

Value-added services by third party logistics providers

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Abstract

Third party logistics (3PL) also referred to as ‘logistics outsourcing’ or ‘contract logistics’, has been growing quickly during the past decade. Africk and Calkins (1994) define 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 it's characterized by a longer-term, more mutually beneficial relationship’. Modarress et al. (2010) point out that outsourcing logistics has expanded from traditional inbound or outbound logistics activities to include value-added services such as cross-docking, bar-coding/RFID, product returns, web-based applications, and logistics information services. The proposed research will focus on 3PL providers in China and New Zealand.

Chinese 3PL tend to provide a narrow range of basic services that significantly constrains their competence to offer differentiated services. Zhang and Keith (2001) point out that Chinese logistics providers should attempt to expand their services, such as providing a purchasing service. State-owned logistics firms provide some basic services, such as transportation and warehousing services, but rarely perform value-added activities. New Zealand's 3PL is growing significantly. The large transport companies, such as Mainfreight and Owens Road Transport, are increasingly looking for value-added services, rather than competing only on price. Foulds and Luo (2006) indicate that New Zealand 3PL providers may include value-added services for sustainable third-party warehousing. Most SMEs are seeking a third party purchase (3PP) to outsource their purchases activities. Chinese SMEs are also struggling for a reasonable purchasing price. Due to small order quantities and the low level of purchasing power, they are finding it difficult to find appropriate materials at a lower price. Therefore, the demand for 3PP is also increasing substantially. Most 3PL providers would like to expand their 3PL services in order to keep sustained competitive advantages.

The primary focus of this research is on third party purchase as value-added service by third party logistics providers. This paper develops a theoretical framework based on the transaction cost analysis. The research questions are:

- What are the impacts of asset specificity, uncertainty, order-frequency and transaction size on the possibility of 3PL providers including procurement as a service provided?
- What are the benefits for the 3PL providers if the procurement service is offered by them?
- What are the benefits for the clients of the 3PL providers if the procurement service is offered by 3PL providers?

Firms currently providing 3PP services or willing to offer such services will be sampled. Firstly, an online questionnaire survey is proposed to get data on large number of 3PL providers and users. Secondly, qualitative data will be collected through interviews from middle and senior managers who are working at 3PL providers and users. Potential participants are members of the institutions such as Chartered Institute of Logistics and Transport and Chartered Institute of Purchasing and Supply of China and New Zealand.

The main contribution of this research is expected to help 3PL providers maintain sustained competitive advantages through using third party purchase. Actually, the providers play the role of a group purchasing organization. They have more bargaining power to obtain a cheap purchasing price due to large amount of purchasing quantity. It is expected to be more beneficial for 3PL providers and valuable for their clients.

Keywords

Third party logistics, value-added service, supply chain management, transaction cost analysis