



Are You Ready for a Third Party Logistics Provider (3PL)?

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Introduction: What's a 3PL?

The Council of Supply Chain Management Professionals, the supply chain industry's leading trade association, defines a third party logistics provider (3PL) as, "A firm [that] provides multiple logistics services for use by customers. Preferably, these services are integrated, or 'bundled' together, by the provider. Among the services [3PLs] provide are transportation, warehousing, cross-docking, inventory management, packaging, and freight forwarding."¹

The Questions to Ask a 3PL

Outsourcing your supply chain is a big step. In the 11th Annual Logistics Customer Survey presented to the Council of Supply Chain Management Professionals in 2006, companies surveyed that did not outsource repeatedly cited lack of confidence in 3PL providers and insecurity about maintaining transparency, security, and control over their supply chain if outsourced.² Many companies have built their logistics right alongside their business and kept their supply chain management in-house. A company choosing to outsource their logistics should be confident that their 3PL partner will maintain (and strengthen) a company's relationship with their clients and customers.

1) Is Your Current Supply Chain Working as Well as It Should Be?

Growing businesses frequently confront logistics challenges. Everyone is prepared for a 10% increase

in business, but companies that see rapid and significant expansion frequently see their supply chain turn into a traffic jam – or worse, a total train wreck. Entrepreneurs start their business focused on their core mission and frequently treat how they will deliver their product to their customers as an afterthought. Keeping your core mission at the center of your focus isn't the problem – it's the way great companies succeed. Managing a logistics chain is no different.

The first question you should consider is how your current supply chain strategy is working. If your warehousing and distribution system is not broken, don't fix it by outsourcing. Every operation should closely measure the effectiveness and cost of your current logistics functions. If you're tracking your logistics, shipping, and warehousing expenses monthly or from quarter to quarter, you should be able to easily see if those costs are increasing and at what rate. In some cases, this will immediately make it clear that your supply chain needs to be improved.

This information is invaluable and allows you to accurately compare your costs to those that a third party logistics provider can deliver. A 3PL should be able to prove that they've successfully confronted similar logistics challenges and delivered savings in these instances, before you even consider signing on the dotted line.

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A 3PL SHOULD PROVIDE CLEAR AND MUTUALLY AGREED UPON KEY PERFORMANCE INDICATORS (KPIs).

A 3PL SHOULD PROVIDE AN ANNUAL PLAN FOR COST-OUT AND CONTINUOUS IMPROVEMENT INITIATIVES.

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2) Are You Losing Focus on Your Core Mission?

To answer this question, simply ask yourself ‘are my employees most productive when handling logistics or would this company be more profitable if our people were working on our core mission?’ Even if your employees are working efficiently on your supply chain, they may be more profitable working on your core competencies. No one would use highly-trained diamond cutters to manage a warehouse and, similarly, your employees might be better off working elsewhere. If your employees make more money for the business working on your company’s core goals, you should consider hiring a 3PL to handle your logistics.

Outsourcing to a 3PL provider can help create a higher performing supply chain. Why? The same reason that you do what you do well: 3PLs specialize in logistics and can take advantage of a level of expertise that non-3PLs can’t. 3PLs build the performance platform, the infrastructure, relationships, and the skill-set necessary to make logistics as efficient as they possibly can. Their business relies on it.

This is one reason why sixty percent of all Fortune 500 companies outsource their logistics and supply chain services to a third party logistics provider.³ This represents a growing trend. As corporations continue to strive to improve their profitability by reducing costs, more and more firms are utilizing the specialized expertise that 3PLs apply to supply chain challenges. From small manufacturing companies to catalog marketing firms, companies are turning to 3PLs to deliver their products more inexpensively, more reliably, and more efficiently.

If you have answered “yes” to either of these two questions, you should look to a 3PL to improve the efficiency of your supply chain and to allow you and your people to focus on your business’s core mission.

Choosing a 3PL Provider

When selecting a third party logistics provider (3PL), it is useful to consider how differently 3PLs do their jobs. Broadly speaking, 3PLs can be divided into two categories: asset based and non-asset based 3PLs. Each of these approaches the goals of increased overall efficiency, reduced costs, and error-free on-time delivery a little differently. A short comparison should help clarify the strengths and weaknesses of each type of 3PL.

As the name suggests, asset based 3PLs own some of the assets used in supply chain management. The investments that asset based 3PLs make frequently include trucks, distribution centers, and warehouses. The advantages asset based 3PLs bring to your operation include easy availability of trucks, warehouses, distribution centers (DCs), etc., based on their inventory of assets. With the investment asset based 3PLs make in the physical plant, they bring expertise to the task of managing your supply chain.

Asset based 3PLs, however, are always motivated to utilize the physical plant in which they have invested. This means that, wherever possible, asset based 3PLs will use their existing infrastructure to manage your supply chain. This can mean organizing your supply chain around DCs and warehouses that take your shipments out of the way and cause delays. This can limit the efficiencies that an asset based 3PL can realize for a client.

When negotiating with an asset based 3PL, a client should insist on a level of transparency that makes them (and their customers) comfortable. This allows the client to consistently monitor the efficiencies and improvements that their 3PL is providing while safeguarding the relationships that they’ve built with their customers.

Hiring a non-asset based 3PL provider ultimately means hiring expertise, not hardware. By analyzing individual supply chain needs, a non-asset based 3PL can evaluate how a company’s supply chain will work and how it can be improved. Non-asset based 3PLs can work with companies to identify the best approaches to meet the demands of their industry and customers. By designing a supply chain that fits a company’s specific needs, non-asset based 3PLs can apply the flexibility that allows them to respond to clients’ needs on a case-by-case basis.

On the downside, non-asset based 3PLs are only as good as the plans they develop for a client and the outsourcing contracts they negotiate. Non-asset based 3PLs can also confront higher costs as the costs of shipping, warehousing, and other supply chain costs increase due to market forces. These problems, however, can be successfully managed by tough and effective negotiations with their outsourcing partners.

What Should Your Expectations Be? Getting the Service You Need through Communication

Communication is the key to a successful 3PL/client relationship. Clear communications are necessary for tracking

packages and maintaining a transparent supply chain for both you and your clients. Clear communications are necessary for effectively integrating the work of your 3PL partner into your supply chain from manufacturing to delivering. Clear communications are necessary for tracking the successes (and missteps) that you and your 3PL confront as you streamline your supply chain.

At the beginning of your relationship with your 3PL, your 3PL should be able to provide you with information that demonstrates both what you can expect and how they communicate with their clients.

The information that your 3PL should provide is summarized below.

1) A 3PL should provide demonstrated expertise and proven performance-based results.

A 3PL provider should be prepared to supply you with case studies on work they have done for their clients. You should look for a 3PL who has worked with clients that have faced similar challenges, worked with businesses that have similar demands, and managed supply chains similar to your own. They should also be able to prove enhanced efficiency and bottom-line results for past and present clients.

2) A 3PL should provide clear and mutually agreed upon Key Performance Indicators (KPIs).

In order to effectively monitor these improvements, you and your 3PL will have to agree on targets and goals.

In order to track these results, you and your 3PL need to collaborate on designing Key Performance Indicators (KPIs) that measure how efficiently your supply chain is working, what savings can be accomplished in the short term, and what long term savings could be achieved with investments in your supply chain.

3) A 3PL should provide an annual plan for cost-out and continuous improvement initiatives.

The KPIs that you and your 3PL agree on should be integrated into a continuous improvement plan that effectively demonstrates your supply chain improvement goals. This plan should provide a reference to you on where you are and where you're going. A continuous improvement plan also helps to clarify your communications with your 3PL and maintain a clear picture of the efficiency of your supply chain.

Conclusion

3PLs can provide cost savings that businesses can't achieve on their own while still maintaining an exacting level of service. Because logistics is a 3PL's core mission, they make it their business to do it the best they can, day-in and day-out. They succeed exactly the same way you do – by focusing on their core business and doing it better than their competitors. If you find a 3PL that works for you, works with you, and works to help your relationship with your clients, your business will be able to improve its supply chain and bottom-line results, year-over-year.

1 Quoted in - Clifford F. Lynch , "Name Your Terms," DC Velocity, July 2005

2 CSMP 11th Annual Survey, presented in at the 2006 CSMP Annual Conference in San Antonio, TX in October, 2006. Of North American companies surveyed, 40% cited "Control Would Diminish," 15% cited an "Inability to Form Trusting Relationships" with their 3PL providers, and 9% cited "Shipment Security Issues." Further, the 22% of companies that cited "Logistics is Too Important to Outsource" demonstrate a closely-related concern.

3 CSCMP 11th Annual Survey, presented in at the 2006 CSMP Annual Conference in San Antonio, TX in October, 2006. See also Assessing the 3PL Market and its Leaders, Armstrong & Associates, presented at 2006 CSCMP.

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