

Dawson

DIALOGUE

■ *Shared Delivery* “The Route to Lower Costs and Improved Customer Service” - **Part One**

Introduction

S

Shared Delivery allows companies to make a quantum leap in the way they serve their customers. Both through physical changes and the use of detailed, real-time information, *Shared Delivery* allows organisations to dramatically reduce distribution costs (by up to 30%) whilst actually improving service parameters. These benefits, combined with increased sales and greater market penetration, makes *Shared Delivery* one of the most exciting concepts to move towards implementation in the last 20 years.

Shared service arrangements are not a new concept. For many years, companies have sought to establish shared service arrangements with non-competing organisations. Recognising the benefits of such an arrangement, companies have experienced significant cost savings in support functions such as IT, Accounting and Human Resources.

Shared Delivery is where two or more companies with like customers and logistically similar products merge distribution systems for their mutual benefit. As a distribution approach, it falls between performing the task internally and contracting it out to a third party provider.

Shared Delivery arrangements can significantly reduce your distribution costs and create new revenue streams from the network channels they create. They make servicing smaller, higher margin customers more appealing and reduce the reliance companies have on their large clients. **But more than just serving these customers at a lower cost, a *Shared Delivery* arrangement can actually provide balance sheet value.** Because a network is created, a network that has intrinsic value, those who establish a *Shared Delivery* arrangement can derive a financial yield from its distribution channel.

DAWSON DIALOGUE

- Assists business executives' awareness of critical logistics and supply chain management issues.



CHRIS GARSCHAGEN

In July 1990, Chris Garschagen joined a number of colleagues to establish Dawson Consulting. As Finance Director, and Managing Partner, Chris is responsible for providing strategic direction and tactical planning within the consultancy.

His expertise include supply chain strategy development, transport fleet operations and selections, fleet scheduling, and project management.

His qualifications include:

- The Royal Society of Arts Examinations Board Certificate of Professional Competence Management Training (University of Aston, Birmingham U.K. 1978).
- Member - Logistics Council of Australia

Shared Delivery – The Concept and its Application

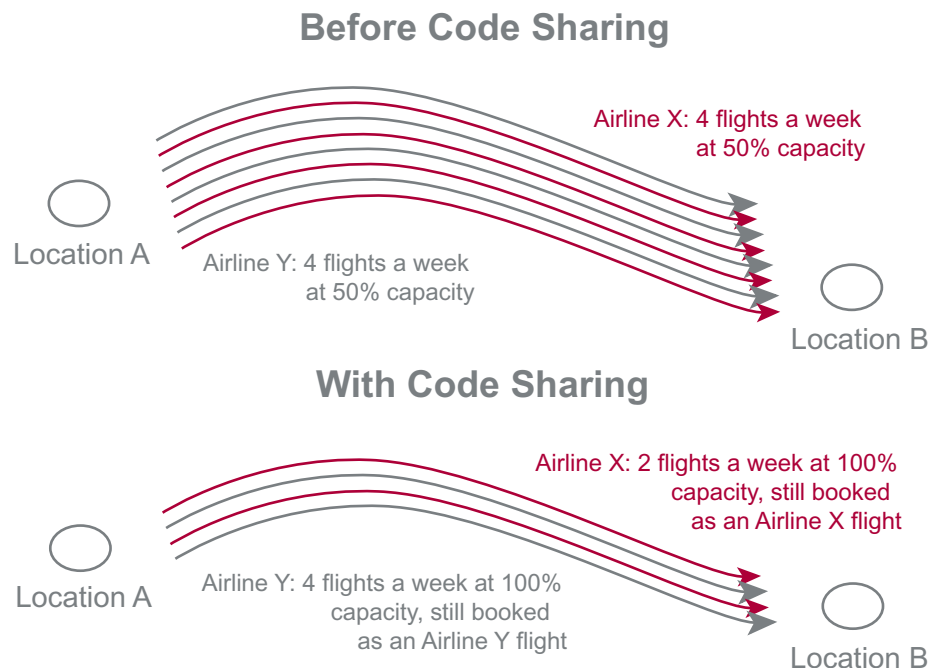
There are opportunities across many industries for a *Shared Delivery* arrangement to be pursued. Just some of the specific opportunities include:

Delivering –

- ⇒ Snack foods to route trade outlets
- ⇒ CDs to entertainment stores
- ⇒ Clothes and accessories to fashion outlets
- ⇒ Pharmaceuticals to hospitals/chemists
- ⇒ Cash to banking outlets
- ⇒ Magazines to newsagents
- ⇒ Liquor to hotels or bottle shops
- ⇒ Spare parts to repair outlets
- ⇒ Wine to restaurants

Illustrating the value of the concept, airlines have been operating a shared services arrangement – known as ‘code sharing’ - for years. The diagram below (Figure 1) illustrates a ‘code sharing’ arrangement:

Figure 1



As can be seen from the diagram, multiple airlines flying the same trunk routes recognised the inherent inefficiency in flying semi-empty planes as regularly as each other. Thus they formed an arrangement whereby each airline would still market their individual services but would share the costs and resources required to get passengers from one location to another.

The major oil companies in Australia have developed a similar arrangement for their petroleum refining. Known as a 'borrow and loan' agreement, the oil companies have a centralised refining facility in each capital city that refines the petrol for all companies. The large capital outlay it would require for each company to establish their own facility has led the oil companies to establish such an agreement.

Another excellent example of a *shared delivery* arrangement is provided by the Venator Group in South Brisbane, Queensland. Formerly Kinney Shoes, the company now forms part of the global, New York based Venator Group which operates 7,000 stores throughout North America, Europe, Asia and Australia. The Venator Group also owns and operates Woolworths supermarkets throughout the United States.

With almost 400 stores in Australia, the Venator Group is Australia's largest specialty footwear retailer trading under the store names of Foot Locker, Colorado Adventurewear, Williams the Shoeman, Jensens Shoes and Mathers for Shoes.

Controlling a large, established retail distribution channel, the group recognised the financial benefits of offering a *shared delivery* service to other companies servicing the retail trade. It now handles over 50,000 cartons a week in a facility that was hailed as being one of the first genuine cross-docking operations in Australia. The Venator Group offers these clients end-to-end supply chain channels from product landing at the Port of Brisbane to the consumer at shopping centres throughout Australia. This service is supported by leading edge technology such as integrated stock control systems, computerised labelling, electronic data interchange and a comprehensive delivery reporting system.

We must now look at *Shared Delivery* in terms of the physical changes it requires, and the associated benefits of those changes. We will also consider the informational platforms that can be used to truly enhance the network.

Physical Aspects of a *Shared Delivery* Arrangement

There are many industries that would benefit from a *Shared Delivery* arrangement, however, we will now use an example from the apparel industry to illustrate the model. More specifically, we will look at three companies that supply hanging garments, flat pack garments and accessories (or a combination of these products). For confidentiality reasons, the companies will be listed as A, B and C.

The diagram below (Figure 2) depicts the current delivery arrangements.

Figure 3 (opposite) illustrates the changes that would be made under a *Shared Delivery* arrangement.

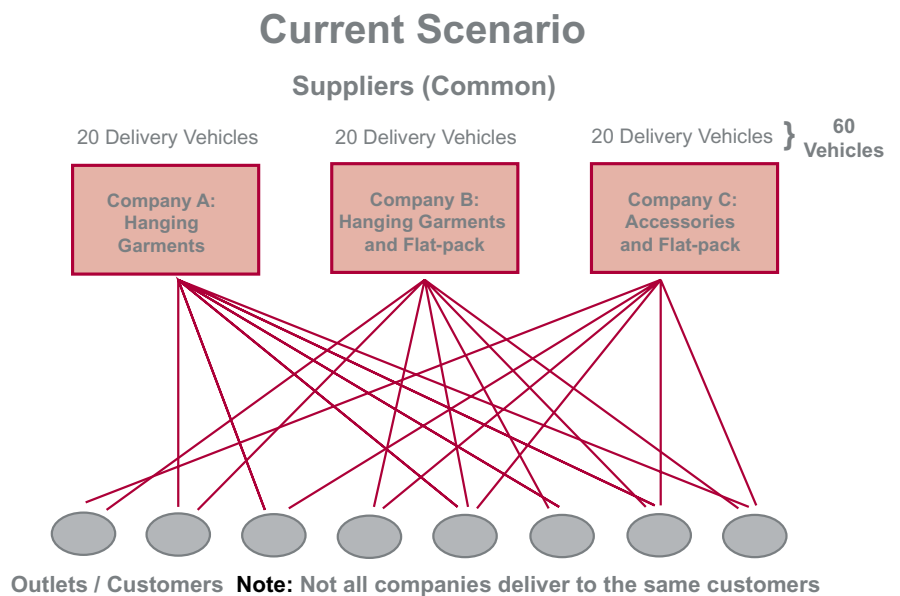
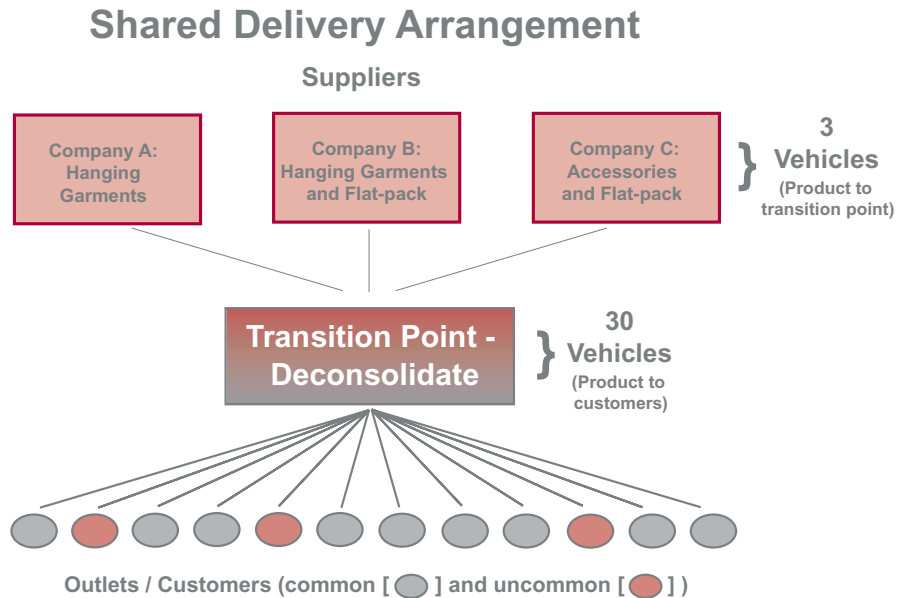


Figure 2



'With the proposed *Shared Delivery* arrangement there is another link in the delivery chain. This additional link need not increase lead times.'

Figure 3

The issue that must be addressed in this proposed arrangement is that of the transaction point, which in some cases reflects a traditional cross-docking facility. Under a typical delivery setup in the apparel market, vehicles are loaded from the warehouse/factory and then driven directly to the customer drop-off point. With the proposed *Shared Delivery* arrangement there is another link in the delivery chain. This additional link need not increase lead times.

In fact, the product flow shown in Figure 3 is not unlike the distribution process operated by many large, multi-outlet retail stores for their suppliers. In such an arrangement, suppliers deliver product to a central distribution centre where it is deconsolidated or *cross-docked* ready for multi-product store-specific delivery. Similarly, under a *Shared Delivery* arrangement, participants deliver product to a central transition point where it is deconsolidated and placed on delivery vans ready for store delivery.

It is pertinent at this stage to briefly discuss cross docking and the benefits it can provide to the retail sector. Cross docking not only provides a reduction in finished goods inventory at all stages, but also accelerates the movement of

product throughout the supply chain. In particular, cross docking reduces the number of deliveries to chain-store back docks and the level of inventory held within their supply chains. And as the drive for improved return on floor and cubic space continues, cross docking's ability to free up storage space at the rear of stores is very attractive to grocery chain operators. More information regarding cross docking can be obtained from another Dawson Consulting white paper titled, '**Cross Docking: Is one Man's Meat another Man's Poison?**' But what's important to understand for this discussion, is the similarity in concept between the deconsolidation process within a *shared delivery* arrangement and the cross docking facility operated by large grocery chains.

Cost Benefit of a *Shared Delivery* Arrangement

Based on the number of vehicles shown in Figure 2 (60 vehicles), and assuming these vehicles cover approximately 30,000 kilometers per annum each, the total operating cost for this model is calculated at \$5 million per annum. This figure includes associated management and support services costs.

The cost of operating the model shown in Figure 3, however, is significantly lower. Based on the reduced resource requirement (3 feeder trucks and 30 delivery vans) the total annual operating cost (including management and support services) is calculated at \$3.6 million per annum. This represents a per annum saving of \$1.4 million or 28%.

The above calculation highlights the attractiveness of pursuing such an arrangement, but there are, hypothetically, more cost benefits to be gained. Let's assume that between Company A, B and C there are 1 million units sold amongst the customer base in Figure 2. In Figure 3, however, we can see that the number of outlets each company has exposure to is increased. Therefore, it is logical to expect that each company will have the opportunity to sell some of their products to outlets previously not visited.

Let's also assume that the number of units sold increases to 1.25 million under the new *Shared Delivery* arrangement. When calculated out, this translates to a significantly reduced delivery cost. From approximately \$5 per delivered unit (\$5 million spent on transport divided by 1 million units) under the old network, to \$2.88 per delivered unit (\$3.6 million spent on transport divided by 1.25 million units). It could be argued that this cost saving alone should provide the impetus for the establishment of a *Shared Delivery* arrangement.

Next, the issue of who will operate the additional link in the chain must be

'What's important to understand for this discussion, is the similarity in concept between the deconsolidation process within a *shared delivery* arrangement and the cross docking facility operated by large grocery chains.'

addressed. The answer to this question depends upon the individual circumstances of those companies wishing to form a shared delivery arrangement. **Companies may wish to establish a joint venture, where they all have some management equity in its operation.** This would require a rationalisation of their existing delivery fleets, or the purchase of a new fleet, to establish a fleet configuration that will adequately serve all participants.

Alternatively, a third party provider may assume responsibility for the shared deliveries. Or, of the participating companies, there may be a 'principal distributor' – a company that uses its existing fleet to undertake deliveries for other companies and charges them a service fee. There may even be a 'principal manufacturer' that encourages other companies to share its delivery channel and charges them for the use.

The 'how to' component of this concept will depend on the unique structure of the companies wanting to establish the shared delivery arrangement. The fact is, it can be done.

The discussion above is primarily an introduction to the concept of *Shared Delivery* and the broad benefits it can generate for participating companies. There are, however, many other benefits that a *Shared Delivery* arrangement can provide both for the companies operating them and the customers they serve. So to provide you with the level of detail that will make this paper truly valuable, we have divided it into two parts. Part Two looks at the additional services we recommend companies offer under a *Shared Deliver* arrangement and the IT applications that can further enhance the network.

If you would like a copy of Part Two of the Shared Delivery white paper please contact our Melbourne office on 03 9326 7577.

- About Dawson Consulting -

Dawson Consulting is Australasia's largest consultancy specialising in logistics and supply chain management. We assist companies of all sizes to improve the performance of their supply chain and generate a greater return on capital items and financial resources employed.

Having worked with literally hundreds of national and multinational companies across sectors including automotive, banking, communications and technology, food and beverage, government, manufacturing, mining and resources, pharmaceutical and retail, we have the knowledge and expertise to improve the performance of your supply chain.

Our understanding of current concepts and the innovative application of logistics management is treated as a given, not an advantage. What differentiates the Dawson Consulting approach from our competitor's offering is four fold:

- A solid commitment to developing and harnessing cutting edge technology that delivers true value to our clients;
- An emphasis on implementation that ensures the recommendations we make are both practical and realistic;
- A large pool of specialist talent that ensures Dawson Consulting can match the consultant's expertise with the needs of each client;
- A team orientated approach that involves client staff in the development of alternatives and the formulation of recommendations.

The unparalleled depth and breadth of Dawson Consulting's experience and technical know-how supports our 'application vs theory' approach. Identifying areas for improvement is only the beginning. We insist on being accountable for our recommendations by implementing the changes we prescribe.

Melbourne

First Floor, 21 Bedford Street
North Melbourne
Victoria Australia 3051
Ph: +61 3 9326 7577
Fax: +61 3 9326 7588

- Services We Offer -

Our knowledgeable and experienced consultants provide expert advice in the following areas:

- Supply Chain Strategy Development
 - Network Development
 - Marketing Channel Design
- Customer Service Policies
- Inventory Policy and Management
- Supply Chain Information Technology
- Purchasing and Supply Management
- Warehouse and Distribution Centre Operations
 - Distribution Centre Audit
 - Design and Layout
 - Information Technology
 - Simulation
- Transport Operations
- Inbound Logistics
- Freight Management
- Logistics Process Redesign
 - Process Mapping
 - Process Redesign
 - Implementation
 - Supplier Customer Partnerships
- Market Research & Surveying
- Recruitment Services
 - Executive Search & Selection
 - Outplacement
- Outsourcing

Consultants utilise proprietary methodologies and logistics modeling software to aid in their recommendations. A continuing investment in these support tools ensures that recommendations are made with regard to the latest available technology.

Sydney

Level 5, 153 Walker Street
North Sydney
NSW Australia 2060
Ph: +61 2 9964 9566
Fax: +61 2 9964 9588