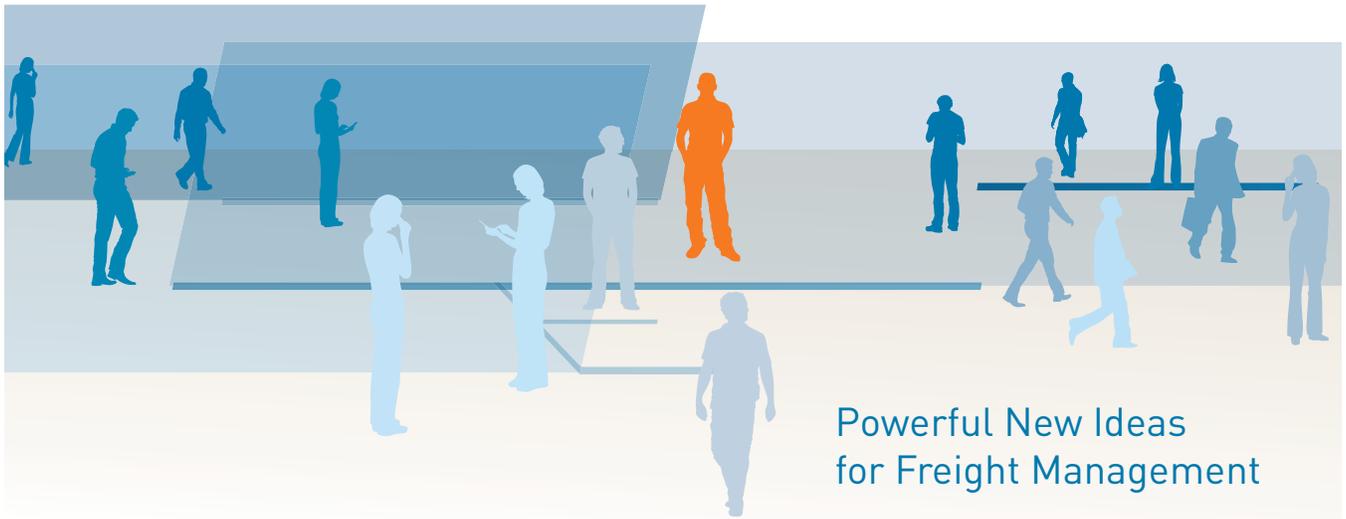
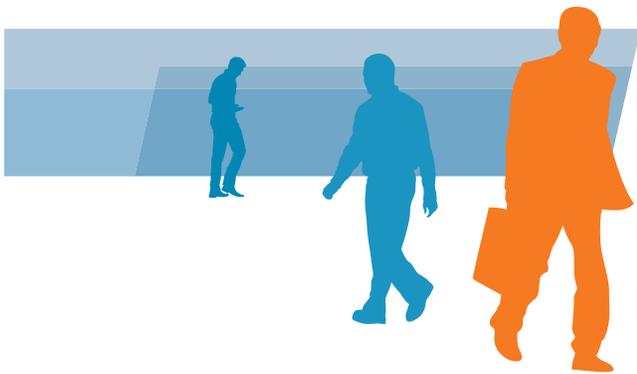


# Collaborative Outsourcing™



Powerful New Ideas  
for Freight Management



## Contents

- 2** In brief
- 3** Strategic control over your freight network
- 4** Freight networks demand a unique and collaborative approach
- 5** Sustained savings and value are the keys
- 6** Selecting the right outsource provider
- 8** Choosing which functions to outsource
- 9** Choosing an outsource model that works for your organization
- 11** Strategic outsource models
- 12** 8 keys to outsourcing success

## In brief

New approaches to outsourcing are helping shippers drive down costs in the short term and build smarter, stronger supply chains for the long term. This white paper introduces some of the new thinking that is shaping today's most successful transportation outsourcing models. Topics include:

- + The important difference between “subtractive” and “collaborative” outsourcing
- + Characteristics of a successful, collaborative transportation outsource deployment
- + Criteria for identifying proficient outsourcing providers
- + Various options for outsourcing all or part of a freight network

## Strategic control over your freight network

For many people, the word outsourcing conjures up images of manufacturing lines being moved overseas, or entire operations being extracted from an organization and transplanted to a third-party location.

While those models exist, they can best be thought of as subtractive outsourcing. Something is being removed from an organization in hopes of driving down costs or achieving higher levels of efficiency. The trade-off, historically, has been a potential loss of control—and, in some cases, additional risk in terms of quality, customer experience, data security, and reputation management.

Today, however, many forward-thinking organizations approach outsourcing from a different perspective. Instead of viewing it as a subtractive exercise and a giving-away of strategic control, they look at outsourcing as a low- or no-cost strategy for adding talent, capacity, and technology. Instead of exporting control, they are importing expertise and technology that help them drive down costs, improve efficiency, and/or enhance customer satisfaction.

This approach is becoming known as collaborative outsourcing—a model that is producing exceptional results in transportation networks worldwide.

Inbound and outbound transportation are especially promising areas for the application of collaborative outsourcing because they are typically labor-intensive and not as well-documented or measured as a company's core processes. Opportunities for both immediate and long-term savings are often uncovered quickly.

For most companies, the savings potential is more than advantageous—it is a competitive necessity. The overall impact of transportation costs on most organizations has historically been considered a sunk cost, but more and more CEOs and CFOs are targeting them for savings. In the U.S. alone, shippers spend more than \$830B annually moving freight.<sup>2</sup> This means CEOs and CFOs are increasingly turning their attention to transportation networks as a source of cost savings.

“Companies that do everything themselves have much higher research, development, marketing and distribution expenses, all of which must be passed onto customers. An outside provider's cost structure and economy of scale can give your firm an important advantage.”<sup>1</sup>

### Choosing the Right Level of Strategic Control

For some shippers, the transportation process is part of their brand. Much of their reputation with consumers or other end-users is based partly on the speed, reliability, or quality of their delivery. For other shippers, transportation is less visible, but still critical to the success of the organization. How your organization views transportation and the impact it has on your organization will determine how much control you maintain over an outsourced freight process or network. Here are some guidelines:

**High Strategic Control.** If transportation is a fundamental part of your brand, you may want to develop an outsource relationship that keeps you in firm control of your transportation strategy. Use your outsource solutions provider to do the heavy lifting and introduce new ideas—but maintain strategic control.

**Moderate Strategic Control.** If customer relationships depend heavily on the effectiveness of your freight network, but it's not necessarily elemental to your brand, you may want to give your outsource provider more control over day-to-day decisions, while retaining full visibility over key metrics.

**Minimal Strategic Control.** If you are simply looking to cut costs and offload the day-to-day management of a portion of your freight network, it is likely sufficient to monitor key metrics at regular intervals.

<sup>1</sup>“The Benefits of Outsourcing for Small Businesses.” Allbusiness.com. May 12, 2009.

<sup>2</sup> Research and Innovative Technology Association, Bureau of Transportation Statistics. “Transportation Statistics Annual Report, December 2006,” Table G1, Passenger and Freight Expenditures: 1991-2001. [http://www.bts.gov/publications/transportation\\_statistics\\_annual\\_report/2006/html/chapter\\_02/table\\_g\\_01.html](http://www.bts.gov/publications/transportation_statistics_annual_report/2006/html/chapter_02/table_g_01.html) (accessed May 21, 2009).

## Freight networks demand a unique and collaborative approach

Outsourcing began as a way of shifting the cost of non-core or non-value-add activities outside the walls of an organization. Typically, the objective was to reduce headcount or build a production or service model that could quickly scale up or down in response to changes in market demand or economic conditions.

“The real power of outsourcing going forward is going to be that it increases an organization’s core capacity for change and growth. The business challenges over the next decade are going to be very different than anything we’ve seen so far and the companies that weave a powerful network of global partners through outsourcing will be the winners.”<sup>3</sup>

That original, subtractive definition of outsourcing does not fit perfectly today. Each shipper has unique needs and varying operational and financial requirements. A company may still choose to relinquish control of procurement to a third party, but the shipper always retains control of strategy in any collaborative outsourcing approach.

In a collaborative model, shippers can rely on outsource providers to do the heavy lifting in a transportation network. This typically includes tasks such as contract management, load and route optimization, mode and carrier selection, shipment execution, carrier payment, yard and dock management, track and trace services, supplier management, reverse logistics, claims management, service level monitoring, and performance measurement.

When these labor-intensive tasks are outsourced, shippers can reallocate staff to more strategic assignments. The outsource provider handles execution within the freight network and provides the internal staff with real-time access to mission-critical business intelligence that can be used to make more informed and more profitable business decisions. Instead of spending most of their time on labor-intensive tasks, internal staff can focus on more strategic assignments further up the supply chain. Of course, the outsource provider should be expected to contribute to the strategic discussion, but the shipper remains in control of the broader supply chain strategy and the performance metrics that determine the relative success of the freight network.

### OUTSOURCE MODEL COMPARISON

Traditional		Collaborative
<p>Reduce Costs Increase Capacity</p>	<p><b>OBJECTIVES</b></p>	<p>Reduce Costs Increase Capacity Gain Access to Technology Import Best Practices Train Existing Staff Continuous Improvement</p>
<p>Extract Operations and Strategy Move to Outside Location</p>	<p><b>STRATEGY</b></p>	<p>Retain Control of Strategy Add Talent and Technology Monitor Metrics in Real-Time Innovate Through Collaboration</p>

<sup>3</sup>Corbett, Michael F. "Creating a Competitive Advantage Through Change." Keynote address at the 2008 Outsourcing World Summit, annual meeting of the International Association of Outsourcing Professionals, Orlando, FL, February 18, 2008.

## Sustained savings and value are the keys

Outsourcing makes sense and usually receives priority consideration when an organization is under pressure to reduce costs. The opportunity for immediate savings in existing inbound and outbound networks is obvious. The surface-level opportunities that almost any outsource provider can deliver will yield some measure of initial savings.

However, an effective outsource deployment will deliver more than initial savings. In fact, an outsource solution that only delivers the most obvious and easily attained cost savings can be detrimental in the long run. Instead of building processes and deploying technology that allow for sustained savings and continuous improvement, shippers could find themselves with unrepeatable and difficult-to-measure processes that leave them with no gains—or even net losses.

An effective outsource solution will provide your enterprise with the following benefits. These should be considered key criteria in any request for proposal (RFP) process or in the construction of service level agreements (SLAs) once a provider is chosen:

- + **Immediate Cost Savings.** Engaging an outsource provider to manage inbound or outbound freight should result in immediate cost savings, driven primarily by benchmarking and route optimization.
- + **Sustained Cost Savings.** Savings should steadily increase as the outsource provider applies process engineering, Transportation Management System technology, and best practices to your freight network. Deeper savings are typically driven by further load and route optimization, mode selection, LTL reductions, and increased use of multi-stop truckloads.
- + **Technology Deployment.** An outsource provider should deploy, operate, and maintain cutting-edge Transportation Management System technology with no direct cost to you. In addition to efficiency gains in your network, the technology should capture, analyze, and deliver business intelligence for injection into your supply chain.
- + **Industry Expertise.** Selecting an outsource provider with a broad portfolio of customers should result in the application of best practices from a variety of industries. You will be adding expertise without adding headcount.
- + **Human Capital.** An outsource engagement will allow you to add bandwidth to your transportation department without incurring the costs of additional payroll, training, or benefits.

“The trick... is balancing the intense pressures to use outsourcing to cut costs quickly with the responsibility for building a solid foundation for the future.”<sup>4</sup>

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<sup>4</sup>Roehrig, Paul. “Four tips for better outsourcing deals.” CIO.co.nz. April 2, 2009.

## Selecting the right outsource provider

Realizing the cost-saving and service-enhancing benefits of outsourcing, while configuring and maintaining the desired level of strategic control over your freight network, is a delicate balance. You need to select a provider who is strong enough to drive immediate and sustained improvement across your network. But you also need a provider who is willing to understand, configure, and adopt your strategies—and develop an environment of visibility, teamwork, and trust. To build this kind of outsource relationship, look for providers with the following characteristics and offerings:

“External consultants transfer their skills and methods to improve employees’ effectiveness; they teach staff, often while working together on real projects.”<sup>5</sup>

- + **Performance Metrics.** You should only outsource if it makes your company more successful immediately and in the long term. But how do you know if and when you have achieved success? Metrics are the answer. The right outsource solutions provider will begin the process by determining which metrics are most important to you. They will find out the metrics you know you want—and they will show you technologies and processes that can provide measurements many shippers may have never thought possible. The data captured will often determine if an outsource effort is successful; they will lead to continuous improvement and they will contribute new, mission-critical data to the broader supply chain strategy.
- + **Extension of Staff.** Look for a commitment to collaboration. You and your staff know your business. You know your customers. And you know what you want to achieve. The right outsource provider will understand and value this knowledge. They will work as an extension of your staff and work with you to understand and address business challenges as they arise. They will also serve as a valuable training resource and transfer their knowledge of transportation best practices to your staff.
- + **Advanced TMS Technology.** TMS technology will be a key factor in driving deep cost savings for your company. In addition to helping track key metrics, it will capture, analyze, and deliver critical business intelligence you can use to make more informed business decisions—and build a more dynamic supply chain strategy. By choosing an outsource provider who creates and continually invests in its own TMS solution as part of its strategy, you are able to enjoy the benefits of the latest technology without buying software or paying for deployment, maintenance, and upgrades.
- + **Ready Access to Best Practices.** There are companies all over the world that have faced and solved many of the transportation challenges that confront you today or will emerge for you in the future. The right outsource solutions provider will have a deep client roster and a wealth of best practices at its disposal.
- + **Financial Stability.** Making the initial transition from an in-house to an outsourced model is a good investment. But it is not a process you want to undergo frequently. Be sure to choose an outsource provider with a proven track record and a long history of success in all types of economic conditions. Also, choose a provider who has demonstrated a commitment to sustained investment in people, process, and TMS technology.

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<sup>5</sup> Meyer, Dean. “4 Advantages of Outsourcing.” Sourcingmag.com. 2005.

- + **Multimodal Expertise.** True network optimization is mode neutral. While your network may be heavily centered on motor freight, the most effective execution may require rail, ocean, and air transportation from time to time. Be sure the provider you choose offers expertise and a broad network of carriers across all modes. The best outsource provider will choose the mode that offers the best value in terms of cost, service level, and customer satisfaction. A provider facing pressure to utilize existing assets may be tempted to make decisions based on other criteria.
- + **Global Coverage.** Some companies are waist deep in global transportation, while some are just beginning to get their feet wet. But the trend is clearly towards deeper and deeper globalization. Whether it is a primary or emerging need, global expertise should be a key factor in your selection of an outsource provider. Look for a provider with established global carrier relationships and a history of helping multinational companies develop seamless freight networks.
- + **Account Management.** The management structure of an outsource engagement is important. The deployments that enjoy the greatest long-term success have an account manager or account management team at the point of interaction. This function is responsible for maintaining deep collaboration between the shipper and the outsource organization. This includes strategic planning, performance measurement, reporting, and optimization.

## WHAT TO LOOK FOR



## Choosing which functions to outsource

While every enterprise has unique needs and different on-staff strengths in its freight management organization, there are some common functions that lend themselves to an effective outsource engagement. The key is to fully leverage the talent, procurement strategy, and technology of the provider, while developing strong strategic capabilities within your staff. The following functions tend to make the most sense for an effective outsource model:

- + **Contract Management.** An effective outsource solution includes careful and accurate management of all carrier contracts, whether you use your carriers, the 3PL's carrier network, or a combination of the two. All freight contracts across your freight network should be rationalized, which will lead to more accurate evaluation of carrier value. A proficient outsource provider will help keep everyone in the procurement process on a level playing field. Consistent tracking of performance and compliance also prevents downstream errors, such as overpayments or mistakes in the recording of accessorials.
- + **Load & Route Optimization.** While effective rate negotiation will be part of a successful outsource engagement, a majority of cost savings will come from load and route optimization. Advanced TMS technology and deep market knowledge will allow the right outsource provider to consolidate shipments, optimize loads, minimize dock congestion, and reduce LTL costs. Of course, because critical factors—such as fuel prices, carrier availability, and customer requirements—constantly change, the right outsource provider will be able to continually refine load and route optimization plans and provide you with the right level of oversight.

### POTENTIAL FUNCTIONS TO OUTSOURCE

#### Transportation Tasks

- Contract Management
- Load & Route Optimization
- Mode Selection
- Shipment Execution
- Carrier Payment
- Yard & Dock Management
- Track & Trace Services
- Supplier Management
- Reverse Logistics
- Claims Management
- Service Level Reporting
- Performance Measurement

### OUTSOURCING BENEFITS

#### Setting Your Expectations

- ✓ Immediate Cost Savings
- ✓ Sustained Cost Savings
- ✓ Technology Deployment
- ✓ Best Practices
- ✓ Deep Expertise
- ✓ Staff Training
- ✓ Increased Productivity
- ✓ Improved Service Levels

- + **Mode Selection.** The right outsource provider will also be able to drive continuous cost savings through the selection of best mode for each shipment—while maintaining the appropriate service levels for your customers. This requires deep knowledge of multimodal procurement strategies, service level requirements, and key performance metrics across your network.
- + **Shipment Execution.** Your staff likely spends a great deal of time managing shipment execution. An effective outsource provider will relieve your staff of this burden, freeing them for other more strategic and value-centric assignments. TMS technology deployed as part of your outsource agreement will make tendering more automated, which will lead to progressively deeper savings across your network by eliminating manual processes, errors, etc. The technology will also provide you with anytime access to shipment status and other critical, real-time information.
- + **Network Optimization.** The outsource provider you choose must measure, analyze, and act on key performance metrics that you establish as part of your agreement. TMS technology is certainly critical for this aspect of your agreement, but you also need a provider familiar with process engineering—and one with access to best practices from a variety of vertical and geographic markets. While you should outsource the collection and analysis of key metrics, you should retain the appropriate amount of strategic control over decision-making and work in collaboration with your provider to optimize your network.
- + **Business Intelligence.** The collection, analysis, and reporting of key performance data will allow you to build a smarter, stronger, and more dynamic supply chain. Outsourcing the collection and analysis of performance data should free you to spend more time advancing your supply chain and working collaboratively across your organization.



### Choosing an outsource model that works for your organization

#### Outbound Logistics

You may choose to outsource all or part of your operations and quickly add to the bandwidth and skill sets of your in-house staff. This is the most common starting point for many companies when they launch an outsourcing model. Many begin by selecting a portion of the network to be outsourced, such as:

- + **Location Management.** This typically includes specific locations, such as plants or distribution centers. It can be a particularly powerful strategy for companies undergoing mergers or acquisitions. Frequently, this is seen as an opportunity to integrate disparate enterprise resource planning (ERP) systems and freight networks.
- + **Mode Management.** Outsource providers can be selected to manage one or more specific modes of transportation, including any combination of truckload, LTL, and rail.
- + **Co-Packer Management.** Integrating the systems of two enterprises results in cost savings, service level improvements, and the generation of highly valuable business intelligence.

#### Inbound Logistics

While outbound freight is the focus of most outsource engagements, inbound freight offers equal or greater cost reduction opportunities. An outsource provider who focuses on improving processes with vendors, co-packers, and other suppliers who ship products or raw materials into your facilities can often find surprising and dramatic cost saving opportunities.

- + **Vendor/Supplier Management.** Companies that ship raw materials, ingredients, subassemblies, and other unfinished goods into your locations have varying degrees of proficiency when it comes to handling freight. An outsource solution can quickly reduce costs, improve service levels, minimize delays, reduce confusion, and raise overall performance.
- + **Co-Packer Management.** While not often examined, inbound co-packer shipments are frequently rich areas for significant savings and service level improvements.

### Configuring an outsource program

A successful outsource program can be configured many different ways. Any one of the following could be applied to the model that you choose:

- Private labeling can make your customers and suppliers feel they are working directly with your transportation department, rather than an outside party.
- A pre-established combination of inbound and outbound freight moves.

- Consulting services as needed to solve particularly intractable and time-consuming problems.
- The provider's experts working as part of your staff as highly valued and trusted members of the broader supply chain team.

Improved service levels, smaller carbon footprints, savings, and far more efficient supply chains are the result of a successful collaborative and configurable outsource.

## Strategic outsource models

### Single Source

While you maintain strategic control with this collaborative model, the provider executes the tactical and operational functions and manages risk for capacity procurement and service level metrics. Using their professional discretion, the provider brings scalable capacity for your fluctuating needs and adds technology, information, and business processes to your organization.

Throughout the process, the provider should communicate with you continually on priorities and goals, deliver new ideas for savings, supply visibility into operations, measure performance, and document savings.

### Lead Logistics

For a highly configurable solution, you can outsource selected portions of your transportation network, including operations, while adding logistics expertise to your in-house capabilities. Many companies choose this model when they prefer a combination of payment for freight service and pay-as-you-go for control of specific functions.

In this outsource model, the provider helps you establish variable risk strategies, combining your carriers with their own carrier network.

### Managed TMS

Typically, you retain control of carrier relationships, price negotiations, and service responsibilities with this model. The provider supplies Six Sigma-based process engineering, enterprise-wide TMS technology deployments at little or no capital investment on your part, and onsite or dedicated TMS power users. In most cases, the provider does not make money handling freight, but rather provides total operations support as a fee-based service.

The provider of a Managed TMS is responsible for optimizing all aspects of your freight network so they align with your performance objectives. The provider works seamlessly with your core carriers and supply chain partners to bring forward their best ideas and core competencies so you receive non-stop performance improvement.

# 8 KEYS to OUTSOURCING SUCCESS

## About Us

**C.H. Robinson Worldwide, Inc.** is one of the largest third party logistics companies in the world. We develop supply chain plans, provide door-to-door transportation and outsource solutions, and execute these solutions to meet the needs of our customers. As a global provider of multimodal transportation, produce, and information services, we operate through a network of more than 230 offices in North America, Europe, Asia, South America, and the Middle East with over 7,500 employees. Our services extend to more than 32,000 customers globally, ranging from Fortune 500 companies to small businesses in a variety of industries.

1. **Add, Don't Subtract.** Insist on a collaborative and configurable approach that allows you to import talent, technology, and procurement strategy.
2. **Insist on Great Talent.** Make sure potential providers are deploying proven experts on your behalf. Ask for and carefully examine credentials of the people who would potentially manage your network.
3. **Look for Best Practice Leaders.** Improve your freight network by incorporating the best ideas from other shippers worldwide. Insist on a global provider with broad expertise and a formal process for implementing best practices.
4. **Seek a Flexible, Multimodal Network.** Build your RFP process to include providers with great flexibility in terms of multimodal capabilities and broad, non-asset-based carrier networks.
5. **Gain Access to Technology.** A quality outsource solution will include advanced TMS technology as part of its framework. The technology you choose will become integral to your operations. Be sure to choose a technology that fits you well.
6. **Create a "Collaborative Community."** A successful outsource program will certainly save money. But it will also bring knowledge and new ideas into your organization. Look for providers who propose building community innovation that includes your staff, carriers, suppliers, vendors, co-packers, customers, and others who comprise or influence your freight network.
7. **Think Global.** Even if you are not shipping internationally now, be sure to select provider that makes the transition easy. If you are shipping globally, pick a provider that fits—even if the initial assignment is domestic.
8. **Select a Financially Strong and Healthy Provider.** Choose a provider with financial strength and a proven track record. Don't risk entrusting portions of your valuable supply chain to a provider that may not be able to meet its commitments.