

# Logistics Performance Is a Driver of Corporate Performance!

## Miebach Consulting Study Reveals new Trends in Chemical Logistics

*For many years, the chemical industry was asleep regarding logistics. Although logistics costs played a significant role for many chemical companies, in many cases they were seen as an optimization field only to a limited extent. The focus was too much on production and capital-intensive plants; logistics, on the other hand, had to function at the end of the value chain. The ability to influence logistics costs and the importance of logistics for service and flexibility were often rated as low.*

This picture has changed fundamentally over the past five to ten years. Increasing competitive pressure, increased price sensitivity on the part of customers, shifts from procurement and sales markets, and increasing safety and security regulations are posing new challenges to the logistics of chemical companies.

This initial situation led Miebach Consulting to carry out a market study on logistics in chemical companies for the first time in 2016. The study at that time was the first sur-

vey of logistics in the German chemical industry. Three years later, now it is time to review the results achieved in 2016 and to track down developments that have been driving the industry ever since.

One of the results of the study in 2016 most mentioned in the media was the finding that a poorer or better logistics performance might also result in a poorer or better company performance. At the time, this new and provocative finding provided a variety of topics for discussion and

raised the question anew of the significance of logistics in many companies. Therefore we have investigated in the current study the question whether the results from 2016 can be confirmed or whether there is currently a different assessment of the participants.

If one compares those companies that assess themselves worse than the average of the industry with those that assess themselves better than the average, it can be seen that 71% (2016: approx. 57%) of the companies with below-average logistics performance also show below-average company performance, while from the group of companies with above-average logistics performance approx. 56% (2016: 84%) also show above-average company performance.

Of the above-average successful companies, over 70% have an above-average logistics performance (2016: 64%), whereas of the below-average successful companies, approx. 56% (2016: 80%) also have a below-average logistics performance. In



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the 2019 study, only 13% of all participants (2016: 23%) managed to achieve above-average company results with poor logistics.

### A Fundamental Change in Thinking

Is this an indication that a poorer or better logistics performance also results in a poorer or better company performance? At least the survey results suggest such a connection — even if the evaluations may not be statistically significant. If this is true, then in conclusion, logistics management must do everything in its power to improve logistics performance in order to make a relevant contribution to corporate performance. Compared to the past this is actually a fundamental change in thinking. The paradigm shift means there is movement away from the pure functioning of logistics towards logistics as a value driver!

In addition to the relationship between logistics performance and company performance, the study also addressed other topics such as the degree of outsourcing, supply chain typologies and strategic, infrastructural and operational logistics projects and their drivers in chemical logistics. Special attention was paid to the currently highly discussed topic 4PL.

The term 4<sup>th</sup> Party Logistics Service Provider, or 4PL for short, is frequently used in the industry. Already a hot topic in the 90's, the triumphal march of the 4PL was hypothesized by some sides, however its presence was not reflected in reality in any way. If one compares the publications, lectures and other PR activities of that time with the true number of implemented projects, it seems as if the 4PL euphoria of that time was more of a marketing hype than an actual trend.



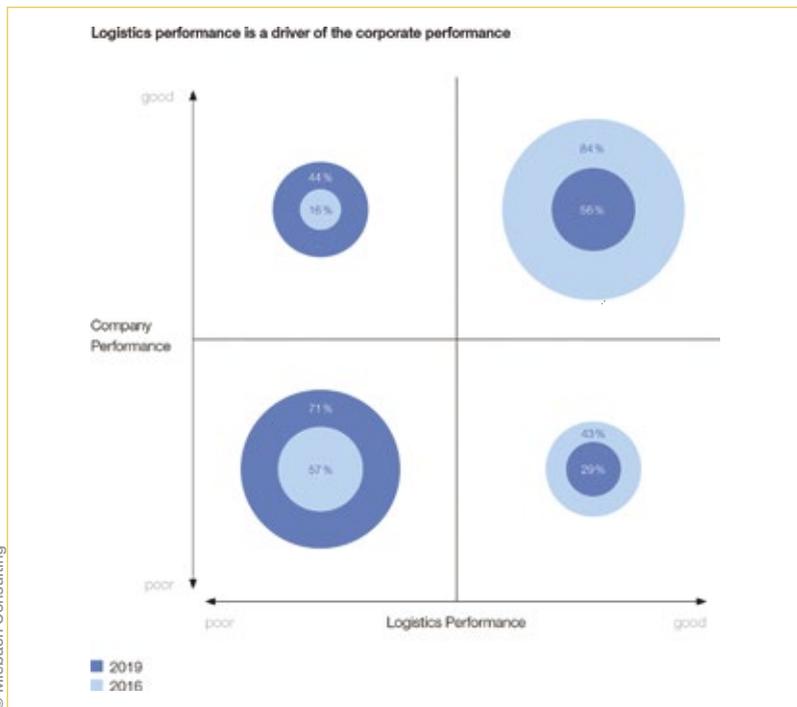


Fig. 1: Logistics performance is a driver of the corporate performance

For a long time, the concept had been quiet, but in recent years it has experienced a public renaissance — 4PL is back in public discussion. And especially in the chemical industry, there have been attempts by various companies to approach this model and try it out.

The renaissance of the concept is based on various reasons: On the one hand, the revival of the idea can be observed in some industries that ex-

hibit a very high degree of standardization for the supply chain planning and execution processes. These industries are characterized by the fact that the primary focus is on reducing transaction costs rather than focusing on logistics know-how or customer-specific solutions. It is precisely in this respect that the chemical industry has specific features, which means that the 4PL concept is more likely to be used here than in other industries, since in many cases entire truck loads, entire containers or rail tank wagons have to be dispatched and fewer small shipments are involved. These requirements can be implemented more easily today than in the 90s or 2000s due to technological progress using IT, Big Data, etc.

### 4PL Concept Critically Assessed

On the other hand, the established logistics service providers have further developed their concepts in such a way that they represent an interesting offer for the customer even without the historical focus on their own service provision, e.g. by making a significant contribution to increasing supply chain visibility and improving the availability of information for decision-making.

As a result of these developments, the chemical industry in particular has been more intensively addressing the issue of 4PL in recent years, while other industries have already turned their backs on this concept. Reason enough for Miebach Consulting to question whether the chemical industry is sticking to the concept or whether the end of the 4PL concept has already been initiated, as some decisions of large chemical companies suggest.

The study results are particularly interesting in this respect: the participants do not expect any significant cost or quality advantages from a 4PL concept. Rather, they assess the concept very critically because the processes in the company can only be standardized to a limited extent and are therefore not suitable for outsourcing to a 4PL. Interesting is also the fact that although only a third of the participants (35%) expect a dependency on the 4PL, which they would like to avoid, about two thirds (65% and 62%, respectively) argue that the 4PL approach leads to

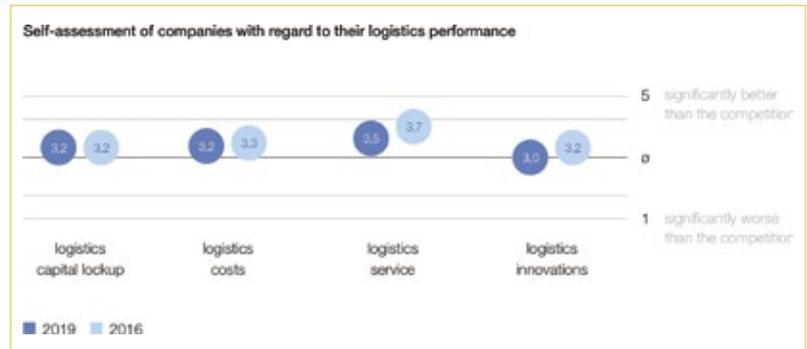


Fig. 2: Self-assessment of companies with regard to their logistics performance

the loss of internal know-how, which should be avoided, and alternatives such as supply chain visibility or control tower approaches offer similar advantages to a 4PL without creating dependency problems.

Due to the very critical evaluation of the 4PL concept also in the chemical industry, it must be stated that perhaps it is not the end of the 4PL concept in the chemical industry, but this very special concept obviously only seems suitable for a few companies and

will therefore have a niche existence rather than an industry trend.

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