Are 3PL's ignoring a fundamental value add?

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Third party logistics providers (3PL's) are under constant pressure to offer more value-add to their services, usually by taking a direct hit on their bottom line. Whether it is document preparation, pick and pack, sorting, packing, insurance, cash against documents, receivables management, letter of credit management, the list is almost endless.

Each RFP (request for proposal) introduces more fiendish methods of extracting value-add from the 3PL. This is usually after 1st round negotiations when the logistic buyer can sense the level of desire and leverage this to optimise the most value-add. Initial shortlists have been shortened further and now the qualifiers have to create and produce all the value-add they can muster. The question is, what other value-add is there for 3PL's to offer, short of financing the supply chain or further reducing already tight margins? In a logistics world where implantations are the norm, VMI's are running half full, freight rates are traded at net and profits are yielded only on value-add. Where else can a 3PL extract a few more cents to keep their shareholders happy?

Not quite a rhetorical question but lets look at the inventory from the exporters perspective. While an exporter is waiting to be paid and the said inventory is in transit, does the exporter really know the cost of carrying this on his balance sheet? Furthermore, does the 3PL know or even care? Recent studies have shown the true total cost of carrying inventory is near 24% of its balance sheet value. While the exporter is carrying this cost he is also carrying the risk of default or non-payment until the contract is complete. This could be as long as 180 days+. Now, what's this got to do with value-add? Simple, logistic buyers generally, are not focussed on trade finance but on managing a cost effective efficient supply chain. 3PL's provide the management, tools and wherewithal to do this. They will not offer any financial management as a rule, unless specifically requested. Why should they? Their sales efforts are targeted at either logistic/Supply Chain manager or shipping procurement manager. Objective and effective co-ordination between the logistics and finance disciplines as inventory and money pass through the supply chain, is so rare as to be non-existent. In short the financial and logistic functions run in two separate stove pipes. Exporters need trade finance but buy it through banks, normally at accountant, FD or CFO level while 3PL's manage supply chains but ignore one of the most fundamental components. The exporter needs to get paid, he has to finance the deal, and is encumbered in carrying the risks. So how can a 3PL improve this situation to the exporter, 3PL and banks advantage?

"*The goal of successful supply chain management is to minimize mass and time. To do this effectively, one must be able to measure the costs associated with not only the physical movement of the product and the associated information requirements, but also the costs associated with the inventory: financing, taking credit risks upon sale, supporting trade credit and the like." CSFB 2004*

The time has come for 3PL's to offer a one stop shop service for both logistics and trade finance. Some 3PL's already do this but generally use a factoring product to purchase invoices. While this accelerates cash-flow it is not without recourse meaning the risk of carrying the inventory is still with the exporter and is reflected in the balance sheet.

There are products on the market now that allow the banks to see the inventory for what it actually is, an asset and therefore collateral. If the levels of both physical and financial execution risk are reduced and mitigated the banks can and will provide up-front payments for goods in transit. Exporters can receive payment for their inventory without “borrowing” and thus free up balance sheets while not impinging on existing banking covenants. If a 3PL delivers this message to a CFO of an exporter it increases the value-add normally available and gives the 3PL an opportunity to lock clients into long-term relationships. A senior executive of a major 3PL in the USA is quoted as saying “we have never lost a deal because of trade finance”! Really!! The question is, was trade finance ever discussed during the sales process, probably not. Does the business development team have the requisite skills to sell finance and logistics, probably not, does the market need a finance and logistics product, most definitely yes. The CSFB quote above is one example of market demand but consider this statement from Accenture in 2002:

“*Individually improving the physical and financial supply chains can improve efficiency. When both supply chains are successfully integrated, companies can achieve breakthrough levels of economic improvement “*

Then consider who is best placed to take full advantage of offering both logistic, supply chain and financial one stop products and 3PL’s have a very strong case. By integrating and merging both the logistic and financial disciplines 3PL’s have an added value offering that is pre-purchase order to settlement. The business opportunities now open to 3PL’s are numerous especially as a new revenue stream has now been introduced. There are many exporters in emerging markets with large volume teu’s who need to free their balance sheets of inventory that is in transit. If a 3pl could provide this cash injection without using its own balance sheet or the balance sheet of the exporter what do we have? We have a 3pl who now offers a value-add package that allows its customers to revise their production scheduling, negotiate more favourable terms, achieve a better ROI, increase their equity value and compete in global markets.

The 3pl benefits by creating a new revenue stream because it identifies a new target within an existing market. For example, as discussed earlier, normal targets are usually logistic professionals etc., heavily targeted by all 3pls. By combining finance and logistics as one, the trade flows are the same but the targets will be CFO/CEO…………….so why are 3pls hanging around. Latest research shows that this is what they are doing but the tools are there for a true supply chain offering to be made. The 3pls who take a deliberate decision to link finance with logistics will have a distinct competitive advantage and be the leaders of tomorrow’s global business.

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