In association with DP WORLD London Gateway

It's all about flexibility

Supply chain professionals face daunting challenges in terms of optimising supply chains, reducing costs and saving on emissions. It led to a vigorous discussion when we asked a group of leading supply chain professionals to consider some of the key issues at a round table sponsored by **DP World London Gateway**.

Many companies would be a lot less profitable than they are if it were not for the flexibility in the supply chain and in these harsh economic times that flexibility is being pushed to its limits not just in the UK but globally.

The growth of extended supply chains with companies shifting manufacturing to the far east has put a renewed focus on the deep sea component of a product's movement from supplier to end user. And that in turn is forcing companies to think hard about where to bring goods into the UK and where to store and process them. Get those choices wrong and it can result in a significant cost penalty and competitive disadvantage.

Successful companies can no longer work in isolation, business is global whether you like it or not and the road to creating order out of the chaos of that global business is the supply chain.

Peter Ward of DP World London Gateway is well aware of the challenges that that poses; from client expectation, government restrictions, financial constraints and even environmental concerns: "For business to meet these increasing consumer demands, it's all now about flexibility."

In the last decade there have been big changes in commerce and none more so than the growth of the internet and subsequent rise in consumer expectation especially in terms of wanting it now, says Adnan Khan, senior business analyst of Screwfix, the UK's largest multi-channel supplier of trade tools, plumbing, electrical, bathrooms and kitchens. "From a customer point of view it has changed a lot: where they used to go to the stores and shop, now it is all ecommerce and going on line to get things quickly and they expect that to happen in the supply chain too."

Screwfix is expanding massively within the UK adding a further 200 stores to its current 245 in the next three years. Supporting that, says Khan, from a supply chain point of view is going to be a challenge. At present the stores are sustained from a single distribution centre in Staffordshire where it can guarantee 24 hour delivery to any place within the country.

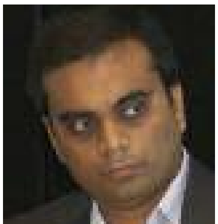
Richard Martin, logistics director of Speedy Asset Services which supplies equipment and support services to business such as the construction industry, agrees. His company is two years into a five year consolidation to reduce 326 depots to just 12 RDCs. He also notes that as well as wanting goods quickly the customer does not want to pay for the privilege. "You get all this free delivery advertised on the internet and the suppliers come to the transport companies to take that margin – we've all got to work together. It is really difficult equation to square."

As well as a reluctance to pay for speedier delivery, customers are equally keen for the logistics solution to take away unwanted packaging and in some cases even the goods that are being replaced.

Mark Foscoe of Mitsubishi Electric Europe says his company has a policy of picking up old air conditioning units even if they are competitor products when they sell a new one. This inevitably involves two trips as you cannot remove and replace a unit on the same day as the old unit will be in use while the new one is fitted. "As I see it society will expect more and more. Joe Citizen doesn't want to be bothered about recycling, he just wants someone to come along and just take it for him."

Meet the panelists


Mark Foscoe, group logistics manager, Mitsubishi Electric Europe.


Adnan Khan, senior business analyst, Screwfix Direct.


Martin Palmer, business development director, Norbert Dentressangle.


Andrew Berry, supply chain director, Pace International.


Richard Martin, Speedy Asset Services

21st Century port

Opening next year, DP World is creating London Gateway, the UK's first 21st Century deep-sea container port and Europe's largest logistics park 25 miles east of central London. With its six berths and the capability to handle the Ultra Large Container Ships the London Gateway port will have the best tidal window access for deep-drafted vessels and a capacity of 3.5m TEUs per annum. Next to the port will be Europe's largest logistics park, providing some 9.25m sq ft of accommodation.

Indeed Sue Davey of Cochlear, a global leader in implantable hearing solutions, says: "These days you have to have two models B2B and B2C and you have to be agile. They want next day delivery and with packaging on top of that it is challenging. In the UK you have got to minimise packaging to the medical centres and hospitals but you have still got to get it there safely. Our product is expensive and technical – it's a hearing implant but we have to minimise the packaging because our customers have to pay to get rid of it. They want you to minimise it or to take it back. We use UPS as a partner and that helps."

All these demands and pressures make the last mile as expensive to deliver as it is to get the product shipped from the point of manufacture, in a country such as China, in the first place.

"To meet that customer expectation of having what they want when they want it is a real additional cost and not just in financial terms but environmentally as well," says Martin Palmer of Norbert Dentressangle. "Equally as interesting they don't want to pay for that either."

While the advent of internet savvy consumers puts pressure on one end of the supply chain the movement of manufacturing in general to the Far East has added it to the other. It takes a long time to get product from China and the Far East to the largest markets such as Europe and the Americas. For companies such as Pace International, the world's largest set-top box supplier, that is compounded by the fact that the life span of a product is only 12 – 18 months.

Supply chain director Andrew Berry says that his company has to seek flexibility through the consolidation of all its operations through 4PLs to aid its expansion. "We have so much more of a geographic spread we need the flexibility but we haven't got the scale to solve that problem so we need partners who can give us that flexibility whether its air, sea, road or rail that's where we are looking to have resilience in the logistics sector."

In addition, due to the nature of Pace's business and the short shelf life of its products, Berry has to ensure the resilience of the supply chain to point of manufacture as well as delivery. This year the company has had to deal with supply chain issues due to the flood in Thailand as well as the Tsunami in Japan luckily the company has alternates for all its commodities.

"To have resilience you have got to have flexibility, but you can't accommodate for natural disaster. You cannot predict it, you just have to have the flexibility to say that if that happens there then you can do this over here – it's global flexibility."

Ward adds: "Successful companies are not looking to have everything in one place. It's about having some 'plug and play flexibility' in multiple locations such as in South China, Dubai and the UK. Companies need to flex inventory on a global basis. This is a big change - until fairly recently it was build a big shed and manage from one point."

As well as these challenges over the last decade there is also the need to be sustainable or at least to be seen as more environmentally aware. Foscoe, as group logistics manager, is helping to spearhead sustainability throughout the global supply chain at Mitsubishi Electric.

Foscoe says: "Our manufacturing guys will be looking at our manufacturing strategy and to support

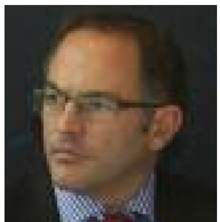
Suzanne Davey, head of logistics, Cochlear Europe.

Charles Meaby, commercial director, DP World London Gateway.

Tim Johnson, director - industrial & logistics, Jones Lang LaSalle.

Peter Ward, cargo supply chain commercial manager, DP World London Gateway.

David Mellon, manager procurement - indirect, Coca-Cola Enterprises.



Mike Carter, Salehs LLP

that I will be looking at how we get the distribution structured to get the products delivered to the end customer. It is the selling of the product and ultimately delivering it that is going to drive the business and obviously we are going to look at cost but we also look at the environmental impact.

"As logisticians we have to look at the question of sustainability, in particular the type of vehicles we are using. We are consuming more and more fossil fuels, we are eating up the oil and coal and it isn't being renewed at anything like the pace at which we are consuming it. So we have to look at technology. What kind are we using to deliver our products? Are we looking at sea or air? Planes are expensive and consume large amounts of fuel but they are quick. We have to balance all these factors before we make a decision. We have moved away from airfreight to the sea. It takes longer and adds a lot of inventory to the balance sheet which is a cost, but it is cheaper and more environmentally friendly."

The unfortunate problem is that environmental initiatives often have long payback times and as Martin notes: "While the economy is depressed it is tough enough out there without adding more costs to make the company green. It is a difficult pill to swallow even if it is the right thing to do. At the end of the day the shareholders demand a return on their investment. Investing in being green and then not paying out the share dividend will not go down well with investors."

One of the key features of what we are delivering at London Gateway is this portcentric logistics solution.

However, says Palmer: "We are lucky most things that are environmentally sound also help people save money in the long term. Those drivers are often common."

Business is more focused than ever on creating that flexibility in the supply chain, but when it comes to warehousing flexibility becomes harder. Buildings are expensive to construct, to fit out and certainly in the UK the onerously long lease terms mean that companies can find themselves stuck in the wrong location as business strategy changes to meet financial challenges.

Location becomes key. It is not just about delivering the product it is also about taking goods and waste back. An ideal location will be close to the end consumer where there is a good variety of transport routes and there is space for manufacture and storage.

The growth of extended supply chains with companies shifting manufacturing to the far east (notably China) means that ports are becoming much more important – not simply as entry points, but as centres for logistics.

Ward says: "One of the key features of what we are delivering at London Gateway is this portcentric logistics solution. Our main focus is those companies that are trading internationally where there is a benefit to be gained from having some logistics activity at the point of entry or exit.

"We will have the best part of 10 million sq ft of covered space and we already have got three or four schemes well on the way now for board approvals. We are very conscious of that those big users can identify the opportunity but if we aggregated the top 10 importers in the country they'd still be less than 10 per cent of the overall market. This trading nation is just a conglomeration of SMEs. There are big guys out there but there are thousands and thousands of small guys too, and what we are aiming to do as DP World London Gateway is taking the funding and developing risk to build a 350,000 sq ft common user building to enable SMEs to have the same access and same benefits as the Tescos, M&S's, DHLs and Norbert Dentressangles of this world.

"Not everyone has a requirement to go on a scale like those companies but there is a lot of the market out there that want flexibility, the plug and play facility to conduct a more seasonal business. This building will facilitate that and enable that trade through London Gateway."

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Already, DP World London Gateway has been in talks with the CEO of Brompton Bikes, which has a manufacturing plant on the west side of London. The company is looking to the opportunity to take cost out of the supply chain on a managed inventory basis to the manufacturing site and direct from port to site.

Mike Carter of Salehs says this sort of thinking is the way forward and adds: "Consolidators will take up this kind of space and will be able to offer the savings direct to the SMEs and provide the flexibility that business needs."

The rise in importance of portcentric logistics is not just about sea freight, it is also about onward transport both import and export. The Asda import centre on Teesside is estimated to save over two million lorry miles a year. Moving goods out by rail saves money, and also boosts green credentials.

DP World London Gateway commercial director Charles Meaby notes: "Rail works from nodal points where you're making a change in transport mode. The rail we have at London Gateway will service very long trains - something in the order of 70 containers, craned onto a single train which is then moved out to other inland rail terminals situated throughout the UK, closer to the customer.

Tim Johnson of property consultant Jones Lang LaSalle adds: "Ten years ago this would have been impossible, the infrastructure was just not there, but now you have sites across the UK that are rail connected and we are finding that we have occupiers who want to move goods from warehouse to warehouse by rail because they have rail connected buildings."

Consolidation

In addition, says Meaby, up until recently rail operators were inflexible and expected clients to take whole trains. "There are only a very few customers out there who have 30 or 40 containers to move at any given time. But now rail freight operators such as DB Schenker are looking at unitised product so a nodal point where goods are being exported and imported makes a good base as it is far more likely that a whole train of containers can be consolidated from such a clustering point for onward movement."

Meaby thinks that up to 33 per cent of the activity at London Gateway will be moved by rail when the port is up and running. Intermodal rail terminals will be provided within both the port and the park, along with tracks to a number of directly rail served buildings, where specifically required by customers. The two rail terminals in the Port will primarily handle deep-sea containers.

The park rail terminal will also be equipped to handle European containers and swap bodies for UK domestic and continental European flows, as well as deep-sea containers. Local rail connections with London Gateway will be enhanced by the double tracking of the Thameshaven branch line, which links the port to the main rail network at Stanford-le-Hope. There is also rail access to the channel tunnel, as well as the West Coast Main Line, for the Midlands, North West England and Scotland, and the East Coast Main Line.

Intermodal trains of up to 34 standard wagons will be able to be loaded and unloaded at the port rail terminals, which will be located immediately alongside the port container handling areas. Equivalent lengths will also be serviced at the park terminal by splitting trains in the reception sidings.