Why it pays to share *your* 3PL

Shippers are discovering that by sharing third-party services, they can save big on transportation and warehousing costs.

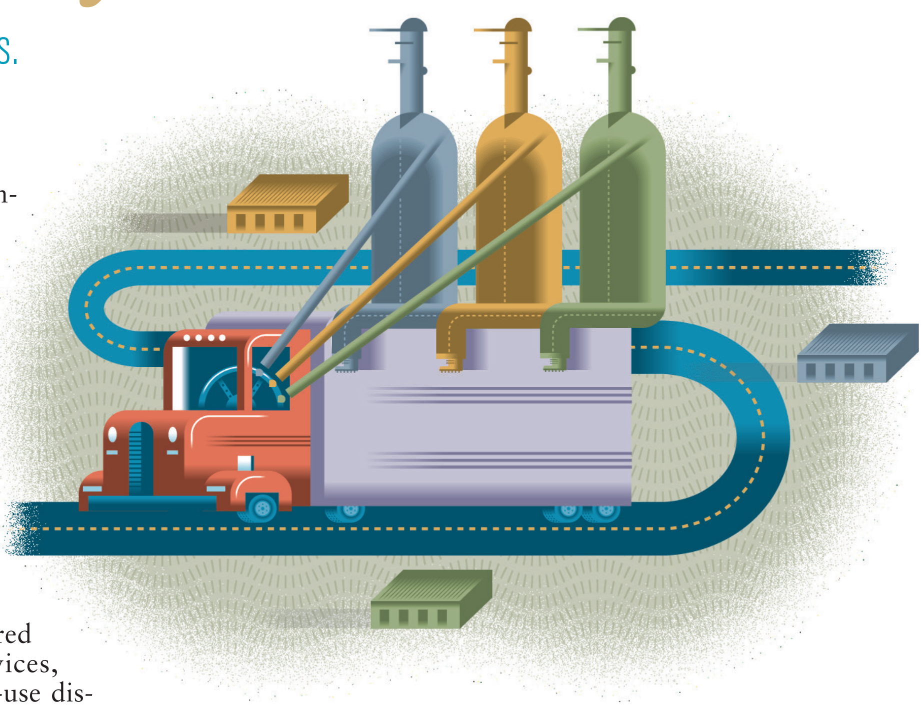

ILLUSTRATION BY DAN GUIDERA

If you're a logistics manager, you're always on the lookout for new and better ways of managing your operations. Yet because many logistics activities are nothing new—some, in fact, are as ancient as civilization—today's "new" concepts are really old ideas that have been modernized to meet current needs.

A case in point is shared third-party logistics services, also referred to as shared-use distribution. Shared-use distribution is when multiple customers use a distribution facility that is operated by a third-party logistics service company (3PL). Those customers, which may be competitors, share space, labor, equipment and transportation services provided by the 3PL.

Today, more and more shippers are embracing shared-use distribution for everything from overflow storage to new product launches to pooled deliveries—and with good reason. By sharing space in a 3PL's facilities, shippers can spread costs among several parties. Overhead for each customer is lower, start-up risk for new products is minimized, and transportation costs are reduced because less-than-truckload (LTL) shipments from several shippers can be consolidated into lower-cost truckloads.

Shared-use distribution also reduces costs for the 3PLs, which translates into additional savings for their customers, says Larry Thomas, vice-president of consumer markets for Exel, a logistics services company with U.S. headquarters in

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Columbus, Ohio. "We can reduce our costs because our labor and equipment [are spread out over] shared-use clients as well as large contract customers," he says. "Those savings allow us to aggressively price the business."

As hot a trend as shared-use distribution has become, though, it is hardly a new concept. "In 1961, Service Warehouse Corporation in Huntington, W.V., consolidated grocery orders for Quaker, General Mills, Pillsbury, and others into single shipments going to the same customers, thus reducing transportation costs," recalls Cliff Lynch, a former vice president of distribution for Quaker Oats and now a leading logistics consultant. At that time, the program was simply called warehouse consolidation. "We didn't have a sophisticated term like 'shared 3PL services,' but it is the same concept," he says.

This tried-and-true practice, updated with sophisticated information technology, has much to offer a wide range of shippers. "This concept works well in any industry as long as the products are compatible and the customers cooperate," Lynch says.

From Many to One

Many 3PLs that handle food products offer shared-use distribution services, often in conjunction with efficient consumer response (ECR) and continuous replenishment operations, Lynch notes. The concept also has become popular in industries such as retailing where shipments from many suppliers are destined for a single buyer.

One example is that of a major retailer with an automotive service arm. The retailer has multiple tire suppliers ship product to its 3PL's shared-use distribution facilities around the country. Each store submits weekly orders for the items it needs to the appropriate DC. The 3PL then fills those orders out of the various suppliers' stocks and delivers them to the stores as consolidated truckload shipments. Through this approach, neither the tire suppliers nor the retailer needs to hold large inventories. In addition, the tire manufacturers avoid paying minimum LTL charges while gaining a high level of customer service. "Receivers especially like the idea of having consolidated ship-

How shared-use distribution helped Bombay build a new brand

When furniture and accessories retailer Bombay Company of Fort Worth, Texas, recently launched a wholesale division to serve thousands of department stores, catalog retailers, and small gift shops, it planned to handle logistics for the new business through the same distribution centers that served its own stores. But it quickly became clear to Bombay's vice president of logistics and distribution, Suzann Mayo, that if the new Bailey Street Trading Company division were to succeed, a different approach would be required.

"The Bombay DCs are designed specifically to replenish our stores with regular outbound runs on dedicated equipment," says Mayo. But Bailey Street Trading's merchandise and sales channels were totally different from those of the parent company. "We needed to be able to ship individual orders to over 1,000 customers at a multitude of locations," she explains. "With multiple service levels and shipment sizes, we needed to use about every mode of transportation there is. Many customers also required special bar codes and labeling."

Since Bombay's DCs were not set up to efficiently handle customized orders, Mayo looked at outsourcing. But the new division had little sales history and only indefinite forecasts to work with, so a long-term contract for dedicated warehousing was a risky proposition. "We did not know how big this business would get, so we needed as much flexibility as possible," she says.

Shared-use distribution filled the bill. Last October, Bailey Street Trading moved into a shared-use facility in Atlanta operated by USCO Logistics, one of Bombay Company's logistics service providers. That arrangement is based on month-to-month commitments and pricing is on a per-piece basis. That lets the fledgling company avoid paying for labor, equipment, and facility overhead that it does not use. It also gives it the flexibility to expand space usage and fulfillment capabilities as needed, says Mayo.

With a rapidly growing customer list, the ability to automatically handle varying customer requirements—a demand the parent company does not face—has become crucial to Bailey Street's success. The retailer therefore has relied on its 3PL to help automate Bailey Street's fulfillment process and provide the technology needed to create customized bar codes and labels for every shipment. The company also turned all of Bailey Street's outbound transportation over to USCO, in part because the 3PL's size allows it to negotiate more favorable rates than the wholesale division could get on its own.

Mayo believes that shared-use distribution, along with the provider's fulfillment and delivery efficiency, will help Bailey Street Trading provide customer service that will distinguish the wholesaler from its competition. More important, she adds, it is now "a competitive advantage that is helping to grow the Bailey Street Trading Company brand."

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ments arriving at their dock on one truck," says Thomas.

But there's a lot more to making that happen than just loading multiple shipments on one vehicle, he points out. "It takes a 3PL with the latest technology and systems to optimize full truckloads of orders made up of product from multiple suppliers," Thomas says.

The 3PL also needs a critical mass of customers in similar industries. In Exel's case, he notes, there are abundant opportunities for freight consolidation because its logistics "campuses" typically serve a large number of tenants that often have common customers.

Another reason why shared-use distribution is particularly attractive to retailers is that it is a cost-effective way to manage store start-ups, retrofits, and major promotions, says Jim Morgan, executive vice president with USCO Logistics, a 3PL based in Hamden, Conn. In the last few years, USCO has combined the shared-use concept with an elaborate form of cross docking to deliver ready-to-use store supplies and fixtures to retail outlets. The 3PL receives shipments of signage, displays and other materials from multiple suppliers. It then assembles all of the parts into finished displays and delivers them directly to the retailer's floor, Morgan explains.

Some manufacturers are concerned about shipping their products with those of their competitors. That was the case with grocery consolidations back in the 1960s, but most shippers came around fairly quickly when they learned how much they could save in transportation costs, Lynch recalls. It's still a concern for some shippers today, so confidentiality requirements often are included in shared-distribution contracts. (For more on this subject, see "Profiles in Excellence: Share and share alike," in the March 1999 section of "Archives" at www.logisticsmgmt.com.)

Minimal Risk, Maximum Flexibility

The shared-use distribution trend goes well beyond consolidating shipments. As the economy begins to rebound, companies want to accommodate new business or expand into different markets. But they are still very cautious and want to risk as little capital investment as possible. For that reason, many of them are turning to shared-use distribution to supplement their core network with short-term, flexible space. (For one shipper's story, see the sidebar on Page 45.)

Shared-use distribution helps shippers respond to other business demands. Pharmaceutical and healthcare companies, for example, are among the biggest users of shared-use networks because they need to keep small amounts of inventory near major demand points in order to rapidly fulfill orders. Since the amount of space needed at any one location is relatively small, shared-use distribution works well for them.

Other industries, including electronics and automotive manufacturing, are embracing shared-use distribution as thinner margins and shorter product lifecycles put a premium on flexible logistics networks and capital conservation. Shared-use distribution meets those needs, since it avoids fixed investments in buildings, materials handling equipment, labor, and supporting information technology. Because costs are based on actual transaction volumes, capital is freed up for core business activities such as product development, marketing and other revenue-producing functions.

Pricing for services provided by shared-use distribution centers such as this one typically are based on actual monthly space and labor usage.

That flexibility is one reason why small and mid-size companies find shared-use distribution especially appealing. While larger customers typically opt for long-term contracts, shared-use commitments can be short-term, month-to-month leases based on simple, two-page agreements, says Larry Thomas. "If the customer is in 10,000 square feet this month and 8,000 next month, that is how it is billed," he explains. "If customers prefer to be billed on a per-unit rate, they just pay for the product that we handle for them."

In short, the value of shared-use distribution lies in the cost savings that are possible because of the system's flexibility. "The last two years of economic turmoil have taught every business to be as flexible as possible," says USCO's Morgan. "Logistics activity increasingly is being centered around a variable-cost model versus the fixed-cost component that goes along with the dedicated (warehouse) approach. That is why the shared-use concept is gaining momentum."

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