

The Rise of the 4PL

by Gail Dutton

Posted: January 5, 2009

Lead logistics providers—logistics providers who manage other logistics providers—are the general contractors of the logistics world. You don't always need a 4PL, but when logistics become overly complex or too expensive or a non-core competency to shed, the 4PL function can bring depth and unique expertise to process. And, as companies struggle to find a new fiscal equilibrium in the downturn, there's a good value proposition for consolidating the management of that process in the hands of a 4PL.

In today's constrained economy, as senior management increasingly eyes supply chain operations as a key enterprise driver, shippers are turning to 4PLs to find more creative ways to accomplish their goals.

Optimizing the supply chain is a common first step, but their continued value lies in managing relationships and infrastructure, standardizing metrics for reporting and analysis, and pushing innovation through best practices. "4PLs take a purely collaborative approach," explains Eric Bond, president of the 3PL Mach 1 Global Services. There are millions of great ideas wasting away in consultants' PowerPoint presentations because the company was too busy to do further analysis or didn't have the funds to implement them." 4PLs, however, have the capabilities to identify the most effective of those ideas and implement them.

Although the 4PL can add an extra operational layer to an organization's business model, customers say it more than pays for itself in cost savings and efficiency.

Diebold Incorporated needed such expertise when it took its ATMs, vaults, security systems and other banking products international a few years ago. "We expanded very quickly into more than 60 countries very successfully, but without a lot of supply chain optimization," recalls Chris Kushaul, director of global logistics. One notable component that wasn't scaled to the expansion was logistics.

Initially, Diebold worked through 3PLs. But the number of relationships they could manage with a small three-person logistics department was understandably limited. Eventually, Diebold contracted with Meno Logistics to act as their lead logistics provider. This arrangement enabled Diebold to leverage Meno's system, skill set and speed to manage a larger number of 3PLs. As another benefit, Kushaul says the 4PL had more resources and contacts that let him choose from among many freight forwarders and negotiate a better price than was possible with his more limited contacts.



It takes more than strategy to implement supply chain optimization.

Diebold's experience is increasingly common. "The complexity of the supply chain is so significant that a single 3PL can't do it all," underscores Joe Gallick, senior vice president of sales, Penske Logistics, especially as shippers deal with multiple supply chains and management systems throughout the world.

One challenge in managing multiple relationships is aligning different metrics and reporting formats. "Each typically has a different way to manage the supply chain, and a different way in which to report," observes Richard Jordon, vice president, Performance Improvement Group, AlixPartners. "A 4 PL would normalize that data," Jordan explains, making it possible to quickly compare data across the supply chain and across the company. For instance, Gallick says, "Penske knits together the 3PLs into a total, integrated solution." It considers both inbound and outbound aspects of supply chain logistics to leverage synergisms and, thereby, deploy assets as efficiently as possible.

Another key benefit, Bond points out, is the analytic capability 4PLs typically offer, which allows managing the supply chain on a more data intensive basis. For example, the question of whether deliveries arrive safely and on time is expanded to also determine whether distribution points have the right inventory and right inventory levels, Jordon elaborates.

"Optimizing the supply chain is no longer a question of getting a great rate between points A and B," notes Carl Fowler, senior director of 4PL solutions. Instead, "The question is why goods are shipped between points A and B." Digging deeper to ask such questions creates an environment in which the supply chain becomes a competitive advantage.

Take watches, for example. The raw materials for Citizen, Seiko and Timex are about the same, and the costs of manufacturing them are about the same, Fowler suggests. "Therefore, they must compete on the strength of their supply chains—the ability to get raw materials and finished goods to the right place at the right time," he says, which necessitates looking at the issue from an enterprise perspective.

Because a 4PL manages the entire network, it is well positioned to develop meaningful metrics in a common format using terms and definitions that are standardized across the enterprise and its supply chain. With such a system, shippers can see the big picture as well as the details of individual lanes, routes and facilities.

Working with a top 4PL also exposes shippers to best practices and encourages innovation through the supply chain. When a shipper works with a 3PL, the shipper determines what is needed. "But what if you don't know what needs to be done?" Fowler asks. That's when a 4PL can be especially beneficial.

Because 4PLs work with a wide variety of companies in the U.S. and beyond, they are well positioned to see a wide variety of approaches to issues and to assimilate the most effective into best practices that may be applied to their own customers.

When Menlo is first brought in, "We follow the money trail," Fowler says. "Where is the spending? Most

companies really don't know." They can't present a consolidated report that details spending or the reasons for it. So, he says, "We unravel the mess."

As an example of how 4PLs can drive efficiency, Fowler uses a freight forwarding example. Freight forwarders deal with chartered weights and actual weights, so the goal is to minimize the difference between those weights and thereby get better unit prices, he explains. A good 4PL takes the analysis beyond transportation, however, to involve packaging engineers and product engineers, too. It often takes the collaborative environment of a 4PL to pull these groups together to optimize the aspects that affect the supply chain.

Changing the structure of the network is an approach 4PLs typically take. Charlie Covert, vice president of global solutions implementation at UPS, advocates optimizing the supply chain network, including warehouse and distributions center locations, staging and transportation nodes. "These are primarily one-time savings, but are important," he insists. He also recommends taking a critical look at transportation modes and shipment times. Fluctuating economics may require changes to modes of shipment. "What combination of modes is appropriate from a tactical approach?"

The decision to collaborate with a 4PL is what Fowler calls the "make versus buy" decision. "On a basic level, anything that can be done by a 4PL can be done internally," according to C. John Langley, professor of supply chain management at Georgia Institute of Technology. The question, though, is whether it can be done as well or as efficiently. "Is it more effective to improve supply chain utilization internally by finding and recruiting logistics experts in what several have said is a supply-starved field, create a vision and buy the tools and systems to drive value, or to outsource?" Fowler asks. In most cases it's the latter.

"4PLs bring the traditional benefit of outsourcing," Georgia Tech's Langley says. Those include management and logistics expertise, return on investment, economies of scale and the ability to adapt rapidly to change in the supply chain.

Those attributes were at the heart of a U.S. Department of Defense (DOD) move a few years ago to hire a 4PL to manage some \$6 billion in DOD business. When some small and medium companies filed a lawsuit to block the move, Langley was retained by the government as a supply chain expert. The smaller firms' fear was that a large company would take a significant amount of their business, he says, but "the government found the advantages of working with a 4PL too great to miss."

Benefits accrue to the 3PLs that work with 4PLs too, Langley points out. "Working with a large company can help small- and medium-sized companies increase their volume of business," by exposing it to additional clients and other divisions, says Mach 1 Global Services' Bond.

The partnerships that are formed through 4PL collaboration mean that "we get the opportunity to do what we do well," Bond explains. "A 4PL would have multiple partnerships, so I don't have to be an all-in-one solution. No company is great everywhere!" he stresses.

It's not enough to hire a 4PL and wait for stellar results. Instead, Kushaul says, "It's important to set up the 4PL for success." Among other things, that means ensuring that the 3PL knows it's a requirement to work with the designated 4PL. "Going around the 4PL to me isn't an option," he emphasizes.

There are also a few downsides, Kushaul points out. "As you outsource, a bit of control is lost. Therefore, it's important to work closely with the 4PL to ensure you have the right level of detail and the right fit. The cultural fit is extremely important, too," he adds. "The executive level sees and understands the benefit of a 4PL, but it's not necessarily clear at the grassroots. There's certain nervousness about the direction that has to be addressed," Kushaul says. "We didn't change the people, he emphasizes, but we changed their work to ensure that Diebold requirements were well-met."

"Only a fraction of supply chain managers have the understanding and commitment to use 4PLs," Langley says. "There's still a significant knowledge gap on the part of customers about the value a 4PL can provide." 4PLs are at about the same place 3PLs were 15 years ago. "The market is still trying to determine how to use them," Langley says. wt

Sidebar: What's In a Name?

Although the industry itself is a bit confused over who's what, providers generally agree that perhaps the key distinction between 4PLs and 3PLs is that the former doesn't own assets and the latter does (e.g. trucking fleets, warehouses). But even that's not a hard and fast delineation as many 3PLs morph into 4PLs.

"A true 4PL, in my opinion, essentially provides procurement and supply chain consulting services. But they also distinguish themselves from pure consultants by actually implementing and executing upon their ideas and suggestions to their clients," says Eric Bond, president of Mach 1 Global Services in Tempe, Arizona.

"The vast majority of 3PLs, even if non-asset based, offer integrated or a la carte four wall and transportation services. True collaboration with their clients is often disingenuous, if not impossible," Bond says. The reason? They often have resources of their own to sell, which may encourage them to cherry pick the rates and services they offer in a bid process.

The question is whether asset-based 4PLs can remain utterly objective when choosing between third-party assets and those of their own company? That's why Whirlpool insisted on complete separation between its 4PL—Penske LLP—and Penske's 3PL operations (which, as Penske Logistics' Joe Gallick points out, "is used only when that makes sense for the customer").

Another concern is that some companies, which consider themselves 4PLs, lack the resources and

expertise to perform. Bond uses the analogy of trying to fit a square peg into a round hole. On the other hand, Raj Penkar, VP of customer solutions at UPS says, “Without assets, there’s very little you can add to long term value.” Both views have their merits, and the industry seems destined to debate the relative merits of each for some time.

Sidebar: How Penske Logistics Saved Whirlpool \$40 Million

Whirlpool Corporation chose Penske Logistics as its 4PL about three years ago and realized savings of more than \$40 million from one brand alone. Those savings may have been outside the norm because the newly acquired brand was being integrated into the company. But even so, that wasn’t the only savings.

Within a few months of signing on with Penske Logistics, Whirlpool saw increases in on-time loading, departures and deliveries by 12 to 13 percent. “Our clients got better visibility into our capabilities, and we’re better at telling them what we can and can’t do,” Brian Hancock, vice president, supply chain, Whirlpool Corporation, says.

Whirlpool had worked with Penske before, using the company as its sole 3PL. “We have a complex footprint,” Hancock says, with more than 60 manufacturing and research facilities throughout the world, and a direct sales force in more than 170 countries. When management took a customer-centric approach to analyzing its supply chain and to benchmark others’ to identify best in class practices, it realized its global customers could be better served with multiple 3PLs. So, to ensure that the supply chain remained homogeneous from the customer’s perspective, Whirlpool hired Penske as its 4PL.

The decision came with some caveats, though. Penske completely separated its lead logistics provider operations from Penske 3PL, including financial statements, technology systems, human resources and physical locations. Whirlpool worked closely with Penske to determine what information could be shared, developed a code of conduct and a process of signoffs. “There is an agreement at the very top that people won’t be mistreated for being objective,” Hancock says.

Working with a 4PL doesn’t mean you can just hand-off management to the 4PL entirely, Hancock stresses. “You need a different skill set,” he elaborates. “Rather than being good at managing routes, you have to be good at managing a vendor. You have to trust but verify.”

Gail Dutton

Gail Dutton is a veteran journalist, covering national and international business and technology issues from her office in Montesano, Washington.