Transport Collaboration in Europe

By Lisa Graham

With rising fuel bills, transport’s share of total supply chain costs is also climbing. According to the European Shipper’s Council, freight transport costs account for about 30% of total supply chain costs. Consequently, companies have stepped up their efforts to find ways to reduce freight-miles, and a few companies are experimenting with solutions that involve collaboration with both non-competitors and competitors.

The initial results of these experiments are promising. Collaborative efforts to optimize truck loads have achieved cost savings and efficiency gains of 6-to-10%, according to Transport Intelligence. Anecdotally, companies in such diverse industries as retail, automotive, high-tech, and chemicals have been able to achieve cost savings in excess of 15% from transport collaboration.

Despite the evidence of substantial cost savings, many corporate rivals remain hesitant to take the plunge. Obstacles abound. Nonetheless, in the future, we do expect to see more companies forge transport collaborations with other businesses, including competitors, because they make sense, help to alleviate motorway congestion, reduce CO₂ emissions, and yield potentially large cost savings.

What we’re interested in exploring in this report is a new twist or variation on transport collaboration, one involving business “peers.” Aware of the potential benefits, a few companies in Europe have even reached out to competitors to collaborate to improve the efficiency of their distribution networks. Examples of transport collaboration include:

- Bridgestone and Continental in Orleans, France
- Goodyear Dunlop and Continental in Birmingham, UK
- Samsung and Sony in the Netherlands
- Kimberly Clark and Unilever in the Netherlands
- Rickett Benckiser, Johnson and Johnson and Colgate-Palmolive in Germany
- Rickett Benckiser, Kimberly Clark and Colgate-Palmolive in France

What’s so novel about transport collaboration?

Transport collaboration is not a new phenomenon. Retailers often collaborate with their suppliers; suppliers often collaborate with manufacturers; and retailers, suppliers, and manufacturers sometimes all collaborate together. They share information or transport network resources — and then share in the resulting cost savings.

Benefits of transport collaboration

The benefits derived from transport collaboration are the same for competitive rivals as for the more traditional collaborators. In using a common distribution facility to ship goods to common or overlapping destinations, the collaborators will realize synergies, economies of scale, and cost savings in storage, staging, handling, and shipping the goods. Transport collaboration yields other benefits as well:

- More efficient inventory management
- Reduced transport costs
- Increased frequency of deliveries
- Economies of scale to small- and medium-sized businesses
- Enhanced corporate responsibility by reducing carbon emissions

The transport cost savings and efficiencies tend to be substantial, just by themselves. Truck routes can be combined and streamlined. Hence, trucks operate with fuller loads,
yielding major cost savings since the cost of full truck-loads is just a fraction of the cost of less than truckloads; and they also operate with fewer empty backhauls. All in all, the trucks are utilized more efficiently and log fewer freight-miles. Optimizing truck loads through collaboration routinely achieves cost savings and efficiency gains of between 6% and 10% according to Transport Intelligence.

To maximize truck loads, complementary products have been found to be well suited and adapted to transport collaboration. The combination of low volume/high weight products from one manufacturer can be combined with high volume/low weight products from another to optimize utilization of vehicles.

For either suppliers’ deliveries to retailer regional distribution centres (RDCs) or retailers’ deliveries to points of sale, delivery locations do not need to be right next to each other to achieve substantial cost savings. However, it is important that the delivery points are all located along the same delivery route and the same side of the motorway.

Obstacles and hurdles

Successful transport collaborations between competitors remain relatively rare despite the many potential benefits. Trust appears to be the primary obstacle limiting transport collaboration. Confidentiality and security requirements are also primary concerns for companies considering whether to collaborate with their competitive rivals.

Indeed, the natural mistrust that exists between rival business enterprises makes collaboration a difficult proposition to many companies, especially in view of the mistrust that already exists within a company’s own supply chain because of the lack of transparency of cost savings. Consequently, transport collaboration when feasible rarely involves the whole supply chain and is confined mostly to those portions of the supply chain where sufficient control and transparency are possible.

Companies are also challenged to find suitable partners with synergistic supply chains and corporate cultures. To this end, several independent pan-European organizations have been formed to facilitate collaboration between companies. Organizations like ELUPEG and the Efficient Consumer Response Programme of the Institute of Grocery Delivery not only demonstrate to companies how they can reduce the costs of their transport, warehousing, and distribution costs, but can also act as a meeting place for companies looking for collaboration partners.

Third-party logistics companies (3PLs) also sometimes serve as “match-makers” arranging for transport collaboration between competitors, although they too must overcome mistrust issues. Given their vast expertise and knowledge of all aspects of logistics and supply chains, 3PLs are ideally situated and suited to managing and overseeing the combined transport operations of two or more companies, including competitors, while also making sure that individual company accounts are kept closed.

In the UK, for example, the Culina Group has crafted a successful collaborative solution that has been embraced by both competing and non-competing dairy goods manufacturers. Originally formed in 1994 to provide 0-5ºC temperature controlled supply chain services, the Culina Group now markets its services to a broad range of dairy producers, including such brands as Muller, Danone and Kraft. Each customer fills a truck with its own dairy products, and Culina then picks up the truckload and delivers it to its own RDC. There, the customers’ dairy products are stored until they are combined with products from other manufacturers, and the combined truckloads are then delivered to a supermarket chain’s RDC. Culina charges manufacturers per pallet for both truck and warehouse space thereby also providing flexibility of price based on varying consumer demand.

Legislative impetus

Governmental bodies are also encouraging companies to collaborate to reduce road congestion. The European Commission’s long-standing focus on reducing truck congestion on Europe’s motorways could lead eventually to legislation that would require collaborative practices for all companies that distribute and warehouse in the EU.

The European Commission has implemented a number of initiatives designed to lessen truck congestion on Europe’s motorways. Its overriding objective is to reduce the 30% of truck trips involving empty loads — all of which cost an estimated €33.5 billion per annum in fuel charges and emit between 20-30 tons of CO2. Transport collaboration specifically addresses these concerns through a measured reduction of trucks and has encouraged sustainable distribution networks and partnerships.

However, in the case of collaborations between competitors, the European Commission has erected roadblocks to discourage any cooperation that might lead to noncompetitive business practices. For now, the Commission appears to be more concerned about situations involving shared warehouse space where company books, product manag-
ment and market strategies would be accessible among competitors than in cases where collaboration involves transport and truck space.

**Impact on space needs**

Transport collaboration, when successful, changes the role that RDCs play within supply chains and distribution networks. As a result, the design of these RDCs must also sometimes be changed to accommodate the changes in how they are used.

The design of RDCs must consider whether or not the user intends on sharing the space with a competitor. If the user plans to share space with a competitor, given the European Commission’s concerns over potential noncompetitive collaborative practices, separate warehouses can provide a safer design solution. Alternatively, in the case of non-competing companies or a 3PL, there is less concern about goods being stored and handled under one roof.

In fact, 3PLs can sometimes use a single facility to accommodate the needs of two or more companies for seasonal flexibility. For example, one end-user could be a manufacturer that produces warm-weather garden furniture requiring more storage space during the summer, whereas a second end-user could be a retailer that specializes in selling Christmas-themed merchandise requiring storage space in the months leading up to Christmas.

Transport collaboration emphasizes product grouping and mixing for outbound and, in some cases, inbound deliveries. In these situations, an RDC serves as the common staging area for the collaborators. Here, inbound shipments are received from multiple suppliers or manufacturers (referred to as “multi-picks”). Here too, different products are received from the collaborators for outbound delivery to their overlapping customer bases (referred to as “multi-drops”).

To handle the greater number of inbound and outbound shipments, the collaborative RDCs must be bigger with more dock doors than those used by individual companies. Additionally, to accommodate transport collaboration, RDCs often must incorporate several other design features:

- Cross docking for efficient inbound and outbound deliveries
- Internal warehouse layout and design to accommodate freight from different manufacturers, suppliers and retailers
- Potentially new building or park designs to create more efficient ways to load and unload between different warehouses located in the same park
- Integrated tracking systems that can accommodate a higher volume of deliveries and goods
- The emergence of industry-specific, multi-user warehouses and campuses.

**Case Study in Orleans, France**

Two tire manufacturers, Bridgestone and Continental, decided to collaborate on their transport by using a third party transporter. Their outbound distribution operations are managed jointly within a single RDC located outside of Orleans, France.
This newly built facility incorporates unusual design features. Both companies wanted to keep their businesses separate, including their inbound deliveries from the factories and tire storage, within each warehouse. Hence, this joint-RDC was designed in the form of an “H.” Bridgestone and Continental each occupy and manage their businesses in their own warehouses. Their outbound shipments are staged and handled in the common area — the middle bar of the “H” — that conjoins the two separate, parallel warehouses. [See accompanying photos.]

As outbound bundles are prepared for delivery by each company, they are moved into the common area where they are stored in clearly marked areas that correspond to the final destination. Loading docks on both sides of this common area indicate the different destinations served by this RDC. A third party transporter manages the outbound deliveries from an office located in this common area.

For the last three years, Bridgestone and Continental have been able to collaborate on only a portion of their supply chains — i.e., their outbound deliveries to local distribution centres. Each company prefers to use its own transporter for the final leg of the distribution, enabling them to retain more control over the quality of the service provided once the goods arrive at each retail outlet.

Conclusion

Despite the difficult economic environment, European companies’ ongoing efforts to reconfigure and streamline their supply chains continue to be one of the main drivers bolstering the demand for modern, state-of-the-art distribution facilities. In particular, companies recently have widened their search for ways to contain their rising transport costs; and many of them have begun to experiment with transport collaboration as a means of doing so, sometimes even with their direct competitors. In turn, many of these experiments have been “housed” in modern distribution facilities in order to achieve the maximum benefits.

For many companies, however, there are substantial barriers to collaboration that must be overcome, including trust, confidentiality, and security requirements. But impelled by the outsized potential benefits, many third-party organizations, shippers, haulers, and logistics specialists are working to address these barriers to make transport collaboration available to a broader range of companies. Whether transport collaboration will evolve into Europe’s “Next Big Thing” remains to be seen.

We intend to address other trends occurring in Europe that are providing supply chain efficiencies in future reports.
About ProLogis

ProLogis is a leading global provider of distribution facilities, with more than 475 million square feet of industrial space (44 million square meters) in markets across North America, Europe, and Asia. The company leases its industrial facilities to more than 4,400 customers, including manufacturers, retailers, transportation companies, third-party logistics providers and other enterprises with large-scale distribution needs.

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