

Persistence Pays—Partnership Preserved

Searching for the right formula to build a successful 3PL/Shipper relationship

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Thomas Holcombe

“Our mission was quite simple: find a provider that would give us the best service level for the absolute best price,” recalled **Thomas Holcombe**, production manager, Sulzer Pumps Solutions. However, he began building some reservations while researching 3PLs, the process itself, and such practices as how to engage a provider and what provisions should be contained in a contract, “so we can be successful.” But he also came upon a survey which found that 39 percent of the contracts that are initiated, fail.

“One thing that I believe drives these relationships apart is the tension that comes from the fact that cost to the company that is outsourcing is revenue to the service provider,” Holcombe. “How do we resolve that tension?”

The process begins

After engaging Sunland Logistics Solutions as its service provider, Sulzer’s first attempt was as a cost-plus arrangement. It was a cost-plus contract because Sulzer was not able to share with Sunland what the job entailed, as the scope of work hadn’t been fully defined.

Needless to say, the cost-plus contract was a false start because the risk is totally borne by the shipper and there is no motivation for the service provider to decrease costs.

So, the parties agreed to begin anew, this time under a transaction-based arrangement. This didn’t work out either even though the costs are controlled by the shipper with the risk borne by the 3PL and with revenue being directly proportional to the transaction count.

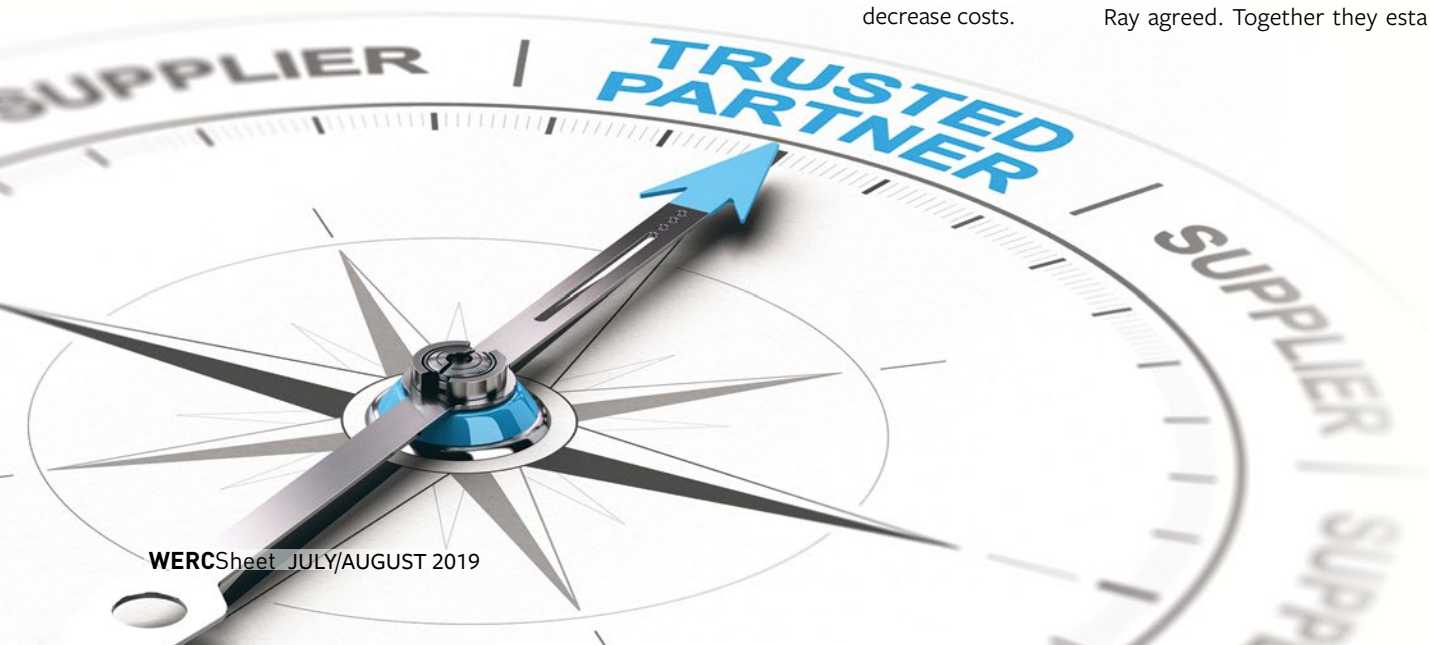
After unsuccessfully going through two cost models there was serious concern from both parties that a feasible solution could not be reached. There also was some tension, according to Holcombe, “due to there not being the trust that both of our groups were expecting out of our relationship.”

Approach delivers

Elijah Ray and Holcombe, referencing **Kate Vitasek’s** (and others) “Vested Outsourcing,” began to work on the five transformative rules seeking the solution:

1. Outcome-based vs. transaction-based
2. Focus on the ‘What,’ not the ‘How’
3. Clearly define and measure desired outcomes
4. Pricing model with incentives that optimize the business
5. Insight vs. Oversight

Out of this came the conclusion: What if we work together to maximize profits—together! “This takes trust,” Holcombe and Ray agreed. Together they established the



total system cost baseline and performance incentives.

Both Sulzer and Sunland have costs associated with the relationship. “We got to lay them out and establish a baseline,” Holcombe reported. “We detailed all of

these costs and determined the total system cost baseline.” Further, the teams established performance incentives. “We defined what we were going to pay for a job well done as well as to define what a job is well done,” he continued. “Our objective was not only to share in the pain, but to share in the gain.”

As Holcombe summarized the results as “finding the one formula for our successful 3PL/shipper relationship,” he also shared the results that have been achieved from 2016 to the present:

- 13 percent improvement in lines per hour
- 6 percent increase in total lines per year
- 12 percent decrease in labor hours/day.

What Is Vested?

Vested® is a business model, methodology, mindset and movement for creating highly collaborative business relationships that enable true win-win relationships in which both parties are equally committed to each other’s success. When applied, a Vested approach fosters an environment that sparks innovation, resulting in improved service, reduced costs and value that didn’t exist before — for both parties.

Vested is based on award-winning research conducted by the University of Tennessee College of Business Administration and funded by the U.S. Air Force. Learn more about Vested at www.vestedway.com. 🌟

Trust Be Told

There are two kinds of trust, personal and procedural. “Personal trust is the kind of trust that evolves over time and can’t be rushed,” according to Elijah Ray, chief customer officer, Sunland Logistics Solutions. Procedural trust, he likens to a 3PL/shipper relationship, such as Sulzer and Sunland, in which “both parties place their trust in an agreed-upon structure or clear procedure that they execute together.”

At the beginning of a relationship, the trust may not be there initially, but there’s still time for each of the parties to “get to know each other” and to grow together, which the procedural type fosters, Ray explains. With procedural trust, the parties create transparent consistency, provide solid illustrations, and establish verifiable steps and clear checks and balances.

“Where there is trust there is productive collaboration,” Ray maintains. “By removing any doubts from the relationship and making the decision to trust, the collaboration will be much more productive.” It also sets up the organization for more human behavior, called reciprocity.

“The more back-and-forth you have enables innovation to take place, with positive results occurring,” he shares. Additional benefits from practicing trust is having positive energy throughout the organizations and decreasing transaction costs (such as seeking new bids/providers for services currently being performed due to inadvertent misunderstandings).

“In the end, there is value in trust,” Ray assures.



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