Case Study: UPS Logistics and To Move Towards 4PL - or Not

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The significant distinction between the third party logistics (3PL) and fourth party logistics (4PL) model of service providers is that 3PL offers operational logistics and fulfillment services whereas the 4PL offers participation and coordination within the supply chain process of an organization (McInerney, 2016). The evolution of UPS from a 3PL into a 4PL organization required transformation adopting a transition which impacted on the organizational heritage of physical logistics services. The customer services and strengthening of the customer relationship is an essential factor which associates with 4PL. UPS used innovative techniques within the business model in order to impact an industry environment which allowed expanding services and handling customer needs efficiently.

Question 1: Why would a 3PL want to move into the 4PL market considering the current state of the 3PL industry?

Evolution of Logistics

The logistics methods have evolved with the technological advancement allowing the organizations to focus more towards customer service and value addition. The 3PL service provider businesses are becoming more and more inclined towards customer service which has allowed them to evolve into the 4PL model. 4PL is all about getting involved in the supply chain process and operation functions of the client providing those solutions which add value to the propositions and allow them to render requirements of the customers (Boyko, Zakharenko & Krasnov, 2018). The model change of UPS began with developing a separate business entity which distinguished its services rendered through a 3PL and 4PL model. The new extension of the business model allowed developing a targeted business approach which enabled UPS in providing services to the customers based on need assessment which enhanced customer

satisfaction. The core objective of the 4PL process was to manage the operations of customers effectively, so that customer, suppliers and customer's customers were satisfied. The application of the 4PL model allowed utilizing the services of several 3PL models at the same time.

The decision of extension of UPS into developing a new business segment distinguishing its 3PL and 4PL enhanced the scope of business. The 4PL service provider was able to handle the customer requirements through connecting its own 3PL business with other 3PL providers which increased the efficiency of the business. UPS realized this innovation at a time when others failed to recognize this opportunity, and this allowed it to connect with the contract manufacturers. This evolution of 4PL allowed connecting manufacturer with the logistic operators directly through the service logistics model. The 3PL model has evolved on the basis of technological development which has increased the demand of customers towards more personalized customer service alternatives which allows developing controls on the operations of the organization providing them more viable and sustainable alternates (Christopher, 2016).

Question 2. What are the critical success factors for a 4PL and how does a 3PL fit with these?

Critical Success Factors for a 4PL

The critical success factors are numerous for the 4PL businesses are numerous in comparison to the 3PL businesses. The entire business processes evolved with the change in the logistics process which create a distinction between the 3PL and 4PL services. The areas in which distinction was created by UPS for enhanced engagement with the customers as created by the service providers such as UPS is the following:

- The involvement of service providers within the supply chain process which was limited to physical movement and execution at the time of 3PL relationship and further led

towards coordination of management and logistics operations with the advancement to the 4PL relationship.

- The coherence of the system was developed mainly with the handling of assets through the 3PL systems which became more connected to information systems after application of the 4PL system.
- The knowledge intensity of services provided was low with 3PL as only standardized tasks were being performed, but with the 4PL the organization of flow of goods became higher.
- The dependency factors of the manufacturers on the service providers evolved along with meeting the customer demand. The 3PL service providing system only provided a low switching cost which allowed multiple factors of commoditizing the services whereas with the application of 4PL the order fulfillment factor relied heavily on service providers system which allowed it to rely on the ability for meeting the order requirements.
- The 3PL system had a limited contact in manufacturer's organization which impacted on execution level of day to day contacts and management for contract negotiations whereas with the 4PL systems dedicated contracts exist between the organization and senior level supply chain strategy.

The success factor of the 4PL service providers in comparison to the 3PL service providers was developed on the basis of performance measurement. The performance of the 3PL is done in a traditional manner which is limited but with the 4PL performance measurement is highly comprehensive including customer service and strategic supply chain measure. Same is the case with strategic information which is shared by the manufactures which were limited with the 3PL but is highly comprehensive with the 4PL service providing systems (McInerney, 2016).

All forms of logistical execution are dominated through the policies which are comprehensive including the customer and supplier lists. UPS developed controls over these processes and enhanced services by offering both 3PL and 4PL services to the client based on requirements. This increased business sustainability is allowing it to progress further dominating the logistics industry proving this strategy to be a success factor.

The coherence of the 3PL with the 4PL

Through the analysis of distinction of 3PL and the 4PL system, it can be derived that 4PL service providing system has a higher level of customer engagement and sharing of technical details which enhance dependability of the businesses on the service providers. The 3PL businesses benefit from this distinction in three different ways which range in the domain of strategic consideration, financial benefits, and operational benefits. The 3PL businesses get to escape the process of commoditization of services and penetrate in the supply chain system of clients more deeply and comprehensively (Christopher, 2016). This increases the bond between clients and service provider relationships increasing dependability. These factors enhance the financial benefits for the organization which lowers the asset intensity and expands the scope of operations serviced.

Conclusion

The assessment of decisions rendered by UPS shows deep coherence developed through classification of its 3PL and 4PL services. These factors are evidently important for the system as they allow UPS to provide and engage with the customers with the services based on the specific requirements of the manufacturers. The involvement of UPS within the operations of the client's increases which improves growth and learning ability as a service provider organization. It gains

access with the strategic aspects of clients which enable enhanced financial development and operational benefits for the organization.

References

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