

# **COURSE GEST-H-501**

#### LOGISTICS ENGINEERING AND MANAGEMENT

Session n°5

Professor Alassane B. NDIAYE



# COURSE PLAN 2024-2025 (SESSIONS & DATES VIEW)

- SESSION 01/M: 05/11/2024 INTRODUCTION + BLOC 1 (THEORY & EXERCISES PLANNING & FORECASTING)
- SESSION 02/M: 09/11/2024 BLOC 1 (THEORY & EXERCISES PLANNING & FORECASTING)
- SESSION 03/M: 12/11/2024 BLOC 4 (THEORY & EXERCISES, WAREHOUSING & INVENTORY MANAGEMENT)
- SESSION 04/M: 16/12/2024 \*\*\* <u>BLOC 5</u> (EXPERT TALK, MAKE) + <u>BLOC 8</u> (EXPERT TALK, REVERSE) \*\*\*
- SESSION 05/T: 19/11/2024 BLOC 2 (SOURCING) + BLOC 3 ( DELIVER)
- SESSION 06/T: 23/11/2024 BLOC 9 (QUALITY)
- SESSION 07/M: 30/11/2024 BLOC 6 (THEORY & EXERCISES, LOGISTICS NETWORK MODELLING & PLANNING)
- SESSION 08/M: 03/12/2024 BLOC 4 (EXPERT TALK, INVENTORY) + BLOC 7 (EXPERT TALK, DISTRIBUTION)
- SESSION 09/M: 07/12/2024 BLOC 7 (THEORY & EXERCISES, DISTRIBUTION LOGISTICS)
- SESSION 10/M: 10/12/2024 BLOC 9 (EXPERT TALK, QUALITY)
- SESSION 11/T: 14/12/2024 BLOC 10 (SUPPLY CHAIN INTEGRATION) + BLOC 11 (SUPPLY CHAIN STRATEGIES)
- SESSION 12/T: 17/12/2024 BLOC 11 (SUPPLY CHAIN STRATEGIES) + BLOC 12 (SUPPLY CHAIN PERFORMANCE)

\*\*\* MAY BE CONVERTED TO WRAP-UP SESSION IN JANUARY BEFORE EXAM – (PREPARATION OF THE EXAM)\*\*\*





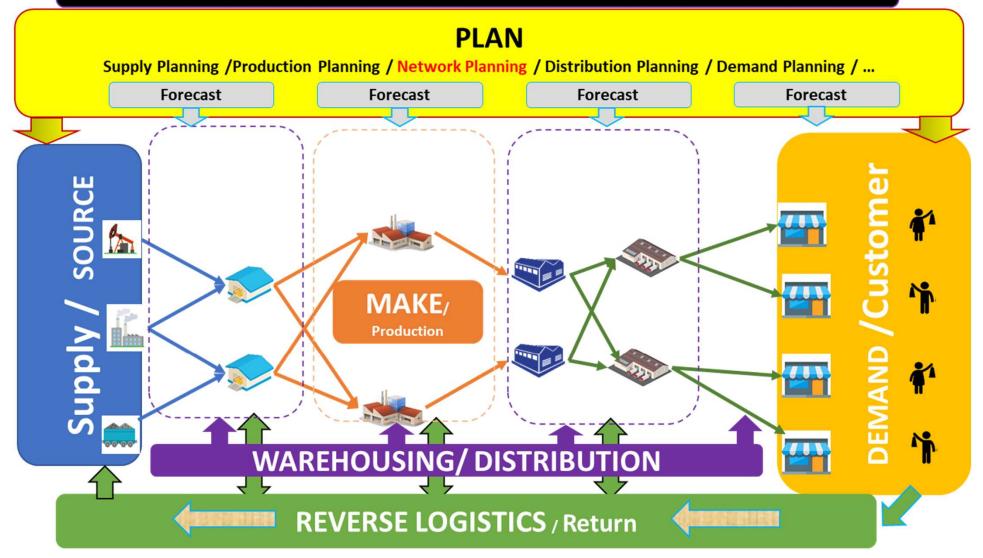
# **BLOC 2**

# BASIC CONCEPTS OF SOURCING LOGISTICS





# MAIN BLOCS OF LOGISTICS OPERATIONS







### **CONTENT OF BLOC 2**

# Basic Concepts of Sourcing Logistics

- 1. Introduction
- 2. Mission & Operational Objectives
- 3. The Sourcing Portfolio
- 4. Purchasing Strategy
- 5. Sourcing and Elaboration of the Suppliers Panel
- 6. Company-Suppliers Relationships
- 7. Conclusion and further readings





### > SOURCE

- Input materials (supply, purchase)
- Input flows (continuous, on demand)
- Storage of input materials
- Timing of arrivals of input materials
- Variability of input materials' costs
- Quality of input materials
- Unexpected event or change
- Etc.

#### KEY CHALLENGES

- Identification and selection of the suppliers
- Quality control
- Integration of suppliers' constraints
- Collaboration with the suppliers
- Partnership with suppliers
- International risks (political, legal, etc.)
- Etc.





- Purchases & supplies are needed to acquire the necessary inputs in order to manufacture finished products or provide services.
- The Function "Supply and Purchasing" has a great impact on the level of competitiveness of a company.
- This Function is of a changing nature and it is becoming a strategic issue for the companies.
- Studies tend to show that at least 50% of the companies' income statements is attributable to that function! (any gain on it is therefore important!)





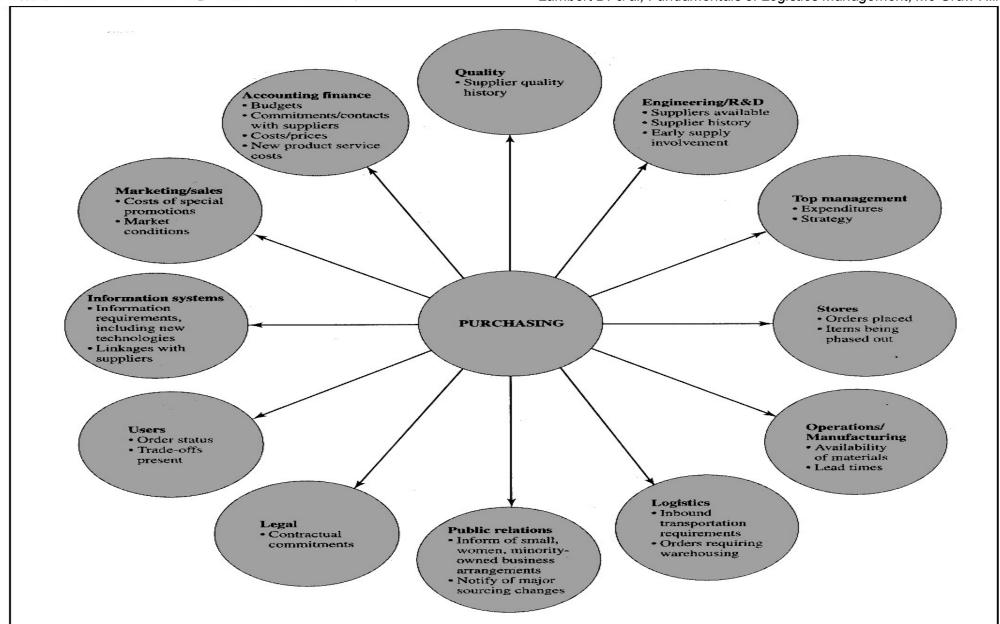
- Purchasing: once quantities (and types) of inputs required and date of availability are known, it is about selecting the appropriate suppliers (specifications).
- Supply: purchase order to suppliers, order tracking, receipt of order & quality control, transfer to the warehouses.
- The fluctuating (and sometimes unpredictable) nature of the economic environment proves the necessity to have flexible suppliers and products with an adequate quality at the right time.
  - ► Importance of Purchasing





Overview of internal information flows from purchasing

Lambert D. & al, Fundamentals of Logistics Management, Mc Graw Hill





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#### SEVEN KEY POINTS: MISSION OF SOURCING

- 1. Find and acquire the necessary inputs according to clear and precise specifications.
- 2. Target an objective quality level from the supplier.
- 3. Ensure the flexibility of the supplier (response to short delays, unforeseen variability of etc.).
- 4. Guarantee the level of services expected by internal customers.
- 5. Ensure a full control of related upstream risks.
- 6. Design & control company's supply and purchasing policy.
- 7. Contribute to the innovation policy of the company through a good knowledge of upstream (suppliers) innovations.





#### THE PORTFOLIO

Definition: All goods, services and facilities purchased by the company and clustered according to a given logic:

- a) Purchase of direct (input) production materials: raw materials
- b) Purchase of outsourced services/products
- c) Purchase of transport and logistics services
- d) Purchase of technical and R&D services
- e) Purchase of energy
- f) Purchase of investments
- g) Purchase of overheads
- ► These clusters often cope with the tasks' distribution observed within the Company's Purchasing Department





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### **FOUR MAJOR STEPS**

- 1. First step: clustering of the Purchasing Portfolio into homogeneous segments
- 2. Second step: on each segment, identify:
  - i. the economical stakes ,
  - ii. the various associated risks,
  - iii. the priority and specific leverages.
- 3. Third step: for each segment, definition of an operational action plan
- 4. Fourth step: finally, definition of a performance measurement system for each segment and for all the segments



# Focus on the second step Analysis according to three main axes

Axis 1: Economic stakes (Annual values of purchases)

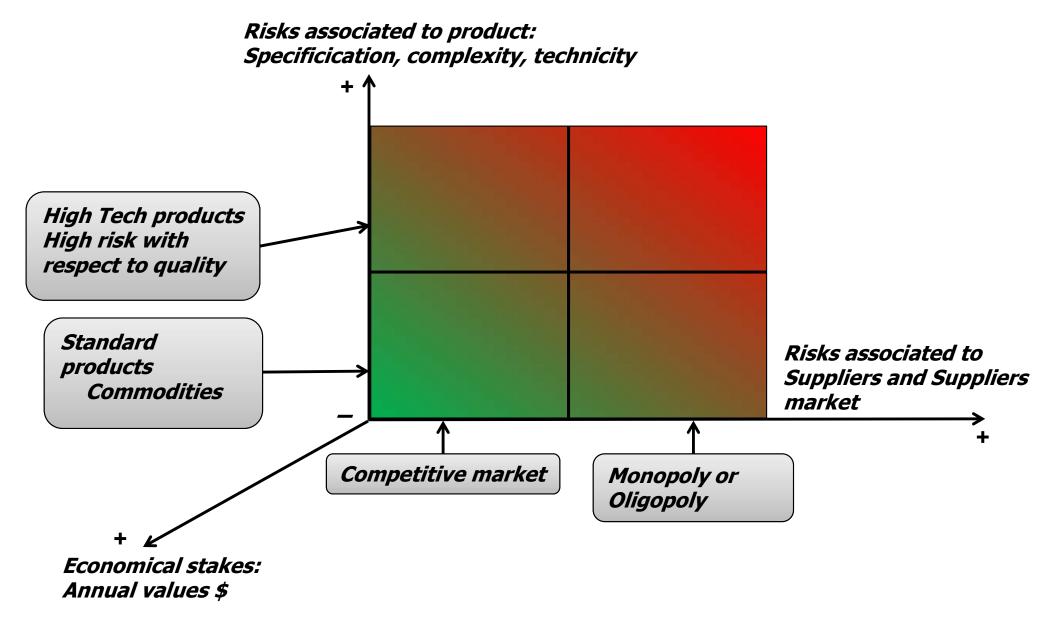
• Axis 2: Risks associated to suppliers and suppliers market

 Axis 3: Risks associated to product features & technicity, and products internal risks, recurrence of purchase, etc...





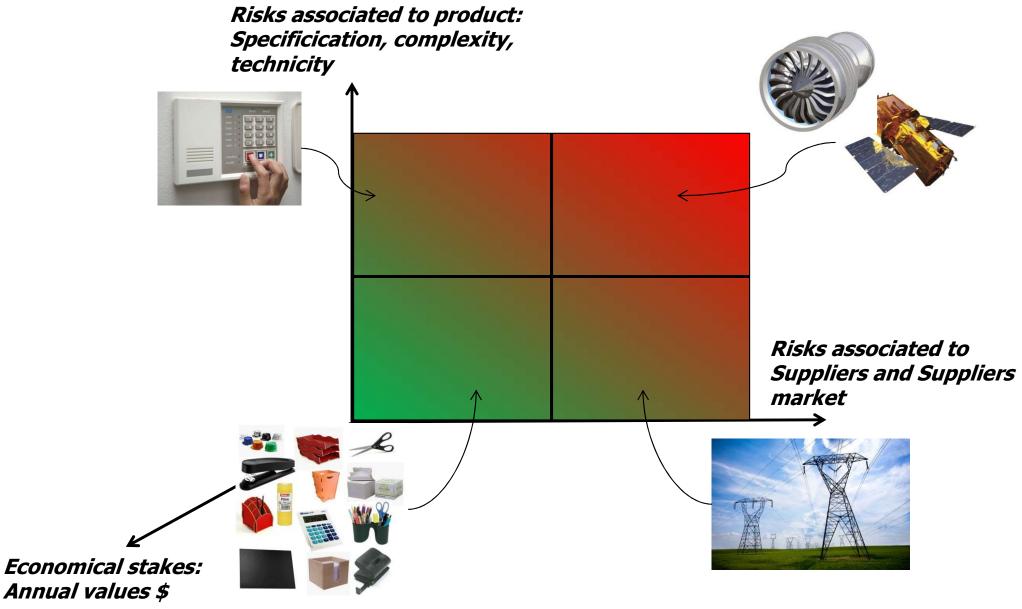
#### Focus on the second step







#### Focus on the second step





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# Basic Concepts of Sourcing Logistics

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#### **FOUR MAJOR STEPS**

- 1. Market, Risk and Change Analysis
- 2. Assessment and approval of suppliers
- 3. Selection of the Suppliers Panel (use of multi-criteria analysis)
- 4. Management (tightening) of the Suppliers Panel





#### FOUR MAJOR STEPS

- 1. Market , Risk and Change Analysis
  - Technological Foresight
  - Benchmarking (between suppliers)
  - Market trends
  - Products trends/evolution
  - Risks Analysis





#### FOUR MAJOR STEPS

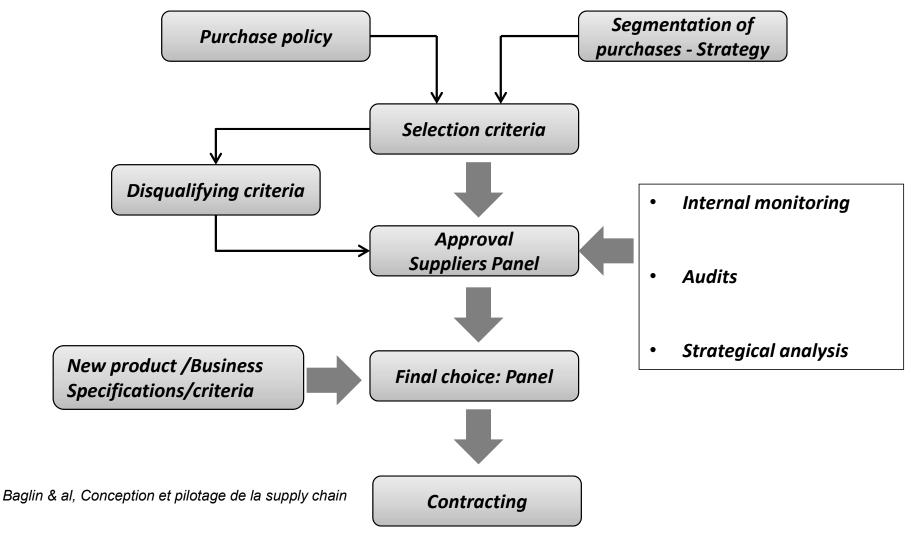
#### 2. Assessment and approval of suppliers

- Competence and quality management system
- Competence and R&D innovation capacity
- Industrial competence
- Flexibility, logistics organization
- Reactivity / Additional services provided
- Level of competitiveness
- Compliance with sustainable development's requirements
- Competence in terms of management skills
- Terms/conditions of delivery
- Total cost of acquisition (TCA) / economic conditions





#### 3. Constitution of the Suppliers Panel through a multicriteria analysis







#### **FOUR MAJOR STEPS**

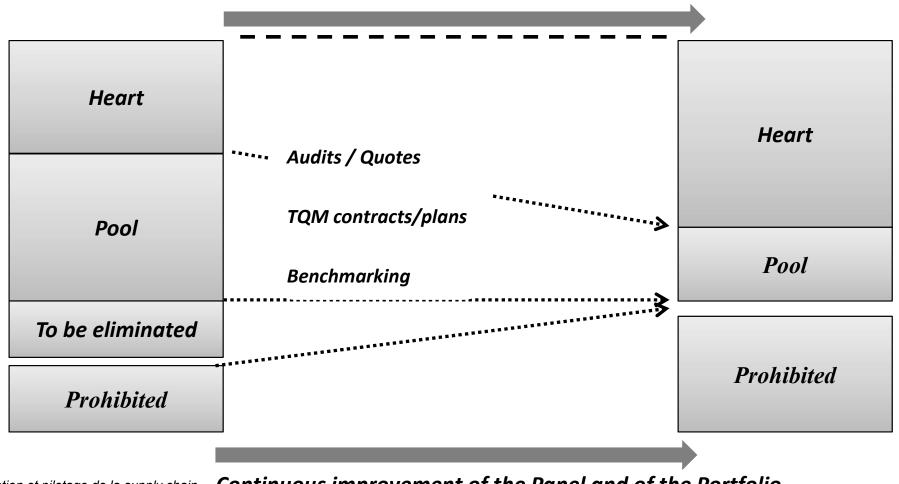
- 4. Management (tightening) of the Suppliers Panel
- The panel should not be (is not) "frozen"
- Definition of a set of indicators to monitor suppliers performance
- Creation of subsets/pool of suppliers especially for riskier purchases
- Tighten progressively the Suppliers Panel, in order to avoid a scattering of purchases throughout many sources.
- Pay particular attention to new suppliers (newcomers)
- Set a Total Quality Management Plan with each supplier (win-win)
- Manage "ruthlessly" the elimination of bad suppliers if ever the recovery plans fail





#### 4. "Tightening" of the Suppliers Panel

Reduction of the number of suppliers



Baglin & al, Conception et pilotage de la supply chain

Continuous improvement of the Panel and of the Portfolio





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# A VERY GOOD MANAGEMENT OF COMPANY – SUPPLIERS RELATIONSHIPS IS CRITICAL!

- Makes more effective business links between a company and its suppliers
- Contributes to the decrease of production costs
- Contributes to the increase of the quality of raw materials supplied
- Increases the quality of services from suppliers (responsiveness, ...)





### Three type of relationships

- 1. Traditional (oriented cost optimization)
  - Goal: increase profits through the control of costs (of purchases)
  - Formal systems of evaluation and certification
  - Open contracts (invitation to "deliver" rather than call for tenders)
  - Reliable forecasts of supply needs





### Three type of relationships

- 2. Collaborative relationship (oriented towards operational optimization)
  - It is not only the cost /price of purchases that matters
  - Quality and high level of service required
  - Real-Time Exchange of operational information between the company and the supplier
  - Multi-annual plans (horizon)
  - Overlapping of logistics systems, distribution systems, quality systems etc...





### Three type of relationships

- 3. Partnership (oriented towards true performance)
  - To cope with new business challenges: customization, rapid changes, short time-to-market, ability to innovate quickly, etc..
  - Suitable in the case of high level of risk or fast-changing technologies (IT, aeronautics, defense, electronic business, etc.).
  - → Supplier is given a direct contribution in the design and evolution of the products
  - → Long-term relationship, reciprocal commitments , mutual respect and transparency in information exchange
  - → A technical co-contracting of final products /processes by joint R&D





#### **FOCUS ON THE 3rd TYPE: PARTNERSHIP**

### A specific tool: Supplier Relationship Management (SRM)

SRM is a set of tools to increase exchange of information between a company and its suppliers.

- > When the relationship is mature and based on solid trust:
  - Standardization of data exchange systems
  - Integration of supply chain activities and processes, for instance the implementation of a CPR tool Collaborative Planning & Replenishment:
    - → A specific tool that retailers, distributors, manufacturers and suppliers can use to collaborate on operational planning, forecasting, supply and replenishment.





# > Concluding words...

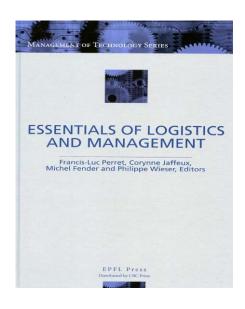
As the suppliers play a fundamental role in the logistics operations ecosystem, it is absolutely important to:

- Pay attention to the identification and selection of the suppliers
- Enhance collaboration with the critical suppliers by building gradually a partnership which can be extended to planning (for instance a CPR Collaborative Planning & Replenishment)



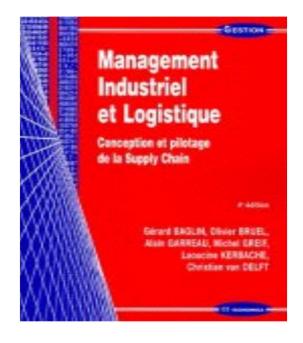


### > REFERENCES/ESSENTIAL READINGS - "SOURCE"



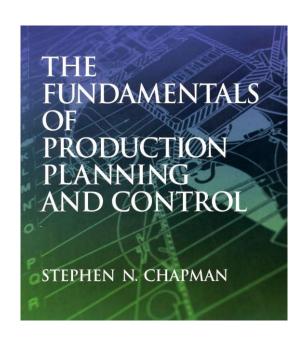
EPFL-Press, ISBN 978-1-4200-4619-9

Chapter 8: Marketing and Purchasing Management



Economica, ISBN 2-7178-5017-1

Chapitre 8: Sourcing et stratégie fournisseurs



Pearson Prentice Hall, ISBN 0-13-017615-X

Chapter 11: Partnering Functions:
Purchasing and Distribution





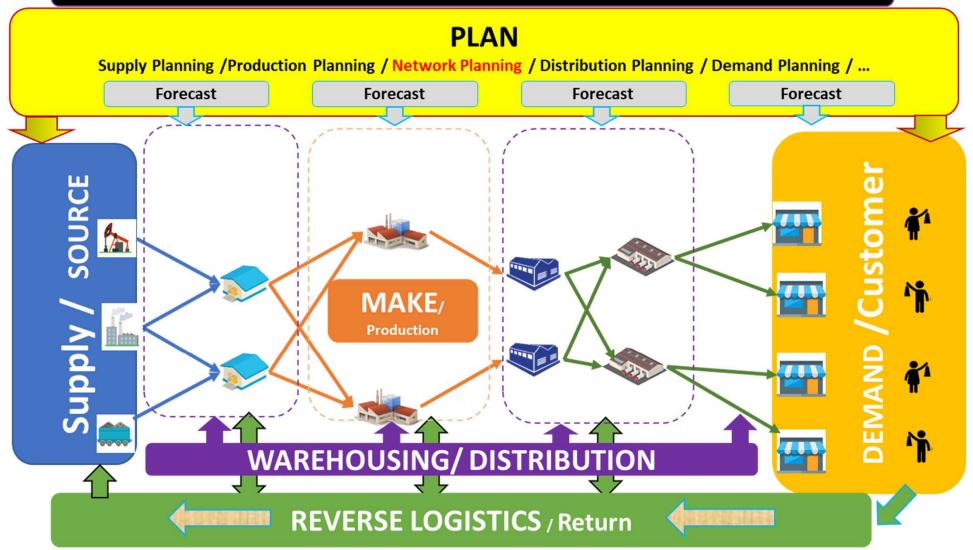
# **BLOC 3:**

# BASIC CONCEPTS OF WAREHOUSING AND DELIVER (DISTRIBUTION LOGISTICS)





# MAIN BLOCS OF LOGISTICS OPERATIONS







#### **CONTENT OF BLOC 3**

# Basics Concepts of Warehouse and Distribution Logistics

- 1. Introduction warehousing and distribution network
- 2. Role of warehousing, functions and types of warehouses
- 3. A particular warehouse type: the Platform
- 4. A particular warehouse function: Cross-docking
- 5. Warehouse management
- **6.** The distribution network
- 7. Basic structures of a distribution network
- 8. Optimisation of a distribution network
- 9. Transport
- **10.** Conclusion and further readings



- DISTRIBUTION/DELIVER = important function in the logistics operations' ecosystem
- It is the interface producer-customer
- It's quality is critical since it shapes the first customer's impression (which SHOULD BE positive!)
- It <u>often</u> requires a physical distribution network
- It often involves a WAREHOUSE (upstream or downstream) and/or an additional processing
  - → a good inventory management system is critical!





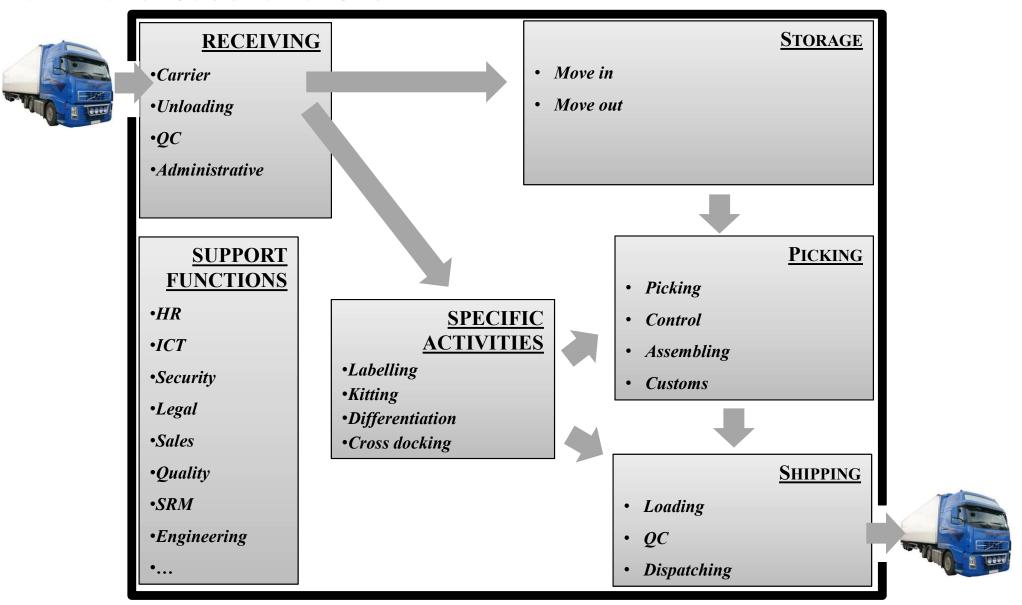
- The use of warehouses in a distribution system can be justified by the need to:
  - Cope with any variability of climate, market, prices, etc.
  - Ensure delivery at the right time (shortening customer lead times)
  - Group products from different producers/suppliers
  - Save space in the manufacturing plant
  - Increase quality of services
- Warehouses can belong to the company or to a third party

- Role= to store items used to support production (raw materials, etc.) or finished goods to be delivered.
  - CHALLENGE: TO REDUCE INVENTORY COSTS!!!





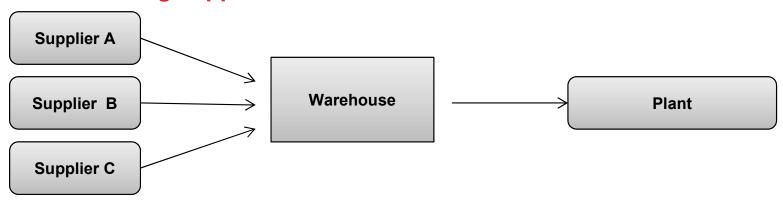
#### Main warehouse functions:

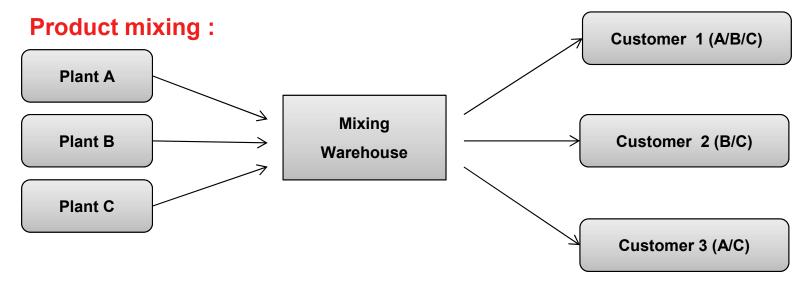




## **Types of warehouses**

#### **Manufacturing support:**

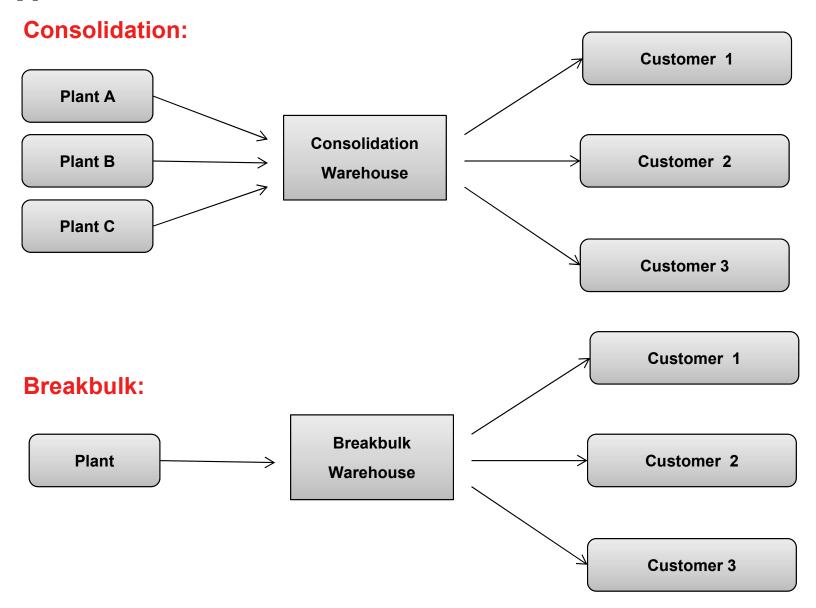








## **Types of warehouses**







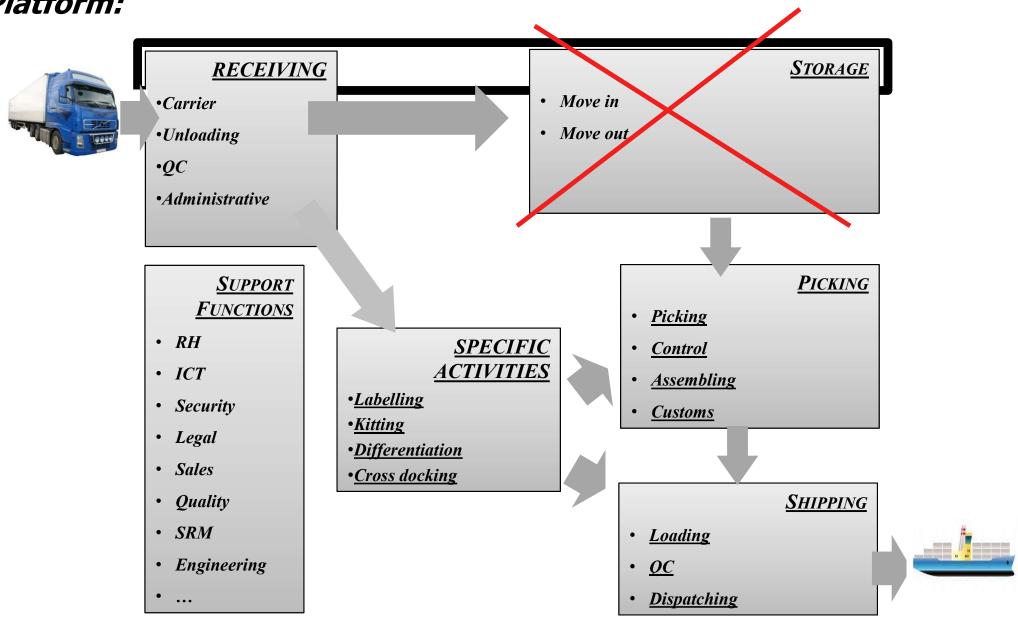
## A PARTICULAR TYPE OF "WAREHOUSE": THE PLATFORM

- Intermediate physical entity in the distribution process which allows unloading, repackaging and shipping of goods.
- Not intended to store goods, but facilitates transfers between means of transport.
  - Main types of platforms
    - ✓ Distribution platform
    - √ Consolidation platform
    - √ "Breakbulk" or "Re-sorting/Re-assembly" Platform



# BLOC 3: BASIC CONCEPTS OF WAREHOUSE & DISTRIBUTION LOGISTICS 3. A PARTICULAR TYPE OF WAREHOUSE: THE PLATFORM

## Platform:





#### A PARTICULAR FUNCTION: CROSS-DOCKING

## **Principle**

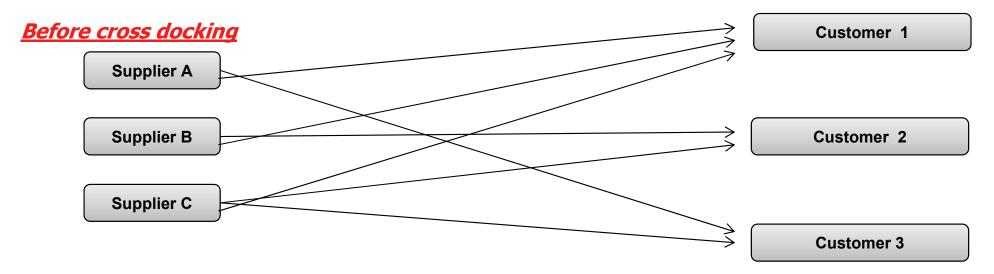
- Reception at the platform of pallets from multiple suppliers
- Fragmentation of pallets, sorting and repackaging (each package may contain products from multiple suppliers)
- Shipping packages to customers

## Benefits of cross docking

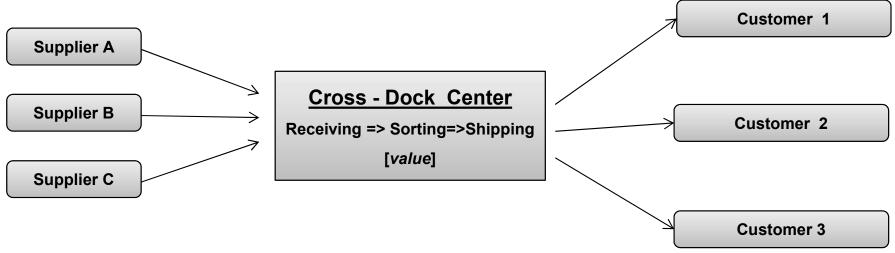
- Reduction of inventory costs in the central warehouse
- Increased Gross Leasable Area (GLA) of shops
- Reducing of storage points
- Greater frequency of products delivery
- Increase in product availability
- > average gains of +/- 20% of the storage time of a product



#### **CROSS-DOCKING**

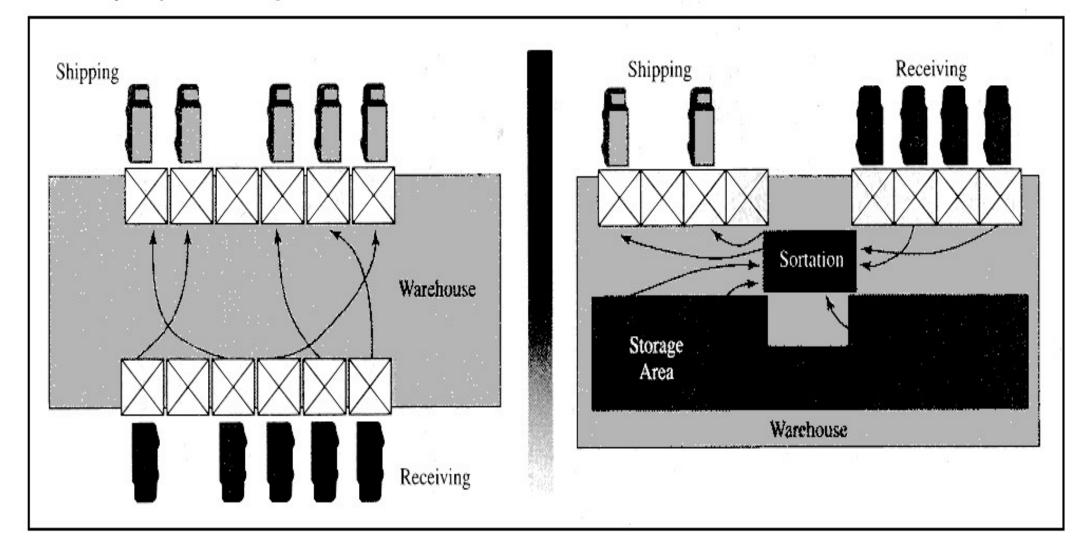


#### After cross docking





## Two examples of cross-docking







## **WAREHOUSE MANAGEMENT: BASIC QUESTIONS**

#### **SUPPLIER - WAREHOUSE**

Supplier management policy

- · When to order?
- What quantity ?

# **WAREHOUSE** \*Equipment? Localisation? Traceability? Capacity? Order Scheduling? **Quality Control?** Labour force? Picking System? Safety stock? KPI's? IT system?

**WAREHOUSE - CUSTOMERS** 

Customers management policy?

- · When to deliver?
- •Transportation Management?
- · KPI's?

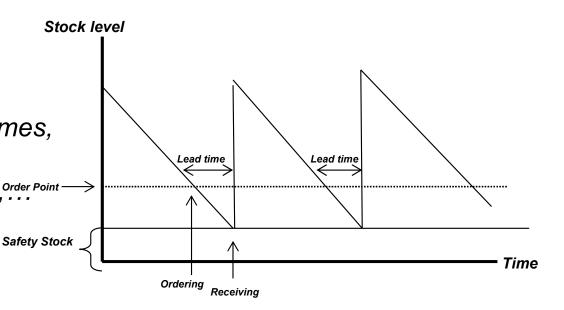




#### WAREHOUSE MANAGEMENT: SUPPLIER—WAREHOUSE RELATIONS

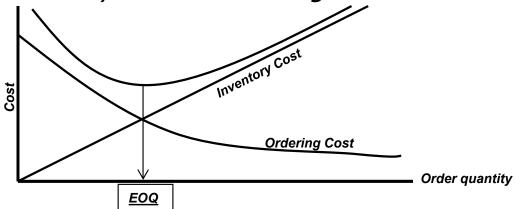
# · When to order : Order point

 Depends on safety stock, Lead times, Average demand, acceptable threshold of stockouts, ....



## • What quantity?

• Calculation of economic quantity order (EOQ): it is an optimal order quantity considering inventory cost and ordering cost







#### WAREHOUSE MANAGEMENT: STORAGE OF PRODUCTS

- Identification/coordinates (3 items: x, y, z)
  - > span/rack,
  - > column
  - > level
- Assignment of a location:
  - > random (unmarked)
  - > fixed (dedicated)
  - > mixed
- CHALLENGE: To optimise the allocation of space
  - **○** Could Pareto ABC approach be helpful? How?
  - > According to the importance of flows and turnovers: fast-moving products should be located close to the shipping area.





#### **WAREHOUSE MANAGEMENT: PICKING**

- Collect stored items in the warehouse and prepare them before shipping to customers.
- Optimization of this operation can both increase productivity and improve the quality of service
- Rules: FIFO, FEFO (persihable products), LIFO (export goods)
- Orders can be prepared in different ways:
  - ▶ Pick and pack: items for a customer are "packed when picked" then transferred to the shipping area
  - Pick then pack: All items for a customer are picked and transferred to the packaging area for packing before transfer to the shipping area
  - Pick and sort then pack: Items for several customers are picked and transferred to the sorting area then to packaging area then to shipping area
  - > Etc.





#### WAREHOUSE MANAGEMENT: CAPACITY OPTIMISATION

## Determination of the needed storage capacity

This is a typical math optimization problem.

<u>Input</u>: forecasts (5 years +) of quantity of products to be received, stored, delivered, frequency of delivery (in and out)

## **Output:**

- Storage space required
- Building dimensions/size (L, l and h)
- Technical resources needed (equipment, etc.)
- Human resources needed
- Necessary investments
- Operating costs
- •





## WAREHOUSE MANAGEMENT: KEY PERFORMANCE INDICATORS (KPI):

## Relating to Productivity

- Level of service [% tasks completed on time]
- Processing time (of orders)
- Cost / transit time
- Error rates
- Fill rate of the warehouse / platform
- Number of pallets handled / person / hour ...

## Relating to HR

- « No shows »
- Accident rate
- satisfaction of workers...

## Relating to financial issues

- Inventory
- Assets
- etc.





#### **WAREHOUSE MANAGEMENT: TRENDS**

- <u>Automation and computerization of warehouses</u>: is a key factor to reduce costs and significantly increase productivity
  - Automated storage and retrieval system
  - robotisation
  - Automatically guided vehicles (AGV): Via GPS system or laser







#### **WAREHOUSE MANAGEMENT: TRENDS**

## Use of Warehouse Management System (WMS):

- ➤ Manages all activities of the warehouse, starting from the reception through the optimization of storage until shipping of products
- ➤ Monitoring of KPIs
- > E.g of WMS: Infolog, Generix, Crystal, Gold

## Co-managed inventory (CMI)

- Collaborative approach which consists in the exchange information relating to the level of inventory
- > Allows suppliers to make directly their forecast and planning
- > helps in sharing the risks and monitor KPIs
- > Products are picked up and delivered when customers need it (PULL)
- > Real time exchange of information between warehouse and customers
- > Sound transportation management system: delivery with adequate transportation at reasonable cost, safety & security issues, etc.





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- 4. A particular warehouse type: the Platform
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#### MAIN OBJECTIVE OF A DISTRIBUTION NETWORK

Ensure at the lowest cost, a high level of service delivery (shorter and flexible)

## A successful achievement of the above depends on:

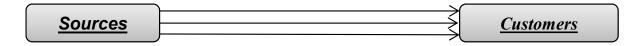
- Number and location of customers to be served (or suppliers)
- Type of distribution networks
- Number and location of warehouses / platforms
- Characteristics of transport networks
- Characteristics of available of transportation means
- Rules / constraints in transport
- *Etc...*





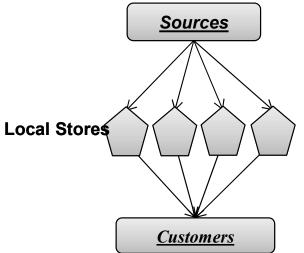
#### **BASIC STRUCTURES OF A DISTRIBUTION NETWORK**

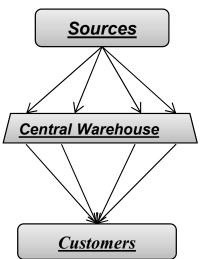
## A. Direct delivery (without transfers)



#### B. One-level structure

- A central warehouse (Adv = close to the customers and possibility to consolidate. Disadv = number of transfers and breaking of loads)
- A network of local stores (Adv = faster delivery. Disadv = inventory level, difficulty to consolidate)



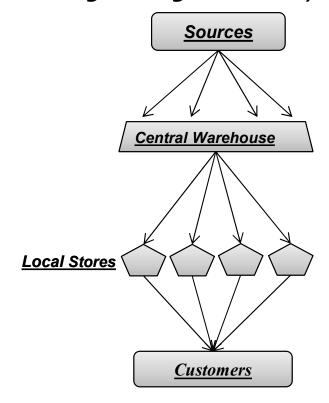


#### C. Distribution structure with two levels

a. Central warehouse with a network of regional stores

Plants supply warehouse that supply local stores that deliver to customers

- → advantage = consolidation is possible
- → Disadvantage = high inventory costs

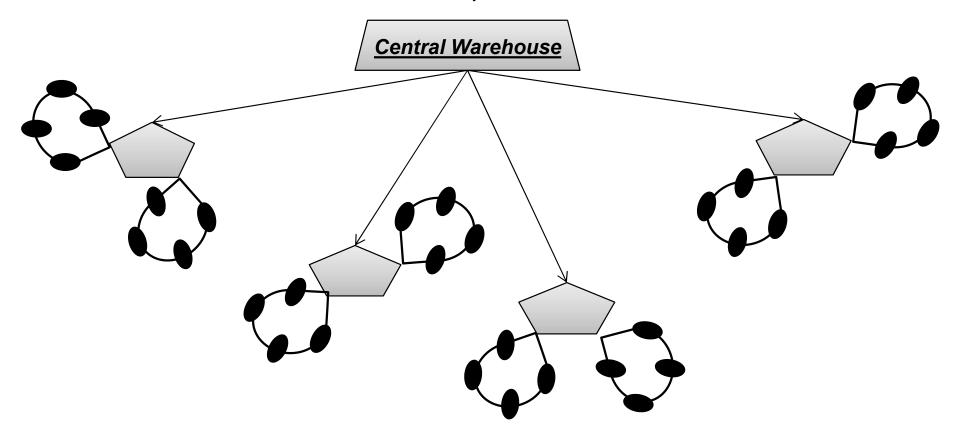






#### C. Distribution structure with two levels

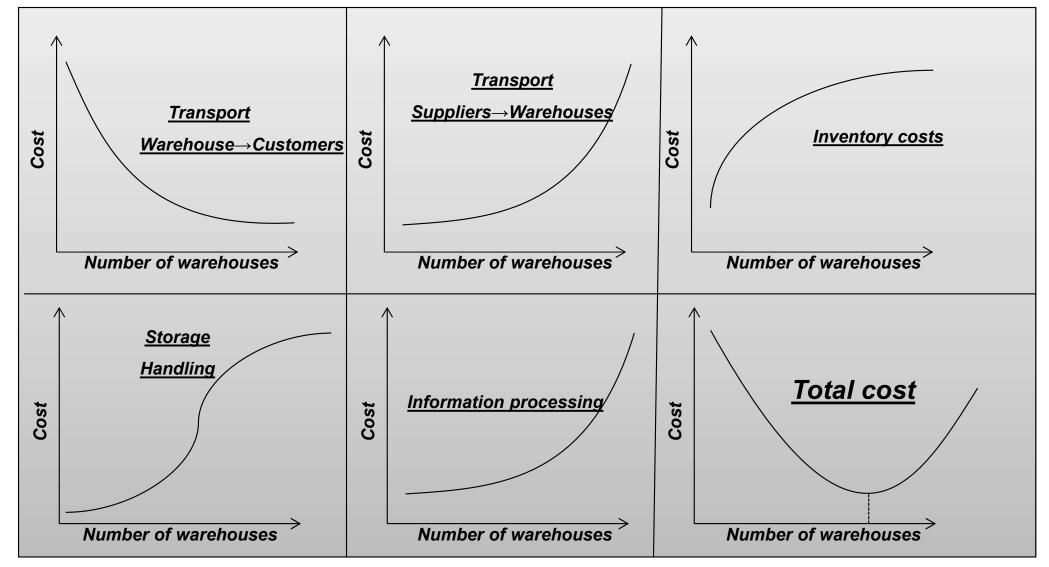
- b. Central warehouse and a network of distribution platforms
  - Orders are prepared in the central warehouse then disaggregated in and distributed from the platforms





## **Economic optimization of a distribution network**

Depends on number, size and location of warehouses, stores, platforms and needs of inventory / shipment



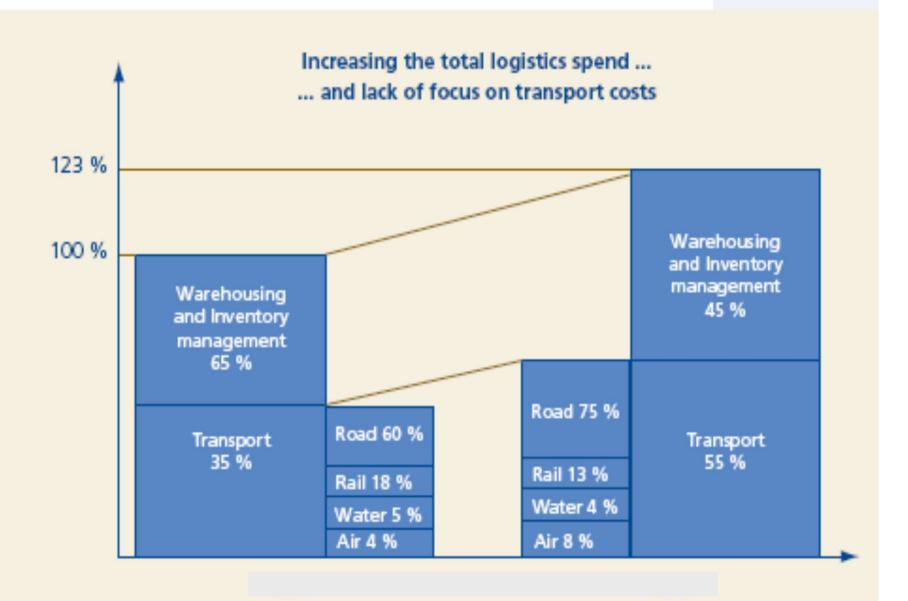
#### **TRANSPORT:**

- Connection between the levels and between the components of the distribution network
- It's quality is a key component of overall service quality
- Transport modes
  - Road
  - > Rail
  - Waterways
  - Maritime (↑ containerization, >75% of global freight traffic)
  - > Air
  - Multimodal
  - Intermodal
  - New modes (drones, etc.)



Graph 8: Transport costs have been increasing over the past 10 years

Deloitte



#### **CRITICAL ISSUES**

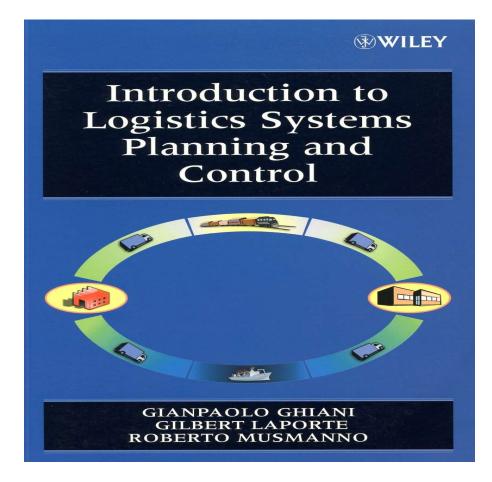
- Increasing environmental concerns (CO<sub>2</sub> reduction)
- Globalization, international transport
- Need for transport
- Transport fleet needed
- Transport costs (fixed, variable, overheads)
- Choice of transport mode
- Route optimization
- Autonomous/automated transport
- Safety and security
- Greening of transport activities (absolute necessity)





AS THE PRIMARY ROLE OF A WAREHOUSE IS TO STORE ITEMS USED TO SUPPORT PRODUCTION (RAW MATERIALS, ETC.) OR FINISHED GOODS TO BE DELIVERED, THE CRITICAL CHALLENGE IS TO REDUCE INVENTORY COSTS!!!

A PARTICULAR TREND IS TO INTRODUCE WITHIN THE WAREHOUSES, COST EFFICIENT ACTIVITIES/ACTIONS THAT ADD VALUE TO THE PRODUCTS THEREIN STORED.



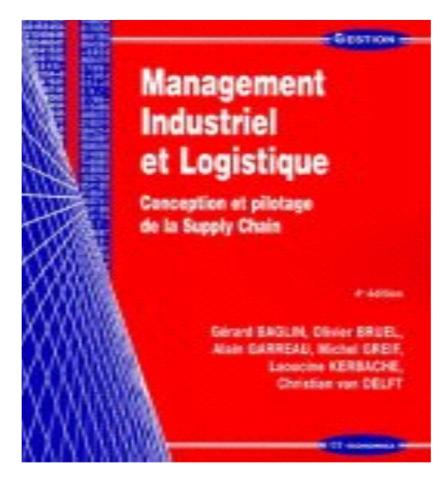
#### WILEY, ISBN 0-470-84917-7

Chapter 3: Designing the logistics network

Chapter 4: Solving inventory management problems

Chapter 5. Designing and operating a Warehouse

Chapter 6 & 7: Planning and managing freight transportation



Economica, ISBN 2-7178-5017-1

Authors: G. Baglin, O. Bruel, A. Garreau, M. Greif, et al.
Chapitre 7: Réseaux de production, distribution (...)
Chapitre 9: La prévision de la demande
Chapitre 13: Systèmes et modèles de gestion des stocks
Chapitre 16: Traitement des commandes et entreposage



# COURSE PLAN 2024-2025 (SESSIONS & DATES VIEW)

- SESSION 01/M: 05/11/2024 INTRODUCTION + BLOC 1 (THEORY & EXERCISES PLANNING & FORECASTING)
- SESSION 02/M: 09/11/2024 BLOC 1 (THEORY & EXERCISES PLANNING & FORECASTING)
- SESSION 03/M: 12/11/2024 BLOC 4 (THEORY & EXERCISES, WAREHOUSING & INVENTORY MANAGEMENT)
- SESSION 04/M: 16/12/2024 \*\*\* <u>BLOC 5 (EXPERT TALK, MAKE) + <u>BLOC 8 (EXPERT TALK, REVERSE)</u> \*\*\*</u>
- SESSION 05/T: 19/11/2024 BLOC 2 (SOURCING) + BLOC 3 ( DELIVER)
- SESSION 06/T: 23/11/2024 BLOC 9 (QUALITY)
- SESSION 07/M: 30/11/2024 BLOC 6 (THEORY & EXERCISES, LOGISTICS NETWORK MODELLING & PLANNING)
- SESSION 08/M: 03/12/2024 BLOC 4 (EXPERT TALK, INVENTORY) + BLOC 7 (EXPERT TALK, DISTRIBUTION)
- SESSION 09/M: 07/12/2024 BLOC 7 (THEORY & EXERCISES, DISTRIBUTION LOGISTICS)
- SESSION 10/M: 10/12/2024 BLOC 9 (EXPERT TALK, QUALITY)
- SESSION 11/T: 14/12/2024 BLOC 10 (SUPPLY CHAIN INTEGRATION) + BLOC 11 (SUPPLY CHAIN STRATEGIES)
- SESSION 12/T: 17/12/2024 BLOC 11 (SUPPLY CHAIN STRATEGIES) + BLOC 12 (SUPPLY CHAIN PERFORMANCE)

\*\*\* MAY BE CONVERTED TO WRAP-UP SESSION IN JANUARY BEFORE EXAM – (PREPARATION OF THE EXAM)\*\*\*

