4PL, just a new name for 3PL?
A study of the definitions describing Logistic Service Providers of today

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Abstract
The study tries to give an overview over different definitions for companies that provide outsourced services of conceptual or integrated logistics. The focus of the study has been on exploring the difference between the definitions 3PL (third party logistics provider) and 4PL (fourth party logistics provider). 3PL, being a logistical terminology that has grown over the past decade, and 4PL that has popped up as a new concept describing providers that take a full conceptual responsibility of its customers’ logistical operations. The findings were that 4PL couldn’t be a valid definition from a theoretical point of view, due to the fact that a logistics provider covering more of the customers’ logistical operations always is the third party in a buyer-seller relationship. But 4PL may very well be the name that describes an outsourced logistical concept that takes a full holistic approach to its customers’ logistics. There is a question mark, though, if 4PL will be the name used for this in the future.

Introduction
The article is based on a Master Thesis with the same name, and it tries to bring some clarity to the ambiguous definitions that flourish among the expertise on the subject logistics.

As the know-how on logistics and supply chain management has developed, so have the providers of outsourced services. Services like trucking and warehousing, which traditionally have been seen as commodity service components, have now developed into conceptual logistical solutions.

Along with the development of these logistical solutions provided by external partners the expression third party logistics and third party logistics providers (3PL) has emerged and grown strong as definitions describing service providers moving into the segment of more conceptual logistical solutions.

But the range and type of services in this segment is enormous, and there is no unanimous description of what a 3PL is and what it isn’t. In this environment new concepts have emerged, and probably the most commonly used one is fourth party logistics provider (4PL).

4PL (being a trademark by Accenture) is said to describe a logistic service providers that take a more holistic approach towards its customers’ logistical processes.

But the acceptance of the new definitions varies, and the necessity of new definitions besides 3PL has been heavily discussed.

This study has focused on trying to give an overview of how the concepts 3PL and 4PL are defined and interpreted, in theory and practice, by actors on the market providing logistic services.

Method
Most of the study is based on primarily theoretical material like technical literature and articles. Some empiric material has been gathered through open interviews, but has played a smaller part in the study. Because of this the approach has been a deductive one, and a mainly qualitative analysis have been performed.

The theoretical material was used to construct a model for analysis, containing a number of criterions to help categorize different types of logistic service providers and the services they are said to be able to perform. The model was then used to segment the different types of logistic service providers.

The validity of the study is only seen as mediocre, since much of the sources covering 4PL are more or less connected to the trademark holder of the name 4PL, but also because of the fairly small empirical part of the study.

Building a model for analysis
To describe the differences and similarities between service providers I looked at the values that they create for their customers. For the categorization of these I used an existing model created by Berglund, called the value creation modes.

The model for value creation modes is split into four categories; operational efficiency, integration of customer operations, vertical or horizontal network development, and supply chain management and integration.
Operational efficiency is based on the specialization of the provider and that they can deliver a better performance in a certain area than the customer would achieve themselves.

Integration of customer operations creates value by achieving economy of scale through increased dimensions and massed resources. The provider can utilize the same assets and processes on several customers and therefore provide the service to a relatively lower cost.

Vertical or horizontal network development has also economy of scale as the base for the value created. By creating a functional network of vertical or horizontal partners, the provider can present a relatively larger coverage of geography or services needed by the customer, but all under the same control.

Supply chain management and integration creates value through economy of scope and by developing the customer’s processes with a more holistic approach.

To further categorize service providers I added a fifth dimension called the client interface. This to evaluate any differences between service-providers on how they interact and work together with their customers. Things like contract length, gain and loss sharing models, degree of integration, and number of customers were looked at.

Provider description and analysis
Berglund speaks of a third party logistics (TPL) solution provider, who in its value creation covers services like total process management. This TPL solution provider and 4PL had many similarities, in that they cover SCM and change management services. The definition of 4PL may emphasize that 4PL should be more or less free of physical assets, but otherwise are they very similar.

Table 1. Comparing the different definitions based on the value modes they provide.

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<th>Definition fit</th>
<th>Operational efficiency</th>
<th>Integration of customer operation</th>
<th>Vertical and horizontal networking</th>
<th>SCM and Integration</th>
<th>Client interface</th>
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<td>3PL</td>
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<td>4PL</td>
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The TPL standard service provider is defined as a third party provider with a more standard service portfolio, focused on the value creation modes of operational efficiency and integration customer operations.

It is much harder to define and categorize the 3PL. The definition of 3PL is so wide that it more or less covers everything. Reasons for that can be cultural, but also that 3PL is a more general expression.

Analyzing the expression 3PL compared to 4PL
The provider is a third party to the two primary parties in a buyer/seller relationship. The third party does not take any commercial risk in that specific transaction, but is contracted to take care of certain activities, such as physical handling of the goods or all activities connected to the transaction between the two primary parties.

This makes the fourth party very hard to define. Taking into account that a 4PL often is said to be the single interface towards the customer, the fourth party should be a first tier supplier, instead of the third party, which does not make any sense.

Conclusions
The only valid definition from a theoretical point of view is third party logistics provider, 3PL. There is no fourth party and therefore no fourth party logistics provider that can live up to the criteria of the 4PL, the total holistic approach and being the single point of contact for the customers logistics operation.

But 4PL may very well be used as a name of a concept within the field of third party logistics. The question is if 4PL will be this “name” used in the future, or not. I believe that 4PL will be replaced as the mainly used concept name for outsourced integrated logistic services.

References
[1] Berglund, M; Strategic Positioning of the Emerging Third-Party Logistics Providers; Dissertation from the Department of Management
[2] Bedeman, M; Is 4 more than 3+1?; Logistics Europe; February 2001,