



# A Really Big Deal

BY JOHN PARKER

## Nortel outsources global logistics management to Swiss-based Kuehne & Nagel as 4PL

Paris

**C**anada's largest technology company, Nortel Networks, is selling its global logistics management business to Swiss-based Kuehne & Nagel, which will operate it as a fourth-party logistics provider, overseeing the communications equipment maker's supply-chain activities in 160 countries. The contract, which was sought by most of the major international logistics providers, is the first divestiture of its kind on a global basis, according to K&N.

"To my knowledge, this is the first," said Reinhard Lange, chief operating officer of K&N International. "It's truly global, with cargo flows around the world. I think there will be more like this in the future."

Neither company has revealed any financial details of the deal, which also includes the transfer of 95 Nortel senior executives and logistics managers based in 18 countries to a new company created by K&N to manage global supply-chain projects. "They will be joined in this work by additional logistics experts from Kuehne & Nagel," Lange said.

In a written statement, Richard Lowe, vice president of supply-chain operations at Nortel, said: "We recognized that leveraging Kuehne & Nagel's excellence in logistics, investments in its IT infrastructure and global presence, we could further streamline the management of our logistics. Divesting the global logistics operations management to a best-in-class supplier like Kuehne & Nagel enables us to focus our investments and resources on developing and strengthening core competencies that provide differentiated value to our customers."

K&N has been a logistics partner to Nortel for seven years. According to Lange, before the new agreement was reached K&N already handled about one-third of Nortel's global logistics requirements as a third-party supplier. In its new 4PL role, K&N will manage several other 3PLs that work for Nortel around the

world, as well as overseeing the full spectrum of logistics services including import and export processes, inventory management, warehousing and distribution, and transportation management worldwide.

"It will be interesting to see how well they can keep their 4PL role separate from their 3PL role," said Paul Jackson, head of U.K. consulting firm Triangle Management. "Who is going to run it and how independent will they be?"

According to Jackson, the fact that K&N has a freight forwarding background was



probably a factor in its selection by Nortel. "I think it's indicative of the fact that freight forwarders have a better chance at playing the 4PL role than asset-based players, who find it hard to resist using their own assets.

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TRIANGLE MANAGEMENT'S JACKSON

Freight forwarders have already developed management and consulting skills and are more flexible than the asset players," he said.

According to Lange, K&N's knowledge of Nortel's business will be a major factor in helping "generate further process improvements and cost efficiencies" in the supply chain. "The first job is to develop better visibility of their products in the supply chain," he said. "Once we have created better visibility, the next step is to optimize the use of each mode. Nortel is predominately using air cargo at this point and a lot of trucking

in the United States. But sea freight could also play a part. There are a lot of faster services being offered today." K&N claims to be the largest sea freight forwarder in the world and was the first to take an equity stake in the ocean-shipping portal Intra.

K&N has been building the infrastructure to offer global logistics services for several years. It has invested heavily in its worldwide IT network and purchased a number of relatively small supply-chain management specialists. Last year, it acquired USCO Logistics, which had a long-standing relationship with Nortel. In addition, K&N has entered into a strategic alliance with SembCorp Logistics, which is based in Singapore but offers service coverage across much of Asia.

According to Lange, the company's global presence was a major reason Nortel chose it for the job. But the existing relationship between the two companies also was important. "I think this is a very exciting time for both companies," the COO said. "It has been a learning process for both of us during the negotiations. There was a lot of trust and a lot of partnership involved."

Divestitures of this type may become common practice as companies try to break out of the red and into the black, said Steve Banker, director of supply-chain solutions at ARC Advisory Group, Dedham, Mass. "Using 3PLs can allow companies to take assets off the books and achieve a better return on assets," he noted. "The real payoff, however, depends upon execution. Paying higher transportation and logistics fees on an ongoing basis would be a poor trade to taking assets off the books."

K&N, which has 17,000 employees in 90 countries, posted record financial results in 2000, with revenue up 24 percent to about \$4.8 billion and net income of about \$73 million.

Since the bursting of the technology bubble, Nortel has seen its sales slide dramatically. In the fourth quarter of 2001, revenue was \$3.46 billion, down from \$8.20 billion in the same period the year before. It recorded a net loss of \$1.83 billion during the last three months of 2001. ●