Background

CASME RoundTable meetings on the topic of logistics management and trends were held in Sydney, New Jersey, Tokyo, London, Shanghai and Sao Paulo during a period from April to June 2018. The following main topics were discussed:

- Scope and strategy
- Digitalisation in logistics
- Warehousing management
- Outsourcing using 3PL and 4PL services providers
- Freight management
- Future trends.

This Digest provides the key points, good practices and insight into future trends identified by CASME members around the world. Full notes from each meeting are available on the subscriber-only Resource Centre.

Scope and strategy

- The scope of logistics typically includes:
  - Inbound and outbound transportation
  - Warehousing
  - Customs clearance
  - Third- and fourth-party logistics (3PL & 4PL) services
  - Cold chain logistics
  - Land, sea and air freight
  - Network design for the movement of freight.

- Transportation and warehousing are the most expensive components of the category, particularly when time and temperature considerations, such as cold storage and shipping, are required.

- Network design through the use of specialist personnel and technology is effective in the optimisation of transportation routes and logistics assets. A centralised control tower may be included within the scope of contracts with the outsourced 3PL and 4PL providers, to manage all freight movements.

- Procurement's role is to support the stakeholders in the definition and management of the company's logistics strategy. This involves understanding the company's business structure and operations, as well as the scope, volume and seasonality of the logistics requirements. The role involves managing requests for proposals (RFPs) and contracts, conducting market research and analysis, investigating the best practices and technology being used by other companies, and providing this information to the stakeholders.

- Procurement's primary objectives are to ensure the quality of supply and delivery, and achieve risk management, regulatory compliance and cost savings. The objectives may also include the development of long-term strategic partnerships with logistics service providers and innovation through requests for solutions (RFSs).

- A global, regional or local logistics strategy may be applied, depending on the service requirements, as well as the locations, geographic scope and proximity of the client and the supplier operations. The strategy may be globally-led and executed on a regional and local basis by teams located in the appropriate areas.

- Benchmarking is used to evaluate the performance of the incumbent logistics services providers against others in the market, for which internal and external sources of information may be used, such as Chainanalytics and 4PL providers. In addition to pricing, the criteria for benchmarking includes: delivery lead times, damage ratios, safety incident rates, on-time loading, on-time delivery and seasonal capacities.

- It can be difficult to maintain a competitive logistics strategy when it is impacted by variable regulations and limitations, including the import and export taxes between countries, especially for Europe and the USA. Procedures can be implemented to manage the chain of responsibility and the end-user service agreements, as well as the provision of stakeholder training regarding their responsibilities.
• The impact of Brexit is expected to include substantial increases in taxes and administration required by customs. Alternative shipping lanes could minimise the effect of some of these changes; although new security risks may be introduced.

• The key characteristics that are evaluated during the supplier selection process include:
  o Service costs, capabilities and capacity
  o Experience in specific industries
  o Geographical coverage
  o Compliance with regulatory and legislative requirements
  o Safety and security standards
  o IT systems and data privacy
  o Risk management
  o Flexibility and scalability to manage changes in demand
  o Financial stability
  o Environmental/sustainable practices
  o Innovation
  o Current and previous clients, and the reasons for any recently terminated contracts.

• Consultants may be effectively engaged to assist with strategy development, benchmarking, supplier selection and contracting.

Digitalisation in logistics

• Examples of the effective use of digital technology and real-time data include the ability to:
  o Track the location and delivery of goods
  o Identify when vehicles require maintenance
  o Monitor the performance of drivers
  o Optimise the use of transport assets using dynamic route planning
  o Maximise the efficiency of space utilisation in warehouses and distribution centres
  o Automatically control and monitor the temperature of goods in storage and in transit.

• Transportation and warehouse management systems (TMSs & WMSs) are the principle digital solutions that are currently being used to provide global, regional and local visibility and tracking capabilities, which are important in the management of the storage and transportation of goods. Other digital technologies being used in the logistics category include telematics for tracking road transportation, radio frequency identification (RFID) and global positioning system (GPS) technology for tracking inventory, and automated guided vehicles (AGVs) for efficient warehousing operations.

• The potential usage of blockchain technology in the logistics category is being considered; although the applications are not sufficiently understood, and there is a significant cost associated with proof-of-concept trials.

• To make blockchain technology effective, a high level of data quality and system sophistication is required across the organisation and the supply chain. The Blockchain in Transportation Alliance (BiTA) provides standards, education and regular reports regarding blockchain and developments in its usage within the freight industry.

Warehousing management

• A WMS is essential for the efficient management of warehousing operations, because it has the important function of tracking stock through the warehouse. For companies that operate on a business-to-consumer and/or e-Commerce basis, the WMS needs to have the necessary functionalities. One of the challenges of implementing a WMS is that up to nine months may be needed for testing before the system goes live. When evaluating a WMS, it is beneficial to conduct time and motion studies to assess the system’s material handling capabilities and estimate the operational costs.

• Other technological developments, such as right-sized packaging, automated guided vehicles (AGVs), robotic layer picking and voice-picking tools, are improving the efficiency of warehouse operations.

• The pricing models for warehousing services are often fixed cost, plus transactional costs based on the number and types of operations being performed. The pricing model may be based on monthly volume and transactional requirements. To manage costs and monitor service delivery, one approach is to
create a schedule of critical activities that need to be conducted at specific times. Open communication between the client and supplier companies is necessary to encourage them to suggest new ideas that may be beneficial to both parties.

• Procurement may attempt to extend supplier payment terms as a method of achieving cost savings, but suppliers often need to be paid within a shorter term. This may be facilitated by applying a supply chain financing model, in which the client company partners with a third party, typically a financial institution, to arrange for terms that enable payment to the supplier in a short amount of time.

• Contracts with warehousing providers generally range from three to five years; although some, such as cold storage contracts, may be longer due to the high cost of switching suppliers. Contracts also typically include requirements regarding compliance with the client company's regulatory, corporate social responsibility (CSR), sustainability, human capital and environmental policies. The responsibility for compliance also applies to any subcontractors that may be used in the delivery of services to the client company.

**Outsourcing using 3PL and 4PL service providers**

• The advantages of outsourcing logistics requirements to 3PL and 4PL providers include:
  o Opportunities to optimise the expertise, best practices and technological capabilities of 3PL and 4PL companies to increase the efficiency of supply chain operations
  o Opportunities to profit from 3PL/4PL innovative process, service quality and technology improvements
  o Reducing the operational responsibilities of the organisation, enabling the business to focus on its core competencies and product delivery
  o Reducing the need for capital investment, releasing funds for other investments
  o Flexibility and scalability to increase or reduce volume as required
  o Visibility of costs, data and tracking information provided by the supplier's IT systems.

• Best practices that can be applied to manage the compliance of third parties with the chain of responsibility requirements include incorporating standards and clearly-defined specifications within the contract. These should include the service delivery and auditing requirements of the client company to enable the effective monitoring of compliance from the outset. Master service agreements (MSAs) may be incorporated into 4PL contracts to help ensure that the service provider delivers the required standards and continuous improvements.

• The most effective contract structure for 4PL services is to agree a management fee and for the shipping rates to be defined as pass-through costs. The negotiation of rates with multiple carriers by the 4PL provider on the client company's behalf saves the internal teams a significant amount of time and effort. From a risk management perspective, it is good practice is to negotiate separate contracts with major carriers, to enable the use of alternative options when necessary.

• Logistics services providers being used include: C.H. Robinson, DHL, J.B. Hunt, and Transplace.

**Freight management**

• The decision to transport goods using full truck loads (FTLs) and less than truck loads (LTLs) is based on the size and weight of the freight, the distance it is being transported, as well as legal and regulatory restrictions for transporting certain materials together. The contract conditions and costs for FTLs and LTLs differ according to these factors. A TMS can be programmed to automatically calculate the most suitable transportation provider, based on the specific type and size of a load and the lead time required by the client.

• Air freight services are sourced through freight forwarders. Contracts are two to three years in duration and contain standardised terms, with the focus on service levels and KPIs. The variable cost of jet fuel is managed by establishing an index rate at the beginning of the contract with an associated variance limit; the index rate is reviewed monthly for potential adjustments.

• The strategy for sea freight services is similar to that for air freight. Freight forwarders are used, with two to three-year contracts, and if possible, the same forwarder is used for both air and sea freight.
Future trends

- Future trends expected in the logistics category include:
  - Continued consolidation of sea freight carriers
  - Automated and digital processes replacing manual labour in supply chain operations
  - Increasing percentage of outsourced logistics operations, and greater consolidation of requirements with 3PL and 4PL providers
  - More use of e-Sourcing, e-Tendering, e-Auctions and e-Trading
  - The shortage of truck drivers is expected to continue. Although driverless vehicles may become an alternative option in the future, the uncertainty regarding safety will delay their introduction.

- With the increasing use of apps, the Uber Freight model is regarded as being a potential disrupter in the logistics market. However, this type of service is not considered to be suitable for transporting controlled products that necessitate high standards of security, quality and regulation.

Resource Centre Links

The following are links to the full meeting notes for each region:

- Asia, Shanghai
- Asia, Tokyo
- Australasia, Sydney
- Europe, London
- Latin America, Sao Paulo
- North America, New Jersey.
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Important

These notes are a summary of the facilitated discussions held between the delegates various meetings. We recommend that any references, particularly to legislation, or recommendations contained in these notes are cross-checked by the reader in order to verify their accuracy prior to being acted upon. Any third party organisations named in this document are not recommendations but are examples of companies mentioned during the meetings that might be considered when tendering for appropriate goods or services. These are not intended to form an exhaustive list and it is likely that other organisations not listed may also provide similar goods or services.

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