

4PLs emerge

BY PATRICK BURNSON, EXECUTIVE EDITOR

What does a well-established multinational truck manufacturer have in common with a relatively new telecommunications equipment provider? Quite a bit if you are examining their respective global distribution strategies.

Navistar Inc. and Vology Data Systems are both undergoing transformational changes as each builds upon existing relationships with time-tested logistics partners. In fact, the following two case studies demonstrate that working to transform your existing 3PL into your 4PL makes sense if it's done with "cultural integration" as a primary goal.

NAVISTAR'S GLOBAL CHALLENGE

When Ed Melching, Navistar's director of global logistics, began searching for a partner capable of supporting the company's five-year plan to re-engineer and improve performance in its supply chain, he didn't have to look far. His existing two-year contract with a 3PL was a starting point for global expansion.

"There are normal growing pains in any partnership," he says. "But at the beginning, we spent a lot of time on alignment of vision, mission and strategy, governance, ensuring executive support for the steering teams, and taking an 'open book' approach to the relationship where both of us would be rewarded when we were successful."

He adds that it was important that the global truck and engine manufacturer had "skin in the game" with its own outlay of capital investment. But that didn't mean the process would be easy. Over the next few years, Navistar will be concentrating on global growth markets focused on India, Brazil, South Africa, Australia, and China.

To accommodate this aggressive move, the company is now seeking to deploy an advanced "strategic collaboration model" for continuous supply chain improvement throughout the world—and it plans to rely on its global logistics provider partner more than ever. The objective is to achieve a 25 percent reduction in supply chain spend by 2013, while establishing a team with advanced management skills to drive continuous improvement into overall global operations.

"So far, 19 new projects have been identified and implemented, delivering validated savings in the millions of dollars with the help of our current 3PL," says Melching. "One project that had immediate impact was a domestic freight transportation study. Its findings recommended a core carrier program that took our LTL supplier base from 26 to seven," he adds.

But there were some speed bumps along the way to removing cost, he admits. When projected savings weren't initially realized, the team conducted a "Kaizen" (Japanese for "improvement" or "change for the better") to develop a lean practice and uncover root causes of failure. With the help of his 3PL, Melching says that the problem was identified and fixed some six months later. "Now that we are back on track, we've realized a cool \$1 million in savings so far," he says.

In this larger "global network manager" role, Menlo Worldwide Logistics has expanded its 3PL relationship with Navistar by deploying this more strategic collaboration model designed to help the manufacturer with ongoing supply chain improvement. If fact, Melching and the provider refer to it as a pure "4PL" relationship—a term

coined some years back by analysts at Accenture to define a situation where a 3PL goes beyond traditional logistics offerings and applies deeper analytical skills to assist in continued supply chain support for the shipper.

For Navistar, this move represents a decision to forego old ways and adopt a new model that embraces uncommon levels of collaboration with an outside resource. To be successful in this transition, Melching says that his team will need to rethink traditional supply chain assumptions, instill lean methodologies and processes for removing waste and inefficiency, and create a platform for change based on clear, validated key performance metrics.

According to Melching, a major milestone in this expanded relationship with its 3PL has been the launching of five "transformation platforms." He defined these as comprising logistics IT strategy; sourcing strategy; global network strategy; lean material flow strategy; and perhaps most importantly finished vehicle distribution strategy.

First coined by the U.S. military, a "transformation platform" is a strategy designed to give logisticians improved situational awareness. As one might imagine, tracking this process is essential. "Goals are based on SMART (specific, measurable, achievable, relevant, time-related) targets and measurement against validated key performance indicators," explains Melching.

He also has advice for shippers wishing to make the same move as Navistar. "We knew what we were getting into when we started," he says, adding that not all shippers may have that luxury. "Our analysis suggested they were a good fit, strategically, tactically, and culturally."

Traditional 3PL services like transportation and logistics don't cut it when a company wants to enlarge its global footprint. That's when value-added, strategic advice of a 4PL may be needed. But who gets the call?



VOLOGY MANAGES GROWTH

For Oldsmar, Fla.-based Vology Data Systems, reducing the supply chain spend was not the most urgent need. In fact, while most companies were focused on surviving the recession, the pre-owned networking and telecommunications equipment provider was experiencing a major business boom. From October 2009 through March 2010, the company experienced a 40 percent surge in business.

"But that presents its own set of unique challenges," says Joy Perkins, director of operations at Vology. "We needed to make sure that our global orders were filled quickly and customers were satisfied...all while we're expanding into new markets at a rapid pace, particularly in the Middle East."

She also notes that a contract with the U.S. military required regular shipments to distant locations like Afghanistan. So while the armed forces were concentrating on keeping "boots on the ground," Vology was intent on removing steps in its warehouse operations.

After considerable diligence, Vology

turned to UPS Supply Chain Solutions to provide advice on its warehouse redesign. In only two and a half months, the 4PL worked with Vology to redesign its own facility and streamline its operation.

The result, says Perkins, was a substantially reduced footprint, a more efficient pick and pack process, and more space for storing inventory. Overall, the changes increased the facility's capacity by about 70 percent. "We reduced our production area from 20,000 square feet to 6,000 square feet, so we could save the rest of the space for pure storage," says Perkins.

The changes eliminated the need to build a new warehouse or hire new employees since the more efficient layout was able to accommodate the growth. Now Vology can nearly double its current capacity before growing out of its facility.

What's more, inventory flows efficiently from one area to another. Approximately 40 percent of Vology's inbound volume arrives, gets tested, and is sent out to a customer on the same day, so

the process must be quick and seamless. Then, to meet the tight deadlines, approximately 35 percent to 40 percent of Vology's shipments are sent via express services to their final destinations.

"We're all about urgency," says Perkins. "And our shipments now arrive at their destinations on deadline more than 99 percent of the time."

Additionally, Vology invested in the building's aesthetics to create a cleaner, more efficient production area that reflects its pursuit of being regarded as a world-class operation. "It may sound superficial, but aesthetics are important to us," adds Perkins. "It creates an impression of simplicity and efficiency. We wanted to partner with someone who had the same values."

With hundreds of international orders a week, Perkins and her team determined that it was also vital that the shipping process could measure up. Vology needed a 4PL that could go beyond shipping to handle other issues like customs clearance and brokerage for all of its international shipments.

"We needed a 4PL who could broker everything," says Perkins. "To us, the only difference between a domestic package and an international one is that we have to add a commercial invoice."

Perkins decided to turn to her current provider's paperless invoice system to manage complicated customs procedures electronically, rather than manually completing paper invoice forms in triplicate. The service helps Vology save time and trees, while reducing paperwork errors—the number one reason for delays at Customs.

Tracking is also top priority for Vology. It now relies on UPS to provide complete visibility into its global supply chain. Perkins says that her partner's tracking software helps keep inventory moving and accelerates the billing process. Additionally, Vology can bill for an item as soon as it has a tracking number.

"We receive enormous amounts of inventory and we have to turn it around quickly," said Perkins. "That's why tracking is so important. Sales people can sell things that are en route, and the receiving team can project what's coming in and plan staff accordingly." □

—Patrick Burnson is Executive Editor of Logistics Management