

WAIT! DON'T SIGN THAT CONTRACT

Tips to Determine When and How to Select a 3PL



A KNOWLEDGE ON DEMAND WHITEPAPER



**THINK
INSIDE
THE BOX**

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When faced with complex distribution challenges, a third-party fulfillment provider may appear to be an easy solution. Nonetheless, don't sign a contract with a 3PL before evaluating your business, operations, goals and expectations and how they coincide with your distribution alternatives.

Start by evaluating your company's ability to maintain control of distribution activities while heightening customer service levels and profitability. Document current and projected functional specifications of your operation, which consist of material to be handled, storage and transportation requirements, order profiles, necessary throughput, SKU profiles, value-added service requirements, customer needs and delivery schedule.

Next, record the cost of building materials, equipment, technology, transportation, and project time and labor requirements to meet the needs of forecasted distribution initiatives. Follow this by listing the benefits of investing in these expenses and the probability of a timely return on investment.

A network analysis determines the changes necessary to optimize your supply chain network. It is unwise to do a cost-benefit analysis and make a decision between carrying out internal improvements and outsourcing your fulfillment until the network analysis creates an optimized model for reference.

SCENARIOS THAT DICTATE A COMPANY'S CONSIDERATIONS

There are five primary situations during which companies may want to consider contracting with a third-party fulfillment partner.

As soon as (if not before) a company's distribution operations begin underperforming, improvements need to be made. Timeliness of deliveries, product condition, order accuracy and vendor compliance all affect customer satisfaction and ongoing profitability. The potential solutions include making distribution improvements through process, technology and/or management modifications, or contracting with a 3PL that has existing qualifications.

A 3PL may prove capable of supporting the fast-paced increase in order activity and inventory maintenance due to growth and/or expansion into new markets.

Companies experiencing notable corporate growth and/or expanding into new markets need to know how long their existing supply chain can keep up with growth projections before customer service starts to decline. A 3PL may prove capable of supporting the fast-paced increase in order activity and inventory maintenance.

Mergers and acquisitions are often catalysts for outsourcing logistics, particularly if neither company has the necessary logistics infrastructure in place. Again, a network analysis is an enlightening and strategic step to take before determining a resolution involving a large supply chain modification.

Startup retailers and wholesalers tend to be candidates for outsourcing as they have to simultaneously tackle challenges regarding time and effort for operational development, initial and ongoing costs, labor requirements, equipment and technology investment, transportation options and the lack of comprehensive expertise.

Whether large or small, long-established or a startup, many companies increase their profitability by relinquishing their in-house distribution activities and focusing efforts and resources more on what they do best—whether this is manufacturing, sales and marketing, operating stores, and/or providing customer service.

SELECTING A DISTRIBUTION ADVOCATE

Only until you have analyzed the nuances of the business should the evaluation and selection process be done. All current and planned functional specifications are criteria that should be included in a request for proposal (RFP) document. Things to scrutinize when going through the 3PL selection process include the service providers' costs, demonstrated results, client references, flexibility, locations, services and culture—standard and specific to your company's needs.

Conduct upfront research to identify a select list of preliminary 3PL candidates (totaling a dozen or more) to receive the RFP. Know the candidates' facility location(s) and service area(s), all of their available services, business partnerships and their reputation in the market.

After the primary candidates have replied to your RFP, evaluate how well their services match up with your needs. Eliminate companies that cannot adequately address your functional specifications. Are they able to fulfill unique VAS requirements? Do they have experience in handling your type of products?

The remaining 3PL candidates should facilitate tours of their facilities and interviews with their existing clients. Ask the 3PL and their customers related questions and look for variances in answers regarding the quality and availability of services provided. Determine how flexible their operation is and their willingness to work to meet your needs as they change.

Invite potential 3PL providers to tour your facilities and interview executives. They should be interested in being educated about your operation and culture in order to ensure a good fit.

Contract negotiation (initial and ongoing) is a pivotal step in a 3PL relationship. Don't be afraid to walk away from a deal if you come to an impasse about terms and conditions. For example, both parties must agree if the 3PL receives a flat periodic fee or if the provider will be paid according to pieces/cartons/pallets shipped.

Determine if the 3PL is accountable for the level of accuracy and product conditions. Establish what party will finance improvements if system upgrades become necessary and how it will affect service fees.

It's important that your 3PL is a dedicated partner. They must strive to be flexible and accountable for their performance while meeting and exceeding your order fulfillment needs and customer service requirements.



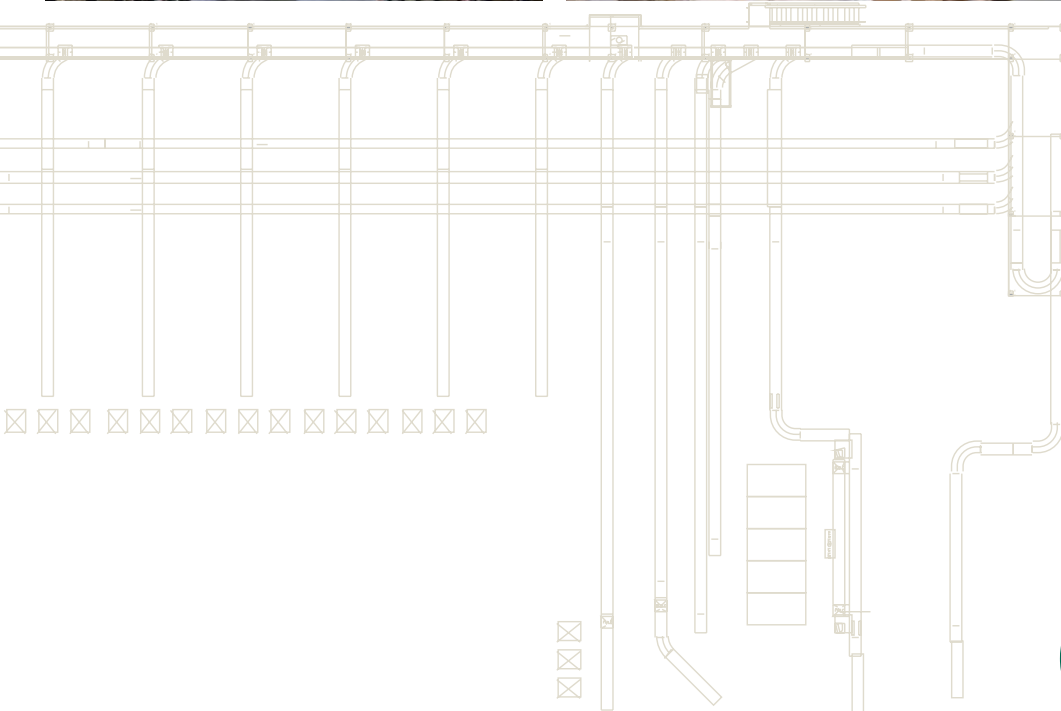
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ABOUT FORTE

Leading companies are embracing FORTE's advanced CONTINUUM™ methodology. In doing so, they are widening the performance gap over competitors and creating competitive advantages in their supply chain. Quite simply, they are distributing at the least cost, driving improved margins, and increasing profitability.

We have a national client base of Fortune 500 organizations, and fast-growing mid-market and small entrepreneurial enterprises. We're proud of the company we keep and welcome the opportunity to help you craft your optimal Distribution On Demand solution.

**FORTE helps small companies grow larger,
and large companies grow stronger.™**



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