

AL Europe Conference Report

An industry riven with disparity and in need of dramatic change? Or one focused on cooperation and reliability in the interests of shared success? The discussions were candid and enlightening at Automotive Logistics Europe 2007, reports Christopher Ludwig

For the fifth annual Automotive Logistics Europe conference, held again at the Montreux Palace in Switzerland, most of the sessions were divided into streams for inbound and finished vehicle logistics. This structure was established to distinguish the significance of both forms of logistics, and to allow for more specific discussion regarding the issues that arise from each.

The parallel also mirrored one of the key themes to emerge from this year's conference: that the automotive industry may be suffering from a disjoint between its inbound and outbound strategies. As Chris Senior of Ceva Logistics put it: "We have a sort of schizophrenia where we say let's run like hell to get the part to the line just-in-time, and then we'll stack the car in a compound for six months until someone decides to buy it at a discount."

Senior's point, and that of others from both logistics service providers and carmakers, is that a large quantity of waste remains in the industry, which poses a problem for costs, the environment and for transport capacity shortages in Europe. Delegates shared ideas on how to eliminate waste, be it through re-usable packaging, balanced flows, infrastructure improvements and that oft-repeated phrase: better collaboration and partnership.

Keeping up with the customer's economy

In the opening session, Senior Analyst for *Transport Intelligence*, Thomas Cullen, told delegates that, while its introduction of just-in-time principles, lean inventory and outsourcing made the automotive sector revolutionary in logistics in the last century, today it "is stuck in the 20th century, obsessed with producing huge volumes". Neither as dynamic nor customer-orientated as retail logistics, Cullen said "the automotive logistics model faces, while I wouldn't say obsolescence, a need for dramatic change. I don't see any evidence of that happening."

While he predicted that many in the room might like to take him outside to "have a quiet word" after his presentation, the 300-plus delegates were happier to challenge or agree over friendly dialogue. His description of the car industry's processes as "dominated by manufacturers in the centre of the supply chain, and not orientated to the customer," was met with some agreement. A view emerged of carmakers churning out more units than it had customers for, with logistics service providers unable to invest in enough capacity to handle the overload. This led to longer lead times, and hefty stock costs. Ray Runza, Director of the Logistics Centre for Honda UK, provoked mixed reactions when he repeated an old story: "If the car industry stopped producing cars for a year, there would still be enough cars to satisfy global demand."

Carmakers are building to order

While Runza and his colleague Ray Maden, Manager of Supply Chain Logistics at Honda Motor Europe, were quick to point that Honda does not share this problem, he said that the car industry is “lean” only until the car is built. After, he said, the industry should not be held as any example for managing a supply chain. “I challenge any OEM today to say that it is actually building to order,” he said.

Cullen questioned whether it was culturally possible for the car industry to build to order, so much is its thinking still in the past. Even the much vaunted, lean Toyota model is, he added, “the mass production Fordist model taken to its zenith,” where the product is fired at the customer, rather than an economy based on consumer choice and flexibility, where, in Cullen’s words, “the customer really is king.”

This theme of a production-happy carmaker surfaced again in the finished vehicle logistics sessions. Mark Morgan, Executive Director for the ECG, commented: “Correct me if I’m wrong, but the manufacturing arm gets its money the minute a car leaves the factory. So there is no incentive to invest in improving the inefficiency in the outbound supply chain. This structure is starving the investment in the downstream finished vehicle supply chain.”

Disparity between inbound and outbound logistics

Dr Georg Richartz, Senior Vice President for Global Supply Chain and Logistics at Case New Holland, modified Morgan’s point, saying that manufacturing gets its money not when the car leaves the plant, but when it gets its “okay to ship” designation, after which the car could remain in the plant for up to 10 days. “There is pressure,” said Dr Richartz, “but not on manufacturing”.

While delegates acknowledged the sophistication of supply chain management as regards inbound, LSPs expressed frustration with OEMs’ strategies and communication for outbound, and said manufacturers could be doing more to help improve delivery times. “There are big enablers that manufacturers have control over,” said Tim Phillips, from VMEX. “We spend a lot of time chasing lead times. If we moved the right cars at the right time, we could take more time to optimise the process. Carmakers should make outbound as time critical as inbound.”

“There is more to getting vehicles where they’re going than just to the dealer,” said Elliot Swiss, Director of SCL at GM Europe. “Some of that is sales strategy. We’re trying to do a better job at forecasting, but sometimes we still spin on a dime,” he told delegates.

Delivery reliability is critical to success

Thomas Spitzbauer, Project Leader, Order-to-Delivery for Audi, discussed how the company is committed to customer focus, a flexible supply chain and improved delivery time, which it ranks among the most important factors in brand loyalty. “Our surveys have shown that for premium customers, delivery time and price have no attributes of differentiation,” he said. “They’re expecting a premium price. Whatever desires customers have, we try to meet their requirements, and delivery reliability is a critical factor for success.”

Spitzbauer discussed how Audi has worked to cut delivery times for its worldwide markets and improved the customer’s ability to make amendments late in the order process by adjusting production schedules, and improving IT so that information can be

better channelled through the pipelines. “Three or four years ago, we tried to push the car through the factory,” he said, “now we’ve realised how important it is to put reliability to the front of all our activities.”

Cooperate or capacity will halt you

The production drives of OEMs also led to a debate about capacity and asset shortage. With reference to ECG figures as they stand against European production forecasts, certain OEMs predicted that a serious asset shortage was likely in the near future. If the traditional industry is not willing to invest, then new competitors could offer these assets and some LSPs could lose business as a consequence.

However, the equation is not that simple, some LSPs responded. No one disagreed that capacity is an issue. “If you think there is a problem today,” said Anders Boman, President in Europe for Wallenius Wilhelmsen Logistics, “just wait and see in the next few years.” However, LSPs are looking for longer contracts and greater commitment from OEMs in order to have confidence in their investments. Svein Steimler, President of NYK Line (Europe) RoRo, said contracts for one or two years are too little. “We order our ships based on estimates from OEMs,” he said. “We order them without long-term contracts and yet the ships are built on the basis of a 25-year life cycle, and cost \$80 to \$90m each.”

Investing in a presumptive future

Kay Hanns Ewaldsen, Managing Director for Werner Egerland and President of the ECG, described similar difficulties for investing in rail wagons. “You have to calculate the price on 15-year term in order to meet the market price of a wagon,” he told delegates. “For 15 years, you have to make a lot of impossible assumptions.”

OEMs argued that they are not necessarily so cut-throat in their tender processes. David Pansinger, General Manager, Supply Chain Management for Mitsubishi Motors Europe, said that Mitsubishi offers contracts of two and a half years for inbound and outbound partners, and will extend the contract that length again without a tender, if the service is excellent. “But sometimes the freedom we leave you doesn’t seem to break through,” he told LSPs. “Your trucks are still leaving empty and loads are being left behind.”

In both streams of the conference, LSPs and OEMs debated who should drive collaboration and co-loading efforts. Some LSPs felt there should be more willingness on the part of OEMs to set up partnerships. “If we could just adjust the way we are doing business to some degree,” suggested Steimler, “if OEMs would talk to us as partners on a long-term basis, I’m confident that we as shipping companies can do what we need to do to alleviate the constraints on roads and rail.”

What have you done for us lately?

OEM representatives, however, reminded delegates that it is the LSPs who are the logistics experts, and who should find areas where they can work together. “Have you ever seen OEMs trying to collaborate?” Swiss asked the LSP representatives during a finished vehicle session. “We take three months to set up a meeting! Kick-start the process by telling us who to collaborate with,” was his advice.

Dr Richartz proved Swiss’s point, as he described Fiat and Audi’s inability to co-load cars despite an expressed desire on both sides. “We met several times but there has been

no solution,” he said. “One of the reasons is that we’re establishing our own Fiat Auto transport company, and we want this company to do the transport, but we weren’t very prepared last year.”

Swiss recounted that 12 years ago his former employer Ford was running trains to Bavaria and then reloading with BMW and going back to the Rhine. He described it as a “perfect collaboration between Ford and BMW,” and went on to say: “I would venture to guess that the two companies never met each other. This concept was brought forward by the service provider.”

However, other LSPs said that OEMs are not always willing to share space with other brands. “Our customers aren’t necessarily open minded to sharing traffic,” said David Brinklow, Group Managing Director for Ontime Automotive. “Many people don’t want to give their competitors an advantage.”

Co-operation is not in our genes

Wallenius Wilhelmsen Logistic’s Anders Boman said that “this type of cooperation is not in our genes for historical reasons, but it needs to happen.” For others, the talk of cooperation was simply repeating the same problems every year: “We were sitting here five years ago, and discussing exactly the same issues. We have not moved along fast enough,” said Steimler.

But there were also signs of life, as at least one OEM present showed it was willing to look beyond traditional competitive boundaries between companies. Elena Pardo del Pueyo, Manager: Logistics Strategy at Audi, presented the results of the company’s benchmarking initiative, an effort to improve processes by carefully examining results and sharing information with partners, and even competitors.

She outlined a case in which Audi discovered that competitors were sending loads from the south of Germany to the north, and so it was decided to put them together. “We’d like to continue to do benchmark studies with OEMs, to support the goals of our logistics strategies,” she said.

The ‘ping-pong’ of logistics and purchasing

Another pertinent issue for both inbound and outbound logistics is the strain between logistics and purchasing departments. Swiss went so far as to acknowledge that, for GM, there isn’t a separation. “We call ourselves logisticians, but we’re part of purchasing,” he said. “We call our organisation ‘Global Purchasing and Supply Chain.’ We have a duty to source service at the best possible market rate.”

Some LSPs felt that this drive for best price put them in a constant race to the bottom, resulting in contracts at unsustainable prices. Steimler pointed out that charter rates have actually gone down in recent years. “What frustrates me most,” he told delegates, “is when I go into an OEM and the first thing he tells me is, unless you can reduce your rates by 20 per cent, we don’t want to speak to you.”

Jim Moore, Vice President of Ryder System, acknowledged that the majority of the company’s business is not based on offering the best solution, but the best price. “Best business case is a great aspiration,” he said. “But 75 per cent of our business is determined by being the low cost provider for that solution.”

Low-cost could be costly too

LSPs and Tier One suppliers warned of the problems and eventual costs that could follow if purchasing departments win the day, particularly when it comes to sourcing in low-cost countries. David Henderson, Director: Purchasing, Body and Chassis System, Cooper Standard, described one scenario in the US where his colleagues tried to source from India, and put the transport burden on the local company.

After a quality issue, Henderson said that Cooper-Standard now has \$1m worth of inventory sitting in a warehouse in Michigan and is now using airfreight daily out of India to keep up the supply. "People in purchasing score points for reducing the piece price, while I prefer to look at the total landed cost," he said. "Don't be blinded because the price is a dollar today; 90 cents tomorrow."

The problem, according to some LSPs, is that the carmakers are not as focused on their supply chains as they should be. "I was amazed when I spoke to people at the top level of a carmaker, and I asked them 'do you know the total cost for your supply chain management from supplier to the assembly line?'" related Christian Zbylut, Executive Vice President Network, Gefco. "The answer was no. This is why you've got this ping-pong game between the logistics and purchasing departments."

OEM representatives defended their duty to cut costs, and find the most competitive service. "I don't want to hear the word 'cheap'," said Pansinger. "Nobody here is providing cheap services, and no one on the manufacturing side wants cheap services. We want to secure competitive services. We make very clear what we expect on the specification of tenders. But sometimes I wonder if any of you read them."

"We can't see a thing out here"

Thomas Cullen held up express parcel carriers as the logistics model best orientated to the 21st century, such as Fedex, UPS and TNT. "They offer the very high speed, low batch, fast service that is required for the modern economy," he said. "They offer high visibility, even to the small customer."

Honda's Runza demonstrated the problematic lack of visibility and guaranteed delivery that he experiences with partners. He presented Honda's in-house transport management system, a €1m (\$1.3m) investment over the past three years. The system measures the performance of Honda's 63 partners, who deliver motorcycles, power equipment, lawnmowers and engines to 40 countries. The goal, he said, is to know whether all the units are delivered safely. Of the 63 partners, 23 are still not able to provide this data, he said. Of those who could, gaps still appeared in the tracing, as some could only guarantee as little as half the deliveries were made.

"I'm sure that the deliveries are not as low as the 51 per cent we see," Runza said. "But in terms of confidence, that is the level we can guarantee our internal customers." Runza believes that half of the partners cannot afford the IT solution necessary to offer this visibility, but for the other half, it is simply not a priority.

How do you measure customer satisfaction?

The potential of new IT systems was discussed, particularly for inbound logistics. Intellident's David Read discussed the successful use of RFID technology by UK retail chain Marks&Spencer, as a precedent for the automotive industry. M&S has achieved 99.8 per cent compliance, according to Read, and achieved a payback on investment

within three to six months. “But on the larger scale, the savings were incalculable,” he added. “How do you measure customer satisfaction and waste savings?”

RFID remains a major question mark for the industry. There is still a lack of standards for encoding and reading data, and the price tag is simply too high. Read estimated that, for M&S, the cost of installing the system was £15,000 (\$29,000) for each store, though he said the cost model would be lower for automotive. The obvious application for RFID in automotive is on totes and containers. On the aftermarket side, non-reusable packaging still dominates the supply chain. Better tracking might encourage the use of reusable containers. But cost is the major issue. Runza pointed out that this could still not be a justifiable cost for Honda or its hundreds of dealers to make.

Waste and the environment

The environment was a recurring, if not reluctantly addressed, theme. In most places, lower emissions and waste reduction were presented in the language that business understands best: cost saving. “The big cost savings come from increasing pack density,” said Linpac’s Rodney Salmon, Director, Sales and Marketing. Rather than savings nickels and dimes, re-useable packaging and better pack density were shown to save the industry millions of Euros.

Gefco’s Executive Vice President Network, Christian Zbylut showed that if the industry could reduce its load factor by 10 per cent, with better pack density, re-usable packaging and specially designed pallets, the savings in Western Europe alone per year could be €220m (\$292m) and 90,000 tonnes of CO2 emissions.

Developing European vision

Another key area for both the environment and efficiency for inbound and outbound is railway infrastructure. Ferrmed’s Dr Joan Amorós outlined the organisation’s goals for making better use of exiting corridors. Ferrmed wants to increase freight transport by rail in Europe from 10 per cent to 35 per cent. The problem, according to Dr Amorós, is more often operational than with the infrastructure. “We need to have a European vision, rather than vision of each nation state,” he said. He gave examples of how lines will stop some kilometres between national borders, as is the case between Amsterdam, Rotterdam and Germany, because one national authority does not want to improve for another country. The result is that at present the average speed is 17 kilometres per hour, because of the need to change drives, wait at borders and adjust to different systems.

UECC Managing Director Jan-Eyvin Wang went so far as to suggest that in the near future, environmentally-friendly modes of transport like rail and ship would be measured as KPIs as important as lead times. But beyond cost savings, the industry is not yet ready to make a leap without government intervention. “We’re going to use the most fuel efficient method relative to emissions,” said Ceva CEO Dave Kulik. “We’ll buy electric or paper products that we’ve now been educated on, but until we get governments behind us, it’s too little.”

“The number one priority on the political agenda should be European infrastructure,” said Runza. “Why the hell we are wasting time talking about a European constitution when we cannot even move products around Europe, which is holding back growth, jobs – I have no idea.”

Mitsubishi's Pansinger pointed to problems in the European political system as well. "We don't have to look to China to deal with bureaucracy," he said. "Many EU regulations force us to generate additional costs and also to generate additional emissions." He described how tax rules have made it economically unviable to have a stock location near to the Mitsubishi factory in Bjorn, Holland. Instead, the company goes to Zeebrugge. "The bureaucracy prevents us from setting up the most efficient supply chain."

The demise of the European car industry . . . again

Cullen declared the car industry to be in the middle of "a very profound crisis". He pointed at slow car sales growth in Europe to predict that its logistics sector would grow at just 1.8 per cent, compared to 10 per cent for European retail and consumer goods logistics.

The conference demonstrated that there are several problems in the European sector, but also its weak pulse is showing growing signs of life. As Ryder's Moore pointed out, growth is not to be scoffed at. "From a North American standpoint, I say that at least there is growth!" he said. "Our market reduced by two per cent last year."

By Cullen's own admissions, his figures were based purely on Europe, and not growth that may be accounted for in emerging markets, such as Russia, India and China. Swiss revealed GM's figures for Russia: 130,000 cars sold last year, with a realistic allocation of 200,000 cars for 2007. "I'm showing you where we want and need strategic suppliers," he told delegates.

Honda presented its impressive figures for Russia as well, and Gefco shared its experiences in China. Russian LSP Transgroup described its ambitious plans for improving Russian rail infrastructure, DFDS Tor Lines revealed its growing trading in Russia and China. The risks of extending supply chains are great, as Cooper's Henderson warned. And low cost does not always translate into instant opportunity. But delegates discussed a Europe re-invented yet again, with boundaries extended to Russia and beyond. Those looking out for the much-anticipated demise in production might have to wait until at least next year's conference.