



Global
Digest

Logistics – 3PL and 4PL

Background

CASME held Logistics - 3PL and 4PL Services RoundTable meetings in Asia, Australasia, EMEA, Latin America and North America, during which the following main topics were discussed:

- Strategies
- Contracts
- Performance management
- Trends and technology.

This Digest provides the key points, good practices and insights into future trends identified by CASME members at the RoundTable meetings held around the world. Full reports from each meeting are available on the members-only Resource Centre.

Strategies

- The key services that are being outsourced to 3PL or 4PL providers include inbound and outbound freight transportation by air, sea, road and rail, import and export processes, warehousing and cross-docking services, and distribution centre operations.
- The primary benefits of outsourcing logistics to a 3PL or 4PL provider include gaining access to superior logistics expertise and technology, enabling the organisation to focus on its core competencies, achieving effective co-ordination of multiple carriers through 4PL providers, consolidating requirements with a single service provider to benefit from their buying power and reduce costs, and mitigating supply-chain risk.
- The disadvantages of outsourcing logistics services include being unable to directly manage issues that may impact the company's commitments to its customers, challenges in obtaining full visibility of spend, inadequate service quality, especially in countries where the logistics market is not mature, difficulty in obtaining real-time information regarding the location of goods in transit, and relying on third parties to provide current and accurate data regarding inventory levels.
- Logistics outsourcing strategies are typically developed by Procurement in collaboration with the key stakeholders from the relevant business functions, particularly the supply chain, operations, production and manufacturing teams. Effective engagement and collaboration between Procurement and the stakeholders is essential for clearly defining the requirements and establishing a cohesive, consistent approach to managing 3PL and 4PL services.
- The strategies are usually planned at the global or regional level, and executed at the regional or local level, according to the different requirements and market conditions in specific regions and countries. When developing a global strategy, an assessment is necessary of the regional and local market conditions, as well as the capabilities and coverage of the service providers in the relevant countries.
- Strategic considerations for developing the logistics strategy include gaining an understanding of the balance of power between the organisation and the logistics companies, developing strategic partnerships with the service providers in order to become a customer of choice, be prioritised during periods of high demand and to gain access to innovation, and identifying strategic partners that are willing to invest in developing logistics and warehousing networks in specific regions or in new markets.

Contracts

- Contracts for 3PL and 4PL service contracts include clauses regarding:
 - The pricing and remuneration models and the payment terms
 - Detailed service requirements and timescales
 - IT security and data transfer agreements
 - Insurance, liability and indemnity for goods lost or damaged in storage or in transit
 - Labour rates and increases
 - Tolerance levels for fluctuating volume
 - Penalties for performance failure and incentives for achieving cost savings
 - Termination for cause or convenience
 - Force majeure, and business continuity plans.
- The remuneration models that are being applied in contracts with 3PL and 4PL providers include cost plus
- a management fee, fixed costs for overheads with variable transaction pricing, activity-based costing (ABC), and gain-share models.
- Open-book agreements are suitable for new logistics contracts for which the service delivery requirements and costs cannot be clearly defined in advance, with the transparency between the client company and the logistics provider enabling stable monthly forecasts of volume and the associated costs to be established.

- Closed-book agreements can be applied once the client/supplier relationship has developed and the service delivery requirements and costs have been established, and any cost increases above the consumer price index (CPI) rates tend to be absorbed by the service provider, which motivates them to actively improve efficiency in order to maintain or increase their profit margins.
- Procurement obtains data for benchmarking 3PL and 4PL services and pricing from:
 - Requests for proposals (RFPs)
 - Country-specific bureaus of labour statistics, employment agencies, and the employment cost index (ECI) for labour rates
 - Government sources for the regulated prices for commodities and the minimum wages for labour
 - Local and international oil and fuel price indexes
 - Third-party consultancy and benchmarking service providers
 - Real estate brokers to determine the current price per square foot of industrial facilities
 - Time and motion studies at logistics facilities for assessing activity-based and transactional pricing
 - Transportation management systems (TMSs) and service providers for transportation routes and rates
 - Sources such as [Chainalytics](#), [Drewry](#), [Transporeon](#), [Xeneta](#) and [Freightender](#) for pricing.
- The challenges Procurement experiences when negotiating contracts for outsourced logistics services include the providers being in a strong negotiating position within a sellers' market, the stakeholders having long-term relationships with incumbent service providers and being resistant to change, warehousing providers requiring long-term leases, variations in different service providers' cost structures and challenges in obtaining benchmarking data making comparisons between providers difficult.
- Approaches for overcoming some of these challenges include developing long-term relationships with the service providers, gaining an understanding of the importance of the stakeholders' relationships with incumbent service providers, obtaining market benchmarking and operational data to facilitate effective negotiations, and negotiating long-term fixed prices with the service providers rather than spot rates.
- Fluctuating volume levels may be addressed by forecasting volume and potential changes during the contract term and supplying the information to logistics companies during the RFP process, providing monthly volume forecasts, adjusting the volume tolerance clause if necessary, collaborating with Sales and Marketing regarding the timing of new product launches and promotions in order to maintain a stable level of annual volume, and contracting additional service providers for projects that exceed the incumbent service provider's capacity.

Performance Management

- The key performance indicators (KPIs) that are most effective for managing the performance of 3PL and 4PL service providers include requirements regarding:
 - On-time, in-full (OTIF) delivery
 - Proof of delivery
 - Response times
 - Invoice accuracy and timeliness
 - Inventory accuracy
 - Lost and damaged goods
 - Track and trace
 - Sustainability and diversity objectives
 - Continuous improvement
 - Cost reduction
 - Stakeholder satisfaction.
- The performance management practices that are most effective with 3PL and 4PL providers include:
 - Applying KPIs that incentivise them to improve their performance levels, and penalties for underperformance
 - Conducting monthly, quarterly and annual business reviews with specific service providers
 - Using scorecards completed by the stakeholders, and distributing the results across the logistics network to encourage continuous improvement
 - Defining the processes and tiers for issue escalation
 - Establishing corrective and preventive action (CAPA) procedures to address underperformance
 - Applying penalties for instances of performance failure
 - Awarding bonuses when the service provider consistently achieves key metrics
 - Recognising and awarding the top-performing providers.

- Locating a procurement manager on-site in each distribution centre provides benefits such as gaining insights of the operations at individual facilities in different regions, maintaining communications between Procurement, the stakeholders and the logistics service providers, and obtaining assistance from the on-site managers in monitoring the performance and compliance of the service providers.
- Procurement manages the performance and contractual compliance of the subcontractors used by the 3PL and 4PL providers to deliver services to the company by:
 - Requiring the 3PL and 4PL companies to provide transparency and information regarding the subcontractors they use to deliver their services
 - Conducting due diligence and approvals for subcontractors
 - Requiring subcontractors to hold specific certifications
 - Stipulating in RFPs and contracts that the organisation will reject subcontractors if they do not comply with the requirements, that the 3PL and 4PL providers must ensure their subcontractors comply with the contract and the organisation's policies, and placing accountability and liability with them for their subcontractors' compliance and performance.
- Approaches for increasing sustainability in the supply chain include:
 - Incorporating requirements in RFPs regarding truck load optimisation, as well as targets for reducing carbon emissions and the use of plastics in the supply chain
 - Applying KPIs for increasing energy efficiency and reducing fuel consumption
 - Collaborating with the service providers and their subcontractors to reduce carbon emissions
 - Using [EcoVadis](#) to determine the sustainability status of logistics service providers
 - Sourcing from onshore suppliers, consolidating loads of freight for transportation, and adjusting delivery timeframes to achieve net-zero carbon emissions targets.

Trends and Technology

- Advanced technological solutions and next-generation warehouse management systems (WMSs) and TMSs are providing automated solutions for improving and increasing the efficiency of logistics operations, enhancing visibility and enabling organisations to fulfil the legal track-and-trace requirements for shipments of specific types of products and materials.
- Integrating 3PL and 4PL providers' IT systems with the organisations enterprise resource planning (ERP) system provides benefits such as process efficiency and data consolidation. However, integration is challenging and presents risks, and the relevant firewalls and data encryption protocols must be in place. Incompatibility between platforms and insufficient electronic data interchange (EDI) capabilities can also make system integration difficult. Additionally, if the systems are owned by the service providers, the disadvantages include the complexity of changing systems when switching service providers.
- Companies are not typically sharing assets with 3PL or 4PL providers, but shared distribution networks are being used, which enables some of the distribution costs to be divided between different client companies, which requires co-ordination of delivery schedules.
- Implementing a next-generation WMS with robotic and automated capabilities assists to improve inventory accuracy, mitigate labour shortages and remove variability from the pick, pack and ship process.
- The trends and technology that may affect logistics outsourcing in the future include:
 - Increased automation within warehouses, including autonomous vehicles and fully automated operations
 - Digital labelling and real-time tracking devices being implemented, or solar-powered smart sensors on pallets and freight containers, to track the global positioning satellite (GPS) co-ordinates, temperature, humidity and exposure to sunlight of the items being transported
 - Multi-storey warehouses and distribution centres being developed to reduce real estate footprints
 - The number of stages in the supply chain between warehouses and customers being reduced
 - Companies supporting improvements to the infrastructure to enable bulk shipping by rail
 - Innovative sustainable solutions being used for blocking and bracing cargo while in transit.

Resource Centre Links

The following are links to the full meeting reports for each region:

- [Asia](#)
- [Australasia](#)
- [EMEA](#)
- [Latin America](#)
- [North America](#)

Important

This report is a summary of the facilitated discussions held between the CASME members who attended the meetings. CASME is not a consultancy and does not provide advice. The accuracy or validity of any recommendations or references, particularly to legislation and regulations, contained in the report should be verified by the reader prior to being acted upon. Any third-party organisations named in this report are not recommendations but are examples of companies mentioned during the meeting that may be considered when sourcing the relevant products or services. These are not intended to form an exhaustive list and it is likely that other organisations not listed also provide similar products or services.

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