Third Party Logistics: Key Success Factors and Growth Strategies

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ABSTRACT

Third party logistics (3PL) has been gaining importance in most places in the world. In India the implementation of 3PL practices has made its beginning and it is emerging as one of the fastest growing sectors. It is still a relatively new concept and not well understood among industry or academic professionals in India. This paper examines the Indian 3PL Supply Chain Management and practices with respect to the key success factors and growth strategies. After identifying the critical success factors SERVQUAL is applied to reveal the gap between their achievement and expectation. Respondents to the survey are categorized based on their rating of the key growth strategies on the basis of AHP.

Keywords: Analytic Hierarchy Process (AHP), Factor Analysis, India, SERVQUAL, Third Party Logistics (3PL), Third Party Logistics Providers

1. INTRODUCTION

The conventional transport system has done value addition in service based on the internal and external factors. Internally, it depends on the service provider to meet the customer’s expectation, Information Technology, infrastructure at Hub, handling equipment and streamlining the internal system. The external factors are government policy towards infrastructure developments, roads, fuel price, Sales tax documentation and Value Added Tax etc. Customer’s now are demanding more value added logistics services that can help companies to reduce lead-time and inventory. Growth of n (PL) on the Value Chain: The Indian Logistics Service Provider has gone into evolution through various stages of transportation i.e., Conventional, Semi-Express, Express, Multimode, 2(PL)... 3(PL)...n(PL). 3(PL) is still in infant stage in India. The growth of logistics outsourcing in the USA is attributable to better transportation solutions; greater focus on core businesses; impact on cost reduction; improvements in services; development of necessary technological expertise; availability of computerized systems; and the need for more professional and better prepared logistics services (Sheffi, 1990). The growth of business dynamics has caused outsourcing of the logistics activities to gain increasingly greater importance. Companies have been considering various options to manage their logistics activities including, creating in house dedicated logistics function,

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setting up logistics subsidiaries or acquiring a logistics firm (Sahay & Mohan, 2006).

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’) (Figure 1).

Various authors have provided their version of 3PL definition, which are listed in Table 1. Since the 1980s, along with the trend to outsource non-core activates (Sink & Langley, 1997); companies have increasingly turned to third-party logistics providers (3PL) both in the USA (Lieb & Randall, 1996; Rabinovich et al., 1999; Knemayer & Murphy, 2004) and in Europe (Van Laarhoven et al., 2000). 3PL services help to achieve the strategic objectives by concentrating more on core competency of the main business. The study by Sahay and Mohan, 2006, has cited substantial growth in various financial indicators using services of 3PL, for instance, various improvements in sales revenue by 13.5%, working capital by 12.3%, returns on assets by 10%, capital assets reduction by 10%, production cost reduction by 10.5%, labor cost reduction by 10.0%, and logistics cost reduction by 15%. 3PL users depend on 3PL service providers to secure capacity and gain agility (Hannon, 2005) who not only provide core services like supplying right quality product in the right amount, at the right price and place, and at the right time but also provide value added services such as tracking and tracing, sending information prior to the arrival of products, flexibility in delivery, which are valued by customers. The role 3PL service provider’s play in enhancing services and thereby satisfying customers has been universally recognized. The growth in 3PL service providers is seen across the world. As the logistics service demand increases, the challenges and opportunities will continue to increase. With the wide availability of modern decision making tools and information technology a paradigm shift in logistics is witnessed. Figure 2 depicts the evaluation and the state of the art witnessed in logistics outsourcing. Companies across industries and around the world regard logistics and supply chain management as key components of their overall business success. Many users feel that their relationships with 3PLs have helped them achieve critical goals related to service, cost, and customer satisfaction.

**Third Party Logistics in India**

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