Third Party Logistics: Challenges and the Speed of Change

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Third Party Logistics Growth

• Third party logistics revenue is growing at a rate double the US GDP
  – Global Fortune 500 3PL market revenue is at $250.2 billion
  – 67% Increase since 2005

• 86% of domestic Fortune 500 Companies use 3PL’s to improve or perform functions in their supply chains
  

• Gain Sharing / new initiatives with 3PL’s have produced:
  – Average logistics cost savings of 11 percent
  – Inventory cost reduction of 6 percent
  – Average fixed logistics cost reduction of 23 percent

  *“The 18th Annual Third Party Logistics Cost Study”*
  
  *Penske, Penn State University and Korn/Ferry International*
3PL Speed of Change

• High 3PL growth is a response to customer needs and challenges
  – Technology: utilizing the 3PL technology platform to bridge a gap in a client’s internal platforms
• TMS systems cannot communicate properly with key vendors
• An acquisition leaves a gap in an organization's ability to fully integrate into their network
• Strategic relationships that have information gaps can cause disruptions in supply chains
Technology

• 3PL’s have developed expertise that is acquired and becomes part of the client’s growth strategy and cost models
  – The client can focus on what their core competency is: manufacturing, retail, distribution
  – 3PL provides the data and staff to enable the customer to make better decisions, reduce risk

• 3PL Technology Examples:
  – CH Robinson – TMC Division provides software and managed services, the client retains the carrier contracts and negotiations
  – Koch Logistics – high volume of new store fixture and remodeling projects
    • Information is provided to enable full budgeting of expenses outside of the normal retail transportation costs
    • Can make decisions on future projects based on past acquisitions or new store build-outs
3PL Strategy: Risk Aversion

• Organizations are using 3PL’s to reduce risk with their incumbent asset based vendors
  – Change in the hours of service, driver shortage, and peak shipping seasons can create “perfect storm” scenario for the shipping public
  – Bid awards: asset based providers awarded business do not have adequate drivers, trucks to cover every load
    • Bid award to low cost providers do not equate to 100% load coverage
  – Outsource strategy to move freight with designated 3PL brokers
    • The 3PL becomes the back up for loads not covered by their asset based carrier group
    • Client organization does not need to verify asset carrier stability
      – insurance, operating authority, carrier safety score – 3PL monitors this for the client
3PL Strategy: Risk Aversion

- Near Shoring – moving product manufacturing back from Asia
  - Analysis is done to determine landed costs and inventory carrying costs to return production and vendor supplied goods to America
    - Asia’s ongoing loss of competitiveness due to rising wages, availability of skilled technical labor
    - Increased logistics costs due to the price of oil
    - Ocean container time vs. inland transportation – weeks vs. days
    - Inventory carrying costs
    - US businesses realize that innovation suffers from geographically separating research & development functions and productivity
3PL Strategy: Vested Partnership

• **Vested Outsourcing:**
  – Research by Kate Vitasek, University of Tennessee has identified the top 10 critical flaws inherent in outsourced business relationships
  – Vested Partnership strategies eliminate the flaws by:
    • Creating relationship platforms that ignite innovation, improve service, lower costs and increase profit
    • It is centered around results instead of tasks / activities
    • Using incentives to transform the work
    • Is structured in “win-win” solutions – both parties gain
    • Becomes a collaborative agreement
3PL Strategy: Vested Partnership

• 3PL’s provide expertise levels and staffing for business outside of the distribution core
  – Fortune 100 Company: total transportation budget $165 million
    • Manage 95M within their Logistics group
    • Outsource 60M to key logistics partner(s)
  – Able to quickly change distribution flow, have feet on the ground on global basis to respond quickly, provide detailed key performance indicators
Sourcing Events

The tale of the salt and pepper shakers:

India vs. Canada
Supply Chain Challenge:
Omni Channel Distribution

- Omni Channel Distribution:
  - The ability for an organization to change up their distribution pattern
    - Fulfillment from distribution center, store front, outsource warehouse, manufacturing site
    - Must be able to respond quickly to meet customer needs
    - Challenge is how to determine proper alignment of goods in the marketplace vs. order placement
    - Current brick and mortar storefront becomes obsolete, retailers moving to distribution partnerships to provide clients with same-day and next day delivery services
    - Best Buy vs. Amazon.com
Supply Chain: Washington State Apple Orchards
Distribution developed since 1826 – warehouses, processing plants, rail movement organically added as production increased with new dwarf trees, high density plantings, and irrigation
Over 35,000 pickers employed during peak season
North Dakota Shale Oil: The Bakken Region

Discovered in 1951, technology has made drilling and recovery possible since 2000.

By the end of 2010, oil production rates reached 458,000 barrels per day, outstripping pipeline capacity to ship it out of the Bakken.

Development of oil storage, connections to the Enbridge pipeline, and transfer to rail cars via spurs to eliminate bottlenecks.