

Growing outside your own walls

Utilizing third party logistics providers can maximize efficiency and boost your bottom line

Photo courtesy of WOW Logistics

STORY BY JAN RUPNICK

IN TODAY'S ECONOMIC CLIMATE, a major key to success for any business is to stay true and focus on its core competencies and strengths.

In order to reduce overhead and get products onto the shelf, more and more manufacturers are turning to third party logistics, or 3PL, providers for managing inventory and enhancing on-time deliveries. In a growing trend, manufacturers, distributors and retailers are using these 3PL providers to save time and money, adding to the bottom line of both retailers and manufacturers through accurate, well-managed inventory and supply chains.

Benefits of outsourcing

ACCORDING TO A 2007 REPORT on the State of Logistics Outsourcing, 82 percent of the companies surveyed utilized 3PLs, with the majority farming out some domestic transportation management. However, with the advancement in logistics practices and technologies, a 3PL provider can deliver far more than just warehousing and freight management.

"It's about reducing risk. If you're relying on a third party provider, whether they're handling raw materials or doing finished goods distribution, it's mitigating risk for the manufacturer as they aren't the ones assuming the risk of increased overhead, additional storage space and other costs associated with in-house logistics," said Jamie Wally, vice president of sales and marketing at WOW Logistics in Appleton. The company has more than 7 million square feet of ambient, refrigerated and

freezer/cold storage in 23 distribution centers throughout the Midwest, and currently provides logistics support to customers in more than 60 different industries.

Whether manufacturing widgets or producing thing-a-mobbs, a business's core focus is generally on the quality of the product itself, rather than the logistics end of the process. With the infrastructure already in place and the latest IT capabilities to manage the logistics and handling of a product, a 3PL offers expertise to provide manufacturers with solutions to reduce total delivery costs for their customer, provide local expertise in new markets, improve customer service through shorter shipment times, reduce inventory costs through more efficient management, and provide cost benefits through volume shipping discounts.

"Manufacturers are experts in producing products, whereas a 3PL is the expert in distribution. By outsourcing this function, it allows them to focus solely on what they do best," said Wally. "An outside logistic company can serve as a partner in the manufacturing process, tailoring a logistics solution to meet the unique and specific needs of your organization."

When it comes to turning a profit, there are a couple major benefits to contracting with a 3PL including mitigating risk, cost savings in distribution, and insuring your product is on the shelf. This can make all the difference to the profitability of a growing company.

"The nature of things is that business is always changing," stated Bob Schroeder, CEO at Appleton-based Warehouse

Specialists Inc., which boasts 45 locations across the country. "When a business is growing, unless you are a very large company, it's hard to justify the costs associated with expanding your logistics department, including equipment, warehouse space, training employees and taking on the additional overhead."

"The supply chain now requires a more sophisticated level of management, and a lot of companies would have to invest substantially to reach the level of sophistication that a 3PL can provide," added Schroeder.

And much of a company's success rides on the proper logistics and distribution of a product. According to Schroeder, if the logistics end fails, your company will lose sales.

"While brand loyalty is what drives the end user to buy your product, no matter how loyal that buyer is, if the logistics fail with the product not being on the shelf, you've lost the sale, even in a high-brand loyalty product," he said.

To make sure products are on the shelves, a 3PL can help bring together a meeting of the minds, making sure that the manufacturer and their customer is on the same page. With the end-user the one paying the bills, they are often the driver in deciding when and how a product will be delivered.

"If you have an end user that says I have to have shipments everyday and they are on the East Coast, and you're in northeast Wisconsin, you will have a real issue in managing that 1,400 mile difference. That's where a 3PL comes in and designs a customized solution to fit that need," said Schroeder.

The cost savings from a plan designed to meet these kinds of specific distribution needs is also beneficial to a company's bottom line. For example, for manufacturers whose transportation is 70 percent of its distribution cost, a tailored plan can save them money. Even with a 5 percent reduction in costs, that will have a significant impact on a manufacturer's operating costs.

Stockpiling for a rainy day

IN ADDITION TO UTILIZING a 3PL to manage inventory and the distribution process, some companies are taking the risk of stockpiling inventory and/or the raw materials needed to make their products, hedging that a rebound in the economy will allow them greater margins when the demand for their products increases once again.

"Many companies have been moving away from a cash flow and lead perspective," said Dale Glen, CPA, partner with Clifton Gunderson LLP in the firm's Oshkosh office. "There are some instances where stockpiling makes sense, such as expecting a sharp increase in certain commodities, for example grain and petroleum-based products."

"This tactic is about locking in a low price on your product so you can be more competitive price-wise," added Glen. "It's also beneficial for those companies whose product is guaranteed to be the quickest in delivery."

Stockpiling inventory or raw materials isn't without its risks, especially with the economy still struggling to get back on its feet. With some commodities already at industry-level low prices, there's still the risk that they can go even lower.

"This tactic makes sense given the volatility in the commodities markets. If you're able to lock in prices when they are low, this can be very profitable, but risky if the prices drop more, to

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even greater historic lows, which can force bankruptcy in some cases," Glen said.

There are also a number of potential pitfalls stacked against a manufacturer, including tying up a significant amount of cash in a product, the additional cost of warehousing, spoilage and obsolescence.

"You need to be sure about your sales projections, understand the cost to financing and cost to store it," stated Glen. "The pay offs are big when stockpiling works. You'll have the inventory in stock, pricing your product competitively in bulk, at a price your competitors can't match."

As great as the success can be, so can the failure if the manufacturer's projections are wrong. For years, developers bought land, stockpiling it during the housing boom. With the crash of the housing market, many have lost a substantial amount of value in their portfolio while being left holding undeveloped land.

"By utilizing a third party logistics partner, you have the ability to access additional warehousing space on an as-needed basis when it does make smart business sense to hold excess inventory," added WOW's Wally.

Whether you're looking to streamline your logistics and distribution process or just lease additional warehouse space temporarily, a third party logistic provider can be an invaluable partner in increasing your profits and boosting your bottom line.



Jan Rupnick is a freelance writer based in Oshkosh.



INSIDE THE WOW LOGISTICS WAREHOUSE IN MENASHA, WI.

Photo courtesy of WOW Logistics



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