

AN ULTIMATE GUIDE TO BEING A GREAT 3PL CUSTOMER

12 Surefire ways to elicit greatness from your logistics providers.

proVision
Warehouse Management Systems

By Ahearn & Soper Inc.



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

Such relationships are too often the exception, not the rule. Many clients commoditize the services of third-party logistics (3PLs), believing that the best results come from micro-managing and constant price pressure. The more you, as the outsourcing company (Client) invest in the partnership, as a partner, not an overseer, the more value is delivered. Research seems to bear this out. Dr. John L. Langley, 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 3PL services makes it challenging to focus on innovation and programs that drive savings and improved performance.

So, what can a client do to promote mutual trust and respect to elicit greatness from their 3PL?
Here are 12 suggestions that can pave the way for breakthrough supply chain performance.

Mutually rewarding outsourcing relationships in logistics come down to two words:
Trust, Respect.

Preparing to outsource

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

Always remember that when working with a 3PL, you're going to need to work closely with them like any other business partnership. One of the first statements you should make is telling the 3PL exactly what you're looking for in a fulfillment center. By being direct with your 3PL on what you expect, they can better know whether you're both going to have a successful partnership.

Listing Your Business Concerns and Problems

By giving the 3PL a list of your most serious shipping problems, the 3PL can better understand where you're coming from. They'll also know whether they'll truly be able to solve your problems with their technology. The more the considered 3PL knows about your business, the better it can serve you.



Set Realistic Expectations

If you have had a specific problem for years say you never met peak shipping requirements without charge backs, don't expect that outsourcing to a 3PL will immediately ease 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.

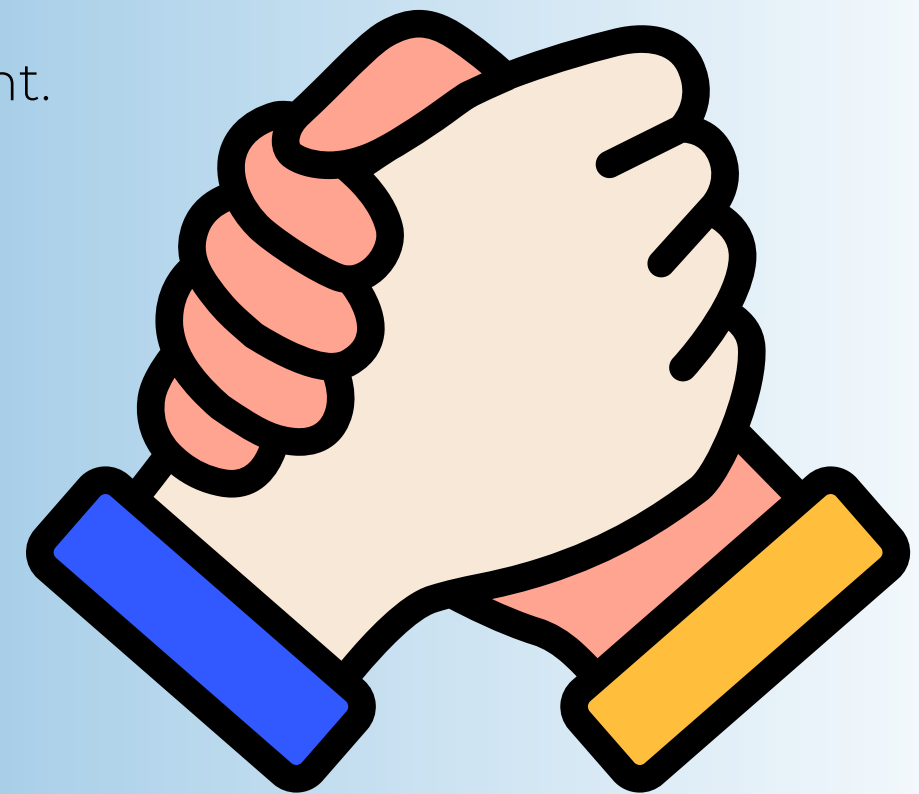


Ensure Cultural Alignment

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 when trusting your gut isn't a bad idea.

The numbers may look right, but if it doesn't feel right, it most likely isn't right.

Culture and chemistry matter. Understand this before you commit.



Establishing The Relationship

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 legal mumbo jumbo, but the critical components that must be addressed in the contract are quite simple:

- Clearly state 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 contract that is mutually beneficial to both parties will allow the partnership to start on a solid footing.

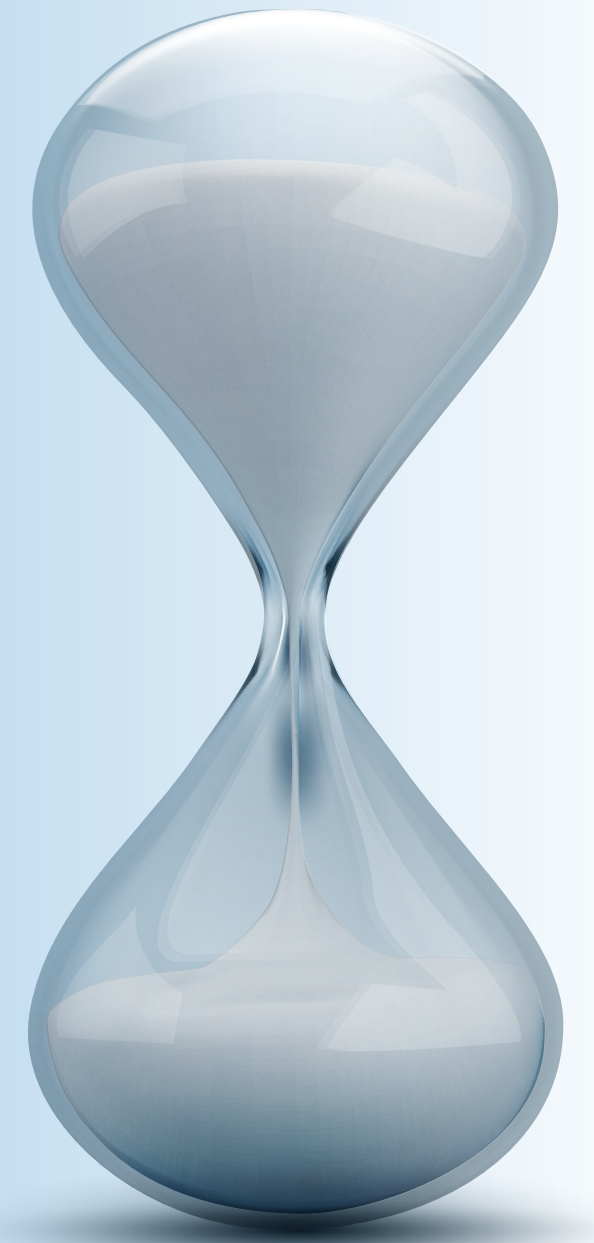


Define the Contract Length to Support Investments in People and Technology

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

Some clients are reticent to commit to more than a two-year contract. Why? They may not know where their 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. Consider breakthrough strategies involving technology and automation that could transform your operations.



Assign the Appropriate Resources to Manage the Relationship

Ernest & Young, in a business briefing on outsourcing, stated 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 client of the daily burden of logistics execution, it 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.



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 the day to identify problems and reconfirm the 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.



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 time improving the numbers, not creating reports.

The metrics that matter most to your CFO are expense related, such as logistics cost as a percent of sales, warehouse profitability, labor costs, freight costs, material, and overhead costs. Don't ignore these financial measures as you construct your metrics dashboard.



Driving Breakthrough Performance

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 their clients to 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 information requires a high degree of trust between the parties. Once shared, this intelligence is empowering and will inspire more insightful thinking and better performance.



Involving your 3PL in holistic supply chain solutions

One large food manufacturer struggling with omnichannel fulfillment invited its 3PL to 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. They elected instead to provide the 3PL with a 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 clients and encounter many different challenges. As a result, they offer invaluable experience and perspective that clients can tap into. The most successful partnerships are about collaboration, not dictating a set of perspective requirements.



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-packing operation. The 3PL initiated the lean project and the manufacturer sent several engineers on-site to work with the 3PL's operations team and shared its experience with other co-packers. The result was a new corrugate design that created an immediate \$250,000 additional benefit of reduced labor to construct the display.

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 customers. This is becoming a common practice among supply chain leaders. Understandably 3PLs that innovate to create an advantage for their operation appreciate getting credit for their innovations.

Leveraging the power of an extended team adds value across the entire network.



About Us

Ahearn & Soper Inc. is a leading provider of supply chain technology to the warehouse, manufacturing, and healthcare industries throughout North America. The company's portfolio includes software, hardware, supplies, and service. Our Provision WMS (Warehouse Management System) software enables medium-sized distribution and third-party logistics (3PLs) businesses to rapidly improve operations to meet the growing demands of their customers at a lower cost. Ahearn & Soper Inc. is a Microsoft Gold Certified Partner, with 25 years of experience in the deployment of Microsoft-based logistics software. We are committed to providing our clients with the highest level of service and support.

Our customer-centric approach is reflected in the long-term relationships we build with our clients. This commitment to excellence has earned Ahearn & Soper Inc. a reputation for reliability and trustworthiness and made us a preferred partner for businesses of all sizes.

Looking for ideas that make your supply chain better?

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