



Leveraging Technology: A Strategy to Help 3PLs Add Value

The development and implementation of value-added, information technology-based services and solutions is the best way for 3PLs to differentiate themselves from the competition and reduce downward pressure on margins and profitability. However, the 2006 Eleventh Annual Third Party Logistics Study shows a significant gap between expectations and performance. 3PLs have to invest more in their systems and educate their customers on their IT capabilities to capitalize on the IT value-added services.

By Christopher D. Norek and C. John Langley Jr.

The Challenge to Provide Value Added Services

THROUGHOUT THE EVOLUTION of the third party logistics marketplace, 3PL providers have provided great value for their clients through the management of asset-based logistics services such as transportation, warehousing, shipment consolidation, cross-docking and customs brokerage. While these fundamental capabilities are available from almost every 3PL, whether large or small, how companies can differentiate themselves in the marketplace is a question that is of great relevance and concern to all 3PL providers. Coupled with the fact that many 3PLs are viewed by their customers as providing “execution-based operations,” the key question is what kinds of value-added services they can develop to further meet the logistics and supply chain needs of their customers.

Asset-based services such as those referred to above are frequently seen as a commodity. As with most services that become commodities, it is difficult for 3PLs to price these services to sufficiently enhance revenues and increase margins. Alternatively, when 3PLs are able to design and offer services that create value for their clients and customers in unique and useful ways, customers are more willing to pay for these services, and 3PLs are less likely to experience downward pressure on margins and profitability. One effective way for 3PLs to accom-

plish this is through the development and implementation of value-added, information technology-based services and solutions. Through the development and leveraging of IT-based services, 3PLs and 4PLs are able to differentiate themselves from the competition. This approach will become more prevalent as customers begin to view 3PLs and 4PLs as leaders in the area of IT-based services.

An Area of Value-Added Opportunity for 3PLs: Technology

Essentially, there are three ways in which IT-based services can be of value to 3PLs and their customers:

- **Improve 3PL operations and planning** – These IT-based services mostly impact

3PLs in ways that would be internal to the 3PL and are largely/somewhat transparent to client organizations. Examples would include ERP systems to support 3PL operations, workforce planning and logistics optimization.

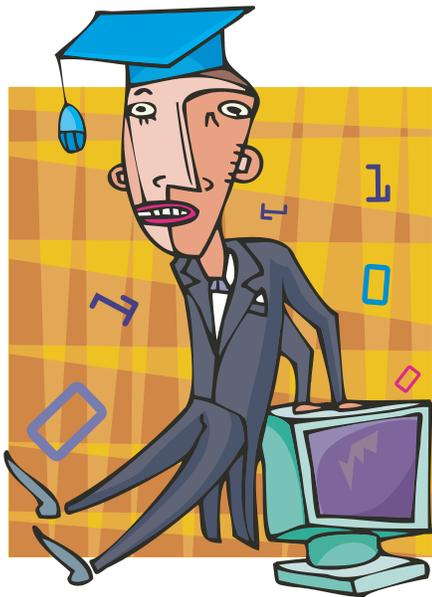
- **Facilitate 3PL relationship with clients** – These services affect the activities being conducted by 3PLs that are in direct support of the relationship with its clients. Services of this type would include TMS and WMS, tracking/tracing and event management, yard management and radio-frequency identification (RFID).

- **Integrate the business functioning of the 3PL with the business functioning of clients and customers** – This category includes IT-based services that link the business

Exhibit A1 Current-Future IT-Based Services (North America Results)

Functionality	North America Currently Used	North America Future Needs	Europe Currently Used	Europe Future Needs
Warehouse/Distribution Center Management	65%	17%	69%	13%
Web-Enabled Communications (3PL-User)	61	28	57	30
Visibility Tools (e.g., tracking/tracing; event management)	60	29	62	25
Transportation Management (Execution)	55	21	72	14
Transportation Management (Planning)	31	32	44	26
Supplier Relationship Management (e.g., procurement; payables)	30	26	21	27
Customer Order Management	25	21	26	18
Collaboration Tools (e.g., inventory levels; production schedules)	25	35	24	33
Internet-Based Transportation/Logistics Exchanges	23	31	22	39
Yard Management	22	16	22	9
Supply Chain Planning (e.g., forecasting; inventory planning)	19	30	13	25
Customer Relationship Management	17	25	16	21
RFID (radio-frequency identification and asset tracking)	13	57	16	55

Source: 2006 Eleventh Annual Study; Geogria Tech, Capgemini LLC, DHL, and SAP.



processes of 3PLs and customers, and which facilitate true collaboration between the business activities and functions of 3PLs and customers. In addition to the compatibility of ERP systems between 3PLs and customers, services of this type include collaboration tools (e.g., procurement; payables), customer order management, collaboration tools (e.g., inventory levels; production schedules), supply chain planning (e.g., forecasting; inventory planning) and customer relationship management.

Based on data from the 2006 Eleventh Annual Third Party Logistics Study sponsored by SAP,¹ approximately 20 percent of 3PL users identify IT-based services among the services they receive from their 3PLs. Exhibit A1 indicates percentages of 3PL users in North America and in Europe who currently receive specific IT-based services from their 3PLs. Also indicated for each of these geographies are the percentages of 3PL users who indicate that specific IT-based services will be among “future needs.”

Based on the information contained in Exhibit A1, there is great opportunity for 3PLs to more fully serve their customers through the provision of IT-based services relating to visibility, collaboration and customer relationship management.

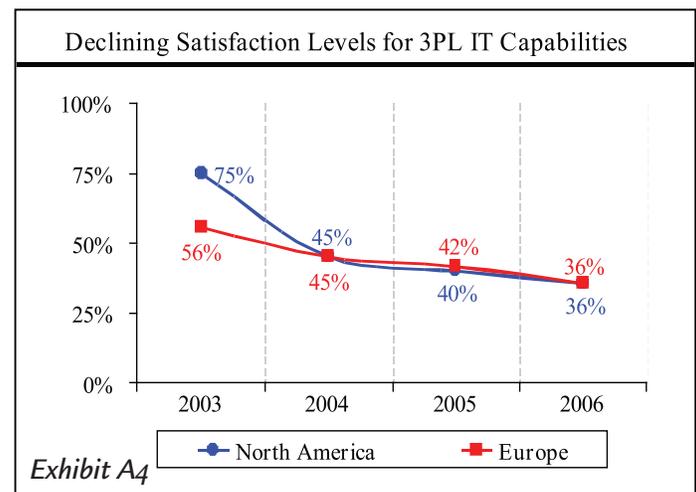
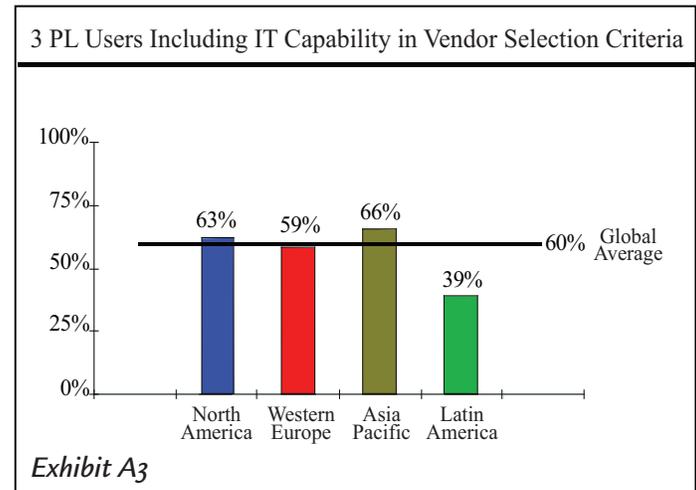
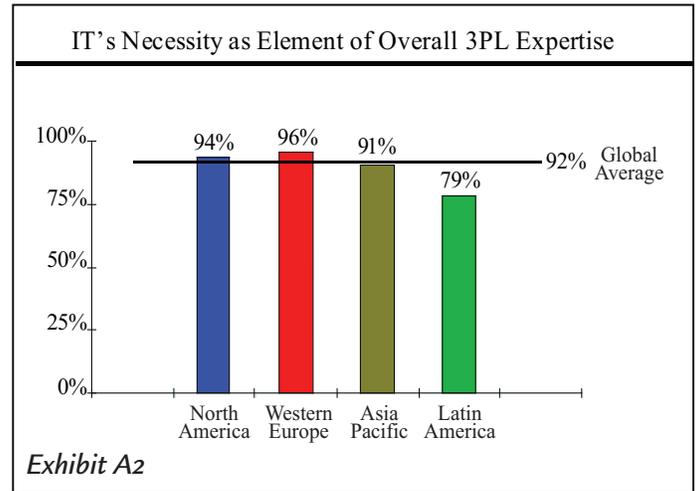
Also based on findings from the 2006 Eleventh Annual Third Party Logistics Study, IT capabilities are seen

by customers as a necessary element of overall 3PL provider expertise. In fact, over 90 percent of respondents who were 3PL users felt IT capabilities are important. In addition, it was found that in 60 percent of the 3PL vendor selection processes, a 3PL provider’s IT capability was a specific capability assessed in the provider’s selection process.

However, there is a significant and widening gap between 3PL users’ emphasis on the importance of 3PL’s IT capabilities and their actual satisfaction with the provision of those capabilities. Only about one out of three users reported being satisfied with their 3PL’s IT capabilities — reflecting a significant gap between expectations and performance. The data presented in Exhibit A4 suggest that the satisfaction level for 3PL IT-based capabilities is deteriorating quickly.

What’s Next?

It is up to the 3PLs to create the solutions that their customers want. The problem that has to be overcome is the “chicken and egg” portion of the solution development. The 3PL wants a customer to use the solution before investing too much in its development and the customer wants to see the viability of the solution before committing to using it. This contradiction has to be eliminated. Based on the study results, 3PLs have to invest more in their systems and educate their customers on their IT capabilities to capitalize on the IT value-added services.



Notes:

¹2006 Eleventh Annual Third Party Logistics Study, Georgia Tech, Capgemini LLC, DHL, and SAP, 2006. This study provides detailed information about the 3PL relationships and services received by customer organizations in North America, Europe, Asia-Pacific and Latin America.