



Making the Right Logistical Move

Whether conducted in one fell swoop or in stages, switching logistics services providers requires careful IT planning and execution driven by near- and long-term business objectives, change management, and budget and time considerations.

Executive Summary

Businesses traditionally establish and maintain long-term relationships with multiple third-party logistics (3PL) service providers but are increasingly looking to consolidate around fewer strategic partners. A recent report from Gartner states, “the 3PL portfolio rationalization trend is continuing, as the number of logistics customers who report that they are reducing or consolidating the number of 3PLs they use is over half at 53%.”¹

3PLs have continued to deliver high value for customers by providing innovative solutions to support contemporary business requirements. Their capabilities complement each other as a competitive differentiator. The most commonly used outsourced services are transportation, warehousing, customs brokerage and freight forwarding as well as value-added services like

returns, assembly, packaging, shipment consolidation and cross-docking.

The IT capabilities provided by logistics service providers (LSPs) such as shipment planning, inventory management, supply chain visibility, order management, bar coding, go-to-market and analytics play a big role in cementing shipper/3PL relationships. However, there is a discernible change in expectations from 3PL service providers as shippers increasingly look forward to a limited set of 3PLs that can offer integrated services, end-to-end solutions and a seamless experience across functions and geographies.

This white paper looks at the factors that are driving shippers to look beyond their incumbent LSPs, and also examines the various transition options shippers can employ, in terms of business suitability, implementation feasibility and benefit maximization.



The Logistics Ecosystem: An Illustrative View



Figure 1

The Changing Face of Logistics

Figure 1 shows a representative logistics setup for a global business. As noted, shippers often tend to partner with multiple service providers and use both insourcing/outsourcing models to address the various logistics needs of shippers and end customers. These practices are more commonly found when shippers operate in different geographies employing different modes of transportation. This might seem fruitful in the short term, but has significant repercussions over the long haul, the most detrimental being the lack of consistency across service providers and the limited scalability of operations. These factors

are driving a rethink in terms of logistics strategy used by shippers, with many players pushing to consolidate services by moving to one or a few end-to-end 3PL strategic partner(s).

Also, new developments in the logistics and distribution industry such as the need for cloud-based solutions, omnichannel retailing and analytics are forcing shippers to seek service providers with more advanced technological capabilities. And in our experience, as shippers look to different LSPs for better services or improved integration, end customers also realize great value as their experience improves dramatically. A seamless,

consistent experience across services and geographies helps shippers secure customer trust and lays the foundation for stronger business relations.

However, making a transition to a new LSP without disrupting operations is a daunting task. Most supply chain managers would agree with that view. But when the incumbent LSP constantly fails to meet SLAs, or is incapable of supporting accelerated growth in business operations either through its own processes or the underlying IT systems, organizations are hardly left with a choice. Service levels can be affected by process, people or IT solution issues, thus it is essential to clearly identify the problem to put in place a framework for deciding what and how to change.

Many 3PL vendors employ logistics solution suites that integrate with existing IT systems. However, implementation challenges can arise both in terms of feasibility and timelines. The challenge is exacerbated when the existing solution landscape is a mix of various in-house (home-grown enterprise systems) and LSP-owned systems, each addressing different subprocesses in the logistics value chain. In such cases, a deep dive is required to understand current maturity, migration feasibility, change impact and benefit realization at each logistics subprocess/system combination level.

Solution scalability poses another significant risk that requires careful planning and execution. If the logistics operations of an organization are spread across different geographies and comprise multiple transportation modes (road, air, rail and sea), it is essential to create a solution that is scalable and risk-free. The recommended approach that meets industry best practices is to have a centralized system that promotes process standardization in global operations, with flexibility for customizations to address regional/country-specific requirements.

Nevertheless, as customer demand increases, a never-ending list of variables emerges. For example, there are multiple systems of engagement (large-scale ERP systems such as SAP and/or Oracle Business Suite coupled with stand-alone systems for bar coding, etc.), choices of hosting options (on premises or cloud) and multiple platforms to support (i.e., the wide variety of mobile devices). It has become risky to hold onto legacy systems and archaic practices. Never before has this change been as relevant as it is today where technologies change rapidly and drive businesses in new and more disruptive ways. It is therefore paramount for shippers to

choose LSPs that have more agile, reliable and extensible systems. Given this, it is not surprising to see many organizations transitioning from existing LSP partners and onboarding vendors that promise more robust infrastructure, modern IT systems and scalable operations.

What follows is our view of the various approaches to LSP transition from a technological perspective, including the relative merits/demerits and relevance of each option in different business scenarios. We have also established evaluation parameters to weigh the different alternatives to help companies choose a strategy that best suits their specific logistics objectives and overall business strategy.

Transition Options

Transforming business process and technology comes with a myriad of challenges, the most perplexing of which is managing the transition from old to new IT systems. The first step is to assess the maturity level of various processes (warehousing, picking and packing, transportation, planning, etc.) across the value chain and prioritize the processes that need to be migrated. In a real-world scenario, there might be different vendors for warehouse management and transportation management, which adds to the complexity of the assessment process.

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Once the scope of change is identified, the next step entails selection of the most suitable transition approach. Broadly, there are two ways in which transition to new systems can occur: “big bang” and phase-wise.

Big Bang Approach

In a typical logistics operation (see again Figure 1, page 2), a third-party warehousing provider provides the following services:

- Recording stock receipts.
- Receiving and storing physical inventory.
- Limited inspection and recording the results into the system of record.

- Issuance of inventory/stock.
- Physical inventory checks.
- Receipt and verification of invoices.
- Invoice entry.

The big bang approach essentially means implementing a complete changeover to new systems on a predefined date and time frame. It means all business processes are moved to the new system on that particular day. Though this sounds simple and appears to be a quick-fix solution, the decision needs to be carefully thought out, based on:

- Possibility of standardization.
- Stock types or goods handled.
- Impact on business continuity.

The big bang option is recommended only in cases where the systems that are being replaced are not business critical or do not have a serious impact on business continuity or when moving from a non-system to a system focused on business process execution.

If business-critical applications are considered for the big bang move, then shippers also need to have a fallback option in the event a major hiccup occurs during/after the shift.

In the context of an LSP, the WMS application is one of the core systems. If it needs to be upgraded via a big bang approach, shippers will need to test the new solution from the LSP in a parallel manner during the beta-testing phase for a significant period of time to address all possible scenarios and to avoid any last-minute hiccups.

All stakeholders involved in the system also need to be communicated with adequately and be involved in beta testing to onboard them all to the new system and the new way of working. This could help secure their buy-in for the switchover as well.

If business-critical applications are considered for the big bang move, then shippers also need to have a fallback option in the event a major hiccup occurs during/after the shift. This will ensure continued availability of the existing system to continue operations post switchover until the changeover takes effect.

Consider an example of an organization that operates in multiple countries and utilizes

services of multiple LSPs in each country. To add to the complexity, assume the solution landscape includes:

- An ERP solution for warehouse management, used globally.
- An LSP-owned solution for transport management in some countries and a COTS solution in others.
- A local, homegrown solution for invoicing and claims.
- An LSP-owned solution for yard management in some countries and manual yard management in other countries (where it operates on a smaller scale).

In such a scenario, if the manual yard management system needs to be replaced by an LSP-owned solution, big bang could be a feasible option because it requires a move to a system that delivers business process execution. In addition, the business risk is comparatively slight and the new solution is easy to implement owing to low complexity, standard industry processes and readily available plug-and-play solutions. Nevertheless, organizations need to take utmost care that the ongoing operations are not hindered and sufficient precautions are taken to support the transition.

Phase-Wise Approach

A phase-wise approach means breaking the implementation into multiple stages, depending on modules, processes, geographies, etc. and transitioning to the new systems in a gradual, prioritized manner. It's moderately risk-free, allows enough time for users to adapt to new systems and causes minimal disruption to current business operations since it provides organizations with an option to pilot and close all gaps before making the big jump.

As users make a gradual transition to new systems, they have sufficient time for hands-on training and also are more accepting of the changes. This allows for improved control and knowledge transfer during the engagement.

Where there is a lot of complexity involved, or if there is a wide spectrum of vendor-owned and in-house systems in the logistic operation, the phase-wise approach usually is the recommended option as it requires a deep understanding of system and data integration risks and devising mitigation plans for the same.

Also, a phase-wise approach is more cost-effective for globally dispersed companies that face budgetary or geo-readiness constraints. However, the longer the implementation carries on and the two systems remain in play until the migration concludes, the greater the possibility of higher operational costs.

There are multiple ways to divide the implementation period into phases. Organizations can choose to use one or a combination of different methods.

- **Split by process category:** The first breakdown occurs at the process level, enabled by a detailed assessment exercise to prioritize and rank the various logistics processes in terms of change-readiness and benefit realization. The outcome of this exercise helps an organization sequence its process-based transition phases. For instance, planners might begin with a migration of warehouse operations, which can be further split into inbound, outbound and other internal processes. Initially, inbound processes can be transitioned starting from document creation to final put-away to storage bins for all new goods receipts and gradually moving to outbound processes. The next phase could be order management, with the final transition being the transportation management system. This could be further broken down by subprocesses, starting with transport procurement, shipment planning and execution, freight invoicing and claims, appointment scheduling and yard management - in that order.

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- **Split by target geographies:** The new system could be allowed to manage a handful of geographic locations first and then move to the remaining ones, especially when migration is on a global scale. It is advisable to start with high-growth areas to realize maximum value in a short time frame. Also, it is a good idea to design systems that are capable of supporting countries such as India and Brazil where logistics complexity is compounded due to infrastructural deterrents such as poor road conditions, congested highways, limited connectivity and low technological maturity. This would help prepare for a smoother rollout in

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other geographies during a global migration. However, it's important to assess the geo-readiness of the country in terms of business acceptance and environmental maturity before beginning the transition process.

- **Split by product types:** Product types also play a key role in determining the logistics requirements such as warehouse zones, transport modes, etc. For instance, in the case of cold chain or hazmat goods the business can choose to keep migration for these products in a separate phase.

Playing off the aforementioned example, if a new LSP is onboarded to manage the existing ERP solution globally, a phased approach is recommended due to the complexity and scale involved. Depending on the assessment results, the organization could choose to split the phases in any one or a combination of the above approaches.

However, information sharing is key when undertaking a phased approach since it extends for longer periods and the results are not readily apparent. It's necessary that end customers are constantly notified of changes in systems or processes. This would prevent last minute surprises or any negative sentiments from the customers.

Whatever method is chosen, it is critical to keep data backups and a solid rollback strategy in the event of glitches during the transition. Organizations need a clearly defined cut-over strategy and fail-over mechanism to ensure business continuity and recovery in the event of any failure of the new business systems.

Evaluation Criteria

Selecting the best migration approach for the business is a complex decision, and depends heavily on the current business context and need. Each technique comes with various levels of risk, benefits and challenges.

The suggested approach is to map out the new business operating model and then prioritize the logistics and transportation subprocesses based

Evaluation Criteria for Comparing Big Bang vs. Phase-Wise Approaches



Figure 2

on business needs. Once this clarity is established, the organization can evaluate the approaches on the basis of certain factors (as shown in Figure 2), and choose the method that suits its needs.

Once a change management program is undertaken, the need for an overall governance solution is activated, keeping in mind the following overall objectives:

- Ensuring end-to-end ownership of services through an integrated framework.
- Ensuring transparency in reporting of financial data, metrics and service levels.
- Effectively managing collaboration between multiple parties.

Looking Ahead

The decision to transform an organization's logistics strategy is rarely an easy one, and the probability of success depends largely on the approach chosen and the efficacy of the change management program that drives it.

For instance, we recently worked with an automobile major to evaluate multiple approaches for transitioning its warehouse operations and to recommend the most suitable one. The engagement involved moving all relevant inventory from its current warehouse to a new facility without causing any disruption to production activities.

We performed an "as-is" process analysis and, based on customer readiness and business suitability, we evaluated multiple transition approaches in terms of their business implications.

- **Big bang:** Preferred if a shutdown can be accomplished or accommodated over the entire migration phase.
- **Phased (quick):** Preferred if the current LSP is retained to manage the new warehouse.
- **Pilot + phased (quick):** Preferred if a new LSP is selected to manage the new warehouse.
- **Phased (extended):** Preferred if there are any delays in opening the new warehouse or any other dependencies that stall the transition.

The decision factors not only included risk, cost and timeline implications for each of the approaches but also took into consideration goods receiving (GR) options, material traceability, and inventory criticality and complexity. The inventory was grouped into four categories and the recommended inventory sequence was determined for each of the approaches. We reviewed these with key system and business stakeholders and decided that the lowest risk to business operations would be the preferential option. Interestingly, cost was a consideration but not if the trade-off offered resulted in higher risk to the business.

Therefore, we recommended a phased (quick) approach if the customer decided to retain

Assessing LSP Transitions

	Risk	Cost	Duration
Big Bang	Low	High	Short
Phased (Quick)	Low	Low	Short
Pilot + Phased (Quick)	Med	Med	Med
Phased (Extended)	High	High	Long

Figure 3

the incumbent LSP, and pilot + phased (quick) approach if the customer decided to onboard a new LSP. A significant factor was that it didn't require a production shutdown window, and therefore the customer's objective of minimal business impact was met. Also, running a pilot with the new LSP would provide the customer with sufficient confidence as well as time to plan and execute the transition most efficiently.

As this example shows, it is imperative that the 3PL transition is well-aligned with strategic business goals. By leveraging domain/technology experts who can bring outcomes-based transformation frameworks, innovative transition models and LSP-specific digital technologies, organizations can derive the utmost value from their operations.

Footnote

¹ Gartner - [Magic Quadrant for Third-Party Logistics, North America](#) (Published: April 21, 2015).

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