

4PLs emerge

BY PATRICK BURNSON, EXECUTIVE EDITOR

What does a well-established multinational truck manufacturer have in common with a relatively new telecommunications equipment provider? Quite a bit if you are examining their respective global distribution strategies.

Navistar Inc. and Vology Data Systems are both undergoing transformational changes as each builds upon existing relationships with time-tested logistics partners. In fact, the following two case studies demonstrate that working to transform your existing 3PL into your 4PL makes sense if it's done with "cultural integration" as a primary goal.

NAVISTAR'S GLOBAL CHALLENGE

When Ed Melching, Navistar's director of global logistics, began searching for a partner capable of supporting the company's five-year plan to re-engineer and improve performance in its supply chain, he didn't have to look far. His existing two-year contract with a 3PL was a starting point for global expansion.

"There are normal growing pains in any partnership," he says. "But at the beginning, we spent a lot of time on alignment of vision, mission and strategy, governance, ensuring executive support for the steering teams, and taking an 'open book' approach to the relationship where both of us would be rewarded when we were successful."

He adds that it was important that the global truck and engine manufacturer had "skin in the game" with its own outlay of capital investment. But that didn't mean the process would be easy. Over the next few years, Navistar will be concentrating on global growth markets focused on India, Brazil, South Africa, Australia, and China.

To accommodate this aggressive move, the company is now seeking to deploy an advanced "strategic collaboration model" for continuous supply chain improvement throughout the world—and it plans to rely on its global logistics provider partner more than ever. The objective is to achieve a 25 percent reduction in supply chain spend by 2013, while establishing a team with advanced management skills to drive continuous improvement into overall global operations.

"So far, 19 new projects have been identified and implemented, delivering validated savings in the millions of dollars with the help of our current 3PL," says Melching. "One project that had immediate impact was a domestic freight transportation study. Its findings recommended a core carrier program that took our LTL supplier base from 26 to seven," he adds.

But there were some speed bumps along the way to removing cost, he admits. When projected savings weren't initially realized, the team conducted a "Kaizen" (Japanese for "improvement" or "change for the better") to develop a lean practice and uncover root causes of failure. With the help of his 3PL, Melching says that the problem was identified and fixed some six months later. "Now that we are back on track, we've realized a cool \$1 million in savings so far," he says.

In this larger "global network manager" role, Menlo Worldwide Logistics has expanded its 3PL relationship with Navistar by deploying this more strategic collaboration model designed to help the manufacturer with ongoing supply chain improvement. If fact, Melching and the provider refer to it as a pure "4PL" relationship—a term

coined some years back by analysts at Accenture to define a situation where a 3PL goes beyond traditional logistics offerings and applies deeper analytical skills to assist in continued supply chain support for the shipper.

For Navistar, this move represents a decision to forego old ways and adopt a new model that embraces uncommon levels of collaboration with an outside resource. To be successful in this transition, Melching says that his team will need to rethink traditional supply chain assumptions, instill lean methodologies and processes for removing waste and inefficiency, and create a platform for change based on clear, validated key performance metrics.

According to Melching, a major milestone in this expanded relationship with its 3PL has been the launching of five "transformation platforms." He defined these as comprising logistics IT strategy; sourcing strategy; global network strategy; lean material flow strategy; and perhaps most importantly finished vehicle distribution strategy.

First coined by the U.S. military, a "transformation platform" is a strategy designed to give logisticians improved situational awareness. As one might imagine, tracking this process is essential. "Goals are based on SMART (specific, measurable, achievable, relevant, time-related) targets and measurement against validated key performance indicators," explains Melching.

He also has advice for shippers wishing to make the same move as Navistar, "We knew what we were getting into when we started," he says, adding that not all shippers may have that luxury. "Our analysis suggested they were a good fit, strategically, tactically, and culturally."

