

SECOND AUTOLOGISTICS EUROPE CONFERENCE

More than 170 of the automotive industry's senior logistics executives attended *Automotive Logistics* magazine's second annual Autologistics Europe conference in Montreux, Switzerland in March. Delegates from across Europe, North America and Asia attended the 2004 event to participate in conference sessions covering strategic pressures, operational realities, new markets, external pressures and visions for the future.

This year's event also saw the introduction of streamed sessions on the morning of the second day to expand content and allow greater

focus for those interested in finished vehicle logistics, packaging, suppliers' supply chains and service parts.

Executives from Audi, BMW, DaimlerChrysler, Faurecia,

Ford, Honda and Magna Steyr were among the speakers and panelists from carmakers and suppliers. There were also top-level executives from logistics service providers such as

AutoLogic, Exel, Gefco, Kuehne & Nagel, Panalpina, Schneider Logistics and Volkswagen Transport.

Our thanks go to gold sponsor Panalpina and silver sponsors American Parking Solutions, DFDS Tor Line, G-Log, NYK Logistics, Schneider Logistics, Schenker, Viewlocity and World Courier for their support.

Autologistics Europe 2005 will be held on 2-3 March 2005, again at Le Montreux Palace, to coincide with the Geneva Motor Show. There will be a cocktail reception on the evening of 1 March. For details on next year's event visit:

www.autologisticseurope.com



Autologistics Europe 2004 Conference delegates take advantage of the opportunities for coffee-break networking

GERMAN OEMS STRIVE FOR COMMON SYNERGIES IN CHINA

Audi is working together with Volkswagen, DaimlerChrysler and BMW to introduce logistics improvements for all their China operations, according to international logistics director Jens Tilgner. He said that the challenges in the China market meant it made sense for the OEMs to work together on defined packages to create standardization and synergies.

The companies have set up a "Coreteam" of logistics executives from the four carmakers and established work packages focused on sourcing, packaging service providers, supply chain process and responsibility, packaging and local content and logistics processes.

The companies want to achieve results such as packaging standardization, common use of packaging companies, logistics service providers and transport structures and synergies in logistics processes and structures

at CKD production locations.

Tilgner said that the Coreteam had evolved from regular contact the carmakers had already. "There are a lot of synergies that we can create together and support each other with the experience we all have. That was the reason to create these teams, to work together and improve for the German car industry this process on a logistics base together," he added.

Tilgner said that the examples of all four companies using 33 different logistics service providers and 23 different packaging companies showed that there was plenty of room for the carmakers to work together.

"If you handle all these challenges by yourself it costs you a lot of energy and time and you have to make this experience a lot of times," said Tilgner. "We still have a lot of synergies that we can handle and it doesn't harm us to do it together because in the end it is



We still have a lot of synergies that we can handle and it doesn't harm us to do it together because in the end it is synergy for each of us – Jens Tilgner

synergy for each of us."

Tilgner said that while China promised much in growth potential the automotive industry had to meet the challenges of basic warehousing infrastructure, lack of national customs brokers and limited transport infrastructure.

Audi saw considerable

growth in the China market in 2003, increasing the number of cars it sold in the country by more than 70% to 63,000 units, including 53,000 units of the A6 node.

The VW group will also install a new plant in China close to its existing Changchun plant to produce the Golf, Bora and A3.



APL Logistics China's Jerry Wang said that in spite of the fragmented regionalism created by China's provinces and the importance of Guan Xi relationships, foreign operators could take the initiative

APL KEEN TO GRASP CHINESE END-TO-END OPPORTUNITIES

The rapid growth of the automotive industry in China and the country's relatively undeveloped logistics service provider industry is a major opportunity for western companies to establish end-to-end solutions, according to Jerry Wang, automotive MD for APL Logistics China.

Wang said that in spite of the fragmented regionalism created by China's provinces and the importance of Guan Xi relationships, foreign operators could take the initiative.

"We are lucky in a way because Europe is a very mature automotive market and very sophisticated, but for China it's a virgin land, it's a blank sheet of paper. You have the opportunity to do door-to-door solutions, rather than doing piecemeal. The market has not been that sophisticated," said Wang. "In Europe some companies are very specialized in inbound, some are very specialized in outbound, but in China they are not there yet, so this is a huge opportunity for

logistics companies to have the full control and manage this supply chain."

And APL Logistics (APLL) is doing just that, according to Wang, through its joint venture with carmaker Changan – China's fourth largest OEM and JV partner with the Ford and Suzuki – and a local barge operator Minsheng. He said that APLL is involved in picking up CKD shipments from overseas, consolidating them in Shanghai together with local suppliers and delivered to a regional distribution center ready for call-off orders to the car production plant. Once the vehicles have been made APLL picks them up and distributes them to dealers.

"This is 100% inbound and outbound," said Wang, in work that covers 31 provinces and 50 cities, delivering to date some 300,000 units and managing around 500 trucks. The company more than doubled its China revenues last year to nearly \$56m.

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"I gave up automotive logistics purely on the basis of health. The health scare was caused by a production director at Jaguar cars who, after I stopped his plant for the third time in a week, promised to do all sorts of things in terms of re-engineering to my body." - **Bob Ashkettle, consultant**



"What can you do in front of your client when you happen to know that one train going from France to Italy is stopped at the border because there are no drivers for the locomotive?" - **Claude Guetin, Gefco**

"The average supply base from us is somewhere about 600km away so logistically it's the heart of Europe, but unfortunately the heart is in the middle of the Alps." - **Michael Druml, Magna Steyr**



"Given the quality of the presentations prior to this, a lot of what I would have liked to have said has been said already, which is good news for you because it means I am not going to say a great deal." - **Dominic Regan, G-Log**



"If we look at the business that we are all in, at this point in time classically anybody coming out of business school would probably head off to the high tech industry or something with some actual growth in the underlying market." - **John Merry, AutoLogic**

"In China in 1992 a reporter from *China Daily* asked me what was my view about the Chinese auto market years ahead, I told him this: 'Before the year 2000 China will have become one of the world's biggest markets for automobiles. This is not a dream and it is going to happen.' I was right." - **Jerry Wang, APL Logistics**

PANALPINA CEO CALLS FOR COMMON-SENSE BUSINESS

Automotive customers are risking the commitment of service providers by paying lip-service to partnerships and making unreasonable contractual demands, according to Bruno Sidler, CEO of Panalpina.

"We have got used to the cost reduction of the annual automatic type, where you have to go down 3% or whatever, but things have also got a little bit out of hand," said Sidler. "Now we have contracts with immediate termination clauses, we



We have got used to the cost reduction of the annual automatic type, where you have to go down 3% or whatever, but things have also got a little bit out of hand - Bruno Sidler

sometimes have liability clauses, these unlimited liability issues. It is becoming more and more difficult to have a long-term view on the business and what is quoted on the partnership is becoming more and more lip service."

He made a plea to customers to make sure that cost reduction did not simply mean cutting percentage points off bills, rather attacking the "big beef" of process change.

"I know these process changes are very painful because you cannot realize the gains overnight. It needs investment first sometimes and the returns might only come a couple of quarters later. We have seen time and time again that these things are picked up and people say 'great', but then nothing happens. But the cost reduction off the bill, that is taken immediately. It is very frustrating sometimes to see that."

Sidler called for stability - "and it doesn't have to be a 20-year

contract" - and a return to the values of the "good old days" when "a handshake - 'yes lets do business together and you can count on us'" - formed the basis of a fundamental business agreement.

"Every time I speak to the stakeholders, people who are really dealing with logistics, we have a basic agreement on what has to be done and who should pay what if things go wrong. But then things get turned over to the company lawyers and then it just goes nowhere," said Sidler.

"We don't want to run away. We are a \$5bn company, we are involved with all the major manufacturers around the world. We are not in this business to pull you over the table, but I cannot sign contracts with unlimited liabilities. Please let's have some common sense back and let's have the stakeholders at the table and let's agree on workable terms and then we can call the lawyers for the paperwork."

DAIMLERCHRYSLER'S THIRD WAVE OF INTEGRATION

DaimlerChrysler is planning to open up its finished vehicle logistics network to other OEMs in the third wave of the 10-year strategy it began in 2000.

Egon Christ, senior manager of vehicle transportation logistics for DC in Europe, said that the group was currently building on the "wave one" achievements to integrate some 80% of Mercedes and Chrysler volumes and to introduce key performance indicators for service providers ahead of its Tender Europe 2 network redesign in 2002.

The group is now concentrating on integrating the flows of brands such as smart and Mitsubishi into an overall optimized network for Europe, North America and Asia Pacific, as well as a redesign of its global deepsea network.

It is also developing its KPI evaluation and reporting by introducing a portal for service

providers to monitor their performance in the key metrics of shipment, lead time, damages and technology.

Suppliers that didn't come up to scratch were excluded from the previous network redesign and the metrics are now also used to drive improvement - along with some harsh penalties for failing to meet targets. "There's a rule in our regulations that if a supplier is in the underperforming group in two consecutive quarters there is the possibility to cancel the contract immediately," said Christ.

A supplier portal for service providers to monitor their KPIs will be part of a wider supplier portal in the future. And the KPIs will also be rolled out DCX-wide. "We simply want to have standardization in the company," said Christ. "It doesn't make sense to have different KPI measurements in the US, in

Europe or in Asia. There is a need to bring these definitions together and measure in the same way.

"And the result of this detailed and professional measurement is that we will look at which suppliers are really working in the way we expected and for certain we will make selection of certain suppliers and for key suppliers and certain concepts."



There's a rule in our regulations that if a supplier is in the underperforming group in two consecutive quarters there is the possibility to cancel the contract immediately - Egon Christ

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To Lars Rust, Vector SCM:

"Since GM is not here, what is the one thing that really pisses you off about them? Now be honest" – **Peter Klein, Viewlocity**

In reply:

"One lesson learned for outsourcing is that it needs to be quick. The longer it takes the more problems you have with the current employees... otherwise the morale in your existing department will go down that fast that you might come to an area where you risk daily operations." – **Lars Rust, Vector SCM**

"A question to the logistics provider community. I hear and understand that you are looking for a bit more commitment from our side, but remind me of what we are getting back for that. And before you answer I will try to point you in a direction. I need some commitment back and that commitment could be along the lines of the logistics provider commitment to being benchmarked. I am not only talking about cost, I am talking about service." – **Michael Kluger, Ford**

"It's surprisingly difficult to migrate from road to rail - it would certainly make my life easier. We have recently made some surprising decisions - there are routes where we have opted to go by road because there isn't a viable rail solution." – **Mike Sturgeon, Toyota**



"If you look at the top 10 causes for divorce, the first is poor communication, the second is financial problems, third is lack of commitment and the fourth is a dramatic change in priorities. Then we get to the infidelity part and I will skip the rest. But it certainly seems to be, in the contracts I have seen between suppliers and transporters, and OEMs and transporters, that every one of these applies." – **Peter Klein, Viewlocity**

FORD CALLS FOR CUTS IN UNNECESSARY MATERIAL FLOW

The automotive industry needs to eliminate "zigzag tourism" – excessive transportation in international supply chains – to create better total cost, said Michael Kluger, Ford's European manager of inbound material flow and logistics.

He said it was an issue that his team raised with the parts procurement community in Ford a few years ago that has resulted in real progress. "I remember this part that was sourced somewhere in Belgium because it was supposed to end up in the Mondeo. The single sourcing plant for the Mondeo is Genk in Belgium, so sourcing the part from Belgium was a good idea you would think. Well, unfortunately that part was for the engine on the Mondeo and the engine was built in Mexico. So the part would wave to the plant in Genk and say 'I'll see

you in a couple of weeks, I have to go to Mexico first'.

"I am not pretending we don't have such cases anymore but we are getting better," he added.

Kluger also picked up on issues raised by Volkswagen Transport president Johannes Fritzen in the March/April issue of *Automotive Logistics* to reintegrate suppliers' volumes into the VW's logistics network. The growth of supplier parks meant that although volumes are going to the same place, they are managed separately by the carmaker and the individual suppliers within the park.

"I probably need to talk to Johannes Fritzen because they are a bit further advanced than we are," said Kluger. "We tried that as well with very limited success I have to say. It's a bit like pulling teeth actually, and that is without the anaesthetics, because we

realized that most of our industry park suppliers that had their inbound supply chain in their piece-price were very reluctant to open up that piece-price and identify the supply chain proportion of it, which is a vital prerequisite if you want to do some freight and logistics stuff together. I have to say that has been very, very difficult."



According to Michael Kluger, the industry needs to eliminate excessive transportation in international supply chains to create a better total cost

CUSTOMERS FEEL THE NEED FOR ONTIME DELIVERY

Delivering vehicles to customers on time is an increasingly valuable competitive differentiator for carmakers, according to Karl May, director of group transport logistics for BMW.

"On-time delivery is the only issue coming from logistics the customer is really interested in," said May. "For everything else the customer is not willing to pay for logistics because they can't feel it. We have to make



On-time delivery is the only issue coming from logistics the customer is really interested in – Karl May

sure that we deliver our cars on time and efficiently."

Bert Bong, Ford's European manager of vehicle logistics, said that a combination of political pricing measures and longer transport chains made it tougher for carmakers and their service providers to control costs.

"We all have to find offsets for the cost increases we have, like road tolls, working hour directives and other things that are coming," said Bong. "Obviously one strategy from the OEMs on offsetting costs is going into low labor cost countries... adding cost to the supply chain, but then it must be a total cost decision. That is our strategy, to find some offsets on cost in total manufacturing."

But elongated supply chains add logistics costs. "The consumer in the end doesn't recognize that and isn't willing to pay, so we are facing an extremely competitive business

all together. And we, all together with you [service providers], have to create better efficiencies and cut costs out of the supply chain because we all need the consumer's money," added Bong.

He said that while Ford's strategy was to reduce pipeline and dealer stock this ran counter to the need to keep production running. "It is obviously cheaper to utilize your assets instead of shutting them down, so you have to buffer some production for a certain time.

That is going on right now because the consumer demand is simply not as big as the capacity is. You have to look at the total cost and think about whether to produce this car and let it sit somewhere for a consumer, or not produce it, which is probably even more costly than having it in your port or somewhere. It's quite difficult but it should be a total cost decision."

FAURECIA'S COMMON FACE EARNS EXCELLENT RESULT

Faurecia is driving out inventory in its supply chain and improving its performance to customers by implementing the Faurecia Excellence System, according to its supply chain director Bruno Lesage.

Lesage said that the system is designed to present a common face to customers through



Bruno Lesage said that Faurecia is working on "level demand" with suppliers as part of a move from push to pull

standardization within the group. For supply chain management this means accuracy of delivery, reduction of lead time, cost reduction and overhead productivity.

The lead benchmark for Faurecia is MPM – mis-delivery per million – covering delivery to customers, internal operations and its own deliveries from suppliers. The target is zero MPM, but Lesage said that the current level is 800 MPM per month to its customers – a ratio of failure of 100 cars out of 600,000.

Lesage said that the company is working on "level demand" with suppliers as part of a move from push to pull – getting suppliers to ship the same volumes on every trip and using its own plants to absorb customer variation.

Faurecia is using customers'

forecasts to create its own operational planning for the month, week and day and shift ahead, and feeding weekly forecasts through to suppliers and then absorbing the inventory variation in-house.

"As I am leveled and I increase the frequency of deliveries the viability of my customer is only inbetween two slots of delivery in my factory," said Lesage. "That means I am able to minimize my own variation and inventory. It is very important because today we have too much inventory."

Lesage added that the predictability to suppliers meant that truck optimization was at 85%, rather than the average 60%, when allowing daily adjustments. Level demand also meant that instead of daily firefighting

there was now the opportunity for logistics managers to work on improvement.

Lesage said that the system has already been rolled out to 25-30% of Faurecia's plants. At the Orense plant in Spain, Faurecia has reduced inventory "tremendously", with a milk run operation delivering to its docks 18 times a day. "That means we manage our inventory of raw material and components less than 0.8 days of inventory," said Lesage. "And I consult with the warehouse completely. That means I deliver my truck directly to a pick to load the line."

And to prove that the system works for international supply chains, Lesage said that the same system is being used for its East London plant in South Africa to support DaimlerChrysler production.

AUDI ON-TIME DELIVERY TO CUSTOMERS REACHES 96%

Audi has reached 96% fulfilment of delivery to the customer on the date promised when the order was first placed, according to Hermann Krog, executive director of logistics for the carmaker.

"The key thing is to bring together the launch date, control planning and capacity planning into one executed goal production program that fulfils customer needs between when the order entry comes and the car is delivered," said Krog. "The objective we are pursuing is to achieve 100% reliability.

"When a customer places an order in our system, and this order is inserted on the dealer side, he is immediately getting a response from our computer system telling him his car will be ready, for example, in week 12. In this first week we are committing to our dealer and we are

measuring against this," he explained.

Krog said that the current level of 96% accuracy was "not enough", but promised even higher accuracy. "We are working to get better here," he said.

Audi is also targeting an order-to-delivery lead time of two weeks for a 1,000km radius of manufacturing plants. For overseas delivery the group has also achieved some impressive improvements. Krog said that in December last year Audi achieved an OTD lead time to the US of 65 days, nearly half the average time it took two years ago.

Krog said that Audi had to meet strategic challenges of market-oriented demand, globalization, product-oriented demand, logistics cost optimization, quality and innovation.

Audi is also increasing its

focus on standardization in processes and systems not only within the Seat and Lamborghini brands in the Audi group but also with the Volkswagen group to take advantage of synergies.

"For example, with our Seat colleagues we started a project where they are using our transportation network in Germany to gain the material in an area near Neckarsulm, and then we have a full truck from there to Barcelona and using our supply network. We are saving a minimum of €1m (\$1.2m) a year on this activity alone."

Krog said that through intensive logistics cost optimization, and benchmarking with BMW, DaimlerChrysler and Renault, Audi has created savings of €30m (\$36m) for each of the past two years and expects to reap the same level of

improvement this year.

"The key to achieve this was not by negotiation, it was by coming down with the cost, talking to suppliers, talking with logistics service providers to improve process and to change behavior," he added.



Hermann Krog said that the current level of 96% accuracy [delivery to customer] was "not enough", and promised even higher accuracy

GEFCO GAINS RAIL ADVANTAGE THROUGH DEREGULATION

Gefco has halved its roundtrip for finished vehicles between Mulhouse and Palma to just five days thanks to the deregulation of the European rail industry. It means it can now use a private operator.

Six months after changing to operator FNC, Gefco has seen a dramatic improvement in delivery performance for the six days a week that its wagons run the route between France and Italy, according to Claude Guetin, business development director for Gefco.

He said Gefco was now looking to start "as soon as possible" a similar service between Ashere, near Paris, and Palma, the site of its Italian delivery center.

The company also wants to open up a corridor between the French factories of sister



According to Claude Guetin, six months after changing to operator FNC, Gefco has seen a dramatic improvement in delivery performance for the six days a week that its wagons between France and Italy

companies Peugeot and Citroën and central and eastern Europe to build on the Peugeot plants opening in the Czech Republic and Slovakia. "Of course we would open our file

to other manufacturers, other logisticians to be sure to balance our flow," said Guetin. "The problem we have now is planning two new factories building something like 500,000 cars. From the French [plants] we are not moving 500,000 cars a year so we will have another balance. We needed cars from east to west and in the future it's probable we will need cars from west to east. So we have to take, of course, agreements with other manufacturers. It will be a win-win challenge because as soon as we can find economies using a shuttle from east to west or west to east it will be a benefit for everybody.

● China is a market of huge growth, but its restraints are "basic", according to Peter

Reinshagen, China project manager for PSA Group subsidiary Gefco.

"You have Delphi and Bosch and all the big suppliers, you have a car manufacturer that has a very up-to-date manufacturing plant but inbetween there is poor communication; EDI is very rare. There is some web EDI but most things are still going on fax or by telephone or letter orders. There's a big gap inbetween those two and to bridge these levels is one of the major issues for logistics providers," he said.

Reinshagen added that other issues were the absence of a pallet exchange system in China, the lack of standardization on labeling and the predominance of small trucks for haulage.

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