



## Third Party Logistics in India

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### ABSTRACT

Third Party Logistics (3PLs) is emerging as a revolution spawning a new notion of consumerism, changing the relationship between the companies and the consumers. 3PLs are being looked upon by the organizations as factors that help them to remain competitive and deliver value to customers. In this paper, the author examines the importance of Third Party Logistics in India. This is substantiated with data and information from literature and other secondary sources. At the end of the paper, the author concludes by highlighting the advantages of partnering with 3PLs for the profitable survival of the Business Organizations.

**Keywords--** Third Party Logistics, Outsource, Logistics, Supply Chain Management

### I. INTRODUCTION

When one says that technology has shrunk the world and made people and products available to the mass of the society, it is implied that it is logistics and supply chain management (SCM) that has created the enchantment. Logistics and SCM are the magic wands that have converted the vast spread world into a global village. History is evident that civilizations prospered due to the enhancement in their ability to transmit and transport. From the building of Pyramids to the finding of new sea route to India, the principles underpinning the flow of goods and services to fulfil the demands of consumers have altered a little. From the invasions of the Moguls to the dropping of atomic bomb in Japan, it has been the supplies that played the crucial role. Logistics and SCM got deep rooted in the growth of industrial revolution in the days gone by and by the impact of globalization in the modern era. The process of globalization, characterized by liberalization, privatization, marketization and transnationalization has once again focused on the role of Logistics and SCM. It is this attention that has initiated and accelerated the process of inexorable integration of markets, nation states and technologies to a degree never witnessed before in the recorded history of mankind. Technological change is driving demand for new

products and posing new challenges for the companies the world over to satisfy the consumers.

Third Party Logistics (3PLs) is emerging as a revolution spawning a new notion of consumerism, changing the relationship between the companies and the consumers. New ideas in the Logistics and SCM, more than savings or investments, are the new keys to prosperity and to the wealth of nations (Ghirmai T Kefala, 2010). Logistics and SCM fulfils a dire need to coordinate, communicate and collaborate with other companies within the supply chain (Zacharia et.al.,2011). Many large organizations such as Walmart, Toyota and Sony dominate their supply chains. But the desire to control the supply chains lasts in all organizations irrespective of their size and nature of businesses. This has paved a clear path for the emergence of 3PLs. Just like how Kanban or Just-in-Time has strengthened the supply chain for Toyota, 3PLs has similarly insisted suppliers in sharing information, reducing inventory and investing in new technologies (Ahuja.G, 2000). 3PLs are being looked upon by the organizations as factors that help them to remain competitive and deliver value to customers (Christopher, 1998). The competitive stress of the organization has created a need for full-fledged logistics system that is not only enhancing their strengths and opportunities but also creating the outsourcing opportunities in logistics management known as Third Party Logistics (3PLs). Logistics is brimming up as a business dynamics throughout the world and meeting the changes in it is proving to be a challenging task for the organizations thus creating opportunities for the outsourcing of logistics function. The acceptance of the truth that an organization's competitive advantage is not only from its product quality but also from its delivery process has converted logistics into strategic function (Razzaque and Sheng, 1998).

In this paper, the author does not attempt to provide a complete and fully documented story of Third Party Logistics in India. In fact, it is doubted that such an account is currently possible. Instead, the paper aims to examine the importance of Third Party Logistics in India. The data used for the study is secondary data comprising of official websites, journals, magazines and articles. Since the data is secondary it is more

dependable and reliable. This paper is divided into six sections. The first section introduces the topic of the paper. The second section presents a brief review of literature relating to the definition and evolution of 3PLs. The third section speaks of Third Party Logistics in India; Advantages of Third Party Logistics is given in the fourth section. The fifth section highlights the challenges of implementing Third Party Logistics in India. And finally the sixth section draw out conclusions and make a call for further research in evaluating solutions to meet the challenges in implementing better Third Party Logistics.

## II. LITERATURE REVIEW - THIRD PARTY LOGISTICS- DEFINED

Logistics has become one of the key functions for all the businesses to survive and flourish. Logistics involves movements of people and materials. 3PL has many definitions and interpretations. The simplest understanding of logistics can be defined as making people and products available to the right person, at the right time, in the right condition and at a right price. Though the fundamental principle is the same, the passing of time and technology has added many features that have possibly refrain the business houses in updating their logistics infrastructure and creating opportunities for the third parties to exclusively venture into the business of enhancing the clients' business. This concept is now known as Third Party Logistics / 3PLs. 3PLs is also known as third party logistics, contract logistics, integrated logistics and outsourced logistics (Sheffi, Y 1990).

Third Party Logistics is simply the use of an outside company to perform all or part of the firm's materials management and product distribution function (Simchi-Levi, 2000). Logistics is identified as the primary function that enables the firms to cut costs and responsiveness through outsourcing (Christopher 1998, 2005). Sink et al., define 3PL services as multiple distribution activities provided by a third party, neither

the provider nor the customer, who assumes no ownership of inventory. Berglund et al., define 3PL as a logistics service company providing service on behalf of a shipper responsible for the management, transportation and warehousing of goods. McGinnis et al., defines 3PL activities as logistical activities that can be provided or required by either a buyer or a seller. Sink and Langley refer to 3PL provider as an external supplier performing some or all of a manufacturer's or customers' logistical functions. In contrast, Murphy and Poist give a narrow and exclusive definition of 3PL that is a long-term, mutually beneficial relationship between a shipper and a logistics provider that offers various logistics service functions. Bagchi and Virum refer to 3PL as a long-term partner that provides all or a considerable number of logistics activities for the shipper.

### 2.1 Evolution of Third Party Logistics

There is ambiguity about the coining of the term Third Party Logistics (3PL). The study of history relating to 3PL highlights that due to the emergence of global village, business houses source in one nation, manufacture in another and then sell in the third making the management of the channels more and more complicated and opening up the arena to contract the services related to logistics and supply chain management (Papadopoulou & Macbeth 1998). Conventionally, logistics referred only to transportation, warehousing, order processing and related information technology support (Zacharia et.al., 2011). But the increased volume and scope of services demanded have forced the third party logistics service providers expand their services in strategic coordination and to cover specific geographies, commodities, modes of transport and integrating their existing warehousing and transportation services, rediscovering what is known today as "3PLs" (Cerasis).

3PLs are classified in five main phases according to the type of services it provides, the level of control it exercises and the level of strategic importance it plays in companies' strategies.

**Table 1:** The Five phases of 3PLs

Phase Period	Phase Name	Characteristics	Nature of Service
Early 1900-Late 1950s	Introductory Period	Single Services	Only Transportation or warehousing
Late 1950s-Mid 1960s	Awareness Period	Separate Services	Either Transportation or warehousing
Mid 1960s – Late 1970s	Necessity Period	Integrated Services	Combined Transportation or warehousing
Late 1970s – Late 1980s	Integration Period	Combines Services	Extra services on top of the equipment, warehousing, transportation functions viz., trade administration and planning services
Late 1980s – Late 1990s	Differentiation Period	Complex Combined Services	A network of different services such as planning, equipment, handling, yard management, warehousing, administration and transportation

Source: Papadopoulou & Macbeth 1998.

The chronological development of logistics during these five phases were affected by the uncontrollable factors in the form of World Main events affecting the company's logistics strategic planning, controllable factors such as business strategies and logistics that determined the need for 3PLs through the link of the external pressures to the strategic targets and logistics abilities (Papadopoulou & Macbeth 1998).

However, some of the major worldly events were a cause to convert the autonomous logistics functions of a company into a separate discipline shaping the third party logistics industry into what it is today.

- The deregulation of the trucking industry via the Motor Carrier Act of 1980 resulted in an increase in the number of trucking carriers in the USA expanding their operations in the whole supply chain and emerging as freight movers.
- When countries like India and China opened their economies for global businesses in the 1990s, the rest of the world began attracting the interest of companies looking to take advantage of cheap labour and local resources, resulting in the demand for companies capable of streamlining complex supply chain processes skyrocketing both domestically and globally.
- The explosive growth of the internet during the 2000s gave 3PLs companies the tools that enabled them to streamline complex communications and supply chains.

3PLs today help companies save money by giving them access to otherwise costly and proprietary technological tools that make better decisions for their business' logistics and supply chain functions.

### III. 3PLS – AN INDIAN PERSPECTIVE

Third Party Logistics has already created ripples in the business world in the entire globe. However India is still in its nascent stage of discovering the potentiality of the 3PLs. India spends around 14.4 percent of its Gross Domestic Product on logistics and transportation as compared to less than eight percent spent by the other developing countries (<https://thingsinindia.in/logistics-companies-in-india/>).

The Darwinian Theory explained the survival of the fittest in the nature but today the same theory is applicable to the survival of the business organizations. Logistics, referred to as the bloodline of the organization has become a factor of competitive edge that is differentiating one business from the other. To whatsoever sector or scale of business the organization belongs, each one of it lusts to possess a logistics that is full-fledged in meeting the requirements of the industry and the consumers. But, this aspiration demands investment and infrastructure that is not affordable by all business players. This makes 3PLs very potential in partnering to the success of the existence of a business.

India's 3PLs market is currently pegged at ~USD 6 bn and is predicted to potentially reach to

~USD17bn by FY25. The Indian logistics environment comprises road transport companies, railways, air freight companies, inter-modal transport providers, ports and shipping companies, as well as 3PL companies. Their performance is critically dependent on the state of infrastructure – roads, railways, ports and airports (Sahay & Ramneesh Mohan (2003). The growth in Indian logistics is being driven by the growth in the manufacturing, retail, fast moving consumer goods and e-commerce sectors. India is the fourth largest country in terms of Purchasing Power Parity (PPP) and constitutes one of the fastest growing markets in the world. India, conventionally belongs to a class of entrepreneurs who believe in self sustainability and 3PLs is emerging as a contradicting factor due to the globalization of business, infrastructural bottlenecks, increasing uncertainty of supply chain networks, shortening of product life cycles and proliferation of product variety (Srivatsava, 2006).

The Indian Logistics sector though very large at ~USD220bn plus is highly inefficient; however this sector is ripened for transformation with the recent regulatory reforms such as GST, e-way bill, grant of infrastructure status and a new dedicated Department of Logistics. Rapid adoption of technology is further aiding this change.

### IV. IMPORTANCE OF 3PLS

3PLs companies possess the ability to encourage collaboration among their customers and create a network that further enhances synergies (Dyer et.al. 2004). As 3PLs work simultaneously with multiple supply chain partners, they can standardize data and processes across firms and provide supply chain visibility beyond the individual firm helping them play the role of neutral arbitrator (Zacharia et.al.2011). Their importance is noticeable in being a change leader, a decision maker and a possessor of physical assets that enable coordination between multiple firms (Fulconis et al. 2006). 3PLs providers follow the economic principle of specialization by building up logistical infrastructures, methodologies and computer based algorithms to maximise efficiency and then offer their expertise to their clients. This expertise promises to cut logistical costs that is fit enough to attract smaller business to the 3PLs. Just as how mass production has reduced the manufacturing costs, adding another client to the same shipping routes makes the smaller businesses avail the benefits of larger logistical infrastructure at an affordable price. This ability increases the capability of the business houses through 3PLs than to fund in-house expansion (<https://bizfluent.com/list-6576154-types-3pl-providers.html>). With the passing of the distribution burden to the 3PLs, business houses can concentrate on core activities and processes that vindicate the quality demands. This further amplifies customer service level from the base of satisfaction to the level of delight.

The volatility of competitive world has enforced organizations to intensify their capabilities for

delivery, reliability and product flexibility in response to customer needs. 3PLs displays its importance in integrating supply chains to fulfil this goal (Bowersox, Closs, & Stank, 1999). The integration of supply chains strategically collaborates all the supply chain partners and helps in managing intra and inter-organization which achieves effective and efficient flows of products, services, information, money and decisions with the objective of providing maximum value to its customers (Zhao, Huo, Flynn, & Yeung, 2008). Supply chain integration lessens the transaction costs in addition to the searching, contracting, negotiating and monitoring costs which are allied with outsourcing due to the fewer partners involved. (Zhao et al., 2008). The swashbuckling zeal continues in 3PLs due to its importance in establishing market legitimacy, helping the client's businesses in avoiding extensive capital expenditures, increase the productivity, leverage resources, improve expertise, provide market knowledge and data access that carves out competitive advantage both locally and globally (Xu Yang 2014).

Undoubtedly 3PLs is popular for its advantages but it is surely not without loopholes. Some of the major reasons that still hold back 3PLs from creating a win-win situation are as follows:

- The client businesses have no direct control over their operations which throw them at the mercy of any problems the 3PL company faces. Beyond the possible loss of business, the damage that results from 3PL services failing to deliver certain products on time is the client company's problem and not the 3PL services'.
- 3PL services promote their service as the most cost efficient way to get logistics done. While this may be true, contracting with such a service means that the company is locked into the pricing model specified in the business agreement. By handing logistics over to a 3PL service, companies are forgoing the possibility that an in-house logistics department could figure out a cheaper and more efficient solution.
- Handing over logistics to a 3PL service is a large commitment. While the free market dictates that a business which is dissatisfied with its 3PL service could always find another, or develop its own logistical infrastructure, the reality is not so simple. Switching the nature of a company's logistical support can cost the company a great deal in unforeseen costs resulting from the transition (Micah McDunnigan, 2017)

## V. CHALLENGES OF 3PLS IN INDIA

While today the world logistic industry is practising up to 7PLs, India is grappling with 3PLs. According to the World Bank's 2014 Logistics Performance Indicator (LPI) India scored 3.03. This indicates a need for India to improve the quality of its

logistics services, as well as a requirement for greater investment in "hardware"-ports, roads and railways" (Report of Hong Kong Research Trade Development Centre (HKTDC), 2015). India's Logistics industry is characterised by the dominance of disorganized operators. Infrastructure is one of the biggest challenges faced by the Indian logistics sector and has been a major deterrent to its growth. Infrastructural problems like bad road conditions, poor connectivity, inadequate air and sea port capacities and lack of development of modes of transports like railways and alternates like inland water transport and domestic aviation have been constant irritants. Due to the infrastructural bottlenecks costs per transaction in Indian logistics sector is very much high compared to those in the developed markets. The Indian government has started paying attention to the problems being faced by the logistics sector and has initiated several infrastructural projects to mitigate their woes. Gupta, Singh and Suri, (2015) identified the challenges faced by 3PL market in India as, non industry status, infrastructural bottlenecks, behavioural complexities, poor quality of logistics operations, inefficient inspection Strategies, increasing globalization, low rate of technology adoption, and skill shortages.

## VI. CONCLUSION

The concept of 3PLs is still emerging to be a potential area of growth and development inspite of having been evolved quite a number of years ago. Of India, it can easily be said that it is a nation of potentialities where the extremes of contradicting developments survive as counterparts. Nearly one-third of India's logistic cost (~4% of GDP) is due to inefficiency such as lower road & rail speeds, higher inventory levels and theft & damages. We see several factors combining to reduce these inefficiencies over the next decade. Dealing with a problem requires the right diagnosis at first. There are two key growth drivers that can deepen the roots of 3PLs in India. Firstly a mindset shift among large clients to outsource logistics to 3PLs players and focus on core business and secondly a supportive regulatory reforms such as GST would boost warehousing expansion at central hubs in the country. On one hand we have companies like Mahindra Logistics, TCI express, Blue Dart, Container Corporation, VRL Logistics to name a few that are scaling leap and bounds in 3PLs but the scope for many more such companies is still open. India today stands on the cusp of transformation from a large inefficient logistics sector to a favourable one with a confluence of favourable factors like GST tailwinds, reducing transit times, warehousing consolidation, infrastructure status and rapid adoption of technology.

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