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Finding

the Right Third Party Logistics Provider

By The Staff of VCF

With the increasing flexibility required to manage accelerated supply chains and global sourcing, more companies than ever are reliant on third party logistics providers ("3PLs").

Vendors expect fast and accurate service from their 3PL, but are sometimes disappointed that the 3PL doesn't understand their business, leading to problems. Speaking at the recent Vendor Compliance Federation National Conference, Bill Drummer, President of ADI Logistics, offered some tips on what companies should look for when seeking a 3PL and how to ensure that it can fulfill their needs.

Is Your Warehouse Qualified?

When selecting a 3PL, companies must first examine the capabilities offered, Drummer said. For example, are its operations located near ports, airports, and highways that provide quick distribution? Is it near congested highways that might hamper distribution? Can its facility handle your volume of goods, particularly during busy seasons? Does it have adequate space, labor and expertise? Drummer noted that vendors need 3PLs that can expand their facilities or have reserve facilities during certain seasons. However, he said vendors must recognize that 3PLs cannot remain empty for them nine months out of the year and then create space only for the busy season. Only by communicating with 3PLs can companies find a solution they can rely on and a process that can be fulfilled. Drummer added that vendors should investigate equipment capabilities such as floor space, pallet racking, forklifts, turret/reach trucks, conveyors and pick and pack capabilities (flow rack, scanning stations, packing tables, carton-sealing machines). They should also inquire about value added services that 3PLs offer (tables, ticketing, marking, stuffing, etc.), as well as the capabilities of their staffs. He said staffing at some 3PLs generally consist of poorly educated, computer-illiterate workers. This creates problems because these employees are being asked to manage shorter lead times with sophisticated equipment. Because they will not upgrade their staffs, some 3PLs outsource to other parties to fulfill temporary staff needs during busy seasons. Drummer noted that "We test our employees for reading, writing and comprehension skills"

and that ADI has an apprentice program where current employees act as mentors in training newcomers. He believes this works better than farming out certain tasks, which hurts employee morale. As part of their due diligence, vendors should consider factors that motivate 3PL employees. Are they unionized, or do they offer merit-based bonuses as incentives, and what is the turnover.

Due diligence also requires examination of the 3PL's technology and whether it is compatible with the vendor's systems. Can it support EDI, RFID and provide visibility into the warehousing and distribution processes? Companies should note that systems designed to create better visibility into warehousing and distribution can sometimes be "overrated," and that flexibility is more critical than visibility. Flexibility, Drummer said, involves a 3PL's range of services that are amenable to special requests, the ability to get rush orders out, and the availability of overtime or second and third shifts during busy seasons. "Can your 3PL get the staff needed during busy times?" He noted that some 3PLs can follow a company's parameters, but when deviations occur the good ones are those who are flexible enough to accommodate. As a result, communication is needed. "3PLs must know what is coming," he said. "What are the quantities? What are the case packs, dimensions and weights? When is it shipping and who is it shipping to?" His advice to vendors was "K.I.S.S. – keep it simple...." with clear, simple and easy to understand instructions.

Companies should also be bold enough to quiz potential 3PLs about how they ship if they want to understand their qualifications. "Quiz them on hangers, ready-to-wear items and bar-codes" to see if they can fulfill your needs. Find out if they have experience in shipping for other companies that carry your product mix. Look to understand their corporate culture to see if it is compatible with yours.

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Lines of Communication

In addition to their external examination of 3PLs, companies need to do some internal homework as well, Drummer said. They must determine who in their companies should be dealing with 3PLs. "You must pick the right person who can communicate the proper information about your company." This "point person" must have the authority to give instructions for warehousing and distribution. Also, make sure both sides understand the language, or jargon, that gets communicated. "Warehouse workers don't understand your products, they only know product numbers," he said. "Making sure they understand your jargon will prevent mis-communications and supply chain errors."

It is important that vendors be as specific as they can when outlining expected performance requirements, Drummer stated. 3PLs have to budget manpower and require specifics about scheduling, reporting and prioritizing. "Don't send 20 orders for Monday-Tuesday-Wednesday and then 200 on Thursday without proper notification," he said. They must know in advance about priority shipments so they can at least get the most important shipments out. Only through upfront communication will both sides understand their responsibilities and capabilities.

Systems and Services

System capabilities vary between 3PLs and each one will rush to show you their "bells and whistles" (order processing, inventory control, EDI, RFID and integration capabilities) to gain your business, Drummer said. Therefore, your IT department must look beyond the surface to determine which provider can serve your needs within your budget. This will involve negotiations over price structure, levels of service and payments. Drummer also noted that cash flow is critical to a 3PL's business, so prompt payment from vendors will be rewarded with preferential service. "Your payments reflect how you value your 3PL."

Compliance

Companies must also negotiate over compliance and liabilities with their 3PLs. Some 3PLs have limits of liability for chargebacks, so upfront deals must be made. Drummer noted that vendors often lack the leverage to fight with retailers over supply chain disconnects. It's easier for them to pass the chargebacks to 3PLs rather than fight the customer which means 3PLs get hit with penalties for errors they didn't create. In addition, he said, chargeback fees are often disproportionate to the violation,

so it is difficult for the 3PL to accept them without losing money. Vendors must be aware of this because excessive chargebacks can result in lost business not only with retailers, but with their 3PLs.

To avoid chargebacks, Drummer advised vendors to share with their 3PLs best practices in achieving the Perfect Order, which involves on-time, complete and damage-free shipments, accompanied by accurate documentation. He advised companies to check out the recent study conducted by the Retail Compliance Council (sister organization of the Vendor Compliance Federation) that was conducted by Supply Chain Visions, Georgia Southern University and Compliance Networks for Perfect Order strategies. He also advised vendors to learn about the VCF Compliance Clearinghouse, which provides updates to the compliance manuals of more than 120 retailers. Knowing retailers' up-to-the-minute requirements will ensure that the correct warehousing and shipping instructions get filtered down to the 3PL.

ADI Logistics is a provider of warehousing, distribution and trucking services for apparel, cosmetics, home décor and consumer products vendors. For more information, contact Bill Drummer at www.appareld.com. ●

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