

## The 10 Deadly Sins in Warehouse Outsourcing



**The decision to start outsourcing warehousing and fulfillment activities is never taken lightly. It often involves processes that have developed over many years with direct impact on customer service. This document describes the top 10 pitfalls in attitudes, expectations and activities during the implementation phase of outsourcing your warehousing and fulfillment. The list has been compiled based on years of experience from both a client's as well as the Logistics Service Providers perspective and has been reviewed by renowned Supply Chain experts.**

# 1

### **Presuming Outsourcing is the instant cure for all Supply Chain processes**

The process of outsourcing Supply Chain functions comprises a journey from solution design, testing, implementation and start-up. Every stage comes with a learning curve for the 3PL as well as for your own organization. Some processes are beyond the span of control of your logistics provider, but have a fundamental impact on the overall operation (e.g. the labels on inbound material, your own IT infrastructure and order consolidation possibilities) and need to be managed in parallel to the outsourcing project. "Not a one-off solution"

# 2

### **Not involving all stakeholders (or too late)**

Outsourcing of logistics activities is a strategic decision that will have a functional and sometimes emotional impact on a wide range of functions in your organization. Sometimes, the Supply Chain manager has done everything right in terms of identifying saving potential, initiating the project, selecting the right supplier, making a convincing business case and designing the optimal logistics solution. Nevertheless, many projects proposals get stuck in the board room. Without involvement and commitment at each stage in the process from all cross-functional stakeholders, including commercial, production and finance the project risks a last-minute veto on previously unaddressed objections. – "It's not just a supply chain party"

# 3

### **Insufficient IT Testing**

A structured, well thought out IT test plan is fundamental for a successful implementation. The interfaces between your own systems and the logistics providers' Warehouse Management System and Transport Management System have to be tested extensively. Due to time pressure sometimes the plan does not include all the processes and especially possible exceptions are lacking. Furthermore these processes are often only tested per individual step and not always results in a complete end-to-end test. Testing the IT interfaces and systems across the full cycle from order entry to delivery, including picking packing and shipping greatly reduces go-live errors. – "The Devil is in the Details"

# 4

### **Inconsistent Data Quality**

During the proposal phase your data is shared with the logistics service providers as a basis for a tariff quote. Often data like units of measure, weight, dimensions and units sold, turn out to be unreliable in an operational context. For the purpose of the proposal the data has been modeled and taken out of various source data systems. During the implementation project, IT problems arise as the data does not have the same quality as presented in the proposal. Operational and costing issues can arise as the lacking data is generating more exceptions and manual work. Data quality is key for a reliable tariff quote from the logistics provider and will make life during the implementation project a lot easier. "Garbage in, Garbage Out"

# 5

### **Overlooking non-documented processes**

Over the years your supply chain organization has developed knowledge which is not necessarily stored in systems or process documentation. For example; not capturing customer specific stacking patterns or non-documented special packaging requirements can lead to serious service issues during an outsourcing implementation project. Employees at all levels of your supply chain could have crucial, non-documented process knowledge which needs to be taken into account. "If it's not on paper, does not mean it doesn't exist"

# 6

### **Letting the exception become the rule**

The majority of your standard operational processes are usually well described and quantified during the proposal stage. The exceptions to the standard processes however, are often not included in the proposal and therefore not quoted. If exceptional processes are identified at all, the frequency of these exceptions is often underestimated in the proposal phase and not managed during go-live. The additional costs of exceptions to the standard



process are usually not taken into the logistics budget and can lead to surprises at the moment you will receive your first invoice. Especially in an implementation stage, surprises undermine the build-up of trust in the project team. Exceptions to the standard process and the frequency of these exceptions need to be agreed in detail during negotiations. During implementation a solid issue resolution methodology and escalation procedure can ensure these exceptions can be dealt with at the right level. "Deal with the exceptions, the earlier the better"

# 7

## Overestimating the project management skills of the line management organization

A logistics outsourcing implementation project is a steep learning curve for an organization's logistics professionals and management. The project-based nature and working methodology of the implementation is often unfamiliar territory for people working in logistics line management. The project manager's counterparts should be experienced and on the same level in terms of project management methodology. Avoid 2 teams working in parallel instead of 1 integrated project team. – "Project Management is a specialist skill"

# 8

## Managing a 3PL like an own warehouse

Management of your logistics process through a 3PL requires different competencies compared to an owned warehouse. Negotiating the Service Level Agreement, measuring performance on unambiguous data, steering on pre-defined KPI, implementing continuous improvement or Gainshare initiatives or managing a bonus/malus arrangement is fundamentally different than managing the typical line management of an owned warehouse. Instead of Ad-Hoc meetings and arrangements it is imperative to set clear business objectives and have periodical meetings between management with the mandate to make structural changes to the Service Level Agreement. Apart from that, let your logistics service provider do the work. "Prepare to change"

# 9

## Unproductive performance measurement

After the implementation project and a certain learning curve period, most companies are eager to measure the logistics service provider and determine potential problems or improvements. In terms of measuring performance it is often problematic trying to compare apples to apples. For example; instead of 1 hour it might take 3 hours to make inbound goods available in the system as sellable stock. However, in your own warehouse the operators could have been awaiting the delivery of the goods and immediately doing a manual entry in the system. This needs to be set-off against the multi-user synergies you have with the logistics service provider. It is important to understand where you're coming from and create a baseline of relevant Key Performance Indicators. Together with your logistics service providers you want to steer operations, driving the performance up fast. It is also important to share successes with stakeholders, to gain confidence in the operation. This cannot be done without jointly agreed performance measurement. – "Without KPI's you are blind"

# 10

## Introducing 'nice to have' IT improvements during implementation

Often the implementation project will involve an important IT component where your (ERP) system is linked to the Warehouse Management System of the logistics service provider. The process of defining the Electronic Data Interfaces (EDI) is sometimes perceived an opportunity to introduce new, nice to have features like customized label printing, additional messages and scans, extra traceability etc. These requests often lead to so called 'scope creep' which will result in discussions. Your proposal has usually been based on the current process and information requirement. Additional features represent extra costs for IT development. Introducing these requests for additional IT features or process adjustments should be based on a solid cost-benefit analysis and be part of the proposal or design phase rather than the implementation project. – "Too much of a good thing..."



### About the authors



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