CONTRACT LOGISTICS:

OUTSOURCING DISTRIBUTION MANAGEMENT TO DRIVE VALUE

Inventory sitting in warehouses is costing your business big money … from the bricks and mortar to house it; to the interest payments, insurance and taxes to own it; to the risk-related expenses of depreciation and obsolescence; to the opportunities missed due to cash flow limitations.

If your business revolves around the production or sale of products, you will have inventory. The challenge is to manage your supply chain and support your customers in a way that allows you to increase revenue and still remain cost effective.

Warehouse and distribution activities typically represent 25 – 35 percent of overall logistics costs for businesses. If this is not a core competency for your company, the question becomes, "Why build the capability when we can buy it?"

Contract logistics enables businesses to outsource distribution and warehousing solutions and drive value through superior return on your capital, sustained growth, and proactive risk management.

A dynamic marketplace

It's a world of change for supply chain managers.

- With contraction in the economy, the need for liquidity has led many companies to keep inventory levels low as a way to free up working capital. This is a significant change from the inventory build up experienced prior to 2007.
- Near sourcing from Mexico, rather than relying on Asia, is a growing trend. By reducing time in transit, businesses find they can accelerate their cash-to-cash cycles.
- The expansion of the Panama Canal, scheduled for completion in 2014, will likely create a shift in port activity for trade with South American and Pacific Rim countries, moving some West Coast traffic to Gulf Coast and East Coast ports.

The list goes on and on.

These and other changes are affecting inventory management strategies. Yet decisions regarding which SKUs or line items to order, when to order them, how much to order, where to store them, and how to fulfill and distribute customer orders all impact the cash flow, profitability and customer service of your business.

Supply chains networks and distribution center management strategies that are engineered for greater flexibility can leverage these changes and build value for their companies.



Distribution center management strategies that drive value

With contract logistics, businesses add flexibility and economies to their supply chain, improving customer service levels while supporting their strategies for inventory, warehousing and distribution.

Maximize profit, cash flow and optimize invested capital

Contract logistics allows businesses to achieve superior return on their capital.

By outsourcing warehouse space and its management, companies can reduce their facility footprint, as well as the administrative, labor, real estate and equipment costs associated with it. In addition, investments in technologies, and their upgrades, are assumed by the logistics provider and prorated over the provider's client base. This gives companies the benefits of the technology without the drain on capital.

For many, warehousing and distribution are not core competencies. Contracting for these services brings experience and expertise for better stewardship and accountability. Measurable indicators that typically benefit from contract logistics include reduced inventory, reduced inventory holding costs, reduced accounts receivables, faster proof of delivery, and improved supplier compliance/purchase order management.

On the other hand, among select 3PLs, warehousing and distribution are core competencies. For their clients, this translates to better asset utilization, greater flexibility, and the expertise to implement improvements quicker. These clients have the freedom to focus on their top line with the assurance that experts are managing their warehouse and distribution activities.

Improve speed to market, market share and maximize revenue growth

Contract logistics enhances a company's ability to sustain strong customer relationships and build sustained growth. It does this by helping to ensure the right product is available at the right time and place. The power to maintain fast and reliable product flow enables the company to capitalize on market opportunities, feeding growth and market share. Failure to achieve this level of performance can result in lost sales, even lost customers.

With contract logistics, businesses outsource warehousing and distribution management, and gain the flexibility to place resources closer to customers. This directly impacts transportation solutions and their costs.

Route optimization from the warehouse can improve on-time deliveries. Typically this also translates into fewer touch points for shipments and, therefore, less damage and product shrinkage. The end customers receive greater delivery reliability, which supports their own efforts for inventory management and employee scheduling.

In addition, by locating distribution activities closer to the customer, businesses can improve their transportation spend, using less-costly truckload services to carry shipments longer distances to the distribution point.

Improve visibility and balance the supply chain

Contract logistics supports proactive risk management, helping companies avoid the costs and uncertainties associated with reactive maneuvers in the supply chain.

Avoiding surprises starts by properly aligning the network for a smooth and consistent product flow. For global supply chains, this includes managing regulatory compliance. Domestically, it involves shipment and inventory visibility.

Technology is instrumental in enabling companies to see across the supply chain and gather timely information to support decision making. With their investments in technology, logistics service providers can give businesses greater visibility through the seamless integration of information. For the client, the results can include improved operating procedures, reduced obsolescence and insulation from accident risk.

Frequently outsources services

As companies turn to outside expertise to support their asset reduction and revenue enhancement strategies, they frequently outsource warehouse management and fulfillment, trans-loading activities and value-added services. Brief descriptions of types of services included in these areas follow.

Warehouse management and fulfillment

- Dedicated warehouse space: Includes inventory control, fulfillment and distribution center management services
- Customized order fulfillment: Consolidates multiple SKUs/line items or individual units into predetermined configurations
- Warehouse Management Systems (WMS): Gives access to state-of-the-art software used to manage fulfillment processes
- Vendor compliance: Provides purchase order management to support smooth product flow

Trans-loading and fulfillment

- DC bypass: Increases inventory velocity and reduces bricks and mortar expenses
- Vendor consolidation: Bundles purchase orders/shipments from multiple suppliers going to a distribution center(s)
- Flow through order fulfillment: Sorts products, which arrive in bulk from vendors, at a flow through center and allocates them to specific orders
- Import deconsolidation: Allows client to wait until the product reaches port and moves to a flow through/cross-dock center before determining its ultimate destination

Value-added services

- Light assembly: Supports manufacturing operations
- Kitting, repackaging and conversion activities: Combines one or more items into a new product or SKU
- Display shipper: Converts repackaged product and display materials (trays, headers and stands) into custom-constructed assemblies which are pallet ready
- Specialized product identification: Adds necessary information right on a pallet, case, inner or on each level
- Samples: Packages samples individually into a case or carton variety pack, and then labels for shipment
- Utilization of transportation services: Adds pickup and delivery options to support customer needs
- Engineering analysis: Performs productivity studies to eliminate waste and incorporate lean distribution processes

Supply chain benefits at a glance

Increase Revenue	• Improve in-stock position • Reduce markdowns by allow postponement of inventory allocations
Decrease Selling, General & Administrative Expense	• Reduce product-receiving labor through controlled delivery • Reduce overall transportation costs to stores • Reduce demand on AP by consolidating invoices • Enhance accuracy, product reconciliation and accountability with bar-code scanning
Reduce Cost of Goods Sold	• Reduce inbound transportation costs with inbound consolidation • Reduce outbound transportation costs with order consolidation • Reduce inventory with increased velocity
Reduce Inventory Requirements	• Improve inventory deployment by postponing inventory allocation decisions • Economically handle small order quantities with origin vendor consolidation • Provide direct deliveries to customers through improved network design • Bypass warehouses with merge-in transit capabilities • Support just-in-time initiatives with integrated visibility tools
Reduce Collateralized Loan Obligation	• Shorten order/delivery/installation cycles with merge-in-transit capabilities • Accelerate invoicing and collections
Reduce Fixed Assets	• Avoid real estate and equipment expenses • Optimize facility layout, product storage and product flow • Reduce overall system footprint

Who benefits from a contract logistics solution?

Companies that benefit from contract logistics solutions typically do not consider distribution activities as an area of competency and are hesitant to divert capital to invest in the people and warehouse management technologies which can deliver a more efficient supply chain. Their warehouse facility network is usually limited to 200,000 square feet, and if they do operate an inbound consolidation center or a distribution center, it too has limited size, dock doors and staffing. Businesses with annual sales around $500 million typically fall into this category and will benefit from a contract logistics solution.

Case studies

For more specific information on the application of contract logistics solutions from MIQ Logistics, visit our website, miq.com. These case studies document the challenges faced by our clients, the strategy and solution applied, and the results achieved. To read these case studies, go to http://www2.miq.com/cms/site/all_case_studies/index.html

In summary

Warehouse management and fulfillment operations represent up to one third of supply chain expenses. These operations are directly linked to a company's ability to drive value through increased revenue and reduced asset requirements. Outsourcing these functions can add flexibility and economies to the supply chain which translate to better return on capital, improved sustainable growth, proactive risk management and better customer service.

For more information:

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About MIQ Logistics

MIQ Logistics is a global logistics company headquartered in Overland Park, Kansas and with offices in North America, Asia, Europe and South America. MIQ Logistics enables companies to improve their transportation network and overall supply chain efficiency by offering flexible logistics solutions supported by Web-native technology and global logistics management capabilities.

To learn how MIQ Logistics can support your strategies for distribution center management, contact us at:

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