

Save Money by Using a Third Party Logistics Provider

By Bill Drummer, CEO of ADI Logistics

Image USA magazine, December 2005

If you have an import business and you're selling to the major retail chains then you are all too familiar with the difficulties in keeping your profit margins healthy. The price pressures from above (the retailers) and below (the manufacturers) are leaving less room for you, the importer.

One way to increase profit margins is to cut expenses. And one area where you can do so is in your Warehousing, Distribution, and Logistics costs.

If your business currently maintains its own warehouse and staff, it's time to see if that's really the most cost effective solution. Spending money on fixed overhead (rent, utilities, salaries) is only part of the problem. There are the additional headaches and drains on cash flow and your time:

- ▶ Staffing & Payroll processing, (workers must be paid within a week to two weeks of performing their work),
- ▶ Dealing with landlords, paying rent at the beginning of the month, (and tying up security deposit money). If you own your own building, you could lease out the space, generate income, and still save on your costs.
- ▶ Taxes (NJ taxes NY companies with a NJ presence),
- ▶ Insurance (Liability insurance and Workers Compensation of over 8% for warehouse workers) and claims. Insurance is paid up front.

And what about the months of the year where the warehouse isn't being used to 100% capacity? Why pay all that overhead?

These are drains on your resources, and your time. You need to spend your time, energy, and financial resources on Sales and Production.

You have a better option. You can outsource your warehousing and distribution to a 3PL / Public Warehouse

A 3PL / Public Warehouse is cost effective. You pay only for the resources you use. Slow season and your inventory is low? Your storage charges are minimal, instead of paying rent on a building.



It's slow season, and you're not shipping much? No salaries to pay. No workers on payroll idling while you're paying them. You pay only for the work performed.

It's busy season, and you're inundated with orders and shipments? Let the 3 PL find, train, and manage the staff. Let them buy and maintain equipment. No headache for you. The savings in costs and in time are enormous.

What about the loss of control? You'll be putting control of a crucial part of your business into the hands of an outside company with its own interests and priorities?

Some 3 PLs are well run and see the success of their customers as a crucial component of their own success. For a successful relationship with a 3PL you must first make sure you have partnered with the right company. 3PLs differ from each other, in expertise, capabilities, attitude, and price. You must find one whose strength matches your company's needs:

- ▶ Is your 3PL flexible? Some 3PLs are capable but rigid. If you go outside the "process" and request a rush order, or a pick and pack order when you normally ship only full cases, and they are not capable of handling the request.
- ▶ Is your 3PL quick and accurate? Some 3PLs are quick at the expense of accuracy. Or accurate but slow. Or they may not be knowledgeable of your product. Or they may have no experience shipping to your major customers (which can result in huge chargebacks).
- ▶ How will you communicate with your 3PL? Do they have administrative staffs that are primarily data entry clerks or are do their account reps have real managerial experience?
- ▶ Do they have the technological capability necessary? They may have a computer system with lots of bells whistles, but not the flexibility to handle emergencies, or the ability to track down to the SKU level you need (for example, for apparel, style, size, color,). Do they have an onsite IT director?
- ▶ Is their staff large enough? At some 3PLs, a competent manager will handle your account, but if he/she is out, there is no backup. At another, there may be so many different people involved that you never really have anyone to talk to, or hold accountable.
- ▶ Some 3PLs will offer integrated services including Trucking, Freight Forwarding, Customs Brokerage, Bonded Warehousing, in addition to the Warehousing and Distribution. Integrated services can bring great savings and coordination. On the other hand, you may not want to concentrate so much control over your business in the hands of one company.
- ▶ Can your 3PL provide Value Added Services such as ticketing, marking, kitting, Q.C., sewing, Pick and Pack, GOH, EDI processing, etc?
- ▶ How important do you want to be to your 3PL? At some 3PLs you will be the big fish in a small pond, while at others you will be lost in the shuffle of their customers



It's important to visit the facility where your goods will be stored and worked (not a different "showcase" building) and meet with the owners and the managers, to see if there is an operational "fit". See if they are set up to handle your goods, and your company's structure. It's important to get references.

It's equally important to make sure you have at least one or two employees in your company dedicated as liaisons with the 3PL. Having your 3PL deal with multiple employees from your company, especially salespeople, ultimately leads to confusion and frustration on both sides. Clear communication is imperative. A 3PL cannot perform well for you without clear instructions and a knowledgeable professional on your side. But hiring one or two logistics professionals is much cheaper than owning and managing an entire Logistics staff of your own.

Price is of course, an important feature as well. But keep it in perspective. What you save on the front end can cost you dearly on the back end, in shipping chargebacks, lost orders, cancellations, and returns. You don't want to save a few pennies per piece on your warehouse costs, and pay dollars per piece back to the retailers.

A good 3PL can be a boon to your business. A little time and effort in finding the right one can save you many dollars you are currently spending unnecessarily. Boost your profits without any increase in sales. Who can argue with that?

About Bill Drummer – *CEO and Founder of ADI Logistics*

Before founding ADI Logistics, Bill Drummer held senior management positions at Streichler Trucking and FMI International, both third-party logistics providers, and at ES Sutton, a major apparel importer. Bill, who holds a BA in Business Administration and an MBA from the American Military University, has published numerous articles on third-party warehousing and is a sought-after speaker at related events.