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The fourth way

Is 4PL the 3PL of the 21st Century, asks Jeremy Clarke, principal solicitor of leading London logistics specialist LLC Law.

From an operational perspective, it's important to understand terminology, especially given the extent of supply chain's love of mnemonics.

To a layman, 3PL's provide services on the ground, from transport to warehousing through to other value adding activities packaged around the movement of goods between user customers' upstream manufacturing and downstream sales operations.

Whilst it's sometimes hard to pin down a commonly accepted definition of 4PL activity, it seems to centre on realising efficiencies through the better management,

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supervision and coordination of 3PL services on the ground. In reality, the distinction isn't so sharp and whilst one is basically physical and the other organisational, both services seem to have a legitimate role to play.

But in today's highly cost driven market the appetite for the 4PL as an independent add-on has diminished markedly by contrast to the steady growth of its 3PL cousin. Given the common sense aspirations of the 4PL model, its important to understand whether 4PL has gone altogether or whether it's evolved into something new and if so, what?

Historically, at both the domestic and international level, user and provider organisations typically operated in a virtual vacuum as far as the management of their supply chains were concerned. Global users with sufficient volumes requested international supply chain solutions from larger international providers, who did their best to meet their conventional supply chain requirements.

Where global providers were constrained by sporadic reach, global contracts were awarded to multiple providers around the world, driven by geography and the user's determination to understand, control and reduce costs at reviews and periodic competitive tenders.

As larger international providers have expanded their service menu and taken on more value generating (and in turn profitable) activities we can see the supply chain market evolving into a much more sophisticated science. Going forward, the demand for service level improvements and cost control combined with innovations in IT, heightened environmental awareness and open book operating will be the catalyst for multi-provider solutions centred not just on geographical constraint and cost, but rather on the need to understand, drill into and capture best practices, creativity and value.

In fact, the self-same aspirations of the original 4PL's…

In the past few years this has created a wealth of opportunity, in part because the starting gun had only just stopped smoking. For international provider organisations bent on geographic coverage, this has meant acquiring niche enterprises, developing internal capability and, where necessary, collaborating more effectively with niche outreach providers. In so doing the larger players have created improved service propositions whilst at the same time closely aligning and integrating such expanded

service propositions into their user customers' operations.

For the SME provider organisations their market in outreach and niche activity has always been reasonably safe. Threatened by competition, they have fought hard to retain mainstream supply chain activity from the larger international players. More and more this is being facilitated by the growing ability of SME providers to re-engineer themselves into loose networks of integrated service providers and to package the same into seamless solutions.

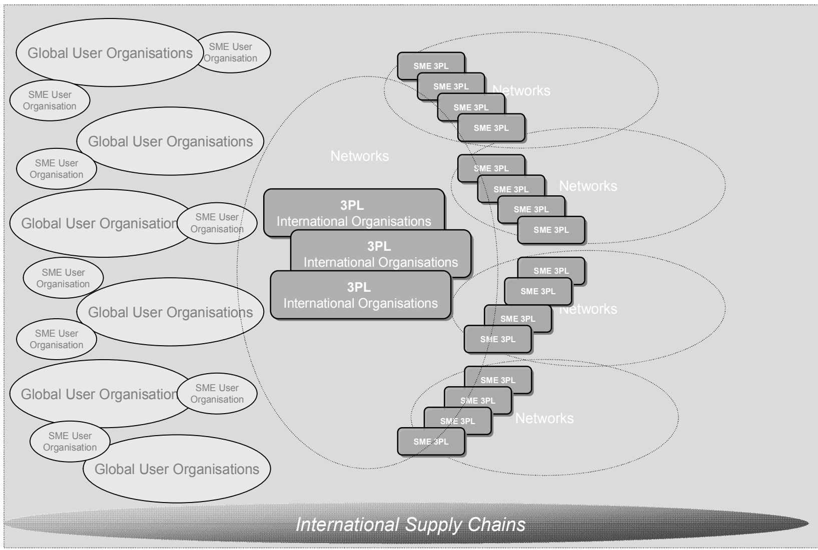
Simply look at the pallet networks and the role they have played in the past 5 years. These developments have been made possible by leveraging increased access to, improvements in and the lower cost of, supply chain IT previously the preserve of larger players and users. Armed with a competitive menu of services and support networks, the SME providers have been effective in meeting users' lower volume, outreach and niche requirements. The same or arguably greater value is created, but by means of a different strategy.

3PL and 4PL: Collaborate or Die?

In a nutshell, *yes*. The leading industrial organisations, for instance Wal-Mart, Dell, Tesco and Cisco, all focus hard on realising the benefits of collaboration, as are their counterpart provider organisations. Notwithstanding consolidation and the growing number of such global organisations, there are thousands more SME users and providers who are now creating long term sales propositions to remain competitive along-side their global counterparts.

Small niche manufacturers and distributors with global markets but relatively low volumes compared to conventional large scale manufacturers flourish in today's highly completive consumer markets where innovation and difference is so highly valued. Such enterprises don't have the volumes to justify dedicated international supply chain arrangements, but equally they *must* leverage every competitive angle to survive and grow. As such, their ability to access state-of-the-art supply chain infrastructures is key and they will gravitate towards equally innovative SME providers.

For global users the solutions will in a large part be provided and managed by international providers, like DHL,



supplemented by local contracting arrangements with niche SME providers at outreach nodes. On-the-other-hand, SME users will seek to piggy-back off the growing and constantly re-engineered shared-user infrastructures of the SME providers fast evolving into flexible and highly organised networks.

Such networks spring from greater collaboration along the supply chain between provider organisations, allowing a fuller virtual or unbranded service to be created and expanded globally. The effect is the same, namely the consistent application of best practices at sensible cost to meet user customers' service levels for their local, small volume or niche activities which cannot be commercially serviced by the international providers.

However we analyse such development, one way or another all organisations need to outsource and collaborate with their user/provider counterpart(s) around the world in order to leverage their respective positions within the supply chain. On the one hand, increasing specialisation is likely to result in greater outsourcing to providers to take advantage of best practices, to share the latest technological advances and to allow user organisations to focus on their core competence, namely manufacturing and marketing.

Whilst this may further fuel supply chain integration, big will not always be best and the SME providers have not disappeared.

It's clear that the provision of supply chain services is becoming increasingly sophisticated. This is being driven by global users growing appetite to outsource and transfer non-core assets onto the balance sheets of larger international providers. Those providers are increasingly mining value by adding opportunities within the conventional supply chain and, in addition, the points of manufacture and sale. At the same time, the SME providers are competing and retaining their market through global collaboration with like-minded and innovative sector specialists.

The common goal for providers is to supply a seamless integrated solution for users' requirements, one which increasingly has multi or shared user streams and which actively targets and constructively realises new and value generating operating innovations so as to improve the competitive advantage of their user customers. To add a layer of complexity, at the same time they must satisfy the increasing demands of stakeholders and venture capital investors.

These drivers concerning mining new service and value adding opportunities and satisfying VC investors are relatively new territory for 3PL's. As such, further innovation has been necessary to stay ahead of the game.

Which takes us back full circle. 4PL's are alive and well, but they don't look the same today as they did 10 years ago and its not that they have evolved into a diamond accessory for the marriage of true supply chain concepts, the 7PL (if such exists).

Its true that we hear less of ring-fenced 4PL organisations headed by bench-marking zealots with a holistic, if rose tinted, vision of the entire fragmented supply chain. Much more we're seeing re-engineered 3PL's transforming themselves into supply chain specialists, both international and local SME. The leading providers are increasingly aligned to and integrated with their user customers and other globally disparate but IT integrated and information rich networks of new supply chain specialists.

The 3PL's have by stealth subsumed their number crunching 4PL task-masters, adopting, improving and re-branding the "his and her" 3Pl/4PL wedding attire that never really fitted anyway. Having dumped the 4PL concept, its best attributes have been retained, developed and presented as core value-adding 3PL competencies at the heart of the outsourced service solution.

It's a quieter sort of marriage, and a service offering from which there will probably be no going back in the 21'st Century…

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