Fighting against Excess:

How a good 3PL relationship can trim warehousing costs for higher profit margins and a better performing supply chain

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Internet-driven, customer-centric service is putting more pressure than ever before on logistics operators to run 'perfect' supply chains. The perfect order – identified as on-time, accurate and complete – is many companies' most significant key performance indicator (KPI). Neglecting this crucial KPI puts companies at risk of losing customers and, ultimately, causing permanent damage to their bottom line.

Improvements in warehouse management are often thought to be unattainable without the implementation of elaborate processes and the investment of a great deal of time and money. However, many cost cutting procedures can be implemented within a reasonable budget. These procedures are best implemented by an experienced warehousing firm. Since most successful companies must focus on their core competencies to remain profitable, partnering with a qualified third party logistics provider (3PL) is often the answer for companies in need of achieving real, long-term logistics efficiencies.

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Why Partner with a 3PL

A 3PL can initiate solutions ranging from simple, effective changes to extensive, comprehensive overhauls to increase a warehouse's overall efficiency. For example:

- A recurring cause of warehousing inefficiency is the poor use of warehousing space, which causes companies to invest in more warehouse area than they actually need.
- A 3PL can implement strategies to maximize warehouse space, such as: racking, mezzanines, conveyors, and multiple levels, which will decrease the overall warehousing cost.
- The implementation of an efficient stock locating system, as well as timely restocking systems, may be incorporated to ensure that no time is lost attempting to locate missing product, or searching for a product that has not been restocked.

While these concepts lie at the basis of the function of any warehouse, they are some of the areas in which the most time and money is lost. Fortunately, a trained 3PL is able to recognize where complications arise and can fix them with effective and uncomplicated solutions at low relative cost and notable ROI.

Solution 1: Improve Packaging for Maximum Efficiency

A qualified 3PL will tackle the challenge of leaning excess waste from warehousing operations through collaborative lean workouts with your company. A successful lean workout and the expertise of the 3PL may demonstrate, for example, that a customized packaging solution is the most practical and cost effective answer for leaner warehousing and shipping operations. A qualified 3PL will evaluate existing procedures and make recommendations for a customized packaging solution that would:

- Increase inventory savings
- Create more free rack/floor space in DCs
- Decrease the burden on the receiving department
- Reduce cube production
- Increase space utilization on technician services trucks
- Reduce cycle time on creation of boxes/cartons
- Minimize packing hours annually
- Reduced operator accumulation time
- Improve box design process
- Reduce touches on packaging a product

Through a trusted relationship with a qualified 3PL, companies can realize long-terms savings through minimal upfront investment that can mean the difference between ending this year – or the next five to ten years – in the red or the black.

Solution 2: Cross-Dock to Cut Costs and Better Serve Customers

Many companies cite capacity issues, customer demands, and inbound/outbound logistics as some of the greatest challenges facing the industry today. One way that 3PLs overcome these challenges is through cross-docking. Defined by the Food Logistics Industry Report as "the practice of receiving goods at one door of a facility and shipping out through the other door almost immediately without putting them in storage," cross-docking has become a staple in warehouse management. This process has proven so successful because it requires minimal personnel and less time and space than traditional warehousing methods.

A cross-docking scheme typically has three parts:

1. Inbound shipments are received and unloaded
2. Shipments are sorted in a staging area, allowing for easy movement to a corresponding loading dock
3. Products are loaded into outbound carriers for distribution

Results published in the Food Logistics Industry Report show that nearly 43 percent of respondents had increased their cross-docking practices in the past five years. One of the largest proponents of cross-docking is Wal-Mart, and it has had a marked contribution to their success. Over 85% of its good are run through a cross-docking system according to the Isenberg School of Management at the University of Massachusetts.[1] This allows them to reduce its cost of sales by 2-3%, contributing to the notoriously low prices its business model thrives on.

While cross-docking is a common household term for 3PL experts, many companies not versed in supply chain management do not have the expertise to tap into this considerable opportunity. For companies already working with a 3PL, or handling their own cross-docking operations, there is often opportunity to implement leaner methods for even greater efficiency. How do you know if your cross-docking system is operating at maximum capacity? Typically, shipments should not remain at the facility for more than 24-48 hours. If this is true of your operations, you may be running a well-oiled cross-docking operation. If not, it may be time to seek out a 3PL that can deliver the customized solution that best fits the needs of your company.

Solution 3: Managed Returns Yield Greater Revenue

Inefficient handling of returns is one of the most common wasters of time and money in any industry. The Reverse Logistics Association defines this function, reverse logistics, as "all activity associated with a product/service after the point of sale, the ultimate goal to optimize or make more efficient aftermarket activity, thus saving money and environmental resources."

Reverse logistics have a large effect, for better or worse, on a company's bottom line:

- Forbes Magazine estimates that US firms spend $100 billion annually on returns and that returns represent up to 7% of a company's gross sales
- According to research from North Carolina State University, reverse logistics account for 3-4 percent of a company's total logistics costs[2]
- Companies can save 10 percent from their annual logistics bill by implementing an efficient reverse logistics system. Twenty percent of this amount is saved in labor costs and the remaining 80 percent is saved in lowered freight costs and reduced pipeline inventory

But money is not the only reason companies should effectively manage their return supply chain. Managing customer returns is a significant contributor to customer satisfaction – a bad return can equal a lost customer. Given the significance of the area to costumer retention and the health of your bottom line, many companies look to partner with a 3PL that is well-versed in managing this crucial part of your business operations.

The Value of a Customized Solution

There are countless tools a logistics operator can use to improve a supply chain operation. Custom packaging, cross-docking, and reverse logistics are only a few. The concern of smart companies is not what the tools are, however; their concern is how to optimize these tools in a customized solution that delivers the best supply chain and ROI results. Often, the ability to solve this problem is outside the expertise of the business owner or operator, and a partnership with a qualified 3PL must be solicited in order to achieve the right system.

Every company depends on lean supply chain operations. For companies that ship seasonal items, promotional goods, store specific pallets, and high volume items to firms that produce kits, components, basic replenishment, and modules, getting the best product to the most consumers in the most efficient way possible is the top priority. Outsourcing logistics management to the right 3PL partner can allow you to focus on your competencies while your 3PL partner focuses on driving the right customized solution for your supply chain. Do not trust your supply chain to just any firm; it is your obligation to perform due diligence in interviewing and selecting a 3PL partner that has demonstrated expertise in your industry and supply chain challenges. With the right 3PL partner, your company can realize lower costs for greater profit margins, year-over-year.

1 Isenberg School of Management at the University of Massachusetts http://supernet.som.umass.edu/

2 *"The Increasing Necessity for Reverse Logistic,"* Scott Hudson, SCRC, June 2, 2004 http://scm.ncsu.edu/public/facts/facs040602.html

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