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**Logistics Outsourcing and Service Providers –
a Critical Review**

Enas ABOURA^{1*}, Cristian NEGRUȚIU²,
Roxana SÂRBU³, Mihaela BUCUR⁴

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Abstract

Outsourcing of non-core activities has become a common practice of many companies in the world. The main purpose of this process is to allow focus on what a company is doing best. Logistics activities are part of this trend by being outsourced to professional services providers. This generated a whole new industry, with its own specific measures.

In the present paper, the authors will attempt to define the concepts and to investigate the services performed by these players. The types of customer-provider partnerships will be also presented, with the aim to understand what drives a successful collaboration.

The trends of the future also affect the logistics industry, so the authors will analyse how these changes are re-shaping the nature of the players.

Keywords: logistics services providers, outsourcing, performance measures logistics.

JEL Classification: L21, L24, L91

1. Introduction

Logistics activities are part of the global trend of outsourcing no-core activities to professional services providers. According to Ballou (1999), it is estimated that costs related to logistics represent about 12% of the World's GDP. The main beneficiaries of this global trend are the logistics service providers (called hereafter 3PL's) that have emerged in the last period as a standalone and important industry.

¹ Bucharest University of Economic Studies, Bucharest, Romania, enaso1993aboura@gmail.com.

² Bucharest University of Economic Studies, Bucharest, Romania, cristian_negrutiu@yahoo.com.

³ Bucharest University of Economic Studies, Bucharest, Romania, roxana.sarbu@ase.ro.

⁴ Bucharest University of Economic Studies, Bucharest, Romania, bucur.mihaela@yahoo.com.

* Corresponding author.

2. Problem Statement

The literature review aims to provide the theoretical background of researched topic. The review has two main objectives:

- Describing the main concepts, from basic to complex;
- Supporting the future research methods;

Based on these objectives, the main chapters of the literature review are:

- Logistics outsourcing – what are specifics of outsourcing in logistics and how it differs versus other outsourcing typologies;
- 3PL's – what are the characteristics of such companies, as chief orchestrators of logistics outsourcing.

3. Research Questions/Aims of the research

The main objective of this paper is to provide a critical review on the literature concerning the logistics outsourcing and 3PL. By analysing these concepts, the author will also address other research questions:

- What are the main services performed by a 3PL?
- How 3PL's differentiate their services in the market?
- What are the main performance measures of a 3PL?

4. Research Methods

The authors have chosen to perform a desk research, based on selected articles dealing with the topic. Most of the articles are from international literature, but there few relevant articles written by Romanian authors were selected.

The analysis aimed at selecting main ideas and trends as depicted in the literature. Therefore, the author has also included older articles, as they provided seminal theories for the researched topics. The review was completed then with newer articles in order to round the research.

5. Findings

The nature of the 3PL cannot be understood before doing an investigation into what outsourcing means. More specifically, one has to understand what outsourcing is, why the companies outsource, what they outsource, to whom etc. In just one sentence, outsourcing comes with the classic dilemma: make or buy.

In a study dedicated to logistics outsourcing in the UK, Rafiq and Jaafar (2005) have explored the nature of outsourcing. Outsourcing is largely regarded as a tool aiming to achieve two main objectives: lowering the costs and gaining competitive advantage.

Murphy and Poist (2000) defined the 3PL as "a relationship between a shipper and third party which, compared with basic services, has more customized offerings, encompasses a broader number of service functions and is characterized by a longer-term, more mutually beneficial relationship".

Such a relationship can start and evolve in two ways:

- Gradually, when the company and the 3PL move upwards from simple to complex services;
- Instantly, where the company decides, mainly due to strategic reasons, to outsource logistics.

Such a vision is depicted also by Large (2007) in the following table:

Table 1. Evolution of logistics partnership

		Asset specificity		
		No	Medium	High
Frequency	Occasional	contract of carriage	forwarding contract	forwarding contract / contract of employment
	Recurrent	contract of carriage / warehousing contract	forwarding contract / cooperation agreement	third-party logistics contract / contract of employment

Source: adapted from Large (2007)

However, there are 3PLs that overrun this scale, by becoming what is called “integrators”. It’s debatable if they become already 4PLs, since the literature is still challenging this concept. What is certain is the fact that such 3PLs find themselves in a new phase, irrespective of how is defined in the literature. Again, Large (2007) proposes a good classification of 3PLs following their level of integration.

Table 2. Partnership and integration

		Ability of customer adaptation	
		Low	High
General ability of problem solving	High	Integrators DHL, Fedex, TNT	Third Party Logistics firms
	Low	Standard Transportation firms	Traditional house brokers or warehousing firms

Source: adapted from Large (2007)

As a final remark, it should be noted that it is not necessary to be a global 3PL, like those from above table, in order to be an integrator of logistics services. You can be local, smart and agile and, by this, be the best partner for a global manufacturer.

In an American 3PL survey (Lieb and Bentz, 2008) several CEO's were interviewed. As expected at this level, they were looking more into the future by pointing few trends for the years to come.

As a constant topic, they mentioned the 4PL concept as the next step in logistics. In their opinion, the 4PL is the integrator of the logistics services, acting like a Lead Logistics Provider (LLP). One CEO that participated in the survey said "customers recognize that in many cases one 3PL cannot provide all the capabilities required, so the best way to address this is through an LLP relationship."

In most cases, this notion of 4PL or LLP is also linked with technology and knowledge excellence. Such an integrator should master the new technologies that now emerge in logistics, like RFID or EDI, and be able to provide advice to its customers on new trends, like collaborative forecast.

The evolution of logistics providers can be easily understood using Figure 1:

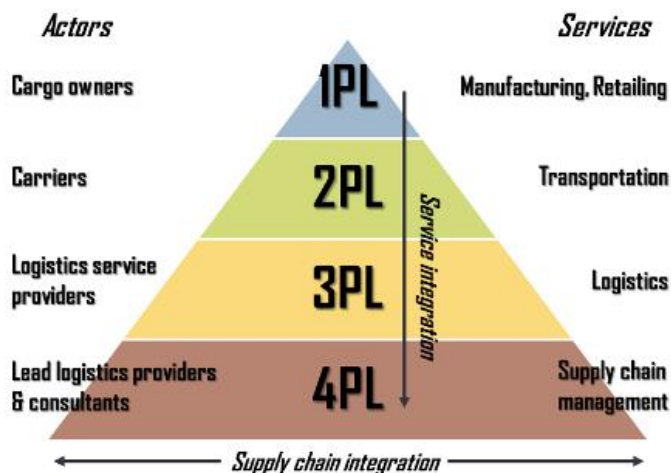


Figure 1. Evolution of logistics providers

Source: authors' own research

Another challenge for the future is the new era of Internet. How the 3PLs will adapt to the web-based environment and continue to provide innovative solutions? Rabinovich and Knemeyer (2006) have studied the internet supply chains and the role of 3PLs in the "New Economy". The authors propose the concept of "hub" as a centre where Internet sellers and buyers meet with one or many 3PLs. These 3PLs have evolved in two categories:

- Physical asset-based 3PLs – heavy users of transportation and inventory/warehousing assets (traditional 3PLs);
- Information-based 3PLs – providers that chiefly manage information.

The above classification does not exclude that a 3PL can play on both sides, by having both physical assets, and being present on the internet.

In the particular case of Romania, an analysis of the employment of storage spaces reveals that the main tenants are logistics service operators (Țarțavulea and Petrariu, 2013). However, the authors look at the subject from the point of view of the owners, mentioning only as an example a few logistics services providers, without going into details of their mode of operation. It is also worth noting that the market has experienced accelerated development in recent years, which has to be investigated.

6. Conclusions

The main objective of this study was to provide a critical review on the literature concerning the concepts of logistics outsourcing and 3PL. The concepts were analysed separately, but also in a larger and integrative perspective.

The research question addressed the relation between range and quality of services and market winning. It can be said that there is strong connection between range and quality of services and market winning. The companies that have constantly improved their offer manage to acquire a substantial market share.

Since the paper was based only on a literature review, the research has certain limitations. The authors intend to continue the study through case studies on the Romanian market.

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