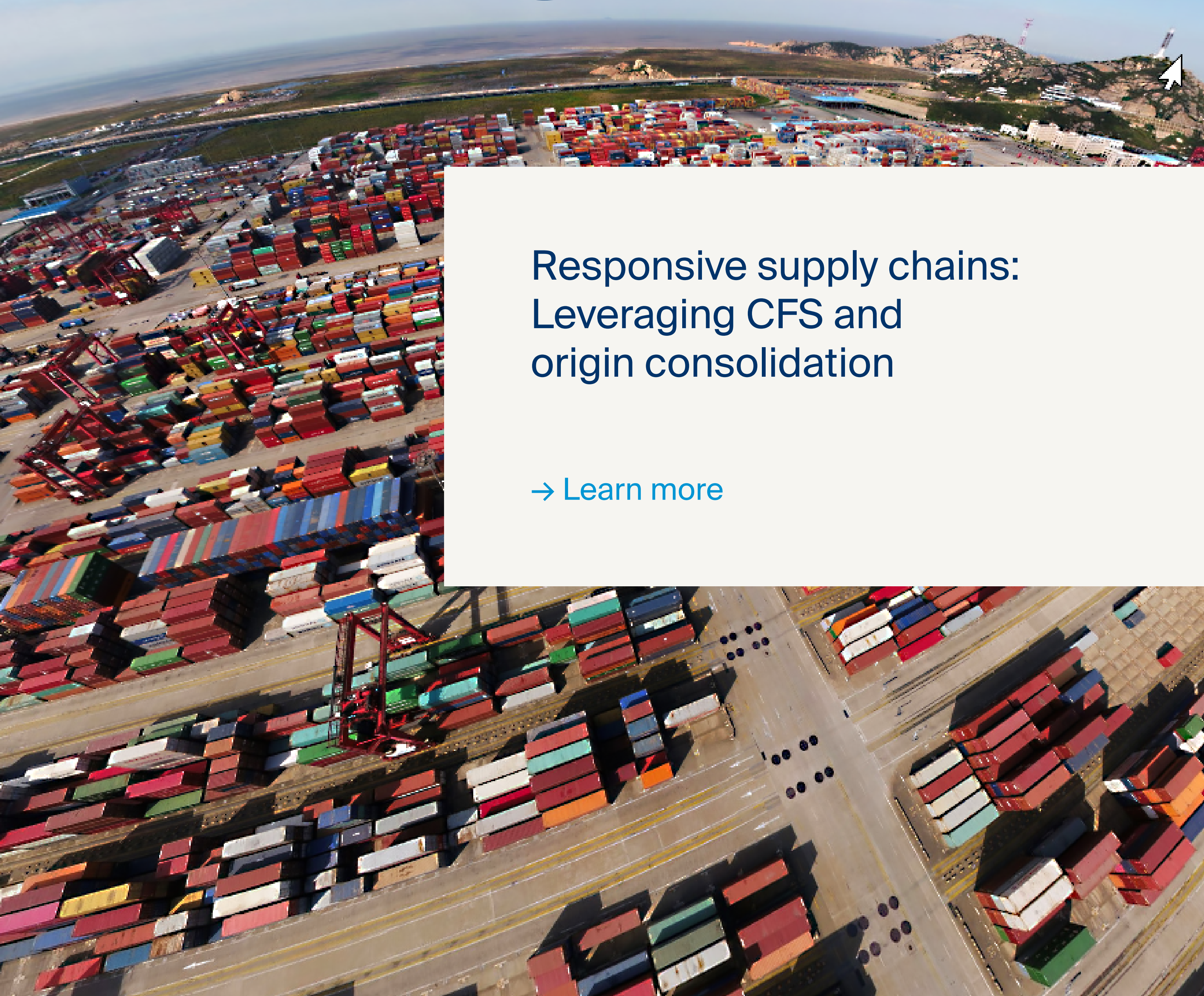
Supply Chain Insights #5



Responsive supply chains: Leveraging CFS and origin consolidation

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A 10-minute read

Leveraging CFS and origin consolidation

The Kuehne+Nagel Supply Chain Insight Series examines a wide variety of logistics topics to challenge the status quo and provide insights for best practices. In our fifth release, we deconstruct consolidation, CFS (container freight station) and it's use case for unlocking value in the supply chain.

Meeting demand with the right supply requires an orchestrated concert between the logistics and buying departments. Yet too often, the goals of these departments are not aligned, or worse, are competing. Such competing agendas are a symptom of a siloed supply chain approach. They counteract orchestration and hamper the progess of larger corporate initiatives. One way to bridge this gap and enable a responsive supply chain is by partnering with an LSP (logistics service provider) to utilise CFS facilities and deploy upstream programmes, like origin consolidation. While a responsive supply chain with clearly defined strategies (enablers/levers) is not completely immune to disruption, it can identify and manage both risks and opportunities more quickly and efficiently.

Supply meets demand, meets challenges

In the age-old quest for companies trying to achieve an optimal supply and demand balance, a common conundrum arises. The logistics department, looking to deliver the right supply at the lowest cost, and the buying department, looking to meet customer demand as soon as it arises, often find themselves at odds. Simply put, the logistics department affects a company's bottom line, while the buying department strives to grow the top.

The logistics department is driven by logistics and transportation costs. At all times, slashing the logistics budget is and was the constant go-to solution for businesses looking to expand savings. This high-level ambition trickles down and creates metrics for the departments that are cost sensitive. Trying to be as lean as possible, companies create programmes and initiatives to reduce general costs, container count and freight rates – Good news for the bottom line.

The buying/procurement department, on the other hand, is driven by the customer and correlated demand signals. This part of an organisation considers multiple tiers and types of customers, and manages relationships with suppliers. Its customer focus ideally results in increased sales revenue through new customer acquisition, retention and satisfaction – Good news for the top line.

Not only are these two departments driven by different metrics, but the means in which those metrics are met

for one department, complicate the others' ability to be successful. A classic example of this balance of the scales can best be understood by looking at inventory levels.

Some examples:

- If logistics is successful in reducing inventory, that could mean an increased risk of stock outs, which is a worst-case scenario for the buying team.
- On the contrary, another example: A successful promotion and product launch for the buying department increases sales, but might also require expedited shipments, which is a cost for the logistics team.

Best practice would be to take a holistic view of an organisations' overall goals and establish clear initiatives with win-win outcomes for all parties. The opposite siloed approach may work in the best of market conditions but in uniquely disruptive times it is a hindrance indicating that change is required.

Exposed & exacerbated

The coronavirus pandemic and supply chain disruptions of 2020 exposed gaps and shortcomings - leaving no margin for error in inter-company misalignment. Navigating the volatility of lockdowns, shortages and ever-fluctuating demand presented the industry with challenges it had not witnessed on this scale.

Speed up, slow down... now speed up again!

Impending government-imposed lockdowns during spikes of new cases in 2020 resulted in companies needing to speed up, slow down or find creatives ways to hold inventory. Uncertainty in these times minimised the planning period for developing strategies, catching many companies off guard.

In hindsight, 2020 confirmed that the hardships faced by supply chains were not new, rather accumulated in a short period of time and exacerbated in more extreme circumstances. Further to this point, going into 2021, equipment/labour shortages and port congestion monopolised supply chain focus. They were an example of disruption that has continually plagued the industry. Whether the disruptions are once in a blue moon, or a constant, supply chain levers and enablers are the key to a responsive supply chain.

Companies who successfully mitigate risk and seize competitive opportunities have clearly defined supply chain levers and enablers in place. While not a new concept, a deep understanding of each function of levers and enablers is extremely crucial.

Supply chain levers: Maneuvers, tactics and strategies for the physical supply chain that can be turned on and off as a supply chain requires. Examples of these physical levers include: purposely booking longer transit times, delay in transit, and strategic port storage.

Supply chain enablers: At the constant core across the entire supply chain, the enablers are vital in ensuring successful execution of the levers. Often the people, processes (including infrastructure) and technology play a role in execution.

While supply chain enablers are foundational and used across the board, supply chain levers can be utilised differently by different parts of an organisation - which is why alignment is key. One example of a supply chain lever that creates a win-win scenario for both logistics and buying departments is origin consolidation.

Balancing the scales with origin consolidation

In attempts to manage the volatility of 2020, there was a clear uptick in companies creating new or utilising already developed consolidation strategies. Dynamic flexibility, value, and ease of deployment gained attention in 2020, placing consolidation as a key lever in responsive supply chain strategies.

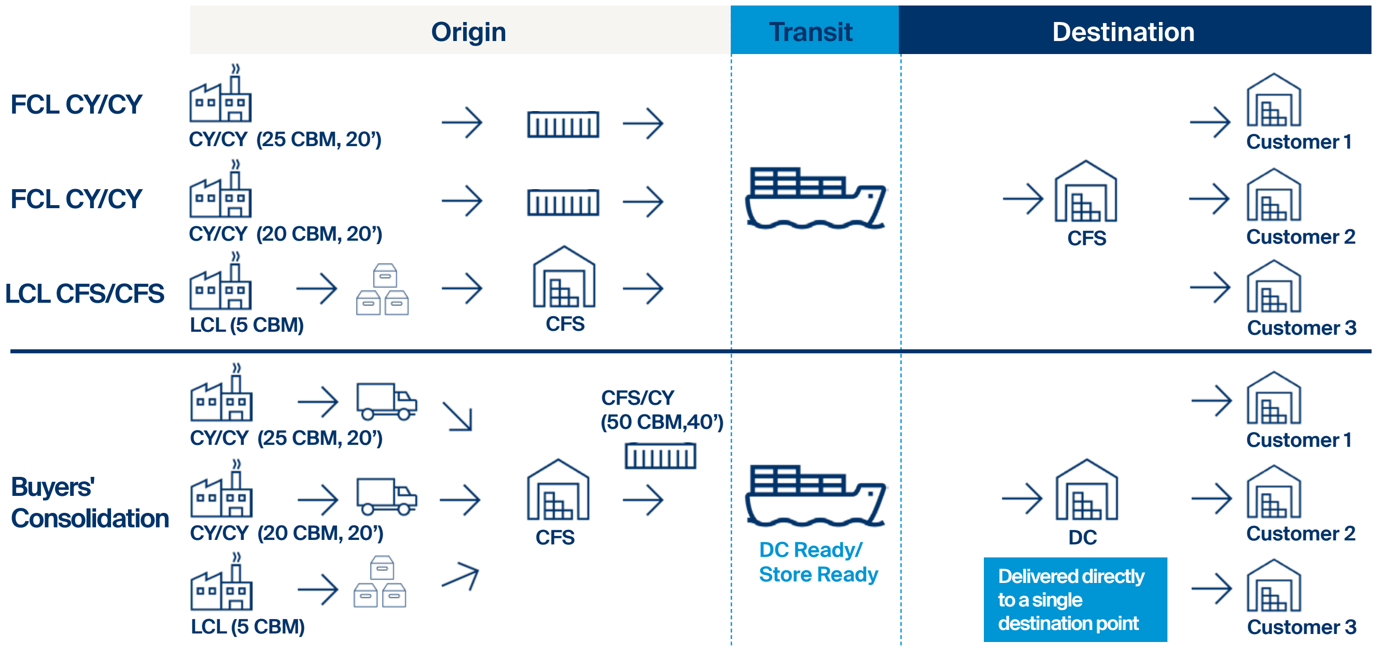
What is origin consolidation?

For a multitude of reasons, including solving for imbalances between the logistics and buying department, companies will partner with a logistics service provider (LSP) to ship less than full container loads in a process called consolidation. Known by many names, consolidation can be used as a lever for flexibility in the supply chain.

Reasons why a company may choose a consolidation strategy

- Ship more flexible quantities
- Ship at more flexible intervals
- Increased container utilisation
- Enabling a direct to store programme
- Ship from a variety of suppliers
- Ship regardless of a single suppliers contraints
- Cost per unit reduction
- Ship an assortment more aligned with demand
- Quality control

The two main types of consolidation are LCL (less than container load) and buyers' consolidation. The main difference between the two is that LCL is a consolidated container with **cargo from many companies** while buyers' consolidation is a consolidated container with **cargo from multiple suppliers for a single company.**



In the consolidation process, the cargo is transported and received at the facility. The cargo is then checked for damages, validated against the purchase order and stored. This is an important step in the process as discrepancies between the received cargo and what is expected as per the paper work (e.g. delivery order) have downstream implications and can delay on time delivery and incur fees.

To meet the CY (gate) cut off at the port, the cargo is then picked and loaded as LCL shipment or as part of a buyers' consolidation container. The consolidation process takes place in a **container freight station (CFS).** Many companies have a consolidation strategy that is synonymous or included in a larger CFS strategy as there are additional value-driving activities available.

Container freight station

Consolidation and beyond

Today, technology has bridged geographical gaps to create a truly globalised landscape. While technological advancements have yielded great benefits for logistics, in some ways it has also shifted focus away from the physical aspects of the supply chain.

To this point, ever-changing consumer demand has increased attention to downstream activities like last mile delivery. However, advance delivery methods depend on the strategic manoeuvres upstream, at origin with the physical supply chain. When considered with a strategic approach, the physical flow and movement of goods can play a key role in enabling a responsive supply chain.

Historically, the bulk of what happens at a CFS location is generally consolidation. Value-added services are gaining popularity and unlocking additional value in the supply chain.

Services available at CFS facilities include:

Consolidation
The grouping together of multiple single shipments into a master shipment.

Co-packing
Combining multiple components from various factories/suppliers to create one sales unit or outer carton/display carton.

Quality control (QC)
Process through which a business seeks to ensure that product quality is maintained or improved.

Store + call off
Storing customer's stock in the CFS until an order is received for picking and dispatch.

Pick / security tagging
The process of applying price and/or security tags according to customer-specific requirements.

Ratio pack
Sorting and picking customer shipments at unit level to build a new SKU.

GOH (garment on hanger)
Converting a standard container into one that enables the safe and convenient movement of garments that must be hung.

Store ready
The process of picking cargo from multiple suppliers to create a single shipment that is "store ready". This could mean the shipment is sent directly to the store or simply sent to a destination DC where no further handling is required and can be cross docked directly to the store.

Carton sorting
Sorting of inbound cargo arriving at the CFS to create customer required outbound shipments, i.e., sortation and consolidation at carton level.

Multi-country consolidation (MCC)
The process of centralising consolidation from multiple origins across countries in a common location.

Barcode labeling
Process of creating and printing customer specific barcodes.

Item picking
The process of picking at unit level based on store allocation. This generally results in different stock keeping units (SKU) in a single carton and includes carton labelling to record what is inside each carton.

Kitting / assembling
Picking component parts to create a new display unit/SKU.

Scan packing
The process of barcode scanning and label printing to ensure right products are packed into each carton and the correct store allocation.

PDQ display
The process of picking items and creating a display unit. They are delivered all but ready to go. They come out of the shipping box and onto the store shelf or floor.

eCommerce
The process of picking item levels for a B2C direct order.

For shippers, having a trusted partner to execute these services can be critical for achieving supply chain initiatives that effect the company's overall health and performance. With advances in technology, such as integration with LSP systems (levers) for real time end-to-end visibility, what used to feel like relinquishment of control is now global oversight with specialised (outsourced) execution.

CFS benefits

Direct cost benefits

Reduce shipping costs

- Container utilisation
- Environmental impact (reducing carbon footprint)

Reduce downstream costs

- Labour and handling
- Storage

Indirect cost benefits

Greater control

- Container stuffing
- Load planning
- Earlier touch point: With an FCL shipment, first opportunity for a customer to touch the cargo is upon arrival at destination. Port-to-port transit time between two destinations can be long - sometimes over 30 days. That is a long time on your balance sheet if you find a defect.

Delayed decision making

- Destination
- Quantity

Opportunity

- Split a product order (PO) by market (sharing inventory across geographies)
- Product to market velocity

Value added tax (VAT) optimisation

- Utilise bonded versus non-bonded warehouses to optimise VAT opportunities

Value added services (VAS)

- Store & call off
- Pick and pack
- Distribution center (DC) bypass

Balance sheet

- Cash to cash cycle and working capital
- Reducing inventory and more frequent shipments

Case studies for buyers' consolidation

A few real world examples of how CFS programmes can unlock value in the supply chain.

$2B Office furniture company

Challenge: Capacity issues at their DC, high detention, high demurrage, too many 20', too many under utilised 40' containers

Result: $65K in savings, 1,376 inbound moves (50%)

$14B Household hardware company

Challenge: High usage of 20' containers and LCL shipments across multiple business units.

Result: $7M in savings, less LCL and light load CY/CY shipments and enabled 20% cost savings.

$10B Industrial tools company

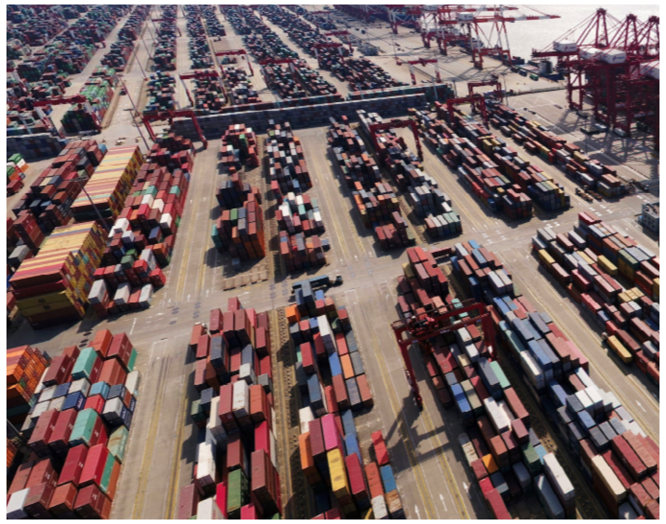
Challenge: Improving container utilisation across all business units.

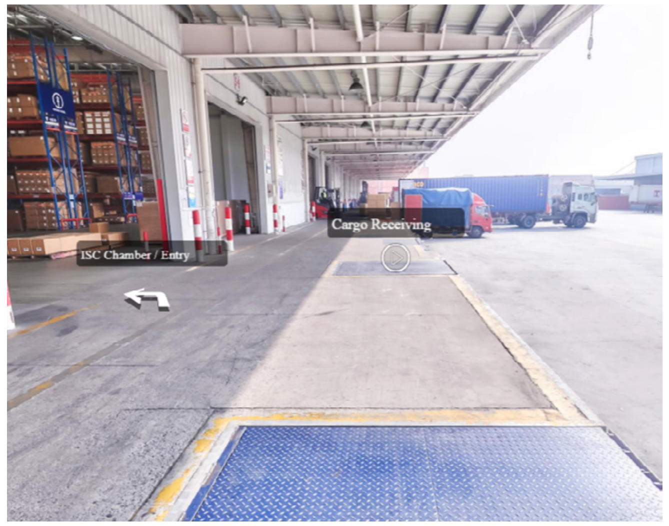
Result: $1.2M cost reductions, containers reduction of 7%, CO2 emissions reduction by 1.7M KG.

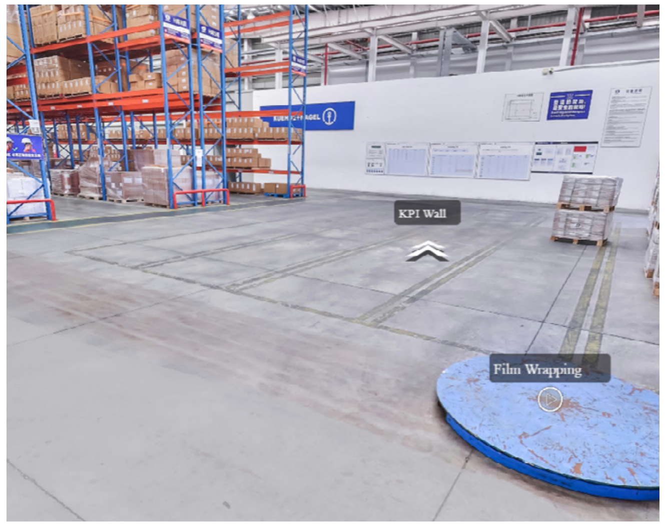
How to assess fit

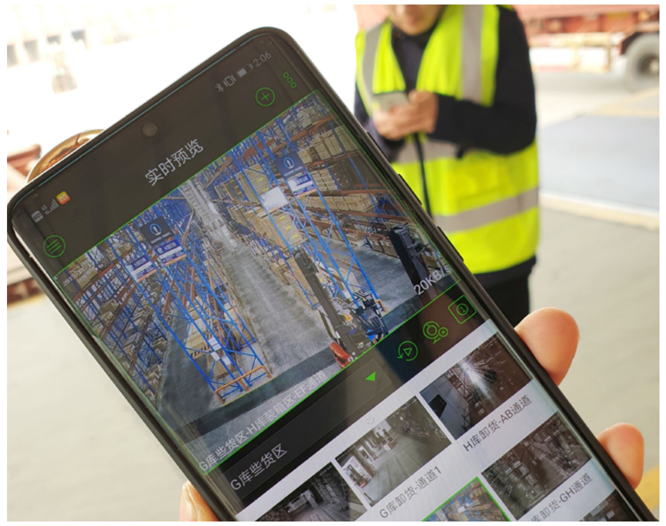
Companies that decide to deploy a CFS strategy, often seek a partner to deliver these services during their RFQ (request for quote) for other freight services. Here are some tips for determining the location (geographically), services and the right partner to execute a CFS strategy:

- **Partner with an LSP:** Strategic LSP relationships can act as an extension of shippers' supply chain and expertise. Outsourcing to an expert in origin matters can allow more focus on the customer.
- **Take a data based approach:** When evaluating if a CFS strategy is the right move, use supply chain data. The type of data required for such analysis is typically readily available. There are many models that can determine the possible value and ROI opportunities. This is a clear indication that further investigation could be compelling. Kuehne+Nagel's International Supply Chain department can do this analysis easily. Click here to submit an inquiry.
- **Align corporate initiatives:** Top down or bottom up, a CFS or consolidation strategy can contribute to the success of higher level initiatives.









The future is now

Virtual CFS tours

In pre-Covid times, the evaluation process for choosing a CFS partner and facility included on-site visits to assess fit. As the world has gone virtual, so has the process for evaluating a CFS.

Drone technology has spearheaded virtual tours and will further shape advancements in CFS.

CFS – Go green

The future is green, and supply chain sustainability has been listed as a top priority for many fortune 500 companies. These initiatives will include programmes specific to origin operations at CFS facilities. The programmes will be designed to reduce the CO2 footprint of a company's transport via an optimised CFS strategy.

Contact us for further information

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About us

With over 78,000 employees at 1,400 locations in over 100 countries, the Kuehne+Nagel Group is one of the world's leading logistics companies. Its strong market position lies in sea logistics, air logistics, road logistics and contract logistics, with a clear focus on integrated logistics solutions.

Learn more about our services at → kuehne-nagel.com
Contact email → KNInternationalSupplyChain@kuehne-nagel.com

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