

## **7 Myths of Logistics Outsourcing**

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Since starting in a big way around the mid-seventies logistics outsourcing has come a long way. While a few companies are already outsourcing their entire logistics operations, most companies are outsourcing at least some part of their total logistics – whether transportation or warehousing or value added logistics services. During the last 30 years, as logistics outsourcing has become a mainstream activity many myths have mushroomed around the business. This article explores and explodes 7 of these popular myths.

### **1. If outsourcing does not work you can always bring the activity back in**

This myth pervades the thinking in some executive circles, based on the assumption that the decision to outsource can not only be easily implemented, but also easily reversed! However, in most cases this is far from true. Outsourcing is a strategy not a tactic. You are making a multi-year commitment, not only because of the contract, but to make the financial reasoning work; you also have to dismantle the PP&E, systems and people you have built up over time. To reverse the outsourcing decision, you will have to recreate the infrastructure, which is a large undertaking, for which you may not have enough time. This insourcing is often a far bigger, and more difficult to implement decision than the initial outsourcing!

### **2. The smartest people in the game work in 3PLs**

This myth and the next are seemingly mutually contradictory. This one has its roots in the early days of transportation and warehousing, when finance, sales and marketing were the stars of every corporation, and warehousing and stores were perhaps the doghouses. The adage going around then was that ‘if he - and mostly, if was a he - can count, send him to the warehouse. He cannot do much damage there.’ 3PLs capitalized on this reputation by claiming that they had the scale, career progression opportunities, core functional focus, brand and the cachet to attract the best and the brightest – which internal supply chain departments could not. Of course the reality is very different today. In our experience, there are today good people on both sides of the fence (and they keep changing sides from time to time!).

### **3. The smartest people in the game work on the customer side**

The reverse of the above myth, and perhaps partly to counter the same, a more recently floated myth is that 3PLs do not offer the job satisfaction, control, and the holistic view of the business that a corporation can offer. This has led to the contemporary expression in corporate logistics circles that ‘those who can – do; and those who cannot – work for 3PLs’! Again, this is equally apocryphal, and many great logisticians come to mind, who made a career as logistics service providers, greatly enjoyed their profession, and maintained a broad and deep dialogue with executives from all walks of life.

#### **4. Once you outsource, you can relax and let them handle all the work**

This is perhaps the most pervasive myth in the higher echelons of corporate circles today. Even some of the most astute business executives tend to believe the hype that once they outsource the logistics function (generally considered non-core), they can stop worrying about the outsourced functions. However in reality, this can be dangerous. Putting together an outsourcing arrangement does not transfer your core issues to the 3PL; rather you swap one set of problems with another - internal logistics management problems with logistics relationship management problems!

While this topic calls for an entire article by itself, let's look at some of the problems likely to surface after outsourcing begins: Unpleasant surprises - such as cost creep, technical expertise being lower than expected, lack of flexibility to incorporate changing business needs, potentially large cost over-runs on account of services that were assumed to be included but in fact were not included in the service contract, loss of real visibility, control and direction - are just some of the problems often seen in this context.

The fact is that even after the outsourcing, your management will be working just as hard, the sole difference being that they will spend the same amount of time managing the relationship, which they had earlier been spending in managing operations. Some relationships even degenerate into games of contract head-butting and *variations* management for which both the IT outsourcing and the building construction industry as so notorious.

#### **5. It's an equal win-win partnership**

This is another pervasive myth – often perpetuated by 3PL organizations. A real partnership, by its very nature, is defined by co-dependence where the relationship is indispensable to both parties, as judged by a measure of how much each party would hurt if the relationship fell apart. The truth, in most case of outsourcing, is that this pain is not too much!

Most 3PLs have a multitude of customers and keep bidding for 3-5 years for work with those customers. Moreover, most 3PLs have learnt not to rely on just a few customers for their business, for obvious reasons. Thus from the point-of-view of the 3PLs even if a few customers pulled out, they would have contingency plans to optimize their asset utilization.

Even from the customer's perspective, with the increasing modularization of the supply chains, most 3PLs are providing a commoditized service, despite all the hype surrounding technology integration, business process integration and logistics infrastructure integration. And this is true regardless of the scale of some of the larger service providers.

Finally, even if it were a true win-win partnership - just as when a pair dances one person takes the lead to improve the joint performance - it is preferable that the lead

be taken by the customer whose business is at stake. Corporations should relinquish the lead to the 3PLs only at their own peril.

#### **6. Your logistics service provider is responsible for their own mistakes**

Most directors and officers are clear about their responsibility and obligations for the acts of their managers, servants and all their agents including contractors. However, for some reason the a vague belief still persists that if the 3PL makes errors related to performance, security or environment regulations, or even commercial decisions, the 3PL will be held responsible, and the customer will not suffer as a result. However, not just the law, but also the prevailing customs and practices, point to a different reality.

Your customers hold you responsible, and possibly invoke penalty clauses if they don't receive the product within the contracted time. In case of spillage of dangerous or hazardous products the authorities will trace the responsibility back to the seller of the product. Compliance with regulatory and security measures continues to be the seller's responsibility, no matter who this is delegated to. In most cases, the damage to brand, relationships, reputation with authorities, and even bottom line will be borne by the customer – much more than by the outsourced logistics contractor. And this applies no matter how big the contracted logistics firm is, and no matter how much insurance they carry.

#### **7. Lock it in a contract and squeeze the last penny out of your logistics service provider**

The final and the most persistent myth is that you can have a detailed logistics contract stitched up, which will help you to squeeze every last penny out of your logistics supply chain and thus improve your bottom line. While it is essential that contracts are specific and explicit in terms of the tasks, responsibilities and commercial terms, it is the rare business whose logistics requirements do not change from year to year, month to month and day to day. All these variations can be neither foreseen, nor incorporated in a contract, as this is a highly dynamic and fast-changing business environment. So where then lies the solution? While the contract is very important, as is the integration process and the relationship management tool kit, the most important element is the selection of the 3PL: An outsourced logistics provider with right attitude across the company (not just in the key salespeople, or account managers), who exhibits a true spirit of service and possesses the flexibility to meet changing needs will go much further than a merely a tight contract in creating and sustaining a mutually beneficial relationship.

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