

5 Tips: Choosing the Best 3PL for Your Shipping Needs

BGI Worldwide Logistics, Inc.

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5 Tips: Choosing the Best 3PL for Your Shipping Needs

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Globalization and removal of trade barriers are supporting the growth of the logistics market. Increasing outsourcing activities across the globe are making the supply chain longer and complex. The trend is clear: More companies will use 3PLs to keep up. Choosing the biggest or the lowest cost 3PL can be a mistake. Properly done, the search should result in a good, profitable long-term partnership.

How do you choose?

How does a business entity choose among the hundreds of third-party logistics companies (3PLs) for the best results for shipping their company’s products

Figure 1. U.S. 3PL Market 1996-2013E (US\$ Billions)



Figure 1 Source: 3plogistics.com

and for their customers? Before that, why would a company want to outsource their logistics in the first place? Statistics show that 3PLs often obtain better shipping prices, and have greater resources to find more accurate tariffs, offer auditing capabilities, etc. The jump to a third party logistics company may seem like a no-brainer. At the same time, deciding to outsource the company’s internal shipping tasks is itself difficult and time-consuming. Nevertheless, today’s marketplace is forcing

companies’ hands.

Spending in the U.S. logistics and transportation industry (Figure 1) has grown steadily every year since 1996 with the exception of the year following the Great Recession of 2008. The costs of moving goods from origin to end user through each supply chain network segment become a bigger burden on bottom lines. Margins are squeezed; competition is fierce.

When so much is at stake, it almost seems illogical to outsource logistics. The object of this White Paper, then, is to extend a framework from which to 1) choose the best 3PL for a company's shipping needs, 2) avoid making the wrong decision, and 3) understand how a good 3PL can save money, not only in hard costs but also in the opportunity cost accruing to consignees along the supply chain network.

"Leaders win through logistics. Vision, sure. Strategy, yes. But when you go to war, you need to have both toilet paper and bullets at the right place at the right time. In other words, you must win through superior logistics."
- Tom Peters

The Marketplace Makes it Harder

Shippers' reliance on multimodal, multiregional logistics and transportation services grows daily. Logistics is as much art as it is science, and the function often becomes the heart of the organization by directly connecting suppliers, the company's production unit, and the customer. Indirectly the challenges facing a company's shipping professionals affect the sales and marketing teams, profits (shareholders), and the global marketplace. With less under the logistics team's control because of the increasing complexity of transportation management, there may be good reasons to consider outsourcing.

"Let our advance worrying become advance thinking and planning."
- Winston Churchill

It's almost impossible for talented, long-term logistics teams to imagine that a third party, 'outsider' could do a better job of moving their products to their customers. Yet if an entire 3PL company (not just a department) is dedicated to taming the beast, chances are good that they have access to information and tactics that even the company's internal teams do not.

Certainly, evaluating outsourced logistics companies steals time and attention from the transportation task at hand. However, from the growth of the 3PL market, the trend is clear. As more companies enter the fray, the bigger the opportunity and harder each 3PL tries to differentiate itself. Suddenly, the task of choosing becomes yet more difficult and time-consuming. Multinational firms vie for the opportunity to gain a foothold in the growing flow of goods throughout the U.S. and beyond. The astute logistics team can use several metrics, both quantitative and qualitative, to evaluate 3PLs. The challenge lies in the idea that the biggest 3PL is not always the best. The lowest cost 3PL is perhaps not a good choice, either. This paper offers five tips for framing your 3PL search and descriptions of each.

Customers Speak

End users, wholesalers, distributors and everyone else along the supply chain need accuracy, detail, and timeliness. By any measure, customers seek perfection as they hoist the risks of not having products on time, whether they are reselling, manufacturing or adding on. While analytics for critical path elements in the sourcing-and-making cycle times fall to upper management, ordering may fall to the lowest cog in the wheel — an analogy to generals vs. foot soldiers from which logistics comes.

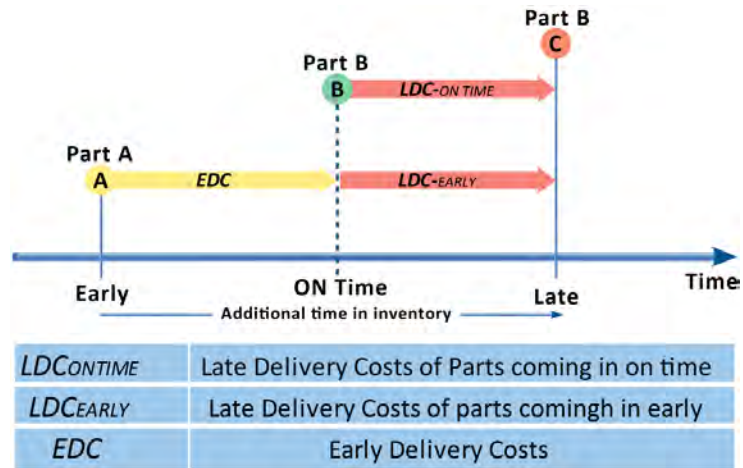


Figure 2

Source: Alexander Bender, Westernacher Consulting

How does the shipper mitigate this risk? More importantly, how is “good service” evaluated? Specifically, how is a partial delivery measured? If 90% of the product is delivered on time and 10% is late, how does the customer appraise the entire delivery? With the Just-In-Time rubric ubiquitously in effect, is an *early* delivery counted against the shipper because unplanned warehousing costs accrue to the customer or freight forwarder? Perhaps. More importantly, does the production department that waits for the parts, or the retailer that looks for their goods weigh and measure *early vs. on time vs. partial late or late*? Every company defines “good service” differently. Multiply these calculations across the delivery space and see how difficult it might be for manufacturers to know how they are viewed by their clients, or how freight forwarders and resellers within the supply chain are measured by their downstream customers.

The movement of goods today is rife with possibilities for error. Beyond the possible movement of products via all four modalities including truck, rail, ocean, and air, the handling by humans across these lanes of commerce adds a layer of risk that requires transportation management specialists to hold themselves to an almost inhuman standard of perfection. Minutiae matters. Attention to packaging details, knowledge of correct tariff classifications, and consideration of user-driven customization needs all save time, money and most importantly, customer goodwill.

Five Tips to Frame Your 3PL Search

For all product lines and for each 3PL you're considering:

1. *List what is to be shipped and to whom.* What do you need, and then what does the customer require? Does the 3PL offer a unique solution for your company and your customer(s)? You might need several 3PLs for different product lines and customers.
2. *Make sure everyone knows* what specific value-added services are needed i.e. re-palletizing, warehousing, custom labeling, etc. and what costs these add or perhaps how these costs could be reduced by creative transportation solutions.
3. *Understand your company's core values.* How does the 3PL mesh with your company? As an example, what customer service ethic or attitude do they demonstrate when you call? Do their standards for customer care mirror yours? Do they exhibit the operational expertise and the strategic vision to serve you and your customers in the face of ever-growing complexities of today's global supply chains? Are they a me-too or are they a 3PL that brings differentiated abilities to the table?
4. Use the company for a while. See if it "feels" right as well as working correctly. Give it some time, though. Jumping from one 3PL to another does not allow the relationships to stabilize, the learning curve to bear fruit.
5. Decide and be absolutely clear on what KPIs (Key Performance Indicators) you will use to know if it's a good match. Include some qualitative measures (ease of communication, willingness to correct errors or to creatively solve a seemingly unsolvable problem in an innovative way) as well as these four time-honored industry standards:
 - a) On-time performance
 - b) Damage
 - c) Billing accuracy
 - d) Costs and "hidden" costs

Solution Specifics

1. *What will be shipped and to whom?* Pallets, boxes, weight, size, speed.
 - a. Where: Understand which companies have international connections and which do not.
 - b. How: Air, Truck, Rail, Ocean... does the 3PL handle ALL of these?
 - i. Filter out any 3PL that does not use the best channel(s) or combination of modes for your product lines and your customers' needs
 - ii. See which of the 3PLs excel with similar products to yours and how they're shipped
2. *Value added services*
 - a. Communication should be 24/7, easily accessed, open and friendly

- b. See if a 3PL can leverage your volume by using their accessibility to higher volume shipments
- c. Use 3PLs' connections to make carriers adapt to your schedule/needs
- d. Use the 3PL's auditing services to ensure that you and your customers are not spending money that can get "lost" in a big system because you do not have the resources to track down, compare and recapture relevant data. Good 3PLs will have reports similar to these that will add value to your company's decisions, and enhance customer satisfaction.

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#####	Customer	CNWY	#####	4/9/2015	4/9/2015			\$0	\$0	New			Edit
#####	Customer	CNWY	#####	6/24/2015	6/24/2015			\$0	\$0	New			Edit
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Figure 3

3. Understand your core values and find a match

Hopefully, your core values were defined during the early stages of business planning, or have been an unwavering part of the company's lore since the company's formation, decades ago. A business's culture and vision touch every part of the business throughout every hour of the day. In a perfect world, your business partners would share those visions.

**"When your values are clear to you, your decisions become easier."
Roy E. Disney**

What is your company's *sense of urgency*? Does the 3PL feel the same? *Is treating employees like human beings* a part of the core value you espouse? Does the 3PL appear to do the same? Does your company *embrace change*? Does the 3PL? Are you *passionate*? Does the 3PL live and breathe and strive passionately to make the shipping process seamless and as perfect as humanly possible? Is there a sense of *team play*; are people *pulling together*?

These might appear to be 'unprofessional' at first sight, but these seemingly small insights are sometimes the only things that set one 3PL apart from

another. Pay heed to match your core values with theirs to enable a long-term partnership in lieu of a disruptive array of one-offs.

4. *Once you've settled on a 3PL, try the company for a while.*

All 3PLs are not created equal. When everything's running smoothly, it's great. When problems arise, how does the 3PL respond?

As part of this trial period, be sure to create a tracking rubric using the values from above for the 3PL you've chosen. Ask for bi-weekly feedback as you're trying out 3PLs. Include the following groups in the evaluation.

- Corporate management
- The supply chain and purchasing management
- Traffic and transportation management,
- Distribution
- Operations groups

Example of Qualitative Scoring* Systems for 3PLs						
Trait:	Sense of Urgency	Human Beings	Passionate	Embrace Change	Pulling Together	Creatively Solves Problems
Manager Level or Function						
C-Level						
Supply Chain						
Purchasing						
Traffic/Trans						
Distribution						
Operations						
*10 is High, 1 is Low.						
Name of Manager _____					Date: _____	

Figure 4

Insert whatever values your company envisions as appropriate headers in an evaluation report. These scoring models can be done formally in spreadsheets or through company project management applications, or whatever is used. Experiencing a difference with a 3PL company across these qualitative measures can affect the entire supply chain participants' satisfaction, and result in repeat business for all.

5. *Key Performance Indicators*

Measure twice, cut once. Every corporation struggles with the best way to measure their supplier/vendor partner relationships. Even something like On Time Deliveries (OTD) can be interpreted and measured differently by similar companies. Trainloads of metrics accompany the products they carry, and with margins on squeeze mode, it's important for you to consider the items below and more.

- a. Is the right *tariff* picked for the goods in question? It's surprising that shippers often choose the wrong one. A good 3PL can also manage your *Freight All Kinds* (FAKs) to your advantage.

- b. Compare *discounts* across a few 3PLs. Are you receiving the best pricing that you're aware of? Compare companies.
- c. Use *accessorial charges* as a measure for your 3PL. Can the charges be eliminated if not reduced?
- d. Are *carriers paid* in a timely fashion?
- e. Are goods *received on time*?
- f. Is the *best routing*/intermodal combination used for your products?
- g. *Damage*. What's acceptable (besides none)?
- h. What *reports* does the 3PL offer? Here's an example.

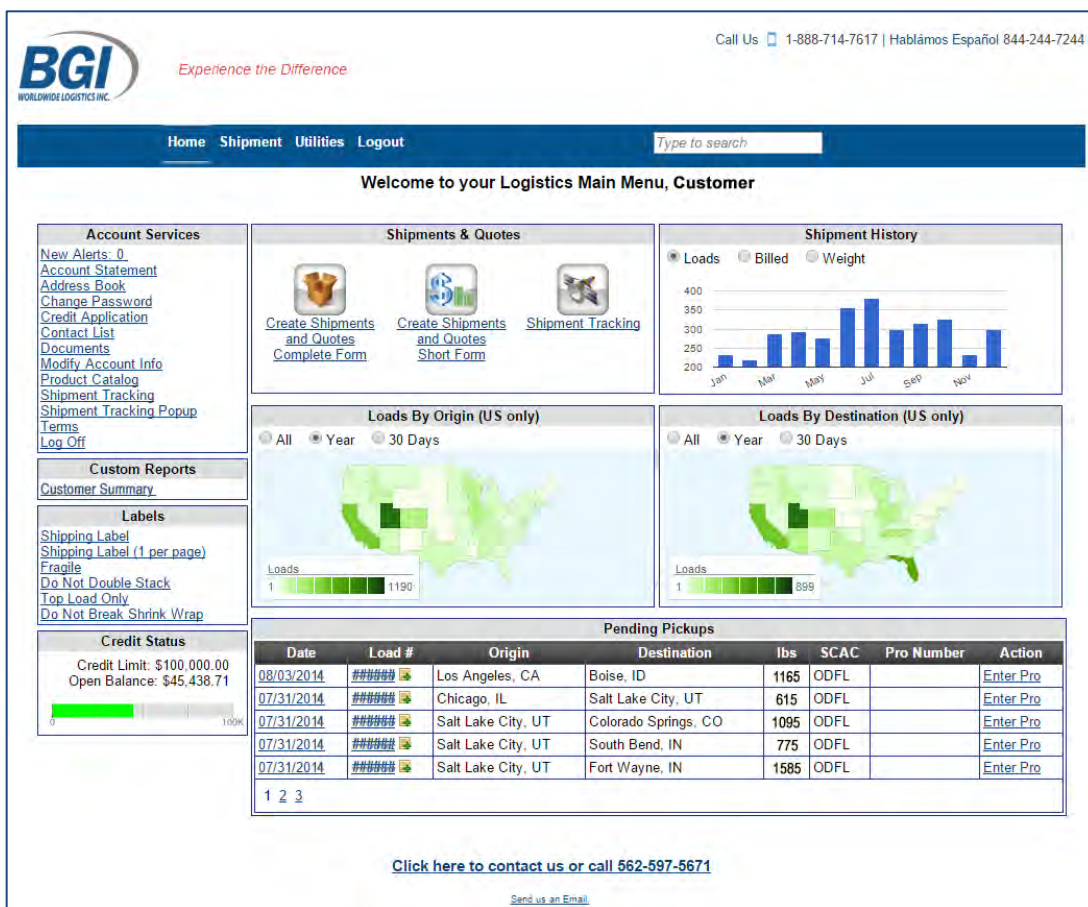


Figure 5

Every measurement can be recreated in the shipper's in-house department, but 3PLs have entire companies dedicated to doing this work for you and can realize economies of scale that will save money and time. Cost savings strengthen and ensure profits. Analyzing service levels strengthens and enhances long-term customer satisfaction and your company's viability.

Conclusion

Shippers today face increasing global complexities, and supply chain entities are in fierce competition to win shipping business. Manufacturers and supply chain participants face ever more risk and tighter margins. Even a small misstep can slash profits, ruin relationships, and lose customers.

3PLs offer an opportunity to use the expertise of an entire company to facilitate your shipping requirements. The economies in terms of discounts, reduced accessorial charges, better prices and volume advantages, to name a few, require your consideration. While choosing a 3PL *you can trust* is perhaps a challenge, seeking refuge in these five tips may help the decision-making.

1. Specifying What is Being Shipped
2. Knowing What Value Added Services are Needed
3. Assuring that Core Values Match
4. Giving the 3PL a Fair Trial
5. Agreeing on KPIs

To create the intimate long-term partnership that worry-free shipping requires these days, you must first carefully analyze your and your customers' needs. Join forces with a 3PL that you trust as an expert in their business, that has a deep understanding of your requirements, and that shares your company's values, vision, ethics, and responsibilities both operationally and culturally. The right 3PL can save time, money and labor costs with better results.