KORN FERRY Institute

Logistics, technology, and talent

How CFOs are using the right people and big data to drive innovation in the logistics industry.

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Introduction

Ask chief financial officers of logistics and transportation services (LTS) companies what they spend most of their time on these days and they probably won't reply "finance." They're more likely to cite the two areas in which they can make a difference in the face of major industry disruptions: technology and talent.

That was what we heard repeatedly in a series of in-depth conversations we conducted with CFOs representing a broad spectrum of services—brokerage, freight forwarding, supply chain, and air cargo. Logistics CFOs today make crucial decisions about technology investments that drive innovation, enhance strategy, and turbo-charge operations. To ensure the finance function can manage these expanding responsibilities, they also must secure talent—from whatever source—with a wider range of competencies than yesterday's narrow finance executive.

A wave of tightly linked disruptions.

Major events and shifts have significantly affected the ebb and flow of the logistics industry in recent years: the great recession, major weather events and natural disasters that played havoc with supply chains, and businesses on-shoring and near-shoring operations as offshoring and long supply chains became less attractive or cost effective.

At the same time, longer-term trends have been building too. Unlike one-time events and the industry's expected volatilities, these promise to be genuine industry disruptors:

Customer demands. Companies that outsource some or all of their supply chain and shipping needs have always looked to logistics companies for cost savings, to ease capacity constraints, or to shed in-house logistics operations that were not part of their core business. But today, customers are making increasingly sophisticated demands, spurred by intensifying regulation around the world and by the desire to turn their supply and distribution networks into a strategic advantage. As a result, many of them want real-time services, complete visibility throughout their supply chains, interactive analytics, omni-channel fulfillment, customized services, and integrated services.

In the face of such demands, logistics providers—and their CFOs—must make increasingly complex, strategic decisions with a high dollar value and financial statement impact. "With customization, for example, you have to strike a balance," says Scot Hofacker, CFO of DHL Americas, a leading contract logistics and transportation provider. "How much should you build in common infrastructure so you can leverage it across your customers?"

Technology developments. Many of these customer demands will require logistics providers to invest more in IT-based services. According to the *2014 Third-Party Logistics Study,* sponsored by Capgemini, Penn State University, Penske, Korn Ferry, and eyefortransport (eft), 98% of users of third-party logistics (3PL) services agree that IT capabilities are a necessary element of the service they expect, but only 55% say they are satisfied with current 3PL capabilities.

The baseline technology that shippers require of logistics providers is rapidly moving beyond Web-hosted platforms to cloud computing, with crowdsourcing becoming the norm and niche customization often necessary. To provide the visible tracking that customers demand of the supply chain, logistics providers must stay up to date with advanced RFID, GPS tracking, and the like, as well as with global trade management tools for moving goods across borders in the most efficient, compliant, and profitable way. For CFOs, advanced route

Acknowledgements

We are deeply grateful to the CFOs who sat down with us for candid conversations about the changing nature of the role:

Richard Hanks is senior vice president and CFO of BDP International, a privately held company headquartered in Philadelphia. Previously, he served as CFO of Infogroup, a private equity-backed marketing services data business.

Scot Hofacker serves as the CFO of DHL Supply Chain Americas, a Deutsche Post DHL business unit with over 40,000 employees operating in 500 sites in six primary countries. Prior to joining DHL in 2002, he spent 12 years with Limited Brands.

Paul Jacobson is executive vice president and CFO responsible for the global finance organization of Delta Air Lines. He has been a key contributor to Delta's strategies and has been instrumental in initiatives that are expected to contribute more than $1 billion in annual benefits to Delta.

Jonathan Sisler has served since 2008 as CFO of Coyote Logistics, one of the fastest growing logistics and transportation services providers in North America. He oversees its scalable growth plan using predictive models and financial analyses to guide the company's operations and financial infrastructure.

Logistics companies generate data that can be turned into valuable knowledge for customers.

modeling and forecasting solutions are particularly relevant: the results they produce directly impact financial performance. In fact, the industry's inability to forecast some disruptions (such as weather, natural disasters, industrial accidents, or international conflicts) underscores the need for easy tracking, bringing the technology challenge full circle.

Big data. In the course of daily business, the systems of logistics companies generate massive amounts of data about their operations, customers, and employees—data that today's computing power and sophisticated data analytics can turn into valuable knowledge. "Information is one of the most valuable resources that we have in the company," DHL's Hofacker says. "You are aware of your customers' product movements, which allow you to identify key trends and match those trends with your resources, to optimize results."

Paul Jacobson, CFO of Delta Air Lines, which had cargo revenue of $937 million in 2013, sees data analytics as "the next big competitive arena" for logistics providers. "Leading companies are taking customer data and tailoring it into a unique product offering for the customers based on preferences and relationships," he says. Like a number of CFOs we spoke with, Jacobson says he believes logistics data analytics is still in its infancy. Hofacker, who spent 12 years with Limited Brands earlier in his career, notes that "logistics is more 'little data' than big data right now," especially compared with retailing, in which the use of analytics is highly advanced. Nevertheless, all agree that although the era of big data is coming to logistics late, its impact will be widely felt.

All three of these disruptors are tightly intertwined: customers seeking business-enhancing services, technological advances that will enable those services, and data, which will flow from technology and fuel further services and advances.

The response to such disruptors must be strategic, not just tactical. Logistics needs innovation that bolsters business models or creates new ones, enables unparalleled excellence in execution, and improves operations so that the organization is more nimble.

As finance and IT responsibilities converge more and more, CFOs sit at the center of strategic decisions on technology and talent. "My biggest challenge is balancing investments—in people and systems—to support continued growth and balance out profitability over the long term," says Jonathan Sisler, CFO of Coyote Logistics, one of the fastest-growing, non-asset based 3PL providers in North America.

Rethinking technology and tying it together.

A number of companies are undergoing what Delta's Jacobson calls a "systems refresh" in the finance function. Says Richard Hanks, CFO of BDP International, a privately held, non-asset based global logistics provider, "We are building big data models to understand precisely how the business is performing and the outcomes we are enjoying." Another notes that his team has developed financial reporting systems that continuously evaluate key business drivers for the leaders responsible for each, to ensure that the business is operating as it should. Several CFOs also said that they are freeing people in the finance function to partner directly with business unit leaders. "Rather than just report business outcomes," says one, "our people can help drive outcomes."

Decisions about labor—an ongoing challenge for many asset-based companies—provide a simple example of how better business systems and collaboration with operational leaders works in practice. The challenge is to build a forecast that matches labor with demand. The solution, one CFO says, lies in determining whether the right information resides in the company's payroll systems to do labor matching in real time. If so, collaborating with operational leaders on the front end and IT people on the back end, the company can find a way to access that data in a format that is useful for decision making.

CFOs also increasingly allocate capital for customer-facing technology projects—decisions that are complicated by how rapidly technology evolves even as projects take a long time to build. "I'm now looking at $500 million in customer-facing projects with commercial lives of three to five years," says one CFO. This is not simply allocating capital among competing technology projects either. CFOs must view projects holistically and strategically and, where possible, make sure that they are integrated to produce both a more efficient and effective finance function and to create strategic business innovation. Increasingly, the driving force behind this integration and innovation is data analytics.

"Having a good ERP [enterprise resource planning] platform is all well and good," BDP's Hanks says, "but one of the biggest prizes for us is the actual analytics that we get out of the data that we are capturing." Earlier in his career, he and his colleagues had examined what they called the "data exhaust" produced by millions of foreign exchange transactions a year and turned that data into useful products for the forex market. Today, he says, BDP's chief information officer is looking at the data the company captures through its operating systems—information about timing and pricing of moves, causes of delays, how delays are mitigated, and the like.

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Previously, he says, much of that information “just fell through the floor.” Now, with the help of an in-house data scientist, they are exploring the analytical value of that data with a view to leveraging it in value-added services.

DHL’s Hofacker is exploring the potential of predictive analytics to provide answers to some familiar and critical questions for LTS companies. “How do you do a better job of understanding where you are heading in a business,” he asks, “and how do you match your resources against that direction so that you are optimizing your performance?” In the retail industry, where he spent a dozen years, the use of predictive analytics is highly sophisticated and advanced in such areas as inventory optimization, pricing, promotions, response modeling, as well as customer segmentation, retention, and profitability. “We spend quite a bit of time looking at how we can better leverage information in our business to allow us to do things like that,” Hofacker says.

Talent inside and out.

As with any strategic initiative, success will depend on talent. Logistics CFOs who are driving innovations through systems and technology will need to find or develop talent that is comfortable with IT; at home with data-intensive challenges, risk, and uncertainty; and capable of integrating strategy and execution in business processes.

Where will that talent come from? Although generalizing about such a complex industry is difficult, there are some indications that for many companies the source of this talent may increasingly lie not only outside of their firms but also outside the LTS industry.

CFOs are themselves a case in point. An analysis of the KF1000, a proprietary database maintained by Korn Ferry of the largest 1,000 public and private companies by revenue, turns up some notable differences between logistics CFOs and CFOs in the industrial sector generally. Among the CFOs of the top 50 logistics companies, as identified by the Transport Topics Publishing Group, 64% were external hires. Among all other industrial companies in the KF1000, only 34% of CFOs were brought in from the outside. Further, of the logistics CFOs hired externally, more than half—52%—came from outside the industry entirely, compared with only 17% of the CFOs hired externally in industrials.

Figure 1

Logistics companies hire external CFOs 64% of the time.

Among the CFOs of the top 50 logistics companies, 64% of CFOs were external hires. Among all other industrial companies in the KF1000, only 34% were.

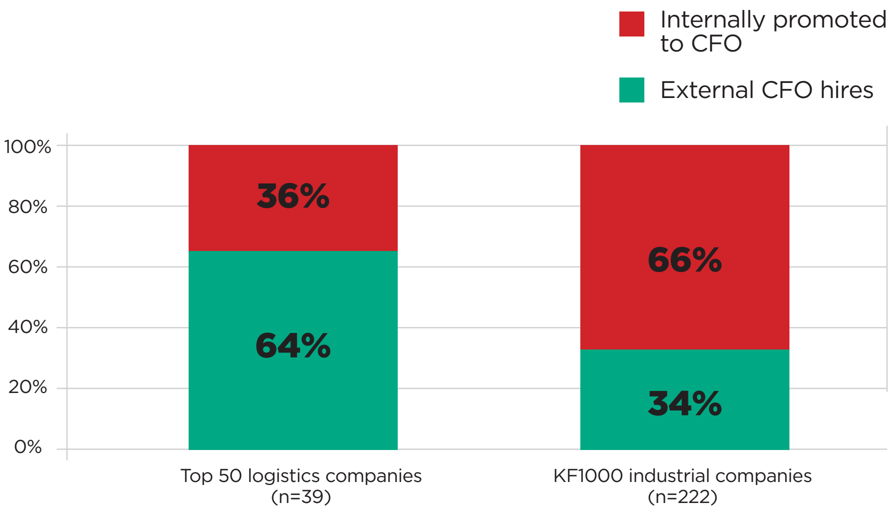
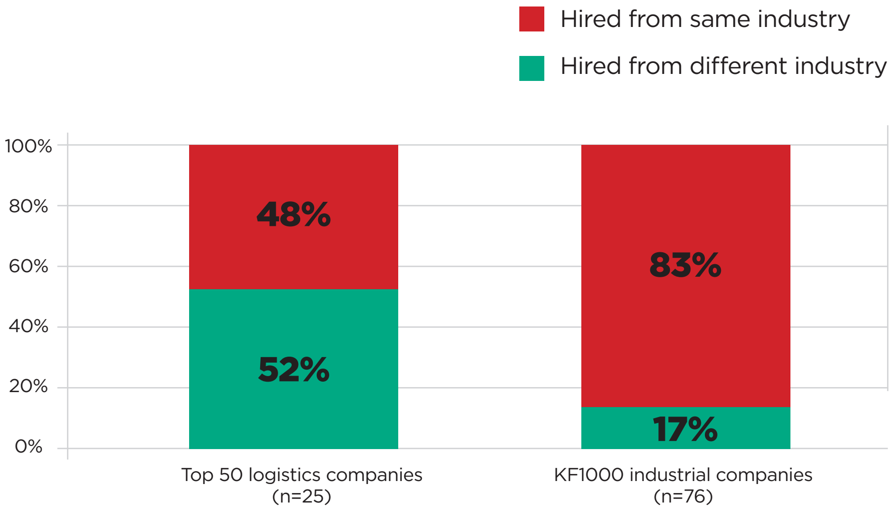


Figure 2

In logistics, 52% of new CFOs come from outside the industry.



Likewise, many logistics CFOs are looking outside the industry to fill out their own teams. "I'm looking for people who can bring new ideas and a fresh approach to the business," says BDP's Hanks, "people who have worked in a global business and have experience with a business model that is highly transaction driven."

A number of other industries provide rich sources of such talent. People from financial services, as Hanks points out, are accustomed to a regulated environment, rapid development of new products, and a high transaction volume. Similarly, retail and fast-moving consumer goods provide experience with large data sets and complex operations. "Having come from retailing," Hofacker says, "I see a lot of similarities: multiple locations, predictive analytics, and in-depth managing of labor." The consulting industry also has provided talent with financial and strategic acumen.

Though non-asset based firms differ sharply from asset-based companies, some of the same principles apply when they consider talent. Coyote's Sisler says he looks both inside and outside the industry for talent, but for senior level talent he looks primarily outside. "I pull from non-manufacturing, non-tech models—like a staffing company, for example, where personnel expenses are a key driver for earnings."

That is not to suggest that these CFOs are neglecting internal talent development. They are rotating their people through key disciplines, providing them with perspective-broadening experience with strategy and operations, and the opportunity to bring their skills to bear directly on the business through innovation. "I want a finance team composed not of green eyeshade accountants, but of knowledgeable business partners," says a CFO whose company maintains a carefully designed rotational program. "And to be knowledgeable business partners it helps to have broad exposure to the key functions of the business."

Broadening the perspective of existing finance talent through development programs requires time and investment, but it's worth it, Delta's Jacobson notes. "Otherwise, they will seek their own opportunity to grow and develop elsewhere," he says.

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- Logistics CFO

The recruiting paradox.

The need to drive strategic thinking and innovation in the face of ongoing disruptors will force LTS CFOs to look far afield for talent. As they do so, they will face something of a talent paradox: talent will be easier to attract but harder to find. The talent pool will be greatly expanded by including industries such as retail, financial services, consulting, industrial, and business services as possible sources—and yet sifting through the possibilities will require more diligence.

The potential reward is great: the best available talent for the job at hand. And, once found, that talent has been more than willing to join the industry and take up its strategic and technological challenges. “Attracting talent has not been an issue, as BDP has a terrific growth trajectory,” Hanks says. Delta’s Jacobson, who sees a renaissance occurring in the airline industry, puts it this way: “In addition to developing talent from within, I have an unprecedented opportunity to recruit from outside the industry. We love to tell our story, because we think that talented people who historically would not have contemplated the industry will find it compelling.”

But whether the requisite talent is carefully recruited from outside or thoughtfully developed from within, these talented people, operating agilely at the intersection of finance and operations, likely will be easy to retain as they become deeply engaged with the transformation of an industry.

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About Korn Ferry

At Korn Ferry, we design, build, attract and ignite talent. Since our inception, clients have trusted us to help recruit world-class leadership. Today, we are a single source for leadership and talent consulting services to empower businesses and leaders to reach their goals. Our solutions range from executive recruitment and leadership development programmes, to enterprise learning, succession planning and recruitment process outsourcing (RPO).

About The Korn Ferry Institute

The Korn Ferry Institute, our research and analytics arm, was established to share intelligence and expert points of view on talent and leadership. Through studies, books and a quarterly magazine, Briefings, we aim to increase understanding of how strategic talent decisions contribute to competitive advantage, growth and success.

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