

## feature story

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### SMB/3PL Partnerships Small Fish, Big Splash

**When small and medium-sized firms are ready to swim with the big fish, they team up with 3PLs to gain a sea of business capabilities.**



By Merrill Douglas

Just because you run a small company doesn't mean you don't think big. Like their larger counterparts, small- and medium-sized businesses (SMBs) seek to increase sales, enlarge their product lines, and expand into new markets. It's all about reach.

And as any third grader who tries to play basketball with middle school kids learns fast, when you're small, gaining reach is tough.

SMBs that want to extend their reach often turn to third-party logistics providers (3PLs) for the boost they need to compete with the big guys. A small business that contracts with a 3PL gains access to large-scale resources that it can't easily obtain on its own.

Getting warehouses, logistics staff, and information systems up and running requires a major investment, possibly more than an SMB can afford.

"One option for SMBs is to leverage a third-party logistics provider for a particular service, and treat it as an expense of doing business," says Greg Aimi, director of supply chain research at Boston-based AMR Research.

"Implementing supply chain operations requires substantial upfront capital costs," adds Nate Gilmore, vice president of marketing and sales at Shipwire, a Sunnyvale, Calif., 3PL that specializes in fulfillment for online merchants. Even if a small company operates its own warehouse, it will need more people and space as sales increase. But in the current economy, securing a loan to finance an expansion is difficult. Outsourcing to a 3PL turns logistics into an expense rather than a capital cost, which might be a more feasible way to support growth.

It might also be a feasible way for local or regional companies that handle their own logistics to get up and running quickly in a new

market. "They could partner with a 3PL that knows the ropes in that geography," Aimi says.

A firm that manufactures on the West Coast, for instance, might not find it cost effective to serve East Coast customers from its own distribution center (DC), notes Jason Stoudt, general manager at DSC Logistics, a 3PL based in Des Plaines, Ill. "But a third-party provider might have the transportation and warehousing relationships to get a local company into new markets less expensively than it would be able to on its own," he says.

SMBs gain cost advantages from 3PLs in several ways. First, a 3PL serving many shippers has enough volume to negotiate more favorable transportation rates. Second, by storing a company's goods in multiple DCs across the country or around the world, a 3PL puts product closer to customers. That strategy reduces the number of miles that product must travel via more costly less-than-truckload (LTL) carriers.

Third, to cut costs even more, a 3PL might consolidate loads from several customers into full truckload (TL) shipments. Finally, working with a 3PL allows a company to pay only for the services and capacity it needs.

That point is especially important in a volatile economy. A retailer that experiences a sudden surge in business might need to expand warehouse space and hire more employees.

"But after that burst of sales, what happens?" asks Gilmore. "Does the company fire employees? Does it lose the investment it has just made in training? In this economy, the ability to scale up and down is crucial. Outsourcing to a third party makes it easier to re-size infrastructure as needs change."

### **TILE TYCOON**

Among the companies that Shipwire is helping to ride out the current rough economy is ThoughtFish Media, Seattle, Wash. Outsourcing to a 3PL has positioned ThoughtFish to increase revenues while keeping its infrastructure small.

Founded in 2002, ThoughtFish got its start as a home improvement project. When Andrew Simmons decided to create a mosaic mural for his bathroom wall, he wrote some software to guide him in placing the tiles to form a picture.

Simmons never installed the mural. But once word got out about what he'd done, the code behind his creation took on a life of its own. "Soon we were selling \$17,000 a month in software," he says.

Today, ThoughtFish offers a variety of software products that customers use to convert photographs, fine art prints, and other images into mosaics, beadwork, and cross-stitch embroidery. ThoughtFish also is getting ready to roll out its first hardware product: the RoboMosaic, a gadget that automatically assembles a mosaic based on instructions from the company's software.

ThoughtFish sells products on its own Web site and through a variety of online retailers. It has attracted about 26,000 end users worldwide, says Simmons, president and CEO of ThoughtFish.

### **A LOGICAL STEP**

The current recession has hurt sales, but even when business was booming, overhead costs took a big bite out of profits. "We were spending upwards of \$6,000 a month for warehousing, transportation, and labor," Simmons says.

Further complicating matters, Simmons and his wife decided to dive into parenthood big time, adopting six children at once. "Having to balance the warehouse, personnel, and six children was too much to deal with," he notes.

Turning to a 3PL seemed like a logical step. "We were already outsourcing programming and tech support," Simmons says. "Outsourcing logistics became the last piece of the puzzle."

Simmons chose Shipwire, which operates warehouses in Chicago, Los Angeles, Reno, Toronto, Vancouver, and London. After receiving orders

through an interface to a merchant's online shopping cart, Shipwire ships ThoughtFish products from the warehouse that is best positioned to serve each customer.

The use of a 3PL helps ThoughtFish cut expenses. "I don't need all the employees or warehouse space I used to have," Simmons says.

Also, shipping is easier and less expensive when a warehouse is located close to the customer. "The last mile of shipping is the most difficult and the most expensive; it's the FedEx/UPS mile as opposed to the freight mile," Gilmore says. "The goal for SMBs is to limit that mile and make it shorter, so product is more competitive in regional markets. That especially applies to international sales."

Sales to a retailer in Canada posed special problems for ThoughtFish before it outsourced to Shipwire. Merchandise shipped to that customer had a 50-50 chance of disappearing. "The shipment would sit in Customs, and we were not notified of the delay," Simmons recalls.

Filling orders for that customer from Shipwire's Toronto warehouse solved the problem. "Today, when shipments go out, customers receive them," says Simmons.

Using local warehouses also has improved customer service in less dramatic ways. It used to take as long as eight days to move merchandise from the West Coast to customers in the East or in Europe, Simmons says. Some consumers lost faith while waiting, and called their credit card companies to stop payment. Now, ThoughtFish uses Shipwire's warehouses in Los Angeles, Chicago, Toronto, and London to store merchandise closer to major markets. "Customers never have to wait more than two days to receive an order from us," he says.

### **CARRYING A HEAVY LOAD**

Shipwire's services should come in especially handy as ThoughtFish introduces the RoboMosaic. Weighing 150 pounds, the product is much larger and heavier than any product ThoughtFish has shipped before. "Based on initial interest in the RoboMosaic, there's no way we can handle the orders and shipping in-house," Simmons says.

Outsourcing logistics to a 3PL allows Simmons to concentrate on developing and marketing his products. Add outsourced programming and tech support, and it's easy to see how a small business can grow without increasing its corporate infrastructure. "Our supply chain has become so automated, I could retire and the company would continue to run," notes Simmons.

Another small company making a big splash thanks to a 3PL is Idahoan Foods. The Lewistown, Idaho, manufacturer takes advantage of the economies its logistics partner provides to better compete with larger rivals on supermarket shelves.

Idahoan's business is all about potatoes. About half its revenue comes from providing retail stores, food clubs, and food services with packaged flakes that cook up into a variety of flavored mashed potato products. The company also sells potato-based ingredients to snack food manufacturers in the United States and abroad. Idahoan was formed in 2007 through the merger of RD Offut Company and United II Potato Growers of Idaho. It operates nine plants in Idaho, North Dakota, and Nevada, and employs about 1,000 people.

### **POTATOES BY THE TRUCKLOAD**

Although it's certainly no small potatoes, Idahoan isn't big enough to make truckload deliveries to supermarket customers such as Albertson's and Food Lion. "But we do compete against truckload shippers," notes George Lake, Idahoan's vice president of supply chain management. General Mills' Betty Crocker division, for example, sells everything from canned soup to cookie mix along with its potato products, so it can easily gain the economies of TL shipping.

"We need a way to level the playing field as much as possible," Lake says. Over the past 20 years, for Idahoan and its predecessors, that leveling strategy has included DSC Logistics.

"We selected a third-party provider that could help us stay closer to the

market so we could ship truckloads of freight to a warehouse, as far across the country as we could get it," Lake says.

Shipments still move from the 3PL's warehouses to retail customers via LTL transport. But the products travel much shorter distances. While that strategy is more expensive than shipping full truckloads, it's cheaper than using LTL all the way from the plants to the customers.

DSC Logistics stores and handles Idahoan's branded and private-label products bound for retailers, and manages relationships with the LTL carriers. "DSC is able to obtain a better rate structure than we could, because it ships a variety of products with the LTL carriers," Lake says.

When possible, DSC saves Idahoan even more money by consolidating its loads with shipments from other customers to build full truckloads, says Stoudt.

### THE WALMART WAY

The most striking example of this consolidation strategy takes Idahoan's products to Walmart. In 2005, Walmart chose DSC and two other 3PLs to provide consolidation services via a program called Remix, which allows the retail giant to place smaller, more frequent orders with its suppliers.

Vendors that work with DSC deliver product to one or more of the 3PL's Multi-Vendor Optimization Strategy (MOST) consolidation centers in Dallas, Atlanta, Chicago, Los Angeles, and Allentown, Pa. Walmart issues master purchase orders to DSC, which consolidates products from multiple vendors and delivers them to Walmart's 39 regional Remix DCs.

"We get the advantage of truckload pricing for our products moving from DSC to Walmart," Lake says. Idahoan pays extra for storage and handling under this arrangement, but the transportation savings more than make up for that and help put the company on an even footing with larger competitors.

Besides saving money, the shift to TL has helped improve Idahoan's on-time delivery performance. "It's much easier to manage on-time deliveries in a truckload environment," Lake says.

Lake and DSC have made some joint sales calls on some of Idahoan's other supermarket customers to try to sell them on the consolidation concept. "They'll come around to it eventually," Lake says.

### KITTING CLOSE TO HOME

In the near future, Idahoan also will use DSC Logistics to assemble in-store product displays at the 3PL's DCs and ship them to retailers. "Sometimes it's more effective to handle logistics closer to the customer base," Lake says.

DSC provides this kitting service for many manufacturers. "The service gives smaller companies the flexibility of building these items on demand at a negotiated price," says Stoudt. Manufacturers often prefer not to pull employees off other jobs to perform this occasional task, he adds.

That points to yet another benefit that SMBs gain by working with 3PLs. Outsourcing allows small companies to focus on manufacturing, marketing, and other activities that define their products, while letting an expert handle logistics.

"For a company the size of Idahoan, it's better to work with a distribution partner," Lake observes. "Because logistics is DSC's core competency, it is on the leading edge all the time."

And with a long-armed partner on the leading edge, even a small company can swim with the big fish.

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