

Third-Party Warehousing: A Logistics Option That Makes A Lot Of Cents

By Beth D'Addono, *Chemical Distributor Writer*

Every smart chemical distributor is on a constant quest for ways to trim the bottom line and cut logistics costs. NACD Affiliates in the third-party warehouse business have plenty of ideas for them.

“Cutting costs is paramount now as everybody is trying to get inventory out of the supply chain,” said Larry Sizemore of Weber Distribution, a third-party logistics company (3PL) established in 1924 with 19 locations throughout the western United States, “but it’s also important to be ready to take advantage of opportunity when the economy turns around. The company that gets there first will be on top.”

Working with a third-party warehouse allows distributors to be nimble and adapt to changes in the marketplace, Sizemore added. Because every item is scanned into the Weber’s warehouse management system, Sizemore’s customers are able to instantly assess product availability and respond to their customers’ requests, cutting back or bumping up production as needed. “We also run key performance metrics for each client to allow them to see market trends in real time and anticipate change,” he said.

Working with a central storage location is cost effective because it can translate to higher production, added John Cusumano, CEO of Fresh Warehousing & Fulfillment in St. Louis. “I’m working with one chemical company that is running almost at its full production capacity,” he said. “They’re spending a lot of time and manpower moving onsite raw materials to the work station then back onsite. We’re working on a program to take raw materials offsite and sequence them into production on a ‘just in time’ basis.” This would increase the plant’s production capacity, and free up its limited loading docks for shipping finished goods. “Most chemical plants are not designed to be distribution centers,” said Cusumano. “And



as production levels increase, a log jam is created because plants are being pushed to make specialized production runs.”

Another issue that can cut logistics costs relates to handling materials shipped in from overseas, said Cusumano. “More and more chemical companies are using materials from China, for example,” he said. “The volume can be significant – and it all has to pass specs.” It’s not unheard of for raw goods to have a problem with compliance or quality. “If there’s an issue, it helps to have a warehouse as the go between. The

goods aren’t already at the final destination – so you have some leverage. We had one customer who started getting materials from a new source, and the containers were leaky, creating mold. We had to restack everything – which would have been very challenging at the production plant.”

A 3PL offers economy of scale, when it comes to both human capital and transportation costs, said John Hanchar, warehouse coordinator for Jensen-Souders, located just outside of Chicago. “By paying only for the services a customer needs,

rather than having to employ people of their own, that cuts costs," he said. "And because we can ship their materials along with other materials going on the same truck line, that also affects the bottom line."

As economic woes increased, company president Ron Souders noticed a trend emerging with his customers across the board. "They started getting dead stock out of the warehouse - inventory that had just been sitting for a year or more," he said. "Most companies had way too much dead stock taking up space - that's changed, and we're happy to see that." Since companies pay only for the space they use in a third-party warehouse, it just makes sense to economize.

The primary benefit that a 3PL brings to the customer is flexibility, noted Rob Doyle, president of Amware Logistics in Atlanta. "We work with 40 or 50 clients at a time, who may have 10 pallets or 10,000 pallets worth of product. Why would a company take on management and cost of a big building if it's not full all the time? This way, you pay for the space you're actually using. And we can adapt as your needs change."

Keeping inventories low requires a balance of keeping raw material with suppliers as long as possible, while still buying in bulk to get the best volume discounts, said Doyle. "It's quite the balancing act," he said. Manufacturers are taking a hard look at their distribution network, he added. "They want to keep the contracts to a minimum and use only the space they need, not maintain the same footprint."

Since competitive pricing is the name of the game, Doyle suggests going back to carriers to renegotiate contracts. "It's a good time to re-evaluate the use of rail, which can be a good way to go," he said. "Consolidating loads is more important now than ever." Doyle has also seen a spike in requests for value-added services, including repackaging and relabeling goods for shipping. He advises also taking a closer look at the current network of distribution centers. "Are they in the right places and moving product to your customers in a timely manner?" he asked. "On the other hand, if a customer is willing to wait four or five days for a shipment, why push it in one?"

There are plenty of money-saving reasons to consider outsourcing to a third-party warehouse, according to Jared Stadlin, vice president of client services for Linden Bulk Transportation in New Jersey. "A third party has the capacity to expand and contract with business conditions," he said. "And we're able to spread costs over a group of customers, allowing for more economy of scale. This shifts the whole logistics model to a variable cost structure."

A 3PL keeps trained staff on hand, giving customers the capacity to address busy times, without having to carry substantial overhead in slow times. "That allows our customers to concentrate on their core competency, which is shrewd procurement of materials and sales excellence to a third-party customer base. That's the business they know," stated Stadlin.

A 3PL offers pluses from a regulatory standpoint also, said Joe Neumeister, Linden's general manager of quality and regulatory assurance. "Because a third-party warehouse typically works with a wide variety of customers, they tend to be very knowledgeable about applicable regs for all various products," he said. "In our case, with New Jersey being one of the most regulated states in the country, we've dealt with a variety of issues that come up, something that someone operating elsewhere may not understand from a big picture standpoint."

"The trend I have been seeing with customers is consolidation," said Joe Ilvento, senior VP and director of regulatory affairs for New Jersey-based USA Container. "Companies are needing to consolidate effort, human resources, and costs," he said. Working with a third-party warehouse that offers a menu of services gives a chemical distributor the chance to pick and choose. "When you're researching a company, be sure to ask about billing options and pricing," said Ilvento. "There can be hidden charges that can really add up. A rate sheet should spell everything out for you."

Because of his broad client base, Ilvento can sometimes play matchmaker, connecting clients with each other when it makes sense. "We've had customers who needed to get rid of product, and because of our relationships, connected them with another customer who could use it. Everybody benefited."

At a time when everybody in the business is trimming the fat, the options and flexibility offered by third party warehouse affiliates can provide exactly the kind of added value that NACD members can pass along to their own customers. And sometimes that little bit of extra value can make all the difference.



PLEASE WELCOME THE NEWEST NACD EMPLOYEE

Conrad Schatte Director of Government Affairs

Conrad Schatte has joined the NACD staff as Director of Government Affairs. His responsibilities include handling environmental, labor, safety, and tax issues, and he will take the lead on the NACD Responsible Distribution PAC. Schatte will report to Vice President of Government Affairs Jennifer Gibson, who will continue to handle security, transportation, and trade issues. Gibson will also continue to manage the Washington Fly-In.

Schatte has been working as a business development and government relations consultant for the past year primarily in the energy, environment, homeland security, and transportation arenas. Prior to that, he worked as Senior Legislative Assistant to U.S. Senator John Warner (R-VA) for five years. He staffed the Senator on the Homeland Security and Government Affairs and Environment and Public Works Committees. Prior to working for Senator Warner, Schatte served as Legislative Assistant to U.S. Senator George Allen (R-VA), staffing the Senator on the Commerce, Science and Transportation and Small Business Committees. He authored provisions included in Aviation Security, Port Security, and creation of DHS Acts.

Schatte holds a Bachelor of Arts in Economics and Interdisciplinary Communication Studies from Vanderbilt University, Nashville, Tennessee.