

# DHL SUPPLY CHAIN

EASTERN EUROPE, MIDDLE EAST & AFRICA

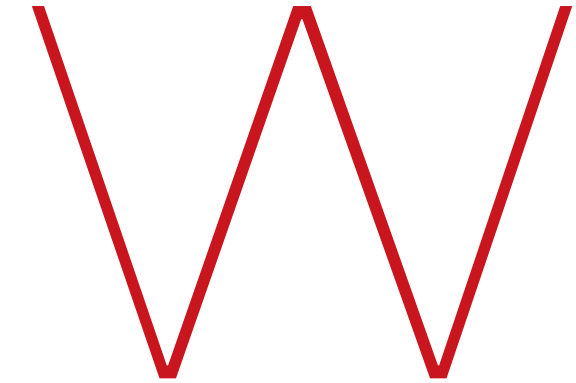
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DHL is the global market leader in the logistics industry. At a time when many market sectors are struggling to find growth, we look at the key role DHL's Supply Chain division plays in keeping its customers within Eastern Europe, Middle East and Africa competitive



With a global network presence in more than 220 countries and territories, and about 275,000 employees worldwide, DHL, a division of Deutsche Post, has grown to its present size by acquiring the leading players along with enjoying its own customer growth. Its story is one of outstanding success in an industry that has been characterised by consolidation as logistics has become an integral part of lean industrial strategy and a function that many companies have been driven to outsource. As a whole the group generated global revenues of more than €51 billion in 2010.

Perhaps the group's most significant expansion was its €5.5 billion acquisition of Exel in 2005. Exel was the company that Jaguar Motors chose to set up and run its logistics centre at the Castle Bromwich assembly plant, newly configured in 1998 for the S-Type. By the time of the takeover, approximately 111,000 employees worked for Exel in 135 countries, and one of these, Mark Seager, now has what he considers to be the best job in the entire company, as CEO of DHL Supply Chain in Eastern Europe, Middle East and Africa.

Seager's considerable job satisfaction derives principally from being able to play a crucial role in keeping his clients' business running smoothly and reliably, year in and year out. "It gives you a unique window—a privileged view into so many companies," he says. "It allows us to share their challenges and successes because we work so deeply with our clients and their organisations."

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However, he is also fortunate to be managing a region, or rather a set of regions, that have been less affected by the global recession than some. DHL's fortunes are linked to those of its customers, he admits, so growth in the economy means growth in his business. "I am lucky because our region has been much less affected than more established and developed markets. We are enjoying growth on a number of fronts. We have clients still setting up business to access local domestic markets that are growing as the wealth of their population improves. Other clients are moving into our region to access the cheaper costs in land and labour. The recession has only dampened the growth rate a little and on the supply chain side we are happily growing at double digits every year."

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Double digit growth in the transport industry is pretty amazing in the current climate; but it's not quite so amazing when one considers the massive infrastructure and natural resources development taking place in Africa, together with the rapid growth of spending power in countries like Nigeria, Tanzania, Kenya, Ghana and Uganda. The oil-driven economies of the Middle East enjoy unstoppable growth, while DHL's Eastern European markets, principally Russia, Slovakia, Poland, the Czech Republic and Hungary continue to attract clients, he says. "We have seen many clients doing a strategic review of their supply chain, driven by the need to drive more efficiencies within their own business and so change the nature of the way they manage that supply chain, or indeed moving into my part

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of the world to cut cost. That has accelerated in the recession.”

DHL Supply Chain positions itself as a single source contract logistics provider that designs and implements comprehensive customer-focused solutions across the entire value chain, explains Seager. “Our customers rely on us to ensure a smooth logistics flow from planning, sourcing, production, storage and delivery to return logistics and end customer service. We can give them warehousing, distribution, managed transport and value-added services, business process outsourcing, supply chain management and consulting.”

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“ Our customers rely on us to ensure a smooth logistics flow from planning, sourcing, production, storage and delivery to return logistics and end customer service ”



sites in Eastern Europe, the Middle East and Africa, totalling nearly two million square metres, he certainly has the resources to deliver this level of service. “DHL is not only present in all the geographical markets; we are strong in almost every sector. Automotive of course, which is an historic strength, but also in the energy sector, consumer goods, retail logistics and life sciences.” The last of these—including healthcare and pharmaceuticals—is one of the fastest growing sectors and a good example of how DHL is working with customers to keep ahead in a fast changing competitive climate.

Innovative schemes are originating in Turkey, says Seager, where healthcare legislation has changed in response to the proliferation of counterfeit drugs. DHL Supply Chain's '2D Coding—Serialisation of Pharmaceutical



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Products and Data Management' project in Turkey is reducing fraud and counterfeiting across the country. For the first time in the pharmaceutical industry, it introduced an IT-driven solution throughout the supply chain, from manufacturer to end consumer. And its success is attracting interest from other markets looking to follow suit in the future.

Turkey became the test bed for the new technology because of its particular problems with fraud—prior to 2010, it was estimated that the government lost US\$150 million annually. The Ministry of Health first announced its intention to implement an anti-fraud solution in 2004, and DHL Supply Chain Turkey began work in 2008



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on a country-wide 2D coding system that would support its 35 major pharmaceutical partners as well as 25,000 pharmacies. By the start of 2011, uncoded medicines were a thing of the past in Turkey and pharmacies were reporting high levels of satisfaction with the new system. The solution had demonstrated collaborative working across DHL's Operations, IT and Quality Assurance staff, and had involved liaison with some of the world's biggest pharmaceutical companies, including Novo Nordisk and Bristol-Myers Squibb.

The industry solution that is emerging is 2-D, or Matrix barcoding, and DHL has developed a bespoke solution for its pharmaceutical industry customers in Turkey. “That sort of activity is spreading around Europe, with Turkey really leading the way in pharma regulation. I believe





we will see it introduced in the UK soon.”

While pharmaceuticals and energy markets are among the fastest growing sectors, DHL continues to develop its longer standing relationships in the automotive industry. Automotive may have taken a hammering in recent years, but it is bounding back now, Seager observes. We saw earlier how Exel took on board the supply chain management at Jaguar, creating its own hub there and sequencing suppliers' components and sub-assemblies to the plant. Last year, however, DHL demonstrated an even more symbiotic type of partnership when it entered a new five-year contract with Europe's largest car manufacturer, Volkswagen.



“ DHL continues to develop its longer standing relationships in the automotive industry ”

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Under the contract, DHL Supply Chain took over from another company a major part of the in-plant logistics for the Volkswagen assembly plant in the capital of Slovakia, Bratislava. Around 800 DHL employees will manage in-plant logistics for 50 per cent of the production materials of the models produced by the Volkswagen Group at Bratislava. This involves engines, gearboxes and windscreens for the Volkswagen Touareg, Audi Q7 and Porsche Cayenne. Services provided include in-bound receiving, put away and storage, picking and kitting, sequencing and line-side deliveries directly to the Volkswagen production lines.

The contract is unique within the Volkswagen Group, which normally commits itself to such deals for just three years, but as head of Logistics at Volkswagen Slovakia Juraj Janác observed, DHL's extensive local presence and ability to understand VW's business needs allowed it to develop a strong relationship with the Bratislava

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plant's management. "DHL's ability to transfer established automotive experience and industry best practice from existing operations, plus the established reputation of 1,500 local IT, HR, technical, financial and operational personnel clearly positioned it as unique in the region."

Once the terms of the partnership had been worked out, attention focused on achieving a transparent switchover of Slovakia's largest outsourced logistics operation in just 10 weeks, says Seager. With the need to transfer contracts for almost 700 staff without change to position

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or salary, the local human resources, finance and quality teams were critical to success. But with planning in its final stages the upturn in the market he referred to called for some quick thinking. An upturn in global demand called for the addition of a third shift, requiring the addition of 300 staff just days before the switchover.

A consistent increase in demand soon required the addition of a fourth shift, with the DHL team carefully recruiting a further 400 people. Now, with the need for 24/7 operational management cover and recovery periods limited to Sunday night, people and processes exceeded expectations once again, further strengthening the partnership. Just nine months into the contract, overall standards reached an all-time high. According to Janác: "In the first year of our partnership with DHL, and working together, we achieved all the goals we had set. Volkswagen

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Slovakia is becoming the benchmark in the logistics processes including in-house logistics operations and considering the forthcoming challenges in production, we require partners that are the best among the best.” Responding to strong demand, annual production at the Bratislava plant currently exceeds 144,000 vehicles.

The Volkswagen contract is a fantastic illustration of an embedded, seamless type of partnership that, if it works in a car plant, notoriously the most demanding lean environment in the world, will bring benefits to customers in any other sector, says Seager. “The great benefit we have is our presence in so many sectors. We are in a position to transfer knowledge and best practice from one sector to another. Automotive

has been seen as leading the way in lean logistics and manufacturing for many years now. We have tried to embrace that thinking and bring it into the supply chains of more traditional sectors.”

He cites the high tech manufacturing sector, with its mass customisation and continual design and function upgrading. “Mobile devices are a case in point: there are a lot of virtually stockless supply chains. Suppliers, let alone retailers, can’t afford to hold stock because of the obsolescence issue. And in the food industry, chilled supply chains really are stockless—they operate on a cross docking principle where product is received from the supplier and distributed to retail outlets within a very short time.” It’s not a new principle, he explains, having been used in automotive supply chains for many years, but its successful

“ We try to develop a bespoke solution, very much geared toward specific customer needs ”

implementation in fast moving modern logistics depends on sophisticated IT support from DHL’s ERP and warehouse management, EDI, barcoding and RFID systems.

Customised supply chains can’t be served by off the peg solutions, he stresses. “We try to develop a bespoke solution, very much geared toward specific customer needs; we are not trying to sell them a network solution by any means. That’s why we have dedicated account management teams focused on specific

customers: the logic behind that is that if we achieve a close alignment with the customer we have a far greater chance of delivering what they want.” For most customers streamlining the supplier base is vital these days, and to do that they need a trusted logistics partner, he adds.

But when you are dealing with a customer like Volkswagen, it is never enough simply to be good at understanding the local market. Global customers need the same level of service wherever they are located. “I try to make sure



that a customer in Lagos, Moscow or Nairobi has the same experience as one in the UK or the Netherlands.”

However multimodal its operations; however smart the technology it uses, DHL will always be in the business of moving goods round the world, a large percentage of them by road. It has huge environmental and safety issues, but unlike large sections of the industry, it takes steps to address these issues. All employees are encouraged to take part in the company’s ‘Living Responsibility’ programmes, which include all types of community involvement but seem to focus much of the time on children and their education.

Living Responsibility is subdivided into environmental (GoGreen), educational (GoTeach) and disaster relief (GoHelp) activities. There’s an impressive array of initiatives, from the new UPstairs scholarship scheme piloted in the spring of 2011 with 50 scholarships made available in Indonesia, Mexico, Romania and South Africa. By 2014 the programme is scheduled to cover 600 scholarships in a total of 42 countries around the world. While UPstairs is limited to employees’ children, Trucks and Child Safety (TACS) aims to cut the number of seven to 11 year olds harmed in road accidents by making them more truck-aware. Employees take trucks into schools and demonstrate their sheer size, and impress on the children just what the driver can and can’t see or hear.

DHL is globalisation in practice: indeed it aspires to no less a goal than to be the logistics provider for the world. “We have a way to go yet,” says Seager, “but as world trade opens up we find ourselves in a strong position. I really do believe that if we can become the provider of choice to our customers we will inevitably be the investment of choice, bringing in the capital we need to grow, and the employer of choice too—because when it comes down to it, we are a people business. It’s not complicated!”

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