Creating value through
Advanced Logistics
The Li & Fung Management Book Series

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Logistics becomes part of the supply chain process: control, plans, implements, efficient and effective flow of goods, services and information from point of origin to point of consumption.

Addition of efficient and tailor made service flow into logistics management.

Planning, implementing, controlling efficiency and cost-effectiveness for flow of materials down the supply chain to customer requirements.

Integration of two or more activities for the purposes of planning, implementing and controlling flows of inventory, raw materials and finished goods across supply chain.

Provision of a broad range of activities concerned with efficient movement of finished products, raw materials, from source to consumers.

Physical distribution (transport and storage).

The evolving concept of logistics.
What is advanced logistics?

Advanced logistics providers with a global network are DIFFERENT from traditional logistics service providers:

- Understand all of the different players along the supply chain
- Offer end-to-end solutions
- Able to coordinate with all supply chain players and quick respond to the market
Traditional logistics services providers own and manage single logistics functions such as transportation, warehousing and freight forwarding. However, due to lack of knowledge of the entire supply chain, they are suffering from high logistics costs and low operational efficiency.

Higher-level functional integrator brings greater utility

Advanced logistics services providers manage multiple functions and emphasis on a long-term collaborative relationship with gain and risk sharing.

They are unique as:
- They are often separate entities serving their primary client and one or more partners in contract basis.
- They act as a single interface between primary client, other logistics partners and other service providers.
- All aspects (ideally) of the client’s supply chain are managed by them.
Traditional logistics vs. advanced logistics

Focus on **goods transportation**
Focus on optimizing the **delivery flow**
Focus on increasing the number of container deliveries to maximize **income**
Focus on maximizing **utilization** of container space
**Lack of transparency** in logistics costs
**Transparent** logistics costs
Focus on point-to-point delivery and inland transportation; single logistics solution with **little room for change**
Find **innovative** and **system-wide** solutions through analysis of the effectiveness of supply chain processes and logistics network

**Limited performance data** of suppliers
**Scientific evaluation** with key performance indicators (KPI) and other data of suppliers
**Multiple** contracts and invoices
**Single** contract and invoice
Transaction-driven relationship with clients; **poor responsiveness to markets**
**Enhanced market responsiveness** through close collaboration with clients and suppliers
Cost reduction of **parts of** the supply chain
Cost reduction of the **entire** supply chain

Traditional logistics service providers
Advanced logistics service providers
LF Logistics offers advanced supply chain management services and virtual logistics services. It chiefly means that LF Logistics does not own any physical assets such as warehouses, goods, or transportation fleets, but rather connects global business networks to offer the most efficient supply chain solutions for clients.

Virtual logistics can benefit through:

- **Asset light; leading to a reduction in operation costs**
- **Resource allocation based on consumer demand** (or designing best process flow based on client’s production bases, locations, lead time, etc.)
- **Enhanced flexibility and responsiveness through information and network sharing**
- **Flexibility to select best logistics service suppliers and build up strategic alliances**
- **Avoidance competition of direct with other logistics partners**
Case: advanced logistics of LF Logistics

- Healthcare channel services
- Modern trade services
- General trade services
- Sales operation management

- Freight services
- Program solutions and Administration
- Inventory management services
- Global trading and financial services

- Contract manufacturing services
- Value-added services

- Distribution center services
- Transportation Management services
A value chain solution: LF Logistics for an Australian company

Client: Australian company
- Products: high-end bedding products, apparel, footwear
- Source from China
- Target markets: Australia, other Asian cities

According to the existing supply chain of an Australian company, all products manufactured in China would arrive first in their Adelaide’s central distribution center before being delivered to stores.

While the supply chain design, on the surface, appears organized, an evaluation by LF Logistics unveiled the following problems:
- Storing capacity of warehouse in Adelaide can no longer satisfy demand
- High warehousing operation costs in Adelaide
- Long lead time results in high inventory level
- High costs of inland road transportation in Australia
- Additional logistics costs for exporting goods from Australia to other Asian markets
Case: advanced logistics of LF Logistics

LF Logistics offered a new value chain solution to the company

- Two offshore distribution centers in China (Shanghai and Guangdong) are established for storage, picking and packing
- Products are shipped to local distribution centers in Perth, Adelaide and Sydney, and delivered to other local cities, then

By adopting the redesigned supply chain, there are several advantages:

- Lower managing cost of warehouse operation in China
- Lower inland transportation cost between Australian cities
- More efficient for running pick and pack operations in China, and cross-docking in Australia

Results:

- Reduction of inventory holding in Australia: 60% ↓
- Pre-item warehousing and transportation costs lowered by US$0.6 ↓
- Market Responsiveness improved by 8 days ↑
- Container loading improved by 7% ↑
- Reducing the need for extra distribution center brought cost savings of US$54 million ↓
Collaboration between logistics companies & their clients

Companies may be motivated to form strategic alliances due to several key internal driving forces:

- **Focus on core business:** Businesses can leverage the network and gain full support from the strategic partners so that they can focus on their core competencies.

- **Enhance market competitiveness of the products:** Advanced logistics companies help their allied businesses to enhance price competitiveness through adopting advanced technologies, door-to-door logistics solutions and the benefits from economies of scale.

- **Improve asset utilization:** Logistics companies generally possess more professional logistics facilities and achieve better assess utilization through demand consolidation.

Successful strategic alliances may be mediated by certain factors such as:
- Company culture and management philosophy
- Market position
- Complementary resources and
- Mutual interests

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**Checklist of forming successful strategic alliances:**

- Joint strategic planning
- Joint operations management
- Risk and gain sharing
- Shared capital investment
- Conflict resolution mechanism
- Effective communication
- Contracts
- Mutual trust
Advanced logistics companies in China and their general relationship with clients

What are the relationship between China’s advanced logistics companies and their clients in general, regarding to the checklist of forming successful strategic alliances?

- **Joint strategic planning:**
  - As compared with advanced economies, lesser advanced logistics companies in China and their clients collaborate strategically

- **Effective communication:**
  - Insufficient communication between top management of both parties
  - Poor information systems

- **Risk and gain sharing:** Few

- **Shared capital investment:** Few

- **Contracts:**
  - Sometimes unfair as the clauses are written by a single party

- **Joint operations management:**
  - Advanced logistics companies in China can generally offer set of SOPs and KPIs
  - SOPs and KPIs usually developed by a single party
  - Poor implementation

- **Mutual trust:**
  - Some business users are skeptical toward the services of China’s advanced logistics companies
  - Certain local advanced logistics companies fail to deliver their promises

- **Conflict resolution mechanism:** Few
Case: Strategic alliances between BSL & Company U

BSL
• Established in 1994
• An integrated third-party logistics services provider in China
• Strong reputation in Shanghai’s logistics market
• Serves a number of Fortune 500 companies and local companies in China
• Average growth rate of over 30% in past 5 years

Company U
• Established in 1998
• A joint venture between a famous auto parts manufacturing company in the United States and a Chinese manufacturer
• Manufacturing base: Shanghai Pudong, with an annual production capacity of 1.2 million pieces
• Logistics operations in Shanghai: In-house transportation team, leased warehouses and outsource warehouse management to third parties
• No dedicated team for logistics management, but sales unit played a role in daily logistics operations

Problems facing Company U
• Low efficiency on logistics operations
• High costs of running in-house logistics operations
• Huge differences in the service quality of the outsourced transportation companies
• Limited area of the manufacturing plant, passage is occupied by auto parts
• Production had outgrown the capacity of the leased warehouses
Strategic alliances between BSL & Company U

BSL and Company U formed a strategic alliances. Senior management and project teams from both sides collaboratively designed a viable logistics solution

Targets:
- **Short term**
  - Improve logistics operations of Company U
- **Medium term**
  - Enhance service quality of all logistics aspects and lower logistics cost
- **Long term**
  - Lower overall supply chain costs of Company U

**Strategies**
- Dedicate BSL team
- Set up a central distribution center in Shanghai to replace existing warehouses
- Establish a logistics information system that offers tracking, statistics and feedback services
- Roll out in phases to ensure smooth operations
Strategic alliances between BSL & Company U

Physical flows in auto parts distribution

BSL SAP platform

Suppliers of Company U

Manufacturing plants of Company U

Central distribution center of Company U

Return of auxiliary production tools to manufacturing plants

Return of auxiliary production tools

Central distribution center of Company U

Clients of Company U

Client self pick-ups

Results

- Company U enjoys a logistics cost reduction
- Logistics performance for Company U is enhanced
- The success of Company U strengthens the brand positioning for BSL
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