TURNING LOGISTICS NETWORKS INTO STRATEGIC ASSETS

AN INTEGRATED APPROACH BETWEEN STRATEGY AND OPERATIONS TO EFFICIENTLY REDESIGN LOGISTICS NETWORKS
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Economic volatility is increasing on the demand side, due to the need to quickly meet changing consumer needs, and on the supply side, due to the instability of energy/oil and capacity prices. This volatility, together with ever-higher competitive pressures, is placing greater demands on distributors and other logistics operators to optimize their warehouse, fleet, and light manufacturing operations and turn them into a source of competitive advantage.

Working with transport logistics providers, we have identified new strategies for improving competitiveness for operations, with freight and logistics making the difference between scraping by and gaining structural advantage. By viewing the network as a strategic asset, and applying an integrated approach that involves both the operations and sales departments, logistics providers can generate more benefits from existing customer relationships and from product and service innovations. Additionally, companies can derive competitive advantage and create more value by engaging senior management in the strategic decision making process for network management.

NETWORK MANAGEMENT CHALLENGES

Logistics networks have always been complex, and there are plenty of mathematical models, tools, and articles that focus on the specifics of networks. But many miss the “why” of strategic network management; that is, how to achieve effective decision-making linked to company goals. In particular, it can be difficult to determine what might be “wrong” with a network at a strategic level. Over time, strategic focus shifts and new customers, products, and targets become more relevant, which the network may be unable to support because it is still largely managed using outdated operational network KPIs.

In our experience, the barriers to effectively using networks and turning them into sources of competitive advantage are often the culmination of operational, organizational, and managerial factors:

- A missing link between strategic planning and network strategy—often strategic directions are not “translated” for the network, i.e., strategic corporate implications are not understood in terms of how to shift the company’s network strategy.
- Responsibilities for different aspects of the logistics network are too widely distributed, resulting in finger pointing by various levels and departments—e.g., neither operations nor sales can optimize the network in a vacuum.
- Complex cause-and-effect relationships are difficult to unbundle for senior management, and network management tools and processes are too complicated, leading to information overload.

Using the right tools and aligning sales and operations management perspectives, however, can lead to a more holistic view of network configuration based on strategically important metrics, such as profitability by customer, lane, or depot and customer satisfaction and retention levels.
THE IMPACT OF “GETTING IT RIGHT”

An organization that ignores or delays the opportunity to develop its network as a strategic asset is leaving money on the table. There are steps that can be taken, almost immediately, to produce savings for your company, increase revenue as service levels becomes more reliable, and improve longer-term customer satisfaction.

We have developed a methodology (Exhibit 1) to help clients create impactful network management solutions and to understand their strategic issues.

Exhibit 3: Management of a network as a strategic asset

<table>
<thead>
<tr>
<th>Examples of strategic issues</th>
<th>How to strategically manage volume variations?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact of “getting it right”</td>
<td>• Long-term business trends</td>
</tr>
<tr>
<td></td>
<td>• Seasonality effects</td>
</tr>
<tr>
<td></td>
<td>• Unforeseeable demand</td>
</tr>
<tr>
<td></td>
<td>• Client bankruptcy</td>
</tr>
<tr>
<td>What network configuration should the company target?</td>
<td>How to strategically expand the company’s network?</td>
</tr>
<tr>
<td>• Competitive advantage</td>
<td>• Successful integration of acquired companies</td>
</tr>
<tr>
<td>• Greater profitability</td>
<td>• Successful integration of new clients</td>
</tr>
<tr>
<td></td>
<td>• Successful growth/entry into new geographies</td>
</tr>
<tr>
<td>How to manage heterogeneous service level requirements on the network?</td>
<td>How to adapt the network to a changing environment (client footprint, regulation, infrastructure &amp; equipment, etc.)?</td>
</tr>
<tr>
<td>• Greater client satisfaction</td>
<td>• Lower investment/network-related risk</td>
</tr>
<tr>
<td>• Greater control over network service levels</td>
<td>• Greater profitability thanks to optimal cost level</td>
</tr>
</tbody>
</table>

CASE STUDY
MULTI-COUNTRY LOGISTICS FOR THE FASHION INDUSTRY

A logistics services provider serving the fashion industry across 12 countries was losing an average of US $2 million per month. The client set a goal of increasing its network agility to accommodate changing customer needs, the shelf life of fashion products, and seasonality requirements.

Based on the cooperation between the sales and operations departments and the underlying strategic network approach—backed by appropriate tools—the sales management and operations teams developed a collaborative process for improving network operations. This included rationalizing depots, better aligning customers with service lanes, rationalizing transport providers, and increasing truckload utilization on high-volume lanes.

Benefits of the project included profitable customer targeting, network improvements, new product development, and improved forecasting, which helped the company secure depot locations at more competitive rates.
Issues related to network management are not specific to one type of industry or business, and we have been able to implement this approach in a variety of contexts, e.g.:

- Mail and express operators for collecting, sorting, and delivery centers
- Freight (LTL/TL) companies for network-based or dedicated loop operations
- Industrial companies for moving goods across warehouses, plants, and distribution centers

**STRATEGIC NETWORK APPROACH**

Based on our experience in turning networks into strategic assets, we are prepared to assist senior transport logistics executives in analyzing and improving network strategy using a two-phased approach:

**1. STRESS TESTING AND RISK ASSESSMENT**

The first phase is designed to initiate the strategic review and develop some quick wins. Typically within two to four weeks, we review the key components of network costs: treatment of shipments (such as light vs. heavy shipments), automation, efficiency, skill levels, etc. During this stage, short-term improvement opportunities based on products, operations, organization, and competitive reviews are identified and constitute initial successes that can be used to build the case for the transformation program.

**2. BUILDING UP THE NETWORK AS A STRATEGIC ASSET**

Based on the results of the first phase, we pursue a comprehensive strategic network analysis, which typically lasts from 3 to 6 months. During this phase, we work with the client and use its BLUE-net tool suite to design an optimized network management plan, based on investigating:

- Location and nature of bottlenecks
- Product focus scenarios, such as what products could be more profitable
- Options in terms of network footprint and the implications of product mix decisions on the network (for example, “go large” or “go small” decisions)
- Scenarios for longer-term joint operations and sales network strategy
- Scenarios to ensure the support of new network scenarios through the development of underlying organizational capabilities (such as identification of areas that will require more analysis)
- Scenarios for industry consolidation, and potential risks and opportunities for the client’s organization
- Options for longer-term strategic goals and objectives

We then work with the sales management and operations management teams to develop a collaborative process for reviewing and analyzing network data. This not only improves the quality of strategic management decisions but increases customer satisfaction, as the teams can be more closely aligned around customer requirements.
IMPORTANCE OF A STRATEGIC APPROACH TO NETWORK MANAGEMENT

We believe that network analysis and optimization should be more than a quantitative exercise. Instead, a holistic approach is required—one that integrates and aligns a client’s strategic, operational, and commercial objectives with solutions that capitalize on the client’s organizational and financial capabilities (Exhibit 2).

Exhibit 4: A strategic approach

With this approach, strategic network management becomes a source of competitive advantage and value. For many companies, the course correction required to achieve this is to move away from isolated modeling exercises and instead to focus on increasing collaboration within the organization, backed by simpler, yet better fitting tools, ultimately driven by the needs of customers and anticipated changes in markets.

This is a journey that can take your company to a new level, by ensuring your logistics network can support new value propositions, satisfy your most profitable customers, and contribute to the economics of your business.
CONCLUSION

Logistics networks are creatures of complexity that often fall short of meeting the strategic goals of management and the organization. The barriers to turning networks into a competitive advantage include a failure to translate and incorporate management’s goals into network capabilities; horizontally distributed and diffuse decision-making across the network; and overly complex management tools and processes.

However, by using the right management tools and bringing sales efforts and operations management into alignment, the result can be a holistic view and configuration of the network, one that is focused on profitability by customer, lane, or depot and on satisfying and retaining customers.
ABOUT OLIVER WYMAN

Oliver Wyman is a global leader in management consulting that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation.

In the Distribution and Wholesale practice, we draw on unrivaled customer and strategic insight and state-of-the-art analytical techniques to deliver better results for our clients. We understand what it takes to win in distribution and wholesale: an obsession with attracting, serving, and growing customers, constant dedication to operational excellence, and a relentless drive to improve capabilities. We have a track record of helping clients win in this environment, creating real competitive advantage and driving significant growth. We believe our hands-on approach to making change happen is truly unique – and over the last 25 years, we've built our business by helping distributors and wholesalers build theirs.

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