Demystifying the 4PL

Even though the term 4PL remains shrouded in mystery, a number of prominent logistics providers claim that if there is indeed a 4th dimension, they've got it. But can they really deliver on that promise? After defining the differentiating features, we'll let shippers decide.

BY **PATRICK BURNSON,** EXECUTIVE EDITOR

Logistics management has long been a discipline fond of neologisms—newly coined words in the process of entering common use, but not yet been accepted into mainstream language. Take the now, relatively common term third-party logistics provider (3PL) for example. Simple enough until you add a strategic component; and then, say many providers, you have a model on steroids—or a more dynamic fourth-party logistics provider (4PL).

However, if you gathered a group of 10 logistics professionals and asked them to define the difference between a 3PL and a 4PL you'd probably get 10 different answers.

Most industry experts contend that 4PLs are focused on the logistics processes of the client, from the way they handle operations internally, through the partners/logistics suppliers they use, to customer service. Still, they say, there remains a number of "pretenders to the throne," and severe scrutiny is advised before making a commitment. After all, the 4PL is obligated to provide the best supply chain solution, not the one that it's in the best position to implement.

"It is very difficult to make the distinction between a 3PL and a 4PL," says Rosalyn Wilson, senior business analyst at Delcan Corporation, a supply chain consultancy in Vienna, Va. "During the recession everyone was trying to grab onto anything that would get them more business. Even small trucking companies were trying to get in on the action by saying they offered 3PL and 4PL services, but most were well out of their element."

According to Wilson, 4PLs by definition must be non-asset based. She argues that many "wannabe" companies are hiding transportation assets somewhere under false advertising. And Wilson argues that it's not good enough to have a separate division offering the service.

"There must be complete mode/vendor neutrality," she says. "The element that complicates this issue even more is the fact that some non-asset based 3PLs say they offer 4PL services… but they are not really in a neutral position." For example, the consulting arm of such an organization would be hard pressed when making recommendations not to include their 3PL services as an option. "They can't have warehouses, transportation equipment, or even a software product that would be recommended," notes Wilson.

Alan Van Boven, head of technology solutions for the consultancy Supply Chain Visions, Ltd., is on the same page with Wilson: "Ideally, a 4PL would never have assets. It would typically work as the single partner for a shipper, selecting 3PLs, freight forwarders, and customs brokers." Van Boven allows that a 4PL could also be a 3PL with its own network, but must be mode neutral.

Armstrong & Associates Chairman Richard Armstrong insists that economic globalization and the need for more sophisticated management of global supply chains has already made the 4PL coinage obsolete. "Anderson Consulting is credited with creating the expression '4PL' so that they could be charged with one more element of business," Armstrong says. "For all practical purposes, though, the term has been eclipsed by global chain managers,'" he adds. "These are the companies that can manage transportation and inventory without doing the tactical work."

Evan Armstrong, the president of Armstrong & Associates, agrees. He prefers to use the term "lead logistics provider" (LLP) to define this value-added function that has recently been tossed into the 4PL bucket. When the father-son team rolled out their 3PLAdvisor.com, a social network service intended to provide 3PL customers with a platform for sharing customer relationship experiences about their providers, the term "4PL" was conspicuously absent.

"The term has simply become too confusing," says Evan Armstrong.

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AGNOSTIC APPROACH

Menlo Logistics' 4PL Product Owner Carl Fowler says he does not take issue with Armstong's assessment—but only to a point. Having launched the company's 4PL division some years ago, he maintains that "synchronizing the supply chain" is still a unique service representing the 4th dimension of a logistics provider.

"And it's important to note that just because we are asset-based, this does not mean that customers must use Con-way too," he says. "In fact, fewer than 10 percent of our customers rely on us for that piece of the transportation solution."

Given the increased complexity of the globalized business, shippers require more—not less—information from a single provider about their options, says Fowler.

"We take an agnostic approach to the enterprise," he says. "After evaluating a customer's long-term goals, we develop a strategic plan that can use all or part of Menlo's offerings." Even a company that chiefly offers software-as-a-service can call itself a 4PL if it can map the customer's enterprise, Fowler concludes (See sidebar on page 44).

And then there's the player we all knew as the modest freight intermediary. SEKO, for example, has been in the forwarding business for more than 36 years, but began offering 3PL/4PL services for the past eight years with accelerated success. According to Jim Wallace, vice president of global sales for SEKO, current logistics services include air, ground, and ocean. He says being "mode neutral" is an advantage when helping shippers move their goods and raw materials from vendor to factory to end-user in a JIT environment.

"It enhances asset utilization," says Wallace. "Also, we provide warehousing services that help customers with space constraints or those who wish to outsource more of their logistics functions."

For SEKO, its 4PL services manage the selection process for carriers and for warehouse management activities as opposed to handling the freight movement. According to Wallace, they can provide supplier management services, transportation and supply chain oversight, and manage vendor compliance—all key functions that fall under the definition of a 4PL.

"There is a fine line between the activities of the two, and frequently a 4PL has 3PL capabilities and takes advantage of those with its customers," says Wallace.

This is a fine line indeed, say industry analysts, who contend that a hard and true differentiation between a 3PL and a 4PL is tough to nail down.

"Ask 10 people, and you probably will get 10 different answers," says Clifford Lynch of C. F. Lynch & Associates, a supply chain consultancy. "In my view, a fourth party is a non-asset business process outsourcing provider. It may or may not be a consultant and often contracts out for the services it provides. It is mode neutral."

Lynch adds that it's similar to the function of the LLP, offering total supply chain or logistics solutions, utilizing its own facilities and systems through strategic alliances with other providers.

Charles Clowdis, Jr., managing

director of transportation advisory services for supply chain analyst firm IHS Global, says that while a 3PL or 4PL can certainly be asset-based, it has never particularly been his concern as long as the client is being served well with price and service. "I just never got too hung-up on who owned the assets unless the evaluating party was an asset-based 3PL who would have a vested interest in selecting their assets as the client's solution," he says.

Clowdis recalls one of his "most successful adventures" with a client seeking to outsource multiple logistics elements. In that case they came up with a 4PL that managed two 3PLs and provided another missing service themselves. At the same time, he had to be careful to avoid the appearance that the provider did not favor its own assets when maximizing the value for the client.

"Ideally, a 4PL should be mode neutral and asset-free, but there are exceptions. It all comes down to the element of trust—which is so vital in any 3PL or 4PL relationship. The asset-based provider who favors his assets to the detriment of the client makes for a short-lived relationship," he says.

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HORIZONTAL COLLABORATION

Relationships become even more important as the trend for "horizontal collaboration" gains traction, say analysts for Eyefortransport (EFI), a London-based research organization. In its most recent analysis on North American supply chains, "trust" was a word invoked by shippers and their 3PL/4PL partners.

"Shippers who responded to our survey were asked to identify the key drivers encouraging their company to consider or initiate horizontal collaboration," says McKinley Muir, head of EFI's Research & Market Insight.

According to Muir, cutting transport costs and satisfying customers were seen as the biggest drivers for shippers, though enhancing customer service, improving delivery times, and improving overall logistics operations were seen as being very important by more than 50 percent of the respondents.

"The final part of the survey looked at which key barriers are stopping respondents from investing (or further investing) time and money into horizontal collaboration," she says. "There was not a great deal of consensus between the groups of shippers, though the most widely perceived barriers was fear of information disclosure."

Muir notes that this, too, comes back to the difficulty of starting trusting relationships. "Finding appropriate partners is also a significant concern," she said. "For carriers, the need for a legal framework is key, and for 3PL/4PLs, capacity control is perceived as the biggest barrier.

So when it comes to "breaking down walls" regarding the 3PL/4PL conundrum, does it really matter what they're called if the transparency and trust are delivered as promised?

Clowdis may have the answer: "You may get some resistance from those in the industry favoring the expression 4PL, but I can remember when the word didn't even exist. We called these companies 'advisors' before it became so complicated. Personally, I prefer LLP, or even something as benign as 'Logistics Outsourcing Consultant.'"

All those interviewed agreed that acronyms stick around for a long time in this business; and despite the cache of LLP, we may wait for some time before it gains currency. One thing seems certain, however. The "5PL" is not a coinage that will command much attention. ☐

Virtual LLPs take hold

Software-as-a-service (SaaS)—now known as "the cloud"—is another one of those mad coinages that's been confusing shippers for a while. But there's a line of conjecture that these software companies may also be regarded as lead logistics providers (LLPs). After all, many now link shippers with transportation and logistics providers without compromising themselves by holding hard physical assets.

Defenders of this line of thinking maintain that the transport element of a global supply chain system has expanded from basic functions incorporating load planning; matching buyers with sellers; import/export; track and trace; and finally, reverse logistics.

In evaluating an appraisal of the new structural elements of the supply chain, one might consider that all of its complex functions can indeed be managed by SasS providers.

After all, most of the widely recognized LLPs promise to provide the information infrastructure linking e-commerce on the front end to myriad back office applications and external systems influencing procurement and distribution. If that doesn't describe SaaS, what does?

Spokesmen for TMC, a managed transportation management system offered by C.H. Robinson, argue otherwise: "Software as a service was a great leap forward...but shippers, despite significant investment and time implementing, still struggle to realize the full benefits of their purchase," says Jordan Kass, executive director of TMC.

That's because shippers must still share all their supply chain goals and methodology before an asset-free, mode neutral SaaS player can begin to do the work for them. And that, according to analysts, brings them back to square one.

—Patrick Burnson, Executive Editor