The Ultimate Guide to Being a Great 3PL Customer

12 surefire ways to
to elicit greatness from your
logistics service providers

Mutually rewarding outsourcing relationships in logistics come down to just two words:

TRUST

RESPECT

Where these exist between the parties, everything else falls in line.

But such relationships are too often the exception, not the rule. Many shippers commoditize the services of third party logistics providers (3PLs), believing that the best result will come from micro-management and constant price pressure. In fact, the opposite is true. The more you, as the outsourcing company (the shipper), invest in the relationship – as a partner, not an overseer – the more value is delivered.

Research seems to bear this out. Dr. John C. Langley, Ph.D., Supply Chain and Information Systems Group Faculty at Penn State University, is the lead author of the annual State of Logistics Outsourcing study. According to Dr. Langley, “Effective client-3PL relationships exhibit a mutual commitment to the creation of value for both parties and to the overall supply chain. Too much emphasis on the ‘price’ of the 3PL’s services makes it challenging to focus on innovation and programs that drive savings and improved performance.”

So what can you, as a shipper, do to promote mutual trust and respect in order to elicit greatness from your 3PL? Here are 12 suggestions that, while they create work for you, pave the way for breakthrough supply chain performance.

Preparing to Outsource

1

Improve your request for proposal.

That means including the detailed operational data essential to a careful analysis and proposal response.

3PLs can spend between $20,000 and $60,000 to develop a response to an opportunity they may lose. If the RFP does not contain the operational and cost data to intelligently evaluate the current operation and the expected results of a change, then a 3PL may elect not to pursue the project. Worse, inaccurate data may result in a 3PL underpricing the business, leading to missed budgets and poor performance.

2

Set realistic expectations.

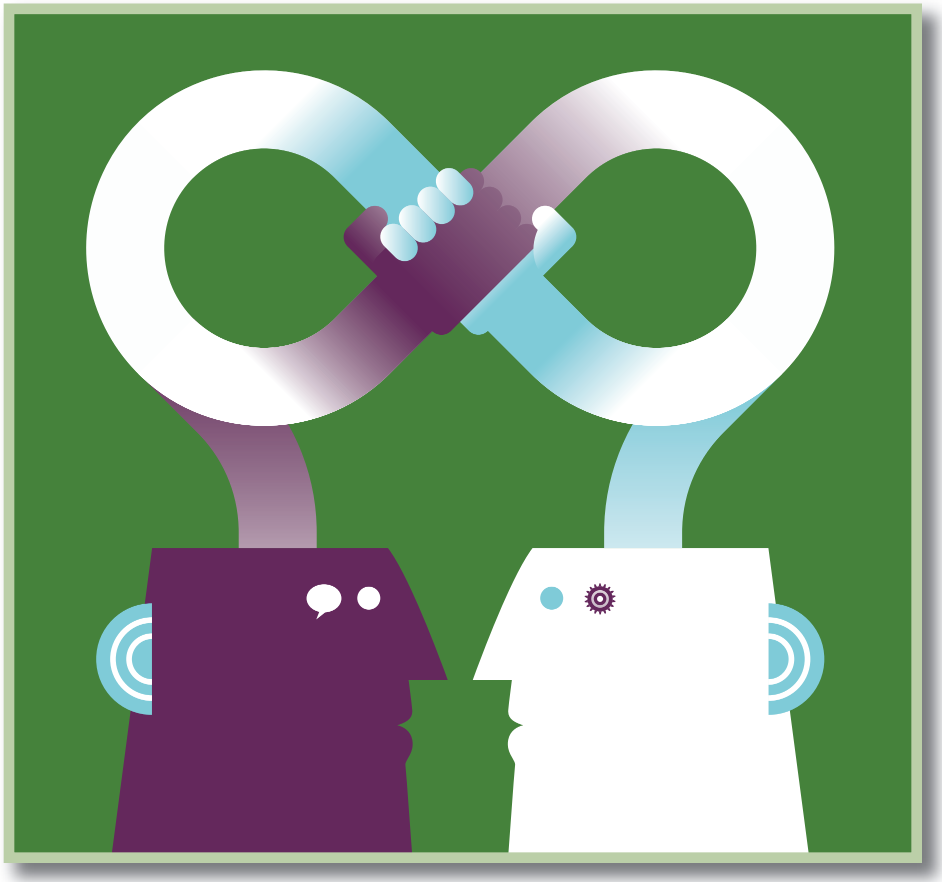
If you've had a specific problem for years – let's say you've never met peak shipping requirements without chargebacks – don't expect that outsourcing to a 3PL will immediately erase the problem. If it's hard for you, it will be hard for them too, experts or not.

The answer: set realistic expectations at the start, then work together to aggressively tackle, and ultimately solve, the problem.

3 Ensure cultural alignment.

Strategic outsourcing is not something to "try and see if it works." It's a long-term partnership between two companies that share a similar value system. This is one time where "trust your gut" isn't a bad idea. The numbers may *look* right, but if it doesn't *feel* right, it probably isn't.

Culture and chemistry matter. Understand this before you commit.



Establishing the Relationship

4

Clearly define contract terms.

Without clearly defined and realistic contracts, the door opens for billing disputes and debates over services, which are absolute relationship killers.

Sure, contracts can be lengthy and include gobs of required legal mumbo jumbo, but the critical components that must be addressed in the contract are quite simple:

- Clearly stated activities that you want your partner to perform
- The operational performance you expect and how that will be measured
- The payment terms and how they will be calculated

Lack of clarity on any of these can lead to problems and even litigation.
A real lose-lose.

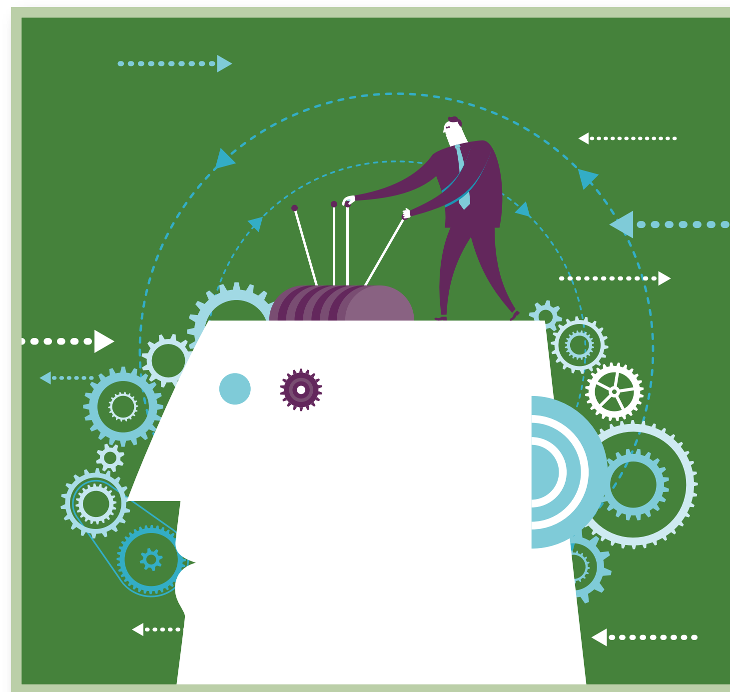
5 Define the contract length to support investments in people and technology.

3PLs need the guts to take on prudent financial risk. But this risk must be matched by a shipper's willingness to have these costs amortized over a longer period.

Some shippers are reticent to commit to more than a two-year contract. Why? They may not know where the business will be in two years. Or, they believe that frequent contract renegotiation and bid processes sustain their leverage to negotiate costs down. This latter view relegates logistics services to commodity status. Strategic relationships benefit from longer-term agreements because they give 3PLs the ability to THINK BIG. To consider breakthrough strategies involving technology and automation that could literally transform your operation.

6 Assign the appropriate resources to manage the relationship.

Ernst & Young, in a business briefing on outsourcing, state that "a common failure of outsourcing companies is insufficient resources and rigor dedicated to communication, change management and performance management." While logistics outsourcing relieves the shipper of the daily burden of logistics execution, it actually adds management requirements in other areas.

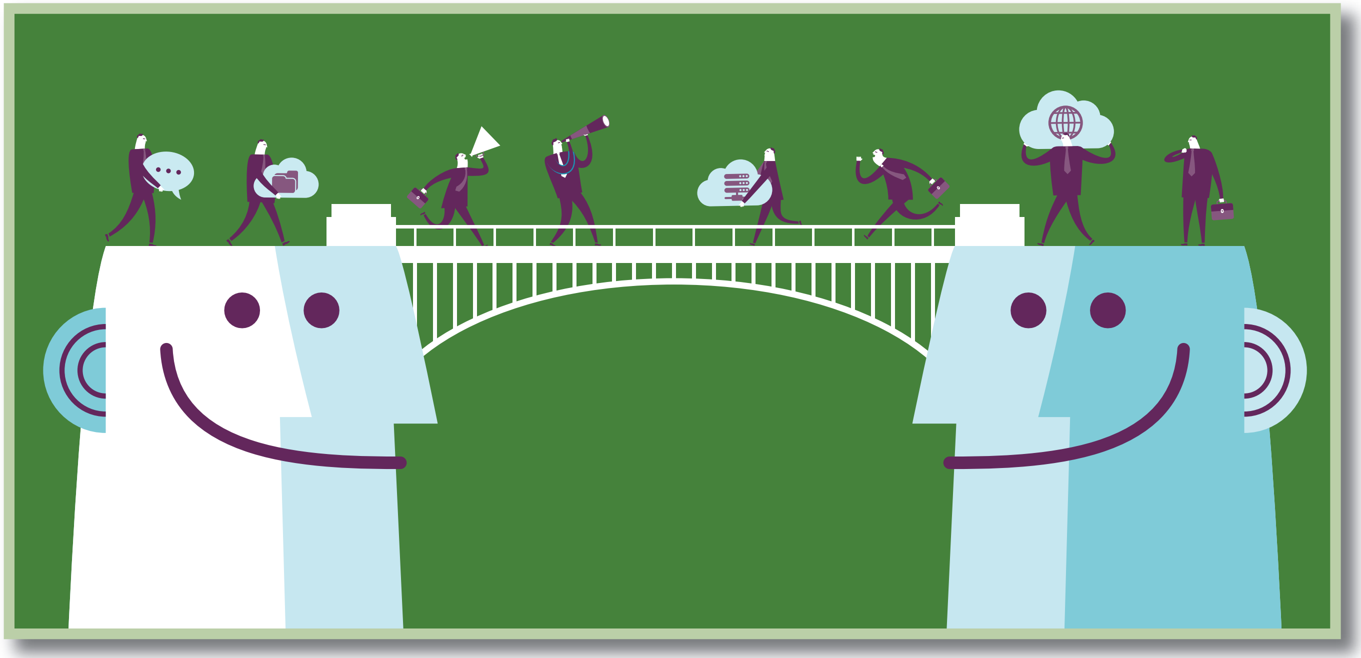


To prepare for this new management challenge, you must first define the requirements of a 3PL relationship manager in your business (your 3PL can help with this definition). Then assign someone to this role, either in a dedicated capacity or as a key part of the overall job. Most 3PLs prefer one "go to" person, versus a different customer team in every facility. Great things are possible through the right partnership, but 3PLs must work with you, not for you, to accomplish them.

7

Define the structure for regular communication.

To stay in sync with your 3PL, define a timeframe for communications, and stick to it. For some relationships, it could be a daily call at the start of a day to identify the fires and reconfirm order volumes. For others it may be a monthly meeting. Either way, look at it as a key requirement, rather than something that could easily be bumped for other priorities. At a minimum, quarterly business reviews need to be integral to your communications cadence.



8 Measure what matters.

Massive amounts of logistics performance data can be crunched, turned into reports and analyzed. But what are the metrics that can provide insights that lead to productivity gains, cost savings or customer service improvements? Decide on a focused set of KPIs and make these your operational religion. Most of the operational metrics that matter can be automatically captured and displayed from the WMS, enabling your 3PL to spend most time improving the numbers, not creating reports.

Of course, the metrics that will matter most to your CFO are expense related, such as logistics costs as a percent of sales or lines shipped per warehouse employee. Don't ignore these financial measures as you construct your metrics dashboard.

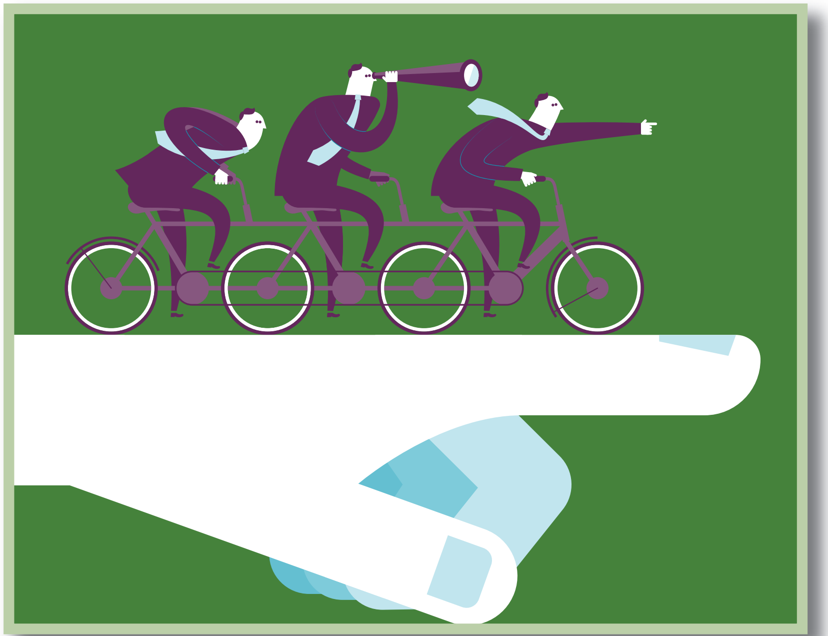
Driving Breakthrough Performance

9

Share long-term business strategies.

People want to do meaningful work. Countless surveys on employee motivations attest to that.

3PLs are the same. They want to help companies grow and flourish. Shippers benefit by providing their strategic 3PL partners with the context they need to envision how the supply chain must evolve to support a particular business plan. Sharing this information requires a higher degree of trust between the parties. Once shared, this intelligence is empowering and will inspire more insightful thinking and better performance.



10

Involve your 3PL in holistic supply chain solutions.

One large food manufacturer struggling with omni-channel fulfillment invited its 3PL to participate in a one-day summit meeting to tackle the problem. Another shipper held a similar summit meeting, this one on chargeback reduction, but did not invite its 3PL (the company that ships the products). They elected, instead, to provide the 3PL with the post-meeting action register, including tasks assigned to the 3PL.

Which approach do you think led to a better outcome?

3PLs work with a range of shippers and encounter many different challenges. As a result, they offer invaluable experience and perspective that shippers can tap into. The most successful partnerships are about collaboration, not dictating a set of prescriptive requirements.

11 Collaborate on improvement initiatives.

A major food products manufacturer and its 3PL were challenged with reducing overall costs in both material and labor for their co-pack operation. The 3PL initiated a lean project and the manufacturer sent several engineers on site to work with the 3PL's operations team and share its experiences with other co-packers. The result was a new corrugate design that generated an immediate $250,000 payback on the corrugate alone, with the additional benefit of reduced labor to construct the display.

Bottom line: two heads are better than one, and three heads are better than two. Create opportunities to work together with your 3PL partner on lean projects.

Share best practices across all 3PLs.

This involves bringing logistics service providers together to share ideas, processes and innovations for the benefit of their mutual customer. Once rare, this is becoming a common practice among supply chain leaders like Walmart and Kimberly-Clark. Understandably, 3PLs that innovate to create an advantage for their own operation appreciate getting the credit when other companies (including direct competitors!) capitalize on these innovations. So, by all means, leverage the power of the extended team to drive value across the network, but remember to give credit where credit is due.

Spread the word on Being a Great 3PL Customer

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