

# Fourth Party Logistics - Enlarging 3PL a Step Further

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**Abstract-** There is continuous development in logistics management throughout the world due to the competitive market. In this competitive market, competitive advantage is brought on the basis of business needs. The one, who can utilize its own resources or competencies with efficient cost management, delivers high quality goods at lowest lead time can satisfy the customers. Earlier 3PL was managing one or more activities but now 4PL is the integrated mechanism which brings all the logistics functions under one roof. 3PL was introduced to give ease in the client's logistics activities but it was not bringing the full scale optimization. Introducing the concept of 4PL was to reduce these hassles (which were bound to 3PL) in logistics and therefore bringing the complete solutions to the clients.

**Keywords:** Third party logistics, Fourth party logistics, outsourcing, logistics, warehousing, Integration

## INTRODUCTION

Developments are in the hike due to the continuous change in logistics chains due to the efficient transfer of goods and services within the boundary and also in the international level. The demand is always to fulfill the needs within a very cost effective manner and the lesser lead time. To acquire competitive advantage over the competition, business needs to be perfect in terms of time management, cost management and also it should be hassle free. As a result, Third Party Logistics (3PL) has become an integrated concept in recent years. However, with the advancement of new technologies and upgraded thoughts Fourth Party Logistics and Fifth Party Logistics have been

introduced as an extension to the third party logistics concept (Hosie et al., 2007) [1]. Why the businesses are moving to the third parties / fourth parties (in terms of logistics and support functions) rather than their own? Customers are always asking for new designs, innovations, cost effective products and moreover they prefer easy delivery (least lead time) with the strongest customer service. All these things take almost 25% to 30% costs of the total cost of production which makes the product expensive at customers end. To reduce this huge cost, businesses begin outsourcing their whole logistical functions to these agents. Outsourcing logistics have the resources, scope and efficient in warehousing, distributing, transporting and moreover much efficient in logistics support with less expenses than the in-house. Before going to the throughout discussion, we will be giving a literature review to explore the wide range of 4PL practices which was stretched by the 3PL.

## LITERATURE REVIEW

3PL provides the logistics support like contract logistics or semi integrated logistics support to its clients. There are some definitions which simplifies the concept of 3PL. **According to the Council of Supply Chain Management Professionals** [2], 3PL refers to “a firm that provides multiple logistics services for use by customers. Preferably, these services are integrated, or bundled together, by the provider. Among the services 3PLs provide are transportation, warehousing, cross-docking, inventory management, packaging, and freight

forwarding.” **Bridgefield Group** [3] terms “3PL as an outsourced provider that manages all or a significant part of an organization’s logistics requirements and performs transportation, locating and sometimes product consolidation activities”. **Bagchi and Virum** [4] refer to 3PL as a long-term partner that provides all or a considerable number of logistics activities for the shipper. **Berglund et al.** [5] define 3PL as a logistics service company providing service on behalf of a shipper responsible for the management, transportation and warehousing of goods. **Sink and Langley** [6] refer to 3PL provider as an external supplier performing some or all of a manufacturer's or customers logistical functions. These definitions simplify that 3PL manages only the logistics activity. With the passing time, the logistics needs are not only confined in one or two activities. To give a total package of solution in logistics, concept of 4PL came to the light. The concept and contents of 4PL was first defined by Accenture firm who still holds the trades mark for it (**Hosie et al., 2007**) [7]. Accenture- a global management consulting and professional services firm introduced a new concept called the fourth party logistics (4PL). 4PL Company works as a coordinator who pulls together the resources, capabilities and technology of other organizations to design, build and run the whole supply chain network on behalf of its principal. 4PLs basically do the administrative activities but leaves the physical movement like warehousing, trucking and other services to their contracted 3PLs. 4PLs mostly do not belong any kind of physical assets rather than providing knowledge relative to fulfilling the customer/ principal’s requirements. Fourth party logistics providers act as a “chain integrator” and are established to deal with the relationships that exist between the supplier, customer and the third party logistics provider and also have the effect of reducing transaction costs (**Bourlakis and Bourlakis, 2005**) [8].

#### REASONS for 3PL OUTSOURCING

In this competitive era, companies need to experience growth and for this, the biggest challenge is to meet the demand of their supply

chains. To meet the growth, companies have to concentrate on their core competencies. Sometimes they are in need of partners who are better and pioneer in assembling, packaging, warehousing and distributing. Companies go to these partners for a better solution in these aspects while they concentrate more on product or service as well as minimize their cost than in-house management. The major benefit for going outsourcing is saving both the cost and the time. In terms of a large scale corporation for distribution and warehousing it takes more than 20% of overall costs. Hiring a third party can provide warehousing, labor support, transportation or distribution and also providing various supports as asked by the principal can reduce the cost drastically, while it is freeing up more time to concentrate on the core business. Other than logistics support, a business needs various hassle of documentation, invoicing, auditing, recruiting and other activities involved with supply chain which are also eliminated by the 3PL. In terms of a new company or a new market, there are no foot prints of the principal company. Here, 3PL provides the best support with its established presence by giving access to its distribution centers and warehouses which allows the principal company to grow in new areas by distributing the goods. 3PL providers have vast resource establishment which helps to grow faster in cost effective manner. Some companies deal with seasonal demands or release new products frequently. This may occur problem for in- house warehousing and inventory management. In case of 3PL, they have the ability of providing space and resources as per the demand from the principal which releases flexibility in favor of the principal. While the in-house is having the constraints of various resources and limited to the various accessibility; 3PL partners fulfill all the needs as “**higher the business volume, higher the revenue**” as they have deal with the principal in terms of “**Commission or percentage**” in line with business volume. Other than this, 3PL has many advantages which triggers in-house to go for 3PL sourcing:

- Customer service level Improvement
- Conflict resolution and setting business objectives

- Less or Zero Capital investment
- Improve expertise, market knowledge and data access
- Integration in all the supply chain activities
- Increase in growth and productivity
- Risk reduction, uncertainty and fluctuation avoidance
- Getting competitive advantage both in locally and globally
  - Market knowledge, expertise and efficiency gathering
  - Reduce manpower count and adequate resource allocation

MOVING FORWARD from 3PL to 4PL

**According to the APICS (Association for Supply Chain Management) [9]** -Fourth-party logistics differs from third-party logistics in the following ways: (1) the 4PL organization is often a separate entity formed by a joint venture or other long-term contract between a client and one or more partners; (2) the 4PL organization is an interface between the client and multiple logistics services providers; (3) ideally, all aspects of the client’s supply chain are managed by the 4PL organization; and, (4) it is possible for a major 3PL organization to form a 4PL organization within its existing structure. The Logistics chain includes activities such as international transportation, stock control, packaging, storage, labeling, shipping, distribution and similar activities. Seeing these activities, sometimes it goes heavy for a single provider or agent. Eventually this burden on a single provider creates its incapacity to respond sufficiently to these needs to led to the introduction of a new concept: fourth party logistics (4PL) (**Hosie et al., 2007**) [10]. Third parties can concentrate on specific area/s, such as transportation, warehousing, distribution and etc. While concentrating on these activities it loses to respond the most complex needs of a business- “the integrated logistics solution”. To fulfill this need of “Integrity”, Fourth Party Logistics providers were introduced that gives solution in complex situations. Comparing the 3PL

with 4PL, it is clearly seen that third party logistics concentrate on implementation and enforcement issues whereas fourth party logistics concentrate on strategic and technology supported issues (**Vasiliauskas and Jakubauskas, 2007**) [11]. More or less the features remains same for the both 3PL and 4PL. 4PL gets an advantage because it works as a co-coordinator. Let’s differentiate 3PL with 4PL with the valiant properties of these:

3PL	4PL
Warehousing, Transportation, Distribution, Freight Forwarding, Packaging, labeling and so on.	Integrates and coordinates all the logistics products/ providers and information flow processes

While 3PL providers provide some functions, the 4PL provider works as the boss who supervises all the logistics activities and it can maintain 3PL under itself.

Another distinctive point can be that, 3PL providers are giving asset based services while 4PL providers don’t need to have physical assets rather than they are based on non-physical assets like intellectual abilities, information flows, managing capabilities and experience based.

REAL LIFE IMPLEMENTATION of 4PL

“Shell” one of the largest companies in the world, active in every area of the oil and gas industry, including exploration and production, downstream manufacturing , distribution and marketing. Shell’s business activities required a new logistics management solution due to:

- Intensive demand for materials and road transportation for the unconventional business.
- Urging need of the full logistics support to the business.

- Taking multiple contractors of multiple complex projects under one umbrella for the fast pace of work.

- Shortage of skilled logisticians and logistics systems for end to- end logistics management capability.

Solution to these problems: The scope of this project was to design and implement a new logistics operating model to support Shell's upstream operations, covering production, wells and projects, Shell engaged Accenture to help design a logistics solution that involved the use of a 4PL provider to plan and manage Shell's logistics activities. 4PL is a fourth-party logistics service provider and asset free logistics management partner that helps to optimize and manage traditional 3PL (3rd party logistics) execution partners. The 4PL approach has been deployed successfully across a number of clients and industries and has helped to deliver significant savings in cost, service improvements, and reductions in health, safety and environmental exposure. Accenture worked closely with Shell throughout the strategy development to design an approach that was fit-for purpose for Shell and could adapt to the local requirements of the different business units. Accenture conducted detailed analyses of current logistics operations and shared leading-class 4PL practices and external sector perspectives to help shape Shell's global vision. The 4PL solution became known as "Logistics Management Services" (LMS) within Shell. Shell adopted the LMS term to highlight key distinctions from traditional 4PL and to define a solution that was dedicated to Shell and based on a model that allowed Shell to retain close control of the outsource provider. Further, the solution was focused on building long-term strategic relationships, positioning Shell to access the 4PL provider's best people, leading innovations and best technology. The single client platform enabled a Shell tailored solution with dedicated focus (Accenture, 2015) [12].

Another example can be given in Bangladeshi context. In the back 2000, SAMSUNG distributed their electronic goods and home solutions in overall

Bangladesh through twelve (12) distributors. The distribution was good and SAMSUNG was managing a huge business through these distributors. Problems occurred at customer level when it came for after sales services. In "after sales services", customers came for services but the distributors were not aware because too many distributors imported spares and some of them were not used to maintain the proper servicing. As a result, customers became dissatisfied because it took longer time to find the exact distributor as well as the spare also. SAMSUNG globally tried out to find a solution of this mismanagement. There was one renowned company in Bangladesh came up with the solution of 4PL. "East Coast Group" who were having all the logistics capabilities along with the import certification bound those 12 distributors under one roof. They started bringing those 12 distributors to them by taking their demands and imported the goods as per requirement. For such kind of aggregated demand they used "SAP" of SAMSUNG for demand and order management. After implementing the concept of 4PL, process became easier and customer became satisfied due to fast and accurate services.

## CONCLUSION

Companies are focusing on their core competencies and outsourcing their logistical functions. For logistics solution, 3PL was the pioneer but with the pace of time, demand and the inadequate performance; 4PL has come up with an integrated solution which coordinates 3PL contractors on the basis of expertise and information. 3PL works for a single support activity or activities while 4PL works with the total logistics chain. 4PL improves service level, minimizes asset downtime and also reduces the risk of entire supply chain. It reduces logistics costs through improved logistics asset utilization resulting improved logistics costs and performance visibility. While working with the other contractors or providers, it brings skilled resources and best performing practices to meet changes in business demand. So, 4PL has come up fetching the hands of 3PL as it is an upgraded version of 3PL.

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