LSP, 3PL, LLP, 4PL
Which One Come In Useful For Outsourcing Cycle!

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Abstract
In this article we will come to descript a part of supply chain cycle called “outsourcing”. It shows the ways that we’ll able to find best resources and manage logistics activities between suppliers, shippers and customers according to our strategies against provide our needs. we introduce service providers levels from LSPs to 4PLs.

Key Words: Outsourcing, BPO (Business Process Outsourcing), LSP (Logistics Service provider), 3PL (Third-Party Logistics), LLP (Lead Logistics Provider), 4Pl (Fourth-Party Logistics)

1) Introduction

What Is Outsourcing?
Outsourcing, in general, has been a hot topic in worldwide business for the past several years. And the debate only heats up when the outsourcing discussions start focusing on supply chain functions.
One of the most important reasons why companies outsource their logistics functions is the need to decrease the number of warehouses, vehicles and excess inventories and to reduce shrinkage, and labor costs. Such moves bring down fixed and working capital investment. Companies can therefore focus on their core business activities and share the risks.
Outsourcing is a viable business strategy because turning non-core functions over to external suppliers enables companies to leverage their resources, spread risks and concentrate on issues critical to survival and future growth. One way of extending the logistics organization beyond the boundaries of the company is through the use of a third party supplier, or contract logistics services.

Most firms direct considerable attention to working more closely with their channel partners, including customers and suppliers, and with various types of logistics suppliers. This has resulted in the development of meaningful relationships among the companies involved in the overall supply chain activity.

Outsourcing is the next logical extension of the partnership concept. The benefits are well rehearsed, particularly the ability to focus on core competencies. You need to understand your core competencies and identify your own place into your supply chain; then you can understand the need for collaboration. This collaboration can also provide the added benefit of being able to control your supply chain without the huge investment associated with warehousing and transportation assets.

The last thing any organization adopting an outsourcing strategy wants, however, is to abrogate control. Ideally the systems infrastructure has to be capable of deploying solutions such as warehouse management in both owned and outsourced facilities. In the real world this may mean a compromise, including a mix of operational solutions, which again raises integration issues.

In theory, outsourcing is simply another procurement exercise, subject to the same basic procurement rules and recommendations as everything else. But we tend to regard supply chain outsourcing in a special light. Supply chains are our lifelines, the way products reach customers.

According to the top descriptions, establishing the outsourcing strategy needs to answer these three questions:

a) Why outsource?
   Developing business case helps logistics managers to determine if the decision has strategic, financial and operational justification

1- Strategic Factors :
   . Focus on core competencies
   . Improve customer service
   . Enhance flexibility

2- Operational Factors
   . Improved process execution
   . Improved technology

3- Financial Factors
   . Reduce costs
   . Reduce capital requirements
b) What to outsource?
Determining what to outsource requires detailed evaluation of IT outsourcing opportunities across technologies, processes, functions and the entire organization. In order to determine what to outsource we recommend a step-by-step approach which ensures perfect fit with the overall corporate strategy, establishes the necessary baselines and prepares the organization to effectively manage the entire outsourcing process.

During the process of determining WHAT to move offshore or outsource, one should consider all and any parts of the value chain if it can be done better, faster, more efficiently, cheaper, etc. by an external partner.

As a result of answering the following questions we shall have a clear view on the process candidates to move offshore:

**STEP 1: Simplify, Streamline and Consolidate your processes within your organization before considering outsourcing – Make sure it works!**

**STEP 2: Review your processes and make the first selection of candidates.**

**STEP 3: What are the processes which, under any circumstances, you DO NOT WANT to outsource?**
Do you have a strong case not to move a specific process offshore? What not to move offshore? Usually:
- Core competences and/or processes which give a competitive advantage
- Functions which cannot be performed by a third party with equivalent performance
- Not sizeable enough to deliver clearly measurable benefits

**STEP 4: Decide what cannot be outsourced.** Look for processes which:
- have solid mandates
- are subject to internal corporate politics and emotions preventing to move them offshore
- are heavily dependent on physical infrastructure, which cannot be moved
- ensure compliance
- require frequent on-site, face-to-face customer interaction

**STEP 5: Which are the processes not suitable to be outsourced on the short term?** Look for:
- Work in progress or ongoing projects
- Unclear roadmap (lifecycle)
- High risk (revenue impact, sensitive data, IP)
- Requires highly specialized technical or business domain knowledge
- Contractual obligations

**STEP 6: Benchmark the present service levels and prioritize the processes/functions which are outsourcing candidates**

Why benchmarking present service levels? The benchmarking result is going to be the baseline to measure and manage the outsourcing operation, contracts, SLAs and outsourcing vendors and relationships. The prioritization is based on the individual features and properties of the processes and it takes into consideration the potential benefits of moving offshore, versus the risks involved. In your prioritization model, you could consider elements, such as:
- Technology complexity
- Supplier vertical market domain knowledge requirements
- Criticality to business operation, strategy, competitiveness or continuity
- Risks involved
- Benefits to move offshore
- Penalties not to move offshore

The selected functions must be of manageable size and scope, be separable from the enterprise and match the ability of the future outsourcing partners to execute the migration.
The prioritization and the systematic approach to select what to move offshore will help you determine:
- The right mix of internal and external supply of services or business functions
- The required capabilities of offshore vendors
- The key directions in negotiating the outsourcing deal, contracts, SLAs

**STEP 7: Create a METRICS set**

If you have a well developed metrics set in place, linked to your baseline, you will be able to measure and manage the outsourcing process and relationship. You can compare it to the established baselines (STEP 6.) and you will have a guide to develop and manage the contracts, SLAs and the entire outsourcing relationship. Proper metrics will provide an early warning tool to address problems and negotiate changes. However, general guidelines to develop an effective metrics program apply;

- The goal of metrics is better management not measurement. Keep it simple and focus on a small set of important metrics
- Each metric must be directly related to a management issue to be addressed
- If the information isn’t current, it is at best, worthless.
- Monitor trends, not just values
- Never take action based on a single metric
- Measurement should not be disruptive

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<th>Dimension</th>
<th>Transportation</th>
<th>Distribution</th>
<th>Import/Export</th>
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<td><strong>Planning</strong></td>
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<td>• Coordination of global freight movements</td>
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<td><strong>Execution</strong></td>
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<td>• Core warehouse activities</td>
<td>• Customs clearance</td>
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<td>• Value added services</td>
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Figure-2 Dimensions Of Logistics
c) How to outsource?
Do under steps one by one ....
  1- Perform Strategic Assessment
  2- Decision To Form Relationship
  3- Evaluate Alternative Options
  4- Potential partner Capabilities & Company Needs & Priorities
  5- Select Partner
  6- Structure Operating Model
  7- Implementation & Continuous Improvement

![Figure-3 Implementation Of Outsourcing Diagram](image)

Providers of outsourced logistics services are prominent - even leaders - in our profession. Yet despite the visibility and good reputations of these providers - call them 3PLs for the moment - estimates are that 25 to 50 percent of outsourcing deals fail, or at least fail to meet expectations.

So, the topic is important; many companies are making "bet the business" decisions on supply chain outsourcing, whether they realize it or not.
Terms such as “logistics outsourcing” “logistics alliances” “third party logistics” “contract logistics” and “contract distribution” have been used interchangeably to describe the organizational practice of contracting-out part of or all logistics activities that were previously performed in-house. Different definitions tend to emphasize different aspects of outsourcing arrangements such as the service offering, nature and duration of relationships, performance outcomes, extent of third party responsibility over the logistics process and position/role in the supply chain.

2) LSP
Several criteria for LSP choice have been discussed in the literature; typically, these include cost, service quality and reliability, flexibility, responsiveness to requests and financial stability. Some criteria are developed with specific client needs in mind, while others are common for all circumstances. There is contrasting evidence on the relative importance of price; some authors (van Laarhoven and Sharman, etc.) rank it as top criterion, while others argue that service performance and quality requirements precede discussions about rates. LSPs employ a variety of growth strategies. Important means of expansion include mergers and acquisitions (M&As), joint ventures, strategic alliances, piggybacking (i.e. following the client’s expansion and establishing new operations in foreign markets) and organic growth. Consolidation is the main feature of the industry and large, multi-national firms start to emerge. Main reasons for M&As include
economies of scope, expanded geographical coverage, acquisition of specialized capabilities and requirements for investment in IT and equipment. Both vertical (shipper-LSP) and horizontal (among LSPs) alliances are set up mainly with the aim of getting access to complementary resources and capabilities. In particular, horizontal alliances among LSPs are deemed necessary for the development of cross-border logistics solutions.

3) 3PL
The term "3PL" was first used in the early 1970s to identify intermodal marketing companies (IMCs) in transportation contracts. Up to that point, contracts for transportation had featured only two parties, the shipper and the carrier. When IMCs entered the picture—as intermediaries that accepted shipments from the shippers and tendered them to the rail carriers—they became the third party to the contract, the 3PL. But over the years, that definition has broadened to the point where these days, every company that offers some kind of logistics service for hire calls itself a 3PL.

3PLs have led the way in logistics outsourcing. Drawing on its core business, whether it be forwarding, trucking or warehousing, they moved into providing other services for customers. Creation of a 3PL presented a way for a commodity-service logistics provider to move into higher margin, bundled services. Customers, anxious to reduce costs, want what 3PLs have to offer. The potential market opportunity for outsourced logistics service providers, whether domestic, international and/or global is huge.

But something has happened on the yellow-brick road. The reasons are varied, but the bottom line is many have failed at their own business transformation. Some 3PLs have not moved past their core commodity service to become true multi-service providers. Or international 3PLs have not understood how to provide domestic services; or domestic ones have not succeeded at venturing into international logistics services.

Others have failed to differentiate themselves against the competition. Certain 3PLs have not done a good job positioning and defining themselves in the marketplace. Or the parent company has not given them the resources, especially sales and sales leads, to penetrate even their existing customers. And, sundry have commoditized their 3PL service, as a result undoing the very purpose of their 3PL. These setbacks have slowed down the growth of some 3PLs in terms of both customer retention, especially, and new customers. Fragmentation of the 3PL sector reflects both the uncertainty of how 3PLs view themselves and the diversity of customer needs.
3PLs’ role in logistics success
Interestingly, while there is significant agreement between shippers and 3PLs on critical issues, 3PLs generally have a more positive view of relationship success than shippers and have lower awareness about potential problems. This suggests that 3PLs still have some way to go before they fully meet the expectations of their customers. For example, 82 percent of 3PLs believe they provide new and innovative ways to improve logistics effectiveness, compared with only 50 percent of shipper respondents who feel they receive services of this nature. Similarly, only 54 percent of shippers reported improvements in service levels compared with 71 percent of 3PLs.

4) LLP
The term LLP, or lead logistics provider, is probably the most transparent of the three. As the name suggests, a lead logistics provider "takes the lead" in providing some functions and subcontracting for others while providing one central control point.
An LLP (lead logistics provider) serves as the client's primary supply chain management provider, defining processes and managing the provision and integration of logistics services through its own organization and those of its subcontractors.
A lead logistics provider is a company that takes the full responsibility for organizing the whole transport chain from producer to their customers, and it is sometimes also called as door-to-door logistics. If both the producer and the customer are located at the sea side and have their own terminals, only the sea transport mode needs to be involved, but this is rather the exception than the rule. In general, sea transport will be a part of an Intermodal transport chain which will involve at least truck, inland waterways, or rail.
Among the existing lead logistics providers we find companies that originally were shipping companies, rail companies, air freight and road haulage based. Today these companies independently upon their starting mode will all use a combination of these modes, but none of them own the transport means to operate all four modes. Typically, they are sea-, rail-, air-, or truck-based, and then buy the other transport services from operators of the other modes, even if certain companies claim that they control transport means for all four modes. All these lead logistics providers tend to prefer, when several options are available, the transport mode they own themselves. This means that a key success factor and increased Short Sea Shipping volumes will be the shipping line’s ability to operate as lead logistics provider.
5) 4PL

The term "4PL" has generated even more confusion. Andersen Consulting (now Accenture) first defined the 4PL concept in 1997 when acting on behalf of a major chemical company that had winnowed its forwarder base from 30 to three. The company left the consultant with the responsibility of managing its remaining core partners. Accenture described the 4PL (or fourth-party logistics provider) as an integrator, but today consultants, software companies and even 3PLs lay claim to being a 4PL. (And if Accenture decided to pursue every company that called itself a 4PL in violation of its trademark, no courthouse would be large enough to contain all the litigants.)

"The original 4PL concept was designed for businesses with large undertakings, The 4PL concept has been around in a defacto sense for some time. Logistics service providers such as Excel use subcontractors at different levels to manage their operations" says Brooks Bentz, associate partner for Boston-based Accenture Supply Chain Management.

A 4PL takes the lead on advising or making supply chain decisions on behalf of the customer, but does not execute the result of that decision.
The idea of using a 4PL was slow gaining traction. Now, as a result of globalization, 4PLs are fast gaining momentum. The 4PL concept has necessarily followed the path of globe-trekking enterprises exploring less expensive and more reliable sourcing and outsourced manufacturing locations - as well as multiple logistics partners. But equally significant, the concept has not remained static and the very nature of a supply chain "management" partner continues to shift course with prevailing global trends. A 4PL can be paid a management fee or can act as a main contractor.

6) Which one is in use?

![Figure-6 Key Attributes Of Logistics outsourcing Providers](image)

used the term 3PL for a long time. Then 4PL came into vogue. terms promoted by Cliff Lynch: logistics service provider (LSP) and lead logistics provider (LLP). But we're pretty relaxed about calling all of them 3PLs in conversational shorthand. So the top triangle can turn to the two parts simply.
7) 4PLs differ from 3PLs in four points

1 - Natural
The 4PL is not part of a larger logistics service provider. This contrasts with 3PLs who are part of a parent company that provides warehouse, forwarding, transport or other services.

Neutrality means objectivity. The 3PL uses the services of the parent company in his offering to customers, whether it fits the needs. A 4PL is an independent who will work with the buyer to design, implement and manage supply chain solutions that meet the client's needs.

the outsource service provider, to truly meet the needs of his customer, should be neutral. 4PLs should be neutral if they are to manage the process. 3PLs, especially those which are asset-based struggle to be neutral. 3PLs which seek to push shipments through their transport contracts or through their warehouses are not neutral.

2 - Supply Chain Management
4PLs are supply chain management service providers; 3PLs are logistics service providers. Supply chain management includes logistics services, the same ones that 3PLs offer, and how each of these services, including the 3PL, interacts to provide a total supply chain service. Third party logistics is the management of logistic services beyond transportation. This might include storage, shipment and value added services as well as the use of subcontractors. Fourth Party Logistics (4PL) is the integration of all companies involved along the supply chain. 4PL is the
planning, steering and controlling of all logistic procedures, i.e. the flow of information, material and capital by one service provider with long-term strategic objectives. 4PLs understand build plans, supplier performance, demand planning, inventory velocity and how all those fit into supply chain management. That bundled capability is about moving products from suppliers to customers, whether that is in stores or to customer warehouses in a timely, accurate, complete and lean manner. Put another way, 4PLs see the forest, not just the trees.

3- Function Or Process.
When it comes to outsourcing, there are three questions and underlying issues. One, do you outsource a function versus outsource a process? 3PLs target the function. They want to handle containers/ships/freight, not the transport management process, for example. The true need is the process, which is what the 4PL targets. Is there really a process in place--or a series of standalone transactions? What is the present process? How does it work? Where does it fail? Where are there gaps? Where are there redundancies? The supply chain process crosses organizational lines. It runs horizontal in a vertical organization. 4PLs understand that supply chain management is a business process. It crosses departments and functions; it extends beyond the corporate boundaries to customers, suppliers and logistics service providers. They also understand technology as a vital process enhancer.

3PLs are transaction, not process, driven. They focus on the work of shipments or orders. So it is difficult for 3PLs to create a value propositions with a customer which, in turn, leads to turnover of customers and relationships.

4- From Tactical To Strategic
Not all businesses have the vision or wherewithal that Eaton demonstrated in redesigning its supply chain network. Often they are more concerned with putting out tactical fires than sparking strategic initiatives - which is why businesses turn to 3PLs in the first place.
"Outsourcing has traditionally served as a means for companies to unload a non-core activity, managing a commodity-type service - for example, reducing freight spend or inventory carrying costs," says Tom Craig, president of LTD Supply Chain, a Glenmoore, Pa.-based logistics solutions provider that specializes in 4PL services.
Not all outsourced logistics partnerships are alike, of course. Some are purely tactical, relying on asset-based resources; others are more strategic, requiring a
thorough and systematic consultative approach. Partnerships generally fall somewhere in between.

8) Conclusion
But as businesses migrate toward more complex levels of outsourcing, the scope and detail of their supply chain has to change. As such, supply chain initiatives require a different approach.
As a result, Some 3PLs have not fully stepped up to meet the exact needs of customers. Some have become too focused on "managing" tasks, not processes and on serving the parent company's core business, and have missed opportunities to present value. The 4PL opportunity exists because 3PLs failed to meet the real logistics/supply chain requirements of customers. There will not be a "model" (or cookie cutter) for the 4PL. After all, he knows to customize to the needs of each customer.
4PLs have become alternatives for business process outsourcing. These new BPO logistics service providers enable firms to manage a critical part of their supply chain by providing visibility and integration across multiple enterprises. They manage with the three key elements of process, people and technology. Users of a 4PL can focus on core competencies and better manage and utilize company assets and resources, as to inventory and personnel.
customers have had to compare apples and oranges in their RFP (Request For Proposal) replies. Shippers share some accountability with an overemphasis on cost reduction as the key metric and without a clear definition of their requirements for services they need and how it will all work within their company. They looked for silver bullets and quick answers to complex needs.

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