

Developing and Improving Relationships with 3PL Providers

Being a good partner has become a key corporate asset in the global economy. Here's a snapshot of the essential ingredients for successful partnerships.

By C. John Langley Jr., Ph.D.

Creating and growing relationships have never been easy in any industry or business situation, and so the challenge to buyers and sellers of logistics services is not surprising. As suggested by the late Robert V. Delaney in his *11th Annual State of Logistics Report*, relationships are what will carry the logistics industry into the future. In commenting on the current rise of interest in e-Commerce and the development of electronic markets and exchanges, he states, "We recognize and appreciate the power

of the new technology and the power it will deliver, but, in the frantic search for space, it is still about relationships." This message not only captures the importance of developing logistics relationships, but suggests that the ability to form relationships is a prerequisite to future success. Also, the essence of this priority is captured in a quote from noted management guru, Rosabeth Moss Kanter, who stated that "being a good partner has become a key corporate asset; in the global economy, a well-developed ability to create and sustain fruitful collaborations gives companies a significant leg up."

To provide a perspective on developing and improving relationships with 3PL providers, this article draws upon the results of the annual study into the 3PL customer sector that is conducted by Georgia Tech, Capgemini LLC, and FedEx Supply Chain Services. The ninth annual, *2004 Third Party Logistics Study: Views from the Customers* surveyed 3PL customers in North America, Western Europe, Latin America, and Asia-Pacific. Those who responded were predominantly in sectors such as automotive, consumer products, food and beverage,



high-tech and electronics, life sciences (pharmaceutical) and medical, and retail and apparel.

Thus, the content of this article is focused on three issues. The first is what customers desire of 3PL providers. The second provides some observations and study results on the successes and challenges of existing 3PL relationships. The third identifies several critical factors that are relevant to the success of client-3PL relationships.

What Customers Desire of 3PL Providers

In most instances, there is some combination of three factors that explain why customers use 3PL services. Those factors are: to acquire needed logistics expertise, to provide a better strategic fit with the goals and objectives of the client organization, and to provide a better return on investment than would be evident from internally-provided logistics services.

Functionally, however, there are several types of needs where the users tend to look for expertise from the 3PL suppliers:

- Breadth of Services

- Operational Excellence (both efficiency and effectiveness)
- Geographical Coverage
- Information Technology
- Flexibility and Adaptability
- Network of Business Relationships
- Ability to Help Differentiate the Client's Business from its Competition

Success and Challenges of Existing 3PL Relationships

Among the significant findings from the 2004 Third Party Logistics Study was that customers generally feel that their 3PL relationships were successful. Data supporting this observation is shown in Exhibit 1 which indicates by geographical area the average percentage of 3PL users who evaluated their relationships as successful. Interestingly, when asked to identify any areas where customers felt that improvement was needed, there was no shortage of suggestions. Exhibit 2 lists a number of the specific concerns that customers reported with regard to their 3PL services. The conclusion to be drawn from this divergent information is that while customers generally tend to feel that their 3PL relationships were successful, they were not without areas where improvement was needed.

The study also provided several observations regarding the current and future status of the relationships between customers and 3PL providers:

- Although users are generally satisfied with their 3PL providers, the providers are being pressured to enhance their customer relationships and continually expand their 3PL services.
- Core service offerings are becoming a commodity, with value-added services

and relationship management skills becoming points of differentiation.

- Users expect 3PL providers to offer advanced services, but the users generally view the role of their providers as “tactical” rather than “strategic.”
- Sustainable relationships require equitable deal structures, mutual investments, continual improvements, and creative partnering
- Advanced service requirements, demand for broad expertise, globalization expansion pressures, and a desire

for shared risk-reward arrangements continue to drive the relationships toward a 4PL solution.

Critical Success Factors

Although there are citations in numerous publications that suggest what it takes to have a successful 3PL relationship, the 2004 Third Party Logistics Study tried to take a meaningful look into this issue.

1. Well-Understood Goals and Objectives of Relationship. Perhaps the single, most important factor is for all

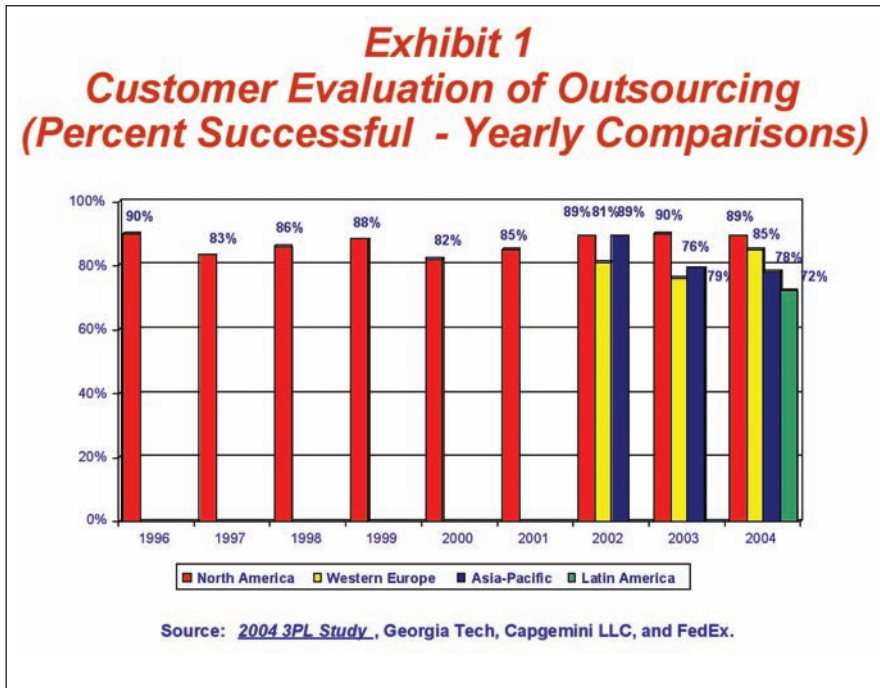
parties involved to have knowledge of and understand the business needs of all parties involved. While some organizations tend to selectively focus on “information hiding,” successful relationships will be characterized by a willingness by all parties to share their goals and ambitions, and to honestly discuss what will it take for them to achieve their individual objectives. Anything less will result in attempts by either the 3PL or client, or both, to make sub-optimal decisions that are desired to help achieve their individual objectives. Only when all parties are willing to disclose and respect their true goals and objectives will the relationship benefit.

2. Corporate Compatibility.

Effective relationships will be facilitated by the extent to which the client and 3PL organizations are culturally-aligned. Key factors that are relevant to this alignment include: corporate philosophy; management capabilities; and management style. Additionally, compatible relationships are characterized by effective multi-level organizational alignment, in which there are specific roles to be played in the relationship by people at the executive, managerial, and front-line levels of both organizations. Although these people-oriented concerns will have a significant impact on the effectiveness of the relationship, the extent to which information systems and technologies are integrated will be of major importance. Any disconnects between organizations that impair communications or the transfer of information, will contribute to problems and tension in the relationship.

3. Ability to Reach Consensus on Matters of Importance.

Aside from the fact that in any client-3PL relationship one party is the seller and one is the buyer, it is important for each party to understand the needs of the other and to reach consensus on matters of mutual importance. One of the best ways to accomplish this is for both parties to draw up a protocol for addressing and resolving problems that may arise during the relationship. Although conduct of most relationships will endeavor to be consistent with a formal contract, the use of the contract as a management tool is a symptom that the relationship, and the ability to reach consensus, is having problems. Additionally, successful rela-



tionships will be characterized by trust and commitment, effective communications, and a willingness by both parties to share risk and reward.

4. Effective Measurements and Measurement Strategies. Perhaps the most useful management tool is the availability of agreed-upon key performance indicators and an effective strategy for measurement, feedback, and continuous improvement. Best practices also would include defined standard operating procedures, cost and service baseline development, and common scorecard and data measurement strategies.

5. Migration Plan Toward Advanced Service Offerings. Considering the importance of new product and service offerings to the success of client-3PL relationships, it is particularly useful to have a well-developed strategy for new product/service development. This strategy should focus not only on functional services (e.g., transportation; warehousing; customs brokerage; freight forwarding; etc.), but also on value added services (e.g., information technology; inventory management; product returns and repair, order entry and customer service; and 4PL services).

6. Strategic Plan for Succession of the Relationship. One of the most valuable elements of a client-3PL relationship is the development of a strategic plan that includes priorities that relate to the termination or dissolution of the relationship. Considering that both the client and 3PL are business organizations that each has its own future and strategic direction, it is not unusual that the time may come when the reasons for the existing relationship are no longer current. When this occurs, it is of great importance to modify the relationship as may be needed, or even to transform the relationship to include a new 3PL provider. To the contrary, there is a disturbing frequency with which client-3PL disagreements end in court, rather than a smooth transition to an improved, future relationship. Thus, the steps that are essential to consider include the following: clear, agreed-upon direction for the future of the relationship; a process with milestones for evaluating the status of the relationship; and dispute resolution procedures and processes for the eventual termination or dissolution of the relationship.

Outlook for the Future

Although significant progress has been made with regard to improving relationships between customers and their 3PLs, clearly there are areas where further improvement is needed. Given the increasing competitiveness of the 3PL sector, coupled with the growing sophistication of the buyers of 3PL services, it is likely that we will see further progress in terms of improved relationships between buyers and sellers of 3PL services. Considering the extent to which 3PLs

are enhancing the strategic aspects of their businesses (e.g., focus on specific customer segments; industry consolidation; globalization; and availability of information technologies), it should be expected that their strategic approaches to customer relationships will become more effective as well.

Last, it is important to note that some of the existing 4PL models place significant emphasis on the need for expertise in the development and continuation of successful logistics relationships.



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