

White Paper

Cost savings through logistics optimization

A Whitepaper of Heiko Hitzhuber
Miebach Consulting

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In logistics and supply chain there is high potential for strengthening competitiveness!

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Heiko Hitzhuber,
Business Development Manager
hitzhuber@miebach.com
Tel.: +49 69 273992-90

In day-to-day consulting, there are two main drivers for logistics optimization projects: Cost saving and service improvement. As a rule, the optimum solution is somewhere between these two requirements. It is worthwhile to consider the internal logistics as well as at the logistics chain outside the facility. What optimization measures can be implemented and where is the greatest potential for savings? To give an overview of possible approaches, you will find some suggestions in this whitepaper.

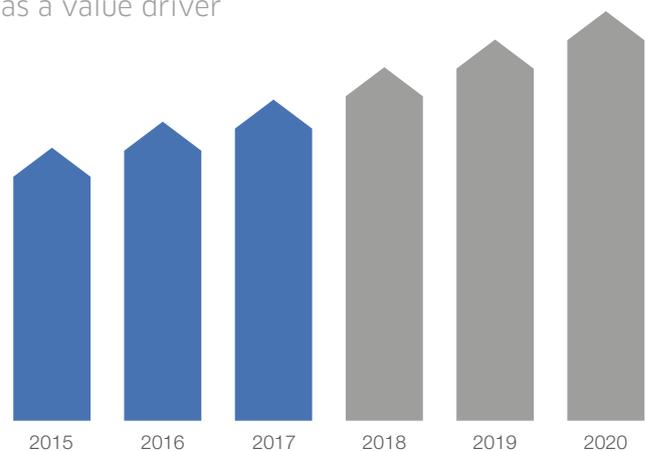
Logistics as a value driver

Often only the production phase is considered as having the potential to add value. However, it is important to see logistics as a potential enabler: without logistics, no goods reach the customer. Although logistics does not earn money, the converse is also true: no money is earned without logistics. Even if logistics is seen as a “necessary evil”, it should be carefully considered because cost savings in this area can also ultimately contribute to a higher margin. Some industries, e.g. e-commerce, already perceive logistics as a competitive factor and have invested massively in expansion and optimization in recent years; other industries see logistics as a value driver.

“We see a growing importance of logistics as a competitive factor for companies.”

Graphic 1:

Increasing relevance of logistics as a value driver



Automation for more efficiency

Automation

It goes without saying that the LogiMAT is the first technology trade fair to be considered after a visit: More and more processes can be automated. In recent years, in addition to proven technologies, there have also been innovative approaches and solutions that can simplify individual steps or even complex procedures or complete them completely. New technologies such as driverless transport systems that are becoming more agile, new picking technologies (pick by vision), assistance systems, “self-propelled shelves” or new scanner models make it possible to automate a wide variety of processes. This does not always have to be accompanied by a large investment, but the market of the suppliers is different, not all technologies are suitable for every application. In any case, it should be examined whether, in the case of a replacement investment, the use of a newer technology is also possible and sensible.

Does automation make sense in any case? Some processes can still be handled manually at lower cost, making automation seem an unnecessary expense. However, if challenges such as demographic changes or staff shortages are considered, a labor-dependent process isn't cost-effective if it cannot be carried out because there is a lack of staff.

Process optimization

Processes at individual workstations often involve activities that are easy to improve, such as starting with the better arrangement of required packaging materials through to the provision of goods. Entire processes can be improved through route optimization or intelligent outbound and inbound storage procedures. This does not only apply to manual processes, but especially to automatic processes it is important to take a look at the stored controls and algorithms, since some of them already enable optimization through simple software or control adjustments.

Digitization

Here too, digitization for the sake of digitization is generally not a healthy maxim. However, if simplifications or accelerations can be achieved through digital processes, a closer look is warranted. Above all, the objective of digitization must be questioned: in addition to the independently digital processes, consideration must also be taken at the interface between operator and the digital world. The solutions now available go beyond the mere replacement of paper; some processes can be carried out digitally in a completely different way than was previously possible.



Check new models

Make-or-buy / Outsourcing

A rather fundamental decision is whether one wants to have the logistical processes in-house or whether one outsources them to a service provider. This applies to warehousing and intralogistics as well as transport and other value-added or packaging services. There are possibilities for cost variabilization and cost savings as well as for reducing one's own headcount; on the other hand, there may be a loss of knowledge and decreased control over important logistics processes.

Transport

Due to changing market conditions, new players, or changed framework conditions, regular tendering of transports — or at least benchmarking with the aid of appropriate databases — makes sense. However, new platforms and new business models mean that this is only part of the range of opportunities that need to be explored. Although cost savings cannot be guaranteed, it is worth taking a look at dynamic transport broker platforms or even at concepts such as the use of a

4PL. In any case, one should regularly check whether dynamic solutions can be offered here, even if the transports are felt to be rather statically.

Collaboration

Logistics service providers have been practicing this for a long time - albeit not under this name - because it is in their own interest to use their trucks to full capacity. We are also seeing increased efforts on the part of shippers to cooperate with partners in order ultimately to save on logistics costs. Although there are still some complications, mostly of a contractual nature, this can also be a way of saving costs if you find the right partner with the right goods and the right destinations. This has been discussed in various forums in recent times, but there are still very few implemented solutions that work. Nevertheless, this possibility should not be categorically excluded.



Savings potentials in the entire network

Inventory optimization

Storage space costs money - not only the installation or rental, but also the maintenance. This becomes even more important when relocations become necessary. The first step here is to ensure transparency, on the basis of which large potentials can be leveraged through adapted algorithms in conjunction with data analytics or AI-supported demand forecasts. It's worth taking a look not only at one location, but also at the entire network: Does it make sense to store articles that are needed for Berlin in Munich? What about the C-articles, do I really need them available in full at all times? A more active inventory management can not only lead to a streamlining of processes, but also to significant cost savings, especially if it leads to a reduction in inventories and thus to less tied-up capital.

Supply Chain Optimization

Which locations do I really need? Where is production and storage located? What does my Industrial Footprint look like? These are certainly not easy questions, especially for long-established companies. Nevertheless, you should at least question your own set-up every few years. Here the focus does not always have to be directly on the construction of a new warehouse or logistics location or a relocation of production. Rather, it is necessary to recognize tendencies

and, if in doubt, to have concepts in reserve in order to be able to act proactively rather than reactively. In more complex supply chains, the trend is towards more active control through to real-time supply chain visibility or the use of control towers.

Sales & Operations Planning

Even if at first glance sales and production planning does not look like a logistics process, it has a direct influence on all events in the logistics environment: capacities, inventories, fluctuations, peaks and disruptions are often not considered exclusively in the logistics environment, but are directly linked or based on Sales and Operations Planning. Smoothing or making planning more flexible can have a major impact on subsequent processes. What is the impact if production is not in line with demand, if requirements are not incorporated into production planning, or if production processes that are too long mean that the required goods cannot be delivered at the desired time?



Actively shaping logistics in a changing world

Peaks and seasonalities

If a company is affected by peaks and seasonalities, this is certainly the biggest challenge. Storage space and capacities are often maintained that are only needed once or twice a year. Why not take a look at the current developments under the keyword "Sharing Economy" - the first providers inform about temporarily available storage space, in such cases this can be interesting both as a user and as a "provider".

Employees

A change will have to take place in the coming years, especially with regard to employees. In some industries, demographic change is already being clearly perceived, while elsewhere the shortage of skilled workers is already being felt. Technical aids can be used to support manual processes, but equally important is employee motivation, such as through job rotation, incentive systems or development opportunities. What sounds like effort and cost at first will pay off in the medium term.

Identifying potential: The logistics audit

One way our customers identify potential savings and optimization is through a logistics audit. Here, logistics processes are analyzed and assessed by experts in a short time and with little effort. At the end, our customers then receive an overview of possible measures, combined with an investment estimate and an assessment of potential. In most cases, the first quick wins can be implemented during the assessment, which often lead directly to an initial cost savings without a large investment.





We will be glad to talk to you personally about this topic and beyond.

Miebach Consulting GmbH
Untermainanlage 6
60329 Frankfurt am Main
Tel.: +49 69-273992-0
sales@miebach.com

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About Miebach Consulting

Miebach Consulting offers consulting and engineering services in the areas of supply chain management, logistics and production. Our clients range from medium-sized businesses to global companies that enhance and expand their competitive position with innovative logistics solutions. With over 370 employees we are one of the leading international consultants in logistics and supply chain management. Since more than 45 years our clients together with us achieve what we stand for: Supply Chain Excellence.

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