

Should You Use “Integrated Logistics Services” from a 3PL?

Annual 3PL Study Has Integrated Logistics as Key Theme, Says Majority of Companies Prefer this Approach over Single Services; Avoiding Dependency

SCDigest Editorial Staff

Are companies better off sourcing a range of “integrated logistics” services from their 3PL providers, or to source individual services from a larger number of 3PLs and coordinate those activities themselves?

That question was one of the key themes from the annual “**State of Logistics Outsourcing**” study, generally referred to in the industry as “The 3PL Report,” which was released a few weeks ago at the CSCMP conference in Denver, under the leadership of **Dr. John Langley** from Georgia Tech.

Last week, we summarized the key survey data from the report, based on responses that were obtained from more than 1600 supply chain practitioners. (See [Annual 3PL Study Again Finds Plans for Increased Outsourcing not Being Realized](#)). This week, we look at the integrated logistics sub-theme to this year’s report.

The survey finds that “three-quarters of 3PL users surveyed prefer to look to their 3PLs for needed integration of systems and services, rather than trying to accomplish this internally. This is particularly noticeable for companies with mature, complex supply chains,” such as the automotive and high tech sectors.

Why procure integrated 3PL services, such as integrated transportation and distribution services? There are a variety of factors. Certainly, it can relieve a company of having to devote resources to coordinating the supply chain activities of multiple 3PL providers. The report notes an observation from **Danny Garst**, Vice President of Supply Chain Management and Information Technology at Philips Con-

Philip’s Garst noted that the key is to reap the benefits of integrated services while minimizing the dependency risks. .

sumer Electronics, that using 3PLs to provide integrated logistics is a way to attain end-to-end accountability by reducing the opportunity for finger pointing. Dealing with fewer providers can also reduce supply chain complexity (see illustration nearby).

Flexibility Concerns

Like most things, there are also disadvantages in some cases to procuring services on a more integrated basis.

“Lack of flexibility” was by far the chief reason cited by respondents as to why they wouldn’t procure integrated services. It is easier to change individual pieces of a program, process or contractual relationship the more discrete those pieces are.

Other cited loss of control and loss of internal competencies as other key reasons to maintain a more discrete approach to 3PL relationships. Other participants in a focus group on the topic wondered how many 3PLs are really good at multiple, integrated services.

Some companies also feared becoming too de-

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FIGURE 10: BENEFITS EXPERIENCED FROM THE USE OF “INTEGRATED” LOGISTICS SERVICES

| Benefits | All Regions |
|---|--------------------|
| Greater ease of managing outsourced logistics services (e.g., one point of contact) | 75% |
| Reduced management time and effort | 69 |
| Enabled our company to focus more on our core business | 67 |
| Overall logistics efficiency/lower cost (e.g., volume discounts) | 56 |
| Overall logistics effectiveness/improved service | 56 |
| Reduction in the number of logistics services providers | 51 |
| Enhanced shipment visibility | 39 |
| Quicker response | 37 |
| Optimized capacity utilization | 34 |
| Extended global reach (network) | 31 |
| Custom-built solutions | 24 |
| Capability to work on more complex solutions | 24 |
| Risk-sharing with integrated logistics services provider | 23 |
| Inventory reduction | 22 |
| Early problem detection | 22 |
| Proactive IT approach | 18 |

Source: State of Logistics Outsourcing 2008

pendent on an integrated 3PL services provider.

“One concern is that the locked in nature of the relationship can lead to 3PL complacency, ultimately decreasing service quality and cost savings,” the report notes. “Similar fears surfaced in our examination of collaboration in the 2007 edition of this report.”

Philip’s Garst noted that the key is to reap the benefits of integrated services while minimizing the dependency risks. Recommendations to achieve that balance include smart use of performance measurement systems, cost transparency, dual sourcing even “integrated” 3PL services when possible, rebidding at appropriate cycles, and making sure core internal expertise is not lost.