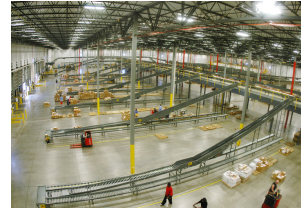


“To 3 (PL) or Not to 3 (PL) That is the Question...”

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Whenever TransTech initiates discussions with a client or prospective client for the first time, one of the questions that invariably arises surrounds the notion of third party providers or “3PL’s” as they are termed in the industry.



There is often a tendency to think along somewhat polar lines here. On one hand, you have those who believe that the more chefs (service providers) you invite into the kitchen (client operation) the more expensive dinner will be at the end of the evening. And that is true, in the strictest sense of the word. Everyone needs to make some sort of positive return to stay in business, which means each party involved needs to realize some sort of “margin”, over and above their cost to do business. It stands to reason that if Provider X and I can both do what I do at about the same cost, it’s going to cost me more in the long run (because Provider X needs to turn a profit as well) and therefore lead to a higher cost per unit to do what I do.

On the other hand, you have those who don’t want to deal with the day-to-day heartache associated with the business of “operations” and feel their time and resources are better spent devoted to other endeavors, like growing their core business. This is true as well, but just how much of what you do should you hand over to a third party provider? “Will they do it as well as I can? “Will they really care about us when they get busy and we have a critical need?”

The answer(s) to these questions, as you might expect, are varied and many. We typically help our clients work toward answering these and other questions during the course of a Feasibility Study, in which all assumptions related to the client’s business are challenged and the relative strength of the operation and its components are assessed. The results of such a study may point to either end of the spectrum, or may lend itself to a hybrid of sorts, in which a Third Party Provider is asked to take over select pieces of the client’s supply chain (i.e. Fulfillment), but not others (i.e. Customer Service). A combination of operational and financial analysis, coupled with some mission-critical common sense will eventually lead to the right mix that best supports BOTH the client’s mission AND their bottom line.

Listed below are some things to consider in the course of evaluating whether or not you might want to consider a third party arrangement:

Arguments FOR a Third Party Arrangement

You should consider engaging a 3PL Provider if...

1. ...you DO NOT have an established core competency in the function being considered for outsourcing (i.e. Order Fulfillment). For some, the specter of having to physically outfit (equipment and systems) and staff a new or expanded operation is too much to handle on their own and lends itself to undue risk. "How long will it take for the operation to stabilize? Will my customers be willing to work with us and be patient during a potentially long transition?"
2. ...you experience a high degree of variability in your business from time to time. Allowing a Third Party Provider to shoulder the burden of flexing equipment and staffing support to address upswings and downswings in business activity can be a major strategic advantage. Many times, a client's business may be collocated with other clients of the Third Party Provider, which allows the Provider to cost-effectively utilize equipment and staff over a number of clients simultaneously.
3. ...changing customer requirements, especially those related to delivery service are putting a strain on your existing network. For example, if new delivery requirements will force you to expand your number of distribution centers from 1 to 5, a third party provider may be able shoulder some of that burden.
4. ...requirements change so frequently that what appears to be a good investment in necessary infrastructure and technology today becomes an albatross tomorrow. In this case, a third party provider may have ready access to what is necessary to meet those changing needs.
5. ...by outsourcing, you free up internal capital that can now be used to expand existing or acquire new business interests. For companies that tend to grow by acquisition, the return on investment in a new concern may be much better than the opportunity cost of outsourcing to a third party provider. In this case, everyone wins.

Arguments AGAINST a Third Party Arrangement

You may **NOT** want to consider engaging a 3PL provider if...

1. ...you have an established core competency in the function being considered for outsourcing (i.e. Order Fulfillment). If your costs to perform this function are in line (or will be in line) with the industry in which you compete, why not keep the 10% to 20% margin the provider may demand in your own pocket?
2. ...you don't have a core competency in the function but have developed a strong operational and financial case to support the necessary investment, in time, capital, and risk. If all of these factors prove to be positive, including buy-in at the highest levels of the organization, then you likely have the support you need to be successful in the long-term. This is typically where an outside consultant can prove their worth. They help to not only analyze and crunch the numbers, but can provide a wealth of industry experience and an unbiased view of the situation.
3. ...you have significant capital tied up in infrastructure that may prove to be too large of a write-off to manage financially. This may not be the case if the 3PL provider has the ability to take on this burden on your behalf. If so, it could be a win for both parties.
4. ...your business is so specialized that a third party could not adequately staff or outfit the necessary operation to support your needs. Most elements and demands of today's supply chain can be met by sophisticated third party providers, so don't sell a 3PL short until you've done your homework and really understand their full capabilities. If you have trouble finding a mix of providers with the skill set(s) to do what you do (and maybe more), you...
 - A. probably haven't done enough research;
 - B. may not be giving these potential suitors enough credit; **OR**
 - C. may be spot on, which means you may want to stop right there and make up your mind to do it yourself.

The path toward potentially striking an amicable arrangement with a third party provider may be long and will likely require a good deal of analysis and general due diligence to make a well-informed decision. At the end of the day, every for-profit organization has (generally) two driving principles. First, you need to turn a profit to stay in business, and second, you need to stick to the mission of our company, whatever that happens to be. You may well discover that your company is best served going it alone. However, if you find that by turning to a third party provider, you get the best combination of profits and adherence to your company's mission, then you've also found the sweet spot.