Onward in the brave new world of logistics

Next week the Council of Logistics Management will hold its annual meeting in Toronto. The meeting traditionally reflects the changes that have transpired in the logistics industry. CLM was founded in 1963 as the National Council of Physical Distribution Management. But what was once a small, intimate gathering has swelled to a sold-out and over-subscribed event.

In the late 1970s, logistics as its own discipline did not exist. Corporations allocated specific resources for traffic management, warehousing and inventory. Traffic management first encountered corporate visibility as deregulation took effect by traffic mode. Very often, traffic-management responsibilities were segmented along the same modal lines.

Then, in the early 1980s, warehousing and inventory captured the interest of senior management. Double-digit interest rates forced companies to acknowledge the financial drag of carrying too much product. The advent of corporate raiders, who would dismiss poorly performing companies, clarified the price of failure to address such issues. Furthermore, the success of Japanese manufacturers using such techniques as just-in-time manufacturing clearly demonstrated the financial benefits available to a well-tuned logistics strategy.

In the early 1980s, corporations frequently relied on internal expertise to manage logistical functions. Often, some sort of organizational realignment put traffic management, warehousing and inventory under unified control.

Companies started coordinating inbound and outbound movement, and taking advantage of contractual agreements made possible by deregulation to reduce the number of carriers to a core group. Logistics was a means to reduce expense.

About 10 years ago, a confluence of factors began to change the role of logistics in major corporations. Quality initiatives and reengineering were forcing companies to evaluate entire processes, rather than individual components.

Supply-chain management — the integrated control over goods, information and money — followed. Supply-chain management represented an attempt to develop a unified process by which goods and services would be produced for customer sale and consumption. Logistics was being considered as more than simply an opportunity to minimize costs; it was developing into a core component of corporate profitability.

At the same time, the concentration on core competencies increased. More sophisticated financial tools, such as activity-based costing (ABC) and economic value added (EVA), entered the corporate mainstream. And management became focused on the return of assets. Outsourcing allowed an organization to focus on its core competencies and customers, and to take advantage of greater operational flexibility.

The desire for supply-chain improvements that could support overall corporate performance sent many companies for help. As the scope of operations grew to be global, outsourcing became a means to leverage the capabilities of third-party logistics suppliers. It has been estimated that more than 60% of Fortune 500 manufacturers used some form of third-party logistics services (3PLs).

Using 3PLs provided a company the opportunity to improve its financial position by reducing some operating and capital expenses. While many 3PLs added minor assembly operations, they still concentrated primarily on core strengths: transportation and warehousing. Outsourcing offered initial reductions, but they were often one-time and could not deliver the desired ongoing savings. Well-publicized divorces between 3PLs and customers became more common.

Some recent surveys suggest that the rush to employ 3PLs has subsided. The suggestion now is to develop a lead logistics provider (LLP) or fourth-party logistics provider (4PL). Just as Pat Riley trademarked “Threepeat,” Andersen Consulting has staked out “4PL.”

A 4PL is viewed as a strategic partner, rather than a tactical one like the 3PL. A 4PL is a supply-chain integrator that synthesizes and manages the resources, capabilities, and technology of its own organization with those of complementary service providers to deliver a comprehensive supply-chain solution.

The skill set to be a 4PL differs significantly from the type of operating expertise needed for logistics outsourcing. Strategy consulting, business-process reengineering, technology integration and people-management capabilities are often cited, as are global capabilities and the ability to manage multiple service providers.

For these reasons, management-consulting firms are seeking to become the leading 4PL providers. Their staffs — which had been installing enterprise resource planning systems (ERP) — find themselves with free time, as most installations were done for Year 2000 reasons. Logistics represents a natural product extension, and the sales pitches seem to be working.

A recent Lazard Freres survey on logistics outsourcing ranked consultants as the most likely choice to provide integrated logistics. This logistics business will not be relinquished lightly by the global logistics companies that have been market leaders. Many are starting their own consulting practices and are seeking to leverage their own strong customer relationships. And several already provide consulting services in the areas of compliance, trade financing and insurance.

Logistics is not only in the mainstream of corporate life, but it also has become an area of concern for CEOs. CLM has done a lot to assist these developments. We should all expect some lively activity in Canada next week.

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