

## ERP Implementations

White Paper

Streamlining through  
Supply Chain Outsourcing



**Outsourcing non-core activities, like logistics and warehouse management, reduces the complexity, risk, costs and time to go-live of ERP systems.** A global candy company's failed implementation of its SAP Enterprise Resource Planning (ERP) system causes it to miss the holiday selling season, costing it an estimated \$150 million in lost sales and damaging customer relations. A jeans giant reports a 98 percent drop in revenue attributed directly to its implementation of an ERP system. A leading appliance manufacturer blames shipping delays in part on its new ERP system's inability to process, track and invoice less-than-truckload (LTL) orders.

While these are rather severe examples, it's common for companies implementing all-encompassing ERP systems to have at least some problems, delays and cost overruns. For The Hershey Company, Levi Strauss and Company, and Whirlpool Corp., those problems had a dramatic affect on the companies' bottom lines.

ERP systems are invaluable tools for consolidating and managing companies' disparate processes, but they are not always the best approach for every business function. One of the most important aspects of ERP systems is their ability to exchange data with other systems and report those results in a consistent way, so managers can make better business decisions. This gives companies the ability to outsource non-core, business-critical functions, like logistics and warehouse management, to gain best-in-breed expertise while still integrating critical data into the ERP system.

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Outsourcing provides significant cost savings and more flexibility over ERP systems while delivering a lower total cost of ownership.

According to the study, *The State of Logistics Outsourcing 2007*<sup>1</sup>, 62 percent of companies surveyed in the U.S. felt “3PLs provide new and innovative ways to improve logistics effectiveness,” while reporting an average cost savings of 13 percent after outsourcing. Among the criteria the respondents felt were important, the IT capabilities of 3PLs ranked in the top three issues (92 percent of responding 3PL users in the 2006 survey believed “IT is a necessary element of overall 3PL expertise”), with integration into customer ERP being viewed as a “progressive” trait.

As reported in *Inbound Logistics*’ “Readers Choice Awards,”<sup>2</sup> electronic data interchange (EDI) and visibility technologies are now industry expectations of 3PLs, with 92 percent offering EDI and 78 percent offering visibility technologies.

“I believe using 3PLs is the way of the future for all transportation needs,” said Stacy McWilliams, transportation manager for DirecTV in the *Inbound Logistics* article. “Most corporations still do not recognize the importance of a good logistics department, so internal resources are not readily available.”

### **Eggs in one basket**

While outsourcing has clear advantages and value, companies seeking to implement ERP systems may still find the concept of one system to manage all their business processes a tempting prospect. After all, the promise of total data integration to achieve global visibility into all operations is the holy grail of IT and executive management. However,

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<sup>1</sup> *The State of Logistics Outsourcing 2007*, the 12<sup>th</sup> annual survey conducted by C. John Langley Jr., Ph.D., and sponsored by Capgemini U.S. LLC, Georgia Institute of Technology, SAP and DHL.  
<sup>2</sup> *Inbound Logistics*, July 2007.

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as good as those systems are, putting all your eggs in one basket can leave companies vulnerable to operational disruptions and provide less robust solutions for complex logistics and warehousing operations.

As Hershey found during its ERP implementation, non-traditional approaches to complex warehousing can be difficult for ERP systems to manage.

Hershey had devised an informal method for dealing with the tremendous build up of inventory that occurred each year to deal with the holiday rush. “Hershey had always, over the years, been very good at crisis management, and they would put candy everywhere they could to store it in anticipation of this peak season,” said Alan Stenger, a professor at Penn State's Center for Supply Chain Research in an article in *Baseline Magazine*. “They weren't used to having to tell the computer about that.”<sup>3</sup>

The extra storage included rented warehouse space and sometimes even spare rooms within the factory itself. The issue was these locations had not been recorded as storage points in the system, so as it checked for inventory, it didn't have any visibility into these ad hoc storage areas. While the old methodology certainly worked in a more manual system, it certainly wouldn't be considered a warehousing best practice nor did it meet the discipline required when using an ERP system.

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<sup>3</sup> “Hershey's Sweet Victory,” by David F. Carr, *Baseline Magazine*, December 12, 2002.

### **Outsourcing versus ERP**

Will outsourcing help simplify your ERP implementation or will it cause more problems? In most cases, strategic outsourcing reduces risks and, in the case of logistics and warehouse management, keeps goods moving to customers seamlessly through the implementation.

When weighing the decision to outsource, first, consider whether logistics and warehouse management is—or should be—a core competency of your company. If keeping those functions in-house provides a competitive advantage and you have a skilled staff in place, keeping it in-house might be the best idea. But if they lie outside your company’s core competencies, it will pay to partner with a 3PL who specializes in providing those services.

“Our core competency is manufacturing, not distribution, which made outsourcing to Ryder a perfect solution,” said Ben Baker, logistics coordinator for YKK AP America Inc. in the *Inbound Logistics* article. “Ryder has provided the service that our products and customers expect and demand. We can provide the reality of our own private transportation system without actually going into the trucking business—at a fraction of the cost of acquiring and managing those assets ourselves.”

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Other key criteria to consider in making a decision:

Criteria	Outsourcing	ERP
Integration	Most companies offering logistics and warehouse management outsourcing have invested in interfaces that are certified to work with all major ERP systems.	The number of integration points can add complexity to an implementation. Too much outsourcing might place an undue burden on the implementation.
Functionality	If your company has complex logistics needs (e.g. high transaction volumes, complex cartonization, complex load configurations due to a wide variety of carton sizes and weights), outsourcing will provide the best functionality to grow your business.	If your logistics and warehousing needs are simple, ERP might be the best solution. However, any customization to add functionality could be expensive, time-consuming and disruptive.
Flexibility	As your business changes (e.g. new customer requirements, new product lines or partners), outsourcing can provide greater flexibility to manage those changes. In fact, because 3PLs work with many companies, they may already have solutions in place to address those needs.	ERP systems tend to be less flexible in handling changes in business, customers or partners. Adding functionality can be costly and disruptive.
Total cost of ownership	3PLs are in the business to offer industry-specific services with little to no customization necessary. The cost of providing maintenance, support and system upgrades is part of the contract price.	Customization, maintenance, service and support can be expensive and is often performed by third parties over extended periods of time.
Speed of implementation	Typically 3-6 months.	1-2 years.

## **Outsourcing best practices**

If the reasons to outsource are compelling, there are best practices that have been established to aid in the success of the transition:

### ***Secure buy-in from top management and sell it throughout the organization***

A top-level champion of the outsourcing initiative and enterprise buy-in is critical to the success of any significant change in how business is conducted.

### ***Create top-down accountability***

Outsourcing must be viewed as a business-critical part of the company's overall strategy and everyone from the top down needs to have their roles defined and be accountable for the success of the implementation.

### ***Establish a baseline***

Conduct a study—either internally or through an outside consultant—to determine the functions to be outsourced and the current cost and performance level of those functions. This information will serve as the basis of the service level agreement.

### ***Choose a strong partner***

The choice of an outsourcing partner should be based on which company can best meet the criteria developed through the baseline study, not on which company can do it at the lowest cost. Selecting the lowest bidder can potentially pair your company with a struggling business.

The partner you choose must have the proven capabilities to meet your needs today and have the capability to manage seasonal peaks as well as growth in your company and changes in your product line.

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Additionally, the company needs a proven track record in seamlessly integrating with ERP systems. Since a reason for outsourcing is providing a more robust solution than is offered by ERP systems, data integration is critical.

***Develop a detailed service level agreement***

The service level agreement defines the general and specific responsibilities of the parties. The more specific the agreement, the less likely there will be disputes down the line. Determine goals and objectives and establish clear, concise and measureable performance standards and metrics.

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**Success in outsourcing**

One of many good examples of outsourcing and ERP integration success is the North American consumer unit of Royal Philips Electronics of The Netherlands.

Philips Consumer Electronics wanted to improve its customer service and improve its inventory and cost controls. To do so, it decided to partner with a 3PL to outsource all its finished goods distribution and logistics, managing the entire process once an order was turned over.

Complicating the process was the company's product line itself. Philips produces electronic equipment as small as handheld devices and as large flat-screen TVs. These products are difficult to store and load on trucks efficiently. They are also subject to the fluctuations of the consumer electronics marketplace where a product can become "hot" in a specific region almost overnight, changing distribution

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patterns. Additionally, the products are high value and/or easy to sell, so extra security is required.

Philips turned to Ryder to manage its warehousing and logistics. In just over eight months, they constructed a building, designed and integrated new distribution, warehouse management and transportation planning systems, and took the system live. Ryder also designed all the interfaces between its systems and Philips' SAP system.

“We have a lot of integration expertise and we feel doing it ourselves is the best way to deliver value to the customer,” said Steve Sensing, vice president of Ryder's logistics operations.<sup>4</sup>

Philips and Ryder worked closely together to define key performance metrics—including hitting delivery windows with customers as short as 15-20 minutes. Ryder is also providing information to Philips that it didn't have before, like transportation cost per product, enabling Philips to better price its products.

Outsourcing has allowed Philips to meet its customer service goals as well as continually improve its supply chain management capabilities to stay competitive.

#### **Reducing risk, increasing performance**

ERP system implementation provides companies with the opportunity to look for areas of operation outside their core competency and outsource those functions. Outsourcing logistics and warehouse management operations allows companies to:

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*Steve Sensing, vice president of Ryder's logistics operations.<sup>1</sup>*

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<sup>4</sup> “Philips Consumer Electronics Revamps Distribution With Outsourced Solution,” by Jean V. Murphy, *Global Logistics & Supply Chain Strategies*, August 2003.

- Minimize the risk and complexity of ERP implementation while still providing valuable supply chain data to the system
- Concentrate on core functions
- Gain access to best-of-breed logistics and warehouse management operations
- Experience lower costs while improving customer service
- Manage seasonal business spikes more efficiently
- Grow their businesses and add new capabilities and markets

Outsourcing keeps goods flowing and allows companies access to a wealth of data to help better manage their businesses.

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Whatever you manufacture or wherever you store and distribute your products, Ryder's supply chain solutions are designed to fit perfectly with your company's unique needs. Unmatched experience, flexibility and innovative thinking. This is what we offer to leading manufacturers and retailers of electronics, autos, consumer products and industrial products worldwide.

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