

## Chapter 2.22

# 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 article

investigates the significance of this subject and proposes a supplementary framework for evaluation of 3PL providers as global logistics partners for international firms. 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

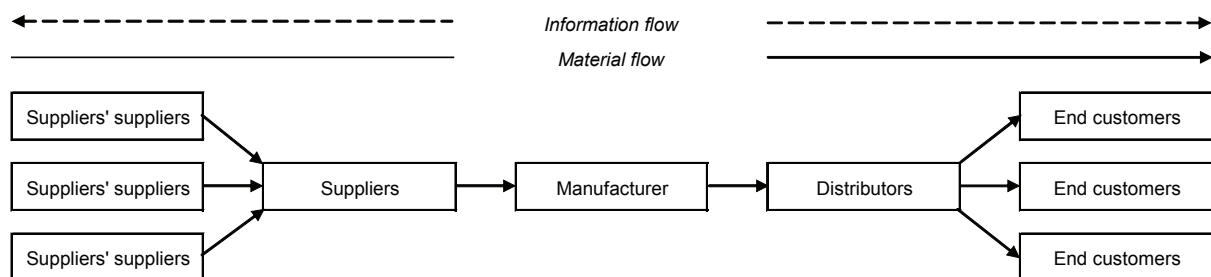
some major changes contributing to an increasing interest in advanced logistics services and global supply chain management (Hertz & Alfredsson, 2003). Successful global logistics depends heavily on communication and transportation. Improved communication between different business partners through the 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.

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 different 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. The 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 et al., 2002; Simchi-Levi, Kaminsky, & Simchi-Levi, 2003; Waters, 2003).

The importance of logistics and supply chain management and the increasing use of 3PL providers are clearly indicated in the latest global third-party logistics survey conducted by Georgia Institute of Technology, Cap Gemini LLC, SAP, and DHL (Langley Jr., Allen, & Colombo, 2006). The 2006 survey findings show that 85% of the North American respondents, 89% of Western Europe, 88% of Asia-Pacific, and 95% of Latin America agree that “logistics represents a strategic, competitive advantage for our company” (p. 6). Across all the four regions surveyed, the most frequently outsourced services include transportation (90%), warehousing (74%), customer clearance and brokerage (70%), and forwarding (54%). The survey also reveals

*Figure 1. A traditional linear supply chain model*



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