

# **AUTOMOTIVE LOGISTICS AND THE ENVIRONMENT**

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# Introduction

The Centre for Automotive Management at The University of Buckingham Business School is increasingly asked to input on issues of automotive logistics and the environment.

This would appear to be an area of special concern, in that 'automotive logistics' are very often international, and involve a number of different countries and jurisdictions as well as a plethora of companies – whether OEMs, outsourcing management organisations to logistics companies.

As part of the spinoffs from the Copenhagen Climate Change Conference there will undoubtedly be debate and discussion in this complex area.

The Centre for Automotive Management at The University of Buckingham Business School plans to contribute to the debate by offering a series of articles on the topic. This virtual publication is the first offering. It is anticipated the next edition will be published in three months time.

I thank my colleagues, David Cardle and Anita Hagen, for their inputs and hope you find the papers thought provoking and interesting.

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# Will Scrappage Have Strategic Implications for Vehicle Logistics and the Environment?

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Vehicle scrappage has been hailed by motor vehicle manufacturers as a great success and, it is claimed, has kick started or accelerated vehicle manufacturing. However, one must remember that the OEMs look on Europe as being a single region from a manufacturing viewpoint so, provided there are incremental or pull forward sales in some countries, the schemes can be called 'a success'.

Dealers may not necessarily share the manufacturers' joy – indeed there are some serious undertones emerging in the United States where their cash for clunkers schemes are not always welcome or cracked up to what has been claimed.

In this essay the writers seek to evaluate objectively some of the strategic issues associated with scrappage and, particularly, its possible implications for the finished vehicles logistics industries.

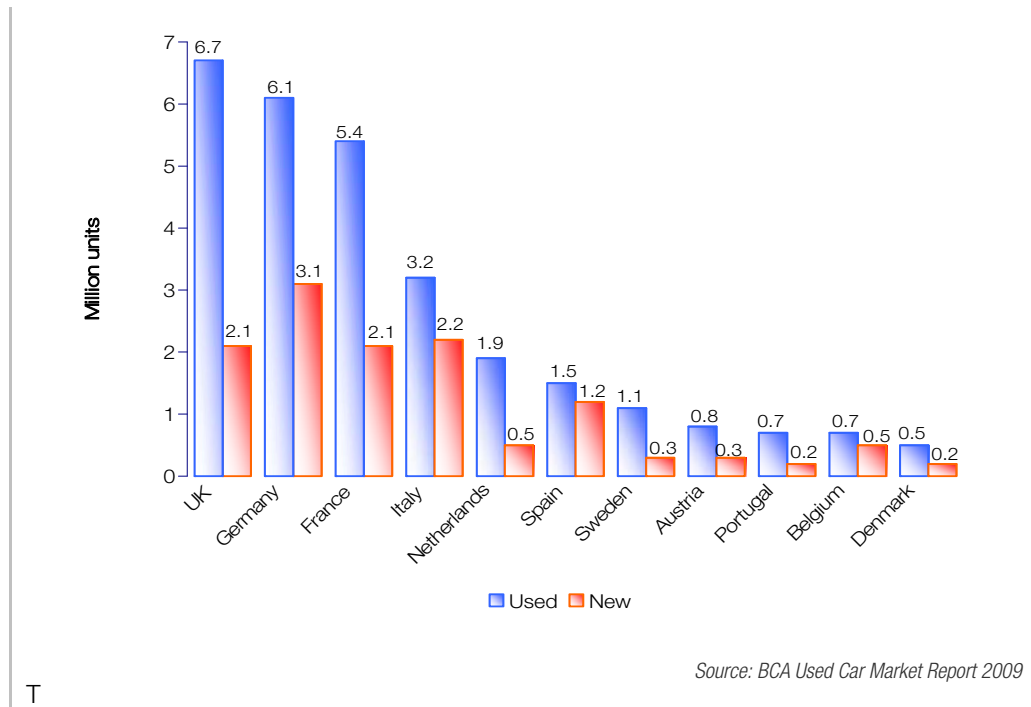
It also touches on some of the environmental issues emerging from the European scrappage schemes although in the excitement of recovering sales there has been a tendency to treat these almost as a no cost benefit.

We do not seek to achieve any specific recommendations, but merely raise some of the issues we see could be of strategic concern as the schemes develop – or are closed.

Used car sales in the mature EU states are generally considerably higher than new car sales as is illustrated by Figure 1. It will be noted that in the United Kingdom used car sales outpace new car sales by a factor of three – and Germany is not far behind.

The chart shows figures for the Old EU members; there are no comprehensive figures for used car sales in the New EU markets – an area of some concern both within the industry and to environmentalists as many of those units are very old and 'CO<sub>2</sub> dirty' with poor emissions.

Figure 1; New and used car sales in Europe 2008



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The apparent lack of recycling vehicles in the New EU states may hold back the reduction in CO<sub>2</sub> emissions in those states. The recycling processes have not yet developed as first-time buyers are only now thinking about changing what was often their first new or low mileage used car.

### Extent of scrappage schemes

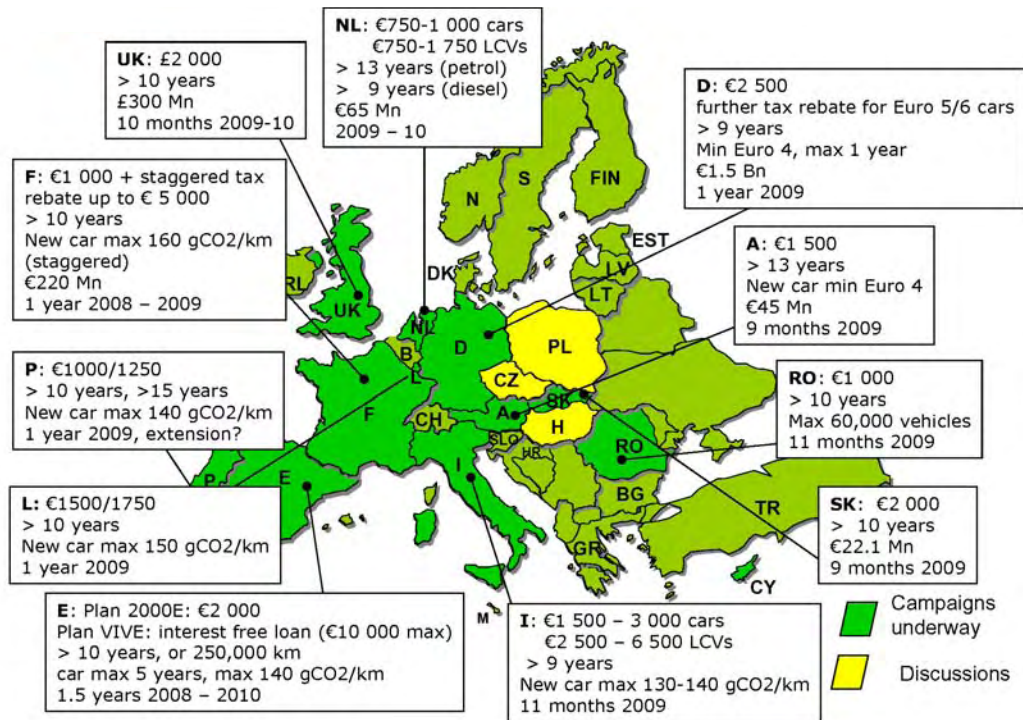
Given the relative collapse of new car sales and production in late 2008, it was logical that the EU sought some means of boosting sales – and hence production, and using it as a means of restarting the economy.

Scrappage schemes originated in the EU as a means of helping the motor industry to kick start production relatively quickly, not every country has embraced the programme and, indeed, there are widely varying interpretations on how it has been implemented.

The original idea was a subsidy of about €2,000 - €2,500 per old unit taken off the road and replaced with a new or nearly new car.

The map in Figure 2 (overleaf) summarises the scrappage schemes across Europe at the start of summer. While a couple of countries in Central Europe were still developing their policies, perhaps the most interesting ‘no shows’ are the Nordic countries?

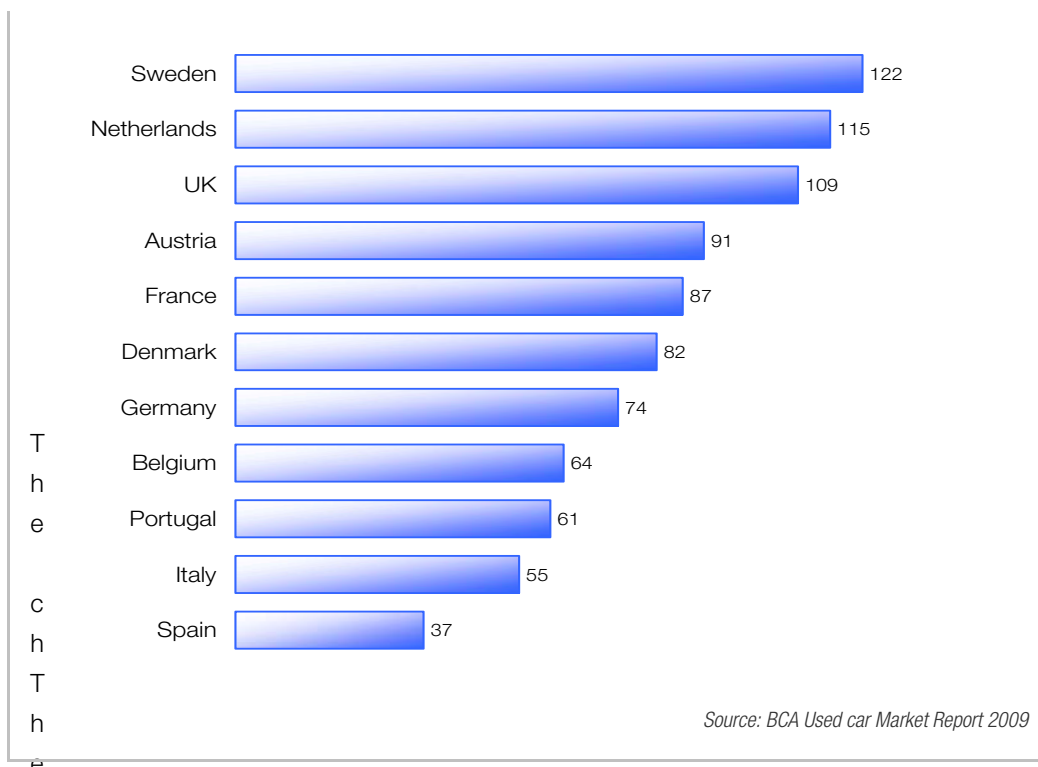
Figure 2; European scrappage schemes



Source: ACEA

This lack of Nordic participation is in contrast to the rate of change of cars shown by Sweden as illustrated in Figure 3.

Figure 3; New and used car sales per 1,000 population



The chart shows both Sweden and Denmark are countries with a relatively high turnover of cars, perhaps because of the tax situation and Sweden is a car manufacturing country. Interestingly, given the green credentials of both countries, scrappage is considered to be a greening move.

Within the Danish car parc of 2.1 million cars, over 840,000 are ten years old but, because of the high cost of cars, units are retained and the older units are in regular use and 50% of sales are of smaller cars – maybe that answers half the reason for scrappage?.

To date the scrappage picture has looked exciting although it has cost many participating governments dearly in terms of subsidies. The acid test, but they appear to be encouraging.

Let us switch to one country – the United Kingdom – and examine in a little more detail what might be the strategic implications of the scrappage scheme. While the scheme has been extended to embrace as further 100,000 units there are, at the time of writing, no plans published for an orderly withdrawal of the scheme.

### **The United Kingdom; a case study – but is it unique?**

The United Kingdom was late coming to a scrappage scheme and in essence it offers a £2,000 'subsidy' for every car over 10 years old scrapped and replaced with a new car. The devil is in the detail – half of the £2,000 comes from the OEM and the other half – including VAT – from the government.

The net effect is that the scheme in reality costs the UK's hard pressed Treasury relatively little. The government in its largesse has generously offered £300 million of taxpayers' money – a subsidy on scrapping 300,000 units over the life of the scheme. The United Kingdom imports some 80% of new cars sold and exports 75% of its domestic production.

The chart in Figure 4 (overleaf) shows the status of the UK scrappage exchange scheme after its first three months of the scrappage scheme.

Even cursory analysis of this chart suggests a serious change in the balance of new cars being acquired through the scrappage programme. Look at the growth in Hyundai and Kia products for example and the way in which sales of those models have positively shot away in the early months of the programme and, one understands, the number of orders placed but not yet fulfilled, so one must expect the pattern to continue.

Figure 5; UK used car scrappage programme; first six months

	Scrappage Sales					% New Car Market Share					
	Aug	Sept	Oct	YTD	Share	12 mths 08	Jan-Apr 09	Aug 09	Sep 09	Oct-09	10 mnths 09
Audi	175	1,006	482	2,185	1.0	4.7	5.2	4.9	4.1	4.2	4.7
BMW	82	391	127	2,019	0.9	5.3	4.4	5.5	5.3	4.8	4.9
Chevrolet	207	770	379	2,255	1.0	0.9	0.8	1.1	0.8	0.7	0.9
Citroen	597	2,433	942	7,624	3.5	3.8	3.4	4.8	3.7	3.8	3.6
<b>Fiat</b>	<b>2,010</b>	<b>6,157</b>	<b>3,656</b>	<b>17,242</b>	<b>8.0</b>	<b>2.6</b>	<b>2.3</b>	<b>4.5</b>	<b>3.2</b>	<b>3.9</b>	<b>2.9</b>
Ford	1,306	9,384	3,501	25,226	11.7	15.1	17.4	16.1	14.8	13.9	16.2
Honda	422	2,559	791	7,355	3.4	3.9	4.2	3.1	4.0	2.7	3.9
<b>Hyundai</b>	<b>2,921</b>	<b>8,387</b>	<b>5,550</b>	<b>26,613</b>	<b>12.4</b>	<b>1.3</b>	<b>1.8</b>	<b>5.6</b>	<b>3.0</b>	<b>4.2</b>	<b>2.8</b>
<b>Kia</b>	<b>1,292</b>	<b>5,130</b>	<b>3,427</b>	<b>16,202</b>	<b>7.5</b>	<b>1.5</b>	<b>1.8</b>	<b>3.3</b>	<b>2.7</b>	<b>3.3</b>	<b>2.4</b>
<b>Mazda</b>	<b>354</b>	<b>3,091</b>	<b>877</b>	<b>5,924</b>	<b>2.7</b>	<b>2.3</b>	<b>2.4</b>	<b>2.2</b>	<b>3.1</b>	<b>2.0</b>	<b>2.3</b>
Mercedes-Benz	28	129	31	823	0.4	3.5	3.6	2.3	3.4	3.5	3.5
MINI	151	813	315	3,329	1.5	1.9	1.6	1.4	2.3	1.8	2.0
Mitsubishi	83	425	203	1,518	0.7	0.7	0.5	0.6	0.6	0.5	0.6
Nissan	625	3,483	1,314	9,374	4.4	3.1	3.2	4.0	4.4	4.1	3.8
Peugeot	578	3,053	1,383	9,462	4.4	5.6	5.2	5.2	5.0	5.4	5.2
Renault	550	2,629	1,424	6,678	3.1	4.2	3.0	2.8	2.8	5.0	3.0
SEAT	542	1,509	647	3,738	1.7	1.4	1.4	1.7	1.5	1.4	1.5
<b>Skoda</b>	<b>573</b>	<b>2,542</b>	<b>1,130</b>	<b>6,418</b>	<b>3.0</b>	<b>1.7</b>	<b>1.5</b>	<b>1.8</b>	<b>1.7</b>	<b>2.4</b>	<b>1.8</b>
<b>Suzuki</b>	<b>526</b>	<b>2,700</b>	<b>800</b>	<b>8,308</b>	<b>3.9</b>	<b>1.2</b>	<b>1.3</b>	<b>1.6</b>	<b>1.5</b>	<b>1.2</b>	<b>1.5</b>
<b>Toyota</b>	<b>1,536</b>	<b>6,939</b>	<b>2,625</b>	<b>18,226</b>	<b>8.5</b>	<b>5.0</b>	<b>5.4</b>	<b>5.9</b>	<b>5.8</b>	<b>4.8</b>	<b>5.2</b>
Vauxhall	714	5,401	1,930	14,036	6.5	14.0	14.0	9.0	11.2	11.5	12.3
Volkswagen	1,245	6,261	2,433	13,905	6.5	8.4	8.3	8.3	7.7	7.0	8.0
Volvo	75	1,389	1,109	3,535	1.6	1.6	1.5	0.8	1.7	2.7	1.6
Others	256	735	450	3,477	1.6	6.2	5.8	3.8	5.7	5.0	
<b>Total</b>	<b>16,848</b>	<b>77,316</b>	<b>35,526</b>	<b>215,472</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: SMMT

The challenge is whether that change in sourcing can be extrapolated into the future and the new sourced vehicles continue to sell at their 'para-scrappage season rates' - or is this merely an opportunistic flash in the pan? If the short term rates or something close to them happens, and if parallel shifts occur elsewhere, there could be significant strategic implications.

### A change in logistics strategic focus?

During a period of recession, there is capacity available to handle this apparent shift in demand patterns, with significant numbers of incremental units being imported from the Far East.

The United Kingdom is not the only country to be experiencing such a switch in demand – it is after all a global industry with perhaps 30% excess installed manufacturing capacity, so there should be no real problem. Spare and unused capacity should be able to handle the changes.

However, if the scrappage schemes are extended, as has already happened in Germany and the United Kingdom, with calls elsewhere for extensions, what might be the strategic implications – if any – for the shape of the industry and more specifically for the finished vehicle logistics industries and the environmental footprint?

Our immediate checklist would include the following strategic issues of concern – and this list is not comprehensive;

- Port requirements/new points of entry; is there sufficient capacity in the major importing locations to be able to handle a growing demand for low-price, small cars from the Far East?
- Customs and security; given the chart suggests a growth in imports from the Far East; will there be added documentation and security issues to be handled?
- Smaller vehicles; what might the smaller vehicles to be imported do to business models and carrying capacity?
- Changed distribution to dealerships; will there be significant changes in distribution requirements if there is significant growth in small far Easter imports? Often these will be through different dealers.
- Developing new client relations/new distribution and shipping competition; will it be necessary to establish new or different strategic alliances to create a changed supply chain?
- OEMs changing distribution patterns; will there be changes in existing supply chains? Will the expanded presence of new players create new logistics patterns and demands?
- Aftermarket/warranty/components; a change in vehicle sales and a growth in scrappage may create new aftermarket patterns. How might these be handled?
- Excess capacity to be run down; will there be a need to run down historic logistics facilities – what might be the implications?
- Environmental issues associated with logistics if those vehicles are to be increasingly sourced from the Far East?
- Development and production of electric vehicles; will they have specific requirements? What about their environmental implications?

While these developments might be called academic in some circles, they are issues which international logistics businesses may be forced to address. On their own, the issues could be significant, but given the industry is recovering from recession, the challenges may be even greater.

### **The environmental angle – more than a tailpiece?**

While scrappage may encourage a relatively fast, in global terms, move towards smaller and therefore newer, less polluting and fuel effective cars, there is a challenge in terms of the whole life global footprint of those units.

OEMs and national governments will have to come to terms with looking at the 'total carbon footprint of vehicles' – and that will include both the cost of manufacture and of the logistics of moving those units from point of assembly to point of use.

There have already been some rumblings that governments have been 'cheating' in calculating their total carbon emissions by excluding products which are made outside the country and then imported. That is in many ways a double whammy – manufacturing carbon costs may be excluded and, at the same time, carbon footprint associated with logistics may be excluded.

Scrappage may be hailed by governments as a success in terms of reducing the carbon footprint with those smaller, less polluting cars replacing less effective products – but are the figures totally truthful – and taking account of the international logistics and assembly footprints?

One may well see these issues being raised at the Copenhagen Climate Change Conference – there will be a lot of issues of detail to be thrashed out at the conference and during the long aftermath while the real decisions are thrashed out and pulled into meaningful motions and protocols.

### **Some initial conclusions**

The foregoing columns have highlighted what might be considered some individual and obvious changes that have already started in terms of vehicle downsizing, while enhanced fuel economy scrappage schemes may be acting as a catalyst and speeding up the rate of change to smaller cars.

There is a second 'elephant in the room' – will extended scrappage programmes merely bring forward vehicle replacements so there is 'jam today' and 'famine tomorrow', with a big gap when buyers are exhausted?

Some would argue that the real elephant in the room is the acceptance of total CO<sub>2</sub> capture and measurement if vehicles are in future to be sourced from outside Europe. But that will be a topic for a future article – scrappage has a number of unintended consequences – and they are only just starting to emerge.

# Outbound Logistics and the Environment – a Cautionary Tale

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Recent events across the United Kingdom, Europe and the Far East have started to offer a taste of things to come in terms of the 'impact of exceptional weather' and 'once in a thousand years' storms. That inclement weather may be in the form of high winds, exceptional rainfall – or even unprecedented on long heat waves. Whatever form the environmental exceptions take they can disrupt normal business routines – including logistics.

In the United Kingdom an increasing proportion of the population has experienced winds approaching 80-100 miles an hour. It can be unnerving to be driving and to pass truck after truck lying helplessly on their sides.

One storm can lead to closure of ports, gridlocked motorways, closed bridges and disrupted airports. If one has any lingering doubts about the potential economic effect of global warming one storm could dispel such thoughts.

## **Pigou and economic externalities**

The term "economic externalities" may not be familiar to every reader, but it was a term first propounded by the economist Arthur Pigou (1877 – 1959) who took the concept and developed it into something called the Pigovian Tax.

In economics an 'externality' is a cost or benefit from an economic transaction that parties "external" to the transaction bear. Some externalities can be positive and some are negative. Pigou, in his economic writings, sought to find a way of correcting the negative externalities by taxing the parties who are the root cause of the negativity.

For example, a Pigovian Tax may be levied on producers who pollute the environment to "encourage" them to reduce pollution which provides revenue which can be used to counteract the negative effects of the pollution. Some Pigovian taxes have been christened "sin taxes" – perhaps a touch of Edwardian humour. For example, taxes on alcohol and cigarettes might fall into this category.

One problem with a Pigovian Tax is trying to calculate the level of tax that will counterbalance the negative externality or "sin".

Polluters, mining industries, oil companies or manufacturers for example, may lobby governments in order to reduce the tax level, which will have the effect of reducing the mitigating effect of the tax. Pigovian Taxes, however, could be considered to be one of the traditional means of introducing better market efficiencies to economic activities that create negative externalities.

But is this relevant to outbound logistics? 'Copenhagen' might provide a clue – but even then it is necessary to research deeper.

### **Logistics and carbon taxes**

Logistics, as an industry, is about to become embroiled in the climate debate, the outcome of which could change fundamentally the way in which the logistics industry undertakes its business. Pigou's Tax, remember, was conceived to correct negative externalities by taxing the parties who are at the root cause of the externality.

Not even the most ardent protagonist could deny that outbound logistics causes negative externalities, our trucks, trains, ships, workshops, compounds and our ports all produce, to a greater or lesser degree, carbon emissions. Those carbon emissions, carbon footprints will, almost inevitably be subject, after doubtless tortuous and probably extended negotiations to an up-dated version of Pigou's Tax – some form of Carbon Tax.

Lawyers, accountants, academics, the media – even logistics specialists, will be involved in the up and coming debate to point the finger at 'the polluter to pay' - who is the root cause of this particular negative externality, the logistics service provider, the manufacturer, the dealer or the consumer?

While death and taxes are inevitable, the challenge is who will be attributed the responsibility, and doubtless the opprobrium by those who manage to avoid it, the 'din tax' for the carbon footprint associated with logistics – and the associated investment necessary to bring the industry back into line with politically acceptable norms.

Quite simply, the industry will have, in double quick time, to start pulling together to create a carbon efficient – or rather carbon effective industry.

The sustainability of the outbound logistics industry, however, will now depend more than ever before on co-operation throughout the supply chain.

The blame game is over. The carbon the industry is pumping into the atmosphere does not respect national borders, it is, therefore, not "their" problem it is the industry's problem. Arguably for the first time in history the industry is faced with a truly global challenge and collectively needs to find a balance between economic sustainability and environmental impact.

Strategically there will be business opportunities, but there is an urgent necessity for the logistics industry as a whole to start reviewing and tackling some of the more contentious issues.

### **A time for rationality?**

There are surely internal irrationalities as to why some manufacturers continue to be adamant as to why their product cannot be carried on the same transporter as a competitor's product? Might their vehicles be infected by Swine Flu – or might their clients feel they cannot afford their own exclusive transport? Or is it simply an unsustainable ego trip?

When was the last time you drove past a car transporter carrying a mixed load of new cars and thought – 'right, that's it, I am definitely not buying another one of those cars they are clearly sleeping with the enemy!' Exclusivity is a luxury the industry can no longer afford. It is inefficient, it wastes capacity and creates an unnecessary carbon footprint – some would claim jackboot. Similarly how many logistics services consumers regularly inspect car compounds to check that their particular favored brand of car is safe and secure in its very own fenced off area and will not be infected by the competition?

Similarly, the automotive and logistics industries need to take a serious look at the effectiveness of contractual lead times. The argument is that they are a measure of efficiency, productivity and performance. Realistically, however, they serve principally to mask inefficiencies, waste capacity and resources and create an often confrontational relationship between customer and supplier.

If the current predictions on the economic effects of global warming are true then the whole system of car purchase will need to change and will need to take into account the growing environmental awareness of consumers. 'Single facilities bad – shared facilities good' may well become a mantra among increasingly environmentally savvy consumers. Most dealers would also appreciate timed, regular deliveries which would allow delivery companies to improve capacity planning, delivery schedules – and manage costs.

The finished vehicle logistics industry offer an opportunity, particularly in emerging markets, to tackle some of these fundamental issues but there still seems to be a lemming like stampede to reinvent the wheel.

There is a clear window of opportunity in some markets to reduce the environmental impact of outbound logistics by doing things differently. To do things differently however needs creativity and lateral thinking – thinking outside the box. Creative people in the logistics industry are sometimes regarded as anathema. 'We are doing it right and don't need fancy new ideas' is too often the cry 'we have enough problems without new fangled ideas'

Sadly over recent years the industry has lost many experienced and skilled people in the grinding wheel of endless cost down programmes. Can you remember last when there was a period of price increases to reflect changes in the industry?

One can only hope that, with a strong focus on the environment, a new breed of managers and leaders will emerge to tackle the problems that will affect the whole industry – and the clients will accept the logic of change.

### **Change; cooperate – or sink?**

For many outbound logistics companies, particularly in the West, the greatest threat is financial collapse. In 2010 and beyond that is going to get even worse and the industry may be barely recognizable in 2-3 years time. The added imposition of a carbon tax – ‘the polluter pays’ in the near future could have a catastrophic effect on an already fragile sector.

The logistics industry must create a sustainable and carbon efficient future and that can only be done through co-operation. That co-operation must transcend borders and seek to set new industry standards. If the industry fails to act now and stop posturing and procrastinating then the good Professor Pigou will be looking down on us with a drink in one hand, a cigarette in the other and broad grin on his face and saying ‘I told you so – we need a new tax’.

# Logistics Outsourcing; Environment; Synergy or Achilles' Heel?

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The focus of outsourcing has changed in the last decade from being one of synergy, with the relevant partners each bringing something special to the project to make it world beating – the best of the best – to being one of 'cutting costs to the bone to retain the business'. How long the concept of total focus on lowest costs can continue is a moot point which the capital intensive global logistics industry will need to address sooner rather than later if the industry is to develop.

There is now a new 'elephant in the room' – global warming and the carbon footprint.

It is important occasionally to stand back and examine objectively emerging strategic issues as the global economy escapes from recession and manufacturing continues to migrate to the Orient to satisfy markets in the Occident.

Remember the adage 'when you are up to your arse in alligators, it's sometimes difficult to remember the task is to drain the swamp.'

'Outsourcing' has moved from a marriage made in heaven between service leaders to a means of cutting costs to stay in business – and generate profit. But realistically how long can that continue in the age of 'dog eat dog'? It will not be long before low cost suppliers to whom you have thankfully outsourced a growing part of your logistics activities want to move in on the value added elements – and undercut what you are doing? It has happened elsewhere – why not in global logistics?

## **Is the current outsourcing model sustainable?**

For outsourcing to be sustainable, it is critical the principal organisation, the outsourcer, maintains its links with its clients and offers them such a service that they will not even consider looking elsewhere for the logistics package they need. It sounds simple – but is it?

That service also needs to embrace all of the relevant issues associated with the task it is seeking to perform.

Providing an outsourcing service is akin to 'simultaneously juggling and running on spinning logs' – the business has to maintain the best possible client service – that may mean juggling suppliers for price – yet run on the spinning logs of its clients with their constantly changing, probably escalating demands, within the current contract and price.

Competitive sustainability depends on excellence of service which demands continuing evolution of the service brand you are providing for your client. At the same time you need to protect those clients from competition – from your predatory suppliers.

A tall order indeed but it's the very nature of globalisation – and will get tougher. Electronic communications, web access and growing linguistic skills of both your suppliers and clients challenge the sanctity and security of your logistics offering. Globalisation of standards, often starting with IT, will make future service differentiation more difficult.

Paradoxically, 'running on spinning logs' business model may, in turn, mean to be sustainable longer term, even more outsourcing will become necessary. One answer to competition is to make your business so integrated with the client that you become indispensable – and that may mean ensuring you fit into their global systems, perhaps have implants in their supply offices and totally understand their needs and systems.

Integration of this type has happened in the automotive industries where the tier one component suppliers have decision-making offices as close to the main client offices as possible so they can 'be there in five minutes' if the need arises or important decisions are to be made.

From a logistics viewpoint outsourcing will become more important as more production moves east to supply markets in the west. Issues of inventory management and stocking will grow if finished products are to spend six weeks at sea.

### **A choice of outsourcing partner**

The choice of outsourcing partners will become even more important in future as issues of corporate and environmental social responsibility and corporate governance climb the agenda and communications continue to enhance transparency – whether welcome or not.

There have been many quoted cases of differences in standards and attitudes to and by staff in distant locations. If staff constitute the biggest single cost equalities can be difficult indeed. Is it acceptable to demand acceptable staff wages, healthcare and pensions and a plethora of civil rights and HR issues – yet still pay the lowest cost for the services you are buying?

There have been cases of, for example, some Chinese factories found to be lacking in terms of health and safety and employment security, but western companies have continued to trade with them. Just how far can the organisation, your organisation, be expected to dictate and have its demands met in terms of employee welfare or wages – even more so in terms of their suppliers and environmental policies?

Logistics, by its very nature and geographical spread, is probably one of the industries on the front line.

Work done in Denmark suggests there is an added ethical dimension with outsourcing on a global basis. Organisations are seeking to reduce the number of suppliers which, in turn, can reduce involvement of SMEs in business development and local sustainability. Strategically, is the industry looking for a common level of systems or agreement driven CSR, or will that still offer an area for qualitative competition?

As an outsourcer, can you really dictate to local suppliers how they undertake their business on your behalf? Are standards universal – or is one looking to expect ‘best standards in the country of service provision’?

### **Outsourcing risk management**

Outsourcing, like running on spinning logs, can be dangerous if one slows down; the challenge is ‘how does one minimise risk’ with an ever widening range of bought in outsourcing services?

Risk Management, like IT, has to be a critical support service in terms of successful outsourcing management. There are many issues – financial, political, cross cultural, and linguistic managerial among others which might need to be taken into consideration.

One might also add the basic hygiene of challenging ‘who is providing you with the information to satisfy your outsourcing partner audit?’ Many a successful scam has been arranged through the use of ‘friends and family’ to provide immaculate references

Outsourcing is only as strong as the weakest link. It is your brand integrity that is being put on the line if an outsourcer fails to deliver the service promised or to take account of the prevailing business ethos in your markets and with your customers. Issues such as global warming.

With each outsourcer in the supply chain the risk probably escalates geometrically.

### **Environment and outsourcing; who pays?**

The automotive industries are currently under enormous pressure driven in part by excess installed manufacturing capacity and part by the need to rein in costs – an exercise without end.

The OEMs’ conventional wisdom would be claimed by the observer to be to ‘squeeze the suppliers until the pips squeak’ – and that has been under ‘normal business conditions’ – whatever that might mean. When was the industry last not looking for cost reductions and ‘shared efficiencies’?

The new challenge which is just now starting to impact seriously on the automotive logistics industry is 'environmental change' and the associated issues of the carbon footprint. Historically, because this crosses so many borders, responsibilities and jurisdictions it has been put in the 'pending file' as being 'too complicated to handle until we have to'.

Maybe that time has now arrived?

The carbon footprint associated with international vehicle logistics will have to be tackled, like it or not. That in turn raises the critical question 'who will pay?' Take that one step further, the logistics companies, the outsourcers, have been squeezed so hard few have surplus even to pay a dividend, let alone be able to fund the necessary environmental changes.

The onus will come back to the OEM which, in turn will eventually pass it on to the car buyer. The challenge now is 'how do the OEMs and the logistics companies, the outsourcers, sit down and objectively work through the necessary steps to be able to tackle this new issue?'

There are certainly savings to be made in logistics and logistics outsourcing, but that is going to mean the OEMs adopting a more cooperative, less competitive ethos in their business.

A new phrase – 'Environmental Social Responsibility' – ESR – is creeping into the management lexicon. It will be interesting to see if the OEMs, the automotive logistics companies and outsourcers, are one of the first – or last to accept the reality of those three letters.

### **A future for outsourcing?**

Changes in global sourcing patterns for raw materials, processing, manufacturing capacity, evolving markets – and this relatively new issue of the carbon footprint - are all creating the need for greater flexibility of outsourcing and strategic alliances. What might be the shape of the logistics company in future?

Will we return to a complex structure of interlocked agencies and suppliers each handling a part of the task or will we move towards the global monolithic company that can do everything – or will there be a compromise? Equally, will there be an overarching acceptance that greater efficiency and a management of the carbon footprint will, in reality, lead to higher costs; costs which cannot be borne by the outsourcers?

Probably the preferred response from the client viewpoint would be a single monolithic, 'one stop shop' arrangement. All standards would be of the highest both to deliver the required services, keep the various civil rights and pressure groups happy, yet still allow the shareholders to achieve an acceptable dividend. An unlikely scenario.

The answer is more likely to be somewhere in the centre ground with the logistic client buying a total service from a smaller number of providers but each of those suppliers being at the top of their individual supply chains with strong proactive QA systems in place.

The tier one logistics suppliers will, as CSR and ESR develop, perhaps need to develop a range of new skills and services for their clients so they, in turn, can be sure bought in services fulfil their CSR and ESR requirements.

It could well be argued that qualitative issues are irrelevant to the logistics company; its role is to provide a sophisticated, low cost service to its clients in a highly competitive, global industry.

Nothing could be further from the truth. There is the risk of a cross cultural clash in that buyers expect to have their own domestic standards applied along the supply chain – at the cost levels of those low cost countries. It's a growing problem – and there are an increasing number of organisations – judicial, politicians, charities, pressure groups, busybodies, demanding just that – and, in effect blackmailing companies if they fail to satisfy their needs.

### **How might the Achilles' Heel be managed?**

These notes may appear pretty down beat. On the one hand, logistics is seen as a service commodity which could be bought from any number of suppliers and, on the other hand there is a steady growth in the demand for transparency and if not equitable treatment, then a semblance of improved treatment for people, human rights, the environment, the carbon footprint and various other new criteria as part of that increasingly complex supply chain.

There is no short term fix to resolve the issue – or it would have been found long ago.

A pursuit of a true value added service rather than the cheapest service. That may sound a trite answer from an observer – but is it? Companies operating from a high cost economy can never hope to compete head on with those in a low cost, less regulated, ambitious emerging economy.

The strategic response to the Achilles' Heel concern is surely to move competitiveness up a notch away from 'price' to 'provision of a total carbon footprint conscious service'. Without that fundamental change in ethos, in thinking, and in customer values – outsourcing may continue to be totally price driven – with very little margin for development and even less for the shareholders. The short-term answer among the traditional cost cutters may be 'let the Planet boil – it's your problem and cost' – but we still to start finding a longer term solution - now.