

# Third Party Logistics (3PL): A new way of Management

**Shems Eddine LEHMER<sup>1</sup>, Baba ELKHARCHI<sup>2</sup> and Oumaima LEHMER<sup>3</sup>**

<sup>1</sup> *Department of Economy and Management, faculty of law, economics and social sciences, Ibn Zohr University, Agadir, Morocco*

<sup>2</sup> *Department of Economy and Management, faculty of economics and Management, Ibn Zohr University, Guelmim, Morocco*

<sup>3</sup> *Department of Economy and Management, faculty of economics and Management, Ibn Zohr University, Guelmim, Morocco*

---

**Abstract:** Nowadays, many companies rely heavily on outsourced services and suppliers that contribute to the production process in one or more ways. Logistics outsourcing aims to achieve fundamental objectives that are at the heart of a company's profitability and success. As a result, third-party logistics (3 PL) providers are important to them. This study aims to identify the chances of success of outsourcing to third-party logistics providers. The target population of the study are the agricultural enterprises in the Souss Massa region (Morocco) and surroundings. The main objective of this research is to develop a strategic framework for outsourcing success that takes into account three process enablers: the governance mechanism, the selection criteria for third-party logistics and the measurement of its performance.

In fact, the focus about outsourcing studies and littérature outsourcing studies is mainly on the reasons for outsourcing, outsourced activities, 3PL selection criteria and success factors of outsourcing. Some researchers argue that outsourcing logistics is a business risk whose success is far from reality. It is still not clear what guarantees successful outsourcing, as shippers have many strategic reasons for 3 PL.

Although the reasons for outsourcing companies are less likely to guarantee their success, these factors are seen as contributing to the success of outsourcing. This study establishes the impact of these three factors on the success of outsourcing and also explains how closely they are related to the reasons for 3PL.

This study establishes the impact of these three factors on the success of outsourcing and also explains how closely they are related to the reasons leading to third part logistics. This research identifies a governance mechanism that includes a collaborative approach of both parties and mutual conflict resolution as a tool to avoid conflicts. The second factor concerns the 3PL selection criteria that allows the good match between the company and the service provider. The third factor is service provider's performance assessment, which includes strategic planning measures, supplier measures, performance's measures, etc. etc.

This study provides both theoretical and practical contributions. Theoretically, it gives an idea of the empirical framework for the success of strategic outsourcing with identified enabling processes that help providers to achieve their outsourcing goals. These study variables are conceptualized, defined and tested for their significant relationships using structural equation modeling, an analysis technique rarely used in the outsourcing literature.

**Keywords:** Third Party Logistics, Logistics, Transport, Outsourcing.

---



## 1. Introduction

Companies are constantly undertaking the development of strategies to remain competitive in the market while working in a supply chain network organization for a common goal (Defee & Stank 2005). Outsourcing has emerged as a strategy to manage the ever-changing market competition (Wee, Peng & Wee 2010). It is generally seen as a business process in which non-essential activities are outsourced to a third party to reduce costs and improve service levels. Thus, companies can gain a competitive advantage through cost reduction and better responsiveness to changing market demand (Lau & Zhang 2006). Outsourcing acts as an alternative to achieve a company's strategic, tactical and operational objectives. Companies are increasingly focusing on their core competencies and outsourcing non-essential functions within the supply chain to achieve these goals. Siems and Ratner (2003) rightly stress that companies must do what they do best and outsource the rest. In addition, large companies focus heavily on their core competencies and streamline all activities in search of improved efficiency.

In the transport of Concerning the staff's transportation, in the absence of an integrated approach to outsourcing, there is a risk of failure to avoid (Relph & Parker 2014). The logistics outsourcing process requires a structured approach to minimize the risk of failure.

Thus, our study theoretically fills the gap by expanding and exploring new dimensions unexplored in previous research on strategic logistics outsourcing.

## 2. Research issues

Documentary evidence of logistics outsourcing research is primarily based on cost advantage (for example, price, cost reduction, low cost distribution, cost of operation, storage cost, ...), access to competitive resources, specific technology (EDI, tracking/tracing, handling, etc.), a skilled workforce, etc. (Aguezzoul 2014; Mothilal et al. 2012; Schoenherr 2010). However, defining the precise challenges of logistics outsourcing and aligning them with the performance required by the market today proves to be a complex task.

Through our work, we wanted to provide some answers to this multi-dimensional question relating to the outsourcing of staff's transport.

In the same context, taking into account the strategic issues of outsourcing as opposed to short-term transactions. Since the strategic outsourcing agreement adds value (for example, knowledge transfer and associated values) beyond cost benefits, it is therefore imperative to have a structured approach (Power et al. 2007). In particular in terms of selection criteria, governance mechanisms, performance evaluation and customer satisfaction.

Bearing in mind the risk and likely failure of outsourcing, this research study identifies the main challenges of managing the outsourcing process. The first challenge is to identify and document outsourcing expectations in the form of outsourcing reasons, while focusing on more than financial

implications. The second challenge is the compatibility of the provider while working towards a common goal. Compatibility is measured by cultural adequacy, technological integration, willingness to collaborate in terms of business processes, etc. Andersson and Norrman (2002) postulate that identifying a compatible service provider is the biggest challenge. This is a collaborative approach, where it would be mutually beneficial for the loader and service provider to collaborate and adapt their partnership approach to avoid conflict (Lamming 1993). The fourth challenge is to periodically measure the performance of the service provider to ensure the desired outsourcing performance.

As a result, we began our research with the following assumptions:

- What is the impact of adopting a 3PL on the company?
- Are the challenges of outsourcing measurable?
- Can we say that customer satisfaction is risky in case of transport's outsourcing?
- When can 3PL fail?

### **3. Considered methodological approach**

In order to provide answers to the previous questions, we have adopted the following research methodology:

- Theoretical research:
  - Studies of the conceptualization of logistics outsourcing;
  - Literature review and definitions of transport and logistics aspects and concepts;
  - Document search and data collection in relation to the outsourcing of services;
  - Comparative operations between companies adopting third party logistics and non-adopting.
- Empirical research:
  - Designation of the research posture;
  - Consideration of modes of reasoning;
  - Study of methodological approaches;
  - Determination of the statistical method for sample definition.
- Applied research:
  - Prospecting and diagnosis through field studies via direct observation and constructed situation observation;
  - Contact of various organizations related to the subject, to benefit from their advice and guidance ;
  - Development of questionnaires, identification of groups of questions and sample;
  - Data collection;
  - Analysis, interpretations and objective criticism of all data collected: qualitative analysis, quantitative analysis, categorization and coding.
- Research posture

In the perfectible process of the evolution of the scientific thought of a theme, the anchor point is the determination of the epistemological paradigm that allows to frame the research work while relying on confirmed research methodologies in order to conceptualize and build a global representation in correlation with our theme.

In our case the choice was made on the deduction because it bases, forms and motivates in order to formulate explanations and predictions ranging from general to particular based on the principle of the cause to effects. The hypothetical-deductive approach allows us to have an objective reproduction of reality.

- Research approach

The qualitative approach includes ordered, nominal and binary data, while the quantitative approach allows the collection of discrete, continuous and censored epiphenomena.

This study encourages us to combine the two to avoid isolation. Indeed, the quantitative approach is a confirmatory study that allows us to deduce measurable conclusions and syntheses from the analysis of numerical data, the construction of facts and associations between research variables. Certainly, “quantitative research can better test theories or hypotheses. It is appropriate when there is a well-recognized theoretical framework. The quantitative study rarely converges on a single framework, it often proposes several. We must then compare and combine them” (Giordano & Jolibert., 2016).

To be able to collect the maximum of information, we preferred to elect the triangulation method, which is a mixed formula of complementarity.

### 3. Main results

The methodological approach allowed us to discover a number of outcomes related to the outsourcing of the transport of staff. These results can be summarized as follows:

- The profitability of an organization results from a variety of cost innovations such as optimizing operational costs, improving productivity, reducing distribution costs and working capital requirements. Performance measurement helps organizations understand their outsourcing progress and shows results.

- The financial competitiveness of an organization is assessed and analyzed in terms of profitability and operational efficiency by assessing the contribution of revenues, costs and assets, known as drivers of financial performance (Frost & Sullivan 2009). Profitability comes in many forms and researchers argue that an important source of cost reduction is the outsourcing company’s access to economies of scale and the unique expertise that a large outsourcing provider can provide (Roodhooft & Warlop 1999). The study by Jiang, Frazier and Prater (2006) used cost-effectiveness metrics to measure outputs and inputs by total revenues or sales, and by total costs and overhead incurred to generate outputs.

- In addition, there is a positive association between the outsourcing rate and productivity growth (Ten Raa & Wolff 2001). Outsourcing leads to improvement which results in a competitive advantage. In this process, the shipper has the same responsibility for working to improve productivity (Qureshi et al. 2007).

- Supply chain outsourcing means that an entity takes control of established processes and tries to replicate performance and deliver targeted results. As long as roles are well defined in the implementation process and a collaborative approach is adopted, the project will be successful. Indeed, successful and collaborative outsourcing relationships are based on a methodology designed and aligned with the structure of an innovative and collaborative outsourcing agreement (Vitasek & Manrodt 2012).

Collaboration and strategic alliances have become key enablers of global competitiveness (Zineldin & Bredenl w 2003). The central content of outsourcing is the division of labour and coordination, “any organized human activity... gives rise to two fundamental and opposite requirements: the division of labour into different tasks to be performed and the coordination of these tasks in order to carry out the activity” (Mintzberg, 1979). Multiple barriers hinder the collaboration needed to create an agile supply chain and reap its invaluable benefits.

Collaboration is defined as “the ability to work across organizational boundaries to create and manage a unique value-added process to better meet client needs” (Fawcett, Magnan & McCarter, 2008). Collaboration means sharing resources, information, people and technology among partners to create synergies for competitive advantage. Collaboration is about managing relationships for creativity and continuous improvement, which then provide a competitive advantage. The main objective is to develop and implement an approach to solving problems and delivering value to customers.

-Creating synergistic relationships between partners to maximize customer value and deliver cost-effective results to upstream members is key to the success of globalized supply chains (Fugate, Sahin & Mentzer, 2006).

- Furthermore, organizational performance measures can be grouped into six categories, including profitability, productivity, growth and cash management and market ratios. The objective of these measures is to provide an overview of the financial characteristics of the company at the time of outsourcing. This is the ideal way to set expectations before embarking on outsourcing.

Performance is the result of activities undertaken and performance measurement is a means of determining and therefore quantifying results (Singh, 2015). In other words, performance measurement is the key to understanding and improving the current state to an agreed state. Performance is assessed by a variety of measures and depends on organizational requirements and service level agreements. Strategic and operational objectives are assessed within the framework based on four levels: performance objectives, planning activities, logistics operations and performance attributes of logistics operations (Kayakutlu & Buyukozkan, 2011).

- More importantly, customer satisfaction is just as important in the outsourcing process; complaints; customer feedback; perfect execution rate; survey response time was mentioned by Keebler & Durtsche (2001) and were confirmed by our research.

- In terms of quantitative data; the results of the quizzes administered to our sample, in particular those entities that have opted for outsourcing the personnel transport service, relate that logistics costs have decreased by 30 %; Service has improved by 34%. The same survey participants rated on a scale of 1 to 5 (1 being the lowest and 5 being the highest) rapid response to changes or problems = 3.58, keeping promises on execution = 3.69, understanding the intricacies of the activity = 3.57.

At this point, we can say that supply chain outsourcing is a strategic decision that takes into account the long-term benefits of the organization.

The initiative will be successful and results will only be achieved when guided by a structured and collaborative process, starting with a clear definition and understanding of the outsourcing deliverables. Mitra (2011) explained outsourcing and believes that building a successful logistics alliance requires a clear understanding of cost components, trust and transparency, and clearly communicated expectations of the relationship, Furthermore, stressing that these factors are essential to its success.

#### 4. Conclusion

Our research study is based on exploratory, descriptive and predictive, explanatory and causal research models to describe the characteristics and analyze the phenomenon of the 3PL of staff's transport.

The benefits of outsourcing come in many forms, some quantifiable and some qualitative. As a result, decision-makers show a particular interest in its attributes and a predisposition to engage with external providers. This supports our idea of encouraging outsourcing to maintain a financial, strategic and commercial balance within the company.

#### REFERENCES / BIBLIOGRAPHIE

- [1] Aguezzoul, A 2014, '*Third-party logistics selection problem: a literature review on criteria and methods*', Omega, vol. 49, issue C, pp. 69–78.
- [2] Andersson, D & Norrman, A 2002, '*Procurement of logistics services—a minutes work or a multi-year project?*', European Journal of Purchasing & Supply Management, vol. 8, no. 1, pp. 3–14.
- [3] Defee, C & Stank, TP 2005, '*Applying the strategy-structure-performance paradigm to the supply chain environment*', The International Journal of Logistics Management, vol. 16, no. 1, pp. 28–50.
- [4] Fawcett, SE, Magnan, GM & McCarter, MW 2008, '*A three-stage implementation model for supply chain collaboration*', Journal of Business Logistics, vol. 29, no. 1, pp. 93–112.
- [5] Fugate, B., Sahin, F & Mentzer, JT 2006, '*Supply chain management coordination mechanisms*', Journal of Business Logistics, vol. 27, no. 2, pp. 129–161.
- [6] Frost & Sullivan Research 2009, '*Indian logistics industry benchmarking study and analysis of outsourcing trends*'.
- [7] Kayakutlu, G & Buyukozkan, G 2011, '*Assessing performance factors for a 3PL in a value chain*', International Journal of Production Economics, vol. 131, no. 2, pp. 441–452.
- [8] Keebler, J & Durtsche, D 2001, '*Logistics performance measurement and the 3PL value proposition*', Logistics Quarterly, vol. 7, no. 2, pp. 10–11.
- [9] Lau, M & Zhang, Q 2006, '*Supply chain collaboration: Impact on collaborative advantage and firm performance*', Journal of Operations Management, vol. 29, no. 3, pp. 163–180.
- [10] Prater El, Jiang, B, Frazier, GV 2006, '*Outsourcing effects on firms' operational performance: an empirical study*', International Journal of Operations & Production Management, vol. 26, no. 12, pp. 1280–1300.
- [11] Mitra, S 2011, '*The 2008 Survey of Indian Third-Party Logistics (3PL Service Providers: Comparisons with the 2004 Survey of Indian 3PLs and 2006 Survey of North American 3PLs)*', International Journal of Applied Logistics, vol. 2, no. 1, pp. 57–75.
- [12] Mintzberg, H 1979, *The structuring of organizations: A synthesis of the research*, Prentice-Hall, Englewood Cliffs, New Jersey, USA.
- [13] Qureshi, M, Kumar, D & Kumar, P 2007, '*Modeling the logistics outsourcing relationship variables to enhance shippers' productivity and competitiveness in logistical supply chain*', International Journal of Productivity and Performance Management, vol. 56, no. 8, pp.
- [14] Relph, A & Parker, D 2014, '*Outsourcing: a strategic risk*', Management Services, vol. 58, no. 3, pp. 20–24.
- [15] Roodhooft, F & Warlop, L 1999, '*On the role of sunk costs and asset specificity in outsourcing decisions: a research note*', Accounting, Organizations and Society, vol. 24, no. 4, pp. 363–369.
- [16] Siems, TF & Ratner, AS 2003, '*Beyond the border: Do what you do best, outsource the rest?*', The Southwest Economy, Nov/Dec, pp. 13–14.
- [17] Singh, HS 2015, '*The impact of service satisfaction, relational satisfaction and commitment on customer loyalty in logistics outsourcing relationship*', Journal of Supply Chain Management Systems, vol. 4, no. 1, pp. 58–71.

- [18] Mothilal, S, Gunasekaran, A, Nachiappan, S & Jayaram, J 2012, '*Key success factors and their performance implications in the Indian third-party logistics (3PL) industry*', International Journal of Production Research, vol. 50, no. 9, pp. 2407–2422.
- [19] Ten Raa, T & Wolff, EN 2001, '*Outsourcing of Services and the Productivity Recovery in US Manufacturing in the 1980s and 1990s*', Journal of Productivity Analysis, vol. 16, no. 2, pp. 149–165.
- [20] Vitasek, K & Manrodt, K 2012, '*Vested outsourcing: a flexible framework for collaborative outsourcing*', Strategic Outsourcing: An International Journal, vol. 5, no. 1, pp. 4–14.
- [21] Wee, H-M, Peng, S-Y & Wee, PK 2010, '*Modelling of outsourcing decisions in global supply chains. An empirical study on supplier management performance with different outsourcing strategies*', International Journal of Production Research, vol. 48, no. 7, pp. 2081–2094.
- [22] Zineldin, M & Bredenl w, T 2003, '*Strategic alliance: synergies and challenges: A case of strategic outsourcing relationship 'SOUR'*', International Journal of Physical Distribution & Logistics Management, vol. 33, no. 5, pp.