Bundling Service Opportunities for a 3PL in the Value Network

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Introduction

For the eighth consecutive year, U.S. growth in third-party, contract logistics has exceeded growth in the U.S. economy. Results for 2002 show increases in turnover, net revenues and net income. Turnover increased by 6.9% and net revenues by 7%. Net income increased from 1.7% in 2001 to 3% in 2002. – eyefortransport 4/2/2003.

In the last decade, the third-party logistics (3PL) category has grown at a rate greater than 20%, and some studies predict that this rate will remain at an annual 15-20% in the years to come. Furthermore, a recent Lazard Frères study showed that the percentage of transportation that high-volume shippers outsourced is growing from 37% in 2000 to an expected 73% in 2005.

As promising as it is, the business space of the 3PL is a very complex and fragmented one. As shown in Figure 1, the parcel industry – that has been the historical core competency of some of the largest modern 3PLs – is only growing at 4% and is completely dominated by the larger players of the top 50. On the other hand, the four core logistic sectors – warehousing, transportation management, air/ocean freight forwarding, and dedicated contract carriage – have been growing at an impressive rate of 15-25%, and are still completely open to the 1000 small logistics players.

Figure 2 gives an overview of the different types of services that the 3PLs are currently offering in the value network. This fragmentation of the market and the proliferation of proposed services have been rapidly followed by a significant number of mega-mergers in the past three years: Deutsche Post-AEI-Danzas, UPS-Fritz, Kuehne & Nagel-USCO, and Exel-Mark VII. However, this period of unprecedented consolidation has not yet led to the domination of a single player on the market, but rather to the expansion – both on a geographic level and on a service level – of several major players in the industry, as shown on the following diagram.
Bundling Service Opportunities for a 3PL in the Value Network
The preceding observations seem to reflect both a tension between the deep desire of 3PLs to move in the “right” direction and the ongoing pursuit of what this “right” direction really is. With the current state of the 3PL industry as a backdrop, the authors of this work hope to offer some practical insights to the question: what are the current service bundling opportunities for a 3PL in the value networks? Specifically, what are the strategic directions that a 3PL should steer towards in order to gain a competitive advantage and stay viable in this highly fragmented, rapidly growing and consolidating 3PL industry?

The objective of the first part is to detail the major needs for bundled solutions that we have identified from the perspective of the client companies. As it turns out, these needs fell naturally into two main categories:

- Global network management, defined as the ability for a 3PL to provide an integrated set of services on a global level via a single point of contact
- The bundles related to the three flows (goods, information, and funds) that exist inside the supply chain – consolidation of goods, financial solutions, and supply chain visibility

The objective of the second part is to take the perspective of a 3PL, and lay out the short- and long-term implications of establishing a synchronized commerce inside the value network. In order to relate this in a comprehensive way, this part of the study has been logically divided into:

- The characteristics of a real value-added service provider
- The roles of 3PLs providers in the value network
- The ways to optimize the lifetime customer value of the customers

In essence, the first part will address the question of “Which services must the 3PLs offer their clients?” while the second part will focus on “How should they provide these services?”
The Full Scope of Service Bundling

a. Global Network Management

The companies increasingly require from their 3PL a strong proficiency in global network management, defined as the ability to provide “truly” global services and seamlessly integrate all the outsourced services and tasks.

<table>
<thead>
<tr>
<th>Global services</th>
<th>Network management</th>
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</thead>
<tbody>
<tr>
<td>Multinational presence</td>
<td>Full integration of services</td>
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<tr>
<td>Local expertise</td>
<td>Single point of contact</td>
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<tr>
<td>Inter-region consistency</td>
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</tbody>
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Figure 3 – The elements of global network management

The first, and fairly obvious, feature of global services is incurred by the multinational presence of the 3PL, and its ability to help its client overcome the supply-chain-related barriers to entry in a specific region. This can be the case of a well-established company that needs to extend its existing market to remote regions, but it is even more important to a less developed SME facing the traditional tradeoff between cost reduction and expansion investments, in which case a multinational 3PL is in a unique position to help by providing warehousing services and distribution capacity in regions it is strongly implanted in. The second aspect of global 3PL services is the local expertise that a 3PL will have in a particular region. In this respect, specialized 3PLs will be able to provide useful advice both on the best strategic implementation of the supply chain and on the political and trade regulations in a specific region. The third, and last, aspect of global services is the ability for a single 3PL to provide standardized services on a multinational level in order to dispose of the non-value-added tasks of interconnection between the different branches of the same 3PL.
However, the ultimate stage of a global service is achieved when the 3PL can provide the combination of these three elements and reach a level of “truly” global partnership with its customers. In this respect, a small – but growing – number of manufacturing companies have reached a stage of geographic expansion that goes beyond a mere multinational presence. The case of Gillette is an excellent illustration of this need. The company has a true multinational presence with 60% of their sales outside the US, and it possesses a strong desire to aggregate the global demands of their largest clients in order to be able to level load the total production among all their facilities in the world. Of course, such a production planning strategy is probably neither possible nor desirable for all manufacturing companies: it is the size of Gillette, and the specificities of their core business – low volatility and non-cyclicality of the demand for razor blades – that makes it critical for them to evolve toward this type of outbound supply chain. As a consequence, Gillette is eagerly looking for equally global logistic partners. Ideally, a partnership with two or three of them would allow the company to benefit from a healthy competition in logistic services, and of course acknowledge the fact that the initial market of a company remains its privileged playground.

At the same time, the 3PLs must provide network management competencies for their clients. The concept is defined as the full integration of services – i.e., the ability to connect all the networks and/or all the tasks that the client has outsourced – via a single point of contact. The concept of a single point of contact must be taken in a large sense, and translates the practical possibility for the client to deal with only one person to discuss the entire span of services that are integrated:

- It can be an in-house representative – as in Bose’s JIT II program – or simply an external dedicated representative.
- It can represent all the services that a single 3PL is offering, or more broadly the services that a number of 3PLs are providing through a single 4PL or Lead Logistics Provider.
Conclusions

This concept of global network management is the true enabler of a synchronization of services performed by the 3PLs in their clients’ supply chain. In this respect, the 3PLs can move in three directions.

- Seamlessly integrated services through network management are the only way for outsourcing companies to get the “best of both worlds,” i.e., benefiting both from the cost reduction of outsourcing while not losing efficiencies in the processes and retaining the capacity to deal swiftly with crises/events. In this respect, the first large 3PL that will be able to go beyond a divisional vision of its clients’ accounts to an integrated one will be able to build a critical competitive advantage with respect to all its clients.

- A small but growing number of truly global manufacturing companies need equally global services from their 3PLs, and a 3PL that resolves the complex gap between a multinational presence and a “truly global” one – including local expertise and standardization – will be in the unique position to serve these highly strategic premier clients (Fortune 500).

- While logistic companies used to provide only specialized services to their clients, the larger 3PLs are now in a position to foster the growth of the smaller companies by a diversified and integrated set of services. As a consequence, there is a clear opportunity for the 3PLs to establish a close relationship with small promising companies that they can lock-in very early by bundles of services these companies need in order to grow and expand faster.

At a time when the larger 3PLs are looking for a competitive advantage in this complex industry, it is surprising that almost all the advances in global network management are customer-pulled. The three previous initiatives share one common aspect: the necessity to establish a close customer relationship with the clients, and beyond the inner complexity of achieving true global network management lies that of establishing a tactical relationship with the customer.
b. Inbound Consolidation

The first flow to address in the network synchronization is the historical core competency of most of the 3PLs in consolidating goods across the supply chain. This aspect is particularly critical in the complex inbound movements of the largest manufacturing companies, characterized by 100,000s of different SKUs and 1000s of suppliers.

The contract manufacturer model has been advertised to a large extent by the considerable successes of companies such as Cisco, Dell IBM, or even GM. In this model, it is critical to understand what role a 3PL currently plays, and identify both where the value is and where the opportunities are open. Our interviews suggest that there is a high strategic value in the inbound consolidation of the OEM-contract manufacturer model by the 3PL. However, these opportunities are not necessarily left open by the master OEM. In this respect, more detailed case studies show that the largest and most integrated OEMs like Dell, Cisco, or IBM see their relationship to the upstream players as a strategic one, and thus will prevent any intermediary party from interfering. On the other hand, the smaller OEMs that are outsourcing part or the totality of the manufacturing process usually have a smaller leverage over their contract manufacturers and component suppliers, which opens the same opportunities for inbound consolidation by the 3PLs.

From the learning of outbound operations, there is also a definite value in consolidating less-than-truckload shipments into truckloads to reduce costs of transportation. Using advanced planning tools, interfaces with the product design and purchasing divisions, Ford and Penske Logistics managed to determine which parts were time-sensitive and needed to be shipped the same day, and which parts could be used to consolidate LTLs into full truckloads, thus achieving significant cost saving in their inbound supply chain.

Again in the automotive industry, the inner complexity of a successful Kanban delivery model shows how an efficient 3PL allows an OEM to reach undreamed-of efficiencies by committing their expertise in logistics, transportation, and consolidation of goods to the very complex requirements of this model. Similarly, in the very efficient model of the Inbound Hubs (VMI
Hub Management), the 3PL has the expertise to optimize the logistic inbound operations from the component suppliers to the factories, while the OEM retains the commercial relationship, thus leading to an enhanced ability to respond to customer demand fluctuations by using the expertise of both parties.

Figure 4 – Nokia/Exel model of Vendor Hub Management

Conclusions

Freight forwarding remains the original core competency of most of the major 3PLs, and as such it is the domain where the 3PLs can bring the most value to their customers. On the inbound and outbound side of a company’s supply chain, they are in the unique position of consolidating the flow of goods. The principle can be a simple one – Less Than Truckload into Truckloads – or a sophisticated one – VMI Hub management and Kanban delivery – but the execution always requires a deep practical knowledge of the problems related to transportation.

The enabler of these initiatives is always a demand from the customer. The balance of power in the value network is a complex one, and examples of the contract manufacturer model show that the OEMs are sometimes unwilling – Cisco – or unable – Nokia – to empower the logistic partner to initiate this optimization of the flow of goods. Armed with their transportation expertise, the 3PLs still have to nurture their relationship with the players in the value network.
in order to eventually assume more strategic roles – that only they can fulfill – in the inbound and outbound logistics.

c. **Financial solutions**

Being a 3PL, designing an attractive financial offer for their clients is a delicate matter. Companies do not often see the value a major 3PL can add to a financing service in comparison to a more specialized institution. However, it happens that this financial institution refuses to issue letters of credit against goods upon which it has no visibility, and thus no salvage value guarantee. In these particular cases, the visibility on the movements of the goods, an expertise in handling complex products, or a deep understanding of the network can put the 3PL in a unique position to offer financial solutions.

**Conclusions**

The truth is that in most cases 3PLs will not be able to compete directly with traditional specialized institutions in financial services. However, under very specific circumstances, when these institutions lack the visibility on the value network that a 3PL has de facto, the latter is in the unique position of fulfilling a vital need for this client. Given the expertise that a financing institution must have to provide competitive rates or make a significant margin, we do not see it reasonable, or even possible, for the 3PLs to transform this financing capacity into a core competency. However, the strategic leverage that it gives them over clients in dire financial need could arguably represent a formidable advantage to force a long-term collaboration on a large scope of services. Ultimately, a financial offer from a 3PL is far more than another service in a bundle; it is a long-term relationship per se.

d. **Visibility in the Supply Chain**

“Visibility is more than just a tactical supply chain issue; it has profound strategic implications for the entire organization.” - Year 2002 report on Trends and Issues in Logistics and Transportation by Cap Gemini Ernst & Young, Georgia Southern University, and the University of Tennessee.
The need for supply chain visibility

Visibility enables all supply chain members to easily see and manage the flows of products, services, and information in real time or near real time, from end-to-end, as needed. True visibility is achieved when supply chain members do this in concert, and they can do it across their existing technology platforms. Visibility involves seamless integration such that access to information on inventory in transit or at rest, work in progress, product availability, and order status enables the supply chain to execute as if they were a single “virtual” entity.

Types of supply chain visibility

Supply chain information visibility can be divided into 2 categories: demand and inventory visibility, and transportation visibility. While companies could derive much value by simply optimizing certain segments of their supply chains to achieve either of these 2 visibilities, much more significant value could be obtained by enabling end-to-end visibility that links both types of supply chain visibilities.

Demand and inventory visibility

Demand visibility is achieved by enhancing supplier-retailer collaboration like Quick Response, Continuous Replenishment, Vendor Managed Inventory (VMI), and Collaborative Planning Forecast and Replenishment (CPFR). Inventory visibility can be subdivided into visibility into either the suppliers’ inventory or the distributors’ inventory.

Companies like Cisco had invested significant amounts of money and resources in order to establish a private virtual exchange that would increase the visibility of their suppliers’ inventory. With demand and inventory visibility, and strong collaborative relationship, Cisco is able to construct flexible contracts with its contract manufacturers and suppliers to allow it flexibility to change its order whenever the demand of its products changes. Implemented successfully, this capability might prevent a recurrence of its famous $2B overstocking of inventory in 2001 when the stock market and the corresponding inventory bubbles crashed. It could also send real-time signals to the suppliers to increase the production of more popular products or to decrease production of the less popular products.
Similarly, with demand and inventory visibility, Dell is able to change its pricing strategy for some of its products up to 4 times a day. This was facilitated by its ability to have full visibility of its suppliers’ inventory levels of each of its products. It uses pricing strategy to control demand and supply to move overstock inventory and prevent stock-out of high-demand items. The advantage of having distributors’ inventory visibility is clearly illustrated by Nokia. With greater inventory visibility of their distributors, Nokia can then ensure that its best and more popular products are being pushed out to the market in a timely manner.

**Transportation visibility**

In general, transportation information visibility services provided are at the shipment/package level and are mainly for the purpose of achieving flexibility and exception-handling within the logistics process. It can be achieved in 3 ways: package tracking by 3PLs, a global secured web-based information network like Descartes, and companies forcing 3PLs to feed the transportation into their internal systems.

**Obstacles to true supply chain visibility**

Numerous problems exist when companies try to achieve true supply chain visibility. Firstly, different 3PLs do not like sharing their transportation visibility information, and as such, companies using different 3PLs for different parts of their supply chain would not be able to have true supply chain visibility. Secondly, there is still relatively slow adoption of eBusiness standards due partially to semantic and cultural issues, as well as concerns about data quality and availability. The adoption of these standards is likely to be driven by large companies like Wal-Mart and Cisco. Originating from the demands from the end customers, these companies would need to streamline their supply chain by strictly enforcing standards adoption on their business partners.

**RFID technology**

One of the major benefits of adopting RFID technology in the supply chain operations is the ability to provide item-level visibility information throughout the entire supply chain (both
demand/inventory visibility and transportation visibility). This capability would significantly transform the application of visibility information in both the normal supply chain operations as well as event management.

**Implications of true supply chain visibility**

Significant optimization of the supply chain operations is enabled when companies are able to efficiently integrate demand and inventory visibility with transportation (real-time event-tracking for both inbound and outbound logistics) visibility, and use this integrated real-time visibility information to drive critical business decisions to achieve lower inventory costs, consistently high operational excellence, enhanced event management capability, and higher customer service levels. Making use of the integrated demand and inventory visibility information to make supply chain decisions would also enable companies to reduce the classic “bullwhip” effect of traditional supply chains.

A company like Dell, with real-time demand and item-level inventory visibility, would be able to dynamically change its delivery options and decide the most cost- and time-efficient (fastest and cheapest option, and whether to ship directly from the suppliers or warehouse) way to ship products to its customers. More importantly, real-time exception-handling capability to react to delivery lost-in-transit or customers’ change-of-order at the transportation phase would allow Dell to provide timely response to variations and dynamically trigger the most appropriate supplier/warehouse (nearest location to the customer and one that is stocked with an adequate inventory of the requested product) combination to ship direct to the customers without incurring shipment delay.

Having real-time exception-handling capability at the inbound transportation of supplies/parts to a manufacturing operation would also further enhance the manufacturing process. Unexpected delays in supplies shipment would be signaled to the manufacturing processes so that alternate sources of supplies or manufacturing plan could be activated in real time without incurring significant impact on the overall manufacturing schedule.
Having full supply chain visibility is also a catalyst for transforming the linear supply chains into adaptive supply chain networks. By incorporating adaptive agents and RFID into the enterprise resource planning (ERP) systems like SAP, network partners could intelligently cooperate to keep demand and supply closely aligned and better coordinate the fulfillment process, allowing each one to respond quickly to changes and more effectively manage cross-company supply chain processes.

**Roles of 3PLs in supply chain visibility**

When asked about the role 3PLs would play with the widespread adoption of Radio Frequency Identification (RFID) technology, Mr. Kevin Ashton, the executive director of Auto-ID center, predicted that 3PLs would become increasingly more critical in the management of supply chains. With RFID, supply chain operations could be more accurate, much faster, with more things being handled with greater efficiency. This significantly enhanced supply chain management would require more specialized logistics know-how and would in turn drive more companies to outsource more of their supply chains to third-party supply chain experts like UPS.

3PLs could also assume the role of a supply chain information manager. Given the explosion of RFID data, 3PLs can provide enormous value to their customers by filtering, analyzing, and customizing these RFID data to facilitate real-time supply chain decision-making. In addition, by integrating such processed item-level inventory visibility information (owned by companies but processed by 3PLs) with item-level transportation visibility information (owned by 3PLs), 3PLs could effectively assume the role of an extended supply chain information manager for their customers.

Another possible opportunity for 3PLs is to assist SMEs that do not have the financial muscles to purchase sophisticated ERP systems by helping to provide these SMEs with the right IT tools to integrate with eBusiness standards like UCCnet. This will then allow these SMEs to adhere to the standards requirement imposed by their big customers (e.g., Wal-Mart).
Conclusions

Achieving true supply chain visibility is one of the most critical abilities that companies should strive for in their supply chain management going forward. The ability to integrate real-time transportation visibility information with real-time demand and inventory visibility information would enhance companies’ abilities to manage variations in customer demand and unexpected events in the supply chain. The adoption of RFID technology and eBusiness standards (e.g., RosettaNet and UCCnet) by the various industries will provide greater availability and standardization of supply chain visibility information. To stay relevant, 3PLs need to seriously think about repositioning themselves as the trusted enabler and solution provider for companies to move towards greater supply chain visibility.
Optimization of the Value Network

a. Value-Added Service Provider

Our research and interviews indicated that 3PLs need to segment their customer base and really get to know their customers’ supply chain challenges and focus. With this insight, 3PLs can then decide which services they can and should offer in order to provide the most value-add to their customers. Thereafter, 3PLs could proceed to strive for seamless and tight business integration with their customers’ processes and operations so as to be able to offer truly value-added services that would complement a company’s overall business strategy, optimize the benefits from the adoption of the latest technological solutions, achieve greater cost-efficiency, and provide enhanced capability in event/crisis management.

For example, knowing that Cisco derives its strategic competitive advantage by structuring flexible contracts with its suppliers so as to counter the customer demand fluctuations would explain its unwillingness to relinquish the control and tight relationship it has established with its suppliers to a third party or intermediary. For consumer goods companies like Gillette, the competitive advantages would be their ability to establish strong retailer-supplier relationships so as to achieve collaborations that would reduce the finished goods inventory, enhance the distribution channels, and increase their speed in reaching the end customers. In this case, 3PLs would better serve Gillette’s need if they could offer value-added warehouse and inventory management services, reliable transportation services with real-time visibility, and effective event management capabilities (for variations and exceptions handling) to Gillette so that Gillette could better interoperate with its customers (retailers like Wal-Mart).

After identifying the service opportunities, 3PLs should then focus on developing close business integration with their customers. This includes establishing partnership foundations, common business semantics standards, process integration, and systems integrations. Through close business integration, 3PLs would then be able to provide value-added services to their customers.
3PLs should strive to provide services that would complement and are in alignment with the overall business strategy of their customers. For example, knowing that Nokia has an overall strategy to manage the distributors’ inventory in order to ensure its latest handphone models get onto the retail shops in a timely manner, a 3PL might consider positioning itself as a neutral intermediary between Nokia and its distributors to serve this need.

With the introduction of the latest IT solutions and technology in supply chain management, companies are increasingly relying on their logistics providers for expertise in complex technologies such as transportation management systems (TMS), warehousing management systems (WMS), supply chain event management (SCEM), and international trade logistics systems (ITLS). Shippers can benefit from tapping the knowledge that 3PLs gain from working with multiple customers. In addition, web-based transportation and warehousing management systems would also enable large 3PL companies to reach smaller customers that they had not previously served.

With closer business integration, companies may also be able to benefit from significantly greater overall cost-efficiency and capability in terms of crisis/event management. A good example is Bose Corporation’s adoption of the JIT II concept for its transportation operations. By integrating the carriers’ representatives physically and operationally into Bose, Bose is able to dynamically manage crises and variations in real time so as to maintain its high service level to its customers without incurring extra costs. Being tightly integrated to achieve higher efficiency and cost-effectiveness would also ensure that 3PLs are truly adding value and not additional overhead expenses.

**Conclusions**

3PLs need to segment their customer base and have a good understanding of their customers’ supply chain challenges and focus. Armed with this information, 3PLs could then tailor their services for their customers and proceed to strive for greater business integration with their customers’ operations. With the seamless integration of their services with the customers’ operations, 3PLs would then be better positioned to provide value-added services that would
complement the customers’ overall business strategy, achieve higher cost-efficiency, optimize the returns from using new technology, and achieve significant capability in event/crisis management.

b. **Network Governance**

The first possibility of interaction of the 3PL in the governance of the value network is to “team up” with another player in order to share the global network management and still collect the benefits of the created value. The most obvious example that comes to mind is certainly that of an alliance between a bank – providing the expertise in financing solutions – and the 3PL – providing the visibility on the goods and the players – in order to help a client in particular financial predicaments. Other examples of these win-win situations for the 3PL and its partner would be those of an alliance with a specialized industry partner that can provide specialized tasks of production while being seamlessly integrated by the 3PL, or even a partnership with an IT software company to connect more efficiently the planning and event management aspect of the IT systems – provided by the IT company – with the transportation and execution visibility of the 3PL.

The last type of mutually beneficial alliances that one can envision in the 3PL’s business space is a partnership between 3PLs, although the historical very competitive interactions between those companies suggests that it would not be a very realistic vision, at least for now. First, it is very likely that a partnership of large and small 3PLs could succeed in providing the “truly” global services defined in the first part of this article: a large 3PL – acting here as a 4PL – would guarantee a multinational presence and the standardization of all the services while smaller 3PLs would provide their local expertise. At a lesser level of collaboration, a partnership of 3PLs could “grow the pie” for the entire industry by consolidating import/export data, thus giving governments the information necessary to pass favorable trade regulations.

The 3PLs also have the possibility to step in actively in the balance of power of the industries they are working with, and act as a neutral agent to the benefit of all the players of the network. Very few OEMs have the leverage that a Cisco has over its suppliers and contract
manufacturers. Moreover, in this respect, a large 3PL is in a unique position to step in the relationship between a small OEM and the larger contract manufacturers to enforce delivery discipline and e-business standards on behalf of this small company. This is equally true in the outbound side of the supply chain: the case of Nokia, whose distributors are reluctant to relinquish the inventory visibility in the channel to the OEM, shows that the neutral nature of the 3PL puts it in a perfect position to optimize the channel’s inventory better than the distributors, but without giving more power to the OEM.

From the 3PLs’ perspective, another critical aspect of the network governance will be their strategic positioning in the buyer-seller business transaction. Traditionally, their delivery role is triggered only in the last stage of the sale, but one might envision two more active ways by which they could bring velocity in the business cycle without interfering in the very protected buyer-seller relationship.

The first possibility would be for the 3PL to take a “listen-delivery-check” role in the business cycle. Specifically, the “Listen” phase would require the 3PLs to “reach into” the purchase phase of the transaction to extract real-time demand data. In the “check” phase, 3PLs would keep track of the inventory information while the “delivery” phase would be the transportation phase currently handled by the 3PLs. The data available in all these 3 phases would be real-time item-level information enabled by the adoption of RFID technology. By managing and integrating the information from these 3 phases, 3PLs would be able to provide their customers with powerful real-time item-level event/crisis management while assuming a more strategic relationship with their business partners by being intimately involved in their customers’ strategic decision-making processes.

![Figure 5 – From (a) a traditional delivery role to (b) a “Listen-Check-Delivery” role](image)
Following the model of PFSweb and Dotcom, a 3PL could also take a more active part in the buyer-seller relationship by offering an efficient e-commerce solution inside the business cycle. In this case, all purchase orders from the buyer would be processed and handled by this 3PL, and the sellers’ goods managed, distributed and transported by the same 3PL based on the prior agreed-upon terms of contract. This role is especially appropriate for eCommerce businesses that do not possess any logistics setup. In addition, it would also be attractive to large enterprises that require the eCommerce expertise of the experienced third-party business partners. Essentially, the 3PLs could take over the entire business transaction on behalf of the seller by handling the purchase, order fulfillment, inventory management, distribution, transportation and financial transactions.

![Figure 6 – e-commerce intermediary role](image)

**Conclusions**

- Instead of diversifying too many of their competencies and trying to compete with the other 3PLs, the financial institutions, the IT software developers, and the specialized contract manufacturers, 3PLs should focus on their true core competencies and establish strategic alliances with specialized partners, so as to provide a high-quality service to their clients and share the benefits of an efficient bundle of services.

- The 3PLs should also take advantage of their neutral nature with respect to the players of the network to act as an intermediary and solve the inefficiencies that the complex balances of power bring.
- There is still much to optimize in the very nature of the buyer-seller relationship to speed up the business cycle. However, by its very nature, a third party cannot interfere directly in the privileged buyer-seller relationship without the consent of the players. As a consequence, the 3PLs should try to move in the non-threatening – and yet value-added – “listen-check-delivery” role or in an e-commerce intermediary role when the business model permits it.

c. **Lifetime Customer Value**

Currently, the standard format of the relationship between a company and its 3PL is a 3-5-year contract that is initially designed from the efficient calibration of the company’s requirements and the alignment of the 3PL’s resources to meet this customer service level. However, recent studies show that this relationship suffers to a great extent from a lack of periodic evaluation and readjustment: while the company’s requirements change, the service level of the 3PL stays as defined in the initial contract, thus leading to significant dissatisfaction from the outsourcing companies. On the contrary, the 3PL should adopt a proactive attitude of complementing these changes in their customers’ businesses by continually improving and updating their services over time. These efforts must be commensurate with the rate of business changes and technological advances/adoptions so that 3PLs can still remain as viable, indispensable, and trustable business partners for the long haul.

Even the financial basis of the relationship is not viable when the 3PLs build their relationships with their customers on short-term financial considerations and undercut their competitors by lowering their prices instead of focusing on long-term high-level services. To be able to optimize the lifetime values of their customers, 3PLs need to look beyond competing only with low prices and stop rewarding their divisions based on short-term/regional profitability measures. Instead, they should make serious long-term investments to understand their customers’ needs, provide customized value-added services, and aim to become the long-term strategic expert supply chain partners (both regionally and globally) for their customers.
As a response to this shortsighted trend, many large companies are now indicating their interest for a relationship with a well-trusted 3PL. However, such a partnership must be built gradually, on the assurance that the 3PL has the capability to offer a full set of seamlessly integrated services that are customizable to meet the specific needs of each of the company’s sub-businesses. In this respect, it would be critical for the 3PL partner not to be blinded by short-term profits with one of the sub-businesses at the expense of the overall strategic partnership with the parent company. Similarly, smaller companies that are rapidly expanding their operations into different regions are also potential customers for striking a longer-term strategic relationship and for optimizing the customers’ lifetime value of a young but promising company.

**Conclusions**

3PLs are becoming essential business partners in the growing trend towards greater logistics-process outsourcing by enterprises. However, in order to optimize the lifetime customer value, 3PLs need to adopt a longer-term view of their relationships with their customers. They should match their customers’ needs not only for the short term but also for the longer term. They should also structure their relationships with their customers beyond short-term financial considerations in order to take advantage of the longer-term gains that they could extract from these strategic business partnerships. Companies are also simplifying their outsourcing operations and are therefore receptive to the idea of a single service provider or handful of service providers managing the entire supply chain requirements of their portfolio of businesses and divisions. However, to do that, 3PLs must first establish very trustworthy and strategic relationships with these enterprises.