Outsourcing logistics

New legislation, rising costs and managing logistics outsourcing relationships are placing demands on European chemical manufacturers, writes **Peter Strang**

EUROPEAN CHEMICAL manufacturers are coming under pressure, not only from a raft of new legislation, but also from the intensifying competition from overseas producers. While a European market for commodity chemicals and primary intermediates will continue, growth will at best be flat. As the market moves down the supply chain towards finished consumer products, dependence on the raw material pipeline becomes less sensitive.

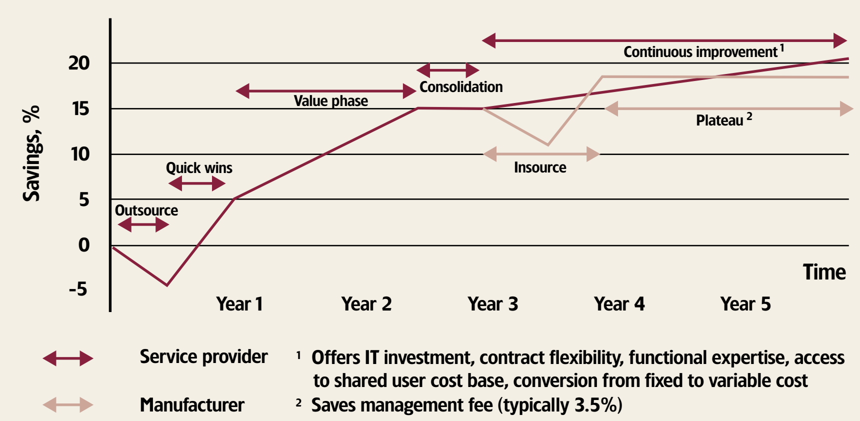
This opens up a wider choice of possible manufacturing locations, including eastern Europe, the Middle East, China and ultimately Africa. These offer cheaper labour and a less punitive legislative framework, but also the challenge of managing a longer and more complex supply chain for product coming back into Europe. However, with the general explosion in demand from the East, moving closer to these growing, essentially untapped, consumer markets can make sense.

MANAGING RELATIONSHIPS

The growth of logistics outsourcing is equally challenging. Manufacturers need to balance the service and integration benefits of working with larger-scale providers against the local knowledge and potentially lower cost base offered by smaller, local players. Logistics operators need to become adept at managing the outsourcing life cycle to develop and protect their role in the overall supply chain.

Larger-scale logistics companies will be able to offer multi-geography solutions, appropriate functional support and access to technological advances. But they need to differentiate themselves from their smaller counterparts and ensure that this is valued by their customer. Conversely, smaller, flexible, low-overhead providers are likely to provide better local service. But should they become part of the sub-contract market given the management resource required to oversee their activities? Competent middle-sized players should be able to bridge the gap with skills in establishing purpose-built networks using a combination of their own and partner/sub-contract assets.

INSOURCE/OUTSOURCE LIFECYCLE



SOURCE: TDG

Any supply chain review may mean the logistics function comes back in house. The insourcing-outsourcing life cycle is common where the original outsource activity was highly complex and/or in cost-driven markets. For example, in the contract term, the logistics provider generates savings of 15%. Then, the manufacturer decides it can do the job better in house. Four to five years later, another trigger point is reached, which starts the outsourcing ball rolling again. This life cycle is also present in service-driven markets.

LIFE-CYCLE EXTENSION

Logistics companies need to mitigate the effects of this life cycle. The skilled provider will ensure that its contribution continues to be relevant and justifiable, while protecting its position. This may include the implementation of proprietary IT systems. The manufacturer may benefit from a shared-user warehouse or transport network, knowing he is unlikely to be able to reproduce it himself.

A more positive approach is for the logistics provider to demonstrate continuous improvement, evolving the relationship from a purely transactional basis to one where it is offering functional expertise not readily available in house or elsewhere. Equally important is the commercial framework. This should accurately reflect the risk of exposure for both parties. Thus, the logistics provider must engineer its operations to minimise any disruption caused by changes in business profile.

CHANGING TIMES

Managing the implications of a changing market for chemicals is the responsibility of both manufacturers and logistics providers to guarantee the success of their ongoing relationship. The manufacturer needs to decide on the location cost base, select a suitable partner and develop a relationship that demands improvement but recognises the cost of expertise and capital investment. The logistics provider needs to be ready to move into new regions and must continue to deliver unique value while taking precautions to protect its business. ■

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