

The logo consists of the word "SCALA" in a bold, white, sans-serif font, centered within a solid red rectangular box. The background of the entire slide features a network of thin, light-red lines connecting various points, creating a web-like pattern.

SCALA

Third Party Logistics Report

Building Better Business Relationships for the Future

2019

Produced by SCALA Consulting

Introduction

The balance between in-house and third-party logistics providers (3PLs) is critical to the sustainable success of many businesses.

Finding the right balance depends as much on a business' own culture and philosophy as it does on building a relationship with the right partner.

While some businesses (herein labelled "companies") rely heavily on 3PLs, believing this allows them to concentrate fully on 'the day job', others prefer to exercise greater control, only using external support where there is evidence of a tangible business benefit.



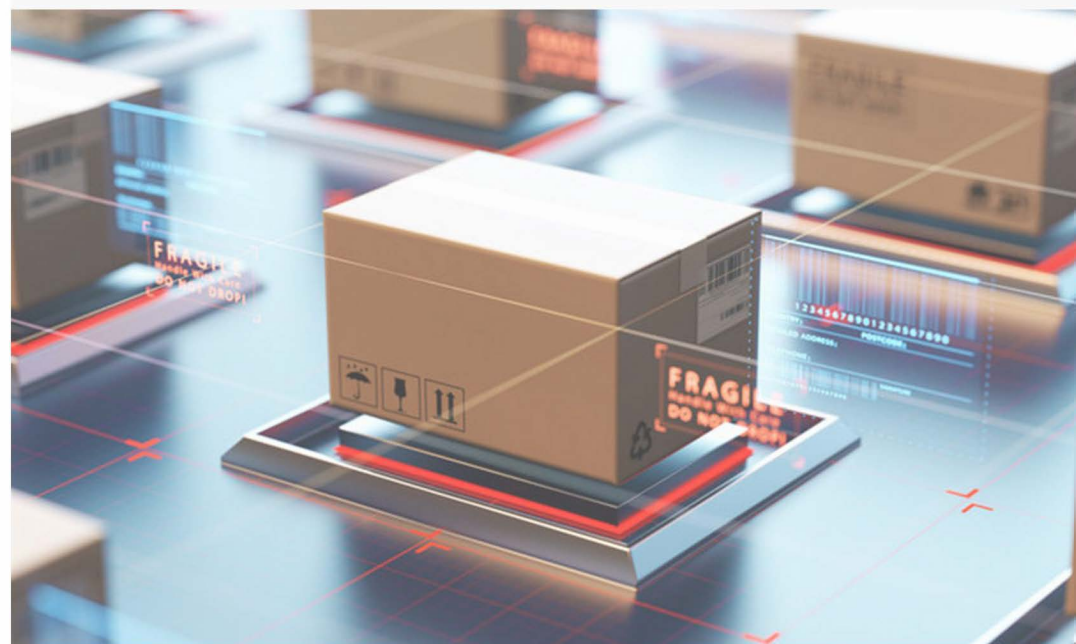
Even for many businesses seeking greater control, the use of 3PLs is widespread. The benefits for scalability, compliance and shared resources allow businesses to mitigate risk while also responding quickly to opportunities as they arise.

However the relationship between a 3PL and their customer is structured, the end result needs to be a strong business relationship that delivers mutual benefits. It needs to be one that is flexible enough to meet the evolving demands of today's markets, but also transparent and reliable enough so that the costs and margins are clear and predictable.

To examine this critical relationship in more detail, **SCALA Consulting** has carried out a major UK survey to ascertain companies' satisfaction rates and areas of concern regarding the performance of their 3PLs. We have also sought the perspectives of 3PLs themselves to see how the two sides view each other.

The survey also looks at the role of companies' procurement functions both in the negotiation and selection of 3PLs and the ongoing management of contracts with 3PLs.

We believe this is one of the most authoritative examinations of 3PLs ever conducted.



Survey participants

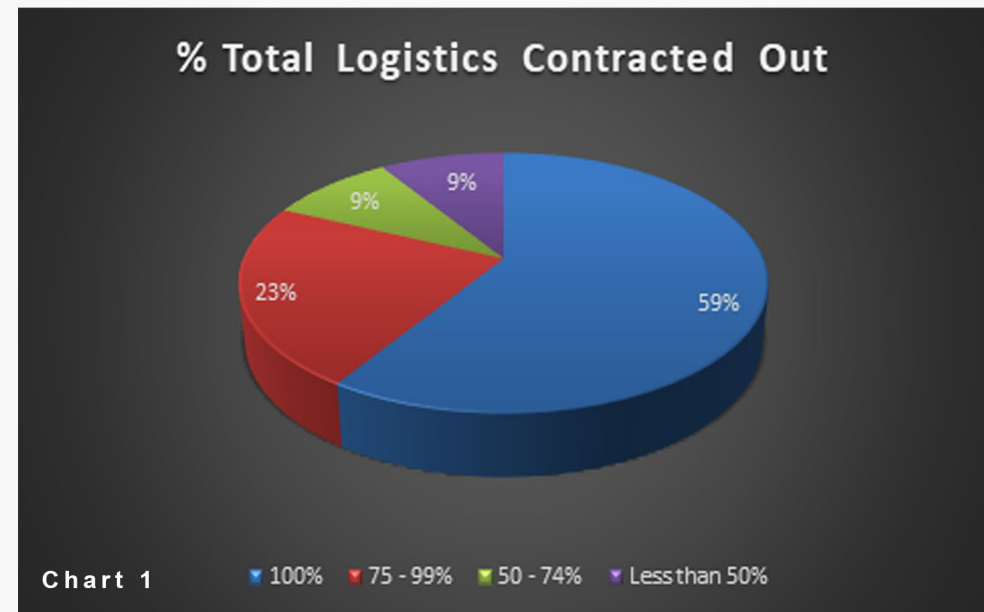
The total UK sales revenues of the participating companies runs into billions of pounds and the participating 3PLs collectively have thousands of UK clients. All those participating in the survey (3PLs and companies) did so on the promise of anonymity and none are mentioned by name.

Companies who gave their views cover a wide-range of sectors.

The 3PLs range from amongst the very largest in the UK to those with only a handful of clients, with the vast majority having in excess of 100 clients.

Some of the participating Companies use 3PLs for a full service, whereas others combine 3PL services with in-house activities.

The split is as follows with over half (59%) using 3PLs for their full logistics requirement.



How satisfied are companies with their 3PLs?

Our survey tested both the satisfaction rates of companies and the perceptions of how satisfied 3PLs believed their customers to be.

The topline results show that there is significant room for improvement in the performance of 3PLs, with the interface between 3PLs and their clients not appearing to be very strong. On the whole, 3PLs could be doing better. Only 18% of companies are “very satisfied”, although the majority (64%) are “reasonably satisfied”.

3PLs, however, seem to be overly optimistic with their answers. 38% believe their customers are “very satisfied”, more than twice the actual level reported by companies. Conversely, when things aren’t going well, 3PLs seem to have an exaggerated perception of the problem. 15% of 3PLs felt that customers are “very dissatisfied”, whilst no companies actually stated they are “very dissatisfied”. Companies expressing a negative opinion only said that they are “slightly dissatisfied” (18%).

Company Satisfaction v 3PL Perception

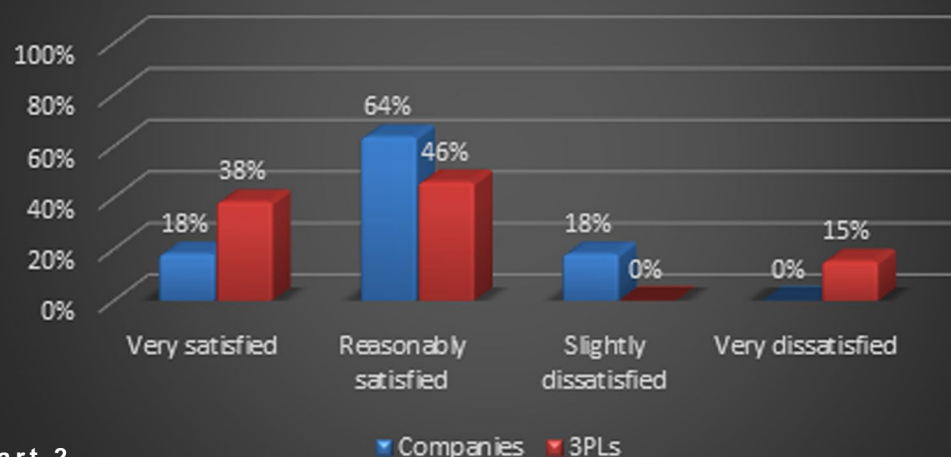


Chart 2

Two things are clear from these responses. Firstly, there is significant room for improvement in the performance of 3PLs and secondly the 3PL/customer interface does not appear to be strong. This implies a lack of preparation in the tender process, lack of regular review and sharing of ideas and/or differing expectations.

Key to achieving this are regular, formal review meetings, together with objective measures of performance that are effectively communicated between both parties. Too often, KPIs are set at the outset and then consigned to a bottom drawer.

Without reference to these measures of success, perspectives become based on informal discussions, hearsay and personal bias. KPIs provide both sides with the opportunity to step back and review the situation calmly and clearly. They also provide early indicators of when slight changes are needed to keep the relationship on track.

3PLs should be very aware of such measures, not only are they a shield against unjust criticism, they are also an opportunity to proactively suggest improvements and innovations that demonstrate their expertise and additionally promote a drive for continuous improvement..



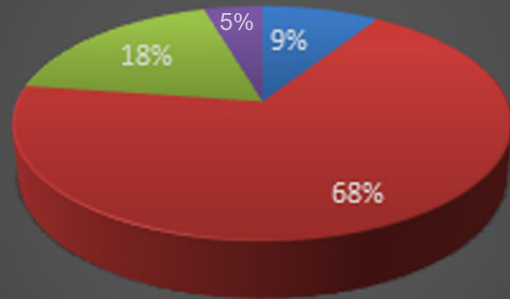
Do companies believe they get a good deal?

Our survey also explored whether companies believe they have the best deal they could have achieved with their 3PL.

Again, the results indicated that greater insight for both parties would be useful.

Fewer than one in ten (9%) companies are 'very confident' they have the best deal possible. Just under a quarter (23%) clearly believe a better deal might have been possible, either stating that they were "not confident" (18%) or "definitely not confident" (5%) that their current deal is the best option.

Confidence level that 3PL provides best deal



Very confident

Reasonably confident

Not particularly confident

Definitely not confident

Chart 3

The clear suggestion is that with the benefit of hindsight, more work could and should have been put into the selection and negotiation process.

In such situations, use of an external, expert advisor can be helpful to broker a deal that best suits a company's needs. For example, at SCALA, we are often called in to offer a wider perspective and knowledge of the market to assess appropriate pricing, potential pitfalls and what to include in a tender.

This knowledge can be invaluable. While a company may only go out to tender every five years, SCALA is continuously involved in new tenders. This independent and objective perspective can set the relationship between a company and 3PL on much sturdier foundations and avoid some of the issues highlighted by this report.

One factor behind the underperformance of 3PLs is clearly their inability to innovate and bring fresh ideas and solutions to the table.

Over half the companies surveyed stated that their 3PL is 'poor' at introducing new initiatives.

Once again, 3PLs are overly optimistic in their performance on this crucial aspect of business relationships. 84% of 3PLs believe they are 'reasonably good' or 'extremely good' at introducing new initiatives.

This complete mismatch of opinions suggests wildly differing expectations. Once again, perhaps more up-front discussion and negotiation together with ongoing regular reviews and sharing of information would lead to more consistent expectations and better performance.

Perspective of Companies and 3PLs on 3PL proactiveness



Chart 4

Only 35% of Companies stated that their start-up was 'highly successful' and 20% stated that the start-up was 'below expectation' or 'poor'.

This suggests a consistent failure to prepare fully the specification of requirements and/or prepare fully for contract implementation.

3PLs, once again, showed an overly optimistic view of their own performance – 3PLs were over 50% more likely to rate contract start-ups as "highly successful".

Success on new Contract start-up

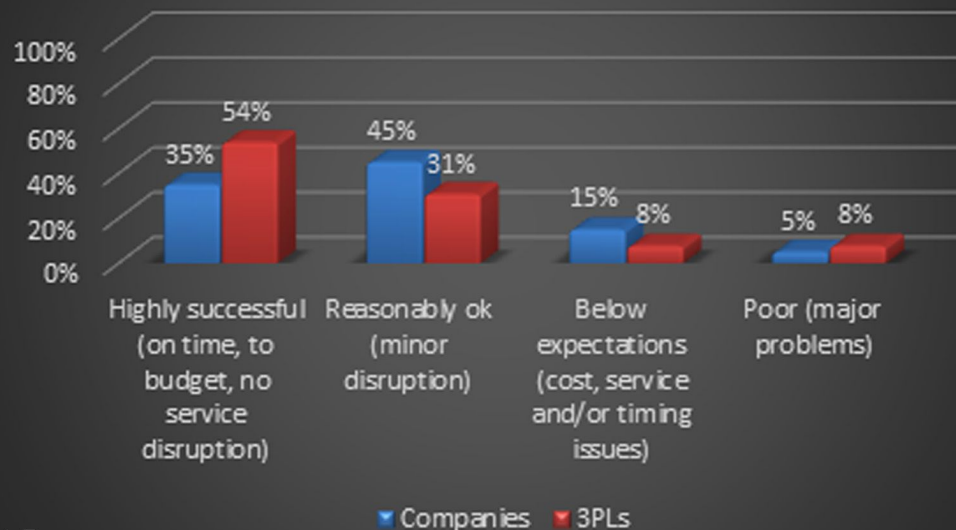


Chart 5



Why this mismatch of perceptions?

Reviewing the comments of 3PLs there is clearly a tendency for the 'blame game' to start during crucial periods, e.g. the start of a new contract. Both parties need to work on the 'partnership' for relationships to succeed.

Comments from 3PLs are revealing:

"(There is) a lack of understanding (by clients) of the operational requirement and a lack of empathy with the incoming contractor about what is reasonable, the true sense of partnership is disappearing."

"Logistics is increasingly seen as a commodity rather than a service and is treated in the same way as buying raw material for the production process. This drives out the ability to design solutions which reflect the nuances of the product and the aspirations of both customer and the end receiver."

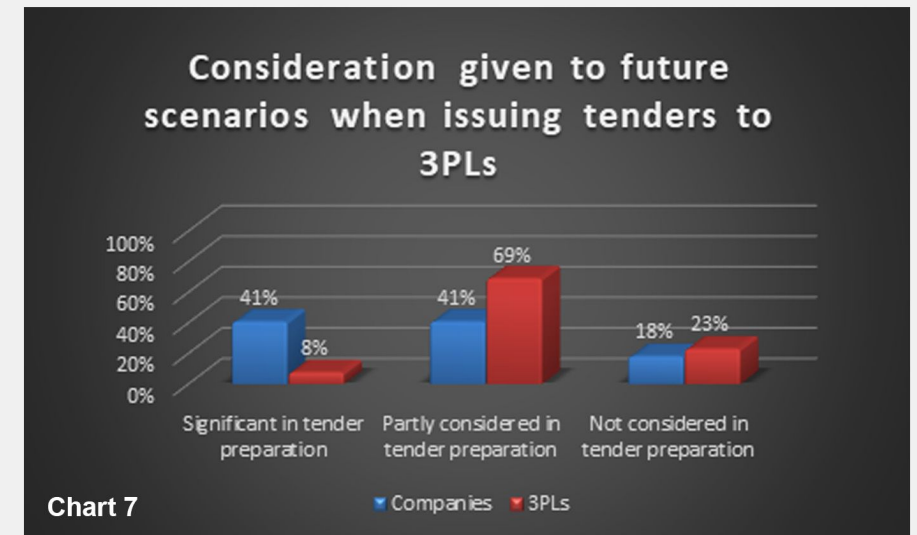
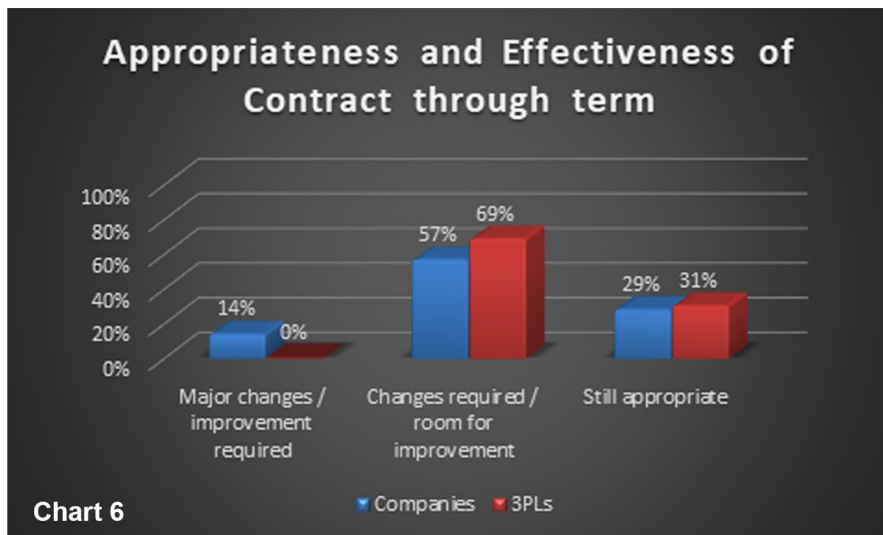
"It's the perpetual challenge of 3PLs to clearly highlight their values, and fixed format responses sometimes limit the opportunity to do so. It's been a great two years for us in new business and the key has been really focussing on driving home the USPs and the cost of failure but not all responses (from clients) allow us to do this effectively as they strive to (have ITTs that are) easy to analyse."

Ensuring appropriateness of contract through term

A measure of the success of agreements is also whether they remain relevant throughout the full term – typically three to five years.

However only 29% of companies believed their contracts to be appropriate and effective throughout the term. The vast majority required either some changes (57%) or major improvements (14%).

This is hardly surprising as 18% of companies admitted that consideration was not given to potential future scenarios when issuing tenders and a further 41% stated that future scenarios were only partly considered.



A common pitfall when negotiating contracts is indeed to concentrate on what is known, rather than predict how potential changes might have consequences for required activities or performance levels.

Clearly, we live in increasingly uncertain times and getting advice on future planning is key to ensuring agreements with 3PLs facilitate flexibility and future profitability.

While SCALA would still recommend similar contract lengths (three years for transport, five years for warehousing), there is clearly a need to build as much flexibility as possible into contracts.

Such scenario planning needs to be based on strong data and rely on market expertise (either from the 3PL or external, independent advisors such as SCALA).

Having strong relationships with 3PLs is key, especially where companies wish to share the potential risks. Managing these needs proactively, through regular reviews and shared objectives, is therefore critical to ensure contracts retain their appropriateness. It is in neither party's interest to be forced into disadvantageous scenarios by external events.

What remedies exist for underperformance?

Our survey also suggests that companies are not as aware as they should be about penalty clauses that exist for poor performance.

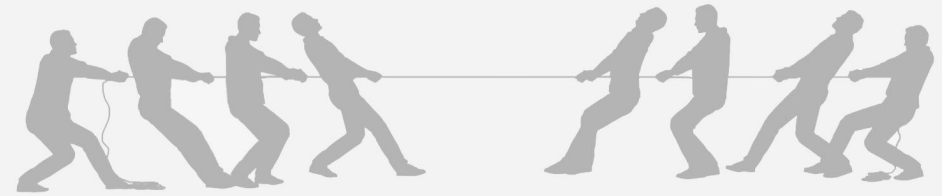
Over 80% of 3PLs say that their contracts contain penalty clauses, however only 45% of all companies believe they have such contractual mechanisms in place.

Assuming that 3PLs are correct (and given that it is their liability, they have more incentive to be), this suggests that many companies don't actively refer to the contract terms after the initial negotiation is concluded.



Awareness of such options within the contract is a key part of the active management of a 3PL relationship. Even if such clauses are never enacted, they are key to incentivising both parties to track performance and ensure any necessary remedies are carried out.

At the heart of successful 3PL relationships is the procurement process. However, here there seems to be yet another source of potential conflicts and pitfalls.



The truth is that procurement and logistics departments often view each other with (at best) confusion or (at worst) outright hostility.

It is rare for one to have a detailed knowledge or appreciation of the other's work and yet they need to work together for the best outcomes.

The role of Procurement

Procurement departments clearly play a major role in the selection of 3PLs and the negotiation of 3PL contracts. 68% of companies stated that their procurement department was a 'main driver' or 'played a significant role' throughout the process.

Significance of each Function in 3PL Tenders

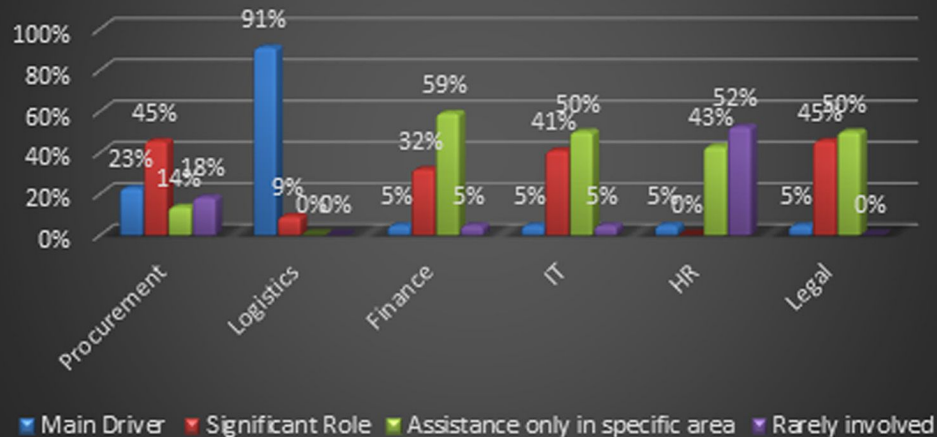


Chart 8

In those companies where the procurement department does not play a significant role, just over half refer to 'limited understanding of the procurement team' as the main reason for this. The second biggest reason is 'concern over poor decision-making.'

However, for those who see their procurement team as adding value, the stated benefits are evenly split (with companies able to nominate multiple attributes).

This clearly suggests that consideration should be given to make use of the specialist skills of procurement, which could compliment the operational expertise of logistics departments.

Procurement Teams' Added Value in Contract Negotiation

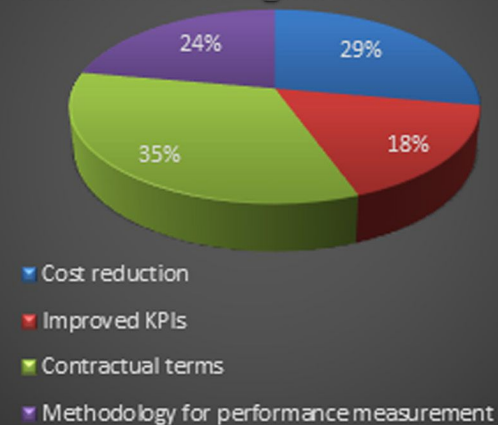


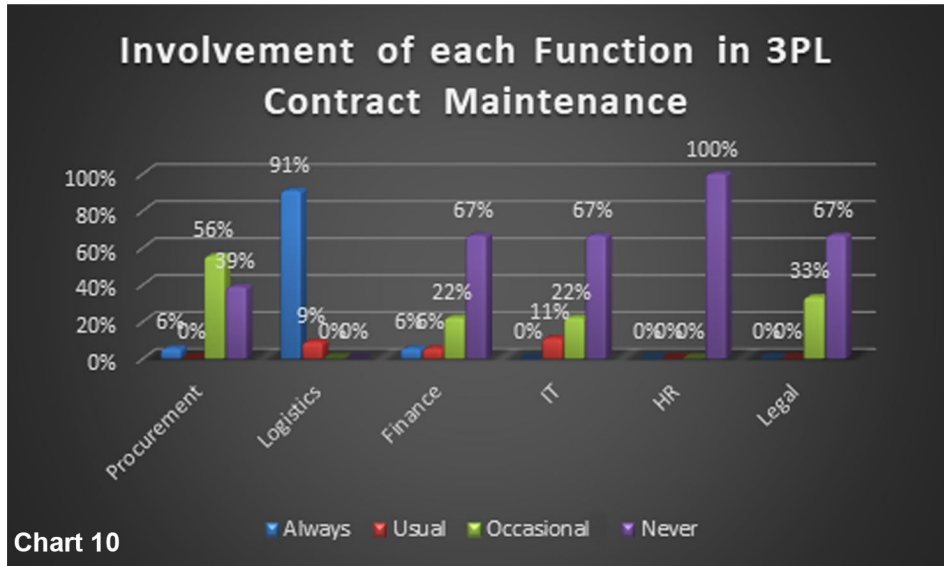
Chart 9

Procurement department's role in contract maintenance

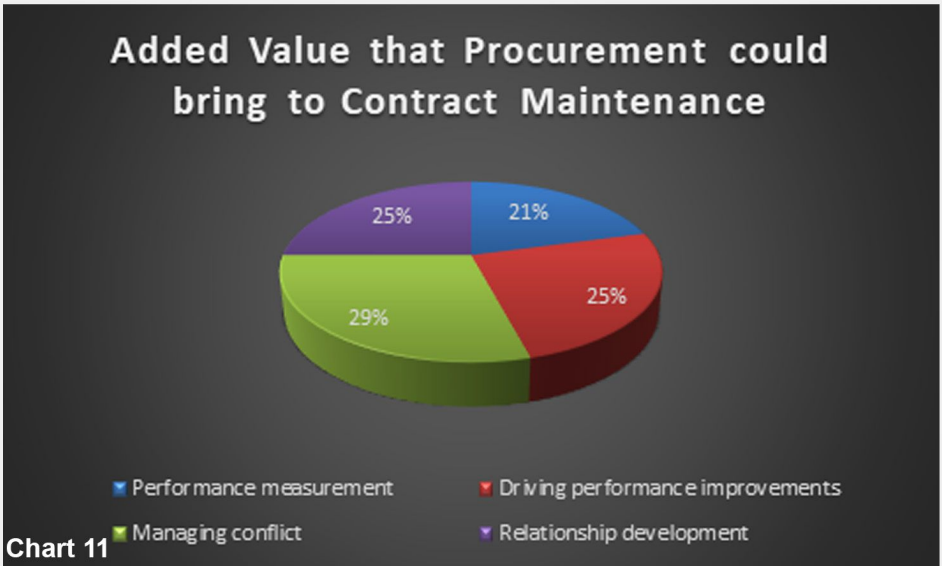
Many companies, however, are failing to use procurement team expertise in the ongoing management of contracts.

95% of companies state that procurement's role in helping to make the ongoing operation of 3PL contracts a success is 'occasional' or 'never'.

Given the general concerns companies appear to have regarding 3PL performance and combining this with the widespread use of procurement in the negotiation of contracts, the failure to use procurement during the course of the contract appears to be a surprising outcome and missed opportunity.



Around 40% of companies believe that procurement does not contribute in any way to the ongoing maintenance of contracts. The majority however would welcome the involvement of procurement and cited various potential benefits (companies were able to nominate multiple benefits). The added value that procurement could bring probably mirrors areas of dissatisfaction in 3PL performance.



View of 3PLs regarding the enhanced use of Procurement

Perhaps the biggest incentive for companies to increase the role of procurement is the view of 3PLs. Only 15% of 3PLs express 'no concern' regarding the enhanced use of procurement teams by their clients. Those expressing concerns talked about the introduction of more exacting KPIs (40%) or the penalisation of performance failures (30%).

Concerns of 3PLs regarding enhanced use of Procurement Teams by Clients

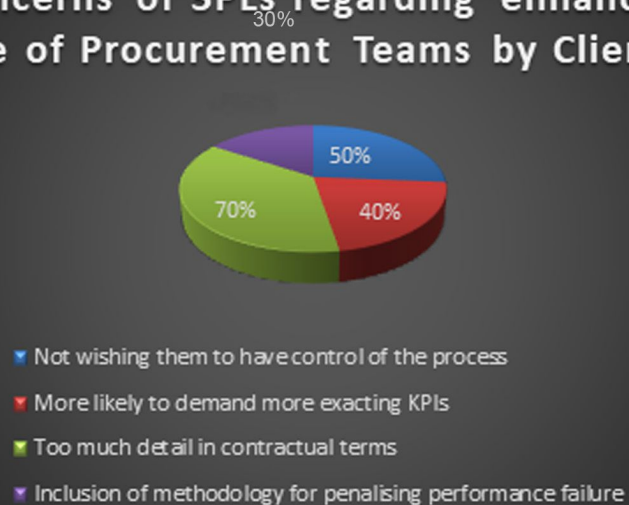


Chart 12

However, conversely, there is a body of opinion amongst 3PLs confirming that they also see benefits from wider company use of procurement teams. A significant majority admit there are benefits, especially in driving improved performance for mutual benefit and better management of conflict.

3PL view of added value from Clients' use of Procurement Teams



Chart 13

Key to unlocking these benefits is to get both teams talking the other's language (or at least appreciating their positions).

Begin by increasing levels of commercial awareness amongst members of logistics teams who have any involvement in the selection and negotiation process. There are too many people in the industry who have responsibility for spending their company's money without having formal negotiation training and are 'up against' professional, highly trained salesmen. This is something we at SCALA offer and it is key to delivering the best outcomes from the procurement process.

For the procurement team, the answer is much simpler. To play a major role in 3PL selection and negotiations, it is essential to put in the hours to fully understand all aspects of the logistics operation – present and future, in busy times and quiet.

Without this, mistakes will be made, and opportunities lost. Critically, it will also result in a loss of respect between colleagues in procurement and logistics and make active involvement in contract management all the harder.

The alternative approach is to use a third party to monitor performance.

Use of a combined procurement and logistics specialist, such as SCALA, brings with it a number of advantages, including:

- *The chairing of periodic review meetings until it becomes a stand-alone activity perceived to be fundamental to the process*
- *Collection and analysis of appropriate data*
- *Ability to support 3PLs in change implementation*
- *Strong negotiation skills*

Also, 3PLs will need to continuously impress due to SCALA's key industry role and reputation.

General comments

When asked for specific insights into the relationships between Companies and 3PLs, broadly consistent messages emerged from each, fully supporting the responses given to the pre-set questions:

1. Companies' comments regarding 3PLs included:

- *'lack of continuous improvement'*
- *'lack of proactivity'*
- *'not enough time spent together working on savings initiatives'*
- *'constant focus on cost and not on quality'*
- *'head stuck in day-to-day'*
- *'struggle to push to mid/long term planning'*
- *'lack of strategic collaboration'*

2. 3PLs' comments regarding Companies included:

- *'increased commoditisation of the logistics service'*
- *'ensure responses are not all 'fill in the box' exercises driven...by cost'*
- *'the jump to more and more bid platforms removes the essence of...designing a solution around a customer'*
- *'logistics is increasingly seen as a commodity rather than a service. This drives out the ability to design solutions'*
- *'lack of empathy with the incoming contractor about what is reasonable'*
- *'the true sense of partnership is disappearing'*
- *'experience has seen ITTs not being reflective of what is actually required'*

Conclusions

There clearly is significant room for improvement in 3PL performance with a lack of proactiveness being a particular criticism.

However, it is also clear that more work is required up-front by companies in preparing their tender documents, and in their discussions and negotiations with 3PLs.

There appears to be a need for a fundamental improvement in the relationships between companies and 3PLs to promote the sharing of ideas, values and objectives and to ensure both parties have similar expectations.

Whilst procurement departments do appear to contribute significantly in the majority of company 3PL tenders, once contracts are up and running, procurement departments appear to drop out of the process.

This is unhelpful, with procurement expertise and experience invaluable in ongoing supplier management.

It is in the interests of both parties to invest in this relationship and solve the problems highlighted by our research. For companies, they can unlock greater gains and increase their responsiveness to market challenges. For 3PL's the long-term gain of being seen as an effective expert and reliable partner is worth the short-term pain of greater scrutiny and focus on proactivity.

The SCALA logo consists of the word "SCALA" in white, uppercase, sans-serif font, centered within a solid red rectangular background.

Contact:

For more information, please visit: <http://www.scalagroup.co.uk/>

 scalagroup.co.uk

 [@scalagroupintl](https://twitter.com/scalagroupintl)

 [Company/780987](https://www.linkedin.com/company/780987)