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## logistics

MOVEMENTS *and* FORECASTS  
DAVID HANNON

business  
intelligence

• BEST PRACTICES IN 3PL

## Boeing, HP make the most of outsourced logistics



*Boeing's 3PL strategy has streamlined the materials flow for production and assembly of its Chinook helicopters.*

Every company has its own challenges in moving to and implementing a third-party logistics provider, and certainly different industries have their own nuances. But there are still some common strategies and lessons learned that logistics and purchasing professionals in any industry can benefit from.

Moving to an outsourced logistics model requires a clear vision that includes reasons, goals and measurements for the relationship. John Daniels is worldwide logistics business process manager at Hewlett-Packard in Palo Alto, Calif., which has outsourced nearly its entire logistics operation. The move was a major sea change from HP's former vision of building an extremely

advanced network of distribution and inventory centers.

"We had robots, cranes, miles of conveyors, high-speed sorters and scanners," Daniels says of HP's former logistics network. "From there, we moved to an outsourced model, which required a lot of change management. Now we are more focused on managing a partner as opposed to designing the system to do that work. So we've spent time and money retooling people to get them out of the mode of trying to run the operation for the 3PL instead of focusing on managing the relationship."

To help make that transition, HP focused on clearly defining its 3PL relationship and measurements. HP classifies its 3PLs into

• For the midmarket

*For the non-Boeing or HPs of the world, the same outsourcing strategy may not apply. But there are still lessons to be learned from the big players. As for advice in implementing a 3PL relationship, Terry warns not to set performance standards too low.*

*"For example, APICS standards for inventory accuracy are 98% so that's what we aimed at, but we're seeing 99.5% or above from New Breed. And turnaround time is much faster than we anticipated. The transaction is the same no matter what the parts or products."*

*Dave Rackham, senior production manager at Boeing, says bigger is not always better in 3PL selection. Some of the larger 3PLs Boeing consulted concerned him because "there were big corporate infrastructures in place and if things went wrong we were going to be viewed as just another account, even though we were Boeing." In working with a midsize 3PL like New Breed, Boeing gets the attention to detail it desired.*

*"You have to get a partner that cares about your business and you don't get lost in the soup," Terry adds. "The partnership may be even more important for a smaller company because they don't have capability to re-bid as easily."*

one of two categories that dictate the strategy: tightly coupled and loosely coupled. Tightly coupled means the 3PL uses HP's information systems, most often that includes HP's ERP system in the given location or region.

**LOOSELY COUPLED 3PLS RUN** their own information systems and tools, which HP prefers for several reasons: "Allowing the 3PLs to use their own systems and solutions and process often lets them do things better and cheaper than we could," says Daniels. "And it holds them more accountable for their own work because it's their system. They can't tell us they missed something because our systems were down. It's their system so if it's down, it's their fault."

The decision to classify a 3PL as tightly or loosely coupled is usually made by HP's Global Logistics Forum, a panel made up of regional and corporate-level executives. The regional logistics organization owns an approved 3PL vendor list and makes its recommendations to the Forum, which consults on the decision with visibility into other regions' best practices.

"For example, there are some 3PLs that work well in Europe but not in Asia," says Daniels. "They may have a 'presence' or a sign out the door in that market, but their skills, systems and solutions in that region are not the same as their stronger region."

Boeing's progression toward the Lean nirvana has been well-documented, but at its Philadelphia assembly site, Lean includes the use of a 3PL to get parts to the manufacturing floor. Tim Terry is director of materials management at Boeing's rotor propeller assembly site and says Boeing's corporate Lean initiative emphasizes that the company focuses on what it does best—final assembly, test and integration—and outsources other areas to experts.

**"WE REALIZED THAT MANAGING** the material flow and all the transactions were not one of the areas we wanted to invest in and focus on," says Terry. Boeing decided to find a 3PL for this work that had specific expertise. "Our long-term vision is to have the first Boeing employee to touch a part be the mechanic installing the part on the aircraft."

Globally, HP works with upwards of 40 3PLs, but Daniels says there are 9-12 "core" partners. There is a formal certification process that all 3PLs go through before being considered by HP that emphasizes the 3PLs technology capabilities. There is also a very long questionnaire used to pre-qualify 3PLs for certain geographies—determine which 3PLs are truly on the ground in that region and which are simply "hanging the sign up" as Daniels suggests.

"We like to be able to go see, touch and feel their operation there. We don't take anything off a PowerPoint."

When it comes to tracking 3PL performance, HP uses a combination of global and local/regional metrics. Again, it starts with the regional logistics contact providing their current strategy and members of the Global Logistics Forum tweaking or improving the strategy from there.

Members of the Global Logistics Forum travel to regions periodically to review the region's list of 3PLs and determine which are best-performing and what best practices are for that region.

**BOEING'S TOP PRIORITY** for selecting a 3PL in its Lean environment was getting its warehousing off site, which was not easy. The local union was strong and Boeing's contract said no suppliers could operate in the union-run facility, which limited how far a 3PL could go in terms of inventory management and delivery. One of the criteria in Boeing's 3PL selection was having a 3PL locate its facility within

45 miles of Boeing's facility and within 20 miles of a hub airport. Terry says one major 3PL provider was concerned about locating too close to Boeing's facility for fear it would become a unionized facility.

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—Tim Terry,  
director materials management,  
The Boeing Company

"They wanted an exemption from the criteria to allow that. We couldn't do that, so they dropped out of the bidding," says Terry.

Another criterion in evaluating and selecting a 3PL was the provider's ability to customize its solutions for Boeing's needs, not try to force Boeing's processes into the 3PL's business methods. Boeing's 3PL search ended with New Breed Logistics, a midsized 3PL that won points for flexibility and scalability.

"We want to standardize, but the right solution for us has to be customized a little—the same solution might not work for another unit of Boeing," Terry says.

**COST IMPLICATIONS ARE A MAJOR** factor in outsourcing. The 3PL model dramatically reduces HP's fixed costs. For example, in the past, when the company entered a new geography, that typically meant finding a building to warehouse its products and filling that warehouse to make it economical. But in the low-inventory, just-in-time delivery model, warehousing space is minimal. HP uses its buying power where it makes sense and the 3PL's leverage in other cases. "We're looking at automating to remove the decision-making," Daniels says.