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• THIRD-PARTY LOGISTICS

## The road to outsourced logistics is full of surprises

THERE'S NO RECIPE for hiring a third-party logistics provider and outsourcing portions of your supply chain. Every company is different and has its own priorities and practices when it comes to logistics. And plan as you might, some things can only be learned by experiencing them.

With that in mind, *Purchasing* recently spoke with two longtime 3PL users about their experiences to find out what sorts of surprises they have seen and what advice they'd give to those considering outsourcing to a 3PL.

### Surprise #1: Relationships carry value

When food and beverage maker Ocean Spray first outsourced some transportation operations about 12 years ago, the company relinquished its direct contact with carriers. At the time, the idea of not having to negotiate contracts and manage relationships with carriers seemed like a big time saver, but as it turns out, those relationships can in fact provide shippers with a lot of value.

"When you're using new carriers all the time that you don't have history with, you're missing out on some value," says Doug Ward, inbound transportation manager at Ocean Spray in Middleboro, Mass., of the company's prior outsourcing model. "And if you use a lot of brokers it gets even further disconnected between the shipper, the 3PL, the broker and the carrier. When you do need that leverage with the carrier you don't have it" because the carrier may not view the end shipper as its direct customer in many ways.

So about six years ago, Ocean Spray overhauled its logistics strategy, bringing in TMC, a division of Eden Prairie, Minn.-based 3PL CH Robinson, for the tactical work, while Ocean Spray maintains the carrier relationships and negotiations. And it's making a difference.

Today, Ocean Spray has a much closer relationship with its carriers and has seen



increased negotiating leverage in good times and bad. "Even though it's a shippers' market right now, we understand the pendulum will shift and the rates will change," Ward says. "So we're still focusing on developing relationships with our core carriers and planning for the long-term."

For Ocean Spray, one of the biggest benefits of keeping direct carrier contact has been its ability to gain control over inbound raw materials shipments. "Those types of synergies—coordinating inbound and outbound shipments with carriers—would have been much more difficult to achieve without direct carrier relationships," says Ward.

As important as the relationships with carriers are, so too is the relationship with the 3PL, says Ward. In its original outsourcing deal, Ocean Spray did not have any 3PL employees at its facilities, they were all located at the 3PL's offices. But that model switched when TMC was engaged.

"We have an onsite team of seven people from TMC," says Ward. "They handle much of the tactical, day-to-day execution of shipments which lets us

### business intelligence

77%

**Buyers planning to keep transportation buying level this month**

Source: [www.purchasingdata.com](http://www.purchasingdata.com)

**WHAT IT MEANS:** *Fool me once shame on you. While many signs point to increased freight demand, buyers seem to be holding back on increasing their freight sourcing for now.*

3.3%

**Increase in Freight TSI index since May**

Source: Bureau of Transportation Statistics

**WHAT IT MEANS:** *It's a very slow, steady incline from 93.5 in May to 96.6 in the most recent reading. But there are other signs that freight demand is on the rise in specific modes.*

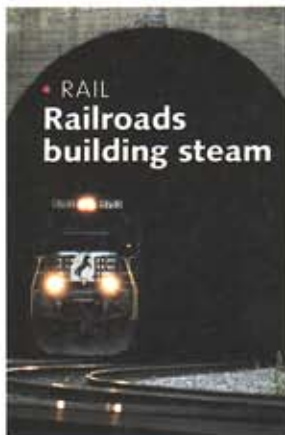
28%

**Decline in 2009 container freight rates at Maersk**

Source: Maersk

**WHAT IT MEANS:** *In reporting its first loss in 60 years, the container shipping giant forecasted that rates will increase this year, but they will not spike dramatically as shippers feared.*

For more logistics coverage go to [www.purchasing.com/logistics](http://www.purchasing.com/logistics).



As the economy goes, so go the railroads. Or is it the other way around? Either way, both seem to be heading in the right direction, at least according to railroad executives.

"I'm not willing to say the challenges are over, but some areas are pretty strong," said Union Pacific CEO Jim Young in an interview with the *Associated Press*. UP's automotive shipments are up 60% from a year ago and shipments of industrial products are up about 4% compared with last year.

Speaking at the JPMorgan Aviation, Transportation and Defense Conference, Oscar Munoz, CSX's CFO, said he expects double-digit growth for 2010 driven by higher sales and shipping volumes.

At the same conference, Kansas City Southern's CFO Michael Upchurch said shipping volume is up 13% through the first eight weeks of this year.

U.S. intermodal volumes as reported by the Association of American Railroads increased nearly 14% year-over-year during February.

Some Wall Street analysts expect railroads' pricing power to firm up this year. In a recent note on Norfolk Southern, Barclays Capital analyst Gary Chase said the pace of price increases has slowed, but he thinks that should ramp back up in the second quarter.

focus on the strategic part of the business and establish better carrier relationships.

"It's a solid relationship and I view them as an extension of our company's supply chain group. The knowledge of their staff is higher than we expected. A 3PL is not just a call center and a TMS. It's knowledge and experience of the people."

**Surprise #2: Sometimes fast delivery is too fast**

When your business is making airport security screening devices, no one wants your equipment to be out of service very long. Not your company, not the airport and certainly not the travelers. So getting spare parts to the site of a downed piece of equipment as quickly as possible is a top priority for New York-based L-3 Communications, which makes such devices. But it was a surprise to Bob Wright, director of global logistics at L-3's Security & Detection Systems division, to learn that there is such a thing as "too fast" when it comes to delivery of parts.

When L-3 first outsourced its service parts delivery to New York-based 3PL Choice Logistics, it was seeing a higher-than-anticipated number of late deliveries. "When we really tracked it, 87% of the late deliveries were because the tech wasn't there when the 3PL showed up with the part," says Wright. "We wanted it fast but we wanted it delivered in a time window when we know our technicians will be there to meet the delivery."

So Wright found himself in an unexpected position—he had to tell his 3PL to slow down and be sure to deliver it when the technician was there. "I would have never anticipated that—this was a big culture change for all of us," Wright says.

Fast forward six months and today, only 2% of late deliveries are because the 3PL and technician didn't synch up, a huge improvement.

**Surprise #3: Pushback and skepticism could exceed expectations**

The term "outsourcing" brings out a variety of feelings and reactions from internal stakeholders. While some people see outsourcing as a chance to improve operations, let's face it—a lot of employees fear it means their job is being eliminated. And in some of the most extreme cases, employees could intentionally sabotage the 3PL's work. But more often, it's proud employees

that assume an outside provider cannot perform a task as well as they can.

Along those lines, both Wright and Ward say they underestimated just how much pushback and skepticism they would encounter in their logistics outsourcing implementations. "Yes, people didn't trust me when I said we knew what we were doing," Wright says. "There was a healthy amount of skepticism. I didn't plan for so much pushback on this."

Wright says that because L-3's outsourcing model involved moving spare parts inventory off-site to be managed by Choice, employees expressed real concerns about how the inventory replicate itself. The issue came to a head in late 2009, when L-3 won a government contract for full-body scanners at airports that would mean its production needed to increase rapidly.

"Around that time, our spare parts planner for that product line came to me in a panic," says Wright. "She didn't know where to put the parts to support all these new products in the field. So I just reminded her all he needed to focus on was making sure the mins at the field stocking locations were right and the 3PL would do the rest."

**Surprise #4: IT has a big role in successful outsourcing**

While many logistics professionals may think of a 3PL implementation as a functional project, there is a big IT component that should not be underestimated. Both Ocean Spray and L-3 say their experiences proved that there can't be enough pre-planning with IT before flipping the outsourcing switch.

"I worked on getting the IT people on-board early," says Ward. "Getting their compliance is a huge help later on when you move to implementation. It makes the transition a lot more seamless."

Wright concurs, saying one of the unexpected challenges of outsourcing was the reporting requirements. Because L-3 is under certain restrictions as a government contractor, it cannot do any EDI. So it had to work very closely with Choice in developing the right reports that could be put into L-3's system.

"I didn't expect that stage to take so much work," Wright says. "We thought we knew what we wanted [for reports] but you get various reports with pieces of what you need, but there's not the exact report you need. Our 3PL had to develop some consolidated reporting for us."