

## Stick to Core Competencies

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If top management wasn't asking before, the recession has many executives questioning just what are their companies' core competencies—what do we do best? That's a little different from asking what customers value most.

Logistics professionals appreciate the difference and, faced with corporate strategies that drive non-core functions to be performed outside the company, they seek to fill those roles with quality providers.

According to Tom Freese, Freese Associates, 93% of CEOs see supply chain management as a strategic asset but most have cost reduction as a goal of supply chain management. That means producing more output with less working capital and optimizing use of resources.

Freese also notes that relationship management can create a 20% to 40% difference on service quality, cost and other key performance indicators. Integrated supply chains, he observes, are based on trust. But a dilemma of the logistics professional who, willing or not, is using more outsource logistics services is the fact it is easier to do things than to get them done through your partners.

Matt Menner, SVP Sales and Alliances for Transplace, notes that shippers are using fewer but more reliable carriers in part because of what Freese has described. There are fewer people with less time to manage what was already considered non-core. But while cost and rates are part of the issue, an aggressive core-carrier strategy that seeks to reduce the number of suppliers can also focus on selecting the best in class.

Best in class logistics providers typically have made investments in the necessary infrastructure—facilities and technology for instance—but also focus on improving quality. A good strategy doesn't prescribe work flows and doesn't seek to maintain the status quo, says Menner. Instead, it embraces change and empowers the 3PL to effect change and continuous improvement.

The technology and other commitments to resources are still important for 3PLs, says Menner. For one thing, the existing infrastructure and experience accelerate the “go live” for customers of the 3PL and enable them to see results faster.

Paul Malamet, Choice Logistics, differentiates between the types of logistics provider saying that a 3PL typically has a direct relationship with the user and provides its own tools, backbone, processes and facility. A 4PL, by his definition, manages other 3PLs. And a lead logistics provider (LLP) provides a management service, but may also perform some logistics functions as well.

There's a cost to being at arm's length to the relationship, says Malamet, and 3PLs are more cautious about what services they offer to secure and then extend their relationship with their customers. In this, the 3PL does its own core vs. non-core analysis in deciding which functions it can perform and which it should manage for a customer or where it should be providing a referral to another logistics provider. As a 3PL, Malamet asks, is this an opportunity or a distraction? It's not all-or-nothing, he says. Shippers are often willing to segment logistics or supply chain functions and divide bids to get the best performance. But one question is, can that client manage multiple suppliers?

Educated consumers, says Malamet, realize there is typically not one 3PL who satisfies all needs adequately. Derek Gittoes, vp of logistics product strategy for Oracle, doesn't define differences between 3PL, 4PL and LLP. He uses the term logistics service provider (LSP). By the nature of Oracle's business, Gittoes focuses on technology and says you want diversity of service and some degree of customization, but on a common platform.

Visibility is one of those common themes in both physical and data operations. When your customer calls, you need information as if you are running the operation, says Gittoes. From a data perspective, a common platform for in-house and outsourced functions goes a long way towards giving customers the kind of answers and service they are looking for.

While transaction visibility can help with the status of an order or a shipment and can also serve to feed performance measurements, there's a murky zone for companies that outsource. The recession has sharpened the focus on automating transactions, says Gittoes, even in emerging markets that have been performing many functions manually. Gittoes may be implying a reemerging interest in tools such as activity-based costing that help determine how profitable a customer is and exactly where costs and inefficiencies lie.

The 3PL will be looking at its customer to know how profitable the business is and the user who hired the 3PL will be measuring 3PL performance to ensure it matches expectations. But, the dynamics of the supply chain are always changing. The 3PL, operating closer to its customer's customer is typically more in tune with what is actually happening—what demands the customer places on the supply chain and what impact the customer's behavior has on cost and efficiency. Many corrective steps may already have been taken to adjust to meet those needs and, undocumented, they are institutionalized within the 3PL's operation but completely invisible to the customer who hired the 3PL.

A 3PL relationship is dynamic, says Transplace's Menner and keeping it on track demands regular meetings to look at key performance indicators and financials. But beyond timeliness of pick up, timeliness of delivery, invoice accuracy and other quantitative measures, another set of measurements have to examine the chemistry of the relationship. Competitive rates and service standards and financial stability are table stakes to get into the game, says Menner. The true test for a successful relationship will be in executive alignment, the fit between networks and innovative solutions. And in that respect, 3PLs will be measuring shippers as closely as the shippers are measuring their outsource service providers.