



focus



Finance for our Times
What you need to know about leasing,
outsourcing and contracts



24

Outsourcing in
a recession

Is outsourcing really
the cheapest route?



28

When logistics
companies go bust!

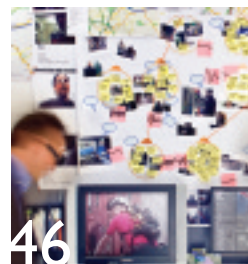
What to do if
your 3PL fails



32

Raising finance in
a down market

Funding to lift
the Depression



46

Buses to
the future

Making 'the back end
of a bus' lovely



50

What should be
the future of rail?

Do we really
need HS2?

In the author's experience, smaller and medium-sized providers are sometimes more flexible when it comes to contracts, so do not restrict the beauty parade to just the big boys



LOGISTICS

AUTHOR
Ken Rogers

Logistics outsourcing during hard times: a contemporary issue

- To outsource or not to outsource logistics in order to make efficiency gains and cost savings is a critical question being posed in many boardrooms as companies look for ways to tackle the current harsh economic climate. Similarly, companies that already outsource must ensure that they are achieving best value against changed market circumstances. Ken Rogers, a consultant with cost reduction consultancy Expense Reduction Analysts, believes that companies need to think very hard before making the decision to outsource.



It could be all too easy to see outsourcing as a way out of recessionary pressures on the bottom line, particularly if you need to replace an ageing fleet that you own. It is also easy to listen to the majority of consultants, who will steer you down the outsourcing path based on the fact that third parties are better placed to buy/rent vehicles, maintenance services and fuel on your behalf.

Whilst all this may be true, logistics providers are in business to return a profit, and their proposals include fleet costs, contributions to sales and marketing costs and central functions, such as HR, and in-house costs that are incurred in any event. Before making the decision to outsource, it is critical that you satisfy yourself that you cannot do it more efficiently in-house and that you deploy a cost-effective purchasing policy.

For example, apart from labour, the key costs associated with running a transport fleet are fuel, maintenance, spares and insurance. Frequently, even procurement professionals have limited experience in these categories. However, significant cost savings can be achieved without any process change by adopting a systematic approach to sourcing these products.

Fuel is a prime example – how can you ensure that the best possible pricing is being achieved?

1. Review closely what you are paying when drawing fuel on the road. It seems that anyone with an office facility can set up as a fuel card provider; and whilst competition can be good, it is an unregulated market, with all the sharp practice that this can entail. It is a widespread tactic to capture new business by offering unsustainable low prices – for example, 'Our price this week is x pence per litre' – that compare favourably with pump prices. However, over time, the weekly price will have an increasing margin attached to it. We have found many clients who, after using a card from the same supplier for a year or so, are actually paying significantly more than pump prices.

2. For bulk fuel supplies, look outside what is happening in your local market. Typically, operators ring around their local suppliers to establish the lowest price. However, in time the local market will soon establish the levels above wholesale prices where you are buying. This means that you will not continue to get the best deals.

3. The biggest cost in distributing fuel is from the terminal in the UK to the end user. Think of fuel distributors as hauliers who do a bit of fuel trading on the side. Their biggest direct expense is vehicle costs. Therefore, transport operators need to ensure they practise what they preach by ensuring that their suppliers are proactive in suggesting an optimum load delivery size. You need to avoid situations where additional vehicles are unnecessarily required to deliver your fuel requirements or where you buy more volume to get a lower price, only to see this eradicated by inefficient transportation. Typically there are vehicles of different sizes that will deliver 36,000, 23,500, 18,500, 17,500 and 10,000 litres.

4. Try and find out what your neighbours are paying. We identified two closely located companies with about 40-strong, 44-tonne fleets and yet there was a variation of 4–5p per litre that they had paid over the previous 12 months. This was equivalent to a difference of £60,000 in fuel bills.

Reasons to outsource or to change supplier

However, it must be recognised that operating your own logistics operation does present a certain degree of inflexibility in reacting to changing market circumstances. Changes to inventory levels, picking profiles, delivery sizes and frequency, and overall volume changes will lead to assets being underutilised or suboptimal in operation.

In some instances, it can be argued that a third-party provider can provide much more flexibility to adapt its operation to respond to your changing business circumstances. However, experience has shown that this may not happen as a matter of course. The provider may not have the resources that meet your changing requirements, or may be unwilling to adapt.

The foregoing is therefore equally applicable to companies considering outsourcing, or reviewing their current outsourcing arrangements. If you currently use third-party services, the competitive marketplace means that a review may be very opportune. Your current provider may have potential alternative solutions to meet your needs, but, as has been illustrated by surveys in recent years, may not be very adept at initiating a discussion!



Whether engaging with potential new/alternative suppliers or with an incumbent, it is essential that in order to develop an optimised, cost-effective and sustainable solution, the supplier has as much information as possible on your current and anticipated future logistics requirements. Our experience is that the greater the detail, with appropriate microanalysis, will lead to the best offerings. When selecting a logistics provider ask what data it needs, rather than just supplying what you have got. The information that you provide is critical in deciding your service and delivery profile and, ultimately, a solution tailored to your exacting needs.

Data of this nature means that a professional supplier is able to make a cost provision with the minimum of assumptions that reduces the need to factor a risk percentage into pricing. Conversely, we have been involved with clients who have invested significant resource in a large amount of data analyses and processing, which is then presented in a format of great interest to a financial director, but of no practical use to a logistics service practitioner attempting to provide solutions proposals.

Sellers of logistics services will frequently suggest that an advantage of outsourcing is that it removes the need for internal specialist staff with specific legislative knowledge and qualifications necessary to run an operation. However, removing such an in-house resource leaves the client company in a weaker position that suppliers could take advantage of if circumstances change. One advantage of using a specialist consultancy is that it can provide specialist back-up on the client's behalf on an ongoing basis, and provide an objective view of the cost and service implications if change is genuinely required.

Today's economic situation means that there is a particularly competitive marketplace for logistics services, so there are good cost-saving opportunities when providers are prepared to accept lower margins in order to drive volume. However, there is always someone that can do it cheaper; but you have to ask yourself: is his or her proposition sustainable?

You need to understand how they can achieve that price reduction, particularly in the current competitive marketplace for new business. Conduct research to see whether what they are offering stacks up against industry data. You do not want to sign up a third-party logistics provider only to be told further down the line that 'they cannot do it for that price any longer', forcing you to make a change, which could cause significant disruption to your business. Equally, you do not want great pricing at the expense of deteriorating service levels.

When you have developed a short-list of suppliers, take the time to get beyond the sales staff, visit real operations and talk to the operational personnel. It is at the operational level where your products will be handled, and where the essential interface is between the supplier and your customers. You need absolute certainty that your products will be handled correctly, accounted for properly, and delivered punctually and politely. How will they deal with their mistakes – and also the problems that your company may cause from time to time?

Undertake some basic research on your potential suppliers' financial position. Current and recent year's accounts are available to download at a nominal fee from the Companies House web site. Remember that profit is not everything in assessing a company's current position. In today's financial climate, a good fixed and current asset position will give more comfort in establishing whether the supplier has a longer term sustainable future, even if there may be short-term losses attributable to volume reductions. If there are doubts, engage in a full and frank discussion with the supplier.

Be careful not to enter long-term contracts that are not flexible, as this puts the risk factor firmly back in your lap – for example, if you lose business, you do not want to be in a position of having a long-term liability around your neck by having to pay a lease on an empty warehouse. In my experience smaller and medium-sized providers are more flexible when it comes to contracts, so do not restrict the beauty parade to just the big boys. Consider how your business's logistics needs may change in response to market circumstances over a medium timeframe, and then probe the supplier to determine if it has the structure in place to adapt – based on your judgement, not theirs!

However, if you enter into contracts that provide flexibility, and are priced entirely on a unit cost basis, your costs are directly related to changing volumes and order characteristics, and the logistics costs associated with your own product pricing becomes less of a guessing game. This permits closer defined profitability assessment of individual customers.

Finally, find out what the supplier's customers think about it. If possible, determine customers who have similar needs to yours: not necessarily the same products, but similar service demands or industry characteristics. It is often more revealing to talk to the customers that the supplier does not mention when they are trying to sell their proposition.



New fleets are a significant investment, but before making the decision to outsource, it is critical that you satisfy yourself that you cannot do it more efficiently in-house





About the author

Ken Rogers is a consultant with cost reduction consultancy Expense Reduction Analysts. Expense Reduction Analysts was founded in the UK in 1992 and today is the world's largest consultancy focuses on reducing operating costs and retaining profit by realising optimum value from suppliers.

Further information, web site: www.expense-reductionanalysts.com

Further information

For more information about outsourcing, why not join our Outsourcing & Procurement Forum? See our web site www.ciltuk.org.uk for more details.



When you have developed a short-list of suppliers, take the time to get beyond the sales staff, visit real operations and talk to the operational personnel. Pictured is Aspray Transport's well-organised central hub in Willenhall.

achieve more

distancelearning
college&training



When you choose The Distance Learning College & Training as your training partner you will benefit from senior industry expert tutors and our comprehensive 360° support structure.

NEW discounted fee structure

This unique combination ensures you gain maximum advantage from your course and that you will achieve the highest possible grades.

areas of training

- logistics and transport
- export
- operations management and manufacturing
- purchasing and supply
- leadership and management
- management



To find out more about our new discounted fee structure, and how we can help you to progress your supply chain career

www.dlctraining.co.uk

call us now on
0870 759 8849

