

7 MYTHS OF LOGISTICS OUTSOURCING

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Since starting in a big way around the mid-seventies, logistics outsourcing has come a long way. Whilst a few companies are already outsourcing their entire logistics operations, most companies are outsourcing at least some part of their total logistics – whether transportation or warehousing or value-added logistics services. However, 3PLs who earlier led the way in logistics outsourcing have somehow failed to move beyond their core commodity services, leading to poor branding and fragmentation of the 3PL sector. During the last 30 years, while logistics outsourcing has become a mainstream activity, many myths, too, have mushroomed around the business.

This article explores and explodes 7 of the most popular myths.

Myth # 1: If the outsourcing does not work you can always bring the activity back in

This myth pervades the thinking in some executive circles, based on the assumption that the decision to outsource can not only be easily implemented, but also easily reversed! However, in most cases this is far from true. Outsourcing is a strategy, not a tactic. You are making a multi-year commitment, not only because of the contract, but to make the financial reasoning work; you also have to dismantle the PP&E, systems and people you have built up over time. To reverse the outsourcing decision, you will have to recreate the infrastructure, which is a large undertaking, for which you may not have enough time. This in-sourcing is often a far bigger, and more difficult-to-implement decision than the initial outsourcing!

Myth # 2. The smartest people in the game work in 3PL

This myth and the next one are seemingly mutually contradictory. This one has its roots in the early days of transportation and warehousing, when finance, sales and marketing were the stars of every corporation, and warehousing and stores were perhaps the doghouses. The adage going around then was that 'if he - and mostly, it was a he - can count, send him to the ware-

house. He cannot do much damage there.' 3PLs capitalised on this perception by claiming that they could offer the scale, career progression opportunities, core functional focus, brand and the cachet to attract the best and the brightest people, which internal supply chain departments could not. Of course, the reality is very different today. In our experience, there are today good people on both sides of the fence (and they keep changing sides from time to time!).

“While the contract is very important - as is finding the right 3PL service provider and the integration process - the most important element is ... relationship management...”

Myth # 3. The smartest people in the game work on the customer side

The reverse of the above myth, and perhaps partly to counter the same, a more recently floated myth is that 3PLs do not offer the job satisfaction, control, and the holistic view of the business that a corporation can offer. This has led to the contemporary expression in corporate logistics circles that 'those who can – do; and those who cannot – work for 3PL! Again, this is equally apocryphal, and many great logisticians come to mind who not only made a career as logistics service providers and greatly enjoyed their profession, but also maintained a broad and deep dialogue with executives from all walks of life.

Myth # 4. Once you outsource, you can relax and let them handle all the work

This is perhaps the most pervasive myth in the higher echelons of corporate circles today. Even some of the most astute business executives tend to believe the hype that once they outsource the logistics function (generally con-

sidered non-core), they can stop worrying about the outsourced functions. However, in reality this can be dangerous. Putting together an outsourcing arrangement does not transfer your core issues to the 3PL; rather, you swap one set of problems for another - internal logistics management problems for logistics relationship management problems!

While this topic calls for an entire article by itself, let's look at some of the problems likely to surface after outsourcing begins. Unpleasant surprises - such as cost creep, technical expertise being lower than expected, lack of flexibility to incorporate changing business needs, potentially large cost over-runs on account of services that were assumed to be included in the service contract but were not, loss of real visibility, control and direction - are just some of the problems often seen in this context.

The fact is that even after the outsourcing, your management will still be working just as hard on the outsourced functions, the sole difference being that the time they save on the management of the outsourced functions will now be spent in managing the relationship, with some relationships even degenerating into games of contract head-butting and variations management for which both the IT outsourcing and the building construction industry are known as becoming notorious.

Myth # 5. It's an equal win-win partnership

This is another pervasive myth – often perpetuated by the organisations handling outsourced functions. A real partnership, by its very nature, is defined by co-dependence where the relationship is indispensable to both parties, as judged by a measure of how much each party would hurt if the relationship fell apart. The truth, in most cases of outsourcing, is that this pain is not too much!

Most 3PLs have fingers in multiple pies, and have learnt not to rely on just a few customers for their business, for very obvious reasons. From their point-of-view even if a few customers pulled out, they would have contingency plans to optimise their asset utilisation. Even from

the customer's perspective, with the increasing modularisation of the supply chains, most 3PLs are providing a commoditised service, despite all the hype surrounding technology integration, business process integration and logistics infrastructure integration, and so are not considered indispensable. And this is true of all service providers regardless of their scale of operations.

Finally, even if it were a true win-win partnership - just as when a pair dances one person takes the lead to improve the joint performance - it is preferable that the lead be taken by the customer whose business is at stake. Corporations should relinquish the lead to the logistics contractor only at their own peril.

Myth # 6. Your logistics service provider is responsible for their own mistakes

Most directors and officers are clear about the responsibility and obligations that accrue to them on account of the acts of their managers, servants and all their agents including contractors. However, for some reason the vague belief still persists that if the 3PL makes errors related to performance, security or environment regulations, or even commercial decisions, the customer will

be shielded from the consequences.

However, not just the law, but also the prevailing customs and practices, point to a different reality. Your customers hold you responsible, and possibly invoke penalty clauses if they don't receive the product within the contracted time. In case of spillage of dangerous or hazardous products the authorities will trace the responsibility back to the seller of the product. Compliance with regulatory and security measures continues to be the seller's responsibility, no matter to whom this is delegated. In most cases, the damage to brand, relationships, reputation with authorities, and even bottom line will be borne by the customer - much more than by the outsourced logistics contractor. And this applies no matter how big the contracted logistics firm is, and no matter how much insurance they carry.

Myth # 7. Lock it in a contract and squeeze the last penny out of your logistics service provider

The final and the most persistent myth is that stitching up a detailed logistics contract will shore up your bottom line by squeezing every last penny out of your logistics supply chain. While it is essential that contracts are specific and explicit in terms of the tasks, responsibilities

and commercial terms, it is the rare business whose logistics requirements do not change from year to year, month to month and day to day. All these variations can be neither foreseen, nor incorporated in a contract, as this is a highly dynamic and fast-changing business environment. So where then lies the solution?

While the contract is very important - as is finding the right 3PL service provider and the integration process - the most important element is the relationship management protocol and toolkit that incorporates all the hard elements of the contract, and softer elements that go towards making any commercial relationship successful.

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