



Should You Use Third Party Logistics Companies' Software, or Use Your Own?

Should you optimize your supply chain by tapping into the technology resources of a 3PL? Start by looking at these guiding principals to harness the right solution for your requirements.

By Chris Norek

Background

Lately it seems as if outsourcing is all the rage as the use of third party logistics (3PL) and contract manufacturing reinforces the argument to "focus on core competencies." The providers have overcome their initial error of over promising and under delivering of several years ago and provided significant value with more focused offerings. Additionally, customers are much more experienced in understanding 3PL capabilities and establishing appropriate provider service expectations.

FROM A DEFINITIONAL perspective, any function you don't perform in house can be considered outsourced (e.g. purchased transportation); however, we typically look at broader supply chain or logistics functions as being "outsourced," such as warehousing, order fulfillment, and international trade assistance. There is one choice that has to be made in the outsourcing decision that isn't given as much attention as it probably should—do you use the 3PL's own software, or build/purchase your own and have the 3PL tie into it? We will examine the key decision criteria required to make this decision.

How are 3PLs Perceived Regarding Technology?

Third party logistics service providers aren't typically viewed as the preferred source for information technology expertise. Over 80 percent of 3PL users

say that having the right software and information technology capabilities are necessary for their providers to possess; however, less than 40 percent of the customers are satisfied with their suppliers IT capabilities and even fewer rely on 3PLs for technology leadership.

These responses of 3PL users clearly show that the gap between

customer expectations and what the 3PLs deliver (or are called on to provide) is significant.

3PL Industry Challenges to Technology Leadership

There are many underlying industry challenges that influence a 3PL's ability to close this gap:

- Fragmented systems environment.



Highly customized legacy systems combined with “best of breed” software approaches create a “patchwork” of customer systems that 3PLs must integrate into.

- Lack of standardization in technology due to changing customer requirements.

Customers are often increasing their requirements of 3PL partners so that systems are continually updated.

- Mergers and acquisitions in the 3PL and shipper industries, requiring post-merger integration of processes and systems.

This challenge requires the merged companies to create a seamless technology architecture in short time horizons, or manage an increasing variety of “legacy systems.”

- 3PLs must provide a balance between global standardization and necessary regional differentiation so that customers get the global visibility they need and the local touch they desire.

These challenges are driving 3PLs to re-assess their IT solutions and are spurring them to:

- Reduce the total cost of ownership (TCO) through lowered implementation costs and service-enabled functionality.
- Increase process standardization and integration simplification.
- Create stable solutions with broad enterprise functionality.
- Ensure flexible and scalable infrastructures.
- Develop deep industry knowledge and global support.
- Enforce an alignment between business and IT.

Third Party Software Offerings

While there are thousands of customized applications that 3PLs have created to serve particular customer needs, there is a core set of software functions that are more pervasive for 3PLs. Provider software and IT capabilities are directly correlated to the services or business processes being outsourced including warehouse management (WMS), transportation management (TMS), import/export manage-

ment, and supply chain event management (SCEM).

3PLs are in a unique position to develop and provide additional IT services to their clients, including IT strategy, integration services, and advanced supply chain applications (e.g., planning, SRM, CRM). However, in order for 3PLs to successfully develop and offer these advanced capabilities, which garner higher margins, they must create consistent and standardized technology solutions for core services.

An Executive Checklist for 3PL Users

- What will you be using the 3PL to do?

First, you must understand exactly what technical functionality and services are required to operate the tasks you are outsourcing.

- Will you need extensive functionality?

Understand if you need basic or advanced functionality and capabilities. If you need basic functionality, using the 3PL technology will probably work for you.

- If you have a specific need, determine if the functionality already exists or will it be specifically developed for you?

Often, a 3PL will develop specific functionality to serve a particular customer, but it requires additional expense and development time.

- Do you already have the required capabilities within your own systems?

- Are you thinking about taking the function back in house in the future?

If you are only going to use the 3PL for a defined period of time, it might make sense to “bring your own” technology to the table when engaging the 3PL.

The same logic applies if you are considering using another 3PL, either to replace the current one, to divide responsibilities, or to maintain the option to switch 3PLs in order to mitigate risk and counter supplier (3PL) dependency.

- To determine how well the 3PL(s) can meet your technology needs, lay out all the functions you require in the solution and identify gaps between your needs and the current capabilities of the 3PLs (not future or promised capability).

- Check on the size and particular expertise of the 3PL technology team to see if they can grow and adapt with you.

Summary

The growing use of outsourcing and use of third party logistics providers has shed some light on the need for easy technology integration between the 3PLs and their customers. This issue of integration begs the question of whether the 3PL customers should “bring their own” technology to use in the 3PL relationship, or rely on the 3PL for the needed technology. These are the key topics decision-making executives should be aware of, and a checklist of questions and issues to which they should give careful consideration.

