

## **“The evolving Third Party Logistics (3PL) offering”**

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by

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### **A short and chequered history**

The first 3PLs emerged in the 1970s, and mostly resulted from the diversification of either transportation or public warehousing companies. It is significant that the very *operational mindset* of those early 3PLs has in many cases carried through to the present day, and herein lies the problem.

Principals/shippers with products to be managed through their various supply chains have for a long time harbored the suspicion that 3PL contractors presented them with a service risk, because they were unlikely to understand the business, and care for it as much as the business owner.

On the other hand, 3PLs did offer the prospect of scale, with corresponding cost reduction per unit. Unfortunately, this has not always occurred and expectations have not been met.

In the last decade, the better performing 3PLs have made significant strides to overcome the ‘credibility’ gap with shippers. But the problem is not just on the 3PL side. Shippers, while expecting the benefits of scale and a continuous improvement mentality, have generally not pulled their weight to free up the contractual complexity that has dogged shipper-3PL relationships for years. Consequently, the desired atmosphere where innovation, creativity and trust thrived for mutual benefit has largely not prevailed.

In the meantime, globalization has meant that principals have been looking for ever wider coverage of their business, and in turn this has driven much of the rationalization that has gone on at the top end of the 3PL provider market. Companies such as DPWN have stitched together a comprehensive portfolio of services through multiple acquisitions, and are therefore in a strong position to meet the ever-increasing demands of their global customers, if they can get the integration issues sorted out!

### **The rise and rise of new supply chain business models**

The 3PL was a new business model in the 1970s, but by the mid-1990s it was clear that shippers were generally unhappy with the service they were getting for the costs and management effort involved. A lot of the early aspirations had disappeared, and shippers were in the market for the next innovation in business models.

This came in 1994 when Accenture (formerly Andersen Consulting) launched the Fourth Party Logistics (4PL) model. From the shipper perspective this new model showed a lot of promise, and indeed has been applied successfully in many industrial situations around the world over the last decade. What this model did was offer a single point of contact for shippers, and largely overcame the strategic weaknesses of earlier 3PLs. The 4PL concept was in effect a non-asset owning management company that acted as a type of Air Traffic Control tower, with some very special capabilities *embedded* in its structure:

1. It was owned in large part by one (1) or more of the major shippers doing business; this is an important principle that many subsequent players did not fully comprehend, ie., that the enterprises which own the business, retain a majority interest in the new service company;
2. It was an organization designed for a specific purpose and as such key capabilities were specified and quickly introduced to the structure simply by inviting those parties in that had these capabilities already – *embedded alignment*. So the new organization was in effect a *best-of-breed* enterprise, held together through equity holdings of various sizes.
3. As such, the 4PL did not have the contractual complexity encountered by former 3PLs, and which inevitably had led to an adversarial operating environment as the marketplace became increasingly unpredictable;
4. Innovation and strategic thinking was encouraged as an integral part of this new enterprise, and played a complementary role to operations. In the latter case, often a 3PL would be invited in as a minority party to manage the operations, even though it might also be undertaking an operational fulfillment role as well, along side other selected 3PLs.

Unfortunately, some 3PLs were threatened by this 4PL development and set out to transform themselves in a 4PL of sorts. This in turn led to a lot of confusion in the marketplace among shippers, and the founding principles on which the original 4PL concept was based became blurred or lost. As a result, so called 4PL providers came into the market and again failed to deliver. A variation of this is the Lead Logistics Provider (LLP) where one 3PL undertakes to manage other 3PLs in a particular contract for a shipper. This arrangement has also met with limited success, especially where 3PLs of similar standing are in this master-servant style relationship. It may work in China where a more sophisticated 3PL is managing an array of small unsophisticated providers that service outlying areas at low cost, but it doesn't translate well where providers of equal ilk are involved.

Where to from here- the *best-of-both-worlds* strategy

In reality, we need single mode providers, multiple mode providers such as 3PLs, and we also need an over-arching management entity to integrate and manage all parties involved; they all have complementary roles to play. Taken together, they can be molded into a high-performance 4PL, or in the more modern vernacular, a Joint Services Company (JSC), that co-ordinates the efforts of the two lower levels,

and brings culture, knowledge, technology, and innovation into play. The three levels can and must work in unison for the benefit of the shipper and the health of the various operators involved in the model. The important principle here is that all parties must make money on a sustained basis, and share in the rewards for reducing operating costs over time. 3PLs continue their vital role in fulfilling the physical tasks involved, and may also have a role in the JSC, in this way getting two bites of the cherry. There is no limit to the possible combinations and permutations of 4PLs/JSCs going forward, because the concept transcends industry borders and buyer-seller boundaries. But success only comes if you stick to the proven principles. No short-cuts allowed.

### Whether 3PL or 4PL- the secret lies in ‘cultural alignment’

The key to achieving high-performance from your supply chains, both operationally and financially, lies in recognizing that whoever is involved in the ‘chain’ or ‘network’, there must exist genuine ‘collaborative’ values on all sides. For the shipper-3PL relationship, this means dispensing with complex and penalty-riddled contracts, and embracing more of an open collaborative relationship that sits on top of a minimalist contract, one that can be easily modified if operating conditions demand it. This ‘cultural alignment’ issue must be addressed at the time a 3PL is being considered for selection, and involves discussions at top, middle, and operating management levels because they must all be working in unison on both sides of the relationship. Remember, technology and asset management doesn’t drive product through supply chains, but human behavior does. If you do choose to go to an ‘industry-level’ solution and lead the development of a 4PL, then the key to success again lies in the selection of the right participating parties who bring the desired capabilities to the new business, and are all fully ‘aligned’ with each other for the common good of the overall enterprise.

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### Dr John Gattorna-Short Bio

Dr John Gattorna is an acknowledged ‘thought leader’ on the global supply chain scene. Over the last 25 years he has researched, consulted, and worked in various capacities in supply chains around the world. He established and led the Accenture Supply Chain practice in Australia, New Zealand, and Southern Asia, 1995-2002, and since then has focused on advising Boards and senior management in ways to transform and improve the ‘alignment’ of their enterprise supply chains with customers, suppliers, and third parties.

John is a prolific writer on the topic, and his latest book, *Living Supply Chains*, (FT Prentice Hall, London, 2006), is receiving wide acclaim for its originality and insight. He is much sought after as a speaker on the international conference circuit,

**and holds a number of Visiting Professorships at universities in Australia, the UK, Asia and Europe.**

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