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Emerging Opportunities in Sri Lanka's Third Party Logistics Space

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1. Introduction

Supply chains are the backbone of international trade and commerce. Logistics powers the supply chain. In 2014 Sri Lanka's logistics cost to GDP was 10.6% whereas in US it was 8.3%. By managing logistics professionally, efficiencies can be derived to drive economic growth. A country's logistics-friendliness is an indication as to how connected the country is to achieve competitiveness. World Bank's Logistics Performance Indicator ranking (LPI) for 2014, Sri Lanka is ranked 89th out of 160. With a score of 2.7 out of 5, Sri Lanka is classified as a partial performer. An in-depth analysis of LPI attributes provides insights into gaps as well as opportunities in the current logistics industry (Table 1).

Table 1 - Sri Lanka's LPI Ranking and Score

Parameter	Ranking (out of 160)	Score (out of 5.0)
Customs	84	2.56
Infrastructure	126	2.23
International shipments	115	2.56
Logistics quality & competence	66	2.91
Timeliness	85	2.76
Track & Trace	85	3.12

Source: Arvis, J.F. et al

2. Purpose and Aim

The scope of this study was to understand the following with respect to Sri Lanka's third party logistic space:

- Understand what customers (users) outsource and the service offering of third party logistics service providers
- Understand the opportunities and challenges of outsourcing as identified by both customers and third party logistic providers

3. Methodology

Fifteen third party logistic providers and ten users were directly interviewed on an individual basis and also the first-hand experience of the author as a user was integrated into the assessment. The selected third party logistic providers were all partial and full scope third party logistics providers in Sri Lanka.

4. Results and Analysis

Table 2 presents the summary of study with respondents and the number of opportunities and challenges that were identified.

Table 2 – Summary of Results

Category	Respondents	Opportunities	Challenges
Third party logistics provider			
a. Partial scope provider	10	4	6
b. Full scope provider	5	7	8
Users			
a. Short term contracting	2	-	2
b. Limited scope users	6	5	6
c. Full scope users	2	3	5

4.1. Third Party Logistics

Research revealed that Sri Lankan companies are realising the benefits of outsourcing their logistics operations in full or part to create efficiencies in their businesses. Globally, integrated logistics is emerging as the new norm of the industry, wherein a single service provider provides end-to-end logistics services not only within the country, but also through international networks. This enhances the efficiency and productivity of logistics as a function as a whole and directly contributes to savings all around. However, in Sri Lanka, most organisations are still not ready to outsource their operations to one lead logistics provider due to perceived risks arising from fear of collaboration.

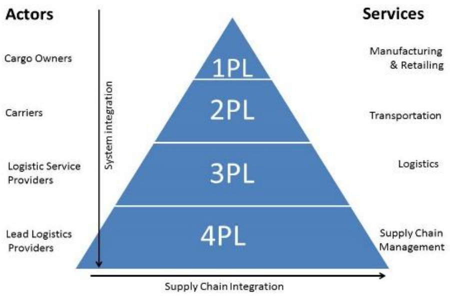

Figure 1 - Logistics Industry Hierarchy

The logistics industry hierarchy moves from first party logistics provider (1PL) to fourth party logistics (4PL) provider based on the scope of activity. Foundation level activities are done at 1PL and 2PL levels. At 4PL level, system and supply chain integration is at the highest level as shown in Figure1 above.

The third party logistics market in Sri Lanka is fragmented with few major local players dominating the scene. Based on the scope of activity and the warehouse footprint, the top five players in the market are Global Park, Hayleys Advantis 3PL plus, JK logistics, EFL and DHL.

4.2. Challenges

The survey revealed the following challenges as summarised in Table 3

Table 3 - Challenges faced by users and 3PL providers

Cost focus
Low margins
Lack of professionalism
Skill gaps
Fear of collaboration
Lack clear industry standards and legislation
High attrition rate
Unorganised transport sector
Suboptimal cold chain logistics
Readiness to adopt technology and innovation

4.3. Opportunities

Few of the leading players provide full scope 3PL services and have the capability to manage all industry verticals. Emerging opportunities identified by the respondents are stated in Table 4.

Table - 4 Emerging Opportunities

Integrated supply chain service offerings
R&D and Technology as a differentiator
Collaborative transport
Multi user facilities
Green logistics
Micro logistics
E-logistics
Omni Channel evolution

5. Conclusion

The 3PL market in Sri Lanka is yet to achieve maturity. There are few major players who have developed specialised service offerings over the years and have achieved market leadership. The market is highly fragmented and the majority is still providing limited scope 3PL services to customers. A lack of understanding of the potential benefits of 3PL operations exists among users in general.

It can be stated that the emerging opportunities as identified from stakeholder analysis indicates that what the local industry perceives is in no way different to the global standards. However, readiness to integrate the full scope of logistic activities under a 4PL is yet to evolve in the country.

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