



4 Important Factors to Consider When Evaluating 3PL Partners

By Adrian Gonzalez
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I often get emails from logistics executives looking for help and advice on selecting a 3PL partner. A couple of weeks ago, for example, I received an email from someone asking if I had updated a framework I had developed several years ago to help companies evaluate 3PLs. The answer was no, but this person's email got the wheels in my head turning: What are the most important factors to consider when evaluating and selecting a 3PL partner?

I discussed this question last week on my talk show *Talking Logistics*, which you can watch by clicking below. I won't repeat everything I talked about here, but I want to focus on the four evaluation factors I highlighted that go beyond the basics.

First let me tell you how I came up with these factors. I started by looking at the most common areas where 3PLs fall short of customer expectations. The number one complaint of customers — by a wide margin — is that their 3PLs are not proactive enough in identifying continuous improvement opportunities. Another top complaint is that 3PLs are slow to implement process changes and other requests.

I then asked myself, are there things you can look for when evaluating prospective 3PL partners that would minimize or eliminate the risk of experiencing these issues? And that's how I came up with these four evaluation factors:

1. Alignment of Continuous Improvement Cultures. I've had the opportunity to research many successful 3PL-customer relationships and the common thread across them all is that both parties have strong continuous improvement cultures, usually grounded in Lean/Six Sigma principles — a common language that immediately creates a bonding point. It's like meeting someone for the first time and realizing that you both grew up in the same neighborhood or went to the same university. Sharing the same experience and level of commitment to

continuous improvement creates a strong foundation to build a lasting relationship.

And you can gauge that level of commitment by, among other things, the number of continuous improvement projects the 3PL initiates and completes each year; the investments it makes in formalized training programs; the number of Six Sigma Black Belts the 3PL has across the organization; and the number of awards it receives from customers related to successful continuous improvement projects. Simply put, if continuous improvement is not part of a 3PL's DNA, then you are setting yourself up for disappointment down the road.

2. Modern IT Platform with a Focus on Innovation. Why does it take a 3PL so long to make a process change or enable a new process in response to a customer request? The answer, in most cases, is that they are burdened with an inflexible and outdated IT infrastructure. If the majority of a 3PL's systems were developed in the 90s (or earlier), or they are written in outdated and proprietary languages, then you are putting yourself at risk of experiencing integration issues, and more importantly, the 3PL will not be able to keep pace with your rapidly changing supply chain and logistics requirements. In short, make sure that a 3PL's commitment to continuous improvement also applies to its IT systems, that the company is keeping pace with the rapid and ongoing changes occurring in technology, and that its IT strategy and roadmap align with yours.

It's also important to look at the number of IT resources a 3PL has and how much the company invests in technology annually, as a percent of net revenues. But don't be fooled by the overall dollar investment. Many 3PLs spend a lot of money on IT annually, but the vast majority goes to maintaining existing systems. And the older and more outdated the systems are, the more money they cost to maintain. Therefore, what you really want to know is how much of a 3PL's annual IT budget goes toward innovation-related projects — i.e., toward developing or implementing new applications or functionality, especially customer-facing solutions.

3. Invest in Talent Development and Retention. There is a shortage of supply chain and logistics talent in the industry, and it's arguably the biggest issue facing both 3PLs and their customers. At the end of the day, it's people that make or break any relationship, including a business one. In fact, one of the things that often creates friction in a 3PL-customer relationship is when the primary person in charge of managing the customer relationship is moved to a different account or leaves the 3PL. How deep is the 3PL's talent pool? Will the replacement be as competent and have the same communication and relationship management skills as the other person? Does the 3PL have a defined succession planning process that involves the customer to ensure a smooth transition? These are all important questions to consider. Ideally, the 3PL will have people across

all levels of the organization that are knowledgeable about your vertical industry, and even better, have worked in it. Also, take a close look at the training and development programs the 3PL invests in, and the content of those programs. This will shed some light on what skills and knowledge the 3PL deems important, and if they align with your expectations.

4. Provide Business Intelligence and Insights. This point goes beyond IT. Sure, having access to BI dashboards is very important, but I view that as a basic requirement these days. What I'm talking about here relates to something many customers say they want from their 3PLs: "Tell me something I don't already know." As I wrote about last September in "[Operational Excellence is Not Enough – Why 3PLs Must Leverage Their Most Valuable Asset](#)," customers want their 3PL partners to provide them with insights about leading industry practices and trends, as well as to facilitate networking and knowledge-exchange opportunities with other shippers in the 3PL's community. Does the 3PL conduct market research and share its findings with customers? Does the 3PL organize peer-to-peer learning and networking events for customers and industry experts to attend? Does the 3PL make it easy for you to contact and collaborate with their extended team of experts? If all a 3PL has to offer is a dashboard, then don't expect to gain much insight beyond what you already know.

Obviously, there are many important factors to consider when evaluating and selecting a 3PL partner. But in my opinion, the four factors above are the most critical in paving a smoother path to a long and successful relationship.

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