



Logistics Association of Australia Ltd

RATIONALIZATION AND THIRD PARTY LOGISTICS

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BREAKING NEWS

In late February 2003, Westpac Banking Corporation announced it had signed an agreement with Australia Post to act as national supplier for Westpac's courier, mail and freight operations. The \$60 million five-year contract will see Australia Post provide scheduled and non-scheduled courier services and mail room optimization from May 2003. Services were previously provided by a combination of in-house activities and arrangements with 20 separate providers. Westpac expects to achieve costs savings of over 20%. The agreement took 18 months from inception to contract signature.

INTRODUCTION

This article explores the relationship between ownership rationalization and the outsourcing of logistics services to third parties. Insights are drawn from a site visit to a CHEP facility in Ontario, south east of Los Angeles and from a case study presented at the CLM Conference by C.H. Robinson Worldwide Inc; a Fortune 500 provider of global transport, distribution and integrated logistic solutions.

Defining 3PL

Typical logistics services considered for outsourcing to a third party include:

- Warehousing (facilities, MHE, racking, labour)
- Inbound/Outbound Transport
- Freight Bill Auditing/Payment
- Freight Consolidation/Distribution
- Cross-Docking
- Product Marketing/Labeling/Packaging
- Product Returns and Repairs
- Inventory Management
- Information Technology

When any of these services move from in-house delivery to delivery by a separate logistics provider via an agreement for a specified period of time, outsourcing has occurred and a logistics relationship with a third party is established.

In the past 10 years, more of these services have been bundled together in outsourcing agreements. From this point, pure 3PL becomes one extremity on a continuum where the other extremity is an integrated solution offered by a lead logistics provider (or fourth party). I will explore in more detail the delineation between 3PL and 4PL in my next LDA article.

CHEP Site Visit

On the morning of 27 September 2002, I enjoyed a site visit courtesy of CHEP America to its Ontario facility. This new facility is located some 45 minutes drive south east of Los Angeles through numerous business parks and warehouse type shopping precincts (the customer base for the facility).

The Ontario facility is a 150,000 square foot warehouse in which a sea of blue pallets are receipted from customers; inspected and where necessary repaired; then stored prior to dispatch to customers. The facility represents a clever bundling and outsourcing of two logistics services by CHEP America to a third party. 'Total Warehousing' provides the warehousing service (facility, MHE and labour) as well as the repair service (including inspection). There are three shifts of 25 staff who divide their time between operating the 'Smetco' pallet sorting and stacking machine; driving forklifts; and working at the pallet repair and painting benches.

Under this arrangement, repeated across the US, CHEP America minimizes in-house provision of logistics. A single CHEP employee in Ontario co-ordinates the work of Total Warehousing.

3PL Case Study (CHRW)

C.H. Robinson Worldwide Inc (CHRI) presented to the CLM Conference a case study on the outsourcing to them of the management of SI Corporation's domestic warehouse and outbound transport network. The outsourcing commenced in the second half of 2000.

SI Corporation is the largest US-based producer of carpet backings, geotextiles, erosion control products and concrete reinforcement fibres. In 2000 it was distributing products from its seven manufacturing plants to domestic customers via a network of 26 Distribution Centres throughout the United States.

SI Corporation managed in-house the domestic warehouse and outbound transport services of its network of DCs, although some of the individual DCs were 3PL provided. The catalysts leading to outsourcing were:

- SI Corporation lacked network-wide inventory visibility
- Logistics costs (which were considered an expense rather than an element of the cost of goods sold)
- Delivery overlaps in the network

CHRW was the global shipping provider for SI Corporation product. It was a natural evolution for SI Corporation to approach CHRW about the management of its domestic network. The CHRW approach to the task was to:

- Undertake a comprehensive network analysis (4 months)
- Present network rationalization options
- Implement the preferred option by last quarter 2001

The results of the analysis indicated that: SI Corporation maintained inventory levels that were greater than needed to meet desired stock turns; there was overlap of next day order fulfilment in nearly every major market and an excessive amount of transfers due to stock outs at specific warehouses.

CHRW presented three options:

- Option 1 – 2 DCs as a 3rd day service option
- Option 2 – 5 DCs as a 2nd day service option
- Option 3 – 12 DCs providing 80% next day service option with the remainder as 2nd day service

Option 3 was selected and implemented. CHRW now manages a network that includes SI Corporation facilities, CHRW managed warehouses/cross-docks, and third party provided warehouses. By the third quarter of 2002, the outsource arrangement achieved:

- Reduced inventory carrying costs through a 30% reduction in inventory holding
- Inventory visibility at each location
- Inventory turns increased from 4 to 7.3
- Delivery performance of 86% next day
- On-line track and trace functionality at order level
- Cost per pound metrics by product type

But most importantly, CHRW (with revenue of US\$3.2 billion p.a. and 3,800 employees) becomes a bigger logistics provider whilst SI Corporation reduces in-house logistics services. In much the same way, Australia Post becomes a bigger logistics provider through the agreement with Westpac whilst 20 other providers become smaller.

The CHRW/SI Corporation case study is undoubtedly a successful example of outsourcing to a third party logistics provider. If any readers are interested I can forward a detailed electronic handout in Adobe PDF format.

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