



**Buck  
Consultants  
International**



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## NEWSLETTER - BCI SEPTEMBER 2013

- Location Strategies & Site Selection
- Supply Chain Strategy & Network Design
- Strategic Business Development
- Regional Economic Development
- Attracting New Investors
- Infrastructure Development

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## Smart control towers for smooth high tech supply chains



**Forget the old score cards and welcome real time information about where products in the supply chain are actually right now. Real time information makes anticipation on global supply chain risks such as natural disasters or sudden delivery problems of suppliers possible. The message: more visibility made possible by smart control towers.**

Better supply chain visibility and a more in-depth understanding of changing transport circumstances lead to robust planning. "The control of complex transport flows changes from reacting into anticipating", says Eelco Dijkstra, senior consultant at Buck Consultant International.

"We call them smart control towers or command centers." Together with

Cisco Systems Buck Consultants International organized a successful seminar for supply chain professionals in the high tech industry, with a lot of discussion on the opportunities and risks of control towers.



In a control tower it is all about a smooth collaboration between people, processes and technology. Processes includes planning, selection of third party logistics providers, cost optimization and inventory reduction. Internet technology makes a continuous flow of real time data possible, with quick data analytics opportunities in order to take the best possible logistics decisions. Complex global end-to-end cargo flows, in which various parties and logistics service providers play a role, can be better orchestrated now.

A presentation of Smart Control Towers is available. Please request a copy [here](#).

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## Donaldson to build a new plant in Poland

**US based Donaldson Company, a leading worldwide provider of filtration systems, announced the construction of a new filter manufacturing plant in Skarbimierz, South-Poland. Buck Consultants International advised Donaldson on the trade-off between proximity of markets/transportation costs, production costs and favorable business environments.**



With annual revenues of 2.5 bln \$ and 12,500 employees, Donaldson is a major industrial company. The new facility will be dedicated to the production of heavy duty air filters for both the on-road and off-road equipment markets. This new Polish plant, expected to open in 2015, represents Donaldson's third manufacturing presence in Central and Eastern Europe. Donaldson's successful Czech Republic operations were started in Klásterec in 2003 followed by Kadan in 2006.

Buck Consultants International and Donaldson reviewed locations in 11 countries, not only well-known Central and Eastern European countries, but also Bulgaria, Macedonia and Turkey. Finally, Skarbimierz was chosen, a location between Katowice and Wroclaw. The new 10,000 square meter manufacturing plant will be built on a former Russian airbase and will employ 120 workers initially. Room for future expansion is available.

"We are very pleased to add this new, state-of-art facility to our extensive manufacturing and distribution base

in Europe and have appreciated the ongoing support of the Polish government and local Skarbimierz officials”, said Wim Vermeersch, Vice President Europe, Middle East and Northern Africa of Donaldson. “Based on our Company’s Strategic Growth Plan, this new plant will allow us to further increase our filter manufacturing capacity to meet our projected OEM and aftermarket customer demand throughout Europe and Russia”.

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## When will low labour cost in Central and Eastern Europe loose their attractiveness?



**Countries in Central and Eastern Europe can offer potential investors a substantial labour cost advantage in comparison with Western European countries. How long will this advantage last?**

Today, total employers cost for a semi skilled worker or a skilled worker are favourable in Central and Eastern Europe. In a recent location study Buck Consultants International compared the total employers cost based on a 40 hour work week (including gross salary, all mandatory add-ups and all benefits - common in those labor markets)

for selected regions in Germany, Poland and Romania. The costs for a semi skilled worker were: 6,000 Euro in Romania, 9,000 Euro in Poland and 37,000 Euro in Western Germany. The figures for a skilled worker were: 8,000 Euro in Romania, 13,000 Euro in Poland and 45,000 Euro in Western Germany.

### *Salary wage increases*

One of the big questions is whether these differences will disappear and if so, how fast? The table below shows that between 2001 en 2010 the annual growth of the total employers cost in Poland was approximately 4 times higher than in Germany and in Romania even 5-9 times.

**Growth annual total employers cost, 2001 – 2012 (%)**

Country	2001-2008	2008 – 2010	2011	2012
The Netherlands	3	2	3	2
Germany	2	1.5	3	2.5
Poland	8	5.5	5	4
Romania	19	7.5	7	5

*Source: Buck Consultants International*

But in these 10 years the annual growth steadily decreased, especially in Romania. Furthermore, the difference in annual increase between Poland and Romania also decreased significantly. After 2010 the impact of the economic crisis is very visible: the annual increase of labor costs continued to decline in Poland and Romania, although both are still higher than in Germany. If we take the 2012 figures for the next 10 years, Polish and Romanian labour costs are in 2022 still less than one third of the German ones.

### *Germany*

Our expectation that the gap between labour costs does not close as quickly as some people say is also based on the development of the labour costs in Germany. In 1992 the Eastern Germany labour costs were 53% of

the Western German labour costs. Twenty years later, in 2012, the difference is still 39%, despite substantial investments in former East Germany by former West Germany and the one-for-one German Mark conversion ratio policy. In that whole period the gap narrowed 'only' with less than 30%.

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## Five golden rules for attracting new logistics activities



**Cities, regions, seaports, airports and terminal operators are all looking for new business and new companies. Buck Consultants International combined its supply chain, real estate and marketing experience in a 'white presentation', which a.o. highlights five golden rules to attract new logistics activities.**

### *Rule 1 Position your port/region in new logistics networks*

Different industry sectors prefer different supply chain set-ups. While computer, spare parts and microchips are often supplied from a central European distribution center, other sectors like pharma and medtech choose more regional distribution centers. And fast moving consumer goods, food and clothing have typically a two tier supply model, with regional distribution centers and satellite DCs. It is important to find out in which supply chains your port, city or region fits best.

### *Rule 2 Set up flexible multimodal services to/from the region*

Europe has 12 multiport regions. All these gateways have own hinterland networks and nodes. For inland ports and terminals it is important to become a hub in these hinterland networks through flexible multimodal services. Regions where logistic service providers are established which offer synchromodal services (flexible switching between transport modes) will win the battle.

### *Rule 3 Know the logistics 'hot' issues in your priority sectors*

Different sectors of industry or supply chain have different challenges: new concepts (for example: mixing centers in the food industry), new geographies (Russia, Turkey), new channels (e-commerce), new production models (built to order), new industry regulations (European packaging regulations), new transport barriers (limited number of hours to deliver in inner-cities). Know what's hot, because that will make you look as an industry inside.

### *Rule 4 Act upon all locations criteria of potential clients*

Whether it is a shipper or a logistics services provider, both will look at a comprehensive list of cost factors (labor cost, transportation cost, warehousing cost, taxes, etc.) and quality factors (e.g. labor quality and flexibility, labor regulations, transportation networks, customs, sites & facilities). Check your scores on these factors and try to improve.



### *Rule 5 Optimize opportunities for E-fulfilment solutions*

E-commerce is growing fast in Europe. That means also that fulfillment solutions have to be found. Web-only companies or e-tailers (like Amazon.com or Zalando) choose different distribution solutions than brick & click-retailers (example Tesco) or producers who sell direct (Dell and Apple for example). Buck Consultants International has identified 5 different network types and you have to find out in which your region could play a role.

For cities, regions, seaports, inland ports and airports the 40 slides presentation is available.

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## How can foreign investments contribute to regional innovation ecosystems?



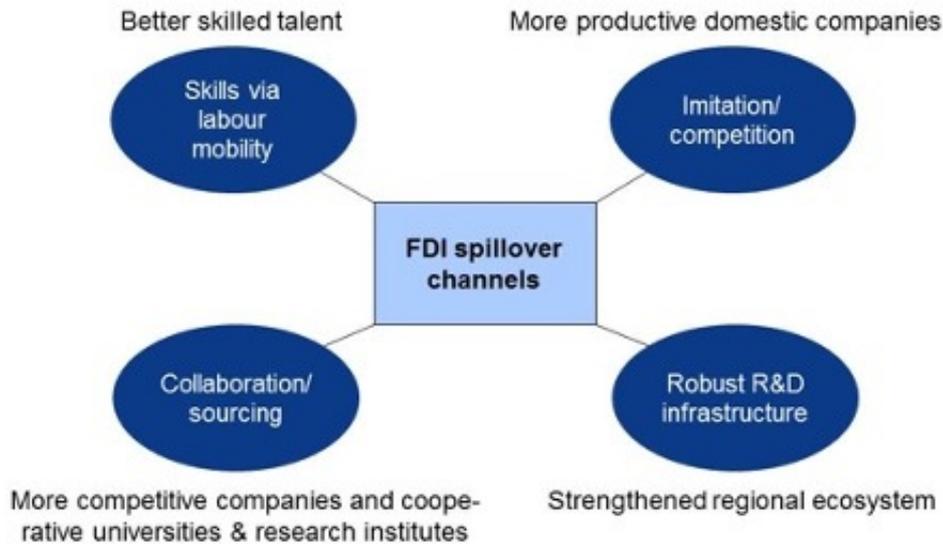
**New research & development centers and technology driven manufacturing projects are on the agenda of nearly all economic development agencies. How can foreign direct investments (FDI) contribute in achieving a more knowledge based regional economy?**

Many countries and regions have adopted the cluster development approach, in which a cluster is defined as a geographically bounded concentration of interconnected firms and institutions in a particular technological field. The cluster approach has many advantages for potential investors such as access to specific knowledge through

dedicated institutes and networks, availability of specialised personnel and suppliers and proximity of dedicated R&D infrastructures/research facilities. Clusters lead to healthy competition between companies and among personnel, boosting motivation and innovation. Attracting FDI is particularly in the development and growth phases of a regional cluster the most valuable.

Literature on FDI and examples around the world show that foreign investments have special features, which include efficient and leading operating practices and technologies, which generate positive spill-over effects to domestic firms and the regional economy as a whole. Buck Consultants International identified four FDI spill-over channels, which lead to better skilled talent, more productive domestic companies, intensified collaboration/sourcing and a more robust R&D infrastructure.

## (Potential) impacts of foreign direct investments on regional innovation eco systems/clusters



Source: Buck Consultants International

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## Eight ways of reducing transportation costs

Transportation is a significant part of a company's overall spend in the supply chain arena. Has your company explored all eight opportunities to reduce transportation cost while increasing services and quality?

Every supply chain or transportation manager has 4 key objectives: lowering transportation cost, improving service to (internal) customers, improving visibility and improving (financial) control. Buck Consultants International has identified 8 transport improvement initiatives, which address these objectives.



Improvement initiative	Reduction of external spend	Reduction of internal cost	Improved service and performance
1 Strategic network optimization	●	●	●
2 Price negotiation	●	○	○
3 Improved contract management	◐	◐	◐
4 Carrier network / smart tendering	●	●	●
5 Process alignment	◐	●	◐
6 Flow and load optimization	●	○	○
7 Organisational set up - Control Tower	●	●	●
8 Freight bill auditing & payment	●	●	◐

● = high impact      ◐ = average impact      ○ = low impact

Source: Buck Consultants International

Carlo Peters, senior consultant at Buck Consultants International, advises companies on transportation management challenges. “As the review shows, there is more than just price negotiations with forwarders. Let me highlight just a couple of opportunities. In developing an efficient foot print of warehouses we see often cost reductions of 10-20%. The same level of cost reduction is possible through an optimized carrier network and smart tendering, that is taking advantage of the transportation data needed for tendering, by using it at the same time for flow and load optimization. We see that strong IT systems are needed for planning, visibility, settlement and KPIs. Such systems can also support automated freight auditing and payment. Subsequently the available data in systems can be used for strategic and tactical optimization initiatives”.

*In co-operation with Control Pay, Buck Consultants International regularly organizes Smart Transportation Management Webinars. If you are interested to participate in the next one, please contact Carlo Peters.*

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**Buck Consultants International (BCI)** carries out research, advises, implements and performs project management in the areas of strategic business development, location selection, supply chain strategy, regional economics, real estate and infrastructure development.

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