

Will Cost Pressures Drive more Companies to Outsource Logistics Functions?

Hungry 3PLs may Sign Low-Ball Deals to Get the Work; IBM Sells its Logistics Operations to New Lead Logistics Provider

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In tough economic times, will companies be increasingly tempted to outsource logistics and distribution operations?

The answer may be Yes, especially given the many hungry 3PLs that may be tempted to dangle low ball prices to pick up the business.

In some cases, the strategy may be not only to outsource a part of logistics operations, such as management of individual DCs, but actually to outsource the entire logistics function.

That's in fact what tech giant IBM recently did, announcing in December that it was hiring **Geodis**, a French logistics services provider (LSP), which IBM was already using for some logistics operations, such as service parts delivery and reverse logistics, to manage its entire logistics network globally.

In the relationship, Geodis will serve as a "lead logistics provider," sometimes also called a "4PL," and will provide management services for IBM's already largely outsourced logistics function. In other words, Geodis will become an outsourced manager of other logistics outsourcers. Combined, IBM now spends approximately \$1.3 billion on global logistics management.

"The major deal between IBM and Geodis could well be the spark that ignites other similar partnerships, especially as shippers assess their total costs of logistics in this economy," says **Gene Tyndall**, an SCDigest contributing editor and executive at Tompkins Associates. "To date, we have seen only a few such global deals, beginning in the early 2000s when Kuenhe & Nagel took over Nortel logistics; and when

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GM created Vector with Menlo, which it subsequently in-sourced a few years ago."

Tyndall says that although these early deals were considered innovative, they did not start a real trend.

"The barriers to going to a lead logistics model have been challenging for sure," Tyndall added.

Those barriers include concerns about: single sourcing; the true capabilities of the global providers; and the learning curves that are inevitable with such a scope of services.

Nevertheless, Tyndall says, most multi-nationals have been reducing the number of their providers steadily over these years, and some global providers have been investing in their ability to deliver a wide range of outsourced services.

He adds that the lead logistics provider model can make sense for companies that:

- have connected operations internationally (i.e.,

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sourcing or distribution)

- use multiple LSPs/3PLs and have difficulties with integration, alignment, or information flows
- seek common processes in logistics functions and their integration
- cannot invest enough in building logistics competencies, in upgrading logistics information systems, or transforming logistics to better compete

Tyndall says that in those circumstances, companies can often find cost reductions in logistics and/or service improvements from a lead logistics provider model.

IBM Deal had Interesting Aspects

The IBM-Geodis deal was especially interesting as Geodis first had to “acquire” the IBM logistics business. That means it paid an upfront fee to get the business, in return for a multi-year contract as the lead logistics provider. The deal came after IBM requested bids for the business in early 2008, ultimately receiving offers from several major logistics companies.

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The move was also interesting in the sense that IBM itself has a major business in providing outsourced services for another supply chain function as one of the leaders in procurement outsourcing. It also had been in the logistics outsourcing business itself, using the platforms it built in integrating its own supply chain worldwide over a 10 year period to offer services to other companies, under a service it called “Logistics Business Transformation.”

Tyndall says that in any such deals, companies have to zealously ensure they don't take the outsourcing too far.

“While Geodis will take over hundreds of IBM employees, IBM will still have supply chain managers, as well as managers of logistics. This is key. You outsource the execution, not the management,” Tyndall told us. “IBM will still need to manage the relationships globally, and make sure that logistics continues to achieve its intended missions of cost and service performance.”