



MAKING THE CASE FOR LOGISTICS OUTSOURCING

A practical guide for managers and directors of logistics, supply chain and warehouse operations on developing the business case for outsourcing.

G&D IntegratedSM
Smart. Efficient. Logistics.



MAKING THE CASE FOR LOGISTICS OUTSOURCING

A practical guide for managers and directors of logistics, supply chain and warehouse operations on developing the business case for outsourcing.

Table of Contents

What's at Stake in the "Now Economy"	Page 3
The Make-or-Buy Decision.....	Page 5
Developing Your Business Case for Outsourcing.....	Page 10
How to Present Your Case for Outsourcing.....	Page 12
Outsourcing-The Big Picture.....	Page 14
Sources.....	Page 15



WHAT'S AT STAKE IN THE "NOW ECONOMY"

How you source, make and deliver products the way your customers want it matters more than ever before.

Globalization and technology, such as advancements with the smartphone and mobile devices, have created today's "now economy" and the omnichannel in retail, where the customer demands a seamless experience across channels. SKU proliferation, mass customization and channel-specific manufacturing are all outgrowths of this evolution which add complexity to the supply chain.

This "Amazonification" of the supply chain is transforming B2B and B2C marketplaces alike and shifting the business model from merely operating a cost center to developing a strategic growth engine. Supply chain managers are facing formidable challenges in all three areas of today's now economy: structural, financial and customer expectations.

A few examples: of "now economy" challenges:

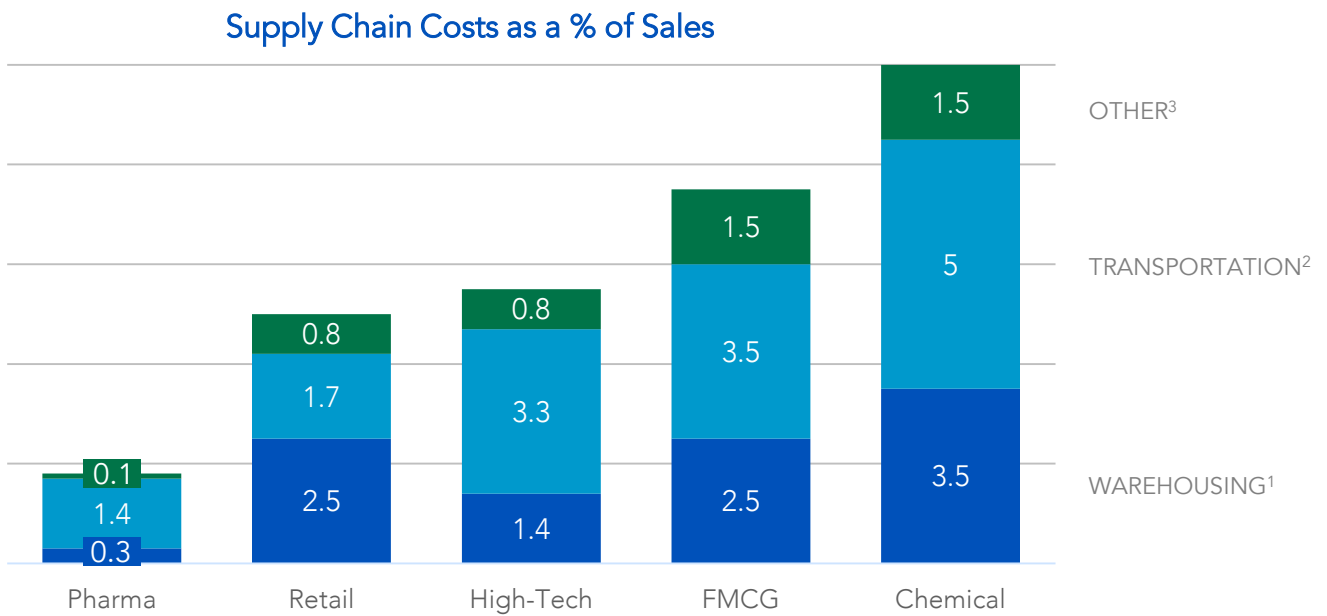
1. You need to meet your trading partners' increasingly complex business requirements.
2. Your customer and their customer's high expectations involve everything from quick manufacturing turnaround to tight JIT delivery windows.
3. Real-time communication and integration among trading partners in a supply chain is expected over discrete, siloed systems.
4. From the financial perspective, the pressure is on to add value to the supply chain and accelerate concept-to-cash cycles.

In short, you need to create a highly efficient, visible supply chain involving procurement, sourcing, inbound, manufacturing, distribution and fulfillment on through product delivery to the customer.

The trouble is your organization's core competencies may not be in logistics and supply chain. Or your organization may be in a growth period through acquisitions or organic growth. Whatever the case, outsourcing more of your logistics-related operations to a third-party logistics provider (3PL) may be the best option for increased efficiencies, whether short term or long term.

WHAT ARE YOUR LOGISTICS COSTS?

Knowing your current logistics costs is a good starting point when considering outsourcing and building a business case to do so. For the individual company, supply chain costs as a percent of sales vary by industry. Depending on the industry, average supply chain costs as a percent of sales range from about 2 percent to 10 percent or greater.



1 Warehouses (fixed and variable cost)
 2 Outbound/inbound freight spend
 3 All additional cost related to supply chain planning, admin
 SOURCE: McKinsey, 2009, Supply Chain Champions

U.S. LOGISTICS COSTS

Do you know your company's supply chain costs as a percent of your sales? These activities include inbound/outbound freight, warehousing and inventory carrying costs. Indirect costs may include administration and customer service. Such data can help you build your case for logistics outsourcing.ⁱ



THE MAKE OR BUY DECISION

The classic make-or-buy decision means making strategic decisions regarding what aspects of your supply chain and logistics activities to keep in house or buy externally. Activities or operations that are core to your business and competitive success may not easily be reproduced.

Do you need to maintain unique or specialized skills, assets or investments to produce or deliver the product? Is the output or result something you need to control?

If yes, then keeping operations in house is advantageous.

If no or maybe, then outsourcing or buying the services or capabilities externally makes more sense. Effective outsourcing can free up cash flow or generate overall cost savings.

Questions to ask in the make-or-buy decision process

- 1.** What are the facilities and infrastructure needed to meet your customer's business requirements or your own company's strategic plans?
- 2.** What are the data and IT requirements?
- 3.** What is the capital investment required and other financial considerations to make it happen?

OUTSOURCING CONSIDERATIONS

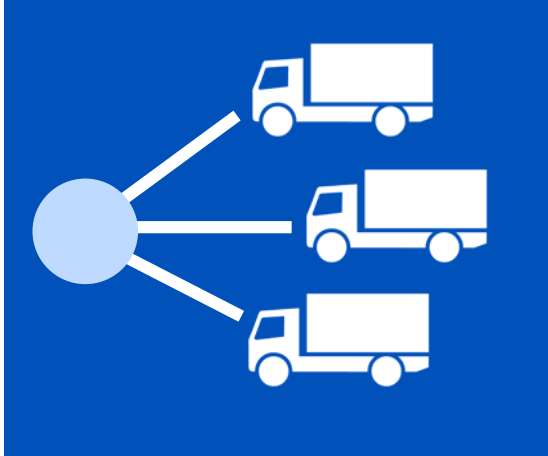
Companies tend to outsource the most to 3PLs on a tactical and operational level for discrete functions such as transportation, warehousing and freight forwarding.ⁱⁱ But beyond the basic services, there are advantages to outsourcing complex services such as packaging, kitting and assembly, and cross-docking.ⁱⁱⁱ

Additionally, inventory management, fleet management and lead logistics provider (LLP) or 4PL services are some of the least outsourced logistics activities. Yet these areas are where some of the most gains can be realized.



Significant opportunities exist for users of 3PL services to outsource more of their logistics-related operations to address the gaps in their supply chains at a more strategic level to realize greater operational efficiencies and improved customer service. These areas tend to require intensive IT resources and include service parts logistics and supply chain consulting services.^{iv}

SIGNS YOU MAY NEED OUTSOURCING SUPPORT

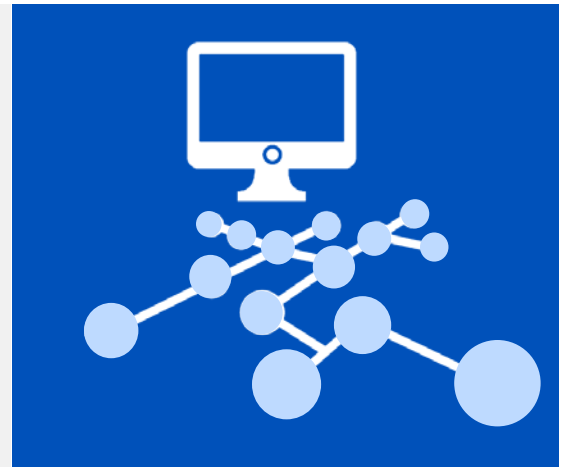


INBOUND

- You have inefficient inbound materials flow
- You are experiencing high costs associated with too many carriers
- You have high inventory carrying costs
- You are paying fines, fees or experiencing delays

DATA AND IT INFRASTRUCTURE

- Your technology is lagging
- Your systems don't connect with trading partners and customers in data-sharing protocols and standards
- Systems need to be integrated for better data flow
- You have minimal to no visibility into inventory and performance monitoring
- You don't have the deployable capital that would merit investing in your own infrastructure



DISTRIBUTION AND FULFILLMENT

- Your orders have expanded beyond the capacity of your current warehouses and private fleet
- You are struggling to meet the omnichannel customer demands of accelerated delivery times
- You are not good at returns management
- You are struggling with seasonal or fluctuating demand
- Your warehouse labor costs are out of control

BENEFITS OF OUTSOURCING

Recent polls to hundreds of shippers and users of 3PL services found the great majority of those surveyed attribute the use of 3PL services to overall logistics cost reductions.^v

Specifically, the Capgemini 2015 Annual 3PL Study found shippers who outsourced part of their logistics and warehousing related operations to 3PLs gained average savings of:



6%

order fill rate
increase



9%

logistics costs
reductions



5%

order accuracy
rate increase



5%

inventory cost
reductions



15%

logistics fixed-asset
reductions



It is important to note these figures reflect the maturing marketplace of shipper-3PL relationships. Many companies have been using 3PL providers for years and while their gains year-over-year have diminished, these companies continue to see cost reductions when working with their 3PL.

From a financial perspective, how you move and store your goods matters. In fact, your organization may benefit by shifting from a fixed cost business model to an expense based model with a 3PL.

ADDITIONAL BENEFITS OF OUTSOURCING

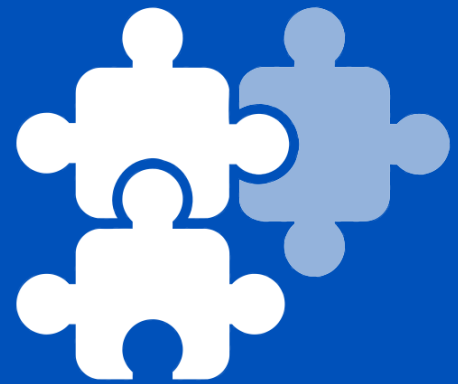


WAREHOUSING AND DISTRIBUTION

- Leverage postponement and late stage cost-effective support for seasonal or cyclical businesses
- Improved visibility into direct and variable costs (e.g. - leases and labor)
- Increased labor productivity
- Reduced inventory costs and lead time for material

LOGISTICS AND SUPPLY CHAIN MANAGEMENT SERVICES

- Supply chain integration accelerates concept-to-cash cycles, lowers landed costs and increases customer collaboration
- Improved capacity utilization with better use of resources such as warehouse space, fleets and equipment
- More efficient use of labor and aggregated buying power of the 3PL contributes to lower costs
- Accelerated growth through expanded trading partners, penetration of new markets, and increased international scope



BENEFITS FOR YOU AND YOUR COMPANY

- Can focus on actual core business versus logistics which may not be a primary focus
- 3PL providers are experts who help you stay up to date on latest logistics developments
- No investment in full-service logistics set-up can free up capital for other priorities
- 3PLs record, monitor, report on regular, specific schedule which equals increased control
- Easily scale logistics needs up or down depending on requirements



DEVELOPING YOUR BUSINESS CASE FOR OUTSOURCING

You may know your biggest problems already, or they have yet to be discovered. Maybe it starts with a budget item that is out of control, such as examining how to reduce your annual transportation costs, or to increase your capacity utilization. Or maybe it's a larger initiative such as improved monitoring and management of your inbound materials from overseas for processing and assembly at warehouses or DCs.

Asking the right questions

Determining what aspects of your transportation, distribution and fulfillment network to outsource, modify or optimize isn't always easy but it often starts with questions such as:

- 1.** What are the bottlenecks, problems or financial losses within our supply chain? Where are they coming from?
- 2.** Where do we have low scorecards with our customers, vendors or their customers?
- 3.** Where have our supply chain and logistics requirements exceeded our capabilities (infrastructure, people, technologies)?
- 4.** How have changes in business conditions or industry dynamics (sourcing and shipping patterns, customer expectations, labor, and physical assets) made us lose flexibility or profitability?
- 5.** How can we identify and manage the risks involved with outsourcing, such as turning over control and even customer relationships to an outside provider?
- 6.** How do we manage the company culture to effect change within our supply chain operations?

The decision to outsource to a supply chain service provider or 3PL, whether asset- or non-asset based, and to determine the specific services or operations to outsource must be weighed carefully. Once you have narrowed down the areas to focus on for improvement or outsourcing consideration, the first question to ask is "Should you outsource or not?"

HOW TO DEVELOP YOUR BUSINESS CASE

In order to determine the viability of your plan to improve a process and to outsource, the first step is to develop your business case. A business case is a cost/benefit analysis which aligns the goals of your project with the costs and risks to your organization's business objectives and financial expectations. Developing a strong business case is critical to earn the support of your internal stakeholders.

Step 1: Define the problem.

Step 2: Validate the source or structure of the problem.

Step 3: Identify alternative solutions and/or partners to fix the problem. Show proof there is a case for an alternative. This may require a lean process map or further analysis to compare your alternative process to successful, best-in-class companies within your industry.

Step 4: Develop the business parameters around each alternative solution, including the financial case.

Step 5: Make conclusions and gain the authority to proceed. Identify the internal resources you need to provide additional supporting information or to complete the change.

As you are taking these steps to develop your business case, in the end stages you may need to present your business case to management. The essentials include:

- a financial business case with projected results or savings
- a narrative that explains the assumptions behind your estimates, while describing any intangible benefits

HOW TO PRESENT YOUR CASE FOR OUTSOURCING

After you have collected the information and data to develop your business case, it's time to prepare your narrative to executive management and other internal stakeholders. Here is a suggested template for preparing your presentation with notes on what to include:

Start here...

PROJECT NAME

Use a subhead on the slide to further convey its strength

Slide 1: Project name

Give the initiative a name.
Tip: use a subhead on the slide to further convey its strength

STATE THE PROBLEM



Slide 2: State the logistics, warehousing or supply chain-related problem

Develop a brief statement of what is at stake if a solution is not found. For example, lost customers or sales, inability to enter new markets, increased costs, etc.

THE SOLUTION IS OUTSOURCING



Slide 3: The solution

Summarize how the proposed solution to outsource will solve the problem. Outline the intended results.

THE RESULTS OF OUTSOURCING



Slide 4: The results of outsourcing (business case)

Drill down into the potential effects when the outsource solution is implemented, including financial gains. Use any projections or forecast data to estimate the potential impact on revenue and costs in year 1, 2 and 3.

THE 10,000 FOOT VIEW



Slide 5: The 10,000 foot view or "money" slide

Explain why the solution is so powerful. What is the main thing that makes the solution so beneficial to your organization? Use graphics to illustrate the story.



HOW TO PRESENT YOUR CASE FOR OUTSOURCING

continued...

THE COMPETITIVE LENSE



Slide 6: The competitive lens

You may have hinted at the potential benefits of implementing the solution in Slide 2. Now, in further detail, address one or both of the following areas:

1) What happens if we implement the solution?

List the potential direct and indirect benefits the solution will provide. For example, first-mover advantage, expansion into new markets, etc.

2) What happens if we don't implement the solution?

Paint the scenario of the fallout if your company continues to remain behind the competition that already practices the solution. List the most relevant impacts on the organization if the unresolved problem continues (e.g.- financial, operational, sales, etc.).

PERFORMANCE INDICATORS



Slide 7: Performance indicators

List the top 3 to 5 key performance indicators (KPIs) you would use to measure your progress with the proposed solution; whether you implement internally or receive them from your 3PL. For example, if warehouse and assembly operations are outsourced, a 3PL can provide metrics on order cycle time, dock-to-stock rates, and on-time delivery performance.

THE PROJECT TEAM



Slide 8: The project team

What are the human resources you need to implement the solution? List the organizational departments or job titles.

TIMELINE



Slide 9: Timeline

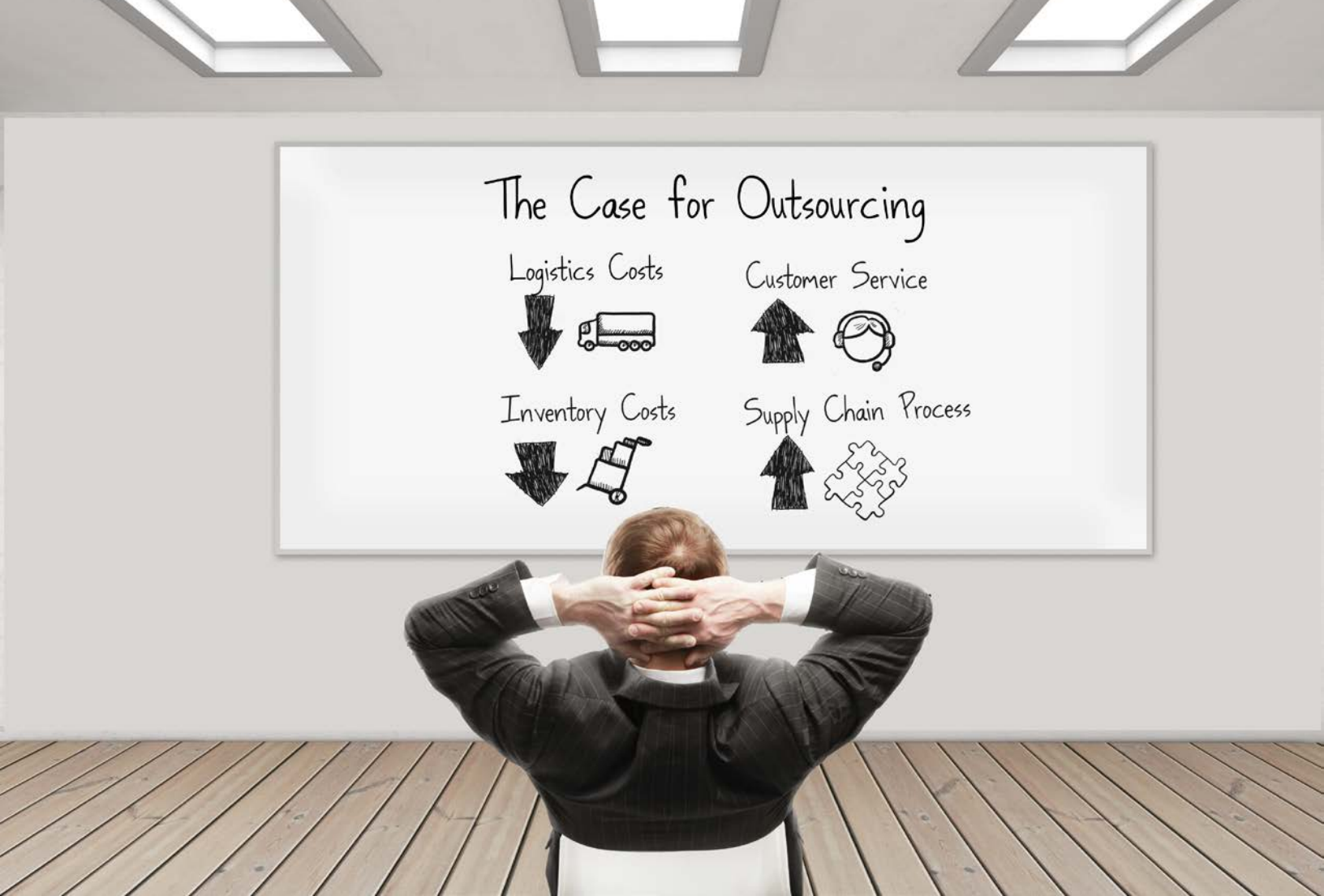
Outline proposed dates, milestones or deliverables of the project.

CLOSING



Slide 10: Closing

Summarize your business case. Call for questions.



OUTSOURCING: THE BIG PICTURE

Customer expectations and competitiveness, driven by the Amazon effect, has put tremendous pressure on supply chains across industries. Supply chain has transformed from just a cost center to a strategic asset for many organizations. Organizations competing in the new “now economy” have a lot at stake when it comes to making decisions to outsource logistics. Developing and presenting your business case for supply chain improvement and outsourcing is a critical part of the process toward transformation.

The benefits of smart logistics outsourcing include:

- logistics cost reductions
- inventory cost reductions
- improved customer service
- ongoing improvements to supply chain processes

MAKING THE MOVE

If you are seeking a partner in your journey to outsource parts of your supply chain operations, G&D Integrated can help you make your best business case. To schedule a time to discuss options, email sales@gdtr.com or call 1-800-451-6680.

ABOUT G&D INTEGRATED

G&D Integrated is a specialized provider of transportation and logistics services, with more than a century of experience in advancing global supply chain solutions. Headquartered in Morton, IL, the privately held company provides domestic transportation, freight brokerage, contract logistics and supply chain services to a variety of industries and employs more than 1,000 at over 20 facilities across North America. For more information, visit www.gdintegrated.com.

Sources used in this report:

- ⁱ Wilson, Rosalyn. Council of Supply Chain Management Professionals' (CSCMP) 26th Annual "State of Logistics Report®." Commodity Trends Outlook, October 6, 2015. http://www.rightplace.org/assets/img/uploads/resources/State-of-Logistics_Rosalyn-Wilson.pdf
- ⁱⁱ John Langley, Jr., Ph.D., and Capgemini. 2015 Third-Party Logistics Study. "The State of Logistics Outsourcing." Results and Findings of the 19th Annual Study.
- ⁱⁱⁱ Ibid.
- ^{iv} John Langley, Jr., Ph.D., and Capgemini. 2016 Third-Party Logistics Study. "The State of Logistics Outsourcing." Results and Findings of the 20th Annual Study.
- ^v Ibid. John Langley, Jr., Ph.D., and Capgemini. 2015 Third-Party Logistics Study.