WEBER INSIGHTS
LOGISTICS

How to outsource logistics operations to a 3PL

Determine if outsourcing is right for you and find the right provider for your company.





No matter what your company sells, you're in the logistics business. From receiving and storage of your products to getting them out to customers, there are many logistics operations that your business handles or oversees daily.

But, unless logistics is your business's core focus, these key supply chain operations may be better left to the experts – while you focus on the elements (e.g., manufacturing and sales) within your realm of expertise.

This type of soul searching leads many companies to consider outsourcing logistics operations to a third-party logistics (3PL) provider. In this article, we'll examine the prospect of outsourcing in great detail – what it looks like, who's ready for it, and how you can find the best provider.



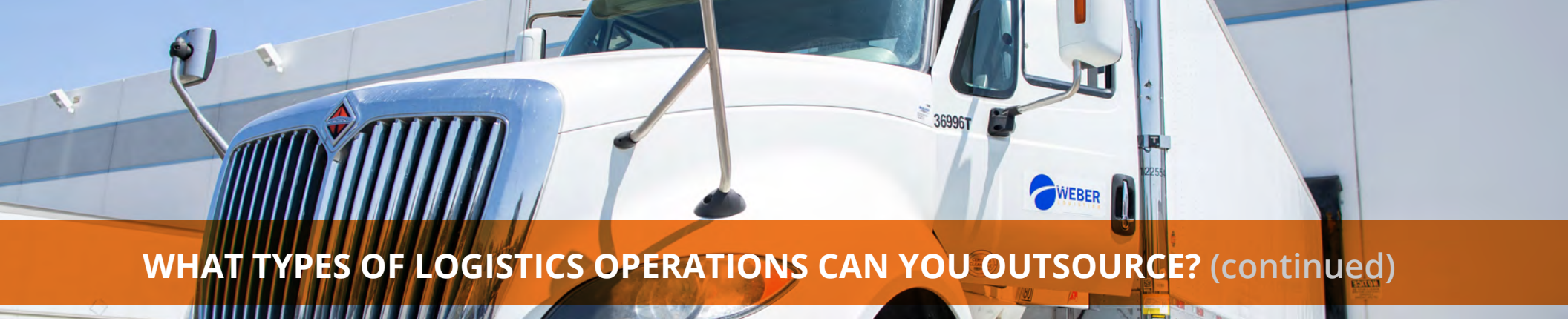
WHAT TYPES OF LOGISTICS OPERATIONS CAN YOU OUTSOURCE?

3PLs can perform a wide variety of distribution services, from manufacturer to the point of sale. We can look at these services in three categories: port services, warehousing and transportation.

Port logistics services involve moving imported products from the port of arrival into distribution.

Port services include:

- **Drayage**: Moving imported containers to a warehouse for storage, transloading, or deconsolidation.
- **Transloading**: Receiving your container into a 3PL warehouse, inspecting and processing the container's contents, and loading those contents into an intermodal container or truck trailer for shipping to a destination near your customer.
- **Deconsolidation**: Receiving and processing your container like transloading, but with segregation of your products – typically by purchase order or SKU – for loading onto intermodal containers or truck trailers for distribution to multiple locations simultaneously.



WHAT TYPES OF LOGISTICS OPERATIONS CAN YOU OUTSOURCE? (continued)

Warehousing services involve the storage and distribution of products.

Warehousing services include:

- **Shared warehousing**: Storing product in a 3PL facility where you share space, people, systems, and equipment (and costs!) with other companies.
- **Dedicated warehousing**: Storing product in a 3PL warehouse where space, people, systems, and equipment are solely dedicated to your operation.
- **eCommerce fulfillment**: Receiving and fulfilling direct-to-consumer orders from a 3PL warehouse.
- **Temperature-controlled warehousing**: Storing products and managing their temperature and/or humidity to ensure that they stay within the desired range.
- **Cross docking**: Unloading product from a truck or container into a warehouse for brief storage before it is loaded onto another truck for delivery.
- **Value-added services**: Performing labor-intensive services like kitting, assembly, postponement, repackaging, labeling/ticketing, display building, and product testing/quality management in the distribution warehouse.

Transportation services can be asset-based (the 3PL owns the trucks and trailers) or non-asset-based (the 3PL selects and manages outside carriers).

Transportation services include:

- **Dedicated transportation**: Using a 3PL – and its equipment and staff – to handle your company's transportation needs for all distribution or select lanes.
- **Less-than-truckload (LTL)**: Combining your freight shipments with those of other companies when you don't have enough product to fill a trailer yourself.
- **Pool distribution**: Combining your products with those of other companies, but – unlike LTL – the shipment heads straight to a pool distribution hub in the destination region and bypasses the multiple stops associated with LTL.
- **Temperature-controlled transportation**: Transporting products in refrigerated trailers to keep temperatures within range during transit.
- **Freight consolidation**: Combining your products with others stored in the same 3PL warehouse for efficient delivery to retailer DCs.

WHO SHOULD OUTSOURCE LOGISTICS SERVICES?

While the prospect of handing off the above responsibilities to a logistics pro may seem beneficial, let's first look at some of the characteristics of companies that are ready to outsource. After all, outsourcing logistics services to a 3PL provider should really be a solution to a problem. So, what are the common logistics problems companies face?

You struggle to scale labor to economically manage fluctuating demand.
Many companies struggle to manage their lowest and highest volume periods with equal ease. When volumes are high, companies will staff up their warehouse operations – only to let many of those associates go once volumes tick downward again. This staffing dance is expensive and impossible to scale. As warehouse labor management is a core component of a 3PL's operations, you may choose to outsource to remove labor-related headaches.

You have difficulty keeping up with state requirements.
It can be tricky if you're thinking of expanding operations into another state, as regulations may be different. It can be *especially* tricky if you are considering expanding operations into California, as CA regulations are often very different (and more stringent) from those in the other 49 states. Instead of adapting to these new requirements yourself, you may choose to hand off operations to a 3PL that already operates in your chosen area.

You're outgrowing your warehouse capacity.
When this happens, you can certainly invest in newer and bigger space. But is running a warehouse a core competency? By partnering with a 3PL that offers shared warehousing, your allotted space can expand and contract to meet your needs, creating a variable cost structure where logistics costs parallel your revenue stream.

Your business requires technology investments to remain competitive.
In this situation, do you make large capital investments in expensive warehouse management systems (WMS) and/or transportation management systems (TMS), or do you partner with a 3PL that already has this technology in place? Many choose the latter because of the lower cost involved and the elimination of time spent implementing tech.

Your product line is expanding.
For many companies, the introduction of new products is a common occurrence. These new products, however, may come with a host of logistics-related challenges that you may not initially anticipate. For products that require a climate-controlled environment, for example, there may be new equipment, requirements and regulations to comply with. Or let's say that you're selling hand sanitizer in the wake of COVID-19. Your warehouse may be able to store 10 pallets of it legally, but larger quantities may be an entirely different story in terms of regulations. As such, you may choose to work with a 3PL that has the infrastructure and expertise to handle these products on your behalf.

BARRIERS TO OUTSOURCING LOGISTICS SERVICES

If your company is facing these – or similar – problems, the time may be right to outsource your logistics operations to a 3PL partner. For some companies, however, this realization never leads to action. For them, the perceived barriers to outsourcing may outweigh the benefits. But are these barriers based on misperceptions? Let's take a look.

1 The cost is high.

If you're considering outsourcing logistics services to a 3PL, you're likely concerned about the price tag. It's true that in-house operational costs don't factor in a profit, while 3PL costs do. But 3PLs should be able to use their experience to support your same volumes in a smaller footprint using fewer people.



2 Outsourcing will result in service disruption.

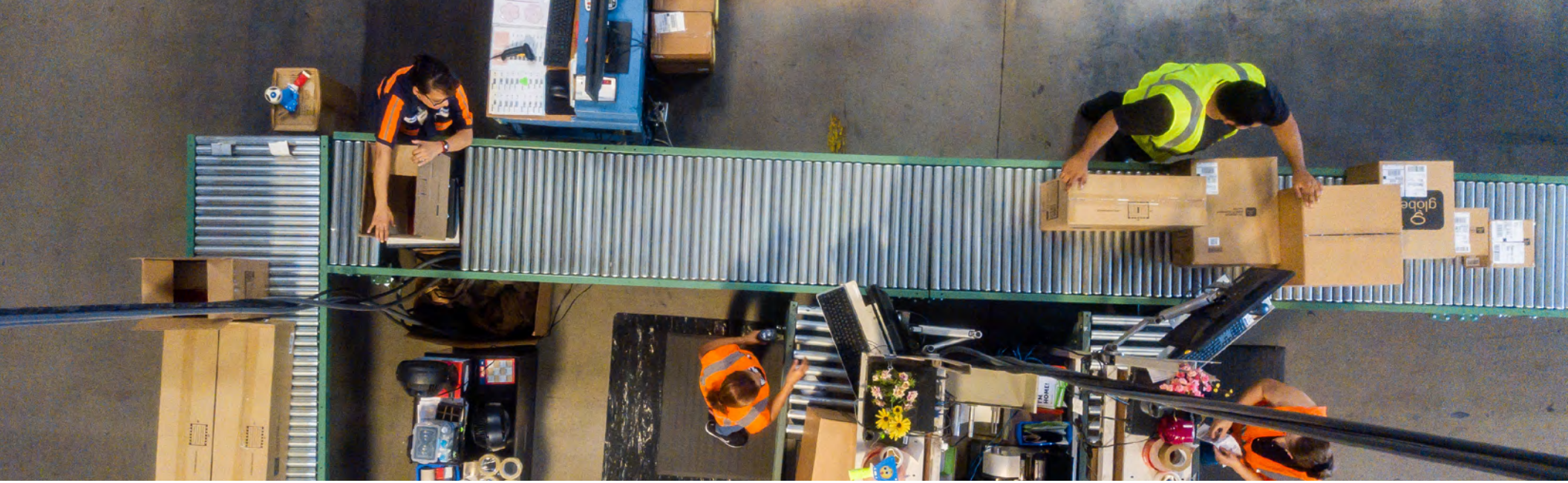
Many companies have a concern that moving inventory to a 3PL will create a time gap during which their inventory is not available – upsetting ecommerce customers and retail vendors. The truth is that, for most companies, there is little disruption. It all depends on two factors: picking the right 3PL and both parties doing all the necessary pre-work so that "go-live" happens without a hitch. With all the pre-work performed, order fulfillment can start quickly after products arrive at the 3PL warehouse.



3 The 3PL won't treat your business like its own.

Avoiding this situation requires picking the right 3PL provider in the first place. Culture and chemistry do matter when you're handing over a critical function to an outside partner. A "culture check" should be a key part of your due diligence process.





OUTSOURCING LOGISTICS SERVICES TO THE RIGHT 3PL

Once you feel that your company is ready to outsource, it's then time for the crucial step of vetting 3PL providers in order to find the best match for your company. The following are some of the key questions to ask:

How fast can the 3PL perform systems integrations?

If you are a retail supplier, systems integration issues can derail operations with your retail customers. 3PL providers with an in-house IT team – including EDI programming capabilities – can shorten the lead-up to "go live." When such providers are also retail logistics experts, it's likely that they have already performed this or a similar integration with the retailer and can avoid the coordination of outsourced IT vendors. This can reduce the time frame for system integration from 2 months to 2 weeks. Aside from the system integration time factor, vendor compliance expertise will simplify the setup and ensure your shipments meet routing guide requirements, compliant labeling, and all the other disciplines required for today's retail distribution.

If you sell B2C, you'll want a partner that can easily and quickly integrate with Shopify or other eCommerce platforms and ensure reliable data exchange. If orders stop flowing due to a systems glitch, the lost revenue can be significant.



How effectively can the 3PL manage spikes?

Business spikes are not just a holiday event. Daily deals, marketing promotions, and TV shows like Shark Tank affect volumes throughout the year. Staffing flexibility is a distinguishing value many 3PLs provide through:

- Campus warehouse set-ups, where experienced staff can be shared among multiple warehouses in close proximity
- Strong relationships with staffing agencies that allow fast access to experienced warehouse workers
- The willingness and ability to add shifts, as needed

Remember that flexibility should apply to transportation services too. For example, let's say your drayage operation has averaged around 20 containers monthly but now needs to ramp up to 75 – and fast. An agile 3PL provider can immediately leverage partner providers, temporary drivers and additional equipment to address this spike.

Can the 3PL partner grow with you?

Forward-thinking 3PL providers are not only looking to fill existing warehouse space, they're also looking to facilitate growth for their customers. This can include identifying and upfitting new space if necessary. To do this effectively, it helps to have a very strong knowledge of – and presence in – the local real estate market as well as close relationships with industrial real estate firms. A 3PL can leverage this knowledge to build out and occupy a new location within a couple of months. Smaller 3PLs may not have the wherewithal to make this happen, and the largest 3PLs would be wrapped up in red tape for the better part of 6 months before getting the green light.

Additional key questions

- Does the 3PL's company culture align with yours?
- When you tour the 3PL's facilities, are the associates on the floor knowledgeable about the services they provide and the products they handle?
- Is the 3PL's client roster full of companies much bigger than yours – thus increasing the odds that you'll feel like a small fish in a big pond?
- When you speak to other customers of the 3PL, are they happy with the relationship?
- Can the 3PL report on – and be accountable to – the KPIs and metrics that matter most to your business?

OUTSOURCING LOGISTICS SERVICES TO AN INTEGRATED 3PL PROVIDER

Many companies have taken a siloed approach to 3PL partnering for product distribution: hiring one for drayage, one for warehousing, and several for OTR transportation. With an integrated logistics approach, however, most or even all of these services may be performed and/or coordinated by a single provider, if that provider has the core competencies to handle all these services proficiently. The benefits of this approach include the following.

Integrated providers accept full accountability.
You deal with one source to get any detail on any aspect of your distribution operation, from operational execution through performance reporting. This eliminates the time and resources spent managing the efforts of multiple providers simultaneously. There is one source of truth and accountability.

Integrated providers value your business.
When you entrust your combined distribution operation to a single 3PL provider, you're entrusting it with a good chunk of your business. It fully understands this and will go to great lengths to keep an important customer happy.

Integrated providers speed distribution operations.
Your integrated 3PL can perform all needed tasks quickly and without delays. How? Because it manages the entire process. There is no waiting or guessing as to when the next step is going to happen due to poor communication with other supply chain partners.

For example, on the inbound side, the warehouse knows when an order is going to be picked up by the 3PL's drayage or transportation arm. It can then prepare accordingly. On the outbound side, the carrier knows what's going to be picked up and when. It's all coordinated in advance – with only one source of information throughout.

Integrated providers simplify systems integration and data sharing.
When you deal with one provider, your systems integration strategy with that provider will cover all data sharing and visibility requirements across services – order processing, inventory monitoring, track and trace. This greatly simplifies management and allows for a centralized hub for all EDI communications. It also allows for detailed reporting of KPIs from a single source.

Integrated providers offer flexibility.
When you deal with different providers for discreet elements of your distribution operation, those providers will have schedules that may be in conflict with one another. For instance, your warehouse may be closed when your drayage or transportation provider wants to perform delivery or pickup. These conflicts invariably lead to delays, disappointed customers and higher costs.

These concerns typically do not exist with an integrated provider. When one provider controls all links in the distribution chain, it has the flexibility to make sure those links work in concert. If that requires staffing a warehouse to receive a container after normal hours, then the provider has the ability to make that happen.



THE LOGISTICS ONBOARDING PROCESS

Once you find the right logistics provider for your business, and a binding document is signed by both parties, a quality 3PL will get you straight into onboarding. This starts with the assignment of a Project Manager on the 3PL side and a kickoff call in which representatives from the 3PL's departments relevant to your business – and their counterparts at your company – convene to plan next steps. These next steps include the following.

- Development of an onboarding timeline leading up to products entering the 3PL warehouse. For example, a comfortable timeline for shared warehousing onboarding is 60 days, though an experienced 3PL can accelerate this timeline, if needed.
- Establishment of Accounts Payable and Accounts Receivable contacts and processes.
- Delivery (from you to 3PL) of projected inventory with SKU-level detail. This enables your 3PL to engineer storage configurations in the warehouse before it ever sees a box.
- Update calls a few times a week to hold people accountable to the implementation timeline.
- Scheduling of an inventory transfer date that lines up with your ability to pause operations (e.g., over a long weekend). In a perfect world, you can start by transferring excess inventory so that you can fulfill orders for as long as possible from your current location. Then, as you get close to depleting that inventory, your 3PL can transfer the remaining items quickly. This is especially seamless when your 3PL also has a transportation operation in-house to make the moves for you.
- Updating of ship points with your customers so that they pick up orders at your new location instead of your old one.



GETTING STARTED

Now that you know a bit more about what logistics outsourcing looks like, you can determine if the time is right for your company to partner with a 3PL.

Remember that, whether your needs are simple or complex, large or small, there are 3PL providers ideally suited to the job in markets you need them. The trick, of course, is to find the right provider for *your* business.

Outsourcing may feel like a major leap of faith, but with the right provider, it can be a relatively seamless transition that leads to a whole new world of efficiency for your business.

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855-GO-WEBER | info@weberlogistics.com | weberlogistics.com

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