

10 Tips for Selecting a Carrier or 3PL

By David Jacoby, President of Boston Strategies International Inc

Many people think of carrier selection as a paper-pushing exercise involving three bids and a spreadsheet. Taking this approach may result in subpar bid responses and a foregone opportunity to leverage supply chain management to your company's competitive advantage. Depending on the complexity of the network and the importance of the decision, you may want to consider one or all of the following steps:

Requirements Specification

1. Specify the range of services you want. Codify them in a standard request for proposal (RFP). Thinking of your company's strengths and weaknesses, ask for what you want rather than what you think the market is offering.
2. Quantify the level of performance you need for each desired service. You get what you measure, especially if you spell it out upfront. In an RFP for a third party logistics (3PL) or transport carrier, consider measuring fill rates, on-time performance, dock-to-dock transit time, lead time to respond to changes in order volume or origin/destination, and stocking levels, to name a few.

Bidding and Evaluation

3. Conduct a walk-through of key hubs, terminals, and distribution centers. Pick a peak day of the week, if possible in a peak season, in order to see as much activity as possible. Follow the flow of goods from receiving to shipping, and take notes on the best and worst practices you observe.
4. Get historical rate trends and benchmark forecasts from industry experts. If today's conditions represent a high or a low for a specific mode, lane, and volume, or if they vary widely, you may need a basis for understanding whether the bids you receive are aggressive or not. Some consultants have sophisticated ways of getting benchmarks that make direct apples-to-apples comparisons to your shipments.
5. Embed flexible mechanisms for escalation and de-escalation. The cost of inputs inevitably rises and falls, and if one party bears all the risk, the partnership could sour. Shared risk is usually a solid foundation for a trusting and collaborative relationship.
6. Critically assess proposed subcontractors and interline carriers. Good service can break down where there are subcontracted service providers. Check the interfaces between the bidding carrier and any subcontracted providers.
7. If the bid is multi-faceted and the dollar expenditure is large, use a software or software service provider that allows carriers to bid on bundles of lanes and services. In a complex bid with multiple providers, you may sub-optimize by simply evaluating bids in total and lane by lane. A sophisticated comparison tool will ensure that you select the best carriers for every lane and set of lanes, as well as distribution services.
8. Negotiate productivity improvements over time. Every organization should be improving productivity annually through the use of enterprise software, routing and scheduling applications, wireless dispatching technology, RFID, and new vehicle technology. Structure the contract so you get your share of the benefit of these improvements.

Selection and Transitioning

9. Customize the contract to your requirements. If you start with boilerplate, edit it and write in your special needs and expectations. The negotiating stage is the best time to ask for special requests.
10. If switching carriers, do it relatively soon after award of the bid. "Lame ducks" may lose the incentive to perform at high levels once they know they are on their way out.

Remember, supply chain management can be a source of competitive advantage if managed properly. Take some extra care to get strategic value from your sourcing and partnership decisions.