Transport and Telecommunication, 2008, Volume 9, No 4, 4–8
Transport and Telecommunication Institute, Lomonosova 1, Riga, LV-1019, Latvia

REVIEW OF CURRENT STATE OF EUROPEAN 3PL MARKET AND ITS MAIN CHALLENGES

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This article examines basic reasons behind the use of 3 PL, i.e. the main drivers of outsourcing (Chapter 2) as well as explains the essence of 3PL service (Chapter 3). In Chapter 4 the analysis of current state of 3 PL market in Europe has been analysed. Finally, Chapter 5 gives an overview of the main challenges that European 3 PL service providers currently are facing.

Keywords: 3PL service, outsourcing, logistics service providers

1. Introduction

The practice of outsourcing logistics operations has grown significantly over the past few years.

Outsourcing is a strong trend and has been for decades now in most industries. Companies try to simplify the structure of their organizations and focus on "core business", leaving everything out that does not belong to that central part of their operations. By doing so, the number of companies participating in production and distribution set-ups increases and thus the number of external relationships between the companies grows.

Outsourcing opens the door to resources not necessarily available in one's own organisation – world-class services, products, processes and technology – without the need to invest in infrastructure.

2. Concept of 3PL

The term 'third party logistics services' has been used in a number of ways, from describing one single service, e.g. the outsourcing of transport to describing the outsourcing of a set of complex processes. For those firms that provide the third party logistics services, however, there are a number of established definitions [1, 2]. From the point of view of the buyer of these services, the third party logistics can be seen as a combination of the following elements:

- an external agency provides all or a considerable number of the logistics services;
- the shipper uses a limited number of service providers;
- long-term and close business relations between service provider and customer in place of single business transactions;
- integrated logistics functions;
- both parties try to exploit the synergic benefits the partnership offers.

Originally, 3PL means outsourcing logistics activities including transportation and warehousing to outside firms, which are not a consignor or a consignee. However, it is not common 3PL practice to outsource a single activity of logistics independently, but to outsource multiple activities from the firm's strategic point of view.

3PL (or 3PL provider) has the following features at present:

1. integrated (or multi-modal) logistics service provider;
2. contract-based service provider;
3. consulting service provider.

Firstly, a 3PL provider is regarded as an integrated logistics service provider. IT-related activities for controlling goods flow such as order processing, and inventory management, among others are also included in the function of the 3PL provider. However, the 3PL provider need not provide all the services solely. The 3PL provider can outsource some activities to sub-contractors.

A 3PL provider can be classified into the asset-based and the non-asset-based. The asset-based 3PL provider owns some assets, particularly transport-related assets such as trucks, warehouses, etc., while the non-asset-based 3PL provider does not own such assets, and usually relies on sub-contractors' assets. Examples of non-asset 3PL providers include forwarders, brokers, marketing companies, and information system management companies.

Secondly, the service of 3PL is a contract-based one. Recently, a contract was written about the way to share responsibilities assuming various situations in detail. Such strict contract makes reliable relationship between the parties, and strengthens the alliance.

Thirdly, offering consulting-services to the firms is an important feature of the 3PL. The 3PL provider can make various advises to answer customers' requirements concerned with marketing strategy, information system configuration, cooperative transportation, etc.

Currently Logistics Service Providers offer a number of services in addition to transportation. These are cross-docking services in terminals, and storage or integrated logistics value-added services in warehouses and distribution centres. Table 1 shows common physical and administrative services provided by LSPs.

Table 1. The type of physical and administrative services provided by Logistics Service Providers

	Basic	**Intermediate**	**Advanced**
Physical services	storage good reception picking according to order and packing (pick & pack) re-packing and labelling return of goods delivery from storage	consolidation & deconsolidation preparation for freezing, thawing, sawing prepare for delivery and pack set building, sequencing, product resorting and labelling cross-docking	assembly of components operate vendor management inventories in stores or stock-keeping facilities recycling with waste handling and reconditioning unpacking and quality control
Adm. services	tendering and contracting other LSP tendering and contracting carriers insurance services stocktaking	payment services order administration and customer service claims handling export clearance and import clearance Track & Trace information forwarding services financial services provide one-stop logistics service purchase	forecasting and inventory management administration of minimum and protective inventories purchase and call-offs delivery planning and management and follow up exception management design of individual logistics set-ups implementation of logistics set-ups operation of customers' logistics set-up responsible for the customers' logistics operations

3. Reasons behind the Origin of 3PL

Continually pressured to improve the efficiency and reliability of their transportation and logistics operations without sending their overheads through the roof, shippers are realising the potential economic advantage of outsourcing their logistics activities.

In the early stages of logistics outsourcing, transport and warehousing activities came into focus. The effects of passing over the transport operation to a third party are obvious for those with moderate volumes of goods and widespread distribution areas, regions or countries. The outsourcing tendency has accelerated in recent years and more companies are now contracting their activities to external parties.

The principle reasons why companies use third party services are a need to focus on core activities, to cut costs, and at the same time provide their customers with better standards of service. Outsourcing gives companies the opportunity to concentrate their resources, spread their risks and focus on matters which are vitally important for their survival and future growth [3].

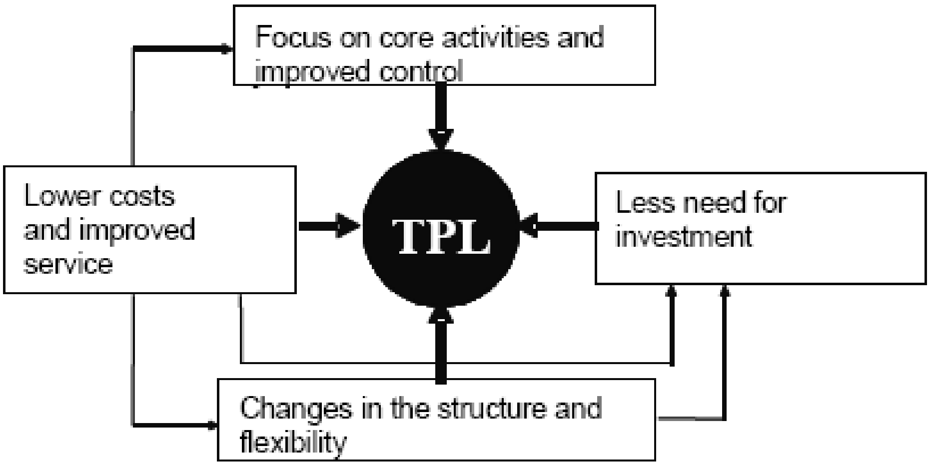

Figure 1. Third party logistics drivers

Lower logistics costs and improved services are the commonest reasons for using third party logistics services. When successful, outsourcing logistics activities and operations has meant savings of 10%-30% on costs. Furthermore, going by indicators that measure standards of service, outsourcing has been responsible for improvements in this area. Most savings on costs are normally achieved in those relating to capital tied up in stock and storage/warehousing costs [4].

The basic assumption is that the provider of logistics services can exploit the economies of scale involved in providing the same service to more than one customer. One has grown accustomed to the notion that improved efficiency is a precondition of long-term financial benefit and better standards of service. Better efficiency can, for example, be achieved by improving the expertise of existing staff or by recruiting new skilled personnel.

4. Current State of European 3PL Market[1]

In total, 42% of the enterprises in Europe currently outsource their logistics operations to 3PLs.

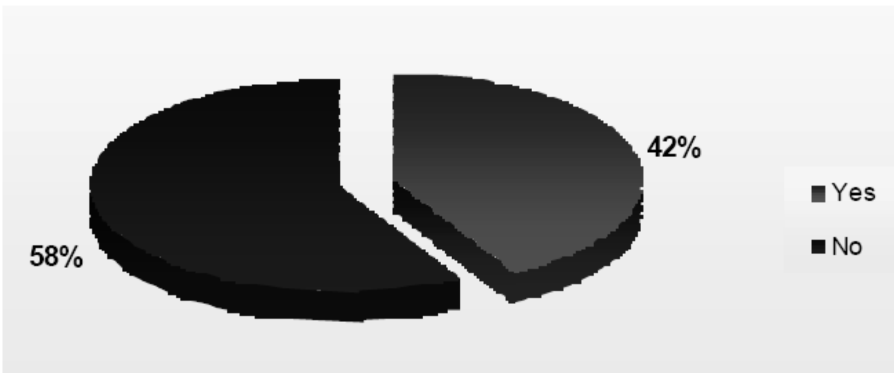

Figure 2. Share of outsourcing logistics operations

[1] Based on the findings of the eyefortransport report „Outsourcing Logistics Europe 2006“

Taking into account that an increasing number of shippers are shifting to a non-asset based business model, one would expect that transport would top the list of logistics functions that are outsourced. Almost two thirds of the companies say that they are outsourcing their transportation activities. Less than 10% of the respondents outsource their inventory management, while more than a third happily hands over their warehousing operations to 3PLs.

A quarter of the companies outsource their information systems. However, fleet management is only outsourced by 13% of the European enterprises.

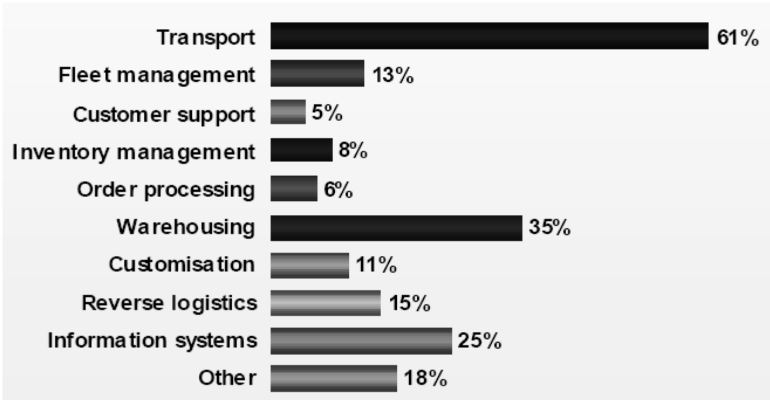

Figure 3. Outsourcing logistics operations

Some interesting findings are in respect with the level of satisfaction expressed by the users of 3PL services.

Once the decision has been taken to outsource to a 3PL, satisfaction levels are generally good. A total of 79% of the companies selected 'good' (62%), 'higher than expected' (13%) or 'outstanding' (4%). In comparison, only 21% are somewhat less enthusiastic about the performance of their 3PLs.

74% of the companies say that outsourcing inventory management and coordination of warehousing and manufacturing answers their logistics issues, which ties in with the 73% that face frequent and dramatic shifts in customer demand.

Just over three quarters of the companies believe that outsourcing logistics activities is the answer when it comes to expanding distribution systems without major capital expenses in labour, assets and technology.

On average, three quarters of the companies say that outsourcing logistics to a 3PL solves the problems caused by suppliers and carriers who fail to coordinate shipments and deliveries, and late shipments that result in the loss of money and customers.

Since the majority of the companies currently using 3PLs are getting 'good' to 'outstanding' service (79%), it is not surprising that they will 'possibly' (52%) or 'very likely' (32%) increase their reliance on 3PLs.

5. Main Challenges to European 3PL Service Providers[2]

Maintaining profits under price pressures from customers is still considered as the biggest challenge to European 3PLs. A total of 79% of 3PL service providers said it was a 'big challenge' or a 'very big challenge'.

Relationship with customers is perceived as a big or very big challenge by 78% of 3PLs. This factor, in combination with the price pressures from customers, points to the considerable sensitivity of 3PLs to the markets they serve.

Globalisation of the 3PL market and delivering services in new geographic regions has been rated a big or very big challenge by 68% of 3PL companies.

Consistently delivering the latest cutting edge technology to customers has been considered a big or very big challenge by 59%. Completing the 'top five' challenges as perceived in 2006 was competing with giant global 3PLs, considered a serious challenge by 52%.

[2] Based on the findings of the eyefortransport report „The European 3PL Market"

Figure 4. Main challenges for European 3PLs

Conclusions

1. The practice of outsourcing logistics operations has grown significantly over the past few years. Continually pressured to improve the efficiency and reliability of their transportation and logistics operations without sending their overheads through the roof, shippers are realising the potential economic advantage of outsourcing their logistics activities.
2. European industry is currently experiencing a degree of transition, and the increasing numbers of shippers considers the merits of outsourcing one or more of their logistics operations. According to the results of survey intended to investigate European 3PL market, in total, 42 % of the companies currently outsource their logistics operations to 3PLs.
3. The survey confirms that almost two-thirds of the enterprises outsource their transportation activities. Less than 10 % of the companies outsource their inventory management, while more than a third happily hands over their warehousing operations to 3PLs. A quarter of the companies outsource their information systems. However, fleet management is only outsourced by 13 % of the companies.
4. Competition among 3PLs has become intense. Therefore the main challenges for current 3PL services providers seem to be as follows: maintaining profits under price pressures from customers; relationship with customers (this factor, in combination with the price pressures from customers, points to the considerable sensitivity of 3PLs to the markets they serve); globalisation of the 3PL market and delivering services in new geographical regions; consistently delivering the latest cutting edge technology to customers; competing with giant global 3PLs; emergence of 4PLs / LLPs.
5. A total of 79 % of the companies selected “good” (62 %), “higher than expected” (13 %) or “outstanding” (4 %). In comparison, only 21 % are somewhat less enthusiastic about the performance of their 3PLs.

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