



LOGISTICS YEARBOOK

2011

Your guide to the world of logistics
and supply chain management.

EVO Logistics Yearbook

2011 edition

Credits

EVO's Logistics Yearbook edition 2011
ISBN: 978-90-79470-00-6

Editor

Peter J. van der Sterre

Editorial production

Feico Houweling, Rotterdam

Photography

Ben Wind, Rotterdam,
Marjolein Cuber

Illustrations and design

Helen Verbeek Grafische Producties, Zoetermeer

Translation

Marcus de Geus, Delft; Janny Kok, Rotterdam

Print

www.balmedia.nl

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A view through a window of a cable-stayed bridge, looking out over a city skyline and a river. The window is framed by dark metal bars, and the view is partially obscured by the bridge's cables. In the foreground, the silhouettes of people are visible, suggesting they are inside a boat or a viewing platform. The text is overlaid on the lower left portion of the image.

**‘Only those companies will
succeed that have the open
mind that allows them to
embrace the opportunities
the future holds in store’**

Foreword

It is my great pleasure to present the EVO Yearbook 2011, the fourth instalment in a successful series. Unlike the name Yearbook would appear to imply, the authors of this publication will be looking at the future rather than contemplating the past. This year's theme is *Innovation*.

Businesses that depend for their survival on transport and logistics have mostly left the recent economic crisis behind them and are now facing a fresh start. Now is the time to decide on new initiatives, to take a different road, if the industry as a whole is to emerge more sustainable, more economic, more intelligent, and above all, stronger and more successful. Innovation throughout the logistics chain, from warehouse to product delivery, is essential not only to ensure the survival of the businesses represented by EVO, but also to safeguard the vigour and robustness of the Dutch economy.

Opportunities need to be grasped with both hands, but only those companies will succeed that have the open mind that allows them to embrace the opportunities the future holds in store. Research and development, as conducted by institutes such as TNO and the new logistics knowledge institute, Dinalog, enable us to discover new paths that lead to improvements in technology. Thanks to such research, intelligent logistics concepts can be made reality, a prime example being of course 4C (Cross Chain Control Centres), in other words the concept of the Netherlands as the logistics control tower of Europe.

Within the separate modes of transport, and even within individual businesses, opportunities for innovation are eagerly being pursued. They might involve a smarter way to set up internal logistics, or various kinds of collaboration that yield more efficiency, faster delivery, improved reliability, and reduced costs.

This book gives an impression of the concerted efforts brought to bear by the Dutch shippers to raise logistics to a higher level, a level at which the international competition can be engaged, to the benefit of Dutch trade and industry and our economy.

On behalf of the board of EVO I would like to express my sincere hope that this book will help to further stimulate innovation in our industry.

*Chris Bruggink,
Chairman, EVO*

BPO

**Business model
innovation**

Summary of chapter 8

With Business Process Outsourcing (BPO) of an entire end-to-end process or even a complete supply chain, the logistics sector enters new and generally untested grounds. The idea is definitely exciting, but is it feasible? And how different is it from outsourcing only one or two logistic functions, which until today is considered the norm? This article explores the concept of Business Process Outsourcing, including a recent real-life case in which one of the leading manufacturers of telecom equipment took this big step.

Business Process Outsourcing has been around for a long time. Companies specialising in payroll and human resources BPO, have been in business for more than 60 years. But mostly, outsourcing of business functions or processes was restricted to the domains of Finance & Accounting and HR and often only single processes were outsourced. Gradually, this has been extended to include more multi-process contracts. A recent addition is the procurement function.

The innovation currently taking place entails complex and integrated services. BPO is moving away from the execution of single logistic processes to complete end-to-end processes, like order-to-cash. The outsourcing of supply chain management is becoming a reality and typically includes planning, analytics and (re-)design. It also requires a more advanced use of technology.

As an example, the case of Nokia Siemens Networks (NSN) is presented. As a result of BPO, this company has realized an immediate cost reduction as well as a significant contractually agreed cost reduction over the next years. In addition, the company benefitted from using a partner that excels in process design, change management and IT capabilities

Supply chain business process outsourcing

Outsourcing of basic logistic functions like warehousing and transportation has a long history. In fact, one might challenge the correctness of classifying these activities as “outsourcing” because services within certain transport modes, like rail and mail, were never performed in-house and very few companies historically actually possessed their own ships or airplanes to transport the goods they manufactured.

Johannes Gilothe, head of supply chain of Nokia Siemens Network and Erik van Dort, Capgemini Consulting

3PL and more

Hundreds if not thousands of pages have been written in order to describe the essence of Third Party Logistics (3PL). The common understanding is that the third party is an extra guest at the table when a shipper and a customer have goods delivered through another company. When this definition is used, a simple transport function provided by a carrier would suffice to qualify the service provider as a 3PL. Most writers however feel that more must be provided before the 3PL title can be bestowed.

As early as 1998, Peter van Laarhoven, then professor at the Technical University Eindhoven, stated that a Third Party Logistics (TPL) company would perform at least the organisation and the execution of transport and storage, but potentially also the inventory management, the IT-related services like ‘tracking-and-tracing’, the value added services and possibly even integrated supply chain management. In addition, one would expect to see elements of management, analysis and design and a contract of at least one year. This is in his words “to separate TPL from the traditional procurement of transport and warehousing activities”. Applying this definition, many fewer companies would qualify as true3PLs.

In addition, there is the notion of the 4PL. The term was originally trademarked by Andersen Worldwide in April 1996, but formally abandoned in November 1998. The concept has intrigued logistics practitioners ever since. 4PLs came to represent a ‘super league’ for logistics service providers. Being afraid of the trademark status, some started using the term Lead Logistics Providers instead. An Andersen Consulting definition goes as follows: “a supply chain integrator that assembles and manages the resources, capabilities, and technology of its own organization with those of complementary service providers to deliver a comprehensive supply chain solution”.

A practical description is used by Prof. John Langley in his annual study on the 3PL industry with Capgemini: “one that may manage multiple logistics providers or orchestrate broader aspects of a customer’s supply chain”. That definition may be a bit too broad. In this case, a sea freight forwarder could claim to be a 4PL

because they coordinate the work between a shipping line and a trucking company to deliver to the end destination. But this would not make them a 4PL. They would need to take on more functional integration and operational responsibilities as well as a bigger role in Information Technology to achieve smart solutions. Given these extra requirements some have concluded that the traditional logistics service providers are not in a position to move to the 4PL level, At the same time others stated that “the consultants of today are the 4PLs of tomorrow”.

Although widely debated in articles and at conferences, there are not many real world examples of successful, sustainable 4PL engagements. Probably the best known example is Vector SCM, which was created as a joint venture between logistics provider Con-Way’s Menlo Worldwide and General Motors. This experiment lasted for six years and was ended by GM in 2006.

‘Front office
business process
outsourcing is
often considered
more daring’

A fresh start: business process outsourcing

Business Process Outsourcing has been around for a long time. Companies like ADP, who specialise in payroll and human resources BPO, have been in business for more than 60 years. But mostly, outsourcing of a business function or process was restricted to the domains of Finance & Accounting and HR. The outsourcing of Information Technology is arbitrarily considered a separate market and not seen as business process outsourcing. Often single processes were outsourced. Generally it was payroll but it might also be debt-collection, general ledger or time & expense administration.

This market is pretty mature. It has been extended to include more multi-process contracts like combinations of Accounts Payable, Accounts Receivable and General Accounting. And a more recent addition is the procurement function that tends to be focused on the sourcing of “indirect” goods and services. ‘Indirects’ are those that supporting the core business but are not part of it. Examples are catering, cleaning, copying, security, office supplies, travel, etc..

Back, Middle and Front Office

All the examples mentioned above are considered to be back office functions. There also is a market for front office business process outsourcing. This is often considered a bit more daring, as it involves customer facing work provided by third parties. Telemarketing and customer care centres belong to this category. This part of industry sometimes evokes comic relief in films: Call centre agents are trained and put in a simulated world that creates the illusion that they are actually in the country of the caller, rather than 10.000 kilometres away. A recent example was the multi-Oscar winning movie, Slum Dog Millionaire. But this is a serious industry, and one that provides a significant part of the economic prosperity in countries like the Philippines and India.

Middle Office is probably the least recognised category. It contains a range of industry-specific operational services. Typical examples of outsourced services

include:

- Banking: card processing, check processing,
- Insurance: policy administration, claim processing and
- Consumer electronics: warranty/repair administration management.

Why and how

Well known analyst firms like Gartner and Forrester report about the BPO market. Nelson Hall is an analyst firm specializing in BPO. They asked companies why they chose to choose for business process outsourcing. The most important reasons can be found in Figure 1. They include increased flexibility to handle peaks and troughs of activity, improved cost effectiveness of transactional services and standardization of service.

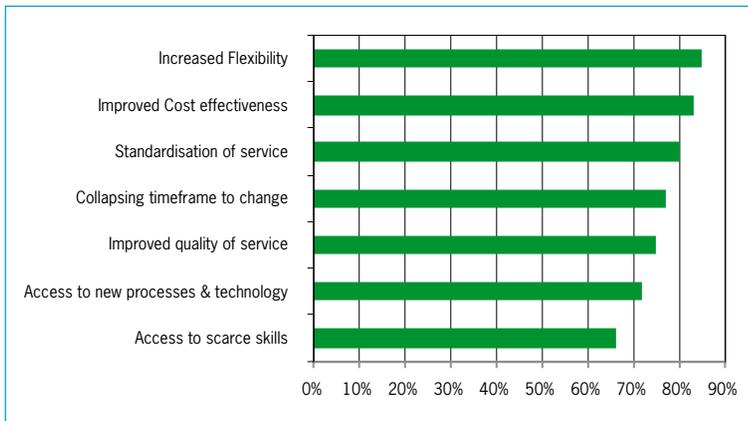


Figure 1: The most important reasons why companies opted for BPO. (Source: Nelson Hall - "New Approaches to Outsourcing Support Functions in 2009")

Different pricing mechanisms can be used to pay for the services provided, the most common being a price based on the number of staff used. Transaction pricing is also quite frequent. The latter is often introduced after an initial contractual period as a "cost plus" arrangement, which gives both parties time to properly understand the services, their costs and the reasonable service levels. It is common to agree on levels of continuous improvement. The distribution of the benefits between contract parties varies.

The next step

As should be expected, the innovation currently taking place in the marketplace is focused on the more complex and integrated services. It is moving far beyond the execution of single logistics processes and includes truly end-to-end processes, like order to cash. The outsourcing of supply chain management is becoming a reality and typically includes of planning, analytics and (re-)design. It also requires a more

'The innovation is focused on complex and integrated services'

advanced use of technology. And it is likely to be provided as a part of the service provider's expertise rather than as an activity which is simply being taken over from a client. Business process tools, workflow management, advanced planning and scheduling, business intelligence and network design tools can be leveraged. Of course, this concerns not just selling tools but rather about delivering services. The provider can offer economies of scale for relatively scarce skills or for activities that are only needed incidentally by clients.

When such smart and strategic services and tools are involved, the question rises of how and when to use standard technology. Taking over an existing hodgepodge of client systems is not necessarily the best way for a service provider to run a client's processes. A wide variety of solutions is being designed for this purpose, including cloud computing, which can be leveraged to provide a single solution for several clients. At this stage, cloud computing seems promising for single processes, but a bit challenging for integrated, more company-specific processes.

Supply Chain BPO: the case

The text box contains background information for the Nokia Siemens Network (NSN) case. Johannes Giloth, is the global head of supply chain networks for NSN. His 2,100 employees across 80 countries take care of activities including order configuration, order fulfilment, transportation, warehousing, distribution, sales and operation planning, factory and supplier capability management and trade compliance.

NSN has initiated several initiatives to raise the efficiency of its operations. Main drivers were on the one hand the consolidation in the market, the increasing cost pressure resulting from fast growing Asian competitors and the increasing customer requirements towards the supply chain.

**'A classic
"lift and shift"
outsourcing
option would no
longer work'**

As part of their cost improvement efforts, NSN's supply chain had already consolidated several activities, like order entry and validation, into regional shared service centres. However, the reality of market dynamics made clear that further improvements in efficiency and services were necessary. A classic "lift and shift" outsourcing option would no longer work. The change had to be bigger but speed was also a key concern. Transformational outsourcing was the solution developed to tackle the needed change throughout the entire value chain.

Part of the process was to identify the activities that could be outsourced. An internal project on Roles & Responsibilities was conducted. It required a critical look at what work needed to stay in-house and where the best value could be obtained by using a service provider. In the end, a function called "Logistics Coordinator" was called into existence. This was to be an essential element when outsourcing these tasks. There were however some regional differences in the interpretation of this role, so part of the preparation was to fine-tune the execution of the actual role and the handover of certain tasks to staff that was to be retained where necessary.

With the help of a specialised consulting firm the complex dataset for the Request for Proposal was collected and sent to four service providers that were considered capable of meeting the demanding requirements. The process to select and contract a provider took six months.

Johannes Giloth explains, “We wanted to make sure we would be able to work jointly with the provider to really improve and standardise our processes end to end. We leveraged the IT and process re-design capabilities of our BPO partner to accelerate the improvement of our supply chain, in terms of capability, reliability and speed. We moved the first set of operations shortly after closing the contract while continuing to work jointly to define and improve business processes and configurations using a new order validation tool, a state-of-the-art workflow management tool and comprehensive set of business intelligence tools. This allowed us to consolidate most of our work into six centres on three continents. The tools also allow us to make continuous improvements based on a permanent benchmark of global business process execution. Another important part of the design was to make the interfaces between outsourced staff and the retained (two thirds of headcount) staff work well.”

To Johannes Giloth mind, it is this particular aspect of optimising the processes, both those which are outsourced as well as those which are retained by the client organisation, that makes transformation outsourcing truly innovative. A change momentum was created together with the BPO partner. This will however only be successful if it covers the entire value chain, including the major interfaces like F&C and Sales. To run the transformation process during the coming two years, a joint project was set up.

Such a strategy requires a level of partnership with the outsourcing partner that goes beyond normal contracts, and it does require that both parties are willing to share the risk. This requires a strong contract management on both sides which applies to different levels of the customer - supplier relationship. Mutual trust on the top level is a prerequisite. Only then the transformational outsourcing innovation can be turned into a success.

‘BPO requires a level of partnership that goes beyond normal contracts’

Johannes continues, “NSN has realized an immediate cost reduction and a significant contractually agreed cost reduction over the next years. In addition, the benefit from using a partner that excels in process design, change management and IT capabilities cannot be underestimated. All of these changes would not have been possible to do in-house and certainly, not in the accelerated timeframe in which they were achieved!”.

For other companies Giloth suggests: “it is important to be ambitious with these changes. It also takes a lot of internal selling. One can expect quite a bit of open as well as hidden resistance to these changes. Your provider should move beyond traditional cost-cutting to really being a transformation partner. Transformation outsourcing can really provide a step change for your performance.”

Case BPO SCM: Nokia Siemens Networks

Company: Nokia Siemens Networks

Nokia Siemens Networks (NSN), a leading global enabler of telecommunications services, offers a portfolio of mobile, fixed and converged network technology, as well as professional services including consultancy and systems integration, deployment, maintenance and managed services. NSN is providing innovative infrastructure and solutions for the majority of the world's telecom operators.

Supply chain:

The company has a worldwide manufacturing network of seven sites supported by electronic manufacturing services (EMS) partners in seven countries. In addition, six distribution hubs form a global network of logistics centres, ensuring proximity to its customers. NSN operates in more than 150 countries worldwide with approximately 64,000 employees.

The situation:

Johannes Giloth, global head of supply chain and logistics at NSN: "Serving the customers in the different markets requires a decentralized setup. It isn't difficult to image how complex the supply chain is. A high-performing and effective supply chain that contributes to the value of a company is therefore vital. It is crucial to have an end-to-end information backbone, to harmonise and standardise the process across the company." Giloth continues, "NSN's supply chain is project driven, meaning that we need it to be flexible as we have to cope with many unforeseen demands. The flexibility our decentralization requires though, had over time led to the creation of various fragmented, locally sub-optimised processes and in many parts resulted in unclear roles and responsibilities. Our vision of the supply chain is a succession of end-to-end, highly standardised processes contributing to short lead times, ensuring flexibility, and a lean supply chain in terms of costs and structure. This is what we have set out to achieve."

The Business Process Outsourcing case:

Giloth explains why NSN opted for outsourcing to a BPO provider as opposed to optimising in-house. "We decided to have an external partner help us transform the supply chain, and the provider had to have a clear commitment towards this with a real stake in the business, we didn't just want a consulting approach," Giloth notes. "The partner search was based on three pillars: cost reduction; process transformation and improvement, including IT expertise; and a perspective for NSN's people - because we, as a company, couldn't provide an appropriate outlook for them anymore. "

NSN focuses on improving its customer service, while outsourcing roughly 30 percent of the order management operations. The BPO provider supplies order management services such as customer order management, distribution and

customer invoicing. Giloth believes that the partners strategic approach to supply chain transformation, their ability to capture and incorporate lessons learned from their market knowledge business, and its suite of enabling tools and technology will allow NSN to optimise its supply chain operations and achieve a competitive advantage.

“You can completely mess up the business with a low performing supply chain,” Giloth adds. “Yet a high performing supply chain can contribute to customer satisfaction and be a differentiating factor.” Under the terms of the recent agreement, nearly 400 employees from NSN joined the providers BPO supply chain services teams from several countries including Brazil, USA, Finland, Germany and India.

Authors

Steeff van Amersfoort is global transportation specialist at Abbott logistics BV, Breda, and chairman of the EVO Council for Airfreight and Express Transport (Raad voor Lucht- en Expressvervoer),

Erik Backer van Ommeren is chairman of the EVO Inland Shippers Council (Raad voor Binnenvaartverladers) and was a.o. director of business intelligence with Vliegassunie B.V. Culemborg

Wim Bens is managing director at Dinalog, Dutch Institute for Advanced Logistics, and was previously a.o. Managing Director at TU/e Innovation Lab B.V., Eindhoven.

Chris Bruggink is chairman of EVO and has several public and business functions.

Martin Commandeur is manager logistics at Grolsch NV and chairman of the EVO Council for Ocean Shippers (Raad voor Zeeverladers).

Erik van Dort is vice president supply chain management with Capgemini Consulting in Utrecht

Johannes Giloth is head of supply chain & logistics with Nokia Siemens Networks in München.

Robert Janssen is advisor Logistics at TNO, Delft, and researcher at Free University Amsterdam (VU).

Machiel van der Kuijl is managing director of EVO.

Marten van der Laan is transport manager at Kruidenier Foodservices/ Kruidenier Horeca/ Kruidenier Groep BV (KFS), and chairman of the EVO Council for Road Haulage (Raad voor Wegvervoer)

Aat van der Meer is managing director of Dachser Benelux.

Harry Nissen is sector manager transport, Rabobank Nederland / Directoraat Bedrijven, in Utrecht.

Hans Quak is senior advisor Logistics at TNO, Delft.

Henk Schaafstal is senior supply chain engineer bij SABIC Europe in Sittard and chairman of the EVO Council of Rail Shippers (Raad voor Spoorverladers).

Jan Scheffer is independent consultant and interim manager of planning and logistics in healthcare organisations.

Peter van der Sterre is Association Manager at EVO.

Lori Tavasszy is professor freight transport and logistics at TU Delft and member of the EVO Council for Logistics Know How (Raad voor Logistieke Kennis).

Kees Verweij, principal consultant freight transport and logistic with Buck Consultants International

Peter Wilmott is president of EUROPRO, Paris, the European umbrella association for national trade facilitation organisations.

Erik van Wunnik is director at LogiReal News Portal and member of the EVO Council for Logistics Know How (Raad voor Logistieke Kennis).



Ben Wind (1953-2010)

The Dutch photographer Ben Wind died in a helicopter accident in Rotterdam harbour on June 27, 2010.

Ben was an outstanding photographer and famous for his beautiful pictures of the transport and logistics sectors. Many of his pictures were used for EVO publications throughout his professional career.

As a tribute to Ben, this EVO Yearbook 2011 contains pictures made by him and selected by EVO in close cooperation with his wife Ellen Wind.



About EVO

EVO represents the interests of some 30,000 companies in the Netherlands that transport goods for their own account or contract this out to a professional transport company. They come from all sectors of industry, including wholesale, retail, construction, agricultural and business services.

Our members are users of freight services across all modes of transport: deep sea shipping, short sea shipping, air transport, road transport, rail and inland waterways. They operate both within Europe and overseas.

EVO brings the views of member companies to the notice of political decision-makers and public authorities not only at regional level, but also in the Hague and Brussels. We also convey our own and our members' views to carriers in all modes of transport, both directly and through their organisations.

EVO is an international level member of European Shippers' Council (ESC), International Road Transport Union (IRU), Union of Industrial and Employers Confederations in Europe, (UNICE) and the International Chamber of Commerce (ICC).

