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Keys to Global Logistics Outsourcing in a "One Size Fits One" World

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Global supply chains have faced a number of challenges in recent years that directly impact logistics related procurement. Although strong supply chain management techniques are recognized as driving bottom line performance and customer sentiment, yet still, many enterprise are missing valuable opportunities in these uncertain times. Six keys to effectively navigating global logistics outsourcing in this environment are closely considered here, together with the challenges to which they respond, and their place as part of broader corporate strategies.

Today's Internal and External Challenges

The challenges experienced in global supply chains are caused by both internal and external forces. Internal forces are those changes driven by company leadership which, although related to market demands, are largely elective in nature and therefore yield the greatest opportunity for creative solutions. External forces are those changes driven by company relationships. While forecasting, strategic planning, and strong market awareness can assist in proactively confronting external challenges, their solutions are more often than not reactive in nature. Regardless of source, successfully overcoming challenges in today's markets requires careful global logistics planning.

Internal challenges include those that arise from change in supply chain strategy and its execution, change in supply chain needs, and change in product mix. Many organizations are presently choosing divergent approaches for their supply chains. Some are electing for highly decentralized inventories and traffic flows in an effort to drive speed to the end user. Others are consolidating distributions in an effort to lower inventories and control fixed costs. Similarly, certain market strategies are raising interest in high-touch high-cost logistics and warehousing services such as kitting and reverse logistics. Other supply chains are experiencing smaller sized and lighter shipments that can have the net effect of reducing complexity and overall transportation spend.

External challenges encompass all form of third-party relationships including customer and supplier needs as well as influences from government authorities. Changes in consumer expectations, provider willingness to negotiate, provider consolidation, supplier terms of sale, bankruptcies, and trade pressures are all having visible impacts on global supply chains. Consumers are increasingly demanding speed and ease of return for their products. Providers and suppliers are in some segments approaching the market with strength, keen on mergers and acquisitions activities, and others occasional face bankruptcies, all of which evidence the challenges of this time and have direct causal impacts on supply chain strategy. Finally, trade pressures particularly with respect to US-China tariffs have sparked a scramble to uncover alternate suppliers, re-examined production strategies, and new services or trade lanes in an attempt to mitigate global financial exposure.

Six Keys to Logistics Outsourcing

All well-performing supply chain professionals are technically proficient at their areas of responsibility and bring a great deal of subject matter expertise to the job. Those best-in-class supply chain strategies and the professionals who execute on them stand out because they are both technically proficient and highly adapted to face the present, particularly those internal and external challenges that carry risk and sub-optimal performance. We will examine six keys for global logistics outsourcing and contextualize those keys relative to broader supply chain strategies in these challenging times.

Key 1 is Vision - ***What future state are we trying to achieve?***

Business leaders are widely accepting the emerging value of strong supply chain management. It is now more important than ever to align global supply chain strategies with overall corporate goals and objectives. Many competing strategies exist in this environment, for example, those that strive to outsource the vast majority of global logistics functionality and those that increasingly insource the functions including through development of warehouses and private fleets. Refining the supply chain vision will show the path forward for execution consistent with broader strategies especially in this time when procurement needs and approaches may look different than in past years. This is an attractive team-building conversation that generates value at all levels of management.

Key 2 is Planning - ***What are our procurement needs to support that future state?***

Engineering inbound and outbound traffic flows requires examination of all available services, service levels, and service provider characteristics, in order to build out features consistent with the corporate vision. Certain time-tested tools of the trade are rising in popularity as professionals chase opportunity. For example, many are "kicking tires" for bonded warehouses and foreign trade zones, value-add fulfillment, and managed transportation services. These services require greater forethought than merely lanes and rates, but the returns of efficiency and resiliency can be worthwhile. It may be time for some window shopping in order to maximize potential.

Key 3 is Consult - ***How do we verify and expand upon our strategic and tactical plans?***

Service providers are emerging as having a different character due to the nature of present challenges. The logistics world in particular is growing more consultative rather than commodity oriented. As a result, the complete range of service providers such as customs brokers, transportation intermediaries, and carriers may bring more to the table than in the past. Examples of areas for valuable provider consult include: (i) modeling lane, cost, and performance expectations; (ii) calculating potential savings from tariff engineering; (iii) offering to develop value add warehouse operations; or (iv) alternate pricing models including open book or gainshare. The challenges at hand make collaboration all the more valuable, but take care to guard against disclosure of confidential or strategically sensitive information.

Key 4 is Preparation - ***How do we unify internally before going out to market?***

Internal stakeholders are also increasingly important to the development of logistics-related procurement strategies. Many different departments and personalities are taking strong views and goals on supply chain matters which of course requires buy-in for effective execution. Those who tend to have the strongest opinions on the contractual side of logistics outsourcing often sit in Legal, Risk Management, Trade Compliance, and Tax Departments. Internal alignment will increase the speed of bid, negotiation, and onboarding processes. It will also present an opportunity to update bid planning, RFQs, and template agreements for maximum effect and elimination of surprise.

Key 5 is Negotiation - ***What are we really trying to achieve through contract negotiation?***

Balancing time, risk, and return are critical to avoid becoming bogged down in logistics contract negotiation or accepting detrimental terms. A firm understanding of current best practices and prioritized risks can mean the difference of weeks, and even months, when it comes to closing out bids. Modern electronic contract negotiation tools and contract management software can provide an edge for organization and workflow. Risk based perspectives can help to narrow the range of key issues by focusing on relative risk, value, and the potential impact of supply chain interruption in the event of service provider failure. In the heat of negotiation three options will always be available to all sides: accepting present terms, finding common ground and problem solving, or walking away. Playing the right card will always require knowing what we are playing to achieve.

Key 6 is Administration - ***How will we achieve success after the contract is inked?***

Commitment to strong supplier and provider relationships has the effect of maximizing the value of spend through open and honest communication. The development of Key Performance Indicators and Service Level Agreements, in addition to established management meeting schedules and escalation plans, has yielded opportunity for strong "partnership" while still respecting the buy and sell sides of the relationship. These structures always benefit from management diligence in communication of issues, both positive and negative, so that correct behaviors are incentivized. This long-term key is above all others dependent on persistence of internal stakeholders. Contract tools such as KPIs and SLAs do nothing if they are not exercised.

Tailoring Procurement Strategies for Results

The world of global logistics outsourcing is certainly a "One Size Fits One" landscape. Fortunately, opportunities exist for this very type of refinement in the interest of maximizing potential while meeting corporate goals and objectives. Tailoring logistics procurement strategies to operational realities involves a birds-eye view to enterprise needs and opportunities. Factors influencing strategic development of logistics procurement includes the: (i) geographic scope of services; (ii) business operations requiring support; (iii) high-touch nature of services desired; (iv) relative risk of service failure; (v) value of future flexibility; and (vi) strength of existing supplier, provider, and customer relationships. Tactical decisions remain to be made at every stage including, for example, at the bid planning stage when some services may be better served by spot market pricing, or high concentration in providers, while others may benefit from the exact opposite. This ongoing process of refinement survives bid seasons and, when well implemented, yields a very real impact on corporate performance in response to internal and external challenges.

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