

# Farming it out

## Logistics outsourcing and the small business

For small- and medium-sized enterprises (SMEs), knowing when—and how—to outsource logistics functions is a business rite of passage. **Deborah Aarts** consults a few who've done it and asks the experts to map out the process.

Getting containers unloaded is a big part of Bernie Tomaszewski's business, but he's not in the business of unloading containers any more.

As president of Edmonton, Alberta-based bicycle distributor 1664 BMX, he imports containers of merchandise from Taiwan and China and resells them to dealers across Canada.

His is the story of many SMEs. When he started 11 years ago, he was happy to be the jack-of-all-trades, doing everything from making sales, calling in orders, emptying containers and scheduling pick-ups.

But business has changed since then. Orders have steadily increased, demanding more space and manpower to process. Furthermore, Alberta's economic take-off has jacked up the price of warehouse space and exhausted the supply of qualified labour.

"We definitely don't have enough space here to house all the bikes coming in," he tells *MM&D*. "Under our business model, they basically have to move in a very, very fast and consistent flow: in the door, labelled and back out. With our shortage of labour here, and space, and time, that was hard."

But then the idea hit him: why not let someone else do it?

### Give the work to someone else

1664 found itself in a situation most SMEs face at some point: business had grown faster than its ability to perform logistics effectively. As small companies—which comprise an increasing share of the Canadian business landscape—expand and become more sophisticated, so too must their supply chains. But with limited resources and a general inexperience in the area, many firms struggle simply to get orders out.

It's a problem logistics service providers have embraced with open arms. In recent years, 3PLs and express delivery companies across the country have launched a host of different services specifically tailored to the SME.

Purolator is one of them. Earlier this year, it formally launched Global Supply Chain Services (GSC), a branch that co-ordinates deliveries, freight forwarding, temporary storage, time-released orders and other supply chain functions for small operations.

The company recently leased a 106,000sqf warehouse in Richmond, British Columbia, not far from Port Metro Vancouver, to serve as a hub for this business. At last count, 20 different customers are using the warehouse—including 1664.

"As their business grows, small companies struggle with what to do next," explains Shakeel Bharmal, general manager of the GSC arm. "Often they get caught up in the day-to-day running of their business, and they kind of lose sight of growing the business."

"Most of the people we deal with are smart enough to know that the actual work involved in this isn't about intelligence; it's about labour and facility capacity. They shouldn't be spending intelligent time doing that work."

Since 1664 started distributing bikes from Vancouver earlier this year, its on-time deliveries have improved enough to spur a spike in business, and Tomaszewski and his team are free to focus on big-picture planning. So far, outsourcing logistics is working for his company. But how can you tell if it will work for your SME?

### The right way to outsource

While experts tend to agree that outsourcing often makes sense for SMEs, it's not something to be entered into lightly.

The first thing to remember is that it won't automatically save you cash.

"Not all outsourcing deals end up bringing significant cost savings for the SME. In many cases, they can cost more money," says Lino Casalino, a partner with PricewaterhouseCoopers' Advisory Services in Toronto.

"You should always have a business case for why you're outsourcing. You shouldn't do it for the sake of doing it," advises Al Leger, who leads the logistics and outsourcing practice at Markham, Ontario-based consultancy Supply Chain Alliance Partners. "You should prove to yourself that, number one, it's going to drive a better business model and free up some of your time. Secondly, it should lead to a better profit position, and thirdly, very importantly, it should be able to help you be more competitive in the marketplace."

Before you shell out the dough, consider if an outside service provider can really enhance your operation's productivity. Would using a public warehouse with a mechanized sorting system, for example, improve your order accuracy? How much faster could a 3PL with a large fleet get your product to your customer? What would you be able to do with your freed-up resources?

While it may seem counterintuitive, you should also make sure your logistics are in reasonable order before you ink a deal with an outside provider. Handing off disorganized data or inefficient processes is a classic mistake made by SMEs when they outsource for the first time, Casalino asserts.

“You should not be outsourcing a mess,” he explains. “If you hand over a mess to a 3PL, you’re basically allowing them to come in, completely re-engineer how you’re doing things, and pocket the savings.

“Streamline it as best you can on your own first, and then get that added value by going to a 3PL with more sophisticated systems and technologies to take you to the next level.”

### Finding a mate

When choosing a partner, remember that that your logistics provider will essentially function as an extension of your business. You want to find a company with a comparable corporate culture and compatible operational processes. It’s not like buying a commodity; you will have to manage your service provider to at least some degree.

The details of your relationship should be established in contract negotiations. If, like many SMEs, you have never drafted a logistics contract, there are several important factors to take into consideration.

Your contract should clearly articulate the performance metrics you will measure and the frequency with which you will do it. It should include a detailed list of any charges your partner may levy for extra services (product labelling, for example, or overtime labour), along with its fuel surcharge policy. It should establish, without ambiguity, the parameters of what you expect them to do.

A good contract will give you a working relationship you’re comfortable with, and will also give you something to reference if your partner is not delivering.

You should also prepare to make some changes on the home front. Even the most flexible 3PLs have their own standards and processes for things like scheduling, forecasts and inventory organization. You’ll likely have to adjust at least some parts of your business to make it work.

“Most small businesses really thrive on their ability to be flexible and react quickly,” Leger says. “But once you start outsourcing parts of your business, it increases the level of discipline required. You have to become better at planning.

“In the past, you could have taken a rush order down to the warehouse and asked Joe to pick it up at 3:00. With a 3PL, you may not be able to dictate

that. But the benefit is if you can bear with it for a while, it will drive discipline within your own organization. Why were you carrying orders down to the floor at 3:00, anyway? Why didn’t you have a better forecast?”

### Letting go

SMEs tend to struggle with one of the most important parts of outsourcing: learning to let others take over.

“Some companies, usually entrepreneurs who are very control-oriented, are really not that open to handing over the reins to another company to control what is a key part of their business: delivering product to customers,” Casalino says.

“Giving up control is a problem,” confirms Leger. “It’s that idea that ‘if I’m not touching it, it’s not being well-managed.’”

A good way to dispel these fears is to outsource gradually. Start by letting a provider handle a few shipments. If you’re satisfied with the level of service you’re getting, keep adding more as appropriate.

If you’re really nervous, you can insist that your service provider report back to you regularly so you’ll know where your shipments are and how they’re being delivered. But be careful not to micromanage—remember that you hired the 3PL so you wouldn’t have to worry about these things.

At 1664, Tomaszewski admits that offloading processes that were done in-house for the better part of a decade was initially tough. But when the first container arrived and he wasn’t scrambling to find short-term staff to de-stuff it, he knew he was making the right decision.

“Once your business grows to a certain level, you just have to learn to let go of those things,” he says. “I think if you don’t, you’re actually holding it back instead of moving it forward.”

### Measuring the value

The ROI model of outsourcing is different for every SME. A good 3PL should be able to tell you up front what your costs will be and the value you can expect. If your finances are in order before you enter the deal, and you measure performance regularly (Casalino recommends monthly updates and quarterly reviews for most SMEs), you should have a handle on whether outsourcing is working for you within the first six months.

And it can save you money. For Victoria, British Columbia-based KO Music Marketing, a distributor of guitar accessories that also uses the Purolator GSC service in Vancouver, outsourcing paid off almost immediately.

Earlier this year, KO’s co-founders Mike O’Leary and Jim Killeen decided to bypass the US middleman (and the associated duties and transportation charges) they had been dealing with for years, choosing instead to import directly from China through Vancouver. By outsourcing receiving, packing and distribution, the pair avoided the substantial costs of shipping to and from Victoria.

“The price of moving a container from Vancouver to Victoria was almost the same as moving it from China to Vancouver,” O’Leary says. “It was going to double our overhead just to get that product here to unpack it...Plus, we’d have to keep up a warehouse, employees and all that other overhead.”

O’Leary estimates that KO achieved ROI on its outsourcing shortly after the first container skipped the detour to Victoria. He’s able to get his product to customers faster, prompting more orders and an unexpected boost to the business.

“If you can find a better way to bring piggy to market, you actually have more dollars left in your pocket.”

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