GLOBAL INSTITUTE OF LOGISTICS

Relationship Orientation

White Paper

5/1/2007

Relationship Orientation as the Critical Factor in Successful Global Logistics

Foreword

"After 10 years work studying the machinations and the workings of the outsourced logistics model, we as an Institute together with a great majority of academics and thought leaders around the world have finally agreed what it is that makes great global supply chains work and why.

For a long-time we all believed that the key criteria would have to be a confluence of operational abilities, which combined added up to the essential DNA for the perfect outsourced logistics solution.

We thought that the list would include things like geographical reach, IT Support, product knowledge etc, and of course great supply chains are built on all these things, but that's not what makes them work.

In the final analyses the truly great supply chains are built on people and their individual and corporate ability to approach each solution with passion, and that goes for shipper and Logistics Service Provider alike."

Global Institute of Logistics
May 2007

Contents

Executive Summary

A shift in power is taking place in global supply chains and the Global Institute of Logistics believes that it is the quality of the relationships between cargo owners and their logistics service provider partners that will determine the winners.

There are three main drivers of this phenomenon.

The move towards demand-driven supply chains is undeniable, and this means cargo owners — as the players who are closest to end-consumers and, therefore, in the best position to interpret demand — are taking control of their supply chains now. It is they who are making the decisions on when and how their products travel around the world.

The contrast between this new model and the old one, in which service providers carrying out different functions failed even to build relationships with each other, is stark. Cargo owners are now co-ordinating all the activity across different modes of transport. One of the benefits for them is that the new set-up will help them make popular products available to consumers in any part of the world much more quickly. Speed, of course, is another differentiating factor between supply chain winners and losers in the twenty-first century.

The third driver derives from a further benefit to cargo owners from the new model. If they are in charge, the likelihood will diminish of terminal operators and land-based logistics service providers being asked to move partly empty containers, and of carriers being asked to transport them across the oceans of the world. 'Shipping air', as this practice is known, will become a thing of the past.

In this white paper, the Global Institute of Logistics will demonstrate that this change is already taking place and that thought leaders in the industry are already changing the way they work to adapt to the new model.

Introduction

Academics have been highlighting the importance of relationship orientation for years. The Global Institute of Logistics views itself as a bridge between academia and the way the ideas that come to light there play out in reality. Relationship orientation is a philosophy, already a highly developed idea, but there is clear evidence that one of the concrete consequences of it can be a reduction in inventory.

This is just one example; what we hope to show in this white paper — not least through a series of real-life case studies involving forward-thinking shippers and logistics service providers — is that establishing and maintaining better relationships with their logistics service provider partners will give cargo owners a greater ability to plan loads dynamically, to make sure they ship 5000 containers rather than 6000 ill-planned ones with plenty of air inside them. This will save them money and, more importantly, enable them to be more responsive to consumers. Cargo owners will also find it much easier to 'hot-hatch', or arrange for their products to take priority at busy, security-conscious points of entry to big markets.

It is the Institute's contention that doing nothing is no longer an option for consumer products companies, retailers and other shippers. There are capacity constraints on ships and at ports, on railways, roads and inland waterways extending into the hinterland. There are driver shortages, and increasing fuel prices to contend with, and the possibility of green taxes on products is now very real in some of the most developed markets in the world. Globalisation as we know it is seriously threatened by this situation.

This combination of factors promises rich rewards for cargo owners who succeed in manufacturing, storing and shipping only products they know consumers want to buy, at good prices. By contrast, companies that stick to the old model and allow their supply chain partners to build up safety stock, ship air, miss shipping deadlines and so on will find it increasingly difficult to stay competitive.

Academic Argument

The idea that relationships were of critical importance in the outsource logistics industry was first academically proven in 2002 in a research paper written by the department of marketing and supply chain management, The Eli Broad Graduate School of Management, at Michigan State University by Professors Zhao and Stank.

Their research concluded that operational and relational capabilities do not only complement and enhance each other's impact on performance, but act as a strategic fit. Based on resource-based theories, combined with the notion of capacity limitations from operations management, their research presents a theoretical explanation of the trade-off between operational and relational capabilities in the logistics service context.

They conclude: “Organisations that identify and develop relational marketing capabilities and operational capabilities to support relational capabilities set themselves apart from the competition.”

Immediately, in their introduction to an influential 2005 paper entitled The Impact of Integrated Logistics Relationships on Third-Party Logistics Service Quality and Performance, the authors — Photis Panayides of the Cyprus International Institute of Management and Meko So, a mathematics expert at the University of Hong Kong — say that the issue of integration between the various parties in the supply chain is “a crucial question” in outsource logistics today. The market is competitive, but these two academics are clear in their argument that logistics service providers that build good relationships will gain an advantage.

This can take the form of reductions in inventory, lower costs for shipping, storing, sourcing and handling products. They point out that this is already a well documented concept — they quote papers by Brewer and Speh in the Journal of Business Logistics in 2000 and by Mentzer et al in the Journal of Marketing in 2001.

A new angle the Cyprus-Hong Kong paper took, though, was one that examined how having good relationships in place can simply make a logistics service provider better at its job; its performance and service levels will improve as it increases the level of its relationship orientation.

A logistics service provider of this kind will be able to reduce its own costs and become more responsive to its cargo-owner customers. Through integration with clients, and with other players along the supply chain, it will be able to reduce transaction costs and increase the accuracy of the information it shares with them.

They decided to test this theory by measuring the impact of relationship orientation on a group of logistics service providers based in Hong Kong. They conducted a large-scale industry survey there, plus 10 “in-depth interviews” with some of these companies, basing their questions on the findings of earlier academic studies and using a scale developed by Sin et al to measure relationship orientation (see the Journal of Services Marketing 2002).

The authors say this: “The findings indicate that when ties between logistics service providers and their clients are strong, the logistics service provider can provide the logistics service in a more coordinated fashion, in a way that enhances the economic outcomes of the firm through potentially higher client satisfaction. This suggests that strong ties may yield a level of information exchange, accuracy, flexibility and solidarity, which impacts directly on the productivity of the exchange process.”

Their conclusion is that management teams must consider organisational as well as operational issues when drawing up their logistics strategies. To concentrate only on the operational side will, they argue, make it harder for logistics service providers to achieve the necessary acceleration in the flow of materials and information, and to provide customer service and high-quality logistics solutions to specific customer requirements.

"Logistics service providers may be confident of high returns for building relationships with their clients," they say. "Not only will a strong relationship increase integration but it will also have a direct influence on the quality of the logistics service offered as well as performance."

They acknowledge that, in some industries, buyers will not be inclined to commit to relationships with suppliers; they want to promote as much competition as possible between suppliers and drive prices down. However, this is not the case in the logistics industry, according to Panayides and So, because buyers will gain more from long-term cooperation and integration with logistics service providers than from price competition.

They suggest various measures for improving relationships with client organisations. Logistics service providers could perhaps launch a programme of formal and informal communication, focusing on ways to improve performance cooperatively.

A 2003 study in the United States (published in the Journal of Logistics Business) by Michael Knemeyer, Paul Murphy and Thomas Corsi made the point that communication was a key element in establishing the trust required to build any relationship. They examine a previously established academic theory that divides partnerships between outsource logistics service providers and cargo owners into three types.

In type I partnerships, organisations coordinate their activities and planning, but only on a limited basis. These partnerships typically have a short-term focus and involve only a few areas of the business.

Type II partnerships are ones they define as having "progressed beyond coordination of activities to integration of activities". For example, the partners undertake joint planning activities to avoid conflicting goals. These partnerships have a longer-term view towards the partnership and involve multiple areas within both firms.

Finally, type III partnerships involve organisations that share what the authors describe as "a significant level of operational and strategic integration". They talk of one partner being able to make changes to the other's systems without waiting for approval and of the partnerships being viewed as having no end in sight, with each party looking on the other as an extension of their own firm.

"A firm will have a wide range of relationships," they conclude, "with a decreasing number of partnerships as they move from type I to type III. The three types of partnerships reflect increased strength, long-term orientation, and level of involvement between the parties. It should be noted that no particular type of partnership is better or worse than any other. The key is to try to obtain the type of relationship that is most appropriate given the business situation."

This is fine in theory, but as these three academics acknowledge, translating it into the realities of the business world is difficult. They admit that the base for their 2003 study was small (337 complete responses to 5000 surveys sent out), they were surprised to find that companies with type III partnerships did not have the highest levels of trust with their partners — type II partnerships scored higher, leaving the authors of the study to conclude: "This finding raises questions regarding the distinction between type II and type III partnerships."

They accept that their work provides no more than "mixed support" for the potential existence of the three distinct levels of partnership, but insist their findings do offer support for relationship efforts in the outsource logistics industry. They are certain that firms that want to establish closer relationships with logistics service providers can achieve benefits such as an increased level of outsourced activities, referrals and customer retention. Companies that achieve these benefits will "necessarily become more interconnected", they say.

Real World View

In this section of the white paper, we present what the Global Institute of Logistics has encountered around the globe as smart companies attempt to turn the theory outlined above into practice.

The starting point for this is to notice that the lengthening of the supply chain is forcing shippers and their logistics service providers to work together more closely with the common goal of achieving greater supply chain visibility. More visibility will, in turn, lead to process improvements and a reduction in inventory levels.

The Institute's position is that relationship orientation, the term that characterises the attitude of openness towards greater collaboration is a welcome development in the industry and will help to move the focus of discussions among companies away from meeting service standards and minimising storage and transport costs towards the much more strategic aim of reducing inventory levels.

Greater visibility and collaboration will lead, then, to a decrease in safety stocks which have traditionally swallowed up working capital and valuable space and will do much to reduce the $750 billion tied up in inventory globally.

Thanks to the internet, global communication and improved transportation infrastructure, it's easier than ever to forge international business ties. However, whether it is sourcing raw materials, or finding a global customer for your finished goods, that is only a first step in a journey toward fulfilling those obligations.

With the continued push toward efficient manufacturing processes such as lean and Six Sigma, it's not enough to know that critical parts or stocks are on the way or have been shipped. You need to know exactly where they are in the supply chain, whether they've cleared customs, whether they're sitting in a warehouse or if they're on the last leg in a journey to your loading-dock or your customer.

Keeping up with inbound and outbound shipments on a global basis is not a core competency for manufacturers, which has led to the rise of third-party logistics (3PL) providers. Calculating the value of this market is an inexact science because not all industry commentators agree on what services to include. Total annual revenues of US-based 3PL providers in 2005 were about $100 billion. Dr Alexander Pflaum, director of the IT and supply chain management department at the Fraunhofer Institute's Arbeitsgruppe Technologien der Logistik-Dienstleistungswirtschaf (ATL) in Nuremberg, Germany, said in October 2006 that the size of the market was now €730 billion a year in the European Union (25 countries) alone. On both sides of the Atlantic fourth-party logistics (4PL) or lead logistics (LLP) providers are emerging now to manage the supply chains of various companies, as the intermediary between manufacturers and suppliers.

Both types of providers can help manufacturers negotiate the maze of shipping goods around the corner or around the world, provided they can stay in touch with shipments at each stage in the journey on behalf of the shipper.

To facilitate continuous visibility more and more 3PLs are working to improve their relationships with port operators who, as the custodians of the export and import gateways, have an enormous influence on the safe, secure, efficient and timely execution of the dispatch and receipt of cargo.

Although the ports industry is one of the world's most traditional and long-established communities, the globalisation of business and the internationalisation of trade has led to the development of a new, more modern type of port operator, which — rather than seeing itself as the Big Brother in the transportation cycle — now sees itself as an equal, but vital, member of the global supply chain ecosystem.

Consider this: in 2006 more than 40 per cent of imports into the US are from the overseas subsidiaries of its corporations. At the same time, China accounts for about 25 per cent of the global growth of gross domestic product. Both of these factors are imposing a major shift in global freight flows and creating an ever-lengthening supply chain.

In essence what we are witnessing in the global marketplace is that comparative advantages are shifting rapidly, leading to de-industrialisation in North America and Europe, and industrialisation in Pacific Asia.

Global manufacturers are basing decisions on how they organise production and, in fact, their whole corporate structures entirely on the provision of logistics services. The 'modular production' model is an example. In this, contract manufacturers carry out production against a background of organisational change. The set-up comprises small and large firms, and small and large geographical scales; it aims to create a large number of products in few processes to receive maximum revenue through economies of scale.

Logistics has grown to become the key unit within this set-up, since it has to provide agility and flexibility for any one module, as well as for the interaction of all modules, in the entire network. That means organisational as well as geographical flexibility. Thus a major shift has occurred in how and where commodities and their components are being assembled, manufactured and distributed.

As this phenomenon takes hold we are beginning to witness a very welcome development in the way organisations behave, the principle for which is best summed up in the old adage, "Necessity is the mother of invention".

The lengthening of the supply chain is forcing shippers and their service providers to relate more closely in the pursuit of visibility and process improvement, this phenomenon is leading to the adoption of 'relationship orientation' as one of the central tenets of organisational behaviour in the global supply chain.

As we have shown earlier in this paper, academics have long since identified the power of 'relationship orientation' in improving logistics service quality. Before any of them, however, the Institute's founding chairman, the late Bob Delaney, wrote in 2001 as part of the thirteenth Annual State of Logistics report that relationships would "carry the logistics industry into the future".

Relationship orientation refers to the creation, development and maintenance of relationships between global supply chain partners resulting in mutual exchange and fulfilment of promises at a profit. It is a philosophy for doing business successfully; it promotes a culture that puts the buyer-seller relationship at the centre of a firm's strategic and operational thinking.

We at the Global Institute of Logistics believe that the higher the levels of relationship orientation between the stakeholders in the global supply chain, the greater the logistics service quality and, as a consequence, the better the economic performance of all partners.

The crucial question in logistics has always been the issue of integration between the various parties in the supply chain. In fact the Global Institute of Logistics, in its official definition of supply chain management, includes coordination and collaboration with channel partners, (suppliers, intermediaries, third-party service providers and customers) as being critical to supply chain operations.

The theory has always been that integration is essential among supply chain partners and leads to improved operational and economic performance. That theory is now, thankfully, turning into practice.

The evolution in supply chain and logistics has driven supply chain partners such as shipping lines, stevedoring companies, inland transport operators and forwarders to re-think their role in the logistics process.

But by far the greatest challenge from globalisation is the one faced by ports in their new role as functional nodes in the logistics network.
Globalisation has led to increased activity at the world's ports, particularly those in China and other low-cost manufacturing centres where large hubs are experiencing heavy congestion and problems getting goods in and out. Above all, this is an infrastructure-related problem at the landside, creating bottlenecks and congestion in and around the larger ports.

Terminal operators are like jugglers trying to balance four different functions: the receipt and delivery of containers to and from landside partners arriving by road or rail; the receipt and delivery of containers to and from seaside partners arriving by barge or ship; the transfer of containers between sea and land, and, finally, the storage of containers waiting to go or come.

Terminal operators' ability to keep these four balls in the air with the fewest touches is what determines how much ground they need to stand on, how many hands they need to juggle with and how much energy they need to spend in the process.

In other words the fewer touches of the containers inside the terminal, the less energy expended, the less time wasted and the less money spent. This leads ultimately to a greater return on investment for port operators and cost-savings in terminal handling charges, which can be passed on to the shipper and, ultimately, to the consumer.

However, as terminal operators become busier and the number of containers grows, adding labour and equipment, and adding space can be difficult. The answer lies in reducing the overall number of containers in the terminal at any one time and to do this operators must manage their own supply chain of containers and attempt to regulate their movement in an out on a 'just-in-time' basis.

To do this, terminal operators — already adept at using their hands and feet, as in the juggler analogy — must now use their heads too. They can see that their ports are becoming busier, but they need to reach out further and understand much better what is happening at the point of origin of the freight coming through, and what happens to it when it moves away from the dockside.

This means looking both upstream and downstream to the point of demand and supply, and ultimately into the minds of the logisticians who are engineering the supply chain in the first place.

By involving themselves earlier in the supply chain planning process terminal operators exchange their expertise — particularly in relation to customs process and security issues (both traditionally very real enemies of time) — for early visibility of what is coming down the chain and when.

Armed with accurate forecasts, terminal operators need not treat all containers the same, but can create a real class-system whereby known containers can benefit from express clearance or guaranteed positioning.

This VIP treatment will allow shippers to send cargo to the port of departure on a 'just in time', squeezing more time out of the chain by eliminating dwell-time at the port and resulting in a real win-win situation for terminal operator and shipper alike.

And that's not all. The terminal operator's guarantee of greater visibility for shippers of their containers inside the perimeter fence of the terminal is the real diamond in the exchange.

Traditionally for shippers and for outsource logistics service providers working with them, the port has been the black hole in the supply chain where, once the container has entered the port, visibility is lost. This loss of visibility has forced shippers to base decisions about inventory and delivery 'logical conclusions' as opposed to real intelligence based on events inside the port.

This information-disconnect between the virtual or office world and real world down at portside is responsible for shippers' over compensation in inventory levels. Shippers erring on the side of caution because of uncertainty about delivery times build up stocks close to market in anticipation of missing delivery for one reason or another.

In a nutshell, greater reliability through increased collaboration and visibility amongst supply chain partners allows them to reduce inventory levels. On the other hand, uncertainty through a lack of visibility and collaboration drives up safety stocks, which in turn use up working capital, not to mention real space on the warehouse floor or port yard.

When you consider that inventory costs make up 25 per cent of the $2.7 trillion spent annually on global freight logistics (or $750 billion) you can see why terminal operators are being welcomed with open arms outside the perimeter fences of the ports. In essence, the combined agendas of shippers, terminal operators and logistics service providers is forcing a confluence of opinion which is leading to a shift in emphasis. It is a change from focusing on meeting service standards and minimising storage and transport costs to reducing inventory levels.

The third party logistics industry is at the heart of this exchange playing the role of ambassador between shippers and the owners of the infrastructure and logistics assets on whom they rely to transport their products around the world. In this capacity, logistics service providers work tirelessly to create good communications between all parties and a formula which adds up to a win-win scenario for all concerned.

Logistics operators ought to be keen to leverage relationships as much as possible, bearing in mind that their entire focus is to streamline process and find cost- and time-savings in the supply chain on behalf of shippers. In many cases now, the logistics service provider can share the benefits of these savings directly through a gain-share arrangement.

Traditionally, though, this relationship orientation has been absent. Once any consignment has left a port of origin in, say, a low-cost economy and is destined for a high-cost, high-price consumer market, it can cost money even to look at a shipment, never mind moving or storing it. For this reason, 3PLs would often effect as many of the value-added services needed in the customisation of any product — it was in their interest to do so.

As relationship orientation gains ground, however, we have seen the development of new ideas such as the 'direct-to-store' model, in which 3PLs offer to deconsolidate bulk shipments at the country of origin, breaking them down to exact quantities and shipping them with shop-specific promotional materials directly to the point of sale.

By availing themselves of this new product offering, shippers, particularly those in retail, are using the opportunity to keep inventory moving from manufacturer to end-customer, eliminating stops at warehouses along the way.

Because companies can shrink the fulfilment cycle and eliminate inventory costs, direct-to-store can offer a good balance between fulfilment speed and logistics cost. It has become a particular favourite with shippers whose products are tied to specific holidays or seasons, companies, in other words, whose stock is virtually worthless once the holiday or season is over.

Direct-to-store can ensure that products arrive just when they're needed without having to rely on costly temporary warehouses. The model is also effective in the case of items that are out-of-stock and have to be replenished directly from the factory.

Although not a panacea for all global logistics challenges, the direct-to-store concept proves the tangible benefits of relationship orientation in global supply chains. It is of itself, a testament to joined-up thinking at source and in particular is proof positive of the creative impact that outsourcing to 3PLs is having on global supply chains. The concept proves that collaboration with all parties does lead to real innovation, and results in higher profitability all round.

Examples of Success

Nortel and Kuehne + Nagel

The lead logistics concept is slowly and quietly making a lasting impression on some shippers and logistics service providers. Outsource logistics service provider Kuehne + Nagel has a specially set up lead logistics division (KN LLS) and one of the cargo owners to have signed up to work with it is telecommunications equipment provider Nortel. The two have been working as partners on a lead logistics initiative since February 2002.

Originally, they took what both partners describe as a 'Big Bang' approach when moving to the new set-up. In one day, it went from Nortel managing its logistics operations itself to KN LLS doing so, with 92 former Nortel employees in 18 countries transferring to the partner company overnight.

Nortel's director for global logistics, Steve Bridges, explains that his company has actually been working since the early 1990s to divest itself of non-core activities. This has led, ultimately, to the recent sale (to Flextronics) of "our last manufacturing plant", one in Calgary, Alberta.

A lot of its logistics activity has gone the same way, and even though Mr Bridges insists that Nortel wanted to retain responsibility for designing its supply chain, its partner at K+N LLS has now taken control of the selection process for choosing Nortel logistics service providers.

The logistics company's general manager, Dave Stubbs, explains that his team now has responsibility for sending out requests for quotations on behalf of Nortel and for scorecarding them. It's all part of an effort to help the client organisation manage spend and put structure in to take costs out, through consolidating the number of carriers and warehouses it uses.

Mr Stubbs says the reaction of the logistics service providers that were already working with Nortel was the classic response lead logistics providers receive, especially if they come from the stable of a large logistics service provider themselves — a $10 billion operator in his company's case, with sea, air and road freight activities right across the world.

He says: “When they found out that we had taken over, a lot of the logistics operators that were working with Nortel said, ‘Okay, when do we lose the business?’. But we made it clear that if they performed, they would keep the business.”

They didn’t believe him at the time, but he says they have now seen for themselves that the only criterion that counts is how they manage the activities they carry out on Nortel’s behalf. At the same time, Kuehne + Nagel itself has lost some of the contracts it had in place to store and ship products for Nortel. “Maybe they thought they’d have a free ride,” Mr Stubbs says, “but they didn’t.”

His Nortel partner concedes that the Swiss-based logistics service provider was at the top of the company’s logistics spending list, but makes it clear that, under the lead logistics set-up, it has spent no more money with Kuehne + Nagel. “However, service has improved,” he adds.

The overall result shows that this initiative has so far helped Nortel bring its logistics costs as a percentage of sales down by 14 per cent, reduce its per-unit transportation cost by 15 per cent and its warehouse space requirement worldwide by 45 per cent. The number of logistics service providers working with the telecomms equipment company has fallen too, from 300 to 150.

The initial contract with KN LLS was due to expire on 31 March 2005. But the two parties got together eight months before that to discuss possible ways forward.“We decided to renegotiate,” Steve Bridges says. “We had some good discussions.” He explains that Nortel’s “landscape” was changing; low-cost countries had become the focus as a source of products, and emerging markets were becoming more important for Nortel to sell into. As a result, it decided it needed further cost reduction and greater agility. His renegotiations with Mr Stubbs resulted in a new agreement in December 2004, which is still in force today.

“This worked because we had a culture to outsource,” the Nortel director explains, “but if you don’t have that in the company DNA, a move like this would be very difficult.”

Dave Stubbs agrees, and points out that this model is not for everyone. “A relationship like this is a new step in outsourcing,” he explains, “and you certainly need patience, especially in the early months, because you won’t have thought of everything. You have to keep building the relationship.”

This was the first global lead logistics relationship he and his team established; it is now engaged in a further three, with more at local and regional levels. He is confident that more shipper organisations will see the benefit of taking this approach, and place their logistics networks in the hands of a lead logistics provider.

In time, then, further companies will achieve the same level of benefits as Nortel. “It’s not that there are harps playing and flower petals showering down every time we meet,” Steve Bridges says, “but we do have a very good partnership.”

Hellmann Worldwide Logistics

When the Global Institute of Logistics named Hellmann Worldwide as the best global logistics service provider for 2007, the main reason it gave for the award was Hellmann’s commitment to building relationships with customers, partners and employees throughout the world.

This is the approach the institute has been trying to encourage in the industry for several years now.

But if Hellmann Worldwide appears to embody all the the right qualities, CEO Jost Hellmann insists that it’s more than a coincidence, more than a fad, more than a company latching onto the latest industry buzzphrase.

He points to his company’s logo, two geese flying in tandem. Geese, he explains, are born to be loyal. Quoting the writer and wildlife expert, Lawrence Durrell, he claims that these creatures take this concept so far that if one weakens or falls ill and is unable to continue its flight, its partner will break the journey with it. They will go through the tough times together, creatively and innovatively seeking new feeding grounds and supporting each other unceasingly.

“My father designed this logo in the 1960s,” he continues, pausing to explain that he is part of the fourth generation of the Hellmann dynasty to lead the family firm. “He adapted our family crest, inspired by an old German saying that you could translate as, ‘Try to find somebody with whom you can shoot for the skies’. It’s a reference to finding the right husband or wife, of course, but my father decided he wanted to bring it into the business too.”

Hellmann is still a family business, although, if you include the employees of all the partner companies in which it has a percentage ownership, it now has more than 20,000 employees. The CEO admits that maintaining strong relationships with all of these employees, as well as with a growing number of global companies, is becoming more difficult, but it’s clearly a challenge he enjoys.

He travels regularly to visit key clients in person and has made it clear to them that they can call him direct at any time and rely on him to take care of any particular issue they want to raise. This human contact is of great importance to him.

All companies aim to conduct their business in this way, he suggests, but he believes firmly that everyone in his company tries to live this out.

And in this, being a family company is a benefit. "We have the luxury of being able to build long-term relationships," Mr Hellmann observes. "What I realise in the present climate is that, with big companies that are quarterly-driven, results-driven, you have a huge turnover of people and relationships are being destroyed."

The unbroken line of four generations of Hellmanns at the head of the company offers the stability required to build long-term relationships; proof comes in the shape of customers who have been working with the company for more than 20 years.

Since the current CEO came into the business (in 1981), though, there has been a significant change, one that has made the task of building and maintaining these relationships more difficult. To continue to grow Hellmann Worldwide, he has had to turn it into a truly global company.

He started that same year by opening a Hong Kong office (the first outside Germany). As an aside, he mentions that the first person he recruited there, Lucia Fung-Ha, is still with the company and now runs the seafreight operation in that part of the world. Today, the business stretches across 341 cities in 134 countries.

The long-term relationships Mr Hellmann has sought to build include those with partner companies such as airlines and shipping lines. He argues that, if the much-quoted aim of achieving a win-win situation is to become a reality, long-term relationships are the only option.

"The market for shipping lines is down at the moment," he explains, "and if our relationships with them were short-term, we would be trying to take advantage while times are tough, demanding lower prices."

Insisting on today's, or this week's, or this month's best price, without regard to what happens after that, is not the Hellmann way.

"Shipping lines have traditionally liked to do everything themselves," the chief executive says, "controlling the relationship with the cargo-owner, the customer. With the invention of the container, that began to change. Now freight-forwarders can control, if not 100 per cent, certainly 80 per cent of that relationship. A big change is going on in the market."

While he says only time will tell if the freight-forwarders overpower the influence of the shipping lines, or if the ocean carriers can regain the upper hand, he also hints at a third possible outcome. Partnerships — based on strong relationships —might prevail.

Mr Hellman continues: "I think the shipping lines now realise that working with the forwarders could have advantages for them. We want to grow, and if we grow, they grow. Also, we want to keep the yields up, and that's good news for them too."

They are in need of some good news — most shipping lines had a tough first half of 2006; trade flows mean lots of containers are returning from Europe or North America empty, which is "unfruitful and bad news for the whole logistics industry", according to Jost Hellmann. He's sure they will recover, though.

Building better relationships might help them to do so more quickly. This openness to strong relationships can even provide a possible answer to the logistics service providers' perennial problem of low margins.

There is no easy solution to this situation, Mr Hellmann warns, but he is convinced that if you have a "close, trustful, long-term relationship" with your customer — and keep it going, helping them in good times and in bad, continuing to support them, even if another shipper comes along and, temporarily, offers you a better rate — you stand a better chance of commanding a good margin.

At the same time, shippers that are growing their businesses rapidly will often be willing to pay more: they realise that they can only be successful on a global, long-term basis if they partner with a service provider that can genuinely manage their supply chain throughout the world.

Is this an argument in support of bulking up, making logistics service providers bigger? Certainly not. As Mr Hellmann has already said, the bigger you become, the more difficult it is for you to maintain the necessary personal touch.

"I don't believe in size," he explains. "Even big customers are unhappy with all the merger-and-acquisition activity that has been going on in our space. If he has to deal with a company of 350,000 employees, it's very difficult for the customer to get the feeling he's important. Every three months, he will perhaps receive a visit from a regional sales manager who will move on after a year or two anyway."

Many shippers, he argues, are willing to sacrifice something on price to work with a slightly smaller logistics service provider with whom they can have a personal relationship. For him, this is why there are still 500 or 600 forwarders in Hong Kong, and 300 in Germany, not 25. Some customers need a hands-on approach, a tailor-made solution.

He continues: "It's impossible for the really big guys to provide that. Our customers need individual attention, day in, day out. I don't ever want customers' calls to our offices to go through to voicemail. If we ever got to that, we'd have become one of the big guys, the people who don't care."

If his company is able to offer both a global presence and a personal touch, it's because of the network of partners it has been able to establish. Many of the companies with which it has entered into partnership around the world share one important characteristic with Hellmann Worldwide — they are family businesses. This, again, is no coincidence.

Before the reunification of Germany in 1990, Hellmann was part of logistics set-up in the west that seems to have been ahead of its time: based on strong relationships, with prototypes of back-hauling and cross-docking becoming standard practice. The country was small enough for there to be only one big haulier in each of the major cities.

Those in the north, such as Hellmann, who dominated the scene in Osnabrück and Hamburg, partnered with their counterparts — big players, but still family companies — in Bremen, Hannover, Stuttgart, Frankfurt, Munich and so on. It worked, so Mr Hellmann decided to try to replicate the model globally.

Family businesses, he reasoned, would be likely to have retained, and want to maintain, family values. In Asia, there are plenty of people who are family-oriented and, he believes, this quality is still widely present in European business, even if that continent is "losing it a little" and should work hard to regain its commitment to traditional values, in his opinion.

Finding family-run logistics service providers in different parts of the world was, therefore, the easy part. Convincing them to become part of a worldwide network of family companies in this space was harder.

"It's complicated," Mr Hellmann explains. "Some said they would work with us in certain places, but not in, say, Australia or the US because they already had a partner there or a big contract that they did not want to share. I also insisted that their partnership with us had to be exclusive. A lot of family businesses didn't like being told what to do."

In many cases, though, logistics operators saw immediately that they would have much to gain from such a move. Some only worked in trucking and recognised that this was a chance for them to move into shipping and air freight too. In some territories, no partner was available, so Mr Hellmann chose to acquire a company in the markets concerned (if the price was right), or, as in the case of the US, open an office of his own.

Expanding in this way was critical to his company's success, he says now. Customers need a global network along which they can move their raw materials, their components and their finished products. "You need the operations network and the IT network," he insists. "Only companies with a global network have a future."

Menlo Worldwide Logistics

A relationship between logistics service provider Menlo Worldwide and a client in the surgical equipment space, Maquet, is proving to be another example of the value of genuine joint-working and the benefits to shippers and operators of the lead logistics provider model.

Maquet is the medical systems division of Swedish group Getinge. It manufactures a wide range of products for operating theatres and intensive care units. It has sales operations in 25 countries and production facilities in Germany, France, Sweden and Turkey.

Its relationship with Menlo began when it acquired the life support systems division of Siemens Medical, an existing customer of the logistics service provider, in 2003. This soon developed from a spare parts storage agreement (truly mission critical when you have products for cardiopulmonary surgery and so on) into an operation covering inbound transportation, outbound deliveries and all aspects of Maquet's logistics activity.

The manufacturing company was expanding its business across Europe and beyond. It admitted openly that it wanted specialist logistics help in moving into one country after another and, after a number of projects of this kind, agreed with Menlo that they should sit down together and plan a global programme.

"The programme, which we're rolling out at the moment, means we can support Maquet's expansion across the globe in an orderly fashion," explains Gert Askes, managing director of European operations for Menlo Worldwide.

Clearly this involves in-depth discussions, openness, shared visions and careful planning.

Mr Askes says the two companies have built a new and separate business case for each Maquet division in each new country they have gone to. They started with territories that they believed would represent 'low-hanging fruit' and the roll-out programme gathered pace from there.

This momentum has helped Menlo make an impression right across Maquet, even in the United Kingdom, which presented a tough challenge early in the process.

Mr Asks explains: "The UK operation is not very big, and Maquet was already getting very good rates there. But we did better and we proved ourselves and we were able to accelerate the programme from there. As soon as you've done three or four and got good results, it's very difficult for the rest to say 'no'."

The acceptance of the Maquet people on the ground is always necessary, though. It's here that a lead logistics provider can find life difficult at first, compared to the traditional contract logistics dynamic of the service provider bowing to the demands of the shipper at all times.

LLP means logistics service providers poking their noses right into the business and, in many instances, making the decisions on what happens.

In this case, though, as in all the successful LLP examples we have come across, the relationship between shipper and logistics service provider is strong.

"It's fully transparent," Mr Askes continues, "we trust each other. Some projects have been slower to come in and there have been some internal issues, but Maquet knows we're not trying to earn a secret buck. It's not about numbers. It's the soft stuff, how you create buy-in; we really invested in that."

This LLP programme has been running for two years now and will continue its roll-out. More Menlo customers will sign up for this service, Mr Askes feels sure.

He says: "A lot of people like the model. The trend is that customers are looking for more from their logistics service providers, but that means logistics operators have to be ready to build and maintain this kind of relationship with shippers. Squeezing the orange harder is no longer enough. That's not getting us anywhere."

For him, there is no doubt that logistics relationships should be ready to move on now. What he calls "a transformation in thinking" has begun, business is picking up for many companies, so a greater number of them, as far as he can tell, are prepared to initiate change now and take a chance on LLP.

"If it's a low-risk proposal, why not try?" he says. "If you can build in enough 'go forward' moments, why not give it a shot?"

Sims Trading

Hong Kong-based import and export company Sims Trading is an active advocate of good supply chain management practice, in its own region and throughout China.

Chief executive, Glenn Smith, believes this is helping him keep his own company well informed of developments in supply chain ideas and technology. He recently played a prominent part — as a senior member of several industry bodies — in the region's sixth CEO supply chain management summit, which aims to encourage local companies to take more interest in supply chain and logistics issues.

One of the positions he holds is that of chairman of GS1 Hong Kong, a standards organisation that is responsible for promoting the use of RFID in the retail supply chain. In this role, Mr Smith has seen at close hand the impact on manufacturers and their logistics service provider partners of the Wal-Mart mandate, under which the retailer's most important suppliers have been using RFID tags to keep track of pallet- and case-loads of goods going into a number of Wal-Mart distribution centres.

It's a project that has had a lot of support from Chinese and Hong Kong companies, Mr Smith says; big organisations there have taken the Wal-Mart directive very seriously.

For Sims, though, there is more to this than merely observing. During Mr Smith's 15 years at the head of the company, a new, dedicated logistics division has grown up there. Now Sims Logistics is providing expert support to the international business partners whose brands the parent company imports into the Chinese market, the manufacturing partners whose products it exports, and to third parties.

"We were in the fortunate position of having a sizeable operation that we were able to leverage as a logistics business," Mr Smith explains. "We've managed it quite successfully, but now we want it to become more for us. We want vertical integration involving all aspects of the business.

"We want to be good at marketing and distribution and, with selected partners, manufacturing. And with logistics, we want to provide a very high level of competency for all of them."

There are three distribution centres in Hong Kong, totalling more than 93,000 square-metres. The company also runs a fleet of 100 delivery vehicles there and has a client-list that includes 7 Eleven, Heineken, Pizza Hut and Wal-Mart.

Sims has another hub in Macau, measuring around 35,000 square-metres, from which it is handling logistics activities for prominent clients that include the new Wynn Casino Resort on the former Portuguese colony.

The managing director of Sims Logistics, David Kuk, explains that a decision to build his company's main China hub at Xinhui, a port on the western side of Guangdong province, is also paying dividends now. The company's 30,000 square-metre distribution centre there is handling between 300 and 500 containers per month on behalf of manufacturing customers that include China's biggest toilet-roll producer and a European-based kitchen equipment brand.

In the next six months, he says Sims will also open a specialist cold store at Xinhui and begin offering a genuine cold chain management solution for China. "Cold chain is still absent from China," Mr Kuk says, "it's always broken somewhere. We will offer cold chain from source to end delivery."

The facility at Xinhui includes a bonded warehouse that the company is able to make available to its clients. When their goods reach the distribution centre, they have technically already left China and can go through the necessary bureaucratic procedures and consolidation of the container loads before reaching the port.

Customs and tax officials have an office on the Sims site, which is a measure of how good relations are between the logistics service provider and the local authorities.

For Mr Kuk, this is one more reason why the choice of Xinhui has paid off. “The local government there is very helpful,” he says. “But it’s also true that land and labour are much cheaper in Xinhui compared to Guangzhou. In Guangzhou now it’s hard to find any warehouse space at all, or land on which to build your own facility.”

It’s in the heart of the western Pearl River Delta with excellent connections, Mr Kuk says, to all major cities in the region and infrastructure that’s improving all the time. For example, a new highway to Macau was completed just before the end of 2006, slashing the journey time by road from the Sims Xinhui site to 40 minutes.

A new rail link to the port of Xinhui, with connections northwards to the whole of China, will also be complete within two or three years, he believes. These rail connections will help Sims fulfil its ambitions for expanding into the rest of China.

Glenn Smith says: “One of the things about China is that the scale is enormous. In our distribution business, we’re already engaged in 50 cities there because the brands we distribute are focused on these particular markets. But if you’re Unilever, you have to be in 300 cities, and if you’re Procter & Gamble you have to be in 400 or 500 cities.”

His objective is to pick new markets carefully and develop progressively. He can see the next development for the logistics division being in Shanghai to focus on eastern China, where prosperity levels are growing quickly. He envisages developing a hub around Beijing or Tianjin too.

“This is driven by the growth of retail,” he explains. “Modern retail is breaking new ground all the time, helping us penetrate new cities in a managed way.”

About the Global Institute of Logistics

The Global Institute of Logistics is a community of logisticians and supply chain professionals drawn from the global business community who support the Institutes objectives of creating end-to-end integration and visibility in the global supply chain.

The Institute acts as a bridge between the academic world and the world of business, educating the global supply chain community on the latest in academic thinking while at the same time balancing and correcting the various hypothesis emanating from the academic community with the real experience of early adopters.

The Institute actively fosters and promotes relationship orientation as its key change agent and catalyst in pursuit of these objectives. Relationship orientation refers to the proactive creation, development and maintenance of relationships between global supply chain partners resulting in mutual exchange and fulfilment of promises at a profit.

It is the Institutes assertion that the greater the level of relationship orientation between stakeholders, the greater the operational logistics service quality improvements that will result.

The Institute acts in a binary fashion to bring stakeholders together through thought leadership.

This leadership finds expression through RELAY is the Institute's Official Business Quarterly Magazine and www.globeinst.org the Institute's online news and research portal, which archives best practice and also through the various Councils chaired and organized by leading professional and populated by industry experts.

The Institute promotes logistics in mainstream media in pursuit of its stated aim of achieving board level status for the profession of logistics and supply chain. We are an accredited news provider to all of the world's leading search engines including GOOGLE and Yahoo. In the past year, press statements issued by the Institute have been accessed more than 500,000 times on the World Wide Web detailing achievements of the world's best 3PLs.

Media Contact:

Siobhan Kelly

Global Institute of Logistics
245 Park Avenue
24th and 39th Floors
New York, NY 10167
USA

Tel: (+1) 212 672 1846
Fax: (+1) 212 792 4001

mediadirector@globeinst.org