LogisticsPartners
independent logistics consultancy

INFORMATION TECHNOLOGY
IN LOGISTICS OUTSOURCING

Information Technology in Logistics Outsourcing

Introduction:
Traditionally logistics outsourcing has focussed on cost and physical service levels, with Information Technology (IT) playing a small part in the decision process. Effective IT is now key to the success of most supply chains and therefore needs to be an important consideration in the logistics outsourcing process. This briefing document advises both the Customer (i.e. manufacturer, retailer) and the Logistics Provider on why IT is important, who should provide the IT, key considerations for IT during the outsourcing lifecycle and challenges to getting effective IT in an outsourced logistics environment. IT includes software (e.g. warehouse management, vehicle management and transport management systems) and technology (e.g. RF terminals, voice picking, automation, ePODs)

Why is Information Technology so important to the supply chain?
- The choice of technology deployed can have a large effect on the efficiency and cost of a logistics operation
- The Software deployed can lead to improvements in productivity and customer service level
- Data collected can be useful for both logistics and commercial planning
- If you get the software and technology right this provides a sound foundation for the physical logistics operation
- There are data protection and security considerations for data collected and stored
- IT often provides a direct link with a companies end customer

Who should provide the Information Technology for a contract?
When starting the process of outsourcing (for the first time or at contract renewal) it is important that key IT, that would be affected if the operation were outsourced, are identified. The decision then needs to be made on whether the IT required for the contract should be provide by the Logistics Provider or the Customer. The answer will depend on the type of services to be outsourced and the length of contract.

- **Benefits of the Customer providing the Information Technology**
    - Allows the Customer to contract parts of their supply chain to more than one Logistics Provider, but retain consistent systems across their network
    - Customer owns, and has easy access to, all the data collected by the operation
    - Fewer IT issues with interfacing data between companies and systems
    - Continuity of systems at the end of the contract, reducing risk to the business
    - Customer has full responsibility for security of data
- **Benefits of the Logistics Provider providing the Information Technology**
    - The Logistics Provider often have standard software and technology they already use that give a high level of functionality
    - The Logistics Provider takes full ownership of the IT and is therefore able to innovate during the contract, without involving the Customer IT teams
    - Logistics Providers select their IT based on logistics functionality whereas Customers are often using software designed for other purposes to control logistics
    - The Logistics Provider can effectively operate facilities shared between several Customers therefore reducing costs to each Customer
    - The Logistics Provider may have less familiarity with a Customer's IT, so may not be able optimise the use of the system

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What are the key considerations for IT in the outsourcing lifecycle?
- Customers to document what IT they are currently using, for services they intend to outsource, before they progress to tender these services
- Define what IT the Logistics Provider is expected to provide
- Define what Customer IT the Logistics Provider will be expected to operate
- Clear guidelines on data security
- Full disaster recovery plans that are tested regularly
- Agree what data is to be shared along with the mechanism and format for data sharing
- A clear definition of what IT will be used to fulfil the contract requirements
- A statement of ownership and Intellectual Property rights for all software and technology
- Detailed Systems implementation plans to ensure a smooth handover. These should include requirements gathering, modifications, training, testing, documentation
- Provision that the operation, and therefore IT, may need to change during the contract with a clear process for how this would be handled and who would fund
- Ensure any software that is not owned by the Customer is covered by an ESCROW agreement
- IT to be fully included in the end of contract provision including:
    - Clear terms on who owns the Intellectual Property for any software development paid for directly by the Customer on systems owned and operated by the Logistics Provider
    - What historical data from the contract should be provided to the Customer and in what format
    - Ownership of any IT hardware and infrastructure paid by for the Customer during the contract
    - Clear direction on what should happen to data on laptops and desktops used during the contract

Challenges to getting the right IT when logistics services are outsourced:
- Customers do not always understand their software and technology requirements before they embark on a tendering process, therefore they are not always clear on what they want or need
- Customer IT teams are often not involved in the outsourcing decision or procurement process
- The Logistics Provider does not always include appropriate detail on the IT they will use to perform the contract
- Customers do not always understand the benefits specialist logistics software and technology can give i.e. warehouse management system, transport management system, voice picking
- It is difficult to strike the balance between telling the Logistics Provider the service you would like while ensuring you do not stifle innovation for the contract
- There are often communications barriers between IT teams and operational teams
- The timescales for outsourcing tenders do not always give Logistics Providers adequate time to get a full proposal from their IT teams
- A structured procurement process with several potential providers can preclude the ability for a potential Logistics Provider to have a detailed discussion with the Customer about "needs"
- Logistics Providers can struggle to get detailed responses from their internal IT teams
- If the Customer owns the system they need to ensure the Logistics Provider has appropriate training and an effective channel for future developments
- Interfaces between ERP systems and specialist logistics systems can be complex, and time needs to be allowed to ensure these are developed correctly
- Logistics outsourcing is often seen as a cost saving measure and increased IT costs are often not included in the cost benefit calculation

About Logistics Partners:

Logistics Partners assists retailers, wholesalers, manufacturers and logistics providers to maximise the return on investment in supply chain systems and Logistics technology.

We have a track record of ensuring that supply chain systems are implemented and operated in the most efficient and cost effective manner.

Logistics Partners have real "hands-on" experience of implementing and operating various market leading supply chain systems including Warehouse Management Systems (WMS), Transport Management Systems (TMS), Forecasting & Purchasing, Sales Order Processing (SOP) and ePos

To find out more about how Logistics Partners can assist you with your IT in logistics outsourcing issues then please visit http://www.logisticspartners.co.uk/services/tender-creation.htm

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Further details of the forum can be found at:
http://www.ciltuk.org.uk/AboutUs/ProfessionalSectorsForums/Sectors/SupplyChain/OutsourcingProcurement.aspx