



## WHITEPAPER

# Third-Party Logistics (3PL) Labor Performance Management – An Untapped Opportunity

*Presented by Kurt Salmon Associates*

Too often, companies and their third-party logistics (3PL) partners lack business relationships that extend beyond the standard three- to five-year contract length. Reasons cited for these unsuccessful relationships range from service-level agreements not being met, to costing and pricing issues, to cultural differences. While there is no one-size-fits-all solution to address these relationship challenges, there is one tool that is often overlooked as a way to potentially strengthen a 3PL's relationship with its customer: a distribution center (DC) labor performance management program.

### **Core Components of DC Labor Performance Management Programs**

DC labor performance management programs have long been recognized by supply chain organizations as tools to increase productivity and throughput capacity, reduce operating expenses, and improve accuracy and safety in DCs. Built around several core components, successful programs typically include engineered labor standards (ELS), a robust labor management system (LMS) with the ability to track and report cost and performance, and well-defined program policies and procedures. Strong corporate sponsorship of the program and the adoption of a continuous improvement culture throughout the organization are equally important, as these elements are the glue that holds the program together and helps drive its short- and long-term success.

If implemented in a 3PL DC environment, this type of program can provide the 3PL and its customer with many benefits, such as those previously mentioned. Of course, the level of benefit realized depends largely on the organizations' commitment to the program, as well as the type of price contract employed. The DC labor performance management program offers each organization the tools to succeed. It is up to the business partners to determine the level of benefit each party will realize.

### **Price Contracts Determine Benefit Levels**

Under a fixed cost or cost-plus arrangement, the implementation of a DC labor performance management program benefits both parties. It allows the 3PL's customer to defer capital and operating expenses it might have incurred if 3PL productivity and throughput gains had not been realized as part of the program. The 3PL can benefit by maintaining its pricing structure while increasing profit margins through decreased costs.

Under an open-book arrangement, both parties enjoy many of the same benefits realized under the fixed cost or cost-plus arrangement. Additional benefit is gained through collaboration and understanding of the true work content and costing. Perhaps the most critical elements required to build this understanding and collaboration under the open-book arrangement are accurate engineered labor standards (ELS) and a high-quality LMS, such as GoalPost™.

### **Engineered Labor Standards Tap Unrealized Savings**

ELs enable the 3PL to develop accurate, activity-based pricing that is representative of the work content actually performed by the 3PL, which in turn allows the 3PL to maintain adequate margin levels and fair pricing for the customer. The development of ELs also helps the 3PL tap unrealized savings through refinement of standard operating procedures (SOPs) and layout modifications that normally occur prior to standards development. These operational enhancements typically result in increased productivity and throughput capacity before ELs are implemented.

#### **Labor Management Systems Provide Visibility**

Using an LMS provides visibility of DC performance, accuracy, and cost associated with the specific DC operations. The LMS is a powerful tool that helps build understanding between the 3PL and customer. It provides unbiased, fact-based reporting that details the successes of and opportunities for the 3PL's DC. Working with these reports, the 3PL and its customer can collaborate to develop tactics and strategies to capitalize on successes and overcome challenges faced at the DC.

#### **Commitment to Success**

The success of a DC Labor Performance Management Program hinges on a number of factors. Perhaps the most essential factor is the level of corporate sponsorship for the program from both the 3PL and its customer. Sponsorship must start at the highest levels of each organization and cascade all the way down to the line associates working on the DC floor. One of the key objectives of implementing this type program is for it to become part of the 3PL's culture, transforming from a short-term initiative to a long-term, sustainable program.

The effort required to implement and maintain this type of program is no small undertaking, but with the right foundation in place and the appropriate level of organizational commitment, the 3PL and its customer will enjoy ongoing program success and benefit from a strengthened business relationship.

#### **About KSA**

Kurt Salmon Associates (KSA) is the premier global management consulting firm focused on supply chain management. We work closely with our clients to create accelerated value through our tailored solutions for business growth, margin management, inventory efficiency, productivity improvement, and technology effectiveness.

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