Assessing the IT Capabilities of 3PLs

By Adrian Gonzalez
February 24, 2014

One of the most popular *Talking Logistics* episodes from last year was 4 Important Factors to Consider When Evaluating 3PL Partners. Earlier this month, I took a closer look at one of those factors: having a modern IT platform with a focus on innovation.

In the *Third-Party Logistics Study* conducted every year by Dr. John Langley, there's a chart that shows a gap between the IT capabilities shippers expect from 3PLs and their satisfaction with those capabilities. Logistics software vendors and analysts (yes, including me) have been pointing to this gap as evidence that 3PLs need to invest more in technology.

But somewhere along the way, the gap took on a different meaning: it created the perception in the market that 3PLs are not innovative when it comes to technology. And that is simply not true, at least for a cross-section of service providers, both large and small, that view technology as a strategic asset and competitive differentiator.

Ryder, for example, was issued a patent a few years ago for "its systems and methods that integrate and optimize supply chain performance in the areas of shipment planning and execution." And last February, C.H. Robinson introduced a mobile app "to extend the reach of the Navisphere platform, allowing users to access critical shipment information with Apple or AndroidTM mobile devices." And last June, Transplace announced the release of *Freight Allocation Module™ (FAM) 2.0*, "a web-based application that optimizes transportation by allowing shippers to auction freight with approved carrier partners." (Ryder, C.H. Robinson, and Transplace are *Talking Logistics* sponsors).

In short, although 3PLs have historically received a bad rap for being behind the technology curve, the reality is that some 3PLs actually have more IT people and spend more in R&D than many software companies!

That said, not all 3PLs are created equal when it comes to IT. So, how can you determine if a 3PL is ahead of the curve? Here's a brief summary of the five factors I discussed that you should consider when evaluating the IT capabilities of 3PLs:

1. Annual dollar investment in IT (as a percent of net revenue). Are IT investments trending up, down, or staying flat? But beware: spending more each year on IT is not necessarily a good thing. It could mean a 3PL is spending more money (as well as time and resources) to maintain outdated and non-scalable systems. You want to make sure that most of the IT investment is going toward innovation-related projects, not maintenance of old systems.

Another area of investment is people. How many IT professionals does the 3PL have on staff, and what are their roles and responsibilities? The most important factor here, however, is ongoing training and development. An IT professional with 20 years experience might sound good, but if their skills and knowledge are stuck in the 90s — that is, not up to date with the latest coding and platform technologies — then their value is limited compared to someone who has kept pace with the rapid changes in the IT field.

2. Well-defined and documented IT strategy, roadmap, and goals. As Yogi Berra famously said, "You've got to be very careful if you don't know where you are going because you might not get there." You want to make sure that a 3PL knows where it's going and why, and that its IT strategy aligns with your needs and expectations. A few important questions to consider: Is cloud computing part of the 3PL's strategy? What about mobile, business intelligence, and analytics? Is the 3PL working to rationalize its infrastructure? Does the 3PL plan to develop more solutions in-house or invest more in third-party applications? Does the 3PL's current level of IT funding support its roadmap?

3. Secure and redundant IT infrastructure. As we see almost every day in the headlines, cyber terrorism is a growing threat. If your 3PL's IT infrastructure goes down or gets hacked, your business is at risk. Therefore, make sure your 3PL partners have taken appropriate steps to minimize the risk of IT disruption. Tour their data centers. How do they control access to the facility (and the systems)? Do they have back-up connections to the power grid, Internet, and telecom systems? Have they completed a SAS 70 Type II or SSAE 16 Type II audit? These are just a few of the questions you should ask.

4. Easy-to-use applications / ease of integration with your systems. Just like enterprise software vendors, 3PLs should take a lesson from Microsoft's Excel and make their applications easier to use and learn, and they should also invest to enhance their user interfaces and make their applications easier to access from anywhere.

5. Robust data quality management systems and processes. We all know that business intelligence and analytics is worthless without timely, accurate, and complete data. Yet, many 3PL IT teams spend more than 50 percent of their time cleaning and fixing data. Look for 3PLs that measure data quality (if they don't measure it, they can't manage it), have automated data quality management systems in place (throwing more people at the problem is not a solution), and have well-defined processes for working with customers, suppliers, carriers, and other trading partners to ensure compliance.

I encourage you to watch the episode for more of my comments on these factors. Finally, going back to the IT gap discussion, there's one gap that's been the most difficult to close: the gap between the IT capabilities customers want from their 3PLs and how much (or little) they're willing to pay for it. When you expect (or demand) your 3PL to reduce costs year after year, when you put your business out to bid every year, when you dictate to them how to run your operations instead of what outcomes you expect, then as we tell our kids when there's only one candy left in the bag, "You get what you get and you don't get upset."

Adrian Gonzalez is trusted advisor and leading industry analyst with more than 17 years of research experience in logistics and supply chain management. He is the founder and president of Adelante SCM, a peer-to-peer learning and networking community for supply chain and logistics executives and young professionals. He is also the founder and host of Talking Logistics, a weekly online video talk show and blog where he leads conversations with thought leaders and newsmakers in the supply chain and logistics industry. Prior to his current roles, Adrian held various leadership positions at ARC Advisory Group, Motorola, Polaroid, and Clare. He is also a member of the Council of Supply Chain Management Professionals and a LinkedIn Influencer.

This report was originally published on *Talking Logistics* on February 24, 2014.