



U.S. General Services Administration



AMSA and GSA 2006 Household Goods and Freight Forum *Creating Best Value Solutions*

TOPIC

A 3PL: The Good, the Bad and the Questionable!

Presented by: Tom Tanel and Ron Grossman

CATTAN
Services Group, Inc.

We Practice
What We Teach

February 23, 2006

2:15 PM – 3:30 PM

Who We Are

Thomas L. Tanel, C.P.M., CTL, CCA, CISC
President and CEO

Mr. Tanel is a founding Principal of CATTAN. Designated as a Lifetime Certified Purchasing Manager by the Institute of Supply Management (ISM), he has over 30 years of experience. Tom Tanel is Certified in Transportation and Logistics through the American Society of Transportation and Logistics, as a Certified Cost Analyst through the Institute of Cost Analysis, and as a Certified International Supply Chain Manager (CISC). A Professional Member of the World Future Society, he also holds the Advanced Professional Designation in Logistics Management, jointly conferred by the Air Force Institute of Technology and SOLE. Tom is a Fellow of the North American Academy of Arts and Sciences and serves as 2nd Vice Chair of ISM's Logistics and Transportation Group. A graduate of St. John's University. Mr. Tanel also holds an MBA in Logistics from the Florida Institute of Technology.

Ronald D. Grossman, PMC, PCMH, CISC
Executive Consultant

Mr. Grossman is Principal of Argee Logistics LLC, a training, mentoring, and consulting firm and serves as one of CATTAN's primary practice leaders, focusing on logistics, traffic and distribution, and materials handling. With over 35 years of experience, he is a Certified International Supply Chain Manager (CISC) and is an active member of the American Production and Inventory Control Society and the Warehouse Education and Research Council. The Consultants Bureau has designated Mr. Grossman as a Professional Management Consultant (PMC), while the Materials Handling and Management Society has awarded him with the prestigious title of Professional Certified in Materials Handling (PCMH). A certified Lean Enterprise Tools practitioner, Ron has earned degrees both from Northeastern University and the University of Connecticut.

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CATTAN is listed in both the Central Contractor and VetBiz Registries

The question is:

A 3PL can perform services which an organization is either unwilling or unable to perform, but are they as good as advertised?

First we need to determine who they are and what they offer.



Third Party Logistics – What is it?

“The use of an outside distribution company to perform all or part of a company's’ or agencies material management or product distribution function.”

“It is the integration of information, inventory, warehousing and transportation services.”

“It is outsourcing one or more functions that are currently or have been historically done ‘in house’”

The secret to effective outsourcing is determining what to outsource and what to keep.

Business Process Outsourcing (BPO) is a value-added function that organizations have been seeking out more and more, to provide them with a competitive advantage.

U.S. Logistics Marketplace

Estimated Total Expenditures	\$642 Billion or More
Warehousing	\$128 B
Inv. Carrying Cost	\$127 B
Administration	<u>\$ 27 B</u>
	\$282 B = 44%
Transportation	
For Hire	\$117B
Private Local	\$ 89B
Private Intercity	\$ 72B
Air Freight	\$ 20B
Other Transportation	<u>\$ 62B</u>
	\$360B = 56%



A Major Portion of Transportation Costs Are Included in “Cost of Goods”
80% Of All Warehousing Privately Owned
45% Of All Transportation Privately Owned
Third Party Logistics – 3% of Marketplace Dollars
Will increase to 5-6% over next five years

What Attributes Should a 3PL Have?

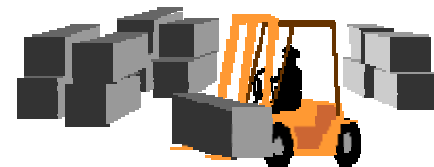
- Knowledge and experience of one or more mode of transportation.
- Ability to analyze logistics needs and identify options that will benefit shippers.
- Ability to administer a shipper's transportation needs, either on or off site.
- A proven track record.
- Should be:
 - ✓ Creative
 - ✓ Proactive
 - ✓ Flexible
 - ✓ Open Minded
 - ✓ Service Driven
 - ✓ Trustworthy

AND DO IT RIGHT THE FIRST TIME!



Typical Warehousing Functions of a 3PL

- ✓ **CROSS DOCKING**
- ✓ **PICK & PACK**
- ✓ **ORDER FULFILLMENT**
- ✓ **ORDER CONSOLIDATION**
- ✓ **LABELING & MARKING**
- ✓ **LOCAL PACKAGING**
- ✓ **KITTING**
- ✓ **SUB-ASSEMBLY**
- ✓ **IN-BOND STORAGE & HANDLING**
- ✓ **REFRIGERATED STORAGE**
- ✓ **SECURITY STORAGE**
- ✓ **HAZARDOUS STORAGE**
- ✓ **PALLET EXCHANGE**
- ✓ **QUALITY ASSURANCE**
- ✓ **REVERSE LOGISTICS**
- ✓ **LIGHT MANUFACTURING**
- ✓ **CONTRACT WAREHOUSING**
- ✓ **INVENTORY MANAGEMENT**
- ✓ **CONTRACT LABOR**
- ✓ **SITE SELECTION**
- ✓ **TURNKEY CONSTRUCTION**
- ✓ **BAR CODING**
- ✓ **SHRINK/STRETCH WRAPPING/BANDING**
- ✓ **EXPORT PACKAGING**
- ✓ **EDI / ASN**
- ✓ **ADVANCED TECHNOLOGY SYSTEMS**
- ✓ **CORPORATE WAREHOUSE**



Typical Transportation Functions of a 3PL

- ✓ SHIPMENT CONSOLIDATION
- ✓ POOLING
- ✓ CARRIER SELECTION
- ✓ CARRIER RATE NEGOTIATION
- ✓ LOAD PLANNING
- ✓ FREIGHT PAYMENT
- ✓ FREIGHT AUDIT
- ✓ SHIPMENT BOOKING
- ✓ DOMESTIC DOCUMENTATION
- ✓ INTERNATIONAL DOCUMENTATION
- ✓ HAZARDOUS MATERIALS HANDLING
- ✓ DROP SHIPMENT
- ✓ JIT
- ✓ CLAIMS MANAGEMENT
- ✓ TRACKING & TRACING
- ✓ ROUTING
- ✓ FLEET MANAGEMENT
- ✓ RAILCAR MANAGEMENT
- ✓ INTERMODAL MANAGEMENT
- ✓ INSIDE DELIVERIES
- ✓ LOCAL DELIVERIES
- ✓ REGIONAL DELIVERIES
- ✓ FULL TRUCKLOAD SERVICES
- ✓ HOME DELIVERIES
- ✓ DRAYAGE
- ✓ CORPORATE TRAFFIC SERVICES
- ✓ ADVANCED TECHNOLOGY (TMS)



3PL Functions — Extended Services

<p>Warehouse Management</p> <ul style="list-style-type: none"> ▪ Receiving ▪ Putaway ▪ Replenishment ▪ Kitting ▪ Cycle Counting ▪ Picking/Order Management ▪ Packing ▪ Reporting ▪ Inbound Scheduling, Reporting and Door Control 	<p>Order Management</p> <ul style="list-style-type: none"> ▪ Order Entry (call center, customer service) ▪ Web Storefront ▪ Product Catalogs ▪ Voice Data Access ▪ Online, Web-Based Order Status for Clients and Customers 	<p>Activity Billing</p> <ul style="list-style-type: none"> ▪ Customer Service Agreements (Contracts) ▪ Rate Change Automation ▪ Flexible Accounting ▪ Accessorial Charges ▪ Billing Reports
<p>Transportation Management</p>	<p>Customer Relationship Management</p>	<p>Accounting</p>
<ul style="list-style-type: none"> ▪ Manifest/Labeling ▪ Rating/Routing ▪ Carrier Scheduling ▪ Carrier Settlement ▪ Dispatch and Equipment Control 	<ul style="list-style-type: none"> ▪ Customer Contact Information Management ▪ Purchasing History ▪ Sales Management ▪ Event Management ▪ Recall and Hold Processes and Notification 	<ul style="list-style-type: none"> ▪ General Ledger ▪ Accounts Receivable ▪ Accounts Payable ▪ Bank/Cash Management
<p>Human Resources Management</p>	<p>Productivity Management</p>	<p>Business Intelligence</p>
<ul style="list-style-type: none"> ▪ Payroll ▪ Time Management ▪ Regulatory ▪ Benefit Management 	<ul style="list-style-type: none"> ▪ Labor Tracking ▪ Productivity Measuring 	<ul style="list-style-type: none"> ▪ Inventory Forecasting ▪ ABC Analysis ▪ Dead Inventory Alert ▪ Financial Reporting ▪ Performance Tracking

Services to Delegate?

- ◆ **PURCHASING**
- ◆ **ORDER PROCESSING**
- ◆ **FULFILLMENT**
- ◆ **INVENTORY MANAGEMENT**
- ◆ **TRAFFIC MANAGEMENT**
- ◆ **DISTRIBUTION RESOURCE PLANNING**
- ◆ **MANUFACTURING**
- ◆ **WAREHOUSING**
- ◆ **CUSTOMER SERVICE**



Questions to prepare for:

- **How many dollars are spent on LTL carriers annually? FTL carriers?**
- **What is the total amount of tonnage shipped on LTL? FTL carriers?**
- **Does the company utilize rail? If so, how much tonnage is shipped annually through rail?**
- **When the company ships internationally, does the shipment have to be packed uniquely for export? What is the export versus domestic ratio?**
- **How many active SKU's do you have?**
- **Are all SKU's kept in all warehouses?**
- **What is the best case inventory turns ratio; worst case? Do they follow Pareto's Law or the 20/80 Rule?**
- **How much does it cost you to run each warehouse annually? How much throughput is generated at each facility?**
- **Are Ship-to destinations concentrated regionally? Which regions represent the highest volume in tonnage?**



Types Of Third Party Logistics Providers

ASSET BASED

- **Dedicated logistics services – use own assets**
- **Typically a truck fleet/group of warehouses**
- **Or both**

J.B. Hunt, APL, Danzas/AEI,
Maersk, Kane is Able

MANAGEMENT BASED

- **Offer systems databases and consulting services**
- **Subcontracted traffic department**
- **Provide freight forwarding, customs brokerage, etc.**
- **Other distribution consulting/outsourcing**
- **Do not own transportation or warehouse assets**

Hub Group, FedEx,
Schneider Logistics, UPS,
USCO, EGL

Question?

If they own assets in another business, will they use them?

INTEGRATED

- **Utilize both owned assets and contract assets**
- **Provide customized logistics management**
- **Offer intermodal services**
- **Some specialize in hazardous materials, international**

C.H. Robinson, Excel, Ryder Integrated Logistics, Menlo Logistics, TNT, Alliance Shippers, Penske

Question?


When do they use their own assets and when do they use someone else's?

ADMINISTRATION BASED

- **Provide administration management services**
- **Offer transportation support services – rate negotiation**
- **Brokerage, freight bill audit, claims processing**
- **Dedicated custom software, EDI**

Continental Traffic, Commercial Traffic, Corporate Traffic

The Thirteen Common Reasons To Choose Outsourcing

1. To avoid capital expenditures (to improve or build new facilities, systems, technology).
2. To cut costs (real or imagined).
3. To increase both service and financial flexibility.
4. To focus on core business.
5. To improve customer service. 
6. To increase productivity and efficiency.
7. To avoid or eliminate labor problems.
8. To acquire talent and expertise.
9. To simplify the logistics process.
10. To avoid direct costs of regulation.
11. To expand into new or unfamiliar markets.
12. To take on new product lines.
13. To reflect a change in management philosophy.

The Five Most Important Considerations To Include When Choosing A Contract Logistics Firm

1.

FINANCIAL STRENGTH

- Total annual revenues
- Annual revenues in contract logistics services
- Total assets
- Assets employed on contract logistics services
- Financial rating

How long have they been doing 3PL?
Are they still on a learning curve?

The Five Most Important Considerations To Include When Choosing A Contract Logistics Firm

2.

BUSINESS EXPERIENCE

- Years providing contract logistics services
- Depth of management experience
- Strength of operating management
- Quality of work force
- Labor management
- Trustworthiness/reputation/account history

**Does the company KNOW your particular industry?
Do they have references from that industry?**

The Five Most Important Considerations To Include When Choosing A Contract Logistics Firm

3.

BUSINESS DEVELOPMENT

- **Corporate commitment to contract logistics**
- **Overall corporate strategy**
- **Leading accounts**
- **Trends in business development**
- **Accounts lost**

Are they in this for the long run? Will they grow with you?

The Five Most Important Considerations To Include When Choosing A Contract Logistics Firm

4.

SUPPORT SERVICES

- Can human resources be phased in and out?
- Is the insurance program adequate?
- Does the safety program support the insurance strategy?
- Are information systems robust and support daily operations?
- Is technology state-of-the-art?

Can they add people and other resources to move in sync with your seasonality?

The Five Most Important Considerations To Include When Choosing A Contract Logistics Firm

5.

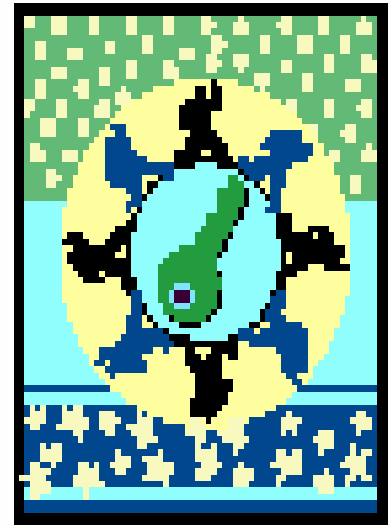
BUSINESS ARRANGEMENTS

- **Open book cost disclosure**
- **Incentives for performance**
- **Recapture of excess profit**
- **Provisions for replacement**
- **Independent financial audits**

Are they profitable? (You want them to be) Do they have a backup and/or emergency plan in place?

The 3 Keys to Effective Outsourcing

- ***Due Diligence*** in the selection of a service provider directly impacts the longevity and effectiveness of an outsourcing relationship
- **Dependent on the 2Cs:**
Communication and Coordination
- ***Trust*** through verification of the outsourcer's understanding of the requirements and working through the problems that may occur in the relationship



10 Steps To Choosing A Third Party Provider

1. Form a cross functional team

- Sales & Marketing
- Customer Service
- Manufacturing/Purchasing
- Finance
- Shipping, Warehouse, and Traffic personnel



Get “BUY-IN
from everyone
and involve
representatives
from each group.

2. Set the objectives, goals, constraints, measurements.

3. Determine customer service requirements – internal and external.

4. Develop selection criteria. This becomes the base for the RFP.

5. Develop list of candidates based upon their industry knowledge/orientation and geographic capabilities consistent with your needs. We can help.

6. Query candidates on their level of interest.

7. Send out RFP (Request For Proposal).

8. Perform site visit. Narrow to 3-5 final candidates. Use same team members to evaluate each, use checklist, talk with local management.

9. Review candidate’s qualifications, finances, strategic “fit”, and management philosophy.

10. Use analytical tools to select. Do industry comparisons for the type of customers, facilities, regional, coverage, management and cultural attitudes, cost model, etc.

This is an exercise similar to finding any external service provider.

Thoughts About Choices

Which is a more important category to your agency; Warehousing, Transportation, IT, other?

Choose a firm that has its roots in that category

Does the 3PL you choose have a local or regional office nearby your facility or headquarters.

A local or regional office lends more control to you.

Meet with the actual operations personnel, not just sales, to determine their personal chemistry with you and their fit with your corporate culture.

Your comfort level is an important key to success.

Know your costs for comparison to theirs.

Remember, you are paying for their profit margin too.

Agree upon measurement criteria in advance.

Know when to fix things or to leave them alone.

Thoughts About Choices

Bottom Line:

A company or agency should define a process, operation, or function that can be improved, then make these providers compete for it.

What is the Real Cost versus the Benefits?

- Do we know, and can we determine, the true overall cost?
- Will the result be worth it?
- Is the particular operation, department, or function strategic to the overall business?
- Can the provider adjust to operations fluctuations and/or exigencies?
- Can we be “best-in-class”?

Management support and other backup functions \$

How will you know?

Is this the catalyst ?



Bottom Line =
Bottom Line =

The real cost of the in-house function to the organization

PLUS

The benefits of an outsourced service

Dimensions of a Successful Outsourcing Relationship

1. Trust

- Each party has to believe that the other party is acting in the best interests of the relationship and that the other party is fully competent to perform.
- Each party is dependent on the other, and this dependency keeps the relationship working.
- Each party does their own job without questioning what the other party is doing.
- The provider realizes he must assume some risk; the client understands the provider must earn a reasonable profit.



Dimensions of a Successful Outsourcing Relationship

2. Partnering

- **Both parties understand the goals, requirements, and operations of the other party.**
- **Both parties invest time and resources in the relationship at a number of levels in the organization.**
- **Both parties share in the risks and rewards--there has to be a mutual benefit.**
- **There is a willingness to share information and costs in order to develop a common approach to resolving problems.**



Dimensions of a Successful Outsourcing Relationship

3. Communications

- **Accurate definition of the “scope of work” is shared by the parties.**
- **Information affecting functional operation is provided by the client, and information about service and performance is supplied by the provider on a timely basis.**
- **The communications are frank and honest, reporting both good and bad.**
- **Expectations of both parties are known and agreed upon.**
- **Partners are willing to share any information that has a bearing on the successful operation of the function.**
- **Conflicting goals are negotiated to an agreement both parties can live with.**



Top 10 3PL Excellence Awards - 2005

and the top 5 are....

COMPANY	UPS Supply Chain Solutions	Schneider Logistics	C.H. Robinson	Menlo Worldwide	Fedex Supply Chain Services	Ryder	Exel
CUSTOMERS	Adidas America Honeywell Lucent National Semiconductor Nikon Seagate SGI Welch Allyn InFocus Toshiba Samsung Ritz Camera	Ford GM Parts CaseNewHolland Miller Brewing Thomson Multimedia Ocean Spray Kimberly-Clark Ford Motor John Deere True Value	Walmart AOL Int'l Paper Anheuser-Busch Best Buy Dana Corp Clorox	Cisco Systems Dow Chemical Imation Ricoh Sears Logistics Nike Golf General Motors IBM	Phillips Mitsubishi Ford Motor HP Direct TV Fairchild Semi	Chrysler Delphi Lucent GM Visteon John Deere Snapple Wedgewood HP Phillips Consumer Electronics	P & G BP Home Depot Sun Micro Coors Chrysler Goodyear Intl Paper Coca Cola
RANK	1	2	3	4	5	5	6

Source: Inbound Logistics

Source: Inbound Logistics

Top 10 3PL Excellence Awards - 2005

and the second 5 are....

COMPANY	Penske	Transplace	Landstar Logistics	Americold	BNSF Logistics	TLC
CUSTOMERS	Whirlpool Ford Motor Iams Evian Int'l Truck & Engine Panasonic Mission Foods Big Lots Emerson Electric	AutoZone Grainger J.C. Penney Office Depot Pfizer Tyson foods Circuit City Weyerhaeuser True Value	Honeywell SW Bell Hitachi Glazers Wholesale Authentic Specialty Foods Phillips Automotive Verizon Echostar Unilever	H.J. Heinz ConAgra Tyson Foods Kraft Foods Sara Lee General Mills J & J Rich Foods Norpac Gorton's	Wal-Mart Falcon Sunkist Growers Home Depot Owens Corning Heinz Mott's	Sears Honda BMW CSX Michelin Andersen Eaton
RANK	6	7	8	9	10	10

Source: Inbound Logistics

The 100 Best 3PL's of 2005

Access Business Group
Acme Distribution Centers
AIMS Solutions
AIT Worldwide Logistics
Alliance Shippers
American Global Logistics
Americold Logistics
A.N. Deringer
APL Logistics
Arnold Logistics
Aspen Alliance Group
ATC Logistics
Atlas Cold Storage
AtomicBox Logistics
Automated Distribution
Systems
Averitt Logistics

BAX Global
BDP International
Bender Group
BNSF Logistics

C.H. Robinson
Cardinal Logistics
Caterpillar Logistics
Cogistics
Commodity Logistics
Concentrek
Corporate Traffic
CRST Logistics

DF Young
DHL Solutions
Ditan
DSC Logistics

EGL Eagle Global
Logistics
Evans Distribution
Systems
Exel
Expeditors Int'l

FedEx Supply Chain Services
Fidelitone
FMI International

Genco Distribution System
GeoLogistics Corp.
Givens Logistics

Hellmann Worldwide Logistics
Hub Group Distribution Services

Jacobson Companies

Kane is Able
Kelron Logistics
Kenco Logistic Services
Keystone Dedicated Logistics
Kuehne & Nagel

Landstar Logistics
LOGISCO
Logistics Insights
Logistics Mgmt Solutions

Source: Inbound Logistics

The 100 Best 3PL's of 2005

Maersk Logistics
MBX Logistics
Megatrux
Menlo Worldwide

New Breed
NFI
north American Logistics
NYK LOGistics

ODW Logistics
Olson Company
OMNI Logistics
Ozburn-Hessey Logistics

Pacer Global Logistics
Panalpina
Patterson Warehouses
PBB Global Logistics
Pegasus TransAir
Penske Logistics
Plant Site Logistics

Regal Logistics
RMX Global Logistics
Ruan
Ryder

Saddle Creek
Salem Logistics
Schenker-CCW
Schneider Logistics
ServiceCraft
Standard Corp.
Suddath Logistics Group

Tibbett & Britten
TMSi
TNT Logistics North
America
Total Logistic Control
Transfreight No. America
Transplace
Tronicus

UPS Logistics Group
USCO/Kuehne & Nagel
USF Logistics

Verst Group

Wagner Industries
Wallenius Wilhelmsen
Solutions
Weber Distribution

Source: Inbound Logistics

Choices: Of These “Top 10”, Are Any of Them RIGHT for You?



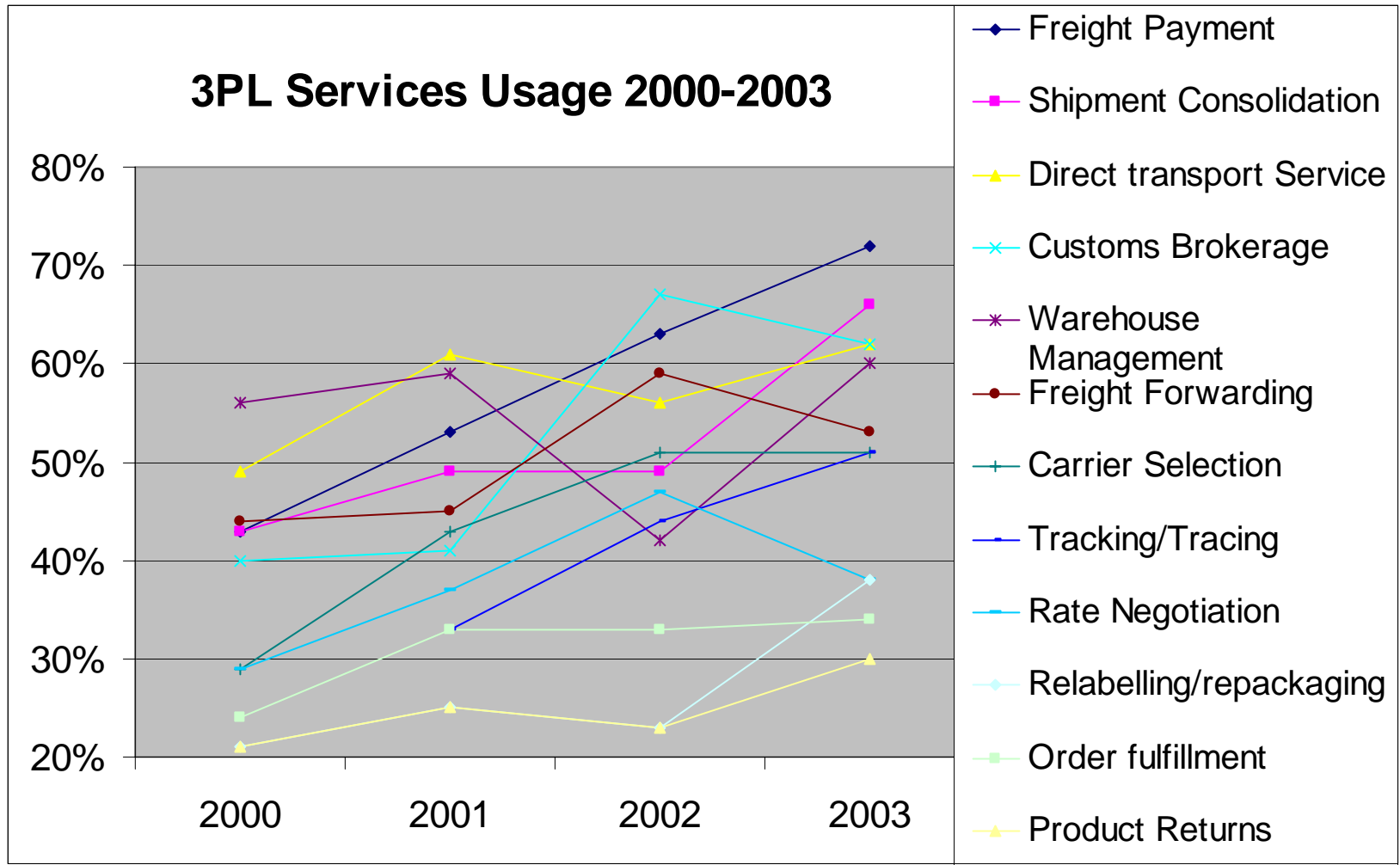
Third Party Trends

How are companies using 3 PL's so far this decade?

Logistics Service	2000	2001	2002	2003
Freight Payment	43%	53%	63%	72%
Shipment Consolidation	43%	49%	49%	66%
Direct transport Service	49%	61%	56%	62%
Customs Brokerage	40%	41%	67%	62%
Warehouse Management	56%	59%	42%	60%
Freight Forwarding	44%	45%	59%	53%
Carrier Selection	29%	43%	51%	51%
Tracking/Tracing		33%	44%	51%
Rate Negotiation	29%	37%	47%	38%
Relabelling/repackaging	21%	25%	23%	38%
Order fulfillment	24%	33%	33%	34%
Product Returns	21%	25%	23%	30%

Source: American Shipper

Third Party Trends



Source: American Shipper

Third Party Trends

- **Global One Stop Shopping**
 - **Domestic/International Locations**
 - **Total Physical Flow**
- **Multiple Customer Cross Networking**
- **21st Century technical responsibility and capability**
- **Partnerships with carriers and other 3PL's**
- **Added functionality: Finance**

Conclusions

Getting into bed with a third party provider does not absolve the outsourcer of the responsibility, fiduciary and operationally, to manage their own business and the third party's performance.

The good, the bad, or the questionable ?
Do the due diligence then decide who or what is right for you!

Question and Answer Session

Thank You !

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