

As Global Supply Chain Complexity Grows, So Does Need for Definition of “Logistics Operating Models”

Pepsico’s Evolution; Think Globally, Act Regionally, Act Locally

SCDigest Editorial Staff

Do you have a clearly defined logistics operating model?

That is the question an increasing number of companies are asking, both for domestic operations, and across the globe.

As transportation and logistics becomes increasingly important to the global supply chain and management of the bottom line, supply chain leaders are taking an increasingly sophisticated approach to structure and decisions in an area that in the past was often characterized by less formal processes and strategies.

Included in that more formalized approach is the development of logistics operating models that define the role and structure of the transportation organization within the enterprise and across the globe.

Razat Gaurav, Vice President of Transportation Solutions at i2, says it starts with the business role within the enterprise.

“Still for most companies, transportation is a cost center, and often very fragmented in how it is organized,” Gaurav said. But, many companies are centralizing key transportation functions and moving to a “shared services” model, in which a central transportation group provides a variety of sourcing, planning and execution services to meet the needs of multiple business units within the enterprise.

Taking that one step further, companies can even evolve to the point where the transportation function can be considered more of a profit center. That can be achieved by charging the different business units

A logistics operating model also needs to define what functions and capabilities are centralized, what are performed at a regional level, and what at a local level.

the way a 3PL would, and even using the capabilities and technology to provide outsourced transportation management for other companies.

Pepsico is one company that has been on this journey, moving over the past few years to a shared services model that supports the companies different business segments.

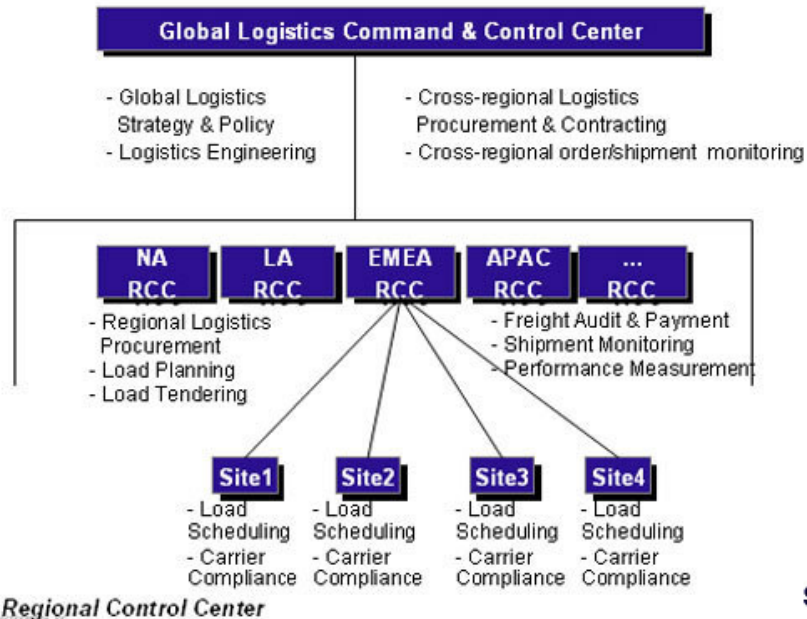
Mark Whittaker, Vice President of Transportation at Pepsico, said at a recent i2 User Conference that different businesses within the company have the option of using the central transportation services or not.

“But most of them do use us after they see the capabilities we can bring,” Whittaker said.

In addition to defining the basic structure and operating mission of the transportation group, a logistics operating model also needs to define what functions and capabilities are centralized, what are performed at a regional level, and what at a local level. On top of that, decisions about what to keep in house and what to outsource at each level also need to be made.

As Global Supply Chain Complexity Grows, So Does Need for Definition of "Logistics Operating Models" (Con't)

3-Tier Global Logistics Operating Structure (Example)



"Remember, think global, plan regional, and act local," says **Gene Tyndall**, SCDigest Contributing Editor and Executive Vice President at Tompkins Associates.

"There are clearly some functions that make sense to be doing at a global level," says Gaurav. "For example, doing on-going network analysis, in terms of looking for opportunities that may exist within your network for creating savings, or reducing lead times. It makes sense to have a centralized engineering team that can be leveraged across your total network to perform that function."

Gaurav said other functions, such as 3PL sourcing and contracting, carrier sourcing and global rate negotiations, and visibility functions are all examples of capabilities that may make most sense to operate a centralized, global level.

However, functions such as load planning are probably best suited to development of regional (e.g., North American) capabilities. Freight audit and payment is another example of a function

that often makes sense to operate regionally, as well as regional track and trace.

Finally, other functions, such as appointment scheduling and carrier compliance, are often best served by local execution.

He says more and more companies are formally documenting roles and processes, and adding the required supporting technology, at each of these levels in a three-tiered operating model (see illustration nearby).

He also said that it is critical to properly structure performance metrics at each of these levels commensurate with how the operating model has been defined.

Some of Gaurav's comments were made during a recent Videocast from Supply Chain Digest on "Leading Edge Logistics." Part 1 of that outstanding broadcast is now on-demand. Part 2 will be broadcast soon. To see this or any on-demand Videocast, or to register for an upcoming event, please visit our Videocast schedule page: www.scdigest.com/supply_chain_videocasts.php