Money delays point towards new era of 5pls

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If a 3PL is the LLP managing supply chains via other 3PL's thus offering a 4PL service, would it be fair to say that the missing link is finance? If so, and 4PL services are geared up to examining this could we be creating the ultimate logistic service provider, the 5PL?

When you consider that just over 10 years ago, 3PL was little more than a freight industry buzz word and freight forwarders held the mantle of door to door providers. OK, they threw in warehousing, packing, projects, consolidations, documentation expertise, customs brokerage, and a few other whistles and bells. To this day Freight Forwarders continue to offer these services and so they should. Its competitive and hugely rewarding when the market can choose from "the one man and his dog" agent up to the globally networked giant. As the retail supply chains evolved, so too did the needs of the shipper and outsourcing disciplines created the 3PL providers.

The evolution continued and shippers, be they exporters or importers, were now outsourcing complete supply chains where the 3PL managed the activities of other 3PL's and agents, creating the birth of the 4PL. I do however throw in a couple of contradictions here with phrases like "outsourcing complete supply chains" and "the evolution continued."

Has the evolution continued? And are shippers outsourcing complete supply chains? The answer is no to both. Evolution is continuous and I won't even try and advocate a Darwinian debate but in this context Evolution is stalling. Why? Well, consider why shippers outsource? They do so for economic and strategic reasons principally to increase profits, cashflow and shareholder value. If ever there was a time for supply chain evolution surely it is now, considering the shippers' objectives in the first place.

A 4PL enters into an agreement with a shipper to manage the supply chain, taking the roll of leading logistic provider (LLP) and managing all other logistic supply chain providers. The main objective is to manage every physical process of the supply chain that will result in the shipper achieving its objectives, being paid. OK, simple so far, except the shipper's objectives are not met until his covenant is concluded, meaning being paid after the inventory is delivered.
What if the shipper could achieve its objectives before delivery, even at the point of dispatch. Well, without using the "F" word, (factoring) or ex works and goodbye future business, how else can he secure payment earlier?

The shipper could negotiate with his bank or fund providers but surely the time has come for banks to negotiate with 3/4PL's and cross share their equally unique skills creating an even more unique business. A 5PL.

The name 5PL may sound a bit cheesy but the reasons are clear. Finance and logistics are 2 separate businesses inextricably intertwined yet still managing to deliver separate products to the Shipper. Why don't they join forces? Inventory moving through the supply chain is a highly prized piece of collateral that can offer capital benefits for all parties concerned, the shipper, the banks and the 3/4PLs. By combining all these disciplines the end result is a company who manage the movement, the risk, the visibility and the payment. In some cases, accelerating the payment by securitizing the collateral. Combining all these successfully produces a 5PL.

If only the 3/4PL's would take heed. If your client is geared up to outsourcing his supply chain he is already telling you that concentration on core activities while increasing shareholder value are prime objectives.

The value of global containerised trade is estimated to be circa US$ 700 billion per annum. But, the manufacturing and selling of goods are only the first steps in this complex trading process to convert inventory into cash flow. Surprisingly, no one currently enables global manufacturers to simplify and manage their supply chain, to generate substantial cash flow up front and in the process, increase the businesses' real worth.

What the market desires is a product which links the moving and financing of goods and, from this linkage, produces significant sources of working capital and liquidity for companies who may not efficiently access bank financing for their trade flows. Currently the market buys these services from Banks and 3/4PL's, separately.

To offer logistic expertise, visibility and operational reaction to physical supply chain problems is not a task most banks will be able to manage. Likewise to offer financial assistance is not the 3/4pls domain either. However, the logistic solution providers have become rather adept at fashioning value add solutions to meet market needs. The steps needed to "fashion" a trade finance solution to their portfolio are far less than the banks opening shop as a 3/4PL.

With the main global flows of cargo moving from weak to strong economies the 3/4PL arena need to consider that generally, especially in these emerging economies the exporter's cost of money is high, but he is still pressured to finance the deal. In these economies where much of the outsourced manufacturing is located, the sophistication of the financial infrastructure is low, giving rise to higher cost of capital than would be available in the buyers country. However, the buyer's pressure for open account terms and late payment exacerbates the burden on the exporter to supply the inventory financing with poor commercial support facilities.

With the cooperation and in some cases mergence of skills, a 4PL can manage the financial flows between seller and buyer affecting a skillful, much needed complete supply chain solution.

Whether we christen this new approach 5PL is neither here nor there, but it will happen. 3/4PL's will need to step up to this challenge and take ownership of a solution that has a touch paper just waiting to be lit.

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