The increasing complexity of global supply chains means businesses need to understand where their costs are occurring and institute intelligent strategies for controlling them—but what constitutes a “smart” strategy? The wrong approach can leave your organization far short of its savings goals.

An illustration of any global logistics operation, with its complex web of vendors, warehouses, distribution centers, service operations, transportation routes and hubs, reveals an intricate map where individual costs are difficult to separate and understand. Logistical expenses typically comprise up to 4-5% of total costs for a manufacturing firm, so the increasing complexity of the global supply chain applies increased pressure on margins.

Enterprises usually implement transformation technology solutions or partner with a third party provider to manage costs. Yet, many find themselves falling short of their savings goals. Why?

**Growth is good, but...**

As supply chains become more global, new routes and locations augment the logistics network. Each new link in the supply chain brings its own local complexities regarding the availability of logistics assets, local laws and regulations, and infrastructure. Other factors also offer increased challenges. Finding appropriate service providers, for example, is a more complicated process than it used to be. Manufacturers also need to conduct periodic risk assessments to ensure that natural disasters, political developments and other factors beyond their control are not looming as an incipient threat to production and fulfillment.

**Reducing complexity is doable — with the right approach**

Most organizations try to tame complex supply chains by deploying expensive technology tools, hiring consultants for business process re-engineering, or, more recently, deploying exotic analytics frameworks. None of these solutions alone can produce the savings needed to outcompete in this new, more complex, and more competitive economy. The most effective strategy combines process, analytics and technology to simplify logistics networks, mitigate risk, and optimize the associated costs. This three-pronged holistic approach provides a proven framework for significant improvement.

1. **Process Design and Development**

   “Smarter” processes are the key to more cost-effective operations. Organizations that are serious about creating more streamlined and more effective networks need to examine their operations in detail before beginning any redesign of logistics processes. This involves deep analysis to:

   1. Develop a granular view of process activities (carrier identification, logistics spend analysis, etc.)
   2. Define key performance indicators such as asset utilization and median loading time and then link them to the business outcome of particular costs
   3. Identify the drivers of outstanding cost performance; for instance, building multiple “what if” scenarios for networks to estimate impact on costs
   4. Benchmark against industry standards for cost management in order to understand current performance gaps
   5. Implement best practices to improve costs and sustain process performance
By analyzing current processes, your organization can identify process steps where cost leakages occur. Some steps may add little or no value; others may need enabling technology tools to maximize efficiency and increase cost effectiveness. Real-world examples of deep analysis include:

- After a pharmaceutical major conducted a thorough analysis of logistics processes for an acquired company and standardized processes, it was able to identify cost optimization opportunities of 25%.
- A chemicals leader achieved 5-7% cost savings through revisiting processes related to shipping frequency, reassignment of supplier-warehouse combinations and setup of ‘milk-runs.’
- A life sciences major identified 13% potential baseline freight cost savings by analyzing logistics management processes and finding opportunities to increase consolidation of shipments.

2. Analytics

If you are not leveraging analytics frameworks for analyzing cost performance you are missing a powerful driver for lowering overall costs. Network design analysis, route/mode selection, and logistics spend analysis are a few of the areas where analytics can be leveraged. To be most effective, use tools that can simulate different scenarios for various parameters such as lanes, routes, infrastructure constraints, customs clearance practices, logistics modes and asset utilization. With this data in hand, your logistics organization can better understand the impact of costs from various combinations and design your networks accordingly.

A number of tools are currently available to analyze costs, including network optimization, carrier sourcing and freight lane analysis. Selection of a logistics analytics tool should be based on: 1) its ability to rapidly study various “what if” scenarios to facilitate process improvements that achieve business outcomes, and 2) its ability to identify risks and assess their cost impact on logistics networks.

For instance, one chemicals manufacturer created and analyzed multiple scenarios for distribution centers, an optimization effort that generated savings of 17%. Another manufacturer leveraged analysis to identify recoverable costs from suppliers, then set up detailed reports and dashboards to increase visibility into various logistics costs components.

3. Enabling Technology

Technology in the absence of deep understanding of processes may not be effective in optimizing logistics costs. Simply upgrading the software, without better processes, may actually make the problem worse as employees try to make old processes work with new tools rather than using the tools to support more effective standardized global processes. The selection of technology must be driven by the tool’s potential to:

1. Simplify processes (reduce hand-offs, approvals, automate process steps)
2. Expedite exception handling (reduce the number of exceptions, auto-resolve commonly occurring exceptions)
3. Reduce systems / applications complexity (standard interface, fewer middleware applications required, better workflows)

New challenges require a new approach

Global logistics networks are an integrated, evolving creation. To achieve a best-in-class network, businesses need a deep understanding of risks and costs associated with multiple logistics partners, geographies, products and technology tools. Your organization cannot depend on process or technology alone to provide the end-to-end improvements that drive true cost savings. Consistently reducing and optimizing costs without increasing logistics risk can only be achieved by intelligently combining industry-specific analytics frameworks, the right technology tools, and logistics processes engineered for effectiveness as well as greater efficiency.

About Genpact

Genpact Limited (NYSE: G), a global leader in business process management and technology services, leverages the power of smarter processes, smarter analytics and smarter technology to help its clients drive intelligence across the enterprise. Genpact’s Smart Enterprise Processes (SEP℠) framework, its unique science of process combined with deep domain expertise in multiple industry verticals, leads to superior business outcomes. Genpact’s Smart Decision Services deliver valuable business insights to its clients through targeted analytics, reengineering expertise, and advanced risk management. Making technology more intelligent by embedding it with process and data insights, Genpact also offers a wide variety of technology solutions for better business outcomes.

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