

## **Third Party Logistic (3PLs): Impact & Challenges.**

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**Abstract:** *Third-party logistics or 3PL highlights a coordination between the shipper and the third party. If it is compared with the basic services it has more salient offerings, including a variety of service functions and it is characterized by a long term, mutually beneficial relationship. Various studies have done on third party logistics and most of them focused on two categories. The first study on the willingness of the users or the shippers and the costs and benefits related with them while using third party logistics. The second category focused on the elaboration of winning strategies for the third party logistics providers for providing the maximum satisfaction to the user by fulfilling their requirements. This study attempted to provide the new ideas and concepts on the beneficial relationship between the third party logistics provider and the user by examining its impact on the working of third party logistics service providers on the logistics of the user.*

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### **I. Introduction:**

This research explains and analyzes criteria for selecting the logistics providers for the chemical industry. It will also examine the impact of strategic alliances in the industry. Because of the great and more complex competition, now the companies who used to prefer in-house logistics are diverting towards the selection of third party logistics providers. This practice helps the chemical firms to focus on their core activities. By delegating their non-core activities to the Global Logistics Providers, the chemical company can achieve the competitive position (Bailey et al, 2005).

Business can maximize its profit in this era only when it maintains its lean operations. The non-core functions of the outsourcing is one of the ways to do this. Third party logistics provider companies are attaining the popularity with pace and they have matured into the professional businesses. Third party logistics provider does not own the product or offers any services but it handles the supply chain activities at a point between the manufacturer and the user. 3PL can execute the logistics functions of their client organization either completely or some portion of it (Delfmann, W., Albers, S. and Gehring, M., 2002). Competition in this outsourcing industry has increased and driven them to develop their business processes and services. Their staff are highly skilled, qualified, experienced and trained to meet the requirement of the industry. Now it is very critical to select the right outsourcing company for the organization. It is imperative that the policies set by the organization should align with the outsourcing company. Communication between the organization and the outsourcing company should be unambiguous and crystal clear and timely. Its reporting should be comprehensive and the quality of work offered should meet the standards. It is also worth noticing that the outsourcing service providers do better than the organization, since they do comparatively less time and for less money. The 3PL selection is hence a complex process encompassing various criteria, which are often in conflict with one another, such as price, quality, service, location, technology, etc (Aguzzoul, A. and Ladet, P., 2006).

### **Background of the research:**

It is very important to know the basic concept of supply chain management to know the basic concept of third party logistic. Supply chain management is said to be a set of synchronized activities and decisions used to integrate or coordinate the suppliers, manufacturers, transporters, warehouses, retailers and customers in a way that the right service or product is delivered at the right quantity or amount, to the right location at the right time so that the system-wide cost could be minimized while satisfying the customer's need. (Birgit Dam Jespersen, Tage Skjøtt-Larsen, 2005). The basic objective of Supply chain management is to achieve the most sustainable competitive advantage. Or in other words, supply chain management is the process which encompasses all activities to fulfill the customer requirement or demand. Numerous activities such as the flow & transformation of goods from the raw material phase to the end user are included in the supply chain process.

The basic objective of the supply chain management should not only be efficient but also cost-effective. The efforts come from the entire system.

The scope of the supply chain management is the efficient alliance of suppliers. Manufacturers, wholesalers, retailers and the end users. (Ling Li, 2007)

### **Basic concepts of core issues related to 3PLPs.**

A brief explanation is given in the following lines to build up the basic concept about the following core issues related to the third party logistics.

1. Strategic Alliance
2. Chemical Firm Logistics
3. Global logistics
4. Third party logistics providers (3PLPs)

### **Strategic Alliance**

“Alliances are a big part of this game, they are critical to win on a global basis. The least attractive way to try to win on a global basis is to think you can take on the world all by yourself”. (Jack Welch, 1987)

According to the Merriam-Webster’s Collegiate Dictionary, 10th Edition the definition of Alliances is “Association build up for the common interest of the members”. Following are some examples which compliment the above definition of Alliances.

To develop a new generation of memory chip IBM, Toshiba & Siemens are cooperating and working with each other; to develop optical memory storage products (though they have decided to market it separately) DuPont & Sony have made a joint venture. Motorola and Toshiba the leading semiconductor manufactures decided to exchange the technologies and information related to manufacturing processes. To develop electronic components for automobiles General Motors & Hitachi’s are working together. Now the strategic alliance can be defined as a way through which specific facets of the businesses of two or more firms are linked together (Michael Y. Yoshino and U. Srinivasa Rangan, 1995)

### **Chemical Firm Logistics**

Third-party logistics is growing in the chemical industry very fast, but the results obtained are mixed. Some people consider the distribution as the core component of our organization. We use third party logistics for brokerage, freight forwarding and customs because it is very difficult for us to drive the inventory. Third party logistics also gives us the opportunity to cover the areas such as international shipment to the places where do not have depth & access. It is common seen that a lot of service providers are now trying to enter in to the chemical logistics market. But it can be seen that the number of service providers in this industry are very few, the reason for this is very critical, since the involvement of the transportation and logistics of hazardous cargo for both domestic and export markets. Now the third party logistics providers realize and understand that the chemical industry needs to deal with great knowledge and practices unlike the other sectors. The downturn of global economy prompting the chemical industry to manipulate and analyze the different cost saving techniques & tactics so as to make their financial status more profitable and stable. Many chemical industries are now re-evaluating the benefits of outsourcing the logistics functions. Approximately 77% of domestic Fortune 500 companies take the services from the third party logistics providers or 3PLs to support the functions of supply chain and logistics. (Armstrong and Associates, 2009)

### **Global logistics**

The world economy and the supply chain have accelerated its pace at an enormous rate. (McKinsey Quarterly, 2006). The global logistics and trade management have become major concerns. Now, this is getting very crucial that the global logistics and the supply chain can put the trade components such as people, processes and technology in place which is essentially required to deliver the world class cost and the performance.

The frequent challenges can be seen in some specific areas while executing the global logistics, including the sub-optimal sourcing results because of the inadequate total cost data, large overhead cost to maintain and manage the global sourcing costs and the logistics functions, high inventories and lost sales which the companies struggle to match the demand and supply in the long supply chain, high costs to speed up freight, high level of lead-time variability (Supply Chain Digest, June 1, 2006).

### **Third party logistics providers (3PLPs)**

In this fast pace challenging business world, most of the companies are trying to save their time and cost by deviating themselves from having their own transportation and warehouses to different logistics service providers. This need of third party logistics providers of 3PL not only saves the substantial cost but also saves the time to the companies. Though it is not common to use third party logistic to outsource a single activity of logistics independently but it is for to outsource multiple activities. (Toshinori Nemoto, 2000). The companies

which don't have the space for constructing the warehouse with having a room for a fleet of truck, the cost could be prohibited. And for the companies which have enough space but they don't possess warehouse or any transportation services, the expenditure for the capital may not be within the scope of their planned current budget allowance. Now it is preferred by more companies to contract with the service providers or some 3PL company. In this way, they don't have to worry about the warehouse, distribution or transportation of finished goods. This delegation of functions to some third party logistics providers company gives the opportunity to the company to concentrate more on providing the finished goods that will finally store at the warehouse for later transportation. Companies will get maximum time to improve their efficiency. It is also noticeable that companies to look for the workers at low rate and they will not need to hire workers for warehouse which is often difficult to do so. The 3PL selection is hence a complex process involving various criteria, which are often in conflict with one another, such as price, quality, service, location, technology, etc (Aguezoul, A. and Ladet, P., 2006). As there are advantages of third party logistics providers at the same time, but on the other side different reasons discourage its use. Communication gap, disagreements on strategy and decision and the gain of control of business activity appears to be most common reservation and obstacles in using 3PL. The two partners are required to meet frequently to settle their conflict and differences. To resolve conflicts and build trust the two parties are required to meet at regular intervals to finalize logistic strategy. Razzaque (1998).

### **Impact of 3PL in Chemical Company:**

It is also assumed that 3PL impacts on controlling risks, reduction of costs and provision of an expanded network of distribution at national and international level. The findings and analysis of usefulness of 3PL that wide geographic coverage and cost reduction are the two crucial areas where 3PL have a significant impact. This notion of the research, further supported by international logistics which provides access to new markets that reduces operational costs.

The study of Liseman (1999) emphasised the beneficial changes of information technology in an organization by easing data handling and making data generation quicker. It also analyzed the usefulness of 3PL and shows that the chemical company does not endorse the usefulness of 3PL in information technology. There is not much clarity about the extent of use of the information technology. However, integration issues (linking manufacturer and 3PL for production and distribution) may arise due to lack of usage of information technology.

### **Challenges Chemical Company Logistic**

It is divided in two parts by the researcher in order to find out the company logistics challenge i.e. the critical factors of logistics in the chemical company and company logistics expenditure. The analysis of researcher involved consideration of inventory, management costs and transportation, whereas time delivery, material handling and lead time are considered to be the critical factors of logistics in the chemical company for the selection of 3PL in the chemical company.

The researcher found that transportation costs only account for 5% of the total logistics costs of chemical company but according to the study, demand increases transportation costs in chemical industry.

The researcher has noted that cost of inventory is very high i.e. 80% of total logistics cost of the chemical company. According to Billington (1994) Hewlett-Packard (HP) invested an estimated \$ 3 billion in world wide inventories.

## **II. Conclusion:**

According to the researcher many companies studied outsourcing and the strategy for their successful implementation. But it is not possible without issues of 3PL selection processes and function of strategic alliances to satisfy the needs of the organization. The reason why different strategies and types of contract logistics vendors adopt is based on their operations, objectives and limitations of the organizations. As depicted research, most of the companies use integrated contract logistics providers because of highly flexible systems that support system database, transportation and warehouses.

The researcher noted that considering the 3PL selection and structured approach the chemical company will gain improvements in logistics and information system. It will also help the chemical company to determine the right third party logistics to their business.

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