White Paper

Issues and Trends

Value-Added (Third-Party) Logistics Contributes to Your Bottom Line

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The definition of logistics is simple and straightforward: the management of the flow of goods and/or resources between the point of origin and the point of destination in order to meet the requirements of customers or corporations. Logistics involves the integration of information, materials planning, distribution, packaging and kitting and customer support. Reverse logistics includes returns and core consolidation and remanufacturing.

Yet the exacting and timely execution of third-party logistics can be challenging, to say the least, even without the issue of freight transport management. Third-party logistics (3PL) involves using external organizations to execute logistics activities that have traditionally been performed within an organization itself.

Meritor entered the third-party logistics business in early 2010 and offers resources to assist customers with their 3PL needs around the globe.

“We know that manufacturers and suppliers need true value-added warehousing and distribution in the third-party logistics marketplace,” said Joe Mejaly, President – Aftermarket and Trailer, Meritor. “This is an important step in our aftermarket evolution. “We can offer industrial manufacturers in a variety of markets the opportunity to leverage our recognized strengths, such as material planning, distribution and packaging, to enhance their business flow.”

Companies clearly have the same objective – to boost their bottom lines by trimming warehousing and distribution costs and increase productivity by eliminating waste with a streamlined supply chain. Manufacturers target a supply chain that operates with a strategic, singular focus, and the outcome is creative, cost-saving solutions that optimize efficiency while building the business.

A common misconception is that outsourcing is available only to the "big guys," and not to smaller firms. However, smaller firms can also benefit from outsourcing to lower costs while gaining an operational advantage. Outsourcing routine tasks such as data entry or order processing helps manufacturers lower costs and focus resources and skills on supporting the firm's main duties and tasks. According to Meritor Logistics executives, cost savings of up to 60 percent are achievable; the use of skilled labor without the hassle of directly managing the employees can improve customer service.

Interestingly, in the approach to new business, a 3PL provider can facilitate operations by being up and running in just weeks or months, and can offer the flexibility to quickly change distribution center locations or expand operations – something a traditional business model cannot support as easily.

However, outsourcing must result in a savings to the company. For example, Meritor Logistics has an understanding of the expenses as a percentage of sales as well as expense per transaction type (i.e., line received, etc.). Provided the customer has the data available, the supplier could compare/contrast to the quote that one vendor provides.

Will the delivery fill rate be better?

For those in wholesale or aftermarket distribution, a company/supplier might ask itself a few questions: Do I measure fill rate based on the line-fill, dollar-fill, SKU-fill, piece-fill or case-fill today? Is this on an off-the-shelf basis? Over 24 hours? Over 48 hours? And does the measurement occur when the product leaves my door, or when it arrives at my customer's dock?

Measuring on dollar-fill rather than line-fill can result in skewed performance levels, as it disproportionately emphasizes larger-value shipments over smaller-value shipments. Customers rely on all shipments, whether the value is large or small. Additionally, measuring fill rate to a dock does not provide full visibility to the service level that your customers might be receiving today.

As a reference point, Meritor Logistics operates at mid-90s percent – plus provides first-pass, line-fill-basis, on-time delivery to the customer. Other companies do not measure the fill rate to the customer, but prefer reporting the easier and quicker fill rate to a trailer sitting at their own dock.

Other suppliers report that their fill rates are 75 percent to 90 percent, so improvement is possible. Fill rate is solely dependent on the quality of the materials planning that ensures that you have inventory on the shelf. No inventory on the shelf means that orders cannot be fulfilled.

Salespeople at companies pursuing higher fill rate on customer orders would benefit significantly by remembering that any downward move in fill rate results in higher working capital costs because their customers have to carry more inventory. The causes and effects of fill rate changes can vary from systems implementation to corporate belt-tightening. One strong contention is that suppliers of components or commodities cannot afford to offer a lower fill rate because customers will move their discretionary purchases to competitors. It could be spikes in demand, shipping issues from suppliers, suppliers that no longer produce, or even demand forecasts not in sync with current requirements. Poor fill equals lost revenue and profits.

One sales executive offered, "When customers find another source, it's usually at a lower price, which, if we want to keep the business, we have to address the cost issue. Also, it is much harder to regain the customer support since they have changed that product over to our competitor. Once we lose the business, it takes a longer time to gain back – if ever."

So what can cause a swing in delivery fill rate? Possibly paramount to fill rates is the accuracy of orders shipped to customers. For example, Meritor Logistics has a shipment accuracy level of 99.8 percent, with definitive steps in place to move up to 99.9 percent this year. According to industry data, many other companies are at 95 percent or below, and some are at below 90 percent accuracy for outbound shipments.

Improving shipment accuracy means that a company's wholesale customers can receive an order faster, resulting in less working capital tied up on the dock and putting more in place to generate profit as inventory on the shelf. This can be the difference between increasing the annual purchases with a wholesale customer and having the competition displace your purchases from the wholesale customer.

A key element in third-party logistics is warehouse management systems (WMS).

One supply-chain executive suggests that outside companies may not have the expertise to understand how a WMS can be optimized to improve logistics, or why they should allow an experienced WMS consultant to address the behind-the-scenes work for them.

Your customer requirements could make or break a deal. If your 3PL provider's WMS doesn't have the capabilities to create a packing list for an outbound container, travel the weight check or keep track of product expiration, you likely need to select another 3PL with those capabilities.

Advanced WMS can even improve a company's safety performance by setting rules to prevent unsafe loads from being placed in certain locations, mapping safe routes through the facility and using the appropriate machinery or tools to pick items. This can help avoid warranty issues and customer returns, and recalls can be done via lot tracking to quickly identify the specific impact to a company as well as to its customers.

A WMS may also help reduce freight expense by minimizing shipments by consolidating back orders with current orders. Paper can be eliminated, and the racks can be organized and filled more efficiently. Dramatic increases to flexibility are achieved, with instant order changes sent to picking screens.

Information on Meritor Logistics

Aligning its strengths with the marketplace's needs, Meritor Logistics recently implemented six distinct process improvements in its distribution center to serve current customers and other suppliers seeking to outsource. The six enhancements include:

- Implementation of a tugger-and-cart system that reduces travel time by shipping conveyors and improves productivity by 15 percent
- Expansion of fixed storage locations, which optimizes internal order processing routing to 200 percent efficiency
- Consolidating products on picker cart, which eliminates the need for multiple trips and boosts productivity by more than 33 percent
- Consolidating bulk order processing, which allows partial-pallet orders to be combined with other parts and boosts efficiency by 14 percent
- Improving order processing with a high-velocity pick zone that reduces congestion and improves productivity by 25 percent
- Eliminating the order-merge process on the warehouse floor, thereby raising productivity significantly

Meritor Logistics' smart business system and process improvements help its customers by maximizing productivity while reducing delivery lead times. Helping its clients improve service levels and drive cost out of their supply chain is the company's primary focus.

To support its global aftermarket operation – consisting of warehousing, inventory and distribution processes – Meritor operates distribution centers in Australia, Brazil, Canada, China, Germany, India, Mexico, the United Kingdom and the United States, and serves nearly 6,000 customers globally.

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