

The Role of Logistics Service Providers in Supply Chain Performance Management: A comprehensive Literature Review

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Abstract

Logistics activities cover the entire supply chain so they become important in improving supply chain's overall performance. The target of logistics process is to merge and organize all activities involved in acquiring, converting and distributing goods from raw materials to finished goods to the customers in order to achieve customer service objectives in an efficient cost effective manner.

The logistics services providers can also enhance the supply chain activity through the introduction and induction of cross docking facilities. These new facilities not only have the potential to eradicate useless and unnecessary stock of inventories but can also boost the customer service quality through distribution network redesigning.

Every company within the supply chain conducts their business activities in their own way. So the sharing of sensitive information between the supply chain partners, and monitoring of activities other than the companies own shareholders and stakeholders are act as hinders in the whole process.

Key Words: LSP, Supply Chain Management, Performance Management, Role of LSP

What is known about the role of LSPs in supply chain performance management?

The main though behind the supply chain management is that the arrangement of business processes within a company and across B2B companies can develop competitive supply chains. The number of companies is increasing that are involved in outsourcing the logistics services from third party logistics providers (Berglund et al., 1999; Hertz and Alfredsson, 2003). At the same time, the LSPs have been developing their core competencies in two major

areas i.e. the range of services offered and custom made solutions for customers or specific customer fragment (Fabbe-Costes et al, 2009).

Logistics activities cover the entire supply chain so they become important in improving supply chain's overall performance. The target of logistics process is to merge and organize all activities involved in acquiring, converting and distributing goods from raw materials to finished goods to the customers in order to achieve customer service objectives in a proficient cost efficient manner (Byrne & Markham, 1991).

According to Berglund et al. (1999) and Hertz and Alfredsson (2003), TPL industry has increased importance for companies being supply chain management more efficient.

Logistics Service Providers can enhance the performance partly because they are possessed with an ability to co-operate both up and down with supply chain partners as well as parallel with other Logistics Service Providers (Ha°kansson & Persson, 2004; Mason et al., 2007; Persona et al, 2007).

Different authors have the viewpoint that it is the fact that Logistics Service Providers can improve quality, speed, service level, cost, performance and contribute to savings and benefits in the supply chains (Fabbe-Costes *et al*, 2009).

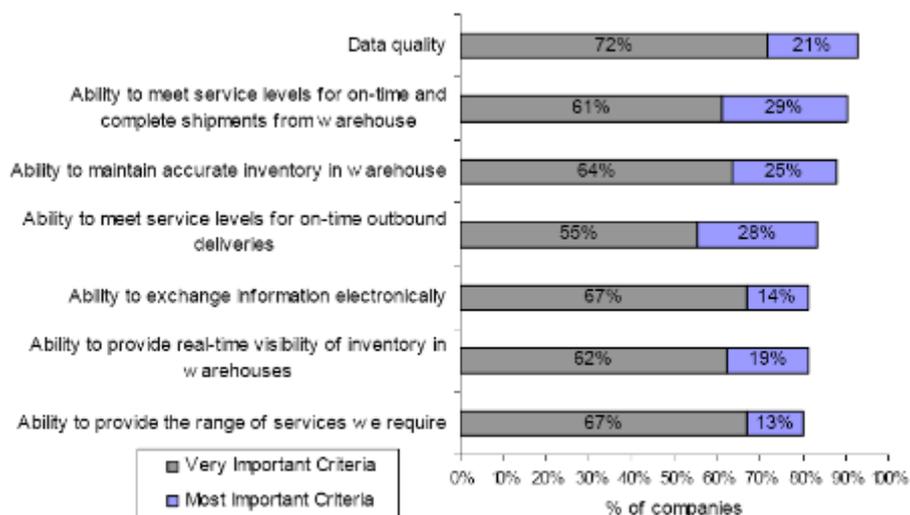
The product offering by the company is a totally logistics solution for the customer. The process from designing, implementing and managing a supply chain from manufacturer to trader and continuously tracking and improving performance in the supply chain is performed by the company just for the sack of customers (Ha°kansson & Persson, 2004).

Third party logistics providers can said to be supportive supply chain members. In other words logistics service providers can provide support to the supply chain strategies (Bask, 2001). Further explanation of supportive members was also described by Lambert *et al.* (1998) as the "primary members of the supply chain are facilitated by the companies for distributing knowledge, granting resources or assets."

Through logistics service providers not only the company can enhance its performance but the supply chain can also achieve benefits in the sense of concentration on core competencies and capabilities, logistics management to raise the level of customer satisfaction and to search for more service providing methods which are cost efficient as well(Bask, 2001).

A survey conducted by Aberdeen Group, (2008) shows the changing role of the LSPs in the supply chain. Companies evaluated their LSPs based on traditional cost versus service factors and roles that they play such as on-time delivery/shipment and inventory accuracy. Survey also shows the reason to choose LSPs on the basis of their roles in supply chain e.g. data quality, on-time delivery, accuracy in inventory handling, exchange of information electronically etc.

Customers rely on third party logistics providers because they have indirect relationship with the suppliers. So third party logistics providers handle all the activities which complete the whole logistic flow and control



Source: Aberdeen Group, March 2008

and deal with performance of different suppliers. The performance of these multiple suppliers has direct effect on the efficiency of complete supply Chain (Xiao et al, 2009).

Brewera and Speh in 2000 used the term of traditional logistics performance for supply chain performance management. This logistics performance management has its focal point on measurements of order fill rate, no. of errors, costs assigned to inventory or delivery time etc.

How can they act as facilitators?

In supply chain, the most important reason considered for the extension and swelling of horizontal third party coalition, with the help of additional services, is the facility of customization of services and products to its customer market. This expansion in services lends a hand to a third party in becoming more responsive towards particular customer demands along with inclusion of "add-on" services to the current products and services line (Pine 1993,; Gilmore and Pin, 1997).

In a semi annual survey of third party logistics practices Lieb et al. (1993) and Lieb and Randall (1996) stated that service offered by third party have incorporated services in their range of service portfolio are final congregation, then packaging and management of inventory.

Establishing Cross docking facilities help logistics services providers to erase excess of unwanted inventories and higher customer service quality level can be achieved by redesigned distribution network (Berglund et al, 1999).

Progressed Inventory return/turnover rate and reduction in unnecessary inventory through outsourcing is done by a improving coordination between production and shipping schedules (Richardson, 1990; 1995) which produces results of fast transit time, reduced damage and fewer paper work (Razzaquw & Sheng 1998).

The quality of logistical support can not ignored while accepting the challenge of efficiently and effectively providing products and services and this customer service has slowly made its place among frequently outsourced logistics activities (Daugherty et al., 1996).

Recently According to Razzaque & Sheng (1998) in a Purchasing Magazine Survey, it is cited that there are 50 percent or more contract logistics are cutting cost associated with distribution network and internal administration, decreasing staff volume while keeping focus

on core business activities, which make third party logistics more reasonable to use. Many other reasons cited include getting outside, external expertise, combining services, raising customer satisfaction and service quality, elucidating whole logistics process, saving expense on capital, usage of logistics information systems, gaining output and decline in service providers.

How can they act as hinders?

Literature has strongly supported, acquisition of outsourcing of logistics, but in actual, benefits are not fully mentioned and documented. Similar is the case with the observation regarding outsourcing in general, for which it has been alleged that benefits including cost savings have been taken for granted. While on the hand, actual outcome's analysis and expected side effects are difficult to identify and locate. (Berggren and Bengtsson 2004).

There are many reasons that are in favor of outsourcing the logistics services however some reasons also discourage the use of outsourcing. Those companies who are facing restrictions in using contract logistics have reported their common reservation: a loss of their control to third party logistics (Bradi & Tracey, 1991). These insight have given raise to a buyer viewpoint which can be categorized as (command and control patterns by Bolumole 2001).

Every company with in the supply chain conducts their business activities in their own way. So the sharing of sensitive information between the supply chain partners, and monitoring of activities other than the companies own shareholders and stakeholders are act as hinders in the whole process. (Forslund & Jonsson, 2008). Another obstacle which is there in the way of collaboration is deficiency of trust between supply chain partners regarding transfer of information (Hamilton, 1994).

Getting organizational support towards outsourcing is a major hindrance (Bowman, 1995). Major problem is management does not show confidence for another company in providing quality services to its customers as good as its own employees use to provide. Third party might not have sufficient capabilities to meet customers' requirement (Cooke, 1994b; Maltz, 1995). Moreover, additional issues include assessment of expected savings through outsourcing and employees from logistics department may get fearful about their jobs in the company due to the usage of outside firm; retrenchment becomes apprehensive (Cooke 1998; Muller, 1991 b).

When root cause of problems, back sourcing or discontinuation are looked into , then most evident factors are that monetary repayments and benefits expectations are not met. It has been deduced by Lieb and Randall (1996) that outsourcing companies have seen a difficult phase in calculating approximately true cost of logistics outsourcing. Because cost reduction is on the top of the list of expected outcome from the third party logistics providers so these conditions represent major drawbacks.

The relationship between the logistics service providers and the outsourcing firm is also very important factor. According to Smyrlis, 2006, and Lei, 2007 the nature of the relationship has got crucial importance that is existing between partners regarding both standardized and advanced outsourcing

Forslund & Jonsson, (2008) also highlighted some of the obstacles in their research regarding supply chain;

- Absence of trust
- Existing difference between objectives and priorities
- Weak parallel communication network.
- Performance management of data handled manually .

- Non-standardized performance metrics

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