

## **Externalize your warehouse**

To externalize part of a company's logistics is a critical subject which requires a high level of implication of the Logistics or supply chain director during preparation months as well as the first months of activity.

As a matter of fact, during such a project, the externalizing company is confronted to logistics and supply chain professionals (logistics services & warehouse management providers, transportation companies...) able to provide an adapted and professional answer (realistic and long-lasting) as soon as the requirements are clearly described and documented.

This means, before rushing into an outsourcing project, your company has to deepen its knowledge of its externalize-to-be logistics

To make this outsourcing a success, we propose you a 6 steps plan with basic advices but too often forgotten in these projects.

### **1) Organize the outsourcing project**

#### **1.1.) Identify steering committee members**

If we consider the strategic and critical character of the project, the logistic manager can include in the steering committee:

- The Management
- The Commercial function
- The Financial function
- The Legal function
- The HR function
- The IS/IT function
- The Purchase or Production function

#### **1.2) Define the outsourcing scope**

First of all, the Logistic Manager has to identify exactly:

- The scope in term of products,
  - . Associated legal regulations and safety rules
  - . Level of product identification (label, identification, documents)
  - . Logistic units' physical characteristics (dimensions, weight stackability)
  - . Products stocks rotations characteristics
- The scope in terms of flows: from suppliers, until customers, handlings, reverse logistics ...
- The scope in terms of logistic (execution, planning.) and / or administrative (supply, follow-up, invoicing) processes.
- The human factor (key resources, risks and costs)
- The required levels of traceability
- Stock management rules
- Products assurance
- Hygiene, safety and quality specifications

The Logistic Manager will identify the impact of his company's growth plan on the externalized logistic activity:

- Activity growth
- New customers services development
- Geographic extension
- Sourcing modification...

He/She will identify the location, the optimal surface and the launching scheduled date of the future logistic base.

He/She will also identify the materials and the existing installations which will be likely to be transferred to the 3PL (surfaces, IS system, shelves, forklifts, Radio Frequency Pistols).

### **1.3) Identify the human and IT organization interfacing with the 3PL**

The Logistic Manager will define the human organization and the necessary IS interface to set up in order to manage the 3PL and allow him to execute and control sub-contracted operations.

He/She will define the job-sharing:

- Who will manage reception discrepancies, products damages, stock leveling, customer returns.
- Who will control operations quality, especially during launching period ...
- Who will control the 3PL productivity performance and cost ...

☞ We advise to send one of your company staff on site for at least one year after the launching.

The Logistic Manager will have to establish necessary information exchanges for the 3PL to forecast and execute the handled operations. By this first study, he/she will produce the IT interfaces functional definitions which have to be developed between its company and the 3PL systems

### **1.4) Establish the specifications document**

The Logistic Manager will structure all previous steps data in a specifications document. He/she will also establish a data base describing its activity.

If the project is largely on time and if the data is available, he/she can take advantage of this consultation by asking 3PLs for a surface dimensioning calculation and for the optimal warehouse location. It is, besides, a good mean to confirm the 3PLs professionalism.

### **1.5) Define 3PLs to include in the bid**

All 3PLs are not equals in front of your logistics particular needs. Each one of them has its specificities and strengths in their customers' logistic sectors.

To establish its 3PLs panel, the Logistic Manager will have to:

- Study the 3PL sector and identify through the public available information:
  - o The 3PL financial situation.
  - o Their customers references and their sectors (industry / distribution), products families & heterogeneousness, specialization on certain processes)

- Organize presentation meetings with the 3PLs commercial window
  - Visit if possible other customers activities handled by the 3PLs and find out their opinion on the service quality (logistic press, internet, professional network...)
- ☞ We advise a panel of 6 3PLs in consultation.
  - ☞ It is generally necessary to schedule 3 months of consultation and 4 months minimum before activity launching.

## **2) Launch the consultation**

When communicating the specifications document to 3PLs, the following elements will be specified:

- The consultation planning (short-list, definitive decision, operations launching),
- Forecast steering committees dates
- The window person contact data who will answer to 3PLs questions during their study of the specifications
- On which year of projected activity will be based the proposed solution and the costs calculation

It is necessary, to save time in the following steps, to require a unique answer format.

The offers presentation meetings will have the following content:

- 3PL Presentation
- Solution presentation
  - Means dedicated to the operation
  - Human structure
  - Safety
  - Service commitment
  - Information System proposal
- Costs and budget
- Visit of a reference activity and the future logistic facility

## **3) Analyze the consultation results**

To be able to compare in a neutral way the consultation results, the Logistic Manager will use a matrix of comparison of quality, productivity, costs per work unit and global budget criteria's.

## **4) Establish the short-list – Choose the 3PL**

The short-listed 3PLs will be chosen on 3 criteria:

- Capacity to understand problems and stakes in the company and to propose adapted solutions
- Quality of the proposition
- Costs and budget Coherence

☞ We advise a 3 3PLs short-list

During the phase consecutive to the short-list constitution, the Logistic Manager will study in details the propositions with 3PLs.

It is the negotiation time.

At the end of this phase, the Logistic Manager will have a deep knowledge of each 3PL proposition's elaboration method as well as the reasons of differences between the economic propositions.

The final 3PL choice will be done during a project steering committee, based on the comparative and argued analysis of the remaining offers.

## **5) Launch the outsourcing**

To launch the outsourcing means preparing the change through 2 sub-projects:

### **5.1.) Project with the 3PL**

- Organization
  - o Elaborate process diagrams
  - o Develop the interfaces between computer systems
  - o Define the required consultation screens (stock consultation, receptions follow-up, of reception and expedition forecasts)
  - o Define the back-up processes
  - o Integrate data bases
  - o Test
  - o Inform the non selected teams and 3PLs
- KPI
  - o Define and establish the KPIs
  - o Identify the application criteria of bonus / malus
- Contract
  - o Validate the costs and the launching conditions (open book...)
  - o Draft the contract

Contract establishment can require time, it is common to sign a letter of intention.
- Operation
  - o Prepare the move
  - o Follow the material installation planning (shelves, lifters, forklift, computers, licenses)

### **5.2.) Internal project**

- Organization
  - o RH
  - o Modify processes
  - o Accompany the change
- Operation
  - o Plan the stock & materials move

- Cancel the now useless materials and equipments contracts
- Communicate with suppliers, other 3PLs, customers ...

## **6) Launch and follow**

After the launching, monthly control meetings will be organized with the 3PL. They will deal among others of:

- Operations quality (KPIs)
- Costs
- Bonus/malus application

And will allow deciding changes to be operated on:

- Working processes
- Information exchanges
- Teams organization ...