Not just flavour of the month

These days, few logistics firms offer only the vanilla option of transporting goods – their multi-flavoured services can add significant value for manufacturing customers. Laura Cork finds out how these offers are stacking up

Many manufacturers are tightly linked with their logistics providers, with the movers often adding significant value for the makers by offering services such as packing, promotional packaging or even final customised assembly.

Certainly there remain many transport firms that will cheerfully collect your finished goods from the factory or deliver raw materials, for example. But for others, delivering the goods isn't good enough. One firm that has a foot in both camps is the Widdowson Group. It still has a straightforward transport operation, in fact it started out as a haulier in the early 1900s. It has several manufacturing customers and, over the past 20 years, the company has had to expand its offer to incorporate warehousing and other services. "What we have to look at is how we can add value for our customers," says commercial director John Hawksworth. This means changing the face of the business from a transport firm to a logistics provider – driven, in part, by customer demand but also, he admits, by the need to find other ways to make a decent margin.

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"We will still retain and grow our transport offering, because that's always been a specialist part of our business. And, to be honest, if you're good at transport, you can still make the right margin from it. But for the future, what we intend to do is develop further in contract packing and that 'value' side of our business." Widdowson has been offering this service on an ad hoc basis in the past, but 18 months ago it invested to boost this side of the business: "We dedicated a 70,000 square foot warehouse on our main Leicester facility to this, so it is now effectively a processing shop." Hawksworth reckons this is typical of how his sector has to move forwards: "The more you can offer your customers, the more you tie them in to your business."

Proof of these long-term ties comes in the shape of a 15-year old partnership between Bibby Distribution and Lucite International. Lucite makes acrylic-based products including brands such as Perspex and the eponymous Lucite. Bibby operates on site at Lucite's warehousing and distribution facility in Blackburn, three miles from the main manufacturing plant. From here, product is despatched worldwide on a daily basis, both by truck and by container. Bibby uses its own vehicles for Lucite's UK deliveries and its international logistics division handles deliveries further afield whether by road, sea or air.

Once product comes off the production line, it's taken from the Lucite plant, virtually as raw material, to be stored by Bibby Distribution. Customer orders are then called off by the Bibby team, picked, cut to size on site and then packed and distributed.

"We act as a global distribution centre for Lucite, with multi-lingual members of the contract management team able to handle communication with other parties, such as hauliers, in different parts of the world," explains Ian Firth, Bibby's divisional director.

Vicki Hall is the contract manager for Bibby Distribution. She says that her team has worked closely with Lucite to create a culture of continuous improvement: "Over the last six years, we've implemented three projects, targeting areas for potential cost savings and identifying better distribution routes to deliver more efficiency. We pool ideas to increase productivity and reduce costs." So close is the relationship, in fact, that Lucite invited Bibby to sit in on project development work for a new IT system: "The fact that Bibby was able to contribute towards evolving a bespoke IT system for Lucite, rather than being presented with a fait accompi and expected to come to grips with it, speaks volumes about the closeness of the relationship between our two companies," adds Hall.

Of course, any manufacturer in the retail supply chain knows only too well the stringent demands placed upon them by the major retailers.

Product forecasting and production is bread and butter stuff for manufacturers, it's what happens thereafter that is becoming more complex, as Jeff Anderson, Wincanton's head of manufacturing explains: "The problem is the additional complexity and cost of ever-changing packaging. FMCG companies report that between 15 and 50% of all basic products are now being customised or reworked... with the introduction of the shelf-ready packaging concept, this will rise still further. It's also prompting complete redesigns of outer packs and new pallet formats to ease the product's journey from stockroom to shelf."

Anderson says that this increased requirement for specialist packing is too great a diversion for manufacturers – and sending product out of the supply chain to another party can be fraught with difficulties. "FMCG manufacturers are increasingly turning to their logistics provider to solve the dilemma," he says. Helpfully, he points out a few criteria that manufacturers should expect to find: the ability to offer local services that meet nationwide needs is one. "Also, whether the requirement is for a dedicated operation on the production site, or access to a multi-user centre within a warehouse, the 3PL should be in a position to streamline the packing supply chain." This means identifying ways to improve efficiency and consolidating co-packing and reworking operations – cutting lead times, complexity and, ideally, cost. What's more, the provider needs up-to-date knowledge of packaging materials, of the latest legislation and of new technologies.

"At Wincanton, we've found that by incorporating packing, reworking and inspection activities into traditional warehousing services and by investing in dedicated systems and facilities, demonstrable added value has been achieved in our customers' supply chains."

Close-knit operation

Achieving tight integration with the customer is something that NYK Logistics knows all about. Its contracts in the automotive supply chain, for example, include many where NYK carries out a range of sub-assembly manufacturing activities for tier one suppliers. For Saint-Gobain Sekurit, for example, NYK operates a dedicated service centre (accredited to TS16949 standards) at Ford's Halewood plant, where it undertakes tailgate glass assemblies and modification of rear door glass to meet the specific requirements. Under the agreement, NYK Logistics manages the supply of glass into the facility from five manufacturing plants in three countries, plus components from 15 other manufacturers across Europe. NYK liaises with the manufacturing plants and generates and provides daily and five-day replenishment forecasts to each of the factories.

On arrival at the plant, NYK segregates the product by type and carries out visual quality checks. Six variants of windshield are then picked and sequenced down to the production line, while backlights and front door lights are delivered in pallet quantities. The NYK team of 20 works on a twin shift system to mirror production.

If further proof were needed of the tightly knit role of logistics providers such as NYK, consider this fact. As a lead logistics partner to Ford's

Premier Automotive Group, NYK has full responsibility for the inbound supply of components from point of origin to point of fit on the assembly line – this means that in all the PAG UK manufacturing plants, the first PAG employee to handle a component is the person who fits it to the car.

Work in progress

It's clear that most logistics providers are making it their business to keep ahead of the game and develop new ways of working that will lock in their manufacturing customers. If any are feeling slightly smug, however, they should perhaps look away now. For it seems that certain manufacturers feel the pace of change shown by logistics firms just isn't fast enough.

Paul Adams is supply chain director for pharmaceutical organisation Smith & Nephew. Based at the Hull headquarters, he has been leading a comprehensive change programme – called Integrated Business Planning, or IBP – for Smith & Nephew's wound management division, carried out with the help of business consultancy Oliver Wight. This

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three-year exercise (to date) has been both broad and deep, and has included making significant changes to the division's operations, including its supply chain. Indeed, the change has gone far beyond a process-level and means that now the culture at Smith & Nephew is one in which people no longer accept 'the norm', but are becoming proactive and challenging.

Adams, himself, is leading from the front in this sense and wants to challenge the status quo with logistics providers in the healthcare sector. He says he'd "love to get hold of some of the logistics companies and shake them". These firms are not listening, he argues, and warns that "their traditional model... is going to completely run out of date". He points to the example of the US, where there's been a growth in large wholesaling operations, called 'pre-wholesalers'.

These are probably not the sort of business you'd imagine, he says: "They're not a cash and carry operation, they are highly technology-based businesses with the automated capability to offer broad services to the healthcare industry."

Could do better...

Cap Gemini's latest global survey on third party logistics reveals declining satisfaction with 3PL providers' IT capabilities. Customers say they expect continual improvements in service levels and IT capability, but they are unconvinced this is happening.

The findings show that price is still the primary factory when choosing a provider (87%), with the second being quality of "tactical, operational logistics services" (85%).

What's different, he says, is that their operating model focuses on services for the customer – the patient – not the manufacturer. It's not a case of making profit on product, though. One of the largest pre-wholesalers in the US, says Adams, is a listed company with a $38 billion turnover in pharmaceuticals. It makes minus 1% margin on the products – but collects its cash two weeks before it pays suppliers. On a turnover of $38 billion, it's not hard to see how that keeps the shareholders happy. What you may expect to see in a low-cost business, for example, is large buildings with no windows – but I can tell you it's not. Its technology is so advanced that it can offer services like patient-level invoicing and supply, and they can do this every day, several times a day if necessary."

Europe is years behind the US in this sense, says Adams, but here, a couple of firms – notably Alliance UniChem – are paving the way and trying to build similar capabilities. So why aren't the logistics providers fighting their way to the front of the queue to lead the pre-wholesaling revolution this side of the Atlantic? "Really, they don't want to get into buying, selling and invoicing in this way. There's a general resistance to moving the model into becoming a bona fide business, where they literally deal, commercially, with the channel rather than act as agents or service providers."

Early shoots of change may be apparent, with announcements like that earlier this year of DHL and Novation teaming up to take over the NHS Logistics contract for the next 10 years. For DHL, this is the sign of a company starting to wake up to the fact that it has to do things differently, says Adams.

But they're just not delivering the goods for firms like Smith & Nephew, he argues: "For those of us that are under pressure to deal with the issues of price challenges and other commercial issues, service and the ability to get product penetrated into a market is critical."

In some senses, logistics providers have come on leaps and bounds in recent years, "but they're not moving quick enough. We need them to be willing and able to do so much more. We need broader services, we need faster, more responsive, more technologically capable companies that can help us reach the patient rather than just deliver to the hospital." ■