Design Your Logistics Organization for Both Local Autonomy and Central Governance

Companies are reassessing the design of their supply chain organization to more closely align their supply chain with the wider enterprise. Logistics leaders must learn the drivers of this reorganization and how to make logistics both locally or regionally autonomous, and centrally governed.

Overview

Key Findings

- Logistics leaders often struggle to define the best organizational design for the logistics function. Having typically inherited an operating model, some have a tendency to settle for the status quo.

- Companies with a complex logistics archetype often have a hierarchy of logistics functions. The challenge for these logistics leaders is avoiding duplication of effort and overlap of responsibilities.

- Logistics leaders are unsure whether a logistics center of excellence (COE) merits the time, effort and expenditure to create or defend against internal criticism.

Recommendations

Logistics leaders engaged in logistics and customer fulfillment should:

- Ensure alignment with the needs of the supply chain organization, as well as the needs of the regional and local business units, by creating a common blueprint for the optimal logistics organizational structure. Deploy it using regionally based, centralized logistics teams that can customize to local needs.
Eliminate duplication of effort and overlap of responsibilities by defining the span of responsibilities for each group engaged in logistics activities, such as local or regional groups. Specifically focus on responsibilities that require engagement and input from multiple logistics teams.

Define the decision-making rights of the logistics COE by detailing its purpose and deliverables. Include how the logistics COE will interface across the logistics organization.

Introduction

Over the past 18 months, a lot of supply chain leaders have probably experienced the most significant and sustained period of disruption of their careers. This has resulted in many CSCOs questioning not only the resilience and agility of their supply chain but the relevance of their organization and how they contribute to and enable the success of the broader enterprise. As a result, many supply chain organizations are either undergoing, or about to commence, a process of reorganization. Gartner’s Fit for Purpose Supply Chain Organization Survey questioned nearly 400 companies.¹ The results indicate that one-third of respondents have experienced significant change in the past 12 months, and roughly a quarter are currently experiencing significant change. Further, 42% of supply chain professionals stated their intention to commence the process of significantly reorganizing their supply chains in the next 12 months. Figure 1 details the specific reasons, ranked by popularity, for this race to reorganize.
Figure 1: Top Three Reasons for Prompting Supply Chain Organizational Change

Maintaining a regular review of the supply chain’s relevance and alignment with the business is a sensible and prudent activity. However, how comprehensive is this reorganization? And, more importantly, how is it affecting logistics? Figure 2 displays the supply chain functions most likely to be included in the reorganization, for those who are currently reorganizing or planning to do so.
Unsurprisingly, supply chain strategy topped the list of functions subject to reorganization, and one could argue that it is in a continuous cycle of perpetual review. The second most likely function to be affected is supply chain planning, a function that many supply chain leaders may have a propensity to tinker with on a regular basis. The logistics function does not altogether escape scrutiny. Even though it is not at the top of the list, it is marginally more common than other functions, such as sourcing and procurement, manufacturing, and customer service, to be included in the reorganization. So why is logistics in the relative spotlight, more than some functions and less than others? And what does it mean for the function? Logistics leaders should use this research to learn what the drivers are for this reorganization and how to map out an approach to making logistics both global and regional.

Analysis
Create a Common Blueprint for the Optimal Logistics Organizational Structure

Many logistics leaders will feel that recent events have elevated the status of the logistics industry and emphasized the importance of an industry that has traditionally been overlooked. If we ignore for a moment the transport capacity crisis and prevailing price increases, the logistics industry has broadly demonstrated great resilience and adaptability in the face of relentless disruption. With that in mind, logistics leaders might feel a little aggrieved by this need to reorganize. However, those same logistics leaders must recognize that the responsibility of their function is not only to manage the consequences of ships getting stuck in canals but also to change and adapt to influencing factors such as digitalization, working practices and customer expectations. This may mean that logistics leaders need to assess how they are organized to deliver on the continuing challenges and opportunities of the industry.

Figure 3 provides an overview of the current structure of logistics teams according to Gartner’s Fit for Purpose Supply Chain Organization Survey. This details how logistics organizations are currently structured and shows the percentage of companies that have adopted the different operating models.
This suggests that over 40% of companies have already adopted regionally based but centralized logistics functions. Now contrast that with Figure 4, using data from the same survey, which details the type of logistics organization structures companies anticipate adopting in the next two years.
Figure 4 shows that 22% of companies intend to adopt what more than 40% of companies have already adopted — a regionally based centralized logistics organization. Clearly, there is an element of reorganizing going on across logistics in some companies. What is more interesting is that the reorganization seems to be aimed at adopting what is already a common logistics organizational operating model.

Enable Both Uniformity and Customization of the Logistics Teams

The notion of a regionally based centralized logistics function makes perfect sense for an industry that is juxtaposed between wanting to be the same while defending its right to be different. However, this can create confusion for some logistics leaders.

Centralizing does not mean standardizing.
Those organizations that have already adopted centralized logistics functions that are regionally deployed talk about starting with a common blueprint for their logistics organization design. In this blueprint, logistics leaders set out the framework for the function; its strategy, goal and purpose; business value; and span of responsibility. That blueprint is then deployed in the shape of regionally based, centralized logistics teams. This is where customizing for local needs starts to happen.

Example: A global technology company that designs and manufactures household appliances has for many years operated regional logistics hubs. The regional logistics hubs adopt common practices and behaviors that are globally standardized but also customize where necessary to support the needs of the local customers and consumers within their region of responsibility.

Define the Span of Responsibilities for Each Group Engaged in Logistics Activities

The adoption of a centralized logistics function that is regionally based or deployed does present the dichotomy of how much should be standardized versus how much could be customized. As previously stated, centralizing is not the same as standardizing. However, for those low-maturity logistics functions, one of the characteristics required to achieve higher stages of maturity is to standardize. Therefore, it is no surprise that low-maturity logistics organizations have a propensity to standardize.

As companies become more customer-centric and drive more integration across their supply chains and extended ecosystems, logistics functions also evolve and improve their maturity levels. This increased logistics maturity enables and allows for more locally customized logistics services and processes, thereby striking the right balance between standardizing and customizing. That is where a regionally deployed logistics function can make all the difference. Figure 5 details the three layers of organizational hierarchy that typically exist within a logistics function.
These three logistics functional layers capture how logistics functions are often organized in terms of activities and responsibilities. The challenge for logistics leaders goes beyond removing overlap; they also need to ensure clarity of roles and responsibilities and drive integration across the layers so that no layer acts in isolation. Therefore, defining and differentiating the roles and responsibilities of these teams or groups, as well as integrating the way in which they operate within logistics, is very important. Table 1 provides an example of how responsibilities for three typical logistics activities can be differentiated by group.
### Clarify Decision-Making Rights to Avoid Conflict

Supply chains are often conflicted between the desire to run a lean and low-cost operation and having sufficient hierarchy and management structures to deliver that lean and low-cost operation. The same applies to logistics. All of these hierarchies can be effective and add value but, similarly, they can overlap, end up doing the same thing and significantly add to the cost burden.

#### Table 1: Logistics Activities Differentiated by Group

(Enlarged table in Appendix)

<table>
<thead>
<tr>
<th>Logistics Activity</th>
<th>Global</th>
<th>Regional</th>
<th>Local</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outsourcing to 3PLs</td>
<td>Define contract structures and establish MSA global agreements for transport</td>
<td>Set up regional commercial agreements</td>
<td>Make service-level agreements, standard operating procedures (SOPs), and local commercial agreements</td>
</tr>
<tr>
<td></td>
<td>Aggregate expenditure and performance tracking</td>
<td>Enforce metrics and performance standards</td>
<td>Enforce local commercial agreements</td>
</tr>
<tr>
<td></td>
<td>Introduce quality standards, ratification and escalation</td>
<td>Seek local consolidation and economies of scale</td>
<td>Establish performance measures and local budget management</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Track emerging vendor implementation</td>
<td>Use volume allocation</td>
</tr>
<tr>
<td>Reporting Performance Measures</td>
<td>Aggregate performance measures across regions and business units</td>
<td>Aggregate regional performance measure reporting</td>
<td>Use customer performance measure segmentation</td>
</tr>
<tr>
<td></td>
<td>Align performance measures with broader supply chain finance, performance, quality</td>
<td>Introduce regional performance measure variances and comparison</td>
<td>Apply additional performance measures at local and customer level</td>
</tr>
<tr>
<td>Executing the Strategy</td>
<td>Set out overall strategy and vision for the function</td>
<td>Align regional objectives, balance alignment between global needs and local autonomy</td>
<td>Execute local variances and align with local business needs</td>
</tr>
<tr>
<td></td>
<td>Define quality, customer focus and operational excellence</td>
<td>Capture regional variances</td>
<td>Communicate local differences to regional and global functions</td>
</tr>
<tr>
<td></td>
<td>Promote cross-functional collaboration</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Gartner (November 2021)
Companies must define both the role and responsibility of the different groups and their collective decision-making rights. Lack of clarity around decision making can lead to conflict between the groups. For example, when a globally initiated process improvement is only partially implemented by each region and altogether ignored by the local logistics functions, it both undermines the global team and potentially widens the gap between the groups.

**Example:** One of the world's largest chemical manufacturers has designed an internal service-level agreement that commits each regional and local group to deliver what is agreed-on globally and to measure its implementation of and adherence to globally agreed-on processes. This is reviewed and signed off on annually, and compels all participants to accept responsibility for implementation and ongoing execution.

**Detail the Purpose and Deliverables of the Logistics COE**

Does this rise in regional and local autonomy for logistics spell the end for global functions such as COEs?

COEs are not a hugely popular concept in logistics.

According to the survey, logistics is the least likely supply chain function to have a COE (see Figure 6).
COEs do have a role to play and value to add to the logistics function. What is important for logistics leaders to establish is a clear purpose for their COEs, how their success will be measured and how they will interface with the regional and local logistics teams. A lot of companies incorrectly presume that COEs are head-office-based, and that is not the case. COEs are increasingly becoming virtual functions that draw on preexisting subject matter experts typically based in regional or local logistics teams. Rather than thinking about the physical manifestation of a COE, logistics leaders should start by thinking about the purpose of a COE.

Figure 7 lists the top three reasons for changing the structure of the logistics function over the next two years, according to this year’s Fit for Purpose Supply Chain Organization Structure survey.
Logistics COEs can contribute very effectively and successfully to areas such as driving process excellence, increasing collaboration with 3PL service providers and identifying innovation that in future could be adopted by the business. COEs in logistics are not intended to be operationally focused or to supplement gaps in day-to-day logistics execution. Logistics COEs typically sit above the operational execution layer so they can take a more holistic view of activities across the logistics network. This elevated position does not mean the COE is more important than the operational logistics functions; it simply denotes the fulfillment of different objectives.

Clearly Define What a Logistics COE Should Do and Not Do
Typically, when asking a logistics leader to describe the role and responsibility of the COE, they refer to activities such as defining policies, encouraging best practices, ensuring quality and identifying ways to innovate the function. This is standard for a good COE.

It's often harder for companies to define what the COE should not be doing. Maybe that's because logistic leaders find it hard to say “No.” The desire to demonstrate value and worth should not bind a logistics COE to accepting responsibility for anything and everything to do with logistics.

**Example:** One of the world’s leading medical device manufacturers set about reviewing its logistics COE. For some time, the function had been subject to criticism from the business due to perceived lack of value regarding what it was delivering. The review concluded that the function was spending too much time doing operational tasks that belonged elsewhere in the business and too little time focused on what it had been created to achieve. The business quickly repositioned the logistics COE and implemented a metric that captured the time spent on non-core activities.

By using the checklist of recommendations and methods summarized in Table 2, logistics leaders can map out an approach to making logistics both locally or regionally autonomous, and centrally governed.
<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Method</th>
</tr>
</thead>
</table>
| Enable both uniformity and customization of the logistics teams       | - Start by creating a common blueprint for your logistics organization design. In this blueprint, set out the framework of the function, its strategy, goal and purpose, business value and span of responsibility.  
|                                                                       | - Deploy the blueprint by using regionally based, centralized logistics teams. The teams can then determine where customizing for local needs is required and how to apply modifications. |
| Clarify decision-making rights to avoid conflict                      | - Define both the role and responsibilities of the different groups and their collective decision-making rights.                           
|                                                                       | - Avoid any lack of clarity around decision making that can lead to conflict between the groups.                                      |
| Clearly define what a logistics COE should do and not do              | - Set out what a COE should do, as well as state what it is not intended for and, therefore, should not be doing.                         
|                                                                       | - Avoid accepting responsibility for anything and everything to do with logistics, in particular task execution and day-to-day operational activities. |

Source: Gartner (November 2021)
Evidence

1 Gartner Fit for Purpose Supply Chain Organization Structure, 2021: This study was conducted online from 21 April through 1 June 2021 to provide insight into the organizational alignment of foundational capabilities (such as planning and procurement) as well as advanced capabilities (such as data science and/or analytics). We explore the underlying rationale for alignment of capabilities to provide insight into why companies organize a certain way, not just how they are organized. This research helps paint the picture of how companies are organizing, how they are using COEs, how they are using shared services and how they are aligning functions to be most successful.

In total, 372 respondents were interviewed in their native language across North America (n = 143; countries included the U.S. and Canada), Western Europe (n = 133; countries included the U.K., Germany, the Netherlands and Switzerland) and APAC (n = 96; countries included Australia, New Zealand and Singapore).

- **Qualifying organizations** operate in the manufacturing and retail industries and report enterprisewide annual revenue for fiscal year 2020 of at least $500 million (at least $1 billion in the U.S.) or equivalent.

- **Qualified participants** have a role tied to a supply chain function and are in director or above roles. All respondents are involved in their company’s decisions regarding how their supply chain organization is structured to support the various functions and business strategy.

The study was developed collaboratively by Gartner analysts and the Research Data and Analytics team.

_Disclaimer:_ Results of this study do not represent global findings or the market as a whole, but do reflect the sentiments of the respondents and companies surveyed.

---

**Recommended by the Author**

Some documents may not be available as part of your current Gartner subscription.

- **Video:** The Global Logistics Transformation Journey at Teva — The Highs and the Lows
- **8 Predictions for the Future of Work: A Logistics Perspective**
- **Customer Fulfillment Organization Design: Partnering for Value Creation and Improved Customer Experience**
### Table 1: Logistics Activities Differentiated by Group

<table>
<thead>
<tr>
<th>Logistics Activity</th>
<th>Global</th>
<th>Regional</th>
<th>Local</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Outsourcing to 3PLs</strong></td>
<td>■ Define contract structures and establish MSA global agreements for transport</td>
<td>■ Set up regional commercial agreements                                               ■ Make service-level agreements standard operating procedures (SOPs)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>■ Aggregate expenditure and performance tracking</td>
<td>■ Enforce metrics and performance standards                                               ■ Enforce local commercial agreements</td>
<td></td>
</tr>
<tr>
<td></td>
<td>■ Introduce quality standards ratification and escalation</td>
<td>■ Seek local consolidation and economies of scale                                          ■ Establish performance measures and local budget management</td>
<td></td>
</tr>
<tr>
<td><strong>Reporting Performance Measures</strong></td>
<td>■ Aggregate performance measures across regions and business units</td>
<td>■ Aggregate regional performance measure reporting                                       ■ Use customer performance measure segmentation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>■ Align performance measures with broader supply chain finance, performance, quality</td>
<td>■ Introduce regional performance measure variances and comparison                           ■ Apply additional performance measures at local and customer level</td>
<td></td>
</tr>
<tr>
<td></td>
<td>■ Set standards and targets for performance</td>
<td>■ Set standards and targets for performance                                               ■ Set local standards and stretch targets for performance</td>
<td></td>
</tr>
<tr>
<td><strong>Executing the Strategy</strong></td>
<td>■ Set out overall strategy and vision for the function</td>
<td>■ Align regional objectives                                                                ■ Execute local variances and align with local business needs</td>
<td></td>
</tr>
</tbody>
</table>
Define quality, customer focus and operational excellence  
Promote cross-functional collaboration  
Balance alignment between global needs and local autonomy  
Capture regional variances  
Communicate local differences to regional and global functions

Source: Gartner (November 2021)
<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Method</th>
</tr>
</thead>
</table>
| Enable both uniformity and customization of the logistics teams               | - Start by creating a common blueprint for your logistics organization design. In this blueprint, set out the framework of the function, its strategy, goal and purpose, business value and span of responsibility.  
- Deploy the blueprint by using regionally based, centralized logistics teams. The teams can then determine where customizing for local needs is required and how to apply modifications. |
| Clarify decision-making rights to avoid conflict                             | - Define both the role and responsibilities of the different groups and their collective decision-making rights.  
- Avoid any lack of clarity around decision making that can lead to conflict between the groups. |
| Clearly define what a logistics COE should do and not do                     | - Set out what a COE should do, as well as state what it is not intended for and, therefore, should not be doing.  
- Avoid accepting responsibility for anything and everything to do with logistics, in particular task execution and day-to-day operational activities. |

Source: Gartner (November 2021)