Client satisfaction with Third party Logistics (3PL) Suppliers

By

Gwynne Richards, Director, Apprise Consulting Ltd and Chairman of the CILT Supply Chain Faculty Outsourcing and Procurement Forum

This year has seen a number of surveys regarding 3PL customer satisfaction.

This paper is the first of a three part series on outsourcing logistics. The second paper tackles the perennial issue of innovation and pro-activity within 3PLs, whilst the third looks at competition law and how it might affect collaboration between 3PLs and their customers.

This paper aims to compare attitudes towards 3PL companies in 1997, 2003 and the present day and determine the reasons behind the results.

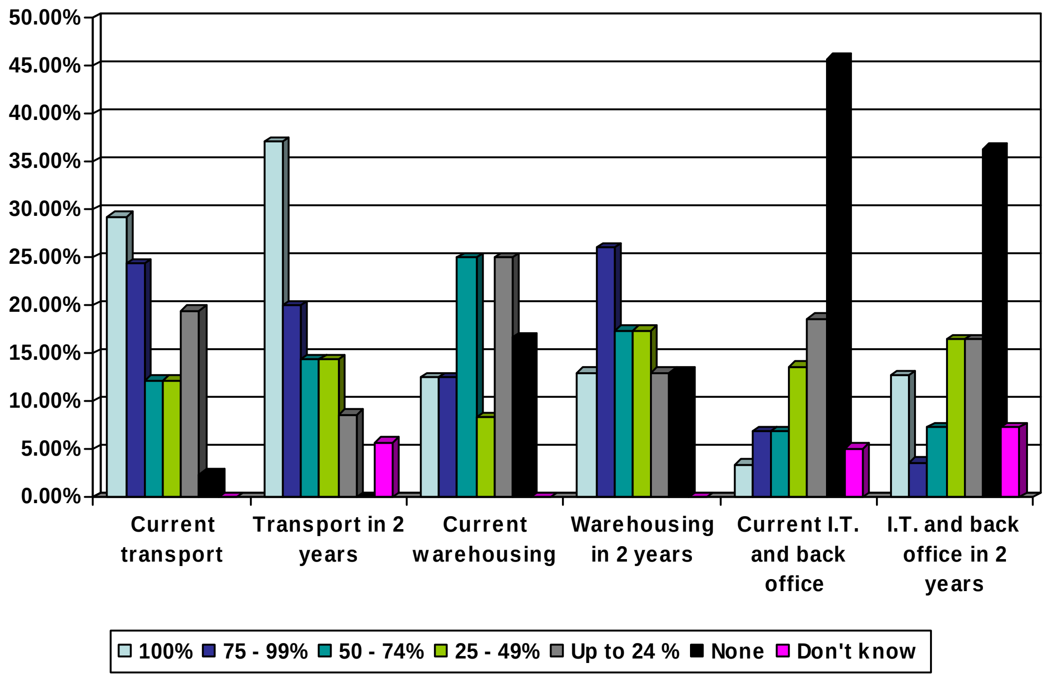
The data comes from a survey taken on board the Oriana at Logistics 1997, a PE International survey in 1997, surveys by the Georgia Institute of Technology (GIT) in 2003 and 2005, Eye for Transport in 2005, the Tenth Annual Third-party Logistics study by Capgemini and GIT in 2005 and a CILT survey undertaken in August 2005.

So, has anything changed over the last eight years? Have the 3PL companies learnt from previous surveys and what are the current challenges facing the 3PL industry today?

If we look at the UK initially we find that users are generally happy with the services they are provided with, in fact this figure is a great deal higher than it was in 1997.

In the CILT member survey we posed the following questions which were previously used in 1997 surveys.

The first question asked to members of the CILT, of whom 160 replied, was to determine what percentage of their current supply chains were outsourced and what percentage was likely to be outsourced in the future.



The chart shows that outsourcing is on the increase, specifically in terms of transport, I.T. and back office services. Warehousing is not so clear cut with certain users suggesting they may take operations back in house.

The Eye for Transport survey 2005 concluded that the majority of the companies who are currently outsourcing were either possibly (52%) or very likely (32%) to increase their reliance on 3PLs. Almost 60% of the Fortune 500 companies interviewed for the Outsourcing Logistics Survey in September 2005 report having at least one contract with a 3PL provider.

In order to compare attitudes today to those of 1997 respondents were also asked the following questions.

A) How satisfied are you with the services offered across the range of logistics services companies you work with currently?

Level of satisfaction	2005	1997
Completely satisfied	2.1%	1.7%
Generally happy – very occasional problems	59.6%	43.7%
Some concerns – trying to improve the situation	34.0%	43.7%
Increasingly unhappy – looking for alternatives	4.3%	4.5%
Not stated	0	6.4%

The above table shows that the situation has improved since 1997 and that fewer companies are unhappy with the services provided by their 3PLs.

A second question was posed to the users and suppliers of 3PL services together with a number of supply chain consultants.

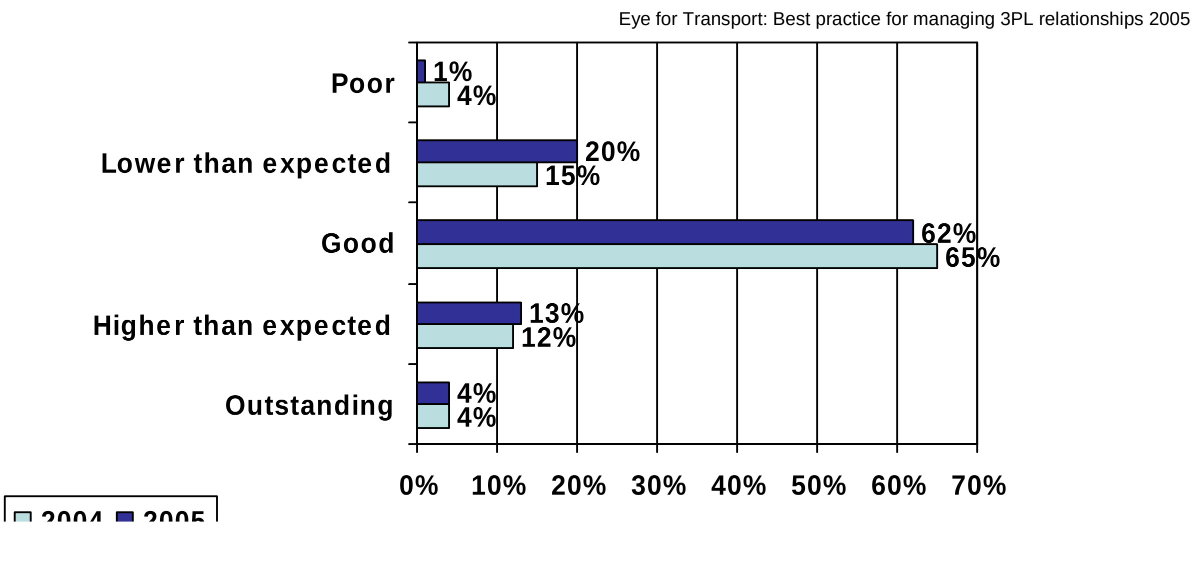
B) How satisfied do you believe users of outsourced logistics are at present?

Level of satisfaction	2005	1997
Completely satisfied	2.6%	1.4%
Generally happy – very occasional problems	38.5%	38.9%
Some concerns – trying to improve the situation	48.7%	45.1%
Increasingly unhappy – looking for alternatives	10.3%	5.9%
Not stated	0	8.7%

The results show that 3PL companies and consultants are more pessimistic about the satisfaction levels than the users themselves.

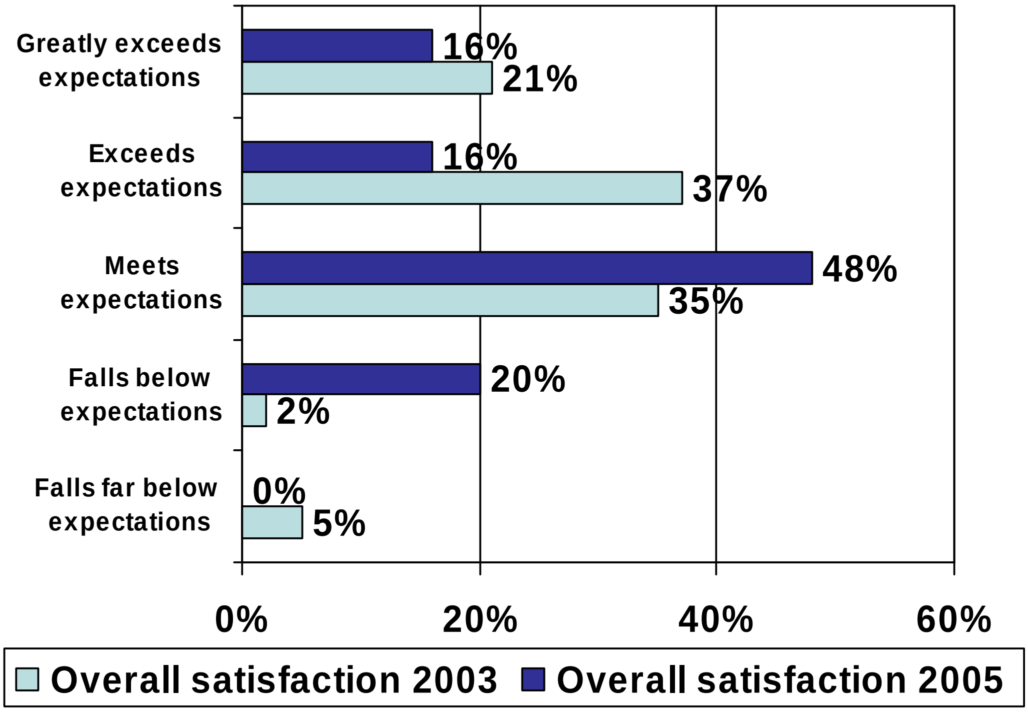
The Eye for Transport surveys of the Fortune 500 companies (2004/2005) shows that users of 3PLs are generally happy with the service provided although there are still 21% of companies who have lower expectations overall, an increase of 2% over 2004.

Overall performance of current 3PL



Albeit a solely American study, the GIT, TLI/WERC study makes interesting reading given today's globalisation of 3PLs and the consolidation within the industry.

The results show a marked fall in users' expectations of their 3PLs over the past two years, as shown below.



25% of the respondents now believe they are receiving a lesser service than that of two years ago.

So what are the main reasons behind this?

A recent report by Provia Software (2005) suggests that the 3PL industry is under a great deal of pressure and that the main challenges faced by 3PLs today are as follows:

- Decreased profit margins
- Reduced lead times to set up customers
- The upfront effort and cost to implement new solutions

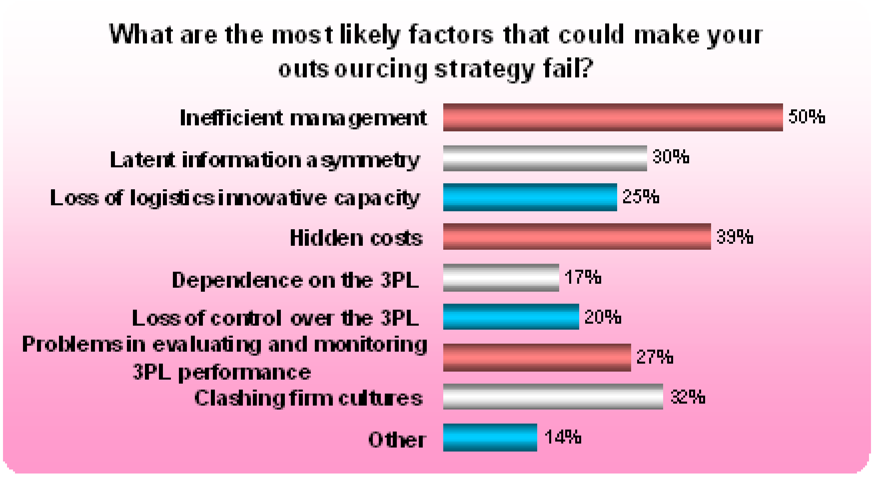
Couple these to the increased expectations of customers, the turnover of staff and subsequent shortage of competent managers and the issues surrounding I.T. compatibility and effectiveness and we have the main reasons cited for the perceived dissatisfaction with 3PL providers.

While the potential for increased efficiencies and cost savings through outsourcing logistics is considerable, the Eye for Transport survey responses also highlights other areas of weakness in user-3PL relationships.

The survey suggests that parties often have different perspectives and expectations of a logistics contract. Half of the survey respondents pointed to "inefficient management" and one-third to "a clash of company cultures" as leading factors in the collapse of logistics contracts.

While a logistics company may focus on optimising revenue through tried-and-tested procedures, the client may be looking for some fresh thinking on the optimum way to get his products to market.

A quarter of the respondents regarded "loss of logistics innovative capacity" as one of the factors that could adversely impact their outsourcing strategies. This will be covered in greater detail in the second paper.



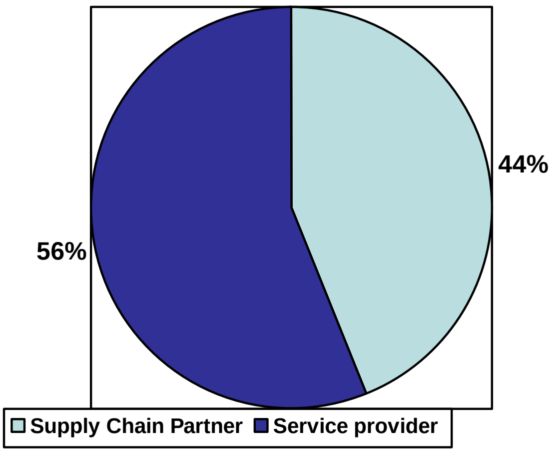
The hidden costs aspect refers to the time taken by the user management to evaluate and monitor 3PL performance, negotiate contract changes and rates.

A surprising result from the CILT research was that 25% of users of 3PL only met their suppliers annually or not at all.

How often do you meet with suppliers to discuss strategy?

Monthly	39.6%
Quarterly	35.4%
Yearly	14.6%
Never	10.4%

The Eye for Transport survey also asked users of 3PLs whether they see their supplier as a service provider or a supply chain partner. The results are again surprising with more than half of the respondents seeing their suppliers as mainly providers of a core service as opposed to partners within the supply chain.



The recent Capgemini/GIT (2005) survey seems to bear this out as it shows that the “proficiency of a provider’s core services was considered more important than the provider’s ability to deliver value-added services during the selection of a provider”. This shift from value added services to core services is a major shift in attitude by the users and may be caused by the perceived weakening of core services as margins are reduced and 3PLs strive to be global and all encompassing.

As John Langley Jr. (2005) Professor of Supply Chain Management at Georgia Institute of Technology recently said, "3PL providers cannot be all things to all people; they need to clearly define their customer satisfaction strategy……It is essential for 3PL providers to focus on offering a global set of core services at the right price and then to build a close relationship with the user to offer more strategic services in line with the client's evolving business needs…..".

These studies confirm that the 3PL industry continues to evolve. The reports point to an increasing market for 3PLs who are able to provide services which reduce costs and increase customer service.

It is also fair to say that the majority of 3PLs provide an acceptable service to their customers however they have yet to delight their customers by gaining their trust and working in collaboration to improve the overall supply chain, leading to mutually beneficial savings.

It could be argued therefore that both providers and users can get more out of their relationships if they focus on a closer business strategy. I.e. a true win – win situation.
In fact Benny Guttman, VP Strategic Planning & Core Values for Volvo Logistics, said in the Eye for Transport study that *"Successful logistics outsourcing requires shared expectations, common perspectives and parallel thought processes; in other words, a merging of mindsets".*

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About Gwynne Richards MBA; MCILT; MIMC MIOM

Gwynne is a Director of U.K. based Supply Chain Consultancy, Apprise Consultancy. He has over 20 years experience working for Exel, DHL, Danzas, Royal Nedlloyd and Lane Group plc. He is a visiting lecturer at The University of Warwick. He undertakes projects in the UK and most recently in Russia where he has produced and run supply chain management courses for the oil industry. For further information please e-mail gr@appriseconsulting.co.uk or visit the Apprise web site at www.appriseconsulting.co.uk