Supply-chain management

GM eyes cost-savings by outsourcing logistics

By Ephraim Schwartz

IN AN EFFORT to cut costs and streamline operations, General Motors announced last week that it will outsource the management of its $5 billion in logistics spending to a new company it is forming with logistics partner CNF Transportation.

As an outsourced company, however, the newly established Vector SCM will not be what is traditionally referred to as a 3PL (third-party logistics) company, said GM officials in Detroit. Rather, Vector SCM will be a 4PL (fourth-party logistics) company that manages and outsources logistics services to 3PLs. Vector SCM will be given total responsibility for GM's logistics around the world.

The aim is also to lower operating expenses via drastic reductions in inventory and costs related to logistics. Vector SCM will earn its profits based on its ability to reduce costs directly attributable to logistics, such as inventory levels and order cycles.

"The problem is we can't afford to take 11 to 12 days to get a car to a customer," said Harold Kutner, GM vice president of worldwide purchasing and production control and logistics.

The way to reduce order-to-delivery times, according to Kutner, will be by increasing "visibility" or knowledge about the location of vehicles and parts.

"If we get a specific configuration request from a customer and can match that to a car en route to a dealer, we can relocate that vehicle from the point it is going to to where the customer is," Kutner said.

GM has an estimated $40 billion in current inventory in its supply chain and dealers.

"We expect to cut inventory dollars by at least 50 percent to be successful," Kutner said.

GM expends about $5 billion annually in sending and receiving freight globally. If Vector SCM succeeds in its goals, the deal may become a model for other industries on how to reduce carrying charges.

"CNF is a textbook example of how sophisticated, global supply-chain management can add significant value to a well-established company and differentiate itself from its customers," said Gregory Quesnel, CEO of GM's logistics partner CNF.

The technology Vector SCM will use, however, is in reality more about integrating older systems than creating new ones. So, while GM is turning itself, in Kutner's words, from a "brick-and-mortar to a brick-and-click company," it will be taking some of the old world with it, in particular its EDI (electronic data interchange) systems.

In essence Vector's job as a 4PL will be to get the IT systems of the various 3PLs to communicate with one another to speed up the order cycle and to provide decision-support capability.

To do that, EDI links will be established from the various 3PL providers to Vector SCM as a single point of contact.

One logistics industry expert, John Lanigan, CEO of Logistics.com, in Burlington, Mass., chuckled somewhat ruefully as he said EDI will not die easily.

"None of us in the [logistics] industry believe [EDI] will go away soon," Lanigan said.

FROM THE NEWS DESK · MARTIN LA MONICA

Handicapping an IT industry battle royale

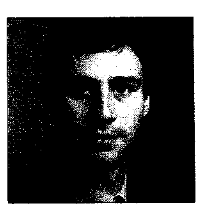
Software as a service. E-services. The utility model of computing. ASP (application service provider). Hosted applications. Vendors have come up with a dozen ways to name the predicted shift in today's computing model away from packaged software or in-house development to outsourced application services that customers pay for on a subscription model.

After months of ceding marketing points to its rivals, notably Microsoft, Hewlett-Packard, and Oracle, industry granddaddy IBM is finally weighing in with a plan to leverage its powerful professional services organization and partnerships in hosted services.

Our Page One story this week by Michael Vizard, Ed Scannell, and Brian Fonseca sketches out details of the ambitious effort and pinpoints the technical and business issues that the IT industry collectively needs to sort out.

Consider the problem of scale. IT and telecommunications vendors need to crack this nut before they can develop viable business models. But no large business will hand over the keys to critical applications or infrastructure without the QoS (quality of service) assurances. Put a group of IT executives in a room now and frustrations with service providers will be one of their top 10 gripes.

The necessary dramatic shift in the IT infrastructure — from the way applications are written to advances in complex system and network availability — have ramifications for vendors' potential success in the hosted arena. Clearly telecom providers understand the usage model, but platform providers such as IBM and HP have a leg up on the systems technology.



Meanwhile, customers may wonder why this shift to services matters to them. But even the best-managed IT department with sufficient resources will need to incorporate more and more service providers. Customers need to lower their risk as they venture into new application areas, such as wireless Web services or e-marketplaces. Outsourcing is one of the most viable options.

What hurdles do you see to application hosting? Write to me at martin_lamonica@infoworld.com.

NEWSBRIEFS

▪ Microsoft joins others in revenue warnings

Microsoft last week became the latest victim of the PC industry slowdown, as the company issued a revenue and earnings warning for its second fiscal quarter. The software giant said it expects the results to be well below expectations for both the quarter and the overall fiscal year. With the stock markets heading south, many PC-centric vendors were forced to revise their estimates during the past two weeks. Intel, Gateway, Apple, Compaq, and others all lowered their expectations for upcoming quarters. For its second fiscal quarter ending Dec. 31, Microsoft expects revenue in the range of $6.4 billion to $6.5 billion. These figures translate to between 46 cents and 47 cents per share in diluted earnings. Analysts polled at First Call/Thomson Financial predicted that the company would make 49 cents per share for the quarter. Microsoft also expects to earn between $1.80 and $1.82 per share in diluted earnings for the entire fiscal year, well below First Call's forecast of $1.91 per share.

▪ BT sues Prodigy over hyperlink patent

British Telecommunications (BT), which earlier in the year said it had discovered that it owns the U.S. patent for the invention of the hyperlink technology used on the Internet, has sued Prodigy Communications for copyright infringement. The London-based telecommunications company filed the suit in federal court in White Plains, N.Y., last week. BT declined to give details about any damages the former state-owned U.K. telecommunications company is seeking from Prodigy. Representatives from Prodigy could not immediately be reached for comment. After discovering in a routine check that it owned the patent for the hyperlink, BT wrote to 17 U.S. ISPs, including Prodigy, asking them to pay for the privilege of using the technology through licensing agreements. The suit filed against Prodigy, which claims to be the largest consumer DSL ISP in the United States, is the first suit BT has filed to protect its hyperlink patent, according to a BT representative.

▪ Disparate XML efforts emerge

Two seemingly separate camps advanced their XML efforts last week: Microsoft with BizTalk Server and Sun Microsystems with ebXML (e-business XML). Microsoft released to manufacturing the gold code of BizTalk Server 2000, an XML-based product for Internet-based applications integration. Sun and nine partners, meanwhile, demonstrated business transactions via ebXML, a specification sponsored by the Organization for the Advancement of Structured Information Systems (OASIS), that is designed to provide a framework for companies to exchange all information necessary for e-commerce. Microsoft said it is taking a wait-and-see approach to ebXML and that it would develop a parser to support it if customers should need one.

▪ IBM 'Shark' bites into storage market

IBM last week introduced an upgraded version of its "Shark" Enterprise Storage Server. Improvements include Native Fibre Channel support and FlashCopy, a backup feature that allows users to duplicate data without stopping applications for an extended period of time. Other enhancements include disaster recovery in the form of Peer-to-Peer Remote Copy (PPRC) technology that company officials said can recall vital data from a remote location after a primary location goes down. IBM's PPRC technology can span a distance of as far as 60 miles, IBM officials said.

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