Eastern Europe Tops The Bill

European study shows Poland and the Czech Republic are new logistics 'hot spots'

Research carried out by supply chain consultancy Total Logistics and property expert King Sturge shows that countries such as the Czech Republic and Poland have overtaken Germany in the race to be the location of choice for pan-European businesses. Kenneth Porter, partner at Total Logistics takes a deeper look at some of the findings.

"While the increasingly international nature of the EU offers huge opportunities for businesses, the complexities of decision making – specifically in terms of warehouse location and infrastructure – can be bewildering at times. Working closely with logistics property experts King Sturge, we developed a methodology that attempts to address some of the intricacies that occur when comparing key commercial considerations regarding the location of warehousing.

"Having developed a complex model, using 1,000 demand points and 50 different potential warehouse locations, the study assessed the relative attractiveness of each country, taking into account such issues as warehousing costs, labour rates, and road transport costs.

"Initially, we undertook standard evaluations of headline logistics costs across 27 industrialised European countries, looking at figures such as the average annual cost per warehouse worker and the average rent per square metre of warehouse space. Unsurprisingly, whereas countries such as Benelux and Germany came out as being relatively expensive on both counts, many countries in central and eastern Europe (CEE) looked very attractive from a purely cost-based perspective.

"Working through a number of different scenarios was a fascinating exercise as it demonstrated the relatively poor performance of Germany from a warehousing perspective, given its central location and otherwise excellent reputation. Even when we factored out the comparatively high cost of labour in the country, Berlin, Bonn and Dusseldorf came out relatively poorly against other cities such as Prague, Warsaw, Katowice and Vilnius.

"We undertook this research to get a clearer understanding of warehousing trends across Europe and were very surprised by the relative robustness of many of the former Eastern bloc countries. When we looked at a single warehouse scenario, central Europe and the Benelux countries fared well, but when we looked at the situation of a separate UK and mainland Europe warehouse, the centre of gravity shifted further east to Prague, Katowice, Brno and Bratislava.

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"Only when you factor in a more complex, UK plus two other warehouse networks, do countries such as France and Benelux re-appear.

"One of the interesting factors that needs to be taken into account is the number of warehouses required in a proposed supply chain network and the core markets that structure needs to serve. Our research clearly showed that for a single pan-European warehouse, the location with the lowest overall cost was Prague, but if a business wanted to service the same market area with a three-warehouse network, then Warsaw comes out on top to service eastern Europe.

"Even when we increased wages by 50 per cent in the former Eastern Bloc countries, Warsaw, Katowice and Vilnius still came out as the most attractive locations to service eastern Europe, which illustrated the sheer robustness of these cities as potential logistics 'hot spots' in the future.

"Our research also shows that 'emerging stars' such as Russia (Moscow, St Petersburg), Ukraine (Kiev) and Turkey are well placed for future growth as logistics centres.

"The research also highlighted the importance of warehouse design and the differences in understanding between logistics experts and developers when it came to speculative developments. For example, too many developers are taking terms such as 'cross docking' too literally by assuming that occupiers with a requirement to cross dock must necessarily have a warehouse with loading docks on two elevations. Whereas most cross docking operations actually involve a U-shaped products flow using a single elevation.

"During our research, we found many developers still believe that traditional flow through warehouses, where product is unloaded from one door and re-consigned through an opposite bay, are best. In reality, we are looking for a more flexible approach where speculative developments need to be appropriate for a wide range of sectors, from the apparel market to the FMCG sector.

"Our experience confirms that most warehouse users want the flexibility to be able to cross dock and store products, without having to choose one over the other.

"We also found that retailers are holding less stock and undertaking more cross docking at points across Europe, as the trend towards consolidation of products within countries of origin grows. In practical terms, this means that the increasing number of store-ready goods being held in warehouses requires more specialist equipment and handling procedures than would normally be the case.

"Finally, we can see a growth in the area of shared and multi-user warehouses as cost and sustainability issues increase demand for transaction-based logistics contracts. This trend is already well established in the UK and is typified by the use of additional, bespoke warehousing to deal with increases in retail demand that can typically occur during sale periods and seasonal peaks. This trend reinforces the need for developers to take a more flexible approach to warehouse design, moving away from rigid formats and layouts that worked a decade ago.

“As the former Eastern Bloc countries continue to develop their economies, the supply chain opportunities are significant. Getting the balance right between the three L’s - location, labour, layout – will be critical to success.”

About Total Logistics:

Total Logistics specialises in all aspects of supply chain and logistics consultancy, with a client base that includes Nestlé, Unilever, adidas, Coty, Tesco and Hema. Working across the complete range of supply chain and logistics operations, Total Logistics functions solely to add value and subtract costs. Activities include strategy definition through to implementation and project management; network modelling, distribution strategy, location optimisation, cost modelling and benchmarking. Total Logistics’ experience covers all industry sectors and its clients comprise sector leading companies but also much smaller lesser well-known names to whom its consultancy, advice and services are equally as critical. Over 70 per cent of its revenue comes from existing clients and its greatest source of new business derives from personal recommendations. Now recognised as a leading consultancy in this field, Total Logistics has established a reputation for delivering high quality, practical and robust solutions to clients’ needs.

Total Logistics has offices in the UK and the Netherlands. For further information visit: **www.total-logistics.eu.com** or **www.total-logistics.nl**.

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