Do the Service Priorities of Companies Outsourcing to 3PL Providers Vary by Industry?

Ioannis Manikas, University of Greenwich Business School, University of Greenwich, London, UK
Petros Ieromonachou, Department of Systems Management and Strategy, University of Greenwich, London, UK

ABSTRACT

This research looks into how well the priorities of third party logistics providers in the UK are aligned to that of their customers and how these priorities change dependent upon industry segment and size. Additionally, it looks into how the levels of information communication technology (ICT) employed by a supplier and their green profile could be affecting their ability to remain competitive. The research confirms previous work that a service gap exists between what clients want against what they are actually receiving. The results of this research present several key findings on logistics service quality priorities in the UK. The study demonstrates that 3PL providers in some cases are focusing on service quality areas which are not aligned to that of their customers. This could mean that currently precious capital is being invested in areas that will either do nothing to improve the service quality perception of their suppliers or worse, be invested in an area that is not significant to the client’s competitive advantage.

KEYWORDS

Business Relationships, Outsourcing, Third Party Logistics Service Quality

INTRODUCTION

The UK logistics market forecasted to reach a value of $51.9 Billion by 2013 (datamonitor, 2009). As well as representing a valuable market, there has been an increasing acceptance among organisations and scholars that an effective and efficient logistics operation can create a competitive advantage for businesses. Evidence is provided through case studies on organisations such as Zara, who were able to create over 20,000 new product lines per year (compared to an industry average of under five thousand) (Ghemawat & Nueno, 2006) through a better logistics operation and supply chain, all helping them to improve market share and post a net profit of over €1 Billion in 2006 (Cuc and Tripa, 2007). Other anecdotal evidence from organisations such as Dell and Federal Express, corroborate the fact that logistics can create value through efficiency, effectiveness and differentiation and have a significantly positive effect on the gaining of market share and increased profits (Mentzer et al. 2001, Fugate & Mentzer, 2010). Despite the clear evidence detailing the value of the UK logistics market and research completed on clients who have been able to improve market share and profitability through better logistics operations, there has been no research completed attempting to identify which areas of logistics service quality are most important to UK industries by segment and size.

Focusing on third party logistics (3PL) organisations, this research aims to understand whether the service priorities of 3PL clients vary, dependent on industry segment and size, and if they do,
whether these nuances are recognised by the 3PL suppliers. The research will gather foundation data to assist further research into whether the level and sophistication of ICT employed by suppliers and their ‘green profile’ could be affecting their ability to remain competitive within this market. The results of this research aim to improve the profitability, reputation and ultimately market share of 3PL suppliers through the identification of the most profitable industries to target, as well as a deeper understanding of the service specific priorities of these sectors for both service delivery and marketing.

REVIEW OF LITERATURE

Third Party Logistics in the UK

Outsourcing of logistics or the use of third party logistics (3PL) services is often seen as a good method for organisations where logistics is not their core business, in order to lower costs, improve supply chain effectiveness and gain competitive advantage (Fugate et al. 2010, Elmuti et al. 1998, Rafiq and Jafaar, 2005). The labour intensive nature of logistics and specifically road transport means that much of it cannot be automated and therefore requires a lot of focus and management time to do well. This means the prospect of outsourcing for most companies becomes a cheaper way to improve their overall service and profit margin, whilst allowing more time for them to focus on the development and provision of their own core business (datamonitor, 2009). The Outsourcing Institute reported that on average companies are set to gain a 9% cost saving and a 15% improvement in quality and capacity through logistics outsourcing (Elmuti et al., 1998). Rafiq and Jafaar (2005) found that the main reasons for outsourcing logistics in the UK were 1) to reduce costs and 2) to avoid investments in non-core activity.

The healthy rate of growth in the UK Logistics industry has helped to improve rivalry and the UK now has the highest rate of outsourcing in Europe (Rafiq and Jaafar, 2005). The increase in competition has meant that there are now many suppliers offering similar services at similar prices; this has brought about an inevitable reduction in profit margins for 3PL suppliers, as well as adding further pressure to service quality levels. The recent recession in the UK has compounded these issues, as reductions in product demand have meant that 3PL providers have been pressured to cut costs and continually improve their service to remain competitive. In some cases, 3PL providers have had to reduce or ‘stand’ fleets of vehicles and make associated redundancies to cope with the downturn, further hitting their pockets (BBC, 2009 & Cole, 2009). The constant threat of companies taking their logistics operations back ‘in-house’ is accentuated at these times, as company bosses see this as a way to remove an additional margin cost into their business (Rogers, 2009). The competition and recent financial pressure within the UK Market has brought some differentiation, mainly through IT innovations, or the offering of extra or more specialised services; overall there remains little differentiation between suppliers (datamonitor, 2009).

The demand for efficiency savings and the continual addition and improvement of services in this industry will be a perpetual race between suppliers, which is why it is vital that focus is given to improving the areas that their customers perceive to add the most value to their operation. Logistics outsourcing has enjoyed increased popularity in recent years, as it has demonstrably become a means for organisations to create competitive advantage through improvements in service efficiency and effectiveness; this has led to an increase in related literature. Logistics is often defined using the seven R’s, broken down as the ability of a company to deliver the right product, to the right customer, at the right time, at the right place, in the right condition, at the right price, with the right information. Although times have moved on and 3PL providers are assisting firms in solving more complicated issues, these elements still remain at the root of their achievement in customer satisfaction. It is perhaps
Path Analysis Model for Supply Chain Risk Management
Satyendra Kumar Sharma, Anil Bhat, Vinod Kumar and Aayushi Agarwal (2017).
*International Journal of Information Systems and Supply Chain Management* (pp. 21-41).
www.igi-global.com/article/path-analysis-model-for-supply-chain-risk-management/178554?camid=4v1a