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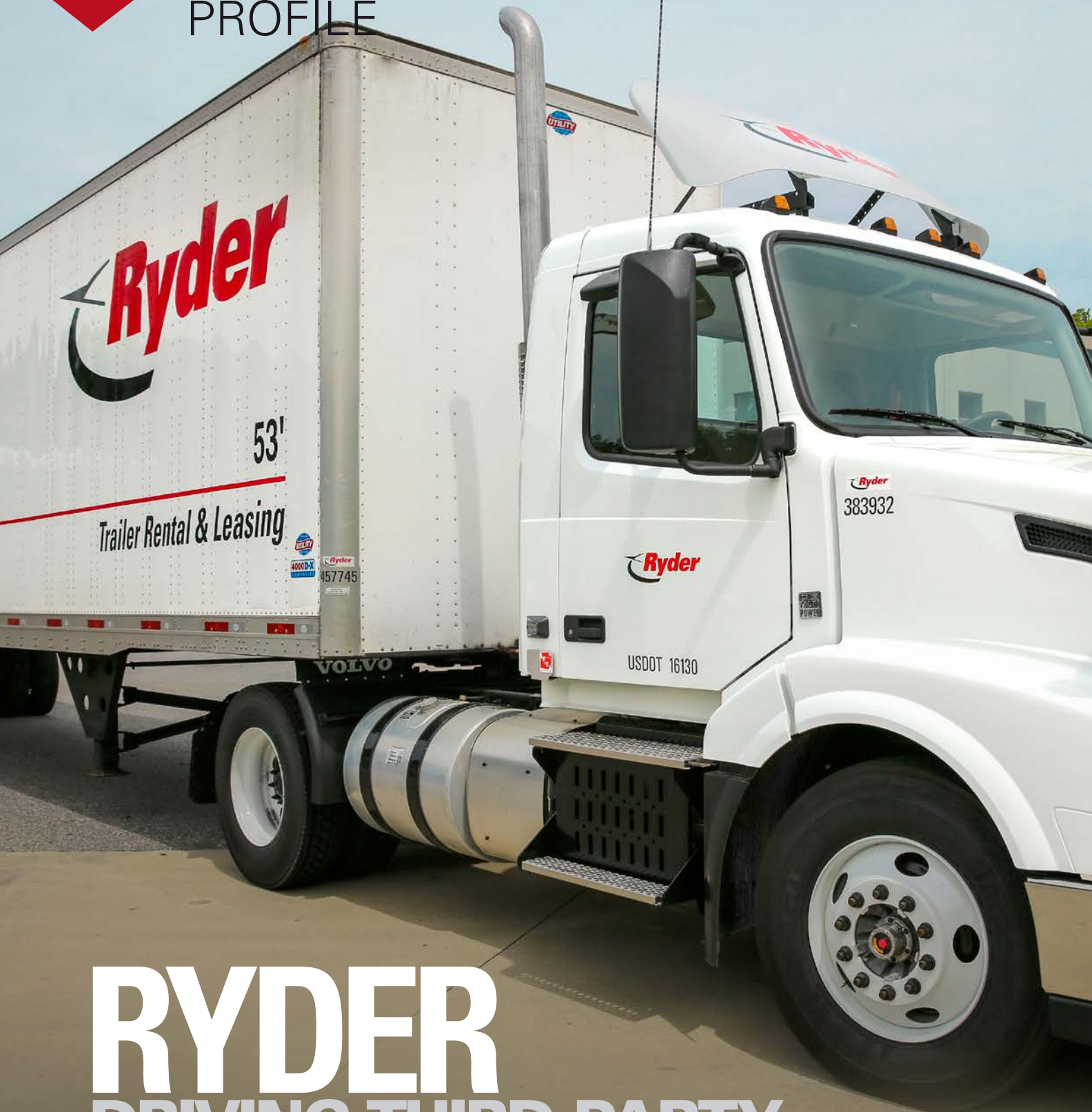
DIEBOLD

RYDER: DRIVING THIRD-PARTY LOGISTICS SOLUTIONS TAKING SECURITY TO ANOTHER LEVEL WITH DIEBOLD

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PROFILE



RYDER

DRIVING THIRD-PARTY LOGISTICS SOLUTIONS

By Jacque Brittain, LPC, Editorial Director, Digital

While often viewed as simply a project-specific and labor-intensive undertaking, the actual mission of the supply-chain network is vitally strategic and tactically calculated—coordinating the concurrent needs of the retail stores, our customers, our suppliers, buyers, inventory control, transportation systems, and other services and service providers as well as the specific needs of each facility in order to keep our product moving and our companies profitable.

This is about product flow and speed to market. It's about driving replenishment and maximizing sales. It's about branding and customer service. And all of this must be accomplished while minimizing losses, damage, and theft of goods. Every function, every process, and every practice must be continually reviewed and reevaluated to help control costs and maximize efficiency.

But managing costs and improving efficiencies also requires that we expand our way of thinking and look for alternative solutions that bolster our mission. In some situations retailers will also contract with third-party providers to help manage product as it flows through the supply-chain network.

Third-party logistics, commonly referred to as 3PL, is an arrangement in which a company outsources part or all of its logistics management function to one or more specialized firms, or "third-party" providers. Depending on the negotiated agreement, a 3PL provider is responsible for managing all or some of the logistics requirements to include inbound and outbound freight, customs, warehousing,

order fulfillment, transportation, and distribution to meet the needs of the specific retail operation.

The emergence of 3PL providers has brought significant diversification to the warehousing industry, providing core competencies that increase organizational effectiveness and enhance the company's overall supply-management strategy. The ability to work with 3PL providers can offer additional flexibility to warehousing capabilities, distribution, and access. Satellite facilities used to complement existing distribution centers can improve availability and speed-to-market. Additional benefits can be realized in reduced lead times, shorter product lives, increased inventory turnover, expanded storage capacity, increased deliveries, technological flexibility, and shipping consolidation.

Depending on the size of the company, the type of business, the products sold, and a variety of other factors, some companies will use third-party facilities exclusively to manage warehousing and distribution services, transportation management, and professional services such as procurement strategies, network design, and engineering.

Rolling with Ryder

Many are familiar with Ryder as a leading provider of commercial transportation and truck rental services. We rent their vehicles to help us move into a new home, deliver our sons and daughters off to college, or just about any other time we need a reliable means to transport our belongings from one place to another.

We may also be familiar with their fleet management and dedicated transportation solutions that provide vehicles and related services for retailers and other business operations. But there is much more to this company than simply providing us with moving vans and product delivery.

Ryder System, Inc. is a \$6.6 billion, Fortune 500 commercial fleet management, dedicated transportation, and supply-chain solutions company with operations in the US, Canada, Mexico, and the UK as well as parts of Asia. Founded in 1933, the company primarily operates behind the scenes, managing critical transportation and logistics functions for more than 50,000 customers, to include the retail industry. Employing more than 30,000 people, the company controls a fleet of 220,900 commercial vehicles and operates more than 200 warehouses covering over 35 million square feet of warehouse space.

The company's Supply Chain Solutions (SCS) division offers a broad range of logistics management services designed to optimize customers' supply chains and address their key business requirements. As a third-party logistics provider, these offerings are organized into three categories—distribution management, transportation management, and professional services that can be implemented independently or as an integrated solution to optimize supply-chain effectiveness. There are a number of different retail operations that currently partner with Ryder as a 3PL provider to serve various supply chain needs.

"We offer many different solutions based on the needs of the specific customer," said Bill Anderson, group director of global security for Ryder. "This can include dedicated delivery and transportation needs or may involve full supply-chain management from purchasing and foreign consolidation, cross-dock solutions and warehousing—all the way to store delivery."

When most of us think about third-party provider solutions commonly provided along the supply-chain network, our minds often move to transportation needs. Fleets of vehicles are typically



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necessary to move product from one location to the next, and it often makes good business sense to contract these services to save costs and conserve any number of company resources. But those

requirements can move well beyond transportation needs.

In most retail organizations distribution centers are typically seen as the core of the supply-chain network, establishing a

centralized location from which we can stock and distribute products to the retail stores or directly to customers. These complex operations can house volumes of merchandise, equipment, supplies, and employees in order to meet and maintain our fundamental business objectives.

Companies may have one or numerous distribution center sites, some servicing hundreds of stores and covering well over a million square feet of floor space. However, depending on the size of the retailer, the type and volume of products sold, the business model utilized, the time of year, and any number of other considerations, many retailers will also contract with 3PL facilities—whether exclusively or to complement existing facilities—in order to help manage business operations.

“We work with many different retailers to help manage different aspects of the supply-chain network, which would also incorporate warehousing facilities,” said Anderson. “Products can include food, clothing, pharmaceuticals, hardware and hard goods, automotive, cigarettes—anything from high-tech electronics to toilet paper. We work directly with our retail customers to provide facilities that best meet their particular business needs.”

Many facilities have been designed and constructed with the specific needs of the customer in mind in order to maximize management, efficiencies, and implementation of the operation. The continuing growth of the 3PL industry provides additional opportunities and tactical advantages for retailers across the country.

Loss Prevention Considerations

In general, loss prevention requirements and subsequent operational controls in a 3PL operation are not significantly different than those of any other supply-chain facility. However, loss prevention considerations are an essential element when deciding upon and managing a third-party operation. Strategic planning and strong working relationships with our third-party business partners are an important aspect of the process.

“To a large extent the customer dictates the limits and liabilities of our security solutions,” stated Anderson. “They may require CCTV systems, facility alarms, access control, security checkpoints at entrances, or other solutions based on their needs and the terms of the relationship. The customer’s input is extremely important in helping to implement and manage the best possible solutions.”

Many of the primary concerns are similar to retailer-managed operations and often product-specific involving merchandise that is desirable and easily resold. Potential incidents can be well-planned and highly sophisticated. In the warehouse facilities this can involve intrusion incidents, such as cutting holes in roofs and doors to gain access. As it pertains to incidents in-transit, vehicle intrusions and hijacking operations are a principal issue, posing significant safety threats in addition to theft concerns.

This is where communication and cooperation with the loss prevention teams can be essential. With Ryder’s knowledge and experience with transportation services, fleets, warehousing facilities, and security practices coupled with the subject-matter expertise that loss prevention professionals can offer regarding the products, the criminal networks, and related intelligence, many incidents can be mitigated or avoided altogether. Anderson believes that this is a key aspect of a successful working relationship.

“Most of our engagement with the customer’s loss prevention teams is on the prevention side,” he said. “This might include input on policies and procedures, notification guidelines, standards for driver selection, the use of tools such as GPS tracking, and other methods of establishing and maintaining operational controls. But it may also entail root-cause analysis and other strategic planning to explore how and why incidents took place to help us determine the best ways to avoid incidents moving forward.”

Communication, plan development, and the establishment of a sound working relationship between the service provider and the loss prevention team then sets the foundation for the development and implementation of a successful security strategy for the facility and the program.



Taking Security to Another Level

Losses as a result of theft, damage of goods, and related challenges are a major concern to all parties involved in the logistics process, and the extent to which the 3PL provider can meet the demanding requirements of generally accepted loss prevention and security practices has the potential to reduce long-term expenses. Partnering with a 3PL provider experienced in achieving success in security and compliance standards can be a valuable asset.

This also requires finding 3PL providers that are both willing and capable of adapting to the diverse and evolving needs and expectations of the retail industry. These growth variables will directly impact every aspect of the business, including the entire supply-chain network, and it is critical that these providers remain current with industry standards. This includes maintaining equipment, technology, and management standards. It requires knowledge and understanding of current trends and industry challenges. The program should be growing and improving to maintain acceptable performance standards.

“Our security program has matured significantly,” stated Anderson. “We are taking a more direct role in hardening our facilities and improving our programs. This would include auditing, alarms and alarm response, access control,

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authorization and authentication, and other critical functions.

“For example, in the past as business operations have expanded we’ve worked with many different providers to manage our security needs, looking for the best solutions for that particular facility. Often we worked with local companies to meet our equipment and service needs, but we’ve also worked with larger providers as well. However, as we’ve continued to grow this led to a multitude of different agreements, which ultimately resulted in facilities with different security providers, different equipment, and different technologies. We needed to find a solution that would help us to standardize our systems and bring additional clarity to the program.”

In response Ryder recently partnered with Diebold Security to unify their security efforts, ease complexity, and increase efficiencies. A thorough analysis of the benefits convinced senior leaders that a centralized security program was in order to bring the field into alignment with the company’s overarching security



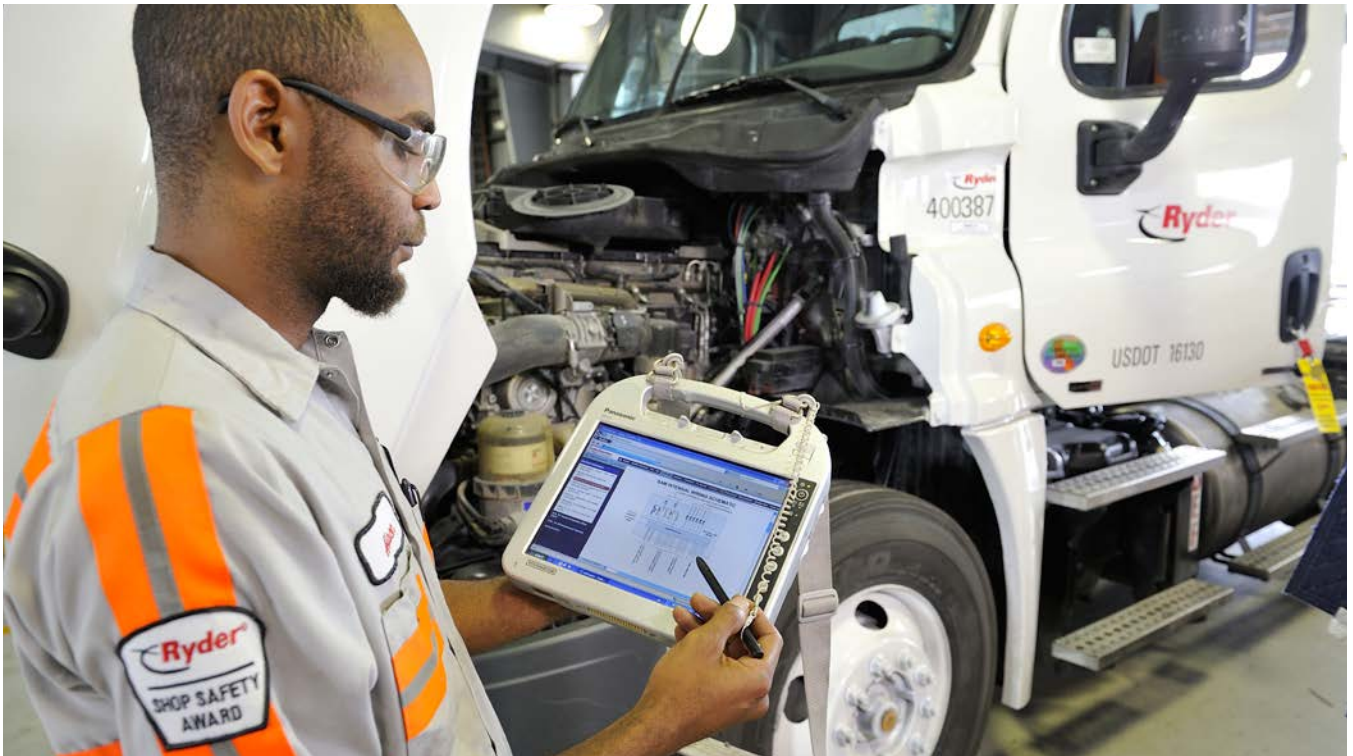
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objectives. What followed was a large-scale implementation across the US and Canada, orchestrated by Diebold Security in partnership with Ryder, to bring the compliance, unified security, and program management necessary to create an efficient, uniform, and cost-effective solution.

“We wanted a solution that would satisfy our functional needs, but would also address system and equipment compatibility,” said Anderson. “Programs were integrated, updated, enhanced, or replaced as necessary. It was quite an undertaking, but we believe that it will provide significant savings and make us more competitive as a long-term solution. We wanted a consistent level of intrusion detection and protection, maintenance, and auditing capabilities across the organization.”

As a result of this collaboration with Diebold Security, Ryder has made great strides in centralizing their security program across the US and Canada, taking advantage of cost savings and bringing uniformity in security standards to their North America footprint.

Our Role in the Process

As the global market matures and expands, retailers are demanding new

logistics capabilities and more complex solutions to meet their supply-chain needs. Factors such as economic growth, expansion into new markets, e-commerce, and a greater acceptance of demand-driven logistics practices introduce complexities into the supply chain and generate the need for contract logistics providers that are capable of delivering more specialized services.

By the same respect, theft and other forms of criminal activity continue to reach into the supply-chain network, growing more creative and sophisticated with the progression of the industry. Other forms of loss can also grow exponentially more impactful with the growing costs of supply-chain management.

In most 3PL contracts, merchandise is deemed the property of the client company, and ownership of the product does not shift to the 3PL provider while it is under the 3PL's care, custody, and control. However, at the point that the third party takes possession of the product, they typically become more accountable, and the 3PL will assume liability of goods while in their control. Under these conditions, if losses occur while in control of the 3PL, the client retailer can file a claim.

Contract language will usually include reimbursement for net shrinkage in excess of a certain agreed-upon dollar-value percentage.

However, the complexities of product loss expand far beyond securing compensation for lost product, and our role as business partners must extend beyond an insurance claim. Customer service, replenishment issues, and lost sales are just a few of the more obvious effects of these losses. But what about the costs associated with getting the product as far as it got before it was stolen? What about shipping, customs, and transportation costs—all of which will have to be paid again to replenish lost merchandise? Product losses are everyone's concern, which is why strong communication and effective controls are essential.

As more companies turn to 3PLs to help manage supply-chain processes and ensure operational success, loss prevention involvement must continue to progress as well. 3PL operations can provide a very valuable and cost-effective solution for many retail operations, both in terms of meeting specialized needs or in managing the overall operation. However, loss prevention must provide effective



oversight in order to keep these operations effective and productive.

Here are a few things to consider when building an effective relationship with the 3PL provider:

Take the steps to ensure that you are ready for the relationship with the 3PL provider. Whether outsourced or managed internally, logistics is a core component of the business. Do you have a plan? Have you mapped out what needs to be accomplished and how to reach those objectives? How often will you communicate? When and who will be notified in the event of an issue or incident? There should be a proactive management plan in place that serves as the foundation of the partnership.

Establish realistic expectations. What is most important? How can it be accomplished? How will performance be measured and evaluated? Trust, flexibility, and responsiveness are indispensable elements on both sides of the 3PL provider-user relationship. What will help with all of this is communication and relationship.

Understand the value of subject-matter expertise on both sides. Retail LP professionals know and understand their products, business, capabilities, and role in the business. Communicate relevant

information as necessary and appropriate to maximize the value of that expertise.

Is the 3PL provider hiring sufficient talent? With companies competing for supply chain, logistics management, and security talent with other firms, explore the steps that are needed to hire those that will best meet the overall needs.

How do they stand on your needs and metrics that matter most? Ask what they do best, and include your performance objectives.

Learn the strengths and weaknesses of the provider's program. Staffing, alarms, security equipment, and related resources should be identified and evaluated. But how is the security program executed and managed? Is there a loss prevention strategy or simply security resources?

Is the 3PL prepared for disasters? Do they have an effective crisis-management plan? Supply-chain disruptions significantly affect a retailer's bottom line, so make sure you know how your 3PL partner is positioned to deal with them on the logistics side.

Is the 3PL provider adapting to the changing and evolving needs and expectations of the industry? Are they current with industry standards? What is their level of technological sophistication? Are they aware of current trends and

industry challenges? Learn whether the 3PL's performance is growing and improving.

Take the steps to ensure that these security and loss prevention needs and expectations are considered during the selection process. Defining these expectations during the selection process establishes the foundation and helps set the tone for the partnership

As retail operations continue to grow more complex, the ability to expand our field of vision and become more entrenched in all aspects of the business only becomes more critical to the success of the retail enterprise and the growth and development of the loss prevention profession. There are many doors that we have yet to open and many areas where our knowledge and expertise can be further applied to enhance company performance.

Learning is an ongoing process that keeps us informed and engaged. How much do you know about your supply-chain network? Does your organization use third-party providers? If so, what services do they support? How can you make a difference? Sometimes we'll find that our greatest opportunities to learn and grow can be found in our own back yard. ■