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**SWP 7/95 THE CHANGING MARKET FOR DISTRIBUTION:
IMPLICATIONS FOR EXEL LOGISTICS**

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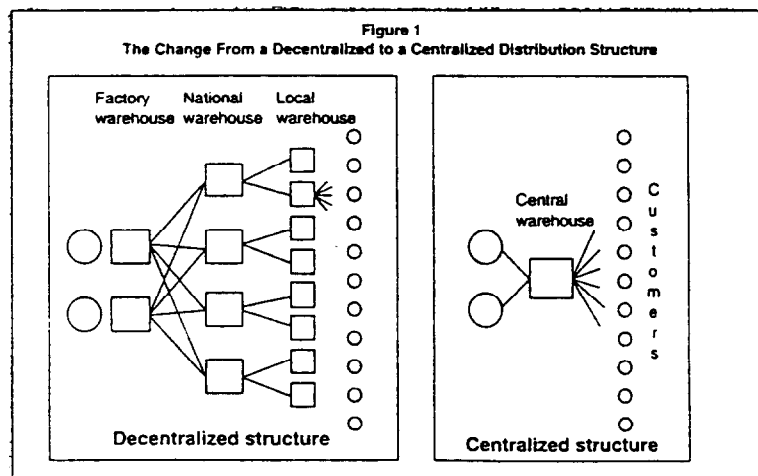
Conclusions

This paper has been written to compliment a previous Working Paper (The Evolution of a Distribution Brand: The Case of Exel Logistics) and to some extent allows that company's development (1989-1993) to be placed in the context of marketplace and industry changes. I wish to examine three of the main trends affecting the distribution industry over the same period. Firstly, the move towards the centralisation of operations by both manufacturers and retailers, secondly at the debate surrounding contracting-out and in-house distribution activities and finally, the issues under consideration must be seen in a wider context - that of distribution and the Single European Market (SEM), which could be said to be the most important development facing the distribution industry for many years. These trends will be discussed in some detail and, where appropriate, from Exel Logistics' perspective in order to consider how far the company has gone both in dealing with marketplace changes and in achieving its aims.

CENTRALISATION

The dictionary definition of centralisation is that of "concentrating at a single location". Within the logistics arena this is applicable to warehousing, inventory, distribution and/or manufacturing operations. Centralisation puts the focus on production rather than on geography, eg Unilever's soap factory on Merseyside will change from producing many products for one country to a few lines for all of Europe; and BMW is supplying dealers with parts from a single German warehouse. Transport costs may rise but manufacturing unit costs and inventory holding costs will fall [1].

The move to centralised distribution has been one of the biggest changes in retail (and to some extent manufacturing) sector logistics in recent years. It does away with national stockholding operations and instead serves the whole region from just one or two major distribution hubs or warehouse facilities (see Figure 1). Before the move to centralise, most products were delivered by manufacturers or wholesalers from local distribution centres to nearby depots and stores.



Store delivery invariably involved multi-drop rounds with only small quantities being delivered to numerous outlets in each region. Now manufacturers deliveries are made to regional distribution centres (RDC's) run by contractors or retailers, who then control final distribution through to the stores eg TOYSRUS single distribution point at Coventry. RDC's developed during the 1980's and have played a large part in changing UK distribution patterns.

The establishment of these centralised networks has involved heavy investment by both retailers and service contractors eg ASDA allocated £170 million to develop a centralised system of 6 fully composite centres at the beginning of 1990. Similarly Sainsburys process products from more than 1000 suppliers through 20 depot locations, where over 1000 lorries (in-house and third-party) distribute 11 million cases to 335 stores each week and 80% of this volume is delivered within 24 hours of order. Their supply chain now operates 24 hours per day 364 days per year. In the case of food retail, these centres can often handle both temperature controlled and ambient temperature goods. This system has become the norm, and such networks have resulted in retailers cutting down deliveries to stores from as many as 60 a day to a dozen or less [2].

With store replenishment consolidated into a minimum of a single delivery each day, manufacturers deliveries were concentrated into a fewer number of drop points. This enabled retailers to demand even better margins reflecting the lower distribution costs at the beginning of the chain. It also eliminated the need for large stock rooms at supermarkets and cut staffing levels, as sales and stockroom staff could be reduced. Other benefits of centralisation include:-

- economies of scale (warehousing etc),
- increased handling efficiency,
- lower stockholding in-store, provided extra selling space,
- replenishment on a daily demand basis- faster stockturn,
- lower inventory levels - transferred the problem of holding inventory back to the manufacturers,
- precise scheduling. Tighter delivery times were demanded by supermarkets. Tesco took this a step further. If a supplier missed a time slot to an RDC, delivery was refused and the supplier was expected to pay a penalty for the profit lost by the company as a result [3].

However, there are disadvantages; goods are stored further away from individual local markets leading to increased transport costs; problems over who controls the central warehouse system; decisions at every stage - in-house or contract out, should the warehouse

be nearer to the production plant or the main markets; vulnerability to local transport problems or regulations - eg the French lorry drivers action.

Despite this, control had passed to the retailer, who called for smaller loads, delivered more frequently. Faced with pressure for reduced lead times, manufacturers own distribution became more complex - with the retailer making most of the decisions.

"Supply chain control has been achieved by the major retailers at the expense of the manufacturer".[4]

Centralisation had a devastating effect on manufacturers distribution systems, eg one SPD operator delivered to 35,000 customer addresses in 1968. By 1988 this had shrunk to 1800 delivery points [5]. Manufacturers had control of one end of the supply chain only, with little control over customer requirements. The growing pressure of increased complexity when meeting retailers demands and shrinking delivery volumes, meant that existing manufacturers distribution networks faced 2 choices:-

- i) - to withdraw from running their own distribution networks - the option taken by Unilever when it sold its subsidiary SPD to NFC.
- ii) - or to continue operations as a common or shared user carrier, offering its services to other manufacturers. This option was taken by United Biscuits, United Dairies and Reckitt and Coleman. Tate and Lyle launched TLT Distribution to minimise their dependence on sugar distribution and Geest, strongly identified with the bulb trade, opened up their network to other fresh produce merchants.

Many manufacturers have moved to produce from a limited number of fixed points on a pan-European basis. The trend is for production and to some extent distribution being centralised and uncoupled from the sales and marketing functions, which is tending to remain nationally oriented [6]. George Hazle of Exel Logistics confirms that retailers are remaining largely regional or national players whilst it is the manufacturing base that is moving [7]. Interviews for a recent study (Prospects for 1993 [8]) showed that it was manufacturers rather than retailers who expected cross border expansion of retail outlets. The majority of retailers believed that consolidation in their country of origin or where they were already established to be the best policy (ref as above).

According to McKinnon [9] centralisation provides a host of operational, financial and marketing advantages and can transform the "culture" of a retail business. The theory is that centralised networks run smoothly based on the demand in-store. Growth has been assisted by the development of retail superstores, composite (multi-temperature) warehouses and vehicles and IT. More recently issues surrounding centralisation have broadened from simply

distribution and warehousing to include manufacture/production in non-food sectors and in many cases company restructuring.

Many changes including economic trading conditions; changing national boundaries; regulation and improved technology are resulting in supply, manufacture and distribution networks being re-engineered and rationalised to exploit these changes. Van der Ven and Ribbers work [10] broadens centralisation issues to look at manufacturing and production facilities and investigates trade-offs between lower production costs against potential increases in distribution costs. Their research revealed that in practice, many firms are looking for increased flexibility and cost savings in production or in distribution, but very few firms are tackling both aspects at the same time. Lower unit production costs tend to be uppermost in relocation decisions and the research showed that considerable savings in cost and time could be found on the supply side of many companies logistics activities - since this side of the supply chain had not been considered carefully enough (purchase and transportation of raw materials). It is essential that a holistic view of the supply chain is taken and that all three parties to it (suppliers, producers and distribution) should be considered before centralisation takes place.

It is also important to be aware of the distinction between centralising distribution operations, from which both large and small companies can benefit, and the larger centralisation/rationalisation of a company's manufacturing and/or production operations, where it appears that a company must be above a certain size before any benefits of economies of scale or otherwise will be felt. Work done by Taylor and Probert [13] concludes that the opportunities and benefits of plant specialisation/centralisation created by the SEM are in practice going to be available mainly to large multinationals, which have traditionally had a number of European plants and full product ranges for national markets eg DOW, Sony and Philips.

"In the foreseeable future the majority of UK firms would appear to have little or no opportunity to gain from plant rationalisation, specifically as a result of the SEM or an enlarged European market".[11]

CENTRALISATION AND THE SEM

In the past, most industrial companies had a distribution system with many local warehouses geographically close to customers. One or more warehouses in each country in Europe was not unusual. In such decentralised, traditional distribution structures each link in the distribution chain usually managed both sales and warehousing. Production units delivered to national warehouses, who delivered to local sales offices, who then managed delivery to the customer. But during the last few years, increasing numbers of companies have broken this

traditional distribution pattern and implemented a strategy involving distribution from only one or two central warehouses directly to customers all over Europe. Abrahamsson calls this "time based distribution" [12] and argues that it results in a much more competitive operation in terms of decreased distribution costs and increased customer service. The system is based on the fact that it is more important to deliver goods to customers within a specific time eg 36 hours, than it is to have warehouses geographically close to the customer base. It is important to realise that decreased distribution costs are not only the cost of transportation - which may well increase (due to greater distances to cover) - but encompasses all the functions, inventory costs; warehousing costs; transport costs; labour/land costs etc plus, more intangibly, the benefit of repeat customer orders as a result of improved customer service.

Example:- (a) ABB Motors AB:-

This company produces electric motors, in all about 1000 product lines. In 1988 they had 6 production units in Europe all carrying stock and local warehouses with sales companies in most European countries. The average lead time was 2-4 weeks and total distribution costs were 35% of sales. The aim was to reduce TOTAL distribution costs and increase delivery performance. By 1989 they had established a central warehouse in Germany and contracted out distribution services, delivering directly to customers all over Europe.

Results:- reduced total distribution costs to 20% of sales

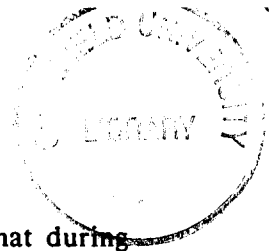
- reduced lead time to between 24-72 hours
- increased delivery performance from 50% to 95% (items from stock).

NB. There are indications that events are moving full circle with ABB Motors' parent company, the Swedish-Swiss engineering group ABB, decentralising in 1992 into 2000 profit centres throughout Europe [13].

It has been argued that the trend towards centralised distribution systems has led to the accelerated use of third party contractors [14]. With centralised warehouses (RDC's) costing upwards of £10 million (late 1980s), plus the growing need to invest in IT and retailer demands for greater flexibility in delivery schedules, many food retailers chose to switch their distribution activity to the third-party sector - the relative merits of which will now be examined.

THE CONTRACTING OUT/CONTRACTING IN OF DISTRIBUTION

In the mid 1970's the UK freight transport marketplace was dominated by two products, general haulage and own-account operations. Haulage operators usually provided regional transportation services whilst an own-account fleet would provide a delivery service for the owner's business to plants and depots around the country. There was obviously scope for



change. Improved regional accessibility and a growing consumer market meant that during the last decade the UK retail marketplace has undergone huge changes. Manufacturers' volumes and fleets were decimated due to the reduction in numbers of smaller high street outlets and growth in size of the larger multiple, edge of town retailers. Other trends such as retailer's centralising distribution operations and taking control of their own supply chains had the same effect - a fall in demand for shared-use distribution. This led to retailers redefining their distribution needs and many operators set up specific divisions to cope with growing and changing retail industry demands. Until recently road haulage was perceived as a low profile industry but these changes have given it a higher status, with logistics moving from being an operational necessity to a strategic means by which companies could gain competitive advantage. It is now a key area in which manufacturers and retailers have to be good, in order to drive down costs and improve service. Consequently, the required investment for a company to run its own distribution operation was enormous. Fleets, warehouses, depots, maintenance and IT, all tied up a high level of capital expenditure, and thus it became no longer feasible for many companies to retain in-house operations.

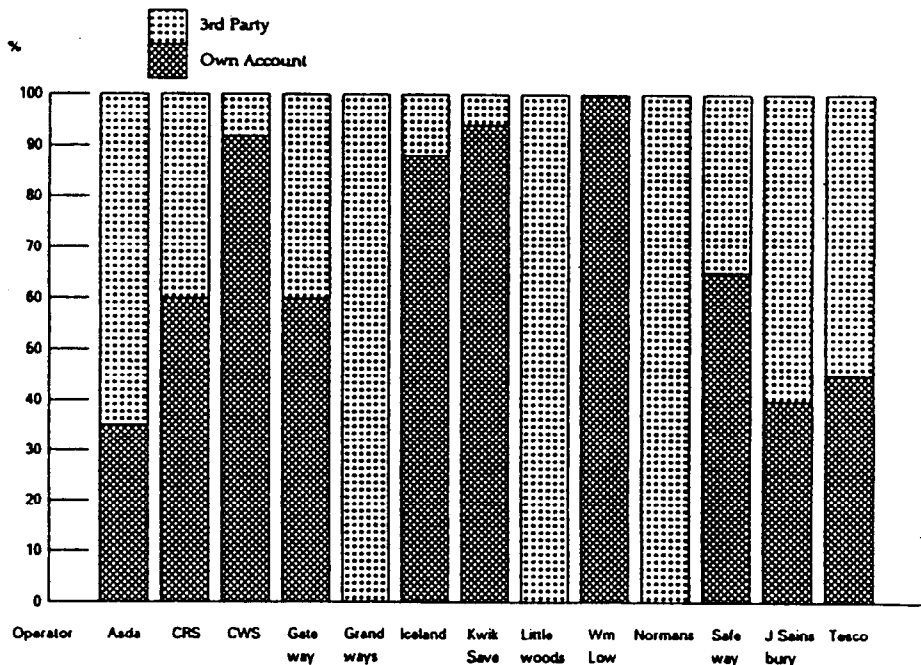
During the 1980's the increasingly powerful food retailers saw the solution in the use of third-party or dedicated contract distribution (DCD). This replaced customers fleets and/or warehouses with a separate operational framework managed and owned by a third-party, often providing a more efficient and cost effective service than companies could provide for themselves. Operators had to be flexible enough to keep fully abreast of new technology, support customers and apply strategic, tactical and operational reviews - in effect continuously strengthening and managing the whole supply chain. In addition, contracting-out took advantage (initially) of efficient operations and lower wage rates; increased vehicle size with greater payloads up to UK 38 tonne limit; and new infrastructures improved *parts* of the road network [15]. Non-grocery retailers and manufacturers soon saw the advantages and some followed this trend. Customers quickly realised that buying in this expertise allowed them to concentrate on their core businesses of manufacturing or retailing and expected their distribution networks to provide all or part of their supply chain management.

An ILDM/Touche Ross Europe wide survey in 1991 [16] shows how much distribution expertise has improved. In 1983 UK distribution costs were between 12-15% of sales - by 1991 this figure had dropped to 5.18%. Savings on this figure would allow lower product prices and a competitive trading advantage [17]. In Europe (1991), the Netherlands was the most efficient country in transport, distribution and warehousing at 4.62% (again of sales) and France the most expensive at 7.22%. The UK figure of 5.18% is partly due to our relatively high warehousing costs and partly to our geographical position on the periphery of Europe, with no integrated transport system (especially road or rail) or the prospect of one.

This inherent structural weakness will have to be overcome, but UK industry does have the advantage of being at the forefront in complex dedicated distribution contract work, having to satisfy very demanding customers, such as major retailing chains and industries relying on a complexity of components, eg vehicle manufacturers and electronics.

UK distribution costs as a percentage of sales again dropped in 1992 to 4.7%. These figures show an overall improvement in distribution service efficiency and significant cost reduction. The trend towards third-party distribution was based initially on the operators' ability to provide flexibility in meeting delivery requirements. The ILDM survey showed reliability to be as important as rapid response - with quality of service becoming more important. Many companies, including Exel Logistics, aimed to offer this service on the basis of "one stop shopping" and to meet these demands, distribution contractors had to expand geographically (again this links to the SEM) and broaden their range of services.

Growth of contracted out work continued up to the end of the 1980s and in 1991 research by the IGD showed that third-party penetration of the grocery retail sector ranged from 35-45% for ASDA to 100% for Wm Low and Grandways [18]. See below.



However, it also found that the major multiples themselves now have the comprehensive knowledge and specialised resources required to operate efficient distribution systems and most now operate a core of own account facilities. It would seem that the trend back towards in-house expertise cannot be ignored. A 1992 Price Waterhouse report [19] concluded that:-

"Whilst sub-contracted transport services were generally perceived to be adequate to meet company requirements over the next 2 years, 80% of retailers felt that third-party warehouse and stock management performance was inadequate."

Such factors and survey results point towards dissatisfaction amongst some retailers over the efficiency of distribution operations run by third-party contractors. Many initial problems arose over a lack of understanding over clients business and teething problems with newly established contracts. Some customers had such problems compounded by their terms of contract, John Kelly, Chairman of Logistics Consultants Davies and Robson comments;

"Many companies found that their contractors expected inflation linked cost increases at a time when their own turnover was declining". [20]

In order to address many of the problems experienced both by contracting out and running own-account operations, there has been a move towards achieving recognised quality standards, such as BS5750 and ISO 9002. Whilst not ensuring that customer needs will be met, industry observers argue that in future a quality standard is likely to be seen as a basic criterion which will have to be met and those not doing so will find it difficult to be invited to tender for new business.

A wide range of operators tend to be used by individual retailers, a situation that significantly increases competition in the market. Major distribution operators like Exel Logistics and Christian Salvasson, have a good spread of business amongst the multiple retailers but it is interesting to note that even large companies like Sainsburys do not exclusively employ only the major contractors (see below).

Third-party/Own Account Distribution Operations at Sainsburys (1992)

<u>Total no. of depots</u>	<u>No. own Account</u>	<u>No. 3rd party</u>	<u>3rd party Operators</u>
21	4	17	Lowfield Exel Logistics Christian Salvesen McGregor Cory Applied Distribution Harris Coldair Tibbett & Britten NFT UCD Vangen

Source: IGD Research Services

Due to the recession and difficult trading conditions, many UK companies (both manufacturers and retailers) have had to continually rethink their distribution policies. The pattern of change is mixed - with the trend to contract out work now beginning to reverse. The days of a fleet of lorries dedicated to a single customer are nearly over as companies shift towards shared-user services in an attempt to cut costs. Shared or common-user systems declined in the 1980's but a relatively new trend is a return to favour of third-party common-user operations where two or more customers share the same facilities and services. John Stocker CEO Ryder (UK),

"People are now realising that there are economies of scale to be gained from shared-user networks".[21]

Other retailers are doing the opposite - seeking to establish ever closer and wider ranging partnerships with their distribution service providers. (see section on logistics partnerships).

"The recession has meant that customers can no longer afford dedicated contracts". Alan Cole CEO Transport Development Group (TGD) [22]

Figures below show the changing balance between third-party distribution and own-account operations.

	1991	1992
In-house transport	16.5%	21.7%
In-house storage	43.0%	48.6%
Third-party transport	33.5%	23.7%
Third-party storage	6.9%	6.2%

Source: ILDM Report

Storage remains significantly an own-account operation, but when compared to 1991, transport has shifted away from third-party, both shared and dedicated, back to in-house operations. Developments in IT systems have enabled retailers and manufacturers to regain control over areas of distribution activity that were once the province of third-party specialists. It would seem that the need for flexibility in distribution and transport was soon overcome by the need for companies to cut costs. Evidence points to a continuation of this trend but for possibly a different reason. One recent report by P-E International [26] found that almost 75% of companies using third-party operators are seriously considering switching to either in-house or shared usage systems. The main reason given is the need for increased flexibility resulting from increased service pressures and the need for companies to react quickly to changing volumes in a recession. One example of this switch is Whitbread - in

July 1993 contracts were not renewed with Exel Logistics and Tibbett and Britten and they have resumed in-house distribution. As Robbie Burns (MD Exel Logistics) comments:-

"Our biggest form of competition is in-house operations".[23]

Switching costs have been investigated by the FTA, their 1993 Report concluded that the operating costs of an effectively managed in-house distribution operation were unlikely to differ much from one contracted out. Thus the main motivation for contracting out is more likely to be the benefits of the contractors specialist distribution knowledge; contracting out is now unlikely to save a company money, companies today need their distribution systems to maintain service levels but at a lower cost. So whilst some are returning to in-house or shared usage activity, other companies are mixing their distribution portfolio - running some in-house, both as an insurance policy and a benchmark against which to compare their contractors performance. Sainburys for example use Exel Logistics for transport and warehousing for its DIY business Homebase, but for supermarket business the group operates some of its activity itself with some outsourced.

"We believe this combination gives us the advantage of having a direct cost comparison which helps us to manage the contractors operations successfully and feel satisfied with their performance". [24]

Research by Fernie [25] suggests that the grocery retail sector has become "almost a saturated market" for contracted-out distribution and manufacturers clearly represented a major opportunity for third-party operators. But their successful penetration of the grocery market does not appear to have been repeated in the manufacturing sector. The latest report by P-E International [26] into current issues concerning distribution outsourcing shows that there is now considerable dissatisfaction with the services provided by third-party operators - mainly within the manufacturing sector. The need for flexibility is now the single most important factor in persuading companies to take on third-party contracts. This has overtaken concerns of cost reduction and improved service levels that were shown to be important in the previous survey in 1990.

European researchers have conducted extensive research into the utilization of third-party logistics in its various forms including, [1] [10] [25] [27] [28] and Fernie's work [25] gives a very good summary of the advantages and disadvantages of contracting-out. See Appendix 1.

The concept of third-party distribution has proved very successful in the UK but that does not mean that it can be exported as it stands. Contracting-out allows companies to concentrate on their core business and save money through reduced stockholding and optimising their use of facilities. However, it is less common outside the UK and some

companies operating both in the domestic and European market have had to develop dual supply chain systems - one built on high levels of dedicated contract distribution, based on the UK model and another on a more locally adapted shared-user systems (as Exel Logistics had to in the USA).

The main choice facing businesses today is how to minimise their overall supply chain costs. The least cost option of a particular link may not be the best option - and as a result it is increasingly important for companies to understand and evaluate reasons and motives for re-assessing their distribution operations. Many are now choosing **not** to abdicate total responsibility for supply chain management to a third party, preferring to maintain an element of control. The debate continues.

THE SINGLE EUROPEAN MARKET (SEM)

Traditionally, the European transport and haulage industry has been highly fragmented with large numbers of owner drivers providing a competitive service at low rates. It is only recently that large transport groups have emerged to offer a comprehensive range of services at all levels of the supply chain and even more recently, logistics service providers (and their customers) have been able to introduce the sort of IT systems eg computerised consignment tracking and management reporting systems needed to supply the highly complex centralised warehousing and distribution systems with the necessary information flows. Such IT systems must be capable of sustaining international operations and promoting growth. Companies wanting to develop pan-European operations will also have to be prepared to develop value added services such as, packaging, labelling, merchandising systems, traffic planning and design.

The development of centralised, composite and contract distribution, especially in the grocery retail sector has been developed to a high degree within the UK, enabling greater cost efficiencies and reduced lead times to be achieved by the customer. However, in Europe, grocery retailers have much less control over their supply chains, distribution is less centralised and contract distribution is still developing [29]. Europe has fragmented distribution patterns and incomplete transport deregulation. The hardest task for the third-party formula will come in Germany, an over-supply market where margins are tight. Road transport remains strongly regulated and large companies are traditionally reluctant to sub-contract distribution. Around one quarter of German logistics spending goes on third-party activity, compared with over three quarters in Italy and 40% in Spain and France. Even so, Exel Logistics is determined to persist in the German market even though two of their main UK rivals recently withdrew [30].

The development of the SEM is expected to provide expanded opportunities for both European and non-European firms to greatly extend their cross-border activities. Companies wishing to take advantage of the opportunities on offer would have to dramatically alter their basic operating strategies. Centralised manufacturing and physical distribution strategies, stimulated by lower trade barriers and expanded transportation services will be commonplace. Major distribution groups, if they are to take advantage of the SEM, need to be able to create a network through which goods can be moved around the continent as effectively as they can within national borders - or in jargon - a pan-European logistics capability. As already discussed, transport customers are breaking down their national boundaries in manufacturing and marketing and centralising operations, creating business units which serve in many cases more than one country. Some manufacturers are now producing from a limited number of fixed points and will consolidate their European operations in order to gain greater efficiencies of scale. This is exactly what happened in the USA when inter-state controls were relaxed, manufacturers rationalised production into giant centres in order to achieve economies of scale and improve the logistical control of supply. Again, savings must be set against rising transport costs due to greater distances to bring goods to markets.

With suppliers entering the market all the time there is a constant search for ways to add value. At Toyota's UK car plant, one of its most advanced outside Japan, Pickfords not only deliver most of the machine tools, they also install and wire them. There is little a logistics contractor will not do, short of actually manufacturing the product and it is vitally important that they establish strong links with their customers. Thus, companies are less inclined to go it alone and are forming alliances or partnerships in many areas of activity. This has been especially important in the key area of logistics. Third-party operators and contractors have already been discussed and very involved relationships have evolved between companies [31] (manufacturers/suppliers; retailers/distributors; and distribution companies acquiring locally managed firms in areas in which they would like to expand, such as Exel Logistics and their USA and European acquisitions and Federal Express and Laura Ashley). Partnerships will be a vital part of the international logistics arena in the 1990's. Well constructed partnerships can be used to significantly lower costs; improve return-on-asset performance; improve customer service and increase companies ability to respond to marketplace changes [32].

With Exel Logistics, their policy has been to start with what they know - exporting to the continent the concept of dedicated distribution which has been so highly developed in the UK (especially in the retail sector). BUT there are major differences between the UK and mainland Europe's logistics industries and it is very important to consider these when faced

with strategic choices for the development of a pan-European logistics structure, for example:-

- differences in countries basic infrastructure and economies.
- structural differences between UK and European retailers and manufacturers.
- lower land costs in Europe means stock can be held cheaply at the point of sale.
- owner drivers may transfer goods for several retailers, there is a predominance of autonomous self-employed drivers unlike the UK system of employee drivers.
- regulation problems
- fragmented nature of the logistics industry.
- cultural and language difficulties.

R Irving, MD Christian Salvesen International Distribution comments;-

"The first and most important point is to think European and not think British".

Integrating the different Euro-cultures, distribution methods and infrastructure has proved more difficult than many operators bargained for. Thus the demand may not be for "one stop" European logistics but for a more flexible and tailored approach and there could well be a shake out amongst distribution operators as the SEM intensifies the competition for contracts. Abrahamsson suggests [12] one other important effect of centralisation has been a separation of the sales function from physical distribution. Distribution is central to achieving economies of scale in materials handling and transportation, the sales function often remains local for best customer service and support. It is however becoming apparent that in some companies, sales and marketing departments are reluctant to lose their national warehousing and management functions - believing European centralisation will mean fewer senior posts. British industry is therefore making slow progress in shifting its distribution base into mainland Europe.

Whilst some manufacturers have set up pan-European production and distribution facilities, retailers have been more cautious. The UK's leading retailers seem preoccupied with the battle for national market share and so far really only Marks and Spencer and Iceland have taken the bold step of opening stores under their own facia and Tesco and Woolworths have begun to expand outside their home markets. For UK retailers, the scale of their European business remains a small percentage of their total trade, Sainburys for example have approx 18% of the UK grocery market but Europewide this drops to 3% [33]. So while leading UK supermarkets are used to dominating the home market they are only small fish in the Euro-pond. However, moves are being made, with; the Burton Group in Spain and Germany; Boots in France and Texas Homecare in Spain. The SEM will also see expansion of European retailers into other member states, eg Aldi, Netto, Naf Naf into the UK, Ikea and Benetton

across Europe. Developing retail operations into Europe means extending communication lines and the structure and management of the whole supply chain becomes crucial.

Marketplace developments such as pan-European manufacturing and retailing concentration, product proliferation and technological developments should lead to less stockholding, more centralised warehousing, increased road transport and greater availability of products in Europe. Consumers will demand greater choice and food freshness continent wide, this *should* increase demand for sophisticated logistics skills, as pioneered by the leading UK companies. However, success in the domestic market will not necessarily ensure success in Europe, competition will come from both other national and international companies, as well as independent operators from low wage countries already used to operating in a more regulated environment.

A report by Exel Logistics in 1989 [34] estimated that within 4-5 years the European distribution market would be worth in excess of £81 billion. As a result, initially many large contract operators rushed into mergers and acquisitions, invested in technology, and bought in the expertise they thought necessary to take them into Europe. However, the pattern of change remains uncertain - the rise of the mega-carrier has not happened as predicted and the initial rush to acquire European companies has slowed. Manufacturers have been less demanding than expected in their transport requirements and there are still doubts about the form that many Euro-organisations will take. Manufacturers in particular are showing no set patterns, some will take a pan-European approach, whilst others will simply divide the new market into 2,3 or 4 regions.

Different companies adopt different strategies for entry into Europe. Exel Logistics initially entered the European marketplace by following an established customer, Marks and Spencer. Other companies have also adopted this strategy and increasingly leading operators are building a presence in continental Europe based on links with specific customers rather than setting up service networks and looking to win new business contracts. Most recently McGregor Cory is to build a £18 million distribution centre for Procter and Gamble in Spain and John Stocker, Business Development Director Ryder Plc comments:

"Our approach is to enter a country either with a customer or a target industry - it is not our intention to set up a European network and invite customers to use it". [35]

Some companies have purchased others which already had national networks eg Hays with FRIL in France and Mordhorst in Germany, whilst others began with regional or even local acquisitions (which is how Exel Logistics expanded). This did not always prove successful, eg TDG closed its french haulage subsidiary in 1993 following losses of almost £12 million

and even NFC have admitted that due to economic conditions trading remains "difficult" in Germany and Spain.

CONCLUSIONS

There are really two areas in which to draw conclusions, firstly from the company's point of view and secondly in the context of the three topics under discussion, which have influenced the evolution of both Exel Logistics and the industry in general.

Company specific conclusions have already been drawn in the previous Working Paper (already referred to) and as discussed there, it is very difficult to derive company specific conclusions in isolation from the three topics under discussion in this paper.

Centralisation, contracting out/in and the SEM are all very important factors within the logistics industry and as such play essential roles in both its development and that of its operators. The implications of change in any one of these areas is enormous and has a knock on effect both throughout the industry and individual supply chains, but they are not to be taken in isolation. There are of course many other factors which companies (logistics operators, retailers, manufacturers, customers) must also consider and whilst not within this remit, examples have been included in the final diagram.

There is scope for more work in any and indeed all these areas, especially as trends appear to be cyclical eg the move from contracting-out distribution activity to contracting back in; and early indications of some companies considering decentralisation (see page 5).

It is possible to see links between the three areas under discussion (see Appendix 2) and there are opportunities for investigating further the push/pull effect of all three on each other in the future. In the mean time distribution operators simply have to live with the fact that they must operate in the current constantly changing environment.

NOTE: There are two case studies resulting from the work done with Exel Logistics.

Case A - The Marketing of a Distribution Brand.

This looks at the position NFC found themselves in at the time of the company's flotation on the Stock Exchange. In particular the problems facing the new MD and Marketing Director in pulling together so many diverse brands from their existing portfolio.

Case B - Internationalising a Distribution Brand.

With the launch of the umbrella brand, Exel Logistics, this case outlines the growth of the company, mainly by acquisition in North America and Europe, and looks at the strategic options open to them if they are to pursue their aim of becoming a global company.

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APPENDIX 1

ADVANTAGES AND DISADVANTAGES OF CONTRACTING-OUT DISTRIBUTION

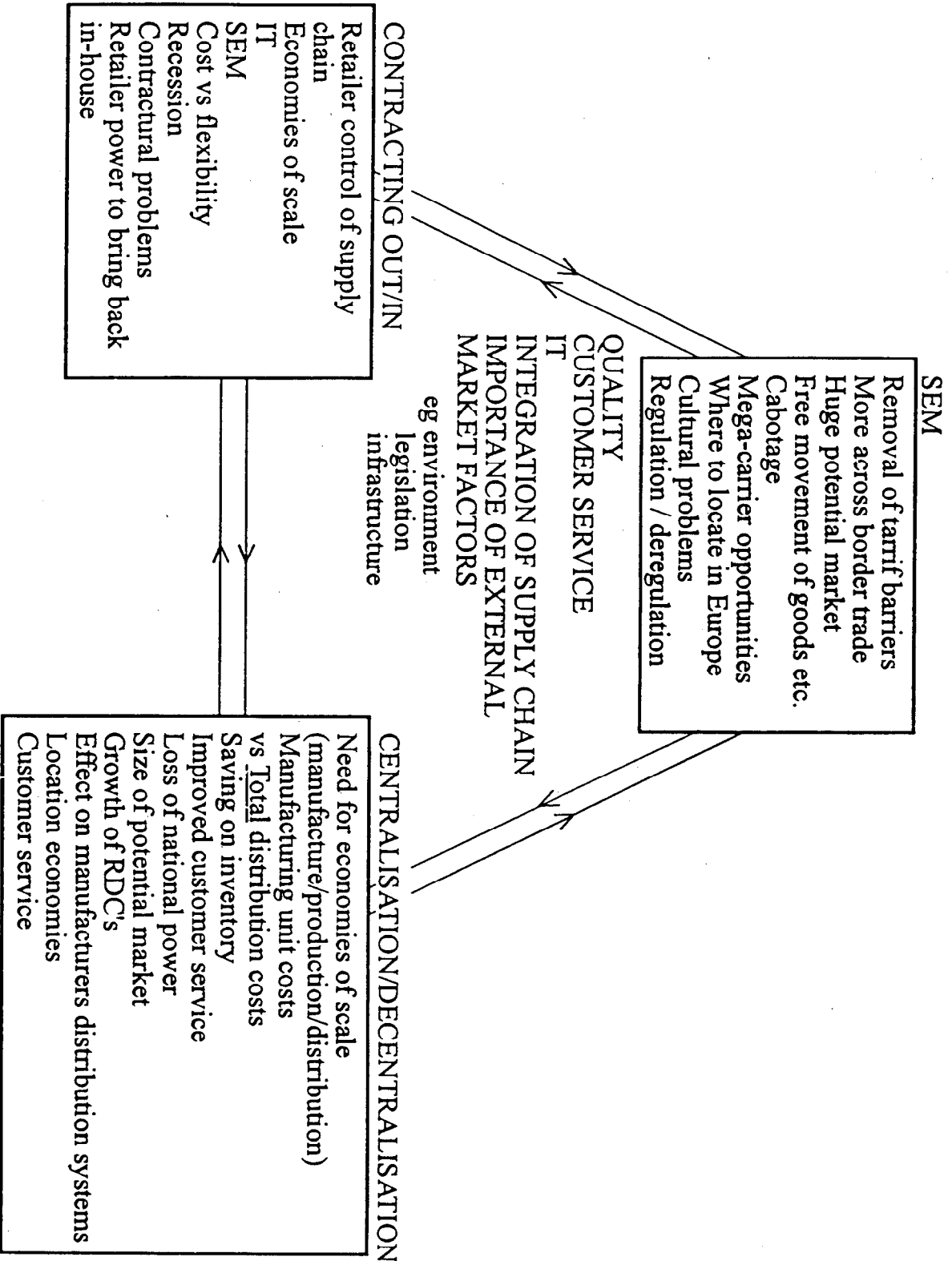
ADVANTAGES

- (1) Strategic reasons
 - a. builds in flexibility
 - b. risk spreading
- (2) Financial reasons
 - a. opportunity cost of capital invested
 - b. economies of scale
 - c. off balance-sheet financing
 - d. easier budgeting
 - e. better control of stock should lead to reduced inventory costs
- (3) Operational reasons
 - a. accommodate peak and trough traffic patterns
 - b. enter new markets
 - c. reduce back door congestion at warehouses
 - d. provision of "specialist" facilities
 - e. improved service levels
 - f. minimise industrial relations problems
 - offloads personnel issues
 - g. specialist management expertise

DISADVANTAGES

- (1) Cost
 - a. cost-plus argument
 - b. monitoring costs
- (2) Control
 - a. loss of total responsibility through the supply chain
 - b. better customer service
 - c. loyalty to one not several companies
 - d. security in relation to new product development
- (3) Technological innovation
- (4) Economies of scale

Based on Fernie: Contract distribution in Multiple Retailing.



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