



Russell Reynolds Associates Supply Chain Leadership Series

An Insider's Insights: **Logistics and Supply Chain Management**

John Pattullo is the recently retired CEO of CEVA Logistics. John grew up in Scotland, graduated from Glasgow University in 1974, and began his career in logistics and supply chain management at Procter & Gamble in the UK. By the time he left P&G in 2004, he was responsible for product supply for P&G's \$18 billion Global Beauty Care business. John departed P&G to take on a rather different challenge as a high level executive at logistics provider Exel. In 2007, he became CEO of CEVA Logistics, formed by the merger of TNT Logistics and Eagle Global Logistics. Since stepping down as CEO of CEVA, he has remained active, continuing to serve on the CEVA Board and serving as a Non-Executive Director at Electrocomponents, a British-based distributor of electronics and maintenance products, and as a Director of In Kind Direct, a UK Charity.

John recently took time out from his schedule to discuss his thoughts on changes in the logistics industry, the challenges and opportunities facing 3PLs, and the impact that data, technology, and e-business will have on logistics providers particularly the challenge of managing and exploiting data.

On Data Management

Russell Reynolds Associates: How do 3PLs use the huge flow of information they have access to? Are you fully leveraging the opportunity that sits on that huge database of information that you have about your customers?

John Pattullo: Transferring ideas across sectors is a key area where 3PLs can provide value. To illustrate, it's useful to contrast the consumer products industry and the automotive industry. For 30 years, the automotive industry has been honing its inbound logistics processes through techniques like just-in-time and near-plant suppliers. On the other hand, the consumer industry has typically focused on outbound logistics. By taking the inbound techniques of automotive to consumer customers, you can get a "wow" reaction. And, then below this macro level, there's another layer - an analytical opportunity to look at product flows and then find optimization opportunities for both existing customers and yet-to-be customers.

So is that a next wave of opportunity?

As logistics companies analyze their freight flow data, they may have potential to create new products and deliver new value to their customers.



Does that mean major investments in analytical tools, or do those tools already exist and they're not getting used?

It means getting the data into an analyzable form. At the moment, a lot of the data is in separate systems and, therefore, you have to find a way of gathering it from these multiple systems into either a standard format or into a flexible data warehouse.

On Setting High Standards

Looking at sustainability, there are a lot of different issues there: trying to get the CO2 footprint down, decreasing energy usage, and so on. How much of that trend is driving the industry and how big a role is it playing in decision-making?

I used to find a gap between the rhetoric of customers and the reality of business decision-making. And, I think there is still a reluctance to spend money to drive environmentally beneficial products. The mindset varies a lot by country. In Scandinavia and Northern Europe, there seems to be more willingness to invest in the environment. It's worth having a couple of simple principles in mind as we approach this area. One is that we need to stay in the realm of good science (sometimes the claimed benefits are pretty questionable) and secondly, logistics companies should focus on developing a solid business case for change. At CEVA, we invested in environmentally neutral warehouses. We could measure the positive environmental impact and develop a solid business case for these projects.

Some companies are pursuing a sustainability agenda and they argue that this will make them stronger in the future because it cuts costs and results in better products. I absolutely agree. If the work is based on good science and a strong business case, then it will help both the environment and reduce cost.

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– John Pattullo

You recently gave a presentation about supply chain innovation driving customer value. Can you summarize the key messages?

The preamble to that presentation was that actually, there hasn't been sufficient innovation. If you think about where the big ideas come from, it has often been from brand owners like Dell (the customer-driven supply chain) and Toyota (Lean manufacturing). 3PLs can, and should, bring more innovation. There are undoubtedly barriers such as the low margins in the industry which inhibit our ability to invest in pure research, but that being said, there are opportunities for the industry to bring customers greater value through innovation.

What is the biggest idea that you can think of in logistics?

I believe there are still huge economies of scope to be achieved through integrating the end-to-end supply chain and 'driving' it through consumer demand. In this scenario, it seems to me that a 3PL could orchestrate all material flows through the supply chain, manage materials and production planning and take responsibility for both inventory and service levels. For that to become a reality, we would need better systems and more customer trust in the 3PL industry.



What would 3PL companies need to do in order to engender that trust?

One opportunity is to hire talent from relevant customer sectors. Really understanding the customer is an important first step in developing this more interdependent model. Secondly, 3PLs need to foster the development of end-to-end supply chain expertise by giving their leaders broad exposure to all aspects of supply chain, including areas such as procurement and manufacturing where 3PLs typically have less know-how.

Do you see any sort of changes coming from the customer that would actually trigger that integration?

It's worth saying that over the last 20 or 30 years, there has been quite a bit of customer-led aggregation - typically customers are using fewer partners and looking for opportunities to join pieces of their operations. What I'm talking about takes this process to a new level by aggregating across the total supply chain. Change of this scale creates tension because there are multiple players involved which inevitably leads to debate about who should lead. Leadership could come from a 3PL or perhaps a consortium of 3PLs, or, maybe a consultant operating on a 4PL basis. I am sure customers see the opportunity for greater integration and will be considering different ways of achieving it.

Then taking that idea to the next level, what kind of impact do you think these trends have on how boards should operate in this industry?

I think the challenge for a board in this industry is to see logistics as part of a bigger picture, as part of the supply chain and as part of the greater economy. And then look for opportunities at that strategic level. How can better supply chain design and execution enhance the results of the total enterprise? It is sometimes too easy to get bogged down at a more tactical level, which prevents coming up with breakthrough ideas at a more holistic level.

In terms of risk management, if you look at a couple of major incidents over the last couple of years, you realize how disruptive an earthquake or a flood can be. What are your thoughts on that?

If you look at the events that occurred in recent times such as the tsunami, Thai floods, and the ash cloud over Europe, you could argue that they fall into different categories. It's difficult to see how the ash cloud could have been anticipated, but perhaps having significant manufacturing capability located on the Thai flood plain could have been mitigated by supply chain design work. I think the intuitive reaction - let's bring all manufacturing back to the home market - is not the answer since this invariably creates other risks and issues. I believe the better approach is to apply risk management disciplines as part of supply chain design.

When you were CEO of CEVA, you embraced an asset-light strategy where your company owned as few warehouses and trucks as possible. Can you talk about that strategy?

If your job is to meet the needs of the customers, then being as light and flexible as possible is a good thing. The asset-light model allows you to decide what's right for a particular customer's supply chain at that point in time. You are not trapped by having to try to utilize available assets.

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Finally, what do you think is coming down the road for this industry?

I truly hope we will see a steep change in professional training in our industry. I think the development of a profession called “supply chain engineer” – an individual having the skills to design a supply chain, cost it, environmentally assess it and then operate it – is the way forward. Some universities are now starting to provide this type of training, but it is not consistent and it is barely scratching the surface. There is huge potential in creating high and consistent professional standards across our industry.

On E-Commerce

Can you talk about e-commerce and how it affects the logistics industry?

You can argue that e-commerce brings the logistics industry closer to the point of consumption, and has brought the demand trigger closer to the logistics industry. That is potentially a platform for our industry to become more influential. The other possibility is that the supply chain goes the opposite way – becomes a small cog in a much more complex commercial machine – and can therefore be commoditized. So you could argue that unless 3PLs lift their game to seize the opportunities of e-commerce, they risk being marginalized in at least this portion of the supply chain market.

So you really need to make sure you get on top of all that data and leverage it...

Yes. If you’re taking a strategic end-to-end supply chain view for your customers, then data will be one of the key enablers. And if you’re not on top of the data, then there’s a great risk that somebody else will be and you’ll end up being marginalized.

Would you agree that a company like Amazon is in a sense, really just a logistics company?

Clearly e-commerce companies have developed very sophisticated and successful logistics operating models, but, there’s another aspect of the e-commerce model. If you look at it from a purely logistics point of view, it is clearly less efficient. Because it is introducing customization at an earlier point in the supply chain, it requires more packaging and creates more customer returns. What’s been going on over the last ten years is that 3PLs have often adapted existing infrastructure to cope with e-selling. We haven’t really created an optimized e-commerce infrastructure.

So where will it end? Where do you see it going?

I have confidence that the 3PL industry will seize the opportunity and develop an optimized infrastructure. This could mean more consolidation across 3PLs and sharing resources across customers. This consolidation could create a very efficient, responsive supply chain.

This article is a co-production from journalist and freelance writer Jim Wake (www.jimwake.com) and Russell Reynolds Associates’ Global Supply Chain Practice.

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