

A STUDY ON THIRD PARTY LOGISTICS (3PL) PROVIDERS

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Abstract :

A 3PL provider is a company which supplies and/or co-ordinates logistics functions across multiple links in the supply chain. The company acts as a “third party” facilitator between seller/manufacturer (the “first party”) and buyer/user (the ‘second party’). As the third party logistics industry rapidly growing and playing more significant role in global supply chains. It is becoming increasingly complex. The one important reason for 3PL services was the variety of customer needs. This variety of customer needs forcing companies to compete in various business fields that were logistically distinct. These distinct services are provided more efficiently by integrated service providers.

Keywords : 3PL, Global supply chains, Logistics, Service providers

Introduction

In recent years, logistics have been attracting wide attention and have become increasingly important over the last two decades. Over the period, the condition of the environment has changed significantly, and the concept of logistics services has been evolving. Nowadays, logistics services have been reviewed as an increasingly popular business strategy as it can reduce costs and improve customer values. Traditionally, logistics services were delegated to operational level in purchasing and distribution departments, but now logistics services are evolving due to strategic alliances, technological changes, cycle time compression, and the increasing competitive environment. There are also some internal changing factors such as the implementation of decision support systems, information systems integration, increasing performance expectations and spanning of logistics to impact traditional functional areas. Globalization, new technologies, customer orientation and outsourcing, which are the major factors that contribute to the interest in logistics force organization to gain competitive advantages.

Logistics is the management of the flow of resources, not only goods, between the point of origin and the point of destination in order to meet the requirements of customers or corporations. Logistics involves the integration of information, transportation, inventory, warehousing, material handling, and packaging, and often security. Today the complexity of production logistics can be modeled, analyzed, visualized and

optimized by plant simulation software, but is constantly changing. This can involve anything from consumer goods such as food, to IT materials, to aerospace and defense equipment.

Third Party Logistics (3PL)

Third Party Logistics (3PL) describes businesses that provide one or many of a variety of logistics related services. Types of services would include public warehousing, contract warehousing, transportation management, distribution management, freight consolidation. A 3PL provider may take over all receiving, storage, value added, shipping, and transportation responsibilities for a client and conduct them in the 3PL's warehouse using the 3PLs equipment and employees or may manage one or all of these functions in the clients facility using the clients equipment, or anything combination of the above. 3PL can be defined as the "Business of proposing physical distribution reforms to a client and undertaking comprehensive physical distribution services."

Third party logistics (3PL), a new business model for physical distribution, originated in the U.K. and became highly popular in U.S. in the 1990s. 3PL providers offer innovative alternatives to clients in the form of comprehensive logistics services. Because 3PL requires that providers have intimate access to the corporate strategy of their clients, relationships are based long term contracts as a rule.

Types of 3PL providers

Third-party logistics providers include freight forwarders, courier companies, as well as other companies integrating and offering subcontracted logistics and transportation services.

Hertz and Alfredsson describe four categories of 3PL providers:

Standard 3PL provider: This is the most basic form of a 3PL provider. They would perform activities such as, pick and pack, warehousing, and distribution (business) – the most basic functions of logistics. For a majority of these firms, the 3PL function is not their main activity.

Service developer: This type of 3PL provider will offer their customers advanced value-added services such as: tracking and tracing, cross-docking, specific packaging, or providing a unique security system. A solid IT foundation and a focus on economies of scale and scope will enable this type of 3PL provider to perform these types of tasks.

The customer adapter: This type of 3PL provider comes in at the request of the customer and essentially takes over complete control of the company's logistics activities. The 3PL provider improves the logistics dramatically, but do not develop a new service. The customer base for this type of 3PL provider is typically quite small.

The customer developer: this is the highest level that a 3PL provider can attain with respect to its processes and activities. This occurs when the 3PL provider integrates itself with the customer and takes over their entire logistics function. These providers will have few customers, but will perform extensive and detailed tasks for them.

Statement of the Problem

There are a lot of literatures in studying the area of third party logistics industry. Some researchers studied the advantages and extent of 3PL usage in many other countries. Many researchers studied the third party logistics industry in different ways and compare with different perspectives. These studies introduced the past and current situation of 3PL services.

Scope of the study

Economic conditions have forced many shippers to re-evaluate supply chains and relationships with 3PLs.

- Continuing trend is difference in user with provider opinions regarding services provided.
- Increased desire from majority of shippers to understand Total Landed Costs (TLC). TLC is defined as the sum of all costs associated with making and delivering products to the point of sale. However, there have been ongoing issues in leveraging 3PL providers to support TLC, primarily trust with key data.
- Investigation of cost sharing or collaboration (warehousing or transportation etc) with supply chain partners, with other companies or non-competing users due to economic pressures.
- Shippers increased interest in gain sharing. Economic uncertainty has increased shippers desire to share risk with 3PLs. However, Negotiating, tracking and managing is difficult and time consuming
- Users want providers to be more strategic and to provide logistics leadership.
- 3PL's are reacting to the need to become more competitive (transition from cost plus to some type of gain or cost sharing).

Third Party Logistics in India

Ever since the liberalization of its economy India has been on a path to become one of the top economic powers in the world. New avenues for progress and development have opened up; manufacturing and retail sectors gained popularity because of the changes in China's export policy of not exporting manufactured items, from which Indian manufacturing firms have benefitted. Hence this sector will contribute to GDP significantly in the long run. The growth and competitiveness in these two sectors largely depend on the

efficiency of the logistics operations that facilitate the companies' ability to reach out to their customers quickly and at the desired location. Realizing this many manufacturers and retailers are now restructuring their supply chain processes in a manner to incorporate partnerships with expert supply chain service providers and outsourcing such activities as domestic transportation, international transportation, customs brokerage, warehousing, forwarding, cross-docking, product labeling, packing, assembly, kitting, reverse logistics, freight bill auditing and payment, IT services, fleet management, supply chain consultancy services provided by 3PLs, order entry, processing and fulfillment and limited liability partnership (LLP)/4PL Service.

Currently 3PL services are in their nascent stage in India. Third party logistics will gain considerable share of the logistics sector because of the following compelling facts;

- Globally, the logistics industry is valued at US\$3.5 trillion and the Indian logistics industry is currently estimated at US\$90 billion.
- The industry has generated employment for 45 million people in the country in comparison with the IT and ITES sector, which employs approximately 4.3 million people.
- As per the World Bank Survey, India ranks 39th in terms of the logistics performance index and indicators, with Singapore on top, the UK, USA and China in 9th, 14th and 30th positions, respectively. India spends US\$1,148 in handling costs to import one cargo container and US\$820 to export it. In comparison, Singapore spends US\$367 per imported container and China US\$390, according to a World Bank study.
- India spends 13% of its GDP on logistics compared to an average of 10% in developed countries, while the U.S. spends just 8%. Better supply chain management has reduced logistics costs by nearly 1% in 10 years.
- The Indian government plans to spend US\$24 billion over the next eight years on supply chain infrastructure.
- Companies in textile, automotive, pharmaceutical, manufacturing, retail and FMCG sectors are increasingly opting to outsource their logistics requirements to specialized service providers.

Conclusion

There are some other names to describe the phenomenon of third party logistics (3PL) such as contract logistics or integrated service provider. The term third party logistics has been used more and more commonly. The growth of intensive competition and complex business conditions force organizations to

have competitive advantages consistently. Therefore, organizations regard 3PL providers as an effective strategy to lower the operation costs and achieve a high service performance.

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