

Logistics Outsourcing: Tips for Successful Selection of a 3PL

One area that the world's most successful companies attribute their success to is outsourcing their logistics and supply chain activities/operations to a third party logistics provider (3PL). Many companies are turning to logistics outsourcing as a way to increase profitability and gain a sustainable competitive edge. 3PL companies offer services that can allow businesses to outsource part of their routine logistics and supply chain management functions. The growth of 3PL companies has been driven by the need for organisations to reduce costs and focus on core competencies. Many organisations are increasingly identifying the non-core functions within the organisation and outsourcing them to increase flexibility, efficiency and customer service levels.

3PL companies have been transitioning from basic commodity-service to a more comprehensive service offering. There is a growing trend for 3PL companies to expand their global networks and diversify by offering various services and ensuring various activities in order to meet the requirements of their customers. Services provided by 3PL companies have improved productivity and significantly reduced costs in many instances.

Outsourcing a company's supply chain is a big step. If your company has always managed its own logistics, outsourcing with a 3PL for the first time can be daunting, but if you find the 3PL partner that works for you, your company will benefit from a 3PL to create a higher performing supply chain and allow you and your people to focus on what you do best.

The benefits and risks of outsourcing

Before any organisation embarks on the 3PL selection process it is necessary to take care of certain risks in order to make the benefits of

outsourcing a reality. The potential risks associated with outsourcing are:

- Finding partners of the right quality
- Downsizing of operations creating extra capacity
- Deteriorating quality of service
- Cultural differences
- IT systems – dependency on 3rd parties
- Rising wages

The outcome of outsourcing arrangements with a 3PL often depends on how the original contract is structured, how the customer/provider relationship is managed and how the end results are measured. When implemented correctly, outsourcing can bring huge benefits and prove to be a win-win situation. Among the benefits of a successful outsourcing relationship are:

- Reduced costs
- Improved service level and offering
- Strategic flexibility
- Greater focus on core competence
- Business continuity
- Improved customer service levels

The benefits of outsourcing can truly be achieved by putting aside fears over loss of control, visibility, internal competency, and of being too dependent on a 3PL. Investing time and resources in the design and deployment of a proven outsource process and comprehensive service level agreements that balance costs and risks will help companies to experience the payoffs of working closely with a 3PL provider.

IT capability gap

Logistics and IT are inextricably linked; the information that IT systems provide is critical in supply chain planning and execution. IT-based logistics services are an essential part of the client-3PL relationship. However, there is a gap between

client's expectations for their provider's IT capabilities and their satisfaction with those services. Only a minority of customers are satisfied with their 3PL providers' IT capabilities. IT issues in client-3PL relationships include:

- Inadequate performance reports.
- Lack of sufficient project management processes and trained personnel.
- Inability for some 3PL's to provide sufficient order/shipment/inventory information.

Each of these issues stem from the need for 3PL's to modernise their internal systems and adopt industry standards-based tools for integration to exchange data, coordinate business processes and collaborate more effectively.

As a result of these IT issues, companies are experiencing a lack of the key performance indicators, alerts and visibility required for an adaptive supply chain. 3PL's face similar difficulties in getting their clients to provide the data and commitment they need. On top of that there's an issue of trust and risk on both sides of the relationship. But the good news is that all these issues can be overcome through investment in open, cross-industry integration platforms that will allow for functional flexibility while preserving existing IT investments and limiting costs.

Why do some outsourcing initiatives fail?

Unfortunately 3PL relationships are not always successful. According to a recent Warehousing Education and Research Council (WERC) survey, 55% of logistics outsourcing alliances are terminated after 3-5 years. The most often cited reasons for failure include:

1. Lack of clear outsourcing strategy.
2. Absence of a scientific selection process.
3. Inefficient costing methodology.
4. Unclear legal documentation.
5. Lack of project implementation strategy.
6. Absence of specific performance measurement system.

Common strategies that should be used in outsourcing

A successful transition to outsourcing with a 3PL is a process that depends on a variety of factors that differ from business to business. The decision to outsource will depend on the company's operation plans, goals, product lines, expansion, acquisitions, etc. Before making this decision, it is necessary to conduct a comprehensive study and document the advantages, challenges and cost benefits of outsourcing.

Once a decision has been made to outsource, the next step is to adopt a scientific selection process and appoint a team of consultants who are specialist in this area to assist in short listing and recommending the suitable 3PL that fits all your requirements at the best possible price. Evaluating and selecting the right 3PL partner is a challenging and risky process for even the most experienced companies. While this process can be challenging, a systematic approach and a well developed outsourcing strategy will clarify your needs and alternatives and positively impact the final decision.

The following steps can be used for selecting a 3PL for your company:

1. Set objectives.
2. Determine customer service requirements.
3. Solicit requests for quotation.
4. Visit the potential provider's facilities.
5. Prepare legal documentation.
6. Develop project implementation plan.
7. Design efficient performance measurement system.
8. Trust and collaboration.

Companies who have managed to build a healthy structure of trust within their organisations are able to create a healthy structure of trust with their 3PL providers. Key to this is the understanding within the client organisation that there is a single set of goals and there has to be a commitment to support and live the goals. Once this infrastructure of trust has been created, then the client-3PL

relationship can start to produce magnified value, and prove to be true win-win.

In order to build trust in your relationship with a 3PL it is crucial to select the right 3PL partner that can meet your particular requirements and with whom you can strengthen your relationships. Thus, the key to a successful logistics outsourcing is a well-organised process of selecting and communicating with the potential 3PL providers.

About New World

At New World Business Solutions we offer a client-focused, collaborative approach and are committed to delivering our clients sustainable ROI by quickly achieving high performance and measurable business results.

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