



Logistics Association of Australia Ltd

THE FUTURE OF LOGISTICS

The following is the sixth in the series of excellent articles from Emma Stringer, winner of the Logistics Development Award 1999 sponsored by CHEP Australia and supported by Morgan & Banks.

Being able to predict the future is a tough task for even the most well-recognised firms. Even the most well-recognised firms have proved they don't always get it right:

"There is no reason any home could possibly need a computer." Dell, 1979.

(About the microchip) "... but what is it good for?" IBM, 1974.

One speaker at last year's Council of Logistics Management Conference in Toronto highlighted these incorrect predictions. In my final article of the six I have written after my trip to the US & Canada for the LAA International Study Award, I will address what I believe will greatly affect logistics for the future – core technology within the firm & business to business exchanges.

Core technology in the firm – Integration of internal processes

After the preceding statements by Dell & IBM, you can see that even for the best firms, it is very difficult to predict the future. From what I learned on my trip, I believe, like several other people that I spoke with, that logistics technology will rely heavily upon an integrated, standardised, base of technology within each firm. For firms to be able to achieve cost benefits through transaction & process efficiencies created in business-to-business procurement (which I will discuss later in this article), real advantages will only be reaped by firms who automate all processes involved. This automation can only occur if systems can talk or integrate. Such integration is really only achieved for most firms with the help of an Enterprise Resource Planning system (ERP). These systems enable a firm to integrate their internal business processes, enabling external processes, such as business-to-business procurement to be readily linked and to these internal processes through middleware.

This marriage of internal and external processes, with ERPs as the core technology was described by a speaker at the CLM conference.

Automating transactions and processes is a core advantage of business-to-business procurement. A digital exchange can lower procurement costs by enabling just-in-time ordering, online tracking, and access to multiple sources of supply, at one point of entry on the internet. Selling is also enabled on exchanges whereby products and services will be visible to a targeted community of buyers.

Many believe, including myself, that this will be the future of business transactions. Business exchanges are centring around technology such as application servers, networks, XML, databases & telecommunications to build exchanges over the internet. Such exchanges are generating previously unequalled alliances between firms, their competitors, their customers and their suppliers in the hope of amazing efficiencies.

A June 2000 InfoWorld article by Tom Yager, pros & cons of such business to business procurement exchanges were explained:

- Reduces inefficiencies in buying & selling
- Raises the visibility of all participants
- Adaptable to a wide range of products & services

These advantages are straightforward. I believe that firms must concentrate on the following challenges, which need some explaining.

1. Costly to implement - success depends on underlying technology.

If you want to really get the best out of an exchange, you need the core technology within your firm as I described at the beginning of this article. ERPs can provide this internal standardisation, yet they are costly to implement. Studies show, as I discussed in one of my preceding articles, that ERP benefits do occur, they just take several months, sometimes a year or two, to pay off.

Another element of the underlying technology which will I believe will be very important is exchange integration. After firms have internally integrated with a system like an ERP, they will want to transfer product catalogs, prices, purchase orders, sales documents and so forth across the exchange. This involves translation and integration of several programming languages, such as Visual Basic, Java, XML, and ABAP to ensure that this information is transferred. This poses a large challenge to middleware providers, and has appeared to be a current challenge to existing exchanges.

2. Content Management

With product catalogues being written in all kinds of computer languages, another key element in an exchange is content management. Without constant uploads, updates, and the ability for one firm to load product information into their purchase order system, the exchange loses its core purpose. Several exchange hosts offer content management services, which appear to be an effective way of meeting this challenge.

3. Can be misused for market control, rather than for open trade

One objective of these exchanges is to be "open". These exchange alliances are best on level ground - no player is to be seen as the controller, as true integration will then be severely hampered. Players are recognising the importance of balanced partnerships to get the real benefits out of an open exchange - otherwise, the key objective of an open exchange is lost.

Business-to-business exchanges provide the next opportunity (and challenge) for firms to gain logistical excellence this decade. Logistical changes which will emerge in the next 3 years were outlined by a KPMG consultant at the CLM conference I attended. He stated that in 3 years time, firms with excellent logistics processes, would be characterised by:

- Business plans will extend across multiple boundaries
- More vendor managed inventory
- A lot more 3rd party specialised players
- Customers can reach into the supply chain & see
- Distribution Centres will be more centralised & accountable for profit
- Stronger focus on packaged software
- Growth of strategic partnerships

If one considers the characteristics of business-to-business exchanges, one can realise that many of these changes will be pushed by these exchanges. Trillions of dollars are expected to be transferred over these in the next five years.

I believe exchanges will inevitably provide firm's many firm's next logistical challenge, with the potential to get closer to the dream of "seamless" integration of logistical processes. Firms must ensure that they are continually analysing logistical opportunities, such as these, constantly evaluating them & keeping abreast. Who wants to make claims like those made by Dell & IBM without being sure of the potential new technology can bring?

If you would like more information about any of the issues I have raised in this article, I would be happy to help you. You can email me at emmastringer@hotmail.com