

## Evaluation Of Third Party Logistics In Supply Chain

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### Abstract

*In the present scenario third party logistics or logistics outsourcing is growing importance all over the world. Logistics outsourcing is at very ascendant stage in India, though some domestic and multinational companies are trying to establish themselves in this sector. Aim of this paper is study the third party logistics providers in local area (Indore, Dewas and Pithampur) and compare them. The study find that strengths and weaknesses of third party logistics. The objective of this survey is to assess the 3pl market, its growth opportunities and threats.*

### Introduction

A core company providing services or product is considered the first party the customer or end users, the second party. A third party, than, is a firm hired to do that which neither the first or second party desires to do. A third party logistics firm is a firm that provides outsourced or "third party" logistics services to companies for some portion or all of their supply chain management functions. Third party logistics refers to outsourcing transportations, warehousing and other logistic related activity to a 3PL service provider that were originally performed in house. Due to logistics outsourcing activities, corporations are able to not only concentrate on their core business operations, but also achieve cost efficiency and improve delivery performance and customer satisfaction.

According to report by Cushman and Wakefield, real estate consultants, Indian logistics industries is expected to grow annually at the rate of 15% to 20%, reaching revenues of approximately \$385 billion by 2015. Market share organized logistic players is also expected to double to approximately 12% during the same period. The report said about 110 logistics parks spread over approximately 3,500 acres at an estimated cost of \$1 billion are expected to be operational and an estimated 45 million sq ft of warehousing with an

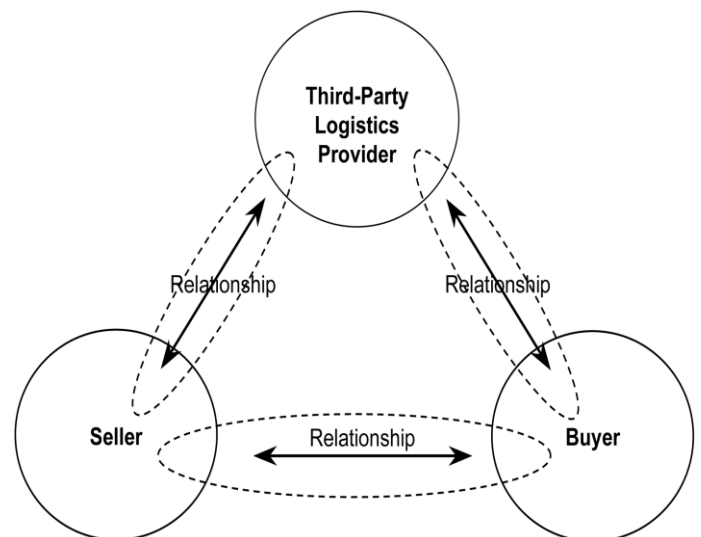
investment of \$500 million is expected to be developed by various logistics companies by 2012.

This paper aims to review the status of the Third party logistics industries and discussed the growth and the challenges face by the industries.

### The Third Party Logistics

This concept is related with the transport service provider which is treated as third party rather than manufacturer and customer. Products or services are transported from supplier to the manufacturer and from manufacturer to the end-customer.

The logistics (third party) provider supports the supply chain by using four major linkages.



1. Inbound logistics: it includes all means and activities of inbound shipment between a supplier and buyer's facilities.

2. Intra organizational transportation: this linkage is used by those companies' transportation of material and products between production facilities within the same

organization as well as transportation to warehouse storage location.

3. Outbound logistics: it includes linkage between a company and its various customers (end-user). The transportation department control the shipment of outbound goods while suppliers arranged the movement of inbound freight. After the delegation of transportation industry, industry piepaies third party logistics for this task.

4. Recovery and recycling: the fourth link is related with recovery and recycling of obsolete products and goods from customers by suppliers.

### Types of Third Party Logistics Providers

#### 1. Transportation Based:

- a) Service extends beyond transportation to offer a comprehensive set of logistics offering.
- b) Leveraged 3PLs use assets of other firms.
- c) Non-leveraged 3PLs use assets belonging solely to the parent firm.

#### 2. Warehouse Based:

- a) Many have former warehouse and/or distribution experience.

#### 3. Forwarder Based:

- a) Very independent middlemen with forwarder roles.
- b) Non-asset owners that provide a wide range of logistics services.

#### 4. Financial Based:

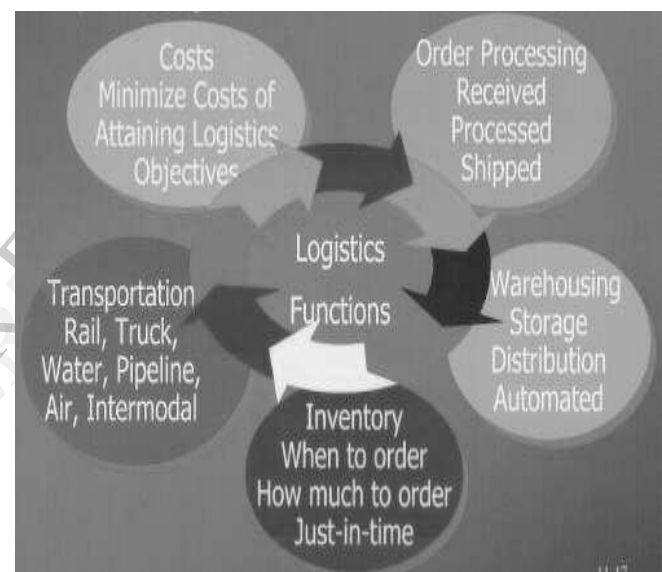
- a) Provide freight payment and auditing, cost accounting and control, and tools for monitoring, booking, tracking, tracing, and managing inventory.

#### 5. Information Based:

- a) Significant growth and development in this category of Internet-based, business-to-business, electronic market for transportation and services.

### Logistics Functions

Logistics is the procedure of movement of goods across the supply chain of company. This process is consisting of various functions, which have to be properly managed to bring effectiveness efficiency in supply chain of organization. The major logistics functions are following:



### Service Offered by Logistics Outsourcing

#### 1. Basic Service Providers:

- a. Warehouse management.
- b. Order processing.
- c. Order fulfilment.
- d. Transportation carrier selection.

2. Value-added Service Providers:
  - a. Shipment/order consolidation.
  - b. Import/export customs.
  - c. Logistics information systems (EDI, reporting).
  - d. Fleet management/operations (e.g. cross-docking).
  - e. Product assembly/installation.
3. Logistics Integrators:
  - a. Full responsibility for key supply chain operations.
    - Replenishment/order-filling policies.
    - Product returns.
    - Customer spare parts inventory replenishment.
  - b. Rate negotiation.

### The 3pl Market in India

There are many drawbacks in Indian third party logistics market. Indian third party logistic is under-developed and highly fragmented. The Indian logistics industry includes rail freight, warehousing, ocean freight, road freight, air freight, logistics parks, container depots, ports and logistics service providers.

The annual logistics cost in India is estimated to around 13% of GDP (MC Kinsey, 2010); indicated that the size of industry approximately USD130 bn. Logistics industry in India is in nascent stage because out of this USD 130 bn, over 90% is accounted for the unorganized sector which include truck owner, affiliated to an agent or transport company, small warehouse operators, consolidators, custom brokers, freight forwarders, etc (NSDC, 2009). The Indian logistics sector reported revenue of about USD 82.10 bn in 2010, witnessing a growth of about 9.2% over the year 2009. (Tungatkar, 2011).

As per the recent global survey on logistics performance index, held by World Bank in 2010, India ranked 47<sup>th</sup> amongst the 150 countries surveyed. The 2007 survey ranked India at 39<sup>th</sup> among 150 countries. (Word bank, 2007 & World Bank 2010).

India needs an integrated infrastructure and logistics policy to keep of the growth of its gross domestic products. Logistics infrastructure includes the road, rail, ocean, and air network those are backbone of logistics outsources.

### Problems in the Growth of Third Party Logistics Market

There are some operational and regulatory obstacles to the growth of the third party logistics market in India. The major problem outlined below.

1. Third party logistics is in nascent stage.
2. Logistics outsourcing consider being a weak link of Indian economy.
3. One of the most problems in the growth of the third party logistics market is lack of trust and awareness among the Indian shippers.
4. Poor infrastructure.
5. Strong competition from international companies.
6. Logistics outsourcing business is high cost low margin business.
7. High tax.

### Prospect of The Third Party Logistics Market in India

1. Various large corporation are been attract by the potential of this sector.
2. Large express cargo and carrier companies of India have started logistics operation.
3. Companies are gradually becoming more aware of the benefit of third party logistics services.
4. Faster growth rate of Indian GDP.

5. The Indian government has focused on infrastructure development.

### Benefits of Third Party Logistics Function

Due to logistics outsourcing activities, company can save on capital investments, and those reduce financial risks. The major investment on logistics, such as physical distribution centers or information networks, usually needs large and lump sum cost, which involves financial risk. It is benefit of third party logistics function. Some more benefits outlined below.

1. Allow company to focus on core function and core competitions.
2. Selling assets to third party logistics providers.
3. No capital investment in third party logistics.
4. Resource not available internally.
5. Minimize and control operating cost.
6. Eliminate labour problem.

### Objective

1. To study of third party logistics and identify the best third party logistics providers.
2. To identify strength, weakness and threats of third party logistics providers.
3. To identify the strategy of third party logistics provider and which strategies are best.
4. To assess third party logistics market, its growth, prospect and opportunities.

### Methodology

The research methodology is focused on collecting of data. The primary sources are the third party logistics provider and data collections are through the questionnaire survey. Questionnaire based on eight parameters. The secondary sources are books, published report, journal articles and the internet.

Questionnaire based on following parameters:

1. Fleet strength.

2. Geographical coverage.
3. Quality.
4. Warehousing capability.
5. Managerial capability.
6. Information system.
7. Cost.
8. Service level.

### Conclusion

The third party logistic is in growing stage and many corporations prefer, to outsource their logistics operation to the third party logistics provider. The third party logistics market is still in its infancy and is highly fragmented. Many companies are not completely aware of all the functions of third party logistic provider and they are unaware of the benefits of those service offered by the third party logistics provider. However, there is a lot of potential for growth of the third party logistics market. The companies are still worry of outsourcing their logistics activity due to the lack of trust and awareness. If Indian government will focused on infrastructure development, logistics providers will better performed.

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