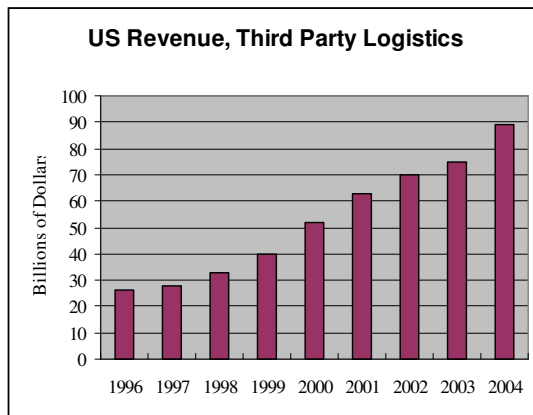


Third Party Logistics: A Huge and Growing Market

Third party logistics is a large market which is growing rapidly because manufacturers are outsourcing their physical distribution tasks to concentrate on what they do best – design and manufacture/import the products they sell. It is a natural for the sheltered workshops – simple picking operations, many customers, rapid growth and good pricing.

The third party logistics market totaled about \$89.4 billion in 2004. This market is growing rapidly – growth rate is estimated at 15% to 20% per year.



The following logistic tasks are typically outsourced:

- Transportation
- Distribution
- Warehousing — break-bulk, load consolidation, order picking, kit assembly
- Packaging and repackaging, labeling
- Material handling
- Returned goods processing

The rapid growth of third party logistics is the result of several factors that have come together for many manufacturers and importers.

- Increased foreign purchases
- JIT systems which increase management complexity
- Companies drive to do just what they do best (core functions) and outsource the rest
- Reduce assets employed in distribution
- Reduce inventories through better management
- Increased need for specialization, especially in information systems
- Need to reduce delivered costs; ability through outsourcing to convert fixed distribution costs to variable costs – Pay for what you use

Some sheltered workshops are active in third party logistics. Several third-party contracts we have come across are listed here.

- One workshop has distribution contracts which consist mostly of assembling items received in bulk into individual packages for distribution.
- Another has a contract to inventory, assemble, package and ship display racks for a major retailer.
- Another has a contract with Habitat for Humanity where donated product is delivered in fairly large quantities to the warehouse in open boxes by various parties (grocers, manufacturers, etc). There it is sorted, spoiled or broken items discarded, then re-boxed for customers (food pantries, etc.).

- A workshop in St. Louis that has added major warehouse capacity. The justification was to get into the fulfillment business – receive in large bulk quantities, ship out small quantities to retailers.

The key difference between this business and traditional subcontracting is these workshops are performing a limited range of functions for many customers. SPECIALIZE, SPECIALIZE, SPECIALIZE. The similarities and differences in the two businesses are shown below.

- Markets: Both markets are large. Manufacturing subcontracting has declined; Third party logistics is growing.
- Effect of Imports and Other Outsourcing: The manufacturing subcontracting business has been hard hit by imports and outsourcing; third party logistics has grown as a result.
- Competitive Conditions: Both are highly competitive businesses where low delivered cost is the objective. One important difference is, in third party logistics, a workshop will probably be competing with internal company operation and other logistics suppliers; in manufacturing subcontracting, it is often competing with other sheltered workshops. Advantage: third party logistics.
- Sustainable Competitive Advantage: Once a workshop has a position, its competitive advantage in third party logistics should be stronger because

- it will be an integral part of the customer's logistics system, not just an overflow supplier. It should therefore be harder to displace.
- Nature of the Work: Both will require large amounts of hand labor. From the viewpoint of the DD employees, the tasks will be quite similar.

Entry for the typical sheltered workshop will require investment. Third party logistics will require more facilities, including warehousing, materials handling, computer networking, packaging equipment and the like, depending on the tasks the workshop selects as its competitive strength.

Third party logistics also requires effective and sustained sales and marketing capabilities. We are talking about serving many customers and, despite our best efforts, customers come and go. Lost customers must be replaced with new ones.

The Role of the Executive Service Corps

The Executive Service Corps is a non-profit agency with highly skilled volunteer consultants, mainly retired, whose experience is in the corporate sector. ESC volunteers also have deep experience in sheltered workshops.

We can assist with strategic planning, system design and implementation. Because we are volunteers and have a low cost structure, we can help you at costs well below the costs of comparable private management consulting firms.

1010 West 39th Street
Suite 101
Kansas City, MO 64111

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Fourth Paper In A Series
on Sheltered Workshops

If you want it here it is,
come and get it,
Make up your mind fast,
cause it may not last.

Come and Get It, Paul McCartney, The Beatles



The Executive Service Corps of
Greater Kansas City
1010 West 39th Street, Suite 101
Kansas City, MO 64111
816-561-5372
www.esckc.org