

## **Innovation Strategies on Cost Management for Third Party Logistics Enterprises**

**Ruohong Yan**

Hunan Vocational College of Modern Logistics, Changsha, 410131, China  
156049863@QQ.com

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**Abstract.** Improve operational efficiency and service levels, maintain high profits, enhance core competitiveness, which is the pursuit of logistics enterprises goals. Reduce logistics costs through efficient management is an effective mean to ensure the goal is achieved. Based on the related theories of logistics cost management, this paper elaborates the operation process of the third party logistics enterprises, points out the cost structure of the third party logistics enterprises, analyzes the problems existing in the cost management of the third party logistics enterprises, and puts forward innovation strategy on cost management for third party logistics enterprises. Specific innovation strategies include: speeding up the standardization of logistics operations, adopting scientific cost accounting methods, accelerating the application of logistics-related information technology, the integrated management of enterprise operation costs, and further improving the policy environment for logistics enterprises.

### **Introduction**

Logistics refers to the entitative process of goods from the supplier to the the place of receipt. According to actual needs, the basic functions of transportation, storage, loading, carrying, packaging, distribution and information processing are organically integrated. As a link between enterprises, logistics plays an important role in production, improving product quality and reducing costs. However, the logistics activities create the value of enterprise products, but also increase the product costs. Therefore, the logistics cost management is more and more important to the economic activities of the enterprise, which has become the "third profit source" after the enterprise reduces the production cost and increases the sales volume.

With the integration of the supply chain and economic globalization, more and more products are circulated around the world. The logistics activities between production, sales and consumption are increasingly complicated, the logistics cost is getting higher and higher, and the capital intensity is getting more and more, reducing the logistics costs is more pressing. The first party and second party logistics management can no longer meet the needs. At the same time, in order to participate in the global competition, enterprises must establish their core competitiveness, strengthen supply chain management, concentrate resources on the most important businesses, and deliver logistics activities that are not core businesses to third party logistics enterprises. The third party logistics rises in response to the proper time and conditions. Third party logistics enterprises are specifically for customers to provide comprehensive or special logistics services. Services provided include: the delivery and transport of goods, storage of goods, packaging and other additional value-added services. Third party logistics enterprises do not own the goods themselves, but through the signing of service contracts or the formation of coalition partners, according to the contract agreed price ,within the contractual period to provide customers with exclusive logistics agency services.

Improve operational efficiency and service levels, maintain high profits, enhance core competitiveness, which is the pursuit of logistics enterprises goals. At present, the development environment of logistics enterprises in China is more and more serious. On the one hand, with the increasingly perfect market economy system and fiercely market competition, the price war between merchants is intensifying and the logistics enterprises are constantly required to maintain a

lower price level while improving their logistics services. On the other hand, With the acceleration of economic globalization and the formation of the domestic buyer market, more and more enterprises have entered the logistics field. Especially after the transitional period for entering WTO, foreign logistics giants have entered the domestic logistics market in large scale, and the competition among logistics enterprises is further aggravated. In addition, due to land prices, oil prices and road congestion and other factors also led to the logistics business operating efficiency and cost increases. Therefore, through the effective management to reduce logistics costs, logistics enterprises achieve sustained and healthy development of great significance.

### Operation Process on Third Party Logistics Enterprises

Third party logistics services provided by logistics enterprises generally include transportation, storage management and distribution. In this process, the third party enterprises is not a producer, nor a seller. Instead, it is a third party that serves the entire logistics process from production to distribution. It generally does not own the goods but only provides logistics services such as warehousing and distribution to customers. Third party logistics enterprises using high-tech information technology, rapid and accurate delivery of physical and logistics information, improve the automation of logistics operations to provide high-quality customer service. Third party logistics enterprises operation process shown in Fig.1.

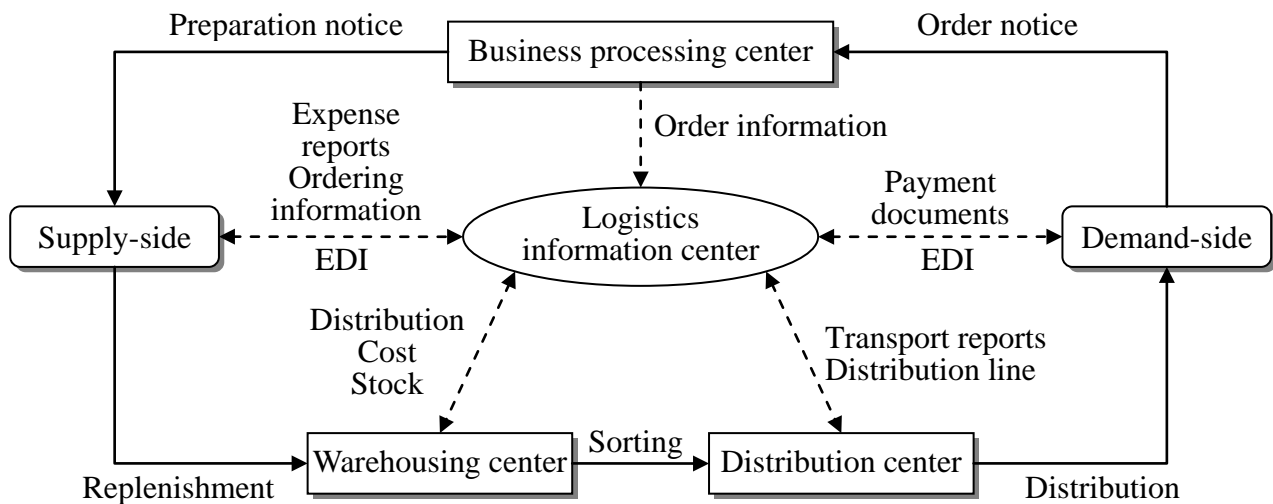


Fig. 1. Operation process on third party logistics enterprises

### Theoretical Basis on Logistics Cost Management

Many scholars at home and abroad have conducted in-depth research on logistics theory and formed many concepts and theories about logistics, which are of great significance to the cost management of logistics enterprises. The main theory is as follows:

(1) Supply chain management theory. Supply chain reduces costs and improves efficiency for the purpose of specialization. Instead of improving efficiency and reducing costs from single organization, the supply chain includes production, distribution, sales, and various ancillary links. It seeks to consolidate the entire operational chain to improve overall service capabilities, agility, and responsiveness. Therefore, the supply chain shows the characteristics of coordination, integration, dynamics, complexity and virtuality, which are different from single enterprise.

(2) Logistics iceberg theory. The current financial accounting system and accounting methods, can not reflect the actual situation of logistics costs, can only see the tip of the iceberg in the sea water, the hidden iceberg in the sea water can not see is the main part of the logistics costs . Logistics costs iceberg represents the total cost of logistics, in the enterprise financial accounting, logistics costs pay to the outside of the enterprise can be reflected, and the cost of logistics consumed in the enterprise can not be reflected.

(3) The third profit source. When a certain limit of enterprises in the market can not be expanded, how to find new profit growth point and reduce the cost of logistics, which occupy a higher proportion of the logistics costs, which means that the increase of corporate profits, the logistics management of the market share a certain limit for the third profit source. The third profit source is from Japan, in short, in the case of small manufacturing costs to reduce space, reducing logistics costs becomes the "the third profit source" of enterprises.

(4) Trade off theory. "Trade off" is a common phenomenon in the field of logistics and is the reflection and manifestation of internal contradictions. There are some contradictions between profit and loss in some functional elements of logistics. The optimization of one functional element and the occurrence of profit, there is necessarily the loss of profit of another or a few functional elements. This is a shift from one phenomenon to another. From the total view, the problem is viewed from a systematic perspective. The total cost of pursuing the entire logistics system is the lowest, not the lowest of any functional cost.

### **Cost Composition on Third Party Logistics Enterprises**

Modern logistics refers to the whole process of raw materials and finished products from the starting point to the end of the product, as well as the relevant and effective, the organic combination of transportation, storage, loading, processing, distribution and information to form a complete supply chain management. For the logistics costs, it is necessary to establish a complete theoretical system to guide practice, logistics cost management upgrades to the height of corporate accounting management, and brings into the corporate management areas. On the other hand, judging from the organizational structure of an enterprise, it is necessary to change the original department and functional structure of the enterprise, set up new functional departments, conduct separate accounting for the logistics cost, and systematically analyze and control the logistics cost.

Specifically, the third party logistics costs are mainly composed of four elements, namely, infrastructure costs, operating equipment costs, transporting costs and working costs. Infrastructure costs account for a large proportion of transportation costs, including construction costs for warehouses and distribution centers; operating equipment costs refer to investments in transportation vehicles such as traction locomotives and power machinery; transporting costs refer to energy generated materials and labor costs during transportation; working costs refers to the third party logistics operations occurred in the sorting, assembly, loading, unloading, storage operations and other costs incurred.

### **Existing Problems on Cost Management for Third Party Logistics Enterprises**

At present, the third party logistics enterprises in the cost management are several problems that can not be ignored [1,2]:

(1) Logistics enterprises management level is backward. At present, the third party logistics enterprises in our country still have a big gap with the developed countries such as the United States and Japan. The main reason is that they do not have a deep understanding of logistics services and lag behind their concepts. They still interpret "logistics" as simple "transportation". Logistics industry is not integrated into the market economy system, the cost control is lax, and serious waste in all aspects. At the same time, there are many problems in logistics enterprises, such as indifferent brand awareness, lack of brand building, lack of brand promotion, low brand recognition and inadequate investment in marketing. Many logistics enterprises are still stuck in low-end markets and ordinary customers.

(2) Logistics cost management system is defective. Due to differences in management concepts, operators only focus on production costs and marketing, ignoring cost management, failed to properly grasp the characteristics of logistics costs from the overall situation. With the extensive application of science and technology, the cost of production has dropped dramatically, and the proportion of logistics cost to the total cost has been increasing. However, many enterprises still have not realized the importance of logistics cost management at all. Many small and medium-sized

enterprises have not set up special logistics management departments, lacked modern logistics means, did not attach importance to supply chain management and did not build logistics operation into supply chain system with the aim of satisfying operational needs. As a result, the cost of enterprises was high and bring seriously losses to the enterprises.

(3) Ignore the logistics chain operations analysis. The formation and development of logistics system is to reflect the saving of time and space cost. By punctual delivery, meet the modern manufacturing enterprises "zero inventory" requirements. As the logistics process involves a series of links such as packaging, handling, transportation, warehousing and distribution, if some links are not coordinated, it is possible to make all or part of the chain run stagnant, on-time delivery and zero inventory can not be achieved. At present, the vast majority of logistics enterprises have not really analyzed, adjusted and optimized the various links and operating points of the chain, resulting in the inefficiency and high error rate of the logistics operation, hindering the further deepening of cost management and control.

(4) Information technology applications and logistics equipment is backward. At present, in China's logistics enterprises, information technology is not only less used, but also lower levels, mainly limited to office automation and routine transaction processing. According to China's Storage Association survey, the vast majority of China's logistics enterprises do not yet have the ability to use modern information technology to process logistics information. In the logistics enterprises that already have the information system, the business functions and system functions are still not perfect, and the necessary logistics management systems such as order management, cargo tracking, warehouse management and transportation management are lacking and the integration ability of logistics information resources has not yet been formed.

### **Innovation Strategies on Cost Management for Third Party Logistics Enterprises**

According to the theory of logistics cost management, in view of the problems existing in the cost management of the third party logistics enterprises, reference is made to the relevant literature[3-6], and the innovative strategies of third party logistics cost management are as follows:

(1) Speed up the standardization of logistics operation. Standardization is the basis of logistics development. Logistics standardization is actually the modular logistics services and market competitiveness of the brand, is the symbol of the maturity of modern logistics. Standardization lags behind, the high cost of integration, has become the current logistics enterprises in China, and even the most prominent issue in the development of the logistics industry. At present, the construction of China's logistics standardization system is still not perfect, and various kinds of standards are not standardized, unscientific and non-uniform, resulting in high logistics and operation costs and widening gaps with developed countries. Therefore, the third party logistics enterprises should follow the national standards, based on the full development of internal standards, promote enterprise normalization and standardization, speed up with international standards and improve competitive advantage.

(2) Accelerate logistics-related information technology application. The level of application of information technology depends on the relevant application software and technical equipment. With the technological progress and innovation of the logistics industry accelerating, logistics enterprises will accelerate the realization of multimodal logistics services through integration of transportation, storage and distribution. Therefore, the system integration technology and business intelligence technology and other logistics-related information technology urgent breakthrough. The state should take effective measures to make the modern logistics system technology national project; organize relevant domestic scientific research units to develop innovative logistics achievements with intellectual property; and set up special funds to support logistics enterprises to carry out information construction.

(3) Adopt scientific cost accounting method. Traditional cost calculation are generally all costs listed in a column, without scientific classification, resulting in separate calculation of logistics cost data is very difficult. Compared with the traditional logistics, the past cost accounting, including transportation, packaging, warehousing and other categories, not linked with the level of logistics

services, resulting in an increase in the logistics cost of responsibility is not clear enough. In order to solve the above problems, the use of home-based logistics cost accounting methods. According to the calculation of operating costs, logistics costs are divided into direct costs and indirect costs. For direct costs, design a special logistic cost calculation list, allocate labor cost, material cost and depreciation cost for specific product or service. For indirect costs, adopt ABC method to allocate each activity cost according to the logistics system. Working cost accounting method is shown in Fig.2.

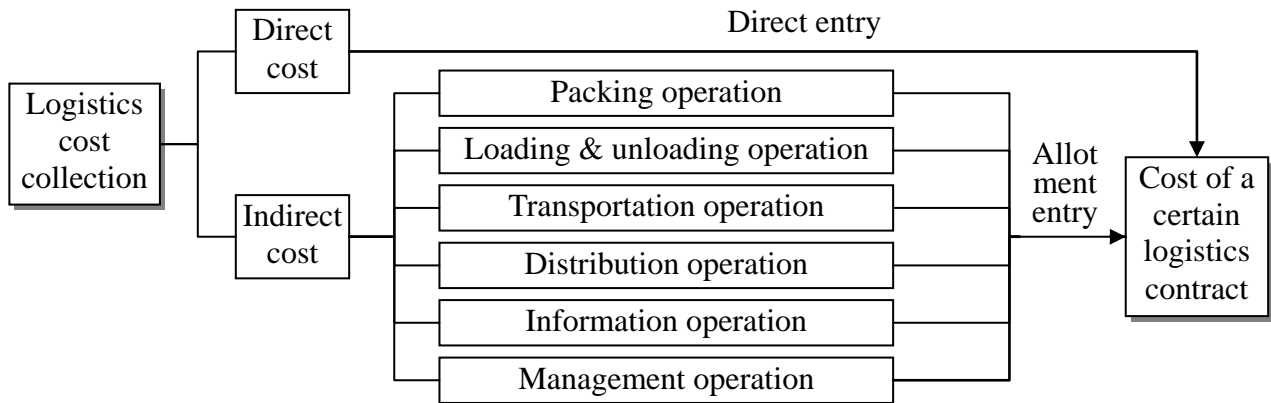


Fig. 2. Activity-based costing method

(4) Operating costs integrated management in enterprise. Third party logistics enterprises effectively reduce costs and obtain cost advantages, we must establish the concept of integration of operational costs management. Distribution is the third party logistics enterprises bridge, but also the operation of the link. Complete the integrated management of operational costs, we must establish comprehensive consideration of inventory costs and transportation costs of the distribution program. Third party logistics operation cost control is a dynamic process, it must be dynamic analysis, the use of effective cost control methods. When carrying out comprehensive cost control, the operating cost is decomposed into subsystems with the lowest total cost of the entire logistics process. Through the optimized integration of subsystems, the total cost of the third party logistics operation is the lowest.

(5) Further improve the logistics enterprises policy environment. First of all, reduce the tax burden on logistics enterprises, give preferential policies to encourage cross-bridge tolls included in the scope of the deduction; Second, support logistics land, simplifying land examination and approval procedures to reduce storage costs and promote the implementation of logistics projects; at the same time, further reform investment and financing system, reduce investment and financing costs; finally, in order to facilitate the establishment of logistics enterprises outlets, government departments simplify the examination and approval procedures to allow group logistics enterprises unified tax and use of qualifications to support the logistics enterprises larger. The logistics industry is the basic and strategic industry that supports national economic development. It can not do without the support of the government and requires the government to make overall plans and coordination so as to further transform its functions and create policy environment for the sustainable and healthy development of the logistics industry.

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