



PROMAT

2015

McCormick Place South | Chicago
March 23-26, 2015
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3PL Selection Strategies

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Principal

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Agenda

- Current State of the 3PL Market
- Benefits of a 3PL Relationship
- Selection and Perception
- Shipper Experience and Satisfaction
- Noteworthy Needs (Old & New)
- 3PL Relationship Trends & Risk
 - Mitigating the Risk
 - How do I choose the right partner?

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Our 3PL Practice Clients Include



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CURRENT STATE OF THE 3PL MARKET



Business is good...

U.S. 3PL/Contract Logistics Market

3PL Segment	2013 Gross Revenue/Turnover (US\$ Billions)
Domestic Transportation Management – Asset Based ⁽¹⁾	12.0
Domestic Transportation Management – Non Asset Based	49.2
International Transportation Management	46.2
Value-Added Warehousing and Distribution	35.9
Software	3.1
Total	146.4

(1) Primarily dedicated contract carriage.

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And is Projected to be even better....

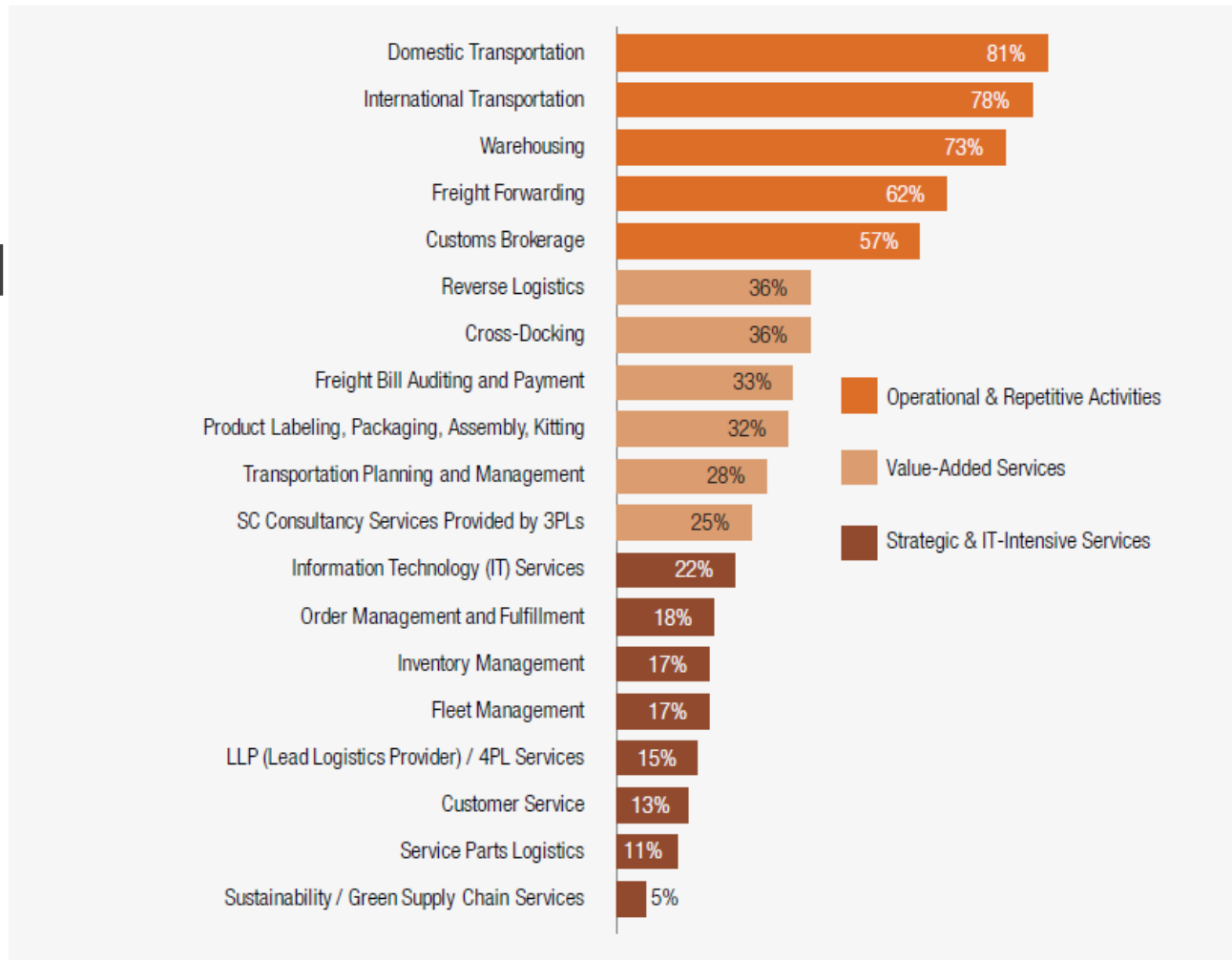
U.S. 3PL Market 1996-2014E (US\$ Billions)



Source: 2014 – 3PL Market Analysis Report. Armstrong & Associates



Logistics Services Outsourced



Source: 2014 18th Annual Third-Party Logistics Study.

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BENEFITS OF A 3PL RELATIONSHIP – CUSTOMER PERCEPTION



Measurable Benefits of a 3PL

Results		2013 Study	2014 Study
Logistics Cost Reduction		15%	11%
Inventory Cost Reduction		8%	6%
Logistics Fixed Asset Reduction		26%	23%
Order Fill Rate	Changed From	58%	66%
	Changed To	65%	68%
Order Accuracy	Changed From	67%	68%
	Changed To	72%	69%

Source: 2014 18th Annual Third-Party Logistics Study.



Measurable Benefits of a 3PL

2009

Results		All Regions
Logistics Cost Reduction (%)		12.3%
Logistics Fixed Asset Reduction (%)		23.4
Inventory Cost Reduction (%)		8.6
Order Cycle Time	Changed From	10.2 days
	Changed To	9.8 days
Order Fill Rate (%)	Changed From	86.0
	Changed To	92.7
Order Accuracy (%)	Changed From	90.4
	Changed To	95.3

2010

Results		All Regions
Logistics Cost Reduction (%)		15%
Logistics Fixed Asset Reduction (%)		25%
Inventory Cost Reduction (%)		11%
Average Order Cycle Length	Changed From	17 days
	Changed To	12 days
Order Fill Rate	Changed From	73%
	Changed To	81%
Order Accuracy	Changed From	83%
	Changed To	89%

Source: 2010 15th Annual Third-Party Logistics Study

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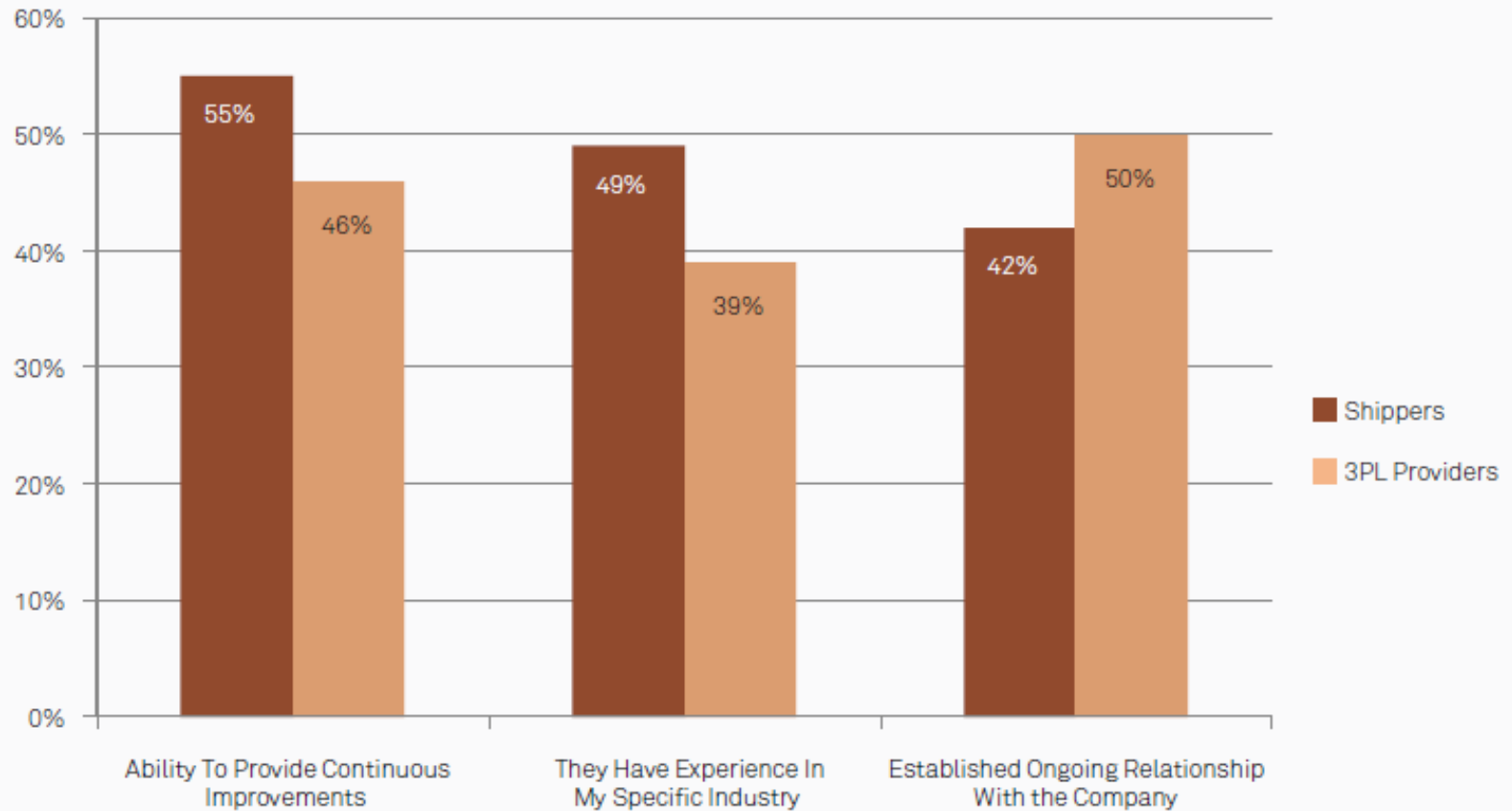
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SELECTION AND PERCEPTION



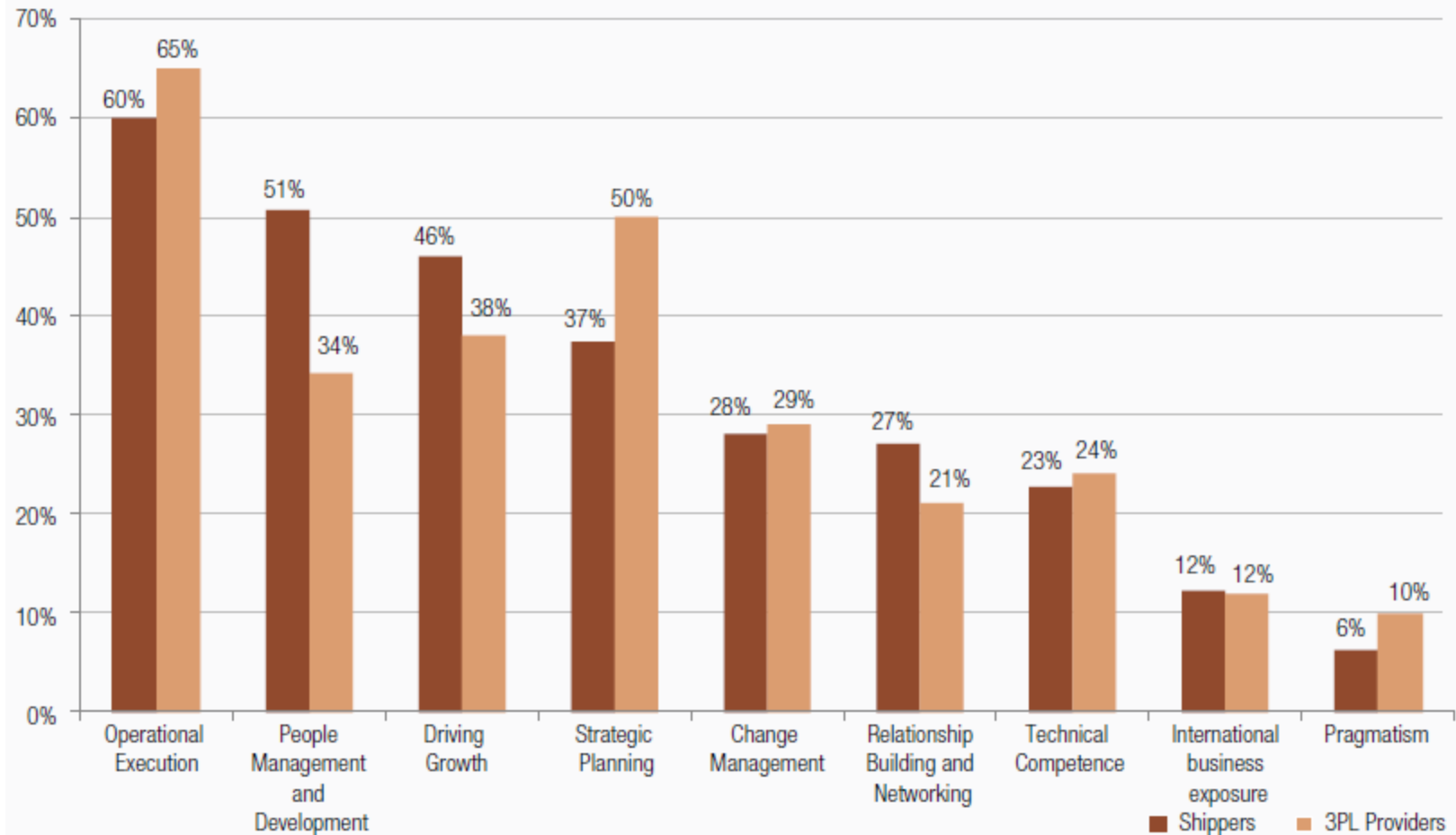
Top Selection Factors



Source: 2014 18th Annual Third-Party Logistics Study.



What Shippers and 3PLs Value



Source: 2014 18th Annual Third-Party Logistics Study.

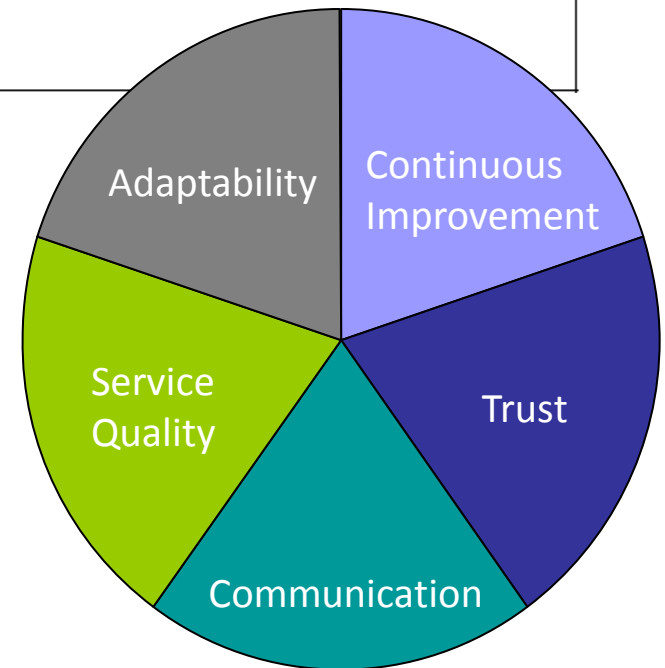
Top Customer Trends & Expectations

Comments on Customer Service Trends:

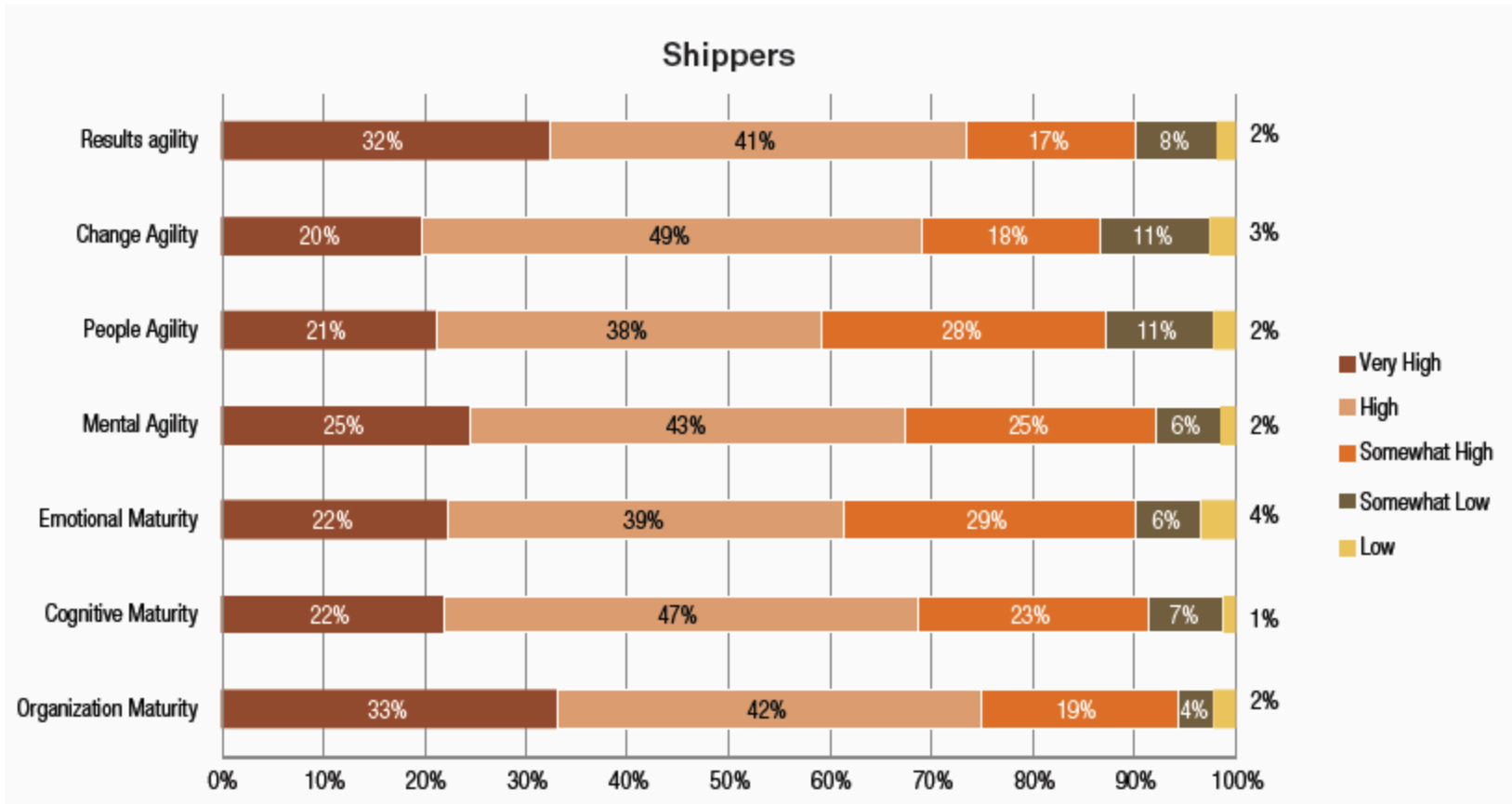
1. Increased demands for customization.
2. Increasing percentages of case and layer picking in outbound orders.
3. Pressure for a higher percentage of costs to be variable versus fixed.
4. Faster communication on activity and visibility.
5. Discussion of gain-sharing.

Trust and Shared Values

- High Service Expectations
- Realized Cost Reductions
- Strong IT Capability with Seamless Integration
- Capable of Servicing Unique Needs



3PL Leader Qualities - The Shipper's Perspective



Source: 2014 18th Annual Third-Party Logistics Study.

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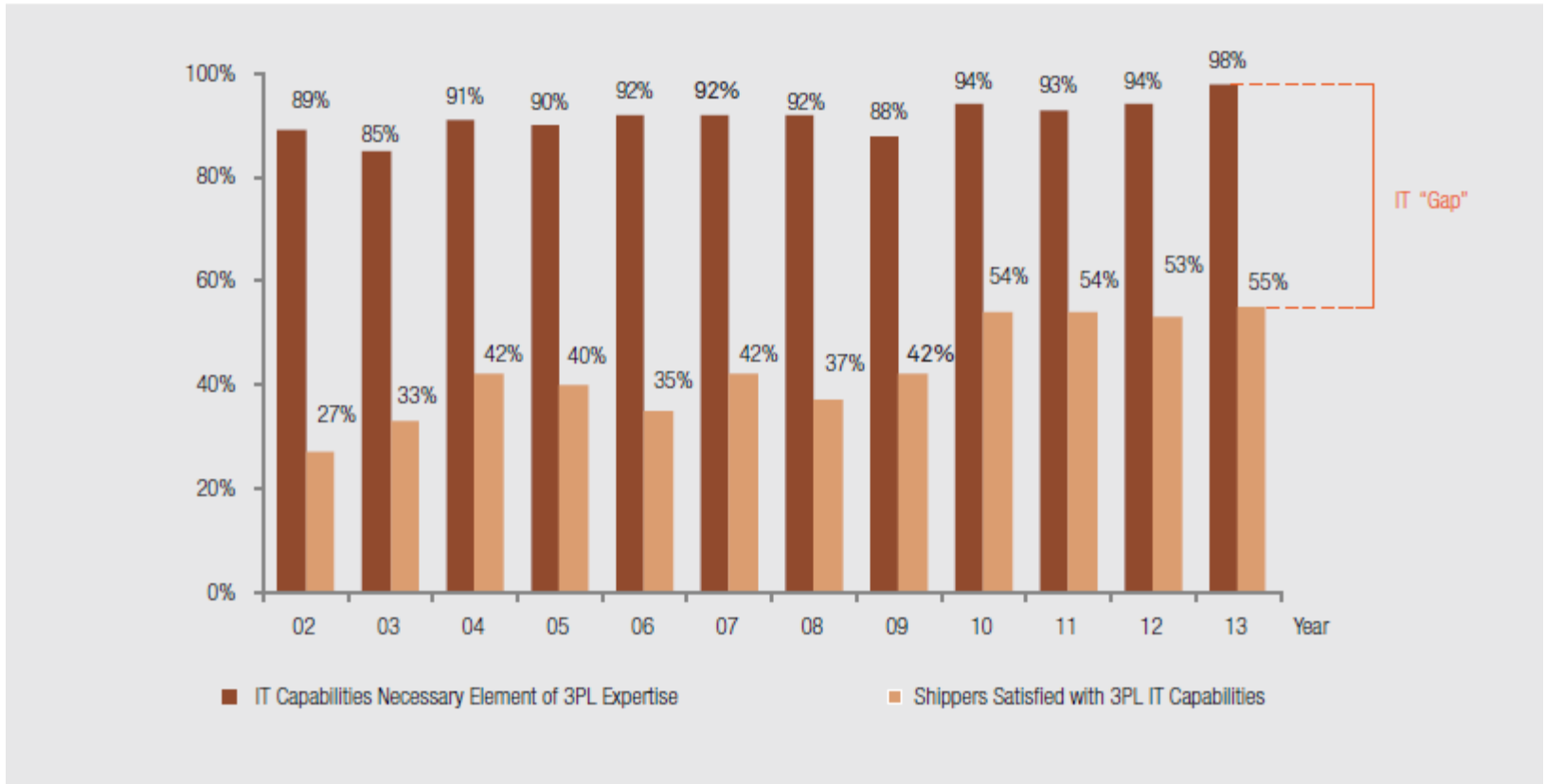
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NOTEWORTHY NEEDS

Shipper Expectations and Experiences 3PL IT Capabilities – The Gap Still Exists



Source: 2014 18th Annual Third-Party Logistics Study.



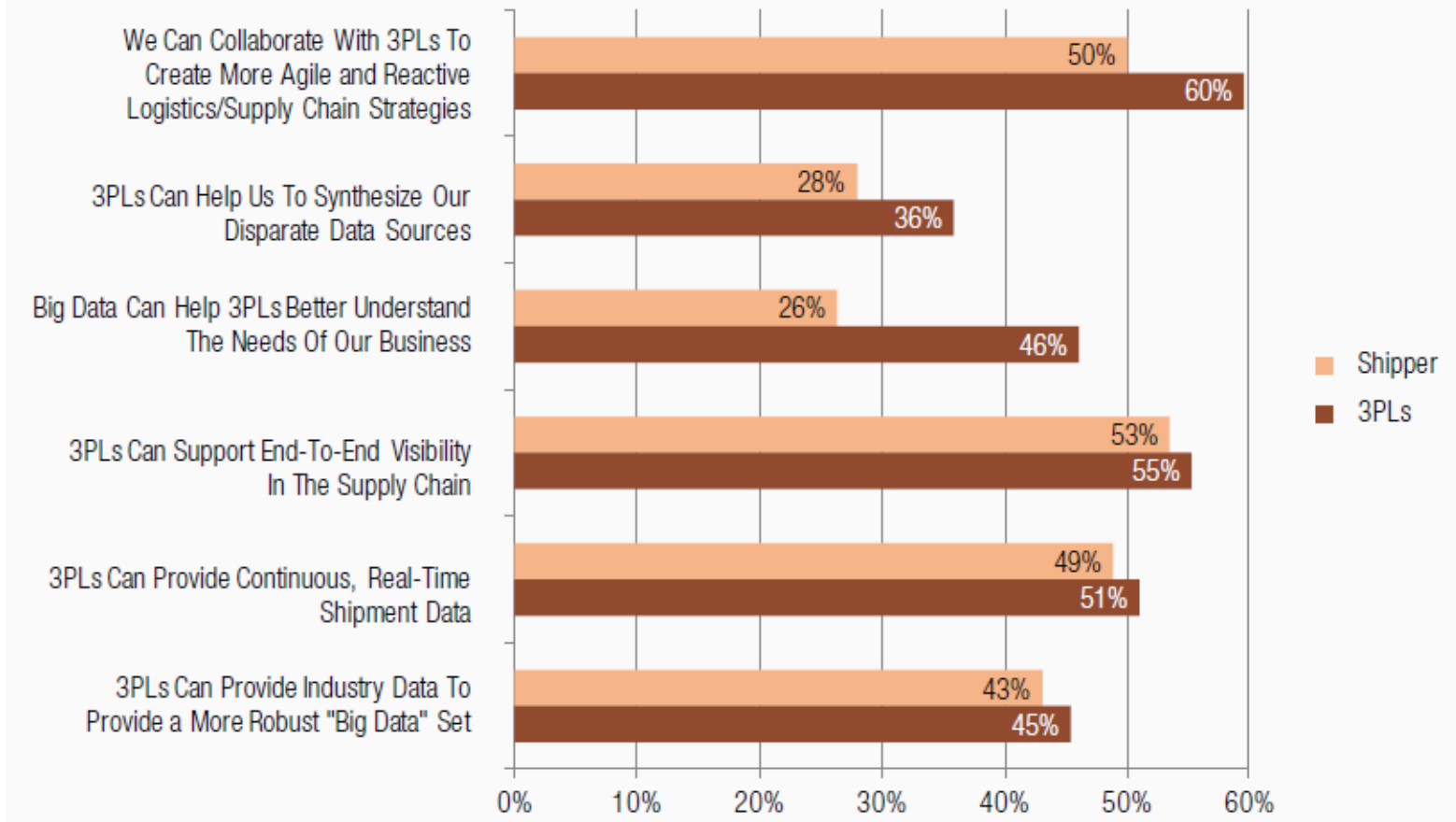
Bullish on Big Data Collaboration

	Shippers	3PL Providers
Yes, 3PLs Can Support Our Big Data Initiatives	41%	34%
3PLs Have Access To the Heterogeneous Data Elements That Are Needed To Drive the Most Effective Use Of Big Data	18	26
3PLs Do Not Currently Have Big Data Capabilities, But We Assume They Will Develop Them In the Future	24	31
3PLs Cannot Manage the Complexity Of the Data Elements Needed To Effectively Use Big Data	17	12
Our Data Is Proprietary and We Would Not Share It With 3PLs	22	32

Source: 2014 18th Annual Third-Party Logistics Study.

“Big Data” is high-volume, - velocity and –variety information assets that demand cost-effective, innovative forms of information processing for enhanced insight and decision making. (Gartner, The Importance of ‘Big Data’: A Definition, 2012)

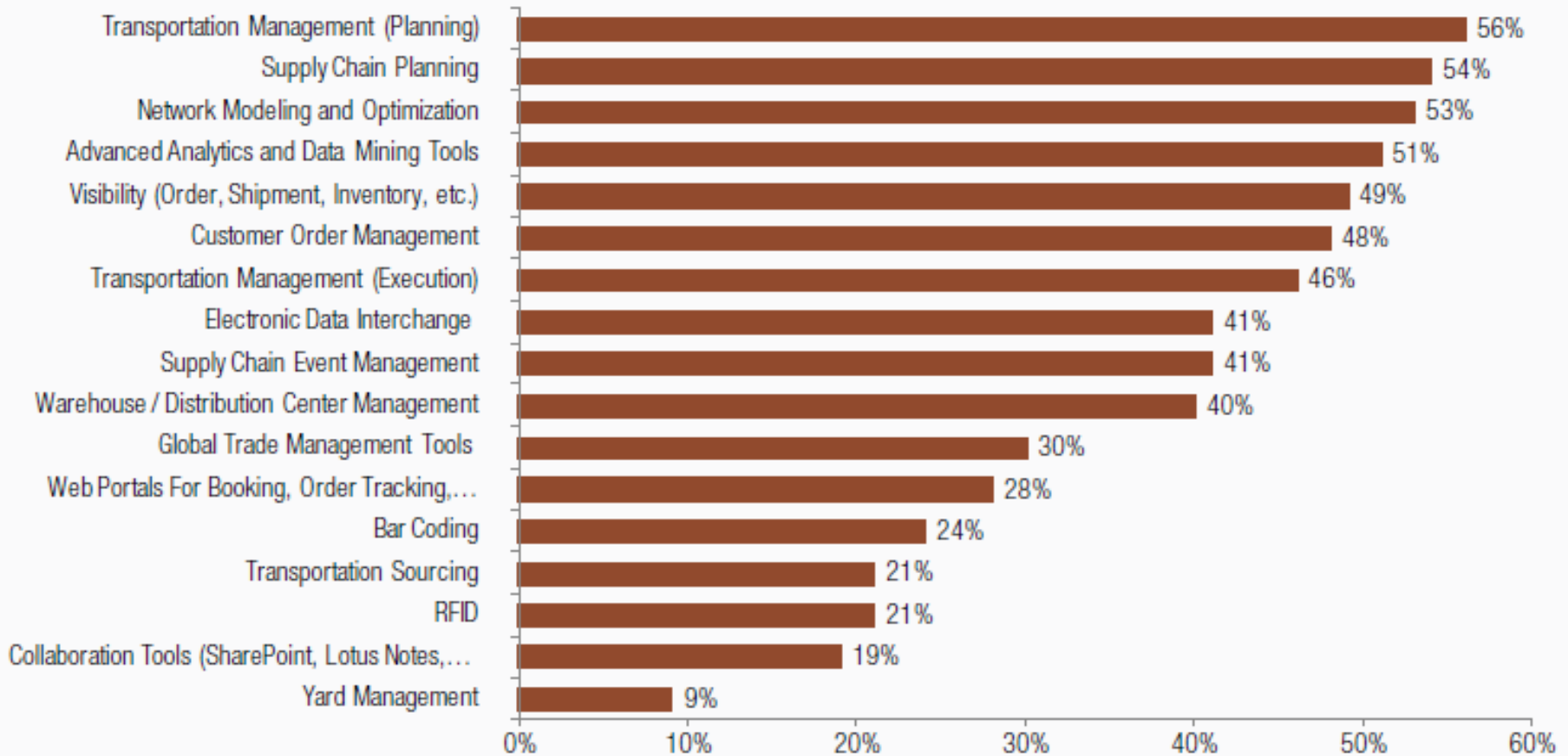
Opportunities for Big Data Collaboration



Source: 2014 18th Annual Third-Party Logistics Study.



Big Data Supply Chain Initiatives



Source: 2014 18th Annual Third-Party Logistics Study.

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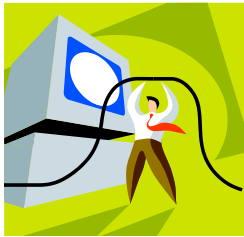


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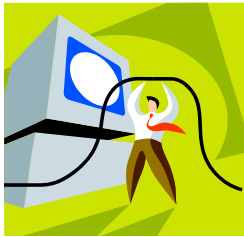
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3PL RELATIONSHIP TRENDS & RISK



Trends with 3PL Relationships

- Economic conditions have forced many shippers to re-evaluate supply chains and relationships with 3PLs.
- 3PL use is increasing – majority of users indicate planned increase in planned use of 3PLs while also consolidating the number of 3PLs used.
- Continuing trend is difference in user vs. provider opinions regarding services provided. (source: Georgia Institute of Technology 15th Annual Survey of the 3PL Industry).
 - 89% of shippers view relationships as successful compared to 97% of 3PLs viewing relationships successful.
 - 66% of shippers feel 3PL provide new and innovative ways to improve compared to 95% of 3PLs viewing they provide that value to their shippers
 - Users perception of IT capability gap although shrinking is still significant. 88% of the users feel that 3PL It Services are important, however only 42% of the same users are satisfied with 3PL IT services
 - 72% of shippers agree their 3PL are sufficiently agile and flexible to meet future needs where 98% of 3PL feel they are capable



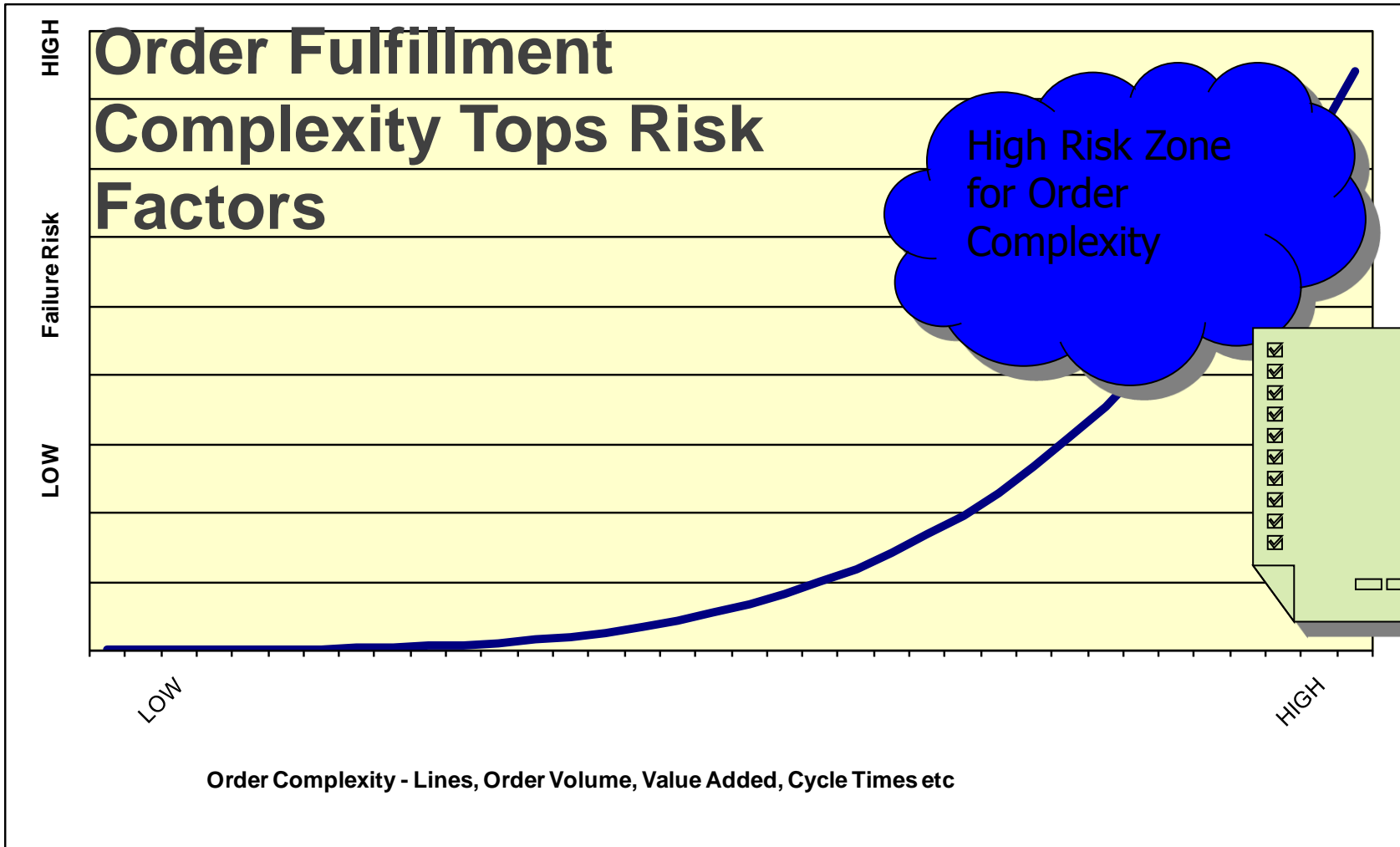
Trends with 3PL Relationships

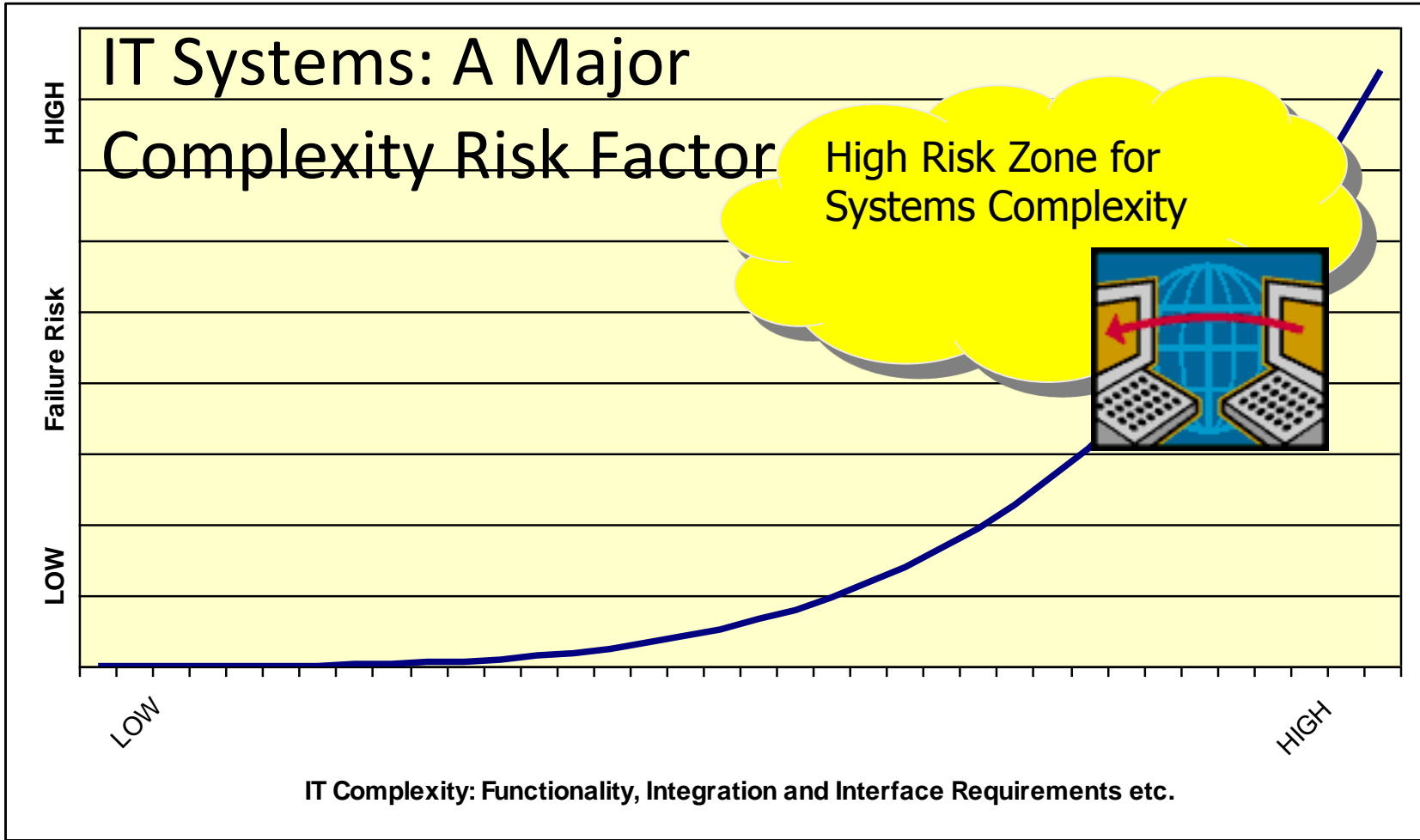
- Increased desire from majority of shippers to understand Total Landed Costs (TLC). TLC is defined as the sum of all costs associated with making and delivering products to the point of sale. However, there have been ongoing issues in leveraging 3PL providers to support TLC, primarily trust with key data.
- Investigation of cost sharing or collaboration (warehousing/transportation/etc) with supply chain partners, with other companies or non-competing users due to economic pressures.
- Shippers increased interest in gain sharing. Economic uncertainty has increased shippers desire to share risk with 3PLs. However, Negotiating, tracking and managing is difficult and time consuming
- Users want providers to be more strategic and to provide logistics leadership.
- 3PL's are reacting to the need to become more competitive (transition from cost plus to some type of gain or cost sharing). *“Sharing the risk and reward.”*



Complexity Drives Outsourcing Risk









Why Non Users Don't Use 3PL's

- Primary reasons noted by shippers that do not to outsource indentified in the attached table.
- Perceived expertise of shipper organizations:
 - Logistics noted as core competency
 - Service levels would not be realized
 - Shippers perceive they more expertise than 3PLs
- Perceived lack of control
 - Control diminished
 - Logistics too important to outsource
- Cost reductions not realized

Reason	Percent in Agreement
Logistics is a Core Competency at Our Firm	19%
Cost Reductions Would Not be Experienced	15
Control Over the Outsourced Function(s) Would Diminish	14
Logistics Too Important to Consider Outsourcing	13
Service Level Commitments Would Not Be Realized	11
We Have More Logistics Expertise Than Most 3PL Providers	10
Corporate Philosophy Excludes the Use of Outsourced Logistics Providers	9
Too Difficult to Integrate Our IT Systems with the 3PL's Systems	8
Global Capabilities of 3PLs Need Improvement	6
Issues Relating to Security of Shipments	5
We Previously Outsourced Logistics, and Chose Not to Continue	5
Inability of 3PL Providers to Form Meaningful and Trusting Relationships	3

Source: 2010 15th Annual Third-Party Logistics Study



Service Perceptions

- Users feel their needs are dynamic but that the providers service is static
- The primary reason for contract terminations is that 3PL providers are perceived as not meeting their commitments on cost or value-added service
- Value based arrangements have not faired well due to complexity in measuring performance and distributing the savings



Why 3PL Relationships Fail

- Lack of continuous improvement and change management processes.
- Unrealized service level commitments.
- Information technology capabilities not sufficient
- Unrealized cost reductions.
- Lack of project management skills
- Poor transitions during implementation
- Lack of global capabilities
- Benefits not achieved in timely manner
- Promise of premium services they do not have
- Lack of business process integration across regions
- Lack of industry specific knowledge
- Lack of trust in relationship
- Provider cost creep.
- Misaligned cultures.
- High work force turnover. Client control over functions diminished.
- Lack of client or provider commitment to the relationship.
- Inability of the parties to reach consensus on important issues.
- Misaligned expectations
- Lack of common measurement tools (KPIs) using identical measurement strategies



Mitigating the Risk & Managing the Relationship

- Separate building lease and operator contracts.
- Separate significant MHE costs from operating contract
- National 3PL contracts vs. Alternating vs. Regional
- Be proactive in communicating expectations and requirements.
- Establish service and performance metrics as requirements. (cycle time, service level, inventory accuracy etc)
- Establish identical measurement strategies for metrics
- Establish innovation, change management and technology requirements and management processes for these areas.
- Share risk and reward. Be willing to own and invest in the relationship. Gain or cost sharing.
- Know the management team before the contract is final.
- Plan on full-time Owner representation on-site. Develop a relationship management capability.
- Utilize a comprehensive RFP in the selection process.



Mitigating the Risk & Managing the Relationship

- Make sure labor rates will minimize turnover.
- Give the potential provider access to existing operations, SOP's and full access to storage and throughput activity data.
- Optimize the new layout, equipment selections and work processes prior to formalizing the contracts.
- Integrate WMS functionality in that design effort.
- Identify WMS, transportation and order management functional and interface issues in the RFP and review again when the layout is final. Run pilots to be sure you understand how the 3PL will handle orders etc.
- Understand key performance metrics that drive cost control and service.
- Evaluate RFP responses carefully and benchmark the providers under consideration.
- Document and train to optimized SOP's. Do not allow training to be compromised. It frequently is.
- Avoid vertical start-ups.
- Have a clear exit strategy and succession plan.



How do I know a 3PL can provide my organization value?

- They should respond to the areas of greatest concern
 - Simplify Complexity
 - Demonstrate IT Capability
 - Prove a Material Handling Technology Evaluation (more equipment is not always better but they should demonstrate they have evaluated that)
 - Establish their ability to lead to logistically
 - Start with Cost Plus but ensure they can support gain sharing or alternative “share the benefit” plans
 - Stand on their ability to support continuous improvement processes

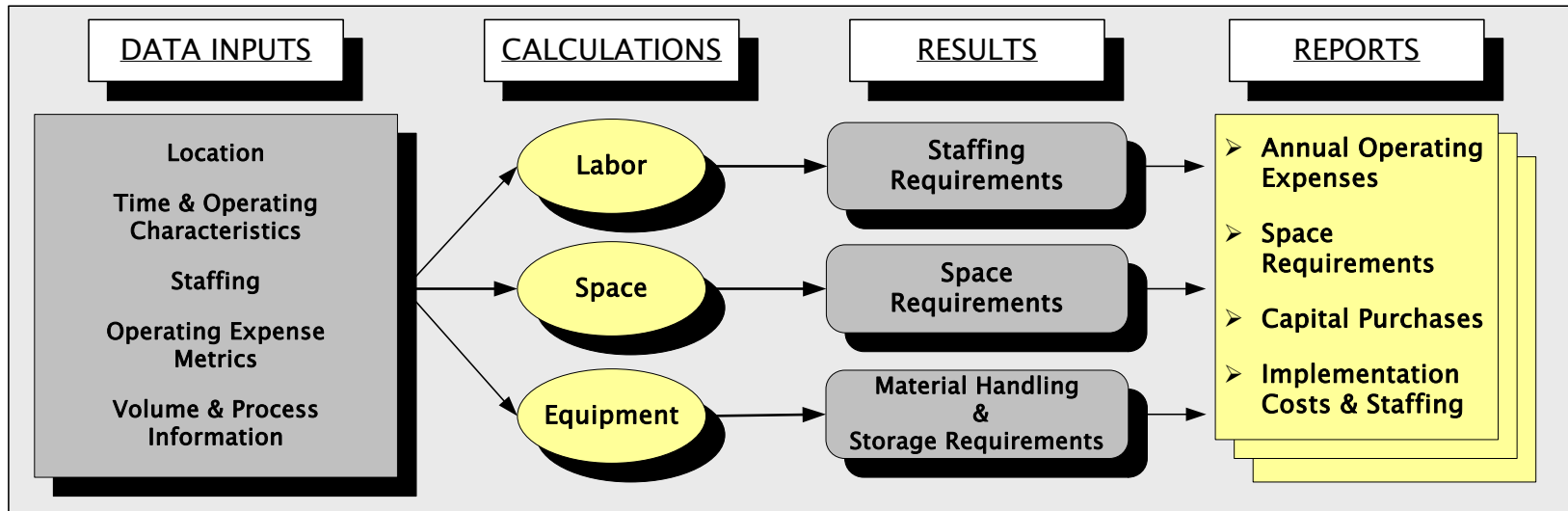


How do I know a 3PL can provide my organization value?

- Simplify Complexity
 - Show previous success in perceived complex areas (co-pack, kitting, direct to consumer operations, multi-channel)
- Demonstrate IT Capability
 - Internal WMS
 - Prove success with client's WMS
 - Demonstrate interfacing capability
- Prove a Material Handling Technology Evaluation (more equipment is not always better but demonstrate they have evaluated that)

How do I know a 3PL can provide my organization value?

- Establish their ability to lead to logistically
 - Share the details of their pricing methods



- Can they support location analysis? (Logistics Leadership)
- Innovative Design (with corresponding investment)
- Can they meet emerging service requirements (Big Data)?



How do I know a 3PL can provide my organization value?

- Start with Cost Plus (or Activity Based Costing) but ensure they can support either pricing approach along with gain sharing or other approaches you may be comfortable with
- Stand on their ability to support continuous improvement processes supported by previous successes
 - Coupled with gain share drives a potential win/win situation with a partner who desires long term partnerships
- Clearly define impacts to cost across the relationship
 - Volume, Inventory Turn Shifts, Storage Profile Shifts, Order Profile Shifts

How do I know a 3PL can provide my organization value?

- The best providers realize while cost is always a consideration, and customers can be won on cost, they are *kept* through:
 - Exceeding Client Expectations (even as they change)
 - Frequent meaningful communications
 - Clear vision of business requirements & their impact
- Commitment by Supplier & Client is paramount

“When my customer puts their head on their pillow at night, the last worry they should have is their distribution partner’s ability, performance and cost.”

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