



RESEARCH BRIEF

The Reality of Logistics Outsourcing

When is it appropriate to outsource your logistics and what does that entail for your business? This study can help you better understand the factors to consider when determining whether or not to outsource part of or all of your logistics and distribution as well as set expectations for what fulfillment outsourcing could mean for your organization.

Introduction

Demand fluctuations and changing customer preferences are just some of the challenges that organizations are dealing with right now. Impacted by outside pressures like the global pandemic, supply chain disruptions, and a massive uptick in e-commerce orders, companies are scrambling to meet demand while also remaining efficient, effective, and profitable.

Achieving that balance isn't easy, and it can be particularly difficult for organizations whose core competencies aren't logistics. Focused on making products that their customers rely on and come back to repeatedly, companies need reliable outsourced logistics providers to get their products to market. By leveraging partnerships, companies can effectively accelerate growth, improve operational efficiency, and increase customer satisfaction.

Every year, a growing number of businesses make a strategic decision to outsource

distribution and fulfillment to third-party logistics providers (3PLs). Interested in learning more about current 3PL adoption and usage, Peerless Research Group recently conducted a reader survey on behalf of *Logistics Management*.

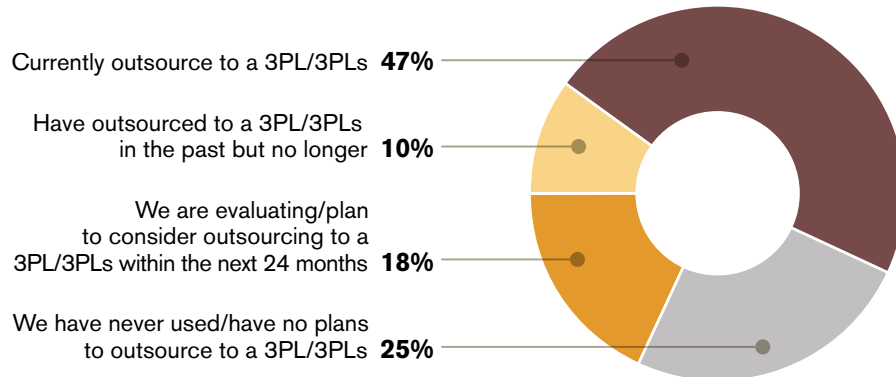
In this white paper, we explore the study's key findings and explain the role a 3PL can play in helping organizations in today's volatile business environment. The study explores common reasons companies outsource and how these partnerships are overcoming real logistics challenges.



Doing More with Less in a Challenging Business Environment

FIGURE 1

Usage of 3PLs for fulfillment operations and management



As companies strive to do more with less in a challenging business environment—all while keeping their customers satisfied and coming back for more—many of them are seeking help with their logistics, transportation, and supply chain management functions. According to the survey, 36% of companies are already using one or more 3PLs in their operations and about 14% are currently evaluating or plan to consider outsourcing to a 3PL within the next two years.

Filled with uncertainty and disruption, the current business environment is presenting new challenges that companies aren't always equipped to handle on their own. Attempting to navigate this terrain without a trusted logistics partner can be challenging, particularly when the company lacks a flexible, scalable model that can adapt quickly to change. In order to address this, a growing number of companies are turning to 3PLs for help.

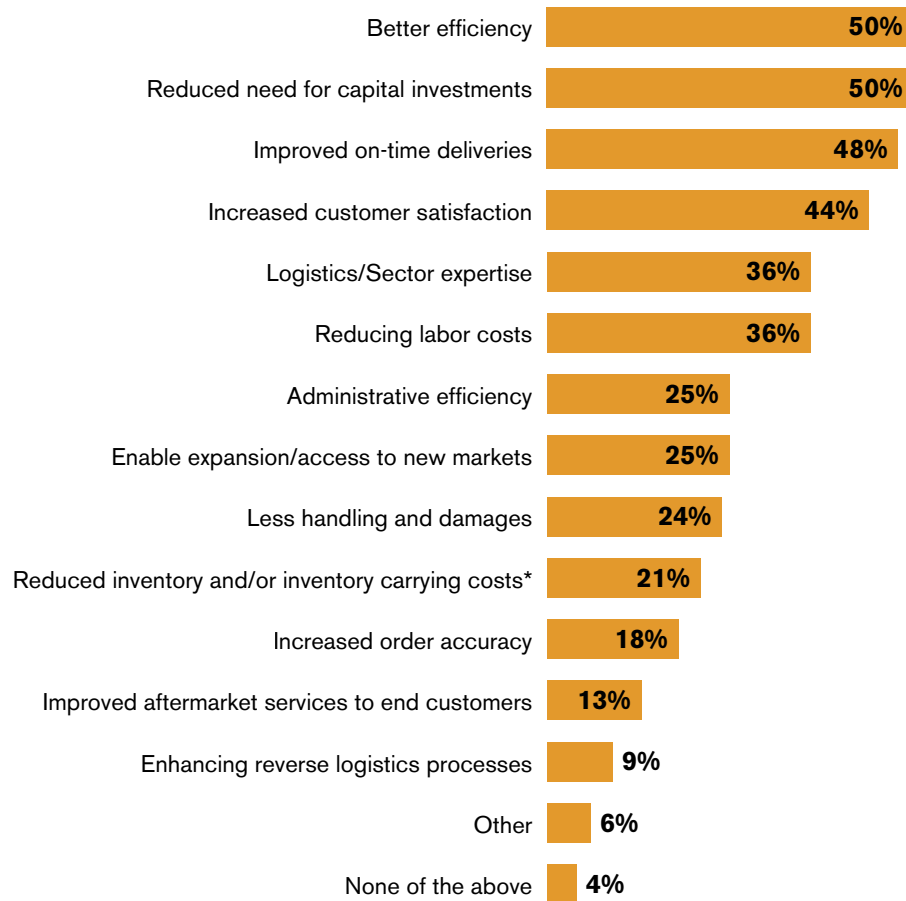
Our study found that companies are looking for logistics expertise, consistent service, financial stability, better transportation management, and robust supply chain visibility and analytics. The most common activities that companies outsource to a 3PL are transportation management, followed by order fulfillment services, such as pick, pack, and ship.



The Pursuit for Efficiencies and Cost Savings

FIGURE 2

Expected benefits companies hope to achieve from outsourcing fulfillment and distribution activity



* better inventory management, analytics for future inventory forecasting

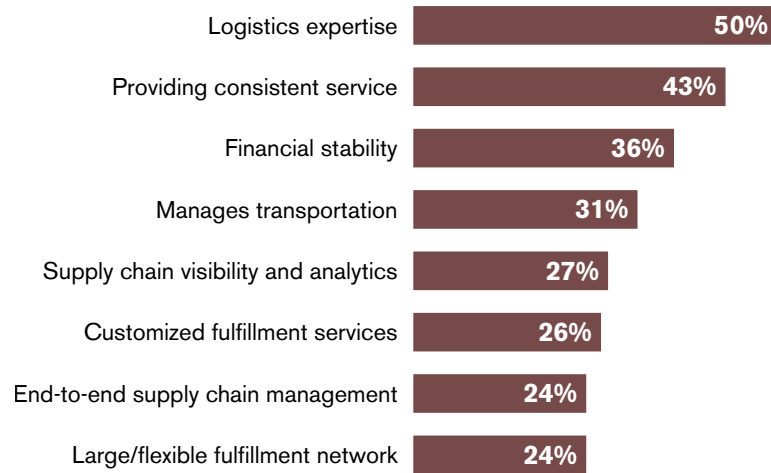
By outsourcing fulfillment and distribution activity, companies are hoping to gain better efficiencies (50%), reduce capital investments (50%), and improve on-time deliveries (48%). Their other goals include increased customer satisfaction—an important point for 44% of respondents. According to 36% of respondents, outsourcing should also lead to reduced labor costs, with other goals including better administrative efficiency (25%); expansion and access to new markets (25%); and less handling and damages (24%).



FIGURE 3

Features or offerings most important when evaluating a 3PL for fulfillment tasks

Rated 'Extremely important'

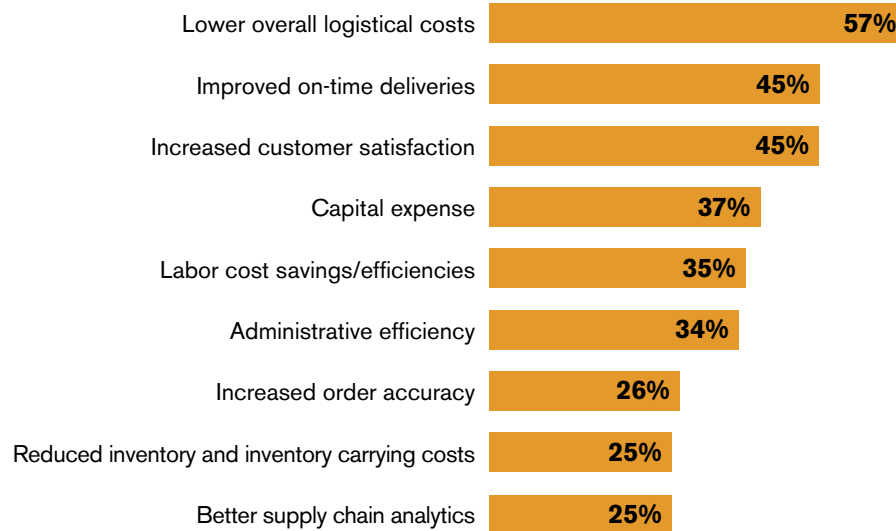


According to the survey, when evaluating a 3PL for distribution and fulfillment tasks, the largest contributing factor was logistics expertise. 43% of respondents indicated consistent service as extremely important followed by financial stability (36%) and the ability to manage transportation (31%). Over 1/4 conveyed a provider's ability to customize fulfillment services is extremely important. And 24% said both end-to-end supply chain management and a large and flexible fulfillment network are an extremely important part of their 3PL selection criteria.



FIGURE 4

Measurable benefits being realized or hoped to gain as a result of outsourcing fulfillment operations



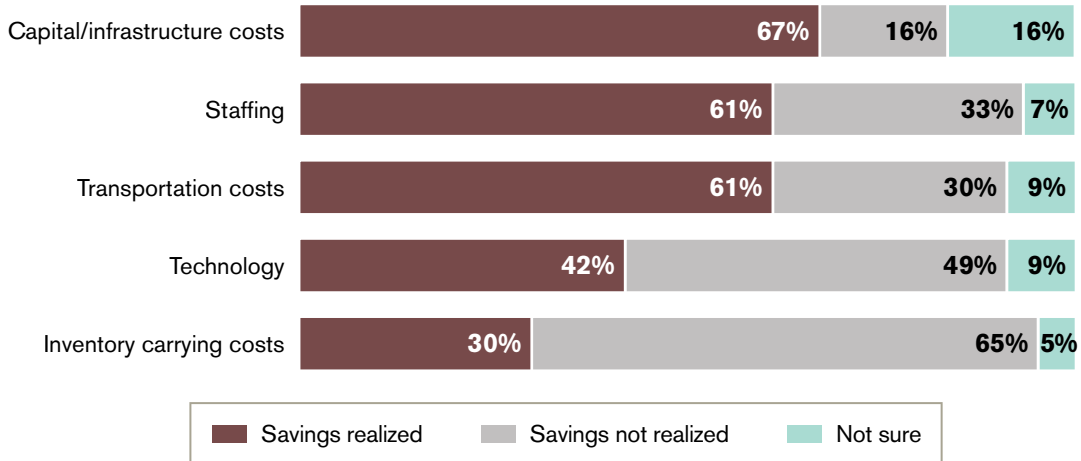
Outsourcing fulfillment operations to a 3PL produces many benefits, but the most important (for 57% of companies) is achieving lower overall logistical costs. Nearly half also indicated improving on-time deliveries (45%) and increasing customer satisfaction (45%) as also important. Thirty-seven percent have realized capital expense as a benefit of outsourcing, while 35% say they've realized or hope to realize labor cost savings and efficiencies.

In assessing other key benefits of working with a 3PL, 35% of companies have gained administrative efficiency; 26% have increased order accuracy; 25% have reduced inventory and inventory carrying costs; and 25% have gained access to better supply chain analytics.



FIGURE 5

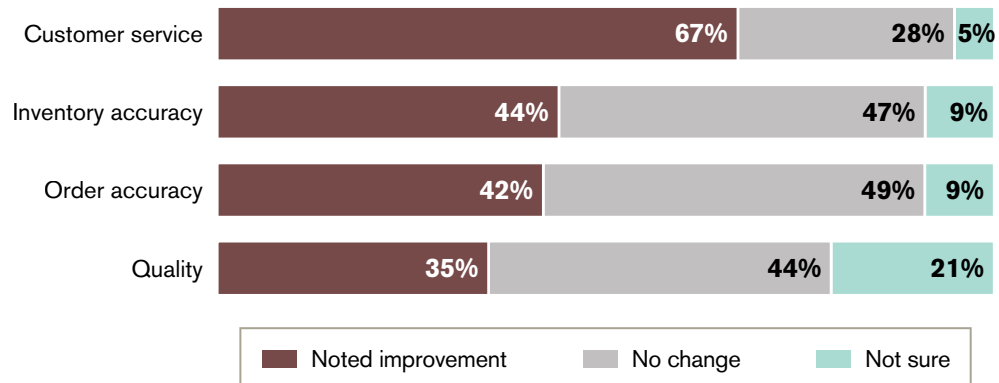
Results of outsourcing fulfillment operation



Outsourcing fulfillment operations also creates savings across multiple operational areas. Of those surveyed, 67% of companies say they saved in capital and infrastructure costs, 61% have cut their staffing costs, 61% reduced transportation costs, 42% saved money on technology, and 30% saved on inventory carrying costs.

FIGURE 6

Improvements beyond cost savings



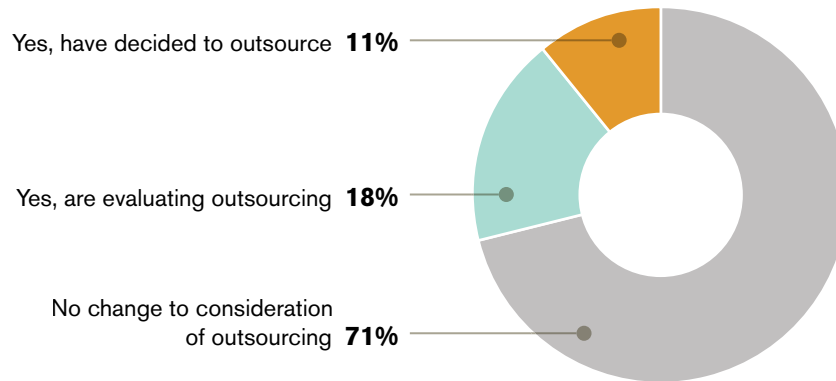
In terms of the improvements that 3PLs bring to the table, the majority of companies (67%) that outsource fulfillment to a third party have noticed improvements in customer service, 44% improved inventory accuracy, 42% improved order accuracy, and 35% improved quality.



The Pandemic's Impact on Logistics Strategies

FIGURE 7

How COVID-19 changed companies' outsourcing strategy



COVID-19 changed the business landscape across nearly every industry across the globe, and now 29% of companies that weren't previously outsourcing fulfillment are looking to do so or already have.

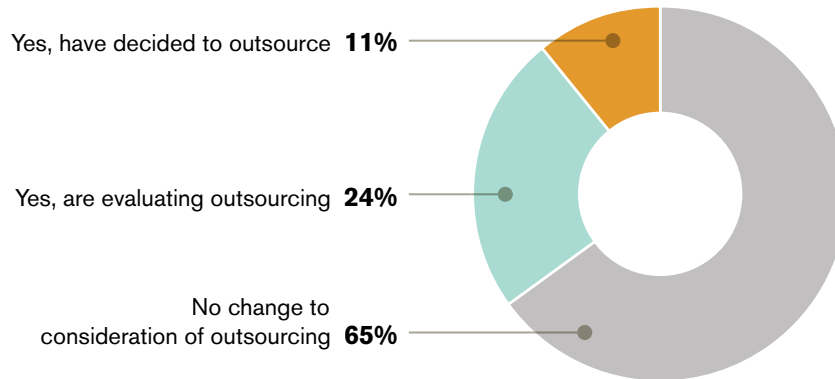
As a result of COVID-19, companies are now outsourcing in order to reduce capital, cut costs, reduce risk, and manage labor more effectively. For example, some companies worked with 3PLs to reposition inventory across their network to keep orders moving in the event of their facility having to be shut down.

Other companies see outsourcing as a way to scale up or down according to business fluctuations, meet the demands of their growing e-commerce channels, and accommodate growth. Regardless of the current business conditions, companies that outsource non-core responsibilities like logistics and transportation to a trusted partner can more readily adapt to change, adjust labor and capacity as needed, and meet their customers' demands.



FIGURE 8

How the rise in e-commerce has changed companies' outsourcing strategy



The rise in e-commerce and customers choosing to order more from home have also presented challenges for organizations, with 35% of respondents saying they have decided to outsource or are evaluating outsourcing as a result of the e-commerce boom. This e-commerce increase correlates with major challenges companies are looking to address through outsourcing, increased customer expectations around shipping and delivery and limited space or capacity to fulfill orders top the list.

What respondents had to say about their shift in outsourcing strategy:

"Change is inevitable and we need to adapt."

— Survey Respondent

"The focus has changed with COVID-19."

— Survey Respondent



Managing Internal and External Disruptions

Outside of the effects of the pandemic, some other challenges that companies would like to solve with outsourcing include meeting customer satisfaction and service expectations, fulfilling more orders faster and lower costs and on time.

Twenty-three percent of organizations are grappling with multiple order fulfillment channels and 23% struggled with supply chain visibility. While some of these disruptions were the results of COVID-19, others are ongoing challenges that shippers face, such as supply chain visibility. As UPS Supply Chain Solutions President Philippe Gilbert said, “True, real-time, end-to-end supply chain visibility is something few companies have been able to obtain due to the inherent complexities and investment required.”

3PLs should give companies a comprehensive look at what they’re currently doing and what they need to do in order to be able to compete effectively in the marketplace. UPS, for example, handles nearly every link in the supply chain—from manufacturing all the way to the customer’s doorstep, and all points in between, including inbound ocean freight, customs brokerage, warehousing, distribution, and outbound delivery. With broad visibility across all of these segments, a full service 3PL can provide a 360-degree, data-based view of a company’s end-to-end supply chain.

The Perceptions of Outsourcing

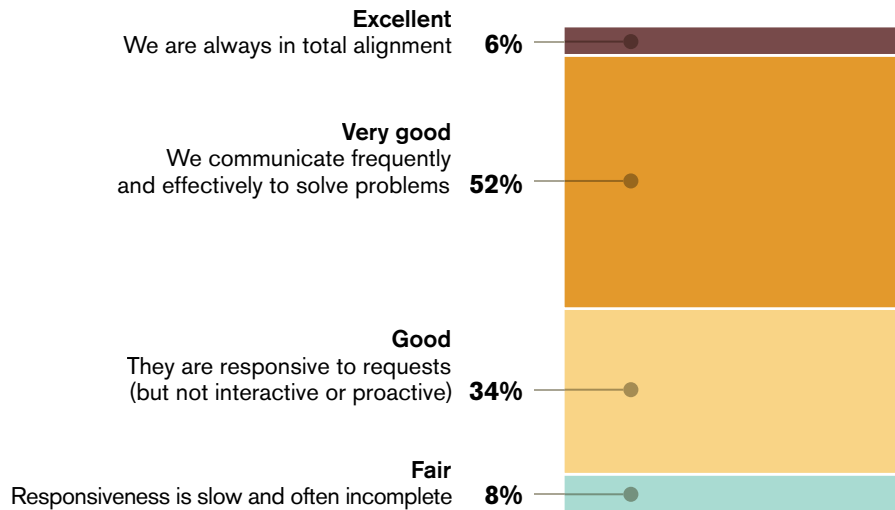
Making the decision to outsource supply chain activities is not one that should be taken lightly, as the output of your 3PL can reflect directly on customers’ perception of your business. The top three main concerns respondents shared about outsourcing fulfillment activities to a 3PL included possible hidden costs and contractual obligations (65%), losing control (61%), and supply chain disruptions (39%).

In most cases, if these issues arise, they can be traced back to poor partner selection at the outset. When selecting a 3PL, focusing on cost-cutting alone is a common misstep. A good relationship between a company and a 3PL should be a win-win arrangement that goes beyond price, with a necessary foundation of trust and mutual respect. By finding partners who can serve as extensions of a business and its brand, companies position themselves for better outcomes than focusing on price alone.



FIGURE 9

How companies rate their working relationship with their key 3PLs



When asked to rate their working relationship with their key 3PLs, most respondents (92%), say their relationship is “very good,” “excellent” and “good,” rooted in frequent communication and effective problem solving.

Other key considerations to think about early in the selection process include: Does this partner understand my business? Do they know the right questions to ask? How will they meet my company’s goals and performance metrics? And can they truly serve as a valued supplier in our overall supply chain? By asking these in-depth questions, companies can better avoid issues with hidden costs, concerns over loss of control, and other challenges that could interfere with a healthy outsourcing relationship.



Is Outsourcing Right for You?

As companies continue to manage the impacts of the global pandemic, the huge uptick in e-commerce orders, and labor shortages, there is a need for reliable third-party providers that can effectively manage non-core tasks like logistics and fulfillment. However, if supply chain and logistics is a core competency that your business excels at or you have not identified with any of the challenges brought to light in this white paper, outsourcing might not be right for you.

As this survey discovered though, for many companies, outsourced relationships can result in profound benefits, such as reducing infrastructure costs (e.g., warehouse space, equipment, and delivery vehicles), leveraging supply chain data, and improving quality and customer service. These partnerships also help companies operate in a more agile, resilient manner. At a time when these qualities hold more weight than ever before, turn inwards to understand where your business's weak spots are and if outsourcing could help fortify them to create a stronger supply chain.

If you are considering outsourcing your logistics, visit us at ups.com/contractlogistics.

The survey was administered via e-mail to Logistics Management magazine subscribers. Respondents were prequalified for having knowledge about the evaluation and usage of outsourcing services for distribution, warehousing, and fulfillment functions and excluded 3PL service providers.

ABOUT UPS

UPS (NYSE: UPS) is a global leader in logistics, offering a broad range of solutions including transporting packages and freight; facilitating international trade, and deploying advanced technology to more efficiently manage the world of business. Headquartered in Atlanta, UPS serves more than 220 countries and territories worldwide. UPS was awarded America's Best Customer Service company for Shipping and Delivery services by Newsweek magazine; Forbes Most Valuable Brand in Transportation; and top rankings on the JUST 100 list for social responsibility, and the Dow Jones Sustainability World Index. To ship with UPS, visit us at ups.com.