

# Advantages and disadvantages of hiring third party logistics providers (3pl)

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## INTRODUCTION

In today's world business environment became very competitive the companies of being successful in the market they are dealing with more different resources for satisfy the customer needs. In recent years the competitive global market has a big influence in growing for external business for raising the logistics companies, this is kind of developing a competitive advantage to their competitors. One of the key and strategic elements to be more successful is the outsourcing the logistics or transportations to the Third Party Logistics (3PL) provider. According to the (Knemeyer and Murphy 2004) Third Party Logistic (3PL) companies could be called as logistics outsourcing or agreement logistics. In the other words (3PL) Third party logistics provider is an employing an external company for the warehousing, transportation, inventory management and other value added activities for customer services. Third party logistics provide to the organizations competitive advantage for increasing the importance of improving their performance of delivering services to the customers in logistics activities. Many companies for creation their supply chain to be more efficiently they are outsourcing their logistics activities to Third Party Logistics (3PL) provider. " Also the time based competition is on the products that could be manufactured and delivered to the customer by the driven speed as a technological grown-up become more movable toward the firms and countries, organizations might be achieve technological equivalence on the various ways of products" (Abdullatif and Azri 2009). Furthermore, the organizations make an efficient decision in whole supply chain to outsource their logistics operations to the Third Party Logistics (3PL), that decision

makes company to focus in their main business activities. This also provides to the organizations to managing much better parts of the entire supply chain.

## **Overview of 3PL**

Between years 1970's and 1980's is recognized as the first generation of third party logistics of providing services for example transportation, shipping, but between 1980-1990 were asset or non-asset based organizations by increasing the service levels of contribution and third generation is between years 2000 - until now were generally based on increasing the supply chain integration. A Third Party Logistics providers (3PL), can be identified as first, second and third service providers. First party provider is the main company that provides the service or product, the second is to whom receives the service it is the consumer and the third is the company which hired by the main company for provide the service between costumers and company (Forrest et al., 2008).

## **Advantages of 3PL**

At the beginning the primary advantage of outsourcing logistics activities to a Third Party Logistics (3PL) is focusing on core activities of the business. This means the core activities is much more important than logistics due to the companies have to create on value added activities for making much better revenue, the logistics operations is a beyond activity for each company in delivering the service to the customer. In the other words, the companies have to give the focusing in their main working areas and so, they do not willing to be busy about the logistics activities they believe to

outsource their logistics activities to one of the best LSP's. This is an improvement and contribution to the quality of service levels in overall performance in the company's core activities.

Another case is the company they are not able of having its own logistics activities because of the potential financial conditions logistics activities such transportation, warehousing are not able of managing them. Then deciding on getting better transportation solution, more cost effective, better services, professional's equipment in transportation. Maybe help of reduction the carrying costs, loss in selling orders and are able to help to the company of moving more merchandise with less assets during delivering service to the customers. Some companies has an expectation from 3PL to improve their performance in the inventory reduction, availability of the capacity and less customer complaints by improving order accuracy. Also if the company is need the 3PL for better performance in the supply chain they should have well past data system.

However, the company who is going to hiring a 3PL, the company has employees this is the biggest cost of hiring employees for every company, by providing the logistics services this is one of the important benefit is the reduction in the number of labours by outsource the logistics activities. Additionally, the flexibility is the other important factor of outsourcing logistics operations. Flexibility is one of the main strategic competitive market element, about the changing the market conditions very frequently, in those cases the company should be responsive to those unexpected changes, the company could not be responsive to those changes they

choosing the way of outsourcing logistics activities to LSP's. For example: If any company has customers in different part of countryside for delivering goods to it's customers by hiring a Third Party Logistics it would more efficient by delivery them. They can have sufficient equipment and could provide reasonable solutions to them if the demand is low or high because of their storage and delivery performance this help to the company of saving time and costs.

Furthermore, logistics activities in some cases become too much costly, the budget of the company is not sufficient for finance it so, they accept of giving those activities to be outsourced. Also may have as an object of making achievements in environmental issues the Third Party Providers have the capability to optimize a distribution networks and the most costless routes, reduction in carbon emission and control technology to rationalize the inventory to develop the trucks performance.

## **Disadvantages of 3PL**

Although there are also disadvantages in hiring Third Party Logistics provider in the selection of the outsourcing at the beginning, it is difficult to realize if it is reliable and cost-effective between the company and the Third Party Logistics provider. Every firm has to pay great attention at the selection of their Third Party Logistics partner; they have really to check if they are able to provide a better service to them. The biggest mistakes have been made because of the insufficient financial position, the companies cannot select the reliable outsourcing providers. It is not easy for identifying the Third Service Provider (3PL) if it is suitable or not, it a complex period. However, to

solve this problem are required to clarify the ability of service provider.

There are several procedures such as transaction costs, organize a system for maintain their reliability to work together with them if they could be choosing as logistics providers.

Information sharing and apparent risk sharing between the

parties is always required. Concerning information sharing, it is needless to say that

smoother information exchange will result in a more efficient logistics activity.

However, related costs may increase if some information essential to the firm would

leak. Therefore, the commitment of each party in information sharing is required, and a

scheme to ensure these commitments has to be prepared. However, this would also

involve additional transaction costs.

Constructing a risk sharing scheme between the firm and the 3PL provider is critical in

establishing reliable partnerships. Some of the risks involved in using 3PL are demand

risk, inventory risk, and financial risk, among others. The questions are on who will take

these risks, and how to compensate the risk holders. “Gain sharing” is a popular

example of a rewarding scheme in which the 3PL provider holds part of the risks, and

then is given incentives based on the increase of the firm’s profit. This risk-sharing

method is apparently some sort of a division of work between the firm and the 3PL

provider. Establishing good risk sharing also involves transaction costs, although the

associated costs can be reduced through the cumulative experiences and IT development.

Another disadvantage of outsourcing the logistics activities is that the company doing the outsourcing loses control over the finished goods once they are transferred to the warehouse location. What this means is that although the 3PL company may have a computerized inventory system to which you have access, you lack the ability to perform a physical count in the event of a discrepancy. You also lack the ability to confirm shipping dates to your customers or promise quick shipment for orders that were short shipped or not delivered at all.

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