

Chapter 70

4PL Intermediation: Exploring Dimensions of Social Capital

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ABSTRACT

The 2000s have seen the increased development of a different type of logistics service providers known as fourth party logistics (4PL) service providers. Those providers are now very involved in the short-term “transient” logistics needed by large retailers to organize the supply chain for some of their promotional activities that only last few days, or NGO to organize efficient relief operations after a disaster. Hence, 4PL firms can be considered dynamic assemblers of logistical resources they capture from partners in order to satisfy clients. A major criterion required for a successful 4PL intermediation is trust, as key element of social capital, and this chapter discusses the importance of trust in the efficient operations of this transient or ad hoc relationship between the 4PL and the client.

INTRODUCTION

For large retailers and manufacturers, the outsourcing logistical activities to logistics service providers (LSP) has been an important issue for about thirty years. It led to the creation of powerful companies such as Kuehne+Nagel, Norbert Dentressangle, Geodis and FM Logistic, that offer their clients customized logistical services that integrate a multitude of components (transport, order preparation, stock management, creation of promotional packs, etc.). Within the logistics industry, the 2000s have seen a new actor emerge, called *fourth party logistics* providers (4PL firms), whose role is to conceive, organize and coordinate a supply chain on clients' behalf. By mobilizing logistical resources from multiple partners (transporters, warehouse keepers, etc.), 4PL firms offer turnkey solutions that include product routing activities, logistical engineering (control of flows), management and monitoring of processes in terms of quality, performance, traceability, etc., including the evaluation, selection and supervision of

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partners. 4PL firms position themselves as an LSP, a “logistical resources assembler,” which plays an increasingly important role in supply chains (Cézanne and Saglietto, 2015, 2016).

Nowadays, 4PL intermediation is highly suited to numerous management situations. A large retailer organizes in a large-scale promotional operation its stores for about ten days to showcase products of an exotic country. A manufacturer launches a new product by installing a pop-up store on the square in front of the Gare de Lyon train station in Paris. An NGO sets up a one-off provisioning operation for people affected by a natural disaster. Such situations are common today, but what is less common is the fact that logistical operations most likely rely on transient logistics built for the occasion, which are deconstructed shortly after the operation. This raises the question of the memorization of various implemented logistical sequences (Paché, 2007). These transient logistics contrast sharply with the conventional logistical schemes built to manage recurring product flows, whose presence on various markets depends on repetitive logistics on a long-term basis, which may be set out in multi-year logistical contracts. Thus, transient logistics now represents one of the major evolutions of western economies; its analysis is essential to understand the functioning of 4PL intermediation.

4PL intermediation is an interesting application of the model proposed by Spulber (1999). This author distinguishes four functions of intermediation that justify the value of intermediaries in modern economies:

1. **Market Smoothing:** Intermediation consists in adjusting purchase and sale prices to fluctuations in supply and demand;
2. **Immediacy:** Intermediaries, through their willingness to buy and sell instantly, prevent both parties from wasting time by performing matching;
3. **Facilitating Trade:** By centralizing supply and demand, intermediation facilitates matching between the two parties;
4. **Guaranteeing and Delegating Monitoring of Exchanges:** Intermediation makes private information on the quality and price of products and services public, which provides assurance against transactional risks. These four key dimensions can be observed in 4PL intermediation:
 - a. Formalization of a transient supply chain is linked to the 4PL firm’s capacity to constantly rethink the exact quantity of resources to use to let its clients optimally adjust their supply to demand, over a brief period. Resources stored by the 4PL firm, for example transport, handling or warehousing, would surely continue to have value when a promotional operation or urgent humanitarian response ends.
 - b. 4PL intermediation strongly accelerates the facilitation of trade between those who supply and demand logistics services. Without the presence of a 4PL firm, a manufacturer, large retailer or NGO would have to spend considerable time assessing potential providers of logistics services packages, establishing a series of outsourcing contracts that stipulate precise legal commitments, and evaluating the service quality of each partner.
 - c. In a market that contains several hundred firms specializing in warehousing and several thousand shippers, it is very costly for an industrial, large retailer or NGO to find the best adapted service offer. 4PL intermediation lets firms identify all offers by objectively assessing their strengths and weaknesses and presenting each client with the offer that best meets its needs in a particular situation.
 - d. Lastly, it is difficult for any top manager to quickly access reliable information on the quotes and performance of thousands of offers of transport or warehousing, given limited cognitive capacities. 4PL intermediation can advantageously make the logistics services market more

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