Waiting for you

Applying the tariff table to this delivery, a cost of 600 * €0,0401 = €24,06 would be obtained, which means a saving of €13,62, or 36% of distribution costs. This is what horizontal integration of the supply chain is about. In our opinion, the opportunity is waiting for you.

With the increase of the delivery frequency, we have come to a point today in which, even some large companies find difficult to have an efficient transport system - despite the outsourcing being in place.

This is especially true in the food industry, but not exclusively and happens for the well-known reasons - like the order fragmentation, the decrease in the proportion of full pallet loads and the there-upon difficulty in utilising the load volume (fragmented loads cannot be stacked so easily).

In face of this situation, the question that we ask is: is it inevitable, inherent to the business, or are there still dimensions to explore? This is the centre of our reflections.

We will start by considering the following table, which presents transport tariffs, as € per kg of goods to deliver at the Aveiro district, departing from Lisbon, according to weight intervals.

Order weight		Preço
From	To	por Kg
100	250	€0,0659
250	500	€0,0628
500	1.000	€0,0401
1.000	2.500	€0,0391
2.500	-	€0,0380

The table shows that, to deliver a 300 kg order, the transport service provider would charge 300 * €0,0628 = €18,84. It also would charge 2 * €18,84 = €37,68 to delivery two 300 kg orders to the same delivery point at the same day. So far, nothing new, and nothing to help us resolve the problem above, has been said.

Let us now admit that two companies share roughly the same customer base. They might even be competitors. The question we now ask is: will they benefit if they consolidate their distribution operations, sharing the transport?

In our case, the two 300 kg deliveries become only one 600 kg delivery. Applying the tariff table to this delivery, a cost of 600 * €0,0401 = €24,06 would be obtained, which means a saving of €13,62, or 36% of distribution costs. This is what horizontal integration of the supply chain is about. In our opinion, the opportunity is waiting for you.

It obvious that both companies have to have their Distribution Centres close to each other, or even at the same place, but the potential saving is considerable.

Back to our initial question, we believe we came to an answer to it that is satisfactory. Fragmentation is reduced to half, or more exactly, to the proportion of each company volume to the sum of the volumes of the two companies.

An important issue is related to competition - what if the two companies (competitors) contract the same transport service provider, by coincidence? Would anyone see this as a problem? What is the real difference between this situation and the proposed one, in terms of competition?

Lastly, it can be questioned if the table presented is real or created with no adherence to the reality. This is the challenge we propose this time. Look at the transport tariffs at your own contract, or ask a service provider, and then evaluate your situation. Tell us if your conclusion is that this analysis has a significant bias.

By Joaquim Pereira