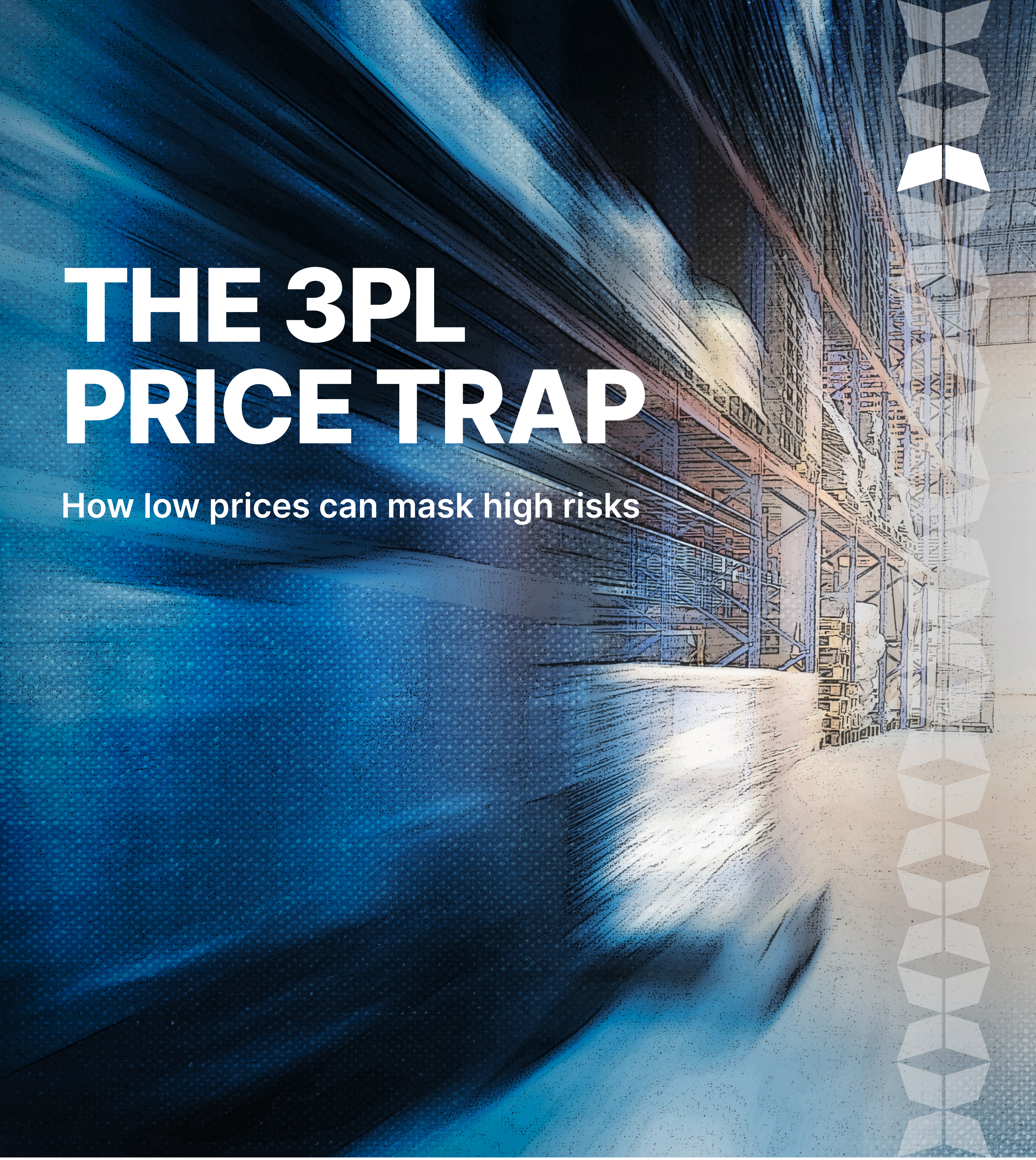

THE 3PL PRICE TRAP

How low prices can mask high risks

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Executive Summary

In today's competitive market, businesses are under pressure to optimize their supply chains and control costs. While choosing a third-party logistics (3PL) provider may seem straightforward, the cheapest option often comes with hidden risks and consequences. This playbook reveals the potential pitfalls of prioritizing price over value and provides a guide to selecting a 3PL partner that supports long-term success.

Topics Covered:

- **The Critical Role of 3PLs in Modern Supply Chains**
- **Understanding the Risks of a Low-Cost 3PL Provider**
- **Avoiding the 3PL Price Trap**
- **Identifying the Right Partner**

The Importance of 3PLs

Cost is a driving force behind nearly every consumer purchase, shaping choices from the production line to the delivery at your door. In logistics, the lure of lower prices is particularly strong. But is cheaper always better? Choosing a low-cost third party logistics provider may seem like a savvy move, but it could open the door to serious and costly risks for your business.

Third-party logistics play a significant role in the day-to-day operations of countless companies worldwide. In fact, a report by Armstrong & Associates indicates that 90% of US-based Fortune 500 companies use 3PL services, the most common being transportation management, warehouse management, and/or value-added services, leading to a staggering industry valuation of over $1 billion in 2023 and a projected growth to $2.5 billion by 2032.

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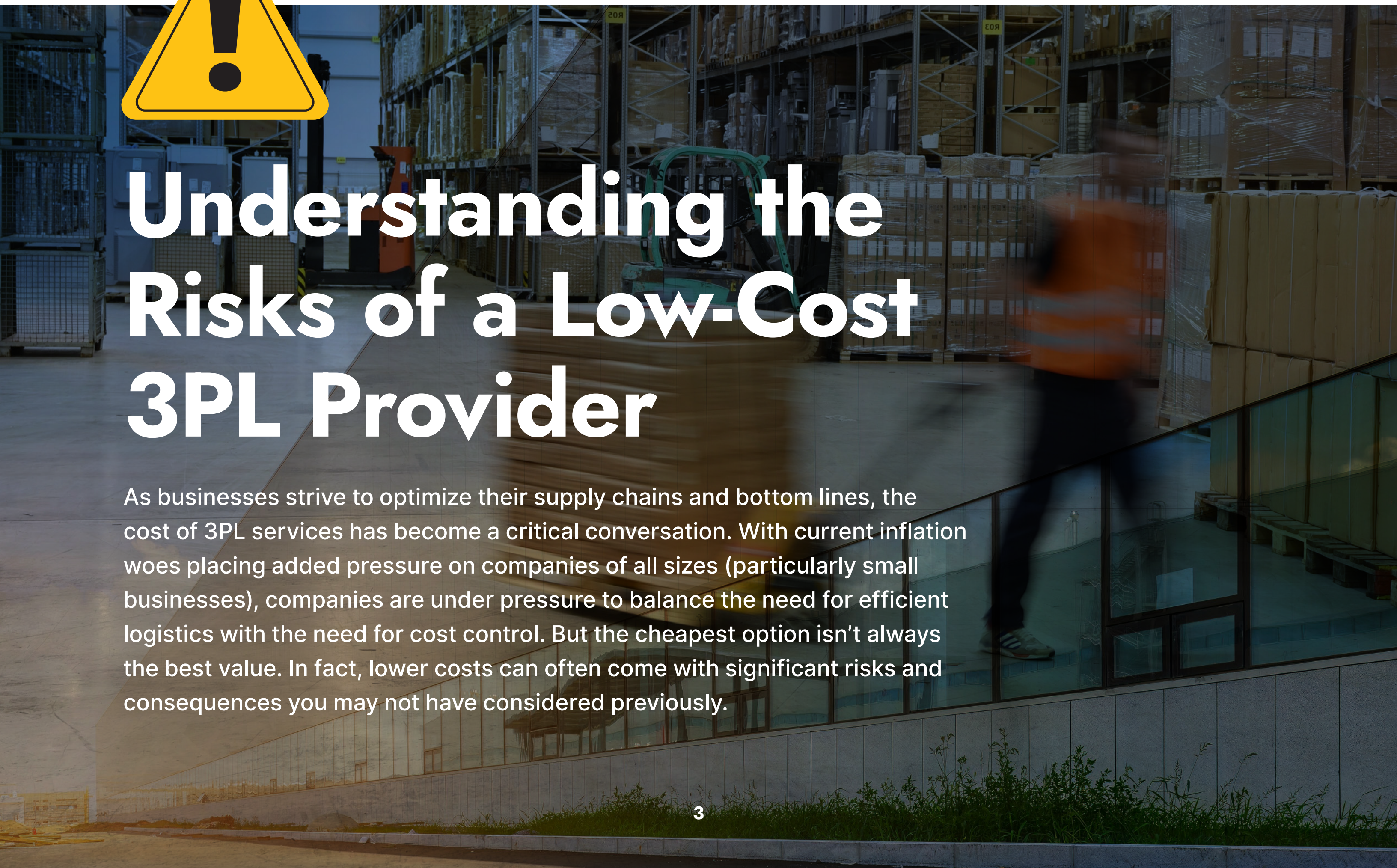


Understanding the Risks of a Low-Cost 3PL Provider

As businesses strive to optimize their supply chains and bottom lines, the cost of 3PL services has become a critical conversation. With current inflation woes placing added pressure on companies of all sizes (particularly small businesses), companies are under pressure to balance the need for efficient logistics with the need for cost control. But the cheapest option isn't always the best value. In fact, lower costs can often come with significant risks and consequences you may not have considered previously.

You Get What You Pay For

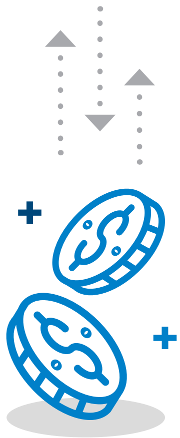
The dangers of aggressive pricing strategies

The old adage of "you get what you pay for" is particularly true with 3PL.

With a lower price tag comes the potential for higher risk for all involved parties. A hyper-competitive market has pushed many 3PL companies to employ aggressive pricing strategies and accept increasingly smaller margins. For a few, this could prove to be a worthwhile endeavor in the battle for market share. For others, it has made the business unsustainable, forcing the 3PL to close its doors, while customers scrambled to find a new provider.

And there's no shortage of considerations that are currently impacting business decisions. Business owners, while cautiously optimistic, are still cautiously operating on the heels of the pandemic, which has brought forth higher costs for them and lower demand for their 3PL providers, creating a stalemate across the board in many cases.

"Your 3PL's stability is critical," says Vice President of Investment at WSI (Warehouse Specialists, LLC) "You may get a great deal on price, but that is only helpful if the company stays in business."



But the risks appear much sooner. When pushed to operate on thin margins, 3PLs often have to make difficult choices about where to cut costs. This can lead to a slippery slope, where investments in vital areas like technology, quality, safety, and employee training are sacrificed to maintain profitability.

Growth Ambitions

Scalability and Financial Health

Scalability is a key concern. For a 3PL, scalability means having the flexibility to adapt to changing customer needs, like expanding warehouse capacity, hiring additional staff, or investing in new technology. This requires a 3PL to be financially healthy and ready to invest in growth at the right time. If customers cannot rely on your 3PL partner to support this, you may find yourself scrambling to find alternative solutions when your business takes off.

Gathering financial health information from private 3PLs can be more challenging than with publicly traded companies, which are required to disclose financial information.

Here are some things to consider:

Years in Business

A longer history may indicate stability and experience but consider the company's growth and evolution over time. Companies that have been around for decades but have stagnant growth may be in trouble. On the other hand, be cautious of very new companies that may lack established processes and funding sources.

Leadership Tenure

Evaluate the tenure of key leaders and employees, as high turnover can indicate instability or poor management, ultimately impacting service quality. Look for companies investing in hiring top talent while also retaining expertise.

Insurance and Certifications

Adequate insurance coverage and industry-recognized certifications demonstrate a commitment to quality, compliance, and risk management. It may also indicate a provider's ability to protect against potential losses, which can impact their financial stability.

Safety & Training

Protecting Products and Employees

The protection of employees and products is a top concern for both logistics providers and their customers. Maintaining safe warehouse environments often requires significant resources, including engineers and maintenance personnel, safety, and compliance experts.

When it comes to transporting and storing chemical goods, for instance, a lower-cost provider may take the business, but will they be following proper handling and storage protocols? Some may knowingly or unknowingly store hazardous materials without the proper safety standards in place, which could cause a world of legal and financial headaches for you and your business. Not to mention, the reputation of your company could also be negatively impacted or permanently damaged.

“There are people who will do chemical warehousing very cheaply,” Schroeder says. **“But they may be cheating. They are likely breaking applicable laws. They may be operating unsafely, but it could be because they don’t know. The 3PL didn’t allocate enough resources to training.”**

In choosing a provider that comes with an increased cost, it’s likely that you’re either directly or indirectly contributing to an overall better experience for yourself as a customer. How? That increased cost could be helping the 3PL provide better services and training that impact employee ability, performance, and retention, resulting in an overall better quality of service for you. It’s another “behind the scenes” consideration most don’t factor into their decision in choosing a provider.

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Matt Schroeder
VP of Investment at WSI
(Warehouse Specialists, LLC)

Technology

Security and Efficiency

Other safety concerns include the increasing rise in security threats, notably cargo theft and cyberattacks. Larger companies have responded to the uptick in these threats by investing in people and products that help protect their business and clients from becoming vulnerable targets. Smaller operations may not have the funding or capacity to expand their efforts in this regard. Others simply may opt out of making these investments in an effort to save on costs.

When evaluating a 3PL provider, it's crucial to consider their technology capabilities, as they can significantly impact the security and efficiency of your supply chain. A robust technology infrastructure can help mitigate risks, improve visibility, and enhance overall supply chain resilience. Look for a provider that invests in emerging technologies and maintains a strong cybersecurity posture.

When a technical issue presents itself and potentially threatens your business while in the hands of your 3PL, you want a quick response and a definitive solution. The livelihood of your business is potentially on the line. That's why it's crucial to have a 3PL that can provide you with a top-tier, in-house IT staff that is able to quickly and efficiently troubleshoot and/or solve any tech-related issues that pose a threat to your operations.

> "In today's landscape of increasing security threats, speed to delivery expectations, and cost containment, businesses will look to invest in a reliable and strategic 3PL partner that will safeguard their operations and improve their supply chain."

Sebastian West
VP of Information Technology at
WSI (Warehouse Specialists, LLC)

Avoiding the 3PL Trap

Beyond the bottom line

Now that you know the impacts that can accompany the use of the cheapest 3PL, how do you choose the best fit for your business needs?

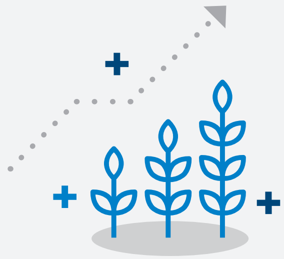
There are a number of reasons you may be looking to switch providers. But, if you're under the impression that you may be able to receive a better rate elsewhere while still receiving the same service and benefits, you might want to reconsider. There's a lot more at stake than you may realize.

What are your non-negotiable terms when it comes to working with a provider? Are there areas in which you're willing to compromise or even eliminate certain offerings you're receiving from your existing 3PL provider?

Define your Non-Negotiables

Before selecting a 3PL provider, identify your non-negotiable terms. Consider the following:

- Service level requirements
- Security and compliance standards
- Communication and visibility expectations
- Scalability and flexibility needs
- Sustainability and social responsibility values



It all comes down to much more than the final figure before the dotted line. A reputable partner will work alongside you to determine a cost that's agreeable to both parties without you having to sacrifice what matters most to you and your business.

There's no shortage of large-scale logistics companies that have a successful track record in the industry. Seek out these established providers and take notes. If possible, ask existing customers about their experience. Compare what each provider offers, gather quotes, and choose the provider that aligns with your company's goals.

While you may be in a situation that requires you to make a decision quickly, don't choose hastily. Ideally, you'll ideally be partnering with your provider for the long term. So, take the time to ask any and all questions you may have. **You are investing in yourself, your business, and your future.**

Identifying the Right Partner

Key factors to consider

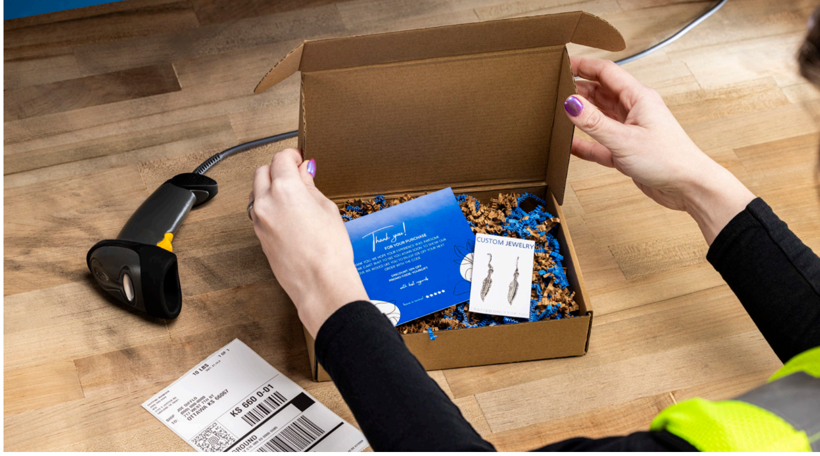
To stay ahead in the logistics industry, it's crucial for 3PL providers to invest in areas that drive the most value for their customers. This includes adopting the latest technology and enhancing operations to improve efficiency, future-proof their business, and protect customer products and data.

"WSI is able to differentiate ourselves by investing in tech and being able to provide data and valuable insights to our customers," Schroeder says. "We can tell our customers, 'hey, if you do this, you can save money on shipping' or 'if you do that, this will be better for you.' We can see that data and make informed suggestions and decisions."

When seeking a 3PL partner, look for providers that prioritize strategic investment in technology, people, and operations. Carefully review their website, proposal, and sales materials, as well as references and reviews for the following:

- History and experience
- Financial health and resilience
- Scalable infrastructure and facilities
- Operational safety and regulatory compliance
- Talent development and retention
- Customer-centric support

By prioritizing these factors, businesses can find a 3PL partner that supports their growth and success. A reliable 3PL will have experience and solid references to back up their offerings.



About WSI

We understand that every business is unique. That's why we offer a wide range of customization options and value-added services to meet each partner's specific needs. Whether managing challenging seasonality or trying a new multi-warehousing distribution strategy, we provide tailored solutions to elevate your supply chain strategy.

To learn more about WSI, please visit wsinc.com

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