

The End of Centralisation is Nigh

At The Logistics Business we've been predicting for some time that move to increasing centralisation will reverse as transport costs rise and the recent dramatic fuel price rises have brought this back to the fore.

Although not insignificant historic transport costs have, for most businesses, been relatively low compared to other operating costs and hence supply chains have been shaped more by other factors. For example, whereas many large FMCG companies would at one time have manufactured their full range of products in each country they operate in, more recently they have taken the approach of centralising types of product or skill sets in each factory or country and manufacturing that product for all markets, say across Europe.

Because raw materials can usually be transported more efficiently than processed and packaged products and are in any case often available locally this is more costly in transport but those costs have been outweighed by the improved manufacturing efficiency, ease of planning and in some cases reduced safety stock.

A similar move has been taking place in retail distribution. Although often more sensitive to transport costs it has still been more cost effective for retailers to centralise some or all of their distribution thanks to the economies of scale and stock savings that result.

As transport costs rise the balance will shift and manufacturers and retailers will be forced back to more localised supply chain models.

And rise they will. The current increases in fuel costs should not be seen as a temporary blip soon to be reversed. Governments have been trying for years to price transport off the road but keep being fought back by fuel protests and the like. Eventually though they will succeed and companies will have to find ways of locating sources of supply closer to sources of demand.

The Logistics Business is experienced in the development of supply chain models designed to show the level of transport cost that starts to tip the balance. Armed with this knowledge companies can start to plan for transition and in so doing create a greener business model.