



Importance Of Logistics In Business Strategy ; Gaining Strategic Advantage With Third Party Logistics (3PLs)

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ABSTRACT

This paper looks into how logistics have come to occupy a strategic role in companies and organizations where production and distribution are considered as the vital activities. Conditioned by the rise in globalization and networking in modern days, logistics ensures that all steps involved in production and distribution are made available to the customers. To meet the expanding needs, logistic outsourcing was initiated, which provides broad range of logistic services. In addition to this, there is Third Part Logistics (3PLs) to fulfill the needs of the supplier and receiver, which in turn is vehemently supported by e-logistics, bringing organizations effectively together. Since the global logistics is becoming more and more complex, involving multi-modal transportations, the services are now provided by many 3PLs even within one organization, and the system is expected to intensify among logistic service providers in the business market in the near future.

KEYWORDS : Logistics, 3PL, Marketing Strategy

Background of Research

Defining Logistics and Understanding the Functional Aspects of Logistics

Logistics initially started in the 18th and 19th centuries as activities of the military organization to get soldiers and munitions to the battlefield on time. This service however started to become an integral part of modern production process after the Americans suffered from economic recession in the 1950s (Tseng, Yue and Taylor, 2005). The recession made the industrialists to recognize the importance of goods circulation and since then 'logistics' became an integral part of business transaction. From the 1970s, the popularity of logistics activities soared, and by the dawn of the 21st century, even the system of 'logistic alliance' and 'globalised logistics' started to appear. This alliance known as the Third Party Logistics (3PLs) and globalization with increasing demands from the customers have also given rise to logistics outsourcing among many companies and organizations (Tseng, Yue and Taylor, 2005).

Role of Logistics in Business Strategy

In order to make logistics to be a successful business strategy, logistics managers at the outset must be clear about the company's goals (Taylor, 1997). Logistics provides organizations to compete with other organizations in the market, especially in the field of supply chain management (Ross, 2012). According to Lambert and Stock, the role of logistics in business strategy has changed over the years. They gave three organizational systems where the functions of the logistics have changed overtime in terms of 'strategic versus operational'; 'centralized versus decentralized'; and 'line versus staff' (Lambert and Stock, 1993). In the past only operational logistic was considered important, but now it has been viewed as strategically vital to the organization. Logistics role in business strategy in the past were also more centralized and performed only at the organizational premises, but now it has been expanded to decentralization system as well, where services are being administered in different areas depending on the needs of the customers. Finally, the business strategy of logistics now center around both line as well as staff, where line refers to the role of the logistics is centered in department (like accounting, sales, and production) and placed under a manager; while in staff organization, logistics is divided into numerous activities among marketing and sales, production, finance, etc. (Lambert and Stock, 1993).

Aim of the Study

This paper aims to:

To understand the importance of logistics as a marketing strategy and to determine the role of Third Party Logistics (3PLs) in Supply Chain Integration

Literature Review

4.1 Overview of Functional Aspects of Logistics

Logistics services comprises of both physical and non-physical services. Based on these services, logistics serves three functions that serve

the customers with their needs (Ross, 1998, 2012; Tseng, Yue and Taylor, 2005) i.e., storage and management of inventories; movement of inventory from the supplier through the distribution channel till delivery; realization of the place and time utilities defined in the organization's marketplace strategy

Owing to globalization, the need to expand new markets with developed new system such as multi-modal transport has increased, and many organizations are coming up with 3PLs to fulfill these needs. The 3PLs is now being vehemently supported by e-logistics which brings together organizations to more effective collaboration among themselves (Rao and Swarup, 2010).

Third Party Logistics Providers: Overview Services Provided by 3PLs

This Third Party Logistics (3PLs) and globalization with increasing demands from the customers have given rise to logistics outsourcing among many companies and organizations. In fact, the last two decades have seen widespread popularity in logistics outsourcing; but more importantly, the logistics service providers (LSP) has become abundant in its application (Deepen, 2007; Kersten, Horath and Koch, 2007). This is because there are increasing demands from customers and consequently the need to expand and develop markets to meet the needs of the customers. The service provided by LSP is conditioned by the need of the customers and their work starts with warehousing and transportation services for customers to more advance and multitude phase like dealing with integrated service portfolios. LSP can be divided into (Deepen, 2007):

CEP: Carriers, Freight Forwarders, Couriers and Express and Parcel/Postal Providers.

3PLs: Third Party/Contract LSPs

4PLs: Fourth Party (LSP)

The third party logistics service providers (3PLs) are considered as those experts who deal with management and flow of freight. The 3PLs is known for providing four types of services, which include freight movement (carriage, expedited service, time definite service, and intermodal service); freight management (carrier selection, routing, scheduling, freight charges and payment, and transport management); intermediary services (land or air forwarding, freight brokerage, and intermodal marketing); and specialty services (dedicated contract carriage, household good movement, etc) (Coyle et al., 2010). Since the global logistics is becoming more and more complex, involving multi-modal transportations, the services are now provided by many 3PLs even within one organization (Chu et al., 2006).

Benefits and Risks of Outsourcing

Outsourcing is a fact of the globalized life, and it plays a strategic role in the organizations in managing and providing services to customers (Coyle et al., 2010). Amidst this globalized outsourcing, logistics out-

sourcing has become rather prevalent in business environment. Logistic outsourcing is understood as a "long and short-term contracts or alliances between manufacturing and services firms and third party logistics providers" (Cahill, p. 24).]

As important as the system has become the logistics outsourcing carry its own benefits and risks.

The benefits of logistics outsourcing include reduction of costs (production, labour, marketing, delivery) that allows business to prosper (Deepen, 2007). However, outsourcing logistics also carries some disadvantages. Often logistic outsourcing suffers from poor performance against company's expectations. Customers often find logistics outsourcing as an unreliable promise made by organizations (providers of products and services) as well as lacking the understanding of shipper's business (Kersten, Horath and Koch, 2007). Logistic outsourcing also suffers from the risk of losing direct control over the logistic operations. Since the network is vast, there is a tendency to lose direct contact with customers at delivery points, and also suffers from failure on the part of the 3PLs (Rushton, 2007). On the part of the organizations, since outsourcing has become very strong over the past few decades, expanding in new areas remains very limited. Simultaneously, expanding in areas where logistics services have been strongly established makes it more complex for new organizations to penetrate. Outsourcing logistics is expected to become more difficult in the future since competitions will intensify among logistic service providers in the business market (Kersten, Horath and Koch, 2007).

Discussions and Conclusions

This paper looks into how logistics as the strategic function of companies and organizations came to be recognized when there was rise of mass production systems. This rise in mass production was mainly conditioned by the rise in globalization and networking in modern days, where production and distribution are considered as the vital activities of organizations. The role of logistics here is to ensure that all steps involved in production and distribution are made available to the customers and consumer in need of the products and services. To meet the expanding needs, there is now logistic outsourcing, which is provided by broad range of logistic service providers. In addition to this, there are the 3PLs to fulfill the needs of the supplier and receiver, which in turn is vehemently supported by e-logistics which brings together organizations to more effective collaboration among themselves.

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