Chapter 9
A Supplementary Framework for Evaluation of Integrated Logistics Service Provider

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ABSTRACT

As a result of globalization, supply chains of many large business organizations nowadays tend to cover wider geographic areas spanning across different countries and continents. The growth in length and complexity gradually replaces the traditional linear supply chains with extended supply networks comprising not only suppliers, manufacturers, distributors, and end customers, but also service providers. With the increasing use of third-party logistics (3PL) providers by international firms seeking integrated logistics services, many global 3PL providers are forming partnerships with large corporations to take care of the latter’s logistics operations in different regions. The selection of the right 3PL provider for alliance is therefore paramount to the success of global supply chain management. This chapter investigates the significance of this subject and proposes a supplementary framework for evaluation of 3PL providers as global logistics partners for international firms. Using resource-based view theory and competencies hierarchy as theoretical underpinnings, the framework focuses on the core competencies of 3PL providers and their abilities to attain economies of scale helping users achieve their outsourcing objectives.

INTRODUCTION

Rapid advancements in information and communication technology (ICT) in recent years, coupled with the collapse of entry-to-market and other trading barriers, have changed significantly the way organizations operate in terms of business model and operating scale (Ritchie & Brindley, 2002). Globalization, lead-time reduction, customer orientation, and outsourcing are some major changes contributing to an increasing interest in advanced logistics services and global supply chain management (Hertz & Alfredsson, 2003). Successful global logistics depends heavily on communication and
 Improved communication between different business partners through the use and sharing of real-time information facilitates the logistics of production and inventory over wider geographic areas. Efficient transport arrangement, such as volume consolidation and cross docking, makes possible the actual transactions between nodes (Bookbinder, 2005). Owing to the increased levels of resource requirement, complexity, and risk in running global logistics, many firms tend to outsource their logistics operations to third-party logistics (3PL) providers and focus on their core businesses. Successful management of global supply chains therefore requires radical changes in supply chain structure, business processes, and relationships with business partners particularly logistics service providers.

**Changes in Supply Chain Structure**

Traditionally, supply chain is relatively linear in structure (Figure 1). A typical manufacturing supply chain involves a few tiers of suppliers, the manufacturer (the focal company), a few tiers of distributors (including wholesalers and retailers), and finally the end customers. Materials mainly flow from upstream to downstream (i.e., from suppliers to end customers) with a small reverse flow of returns while information tends to flow in both directions. Transportation is provided either in-house by the various parties separately or outsourced to different 3PL providers (see for example Ballou, 2004; Bowersox, Closs & Cooper, 2002; Chopra & Meindl, 2007; Coyle, Bardi & Langley Jr., 2003; Wisner, Leong & Tan, 2005).

With globalization and disintermediation as a result of advancement in ICT, the linear supply chain model and the associated uncoordinated logistics operations can no longer meet the demand of customers for higher efficiency, shorter lead time, and wider geographic coverage. Supply chain tends to become networked (Figure 2) with the focal company as the hub and a major 3PL provider looking after the logistics operations of the whole supply chain for the focal company in different regions (Ritchie & Brindley, 2002; Simchi-Levi, Kaminsky & Simchi-Levi, 2008; Waters, 2003).

**Trends Revealed in Global 3PL Surveys**

The importance of logistics and supply chain management and the increasing use of 3PL providers are clearly reflected in the latest global 3PL survey conducted by Capgemini, Georgia Institute of Technology, Oracle, and DHL. According to the findings of the 2008 survey, 89% of all 3PL users surveyed (87% from North America and Europe, 90% from Asia Pacific, and 97% from Latin America) agree that 3PL relationships represent a strategic, competitive advantage to their companies. They opine that successful outsourcing with strong client-provider relationship and detailed contract including clear expectations and metrics helps achieve savings in cost and fixed
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