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Purchasing Logistics Services:

guidelines on selecting and managing the right 3PL

by Edward Sweeney, Director of Learning NITL

BACKGROUND

The focus of this edition of *Logistics Solutions* has been on the purchasing and procurement dimension of the supply chain. Outsourcing of logistics services has long been a feature of supply chain management and this type of outsourcing continues to grow rapidly. It is crucial that prospective customers of third-party logistics be extremely thorough in their purchasing of logistics services through the use of a robust evaluation, selection, and bidding process. This technical focus provides guidance on selecting and managing the right third party logistics (3PL) provider, adopting appropriate elements of purchasing best practice throughout.

KEY ELEMENTS OF A PROCESS FOR SELECTING AND MANAGING A 3PL

1. Set and define internal and external goals and objectives.

The company's main objectives and expectations for outsourcing need to be clearly defined. What is the company trying to accomplish in its relationship with a third party provider? A clear understanding of the goals serves as a guideline as well as a way to measure the project's success. A clear set of SMART (Specific, Measurable, Attainable, Realistic and Trackable) objectives helps potential 3PLs to identify clearly what they are bidding on. The main objectives need to relate to the overall supply chain objectives of optimising total supply chain cost and meeting defined customer service requirements.

2. Develop 3PL Selection Criteria.

The evaluation of a third-party logistics provider starts with the establishment of selection criteria based on the agreed objectives. The basic criteria should include service quality, cost, capacity and delivery capability - these are traditionally used to evaluate providers' core capabilities. As detail is added to the selection process other criteria such as

financial strength, information systems infrastructure, operating and pricing flexibility and management expertise play a vital role in the process. The "cultural fit" with potential providers is another important criterion. The agreed criteria form the basis of a company's RFP (request for proposal).

3. Identify Potential Providers.

Once the selection criteria have been identified, a list of potential 3PL candidates is developed. Potential candidates should have experience in the industry and geographical coverage which satisfies location requirements. Other important issues in developing this list is the providers' ability to develop long-term customer partnerships and their record of producing continuous improvement. NITL's Logistics Services Directory provides information about the nature of Irish 3PLs and can be used as a starting point in this process. This needs to be combined with the assessments of existing customers of the various potential providers regarding their key competencies

4. Develop the RFP.

The RFP should have all the project requirements for warehousing, transportation, or any other services that are being outsourced. Specific information about the candidate's pricing model, organisation, capabilities and current customers also needs to be requested. This format should be such as to enable convenience in the evaluation process. It is a comprehensive document and potential providers should be allowed a reasonable period of time to respond to this request.

5. Review the Proposals.

All candidates' bids are thoroughly reviewed and assessed in areas such as financial stability, strategic fit, management philosophy and culture. It is important that the chosen 3PL has the financial and strategic capability to grow and invest in new technologies and solutions. A well-developed information infrastructure and high levels of ICT

connectivity is also desirable. Good proposals should be creative in nature - you should look for providers who are developing solutions that will meet your current and future needs. Site visits are used to allow providers' management, facilities, procedures, and employees to be assessed. Successful outsourcing logistics is about trust. Without trust any relationship is doomed to failure. Site visits attempt to assess these trust issues as objectively as possible.

6 Review Proposed Contract.

Once the final candidate is selected, a contract is drafted. The review should include transport and warehousing contracts, schedules, tariffs and rates. Services guarantees and the monitoring of performance reliability of the provider are critical elements of any 3PL contract. Conflict resolution mechanisms also need to be agreed. Once the contract is agreed, the parties begin implementation. Implementation often involves a learning curve and being prepared to be as flexible as possible as operations are being established is imperative.

CONCLUDING COMMENTS

As logistics capabilities of 3PLs improve so do higher expectations of the services being provided. Higher expectations in areas such as speed, accuracy and flexibility will increase. The ideal 3PL will not only meet these expectations, but exceed them. In order for 3PL providers to continue to grow and be competitive they must demonstrate a clear market or cost advantage. Users are looking for logistics expertise, improved service, and lower cost, not outsourcing for the sake of outsourcing. Success requires that the process of selecting a preferred provider is carried out in a logical and systematic manner based on the guidelines outlined above. It also requires that the ongoing relationship is well managed, based on the key partnership principles of trust and transparency. In this way sustainable relationships based on a "win-win" philosophy can be developed. LS