

3PL / 4PL / 5PL / 6PL Definitions

In every EDI application, knowledge of the business needs and functions is of paramount importance. If you don't understand a "purchase order" or a "load tender" or a "health care claim or encounter" you'll never be able to map the ANSI or EDIFACT EDI data format for these transactions. In my experience, logistics is the toughest because of the many, many unrelated (by ownership) parties who need to be in the loop.

EDI started out simply. The manufacturer sent an EDI Purchase Order to the supplier. Gee boss, we are on EDI!!! Now we wanted to "automate" the link to the trucker or rail carrier that brought the part into the factory. Yup! Can do; but they have their own EDI format. OK, done! But were we really linked with all parties?

The manufacturer changed his concept. He started getting sophisticated. He started issuing blanket Purchase Orders and ordering his product through a Material Release. The Advance Ship Notice followed shortly. But the suppliers and the shipping companies started getting sophisticated too. But they were not all in synch....and forget about parts imported into the country.

Time to go back to school on that whole transportation thing.

The Council of Supply Chain Management Professionals' glossary, defines 3PL as follows:

"A firm [that] provides multiple logistics services for use by customers. Preferably, these services are integrated, or "bundled" together, by the provider. Among the services 3PLs provide are transportation, warehousing, cross-docking, inventory management, packaging, and freight forwarding."

Third-party logistics providers are:

- freight forwarders
- courier companies
- other companies integrating & offering subcontracted logistics and transportation services

In the "PL" terminology, it is important to differentiate the 3PL from the:

- 1PL, which are the shipper or the consignee,
- 2PL, which are actual carriers,
- 4PL (Fourth-party logistics provider, abbreviated 4PL, lead logistics provider, or 4th Party Logistics provider), which were originally just consulting firms specializing in logistics, transportation and supply chain management such as Rollins, Deloitte, SCMO (company), BMT Limited, or Accenture. Now a new crop of companies have emerged who are actual transportation companies too. While a 4PL is sometimes described as non-asset-owning service provider, their role is to provide broader scope managing of the entire supply chain.

Now, along comes the 5PL who sometimes define themselves as broadening the scope further to e-business.

You might question anything more elaborate than a 3rd party providing logistics consultation or management, no matter how advanced or far-reaching their service might be. So are they still 3PLs who just invented a fancy title to set them apart from the competition, or is there a real differentiation?

A 4PL is neutral and will manage the logistics process, regardless of what carriers, forwarders, or warehouses are used. The 4PL can and will even manage 3PLs that the customer is already currently using. Many 4PLs have addressed the huge requirements of electronic interface between numerous companies. Some of the companies I have looked at include Steadfast Transport. Maxiom Group provides specific capabilities in electronic data interchange (EDI), electronic funds transfer (EFT).

An emerging sub sector is the 5PL firm attributed to logistics service providers who plan, organize and implement logistics solutions on behalf of a contracting party (mainly information systems) by exploiting the appropriate technologies (conceptual level).

There is actually a company called "5PL Systems". They have developed wireless end-to-end tracking of containers system which will allow government agencies to receive information on container shipments (all part of the process).

Outsourcing is often taking a set of work, tasks, responsibilities or functions and transferring them to an outside service provider. Business Processing Outsourcing (BPO) involves that and more. A BPO service provider brings a different perspective, knowledge, experience and technology to the existing function and can and will work with the firm to re engineer it into an improved or new process. It is an outcome-based result, not just a pure cost reduction issue.

One of the more troublesome, complex logistics issues is the inbound supply chain from Asia. How do you manage the critical supply chain and suppliers who are thousands of miles away, in different countries and in different time zones?

Managing this vital part of the supply chain can be frustrating and time consuming. Vendors shipping dates, expediting and changing orders, giving direction to consolidators or 3PLs as to delivery requirement are just some of the challenges dealt with. It is hardly a seamless process. An excellent opportunity for "super logistics providers" (4PLs) to meet..

A 4PL, with real world experience dealing in Asia, should be able to present a way for customers to take control of their inbound supply chains. This BPO firm will provide each customer with the technology, the people and the process to manage purchase orders, suppliers and shipments in Asia. They can structure the relationship and the process in a way that best meets the requirements of the customer, rather than the customer having to accept what the outsourcing provider has to offer.

Conclusion: These diverse relationships absolutely require electronic interface (read: EDI) in order to bring everything together. Just imagine trying to do it with phone and FAX!

Traditionally, most EDI is between shippers (1PL), carriers (2PL), and 3PL (most volume is ANSI documents 846, 940, 943, 944, 945 & 947). Since some of the 4PL and 5PL companies are sometimes very innovative, I will find out more of what kind of documents they are using (I will "round up the usual suspects" and ask them.

Next issue: Designing a complex logistics network.