



Distribution Center MANAGEMENT

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Managing people, materials and costs in the warehouse or DC

From the Golden Zone

Choosing the right 3PL can help you achieve a leaner operation

By Ron Cain

Distribution center managers are increasingly realizing the value of streamlined procedures and leaner ways of executing operations. Knowing the value of lean logistics is important; however, knowing how and where to eliminate waste and trim down costs is the true benchmark of a successful operation.

From initial planning to final execution and maintenance, each aspect of lean logistics operations must be properly integrated and managed to make all resources associated with the supply chain more efficient. According to a recent study by the Aberdeen Group, "The Lean Supply Chain Benchmark Report," lean logistics is an outgrowth of inbound logistics functions that supported lean production, which emphasized frequent delivery, leveling inbound and outbound flow, and cutting inventories. These methods have since infiltrated every aspect of distribution, from shipping to warehousing, picking, packing, and more.

Lean thinking has been discussed and practiced with varying levels of success for decades. While understanding lean principles may be simple for savvy DC managers, implementing them can pose a formidable challenge. And, while you focus on your core competencies, the task of finding and fixing issues in your supply chain may not be at the top of your priorities list. For this reason, many companies are choosing to outsource

some or all of their supply chain functions to a third-party logistics provider (3PL).

According to a study by Georgia Tech University and Capgemini, warehousing continues to be one of the functions that is most commonly and successfully executed through outsourcing. The trend toward outsourcing is steadily increasing. The study reports that 50 percent of businesses that currently do not outsource logistics plan on outsourcing at least some of their operations in the future. The report also found that in the last four years of the study, 80 percent of companies were using 3PL services, an increase of almost 10 percent from the first six years.

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Realize cost savings with a 3PL

The cost savings and leaner processes that can be realized by a knowledgeable, experienced 3PL partner are substantial. Cross-docking is one procedure that can show huge improvements in any supply chain, and is a favorite of experienced 3PLs. Cross-docking enables a 3PL to move your inventory from receiving to shipping with no interim storage, drastically reducing storage and warehousing costs. In keeping with lean principles, cross-docking strives to eliminate "muda" — a Japanese word for anything wasteful that does not increase value.

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Further, cross-docking allows 3PLs to facilitate fast replenishment of goods. Cross-docking supports just-in-time (JIT) manufacturing efforts by capturing goods from suppliers at the cross-dock and delivering them in small batches after sorting by location and schedule. Cross-docking consolidates inbound production material while capturing and redistributing reusable containers. All of these benefits have shown significant improvements for companies with time-sensitive and intricate logistics operations, such as mass merchandisers, grocers, manufacturers, assembly operations, LTL trucking companies, and cargo carriers.

Another aspect of operations that benefits from the scrutiny and attention of a 3PL is the reverse supply chain. The considerable impact that reverse logistics has on a company's bottom line has generated a greater awareness of the importance of reverse logistics. Financial and business magazine *Forbes* estimates that U.S. firms spend \$100 billion annually on returns and that returns can represent up to 7 percent of a company's gross sales.

Work with the 3PL to build a performance-based culture

Choosing an outsourcing partner that works with you and your staff to implement a performance-based culture that will increase service levels while still cutting costs is essential to long-term growth and success. The best way to ensure happy customers is by building a healthy, performance-based culture that keeps lines of communication open between you and the 3PL and minimizes waste in operations. To do that, simply follow these steps.

Step 1: Ask yourself what kind of culture your business has now. This step requires a critical look at how your people view themselves, how they view each other, and how they view the organization. A culture that focuses on lean operations means a business that relies on its people to be as efficient and responsible as possible. Doing this

involves encouraging your staff to take pride in their work and be engaged in the culture. This will mean trying new approaches, stretching your abilities, and risking failure. Creating an improved culture starts with you.

Step 2: Organize your toolbox. To create a leaner supply chain through a performance-based workforce, you need a blueprint (a statement of your strategy that provides a view from 50,000 feet) and the appropriate tools (the day-to-day tactics and methods that you use to build a culture that drives effective communication) to get the job done. While you focus on your core competencies, your 3PL partner can get you the tools you need to succeed.

Step 3: Tear down the barriers to success. One of the biggest barriers to successfully working with a 3PL is communication. If you want to improve your culture to work better with a 3PL, creating incentives is a proven method for doing so. Start by communicating with the 3PL. As you see improvements in communications, you should also begin to see improvements in your bottom line. And using financial incentives allows you to reward the 3PL for having an impact, both on the company's culture and its bottom line.

Companies that depend on lean supply chain operations — such as those responsible for seasonal items, promotional goods, store-specific pallets, high volume items, kits, components, basic replenishment, and modules — will benefit substantially from a solid relationship with a qualified 3PL. Outsourcing logistics management to the right 3PL partner allows you to focus on your competencies while your 3PL partner focuses on your supply chain. Finally, an outsourcing partner who is committed to building a performance-based workforce that cuts out waste and improves service levels to your customers will deliver continuous results for your company, year over year. *Ron Cain is president of TMSi Logistics. You can reach him at 603-373-7233 or at ronc@tmsilog.com.* **DCM**

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