

Subcontract your logistics

Proper or Subcontracted logistics?

Any company, whatever its size, is going to raise the question whether to subcontract its logistic activity.

"To subcontract" or "to Externalize" your logistics means that you are going to give the responsibility of our company's logistics to a third party which core business is logistics. This can be a subcontract of services (transport, supply follow-up, warehouse management) or of equipment and associated services (logistics buildings and their maintenance, warehouse equipments, forklifts and their maintenance...)

Concerning the outsourcing, questions are popping up!:

« Should I rather subcontract my Logistics? », « Do we have to externalize all logistics activities? », « On all our network? », « what activities do I have to externalize as a first step?..... »

In order to answer these questions, it is necessary to know that to assure a proper logistics is less expensive in the long term but requires investments in staff, buildings (warehouses), transportation means, handling machines, warehouse equipment... On the other hand, subcontracting, will relieve you from these heavy investments but will echo these in the subcontracted rates.

Thus, it is on one hand this cost balance (investment vs renting), and on the other hand your company profile, that are going to decide between subcontracted or proper logistics.

Requirements to assure proper logistics:

- Ability to invest in building, means of transportation, warehouse equipments, handling machines + associated maintenance,
- Ability to invest in training: proper staff + interim,
- Have a reliable forecast process to recruit the necessary temporary workers,
- Be equipped with transport and warehousing organization competences: expertise and management
- Be equipped with adequate information systems: forecasts and planning IS, Supplies follow-up system, Transport Organization, WMS Warehouse management System=- investments and furthermore, you cannot take advantage of evolutions required by other customers in the case of using a 3PL system.

According to these requirements you have a better idea of your possibilities to handle your proper logistics and you will know which logistic activities you should rather target regarding subcontracting:

Your forecast and planning activity? your supplies follow-up? Upstream / downstream transport? Transport organization? Operational transport? Warehousing? Only the building? Warehouse management? Everything? By including warehouse equipments?...

To help you making your idea, here are the most common advantages and drawbacks when outsourcing:

Advantages of outsourcing:

- Avoid heavy investments and activity fluctuation related risks.
- In a multi-customers service, working with a 3PL can allow resources sharing with other customers in case of peaks and also benefit from a operational information system which will have undergo useful evolutions required by other customers.
- Guarantee of an expertise and functional evolutions: you shouldn't forget that logistics is your 3PL's core business.

- Training and absenteeism is your 3PL's problem (be sure to have locked the contract on this point!!!).
- Contracted annual productivity commitment (be sure to have locked the contract on this point to!!!).

Drawbacks of outsourcing:

- Your company does not have expertise anymore in the subcontracted domains.
- Your costs are less transparent and in a long-term often higher.
- You will need a call for tender process: establishment of detailed specifications, answers revision, choice of the 3PL,
- Requires prices negotiation, establishment of a contract and one or several logistic protocols which must be drafted with the highest care.

Summary

In summary, there is no ready-made answer, and the choice to externalize or not depends naturally on the context of every company. But if you start from scratch, this spec sheet and its documentary links will allow you to raise the basic questions.