



# What is Third-Party Logistics?

Freight Webinar Series  
Wednesday June 18<sup>th</sup>, 2014

# Agenda

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- Introductions
- What is a 3PL?
- A Manufacturer / Retailer Perspective
- A 3PL Perspective
- A Consultant / 4PL Perspective

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**Chip Millard**  
Program Delivery Team  
Federal Highway Administration



**Matt Arnold, Sephora**  
Director of Transportation



**Matt Emison, Menlo**  
Director, Business Development



**Steve Pollard, enVista**  
Project Manager

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- Introductions
- What is a 3PL?
- A Manufacturer /  
Retailer Perspective
- A 3PL Perspective
- A Consultant / 4PL  
Perspective

# Third-Party Logistics Companies – Frame of Reference

- 3PL's role in supply chain management is analogous to contractors' or consultants' role in public sector transportation
  - Provide value-added service to their clients
  - Provide level of expertise or knowledge within a given area that clients themselves do not have
  - Work closely with clients to achieve clients' goals
- One difference between 3PL companies and transportation consultants is 3PL services provided are usually on-going and last many years

# Third-Party Logistics Companies – Primary Services

- A 3PL's services may include: inventory management, warehousing, financial services, transportation, and distribution
- Each 3PL typically has a core service or specialty area which other services support
  1. Transportation
  2. Distribution
  3. Forwarding / brokerage
  4. Financial
  5. Information technology (IT)

# Transportation-Focused Third Party Logistics

- Often performed by freight carriers
- Carriers developed other services and created subsidiaries in response to expanding customer requirements
- Services provided include transport management, dedicated contract carriage (DCC), and fulfillment (i.e. assembling orders)

# Distribution-Focused Third Party Logistics

- Originally focused on public or contract warehousing services
- Expanded services into inventory management and order fulfillment to meet customer requirements
- Market coverage footprint can vary from local to global

# Forwarding/Brokerage-Focused Third Party Logistics

- Originated from intermediaries such as freight forwarders, brokers, and agents who coordinated between shippers and carriers
- Arrange transport-related services for domestic and international shipments
- The forwarder or broker is like a wholesaler – they secure transportation services with carriers at a discounted rate that provides increased profit margins for shippers

# Finances-Focused Third Party Logistics

- Help customers with monetary issues and financial flows in the supply chain
- Traditional services include freight rating, freight payments, freight bill auditing, and accounting services
- Some finance-focused 3PLs have expanded services to include IT systems for freight visibility, electronic payment, carrier compliance reporting, and claims management

# Information Technology-Focused Third Party Logistics

- Services include online freight optimization, planning, routing, scheduling, execution, settlement, and sometimes brokerage
- Often offer online access to transport management and warehouse management systems
- Utilize software that does not require licenses

# Third Party Logistics – Asset Classifications

1. Asset Based (usually transportation or distribution-focused)
2. Non-asset Based (usually brokerage, finances, or IT-focused)
3. Asset-lite (use contracted assets)

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# SEPHORA GLOBAL

The leading chain of perfume and cosmetic stores in the world

1300 Sephora stores **worldwide** in 27 Countries

**873** stores in Europe and **151** stores in Asia



# SEPHORA USA, INC.

- 1998 - Sephora opened its first store in USA (Soho)
- 2004 - Sephora opened its first store in Canada
- 2008 - Sephora reaches \$1 billion in annual sales
- 2009 - Sephora opened a store in Puerto Rico
- 2011 – Sephora opened its first store in Mexico
- 2012 – Sephora opened its first store in Brazil
- Today
  - o US - Opened over 25 new stores in 2012, ending the year at 327.
  - o Canada – Opened 7 new stores in 2012, ending the year at 38.
  - o Sephora inside JC Penney locations (SiJCP)- Currently around 380+
  - o Brazil – Currently 2 new stores in Sao Paulo

# SEPHORA - Products



# Why would I use 3PL services?

- IT capabilities
- Supplement internal expertise
- Lack of internal expertise
- Opportunity to reduce costs, improve financial performance
- Opportunity to increase resource capacity or improve asset productivity

# Each retailer or manufacturer has different requirements which drive 3PL use

## Reasons for Using 3PL Services

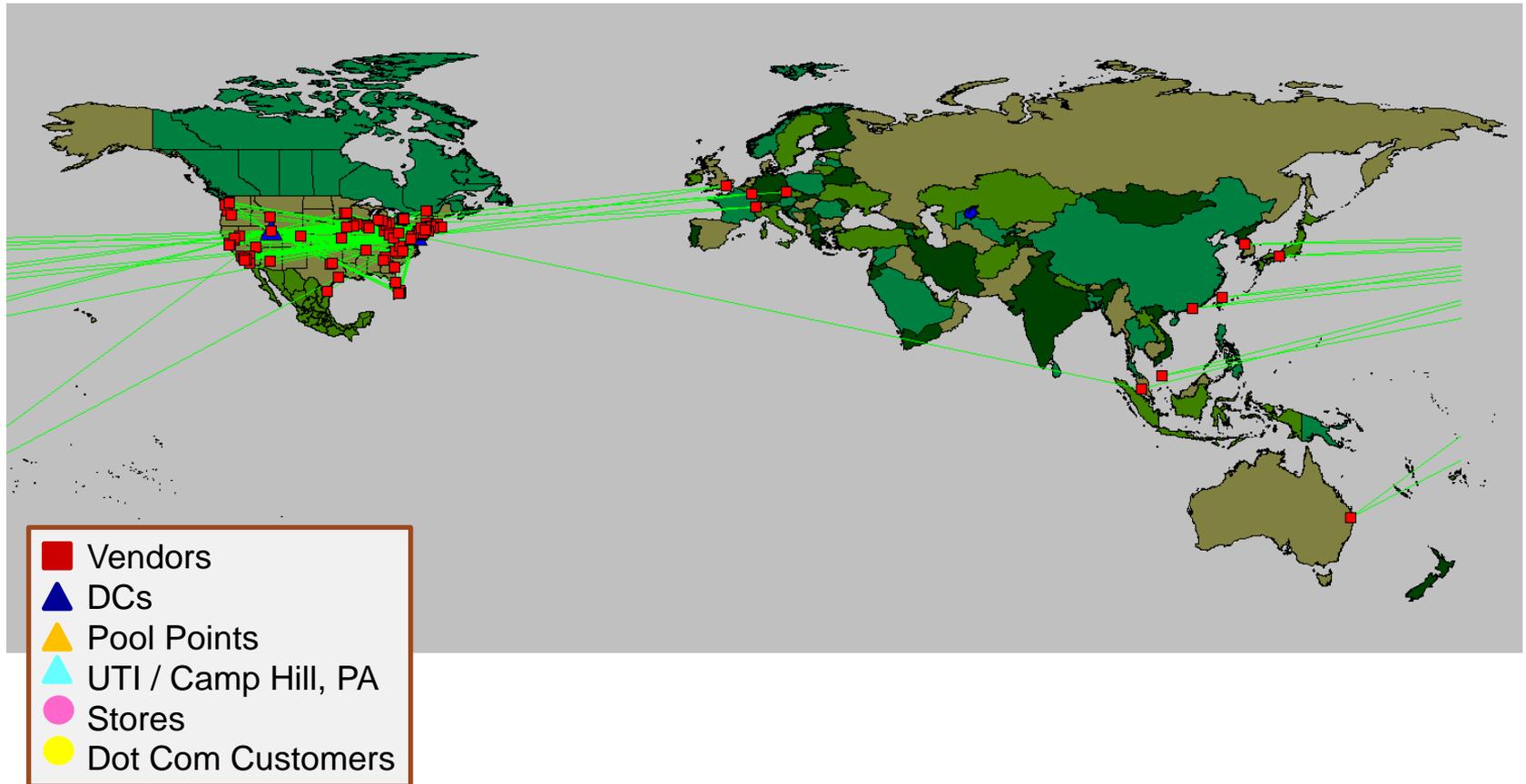
- Opportunity for cost reductions
- Ability to focus on core competencies
- Opportunity to improve customer service
- Improve return on assets
- Increase in inventory turns
- Productivity improvement opportunities
- Imbibe more flexibility into logistics processes
- Access to emerging technology
- Expansion to unfamiliar markets
- Ability to divert capital investments

## Reasons Against Using 3PL Services

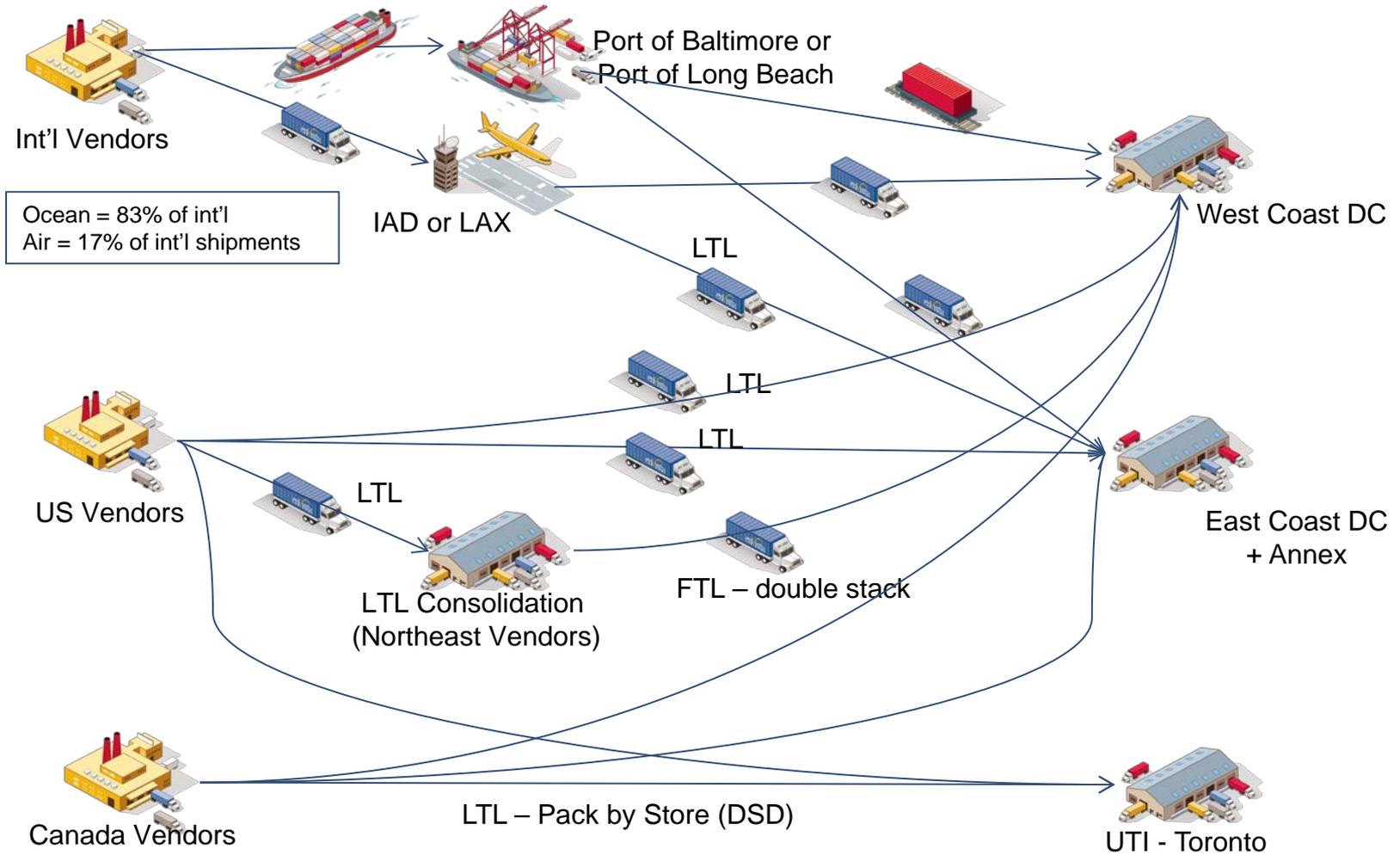
- Logistics is a core competency of company
- Cost reductions would not be experienced
- Control over outsourced function would diminish
- Service level commitments would not be realized
- Company has more expertise than 3PL providers
- Logistics is too important to consider outsourcing
- Outsourcing is not a corporate philosophy
- Global capabilities of 3PL need improvement
- Inability of 3PLs to form meaningful relationships
- Issues related to security of shipments

Sources: B.S. Sahay and Ramneesh Mohan, "3PL practices: an Indian perspective, *International Journal of Physical Distribution & Logistics Management*, Vol .36, No. 9, 2006; and, Georgia Tech and CapGemini LLC, *Eleventh Annual 3PL Study*, 2006.

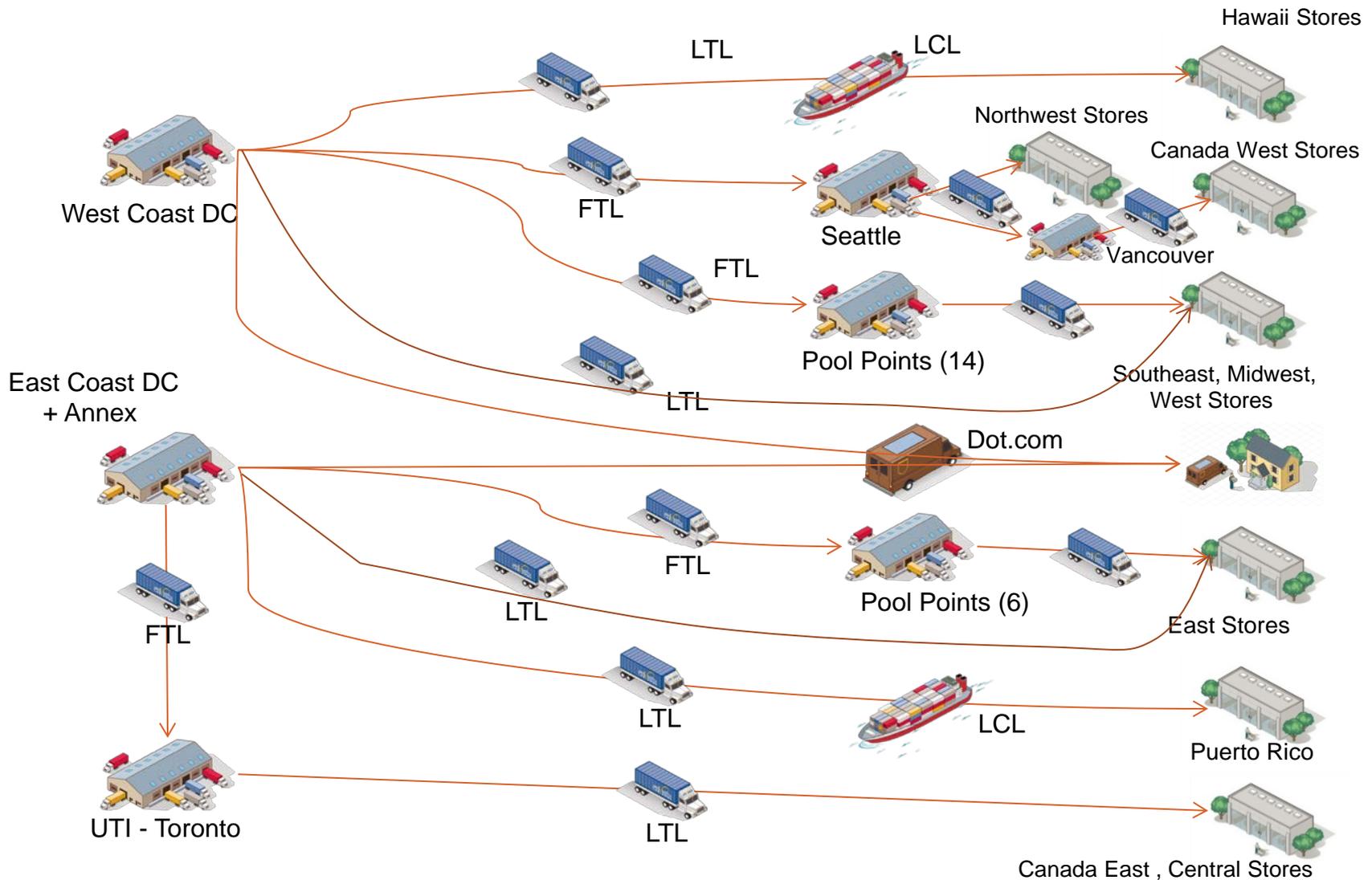
# Sephora - Global Supply Chain



# Sephora's Inbound Supply Chain Network



# Sephora's Outbound Supply Chain Network



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# Menlo – Global Non-Asset Based 3PL Division of Con-way



## Supply Chain Management

**Founded:** 1991  
**2013 revenue:** \$1.5 billion  
 €1.1 billion  
**Employees:** 6,500  
**Geographic scope:** 5 continents  
**Non-asset based**

## LTL Transportation

**Founded:** 1983  
**2013 revenue:** \$3.4 billion  
 €2.5 billion  
**Employees:** > 18,000  
**Geographic scope:** North America  
**Trucks and Trailers:** 32,750

## Truckload Transportation

**Founded:** 1951  
**2013 revenue:** \$636 million  
 €470 million  
**Employees:** 3,600  
**Geographic scope:** North America  
**Trucks:** 2,700      **Trailers:** 8,000

**Jointly Shared Services**

# Menlo Offers a Wide Array of Supply Chain Services

<b>DISTRIBUTION</b>	<ul style="list-style-type: none"><li>• Dedicated multi-client warehousing</li><li>• Cross docks, VMIs</li><li>• Export / import consolidation programs</li></ul>
<b>TRANSPORTATION MANAGEMENT</b>	<ul style="list-style-type: none"><li>• Domestic (in-country) transportation management</li><li>• Global forwarder management (air and ocean)</li><li>• Brokerage</li></ul>
<b>VALUE-ADDED SERVICES</b>	<ul style="list-style-type: none"><li>• Light Assembly</li><li>• Postponement</li><li>• Kitting</li><li>• Packaging / labeling</li><li>• Staging</li><li>• Configuration</li></ul>
<b>INTEGRATED LOGISTICS MANAGEMENT</b>	<ul style="list-style-type: none"><li>• End-to-end global supply chain management</li><li>• Inventory visibility and proactive event management</li></ul>
<b>SOLUTIONS ENGINEERING/CONSULTING</b>	<ul style="list-style-type: none"><li>• Logistics solution design</li><li>• Network configuration / planning</li><li>• Supply chain analytics</li></ul>

# Logistics Services Provider in 20 Countries



- Menlo Warehouse Locations
- Supply Chain Offices
- Campus Environments
- ★ Headquarters

<b>REVENUE:</b> <ul style="list-style-type: none"> <li>• \$1.5 billion / €1.1 billion</li> </ul>	<b>GLOBAL WAREHOUSING:</b> <ul style="list-style-type: none"> <li>• 20M ft<sup>2</sup></li> </ul>
<b>GEOGRAPHIC SCOPE:</b> <ul style="list-style-type: none"> <li>• 5 continents</li> <li>• 20 countries</li> </ul>	<b>GLOBAL MANAGED TRANSPORTATION:</b> <ul style="list-style-type: none"> <li>• \$2.5 billion / €1.9 billion</li> <li>• 4.1M shipments</li> </ul>
<b>EMPLOYEES:</b> <ul style="list-style-type: none"> <li>• 6,500</li> </ul>	



Global expertise, leveraged buy and best practice sharing

# Menlo has a board range of clients across many industries

## Automotive



## Government



## Hi-Tech



## Industrial



## Consumer / Retail

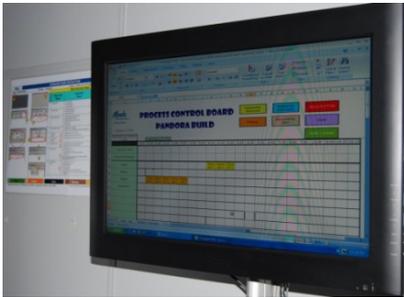


# What Warehousing Services Do 3PLs Typically Provide?



## Facilities and Services

- Hire employees, purchase equipment, obtain leases- everything needed to run a warehouse
- Multi-client facilities that provide space and resource flexibility
- Client-dedicated facilities
- Value-added Services: assembly, VMI, kitting, software loading, serialization
- RMA activities including warranties, returns, refurbishment and testing



## Process

- Standardized processes to drive operational efficiencies
- Lean continuous improvement (Menlo and others)
- Best Practices from other customers and industries



## Technology

- Warehouse Management System to improve productivity and manage inventory
- Integration with client ERPs (Enterprise Resource Planning systems)

# Menlo Examples of Value Creation for Warehousing Clients

CUSTOMER	SCOPE	RELATIONSHIP LENGTH	KEY ACCOMPLISHMENT
	4 WH Operations in 4 Countries	19 Years	7% YOY cost savings, assumed client facilities
Confidential Client	32 WH Operations in 28 Countries, Trans Management	6 Years	Inventory management plan, eliminated inventory write offs
	4 WH Operations in 4 Countries	11 Years	5% YOY cost savings and strategy to meet growth needs
	5 WH Operations in 5 Countries	10 Years	Enabled extensive growth by allowing them to focus on their core competency- Marketing

# 3PLs Can Provide End to End Transportation Management Solutions

## Carrier Procurement



- Leverage spend to reduce carrier expense
- Domestic and international
- Executive level relationships to improve service
- Carrier payment and financial management

## Staffing



- Staffing to manage and execute day-day traffic operations
- Centralized at 3PL location or at customer site
- Engineering resources to find savings opportunities

## Systems



- Transportation Management Systems (TMS)
- Consolidation and mode optimization
- Visibility for customers and suppliers
- Integration with client systems

# Menlo Solves a Different Business Challenge for Each Transportation Client

CUSTOMER	SCOPE	RELATIONSHIP LENGTH	KEY ACCOMPLISHMENTS
	Domestic LTL/TL Transportation Management	21 years	Delivered significant savings through vendor compliance cost reduction
	Network Engineering- all modes	15 years	Millions in savings through rate negotiation, optimization, and engineering
 (Department of Defense)	On-site and Centralized Traffic Operations	7 years	Consolidation of Field Activities, transportation optimization
 POWERING INGENUITY	On-site and Centralized NA Traffic Operations	5 years	Savings of \$135M in last 5 years
Confidential Oil and Gas Company	On-Site Traffic Operations	5 Years	Implementation of safety program for carriers

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# enVista is a leading supply chain and IT consulting services firm



enVista's unique ability to **consult**,  
**implement** and **operate**

+

unrivalled consulting **experience**, deep  
vertical **expertise** and comprehensive  
**solutions** portfolio

=

one **strategic partner** to achieve cost  
**savings** and greater **efficiencies** in your  
supply chain, transportation and ERP

# A consultant or 4PLs services are strategic or tactical, depending on the customer needs

**Transportation Master Planning**

**Process & System Design**

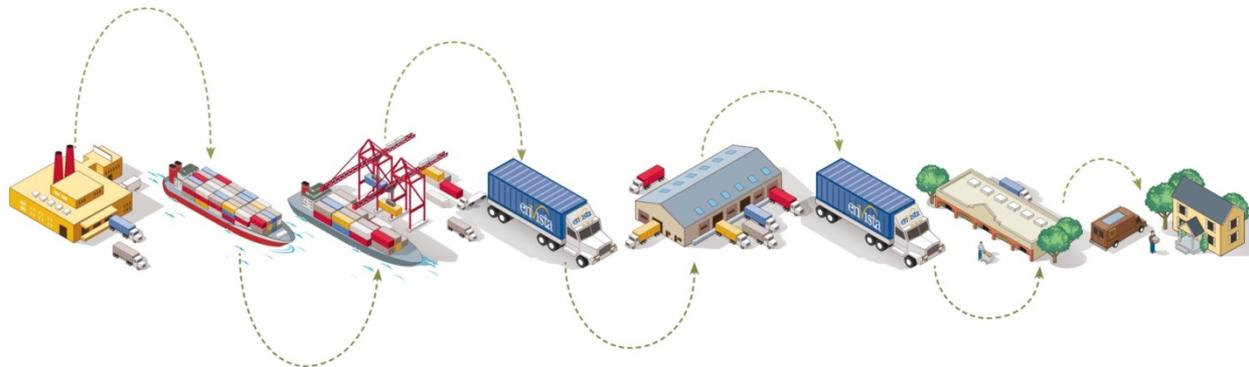
**Systems Implementation**

**Business Process Outsourcing**

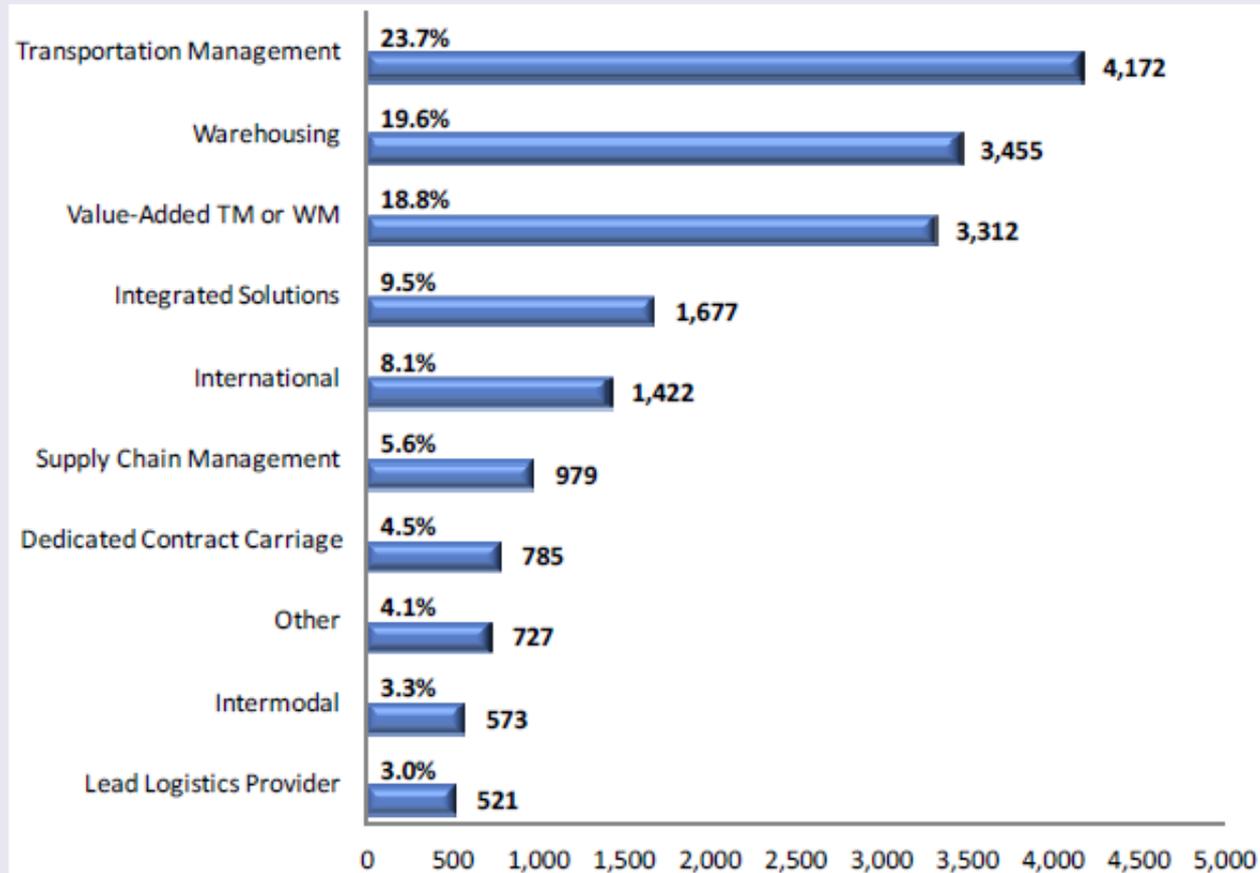
**Brokerage**

**Sourcing**

**Freight Invoice Audit/Bill Pay**



# Transportation and Warehousing services dominate 3PL demand

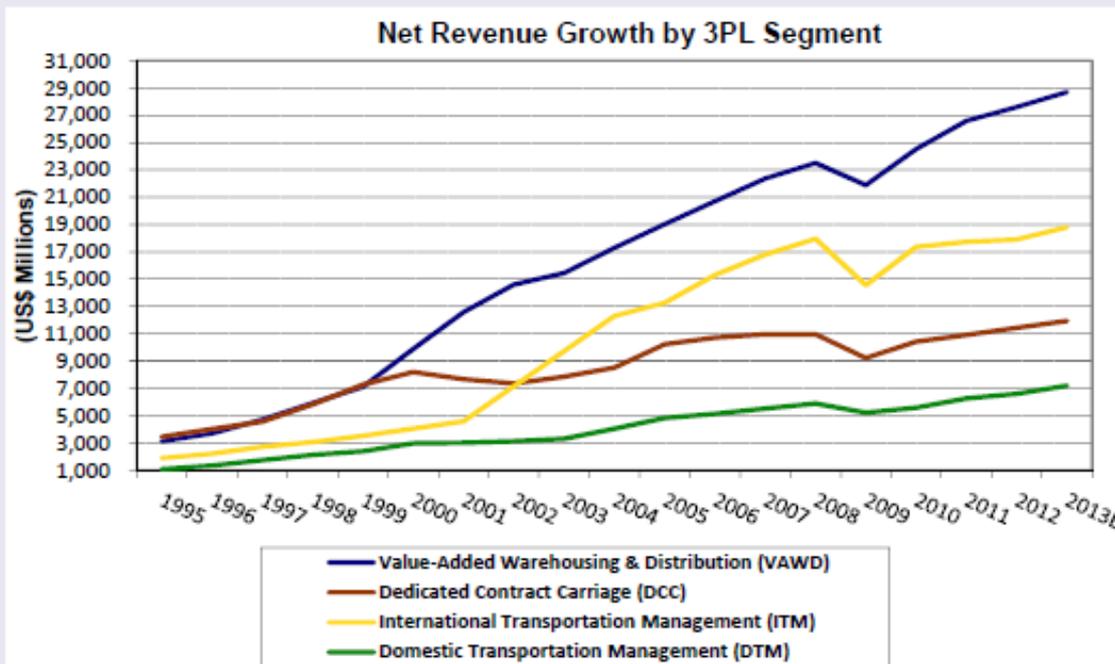


Primary 3PL services provided are led by transportation management (23.7%), warehousing (19.6%) and value-added services (18.8%).

Source: Armstrong & Associates, Inc. Report "Trends in 3PL/Customer Relationships - 2013" (An analysis of 6,398 3PL/Customer relationships).

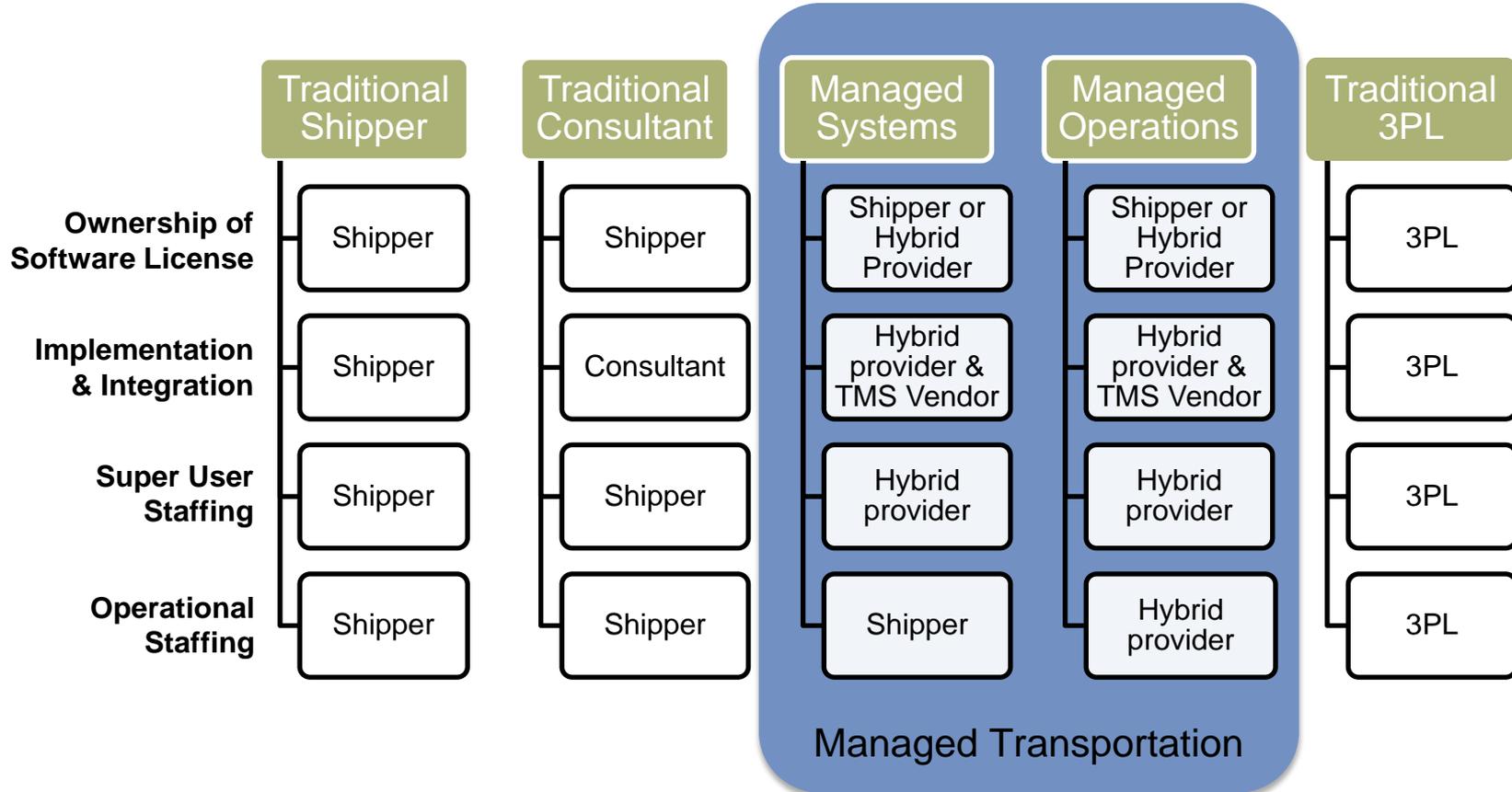
# Growth by U.S. 3PL market segment

3PL Market Segment	2013E Gross Revenue (US\$ Billions)	2013E Net Revenue (US\$ Billions)	1995-2012 CAGR	% Change 2013E vs. 2012 Net Revenue
Domestic Transportation Management	49.2	7.2	11.2%	9.0%
International Transportation Management	48.7	18.8	14.2%	5.0%
Dedicated Contract Carriage	12.1	11.9	7.3%	4.5%
Value-Added Warehousing & Distribution	37.2	28.7	13.7%	4.0%
<b>Total</b>	<b>147.2</b>	<b>66.6</b>	<b>11.8%</b>	<b>4.9%</b>



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# TMS evolution and newer processes enable this type of operations models for consultants and shippers



**Retailer / Distributor / Manufacturer**

**Strategy**

**Systems**

**Finance**

**Execution**

**Inbound Planning**

- Freight Term Optimization
- Optimization
- Consolidation

**Outbound Planning**

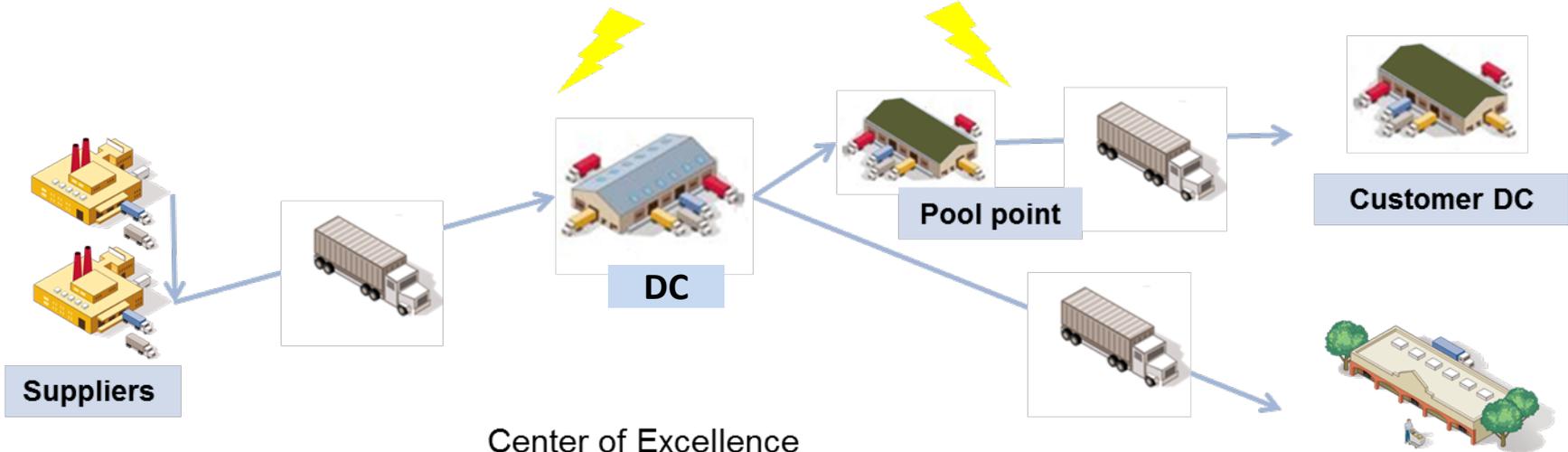
- Dynamic planning
- Complete visibility



4PL planner



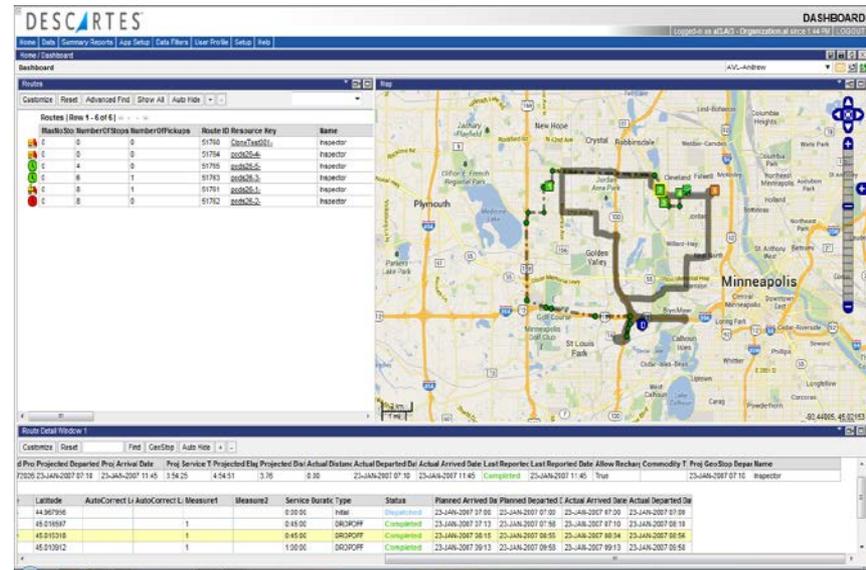
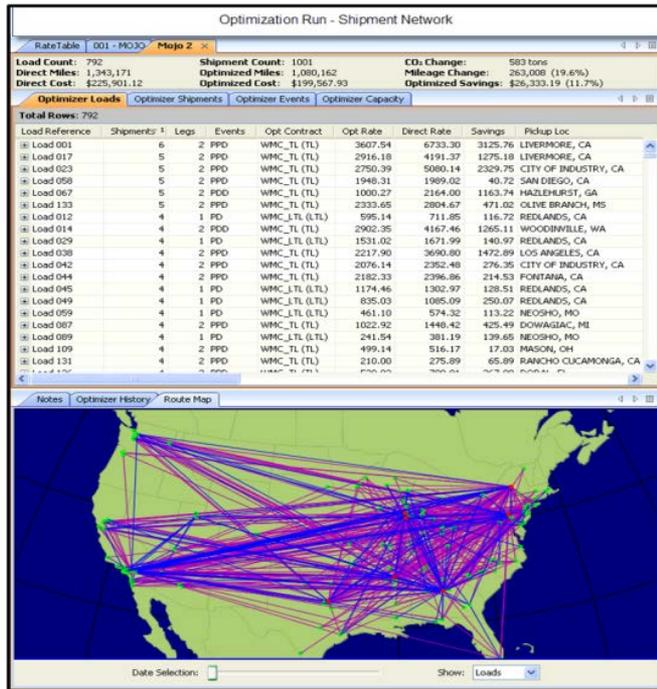
Shipper planner



**Center of Excellence**

- Inbound and Outbound is managed
- Savings through consolidation / optimization
- Improved Visibility
- Comprehensive audit

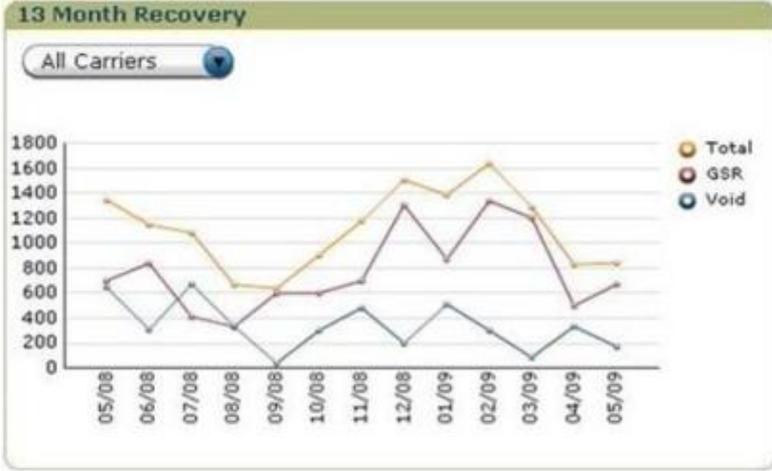
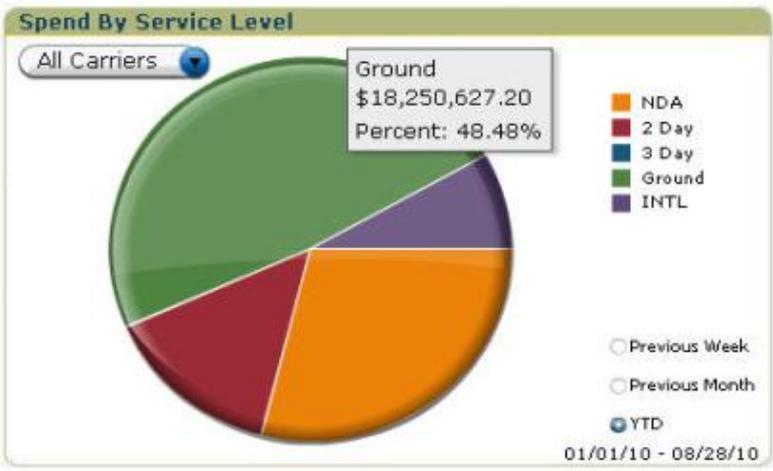
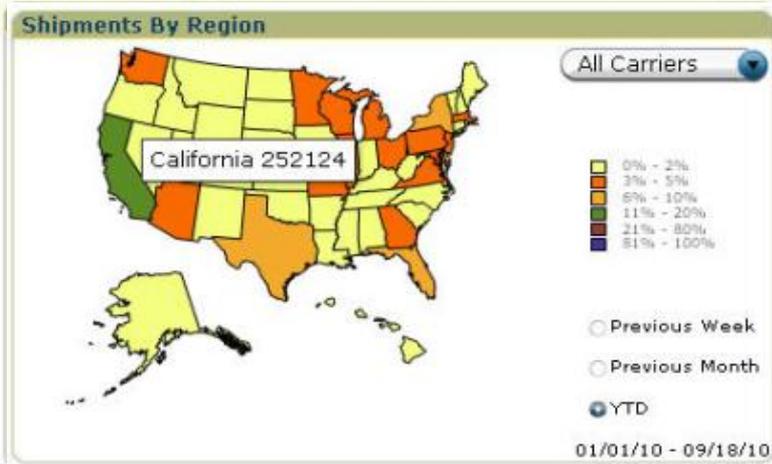
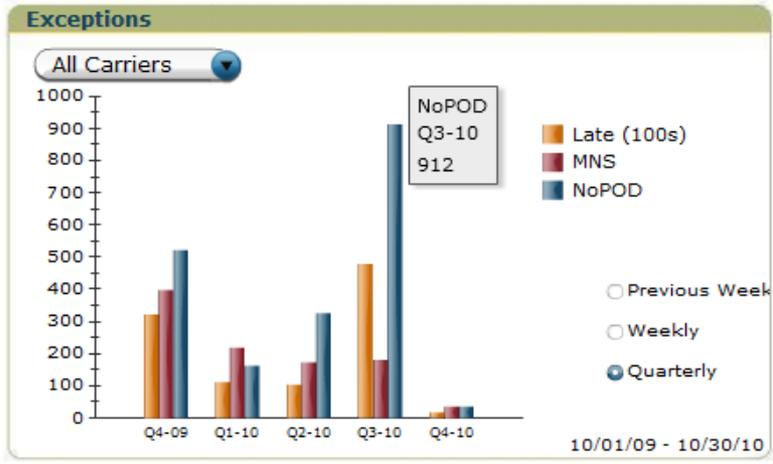
# Consultants can implement, or use optimization tools for network design and ongoing operations support



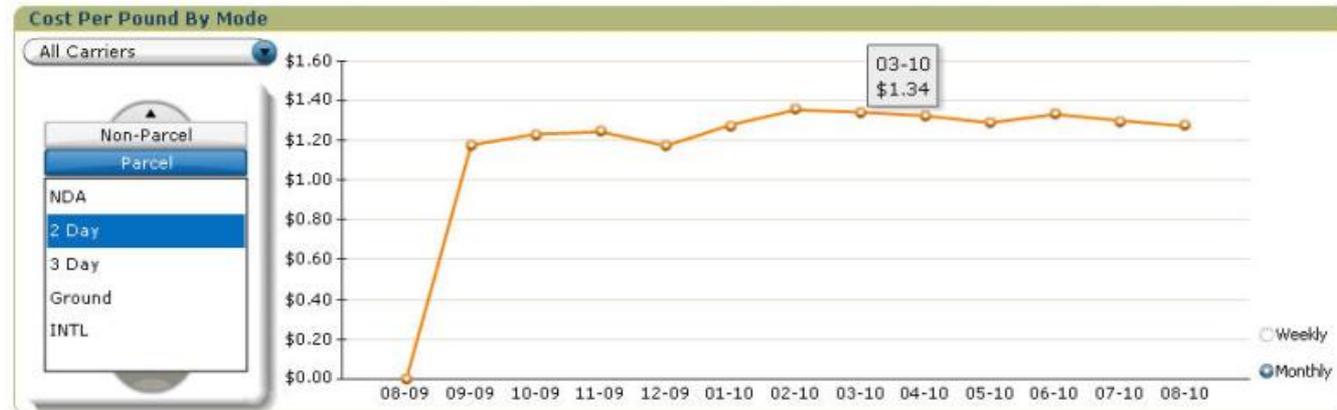
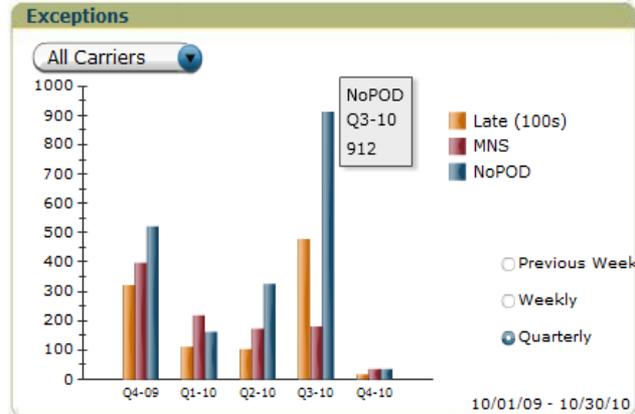
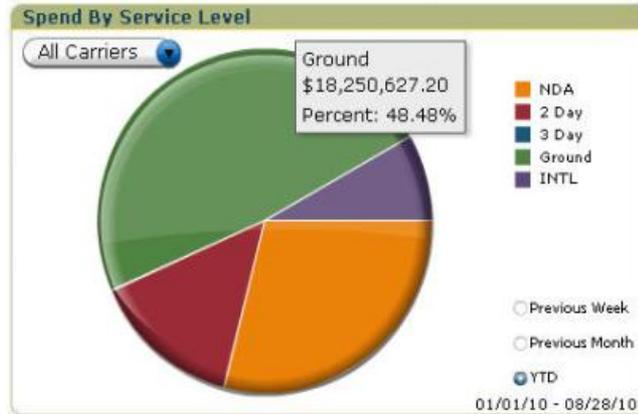
Sometimes they license the software, but mostly implement and operate on client licensed tools, such as...



# Consultants and 4PLS also develop IT platforms and dashboards so that shippers can be more analytical and understand their spend



# These web-based tools help shippers understand their data over time across all modes





QUESTIONS?

THANK YOU