

3PL to 4PL Lead Logistics Provider (LLP) Business Model

By Trevor Barrows

1 Executive Summary

A 3PL or third-party logistics provider is defined as a company that provides logistics services for its clients and customers, where as a 4PL or fourth-party logistics provider is defined as a company that provides logistics services that manages a group of logistics providers that perform 3PL operations, including value add services.

Driven by supply chain forces 3PL's are consolidating into 4PL service providers more commonly called Lead Logistics Provider (LLP). Given increasing pressures for speed, flexibility and global reach, the LLP role provides greater functional integration, and assumes more operational responsibility.

Increasingly companies must collaborate in engaging an enterprise logistics system that integrates to manufacturing, enterprise-requirements planning, and warehouse management systems to optimise the entire supply chain, not just transportation, for improved supply chain performance and competitive advantage.

To gain the speed and global reach of today's supply chain, it is necessary to create new ways to source capabilities. It is necessary to collaborate rather than purchase. It is necessary to share authority rather than direct outcomes. It is necessary to integrate the supply chain functions more broadly. To do this requires know-how and resources beyond the capabilities of a single organisation(s).

Trevor Barrows has found that assisting companies in creating a distinct LLP organisation is a path to greater competitive advantage. A LLP organisation brings focus to the supply chain in which all parties share sourcing because the successful LLP organisation is founded on principles of shared risk and shared reward.

The scope of today's business requires greater functional integration of the supply chain. This integration is critical to achieving speed, precisely described service and optimal cost. It is no longer sufficient to outsource discrete functions.

Each of the disciplines of the supply chain must be evaluated. If one of the disciplines is not best of breed, then a way must be found to align, source, acquire or venture with a best of breed capability. After all, a supply chain is only as strong as its weakest link. Then, having established well defined objectives and associated metrics, gives the LLP entity the authority to act.

In developing LLP capability better enables member entities to:

- Develop agile supply chain practices
- Collaborate in 'Factory Gate Pricing' initiatives with major distribution channels
- Provide track and trace audits for legislation conformance such as 'bio-terrorism'
- Compliance with future customer supply chain requirements such as Serial Shipping Container Codes (SSCC) and RFID Tagging
- Address growing demand for customer sustainability strategies for shared corporate social responsibility (CSR) and legislation regarding greenhouse gas emissions
- Leverage overall supply chain assets in reducing cost and improving customer service

In summary there has been much debate in industry about the lack of logistics innovation. By industry and companies collaborating in LLP business models leverages the optimal utilisation of existing logistics assets into cohesive demand driven supply chains.

2 LLP Model

2.1 3PL Outsourcing benefits, Issues and Success Factors

Outsourcing can be defined as converting core activities from cost centres into profit centres, the benefits, issues and success factors for which consider the following:

Benefits:

- Rationalisation and reduction in assets
- Cost reduction from better use of assets
- An improved management focus on core competencies
- Improved working practices
- Improved control systems
- Economies of scale providing lower overheads
- Customer service improvement

Issues:

- Make decisions from not identifying and balancing all issues
- Scope and responsibility of 3PL not correctly defined
- Poor construction of contracts
- Unstructured pricing mechanism
- High tender pricing due to ignorance of customer market
- No clearly defined KPI's or realistic KPI's
- Failure to establish working relationship with all parties
- Lack of communication
- Loss of key staff in new arrangements
- Failure to address HR & union issues

Success factors:

- Ensure all overhead costs are considered
- Ensure contract has mutual benefits for all parties
- Establish correct pricing mechanism
- Specify all tasks and responsibilities of all parties
- Handle HR and union with care and attain early 'buy in'
- Embrace staff
- Establish and agree mutual KPI's
- Ensure all parties share in the risk and reward equally

2.2 Core Competency and Capability in Outsourcing

Core competency can be defined as the combination of individual technologies and supply chain skills that underlie a company's myriad of supply chain processes, including production and logistics.

Capability can be defined as a company's time to market in delivery of the value derived from its core competencies.

Competency and capability represent two different but complimentary dimensions of emerging corporate business strategies that should be considered. Both concepts emphasise behavioural aspects of business strategy in contrast to traditional structural models. However where as core competency emphasises technology and SCM processes at points along the value chain, capabilities are more broadly based encompassing the entire supply chain, including outsourcing partners. In this respect capabilities can be achieved by ensuring core competencies are maintained or improved upon.

Core logistics supply chain competency improvements that are discussed in associated white papers are as follows:

- Demand Planning
- Transportation Planning including:
 - Multi-modal transportation order aggregation, splitting and pooling (cross docking)
 - Load Optimisation
- Advanced Warehouse Management including:
 - Voice Picking
 - Radio Frequency Tag Devices

The basic principle is gaining competitive advantage via improved capabilities that should consider the following:

- The building blocks of corporate strategy are not products & markets but business processes
- Competitive success depends on transforming key business processes into strategic capabilities that consistently provide value to the end customer
- A company(s) should create these capabilities by making strategic investments in a Lead Logistics Player (LLP) support infrastructure that links together and transcends Strategic Business Unit (SBU) functions
- The capabilities put in place should be cross functional, the champion of a capabilities based strategy being the CEO.

By developing core competency and investing in a LLP capabilities infrastructure will enable improvements in market scalability and flexibility as follows:

- Speed – ability to respond quickly to market demand
- Consistency – ability to meet customer expectations
- Anticipation – ability to predict the competitive environment
- Agility – ability to adapt to changing business processes
- Innovation – ability to create new ideas and hence ongoing value

2.3 Lead Logistics Player (LLP) Business Model

A Lead Logistics Player (LLP) may be defined as an organization that manages a full scope of logistics services for a company by aggregating and coordinating the services of multiple logistics service providers. The LLP serves as the single point of contact between its client(s) and the array of logistics and information service providers executing the client's supply chain. The LLP has full responsibility for the performance of service providers under contract.

The LLP assumes operating responsibilities beyond that of the traditional 3PL arrangements and has fundamental infrastructure differences to 3PL model as described in figure 1 & 2:

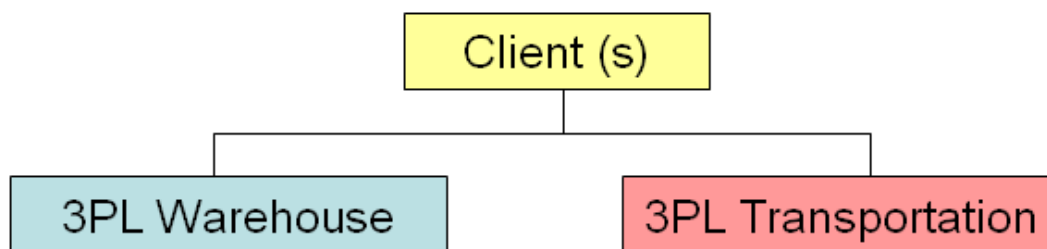


Figure 1: Traditional 3rd Party Logistics Model Infrastructure

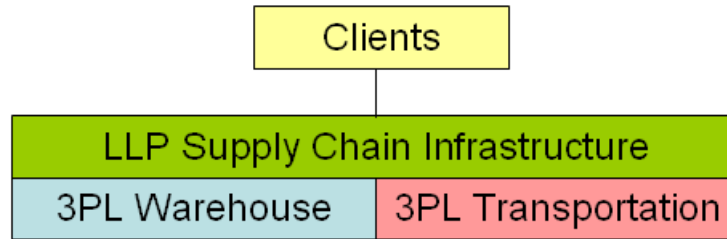


Figure 2: LLP Model Infrastructure

The traditional 3PL model has the disadvantage of:

- Multiple Invoices
- Disparate core competency
- Disparate commodity providers (warehousing and transportation)

The LLP assumes functional integration of the overall supply chain functions, which has not been a characteristic of 3PL's. The advantages of the capabilities created by a LLP business model are as follows:

- Provides for a single point of invoice and contact
- Enables the integration of supply chain core competencies
- Enables the leveraging of core competencies to achieve strategic capabilities in attaining competitive advantage
- Enables an end to end supply chain scope in creating ways to source strategic capabilities
- Fosters 'collaboration' as opposed silo procurement of capabilities
- Shares authority rather than direct outcomes
- Integrates supply chain functions more broadly
- Provides broad depth of resources and responsibilities
- Provides an infrastructure to control overall supply chain processes and associated KPI's

Based on the observations and recommendations of this report the envisaged LLP technology competencies required to achieve the above capabilities is described in figure 3:

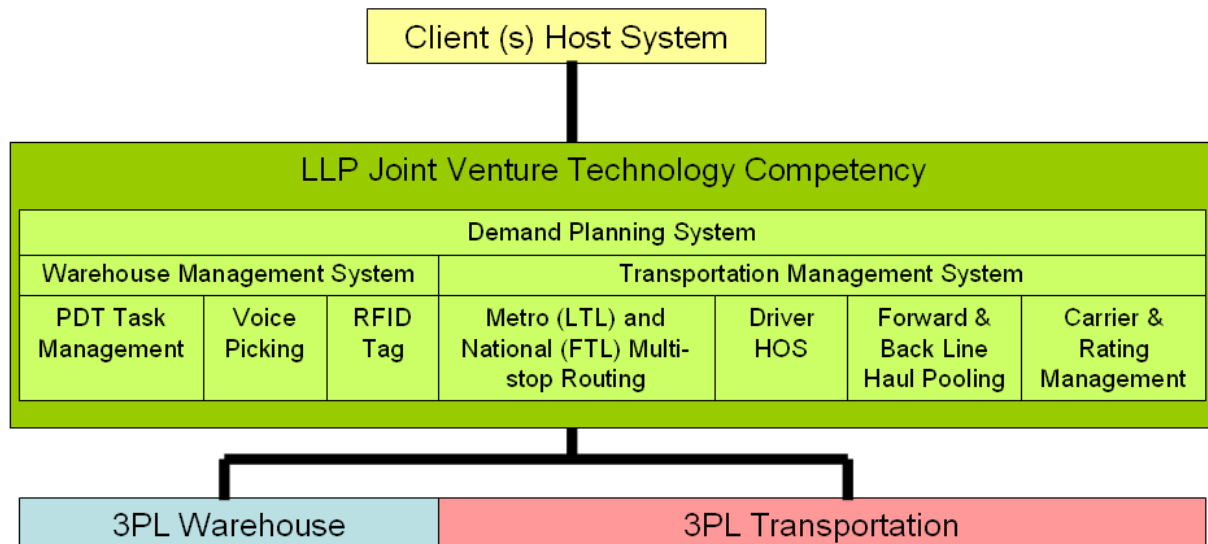


Figure 3: LLP Competencies

TB has case studies and proven LLP models that has assisted shippers reduce excessive freight charges, increase shipment visibility, improve logistics and late service failure rates, and eliminate communication gaps. This LLP business model has had a profound impact on LLP member entities bottom line reducing direct carrier costs through consolidation and achieves savings in the 10-25% range.