

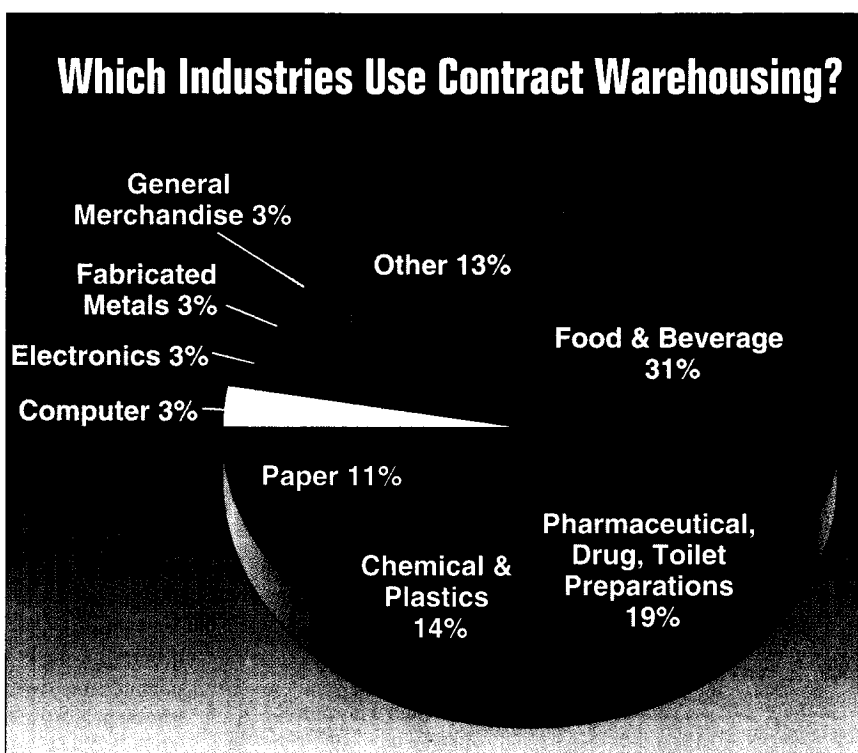
MANAGEMENT

THIRD-PARTY LOGISTICS: FIRST CHOICE FOR MANAGERS

The message for your company is that logistics providers will pick, pack, fix, ship, store, deliver or identify anything you can't, don't or won't.

by Clyde E. Witt, senior editor

Problem-solving is what third-party logistics services providers have traditionally done. In the past, they provided space, or delivered goods. Occasionally they handled special requests for customers. They discovered that going a bit farther out on the limb with new services was not that much more frightening. They've learned it's what you have to do in today's business world. Third-party logistics services providers, buoyed by experience and confidence, are willing to consider any project. In many cases they are taking potential solutions to a customer before that customer knows he has a problem.



The Warehousing Education and Research Council (WERC) has just published findings relating to contract warehousing. Their report indicates third-party logistics services are being used in a wide variety of industries. Dr. Thomas Speh, director, Warehousing Research Center and chair of Marketing, Miami University, says the catalyst for this project was the lack of a definitive state-of-the-art assessment of contract warehousing. If you would like a copy of the ground-breaking study, Contract Warehousing: How It Works and How to Make It Work Effectively, contact WERC, 1100 Jorie Boulevard, Suite 170, Oak Brook, IL 60521. Cost is \$30. Graph generated from data in the study. Courtesy of WERC.

Catalyst for change

Russ Gilmore, president, The Focus Group, provides some historical perspective for third-party logistics services. Writing in the *Distribution Management*

Handbook (published 1994, McGraw-Hill, Inc.), he notes that during the late 1980s the information technology revolution was well under way at the same time many corporations began to concentrate

As reasons for the increasing number of third-party logistics services providers, Gilmore lists the following:

- Increased awareness of the importance of logistics to top management;

on their core competencies.

"Companies began to examine the idea that the corporation can perform all steps, from obtaining raw material to delivering finished goods to the final customer," Gilmore says. "The cost per transaction for computer technology was falling rapidly and software was being developed to accurately separate the cost of logistics from other processes, to efficiently support logistics and to manage the flow for goods.

"The strong emphasis on replacing inventory with information opened opportunities for third-party logistics services providers to add value at an affordable cost to companies seeking to improve their competitiveness."

- Return to core competency;
- Current trend to outsource activities that divert corporate capital;
- Emphasis on decreasing human resource levels.

Gilmore notes that choosing a third-party partner can be a little like looking into a long, dark tunnel. Long before beginning the search for acceptable candidates, the company has several important hurdles to clear. Here are a few of his tips:

- Develop a concise scope of work. Understand what you wish to accomplish in the logistics venture in detail and never assume anything.
- Establish objectives and selection criteria. Determine what is to be obtained from the relationship to allow the user to realize the fullest benefit from a third-party relationship.
- Identify qualified providers. Many sources are available to identify potential logistics partners; among them are the Warehousing Education and Research Council (WERC) and Council of Logistics Management (CLM).
- Call for proposals. The best proposals are detailed enough to explain the business and objectives of the company as well as the particulars of the

logistics project.

- Evaluate the bids. Evaluating the bids and bidders is more complicated than picking the lowest price or expanding services provided by a current vendor.

New definition of service

Third-party logistics services providers are also learning that their services are being required closer than ever before to the ultimate consumer. It's not uncommon for the third-party logistics services provider to work directly with his customer's customer.

As a prospective user of third-party logistics services, your overriding concern will be control. Control of your products. Control of your customer service. And control of your money.

Users of third-party logistics services find they can customize logistics operations in ways not possible if done in-house. Having your own warehouse operations requires extensive commitments to facilities and people. If you are inadequately staffed or equipped, sudden increases (or decreases) in demand send shock waves through your organization.

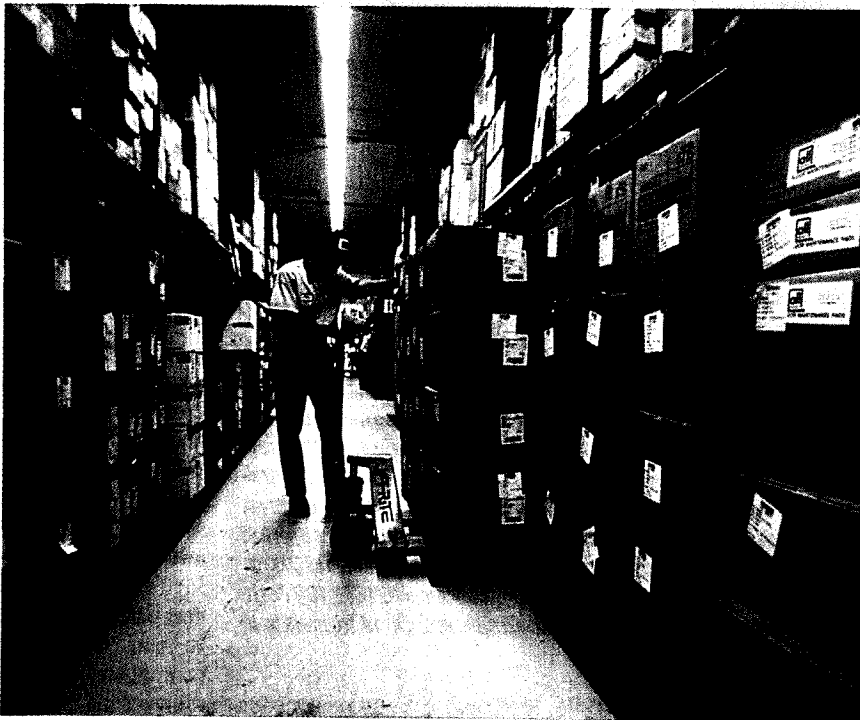
To remain flexible, or regain flexibility, users of third-party logistics services have to be willing to relinquish some control.

How much depends on the level of services you want or need. Many of the current contracts companies are signing look more like partnerships, or strategic alliance agreements. Users have many options such as choice of space, handling and transportation; or specialized services like packaging and product repair. Along with these services comes a range of pricing alternatives. If you're the type who likes fixed numbers in the budget, be sure you know exactly what you are contracting for. However, you might find the flexibility of your provider's services offsets the inconvenience of budget fluctuations.

If you switch to third-party logistics services, you might feel that you've relinquished control of an important aspect of your business, and you have. But you've added value to the service you provide customers. You have gained flexibility and directed your company more toward its core functions.

Full service for spare parts

USCO Distribution Services has found a way to help its customers respond to orders in times of crises. To ensure swift fulfillment of emergency orders, this third-party logistics services company does more



Bar code scanning and returnable containers are all part of the successful replenishment program at Saint Luke's-Roosevelt Hospital managed by GATX Logistics. Photo courtesy of GATX Logistics.

Hospital Gets Well With Third-Party Logistics

Saint Luke's-Roosevelt Hospital Center, New York, is one of the leading teaching hospitals in this country. They contracted with GATX Logistics, Jacksonville, Florida, to transform a donated building into a material support center. Health-care providers are under pressure to reduce costs. Saint Luke's-Roosevelt determined it needed to focus on total supply chain costs to manage the internal logistics flow of products from vendor to dispensing on the nursing floor.

GATX demonstrated to the hospital how this could be accomplished by installing a new and responsive material management system. The design allows the staff to take full control of internal material management. All replenishment functions are now basically guided and driven by patient use on the nursing floor.

GATX renovated a 105,000-square-foot warehouse into a hospital support

than deliver spare parts.

On behalf of two computer manufacturers, USCO receives orders from its customers' computer engineers who are making repairs in the field. They fill the orders based on a pre-established shipping timeline. The services provided differ slightly.

In the case of one client, customer engineers place their parts orders through a computerized tracking and order entry device. They enter part and order numbers, along with order priority level data before sending the electronic order to USCO.

USCO's response to the order is based on the assigned priority level. The highest priority orders are picked, packed, shipped and confirmed within 20 minutes of receipt. To assure immediate shipment, couriers wait outside the



Third-party logistics services providers are distinguished by the value they add to clients' products.

Photo Courtesy of USCO.

USCO facility 24 hours a day. If the order cannot be delivered by courier or next-flight-out, USCO will charter an aircraft, if necessary and requested by the client, to deliver the package.

Other levels of priority require orders be filled and confirmed within one to four hours, or next-day service. USCO has set up three contract facilities in the U.S. for sole use by this client. They have also es-

center. They were involved in the entire project including the purchase of lift trucks, racks, conveyors and radio frequency data collection (RFDC) devices. GATX is also responsible for hiring and supervising the support center staff.

Health-care providers are inundated with paperwork, so a mandate of this project was to keep it paperless. At the start of each day, hospital material management staff use hand held RFDC devices to scan current inventory for reorder of supplies. They electronically transmit their requests to the support center for same-day delivery. The support center is responsible for transmitting purchase orders to vendors. Vendors are responsible for bar code labels on products and for order consolidation.

Operators in the support center pick orders from static rack locations or from horizontal carousels. Orders are sent to the hospital in returnable plastic containers. All debits and credits to a nursing center's supply account are handled electronically. Upon receipt of material, either nurses or hospital ma-

terial management workers scan the incoming order for accuracy.

A modified two-container kanban system is used at the nursing station for reordering. Products are stored in two containers at each station. These products represent a par quantity of supplies. When a container is depleted, the material manager knows it is time to scan and transmit an order to the support center.

Benefits of this third-party service are many and significant. The hospital has freed 25,000 square feet of internal space. They have also reduced the number of vendors from 1,950 to 560. The two-container system has dramatically reduced miscounting due to human error, and reduced, by 35 percent, the amount of waste packaging material generated. An intrinsic reward has been a significant increase in the comfort level of nurses who were concerned about being able to access material quickly. The desire to hoard certain supplies out of fear that they won't be available when needed has disappeared.



GATX participated in the purchase of all material handling equipment for their customer as well as providing the people to manage and run the warehouse operations. Photo courtesy of GATX Logistics.

But the bottom line tells the tale best. The support center costs the hospital about one-tenth of what it would cost to store material on-site. Overall cost savings are estimated at between \$2 million and \$2.5 million annually.

tablished a toll-free telephone line so that engineers can check the status of the order, and a tracking office that can determine if a part is in stock, no matter which facility is storing it.

For another computer manufacturer,

USCO operates two large dedicated facilities (east and west coast locations) that serve as stocking centers for the company's critical spare parts.

Through a network of 72 regional locations, set up in public warehouse facili-

ties, USCO keeps computer parts on hand in smaller cities throughout the U.S. and Canada.

In their Connecticut headquarters, USCO operates a call center to process orders for the client's computer engi-

Customer Service Is Genco's Tradition

For a company that began nearly one hundred years ago with a single wagon and a blind horse, General Commodities Warehouse & Distribution Company (Genco) has come a long way. The service it provides to one of this nation's newer airports reflects just how far the company and this industry have traveled. It also underscores the need for traditional values like hard work, reliability and commitment to customers' needs.

The new Pittsburgh International Airport was designed to be more than a place for travelers to pass through on their way to someplace else. The concept of an air mall, where name-brand shops and restaurants serve travelers, is targeted at more than 60 percent of the passengers. The mall space is leased and managed by BAA Air Terminals, a British company.

They selected Genco to handle the logistics of servicing the 90 retail shops and restaurants within the mall.

Mark Spada, vice president sales and marketing, says it's more than just getting the right material to the right shop at the right time. They were challenged with getting more than 100,000 items to 90 stores without creating gridlock in the mall aisles.

"We have to make deliveries to the various shops and restaurants at all times of the day, every day of the week," says Spada. "And we have to work around the airlines' schedules because we don't want to be delivering product to store fronts at the same time crowds of people are making purchases. Plus, many of the items, like newspapers and bakery, have time constraints so they can't wait until the mall is empty."

The challenge is not like getting product out of a warehouse and delivering it to a single customer. Here, they are dealing with 90 individual customers, each with different replenishment demands and schedules.

The scheduling problem was worked out as a spreadsheet application. Factors such as the kinds of products each store would handle, timeliness and inventory turn rates were coupled with airline arrival/departure schedules to find the best times for delivering to the stores.

Genco also had to figure in the amount of time it took an employee to walk down a concourse as well as how long it took to move product from the 11,000-square-foot warehouse to the freight elevator. The number of people required to do the job was determined by volume of material and time to deliver.

Facility manager Dave Muka says in an average week Genco handles about 7,000 units, everything from a gallon of milk to a case of sweat shirts. Deliveries take place between 4 a.m. to 9 p.m.

Genco's services have greatly reduced what would have been hundreds of deliveries to the retailers within the air mall. They average 70 truck deliveries each day at their dock. From bagels to baseball caps, it all passes through on a near Just-In-Time (JIT) basis.

How goods are handled and when they're delivered ultimately depends upon the customer, but a priority had to be established. Stale news is about as appealing as stale bakery, so delivering newspapers and bakery is high on the priority list. Many items are cross-docked from the delivery trucks into waiting freight carts. Rarely does anything sit in the dock staging area for more than 90 minutes. A large freezer and refrigerated area is maintained for items requiring that kind of protection.

Genco employees check all incoming goods against a manifest. They also do a quick quality check for any obvious damage or problems.

Although they are not using any kind of automatic data collection for tracking goods, Genco does have its own computer system for tracking and maintaining detailed information about each delivery. Monthly reports are made to the air



At Pittsburgh International Airport, Genco has had to coordinate vendor replenishment with air traffic schedules to minimize disruptions. Photo by Clyde Witt.

mall vendors detailing all deliveries that month.

Goods are moved from the dock area about once every 90 minutes. Mixed loads scheduled for delivery are placed in special freight carts. They're taken in trains of three carts from the landside of the terminal to the airside. To get to airside locations, carts are pulled through a half-mile-long tunnel that parallels the baggage system and people mover. A freight elevator is used to move the carts up to the mall level. From there employees use hand dollies to take loads to individual shops. For some shops that have large volumes of merchandise, special storage areas are provided at the end of the tunnel.

Occasionally some goods that are too large for the delivery carts arrive at the dock. To reduce handling and speed delivery of things like store fixtures or even building supplies, Genco provides personal escort service. They escort the delivery truck around the outside of the terminal and to the appropriate freight elevator.

As Spada notes, managing people and space is what Genco has always done. Add to that the growing need for managing and processing information and you have a good picture of what third-party logistics services are today.

neers. Call center operators accept the orders, find the part requested through a computerized inventory system, and have the parts shipped directly to the engineer within the agreed-upon time.

Call center operators will also confirm orders and check on the status of orders on behalf of the engineers. Emergency or high-priority parts are shipped to the engineer through an air delivery network.

Vincent Gulisano, vice president for USCO's Eastern region, says they have an overall quality rating for accuracy that is virtually perfect, 99.999 percent.

"At the beginning of the relationship we establish a rating system with our clients to measure the service with quantifiable goals and quality expectations," Gulisano says. He adds that *saying* you'll get the part out in 20 minutes and actually *doing it* are two different things.

The message from third-party logistics services companies is that finding a solution to your logistics problems is not your job. The trouble with logistics today is that the know-nots tend to fall further behind as more is discovered for them not to know. If you can't find the solution, third-party logistics services providers will.

Focus and trust are keys to success

Mike Runager, vice president business development, Excel Logistics, cites two reasons for his company's gains in third-

party logistics services: staying focused on specific market sectors and building trust with key customers.

"Companies have a host of things they are good at — production, research, whatever," Runager says. "In some of the non-core skills, however, they are looking for strategic partners to work with them and better understand their business. It's beyond a transactional relationship. It's working well in concert, not just in a particular area, and being able to serve an entire market."

Du Pont Company was looking for ways to reduce the cost in the chain of events involved in distribution of products coming from their Parkersburg, West Virginia, plant. Historically, product came off the line and was staged while samples went through a quality assurance check. The product was then loaded onto a trailer to be shuttled to Excel's nearby distribution center. There the product was unloaded and placed in inventory until sold.

Along with the physical movement, there was the information movement. Release of inventory had to take place at each link of the distribution chain.

Over a period of years, working closely with their customer, Excel has established a program to take the product directly from the production line to a trailer. When the trailer is full it moves to the Excel warehouse; no paperwork is necessary. Movement is over private

roads so there are no legal requirements to be satisfied.

All the lot and production codes are tracked and sent, electronically, back to the manufacturing operations giving them production credit.

Dave Abt, manager of analysis and planning, Excel, says they've removed several bottlenecks from the overall process.

"It has also alleviated a lot of systems transactions along the way," Abt says. "We've saved Du Pont more than a million dollars a year from reduced transactions and system usage. Plus there has been a major timesaving factor as well."

As Runager notes, Excel focuses its services in specific market segments. The chemical industry is one. Another customer, Becton-Dickinson, manufacturers laboratory equipment.

Excel provides on-site quality assurance testing of vendor-supplied slides and glassware. Becton-Dickinson trained Excel associates and Excel established a laboratory within the warehouse that makes it possible to sample and test inbound product for quality. This eliminates the need to ship (and return) product to another facility for quality checks.

In addition, Excel serves as a national returns center as well as a repackager of Becton-Dickinson products. In the past they've done order consolidation work that reduced transportation and shipping costs. **MHE**

Is There a MEGA Center in Your Future?

Art St. Onge, president, St. Onge Company, York, Pennsylvania, likes to talk about the future of logistics. He calls the current logistics revolution an evolution of the MEGA Center.

"There are a couple of ideas surrounding this concept of what we call mega centers," St. Onge says. "We are currently working with Mitsui Trading Company in Japan, who is in turn working with the Japanese government to develop a program to overcome their infrastructure gridlock problems. St. Onge cautions that the program is still at the conceptual level.

"The idea is to develop mega centers, or strategic points around cities where manufacturers will ship products to be consolidated for delivery. Currently all manufacturers have their own distribu-

tion channels that bring thousands of trucks onto the highways. The number of vehicles could be dramatically reduced."

Closer to home, a company in San Francisco, Non-Stop Logistics, has taken the concept of third-party logistics services a step beyond. Their plan is to create mega centers to support the Efficient Consumer Response (ECR) initiatives within the grocery industry.

Their basic program calls for handling all of the dry grocery products for supermarkets. They would serve both manufacturers and retailers. Their computer software can provide accurate forecasts (about two months out) of what demand will be for certain products. In the grocery business there is a core of products that are fairly

predictable in their demand.

These forecasts can help manufacturers level production flow and help retailers with sales programs. Non-Stop is fashioning their program around the successfully proven concepts of small package delivery service hubs. It will be a flow-through, or cross-docking, operation.

St. Onge says this concept will require very challenging logistics to make it work. But it has the potential to reduce handling costs per case manyfold.

"Currently, it's estimated that there is a cost of about \$2.29 per case to handle goods in the dry grocery industry," St. Onge says. "The hope of ECR is to reduce that to about \$1.35 per case. And Non-Stop feels it can reduce the cost to less than a dollar with their program."