

# Third-party logistics

3PL

## What is 3PL?

Third-party logistics (abbreviated as 3PL, or TPL) in logistics and supply chain management is an organization's use of third-party businesses to outsource elements of its distribution, warehousing, and fulfillment services.

Third-party logistics providers typically specialize in integrated operations of warehousing and transportation services that can be scaled and customized to customers' needs, based on market conditions, to meet the demands and delivery service requirements for their products. Services often extend beyond logistics to include value-added services related to the production or procurement of goods, such as services that integrate parts of the supply chain. A provider of such integrated services is referenced as a third-party supply chain management provider (3PSCM), or as a supply chain management service provider (SCMSP). 3PL targets particular functions within supply management, such as warehousing, transportation, or raw material provision.

The global 3PL market reached \$75 billion in 2014, and grew to \$157 billion in the US; demand growth for 3PL services in the US (7.4% YoY) outpaced the growth of the US economy in 2014. As of 2014, 80 percent of all Fortune 500 companies and 96 percent of Fortune 100 used some form of 3PL services. See the 3PL show in Figure 1.1.



Figure 1.1.3PL

## How third-party logistics work

Here is an example of how 3PL arrangements operate: A book publisher hires writers, editors and graphic designers to produce publications, but it may not want to handle the consumer

ordering process or transportation of book shipments. Instead, the book publisher uses a fulfillment center to process its online orders and hires a trucking carrier to haul its freight. The fulfillment center and carrier both act as 3PL providers. It's possible for a single 3PL provider to fulfill and ship book orders, too.

By contracting with a 3PL provider, the book company can use supply and distribution services only when needed, thus controlling costs more effectively while focusing on its core competency of producing books.

Investigate crucial capabilities when comparing 3PLs:

### **Types of third-party logistics providers**

Full service, end-to-end solution

- Warehousing
- Transportation
- Cross-docking
- Inventory management
- Packaging
- Freight forwarding

Size and specialization matter. Some 3PLs lack the native full-service capability and specialize in one or two areas. Larger established firms offer end-to-end execution and integrate seamlessly.

### **Advantages to approach 3PL**

**Cost reduction** 3PLs have more leverage with freight companies than individual shippers do. Working with carriers on behalf of multiple customers, 3PLs can negotiate pricing based on volume and order frequency. Using a 3PL to manage all or part of your supply chain also gives you the freedom to invest in other key areas to grow and develop your business.

**Scale up or down as needed** most businesses experience fluctuations in demand throughout the year. Using a 3PL allows you to manage peaks and troughs more effectively without having to commit to capital when you don't need to.

**Provide a better customer experience** Customers expect next-day or same-day shipping as standard. Using a third-party logistics provider allows you to offer fast shipping no matter where the order is being sent, thanks to having access to the 3PL's wide distribution network.

**Test new markets** with an international 3PL, you have the flexibility to test the waters in new markets without having to commitment to any major investments like your own warehousing space or staff.

**Mitigate risk** shipping delays can and do happen for a number of reasons. When unforeseen circumstances pop up, a 3PL is responsible for making alternate arrangements to fulfil your orders as quickly as possible. You'll also be protected in the event of damage or loss of goods.

**Gain instant expertise and knowledge in the field** especially if you're just starting out, who better to take care of your logistics than a company that specializes in them? Fulfillment, warehousing and shipping come with major challenges of their own, so handing it off to the experts can really make a difference in the way you function - and it leaves you to focus on increasing your overall value to your customers.

**Get a handle on international logistics** If you're selling internationally, 3PLs can take care of documentation, customs, duties and other issues that come up at the borders that can delay your shipments and result in high costs if not done thoroughly. Plus, you save time trying to work out complicated rules pertaining to different countries.

**Generate cost savings** when it comes to warehousing, not having to maintain your own space and staff can be a big cost-saving measure. Also, companies that provide good inventory forecasting can help optimize your inventory levels and save money on inventory holding costs.

### **3PL Vs 4PL**

Typically, the 4PL does not own transportation or warehouse assets. Instead, it coordinates those aspects of the supply chain with vendors. The 4PL may coordinate activities of other 3PLs that handle various aspects of the supply chain. The 4PL functions at the integration and optimization level, while a 3PL may be more focused on day-to-day operations. A 4PL also may be known as a Lead Logistics Partner (LLP), according to the CSCMP.

The primary advantage of a 4PL relationship is that it is a strategic relationship focused on providing the highest level of services for the best value, as opposed to a 3PL that may be more transaction focused. A 4PL provides a single point of contact for your supply chain. With a 3PL, there may be some aspects that you still have to manage. The 4PL should take over those processes for you, acting as the intermediary for 3PLs, carriers, warehouse vendors and other participants in your supply chain.

The 4PL relationship simplifies and streamlines the logistics function using technology for greater visibility and imposing operational discipline across many partners and suppliers. The enterprise can focus on its core competencies and rely on the 4PL partner to manage the supply chain function for maximum value. Basically, the 4PL acts as the enterprise would if the supply chain functions were managed in-house.

As companies transition their supply chain model to forward deployment or decentralized distribution, a 4PL partner can step in and manage that complexity. Retailers, in particular, are shifting toward a more nimble model to support e-commerce and omnichannel services. A 4PL can manage the multiplying number of resources that it takes to compete at that level. The days of the million-square-foot super regional DC may be over, as companies opt for shared warehouse space near major customer centers to speed up responsiveness. The 4PL can manage those relationships, as well as optimize the network to use parcel carriers or couriers to support e-commerce, rather than LTL or truckload services. See the 3PL Vs 4PL show in Figure 1.2.

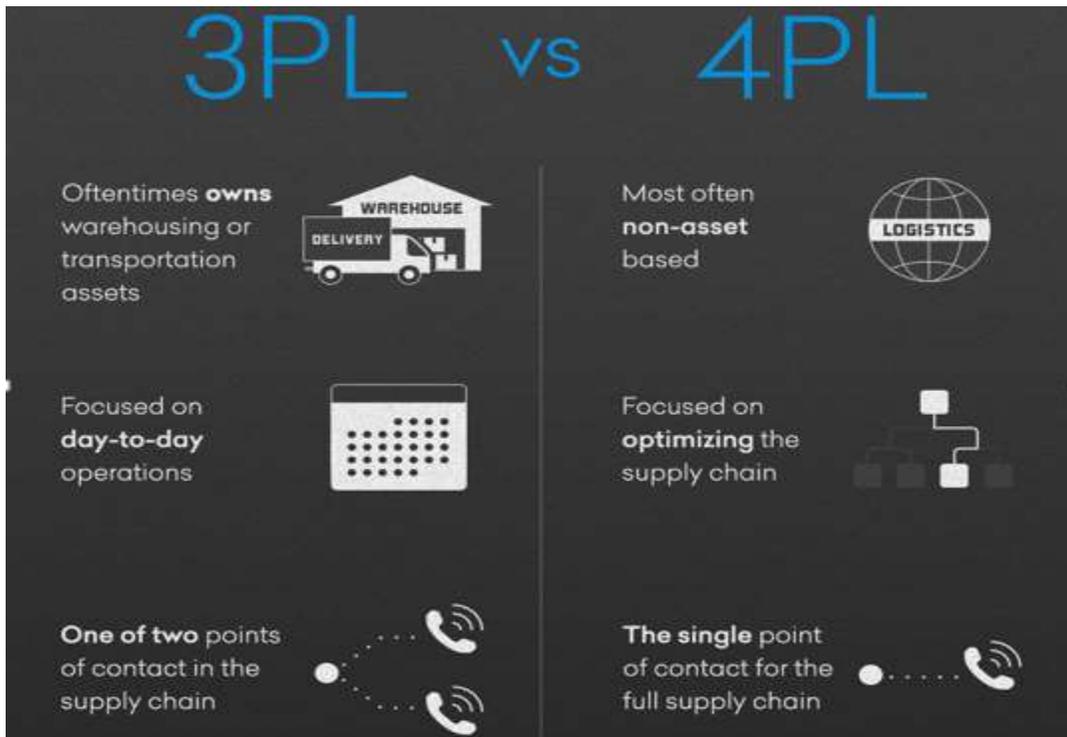


Figure 1.2. 3PL Vs 4PL

### 3PL Vs Freight Forwarder

A 3PL offers additional services that a freight forwarder doesn't offer. 3PL companies are full-service, whereas a freight forwarder is just a middle man between the shipper and the carriers. A 3PL acts as carrier, keeper of warehoused goods, packer, and biller—all in one.