

Third and Fourth Party Logistics

What Are Third Party Logistics?

As global trade rapidly expands and companies increasingly source materials and customers internationally, many companies are outsourcing their logistics requirements. This outsourcing is known as *third party logistics*, and stems from a school of thought that logistics is not core business for manufacturers and other exporters.

A Third Party Logistics provider (often referred to as a “3PL”) is *“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.”*¹

This outsourcing can take place on several different levels, from a superficial, transaction based approach, to a strategic long-term relationship with integrated systems (particularly IT) and transactional transparency. Different integration levels will suit different businesses, with not all wishing to be “locked in” to a single provider or investing significant resources into a strategic partnership.

Reasons to Use a 3PL

Time: Outsourcing the Logistics function can free up resources to focus on core competencies.

Efficiencies: Even if you have resources available, another organisation within the supply chain may be able to do it better, simply because of its relative position in the chain, expertise and economies of scale.

Shared Responsibility: 3PL companies can share responsibility for managing global supply chains, keeping customers and stores properly stocked, and delivering the perfect order every time.

Re-Engineer Distribution Networks: Logistics outsourcing can be a quick way to re-engineer distribution networks to meet global market demands and gain a competitive edge.²

¹ <http://cscmp.org/digital/glossary/glossary.asp>

² Sangam V.K., *3PL defined and discussed*, <http://www.docstoc.com/docs/25908018/Global-Logistics-outsourcing-trends>

Functions of a 3PL

The function of a 3PL can include:

- Inventory management (including warehousing and Vendor Managed Inventory [VMI] systems)
- Domestic Distribution (both road and rail transport)
- International Distribution (Air and Sea, inc container packing, insurance, documentation, track and trace)
- JIT and similar production systems
- IT communication interfaces.

3PLs concentrate on the operational tasks to be completed: handling shipping/air line bookings, liaising with government agencies, dealing with warehousing requirements and arranging deliveries. On the other hand, the transport management process is increasingly being handled by newly emerging Fourth Party Logistics (4PLs).

Fourth Party Logistics

A 4PL is a company that specialises in dealing with 3PLs in order to manage the operational chain. 4PLs do not perform the operational tasks themselves, but instead manage 3PLs in order to provide logistics support.

To avoid any conflict of interest, it is important that 4PLs be non-asset based, as far as logistics, transportation, and supply chain management assets are concerned. 4PLs use 3PLs to supply service to customers, owning only computer systems and intellectual capital.³

4PLs are *'a new business model, integrating resources, capabilities, and technology of the lead enterprise(s), and other organisations with complementary capabilities, to design, build, and run comprehensive supply chain solutions.'*⁴

Further Information

- Andrea MacDonald, *3PLs: The Next BIG IDEA*
<http://www.worldtrademag.com/Articles/3PL/c12e82712aaf7010VgnVCM100000f932a8c0>
- *Characteristics, Strategies and Trends for 3PL/4PL in Australia*, LAA, 2004,
http://www.laa.asn.au/pdf/3PL4PL_Report.PDF

³ http://en.wikipedia.org/wiki/Fourth-party_logistics

⁴ http://www.laa.asn.au/pdf/3PL4PL_Report.PDF Access on April 20 2011