

Is Logistics Outsourcing Right for Your Company?

WHITE PAPER

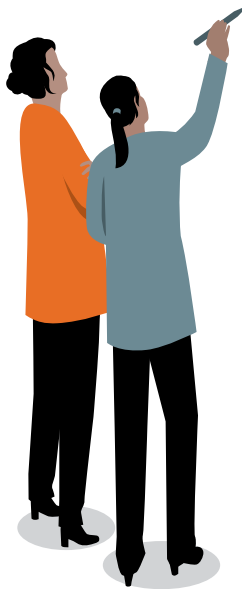


In brief

More shippers today appear to be outsourcing some or all of their logistics.¹ How does a company decide that outsourcing logistics is the right choice? This white paper can help companies decide, set reasonable expectations for what outsourcing can contribute to the organization, and how much of a role the company will need to play to achieve the successful business outcomes they seek.

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¹ Langley, C. John Jr., Ph.D., and Capgemini. "2014 Third-Party Logistics Study: The State of Logistics Outsourcing."

Today, organizations face tremendous pressures. Controlling costs and improving efficiencies remain high priorities. Yet, factors such as globalization and gaps in supply chain talent make it increasingly challenging to achieve goals and remain competitive.

The science of moving products globally is ever-evolving and increasing in speed, fueled by customers' growing expectations. Companies face increased competition and new challenges for serving customers. For some business sectors, globalization opens access to new markets with millions of businesses and billions of customers. And it takes more skilled supply chain talent and resources to build strong service networks around the world.

In this environment, there is a greater need for innovation and ideas to create dynamic supply chains that can adapt to change and put the right strategies in place to provide companies with a competitive advantage.

Configure a logistics outsource solution that drives outcomes for your business

Being a successful company in an increasingly global economy—or making a successful transition to a global company—requires true transformation, which may lead shippers of all sizes to consider outsourcing.

While every enterprise has unique needs and different internal staff strengths in logistics management, there are several common factors that can lead companies to consider outsourcing.

Desire for more hard and soft cost savings. For most companies, saving is more than advantageous—it is a competitive necessity. The overall impact of transportation costs on most organizations has historically been considered a sunk cost. But today in some companies, the supply chain conversation has moved from the back room to the boardroom, and more CEOs and CFOs now target these costs for savings. Radical cost cutting has been the order of the day in most organizations, a trend that is likely to continue for the foreseeable future.

WHY IS IT HARD TO FIND SUPPLY CHAIN TALENT?²



JOBES FOR SUPPLY CHAIN PROFESSIONALS

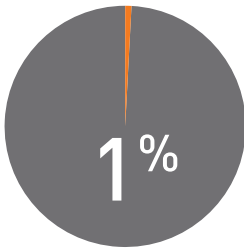


SUPPLY CHAIN CANDIDATES

60 MILLION BABY BOOMERS WILL EXIT THE WORKFORCE BY 2025



BUT ONLY 40 MILLION NEW BODIES WILL ENTER



PERCENT OF FULL-TIME FACULTY IN THE U.S. DEVOTED TO SUPPLY CHAIN MANAGEMENT, TRANSPORTATION, AND LOGISTICS

At the same time, more companies realize that long term, it is unsustainable to continuously drive out only hard dollar savings from a supply chain. Once hard dollar savings have been removed, the focus can shift to soft dollar savings and cost avoidance that occur through process improvement, visibility, and analysis. Continually identifying and addressing soft dollar savings can lead to long term cost reduction strategies. Outsource providers can enable cost reduction strategies that focus on company outcomes; they change with the company and help the company evolve.

Logistics is core to brand reputation, but there is insufficient technology and/or resources to gain a competitive advantage. Shippers may choose to outsource logistics management or execution of tactical, day-to-day execution, allowing the company's staff to pursue more strategic and value-centric assignments. Outsourcing can add specific capabilities to complement the company's own expertise, particularly if the outsource provider has a deep client roster and a wealth of best practices at its disposal, and if they have faced and solved many of the transportation challenges that confront shippers today, or that will emerge in the future.

Need for an agile, scalable supply chain solution that can accommodate rapid growth through merger or acquisition, new products, or new markets. As distribution networks change or existing networks merge into one, imbalances and inefficiencies can result. The race begins to find synergies, efficiencies, and savings. Companies may need to outsource the analysis—and execution—of these opportunities to a provider with an extensive, worldwide network of capacity and global technology. Outsourcing to a provider can quickly enable disparate organizations to come together under a unified infrastructure.

Adding headcount isn't an option, or finding the right talent is proving challenging. Many companies pared back drastically on logistics staff in lean times and no longer have people with the right skillsets to manage the supply chain. Other companies have returned to hiring, only to find that there are very few candidates available who can tackle the challenges of global supply chain management. According to Jake Barr, CEO of BlueWorld Supply Chain Consulting LLC and a former Procter & Gamble executive, there are six job openings for every university graduate who emerges from a supply chain management program.³

For these reasons, some companies decide to outsource, rather than hire their own employees. This variable cost strategy leverages the outsource provider's talent, procurement strategy, and technology. In-house staff can collaborate with and learn from the provider's experience and deep knowledge of industry best practices to help drive innovation, productivity, and savings—without adding fixed costs.

² Ruamsook, Kusumal, and Christopher Craighead. "Forecasting a Supply Chain Talent 'Perfect Storm.'" Supply Chain 247, January 20, 2014.

³ Bowman, Robert. "Bridging the Talent Gap in Supply-Chain Management." Supply Chain Brain, September 30, 2013.

THE STATE OF LOGISTICS OUTSOURCING RESEARCH SAYS⁴...



FIGURE 1 OUTSOURCING SERVICES DELIVER MEASURABLE BENEFITS⁵



Need best-in-class technology, but can't afford a significant capital outlay. TMS technology is required for a highly efficient supply chain. Companies can purchase such systems, but they are expensive to buy, implement, and maintain. Organizations that want to bring automation and consistency in processes across a worldwide service network have very few TMS options that are truly global, as well as robust and scalable enough for their needs. Some outsourcing providers can add the latest global transportation technology to help the company obtain fast deployment and visibility to shipments worldwide, across all forms of transportation.

In addition to the technology itself, companies can outsource to obtain highly trained experts, who know how to derive the greatest value from the TMS and can configure it to fit the organization's needs. A TMS enables optimization, as well as transportation planning, execution, business intelligence, and freight payment capabilities. In addition, many cloud-based solutions can be deployed quickly, in a non-disruptive fashion. Outsourcing can provide the TMS, while eliminating the need for the company to invest further in hardware, software, upgrades, or maintenance.

Misperceptions about the realities of outsourcing

Companies may decide whether or not to outsource based on factors that may not reflect market realities. If outsourcing is undertaken for the wrong reasons, dissatisfaction with the overall outsourcing engagement can result. Such an outcome can be mitigated by examining some ideas that have taken hold concerning logistics outsourcing:

We can offload problems and issues associated with managing logistics operations by outsourcing. The company and its staff know the business, the customers, and what they want to achieve. While providers should be strong enough to solve many of the logistics challenges that confront the organization, they will need the organization's guidance to understand and configure an outsourcing solution that aligns with the company's supply chain strategy. Both company and provider must communicate, exchange accurate data, develop a high level of trust, and be strategically aligned to prevent frustration, blame, and poor logistics performance.

Our costs will increase if we outsource logistics. Companies should understand the true cost of staffing and maintaining their supply chain operation. These costs can be weighed against the benefits that can be achieved with outsourcing (see Figure 1).

Overall service levels will fall and customer complaints will increase if we outsource. Companies are more likely to experience such an outcome if they outsource and leave the provider on their own. Organizations that collaborate with their outsourcing provider benefit from the wealth of best practices that the provider brings from other outsourcing engagements. The provider's processes and technology may actually do a better job of serving the company's customers.

4 Langley, C. John Jr., Ph.D., and Capgemini. "2014 Third-Party Logistics Study: The State of Logistics Outsourcing."

5 Ibid.

PUT POTENTIAL OUTSOURCING PROVIDERS TO THE TEST

Most logistics outsourcing providers will claim that they can help companies achieve just about any business outcome. To find a true pro, ask for proof of how they have helped other clients:



INCREASE

- Revenue
- Flexibility and responsiveness
- Speed to market
- Quality
- Access to new markets



DECREASE

- Customer response time
- Operating costs
- Capital investment
- Personnel related expenses
- Development costs



IMPROVE

- Focus on core business
- Access to technology
- Access to advanced skills
- Access to capacity

We will lose control. The outsourcing model that is selected determines how much control the company has. A well-structured logistics outsourcing agreement can actually offer increased control if the provider:

- Has strong talent that can focus on tactical operations, while the company's logistics staff concentrates on strategic issues.
- Participates in daily, weekly, and monthly reviews.
- Owns, implements, and maintains best in class TMS technology.
- Reports on and analyzes progress for metrics that the company cares about.

How to Decide between Subtractive or Additive Outsourcing

Companies can choose between subtractive or additive outsourcing to pursue their goals.

Subtractive outsourcing removes tactical functions from the organization and transplants them to a third party. This approach is typically undertaken when the goal is simply to achieve cost savings. Historically, companies that choose this approach see finite benefits. The savings plans often hinge on applying continued downward pressure on carrier costs—a practice that is unsustainable over the long term.

Subtractive outsourcing presents potential risks to the company's quality, customer experience, data security, and reputation management after handing off supply chain functions to the third party. The company also loses control of their data and the ability to analyze it to truly understand the starting landed cost of products and measure improvements.

Additive outsourcing creates a comprehensive solution and a greater alignment between the provider and the company. Additive outsourcing brings talent, processes, capacity, and technology into the company for a highly configurable solution focused on achieving specific business outcomes.

The benefits of the additive approach to outsourcing include:

1. Bringing people with logistics expertise and deep knowledge of how to improve supply chains into the company. An outsourcing expert can collaborate with in-house staff, observing, asking hard questions, and presenting proactive solutions and new ideas that can lead to supply chain improvements. These experts also provide strong logistics execution capabilities and compliance expertise. They put the company's objectives first and provide rapid access to new value. Long term, the involvement of these experts provides a deep institutional understanding of the company's own freight management behaviors and needs.
2. Adding standardized and improved processes. All process improvements are supported by the TMS' automation capabilities, which help enforce consistency around the world. An additive outsource provider will help the company explore efficiency improvements and implement best practices from thousands of company engagements worldwide. As companies add greater consistency in operations across the globe, they can leverage purchasing, integrate supply chain partners, and leverage spending for higher productivity at a lower cost.

3. Delivering best in class supply chain technology. Technology can connect the company's disparate operations and enable the company to exchange accurate data about worldwide operations, often for the first time. Global visibility can enable real time tracking and tracing of all shipments, whether they go by truck, train, ocean vessel, or air freight, anywhere in the world. As business is conducted day to day, the provider's TMS gathers relevant supply chain data, providing business reporting that measures what is most important to the organization. Reporting and analysis aids business intelligence to help optimize inventory management, demand planning, and manufacturing efficiencies. Ultimately, this informs cost of goods sold.

HOW A PROVIDER'S OPTIMIZATION CAPABILITIES CAN PRODUCE SAVINGS

Optimizing a supply chain requires a transportation management system (TMS) to identify inefficiencies and create processes to improve them. Optimization can occur in many areas, including:



MODE

True supply chain optimization is mode neutral. That is, while a provider's service network may be heavily concentrated in motor freight, the most effective execution for the company may require rail, ocean, and air transport from time to time. Outsourcing providers can offer deep knowledge of multimodal procurement strategies, service level requirements, and key performance metrics to drive improvements in costs, service levels, and customer satisfaction.



LOAD & ROUTE

It takes deep market knowledge to consolidate shipments, optimize loads, minimize dock congestion, and reduce costs. Skilled TMS users can oversee these areas, as well as prices, carrier availability, and changing customer requirements.



ORDER

A provider's optimization technology can support high volume, complex order aggregation and rating and optimization scenarios. Simple consolidation, multi-stop truckloads, straight LTL, and truckload shipments can be created automatically, based upon a client's business and customer-specific requirements.



NETWORK

A provider can put their skills and capabilities to work to suggest network improvements. They can use their TMS, process engineering capabilities, and best practices acquired from a variety of vertical and geographic markets to measure, analyze, and collaborate with the shipper's team. They can make recommendations and act on key performance metrics that the company establishes as part of the outsourcing agreement.

Conclusion

As competition heats up, more companies are likely to engage in collaborative relationships with proven global supply chain outsourcing providers. Such providers can add expertise and visibility and act as an extension of the company's logistics team. In this way, companies can reach higher levels of logistics capability and leverage their provider's scale in ways that can lead to a competitive advantage.

3 ADDITIONAL RESOURCES ON LOGISTICS OUTSOURCING

Learn more about managing change, improving efficiencies, and managing spend by reading these outsourcing white papers at <http://www.chrobinson.com/en/us/Resources/White-Papers/>.



Create a Culture of Change

This 3-part white paper series looks at how companies can prepare for a logistics outsource. Discover how to build a change management framework, what needs to happen before and during implementation, and how to sustain a culture of continuous change.



How to Gain Value from a Strategic Onsite Logistics Resource

Logistics outsourcing agreements can require the provider to place highly knowledgeable, strategic staff onsite at the company's location. This paper looks at the strategic onsite role—both from the perspective of companies that utilize these highly skilled resources and the onsite staff themselves—and includes best practices with onsite resources that can increase successful outcomes.



Gaining Efficiencies Through LTL Outsourcing

Improve efficiency and lower costs by outsourcing less than truckload (LTL) freight. Read this paper to learn why companies outsource LTL, how LTL pricing and discounts actually work, and what to look for in an LTL outsourcing provider.

About us

C.H. Robinson helps companies simplify their global supply chains. Skilled logistics employees apply a deep knowledge of market conditions and proven processes to solve transportation problems. Integrated technology gathers data from all parts of the supply chain and provides full visibility to orders and costs. From local truck transportation to global supply chain management systems, from produce sourcing to consulting based on practical experience to outsourcing, C.H. Robinson supplies a competitive advantage to companies of all sizes.

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