

Is logistics a core competence?

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There are many definitions of logistics available. Logistics can be all encompassing as per this description by the Council of Logistics Management. Logistics is "...the process of planning, implementing, and controlling the efficient, effective flow and storage of goods, services, and related information from point of origin to point of consumption for the purpose of conforming to customer requirements." (CLM 1998). Note that this definition includes inbound, outbound, internal, and external movements, return of materials for environmental purposes and the management of information.

It can also simply be described as getting the right product to the right place at the right time, in good condition and at a cost effective price.

When companies say they outsource their logistics to enable them to concentrate on their core competencies it is likely that they are referring to the actual warehousing and distribution operations as opposed to all the processes mentioned in our first definition.

For the purposes of this article we will therefore use the latter definition in terms of warehousing and distribution.

According to Prahalad and Hamel (1990) "core competencies are *the* source of competitive advantage". They suggest three tests which are useful for identifying a core competence. Namely

- 1) it provides access to a wide variety of markets
- 2) it contributes significantly to the end-product benefits and
- 3) it is difficult for competitors to imitate

Gutierrez (2003) states that 'a core competency is fundamental knowledge, ability, or expertise in a specific subject area or skill set'. This suggests more of a concentration on people skills and therefore whether a company sees logistics as a core competence may be dependent on the calibre of staff employed. During the 1980s and 1990s when companies outsourced significant parts of their logistics operations they also lost a number of experienced staff in these areas. There are signs that, in order to strengthen their supply chain teams, companies are again employing logistics experts. This is also resulting in companies reviewing their outsourced policy and contemplating in-sourcing previously outsourced logistics operations.

Based on Power et al's (2006) table below it is suggested that a company's logistics operation is more likely to be non-core than core. If we take logistics in this sense to be warehousing and distribution it is certainly required for the daily operations of most businesses but whether it differentiates the organisation from its competitors is debatable? Logistics can be seen as core to a business in terms of on shelf availability however whether it needs to be carried out by the company or a specific supplier is the key question.

Core competencies	Non-core competencies
Are integrated into the organisation's products and services	Are required for the daily operations of the business
Differentiate the organisation from its competitors	Indirectly impact the products and services of the organisation

Table 1 Competencies - Power et al (2006)

It can be argued that the majority of third party logistics providers supply a comparable service compared to say ten or fifteen years ago. Next day delivery is the norm and most companies experience on time in full (OTIF) % rates in the high 90s. Therefore can a best in class logistics operation differentiate one company from another? It's certainly not difficult for competitors to imitate and the gap in terms of buying power has diminished somewhat over the years through increased mergers and acquisitions and pressure on vehicle manufacturers and property owners to secure deals.

During a recent project undertaken on behalf of two major tyre manufacturers it was agreed that logistics was not a core competence within each company in terms of competitive advantage and differentiation as both were able to receive orders and deliver to customers on a next day basis. They saw differentiation in the product itself and stock availability.

Therefore managing the whole supply chain is more likely to be the core competence.

Porter (1985) says that 'a competitive advantage exists when a firm is able to deliver the same benefits as competitors but at a lower cost (cost advantage) or deliver benefits that exceed those of competing products (differentiation advantage).

A competitive advantage therefore enables a firm to create superior value for its customers and increased profits for itself.

A recent survey carried out by CILT UK showed that over 32% of respondents stated that their reasons for outsourcing logistics and the advantages they gained from doing so was to enable them to concentrate on their own core competencies and turn to third and fourth party logistics companies to provide the logistics expertise and knowledge required. (table 2 below).

Advantage	Position 2009 (2008)	% 2008	% 2009
Cost reduction	2 (1)	21.5%	15.3%
Access to greater expertise	1 (2)	16.9%	16.8%
Concentration on core competencies	4 (3)	15.4%	8.4%
Flexibility	3 (4)	12.3%	11.6%
Less risk	7 (5)	4.6%	3.7%
Less capital expenditure	5 (-)	>3%	7.9%
Variable costs	6 (-)	>3%	5.3%
Consolidation	- (8)	3.1%	<3%
More professional	- (9)	3.1%	<3%
Effective resource management	8 (10)	3.1%	3.2%
Improved service	8 (-)	<3%	3.2%
Access to new technology etc	8 (-)	<3%	3.2%
Others e.g. 'One stop shop'; purchasing power		20%	<20.0%

Table 2 – Benefits of outsourcing (CILT survey 2008/2009)

Quotes from respondents included:

'We can concentrate on our area of expertise'

'We can focus on what we do best'

'It's (logistics) not a core area to invest capital'

'It allows the business to focus on its core competencies'

These areas of expertise tend to be functions such as research and development, production and sales and marketing.

By outsourcing logistics which is seen as a non-core activity to a third or even fourth party one is therefore reliant on the provider to bring their core competency to bear and as a result enhance the organisation's service to its customers and create value and increase profits.

Power, Desouza and Bonifazi (2006) state that 'when engaging in outsourcing, it is absolutely essential that a client organisation is able to tap into the core competency of the supplier, not just for the simple task of sourcing the work but also for knowledge.

Clients are no longer only looking for cost savings but also for a 'partner who can contribute to the strategic efforts of the company by providing it with expertise and competencies that are not found in-house'.

This suggests that companies are now looking for more from their contractors than purely providing a commodity service.

Over 70% of participants in the CILT UK survey when asked about their relationship with their logistics services providers saw them either as supply chain partners or trusted advisors. The 'other' category however did include such phrases as *'a necessary evil'*; *'they deliver poorer service for disputed financial advantage'*; and *'they are only in it to make money these days'* which can be interpreted as that they are more mindful of their own profits than improving customer service or reducing costs. As we know all companies are in business to make money!

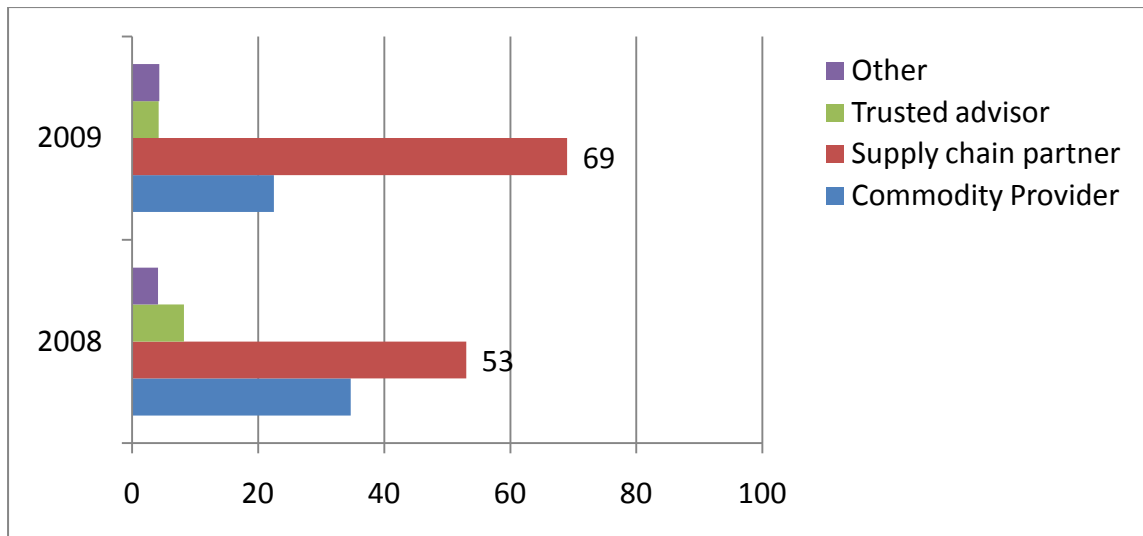


Figure 1 – How do you see your relationship with your 3PL/4PL?

Power et al (2006) go on to say that organisations are ‘often too busy *doing* things and sometimes they do so at the expense of stopping to think about whether what is being done is indeed the most important or beneficial for the future of the organisation’.

Interestingly both the above have been major criticisms of 3rd and 4th party logistics providers – i.e. they do not always contribute strategically and secondly they are too busy providing a service to spend time thinking about how to improve the operation and further reduce costs.

Two clients we have worked with recently have witnessed this first hand having initially been promised an all encompassing service and a proactive approach.

Therefore in order to be seen as a credible provider 3PLs and 4PLs have to be able to contribute strategically as well as providing an acceptable service.

When asked during a recent CILT seminar whether he thought logistics was a core competence within Asda Walmart, Ian Stansfield, Distribution Director commented that it very much depended on the operation itself.

When the original Asda ambient store delivery network was set up, Asda retained 28% of its warehousing and transport operations in-house. In 2009, 100% of the warehousing and 97% of the transport is operated in-house.

The picture changes however as the complexity of the operation increases. For example fuel delivery to store is completely outsourced and the Asda Service Centre warehouses where returns are processed are also fully outsourced albeit the transport is retained by Asda Walmart. With regard to chilled distribution 88% of the warehousing and transport is retained by Asda. 80% of the clothing warehouses are operated by Asda with trunking between depots fully outsourced, but again store delivery is retained in-house.

Consolidation warehouses are all operated by third parties who also look after 80% of the transport.

As far as new business is concerned the majority of operations are currently outsourced.

Ian states that Asda Walmart are experts in food distribution having operated warehousing and transport for the past 20 years and therefore it is unlikely that a 3PL is going to improve on this service. In such a competitive market, shelf availability is key and as such, Asda Walmart has taken full control of this aspect of the operation.

However it could also be argued that delivery from DC to store is not complicated and providing the retailer is happy to invest in the infrastructure and the equipment there is very little added value that can be gained from outsourcing a dedicated DC or the movements from DC to store. As Ian says "what would we get for our money?" He goes on to say that he has "yet to see a better food operation than one run by a Retailer".

Thus are some retailers seeing store logistics as a core competence by bringing it back in-house or are they in-sourcing because all the potential cost savings have been realised, movements between DC and store are reasonably straightforward, industrial relations are stable and therefore they are saving on the 3PL management fees?

The key questions therefore are whether a 3rd or 4th party logistics provider can use their core competency to add further value to an existing dedicated operation? Secondly having encouraged the 3PL to add value throughout and having exhausted further cost saving initiatives is it prudent for an own account operator to in-source and save more money?

It is understood that most retailers did not relinquish the buildings and transport fleets to the 3PLs when they outsourced and continued to control the assets with the contractors supplying the management expertise and the staff and therefore capital expenditure is not a major issue.

The answers may well be found somewhere along the continuum.

Conclusion

In today's market logistics operations can still be seen as core however if we accept the view that core competencies differentiate one company from another and are the source of competitive advantage then logistics in its basic form is not a core competence. Logistics operations can be easily imitated and it is fair to say that the majority of 3PLs provide similar levels of service.

By widening the scope to include the whole supply chain we are looking at a core competence which can be fundamental in not only differentiating companies, providing access to wider markets but also enhancing the end product benefits through greater availability and cost reduction.

The question therefore is whether companies should invest in people to ensure that Supply Chain Management remains or becomes a core competence or whether they should outsource to a 3PL or 4PL to tap into their knowledge and expertise and look at things holistically.

This also requires the 3PLs and 4PLs to have the expertise to assist clients enhance their supply chain operations. Peter Surtees, Supply Chain Director for Kimberley Clark, speaking at a recent CILT event suggested that he had yet to see 3PLs facilitate potential collaboration between companies within the supply chain and it was companies such as his which were driving supply chain improvements.

A final question is whether retailers have decided that logistics in the form of DC operations and DC to store delivery has become a core competence or whether they have realised all the savings from their third party relationships and have now decided to transfer the operations back in-house and save on the management fee. This should spark a lively debate.

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