What is the Role of Third Party Logistics (3PL) Partners in an Omni-Channel Strategy?

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ABSTRACT

The logistical infrastructure of the supply chains of online and offline sales channels of suppliers have been historically often completely separate. In the growing mobile commerce market, customers interact with suppliers using multiple touch points in one overall stream of information and goods which is considered an omni-channel. For larger suppliers, this can be an intricate chain of either their own resources or global partners. For many smaller suppliers, this is a chain of third parties adding value to the core competency of the supplier. The selection of a logistics partner for a small and medium-sized enterprise (SME) is a substantial investment in both infrastructure and a trusted relationship. But do SME suppliers know what they are looking for in an omni-channel strategy, and why? This article examines what characteristics an SME looks for in a 3PL partner in an omni-channel strategy, and discusses how an omni-channel strategy can be developed for these players.

KEYWORDS

3PL, Logistics, Omni-Channel, SME, Value Chain

1. INTRODUCTION TO THE OMNI-CHANNEL CONCEPT

Brick-and-mortar retail stores have allowed consumers to touch and feel merchandise and provide instant gratification; online retailers tried to entice consumers with a wide product selection, very low prices and informational content such as product reviews and ratings. As the retailing industry evolves toward a seamless “omni-channel retailing” experience, the distinctions between physical and online are starting to disappear, creating a world that is becoming a showroom without walls. The retail industry is shifting toward a value-based ‘concierge model’ geared toward consumer-orientation, rather than a volume model which was focusing only on transactions and deliveries.

Classical retailers and manufacturers use in addition to distribution through physical stores also increasingly the Internet and e-shops as a sales channel. There are also providers who work primarily through e-shops but also provide products in physical stores (one example in The Netherlands is Cool 22...
Blue). Each of these sales channels / had its own specific characteristics and their specific needs in terms of supply, availability, and delivery.

Within the availability of online ecommerce, the range of products available for purchase to the consumer is increased. The delivery options and choices for consumers makes the complexity of doing e-logistics for traditional retailers quite challenging. The demand for rapid access to products, both in retail stores and online web shops, has retailers needing to use external logistics partners for ecommerce to reach the edge of this customer network. Given this customer urgency to have products quickly, innovative delivery options such as multimodality and time window delivery options have become very important.

The logistic chains of both channels historically are often completely separate from each other (e.g. multi-channel). In order to meet the customer requirements and modified in order to increase the efficiency of the process it is necessary to integrate as much as possible both logistic chains. The omni-channel for a supplier is an integration of online and offline logistics to maximize availability and efficiency. Logistics integration consists in implementing mechanisms to ensure fluidity of physical and information flows, accuracy of information, and application of decisions within the supply chain (Gélinas & Bigras, 2004).

The economic objective of suppliers in having an omni-channel strategy is the integration of the (currently separated) ‘online’ and ‘offline’ logistics for customer-centric selling as well as improved efficiency. Omni-channel retailing has evolved with the objective of aligning physical and digital sales channels by the use of technology, thus providing uniform customer experience and operational effectiveness across the channels (Hansen & Tambo, 2011, as cited in Tambo, 2014).

The aim of this research is to outline the evolution of the need for omni-channel, what drivers exist for suppliers to create these efficiencies and from empirical research, try to define what role an external third party logistics (3PL) partner is expected to bring to these efficiencies.

The objective of our study is to try to gather information for creating a future preference model to aid retailers in logistic partner choices. Our study is primarily motivated by our research involvement in Belgian e-commerce logistics as well as a publishing house that provides retail oriented digital media publications that allowed us to survey their members for our research.

The paper is organized as follows. Section 2 provides a survey of the relevant literature. The basic setting for the model is presented in Section 3. Section 4 discusses the methodology, approach and implementation of the model in a gap analysis survey. Section 5 discusses the limited findings and areas for future research. We conclude with a summary of the work.

2. ECONOMICS AND STRUCTURAL LOGISTIC CHOICES

The rise of e-commerce throughout the past two decades has left suppliers and retailers convinced that online operations are a necessary part of a competitive strategy. A 2012 study conducted by PricewaterhouseCoopers (PwC) suggests that consumers are increasing their total purchase volumes, as opposed to simply switching their spending to online channels (PwC, 2012).

The concept of a multi-faceted system directly serving the consumer existed before the existence of e-Commerce. In their Harvard Business Review article, Moriarty & Moran (1990) examined the effects of adding additional channels in their publication entitled “Managing Hybrid Marketing Systems”. They examined the idea of a hybrid marketing system, which they describe as “a business model that allows customers to directly purchase goods through several different channels”. They mentioned IBM as an illustration, as IBM formed a hybrid marketing system by allowing customers to purchase goods through the mail in addition to through specialized salespeople. Moriarty & Moran...