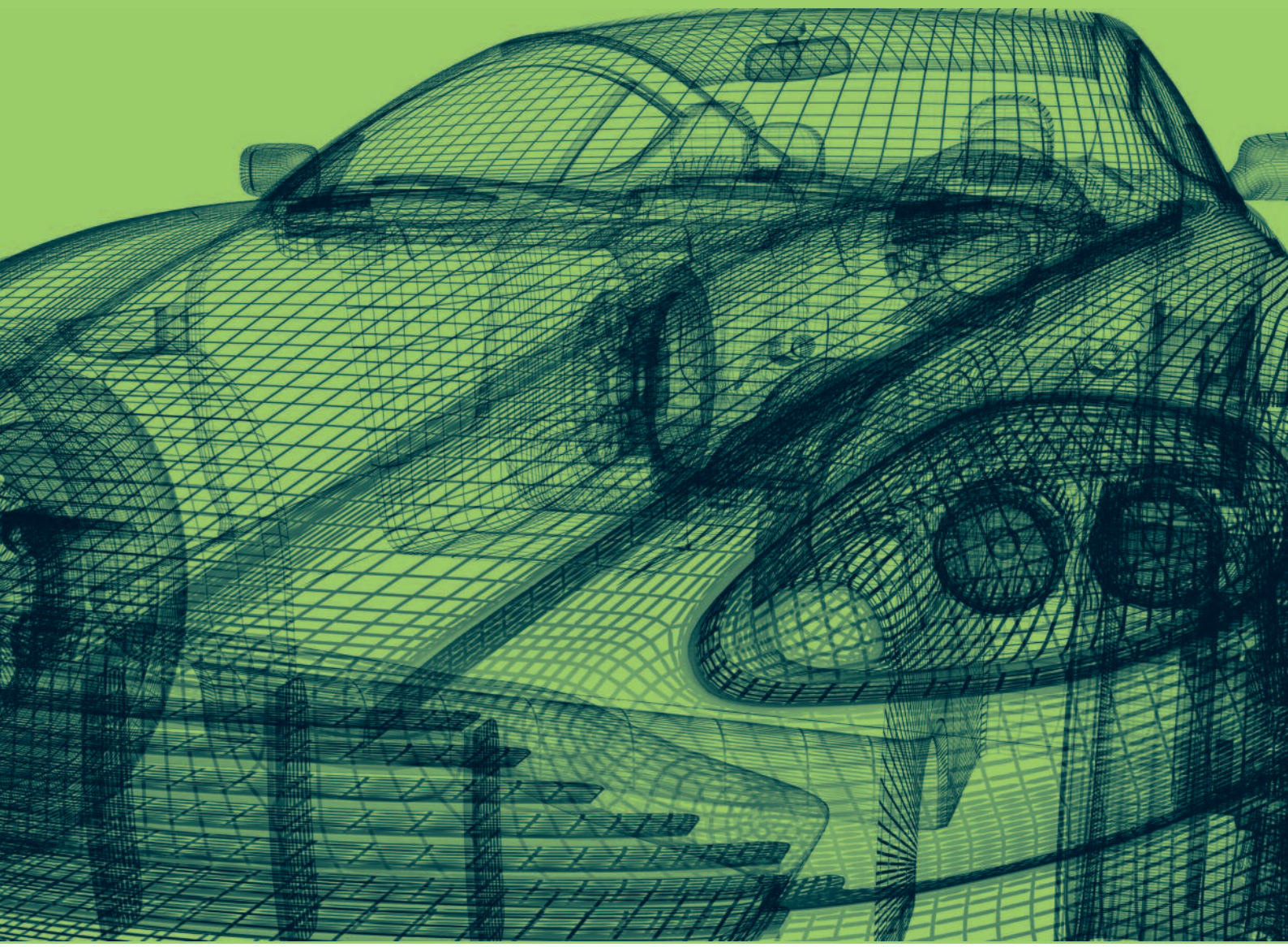
2010-11

world quality report

Distribution and Logistics: The Road to IT Transformation



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Distribution and Logistics:
The Road to IT Transformation

By Dennis Wereldsma, Worldwide Transportation Sector Leader, Capgemini

The 2010-2011 World Quality Report is a result of ongoing collaboration between Capgemini Group and HP Software & Solutions. It presents findings from the 2010 global survey of CXOs, IT directors, quality assurance managers and engineers, and examines the state of application quality and testing practices across different industries and geographies.

Each year, this report looks at current trends in software quality and examines emerging tendencies that may affect the future of testing. Survey respondents are asked to evaluate the level of investment in Application Lifecycle Management (ALM) solutions in their organizations, rate the return on investment for these solutions, answer questions about their testing practices, and assess the general levels of application complexity. In this year's report, we revisit quality trends and approaches and take a closer look at related industry-specific issues and challenges in the Distribution and Logistics sector.

The full report can be downloaded at http://www.capgemini.com/wqr2010-11. An excerpt for the Distribution and Logistics sector appears below.

Consistent with the other sectors profiled in this report, Distribution and Logistics is a diverse segment that includes a variety of logistics and transportation service providers: freight forwarders, postal service providers, the maritime sector, rail and even airlines and airports. Naturally, each sub-sector has a very different approach to IT with a different set of priorities. However, in analyzing the companies in the Distribution and Logistics sector, we discovered that some of the most interesting trends in IT are emerging among the logistics service providers, so we chose to focus on the freight forwarding sub-segment for a more detailed analysis.

Freight forwarding companies rely heavily on IT systems for their core transportation functions, such as scheduling, planning and dispatching. However until recently, there has not been a standard ERP-like packaged solution on the market to support this very specialized sector. As a result, each freight forwarding provider resorted to building its own custom set of IT applications. Depending on the size of the provider and the complexity of its operations, these dedicated systems often take several years to build and require substantial effort to maintain and keep up-to-date.

The real issue with custom systems is that they can be extremely difficult to integrate when companies' IT systems merge. Logistics companies typically grow by acquisition, with larger providers absorbing smaller players and their operations. After several acquisitions the company's IT landscape becomes cluttered with redundant systems – some obsolete and others still supporting disjoined, specialized functions. These systems are too costly to maintain and too difficult to integrate with newer software packages, but almost impossible to retire. Our research shows that logistics operators are at a pivotal point in their IT transformation journey. Many companies are trying to define the roadmap for rationalizing their application landscape to achieve greater agility, security, reliability and compliance, but the change may not be as fast as in some of the other sectors – such as Financial Services or Telecommunications. Logistics is a low-margin industry that has traditionally invested most of its resources in keeping its vehicles running and goods delivered, not advanced IT technology. Only about 2% of logistics companies' annual revenue is spent on IT, and over 60% of all surveyed logistics providers still admit that the alignment between business and IT needs improvement (Source: The State of Logistics Outsourcing, 2009 Third-Party Logistics, Capgemini).

Nonetheless, change is coming. Seeing the potential and the growing market, two of the leading ERP providers – SAP and Oracle – have recently entered the transportation management application space. Oracle's new transportation management system is already available on the market, and SAP's new application is expected in 2011. We believe that many logistics companies will take advantage of these offerings to consolidate their processes and systems into a single, standardized application infrastructure.

Logistics providers are also feeling the pressure from their customers to build a global cross-industry IT platform using service-oriented architecture (SOA) and open-industry standards. This type of platform would enable logistics providers to streamline collaboration with customers, partners and regulatory agencies, while creating an efficient infrastructure and data repositories. Not surprisingly, logistics companies are turning to agile development methods to help them build new SOA platforms. Seventy percent of all survey respondents in the Distribution and Logistics sector say that they are leveraging agile in their application development and delivery practices, and all respondents say that they use integrated automation tools to support their agile initiatives. (See Figure.) The number of projects where agile is used is still small – typically under a

quarter of all IT projects – but we believe this indicates the beginning of the true IT transformation in the logistics sector.

Logistics companies are often unwilling to decommission old applications for fear of potential disruptions to shipment tracking, customer invoicing and virtually every other area of their operations. They are also not able to easily purge old data that continues to grow uncontrollably – due to compliance and data retention requirements. At the same time, many companies admit that they cannot continue to operate in this fashion, spending up to 80% of their IT budgets supporting ever-expanding datacenters, aging infrastructure, multiple data repositories and complex one-off integrations.

Logistics and transportation companies are also beginning to bring their applications to the cloud to reduce hardware requirements, improve application quality and performance and reduce maintenance expenses. Even traditional service providers, like the Postal Service, are beginning to look for new ways to increase revenue and boost operational efficiency. To remain competitive, they need to look beyond their traditional modes of operations and enter new business arenas with quick, convenient, easy-to-use and reliable customer-facing applications. To bring large volumes of new systems to the market quickly, providers are turning to virtualization technologies that offer the advantage of faster development times, increased quality and shorter deployment and QA cycles.

We believe that adoption of new technologies and methods – such as agile delivery and virtualization, as well as modernizing the application landscape and developing global IT platforms – will fuel the future growth of logistics service providers. As the economy continues to recover and companies increase their IT spending, we will see more investment going toward strategic projects and initiatives.

About the Study •

The World Quality Report Survey was sent to over 30,000 CXOs, IT directors, QA managers and engineers at various companies around the world. All major industries are represented in the survey: Consumer Products and Retail, Distribution and Logistics, Energy, Utility and Chemicals, Financial Services, Healthcare/Life Sciences, High Tech, Manufacturing, Media and Entertainment, Public Sector, and Telecommunications.

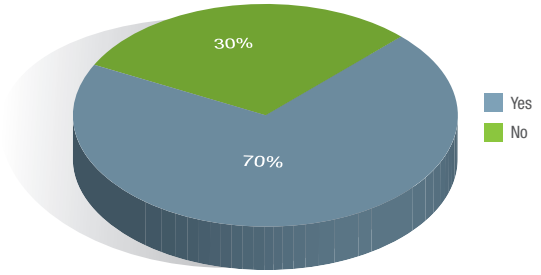
The survey also has a good distribution of company sizes; 38% of respondents are employed by small companies (less than 1,000 employees) followed by 27% by enterprise companies (more than 20,000 employees), 18% by mid-size companies (1,000 to 4,999 employees), and 17% by large companies (5,000 to 20,000 employees).

While over half of respondents come from North America (52%), other regions are well represented: Europe (30%), Asia (9%) and Rest of the World (9%).

In addition to the responses collected from survey participants, the content of this report is supported by Capgemini Group's benchmark data carried out on client projects, best practices, and over 40 years of experience in testing and quality management.

Q: Do you leverage agile development/delivery methods in your company's ALM?

Figure: The Distribution and Logistics sector is at the forefront of adopting agile delivery methodologies.



About Capgemini and Sogeti

The Capgemini Group is one of the world's foremost providers of consulting, technology and outsourcing services, enabling its clients to transform and perform through the use of technologies. Present in over 30 countries, the Capgemini Group reported 2009 global revenues of EUR 8.4 billion and employs over 95,000 people worldwide. Sogeti, its wholly-owned subsidiary, is a leading provider of local professional services, bringing together more than 20,000 professionals in 15 countries and is present in over 200 locations in Europe, the US and India.

Together, Capgemini and Sogeti have developed innovative, business-driven quality assurance (QA) and testing services, combining best-in-breed testing methodologies (TMap® and TPI®) and the global delivery model, Rightshore®, to help organizations achieve their testing and QA goals. Capgemini and Sogeti have one of the largest dedicated testing practices in the world, with over 6,400 test professionals and a further 11,000 application specialists, notably through a common center of excellence with testing specialists developed in India.

More information is available at
www.capgemini.com/testing
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Contacts

We value your comments and ideas. We welcome you to contact us in relation to any questions you might have concerning the 2010-2011 World Quality Report.

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