

Top Business Drivers for Integrated Logistics Outsourcing



Who is outsourcing integrated logistics services and why?

This research-based report explores the value proposition for integrating the various logistics functions of a supply chain through a third-party provider.



Overview

The logistics function is vital to most retail, manufacturing, wholesale and distributor organizations today and represents a significant percentage of corporate budgets. As a result, companies are continually striving to optimize their logistics operations – seeking out new ways to increase efficiencies and better manage costs.

Many companies find that they can streamline their supply chain by integrating the logistics services they utilize – warehousing, contract manufacturing, packaging, fulfillment, transportation, freight forwarding, etc. They often find that experienced third-party providers are better positioned to provide support than their internal operations in this regard.

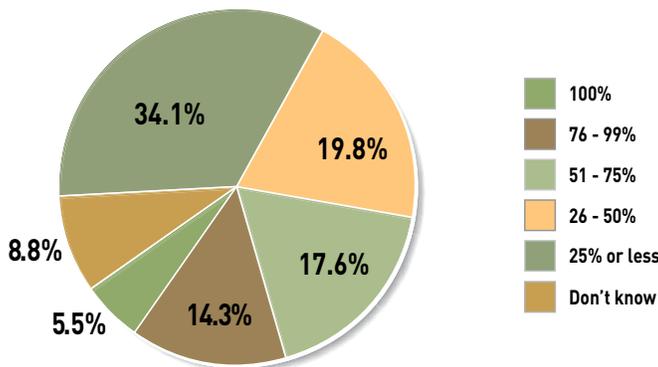
Increasingly, companies are asking their logistics partners to enhance operations by providing additional services outside the scope of traditional capabilities such as transportation and warehousing. They’re discovering that tapping a single provider for a variety of services can be the key to optimal logistics performance.

In order to better understand why companies find value in outsourcing to integrated logistics providers, Saddle Creek Logistics Services conducted an online survey of industry professionals in a two-week period in late April and early May 2012.

The following report is based on responses from manufacturers, distributors, retailers and multi-channel merchants with job functions involving corporate (12.5%), operating (34.1%), distribution (39.8%) or purchasing (13.6%) management. All of these respondents are personally involved with or have influence over logistics functions at their companies and outsource some or all of their logistics services. In fact, third parties manage more than half of the annual logistics spend for 37.4% of respondents.

Company size ranges from less than \$50 million (23.1%) to over \$2.5 billion (20.9%). Most respondents distribute their products nationally (25.3%) or internationally (67%). A solid cross-section of industries is represented – including food/beverage/tobacco (15.4%), paper/printing (11%), automotive/transportation equipment (9.9%), and chemicals/pharmaceuticals (8.8%).

Percentage of annual logistics spend managed by third parties



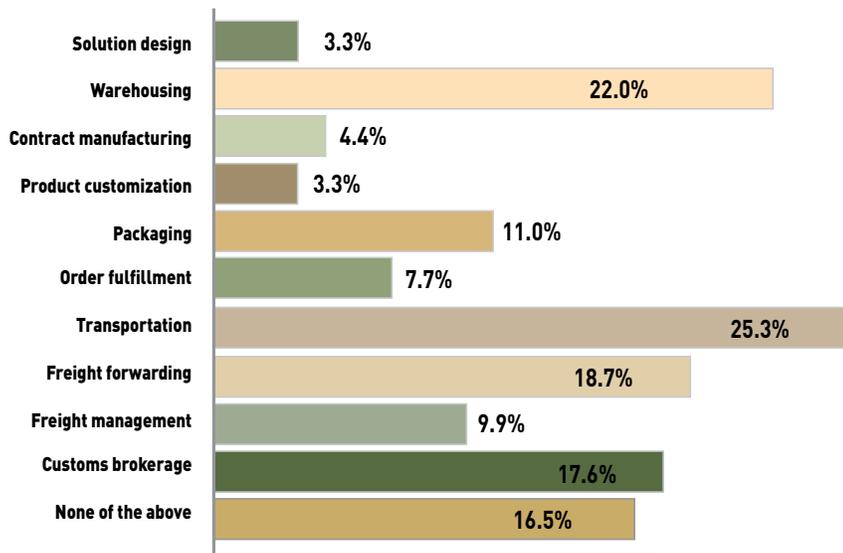
Outsourcing Practices

Respondents say they outsource a variety of services – primarily transportation (74.7%), related services such as freight forwarding (51.6%) and customs brokerage (47.3%), and warehousing (44%). Services such as contract manufacturing (24.2%), packaging (22%), freight management (20.9%), and order fulfillment (17.6%) are also popular candidates for outsourcing.

The vast majority of respondents (73.6%) outsource to providers who offer two or more of these services, clearly indicating the prevalence of integrated logistics outsourcing today.

Transportation (25.3%) and warehousing (22%) are the most commonly integrated services, followed by freight forwarding (18.7%) and customs brokerage (17.6%).

Services outsourced to single provider



The Value of Integration

Respondents clearly find value in outsourcing to a provider with the ability to offer integrated logistics services. More than half (52.3%) rate the importance of integration as 4 or 5 on a scale of 1-5.

Primary logistics services such as transportation (36.3%) and warehousing (33%) are seen as being the most critical to obtain from a single provider. Freight forwarding (33%) and customs brokerage (27.5%) are also valued.

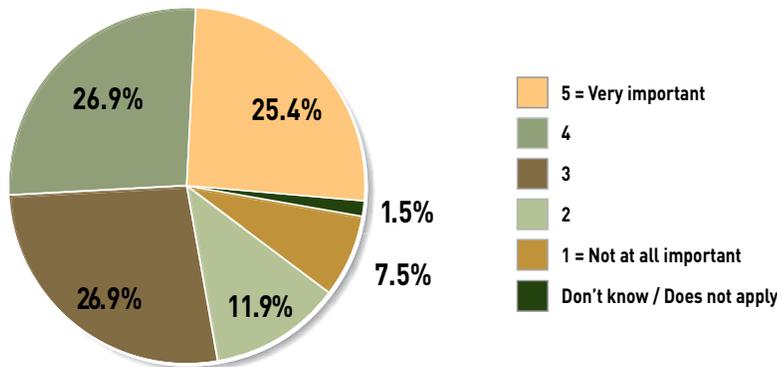
Missed Opportunity

Far fewer respondents look to their logistics provider for services such as packaging, product customization, or order fulfillment, however. This points to an opportunity for further integration on the part of third-party providers, according to Rob Pericht, Saddle Creek Senior Vice President of Operations.

“The more services that you can obtain from a single provider, the more seamless and cost effective your supply chain,” Pericht explains. “Companies should look to their third-party providers for any business activity that isn’t officially supported in the manufacturing environment – product customization, cross-docking, e-fulfillment, etc. This ensures that costs are optimized and as close to the customer as possible.”

By removing unnecessary links from the supply chain, this broader service integration also helps companies to control inventory, increase speed to market and accommodate business fluctuations.

Importance of outsourcing to an integrated logistics provider



Top Business Drivers

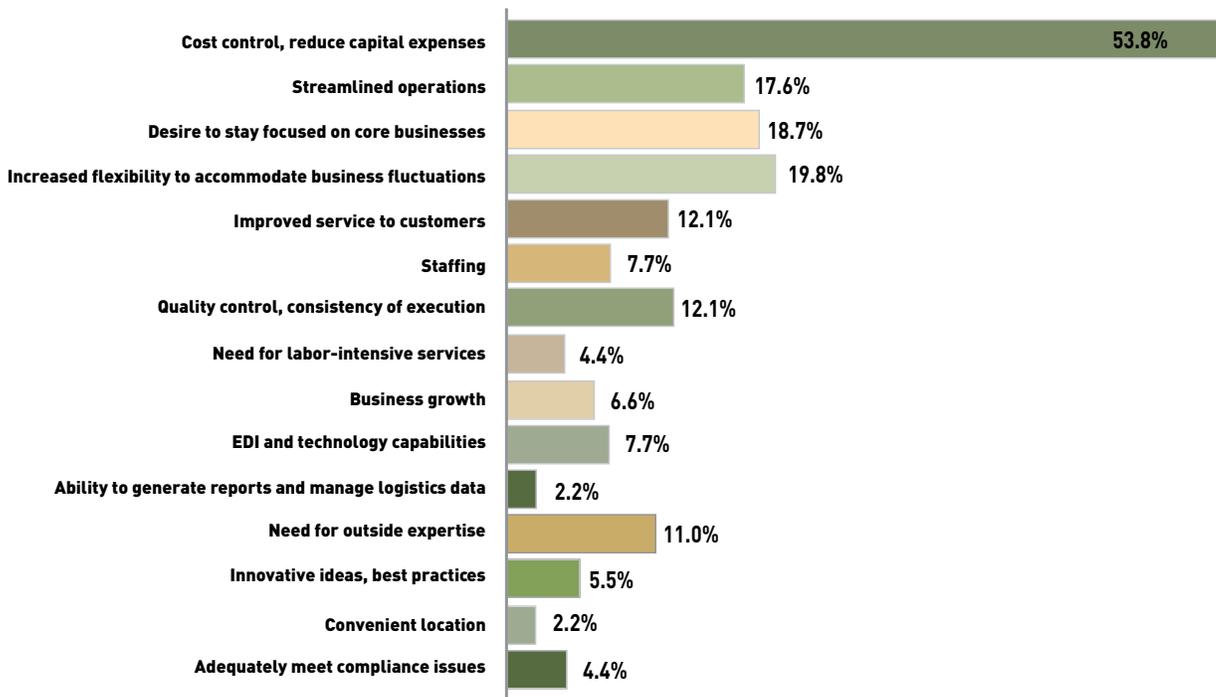
Regardless of which services they use, respondents recognize a number of advantages to outsourcing their logistics needs to an integrated 3PL. Following is a closer look at the top benefits they are experiencing.

Control Costs

The desire to better manage costs is the biggest business need driving companies to outsource to an integrated service provider. Controlling costs and reducing capital expenditures are the primary drivers for the majority (53.8%) of respondents. They see the biggest opportunities for cost reduction in transportation (46.2%), labor/training (33%), warehouse space (29.7%), and equipment (25.3%).

“We definitely see companies experiencing benefits in these areas,” says Saddle Creek’s Pericht. “Route optimization, brick-and-mortar reduction, and a flexible workforce are just a few examples of how 3PLs can help companies reduce costs. An integrated provider can also help build to order instead of build to stock, allowing companies to reduce production and inventory carrying costs. Moving product customization closer to the end customer also can help to shorten the cash-to-cash cycle.”

Business needs driving outsourcing to integrated logistics provider



Supply Chain Savings

Survey results suggest that the value of integrated logistics can even extend beyond the logistics function. A noteworthy 20.9% of respondents say that their company is able to achieve total supply chain cost reductions by outsourcing to an integrated logistics provider.

“An effective 3PL can take on a greater role and streamline the logistics function, taking links out of the supply chain,” agrees Saddle Creek’s Pericht. “They can assist with expansion into new markets, accommodate multiple sales channels, or increase use of value added services like kitting, building displays, and contract manufacturing. The result is a stronger and more cost-effective supply chain.”

Accommodate Business Fluctuations

An integrated logistics environment offers the opportunity to adjust to ever-changing customer needs, seasonal promotions or other business fluctuations. This is a primary motivator for 19.8% of respondents to outsource to an integrated logistics provider.

Scalable space, flexible staffing, equipment, and a variety of transportation options give companies the flexibility to adjust to meet peaks and valleys in their business. Third-parties also give companies the ability to strategically position their distribution operations with locations that put inventory and/or product customization closer to the customer to help increase speed to market.

Focus on Core Competency

For 18.7% of respondents, the ability to focus on their core business is a key driver for outsourcing to an integrated provider. They find peace of mind in knowing that their logistics operations are in the hands of an experienced, knowledgeable partner.

Integration of services allows the provider to see the big picture and identify innovative single-source solutions that free up their customers to focus on other issues. It also makes them better able to anticipate issues and resolve them proactively. For example, knowing that a large order is being packaged at the distribution center may allow the provider to secure capacity in advance – when there are more transportation options available at a lower cost. And when logistics is the primary area of expertise, they can apply best practices and accommodate special requirements (i.e. retail compliance, C-TPAT Tier 3, special reporting needs, etc.).

“Logistics represents a significant percentage of corporate budgets (from 2 or 3 percent all the way up to 25 percent for some products), but it isn’t always an area of expertise for everybody,” explains Pericht. “When you’re talking about that kind of investment, you really want to make sure it is handled by an expert.”

Streamline Operations

The desire to streamline operations drives 17.6% of respondents to outsource to an integrated provider. An effective third-party can provide a single point of contact for all logistics operations – from traditional warehousing and transportation services to packaging, light manufacturing and multi-channel fulfillment. The provider can look at the customer's needs holistically and develop a creative solution that incorporates a variety of logistics services.

For example, an integrated 3PL might warehouse multiple SKUs for a customer, assemble them into holiday gift sets based on customer orders, build displays, source transportation, and ship them to retailers across the country. By providing such a broad array of services through a single source, the provider helps the company to eliminate unnecessary links in its supply chain.

Ensure Consistency

Quality control and consistency of execution are critical for 12.1% of respondents. By centralizing the logistics function with a single provider, companies are able to ensure that services are provided in a consistent manner. This can be especially important for services such as light manufacturing, packaging and fulfillment since inconsistency in these areas can negatively impact a company's brand.

A provider committed to continuous improvement will evaluate and possibly re-engineer processes to increase efficiencies and ensure consistency on an on-going basis. Quality programs such as ISO certification and LEAN logistics can also help in this regard.

Improve Service to Customers

Outsourcing to an integrated logistics provider can also improve service to end customers, according to 12.1% of respondents.

"With a variety of services under one roof, an integrated 3PL has greater visibility into all the elements of an order," explains Saddle Creek's Pericht. "This helps ensure the predictability and reliability of delivery and increases speed to market."

Advanced technology can play an important role in integration, giving customers accurate, real-time information about their orders and ensuring seamless service. Web-enabled track and trace, lot control, and inventory management can all play a role in ensuring customer satisfaction.

In Summary

Companies clearly recognize that outsourcing logistics to an integrated provider can have a significant impact on the efficiency and cost effectiveness of their operations – and their supply chain as a whole.

However, many companies could optimize their supply chain even further by expanding the services that they outsource to their third-party provider. Activities not directly supported in the manufacturing environment are good candidates for integrated outsourcing – product customization and light manufacturing, packaging, fulfillment, freight forwarding, etc.

When these services are integrated with traditional third-party transportation and warehousing services, companies can remove links from their supply chain. The result? A supply chain that is stronger, more resilient, and cost-effective.

About Saddle Creek Logistics Services

This research was sponsored by Saddle Creek Logistics Services. As a third-party logistics company, Saddle Creek leverages its broad array of capabilities – including warehousing, transportation, packaging and fulfillment– to provide integrated solutions in support of our customers' business objectives.

For more information, visit sclogistics.com • 888-878-1177.