing rail freight corridor from Adelaide to the Northern Territory was chosen as the first corridor for the new model. The project required the procurement of new rail containers, the introduction of new systems to Woolworths, the establishment of an operations team to manage the operation, the establishment of a pick up and delivery fleet with an existing service provider and the development of a direct relationship with the rail provider, FreightLink.

The Value

There are two main drivers of value in the model; firstly is the increased control and ability to influence the rail operator given the direct relationship and secondly the ability to reduce cost by controlling all cost elements and improve container utilisation. Controlling each of the component costs directly allows for the removal of any overhead or management fee that may be applied to a full service offering.

The value of control is difficult to quantify in financial terms but delivers in the longer term and through service. Woolworths implemented a model that has a direct relationship with the rail operator; this allows inclusion in discussions such a rail timetable changes, direct notification of disruptions or delays and the ability to establish direct accountability with one party. Such tangible benefits were not available to Woolworths while operating under the freight forward model. The increase in control puts Woolworths personnel in charge of all planning decisions and gives them the ability to control the cost service trade off, balancing delivery performance with cost decisions. These decisions can be made mutually between stores and logistics to directly impact cost and service. Woolworths assuming this commercial risk through utilisation required an increase in capability and new skills that did not exist under previous business models. It is this new capability that allows Woolworths not only to drive the value it seeks, but also to address concerns of existing rail models where there is a lack of accountability by any party overall and a lack of understanding by Woolworths to drive different outcomes from rail freight. The direct control also allows for an improvement in the security of the product. Containers are sealed at the Woolworths distribution centre and only opened again at the Northern Territory store removing any third party interaction with the freight. Woolworths have also chosen to invest in technology for the satellite tracking and monitoring of both the refrigerated and dry containers.

The change of model breaks what was previously a full service rate into control of several component charges. The management of each of these individual cost items

require additional management time and effort, but remove any overall margin and management cost. The direct control of cost elements enables greater focus to be applied to each and provides the ability to deliver different outcomes.

The issues

A change of this nature and size is always going to meet with some resistance. The move to develop a direct rail relationship puts rail operators in a position where their customers' customer is seeking to bypass the customer. For an industry that is in effect a wholesale industry this risks putting existing customers at odds. In the specific case of FreightLink, ACCC undertakings prohibit them from refusing to deal with any one group.

Another issue faced was the amount of capability that needed to be developed by Woolworths. Moving from a full service supply agreement to a direct model required the development of operational capability to enable the required control and to interact with a rail operator. In addition to the new capability there is a mindset change required to manage transport that happens over a 6000 km round trip over 7 days versus planning and managing a store delivery 20 km down the road.

The final issue of significance was the logistical task and required lead time to have new rail containers built, delivered and commissioned. Initial planning suggested that the time allowed for the delivery of containers was sufficient; however shipping delays and complications put this at risk. Container delivery was the most significant critical path item for the project to manage around, as much contingency should be included as possible for equipment delivery.

The Learnings

Firstly, change is always difficult, no matter what size or shape it takes and resistance is to be expected. When the change appears to challenge the very need for an industry, such as freight forwarding, it can be daunting. The learning is to carefully manage the change and the communication with the many parties involved.

The second learning has been that there is a great deal of work performed by freight forwarders to fill the gap between rail operator and customer. The level of effort and capability required to manage the freight forwarder operational elements should not be underestimated.

Thirdly the procurement of containers, in particular the specialised refrigerated containers, is a time consuming process and significant contingency time should be allowed in any schedule.

Fourthly the success of any project is only as good as the partners that are chosen to support the initiative and the team that is assembled to deliver it. The selection of supporting suppliers will make or break any change of this scale and complexity.

Conclusion

Woolworths is a group with clear strategic direction and the executional ability to deliver on that strategy. The decision to become more directly involved in the rail

industry and to increase the volume of freight moved by rail is a big part of the logistics strategy. The move to establish a model of dealing directly with rail operators is intended to give Woolworths the ability to shift significant volume of freight from road onto rail over coming years. This change will deliver reduced environmental and community impact, fewer heavy vehicles on the roads, reduced urban congestion while improving safety. The change is not a play to remove the freight forwarding industry but rather change the way it services Woolworths. The direct model is aimed at overcoming the observed shortcomings of rail in the past with a lack of accountability and issues of service. Moving volume to rail is the objective and taking a direct relationship with the rail operator has been deemed the best way to realise that objective.