

# MAKING THE HEALTHCARE CASE FOR THIRD PARTY LOGISTICS

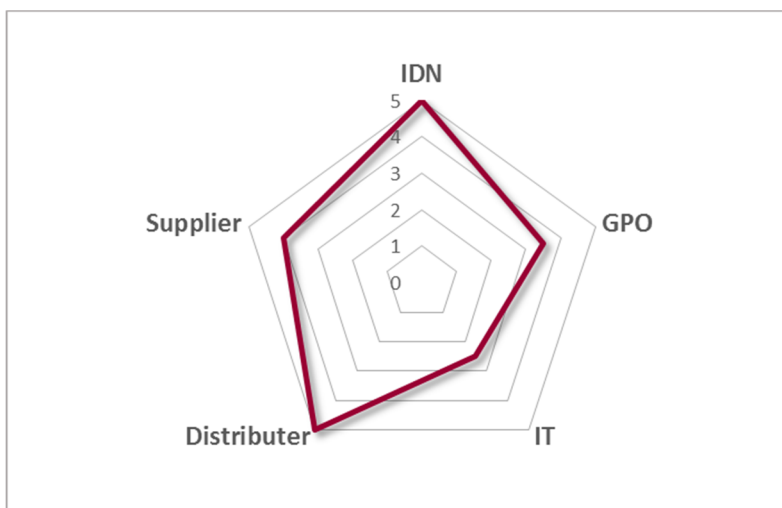
Fast Tracking Supply Chain Research to the Healthcare Industry

2015 - 02

Logistics outsourcing can be an enticing solution with reliable distribution at an attractive price point, but also comes with risks associated with outsourcing to third parties. In the health sector, third party logistics service providers (3PLs) have become a vital component to a healthy supply chain. The criticality of their role becomes apparent when we consider the fact that the typical hospital may hold 6,000-8,000 SKUs at any point in time, but “owns” up to 35,000 SKUs, dispersed across various points on the supply chain.<sup>1</sup> This edition of “Fast Tracking Supply Chain Research to the Healthcare Industry” presents research on 3PL relationships and their growing role in supply chains.

A review of past research confirms that 3PL-customer relationships managed by a ‘relational governance structure’ provide higher performance outcomes for both parties. Moving forward, researchers are unpacking the escalating role of 3PLs, who take advantage of their position in the supply network and their increasing scope of capabilities to evolve from logistics vendors to strategy coordinators.

<sup>1</sup> Materials Management in Health Care, April 2010.



Relevance to the Healthcare Supply Chain

## STUDY 1

### A win-win when 3PL relationships are managed right

A relational governance structure—characterized by long time horizon, loyalty, commitment, and trust—improves performance for both the 3PL and the customer. However, the analysis suggests that trust should be tempered by a realization that either party might be tempted to act opportunistically. These results come by way of aggregating findings from over 50 previous studies.

(Leuschner et al., 2014)

## STUDY 2

### From vendors to orchestrators: The evolving role of 3PLs

Recent years have seen 3PL take on more advanced roles in the supply chain, from providing logistics services to coordinating the supply chain. A conceptual model is developed to capture the evolving role of 3PLs in supply chains. Qualitative interviews are conducted to support the propositions of the “orchestration” model.

(Zacharia et al., 2011)

## HEALTH SECTOR SUPPLY CHAIN RESEARCH CONSORTIUM

W. P. CAREY  
SCHOOL OF BUSINESS  
ARIZONA STATE UNIVERSITY

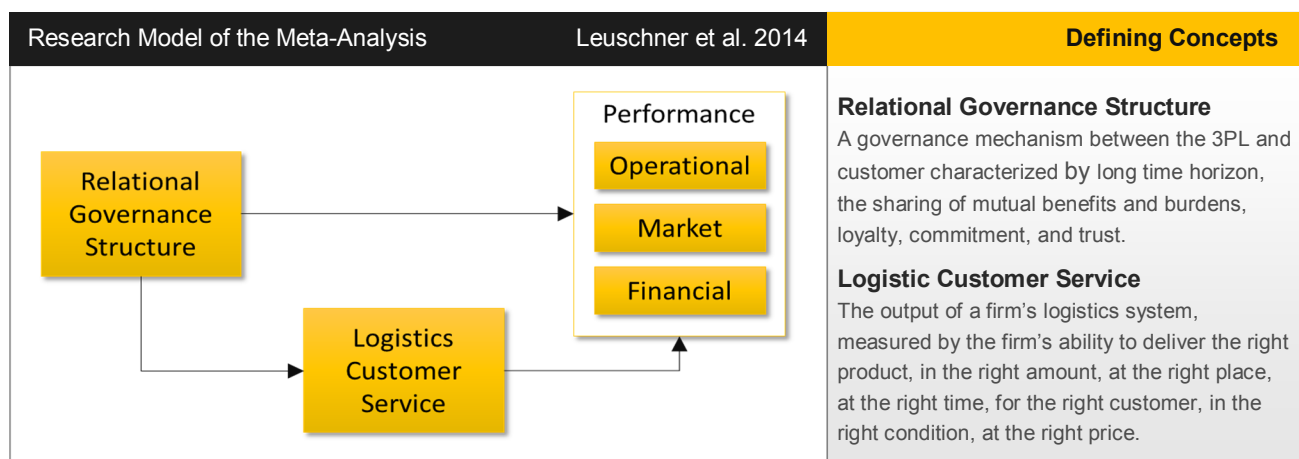
# THE VERDICT FROM OVER 50 STUDIES OF 3PL RESEARCH: A META-ANALYSIS

**ARTICLE** Leuschner, R., Carter, C. R., Goldsby, T. J., & Rogers, Z. S. (2014). Third-Party Logistics: A Meta-Analytic Review and Investigation of its Impact on Performance. *Journal of Supply Chain Management*, 50(1), 21–43.

## What is a META-ANALYSIS?

A meta-analysis is a statistical method of combining the results from multiple independent quantitative studies to find general themes, inconsistencies and emergent patterns across these studies.

**PREMISE** A meta-analytic review aggregated findings from over 50 research publications that examine third-party logistics relationships. The research assessed the role of a *relational governance structure* and *logistics customer service* on *firm performance* of both the provider and customer in 3PL outsourcing arrangements.



**FINDINGS** Logistics arrangements that demonstrate a *relational governance structure* show higher performance outcomes for both the 3PL provider and the customer, by way of better *logistics customer service*, as well as other unmeasured mechanisms. For customers, a relational governance structure contributed to high market and operational performance, while the shippers experienced higher market, operational and financial performance.

The second goal of the meta-analysis was to identify areas where the understanding of 3PL-customer relationships is lacking or seemingly contradictory. Measures of *trust* and *commitment* did not definitively correlate with a relational governance structure. Trust and commitment may be necessary, but cannot support relational governance without other supplementary governance mechanisms (such as contracting) to help avoid opportunistic behavior and some uncertainty.

The researchers also point to a large research potential in examining 3PL-customer relationships at the individual level, to identify the impact of leadership and key individuals on firm-level outcomes. Other constructs that require more clarity in the 3PL-customer setting include the roles of *service innovation*, *uncertainty*, and *information-sharing*.

## 3PLS AS ORCHESTRATORS OF THE SUPPLY CHAIN

**ARTICLE** Zacharia, Z. G., Sanders, N. R., & Nix, N. W. (2011). The Emerging Role of the Third-Party Logistics Provider (3PL) as an Orchestrator. *Journal of Business Logistics*, 32(1), 40–54.

**PREMISE** By integrating multiple theoretical frameworks related to inquiry into 3PL's— transaction cost economics, resource-based theory, and network theory— a model is developed to understand the evolving role of 3PLs, as they take on a more strategic role in supply networks. A single-case study design was performed to verify the constructs in the proposed model.

**FINDINGS** The paper proposes four constructs that establish 3PLs as orchestrators in the supply chain: *standardization*, *visibility*, *neutral arbitrator*, *collaborator*. These constructs complement each other, such that standardization enhances visibility, while visibility provides the 3PL the credibility to act as a neutral arbitrator. A 3PLs' role as a neutral arbitrator and network position allows it to facilitate collaboration among customers.

The supply network characteristics — such as size, diversity and density— impact the 3PL's role and effectiveness as an orchestrator. Managers should consider the orchestration potential of 3PLs when selecting and evaluating them. 3PLs need to take advantage of their network position and develop an orchestration strategy as they grow in scope and scale.

*“3PLs have evolved from their focus on reducing cost through economies of scale. 3PLs now encourage standardized processes, improved visibility along the supply chain, become a catalyst to encourage change from a neutral position and facilitate the process of collaboration.*

*All these capabilities can be summed up in the concept of being an orchestrator.” (Zacharia et al. 2011)*

### Orchestration Cascade

#### Standardization

One of the first value propositions of 3PLs is providing a standardization platform for a smooth flow of goods and information as well as permitting data aggregation and analysis.

#### Visibility

Supply chain visibility is essential to strategic decision-making. Standardization increases the field of vision for a 3PL through information and uniform processes.

#### Neutral Arbitration

A 3PL can leverage the experience gained with a diverse set of customers to advocate change within organizations, while remaining neutral with regards to internal politics.

#### Collaboration

3PLs are positioned in the network to facilitate collaboration among their customers. When 3PLs are perceived as neutral arbitrators with network visibility, customers are willing to be guided by the 3PL towards collaboration opportunities with other players in the network.

# QUESTIONS FOR CONSIDERATION

1. To what extent do key individuals, on both sides of your 3PL arrangement, define and steer inter-organizational relationships?
2. Are there safeguarding mechanisms that can protect you against opportunistic behavior without compromising the trust in your 3PL relationships?
3. In what ways can GPOs be viewed as 3PLs? Can GPOs orchestrate a supply chain in the same way as distributors?
4. How can a 3PL's orchestration role be measured and evaluated by the customers?
5. What are the assurances or payback expectations required by customers to have them openly share information with their 3PLs partners?
6. To what extent can centralized IDNs simulate the orchestration capabilities of 3PLs?
7. Are all four components of 3PL 'orchestration'—standardization, visibility, neutral arbitrator, collaborator—valued equally or do some hold more value-adding potential?

## HEALTH SECTOR SUPPLY CHAIN RESEARCH CONSORTIUM



The **mission** of HSRC-ASU is to provide actionable research to develop best standard practices for the health care supply chain that reduce risk and cost and to influence policy.

Our **vision** is that HSRC-ASU will be the thought leader for education and research and the strategic resource in health care supply chain.
