

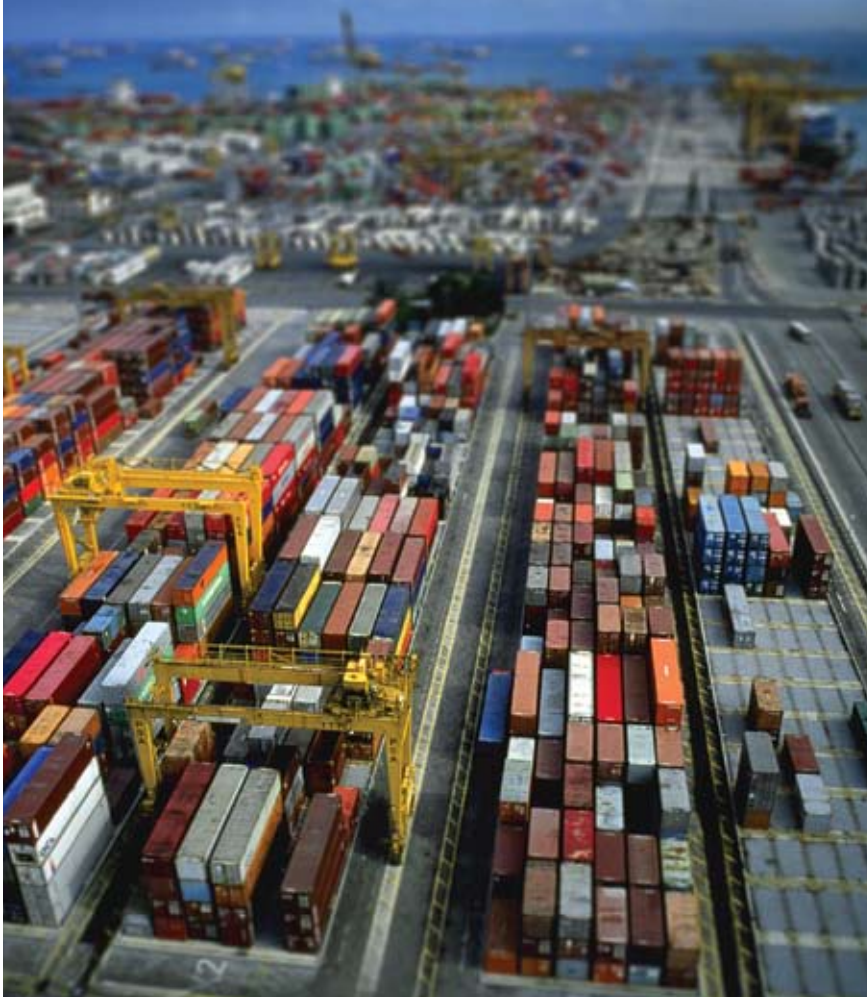


# ICIS Chemical Business

REGIONAL INTELLIGENCE: GLOBAL ANALYSIS

## Ship shape

Chemical companies can benefit from outsourcing logistics and freight management



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### Consultant's corner

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THE ECONOMIC downturn is prompting chemical companies to evaluate different cost saving tactics to improve their financial stability. New emphasis is being placed on the transformation of fixed costs into vari-

able ones as a means of reducing excessive overheads while scaling resources to meet market fluctuations.

The renewed interest in converting fixed to variable costs has, in turn, fueled the reevaluation of core competencies and the desire to outsource. As a result, many chemical companies are looking again at the merits of outsourcing information technology, collections and logistics functions.

Outsourcing logistics is not a new phenomenon. According to US-based supply chain research firm Armstrong & Associates, around 77% of domestic Fortune 500 companies use third-party logistics providers (3PLs) to support their logistics and supply chain functions.

Offering state-of-the-art information technology, web-based strategies and comprehensive transportation management services, 3PLs can manage all or specific logistics business processes.

Working as an extended resource to the logistics department, experienced logisticians can customize and implement a variety of cost-effective solutions supporting global logistics operations.

These solutions may include total domestic and international inbound and outbound freight management, encompassing everything from carrier selection through the tender and tracking of orders, contract management, freight accruals and payment, carrier performance management and comprehensive international services – inclusive of regulatory compliance assessment, landed cost analysis and international shipping documentation preparation.

Providing immediate access to “best-in-class” transportation management systems (TMSs), 3PLs minimize the cost, time and internal IT requirements necessary to bring new technology into the company.

Possessing a knowledgeable staff with years of experience, 3PLs can implement the latest web-based freight management systems, inclusive of enterprise resource planning integration, in as little as 90–180 days. Once equipped with this technology, chemical companies can optimize transportation assets throughout the entire logistics process to reduce costs, better control operations and improve customer service.

As they are web-based or “on-demand,” TMSs are scalable, so chemical firms can more easily invest in new acquisitions or gradually expand coverage to different divisions or operations as business grows. Unlike companies that must continually upgrade their own IT systems, new software releases are virtually painless, since they are the responsibility of the third-party provider.

Flexibility of engagement also provides chemical shippers with the ability to tailor a 3PL partnership to meet specific needs.

Freight management contracts can be developed on a fixed or variable fee basis, with fees based on the freight spend and volume shipped. The resultant operating costs

would be tied to business levels, with costs going up and down, commensurate with business volumes.

### TMS BENEFITS

While many chemical companies rely on ERP systems to generate data on logistics operations, information often isn't detailed enough to provide a financial perspective on costs by product and client. As a result, many firms cannot determine cost drivers associated with rising and falling freight spend.

Detailed information generated by TMSs on freight activities enables companies to identify cost drivers and optimize operations to lower costs. Customized reporting also provides actionable data pertinent to individuals' roles throughout the organization, and formatted to meet their specific requirements and goals.

With a granular view on logistics operations, chemical companies have a larger opportunity to effect change and better manage client relationships.

For example, should costs increase for a specific account, data reports generated from the TMS can determine if rising expenses are associated with a change in the freight mix, client requirements or, perhaps, fuel surcharges. With this, chemical shippers can make adjustments to reduce costs.

With access to detailed financial information, chemical shippers can enhance client-customer relationships.

For instance, should a client request a change in service level or mode, the 3PL can generate a report outlining the economic value of it. Using this information, chemical firms can work with clients to effect the appropriate change, resulting in lower freight costs or improved customer service.

Calculations capturing the economic value of change for performing load consolidations of LTL (less-than-truckload) to truckload or drum, tote to multi-compartment or multi-compartment to full truckload bulk, can be routinely executed using TMS analytical reporting.

These analytical reports can also be used by plant demand planners to evaluate the trade-offs from reducing inventories through changes in the economic order quantity and the added freight costs associated with shipping less inventory more frequently.

In addition to providing detailed data analysis and customized reporting, an on-demand TMS gives the logistics department visibility into shipment status and carrier performance.

## WHAT TO LOOK FOR IN A PARTNER

While there is a long list of third-party logistics providers (3PLs), only a handful specialize in the chemical industry. Key criteria by which a chemical shipper should evaluate an outsource partner include:

- Depth of experience in the chemical industry
- Percentage of shipments managed that are chemicals
- Use of on-demand technology that is both easy to deploy and upgrade
- Speed of implementation
- Number of successful installations
- Financial viability
- Proven flexibility.

Best in breed, on-demand technology should be a prime consideration. Does the 3PL use an established, industry-recognized, on-demand technology, or are they offering a homegrown or IT-based solution? Homegrown and IT support-based solutions require as much as 30% of a 3PL's resources to be dedicated to system upgrades and maintenance. Resources that could be spent on providing clients with improved logistics support and customer service are deferred to maintain internal software platforms. Additionally, on-demand TMS technology minimizes the risk of shippers investing in a technology that becomes obsolete or, worse, bought by a competing company and shelved to sell their own "software upgrade product."

How successful is the 3PL in implementing TMS systems? It is important to know a 3PL's experience in addressing different issues and working with clients through rough spots. There is no substitute for experience. The more issues a 3PL has successfully solved for others, the easier it will be to solve your specific challenges.

Financial stability is important to ensure your investment results in a long-term partnership. You need to look for an established 3PL with a strong management team committed to long-term growth versus one operating on venture capital, experiencing frequent management changes and having an eye on short-term value creation.

You need a flexible 3PL partner. As the world economy and business plans change, so must your logistics solution. Your 3PL must continue to identify and jointly solve potential client risk, assess opportunities for cost reduction and customer service improvement, and suggest process changes that promote and focus on projects producing the greatest "economic value of change." By choosing the right 3PL in support of logistics operations, chemical companies can find new ways to reduce costs, improve service, implement best practices, and move closer to becoming world-class global companies.

With online access to real-time information, chemical shippers can confirm the status of shipments, minimizing surprises in the logistics process and providing delivery updates to customers. Even if problems occur, customers can be immediately updated with new estimated arrival times.

Individual carrier performance can be monitored to determine on-time delivery performance and non-conformances, making carriers more accountable for their performance. Close management of carrier performance results in a higher percentage of on-time deliveries, a primary attribute of best-in-class chemical shippers.

Real-time freight management information also results in real-time freight accruals. Monthly financials can now include same-month logistics costs. In addition, logistics

departments can reduce cash-to-cash cycles by immediately invoicing for shipments rather than waiting for freight costs to be pulled from the previous month's reconciliation or calling carriers direct for shipment cost information.



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