



**NDL/HIDC**

**Holland International  
Distribution Council**  
Louis Pasteurlaan 6  
2719 EE Zoetermeer  
P.O. Box 660  
2700 AR Zoetermeer  
The Netherlands

T: +3179 – 343 8110  
F: +3179 – 347 9217  
info@ndl.nl / www.ndl.nl  
info@hidc.nl / www.hidc.nl

## LOGISTICS CONCEPTS

# Setting up or Restructuring your company's European Supply Chain

**When setting up or restructuring your company's European supply chain, there are numerous decisions to make. Depending on factors such as production/sourcing locations, inbound transport strategy, scale of the business, type of product, sales channel, location of customers, required lead-time to market and taxation you have two options:**

1. **Outsourcing logistics activities to a logistics service provider**
2. **Set up a self-managed logistics operation**

### **Ad 1. Outsourcing logistics activities to a logistics service provider**

#### *Which logistics service provider to select?*

A foreign firm that decides to outsource its logistics operation to a service provider can choose from many potential partners. Especially in the Netherlands, with its excellent and well-developed logistics industry, there is a wide array of service providers whose expertise is of the highest order. Among these are specialists in certain industries (e.g., medical devices, chemicals, apparel, automotive products) or activities (e.g., group transport, warehousing, parcel distribution), or geographical regions.

Besides the 'hard' factors that are taken into account when choosing a LSP, there are 'soft' factors that need to be considered. These include cultural fit, style of management, and experience with similar types of operations. Seeking a LSP with the best match with one's needs can be done by setting out a so-called *invitation to tender*.

#### *The costs of outsourcing the logistics operation*

There is no such thing as an average cost for outsourcing an operation to a LSP. Every outsourcing business is unique, and so is every logistics operation. Thus, the cost of a logistics operation depends on a host of factors, such as the type of operation, its complexity, labor intensiveness, service levels, location, and the management information systems used. Most LSPs charge a customer according to an activity-based structure. This means that each activity that the LSP carries out on behalf of a customer incurs a charge, e.g., inbound handling per container, storage per pallet

per week, picking per order, or shipping per order. As most LSPs serve more than one client, fixed costs such as for warehouse rent, utilities, personnel, and IT systems are spread out over the client base, often resulting in considerable economies of scale. In addition, as the LSP buys certain products and services like transport and electricity in large quantities for all its customers, it has major buying power and can negotiate favorable rates. Another cost advantage of outsourcing is that a customer will only 'pay for use,' so in the low season, there are no fixed costs for idle space, capacity, or people.

#### *Variety of services offered by logistics service providers (LSP)*

The services offered by logistics service providers (LSP) vary by company. Most of them offer a full range of integrated services that most commonly include:

- Ocean freight forwarding (full container loads & less than container loads);
- Air freight forwarding;
- Customs brokerage;
- Warehousing;
- Value adding logistics (VAL) activities (labeling, packaging, assembly);
- Value adding services (VAS) (fiscal representation, stock management, order management);
- Transport throughout Europe (full truck loads & less than truck loads, parcel, temperature controlled and tank).

Many LSPs have extensive expertise and vast experience in these fields and are thus ideally positioned to assist firms in optimizing their supply chains.

## Ad 2. Set up a self-managed logistics operation

Advantages of the Netherlands as a location for an own account European logistics operation:

### *Attractive tax climate*

With a corporate tax of only 25% and an effective tax rate that may be far lower, the Netherlands ranks first on this scale. The corresponding tax rates in the other countries exceed 30%. In addition, the corporate tax system in the Netherlands allows for VAT deferment, offering extensive cash benefits.

### *Temporary labor regulations*

Very flexible temporary labor regulations in the Netherlands help streamline fluctuations in production cycles and reduce overall labor costs. While Belgian law is flexible with respect to hours worked by permanent employees, it is less lenient about ongoing use of temporary labor. In Belgium, managing atypical volume fluctuations therefore results in higher total annual labor costs.

The Netherlands is a profitable location for long-term logistics operations from a cost and quality perspective. In addition to being centrally located in the heart of Europe's main consumer markets and having excellent seaport and airport facilities and an extensive, state-of-the-art infrastructure, the Dutch logistics industry is highly elaborate and advanced. This makes the Netherlands ideal for serving your European customers. When setting up a distribution center in Europe, you will want to select the best location for your company. Weighing the advantages and disadvantages of possible sites will enable you to decide which one best meets your specific requirements and offers the optimal cost/quality balance.

## European Supply Chain Structures

A second consideration is the way you serve the market. Whether you choose for outsourced or inhouse logistics, you will always need to decide upon which logistics structure to implement. There are many ways to supply products to the European market. Which one is the best for your products? Four possible structures are explained in more detail below:

### *(1) Direct distribution*

In this set-up, products are shipped directly from source to customer. This structure is used by many companies that are in the beginning phase of exporting to the European market. In many cases, the products are sold on an FOB basis, and transportation is arranged by the customer or by a local distributor. The main advantage of this approach is that an exporting manufacturer does not run any local inventory risk. There are disadvantages, however: lead-times on

customer orders can be very long, and transportation costs per order are relatively high as a result of each order being shipped separately.

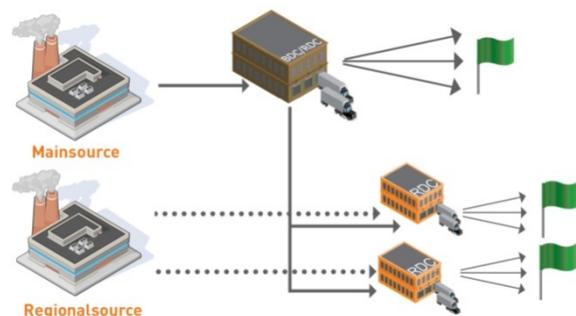
### *(2) Centralized European distribution structure*

In this set-up, a company keeps inventory for its European markets in a centrally located European Distribution Center (EDC), and the entire Europe-wide customer base is served from here. The concept was first introduced in the early '90s, after the EU had reached a targeted level of 'unification'. As there was no more customs interference in intra-EU trade, it became much easier to transport goods from one country to another. Many international companies closed their national distribution centers and moved their stock to a central EDC (see figure 1). For many, this supply chain structure is still the most efficient way to organize European distribution. Often, VAL activities, to make products country- or customer-specific, take place in the central EDC. The advantages of centralized European distribution include savings on transport costs through optimization of inbound transport, efficient management and control of stock, and cost savings through economies of scale.



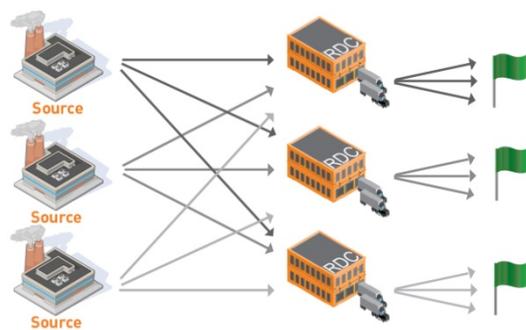
### *(3) Bulk distribution center with local satellite warehouses*

In this set-up, products are shipped from source to a centrally located Bulk Distribution Center (BDC). The market is served via local satellite warehouses, which are replenished via the BDC. Products are made customer- or country-specific in the local satellites, making the BDC a relatively simple operation of pallets coming in and pallets going out. In order to optimize transportation, stock levels in the market, and distribution, the entire supply chain is managed and controlled from one central location. The advantages of this structure are that inbound transportation is at its most efficient due to the combining of freight consignments, while inventory is kept close to the market to guarantee quick delivery times.



#### (4) Regional distribution structure

In this set-up, different regions within the European market are served via different Regional Distribution Centers (RDCs). This type of approach is justified when the business environment changes and central distribution no longer makes sense, as when the EU periodically expands to include new members or stricter requirements emerge for order lead-times or when the cost of transportation goes up. This is especially true for manufacturers selling to the entire European market. If sales volumes in certain regional markets are substantial, it may be preferable to serve these markets directly via an RDC and to supply this RDC directly from the source. The advantage of this structure is that products are located relatively close to the market.



#### Value Added Logistics (VAL)

VAL refers to activities that directly add value to the final product. They are the final step in the production process of the product, and are therefore also sometimes referred to as 'postponed manufacturing'. From a logistics point of view, most companies want to minimize stock, while at the same time maximizing the variety of products they can offer to the market. By storing parts, or sub-assemblies, in the distribution center, a company can customize its products when sales orders come in and assemble the product quickly according to individual customers' specifications. In order to reduce the order lead-time, VAL activities should take place as late as possible in the supply chain and as close as possible to the customers. VAL activities can be divided into basic and advanced VAL.

Examples of basic VAL activities are:

- (re)packing goods;
- attaching labels to shipments;
- mixing basic products;
- adding documentation or software in the language of the country where the final customer is located.

Examples of more advanced VAL activities are:

- repairing goods;
- assembling goods;
- performing sophisticated quality checks.

Occasionally, VAL activities are also used to minimize import duties that have to be paid for importing into the European Union. In some cases, the sum of import duties on the individual parts is considerably lower than the import duty of the assembled final product. When savings on import duties outweigh the additional costs for final assembly in Europe, it could make sense to implement this set-up. However, as customs regulations are not always transparent to the outsider and since they are subject to periodical adjustments, it is advisable to consult with a customs expert first before implementing this set-up.

Among the practical benefits of VAL are:

- Serving the customer quicker and with more flexibility;
- Reduction of total logistics costs and risks of keeping stock;
- Possibility of offering a larger range of products, country specific products, or even customer-specific products;
- Possibility of responding quickly to changing market requirements;
- Savings on import duties.

#### Value Added Services (VAS)

While VAL activities directly add value to the final product, VAS activities add value to the supply chain in a more general sense, e.g., in financing, organization, or marketing.

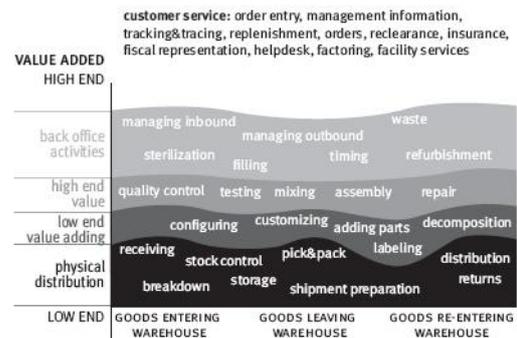


Figure 1: Examples of VAL and VAS activities

In order to focus on their core activities, many foreign firms outsource non-core activities to specialized external service providers. Research shows that companies in Europe not only increasingly outsource logistics activities to professional logistics service providers, but also outsource VAL and VAS to them. Examples of VAL and VAS activities commonly outsourced to logistics services providers include stock management, order management, handling of customs transactions, and VAT administration. But also

invoicing, customer services like helpdesks and handling guarantee claims, performing repairs, and renting office space are increasingly offered by logistics service providers nowadays. So, while manufacturing companies increasingly focus on their core activities, logistics service providers expand the number of services they offer to these customers and more and more take over non-core activities from them.

#### **How can NDL/HIDC be of help to you?**

When entering the European market, many decisions have to be made; decisions outside your scope. HIDC's logistics experts can help you during the decision making process. Based on our experience and in-depth knowledge of European logistics we supply tailor-made advice and matchmaking services to foreign companies that are entering the European market or re-engineering their European supply chain structures.

In short our services consist of four steps:

- Advice on European supply-chain structures and assistance in defining logistics requirements
- Neutral advice on logistics partner selection
- Fact-finding trip in the Netherlands to meet potential partners
- Assistance with every step – now and in the future

All advisory services are free of charge and without obligation.