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What Do You Need From a 3PL?

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Introduction

As logistics experts, we get a lot of questions about 3PLs. A lot of our own customers have a laundry list of problems with their existing 3PL partners. Many of them see 3PLs as "necessary evils" since they provide a very needed service, but they're rife with problems that obstruct business objectives

So why use 3PLs? Well, for a lot of businesses, fulfillment simply isn't in their wheelhouse. Their core competencies could be in their product, their branding, or other parts of their supply chain, but it's rare to find a business that can "get" fulfillment in their growth stage. In order for fulfillment to be a considered a core competency for a business, that business should be able to do both of these things:

1. The ability to deliver products to customers across the U.S. (or any national) market with the same speed (regardless of location) and for the same price.

2. The resources to spend at least 30% of your R&D budget to improving fulfillment technology and processes.

Unless you're able to pull that off with your business, you should outsource your fulfillment to a 3PL. It's why we believe 3PLs to be a business necessity for the majority of eCommerce companies. Unless you have the resources on hand to build and maintain your own fulfillment infrastructure, it's best to outsource fulfillment to 3rd party specialists. This is especially true for brands who are growing, but don't want to be bogged down with the immense cost of maintaining their own fully-staffed warehouses.

With the vast experience we have in 3PLs and logistics as a whole, we wanted to help you find the common markers of a good 3PL. Your 3PL should be a tentpole of your business operations, something that's solid and reliable, so you can focus on your growing your core business. In our experience, good 3PLs should have a predictable cost structure, ability to scale correctly to a client's requirements, and a continuous mandate to improve their processes.

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Simplified Pricing Matters

One of the biggest pain points when working with 3PLs is the difficulty in finding out what you're paying for. Some 3PLs use pricing models that look like they could double as midterm exams for masters-level accounting courses. The thicket of fees, credits, and debits found on those invoices can make it virtually impossible to correctly forecast 3PL costs for the future. The 3PLs that do this, do it for any of these three reasons: it allows them to squeeze every available dollar they can from you, it defers responsibility for actually tabulating the value of their services, and it passes all of the risk onto the customer.

Good 3PLs simplify their models to make it easy for any company to understand. Trying to decode a 3PL's invoice shouldn't be an exercise in forensic accounting. A subpar 3PL may have rate sheets the size of a novella, and their fee structure could be convoluted and unnecessarily complex.

For starters, there's no reason for 3PLs to give you rate sheets that are more than one page. The vast majority of companies need to ship products within a specific weight and dimensional range, which only applies to handful of shipping options across any carrier. Therefore, good 3PLs keep their rates simple and affordable for all of their customers, even if it means creating custom rate sheets tailored specifically for your business.

As for fees, there should be a simple fee structure that's based on the volume and weight of packages moved, there shouldn't be a fee attached to every labor movement associated with fulfilling your packages. Therefore, when you're reviewing your 3PL's invoice, see if it includes any of the following:

- **- Storage fees**
- **- Monthly fees not associated with the package itself**
- **- Pick/Pack fees**
- **- Fulfillment minimums (or minimums of any kind)**
- **- Labor fees**
- **- Packaging fees**

If your 3PL's invoice includes any of these fees, they're trying to squeeze as much as they can from you. A good 3PL will use one, maybe two, per-package fees that accurately reflects the cost of preparing a package for shipment.

Scaling Correctly Matters

The main benefit to 3PLs is their ability to tap into natural economies of scale. By pooling demand across multiple businesses, they're able to get shipping rates that most businesses would never have been able to negotiate.

However, many 3PLs tailor their service level to the amount of demand a customer kicks in. For bigger companies, it's easy to get better service from their 3PL partners. It's a simple business truth, bigger accounts tend to get the most attention. So for smaller players trying to get their businesses off the ground, how will they fare with a 3PL that's already servicing multiple enterprise-level clients?

On the flip-side, if you partner with 3PLs that strictly cater to SMBs, how will they be able scale when your business gets to a certain point? If their sweet spot is SMBs, there's usually a reason why they can't or won't scale up to meet bigger businesses, which leaves you no choice but to switch 3PLs once you outgrow them. And switching 3PLs can be a painful process that bogs down your operations for several quarters.

The answer for growing businesses is finding a good 3PL partner that can scale correctly. They'll treat their customers with the same amount of consistent service, regardless of the amount of packages they move from the warehouse. For a growing business, a 3PL that scales correctly can be a huge blessing. They'll receive the service required to keep theiroperations running, regardless of how big the business grows.
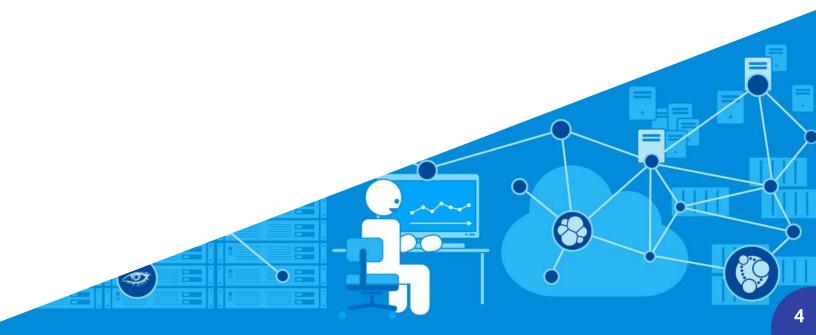
Staying Up to Date Pays Dividends

One of the biggest shortcomings of the current 3PL market, is the market's hesitance or outright resistance to upgrading their legacy technology. But at this juncture, many 3PLs don't see the value of upgrading their technology, simply because businesses need their service, regardless of how outdated and inefficient their services actually are.

It's gotten to the point where many customers analogize 3PLs with lagging technology, when the opposite is true. Advancements made in software, firmware, and robotics have allowed for automated fulfillment to cut costs and increase efficiency. Some examples include a flexible shipping API can make label printing a push-button process, and automated belts that package and prepare the shipment without any human touch points.

And with advancements made to big data, 3PLs now have access to accurate performance reporting that can feed into a cycle of reiteration and improvement that will further drive down costs and increase efficiency.

The technology is out there for 3PLs to leverage in order to vastly improve the services they provide. Good 3PLs leverage it, plain and simple.

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Remember What a Return Actually Means

Let's review what core competency in fulfillment means:

1. The ability to deliver products to customers across the U.S. (or any national) market with the same speed (regardless of location) and for the same price.

2. The resources to spend at least 30% of your R&D budget to improving fulfillment technology and processes.

The vast majority of 3PLs accomplish this, but the varying degrees of quality is what contributes to their troubling reputation. People shouldn't complain about their 3PLs the way they complain about their cable providers. Good 3PLs consistently keeps a business' supply chain moving without issue and without pillaging your business' accounts.

If you're dealing with a 3PL that consistently has problems due to lagging technology, gives an invoice that only the best CFOs can decipher, and won't give you the proper support because of your business size, then it might be time to find a new partner. Good 3PLs are out there, and once you partner with one, your business will have the freedom to grow without unnecessary operational limitations.

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Further Reading

The IT Gap in 3PLs
https://www.easypost.com/assets/pdfs/the_it_gap_in_3rd_party_logistics_providers.pdf

Empowering Operations with Better Return Policies
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