




FLEMING EUROPE *FMCG & Retail Logistics 2012 conference*



IS Your Supply Chain Still State-of-the-Art?

An Excursion into the Pitfalls of the Supply Chain between Industry and Retail

Prague, 2012, October, 10th/11th

Supply Chain Engineering – Understanding | Design | Implementation

Agenda

- Procurement logistics: an attempt to define the concept
- Trends in the coming years
- The primary cost drivers of the supply chain
- Procurement logistics – optimization through cooperation instead of confrontation
- Summary

What Does Procurement Logistics Mean to You?

Please describe in a few words your understanding or definition of procurement logistics!

Definition: Procurement Logistics

From a business management point of view, the term **procurement logistics** describes which process starts with the purchase of goods and ends with the delivery of the goods to the warehouse or to the production facility. Accordingly, it is the link between the supplier's distribution logistics and the manufacturer's logistics.

As the connecting link between the procurement market and production(logistics), this process includes:

- The physical supply of production materials (raw materials, operating supplies, partly processed goods, parts and trade goods) depending on what and how much is needed where and when;
- Determining the span of control, depending on the agreed Incoterms, starting with the dispatch of the goods at the supplier's location and ending with goods receipt at the consignee's company;
- Transportation from the supplier to the company's receiving dock, acceptance of the goods and inspection, as well as, in some cases, inventory management for received goods and internal transportation within the company to the point of usage for the goods;
- All planning, management and controlling activities associated with these tasks.
- It is important for strategic management purposes that the procurement logistics process of the company has similar goals and tasks as the sales logistic process of the supplier.

Sources: Wikipedia and Gablers Wirtschaftslexikon

Current Trends in Transportation Logistics

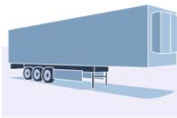
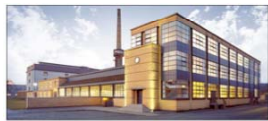


- Shortage of loading and traffic space because demand is rising while capacity is falling (vehicles & drivers)
- Increase in the price of fuels – rising global demand for oil, no alternative engines for trucks will be available in the foreseeable future
- Increasing environmental requirements because of tightened governmental regulations (i.e. energy efficiency / Euro VI / further increases in highway toll rates)
- Company or market specific challenges, such as security regulations or traceability

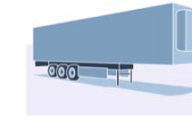


In The Short Term, The Only Thing That Can Actually Be Influenced Within the FMCG* Value Chain Are The Transport Costs

Production Facilities and Central Warehouses of Industry



Central Warehouses and Retail Branches



Distance

Ø 0 – 300 km

Ø 250 – 300 km

Ø 80 – 120 km

% of costs

2 – 20% of sales

3 – 9% of sales

Cost distribution

60 – 70%**

30 – 40%**

Transport costs

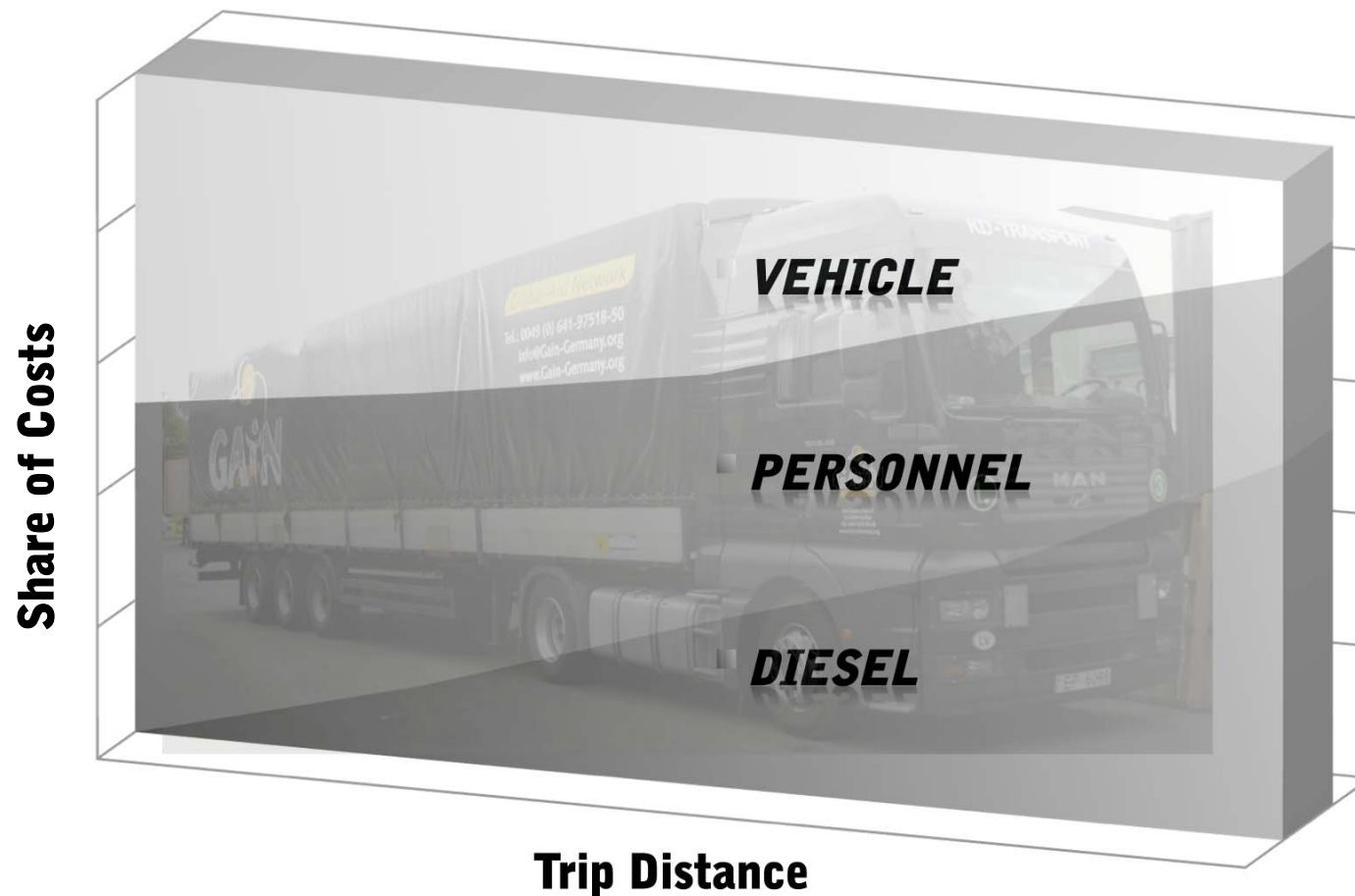
5 – 70 €/Pal.

8 – 12 €/Pal.

* Fast Moving Consumer Goods

** of which generally half are fixed infrastructure costs

Generally The Cost of a Truck Consists of Only Three Important Components: Investment in the Vehicle, Personnel, and Diesel

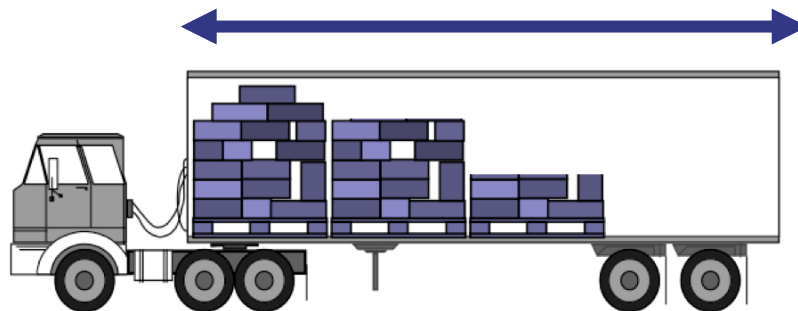


- These costs of a single trip from A (industry warehouse) to B (retail warehouse) cannot be influenced in an efficient way

Vehicle Utilization: Optimum Use of Transport Capacity for The Trip from A to B

"Horizontal" truck utilization (number of occupied spaces)

- Trip planning (stops, delivery restrictions)
- Order quantities / order frequency
- Equipment (type and size of vehicle)



"Vertical" truck utilization (number of cargo packages per space)

- Packing height of the pallets / spaces
- Stackability of products
- order picking procedures
- Equipment of the trailer, e.g. double-decker



Goal: Reduction in the number of trips, avoiding empty space on each trip

Fleet Utilization: To Achieve The Most Consistent Utilization of Both The Individual Truck as Well as The Entire Fleet Over a 24 Hour Period

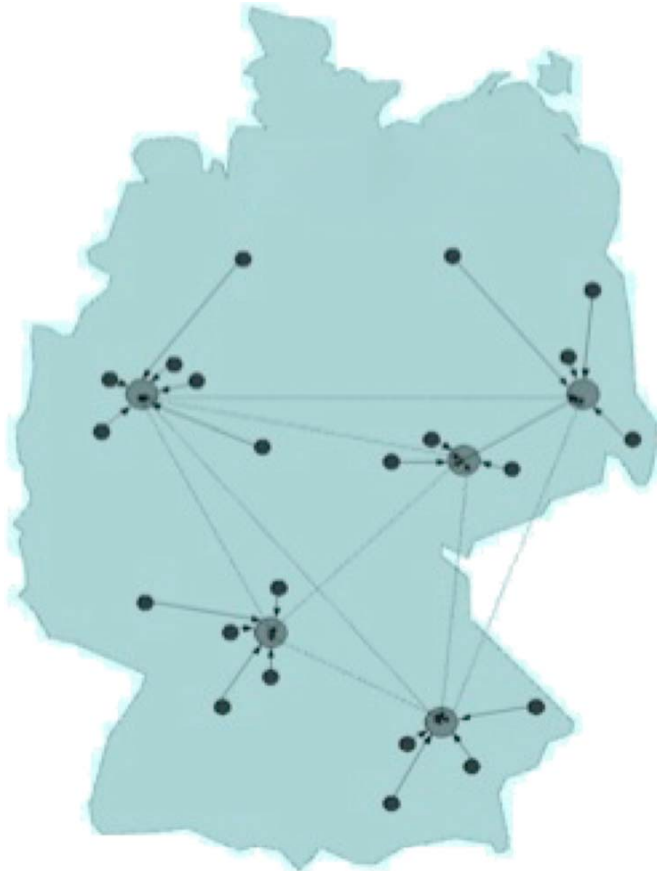
Utilization of the truck fleet

- Required Capacity during the day
- Fluctuation during the week
- Planning reliability
- One-way or round-trip
- Order quantities / order frequency



Goal: Cost reduction / increase in sales per travelled km

Network Utilization: Optimal Integration of Distribution, Pick-ups and Shuttle Transport Services in Order to Form a Network



Network Utilization

- Number of suppliers / consignees
- Frequency and quantity per supplier / destination
- Frequency of warehouse-to-warehouse traffic
- Line haul
- Buffer- or cross-dock areas
- Transshipment points



Goal: minimising empty trips / reduction of empty mileage

How Can Procurement Logistics Contribute to Improved Transport Capacity Utilization?

CONFLICTING INTERESTS OF THE PARTIES

manufacturers

- Bad experience with companies picking up the shipments
- Transferring ramp shortages to industry
- Loss of influence on the supply chain
- Loss of turn over because of ex-works agreements
- Decline in purchasing volume

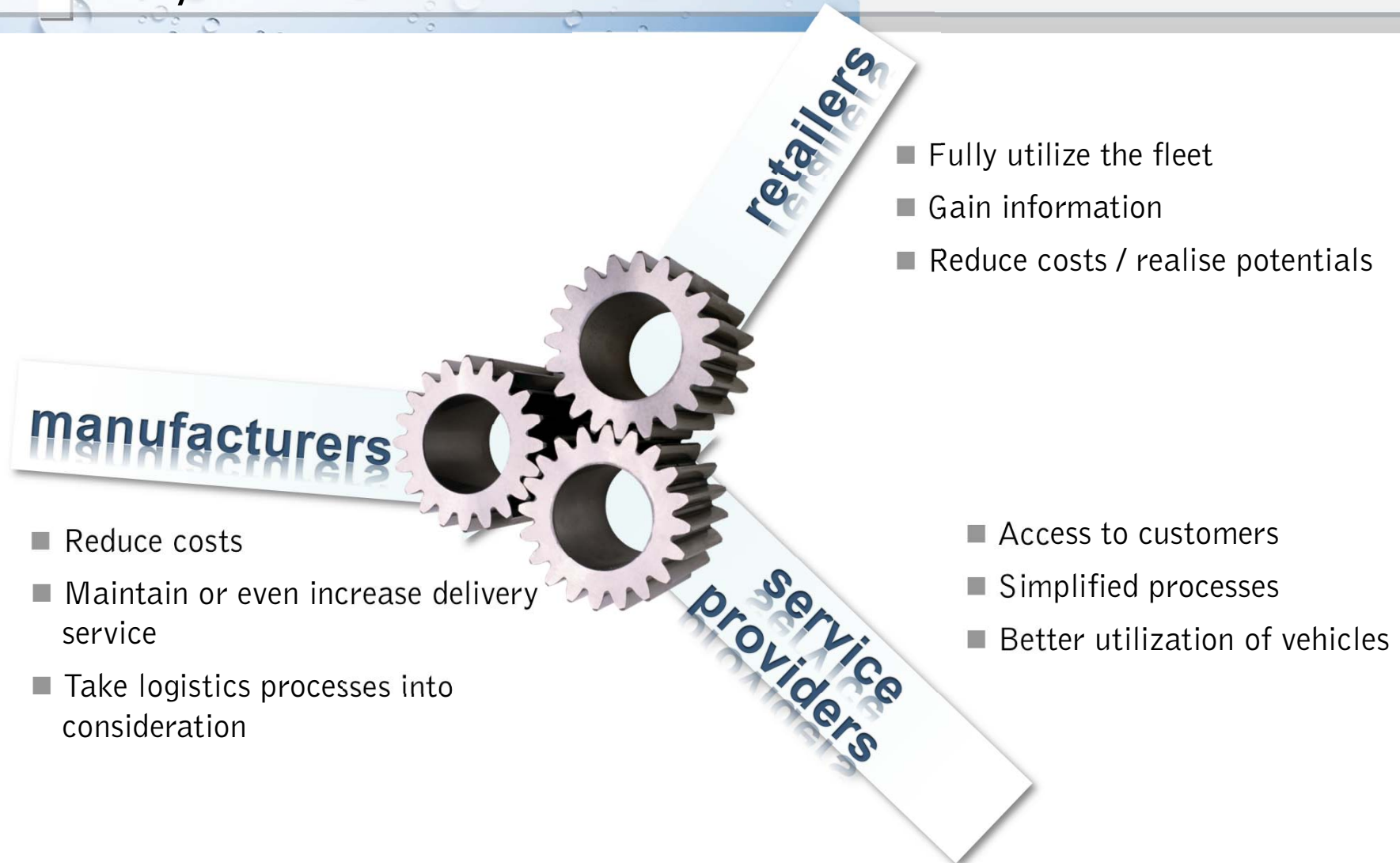
retailers

- Long waiting times at the ramps
- Inaccurate information about the goods in-transit to the warehouses
- positive experiences with deliveries to central warehouse lead to further expansion of influence along the supply chain

service providers

- Focus on industry
- Maximizing service providers profits
- Access to new customers is difficult for haulier (owner of the truck)
- Lack of professionalism

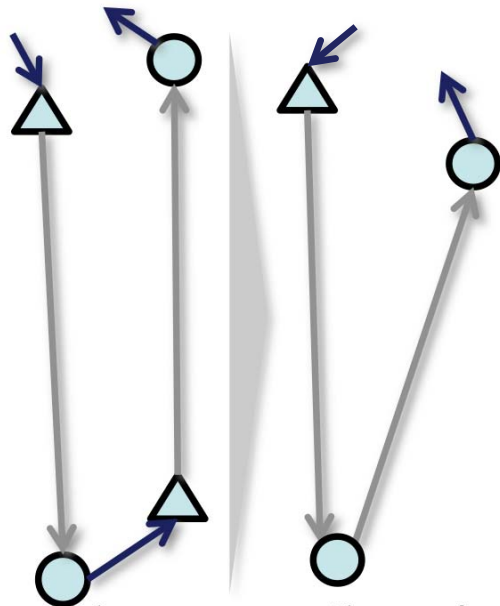
It Is in The Common Interest of All Parties to Improve The Utilization of Vehicles, Fleet and Network



The Potential for Improvements in Capacity Utilization is Dependent Upon the Shipment Structure



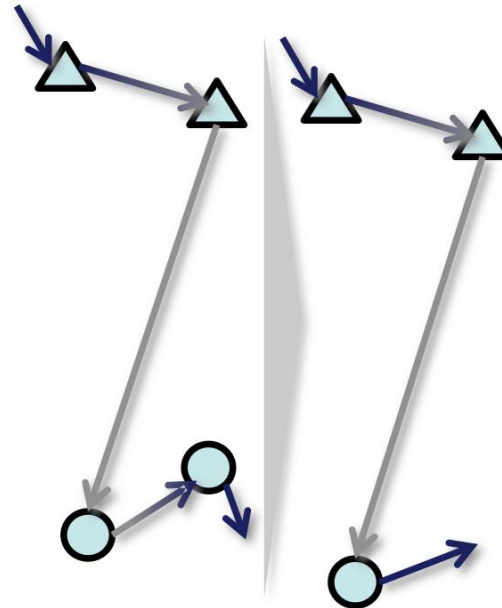
Full truck load
> 30 palettes



reduce empty mileage /
empty trips



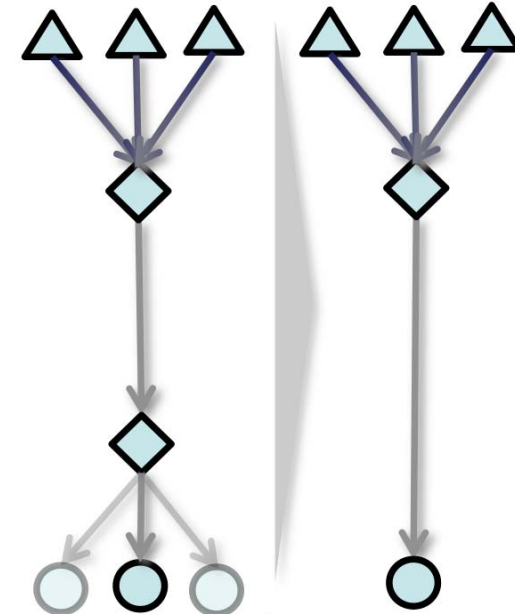
partial load
7 - 29 palettes



pro-actively consolidate two
deliveries



general cargo
1 - 6 palettes



consolidate and
reduce transshipment

- Multiple flows of goods can only be consolidated efficiently from the destination/sink (consignee).

Realising Cross Company Consolidation and Utilisation Effects in a Cooperative Way Between Industry and Retail

ensure reliable operations

- ✓ direct point of contact for operations
- ✓ enable electronic exchange of information
- ✓ pro-active status monitoring

close the contract

- ✓ clearly defined customer-supplier relationship
- ✓ quality benchmark
- ✓ prices and time frame

determine basis for sharing benefits

- ✓ transport costs
- ✓ delivery service (on-time, waiting time, etc.)
- ✓ pallet quality and handling

agree on assessment criteria

- ✓ quantitative benefit
- ✓ qualitative benefit
- ✓ process improvements

build trust

- ✓ professionalism of employees
- ✓ social and technical skills
- ✓ internal/external transparency

The Successful Implementation of Cooperative Concepts Along the Supply Chain Requires Positive Employee Management

Necessary Skills

What did I learn?
What are my abilities?



Multiple Preferences

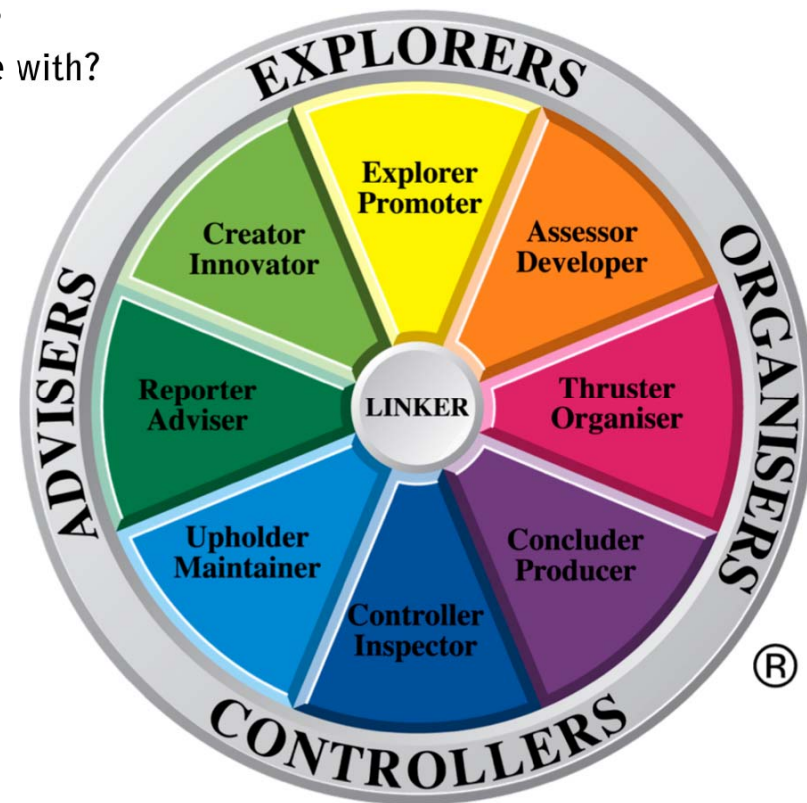
What do I enjoy?
What am I comfortable with?



Maximum Team Performance!

Allow self-initiative!

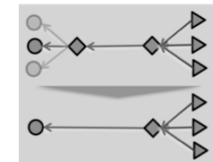
Demand employee responsibility!



Deploy competent employees according to their preferences

Summary

- Logistical resources are influenced by rising demand while capacities are falling
- In the short and medium term, transport is the only factor that can be influenced in an efficient way
- The benchmark is the utilization of vehicles, fleets and networks
- In transport multiple flows of goods can only be consolidated efficiently from the sink/destination.
- Cooperation, instead of confrontation, to realise cross-company potentials
- Deploy employees according to their preferences



Thank You for Your Attention!

■ Discussion / Questions

■ This presentation will be available in the next few days for download at: www.kelber.cc

Dr. Kelber – Your Supply Chain and Logistics Expert

- ✓ With competence: to deliver significant, sustained results using innovative solutions
- ✓ With leadership: to motivate colleagues for demanding assignments and to deploy them according to their skills so that exceptional performance is achieved
- ✓ With 20 years of experience working in industry, retail, services and science



"I don't know if it will be better if we change it, but I do know, that we have to make changes in order to go forward." (1742-1799)

Professional Experience & References

Dr. Kelber

Supply Chain Engineering

recognize | design | implement



**Transportation Management
and Procurement Logistics**
(2005 - 2010)



**Optimisation of the Spare Parts
Warehousing at the Neckarsulm Facility**
(2011)



**Supply Chain Management
Purchasing • Planning • Logistics**
(2002 - 2004)



**Increase of Productivity in
the Transshipment Hall**
(2010)



**Logistics and Process
Management Projects**
(1995 - 2002)



**Development of a System-based Analysis of
Logistics Improvement Potential**
(2005)