

Chapter 6

Outsourcing Execution in Transportation and Distribution

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ABSTRACT

Outsourcing can be a very effective strategy to increase operational performance and improve customer service; at the same time, that minimizes capital investment, freeing up capital to other important projects according to the company strategy that will increase revenue and profitability. However, when outsourcing is not performed in the right way, as there are several examples in the marketplace, it can also decrease performance and hurt customer service, reducing company competitiveness. Therefore, it is critical to establish a robust Outsourcing Execution Process to reduce risks of vendor failure due to lack of operational capability, performance management, and conflict of culture between 3PL and the company, just to enumerate a few possible real life problems. This chapter provides a broad and updated introduction of transportation and distribution operation, and based on literature review and practical experience from the authors, several best practices are reviewed to support outsourcing execution in transportation and distribution operation.

INTRODUCTION

Current Challenges in the T&D Operation

Transportation and distribution are two critical areas in the supply chain for the majority of the companies due to their impacts in both cost and customer service. Research done by the Aber-

deen Group (2011) with 123 transportation and procurement professionals confirmed that the transportation cost relative to overall supply chain performance and the ability to meet increased customer service demands are the top two business pressures for improving integrated transportation, as illustrated in the Figure 1.

In response to these challenges, 53% of survey respondents are seeking to gain better visibility to costs and over 51% are investing in technology to gain better shipment status visibility.

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Figure 1. Business priorities for integrated transportation (Aberdeen Group 2011)

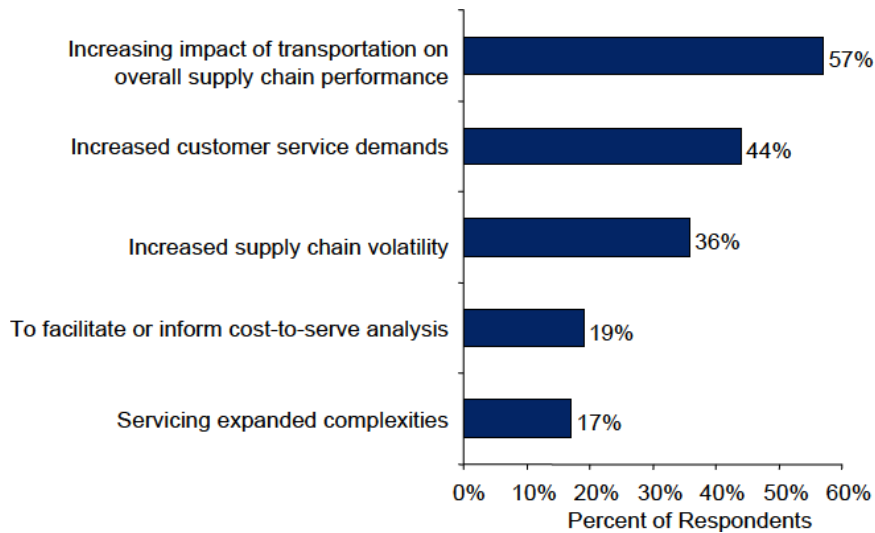
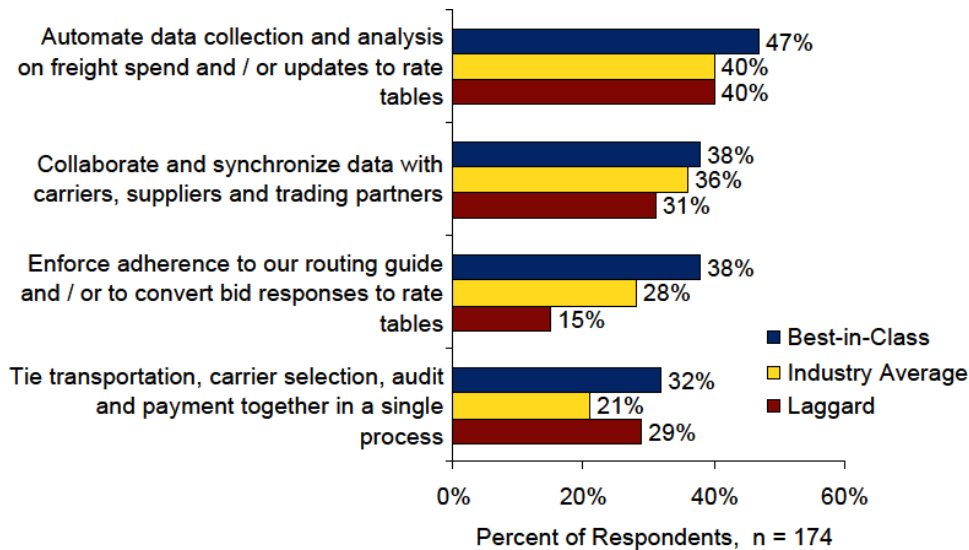


Figure 2. Strategic actions to improve transportation spending (Aberdeen Group 2011)



Overall, 65% are looking to invest in process or technology enhancements in transportation management over the next 12 months.

Another study done by Aberdeen Group (2011) to analyze transportation spend in more detail, shows the top four strategic actions companies are implementing to control overall transportation costs, being the capability to automate and analyze

freight spend, and the collaboration with other supply chain stakeholders the two top strategies, as detailed in the Figure 2.

There are other challenges faced nowadays by several companies around the world that increase the complexity of the transportation function, such as:

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