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COLLABORATION ON THE MENU

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Most logistics companies offer their customers a simple proposition: pay us, and we will route, optimize, warehouse or manage your freight at a lower total cost than you could do yourself. But the Steak n Shake restaurant chain chose a logistics partner that offered more payback.

'When there are opportunities to share the savings, they are shared among the distributor, the customer and the (service provider),' said Scott Deibert, vice president for supply chain management at Steak n Shake, the Indianapolis-based chain of more than 500 restaurants in 21 states. 'There is an incentive to bring together all the participants.'
It's called 'gain-sharing,' and although one study found 80 percent of third-party logistics providers like the concept, shippers and carriers still sometimes need to be persuaded. 'Trouble with setting the comparative baseline ... causes many at-tempts at gain-sharing to go awry,' according to Armstrong & Associates.

Deibert said his company is happy with gain-sharing results that so far have helped reduce the $654 million business's logistics and freight expenses between 14 and 27 percent. That's important for a company struggling to restructure its operations in the face of declining sales and earnings and rising commodity, transportation and labor costs.

In its most recent quarter, the company lost $9.7 million on $143 million in sales. It cut general expenses by $2 million, or 16 percent, and plans to cut more.

Supply chain initiatives are part of Steak n Shake's restructuring effort.

In 2006, Steak n Shake had practically exhausted its transportation logistics savings, Deibert said. The company managed its freight in-house, and it was shipping replenishments from distribution centers to restaurants using LTL carriers, largely because it didn't have the technology and network visibility to explore and exploit optimization and consolidation options.

The chain began looking for transportation and logistics partners that could help - but it wasn't easy. 'A lot of companies can give you the data but can't manage the freight,' Deibert said. 'Some companies can manage the freight but don't have the data.'

The company turned to Chicago-based foodservice 3PL **ArrowStream**, which brought software-as-a-service technology and a network of carriers to the table.

'Think of it as a purchasing system that provides visibility,' said Rodger Mullen, president and COO of **ArrowStream**.

'We're really managing logistics as a network of networks,' said Mullen. 'What we're trying to do is build the most efficient truckloads we can between ' vendors and distribution centers.'

That means getting shippers to collaborate and grant the 3PL access to purchase order information - a step many shippers still don't find palatable, especially if it involves cooperating and mixing loads with potential competitors.

ArrowStream optimizes freight loads at distribution centers even to the point of co-mingling freight from multiple shippers. That has been a sticking point for some customers, but Mullen said that as fuel prices and transportation costs skyrocket and supply chains are stretched, more shippers are getting onboard.

'I think they're doing (co-mingling) because they have to,' he said. 'And I think the other side is that that they realize the (savings) in co-mingling product.'

After all, Mullen said, LTL carriers have been co-mingling their shippers' freight for years. 'Alignment is the key, alignment among the trading partners,' Mullen said. 'There has to be a benefit for the trading partners to align.'

For example, refrigerated truckload carriers co-mingling customers' freight can reduce empty miles from 12 to 20 percent to around 4 percent. **ArrowStream** pays for the remaining backhaul miles. Warehouses and carriers in the network get more work from **ArrowStream**, and longer, more stable relationships with both shippers and the 3PL.

'There has to be something in it for everybody,' Mullen said, 'otherwise the collaboration doesn't mean much.'

The gain-sharing formula and performance-measuring benchmarks vary by shipper, and benefits are distributed after a standard percentage is paid to **ArrowStream** according to negotiations between the various participants.

Deibert said some shippers and service providers may not be ready or willing to collaborate at that level. 'Ultimately, it's our choice' how the spoils are divided, he said. And it's the choice of the suppliers whether to participate.

Mullen said success depends on executive-level support for a collaborative culture and the benefits it may bring.

'One thing we've learned over time' is the cultural shift that is there has been sponsored very well by management,' he said. 'It's not as if our technology is intrusive. What it is, is basically allowing these folks to use technology that gives them more information than they've ever had before.'

Deibert said real time freight visibility speeds Steak n Shake's decision re-sponse time. 'Knowing what happened as fast as through yesterday helps us figure out what our actions will be tomorrow or next week, particularly in a promotional environment,' he said.

'Visibility plus collaboration plus freight management optimization equals literally lower costs.'