

How and Where to Incorporate Operational Requirements in Your 3PL Evaluation and Selection Process

Published: 28 June 2011

Analyst(s): Michael Dominy

Supply chains have evolved to become demand-driven value networks (DDVNs). Companies that want to survive in the 21st century must operate in networked models. These companies must focus on what they can do best, and outsource to partners to manage processes and activities that do not represent strategic differentiation for the company. In the supply chain, this often means using one or more third-party logistics (3PL) providers, instead of performing warehousing, transportation or related activities yourself.

Key Findings

- Effective 3PL selection projects incorporate key operational considerations into three subphases of the selection process: defining major screening criteria, creating the RFP and evaluating responses.
- Companies that use major operational screening criteria to determine a shortlist of 3PL candidates can move through the evaluation and selection process faster than companies that skip this important step.

Recommendations

- Always align the 3PL strategy with the corporate and supply chain strategy. Companies requiring a very low-cost and efficient supply chain may select a different 3PL than a company that requires its supply chain to be very flexible.
- Screen out candidates, using key operational criteria ("must haves"). Doing so saves you and your potential 3PL partners time and headaches. The evaluation process requires significant time and resources for the enterprise and participating 3PLs. Finding out about a major requirement late in the evaluation process means the 3PL and the enterprise waste time and resources.

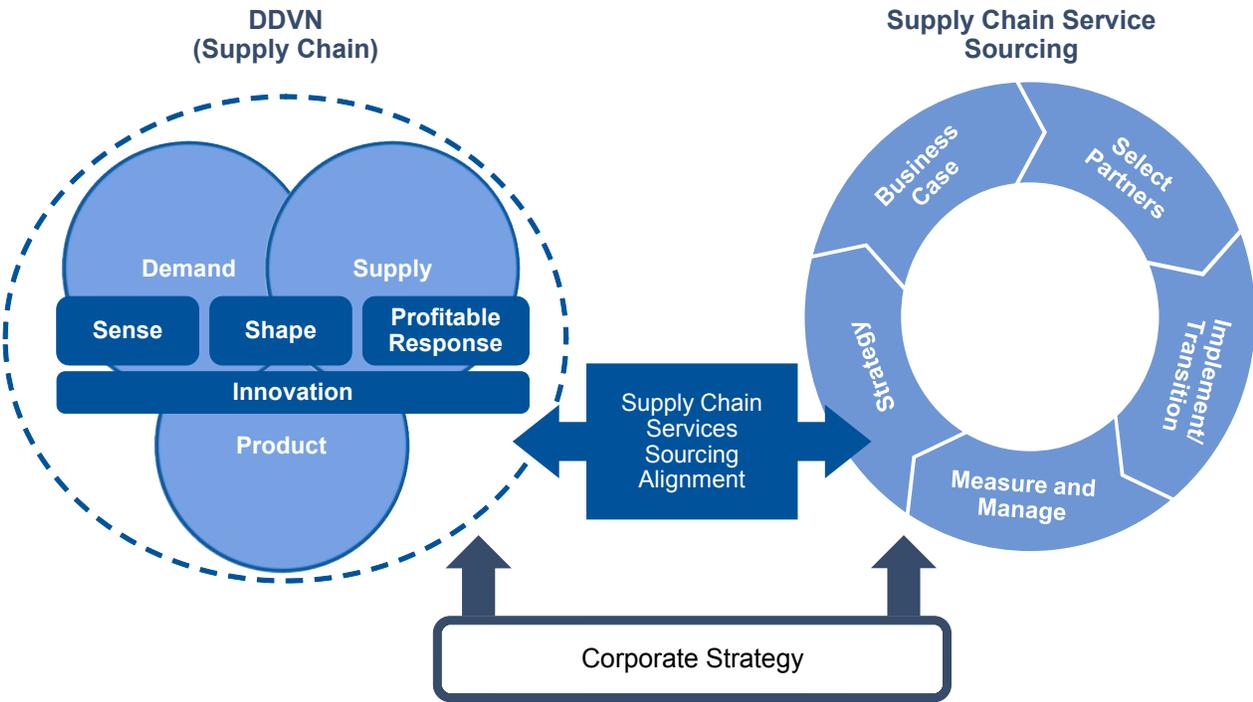
- Don't underestimate business, technology and relationship integration. If technical or process integration breaks down, the supply chain comes to a halt.

Analysis

Companies that properly align their outsourcing strategy and selection process with their supply chain and business goals will make more balanced decisions. In contrast, consider the problems several manufacturers experienced when the decision was made based primarily upon cost. Quality problems arose; supply chain responsiveness suffered; and customer service worsened in the months and years following the outsourcing. Although costs were lower, the negative impact on customer service and brand image was of bigger concern, because the company competed on service and quality more than cost.

Our position is that companies must *always* ensure that the use of 3PLs is aligned with the overall corporate and supply chain strategy (see Figure 1). Our DDVN Model represents how supply chains need to evolve and operate as value networks. The DDVN Model must be synchronized with the Supply Chain Service Sourcing Process, which depicts the steps a company should follow when sourcing and managing supply chain service providers, such as 3PLs.

Figure 1. Align the 3PL Sourcing Strategy With Your Supply Chain and Corporate Strategy

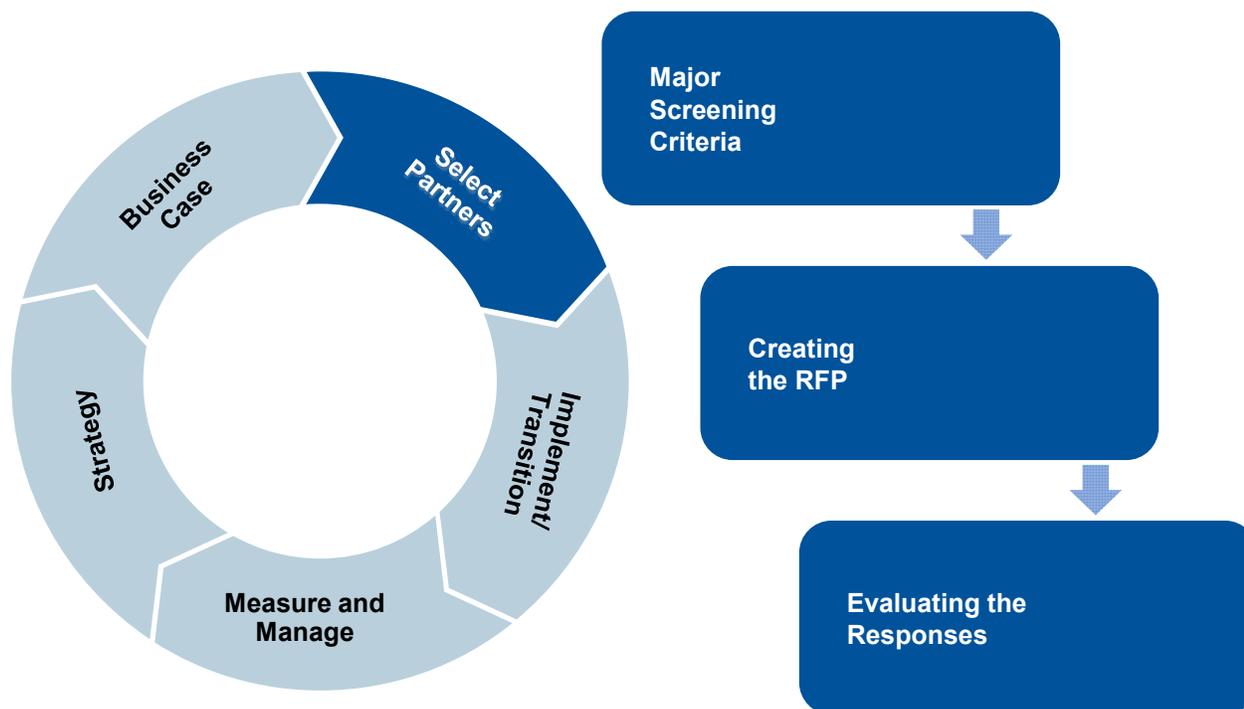


Source: Gartner (June 2011)

Operational considerations must be factored throughout the supply evaluation and selection process to ensure the chosen 3PL can supply the capabilities defined within the company's DDVN

strategy. The key operational considerations that should be brought to the surface during three of the biggest phases within the evaluation and selection process are: major screening criteria, creating the RFP and evaluating the responses (see Figure 2).

Figure 2. Factor Operational Considerations in Three Key Phases During the Selection Process



Source: Gartner (June 2011)

Define Major Screening Criteria to Derive Your Shortlist

There are thousands of providers in the 3PL industry. Narrowing the sea of providers to a manageable list of appropriate candidates is a critical activity for the selection project team. Companies must identify a handful of "must haves" or "showstoppers" that will be used to screen providers. Identifying major filtering criteria involves defining the three to five must-have capabilities or characteristics that will help you quickly narrow a large list of potential candidates down to three to seven candidates. A good screening process should yield no more than 10 and no fewer than three potential 3PL partners. If you have more than 10 after the major screening criteria, the number or type of requirements is probably too limited. Conversely, if you have fewer than three candidates, the screening criteria are too restrictive, or additional market research is required to identify more candidates.

From an operational perspective, these showstoppers, or major screening criteria, typically involve regulatory requirements, physical operations and scope of services. Before establishing the major screening criteria, it is essential to determine the scope of services:

- Do you need the 3PL to perform just warehousing and distribution functions, or will it also handle transportation? If so, what transportation services?
- Do you need the 3PL to handle customer service processes?
- What about other functions, such as transportation planning?
- Regarding the regulatory criteria, are there specific handling requirements associated with your products? If so, those requirements can eliminate many 3PLs from consideration.
- From a physical operations perspective, how many facilities, and in which regions, will be required to support your logistics requirements?

Example of Effective Use of Major Screening Criteria

A few years ago, we helped a branded pharmaceutical manufacturer evaluate and select a new distribution partner. The manufacturer was using a 3PL, with a single distribution center to service the entire U.S. market, and the manufacturer wanted to reduce transportation costs and improve order fulfillment cycle times. To rationalize a very long list of potential 3PL partners, we worked with the pharmaceutical company to identify three must-have capabilities. The major screening criteria included:

- Two or more distribution centers in North America
- Pharmaceutical cold chain capabilities and experience
- Drug Enforcement Administration (DEA)-controlled substance storage, handling and distribution experience

Based on these three key operational capabilities, the selection team was able to narrow the list of potential 3PL partners from dozens down to four.

Make Sure the RFP Focuses on Capabilities, Performance and Evidence

From an operational perspective, remember to ask about scalability, quality and flexibility. How much of a volume surge can it handle? How does it maintain quality and service levels when using flexible staffing options to meet volume changes?

From an RFP construction perspective, make sure to organize in subprocess/functions, based on the scope of activities you want the 3PL to perform. It is also essential to specify how each function within a subprocess must be performed. For example, make sure to specify the handling and storage requirements if your products need to be kept refrigerated or frozen during the logistics process. Table 1 contains a sampling of the key subprocesses or functions to consider, including an operational perspective.

Table 1. Example of Operational Subprocesses to Include in the RFP

Subprocesses	Inbound Logistics	Processing and Services	Outbound Logistics
Operational Factors/ Considerations	<ul style="list-style-type: none"> ■ Inbound transportation planning ■ Carrier scheduling ■ Dock scheduling ■ Inbound quality inspection and testing ■ Returns management 	<ul style="list-style-type: none"> ■ Handling and storage ■ Cycle counting ■ Light assembly and kitting ■ Repair/rework ■ Administrative (order processing, customer service customs, etc.) 	<ul style="list-style-type: none"> ■ Outbound transportation planning ■ Carrier and dock scheduling ■ Picking and order types ■ Parcel management ■ Delivery and installation

Source: Gartner (June 2011)

Thoroughly Evaluate RFP Responses, and Conduct Reference Checks

Any company embarking on the evaluation and selection of a 3PL provider must conduct rigorous due diligence that includes visiting (if applicable) the candidate 3PL providers and interviewing customers. Nothing beats seeing an operation live and observing how work is done. It also represents an opportunity to interact with the people who really do the work. Make sure you draft an agenda for the site visit, and review it with the 3PL before scheduling the visit.

When done correctly, reference checking is the most valuable way to assess the validity of the claims that service providers make in submitted proposals and during the 3PLs' oral presentations. 3PLs rarely provide names and reference projects unless they have cleared the contact with the involved parties. Thus, the process begins with a bias. The bias can be overcome by making certain that a cross-section of personnel at the referenced account is included when completing the reference check. Go beyond the project sponsor, and include the personnel who worked with the 3PL on a daily basis. Make sure you develop a comprehensive list of questions that represent the cross-functional concerns of the enterprise, and provide every reference checker with the same list. During the customer reference checks and site visits, test or evaluate cultural fit. The cultural fit, including operating practices and societal issues, impacts the transition and ongoing operations.

An Ounce of Prevention

Companies that incorporate operational factors into the evaluation and selection process can engage and function more effectively with 3PLs, because thorny contractual, implementation and transition problems can be avoided. Before you embark on your next 3PL evaluation and selection, make sure you include the right operational requirements and constraints, and factor them into the appropriate points in the selection process.

Are you evaluating and selecting a 3PL or logistics partner? We'd love to hear about it.

Recommended Reading

Some documents may not be available as part of your current Gartner subscription.

"Prepare for Success or Failure When Engaging a Logistics Service Provider"

"The Gartner Framework for Developing a Demand-Driven Global Logistics Strategy"

"The Essential Role of IT in Logistics Outsourcing"

"Supply Chain and Manufacturing Outsourcing Discussion With Supply Chain Leaders"

"Toolkit: Supply Chain Outsourcing Strategy, Phase 1: Strategic Alignment"

"Understanding the Different Logistics Service Provider Names and Definitions"

"Supply Chain Outsourcing Market Overview: Understanding the Dynamics Across 3PL, Contract Manufacturing and SCM BPO"

"Logistics Fundamentals for Non-Logistics Professionals"

Regional Headquarters

Corporate Headquarters

56 Top Gallant Road
Stamford, CT 06902-7700
USA
+1 203 964 0096

Japan Headquarters

Gartner Japan Ltd.
Atago Green Hills MORI Tower 5F
2-5-1 Atago, Minato-ku
Tokyo 105-6205
JAPAN
+ 81 3 6430 1800

European Headquarters

Tamesis
The Glanty
Egham
Surrey, TW20 9AW
UNITED KINGDOM
+44 1784 431611

Latin America Headquarters

Gartner do Brazil
Av. das Nações Unidas, 12551
9° andar—World Trade Center
04578-903—São Paulo SP
BRAZIL
+55 11 3443 1509

Asia/Pacific Headquarters

Gartner Australasia Pty. Ltd.
Level 9, 141 Walker Street
North Sydney
New South Wales 2060
AUSTRALIA
+61 2 9459 4600

© 2011 Gartner, Inc. and/or its affiliates. All rights reserved. Gartner is a registered trademark of Gartner, Inc. or its affiliates. This publication may not be reproduced or distributed in any form without Gartner's prior written permission. The information contained in this publication has been obtained from sources believed to be reliable. Gartner disclaims all warranties as to the accuracy, completeness or adequacy of such information and shall have no liability for errors, omissions or inadequacies in such information. This publication consists of the opinions of Gartner's research organization and should not be construed as statements of fact. The opinions expressed herein are subject to change without notice. Although Gartner research may include a discussion of related legal issues, Gartner does not provide legal advice or services and its research should not be construed or used as such. Gartner is a public company, and its shareholders may include firms and funds that have financial interests in entities covered in Gartner research. Gartner's Board of Directors may include senior managers of these firms or funds. Gartner research is produced independently by its research organization without input or influence from these firms, funds or their managers. For further information on the independence and integrity of Gartner research, see "Guiding Principles on Independence and Objectivity" on its website, http://www.gartner.com/technology/about/ombudsman/omb_guide2.jsp.