Point of View

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Upstream logistics: a strategic issue for car manufacturers

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With an average vehicle unit cost of €500 and foreseeable cost rises on the way due to switches in the locus of investment and to these flows' increasing complexity, upstream logistics is absorbing an increasing share of a vehicle's cost price. Hence, there is not only growing attention from manufacturers who in the past marked down upstream logistics as of secondary concern, but also a foreseeable realignment of the logistics market, currently in full flux.

Manufacturers' choice of production sites for cutting production costs or conquering new markets has led to a sharp increase in the average distance of sites from suppliers. This distance can, for example, jump from an average of 300 km (about 180 miles) for a site in Western Europe to more than 1000 km (about 620 miles) for a location in Eastern Europe, thereby greatly increasing the complexity of the logistics chain due to the use of multiple means of transport (road, air, sea) and a higher incidence of interrupted flows.

Outsourcing rationale

Alongside these relocation operations, manufacturers are pushing ahead with their deep-seated revamping of supply flows in order to meet return on investment targets (through reductions in stock) as well as improved client service rate targets. Meeting these targets will have a direct impact on the profile of upstream logistics, prompting a greater need for transportation and involving complex logistics operations (distribution resource planning platforms and cross docking) in order to speed up flows between equipment and vehicle manufacturers. This will also involve a full review of current information systems and technological investment so as to meet expectations over real time tracking of supply flows.

These two major changes in upstream logistics – the internationalisation and increased complexity of supply flows – have led to a profound change in the internal workings of the market, hitherto dominated by the order placers. Indeed, few motor vehicle manufacturers are capable of processing, let alone piloting, such logistics in-house. The current outsourcing trend is therefore set to continue, albeit confined to a select number of service providers, alone able to offer an international network, control over the full length of the supply chain (a "door-to-door" service) and a high degree of motor vehicle expertise for devising and piloting the various types of flows.

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The gulf in the logistics service provider market is widening faster than before

In this context, along similar lines to that observed among motor vehicle equipment manufacturers, a gulf in the logistics service provider market is widening faster than before. Category 1 providers organise and pilot the supply flows. They take responsibility for high value-added services such as overseas logistics and operations management. To do so, they realise the necessary investments, namely, in information systems, platforms, and customs and port infrastructure, whilst demanding longer contracts in return (minimum duration of three years). Category 2 service providers are responsible for more run of the mill service provision, such as land transport and some warehousing activities.

The market's realignment around a few major category 1 service providers will bring with it significant changes in manufacturers' operational patterns. The most important of these changes will include systematising logistical and transportation productivity programmes by, one the one hand, getting motor vehicle manufacturers and category 1 service providers to work according to joint optimisation frameworks and, on the other, getting service providers to commit to pluriannual productivity targets. The realignment's success will send a strong signal that stakeholders have adapted to the new environment.

Towards changing behaviour

This realignment necessarily involves considerable changes in stakeholder behaviour. The category 1 service providers must:

- provide greater transparency over their costs and quality of performance
- commit to optimising operations despite potentially leading to short-term losses of turnover (discontinuing flows, changes in flow type).

For their part, motor vehicle manufacturers must:

- involve service providers in certain manufacturing decisions (eg. new production sites, sourcing and transportation plans) and facilitate their access to information (eg. forecasts and unforeseen events). To provide a sound basis for a partnership with their service providers, manufacturers must take into account the overall savings realised through logistics optimisation (transportation gains + logistical gains + WCR gains) and not confine themselves to transportation costs alone;
- agree to work in conjunction with service providers over productivity programmes, given that they have direct control over factors which leverage productivity (eg. modifications to packaging, changes in the regularity of deliveries, choosing sourcing location according to needs and improving forecasts).

Initially, these changes will afford manufacturers genuine scope for realising savings. Over the long term, this concern for economy will take a back seat, with manufacturers finding themselves in the paradoxical situation of having to outsource an increasingly strategic resource. Consequently, the priority for manufacturers is to build long-lasting structures that increasingly move to the heart of their manufacturing apparatus.

The realignment of the upstream logistics market will therefore alter the power balance between manufacturers and logistics providers, not least because logisticians will be enjoying relative independence from automotive order placers given that, unlike motor vehicle equipment manufacturers, their operations straddle several sectors.

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