



A ChemLogix White Paper

MUST CHEMICAL COMPANIES OUTSOURCE LOGISTICS TO SAVE MONEY?

Companies too often outsource rather than build upon their own experienced personnel and proven processes.

by Steve Hamilton

As chemical companies look for ways to reduce logistics costs, many are increasingly considering outsourcing as a means to save money. Other organizations, however, are realizing equivalent and even greater freight savings by utilizing technology-based tools and professional services that leverage the expertise of their internal logistic professionals rather than replace them.

A relatively common practice in the auto and consumer packaged goods industries, outsourcing can reduce freight and personnel costs within specific functional departments. However, many organizations often turn to outsourcing as a fast answer to a forced reduction in the logistics budget. Companies considering a full outsourcing solution to reduce logistics costs should not disregard the resident expertise and value of their own internal logistics knowledge. A recent survey found that while nearly 60 percent of companies canvassed outsource some portion of their logistics, only about 4 percent outsource the entire department.

Outsourcing vs. Support Resources

Chemical companies, today, have the option to outsource logistics functions and/or contract outside resources to supplement their own in-house expertise. Firms providing logistics outsourcing are typically known as third-party logistics providers or 3PLs while companies offering technology tools and professional services for logistics and supply chain optimization are referred to as logistics services providers or LSPs.

Rather than outsource logistics functions, many chemical shippers, today, are maximizing freight savings in different areas of their organization by combining the tools and services of a capable LSP with the experience of their in-house logistics staff (admittedly, that “staff” frequently may be a one-person show). Targeting more than just paid freight costs, these companies are contracting outside resources to support a range of logistics savings programs that involve inbound and outbound traffic, current assets, raw material and finished goods inventories as well as physical assets related to distribution.

Logistics costs within chemical companies average between 10 and 20 percent of revenues. Taking a total supply-chain approach to logistics efforts to balance the trade-offs between cost and customer service, companies are saving as much as four percent in sales, while improving customer service. This yield is significantly higher than the approximately five percent in savings in shipping costs promised by many third-party logistics providers.

It is, therefore, important to revisit the age-old debate as to whether logistics is a core business function. While chemical companies struggle with their supply chain activities, they are discovering that complete outsourcing can create additional barriers. As the changing business climate warrants increased responsibilities in security and asset visibility, chemical companies are finding that many third-party logistics providers are simply not prepared as their own people to handle these issues along with cost-saving initiatives. Consequently, for most chemical shippers, logistics is truly a core competency.

Considerations Before Outsourcing

Before outsourcing the logistics function, chemical companies should weigh the impact of their actions and examine how others have reduced their logistics costs without outsourcing. The following market factors also should be considered:

- Implementing staff cuts as a method to reduce costs has slowed in recent years as most logistics departments have already been reduced as far as they can go. The dollar impact is usually near term and the intellectual capital that was once in-house is lost forever.
- Many 3PLs propose freight rate savings solely based on their larger volumes with carriers. Recent studies, however, have concluded that lane and carrier market intelligence can have a far greater impact on freight negotiations than the size of a pooled freight budget, especially when combined with the availability of online RFQ technology.
- Supply-chain experts agree that the majority of cost savings go well beyond people and freight savings. Additional savings and service improvements are realized in product visibility, inventory and asset reductions, demand planning, improved procurement and freight optimization.
- To implement a cost-savings logistics program, organizational changes must be made across different departments that are often outside of the logistics manager's control including sales, purchasing and manufacturing. Logistics outsourcing can add silos that impede internal collaboration and interaction with external partners.

Real-life Solutions: Balancing Service & Cost

How have some chemical companies reduced their logistics expenditures without full outsourcing? Here are a couple recent logistics projects that were successfully implemented using LSP services from ChemLogix LLC, a leading provider of integrated logistics solutions for the chemical industry.

When a specialty lubricants company needed a logistics solution to reduce LTL freight costs while providing greater visibility of customers' orders without sacrificing services, it engaged the rate benchmarking and negotiation services of ChemLogix.

Using its extensive, proprietary and continuously maintained database of freight rates, ChemLogix can completely analyze a client's freight costs to determine savings potential. Benchmarking provides chemical shippers with the leverage needed to renegotiate rates that are not competitive.

For this specialty lubricants company, ChemLogix benchmarked the LTL rates of incumbent carriers to provide an accurate estimate of cost savings prior to bidding out their LTL freight. Based on the benchmark, ChemLogix worked with the client to negotiate rates with existing and new carriers to create an optimal balance between service and cost. The result: lower freight charges and better delivery performance.

According to the lubricants company's director of global procurement and U.S. supply chain, the initiative was a success. "By using their database of market rates, ChemLogix was able to help us identify the potential for savings. They also worked with our plants to ensure that the carriers being considered met all of our service and operational requirements.

The carrier selection and routing tools provided by ChemLogix ensure that we are in a position to meet our long-term strategy of having visibility of orders from the time they enter our system until they are completed. The new online route guide we now have enables us to quickly determine freight costs and ensure that we are utilizing the optimal carrier."

Working with ChemLogix, the lubricants company now rates its shipments online and monitors their selected carriers. This capability has enabled the company to improve its competitive position by accurately posting its lower transportation expenditures. With the help of ChemLogix, the lubricants company was able to implement significant logistics improvements without outsourcing established in-house expertise and resources. The work of ChemLogix supported internal resources, not replaced them.

In another cost savings project, a premier global supplier of specialty chemicals wanted to optimize its shipping network to create highest efficiencies and lowest costs for its customers with a logistics solution that involved using web-based technology.

The company's vice president of logistics said that ChemLogix helped them secure lower freight rates, while providing a full functionality of ChemLogix's extensive transportation, optimization, planning and execution technology. The solution provided the company with shipment visibility and detailed carrier performance reporting to support its newly implemented core carrier program.

Leverage, Not Eliminate Internal Expertise

Numerous advantages can be derived from using the tools, expertise and technologies provided by ChemLogix to leverage, rather than eliminate, core internal logistics resources. Companies too often outsource rather than focus a selective effort to build upon an existing base of experienced personnel and proven processes. Whether the internal resource is a senior supply-chain manager or team of logistics professionals, they can add value based on their specific industry expertise.

ChemLogix often works with “best-in-class” shippers, and those aspiring to be, in implementing programs that generate significant logistics and supply-chain savings. As an LSP, ChemLogix offers services, core matter expertise and logistics tools on a project basis to support large cost savings initiatives. Services include mode and freight consolidation tools, online bidding software, network optimizations, and freight audit-payment.

Before you begin outsourcing your transportation and logistics, be sure you have fully tapped the value of your current resources. You can save money without completely outsourcing your logistics function. Chemical shippers—and businesses in other industries—are already heavily invested in internal logistics expertise. Don’t lose that expertise; leverage it by providing those individuals with the tools needed to drive cost reductions—reductions that go beyond freight rates and people cuts and provide continuous, not one time, results.

Steve Hamilton is president and chief executive officer of ChemLogix LLC. The company creates economic value for chemical companies through supply-chain and logistics optimization.

ChemLogix is based in Blue Bell, PA.

For additional information, please call (215) 461-3805 or email information@chemlogix.com.

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ChemLogix, LLC | Abington Hall, Suite 300 | 1777 Sentry Parkway West | Blue Bell, PA 19422-2207 | Phone: (215) 461-3805 | www.chemlogix.com

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