Outsourcing without Fear:
How a Strong 3PL-Client Relationship Takes the Risk Out of Outsourcing

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Introduction: What is outsourcing, and why should your company consider it?

For many companies, the thought of outsourcing any of their operations can be frightening. Successful companies and their CEOs have often achieved their success through meticulous attention to detail and extensive control over every aspect of their businesses. Outsourcing, defined by Rob Handfield of N.C. State University as "the strategic use of outside resources to perform activities traditionally handled by internal staff and resources," calls to the minds of many CEOs a loss of control, transparency, and security that inspires skepticism about the value of outsourcing. As a result of this apprehension, many companies take the "if it ain't broke, don't fix it" approach to outsourcing, assuming their internal operations are "good enough" and improving them is not worth the perceived risk.

Turning a blind eye to potential problems and areas for improvement, however, can result in a timid and complacent workplace culture. As Colin Powell once said, "Keep looking below the surfaces. Don't shrink from doing so [just] because you might not like what you find." While much of the twentieth century was led by businesses that owned, managed, and controlled almost all of their own assets, this is a rapidly changing trend. The increases in business diversification in the fifties and sixties and the growth of global competition in the seventies and eighties demanded that businesses adapt to be more creative and flexible. As a result, many companies began focusing their attention on their core business and outsourcing functions for which they had no internal competency.

Outsourcing was formally identified as a business strategy in 1989, and the concept of third party logistics, defined by Dr. Edward H. Frazelle as "the use of an external company to perform logistics functions that have traditionally performed within an organization," grew in prominence. In today's business environment, outsourcing has evolved into the development of strategic partnerships, and many organizations elect to outsource functions like logistics that do not directly relate to their core business. In other words, companies are choosing to focus less on *ownership* and more on *results*.

Knowing the Facts about Outsourcing

Everyday life is full of examples of outsourcing, from housekeeping and lawn care to automobile maintenance and meal preparation. These simple examples show that outsourcing is not as intimidating as it sounds. The criteria that should be used when considering if outsourcing is right for a company includes:

1. Is the task highly complex?
2. Is there a risk to the business while performing the task in house?
3. Does the task require more than the available resources?
4. Does the task require highly specialized training or tools?
5. Is the task outside of the company's core competencies?
6. Could outsourcing cut costs and improve service levels?

Additionally, a company should consider outsourcing any function that can be completed by a third party at a lower cost. However, the most important question for a company to ask when considering outsourcing is: will teaming with a 3PL yield better results than the company can produce alone?

According to a study by Georgia Tech University and Capgemini LLC, transportation and warehousing continue to be the functions that are most commonly outsourced. Others include customs clearing and brokerage, freight forwarding, shipment consolidation, reverse logistics, cross docking, and many others. The trend towards outsourcing is steadily increasing, as the study reports fifty percent of businesses that currently do not outsource their logistics plan on outsourcing at least some of their operations in the future. The report also found that in the last four years of the study, eighty percent of companies were using 3PL services, an increase of almost ten percent from the first six years.

Of the factors that contribute to the success of outsourcing, personal relationships on an operational level was cited as the most important by a substantial margin. Closely tied for second was having carefully drafted and signed contracts that include detailed descriptions of services, performance tracking criteria, measured improvements in service levels, peer-to-peer relationships that provide guidance and sponsorship, and calculated cost reductions. When properly implemented, an outsourcing plan can have significant results: companies who outsource reported an average reduction of eighteen percent in fixed logistics assets, a savings of thirteen percent on logistics cost, and a reduction in the average order cycle length of almost four full days.

Assessing Your Company's Readiness

Outsourcing is a big step. While the potential savings and increased efficiencies makes outsourcing the right choice for many companies, it is important to assess a business's willingness and readiness to turn over the control of its logistics operations to a qualified third party logistics provider (3PL). A company's expectations must be made explicit, and a 3PL should be selected that has the same standards of quality and operational transparency. Cooperation on specific processes and logistics functions, along with mutual respect, is the basis of a productive client-3PL relationship. To achieve success, a 3PL should drive performance, challenging their client to gain cross functional support and to buy into the concept of an improved culture that delivers results.

When outsourcing logistics, it is important for a company to understand its current strengths and weaknesses. A company should perform Gap and ROI Impact analyses and risk assessments, and must also decide whether it strives to build, buy, or create a partnership. When partnering with a 3PL, a company must state financial performance objectives and document realistic expectations of transition and steady states. Together, a 3PL and its client should define success and what it means for their relationship to be successful. This should not simply be spoken or understood – it should be written down, clearly and explicitly, and kept in mind by both sides at all times.

In order for the relationship between a company and a 3PL to be clear, the company must establish where it requires the aid of a 3PL. To do so, it must evaluate how it measures up by grading its current capabilities in a number of categories. For example, a company's performance in leadership and human resources can be graded in the areas of safety, turnover, orientation, workforce planning, rewards and recognitions, organizational assessment, training participation, development, and team building, among others. A company should determine in which of these areas it excels, in which it is satisfactory, and in which it needs improvement. Similarly, operational statistics such as performance to budget, productivity, service, quality, and inventory accuracy should be evaluated to see where a 3PL's assistance is most necessary. This thorough assessment allows a company to establish a clear list of goals to accomplish through its 3PL relationship. In addition, a company must be fully prepared to support its 3PL's efforts in all of these problem areas.

Before deciding to outsource, there are a few final questions it is important to ask:

- Have you asked your current suppliers to raise their game?
- Have you challenged your own team to raise its game?
- How much effort, cost, and time will it take to implement an "Enhanced Base Case"?
- How will outsourcing the wrong network work?
- How will outsourcing and automating your bad processes with new technology work?

- Are you willing to admit, "You don't know what you don't know"?
- Are you outsourcing just to get something off your plate?
- How much time are you willing to invest to make this decision?

The answers to these questions will tell a company whether or not it is truly ready to fully commit and enter into outsourcing. A company may wish to reconsider if it cannot answer these questions definitively. However, if the relationship is clear, the goals are defined, and these questions are answered, partnering with a qualified 3PL will be fruitful and successful for both parties involved.

Making Smart Choices: Choosing a 3PL, a 3PL type, and vendors that are right for your company

Once the decision to outsource has been made, a company has to find a 3PL that reflects its expectations and is able to enter into a productive relationship. First, a company should choose whether its needs are best suited by an asset based or non-asset based 3PL. An asset based 3PL is a logistics provider that owns many or all of the assets necessary to run its clients' supply chains. This allows the provider to leverage internal strengths and infrastructures to provide direct, immediate solutions, as well as providing quick move in, extensive resource control, flexibility, and greater cost control for short-term contracts. However, an asset based 3PL may be more internally focused than customer focused, can have internal biases, or may falsely overemphasize its flexibility. Also, often times a customer must pay for all or part of the assets, resources, and tools utilized by the asset based provider.

A non-asset based logistics firm, on the other hand, is one that does not own the assets to manage the supply chain. This allows a non-asset based 3PL to avoid being limited to its own infrastructure, creating the opportunity for more creative alternatives. Non-asset providers also possess greater objectivity and typically deliver better ROI, since more capital is available, and since they do not need to realize value from an inventory of assets, their focus is entirely on their clients' needs. However, with more pieces to manage, it is imperative that a non-asset based 3PL have the experience necessary to negotiate effective contracts and realize sources of improvement in every aspect of the supply chain.

Choosing the right 3PL is another crucial aspect to outsourcing success. The most important factors to keep in mind when selecting a vendor include:

- Commitment to quality
- Price
- References and reputation
- Flexibility of contract terms
- Scope of resources
- Additional value-added capability
- Consonance of culture
- Location
- Any existing relationships

Before shopping around for vendors, a company should know what it is looking for specifically. For example, a company should know whether it wants a non-asset based or an asset based provider, or a dedicated, multi-tenant, or public provider.

After setting goals, objectives, and criteria, a company should send out both formal and informal/blind RFIs (Requests for Information). From responses to the RFI, a company should then request RFPs (Requests for Proposals) from vendors whose RFIs meet their goals and criteria. A company should also respond to its own RFP in order to compare external responses with its own internal capabilities. After evaluating all vendor RFP responses, a company should perform as many site visits as possible, followed by negotiations with multiple vendors. When the best suited vendor is found, the contract or partnership can be awarded, and then both sides should commit resources to the success of the relationship.

Categories 3PLs should be evaluated on include:

- Location and facilities
- Flexibility
- Contract structure
- Price
- Experience with similar operations
- Working relationships

- Systems
- Company size
- Engineering capabilities
- Culture fit
- People performance
- International capabilities

By ranking the potential 3PLs in this way and documenting the discussion surrounding the ranking, a true winner will emerge.

During the 3PL selection process, there are a few tricks that can make one provider stand out among its competition. One suggestion is to have a consultant send RFIs or surveys to several 3PLs, without any customer requirements. This forces the 3PLs to identify their strengths, industries, and services without knowing the prospect's industry, requirements, or goals. When seeking references for a 3PL, a business should select companies from an early presentation that lists all of the 3PL's customers, rather than asking the potential 3PL to provide their own list of references. A company can also schedule an unexpected site tour to ensure a truthful and telling visit. Finally, a company can ask the 3PL to prepare a site tour agenda and compare that agenda to its own. These are simple methods that can make a significant difference in finding a 3PL that is closely aligned with a company's own values and expectations, which can go a long way in creating a profitable and successful 3PL relationship.

Despite a company's best efforts, a 3PL relationship can sometimes deteriorate, and it is important to be aware of the warning signs. A statement like: "the 3PL is on its own" is a clear indication of adherence to the most common myth of the 3PL-customer relationship – that any issue can simply be turned over to the 3PL, absent of a mutual, collaborative approach. An absence of trust and respect and a lack of communication (such as only communicating when there is a problem) are also signs of a bad 3PL relationship. An absence of cost-out and continuous improvements, one or both parties constantly referring to the contract, or no time spent evaluating productivity and success, are also indications that a 3PL relationship has gone sour. When this is the case, the 3PL-client relationship must be drastically reworked, or it is time to begin the process of finding a new 3PL that is more in line with the culture, goals, and expectations of the company.

Conclusion

Outsourcing is often perceived as dangerous and frightening, and indeed it can be if a strong, respectful 3PL relationship is not established. Such a relationship will only be as good as each side makes it, and it should be treated like an equal partnership. A good 3PL relationship should create a performance-based culture and workforce that conveys high expectations and implements incentives that drive behaviors. By investing in continuous improvement in time and capital, maintaining the lines of communication through a quarterly meeting rhythm (not just when there are problems), thinking right to left by always keeping the end state in mind, and remembering that every business has an Achilles' heel that just needs to be found, a company can feel in control, safe, and secure with its decision to outsource. Every outsourcing decision becomes a statistic – decide what kind of statistic you want your outsourcing to be, and act accordingly!

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