A Conversation with Steve Ramescu,
President, Axsun Group

LQ: What are some of the "keys" to successful relationships between 3PLs and their customers in relation to IT needs? What are some of the reasons that may be responsible for the lack of success in some instances? *(John Langley, PhD)*

Steve Ramescu: A primary difference between 3PLs and their customers is that 3PLs must deal with many customers and their IT requirements. This gives them an advantage, as not every customer is making the same advancements in IT as other companies in the field.

A lot of 3PLs do not have a standard IT platform. They have built their own systems for their particular needs as they were transacting with each particular customer. The problem is that a lot of manufacturers require a more comprehensive IT approach with regard to the supply chain — and they see standardization of IT systems happening around them. They may be able to move in this direction through in-house resources to make these changes internally, and make it a corporate policy to transition toward standardized IT systems that reach across all of the firm's functions. The 3PL has his back behind the wall because he's representing perhaps as many as 500 companies that may have different strategies that are often pursuing different directions in their business and IT requirements. Some 3PLs continue to use systems that may be getting too old as they deliberate about whether to invest more in this area and evaluate the diverse requirements of their customers. They have to decide what to do and I'm not sure that a lot of 3PLs know what systems to adopt and how to proceed. Too often they are not proactive in this area and are compelled to respond to their clients. A manufacturer may decide that they're making this move to modernize — and it's often not a priority to communicate with the 3PL that they're advancing in this area. The 3PL is then compelled to react to these changes instead of being in a position to say: "Let's talk about it and move together on this front simultaneously."

In our case, we saw the trend toward globalized and standardized IT systems happening amongst manufacturers and other clients. We decided to invest in a powerful and globally renown system in tandem with this trend; we decided to adapt an SAP system because we thought it was the most robust system for a multitude of things, and to encompass multiple platforms easier. When you look at railroads and steamship lines, they run on SAP, so it was quite logical for us to adopt an SAP platform. It cost a lot of time, money, effort. However, we had seen a lot of 3PLs try to buy IT systems off the shelf and customize them. One to three million dollars later, and two years afterwards, they've scrapped these systems because it wasn't the right thing to do. When you're buying IT systems off of the shelf, if you don't have the horsepower behind that product, it's tough to ever get it up and running. With SAP, we've got thousands of people and some of the most brilliant minds working on this computer software, all the time — so there's great horsepower behind that product, and that's why we bought it.

I see this investment in IT expertise as being of paramount importance; it may result in a lot of 3PLs fading into the sunset, while others will likely be able to make this transition and grow.

The future is going to be in some sort of standardized platform, because we're all becoming more global. If you're still operating on a legacy system that was built on your own 10 years ago, as beautiful and as sexy as it can be, the world will adopt a more standardized platform. Increasingly, you're seeing it today. You're witnessing manufacturers making that plunge, going to new systems, whether it's the JD Edwards, an SAP, Oracle, whatever the system may be. I don't see a lot of legacy AS400 systems out there today as being the future. And surprisingly, I don't see companies envisioning how they're going to get out of that hole if they haven't invested to provide leading-edge IT expertise for their customers. If they're big 3PLs, that's the biggest fear: how do we adopt a new IT system without losing people, without losing customers, and our shirt? If you're big, and you are in this position today, you've got a problem. If you're small, you may be more agile. This trend may result in the changing of the guard and be a game-changer on the 3PL landscape.

LQ: Looking ahead into the next three to five years, what do you feel will be your customers' top priorities in terms of IT needs where 3PL involvement will be helpful? *(John Langley, PhD)*

Steve Ramescu: I think the top priority for the customer is going to be ease of doing business with the comfort and knowledge that their IT requirements are in reliable hands.

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They want to know that their 3PL has the technology behind them, that this isn't a question. Over the next three to 10 years, that will be of prime importance to 3PLs' customers. The only thing that becomes a question is, "How do we get the customized report we would like?" We're on SAP and all the information is there. If SAP modernizes to a new platform, SAP will make that transition for us. We pay our licensing charges and that's it.

If you're dealing with a large corporation that runs an SAP system or decides to adopt SAP and you've still got your system, which you built in the early nineties or latter part of the eighties, the distance is going to be too great for anyone to likely make up. One of the questions in the early 2000s used to be about IT: "What type of system do you use?" It's one of those questions that has been asked so many times. But it shouldn't be asked anymore if you're a serious contender. If IT becomes a prominent question, it may mean that you've got the wrong 3PL.

LQ: Given the majority of shippers use internal supply chain applications, do you think one of the reasons could be a perceived lack of flexibility and customization in 3PL IT service offerings? If so, how do you change this perception or is this perception a reality? *(David Faoro)*

Steve Ramescu: The issue right now is we're on a platform, or a level, where everyone has to make the same jump at the same time. Global companies are moving to have more global standards. The 3PL has to make a decision — is it worth spending the millions when he doesn't know if other customers are ready to jump? Today more manufacturers are saying: "The 3PL isn't making the jump and the shipper continues to grow on a global basis, requiring a higher level of IT expertise." The 3PL may not be required to make that investment, and go the next level of IT sophistication, if they choose not to. But the manufacturer will have to jump. When the manufacturer advances and gets to the higher-level platform, the 3PL that hasn't made the IT investment may lose the business.

We took that jump because it was our forward vision for our growth in order to succeed. We took that jump because we knew we would be the first off to the races and that we could go into manufacturers and say, "If you haven't made the jump yet, make it with us. We're already there. We'll help you develop in this area, and when you are ready, we're there together." We're that much stronger for this investment. Whether the manufacturer decides to proceed this year, or in five years, that's their business decision. The 3PL has to make that same management decision. It becomes visionary, and ultimately the responsibility of the executive management team. It depends on where they see their firm's future.

A lot of the 3PLs have an aging workforce. Most of these senior executives are scared of the investment of two to four million dollars to make this switch to a more robust IT system. It is even compelling some senior executives at a few 3PLs to look at selling their firms instead of making this investment. However, it may be too late if they've diminished their firm's value proposition by not keeping up. If other 3PLs like us continue to make the jump, it also makes those that haven't made the investment seem less desirable.

Manufacturers tend to be the first to make this investment because they often have the required capital, especially larger conglomerates. Even a large 3PL may not have the luxury of spending three to five million dollars on a new system. Manufacturers always tend to look long term. 3PLs, on the other hand, often tend to look short to medium term. As a president or senior executive, perhaps it's time in 2011, especially in the 3PL market, to say, "Guys, where do we position ourselves going forward? Do we see ourselves in five years as a continuing, striving force, or do we see ourselves being acquired and looking to sell?" The business plan is always driving the firm forward, and as the market changes, you have to be able to adjust. We feel if the 3PL has to be a leader in the industry on the 3PL side, the 3PL has to make the investment in technology. Conversely, the manufacturer is a leader not because of his technology; he's a leader because of his product. The 3PL doesn't have product other than their expertise, management and people.

LQ: How can a 3PL ensure that as customer needs change, their offerings change and adapt to meet their needs? *(David Faoro)*

Steve Ramescu: It comes back to the IT capacity of the 3PL. 3PLs with a home-grown system may say, "I've got a customer base of 100 and if one customer wants to run SAP, I'll live with my customer base of 99 clients. I'm not going to change for one customer because it's too costly." Even if he is visionary and he sees down the road, a firm may decide to sacrifice up to a certain percentage of his customer base if it means they will not have to go to the added expense of IT customization for these clients, and invest another million dollars or more just to satisfy them. These are tough decisions. On the other hand, if 40 percent of your customers are asking a 3PL to step up to a higher level of sophistication, it will likely be a more compelling case to make a business decision in favor of this transition.

It all comes down to where you see business going on a long-term basis. We see standardization of platforms, and standardization of IT in doing business with larger companies. We know that many 3PLs have fallen behind in this area, and there is a demand from the manufacturers. They're looking at who is ahead of the curve. Doors have opened up for us and conversations have been created because we made that jump, which we made over the last year and a half. It was at a time when resources were very tight for a lot of people. Spending a few million plus on a new system was the last thing on their minds. Many firms were in a survival mode. Our firm's strategy for survival was to advance. We decided to make the capital investment required to grow. Today, the landscape has changed, and you must progress as everything is streamlining and becoming more seamless in how the supply chain operates and the very way we do business. How do you make it more seamless? By adopting and investing in the best IT platforms.

Questions for LQ*'s Executive Interview Series have been prepared by members of* LQ*'s Board:* David Closs, PhD, *Michigan State University and* LQ *Executive Editor;* David Faoro, *Director of Supply Chain, The International Group;* C. John Langley Jr., PhD, *Penn State Smeal College of Business;* Nicholas Seiersen, *Senior Manager KPMG and* LQ *Executive Editor*