

THE CHANGING ROLE OF LOGISTICS SERVICE PROVIDERS

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Logistics providers discuss how they're adjusting to major changes brought about by concerns over the economy, shifts in trade policy, the complexities of the omnichannel, rising customer service demands, and the arrival of a new generation of supply-chain managers.

Logistics service providers, also known as third-party logistics providers (3PLs), are part of a mature industry, but their role in the supply chain continues to evolve. Multiple factors are causing LSPs to reinvent themselves in line with everchanging customer expectations. The successful players are finding new and innovative ways to partner with carriers, forwarders and customers. Following are excerpts from conversations between SupplyChainBrain editors and industry experts on how the LSP landscape is evolving today, and what shape it might take in future.

John Langley, Professor of Supply Chain Management, Penn State: As we look at key trends in supply chain and logistics management, particularly involving third-party logistics providers



John Langley,
Professor of Supply Chain Management,
Penn State

and their customers, a few things come to mind. Maybe I can use the well-worn but very valid framework of people, process, and technology. Both 3PL providers and customers these days are viewing each other as being more capable, and that's leading to improvements in their relationship.

The topic of talent has become a critical area of strategic value to both parties. A second area is that of process – they're becoming much better, not only at understanding and managing individual processes, but also linking them together, as in aligning 3PLs. It's kind of a microcosm of the whole supply chain, if you think of a supply chain as containing X number of participants. It stands to reason that if they're not all aligned, you've got waste and inefficiency throughout the supply chain, which impacts how well it does competitively. The third area of focus is technology. We're finding that both shippers and 3PLs are working collectively, trying to make sure they apply the kinds of technologies that are going to help improve the relationship, but also ensure flows of product and information throughout the organizations that are needed to operate the supply chain.

Robert C. Lieb, Professor of Supply Chain Management, Northeastern University: 3PLs are offering a broader array of services in keeping with the e-commerce business. Much of the focus at this point in time is on lastmile delivery services and, increasingly, reverse logistics. A lot of what they're



Robert C. Lieb,
Professor of Supply Chain Management,
Northeastern University

doing is being driven by Amazon.com. It's defining the marketplace and customer-service level expectations, which are difficult and very costly to meet. So 3PLs, on the one hand, are very attracted to this business, and on the other hand are turned

off by the pressure put upon them by companies like Amazon to reduce prices, while at the same time speeding up service.

Kristi Montgomery, Vice President of Innovation, Research & Development, Kenco Innovation Labs: The marketplace is changing quite a bit. We've had a lot of swings in 3PL [service] over the years, from "let's outsource everything to them" to "let's



Kristi Montgomery,
Vice President of Innovation, Research & Development, Kenco Innovation Labs

pull some of that back in house." Now I think we're taking a little bit of a turn. We hear our customers talk an awful lot about innovation – we want to see it coming out of our 3PLs. Most of them are on the manufacturing side, and their dollars are spent on innovating their products, not their supply chains. They're looking to us to see how we build the supply chain of the future, and how we collaborate and connect – so that all of the different players in the supply chain can deliver that true end-to-end visibility, which is the Holy Grail of supply chain. We become more the connectors and collaborators than we ever have in the past. I think that's a huge role for the 3PL to play.

Mike Bautch, President-Value Added Services, Universal Logistics Holdings: Opportunities continue to expand within these companies. Even in a market where's there's slow growth or no growth, there seems to be this neverending search to get cost-competitive. 3PLs are finding things within their companies that ultimately impact supply chain. As for the issue of talent, I don't know if anybody coming out [of school] with an industrial engineering, supply chain or I.T. focus right now



Mike Bautch,
President-Value Added Services, Universal Logistics Holdings

would be having problems with employment. They've got multiple offers, and are getting paid a salary today that we all would have dreamed of 20 or 30 years ago. They're doing quite well.

Ricardo Salgado, Chief Executive Officer, Loadsmart: The role of the freight broker is evolving and will continue to evolve. It's about adopting technology and using it to make [services] much



Ricardo Salgado,
Chief Executive Officer, Loadsmart

more powerful and easier [to access]. Consumers are requesting better pricing and more visibility. In order to do that, we need that underlying technology.

John Hagi, Director of Omnichannel & Special Services, AIT Worldwide Logistics: The real challenge is keeping confined to yourself. You need to be focused on your core competencies, even as you get

into specializations like home delivery. How do you transfer those competencies over to this vertical market? That's a challenge for every company in



John Hagi,
Director of Omnichannel & Special Services, AIT Worldwide Logistics

this space – how you manage that, how you remain focused, and, most importantly, how you stay true to yourself as an organization.

Bautch: There's always room for niche players, to bring a new solution for customers looking to try something new to beat the other guys. Consolidation was more prevalent last year. Now it's slowing down a bit, at least in terms of what people are willing to pay. We'll always have acquisitions, but there's more education about the process of developing and building a company, and sometimes selling it.

Salgado: Shippers are demanding a service that's just as easy as [booking] a flight or a hotel, or a restaurant on Open Table, and they deserve it. They're also starting to feel more comfortable with entering and sharing their information online in a public format. With these technologies today, customers are [able] to swipe a credit card and book $70,000 worth of cargo in a truck that costs $1,500 from point A to B. Five years ago, logistics managers were not that comfortable with that. While not everybody pays for freight with a credit card, it's an example of how technology has evolved, and how you're seeing people adopt it and feel more comfortable with it.

Hagi: The real challenge is that all clients in this space expect their brand to be well-represented. If you have 300 or 400 different clients, how do you represent those brands effectively? How do you articulate your requirements to your service-provider and customer service teams? How can they speak to that brand? The companies that are successful are able to develop programs that allow the permeation of the brand you're representing to flow into your people.

Langley: We found that 73 percent of the shippers that responded to our survey indicated that they involve their 3PLs in a very significant, significant or advisory capacity with their transformation efforts. If you subtract out the advisory efforts, you've got about 20 percent left – "very significant" and "significant." That's a good indicator that more and more customers see value in including their 3PLs. It comes in the form of advanced information on their operating practices, the ability to provide useful data analytics, help analyze it and work collaboratively with customers – all the things that we talk about in supplychain management. We're finding that successful relationships are showing greater evidence of buying into and using the concepts that we've written about for some time.

Hagi: Third-party providers will continue to be the conduit between the client and the ultimate provider, whether it's the individual driver who works for the provider, or even the agent for the management of the transaction. I don't see that changing. I think those responsibilities will actually expand.

Salgado: When you're asking a shipper to trust you with its $75,000 worth of cargo, and it's going to cost you $1,300 to get on your platform, that's a different sell than an Uber giving you a $25 promo code to try its [service]. The adoption curve is a bit different. But you're seeing also a generational shift. This is the first year that we'll have more Millennials than Baby Boomers. You're starting to see people who are more comfortable in sharing their car, or their information online. They're more comfortable with the underlying technology and taking a more of a calculated risk.

Lieb: The dynamics of the [3PL] marketplace center on concerns about the global economy, political uncertainties, questions about Brexit and what it means in terms of the EU and free trade over time, the Trans-Pacific Partnership being put

on hold during the presidential campaign [then withdrawn], and chronic problems with respect to finding and retaining quality employees for their organizations. Keeping up with the requirement for tech spend is another thing that's of concern to them as well.

Bautch: The growth will be there. It will take on more [momentum], in part because of this new generation of supplychain leaders. They're coming out more educated, and expecting to outsource some parts of a business. They're taught this. They come out of school at age 22 or 23, they know outsourcing is just part of running an efficient business, and they accept it. That's a whole different change in mindset than what we saw 30 years ago, where there was an attitude of "I do it better if I control it." Today, they're willing to outsource and try new solutions. It's wide open – it's going to drive this business, and grow forever.

Resource Links

Penn State, www.psu.edu
Northeastern University, www.northeastern.edu
Kenco Innovation Labs, www.kencogroup.com
Universal Logistics Holdings, www.universallogistics.com
Loadsmart, www.loadsmart.com
AIT Worldwide Logistics, www.aitworldwide.com