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While the outsourcing of warehouse activities is slowly becoming a more favoured option for both manufacturers and independent distributors, the most popular application of the third party operator is to the delivery function. This is probably because the potential financial benefits from outsourcing the delivery operations are usually greater and more easily achieved.

DMA have been involved in a number of projects where the prime objectives of using the third party option have been to reduce operating costs, while improving customer service standards. In one recent exercise the overall cost per outer delivered was reduced by a staggering 29%. This particular Company also achieved an enhanced level of customer service via more flexible journey scheduling and working arrangements.

There are two main options for outsourcing the delivery function. The first of these is the owner driver route, and the second, through an established third party contractor. Both have advantages - depending primarily upon the size of fleet involved. Where only two or three vehicles are involved the owner driver solution is usually most appropriate, particularly if the experience of the employee drivers is to be retained. It will usually result in lower overall distribution costs, less administration and the elimination of malpractices often established over a number of years. The lower distribution costs result from a variety of factors, the most significant being that the owner driver will work longer and harder than any employee, often adding other work (e.g. back hauling) to that provided by his former employee. He will often operate with a lower cost helper (or even eliminate the helper altogether on lighter delivery days), and will take more care of his own vehicle, which will often provide for a reduction in maintenance costs. There may also be certain tax advantages to owner driver. All of these factors can combine to provide the company with an opportunity to lower the unit cost of delivery and reduce the day to day hassle of running an in-house transport operation.

For larger fleets the owner driver solution is often a less attractive proposition as the administration becomes a more significant factor. In any event, merely changing the status of a large group of employee drivers does not necessarily solve the problem. This is particularly true in situations where high unit delivery costs are due to outdated work practices, together with high levels of earnings and expenses. In this case the use of an established third party distributor, with a new group of drivers, has very definite advantages.

The first stage when examining this alternative is to prepare a detailed delivery specification covering the work to be done (outlets serviced, volumes, pallet factors, geographic areas covered, standards of service, treatment of returns, etc.) so that quotations can be invited from suitable contractors. In some cases the vehicles may also be offered for purchase as part of the contract.

For many businesses the quotations will need to be broken down into the various types of delivery. These may include bulk deliveries (tanker), palletised loads (to larger outlets) and handball deliveries (to smaller retail outlets). In certain cases it may be necessary to further divide the quotation into Dublin and country, standard and seasonal, and so on. A similar analysis will need to be carried out in order to establish the in-house cost of delivery, broken down into the same format. The in-house costs should contain an element to cover the cost of managing the delivery operation and the associated administrative tasks.

It is then possible to compare the in-house delivery costs with the quotations received from outside and to identify those elements of the delivery function which could beneficially be outsourced. The comparisons will obviously need to take account of the likely redundancy costs and the potential for improving the standards of customer service by outsourcing.

During the last 3 years or so DMA have been involved in three projects in Ireland which have resulted in the outsourcing of the delivery function, plus one involving the outsourcing of both the warehousing and delivery functions. In all cases the result has been significantly lower unit costs coupled with enhanced levels of customer service. There can be little doubt that the trend will continue as more and more companies outsource their warehousing and delivery activities and re-focus on their core business.

While most companies choose to outsource solely for cost savings, the increased flexibility associated with such a change will often offer a marketing advantage of greater value than provided merely from lower delivery costs.

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DMA was founded in 1973. They provide a specialist consultancy service to the distributive trades. They are mainly involved in projects designed to reduce operating costs through increased labour productivity in the warehousing, transport and van selling operations.

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dma2000 are specialist consultants to the distributive trades. They are extensively concerned with productivity improvement projects covering both warehouse and transport operations.

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