

# RESULTFOCUSED

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## What actions are you taking to drive competency development?

By Anton Nieuwoudt

According to the The World Bank, 2012 (Logistics Performance Index: Connecting to Compete 2012) ‘... a country’s ability to trade globally depends on its traders’ access to global freight and logistics networks. And the efficiency of a country’s supply chain (in cost, time, and reliability) depends on specific features of its domestic economy (logistics performance). Better overall logistics performance and trade facilitation are strongly associated with trade expansion, export diversification, attractiveness to foreign direct investment, and economic growth.’ South Africa was ranked twenty third in the world in the 2012 World Bank assessment. Our lowest ranking across the four evaluation criteria was twenty fourth for ‘Logistics quality and competence’. There is thus a clear demand for the development of

logistics competency at all levels of the organisation.

The challenge however, lies in the ability of the organisation to identify the critical gaps in skills and competencies, and developing strategies to bridge these gaps effectively and efficiently.

Charles Dey, a well know and respected expert in the field of logistics training and competency development, highlighted on his blog that ‘...investment in training thus provides today’s supply chain manager with a vital competitive edge and there is a huge pool of young people out there who are hungry for development.’

Competency development is the responsibility of everyone in the organisation, and should be an integrated part of the performance management process at all levels. What actions are you taking to drive competency development in your

area of responsibility?

In this edition of **RESULTFOCUSED** we evaluate the **Mumbai Dabbawala system** as a case study of how a simple and well controlled logistics system can deliver service of exceptional accuracy and efficiency. We look at the results from a recent study conducted by the University of Johannesburg on the **gaps in logistics skills**. **Emotional intelligence as a critical leadership skill** is also discussed, we look into **omnichannel retailing** and how these strategies require a different approach to logistics channel development and finally we assess the **top business drivers for logistics outsourcing**.

*You cannot have more than you currently have, until you become more than you currently are - Leonard Stone*



## A practical approach to managing a complex logistics system: The Mumbai Dabbawala system

By Pradip Thakker (rediff.com, 11 November 2005), Emily Tan (theedgemalaysia.com, 03 January 2011) and Sue Gillman (isixsigma.com, 08 July 2011)

Hungry? What would you like: a sandwich from the local Sandwich Baron (30 minute delivery) or a fresh, hot meal from home? Most managers don't have a choice. It's either a packed lunch or junk food grabbed from a fast food outlet. Unless you live in Mumbai, that is, where a small army of 'dabbawalas' picks up 175,000 lunches from homes and delivers them to harried students, managers and workers on every working day. At your desk. 12.30 pm on the dot. Served hot, of course. And now you can even order through the Internet.

Most of The Mumbai Tiffin Box Suppliers Association (MTBSA) workers are illiterate and the last major upgrade the 125 year-old organisation made to its delivery chain was the bicycle. Yet the Mumbai dabbawalas deliver and return 130,000 dabbas, or tiffins, every day. According to Forbes magazine, they have a Six Sigma rating of 99.999999, which means less than one out of every six million deliveries goes amiss.

How has MTBSA managed to survive through these tumultuous years? The answer lies in a twin process that combines competitive collaboration between team members with a high level of technical efficiency in logistics management. It works like this...

After the customer leaves for work, his/her lunch is packed into a tiffin provided by the dabbawala. A colour-coded notation on the handle identifies its owner and destination. Once the dabbawala has picked up the tiffin, he moves fast using a combination of bicycles, trains and his two feet.

A BBC crew filming dabbawalas in

action was amazed at their speed. "Following our dabbawala wasn't easy, our film crew quickly lost him in the congestion of the train station. At Victoria Terminus we found other fast moving dabbawalas, but not our subject... and at Mr Bhatpat's ayurvedic pharmacy, the lunch had arrived long before the film crew," the documentary noted wryly. So, how do they work so efficiently?

### Team work

The entire system depends on teamwork and meticulous timing. Tiffins are collected from homes between 7.00 am and 9.00 am, and taken to the nearest railway station. At various intermediary stations, they are hauled onto platforms and sorted out for area-wise distribution, so that a single tiffin could change hands three to four times in the course of its daily journey.

At Mumbai's downtown stations, the last link in the chain, a final relay of dabbawalas fan out to the tiffins' destined bellies. Lunch hour over, the whole process moves into reverse and the tiffins return to suburban homes by 6.00 pm.

To better understand the complex sorting process, let's take an example. At Vile Parle Station, there are four groups of dabbawalas, each has twenty members and each member services 40 customers. That makes 3,200 tiffins in all. These 3,200 tiffins are collected by 9.00 am, reach the station and are sorted according to their destinations by 10.00 am when the 'Dabbawala Special' train arrives.

The railway provides sorting areas on platforms as well as special compartments on trains traveling south between 10.00 am and 11.30 am.

During the journey, these 80 dabbawalas regroup according to the number of tiffins to be delivered in a particular area, and not according to the groups they actually belong to. If 150 tiffins are to be delivered in the Grant Road Station area, then four people are assigned to that station, keeping in mind one person can carry no more than 35-40 tiffins.

During the earlier sorting process, each dabbawala would have concentrated on locating only those 40 tiffins under his charge, wherever they come from, and this specialisation makes the entire system efficient and error-free. Typically it takes about ten to fifteen minutes to search, assemble and arrange 40 tiffins onto a crate, and by 12.30 pm they are delivered to offices.

In a way, MTBSA's system is like the Internet. The Internet relies on a concept called packet switching. In packet switched networks, voice or data files are sliced into tiny sachets, each with its own coded address which directs its routing.

These packets are then ferried in

bursts, independent of other packets and possibly taking different routes, across the country or the world, and re-assembled at their destination. Packet switching maximises network density, but there is a downside: your packets intermingle with other packets and if the network is overburdened, packets can collide with others, even get misdirected or lost in cyberspace, and almost certainly not arrive on time.

### Elegant logistics

In the dabbawalas' elegant logistics system, using 25 kms of public transport, 10 km of footwork and involving multiple transfer points, mistakes rarely happen. According to a Forbes 1998 article, one mistake for every eight million deliveries is the norm. How do they achieve virtual six-sigma quality with zero documentation? For one, the system limits the routing and sorting to a few central points. Secondly, a simple color code determines not only packet routing but packet prioritising as lunches transfer from train to bicycle to foot.

### Who are the dabbawalas?

Descendants of soldiers of the legendary Maharashtrian warrior-king Shivaji, dabbawalas belong to the Malva caste, and arrive in Mumbai from places like Rajgurunagar, Akola, Ambegaon, Junnar and Maashi. "We believe in employing people from our own community. So whenever there is a vacancy, elders recommend a relative from their village,"

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says Madhba, a dabbawala.

"Farming earns a pittance, compelling us to move to the city. And the tiffin service is a business of repute since we are not working under anyone. It's our own business, we are partners, it confers a higher status in society," says Sambhaji, another dabbawala. "We earn more than many padha-likha (educated) graduates," adds Khengle smugly.

The proud owner of a BA (Hons) degree, Raghunath Meghe, president of MTBSA, is a rare graduate. He wanted to be a chartered accountant but couldn't complete the course because of family problems. Of his three children, his daughter is a graduate working at ICICI, one son is a dabbawala and the younger son is still studying.

Education till standard seven is a minimum prerequisite. According to Meghe, "This system accommodates those who didn't or couldn't finish their studies. It's obvious that those who score good marks go for higher education and not to do this job, but we have people who have studied up to standard twelve who couldn't find respectable jobs." There are only two women dabbawalas.

Apart from commitment and dedication, each dabbawala, like any businessman, has to bring some capital with him. The minimum investment is two bicycles (approximately Rs 4,000), a wooden crate for the tiffins (Rs 500), at least one white cotton kurtapyjama (Rs 600), and Rs 20 for the trademark Gandhi topi.

### Competitive collaboration

MTBSA is a remarkably flat organisation with just three tiers: the governing council (president, vice president, general secretary, treasurer and nine directors), the mukadams and the dabbawalas. Its first office was at Grant Road. Today it has offices near most railway stations.

Here nobody is an employer and none are employees. Each dabbawala considers himself a shareholder and entrepreneur.

Surprisingly MTBSA is a fairly recent entity: the service is believed to have started in the 1880s but officially registered itself only in 1968. Growth in membership is organic and dependent on market conditions.

This decentralised organisation assumed its current form in 1970, the most recent date of restructuring. Dabbawalas are divided into sub-groups of fifteen to 25, each supervised by four mukadams. Experienced old-timers, the mukadams are familiar with the colors and codings used in the complex logistics process.

Their key responsibility is sorting tiffins but they play a critical role in

## So, what are these dabbawalas doing so right? What can larger organisations with many more resources learn from this simplistic system?

1. No over-reliance on technology
2. Create an integrated performance chain
3. Acute visibility
4. Keep it simple. Real simple.

resolving disputes; maintaining records of receipts and payments; acquiring new customers; and training junior dabbawalas on handling new customers on their first day.

Each group is financially independent but coordinates with others for deliveries: the service could not exist otherwise. The process is competitive at the customers' end and united at the delivery end.

Each group is also responsible for day-to-day functioning. And, more important, there is no organisational structure, managerial layers or explicit control mechanisms. The rationale behind the business model is to push internal competitiveness, which means that the four Vile Parle groups vie with each other to acquire new customers.

### Building a clientele

The range of customers includes students (both college and school), entrepreneurs of small businesses, managers, especially bank staff, and mill workers.

They generally tend to be middle-class citizens who, for reasons of economy, hygiene, caste and dietary restrictions or simply because they prefer whole-some food from their kitchen, rely on the dabbawala to deliver a home cooked mid-day meal.

New customers are generally acquired through referrals. Some are solicited by dabbawalas on railway platforms. Addresses are passed on to the dabbawala operating in the specific area, who then visits the

customer to finalise arrangements. Today customers can also log onto the website to access the service.

Service charges vary from Rs 150 to Rs 300 per tiffin per month, depending on location and collection time. Money is collected in the first week of every month and remitted to the mukadam on the first Sunday. He then divides the money equally among members of that group. It is assumed that one dabbawala can handle not more than 30-35 customers given that each tiffin weighs around 2 kgs. And this is the benchmark that every group tries to achieve.

Typically, a twenty member group has 675 customers and earns Rs 100,000 per month which is divided equally even if one dabbawala has 40 customers while another has 30. Groups compete with each other, but members within a group do not. It's common sense, points out one dabbawala.

One dabbawala could collect 40 tiffins in the same time that it takes another to collect 30. From his earnings of between Rs 5,000 to Rs 6,000, every dabbawala contributes Rs15 per month to the association. The amount is utilised for the community's upliftment, loans and marriage halls at concessional rates. All problems are usually resolved by association officials whose ruling is binding.

Meetings are held in the office on the 15th of every month at the Dadar. During these meetings, particular emphasis is paid to customer service. If a tiffin is lost or stolen, an investigation is promptly instituted. Customers are allowed to deduct costs from any dabbawala found guilty of such a charge.

If a customer complains of poor service, the association can shift the customer's account to another dabbawala. No dabbawala is allowed to undercut another.

Before looking into internal disputes, the association charges a token Rs 100 to ensure that only genuinely aggrieved members interested in a solution come to it with their problems, and the officials' time is not wasted on petty bickering.

### Learnings

So, what are these dabbawalas doing so right? What can larger organisations with many more resources learn from this simplistic system? A few things stand out for me:

*No over-reliance on technology:* Sure, the dabbawalas are now using Web technology and SMS for orders, but for the most part this is a fairly low-tech operation. It relies on trains and barefoot men. No computer chips. No social networks. Just guys busting their humps and a reliable train

service. The lesson for organisations? Don't expect technology to solve your issues — usually the issue has more to do with process, execution and expectations than it does bits and bytes.

*Create an integrated performance chain:* In other words, the dabbawala system keeps its eye on the sum — not the individual parts. When you boil it down to simple terms, a performance chain is really just a system of moving pieces. Focus too much on those individual pieces and you get hung up in the details and, as a result, are less efficient. Concentrate on the entire system and flow of products and information and you have a much better chance of success.

*Acute visibility:* The beauty of the dabbawala-based system is that all of the dabbawalas understand exactly what is happening and when — to the minute. If certain deadlines and hand-offs are missed, people don't eat. It's as simple as that. Make sure everyone within your chain understands what he or she needs to do, where they need to be and what needs to happen for the chain to be successful.

*Keep it simple. Real simple:* One of the key lessons any organisation can learn from the dabbawalas is the simplicity with which this system works. The dabbawalas are intimately aware of what their customers value (food delivered on time, every day). And, just as importantly, they don't try to do anything other than that. They don't overcomplicate things. They don't add extraneous value. They simply understand what their customers want, and they focus 100 percent of their time and energy on meeting that need. - RF



## Logistics skills gap hampering SA ability to trade

By Gert Heyns and Rose Luke  
(sapics.org, May 2013)

Research shows the supply chain skills gap has widened considerably, even over a short time span, severely impacting the competitiveness of the South African economy.

According to the 2012 Supply Chain Skills Gap Survey, conducted by University

of Johannesburg researchers Rose Luke and Gert Heyns, "Employers have indicated that, although operational positions are relatively easy to fill (63% average over both years), around 65% indicated it was difficult to fill tactical level positions. Strategic level positions are becoming more challenging to fill with 63% indicating difficulties in 2011 and 66% in 2012."

"The lack of skills is apparent in that although, in terms of logistics performance, South Africa is currently ranked as number 23 in the world, the country's ability to perform more effectively is largely hampered by logistics competence," says Luke, citing findings from The World Bank, 2012 (Logistics Performance Index: Connecting to Compete 2012).

"This clearly indicates that skills are an issue within the country, and logistics skills in particular are hampering South Africa's ability to trade both within the region as well as with other countries and regions," says Heyns. "For this reason, it thus becomes critical to identify the logistics skills requirements in South Africa, so that these acute shortages can be addressed to the benefit of trade in and with South Africa and the SADC," he adds.

Skills that are in most demand According to Barloworld Logistics' 2013 Supply Chain Foresight report, the supply chain skills shortage is viewed as one of the top five constraints to South African supply chains and the single biggest constraint on competitiveness.

Topping the list of skills that are in most demand, identified by participants in Luke and Heyns' research, are the following: Customer focus followed closely by Ability to plan and prioritise, and then Business ethics.

"It's interesting that the top 10 highest ranking skills comprise mostly "softer" and broad management skills," Luke points out. Meanwhile, Customer focus and the Ability to see the big picture are the two most important logistics awareness skills viewed as essential by respondents.

According to Luke and Heyns, the high importance placed on business ethics may be a reaction to a heightened awareness of corruption and mismanagement that currently pervades our society. "Also, the prominence of customer focus in the survey indicates that companies are realising just how important the fact-to-face aspect of the supply chain is," says Heyns.

While highly educated and skilled individuals are desperately needed in the planning phases of the supply chain, the research confirms the fact that finding, for example, truck drivers who're also able to interact well with customers, has emerged as an area of great importance.

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Rose Luke, Department of Transport and Supply Chain Management, University of Johannesburg

It is vital also to note that companies are recognising the role that 'seeing the big picture' plays in driving greater productivity and effectiveness across the supply chain. "Businesses are placing a high importance on getting all their staff to see the interrelatedness of what they do — that if someone drops the ball, it affects everyone's work — and therefore to encourage people to perform even better; whether they're the boss or the driver," says Luke.

Another interesting finding that merged from the study is the high importance placed on education, particularly by those working at an operational level. A total of 40% of respondents felt that high school education is a must for working in supply chain, further emphasising the importance of the education system producing what the economy requires.

"The results (of the study) imply that there are significant skills shortages in the supply chain industry in South Africa and that urgent interventions are required to attract and retain the skills needed to operate efficient, effective and competitive supply chains. These severe skills shortages have a significant impact on the competitiveness of South African supply chains and the ability

to develop commerce with our major trading partners," concludes Luke. - RF



## What makes a leader?

By Daniel Goleman  
(hbr.com, January 2004)

It was Daniel Goleman who first brought the term “emotional intelligence” to a wide audience with his 1995 book of that name, and it was Goleman who first applied the concept to business with his 1998 HBR article, reprinted here. In his research at nearly 200 large, global companies, Goleman found that while the qualities traditionally associated with leadership—such as intelligence, toughness, determination, and vision—are required for success, they are insufficient. Truly effective leaders are also distinguished by a high degree of emotional intelligence, which includes self-awareness, self-regulation, motivation, empathy, and social skill.

These qualities may sound “soft” and unbusinesslike, but Goleman found direct ties between emotional intelligence and measurable business results. While emotional intelligence’s relevance to business has continued to spark debate over the past six years, Goleman’s article remains the definitive reference on the subject, with a description of each component of emotional intelligence and a detailed discussion of how to recognise it in potential leaders, how and why it connects to performance, and how it can be learned.

Every businessperson knows a story about a highly intelligent, highly skilled executive who was promoted into a leadership position only to fail at the job. And they also know a story about someone with solid—but not extraordinary—intellectual abilities and technical skills who was promoted into a similar position and then soared.

Such anecdotes support the widespread belief that identifying individuals with the “right stuff” to be leaders is more art than science. After all, the personal styles of superb leaders vary: Some leaders are subdued and analytical; others shout their manifestos from the mountaintops. And just as important, different situations call for different types of leadership. Most mergers need a sensitive negotiator at the helm,

whereas many turnarounds require a more forceful authority.

I have found, however, that the most effective leaders are alike in one crucial way: They all have a high degree of what has come to be known as emotional intelligence. It’s not that IQ and technical skills are irrelevant. They do matter, but mainly as “threshold capabilities”; that is, they are the entry-level requirements for executive positions. But my research, along with other recent studies, clearly shows that emotional intelligence is the sine qua non of leadership. Without it, a person can have the best training in the world, an incisive, analytical mind, and an endless supply of smart ideas, but he still won’t make a great leader.

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In the course of the past year, my colleagues and I have focused on how emotional intelligence operates at work. We have examined the relationship between emotional intelligence and effective performance, especially in leaders. And we have observed how emotional intelligence shows itself on the job. How can you tell if someone has high emotional intelligence, for example, and how can you recognise it in yourself? We’ll explore these questions, taking each of the components of emotional intelligence—self-awareness, self-regulation, motivation, empathy, and social skill—in turn.

### Components of Emotional Intelligence

#### Self-Awareness

*Definition:* The ability to recognise and understand your moods, emotions, and drives, as well as their effect on others  
*Hallmarks:* Self-confidence, realistic self assessment, self-deprecating sense of humor

#### Self-Regulation

*Definition:* The ability to control or redirect disruptive impulses or moods and the propensity to suspend judgement (to think before acting)  
*Hallmarks:* Trustworthiness and integrity, comfort with ambiguity, openness to change

### Motivation

*Definition:* A passion to for for reasons beyond money and status and a propensity to pursue goals with energy and persistence  
*Hallmarks:* Strong drive to achieve, optimism even in the face of failure, organisational commitment

### Empathy

*Definition:* The ability to understand the emotional makeup of other people and the skill in treating people according to their emotional reactions  
*Hallmarks:* Expertise in building and retaining talent, cross-cultural sensitivity, service to clients and customers

### Social Skill

*Definition:* Propensity in managing relationships and building networks and an ability to find common ground and build rapport  
*Hallmarks:* Effectiveness in leading change, persuasiveness, expertise in building and leading teams

### Evaluating Emotional Intelligence

Most large companies today have employed trained psychologists to develop what are known as “competency models” to aid them in identifying, training, and promoting likely stars in the leadership firmament. The psychologists have also developed such models for lower-level positions. And in recent years, I have analysed competency models from 188 companies, most of which were large and global and included the likes of Lucent Technologies, British Airways, and Credit Suisse.

In carrying out this work, my objective was to determine which personal capabilities drove outstanding performance within these organisations, and to what degree they did so. I grouped capabilities into three categories: purely technical skills like accounting and business planning; cognitive abilities like analytical reasoning; and competencies demonstrating emotional intelligence, such as the ability to work with others and effectiveness in leading change.

To create some of the competency models, psychologists asked senior managers at the companies to identify the capabilities that typified the organisation’s most outstanding leaders. To create other models, the psychologists used objective criteria, such as a division’s profitability, to differentiate the star performers at senior levels within their organisations from the average ones. Those individuals were then extensively interviewed and tested, and their capabilities were compared. This process resulted in the creation of lists of ingredients for highly effective leaders. The lists ranged in length from seven to 15 items and included such ingredients as initiative and strategic vision.

When I analysed all this data, I found dramatic results. To be sure, intellect was a driver of outstanding performance. Cognitive skills such as big-picture thinking and long-term vision were particularly important. But when I calculated the ratio of technical skills, IQ, and emotional intelligence as ingredients of excellent performance, emotional intelligence proved to be twice as important as the others for jobs at all levels. - **RF**



## Designing distribution channels to meet customers' omnichannel demands

By Kris Bjorson  
([supplychainbrain.com](http://supplychainbrain.com), 23 May 2013)

It's no surprise that retailers are working hard to integrate websites, brick-and-mortar stores and social media channels into one seamless communication stream for customer interaction, aka omnichannel.

To compete for customers who expect a seamless omnichannel experience, retailers are adding store features such as pickup stations for products bought online or by phone, as well as in-store options on their mobile apps designed for customers using both channels simultaneously. These features amount to a customer promise that can only be fulfilled with a supply chain strategy that integrates all channels.

Developing an omnichannel supply chain strategy requires rethinking the number and location of distribution centers, as well as their layout and design features. The most in-demand type of industrial real estate is designed to combine e-commerce and traditional store distribution channels. These "big box" distribution centers are more than 250,000 square feet with clear ceiling heights of 36 to 40 feet to accommodate multiple mezzanine levels for processing and shipping individual orders.

The growing demand for big box distribution has site selection implications in terms of markets as well as specific sites. Such big box development for omnichannel facilities tends to cluster in areas where merchandise can reach the most consumers

and stores quickly and cost-effectively. As a result, there is a greater concentration of big box product along the periphery of major metropolitan markets, including Chicago, New Jersey, Long Beach, Philadelphia, Dallas and Atlanta. Strong second-tier big box hubs include cities with strong transportation infrastructure and growing populations, such as Indianapolis, Memphis, Houston, Phoenix and Kansas City.

Land cost and availability can also be a concern for omnichannel retailers. These distribution centers are extremely land-intensive; they not only require a larger footprint for the building but they also employ more workers per square foot than traditional distribution centers, necessitating more land for parking.

The omnichannel trend requires retailers and supply-chain industry leaders to reconsider the optimal design of distribution centers. Historically, distribution to stores and for individual order deliveries has been handled on separate tracks. Store-based distribution systems have become highly automated—when a customer makes a store purchase, the transaction is noted by the bar code reader at checkout and the product is automatically back-filled in the next delivery cycle.

Product picking is accomplished by automated systems and added to the next scheduled delivery from the warehouse to the store. Merchandise bought from stores one day is back on the shelf often the very next day, with little or no direct human action involved between the scanning of the sale and the restocking of the shelf by store employees.

However, a different system is required for e-commerce order fulfillment. Products are picked from warehouse shelves at the direction of distribution workers. When multiple products are purchased in one order, workers must consider the size of the box and special packing considerations of combining products in one shipment. If the customer has ordered gift-wrapping, that must be handled by workers at the distribution center.

Distribution centers designed for e-commerce users include larger mezzanine areas for operations such as back-office tasks, gift wrapping, call centers and returned merchandise. These tasks are best handled in mezzanine office spaces. The inclusion of two or even three mezzanine levels requires ceiling clearance heights of 36 to 40 feet.

E-commerce centers also require a much larger workforce than traditional warehouses. The presence of more people means that building systems, such as lighting and ESFR fire protection, must be

upgraded. Heating and cooling systems, that in traditional distribution centers are driven by inventory, must now meet a higher standard in centers with e-commerce fulfillment for employee density.

Big box distribution centers designed for omnichannel fulfillment must combine these two very different supply-chain processes into one seamless solution. Maintaining two complete side-by-side inventory systems would be inefficient, so omnichannel distribution centers need to be able to accommodate both processes in one fluid system. Omnichannel fulfillment requires significant capital investments in material handling, conveyor sortation and controls, optimised racking systems and lift equipment, inventory management software and picking/packing technology.

Centers must be larger overall to accommodate multiple distribution channels, and typically require separate staging and loading areas for e-commerce and store distribution. That is likely to mean a cross-dock building to accommodate more truck docks as well.

This new wave of big box development also comes at a time when owners and tenants of all property types are focused on reducing operating costs and creating sustainable workplaces. High-efficiency HVAC systems and upgraded insulation are examples of typical building features that reduce energy consumption, which serves both cost-containment and sustainability goals. Another new feature that is gaining popularity in big box development is the installation of prismatic skylights that

**Omnichannel retailing is here to stay, and retailers not using it successfully are losing sales and profits to those that do. In devising an omnichannel strategy, the natural starting point is the point of purchase — brick-and-mortar stores and/or e-commerce sites for online and mobile shopping. But customer expectations don't stop when the sale is made. Order fulfillment is every bit as important to winning repeat business. Now more than ever, a well-developed supply chain strategy is vital to retailers' success.**

capture and disperse natural light to all corners of a center, improving lighting and thermal comfort throughout the building – rather than having hot spots and glare from concentrated sunlight.

Very few existing distribution centers of more than a few years old are set up to accommodate the needs of an omnichannel distribution strategy. Furthermore, the distribution networks which retailers have in place to handle traditional store distribution, e-commerce or both must be reconsidered in optimising the supply chain to all types of customers.

The process of setting up a strong omnichannel supply chain is a major undertaking for retailers, but those that fail to pursue this aspect of omnichannel marketing have little chance of success in the new world of consumer expectations. Leaders in the supply-chain industry have an unprecedented opportunity to help retailers make the logistics work for this increasingly complex process. Done right, the result is a win-win for distribution and supply-chain providers, retailers and consumers. - RF



## Top business drivers for integrated logistics outsourcing

By SaddleCreek Logistics Services (2012)

The logistics function is vital to most retail, manufacturing, wholesale and distributor organisations today and represents a significant percentage of corporate budgets. As a result, companies are continually striving to optimise their logistics operations – seeking out new ways to increase efficiencies and better manage costs.

Many companies find that they can streamline their supply chain by integrating the logistics services they utilise – warehousing, contract manufacturing, packaging, fulfillment, transportation, freight forwarding, etc. They often find that experienced third-party providers are better positioned to provide support than their internal operations in this regard.

Increasingly, companies are asking their logistics partners to enhance operations by providing additional services outside the scope of traditional capabilities such

as transportation and warehousing. They're discovering that tapping a single provider for a variety of services can be the key to optimal logistics performance.

In order to better understand why companies find value in outsourcing to integrated logistics providers, Saddle Creek Logistics Services conducted an online survey of industry professionals in a two-week period in late April and early May 2012.

The following report is based on responses from manufacturers, distributors, retailers and multi-channel merchants with job functions involving corporate (12.5%), operating (34.1%), distribution (39.8%) or purchasing (13.6%) management. All of these respondents are personally involved with or have influence over logistics functions at their companies and outsource some or all of their logistics services. In fact, third parties manage more than half of the annual logistics spend for 37.4% of respondents.

Company size ranges from less than \$50 million (23.1%) to over \$2.5 billion (20.9%). Most respondents distribute their products nationally (25.3%) or internationally (67%). A solid cross-section of industries is represented – including food/beverage/tobacco (15.4%), paper/printing (11%), automotive/transportation equipment (9.9%), and chemicals/pharmaceuticals (8.8%).

### Outsourcing Practices

Respondents say they outsource a variety of services – primarily transportation (74.7%), related services such as freight forwarding (51.6%) and customs brokerage (47.3%), and warehousing (44%). Services such as contract manufacturing (24.2%), packaging (22%), freight management (20.9%), and order fulfillment (17.6%) are also popular candidates for outsourcing.

The vast majority of respondents (73.6%) outsource to providers who offer two or more of these services, clearly indicating the prevalence of integrated logistics outsourcing today. Transportation (25.3%) and warehousing (22%) are the most commonly integrated services, followed by freight forwarding (18.7%) and customs brokerage (17.6%).

### The Value of Integration

Respondents clearly find value in outsourcing to a provider with the ability to offer integrated logistics services. More than half (52.3%) rate the importance of integration as 4 or 5 on a scale of 1-5. Primary logistics services such as transportation (36.3%) and warehousing (33%) are seen as being the most critical to obtain from a single provider. Freight

forwarding (33%) and customs brokerage (27.5%) are also valued.

Far fewer respondents look to their logistics provider for services such as packaging, product customisation, or order fulfillment, however. This points to an opportunity for further integration on the part of third-party providers, according to Rob Pericht, Saddle Creek Senior Vice President of Operations.

“The more services that you can obtain from a single provider, the more seamless and cost effective your supply chain,” Pericht explains. “Companies should look to their third-party providers for any business activity that isn’t officially supported in the manufacturing environment – product customisation, cross-docking, e-fulfillment, etc. This ensures that costs are optimised and as close to the customer as possible.” By removing unnecessary links from the supply chain, this broader service integration also helps companies to control inventory, increase speed to market and accommodate business fluctuations.

### Top Business Drivers

Regardless of which services they use, respondents recognise a number of advantages to outsourcing their logistics needs to an integrated 3PL. Following is a closer look at the top benefits they are experiencing.

### Control Costs

The desire to better manage costs is the biggest business need driving companies to outsource to an integrated service provider. Controlling costs and reducing capital expenditures are the primary drivers for the majority

**Increasingly, companies are asking their logistics partners to enhance operations by providing additional services outside the scope of traditional capabilities such as transportation and warehousing. They're discovering that tapping a single provider for a variety of services can be the key to optimal logistics performance.**

(53.8%) of respondents. They see the biggest opportunities for cost reduction in transportation (46.2%), labor/training (33%), warehouse space (29.7%), and equipment (25.3%).

“We definitely see companies experiencing benefits in these areas,” says Saddle Creek’s Pericht. “Route optimisation, brick-and-mortar reduction, and a flexible workforce are just a few examples of how 3PLs can help companies reduce costs. An integrated provider can also help build to order instead of build to stock, allowing companies to reduce production and inventory carrying costs. Moving product customisation closer to the end customer also can help to shorten the cash-to-cash cycle.”

Survey results suggest that the value of integrated logistics can even extend beyond the logistics function. A noteworthy 20.9% of respondents say that their company is able to achieve total supply chain cost reductions by outsourcing to an integrated logistics provider. “An effective 3PL can take on a greater role and streamline the logistics function, taking links out of the supply chain,” agrees Saddle Creek’s Pericht. “They can assist with expansion into new markets, accommodate multiple sales channels, or increase use of value added services like kitting, building displays, and contract manufacturing. The result is a stronger and more cost-effective supply chain.”

### Accommodate Business Fluctuations

An integrated logistics environment offers the opportunity to adjust to ever-changing customer needs, seasonal promotions or other business fluctuations. This is a primary motivator for 19.8% of respondents to outsource to an integrated logistics provider.

Scalable space, flexible staffing, equipment, and a variety of transportation options give companies the flexibility to adjust to meet peaks and valleys in their business. Third-parties also give companies the ability to strategically position their distribution operations with locations that put inventory and/or product customisation closer to the customer to help increase speed to market.

### Focus on Core Competency

For 18.7% of respondents, the ability to focus on their core business is a key driver for outsourcing to an integrated provider. They find peace of mind in knowing that their logistics operations are in the hands of an experienced, knowledgeable partner. Integration of services allows the provider to see the big picture and identify innovative single-source solutions that free up their customers to focus on

other issues. It also makes them better able to anticipate issues and resolve them proactively. For example, knowing that a large order is being packaged at the distribution center may allow the provider to secure capacity in advance – when there are more transportation options available at a lower cost. And when logistics is the primary area of expertise, they can apply best practices and accommodate special requirements (i.e. retail compliance, C-TPAT Tier 3, special reporting needs, etc.). “Logistics represents a significant percentage of corporate budgets (from 2 or 3 percent all the way up to 25 percent for some products), but it isn’t always an area of expertise for everybody,” explains Pericht. “When you’re talking about that kind of investment, you really want to make sure it is handled by an expert.”

**Activities not directly supported in the manufacturing environment are good candidates for integrated outsourcing – product customisation and light manufacturing, packaging, fulfillment, freight forwarding, etc.**

### Streamline Operations

The desire to streamline operations drives 17.6% of respondents to outsource to an integrated provider. An effective third-party can provide a single point of contact for all logistics operations – from traditional warehousing and transportation services to packaging, light manufacturing and multi-channel fulfillment. The provider can look at the customer’s needs holistically and develop a creative solution that incorporates a variety of logistics services.

For example, an integrated 3PL might warehouse multiple SKUs for a customer, assemble them into holiday gift sets based on customer orders, build displays, source transportation, and ship them to retailers across the country.

By providing such a broad array of services through a single source, the provider helps the company to eliminate unnecessary links in its supply chain.

### Ensure Consistency

Quality control and consistency of execution are critical for 12.1% of respondents. By centralising the logistics function with a single provider, companies are able to ensure that services are provided in a consistent manner.

This can be especially important for services such as light manufacturing, packaging and fulfillment since inconsistency in these areas can negatively impact a company’s brand.

A provider committed to continuous improvement will evaluate and possibly re-engineer processes to increase efficiencies and ensure consistency on an on-going basis. Quality programs such as ISO certification and LEAN logistics can also help in this regard.

### Improve Service to Customers

Outsourcing to an integrated logistics provider can also improve service to end customers, according to 12.1% of respondents.

“With a variety of services under one roof, an integrated 3PL has greater visibility into all the elements of an order,” explains Saddle Creek’s Pericht. “This helps ensure the predictability and reliability of delivery and increases speed to market.”

Advanced technology can play an important role in integration, giving customers accurate, real-time information about their orders and ensuring seamless service. Web-enabled track and trace, lot control, and inventory management can all play a role in ensuring customer satisfaction.

### In Summary

Companies clearly recognise that outsourcing logistics to an integrated provider can have a significant impact on the efficiency and cost effectiveness of their operations – and their supply chain as a whole.

However, many companies could optimise their supply chain even further by expanding the services that they outsource to their thirdparty provider.

Activities not directly supported in the manufacturing environment are good candidates for integrated outsourcing – product customisation and light manufacturing, packaging, fulfillment, freight forwarding, etc.

When these services are integrated with traditional third-party transportation and warehousing services, companies can remove links from their supply chain. The result? A supply chain that is stronger, more resilient, and cost-effective. - **RF**

*Note - All credit goes to the particular author and/or publication of the articles shared in this publication*

## Result focused logistics and supply chain advisory services

By Anton Nieuwoudt / Niels Rudolph

dasResultat is a results focused logistics and supply chain management advisory company with greater than 30 years combined experience in various functional areas of logistics and supply chain management across diverse industries.

Our primary objective is to support our clients to reduce operational costs and increase their service offering to their clients through optimising their supply chain, by offering a wide range of services based on our own practical experience.

dasResultat stands under joint leadership of Anton Nieuwoudt and Niels Rudolph.

### Leadership

Anton has more than 12 years experience in logistics- and supply chain management across various industries.

Prior to co-founding dasResultat as a boutique logistics and supply chain advisory company, Anton was at Accenture where he was involved in various projects in the Retail, Mining, FMCG and Energy sectors. Here he was able to expand and apply his fulfillment, supply chain management, supplier management, project management and business consulting expertise.

Anton also worked at DB Schenker where he gained experience in integrated logistics management, spare parts logistics as well as inbound- and outbound logistics solution implementation.

Anton holds a Bachelors degree in Marketing from the Rand Afrikaans University and a Masters degree in Logistics Management at the University of Johannesburg.

Niels has close to 20 years experience in logistics- and supply chain management mainly within the 3PL industry.

Prior to co-founding dasResultat as a boutique logistics and supply chain advisory company Niels founded ORAscM as a specialised logistics consultancy company. He also worked at DB Schenker and PriceWaterhouseCoopers in Germany as a project consultant.

Niels spent the largest part of his career at DB Schenker in various roles in Germany, Singapore, Malaysia and South Africa. During his last role at DB Schenker in South Africa, Niels was responsible for logistics development, reporting directly to

the CEO. Here he applied and expanded his knowledge to develop logistics solutions across the local automotive, high-tech and retail industries.

Niels holds a Diplom Betriebswirt (BA) from Staatliche Berufsakademie, Mannheim (Germany).

### Functional experience

Our functional experience include among others warehouse design & management, transportation management, inventory management, demand planning, supply planning, supply chain planning, supplier relationship management and project management.

### Industry exposure

We have had exposure to industries such as retail, automotive, consumer goods and services, petrochemical, mining and defense aerospace.

### Core offerings

Through our core offerings we can support our clients to achieve strategic, tactical and operational results. These offerings cover areas such as Strategic Supply Chain Planning, Fulfillment, Sourcing & Procurement, and Project Execution.

### Credentials

Since founding the company in the fourth quarter of 2012 we've been involved in various projects.

Our primary engagement has been with a leading global third party logistics company. Here we've been tasked to support them in their turn-around of their contract logistics department.

Secondary engagements during our first quarter of operations included a warehouse performance assessment at the Cape Town operations of a global apparel company, supporting a logistics service transition at a German automotive manufacturer and providing warehouse implementation support for an agricultural equipment manufacturer. - *RF*

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dasResultat is a result focused logistics and supply chain management advisory company.

We partner with our clients to identify and unlock practical and sustainable solutions.

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