THE NEXT GENERATION OF SUPPLY CHAIN ELITE: 4PL PROVIDERS

The time has come for the next generation of supply chain executors that will enable 3PL providers and shippers to strengthen their partnerships.
Examples of key responsibilities and associated benefits of the 4PL:

- Solve geographic and service offering constraints.
- Provide specialized IT platform to facilitate analysis and transform data into valuable business information that helps to reveal new opportunities for innovation.
- Enable the shipper to utilize strong regional providers (carriers and warehouse operators) without the integration and coordination challenges that normally exist across managing multiple partners.
- Arrange for the physical resources required to implement the client’s logistics profile and manage them centrally as an integrated operation.
- Precise and timely management of customer inventory and resources employed to execute customer requirements.
- Aggregate information originating from multiple 3PL providers and provide a single view for the shipper of their metrics, inventory, order status, shipment status, billing, and EDI across the network.
- Ensure vendor compliance across the entire supply chain network and provide vendor scorecards.
- Handle risk mitigation strategy and business continuity planning.
- Serve as the liaison with the rest of the partners in the network to help ensure that the challenges are solved consistently and ideas are shared amongst the providers.

INTRODUCTION

The time has come for the next generation of supply chain executors that will enable 3PL providers and shippers to strengthen their partnerships. According to a 2013 Third Party Logistics Study, only 86 percent of shippers view their relationship with their 3PL as successful as compared to 94 percent of 3PLs. While this is an increase over previous years and shippers “credit the improvement to the 3PLs with finding new and effective ways to improve logistics effectiveness,” the discrepancy opens up an opportunity for leading 3PLs to further improve their operations by supporting more innovative technology. By moving beyond the tactical and into strategic activities, both 3PL providers and shippers can reap great benefits. In order to drive innovation and cutting edge technology solutions, shippers are willing to gain-share with 3PLs for investments required to achieve greater performance.

A key way for 3PLs to move into the high performance achievement echelon of the industry is through establishing partnerships that leverage a Fourth Party Logistics (4PL) model. This 4PL, also known as a Lead Logistics Provider model, will be the catalyst for the evolution to more collaborative and innovative partnerships that will positively impact 3PL and shipper relationships greatly.

Global economic conditions are causing shippers to rebalance their supply chains to become more adaptable and flexible due to frequently changing sourcing locations. Under the 4PL model, the shipper engages a provider to serve as its primary outsourcing liaison. The shipper shares their supply chain goals and challenges with the 4PL while maintaining an ongoing, strategic dialog with this partner. The 4PL is responsible for coordinating the activities of all 3PL providers in the shipper’s network and ensuring that each is accomplishing its goals and conforming to the requirements of the shared customer.

The 4PL delivers the shipper with a singular view of the critical aspects of the supply chain including, inventory, orders, and shipments. The increased congruency and communication streamlines the outsourcing process and improves the shipper’s view of its relationships with 3PLs while leveraging the expertise that 3PLs have accrued in the industry. Evidence supports this pattern; “58 percent of shippers are reducing or consolidating the number of 3PLs they use.”

HOW DOES A 3PL BECOME A 4PL?

In order to become a 4PL and join the supply chain elite, the right pieces must be in place to ensure success. As worldwide communication and information flows accelerate at an exponential rate, logistics providers must be equipped with up to date data capturing tools and technology solutions. These technology solutions enable logistics providers to collect the most accurate, real-time data for their customers, thus granting an advantage that propels them into the evolving communication age. By focusing on leveraging the right technology and taking a collaborative approach to the 3PL and shipper partnership, a logistics provider can utilize their best practices to the fullest extent to become a 4PL.
THE 4PL MODEL: THE NEXT GENERATION OF THE 3PL INDUSTRY

As businesses evolve and consumers change their demands, supply chains continue to become more complex. Shippers want logistics partners to offer comprehensive and easily integrated operations solutions that can manage the growing complexity of their businesses, but who will also bring new ideas and cutting edge technology to the table that will help maximize supply chain effectiveness. It is said that 65 percent of shippers would like to outsource the entire logistics responsibility as the 3PL sector continues to grow, allowing the shipper to focus on their core business, while only 22 percent are returning to insourcing.

The result of this more collaborative and innovation-focused partnership enabled by the 4PL model is more consistent execution for the shipper. This includes fast, efficient flow of goods; positive control across the network; accurate and up-to-date data; and digital real-time visibility, tracking, and reporting across the end-to-end supply chain. This enables shippers to provide exemplary customer service and be much less likely to encounter network disruptions.

Another, often overlooked benefit to the shipper in these partnerships is that with better information solutions they are more able to align supply chain expense with revenue. By outsourcing their logistics functions as well as relying on an 4PL to secure and coordinate the activities of multiple leading 3PL providers, with facilities in the best suited locations they are able to benefit from ramping up or reducing their expenditures based on growing or shrinking volumes, while also ensuring the best service is being delivered.

Finally, the model leads to higher levels of profitability for the 3PL providers that secure the role as 4PL. As they move beyond the tactical/transactional services into more strategic service offerings, they can avoid the danger of commoditization of their services and instead will be able to contract higher margin activities. This will in turn provide industry differentiation for them and will lead to those sought after growth opportunities for the company. However, there are some barriers to entry for the shipper-driven logistics outsourcing.

The first barrier to entry for 3PLs wanting to evolve to a 4PL is access to the cutting edge technology solutions needed in order to capture accurate data, provide relevant information to customers, and increased efficiency and profitability as a result. Many solutions do not offer the whole picture of the supply chain, or the accuracy and efficiency levels required of a 4PL, particularly with regard to billing. Managing clients is complex for 3PLs, let alone adding another layer of complexity to the transactions renders most software insufficient. Finding a technology solution that can manage all those requirements, while being able to be scalable with the business, configurable to the change rules of operations, and that does not need hundreds of thousands of dollars in customer development is a real challenge for a 4PL.

The second hurdle that shippers face is that the 3PL industry is fragmented due to geographic and service limitations of providers. While there are many strong regional 3PL providers, the pool of qualified 3PL partners shrinks dramatically when looking for continent-wide, or global, coverage. This means that shippers must contract with multiple providers to accomplish their goals, contributing to higher costs and less focus on their account, not to mention inhibiting their ability to fully outsource logistics responsibilities. The 4PL model solves these challenges.

What exactly is the 4PL model? 4PL is a scenario where the shipper employs a primary outsourcing partner to serve as the Lead Logistics Provider (4PL). The 4PL’s responsibilities go well beyond traditional 3PL tasks and expand into broader activities such as the development of logistics strategy and supply chain system analysis, design and planning. The 4PL is also often responsible for acquiring and coordinating the services of all 3PL partners in the network that are required to execute the strategic plan.

A 4PL may be an asset-based company that also participates in the logistics execution activities, or it could be a non-asset based company that strictly serves as the integrator of all activities and aggregator of key supply chain information. The model solves what is arguably the biggest challenge that shippers face in their logistics outsourcing activities: trying to coordinate the activities and making sense of the myriad information produced by, its collection of logistics partners. It also allows for increased innovation potential as the 4PL can utilize best practices and focus on the bigger picture of supply chain execution.
The vision of establishing a 4PL model is not new; however, for a number of reasons, it is a concept that has not yet been leveraged in the industry to its full extent. There are many ways that shippers can benefit from this model and from a 3PL provider’s perspective, becoming the 4PL for its key customers is highly desirable.

So why isn’t the use of the 4PL model more prevalent today? Logistics service providers may not have had the resources to invest in building the necessary technology systems to support the model without the financial backing of a customer. However, shippers are predictably reluctant to invest in the 3PL provider’s development process as it carries risk and may be considered funding a system that could aid their competitors in the future. Most relationships between shippers and 3PLs are historically tactical and limited by metrics, insufficient visibility, contract terms, and risk mitigation strategies, leaving little room for innovation and gain-sharing.

Fortunately, for both shippers and 3PLs, there are purpose-built, best-of-breed software platforms available that can be employed to implement a 4PL strategy.

THE SECRET OF THE ELITE: BEST-OF-BREED TECHNOLOGY

The software technology platform has always been a key ingredient for successful third party logistics providers. The most successful 3PL providers have leveraged technology that is purpose-built for their industry and enables them to seamlessly manage the logistics execution tasks in a multi-client environment.

As more industry leaders adopt the 4PL model, the technology platform becomes even more critical to success. Managing the 4PL process requires a centralized software platform that provides positive control over all potential activities related to the physical acquisition, inventory, and transfer of goods. Whereas 3PL systems are essentially inward looking at current warehouse processes, 4PL software tools must look both inward and outward to capture data from customers and other collaborators and have the ability to promulgate it throughout the network’s systems.

While some 4PL environments may involve only a single customer, the 3PL model suggests that many will serve multiple customers concurrently. Multiple 3PL contractors and transportation contractors further adds to the complexity and reinforces the need for software that is highly automated, powerful in its functionality, and flexible enough to accommodate the detailed requirements of each customer and each contractor.

The tools required to operate as a successful 4PL can be grouped in three main categories: supply chain planning and execution, trading partner integration, and information management. Within these categories are a broad range of functions that will enable the 4PL to manage the end-to-end supply chain effectively.

SUPPLY CHAIN PLANNING AND EXECUTION

Inventory Management

Inventory entity management (IEM) - Enables collaboration between ERP (accounting/sales) inventory systems and warehouse management systems at the level of detail required for each. The IEM system provides a bridge between the two at a global enterprise network level. IEM can also monitor inventory levels by client and trading partner and facilitate recall management across the network. Example of IEM: Item, Lot, Batch, Product Date, Expiration Date, Serial Number, Style, Color, Size, and pallet license plate.

Inventory Allocation Engine - The complex task of allocating and parsing orders under multiple 3PL scenarios is simplified with automation of the process by category, such as vendor management inventory processes and consignee-based allocation rules. Standard allocation procedures can be applied within single or multiple facilities under user-defined rules.
Receipt Management
Receipt Management encompasses the processing of all inbound shipments across the network and also includes the ability to create receiving information when B2B purchase order/receiving information is missing. It can also edit ERP or Internet-based purchase orders.

Workflow Management
This capability supports management of the flow of goods within the entire supply chain lifecycle, not just inside the four walls of a single facility. It can be managed by shipper, customer, and consignee and can contain all of the business rules for B2B communications with partners as well as specific business and operational rules by shipper, customer, and consignee.

Order Entry Management (OEM)
OEM deals with issues beyond the normal scope of an ERP order management system, allowing logistics operators to create manual orders as well as to edit ERP or Internet-based orders.

Transportation Management
Key components include load building and planning, route optimization, rating, quoting, trip planning, dispatch, carrier audit, shipment tracing, billing, and settlements. Logistics planners can build loads for each specific execution facility, with access to all inbound and outbound shipments, and can optimize loads at best cost within service levels as well as monitor profitability by load, lane, and customer.

Reverse Logistics
Special processes for managing returned goods include validation of returns against returned material authorization numbers and managing inspection and disposition of returns.

Business-to-Business Engine
Electronic data communications are a critical piece of the 4PL model. Business documents (e.g. purchase orders, ship notifications, inventory statuses, invoices) must be generated and transmitted in real-time in potentially a variety of data formats.

Billing and Auditing
Billing and auditing of carriers and logistics service providers is a fundamental element of the software platform. Shippers can audit all invoices from execution providers within the suite, and 4PLs can audit the 3PL resources as well as generate invoices within this function. Since carriers normally perform such audits, this capability represents an additional service on the part of the 4PL.

Costing
This feature allows reporting for costs of handling and transportation to whatever level is specified within the execution systems. This enables the 4PL and shipper to effectively measure the profitability of each entity in the network whether it is a 3PL provider, carrier, or other collaborator.

Customer Service Management (CSM)
CSM employs business processes that are defined within the system. It provides customer service with the means to track issues such as compliance monitoring, claims management, special requests, and service issues, and it also can provide visibility of events outside normal business processes.

Alert Management
The 4PL management and business partners require notification of key data factors in order to optimize operations as a result of dynamically occurring changes. Examples include problems and exceptions; confirmation of supply chain; analytic events such as production slowdowns or dropping perfect order percentage; and proactive notification of technical problems or issues. Alerts should be user-defined and communicated via prioritized delivery mechanisms.
Data Warehouse and Analytics
This serves as a repository for the data required to fully service the various ERP systems and to manage the execution sites that comprise the operating elements of the 4PL solution. The Data Warehouse is also an integral part of the historical reporting and business intelligence components.

Tracking and Visibility
All customers and carriers have full 24/7 access to key data across the entire supply chain. Viewable electronic copies of documents include signed bills of lading, inbound paper work, and track and trace information on key events.

These 4PL management tools interact with systems at each entity in the supply chain network including customers, 3PL facilities, suppliers, and carriers. The software platform not only provides positive control over all of the execution tasks in the network, but it also aggregates and disseminates the data into useful business information. So, even with a diverse set of systems running the operations of their 3PL partners, the shipper will have a single, consistent view of these operations through the 4PL.

Together, shipper and service providers will be able to utilize the vast amounts of data and turn it into valuable business information. With the information, the partners will be able to proactively manage the supply chain and seek new innovations.

5 KEYS TO FORGING A SUCCESSFUL 4PL PARTNERSHIP
Collaborative, strategic partnerships are essential to making the necessary advances to solve the challenges facing today’s supply chains. A strong partnership is also the cornerstone of successfully implementing a 4PL model.

The following are 5 ways that 3PL providers can exemplify the vision and become successful 4PLs for their customers.

■ Be proactive
For a shipper, having multiple logistics services providers will generally inhibit their ability to proactively forge deep partnerships with any of their partners. It is up to the 3PL provider to aggressively pursue strategic dialog in order to gain insight into the customer’s supply chain strategies and challenges.

■ Listen and validate understanding
As the provider enters into strategic dialog with their customer, it is essential that they spend more time listening than talking. Providers must demonstrate their grasp of the customer’s strategies and challenges. It is crucial to validate understanding and seek clarifications when necessary. Actively listening to customer’s needs before presenting solutions will foster trust and will ensure that energies are expended on the right activities.

■ Be open to new ideas to support innovation
A successful 4PL will be willing to collaborate with all parties in the network, including competing 3PL providers. By opening to conversation to multiple parties for consideration, an aspiring 4PL can avoid the common misunderstandings between shipper and 3PL, and what constitutes best practices and acceptable service levels. 3PLs are often resistant to this because they are hired based on competencies as differentiated from competitors. Disruptive innovation, or the idea that a new product or service can, when implemented, significantly disrupt a market and/or value chain, is possible with the emergence of Big Data with its greater frequency and granularity for monitored aspects of supply chain operations. Disruptive innovation has the ability to simplify, automate, generate value, and/or reduce costs, which contributes to success in 4PL.

■ Define clear roles and responsibilities
Clear roles and responsibilities must govern the entire partnership. Although the nature of the 4PL model minimizes the shippers’ interaction with the broader group of providers, when strategic challenges arise, the 4PL may need the influence of the shipper to keep all parties aligned. Sharing of risk must be part of the equation. Having well defined risk mitigation strategies as a component of each party’s role will further the ability to quickly overcome problems when they arise.
Target viable customers for the model

A 3PL looking to pursue 4PL partnerships with their prospective customers may have better success with small and medium size shippers. The reality is that large shippers may have too much invested in their systems and logistics network to place the management of the entire network with a single third party provider. In contrast, with a more limited resource pool, small and medium enterprises are more likely to seek a logistics provider that can bring well-developed systems and process solutions to the table.

By employing a purpose-built technology platform and utilizing the above relationship guidelines, 3PL providers can ensure that they will establish a leadership position in the industry and become an elite in the supply chain industry.

CONCLUSION

Shippers and logistics service providers have the same primary goals: to exceed customer expectations while maximizing efficiency and minimizing supply chain risk. Both shipper and logistics service providers want to stay ahead of the game and keep up with the rapidly evolving digital communications and data trends. The 4PL model offers a mechanism for achieving these goals and fostering deeper, more strategic, innovative partnerships.

For companies that want to become part of the next generation of logistics providers, there are purpose-built, best-of-breed technology solutions available that handle the primary challenge of access to cutting edge technology that encompass supply chain efficiency execution, EDI, and accurate information management functions. The complex management of clients with the additional layer for 4PLs and the billing aspect can be easily done with the right solution. These systems facilitate the implementation of the 4PL strategy without the large upfront costs and risks of custom developing a solution. By combining the technology solutions available with the strong service capabilities of the third party logistics providers, there are no longer barriers to building 4PL partnerships.

It is now clear that the logistics market is ready and waiting for the 4PL model. Whereas before the data to support this thought model was not present and technology not yet advanced enough, all of the tools are available to the successful 3PL aspiring to become part of the next generation of the high performing supply chain elite.