



THE EUROPEAN FREIGHT AND LOGISTICS LEADERS FORUM

# Final Report

## F&L Working Group

### 4PL Businesses in the European Logistics Industry

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### Introduction

The European Freight and Logistics Leaders' Forum (F&L) is one of the most recognized NGOs in the European landscape.

Along with bi-annual conferences, the Forum organizes Working Groups dealing with varied industry topics.

This project covers the 4PL service model and the position of the 4PL companies in the European logistics market.



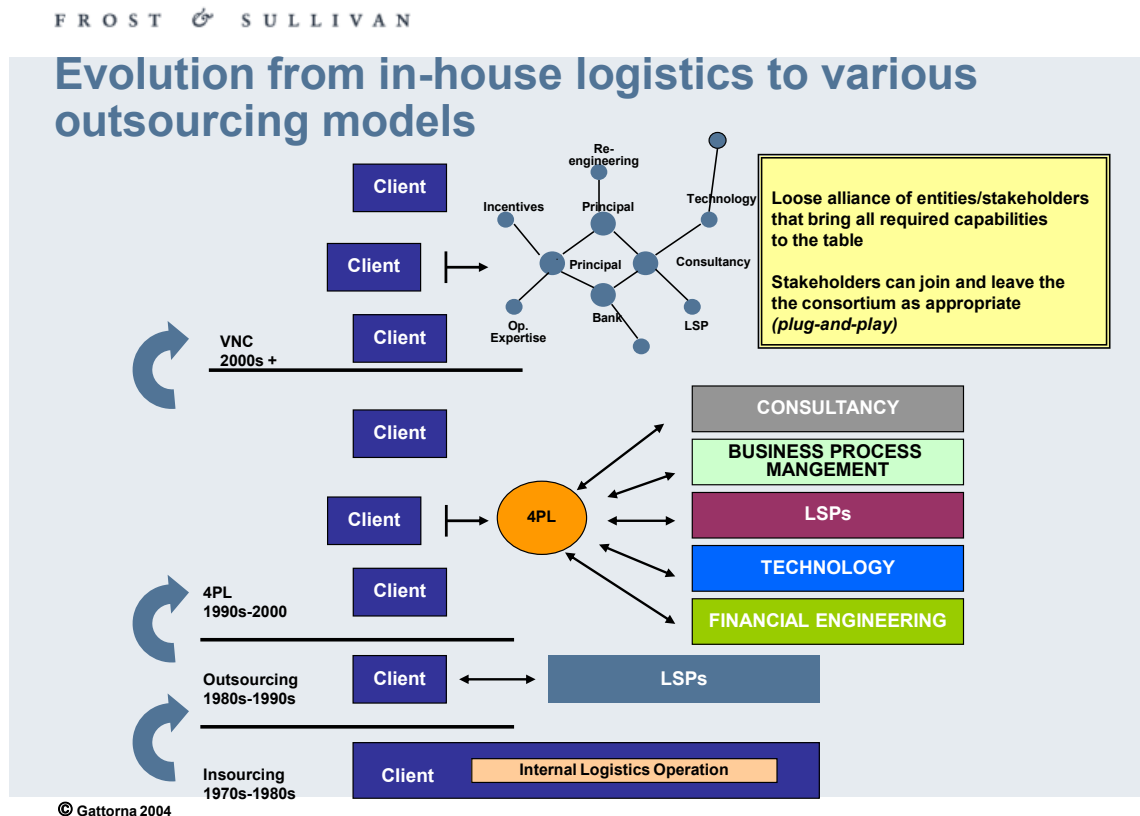
## History of the 4PL Business

The emergence of the 4PL business model came as a further step in the outsourcing process.

Shippers - under pressure of growing spending in the transportation element of the logistic costs - decided to spin off a further part of their logistics headcounts.

Academics talk about an optimal supply chain which is more integrated and more global, but which at the same time is more accurate and more visible. To provide transportation and logistics services at this level of complexity requires higher levels of logistics knowledge as well as up-to-date information about the transportation market.

Professor John Gattorna puts the 4PL business as a new stage of development in the company profile:



The 4PL uses a wide service portfolio to provide transportation and logistics management services to shippers. This includes contract administration / bid management for selecting



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LSPs, global performance management (KPI) of logistics service providers, global metrics management, in-transit visibility, logistics network analysis and design, and project management / execution of supply chain-related improvement opportunities.

### About the Work of the Working Group

The Working Group created a questionnaire and approached larger shippers, service providers and 4PL companies. Twenty five answers demonstrate a well-focused opinion pool about the different areas of the topic.

Half of the companies who participated in the survey were large shippers like CISCO, MARS, Bacardi, Glaxo, Schneider Electric, Panasonic and ACLOA and responses from service providers include DHL, K&N, GEFCO, MENLO as well as 4PLs or sourcing/tendering service providers like ARVATO, Smart Way and Kelmer.

The questionnaire covered the following:

- Main arguments/reason to use 4PL
- Pros and Cons of a 4PL from shipper's view
- As a shipper, what do you expect from a 4PL?
- In which area does a 4PL have added value for a shipper?
- What is the ideal service portfolio of a 4PL?
- Is there a conflict of interest between 4PL/3PL (if 3PL has 4PL activity)?

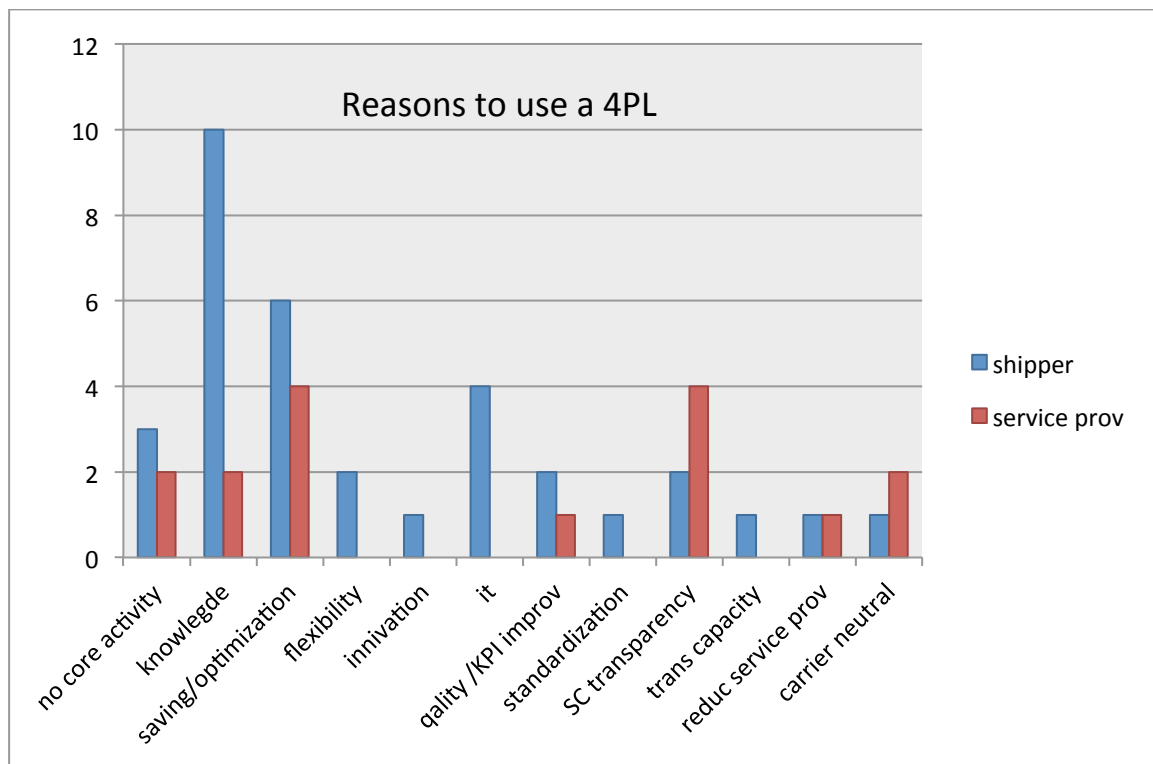


## The Outcome of the Questionnaire

### Main arguments/reasons to use 4PL

Beside several other arguments, a common understanding between shippers and service providers has been established. The parties agree that logistics is not a core activity of a shipper and it should be handed over to a contractual partner who has the required knowledge and is innovative enough to bring new solutions to servicing a shipper's changing supply chains.

Cost saving was also a strong argument to use 4PLs.

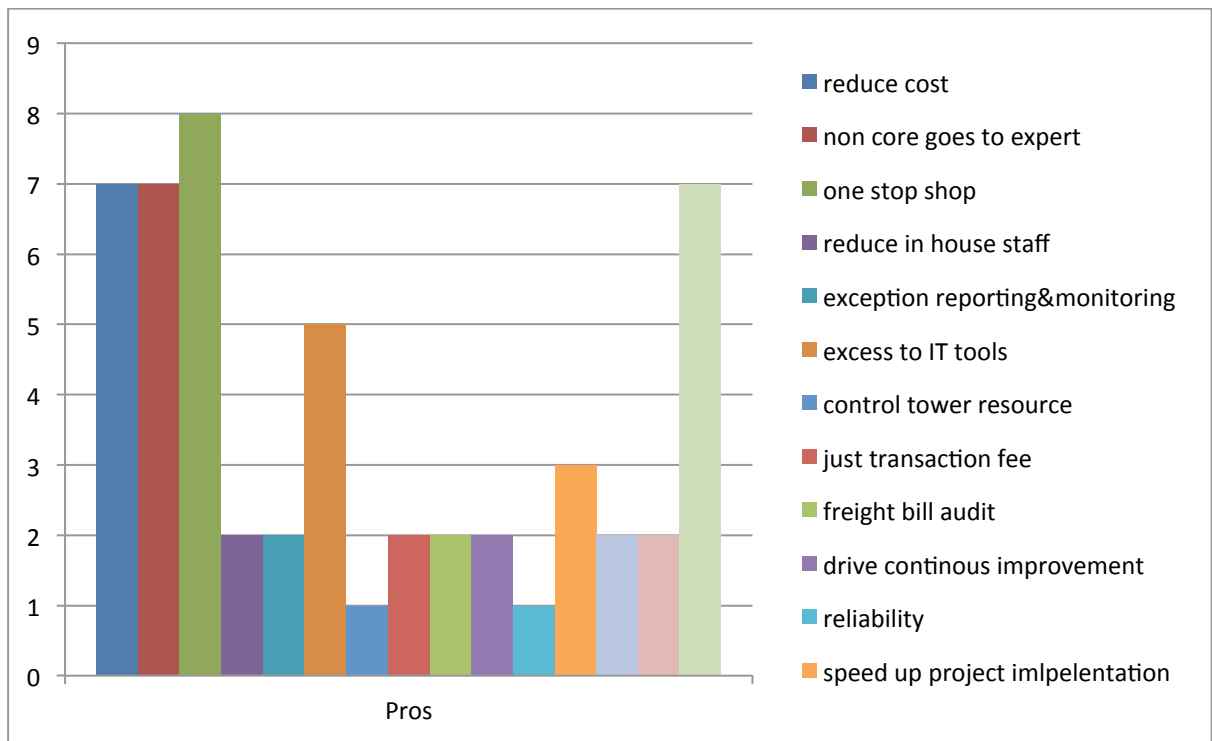




**Pros of a 4PL from Shipper's View**

On the upside we could see cost savings and expertise as major advantage. The invoice audit shows the willingness of the shippers for further outsourcing.

Another finding of this report is the better and more sophisticated IT capability of the 4PL.

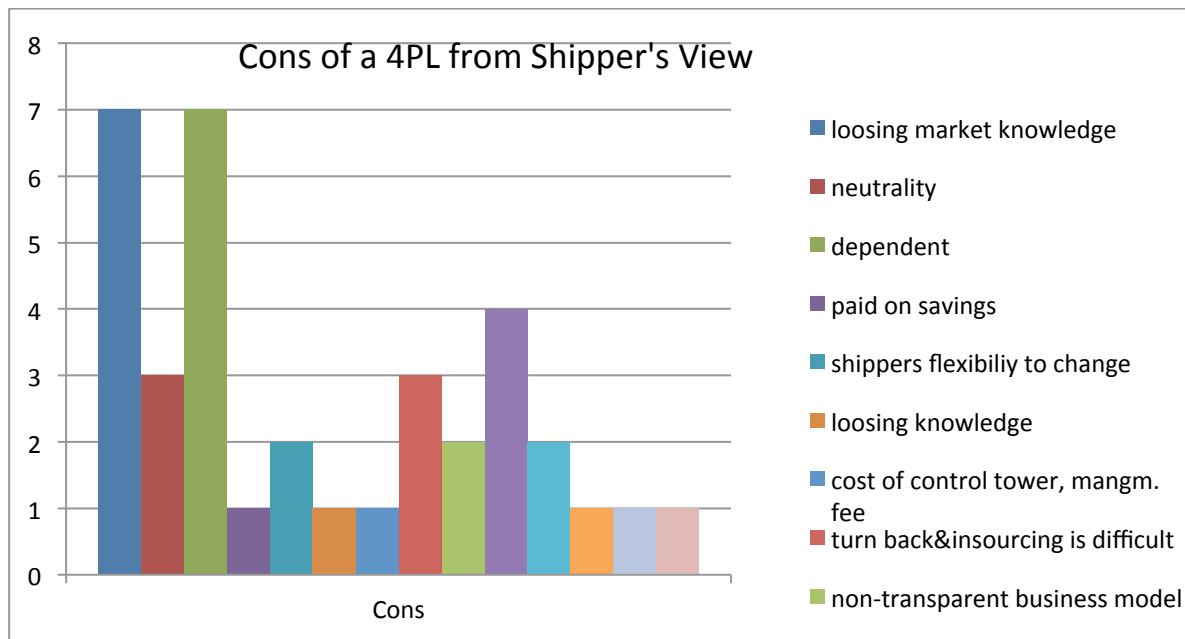




**Cons of a 4PL from Shipper's View**

As a downside obviously we could experience the bad feeling of shippers losing even more logistics competence and becoming independent.

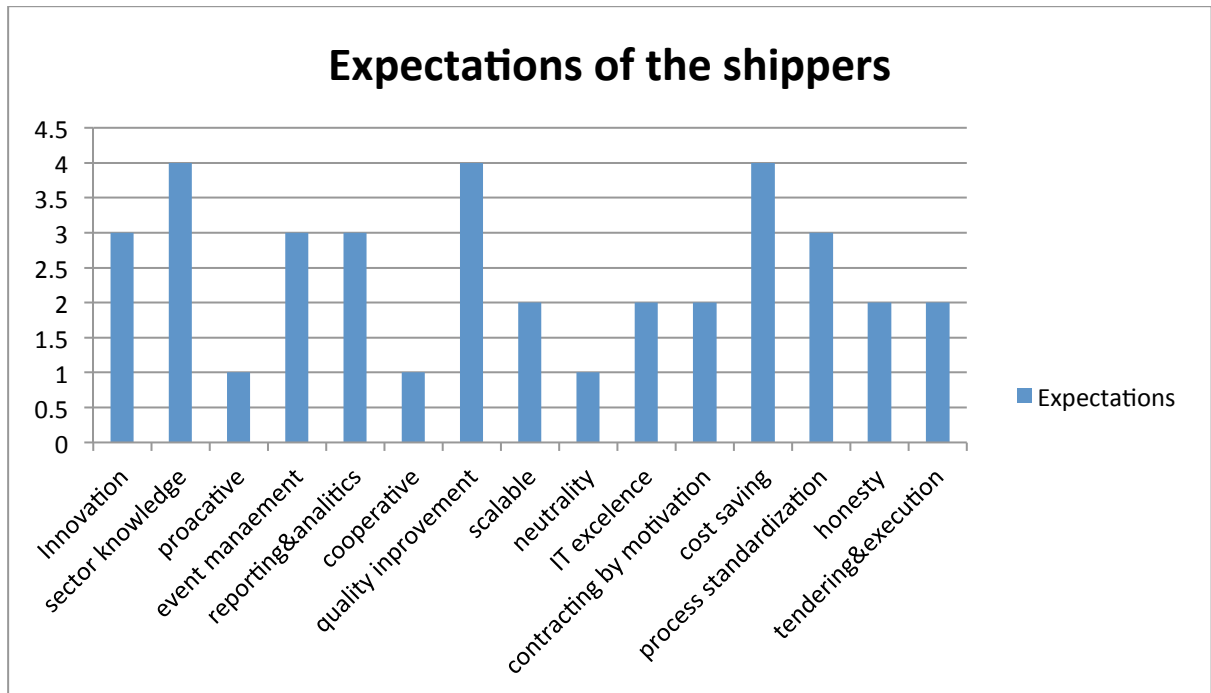
Our opinion is that shippers must focus on the quality and experience of the people in its reduced logistic team.





### What Do Shippers Expect from a 4PL?

These survey results demonstrate a wide menu of capabilities which could be part of the profile of well-performing 4PL.



Many shippers emphasized that they expect the 4PL to have a high level of IT excellence and an innovative approach in using up-to-date IT tools in the service.

We asked 4PLs and control tower service operators.

The logistics IT is a special segment of the IT landscape and is always changing because new technologies have a large influence and initiate new solutions. If we expect that the outsourcing process in the logistic chain could still go further we can be sure that the IT part of the service will change as well.

The 4PL is a logistic integrator; in its basic operation model a 4PL is also:

1. service integrator
2. data integrator

As each participant in the logistics process owns and operates some integrated solutions, the 4PL's role is to collect and consolidate information from these systems.





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This consolidation increases the visibility of the whole logistics process, providing up-to-date information to customers.

Collecting and consolidating data is more cost-effective than shippers introducing new integrated applications. In ideal cases this will bring a new collaborative model where each participant can use his own system, and they shall provide data to a central service where the data is consolidated and distributed between participants. Due to this the 4PL will realise a bidirectional, online communication with partners which will directly affect quality of services by reducing response times, communication costs and headcounts. The data consolidation would increase supply chain visibility as well as reducing parallel data entry and processing.

To come to this ideal situation seems to be difficult because the IT divisions of the participants don't show much willingness to co-operate in this issue. Prestige is a factor in this. On the other side corporate management don't have a proper overview of this issue and the achievable advantages. They listen to their IT people.

The most preferred and effective solution is to develop a service portfolio which is based on existing and available solutions. One possible model used is based on SOA (Service Oriented Architecture - *a style of software architecture for designing and developing software in the form of interoperable services; Wikipedia*).

The SOA approach is very effective in offering of IT services on an integrated platform for internal and external participants.



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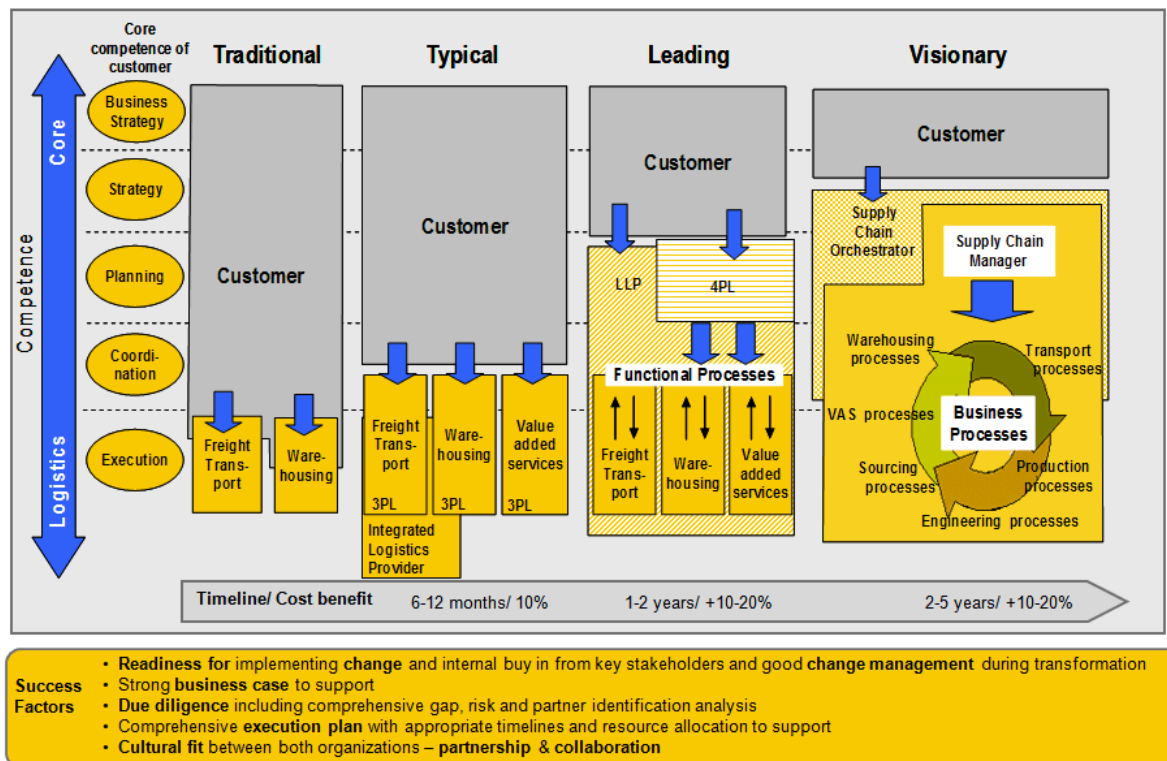
### What is the Ideal Service Portfolio of a 4PL?

In other words: What would the shipper like to buy when he selects a 4PL?

*The 4PL engagement model is still a limited practice in the industry.*

Today, truly successful LLP/4PL partnerships still represent a marginal piece of the engagements between shippers and logistics service providers.

As shown in the graphic overleaf, this engagement model first requires shippers to outsource execution, coordination and planning of key operational logistics functions like transport or warehousing and at the very end of this spectrum. This is a very strong call and requires a detailed "Make" or "Buy" analysis to understand which trade-offs shippers are ready to make - because reverting to the initial set-up will be extremely difficult when internal resources have been removed from the organization.



source: DHL



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To be successful with 4PL engagement a certain number of success factors must be met. The most important might be to find a win-win business model that delivers value for shippers and logisticians.

The 4PL represents an additional layer between the shipper and the carriers.

Furthermore, when this value exists, there is a time lag between the time the 4PL takes to master the shipper's flows and the time he is ready to implement changes which will deliver value. One critical issue is the quality of the master data which will be traded as that will determine how much automation and process efficiency can be anticipated.

If available in Europe and North America, mature 4PL examples are rare and very limited in Asia.

At a high level, it is fair to say that companies who decide to go to a 4PL partnership want to access (in no order):

- Logistics **expertise** and services from companies whose core competence is to manage logistics operations.
- Increased **visibility** of deliveries and of key logistics processes.
- **Mutualization** which logistics companies can provide through their multiple customers resulting in lower unit costs.
- Reduction of **assets** by transferring warehouses or transport investments and hence improved return on Assets.
- Reduction of **headcount** by removing or transferring logistics employees to the 4PL to better focus on their core competences.
- **Standardization** of services, especially companies resulting from multiple acquisitions with several different practices.
- Access to best-in-class **IT tools** (TMS, WMS, S&OP...) without running the risk of an expensive implementation.

### **The scope of 4PL services is very large**

At a macro level, shippers had to decide which logistics **activity** they wanted to outsource.

Supply Chain Planning activities like S&OP are never subcontracted since they are at the heart of the company strategy and involve the coordination of many internal stakeholders (Finance, Marketing & Sales, BU, Supply Chain & Logistics).



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### Detailed functionalities of services

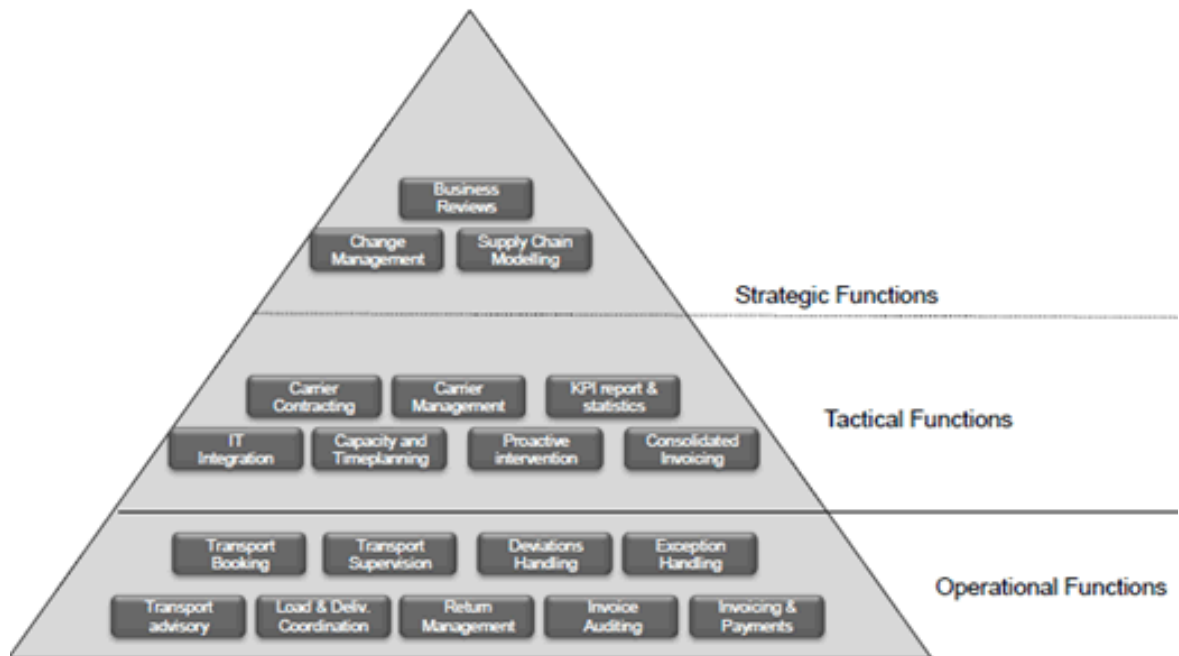
Outsourcing cannot be successful without strict control from the shipper. To this end, it is recommended that a detailed "Make or Buy" analysis of is made of each functionality outsourced within a given activity. Is also highly recommended to have an audit trail to measure 4PL performance at least once a year to identify critical gaps or measure continuous improvement.

At this micro level, it is particularly to rank functionalities into 3 levels:

- Operational
- Tactical
- Strategic.

It is highly suggested to start outsourcing operational services to test the partnership and the business model before outsourcing strategic functions which will be difficult to re-insource at a later stage if the partnership goes sour because the business case is not respected.

An example is provided regarding the functionalities of the "Transport" activities:



Source: DB Schenker



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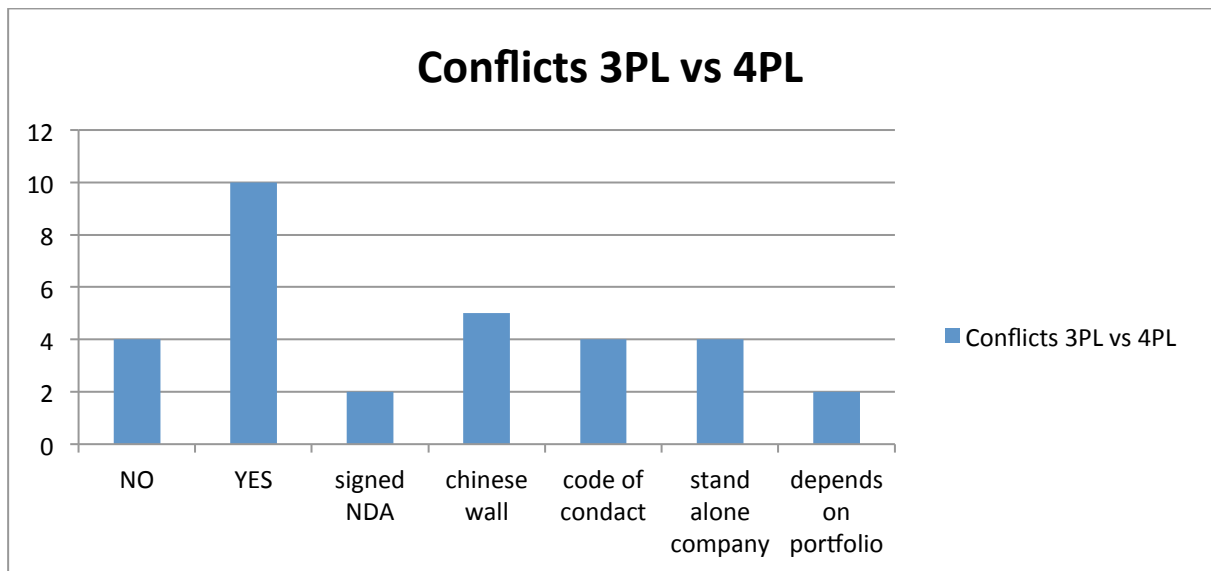
Before any outsourcing of any of these illustrative functionalities, it is of the utmost importance to write down the "as-is" and "to-be" process, its key cost drivers, and the major bottlenecks so that there is always a clear relationship between the cost of the service charged to the shipper and the effort of the 4PL which drives its internal cost and its ability to deliver an ideal 3-4% margin.



**Is there a conflict of interest between 4PL/3PL (if 3PL has 4PL activity)**

A vast majority of the shippers stated that the conflict of interest exists. They could accept solutions where the 4PL activity is transferred to another company.

A minimum level of transparency could be achieved with a kind of “Chinese Wall”, the introduction of a code of conduct and using separate teams for the 3PL and 4 PL activities.



**How can the conflict of interest be handled or solved on a daily basis?**

3PLs could simply answer this question by setting up independent entities with a dedicated P&L. Instead of that, it is noticeable that 3PLs are mostly integrating 4PLs as business units or departments.

Let’s note also that the majority of 4PL offers on the market are offered by 3PLs and collusion between 4 and 3PL is usually not an issue when communicating.

When this aspect of the business is addressed by corporate communication, problems that may arise from such set-up are covered by “Chinese Wall agreements” or an “independency code of conduct”.

As a matter of fact, when purchases are outsourced by a customer, the tendering process will by essence protect the customer from 4PL/3PL collusion when the market is large and competitive.



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There is indeed a situation when this collusion may occur, which is the oligopoly that leads to market arrangement between 3PLs. Let's notice that oligopoly is an already existing situation that is not created by a 4PL. A good example of such oligopoly is the situation known with shipping lines on some tradelines.

Yet, oligopoly is not a roadblock either. Indeed, agreement between customer and 4PL may include clauses that will tackle this issue as maximum 3PL share and freight budget reduction incentives for the 4PL.



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### Conclusions

Shippers are seeking 3PL/4PL companies instead of pure players for many different reasons. Buying power, attractive 4PL fees, TUPE possibility, existing IT, skilled and numerous HR, international/low cost countries footprint among others.

All those aspects explain the success of 4PL/3PL companies versus pure players, despite potential side effects as collusion.

*After several meetings and conference calls the members of the WG agreed with the Management Committee of the F&L Forum to complete the work with a debate about the topic.*

*An immensely successful debate was held at the annual meeting of the Forum in Duisburg on 21<sup>st</sup> November 2014 between:*

- *Patrick Meersmans Director SC Polymers EU, SABIC PETROCHEMICALS BV*
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