

3PL Selection and Implementation

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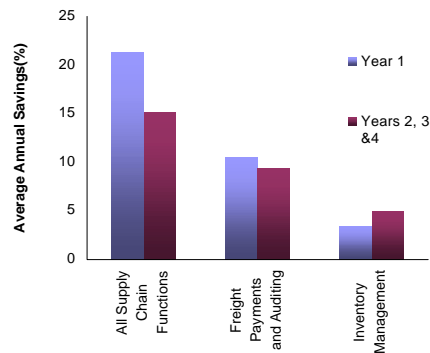
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GAINS FROM OUTSOURCING
Companies gain more from outsourcing all supply chain functions



Source: Journal of Business Logistics (January 1999)

Outsourcing logistics functions to 3PLs has been a source of competitive advantage for most companies. Most companies cite greater flexibility, operational efficiency, improved customer service levels, and a better focus on their core businesses as part of the advantages of engaging the services of 3PLs.

Executive Summary

PROFITABLE LIAISONS

The Dilemma in Brief

The advantages of streamlined and efficiently run supply chains compel many companies to outsource some or all of their logistics functions to third party logistics providers (3PLs). Making the switch to a 3PL presents some unique challenges to a company. The time and effort involved and the failure of some 3PL relationships lead some critics to question the worth of the arrangement. Experts indicate that careful 3PL selection, creating service and support structures, setting clear performance expectations for the 3PLs, and consistent performance evaluation will ensure a successful relationship.

Steps to Consider

Operations Management Roundtable research suggests that thorough understanding of tracking needs and clear goals are key to adopting the right AIDC system. Specifically, leading firms use the following approaches:

- **Know your objectives and 3PL requirements:** Experts recommend that companies should define their logistics goals before taking on a 3PL. The defined objectives will help to establish the criteria for 3PL selection. Some of these include IT capability, alliance partners, customer service, and cultural fit.
- **Have an implementation plan:** This stage is important in establishing service requirements and performance metrics for 3PL assessment. Effective planning and coordination at the beginning ensure a smooth transition. A firm must make sure there is a detailed plan for the integration process so that the project can be kept on track, and must have clear communication channels as well as senior executive support.
- **Consistently evaluate and monitor the 3PL:** Experts recommend consistent checkpoint meetings to evaluate the 3PL's performance. Companies are also advised to treat the 3PL as an extension of the company and maintain the excellent communications created initially. 3PLs must be treated as an extension of the company and should be involved in strategic planning for the client company.

Overview of Current Practice

STRATEGIC ALLIANCES

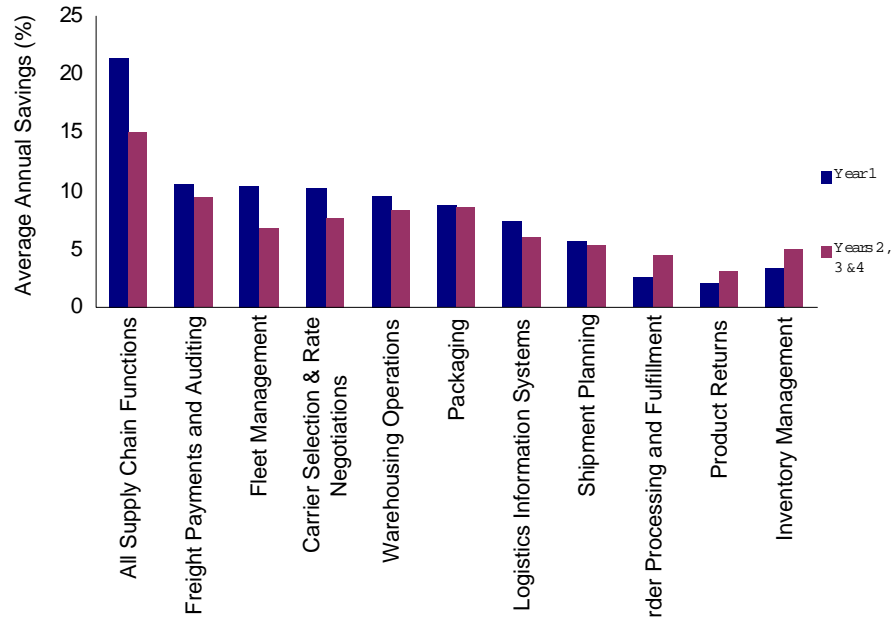
The advantages of streamlined and efficiently run supply chains has led companies to outsource some or all of their logistics functions to third party logistics providers (3PLs).

Increased competition, rising costs and higher customer expectations are but a few of the motivating factors for companies seeking strategic alliances with third-party logistics providers. 3PL alliances began with companies outsourcing some or all of their transportation and distribution functions. In recent times, most 3PLs have gone from offering a single function to integrated logistics provision, offering two or more functions at the same time. For example, some 3PLs offer transportation management, inventory control and materials handling¹.

A successful 3PL alliance offers companies benefits such as access to new or wider markets, increased resources to focus on core competencies, and more efficient operations.

3PL BENEFITS

COMPANIES HAVE GREATER GAINS WHEN THEY OUTSOURCE ALL SUPPLY CHAIN FUNCTIONS



Source: Boyson, Sandor; Corsi, Thomas; Dresner, Martin & Rabinovich, Elliot. "Managing Third Party Logistics Relationships: What Does It Take?" *Journal of Business Logistics* (January 1999)

Some of the advantages of successfully engaging a 3PL are:

- **Improved strategic focus:** Using 3PLs allows a company to focus on its core businesses and hence improve operations and customer service.
- **Lowered costs:** According to experts, companies utilizing 3PLs can reduce inventory management costs by 15% to 30%.² A survey of European companies reported by *Logistics Management* states that 56% of respondents indicated that they achieved lower costs when they used 3PLs³. Other gains are realized in decreased transportation costs. 3PLs are currently investing millions of dollars into technology devoted to logistics excellence. These technologies would be otherwise unavailable to most companies.

¹ Author Unknown. "Is Third Party Logistics in Your Future?" *Modern Materials Handling* (December 2000)

² Ibid.

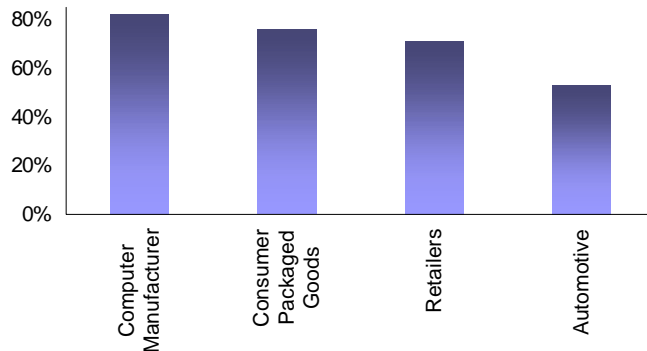
³ Gooley, Toby B. "The State of Third-Party Logistics in Europe." *Logistics Management* (January 1997)

- **Easier market expansion:** Outsourcing logistics operations to 3PLs allows companies to get into a new business, a new market, or new channel of distribution quickly, and to do so with a limited outlay of cash.
- **Increased flexibility:** A 3PL contract provides a relatively short term commitment as compared to the cost of building or leasing a facility. The freed-up resources can be put to other uses.

WHO IS USING 3PLs?

DURING 2000 AT LEAST 50% OF COMPANIES WITHIN 4 MAJOR INDUSTRIES HAD ENGAGED 3PLs.

3PLs offer such services as direct transportation, warehouse management, order fulfillment, and inventory replenishment. The most popular of all these are transportation and warehousing.



Source: Author Unknown. "Is Third Party Logistics in Your Future?" Modern Materials Handling (December 2000)

Among companies, some logistics functions are more commonly outsourced than others. These include warehouse operations, transportation, management of logistics systems, and carrier selection as shown in the table below.

WHAT SERVICES DO 3PLs PROVIDE?	
REPORT FROM A SURVEY OF 94 MANUFACTURERS INVOLVED IN LOGISTICS OUTSOURCING	
Service	(% of respondents using service)
Direct transportation service	63%
Warehouse management	46%
Shipment consolidation	43%
Management of logistics information systems	35%
Carrier selection	32%
Rate negotiation	26%
Product returns	25%
Fleet management	25%
Relabeling/repackaging	19%
Order fulfillment	17%
Product assembly/installation	11%
Inventory replenishment	6%
Order processing	5%
Management of customer spare parts	5%

Source: Cooke, James Aaron. "Third-Party Logistics Grows Up." Logistics Management and Distribution Report (November 1998)

Shortcoming of Current Practice

FAILED PARTNERSHIPS

Despite the advantages of engaging 3PLs, some failed alliances make most companies regard their services with some degree of skepticism.

Many experts argue the degree of commitment that 3PLs have towards learning the business of their clients. Some companies have complained that 3PLs show a lack of industry knowledge, which prevents them from providing value-added service to their clients. Others criticize 3PLs as being too reactive instead of proactive participants of their clients' businesses. The overall indication is that companies need 3PLs to become strategically involved in their client's daily operations and tactical approaches⁴. These criticisms stem from stories and experiences of 3PL relationships that ended in disaster. According to a survey reported by the *Journal of Commerce*, 43% of identified users of 3PLs in North America canceled at least one 3PL contract in 1998⁵.

Operations Management Roundtable research indicates the following as some of the reasons for failed 3PL engagements:

- **Insufficient care in selection of 3PLs:** The urgent need for a 3PL sometimes leads firms to choose sub-optimal partners. Most firms do not define the objectives and expectations of the anticipated 3PL alliance. They therefore do not have the proper selection criteria to successfully evaluate which 3PLs will provide the best "fit". Some firms also rush through the selection process and do not take enough time and resources to evaluate the 3PLs.
- **Inefficient coordination during integration of the 3PL:** Some companies fail to appreciate the number of players (e.g. the various departments) involved in the transition process and the amount of coordination and communication needed for both sides to be on the same page during implementation. As a result, there can be conflicting messages among departments and between the company and the 3PL provider, which leads to glitches in integration and can result in the company getting less than full value from the 3PL.
- **Improper management and evaluation of the established relationship:** Many firms do not pay sufficient attention to managing the 3PL relationship after the initial integration. Others do not regard 3PLs as equal partners and so lose the benefits of strategic collaboration. Instead of frequent, clear and two-way communication on all aspects of the operation, the logistics service provider operates in an information vacuum and the entire operation becomes reactionary. Some relationships also suffer from established performance measurements that are either vague or virtually unachievable.

Failed 3PL relationships are a result of factors such as a lack of proper care in selection of 3PLs, inefficient coordination during the integration process and improper management and evaluation of the relationship.

⁴ Mottley, Robert. "Dangerous Liaisons." *American Shipper* (February 1997)

⁵ Atkinson, Helen. "Logistics Contract 'divorces' rising as industry grows." *Journal of Commerce* (November 1998)

Member Imperative

PUTTING THE PIECES TOGETHER

Members should consider several key points before the selection and integration of 3PL provider.

It is only after companies conduct a thorough self-examination can they proceed with the identification and selection processes for a 3PL. The various considerations involved in the identification and selection, integration and management of 3PL relationships are outlined below.

Clear objectives and criteria for 3PL selection, a detailed implementation plan, and careful and consistent evaluation of the 3PL will help companies to enjoy the full advantages of outsourcing.

The Selection Process

- A. Know where you want to go:** Experts recommend that companies should define their most aggressive logistics management goals and then attempt to visualize what the firm will look like after achieving those goals. Some companies employ external help to help define these goals and determine if there is a need for a 3PL alliance.
- B. Clarify your needs and objectives:** When companies decide that a 3PL alliance will be the best way to go, a lot of homework must be done in gathering data about its operations. Clear and realistic objectives and expectations of a 3PL alliance will enable a company to establish its selection criteria and better evaluate which 3PL(s) will provide the best “fit”.
- C. Select best fit based on your most important criteria:** Some of the criteria considered by companies include the 3PL’s capacity and willingness for continuous performance improvement, price, IT capability, alliance partners, cultural fit, and customer service. The importance of certain criteria over others is subjective to each company. The selection process is explained in detail on page 7.

The Integration Process

- A. Make sure both sides are clear about service requirements:** A firm must discuss, clearly define and establish its service expectations with the 3PL. Measurable standards including performance metrics for assessing the 3PL, and a pre-defined monitoring process, complete with periodic reviews, should be set up.
- B. Have an implementation plan:** There must be a detailed project implementation plan as well as periodic reviews to make sure everything is on track. This makes the management of the project easier and guards against drastic changes in the scope of the project.
- C. Ensure complete support from upper management:** Support from upper management will help to push the program through the organization and make it easier to obtain the support and acceptance of the other managers and employees.
- D. Have open and honest communication channels:** Both companies must be willing to share enough detailed information so that each side will have a clear sense of the other’s processes. It is important to establish a recognized point of contact on both sides, and for employees to know who the process drivers and decision-makers are.
- E. Plan an exit strategy:** Companies must plan for contingencies like a break down in negotiations or organizational changes, which can occur midway into the implementation. The integration process is further discussed on page 9.

Managing the Relationship

- A. Have consistent checkpoint meetings:** There should be regular and consistent checkpoint meetings for evaluation. The company should use well-defined performance metrics that are established in the initial stages of the relationship to assess the 3PL.
- B. Maintain the open communications initially established:** 3PLs must be treated as an extension of the company's own business. Frequent and open communications should not end when the relationship becomes established. Consistent two-way communication will ensure continuous improvement by redefining the partnership goals to reflect the experience gained in the relationship and the changing market conditions. These imperatives are further discussed on page 11.

SELECTING A 3PL PROVIDER

The speed of technological and market changes requires that the selection of a 3PL partner be done with the most careful consideration, with the goal of a long-term relationship.

Experts recommend that “companies should define their most aggressive logistics management goals and then attempt to visualize what the firm will look like after achieving those goals. Firms must clearly articulate where they want to go before they develop a plan that will take them to the new higher performance level⁶.” Most companies employ outside help to aid in figuring out if there really is a need for a 3PL partnership. The external consultants will help the company to narrow down a list of 3PLs and identify would-be partners. The short member diagnostic in **Appendix A** (page 13) is designed to help companies in deciding whether a 3PL is needed.

The next step is to send out a request for proposal (RFP) or request for quotes (RFQs) to the short list of 3PLs. Industry experts advise that companies set a deadline to make a decision and stick to it. The final selection for a 3PL partner begins after the receipt of the bids from the 3PLs. There are several criteria that companies should take into account when making their final selection for a 3PL (see table on next page).

Clear and realistic objectives and expectations of a 3PL alliance will enable a company to establish its selection criteria and better evaluate which 3PL(s) will provide the best “fit”. Setting objectives and criteria should be a cross-functional group activity. Every department, for example, marketing, operations, accounting, personnel, and IS, that will be involved directly or indirectly with the 3PL should participate actively. A company could start by gathering general information about its operations, such as product lines, shipping volume, geographic areas and industries served, growth forecasts and the computer systems. Included with this list should be the value-added services that the company would require from a 3PL. To avoid later problems, one of the early decisions made should be whether the company requires systems integration with the 3PL.

According to experts, during the selection process, most companies do not place much importance on the 3PL’s capacity and willingness for continuous performance improvement. However, there is little incentive for 3PLs to invest much in the partnership because contract pricing is usually fixed over time, which means that incremental improvements by the 3PL are not rewarded. This can lead to operational stagnation and diminished value for the service provided. To handle this potential problem, leading companies are moving towards a “pay for measured performance” approach, where during the selection process, 3PLs are asked to demonstrate their ability to manage operations and improve operational efficiency over time.

Companies must perform their own research on the 3PLs’ capabilities and not rely only on information obtained from the 3PLs. Experts also recommend that companies evaluate 3PLs by what they have done and not what they plan to do. Experience gained by the 3PL in the client’s industry can be applied to the new project. Therefore the 3PL’s prior performance in the would-be client’s industry should be a weighty factor in the selection process.

A survey of 463 companies, of which 70% were manufacturing companies, showed that in selecting logistics partners, companies rank financial stability, customer service capability, and price as the most important criteria. The second most important criteria were identified as creativity in problem solving, technology capabilities, general reputation, reputation for continuous problem solving and the compatibility of cultures. These were followed by size, asset ownership and international scope as the third most important criteria. The least important criteria as identified by the respondents included prior relationship with the company and the 3PL’s human resources policy⁷.

⁶ Bagchi, Prabir K. & Virum, Helge. “Logistical Alliances: Trends and Prospects in Integrated Europe.” *Journal of Business Logistics*, Vol. 19, No.1, (1998).

⁷ Boyson, Sandor; Corsi, Thomas; Dresner, Martin & Rabinovich, Elliot. “Managing Third Party Logistics Relationships: What Does It Take?” *Journal of Business Logistics* (January 1999)

Before choosing a 3PL, companies must define their goals and objectives for outsourcing and then establish their criteria for final selection.

Some of the most important criteria include price, financial stability, quality standards, and capacity and willingness for continuous performance improvement

To have an excellent performance rating, a vendor should satisfy all the client's requirements under the particular criteria.

VENDOR CHECKLIST FACTORS TO BE CONSIDERED IN SELECTING 3PL PARTNERS			
Criteria	Performance Rating (1= Bad 10= Excellent)	Importance Rating (1= Not Important 10= Very Important)	Score (Performance Rating * Importance Rating)
General Company Considerations			
Price (Competitive pricing)			
Financial stability			
Experience in the same industry or with similar companies			
Location			
Asset ownership			
International scope			
Capabilities			
Information systems and technology capabilities			
Customer service			
Capacity to accommodate and grow the client's business			
Flexibility and capability to handle unique business requirements (creative management)			
Responsiveness to unforeseen problems or unexpected events			
The ability to meet or exceed promises			
Quality			
Service quality and performance, e.g. Six Sigma, ISO 9000			
Commitment to continuous improvement			
Quality of the provider's management team (excellence in administration)			
Client Relationship			
Availability of top management when necessary			
Subjective "feel" or cultural fit between the partners (compatibility with company culture and philosophy)			
Service Cancellations			
General reputation			
Labor relations			
Human resource policies			
Availability of qualified talent			
			Total Score

The amount of importance placed on each criterion is peculiar to every company.

The 3PL with the highest score will be the leading choice.

HANDLING THE INTEGRATION PROCESS

There are many players involved in logistics transactions, and establishing effective coordination at the beginning stages goes a long way to ensure a hassle-free partnership.

The contract arrangement and implementation process is unique to every company. However, it is important for every firm to partner with the selected 3PL to develop optimum solutions to help ensure a smooth implementation and gainful partnership.

Before signing a contract, companies must make sure the requirements are clarified on both sides. A firm must discuss, clearly define and establish its service expectations with the 3PL. Most 3PLs find it useful to document the exact processes, functions, services, and job descriptions are involved in the hiring company's operations, to ensure that all its actions are geared towards helping the company to reap the desired benefits from the relationship⁸. There should be some upfront goals established for short and longer-term savings. Measurable standards including performance metrics for assessing the 3PL, and a monitoring process, complete with periodic reviews should be set up. Some of the performance metrics used by companies are contained in the table in **Appendix B** on page 14.

Firms must develop and follow a detailed project implementation plan and conduct periodic reviews to make sure everything is on track. One thing to watch out for is scope change. Minor changes in the project plan could develop into huge changes that might throw the whole project off track and even affect the customized solution being devised and offered by the 3PL.

Companies must ensure complete support from upper management. An effective 3PL program will affect every aspect of a company's operations and will also require some changes to be made. For the changes to be successful there has to be support from upper management. These people will help to push the program through the organization and obtain the support and acceptance of the other managers and employees. The legal team is of course involved but should not be the primary drivers of the process.

There must be open communication channels. Communication mix-ups can lead to lost data and information, and could result in the client company or the 3PL underestimating the complexity of the job at hand. At this point, both companies must be willing to share enough detailed information so that each side will have a clear sense of the other's processes. There should be a recognized point of contact on both sides, a knowledge of who the process drivers and decision-makers are, and multiple levels of communication. For example, according Roundtable research, it is advisable for both sides to have an account executive – the highest level contact who will be in charge of making sure that strategies on both sides are aligned, the account manager who is responsible for managing the relationship, and a supporting project team that handles the day to day activities.

Keep your employees up to date on the progress of the implementation efforts and how the new system is going to work. This ensures a minimum of surprises, especially in relation to an in-house logistic department that has to give way to the incoming 3PL. When contacts change employees should be made aware immediately so people know whom to deal with. Firms must tackle everyday problems immediately and not allow them to backlog. At the same time, there should be care in responding to problems. Experts caution companies to avoid overreacting to the first sign of trouble. Glitches should be expected and the client company must work with the 3PL to design problem solving tactics.

For practical purposes, a company must have a back-up plan, which must include an off ramp strategy for canceling the contract with the 3PL. Companies must plan for contingencies like a break down in negotiations, which can occur midway into the implementation. Unexpected events like a management change at the 3PL firm, organizational problems or an acquisition of the 3PL by another company could result in the client having to look for a different 3PL. Therefore, the client company must have at least one other 3PL in mind as a second choice while implementing a contract with the first.

⁸ Seideman, Tony. "Putting the Pieces Together." *Logistics Management and Distribution Report*. (January 2000)
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A detailed project implementation plan, complete upper management support and open and honest communication will help ensure a smooth integration.

ARRANGING THE CONTRACT	
<i>HOW NECESSARY IS THE INCLUSION OF INDIVIDUAL PROVISIONS IN CONTRACTS WITH THIRD PARTY LOGISTICS PROVIDERS? (RESULTS TAKEN FROM A SURVEY OF 463 COMPANIES.)</i>	
Contract Provision	Average Rating (1= VERY NECESSARY 5= VERY UNNECESSARY)
Cost of Services	1.23
Performance Metrics	1.53
Termination Clause	1.60
Delineation of Duties	1.76
Insurance/Allocation of Liabilities	1.77
Length of Contract	1.81
Payment Method	1.90
Dispute Mechanisms	2.06
Noncompliance Penalties	2.23
Technology/Intellectual Property	2.57
Gain Sharing	1.63
Human Resources	1.69

Source: Boyson, Sandor; Corsi, Thomas; Dresner, Martin & Rabinovich, Elliot. "Managing Third Party Logistics Relationships: What Does it Take?" *Journal of Business Logistics* (January 1999).

MANAGING THE RELATIONSHIP

Managing the 3PL relationship include open communication channels, and a consistent and careful evaluation of the 3PL's performance to ensure that expectations are met.

Experts advise that it's important to keep in mind that a third-party provider represents an equal partner in an outsourcing relationship and should be treated as such. That means maintaining open communication with that third party as well as making a long-term commitment to the relationship. Some of the practices recommended for a lasting relationship are discussed below.

The company can develop a scorecard based on the agreed upon performance metrics to evaluate the 3PL.

The company should use the performance metrics that were defined and established in the initial stages of the relationship to assess the 3PL. There should be regular and consistent checkpoint meetings for evaluation. For example, for transportation management services, the company should consider such metrics as the 3PL's percentage of on-time deliveries, shipment-tracking accuracy, and the percentage of damage-free shipments. For warehouse management, the company should look at the percentage of orders that the 3PL ships in the exact quantity shown on the order. In scorecarding, experts advise that for fairness and objectivity purposes either an independent company or a cross-functional team of executives from various departments that are affected by the 3PL's performance should do the evaluation.

Sun Microsystems's 3PL, **USCO**, went from materials handling and warehousing to managing the information network that ties the former's suppliers and remote stocking locations together for efficient customer after-sales support. Four times a year, **Sun** uses a scorecard to evaluate the performance of **USCO** against stated goals. **Sun** measures **USCO's** performance the same way it measures its own and its suppliers' performance in the supply chain. The performance of **USCO** is measured two ways: from the customers' perspective, and using company specific performance metrics. To determine the customer's satisfaction level, the following measures are used:

- The Customer Quality Index: This is an internal measure that establishes a certain level of time expectations for each transaction in the process, such as creating an order, picking a part, or delivering a part. It tracks whether the time expectations for those transactions were met on a weekly and a monthly basis.
- Customer surveys: These are conducted after a service engagement and are handled either over the phone or via e-mail by an independent company. The surveys give **Sun's** customers the opportunity to explain their perception of the service.
- The Customer Loyalty Index: This focuses on the customer as an account-in keeping with what **Sun** calls the relational side of its business. **Sun** itself conducts face-to-face or e-mail inter views with the manager who controls the overall account. The survey takes a broad look at the customer's satisfaction level. Typical questions include, are you pleased with the service from **Sun**? Are you getting the right service level? Are you likely to recommend the company? Are you likely to repurchase from **Sun**?

Sun Microsystems uses customer surveys and company specific performance metrics to assess its 3PL

Sun processes information from those three measures, paying close attention to the customer's comments. If a particular issue arises that requires immediate attention, the company contacts **USCO** to resolve the problem.

The criteria by which **Sun** reviews its 3PL include:

- Fiscal management, which examines the 3PL's costs in comparison with other suppliers',
- Quality, which looks at the quality of the service **USCO** is providing,
- Availability, which reviews the 3PL's record on inventory accuracy and order fill rates and,
- Strategic and technical development, which measures **USCO's** ability to perform capacity and system management.

Key personnel from both **Sun** and **USCO** attend quarterly management reviews at which the parties look over the scorecard findings and talk about action plans to take performance to another level. **Sun** then monitors the proposed corrective actions.

Third party logistics providers must be treated as an extension of the company's own business. Partners must understand that they are in it for the long term and that success and failure are to be equally shared. Excellent and open communications should not end when the relationship becomes established. Consistent two-way communication will ensure continuous improvement by redefining the partnership goals to reflect the experience gained in the relationship and the changing market conditions. There should be openness in dealings and surprises should be minimized. In some alliances, employees from the logistics provider are stationed full-time on the customer's premises and are treated the same as the customer's employees⁹.

For example, Hewlett Packard Company's Laser Jet Division has strategic alliances with two 3PL partners who are co-located within the divisions facilities.¹⁰

In addition to the quarterly reviews, **Sun Microsystems** holds a yearly strategic get together called a "joint application and development meeting" with its 3PL, which focuses on future business directions. The factors considered include future changes in technology, **Sun's** strengths, weaknesses, opportunities, and the threats it faces in its industry. Apart from that strategic meeting, it also reviews its contract with USCO annually to ensure that the list of contractual responsibilities makes sense in view of changing business conditions.

Sun Microsystems Inc. Supplier/3PL Sample Scorecard

	Criteria	Definition	
COST	Service Costs	Supplier meets target price of service. (Target = the number of transactions for which supplier should hit the Sun cost target)	<input type="checkbox"/>
	Cost Reductions	Supplier actively works to reduce product price quarter over quarter. (Target = percentage of unit price improvement expected over previous quarter)	<input type="checkbox"/>
QUALITY	Reports	The supplier provides regular reports as required by Sun. (Target = the number of reports required in this quarter)	<input type="checkbox"/>
	Process Improvements	Initiatives and performance measures to be defined jointly by supplier and Sun.	<input type="checkbox"/>
	Invoice Process Compliance	Ability to invoice Sun for service in an accurate and timely manner.	<input type="checkbox"/>
AVAILABILITY	Customer Satisfaction	Evaluation of a service purchased by Sun by the customers of said service.	<input type="checkbox"/>
	Handling Routing	Excess, shortage, or wrong delivery of services, parts, or products.	<input type="checkbox"/>
	On-Time Delivery	Shipments that are defined as late per Service Level Agreement.	<input type="checkbox"/>
TECHNICAL DEVELOPMENT	Program Management	Supplier provides effective program management.	<input type="checkbox"/>
	Technology Development	Supplier develops technology that will meet Sun's process evolutions.	<input type="checkbox"/>
	Systems	A disruption in information systems communications due to supplier's system.	<input type="checkbox"/>

Source: Cooke, James A. "From 3PL to 3PI." *Logistics Management and Distribution Report* (April 2001)

⁹ Bagchi, Prabir K. & Virum, Helge. "Logistical Alliances: Trends and Prospects in Integrated Europe." *Journal of Business Logistics*, Vol. 19, No.1, (1998).

¹⁰Harps, Leslie H. "Partnering for Performance." *Inbound Logistics* (July 1998)

APPENDIX A

Member Diagnostic

Do You Need To Consider Partnering With A 3PL?

Yes....

- If logistics is simply not and cannot be a core competency, e.g. if you have little logistics expertise in your company.
- If your supply chain is not integrated internally or with your trading partners. Your supply chain is decentralized, if there is
 - Decentralized sources
 - Too many transportation managers
 - Large inventories at rest
 - Low stock turns/high stock outs
 - Too many distribution centers
 - Too long to react to unexpected customer demand changes
- If there is dissatisfaction with
 - Inventory levels
 - Inventory locations
 - Costs of inventory
 - Inventory turns
 - Total logistics costs
 - Real-time access to logistics information. E.g.
 - Transportation i.e. fuel and maintenance
 - Warehouses and distribution centers
 - Logistics labor

Source: Ryder Company

APPENDIX B

Some Performance Metrics For Assessing A 3PL.

Transportation

- On-time shipment: Percentage of shipments that leave the designated location on the required, specified, or agreed-to ship date.
- On-time delivery: Percentage of shipments delivered to the customer location on or by the required, specified, or agreed-to delivery date. This should be reported monthly by location in total and by customer.
- Transportation cost per mile.

Warehousing

- Percentage of orders that the 3PL ships in the exact quantity shown on the order.
- Cost of operating the warehouse.
- Ability to move goods from “dock to dock” within eight hours.
- Number of cases handled per hour.
- Number of cases handled per employee.
- Picking accuracy: Percentage of lines with errors vs. the total number of lines. Shipper feedback to 3PL is required for this reporting loop. This should be reported monthly by location in total and by customer.
- Order fulfillment: Percentage of orders shipped complete vs. the total number of products. This should be reported monthly by location in total and by customer.
- Item fulfillment: Percentage of product lines picked complete vs. the total number of lines picked. This should be reported monthly by location.
- Inventory accuracy: Percentage of cartons cycle-counted without corrections vs. cartons cycle-counted with corrections. This should be reported monthly by location.
- Loss and damage: Loss and damage occurring in a designated location due to contractor negligence as a percentage of total throughput. Throughput is calculated as the average of cases received plus cases shipped.

Source: Cooke, James A. “Knowing the Score.” *Logistics Management and Distribution Report*, (February 1999)

APPENDIX C

Ten steps to outsourcing success

For outsourcing arrangements to succeed, they must be based on mutual trust and respect. Unless there is this sense of integrity in the relationship, it most certainly will fail. As the client, much of an outsourcing relationship's success is dependent upon your actions. For a logistics outsourcing relationship to work, 10 basic rules must be followed.

- 1.** Develop a strategy for outsourcing. Outsourcing should always be thought out carefully and measured against an "in-house" solution. This helps identify relative strengths and weaknesses for each alternative. Include the provider in the process from the outset. While an RFP makes proposals easier to evaluate, they can ignore the analysis of the most cost- and service-effective processes.
- 2.** Establish a rigorous selection process. Check industry sources, existing clients and financial institutions. Carefully analyze such things as management depth, strategic direction, information technology capability, labor relations, and personal chemistry and compatibility.
- 3.** Clearly define your expectations. A number of third-party relationships have failed because of the client's unrealistic expectations. Often providers are asked to submit bids based on inadequate information about volume, size of shipments, frequency, seasonal variations, etc. Some user firms simply lack accurate or detailed knowledge of their own logistics activity. In addition, the cost of providing the service, especially in the information technology area, often is underestimated and/or misunderstood. When given inadequate or inaccurate information, providers can develop costing and commit to arrangements that don't reflect reality. Once they develop a greater knowledge and experience with the relationship, providers often find they have made decisions they find impossible to live with.
- 4.** Develop a good contract. Provide incentives to improve operations and productivity with both parties sharing in the benefits. Clearly spell out obligations, expectations and remedies.
- 5.** Establish sound policies and procedures. Since no contract can contain all the policies and procedures applicable to day-to-day activity, it is important for the client to provide the service provider with an operating manual. Ideally, this would be one they develop together and should contain all policies, procedures and other information necessary for the efficient operation of the account.
- 6.** Identify and avoid potential friction points. Both parties usually are well aware of friction points that may arise. These should be identified in advance, if possible, along with a procedure developed for dealing with them.
- 7.** Communicate effectively with your logistics partner. Poor communication is second only to poor planning as a major cause of outsourcing relationship failure. Communication on all aspects of the operation must be frequent and two-way. Often the logistics service provider is expected to operate in an information vacuum, and before long, the entire operation becomes reactionary. This is the first step toward failure.
- 8.** Measure performance, communicate results. When setting up a relationship, standards of performance should be clearly identified, agreed upon and communicated; and performance should be measured on a regular basis.

To facilitate effective measurement, make sure that performance standards are measurable and achievable. A frequent mistake is to establish standards that are so vague as to be meaningless. Measure only those things that are important.
- 9.** Motivate and reward your providers. Good performance should be rewarded, not taken for granted. Compliments recognition, awards, trophies and dinners all are proven motivators. Do whatever works for your particular circumstance.
- 10.** Be a good customer. Good partnerships are mutually beneficial. Bad ones are not. Your logistics provider's ability to serve you and your customers often can hinge on your own performance or lack thereof.

Source: Loudin, Amanda. "Outsourcing is IN." Warehousing Management, November 2000, culled from *Logistics Outsourcing: A Management Guide*, by Clifford Lynch

THE RESEARCH PROCESS IN BRIEF

Project Aims and Research Methodology

Project Aims

This document seeks to provide senior operations executives with a framework for making key strategic decisions on an issue of suitably narrow scope. Because it employs an abbreviated research process to maximize its timeliness, this project (by design) does not provide an examination of every problem contingency. That said, the Operations Management Roundtable attempts to provide objective insight into problems expressed by the initial member inquiry.

While this report reproduces the opinions of experts and others regarding an issue of key strategic concern, we cannot emphasize enough that (consistent with our charter) we are not recommending any particular course of action.

Research Methodology

We conducted approximately four weeks of research on this project, reviewing proprietary Corporate Executive Board data and projects on this topic, thoroughly reviewing secondary literature and conducting interviews of companies which have engaged third-party logistics providers in the past.

Professional Services Note:

This project was researched and written to fulfill the specific request of a single member of the Operations Management Roundtable and as a result may not satisfy the information needs of other members. In its short answer research, the Operations Management Roundtable refrains from endorsing or recommending a particular product, service or program in any respect, nor to provide an exhaustive solution framework for the underlying problem. Sources are contacted at random within the parameters set by the requesting member, and the resulting sample is rarely of statistically significant size. That said, it is the goal of the Operations Management Roundtable to provide a balanced review of the study topic within the parameters of this project. The Operations Management Roundtable encourages members who have additional questions about this topic to assign research projects of their own design.

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