



Standardizing with 3PLs

How to Achieve the Lowest TCO in 3PL Managed Networks.

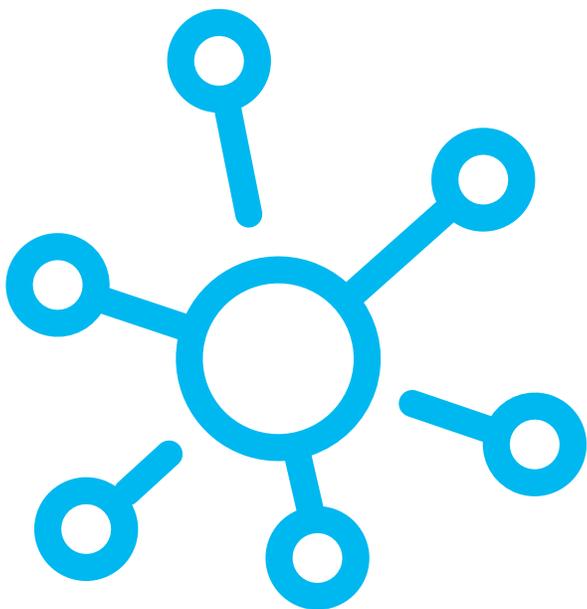
For manufacturers seeking to focus their attention and investment on core competencies, 3PLs have long offered outsourcing partnerships to efficiently manage warehousing operations. For organizations with limited network footprints, 3PLs offer industry based solution templates and repeatable onboarding processes for their customers. Selecting strategic 3PL partners can minimize the amount of overhead with systems design and integration and streamline improvements and technology cycles.

In more complex supply chains with global operations, this has, at times, resulted in redundant investments in operational and systems design and implementation, increasing costs and adding complexity to attempts to standardize customer experience and drive specialized operational excellence. As a result, many manufacturers have embraced a holistic approach to warehouse management, including standardized business process design, centralized systems implementations, and cloud-based deployments.

This white paper explores the benefits, key characteristics and opportunities of working with 3PL-based or centrally managed warehouse management systems.

Benefits of 3PL managed systems:

- **Flexibility:** Leading 3PL providers have developed scalable templates by which various forms of business processes can be implemented, ensuring that the operation can evolve as the business grows.
- **Agility:** With a pre-defined toolkit and a strong workforce skilled in warehouse implementation and operations management, 3PLs can stand up and scale operations aggressively. For rapidly growing businesses and spinoffs that lack a warehousing capability, they can fill a void and deliver expertise with limited up-front investment.
- **Limited IT overhead:** Most 3PLs have standardized communication methods and integration mapping capabilities, reducing much of the overhead IT requirements related to systems management to a simple set of integration transaction sets that need to be maintained and monitored.
- **Lowest TCO:** Through transaction based contracting methods, manufacturers can drive operational excellence through a repeatable bidding process by which services will be awarded to the lowest cost provider. This will often be those with the greatest understanding of best practices in the industry and the largest capacity available to be leveraged in serving their customers.





Benefits of a centralized approach to warehouse management

- **Onboarding:** Establishing standard best practices capable of managing the business, and a rapid deployment process for onboarding new sites or 3PLs is a core tenet of a best in class program for centralized warehouse management. The delivery of a toolkit for implementation elements including configuration, training, and support is crucial, and allows new partners to be introduced rapidly with limited risk of disruption to the business.
- **Operational Excellence:** While 3PLs have well established best practices specific to an industry, most large manufacturing product lines demand varying levels of nuance to truly optimize order processing and enable best in class efficiency and service level attainment. For manufacturers with large distribution footprints, the gains in productivity can have a material impact on labor costs.
- **Continuous Improvement:** With an eye towards ever improving operations, collaboration amongst manufacturers and their 3PLs can drive continuous improvement and innovation throughout the lifecycle of their systems. 3PLs are often additionally incented through gain sharing mechanisms in cost plus contractual agreements. Additionally, innovation is encouraged through a broader economy of scale for potential recipients of operational improvements.
- **Flexibility and speed to market:** There is increased flexibility via reduced complexity of managing capabilities in a single system vs in multiple 3PL versions (requiring independent initiatives for each system, even when 3PLs run solutions from the same software provider based on the focus industry). By standardizing on one system - new customer requirements, operational improvements, and regulatory compliant features can be propagated across the network with speed and at minimal cost.
- **Scalability and M&A readiness:** By consolidating resources and standardizing processes, larger initiatives can be undertaken with a consistent view of the operational (and application) landscape. This is especially true of M&A activity, where new business units can be onboarded quickly, and product distribution can be aggressively integrated to achieve the synergies that drive these investments.
- **Lower TCO:** Overall, a greater focused attention on systems implementation and maintenance allows a broader spread of associated costs and a higher utilization of the resources required to support the application. Whether insourced or outsourced, the supporting organization gains economies of scale leading to a lower TCO.

- **Visibility:** While a warehouse management system may not be part of a core competency for many manufacturers, customer service remains top of mind in the boardrooms. By sponsoring a global design effort of standardized warehouse management and associated processes, manufacturers can be empowered stakeholders in driving service levels forward and reducing costs of distribution. This becomes challenging in outsourced system environments where 3PLs manage the systems and assume responsibility for achieving service levels. A centralized system allows increased visibility and control by the manufacturer to recognize challenges and prescribe actions for remediation.
- **Flexibility in 3PL relationships:** 3PL contracts are typically short term in nature, this is often by design to ensure that manufacturers achieve optimal market rates for the service and to provide incentive for 3PLs to take fast action if service levels are challenged. In scenarios where third parties manage the application, a transition to another provider becomes costly and difficult, requiring system transitions if not building moves. When systems, like buildings, are centralized and owned by the customers, 3PL providers can be transitioned with relatively little impact to the business. Often this becomes more of a leadership change in the facility as associates are often simply hired by the replacement provider.

Cloud vs on-premise

A large driver of a warehouse management outsourcing initiative is often IT strategy, and 3PLs have often filled the gap by providing the associated systems and application management services. However, with an increasing level of adoption of SaaS and managed services based offerings from software providers, a three-pronged partnership opportunity has emerged with manufacturers owning the global design of the processes, software providers managing the systems environments, and 3PLs managing the operations. This can be considered a best of all worlds as it relies upon each stakeholder managing their core capabilities.

Financial considerations

From an outsourcing perspective, financial consideration can often play a role in the desired end state. However, much like leasing options for buildings, software licensing, subscription and/or cloud costs can often be paid directly or passed through 3PLs as part of the overall service. These can consist of perpetual or subscription based fees.



Governance

In an environment where software is managed centrally, supported by a software provider, and exposed to multiple 3PLs, collaboration and governance are critical. Stakeholders from each PL should be provided the opportunity to drive best practices specific to their environments will contributing to a globally accepted set of best practices. Multiple options for business processes are often adopted to meet the needs of operations based on varying levels of volume, regulation, product mix, etc. Establishing a council and fostering participation and innovation are critical to a well-functioning solution and warehousing program.

Performance measurement

To the earlier reference to visibility into operations, measuring the effectiveness of your global processes is critical to ensuring best practices are in place and providers are compliant. Through a fairly straight-forward analytics reporting capability, under-performing shifts, sites, providers, or processes can quickly be identified to serve as the foundation of kaizen exercises to drive continuous improvement – resulting in training, re-design, re-engineering, and innovation opportunities to continue to drive savings and effectiveness into the business.

Conclusion

The global approach will deliver incentives benefitting all stakeholders, while aligning to strategic imperatives of your business in agility and control.

- Reduced total cost of ownership in IT as well as a greater internal capability to address their business's requirements
- A best in class continuous improvement program anchored by best of breed functionality for unprecedented operational efficiency resulting in reduced labor costs, improved inventory accuracy, and increased on-time-in-full achievement rates
- Improved customer service levels and more readily available customer-centric program offerings
- Unprecedented value in the form of increased top line revenues and bottom-line profitability delivered to the CFO, CEO, and your shareholders

With the leading warehouse management system for manufacturers and 3PLs, JDA has experience navigating these areas and is a committed partner to helping our customers and 3PL partners establish best in class programs for best in class enterprise level warehouse management solutions. For more information, please contact your sales representative to schedule a point of view on how we can help your organization.

