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**CRITICAL SUCCESS FACTORS OF  
TRANSITIONING TO A 3PL:  
PART 1 – SELECTING A PROVIDER  
WHITEPAPER**

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# Critical Success Factors of Transitioning to a 3PL: Part 1 - Selecting a Provider

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## WHITEPAPER

Terminus Apparel, a fictional nationwide wholesaler and eCommerce distributor of fashion forward merchandise, had reached a crossroads. Their business was up; sales had steadily grown over the years to new highs; the eCommerce channel had been established and was growing at double digit rates. The sales department had done an excellent job of increasing the number of customers and retailers that were offering Terminus products, and the number of orders had increased drastically. Unfortunately, Terminus's in-house distribution operation had not grown with the business. The warehouse was constantly behind schedule on orders and inventory was often misplaced and not accurate. Newer, larger retailers brought with them more thorough routing compliance requirements that Terminus was not used to, and mistakes in shipments to these customers triggered costly chargebacks from the retailers that the company had worked so hard to bring in.

Terminus's CEO had had enough. He was tired that the good work the sales side of the business had been accomplishing was being constantly overshadowed by the failure of the distribution operation. The leadership team made the decision to move the warehousing and distribution of its products to a third-party logistics provider (3PL).

No one on Terminus's staff had any knowledge or experience with 3PL services, but they decided to keep moving forward with the plan. After selecting a local provider of 3PL services found through a simple search, Terminus agreed to terms and started the move to the new location. After a long and arduous transition, Terminus quickly realized that the provider that they had selected was no better prepared for the operation than they had been and that the rates that they were paying for these services (or lack thereof) were unsustainable. The 3PL was unable to accurately send orders and chargebacks from retailers increased dramatically.

Within a year, Terminus's relationships with the retailers that they had worked so hard to develop were over. The retailers could no longer continue to deal with the mis-shipments and made the decision to no longer buy products from Terminus. The loss of sales and high operating costs destroyed Terminus's finances, and the business filed for bankruptcy shortly following.

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Making the decision to move your company's warehousing and distribution operation to a third-party can be a difficult, but necessary, decision. As in the example above, an unsuccessful move to a 3PL can be catastrophic to a business. However, when handled correctly, an operation's transition to a 3PL can be seamless and can offer the company many benefits. In this series, we will discuss the decisions and processes that a company must make to successfully select a 3PL and transition their operations to that provider. This white paper, the first of two parts, will cover the necessary factors to consider when selecting the 3PL provider that best suits your needs.

As with any decision that a company must make when they have no prior knowledge or experience, the first thing that a business should do when investigating a move to a 3PL is to seek out objective, experienced professionals (such as supply chain operations consulting firms) that are experienced in 3PL selection and implementations, and have them assist with this important task. Unlike Terminus, who pressed on without any guidance, having expert assistance is a great barrier from making poor decisions that might put your operation at risk of failure. An experienced consultant will begin with a review of the status quo. Considering the current state of affairs will allow the consultant to see where any faults may lie in the current operation that is preventing it from being as efficient as possible. Upon this review of the status quo, the consultant might decide that some changes to the current operations might be enough to overcome any shortcomings that the business is currently facing and that a move to a 3PL is not necessary.

If the decision to move forward with transitioning to a 3PL is "greenlit" by the company, the next step is selecting a 3PL provider to go into business with. There are many providers out there, and they all specialize in different services. It is important to pick a provider that is experienced in the areas that you will need. Does your operation require a large amount of value-added services that are specific for individual customers, such as ticketing or labeling of merchandise? Are outbound loads required to meet strict retailer compliance standards? If so, make sure that the provider you choose has experience with handling these types of services. Another important aspect to consider when comparing providers is the rates for all services that will be required. While some providers are costlier than others, the experience and expertise that they provide might be worth the increase in price.

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Another factor to consider is the location of the facility that the provider would like to use. It is important to select a location that offers benefits to your operation. A review of the business's transportation network and service level requirements by the consultant can highlight the geographic center of demand for the business's customers. Selecting a provider with a location near this center of demand can drastically improve service levels to customers when compared to your current state (i.e. 80-90% of your customers can be reached within 2 days, etc.), while also reducing freight costs. Many of the larger 3PL providers have multiple locations throughout the United States.

A key factor to consider when selecting a provider is the 3PL's choice of IT technology. Every provider utilizes different systems at their own preferences, whether it be warehouse management systems (WMS) or otherwise. It is important to consider these systems and to ensure that the 3PL's preferences match up to the specifications that you require. For example, if you are requiring the ability to access real-time inventory levels, make sure that the provider that you choose can provide that capability.

Selecting the 3PL provider that best meets the needs of your business is the first of two important steps in successfully transitioning your operation to third-party assistance. In Part Two of this series, we will explore how best to implement and transition to the 3PL provider.

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