

How can logistics providers unlock value across supply chain

Identify, Ideate and Implement -
The 3i Approach to Transformation



The boom in e-commerce and the increasing shift towards technologies such as Internet of Things, Cloud and Analytics are impacting logistics operations of manufacturers, retailers and consumer good companies in a big way. These technologies and omni-channel business models are digitally empowering consumers today, thus making it imperative for businesses to provide uniform customer experience across various communication and delivery channels. As shippers try to make the consumer experience as seamless as possible, the complexities of their logistics network increase. This gives rise to the need of collaborating with third-party logistics (3PL) providers in newer ways. As the strategic importance of 3PL providers increases, so does the need of 3PL providers to step-up their operations. The 3PL

providers are under continuous pressure to reduce logistics costs while ensuring service quality to increase customer stickiness. To meet these demands, 3PL providers are looking to enhance the value of supply chain through process rationalization and technology rationalization.

In this paper, we put forward an effective approach, which we call the 3i approach, which helps 3PL providers bring in process and technology rationalization. The 3i approach along with KPI tracking mechanism helps unlock value across the supply chain.

The 3i approach advantage

The objective of the 3i approach is to understand the distribution network, end-to-end operations, complexities and challenges in the supply chain (see Figure 1). The uncovered inefficiencies, complexities and challenges helps

in making recommendations, arriving at a solution roadmap, building future state models and planning the implementation.

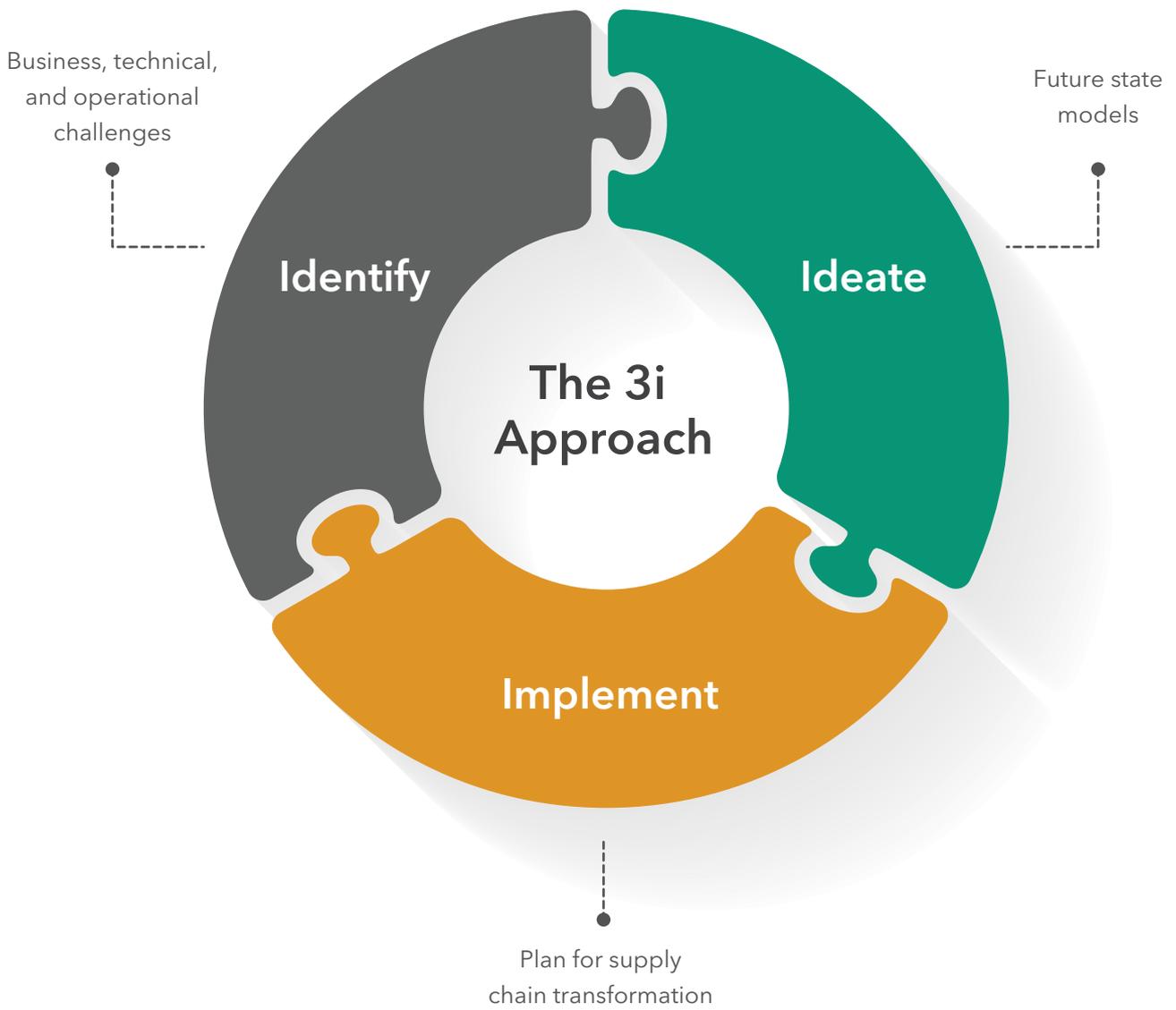


Figure 1 - The 3i Approach

Identify

The objective of the Identify phase is to capture and create As-Is models of distribution network, processes and systems.

Distribution network

The distribution network of 3PL providers should be designed keeping in view the type of services (fulfillment, spare parts logistics, forwarding, etc.) and service level agreements with customers. For 3PL players, it is important to focus on distribution network optimization to reduce costs and increase customer satisfaction. In case of normal

order processing, Central Distribution Center (CDC) can directly ship the order to destination using courier services or Next Flight Out (NFO) option. In case of time critical orders, CDC can ship the order to Regional Distribution Centers (RDCs) or Front Staging Locations (FSLs), which are closer to destination (Field Service Engineer (FSE) or end user or customers' representative) and from there it can be shipped to the destination (see Figure 2).

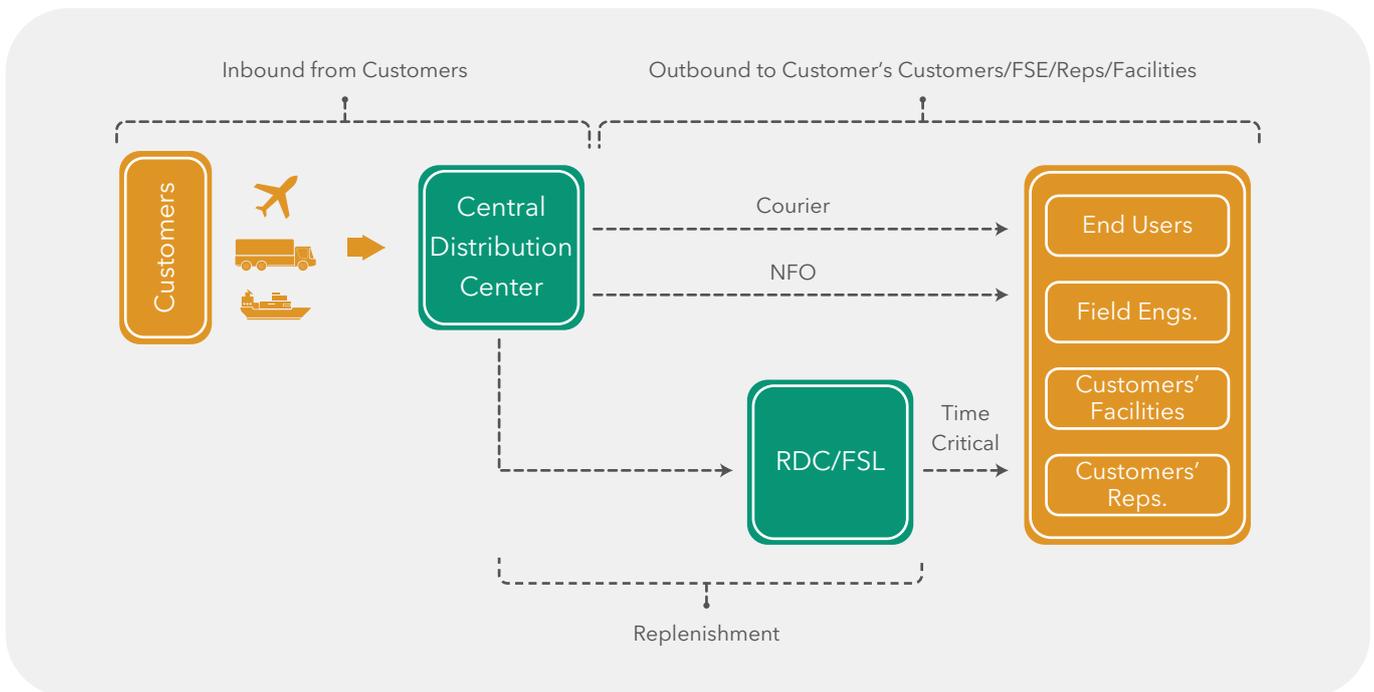


Figure 2- Illustrative distribution network (Does not represent any 3PL provider)

Processes & systems

To eliminate operation inefficiencies, reduce logistics cost and increase customer satisfaction, it is necessary that As-Is processes are captured as per process frameworks (SCOR, APICS) available in the supply chain of the industry. For instance, in the case of transportation, capture information for sourcing, rate and route planning, execution, visibility and freight billing/payment; in the case of warehousing, capture information related to inventory handling, item's slotting and storage algorithms, picking strategies, labor productivity,

equipment's usage, space utilization and automation level, etc. Along with all these information, capture KPIs.

As-Is models

Based on the information collected, As-Is distribution network, processes, and system architecture models can be created. These models help to understand and review distribution strategy and current processes and systems, which in turn, help identify and visualize the challenges across network, processes and systems.

Ideate

The Ideate phase of the 3i approach uncovers the network, processes and systems inefficiencies and provides recommendations. Recommendations provided should consider some of the guiding principles like harmonize, rationalize, improve productivity etc. Based on the finalized recommendations one can ideate future state models.

Make recommendations

Analyze the information captured for processes and systems and list all the recommendations along with business, systems and impacted KPIs. To analyze and make recommendations, it is critical to identify the key drivers in the area of distribution network, and

warehouse and transportation. From distribution network perspective, some of the key drivers are cross docking model, distribution efficiency, service level etc. In the warehouse area, inventory handling, automation, labor, devices are the critical drivers. Rating and routing, consolidation opportunities, service/lead time optimizations are some of the key drivers from transportation perspective.

In addition, look at logistics' business and technical trends for evaluating their application to overcome lagging processes and systems.

Review and prioritize recommendations

Use decision framework of two by two matrix based on decision criteria as mentioned below to qualify, prioritize and finalize recommendations.

- **Impact on processes and operations**
- **Impact on value levers like customer satisfaction and cost reduction**

Create future state models

Based on the finalized recommendations, create future state models. These models will help to visualize, to know the impact of the changes, and to arrive at a target state.

Develop KPIs and their tracking mechanism

Create a set of KPIs and benchmark/target to be achieved as part of the changes. These KPIs should be aligned with service level agreements to measure customer satisfaction and with operations to measure logistics cost. Also, develop a tracking mechanism approach like alerts, dashboard, mails etc.

Implement

In the Implement phase of the 3i approach, recommend solution roadmap and implementation plan based on the future target state. Develop a mechanism to evaluate the changes done by creating a set of KPIs and their tracking and measurement approach.

Create target state

Based on available future state models and recommendations from previous phase, design future distribution network (distribution strategy, number of distribution centers and their locations), processes (flows), and system architecture (diagrams) models with recommended implementation plan.

The 3i approach impact

The 3i approach enables logistics providers to unlock value across the supply chain in multiple ways. Firstly, for distribution network, it helps create transformed and optimized distribution network strategy and route optimization plan. Secondly, it enables fine-tuning of warehouse and transportation operations by improving order accuracy, delivery in full, increased labor productivity, improving carrier sourcing, optimizing route etc. This results in increased customer satisfaction and reduced logistics

cost. Thirdly, it helps in arriving at a solution roadmap and implementation plan for supply chain transformation. Lastly, the approach helps build a set of KPIs and its tracking mechanism.

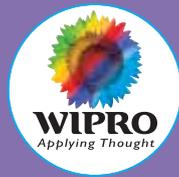
The 3i approach helps to clearly outline the supply chain transformation by considering critical factors like industry trends, business strategy, processes, systems landscape and challenges.

About the author

Ashok kumar J Bafana is an Associate Consulting Partner at Transportation Consulting Practice, Wipro. He is responsible for shaping transportation solution strategy, process consulting and providing thought leadership for logistics players in 3rd Party Logistics, Courier, Express and Parcel and Freight Forwarders. Ashok has 14 years of experience and has managed consulting engagements, transformation programs and global implementations for leading logistics and retail players across geographies.

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