4PL – Revival, Fad or Mirage?

A statement from the perspective of Dr. Klaus-Peter Jung, Miebach Consulting
“4PL is a concept where an independent third party controls logistics service providers mostly in the transport sector.”
Introduction

The term 4th Party Logistics Service Providers – or 4PL for short – repeatedly comes up in public discussion. Already during the 90’s many postulated the success of the concept but this was far away from reality. Comparing the publications, talks and other PR related activities at that time to the number of projects actually implemented it seems that the 4PL euphoria has been more marketing hype than an actual trend.

Long forgotten, the concept is now being revived – 4PL is back in the public debate. But what is this all about, why is this issue being taken up, which players are important and for which kind of industrial and retail customers could this approach be interesting? The following pages give answers to these questions.
What is the concept about?

4PL is a concept where an independent third party controls and manages logistics service providers (mostly in the transport sector). This third party is often an independent third party, such as an outsourcing partner. Another possibility is that a logistics, shipping or scheduling department of an industrial or retail company has been set up as an independent business unit with the purpose of controlling the service providers, as can be seen in the cases of Metro and Volkswagen.

Which players are important?

The players can be divided into several subgroups. During the 90’s a distinction was made between logistics service providers and companies who didn’t provide the services themselves and had the sole purpose of controlling.

- Logistics service providers were mainly represented by global players such as Kühne + Nagel, Schenker and DHL. They were not only controlling other service providers but also provided some of the services themselves or respectively had their own subcontractors provide them.

- Companies who didn’t provide the services themselves were mainly spin-offs or start-ups trying to establish standardized data and IT process transactions, today also known under the term “Internet of things”.

While logistics service providers have been successfully offering their services in a modern, transparent and efficient way ever since, for example the introduction of control towers, companies who only focused on the controlling function failed at first due to insufficient logistics know-how and lack of market acceptance. However, lately they have been experiencing a revival under the buzzword “business process outsourcing” as IT-savvy, extremely transaction based service providers, as can be observed for Accenture and CSC. These kind of companies tend to be successful when a large number of transactions with high standardizability is involved and only little logistics know-how and manual interventions (for instance full truck load point-to-point in the chemical industry) are required. Furthermore there is a market niche for firms such as 4PL Central Station and 4Flow who offer their own tool solutions and try to establish themselves either industry-specialized or industry-wide between actual service providers (carriers, transport service providers) and customers within the supply chain.
Why is the 4PL concept experiencing a revival?

There are two reasons why the 4PL concept which was hyped during the 90's didn’t prevail: service providers weren’t trusted to fulfill the independent role between shippers and other transport service providers, while non-logistics service providers often lacked crucial logistics know-how. Moreover, an increasing number of companies who decided to cooperate with 4PLs realized that they started to become reliant on a single supplier, which is clearly undesirable. These findings are congruent with several research analyses such as our outsourcing study that verifies amongst others that especially processes which had previously been outsourced are more and more provided internally again (see Miebach logistics outsourcing study 2014). Furthermore there are hardly any feasible cost benefits within controlling functions and these are after all the main drivers of logistics outsourcing in industrial and retail companies. The revival of the concept is based on different reasons: on the one hand it can be observed that the idea is being revived in industries with a high standardizability of scheduling and handling processes. These industries are characterized by a clear focus on transaction costs reduction and are less about logistics know-how or customized solutions. Due to technological advance by means of IT, big data, etc. these requirements can be met more easily today. On the other hand the established service providers have developed their concepts so they can offer interesting solutions to their customers such as improving supply chain visibility and the level of information for decision-making even without having a historical focus on providing services internally.

For whom is this concept beneficial?

Each company that is looking at the 4PL concept or which has been made an offer should thoroughly evaluate the pros and cons of such a contract. A few simple questions can give a first orientation (see next page). 4PL can’t be assessed in general, it’s neither devil’s work nor panacea. It’s necessary to deal with this topic intensively and to avoid hasty decisions. Finding an efficient and sustainable solution that fits the individual occurrences and needs of the company should be given priority in the decision-making process.

41% of shippers have been insourcing services during the last years.*

* Study „Logistikoutsourcing 2014: Hype weicht Professionalisierung“
Miebach Consulting GmbH, Frankfurt am Main.
Is my company ready for a 4PL solution?

- Do I have the required know-how within my company in order to provide logistics planning, controlling and management functions internally with good quality, both today and in the future?

- What costs and quality advantages can be realized by means of a 4PL?

- What are my logistics planning, controlling and management costs in comparison to planned and controlled costs? Which alternative has the best leverage to optimize costs?

- Are alternatives such as supply chain visibility and control towers similarly beneficial for me compared to a 4PL concept?

- How much logistics know-how is necessary, how much standard can I afford?

- Do I know other companies who have had good/bad experiences with this concept?

- How can I ensure that I neither lose the control of my logistics nor become reliant on a single supplier when contracting a 4PL?
Miebach Consulting: The Supply Chain Engineers

Miebach Group

The Miebach Consulting Group was founded in 1973 in Frankfurt, Germany by Dr. Joachim Miebach to provide supply chain consulting as well as engineering services in logistics and production for large and medium-sized companies on a global scale.

The experience we have gained over the last forty years and by implementing countless projects has helped us to develop a methodical approach to supply chain engineering. We design and develop network structures, processes, and intralogistics along the supply chain. Strategy and technology are fully and equally taken into consideration as only integrating both elements will help develop an optimum result.

As consultancy partners, we deliver our services worldwide across twenty offices from Bangalore to Santiago de Chile. With approx. 350 employees Miebach is one of the leading global consultants for logistics and supply chain design.

Our global network of offices in key regions of Europe, North and South America, and Asia ensures we can provide optimum and effective support to our international customers based on local background knowledge.

Expert knowledge

Over the last four decades, we have developed innovative logistics solutions, integrating the following competences which are key to an efficient and functional supply chain.

Miebach Consulting’s strength is the ability to integrate these competences providing comprehensive solutions which exceed our customers’ expectations. We design strategies, develop cost-effective feasible concepts, and determine IT solutions and technical equipment right down to the last detail. We take over responsibility and implement the solution we have developed. We also support customers during startup and fine-tune live operation. We believe that going the extra mile is the best way to make our customers’ vision work. Our continuous efforts in Research and Development often generate ground-breaking innovations.

Industry specialization

Miebach Consulting provides consultancy services to a broad range of industries. We believe that specialization is a must, in order to gain an exact understanding of our customers’ specific requirements and processes. The exchange of expertise between industries also provides the perfect means to develop innovative and best in class solutions for our customers.

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- 24 offices worldwide
- 350 employees
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