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SOUND BUSINESS

>>> FOR LOGISTICS PROFESSIONALS

Industry Insights

Top Distribution Trends In 2003

- There'll be continued consolidation of warehouse networks — leading to fewer, more-complex facilities.
- As warehouse operators see the cost of excess, obsolete inventory, there will be a greater need to eliminate that inventory.
- Systems will decrease in price and increase in performance—making WMS available to more companies.
- Companies will reduce or maintain their employee levels and absorb the swings with outside labor. It won't be uncommon for 50% of a facility's labor to be temporary.

Source: Distribution Group

On The Money

Freedom + Privatization = Growth

Barry Asmus, Ph.D., Senior Economist

How do you create world production and economic growth? Bring it into private hands. Couple privatization with the free flow of information and you get free trade growth. Governments can no longer prevent free trade through tariffs because they can't control the information chain. We have \$25 trillion worth of gross world product, which will DOUBLE in the next 30 years. This growth is a "win" for the U.S., particularly as growing countries want more food. As U.S. agriculture expands to serve the world's growing population, it leads to more opportunity for the logistics industry. Want more info? Visit www.ncpa.org.

Beyond Core Competencies: The Road To Successful Outsourcing

A decade ago, outsourcing logistics functions to third-party logistics providers (3PLs) was a relatively new practice in North America. Shippers didn't know much about it and were skeptical of the 3PL's promises to improve service, cut costs, and create more strategic value from logistics management.

Fast-forward to 2003 and it's a different world out there. Today, outsourcing is standard practice and oftentimes is a key component of logistics strategies in industries across the board. In fact, the size of the logistics industry in the United States is \$900 billion a year, according to the U.S. Department of Commerce, which is more than 10 percent of the country's GDP. Of this spend, \$46 billion goes to the third-party logistics (3PL) area, and this figure is growing at 10 to 15 percent every year, according to research by Armstrong and Associates. So what's fueling this trend to turn to the outside?

According to Mark Fagan, Senior Partner of Norbridge, a consulting company near Boston, Mass., there are a number of potential benefits: "Outsourcing frees a lot of organizations to focus on their core competency. If you're a manufacturer, you may not have the resources, focus and energy to manage the outbound distribution, whereas you could go to a third party logistics provider and their core competency — their sole focus — may be getting products from manufacturing to the customer on time, every time. There's a service element that may be attractive."

Another reason to outsource could be the need for capital investment. "If you're facing expansion requirements for a warehouse or your fleet has aged and you need to start replacing tractors and trailers, it's hard to get capital if you're not the company's

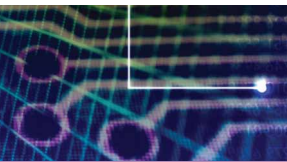
core competency," says Fagan. "And that's easy to understand. If your company is in the business of manufacturing, you want to put your capital into equipment that makes your product, not equipment that distributes your product."



Many experts would agree that the primary reasons for outsourcing include:

- The ability to acquire expertise, talent and resources that don't currently exist internally
- To maintain a focus on your core competency
- The opportunity to develop value-added capabilities for customers
- The potential to improve operations, customer service, and other processes
- The avoidance of labor problems
- The elimination of the costs of regulations

(Continued on page 2)



Measuring 3PL Success

(Continued from page 1)

If you choose to outsource some or all of your logistics activities, it is important to have realistic expectations. Those firms that outsource generally are satisfied when they have met the following business objectives:

- Asset reduction
- Workforce reduction
- Freedom from restrictive labor environment
- Expanded geographic coverage
- Operational flexibility
- Reduced cycle time/improved responsiveness
- Supply-chain integration
- Logistics operations cost reduction

According to the 2002 Third Party Logistics Study, conducted by John Langley Jr., Ph.D., at Georgia Institute of Technology, there are several quantifiable measures of 3PL success (see Exhibit 1 below). The study, which is based upon the responses of current users of 3PLs in North America, found the following:

- The logistics cost reduction average of 7 percent for 3PL users compared well with last year's survey results of 8 percent.
- The 16 percent fixed logistics asset reduction for 3PL users also compared well with the 16 percent figure in 2001.
- As in previous years, the average order cycle length was reported to have been reduced by 2.2 days.
- 3PL users report an average reduction of 9 percent in overall inventories.
- 3PL users report reductions in their cash-to-cash cycles, thus suggesting that 3PL involvement may lead to reductions in this important supply chain metric. Such reductions cause improvements in the working capital positions of the firms involved.
- 63 percent of 3PL users report that service improvement did occur.

Of greater significance is the extent to which these types of benefits help improve the financial performance of the firm using 3PL services. To the extent that this occurs, you can expect overall financial metrics, including Economic Value Added (EVA) and shareholder value will be positively affected.

Aside from the positive success ratings and the measurable benefits from 3PL use, the study respondents reported a number of areas for improvement in their relationships with 3PLs, including the following: service level commitments not realized; cost "creep" and price increases once the relationship has commenced; lack of continuous, ongoing improvements and achievements in offerings; lack of strategic management skills; cost reductions not realized; time and effort spent on logistics not reduced; unsatisfactory transition during the implementation stage; and not keeping up with advances in information technology.

Many suggest that a significant reason to outsource is to reduce logistics-related costs. In fact, Fagan says the economic benefits to outsourcing can be very substantial. "There are a number of situations where the third party can save money because of factor input costs, using non-union labor, and being in a marketplace where labor is less expensive," he says. "Or simply because of scale economies — the third party is able to spread their fixed costs because it's not just you they're servicing but others. I suspect if you did a survey of shippers, you'd hear some people talking about savings in the minimum 15 to 20 percent range to upwards of over 30 percent."

However, some experts caution that outsourcing doesn't necessarily guarantee a cost saving. In fact, according to Cliff Lynch, a consultant and author of *Logistics Outsourcing: A Management Guide*, shippers may even pay more to outsource. "But you can add value to your supply chain and you get better service, better technology, and in many cases you get a number of things that you cannot provide for yourself — and there's a cost to that. There can be a value received, but not necessarily for a lesser amount of money."

"There are a number of potential benefits to outsourcing. It frees a lot of organizations to focus on their core competency,"

**— Mark Fagan
Senior Partner of Norbridge**

What is the future of logistics outsourcing practices? According to Lynch, there is plenty of room for growth. Even with the increased emphasis on outsourcing, less than 10 percent of the relevant logistics services in the United States are outsourced. In Europe, where outsourcing has a longer history, the percentage is slightly under 25 percent.

As intense competitive pressures in the marketplace persist, streamlining and downsizing also will continue, no doubt resulting in a steadily increasing interest in outsourcing arrangements. At the same time, says Lynch, as logistics service providers gain efficiencies and sophistication, and increase their service offerings, this interest will manifest itself in new, even more creative alliances.

Quantifiable Measures of 3PL Success (Exhibit 1)

Logistics Cost Reduction	7%
Fixed Logistics Asset Reduction	16%
Average Order Cycle Length Changed	From 6.5 days to 4.3 days
Overall Inventories Reduced By	9%
Cash-To-Cash Cycle Reduced	From 20.4 days to 16.4 days
Service Improvement	63% Yes

What To Look For In Your Partner



Deciding to outsource can be the easiest part of outsourcing. Now you need to make decisions about what functions to outsource and what providers to select. Given the differences in 3PLs, you need to look hard at both the options and your reasons for outsourcing.

There is an explosion in logistics outsourcing, and the reasons for this are simple: This practice allows manufacturers to save money and to focus on their primary goal of creating better products. As this process occurs, 3PLs are dramatically changing, expanding from traditional competencies such as transportation and warehousing into new services made possible by the development of customer-tailored e-business applications. Dr. Robert Lieb, Professor at Northeastern University, explains: "3PL providers are embracing the Web to provide technical support and linkages to clients. They are using the Web for specific applications to expand the range of services offered to their clients."

As you define your goals and expectations and choose your provider, make sure to answer these questions:

- What am I needing to outsource – all of my logistics operation or a portion of it?
- What is driving my company to outsource?
- What are the costs of the operation to be outsourced (fixed and variable)?
- What are the potential 3PL's capabilities, strengths and limitations?
- What do my customers require of each of their own supply chain specifications?
- How well do I service my customers?
- If there are service problems, what are they and what causes them?
- What do we expect from 3PLs and how will we measure our outsourcing strategy?
- What about the management responsibility of the third party? How will it be done and by whom?
- How do I effectively transition from my own operations to an outsourced one? How long will it take to transition? Are there problems during transition? If so, what are they and why?
- What if it doesn't work? What are the down sides to this? How serious are the risks to my business and my customers?

3PL Selection Checklist

Use this checklist as you begin to search for the type of provider that best meets your needs.

- What do you bring to the table?
- What are your experiences with my industry, with my customers?
- What problems have you encountered with setting up third-party operations and why?
- What will it cost?
- How will it operate?
- How long will it take to set up and have running properly?

- How will we interface?
- What do you require of my firm? Is this requirement for start-up or is it ongoing?
- Why do you want my business?
- Why should I select you?

If you are looking to outsource, you need to understand what you are doing (and what you want to do). There are no shortcuts to do it right, but there are major problems in doing it wrong. Make sure to understand the differences in your 3PL options so you ultimately select the one that best meets your needs.

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What is Outsourced?

Activities most frequently outsourced to 3PLs in North America are outbound transportation, warehousing, and inbound transportation (see below for a complete list). Users identified the top IT-based services available from their 3PL providers as warehouse/DC management, Web-enabled communications, transportation management, shipment tracking/tracing, event management, export/import, and freight forwarding/customs clearance.

Logistics Activity		Logistics Activity	
Outbound Transportation	68%	Consulting Services	24%
Warehousing	65	Order Fulfillment	23
Inbound Transportation	52	Product Returns and Repair	17
Freight Bill Auditing/Payment	48	Information Technology	17
Customs Brokerage	44	Procurement of Logistics	15
Freight Forwarding	43	Carrier Selection	14
Customs Clearance	41	Rate Negotiation	14
Cross-Docking	31	Inventory Management	12
Shipment Consolidation/Distribution	30	Product Assembly/Installation	11
Selected Manufacturing/Labeling	24	Fleet Management	11
Product Marking/Labeling	24	Other	23

Source: 2002 Third Party Logistics Study

All-Temp: Your Problems Are Our Solutions

As a family-owned and operated company, we're flexible in creating solutions for you. Our full range of services include:

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- Fulfillment
- Cross-Docking
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- All Locations Serviced by Rail
- Full Truckload or LTL (Non-Asset Based Solutions)
- Consolidation

For more information, contact All-Temp at 763/571-0215.

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WAREHOUSING • DISTRIBUTION

Leveraging Logistics To Remain Competitive

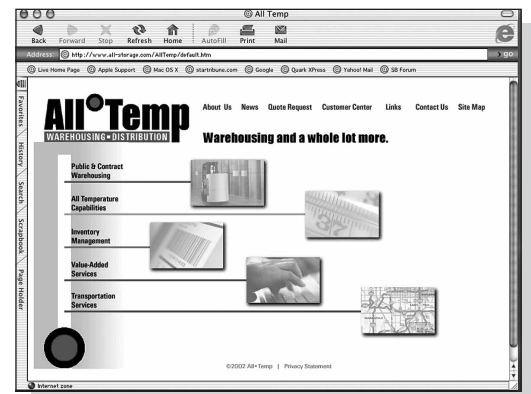
Today's companies are gaining a significant competitive advantage by creating supply chains with a direct strategic impact on performance, operations, profitability, and shareholder value. A leading provider of warehousing and distribution solutions in the Twin Cities, All-Temp has special expertise in a wide variety of commodities, ranging from food products to paper, appliances, and non-HAZMAT chemicals.

"Can't" isn't in our vocabulary. All-Temp is proud of its flexibility in servicing the upper Midwest with a "can do" attitude. Because we have a vested interest in making your warehousing and distribution initiatives succeed, we're driven to develop custom solutions that are responsive to your every need.

You'll benefit from our broad capabilities. All-Temp develops solutions to meet your logistics challenges by leveraging its vast capabilities, knowledge and expertise. Whether it's standard warehousing through existing locations or more customized strategies, you can take advantage of our many services.

If you have products that need to be stored in a freezer, cooler, in air-conditioned storage, or at general room temperature, All-Temp can accommodate your needs. We maintain Food Grade warehousing space and have received excellent ratings through ASI, AIB, and other associations. Call us today to discover how we can help you to succeed!

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IN THIS ISSUE:

Top Distribution Trends in 2003

p. 1

Privatization and Economic Growth, Barry Asmus, Ph.D.

p. 2

Steps to Successful Outsourcing

p. 1-2

Choosing the Right 3PL

p. 3

What is Outsourced?

2002 3PL Study

John Langley Jr., Ph.D.

p. 3

Profile of All-Temp

Warehousing and Distribution

p. 4