Prep for Success: The Essential Guide to Logistics Outsourcing Acronyms and Definitions

Published 9 July 2020 - ID G00714534 - 12 min read

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Initiatives: Logistics Strategy and Operations

The logistics outsourcing market is evolving. It requires redefinition as technology and operations change and new solutions emerge. Supply chain leaders can use this research to navigate today's logistics acronyms when planning an outsourcing strategy or establishing a scope of work.

Overview

Key Findings

- In an attempt to differentiate themselves in the market, logistics outsourcing service providers will periodically invent new names and acronyms to represent their service offerings.

- Logistics outsourcing service acronyms often have variable definitions dependent on the shipper or provider. This is especially true as new market challenges arise, technology advances and service capabilities evolve.

- Assumptions made by shippers about the scope of a logistics service can create issues when sourcing logistics services, if based primarily on the use of a certain market acronym.

Recommendations

Supply chain leaders responsible for logistics strategy and operations should:

- Avoid making false assumptions during logistics sourcing cycles by reviewing common outsourcing market descriptors against their strategic needs. Do not assume that the services or capabilities a provider offers align with your intended scope of work because they use a particular industry descriptor.

- Match company needs, objectives and culture with a provider's services, resources, capabilities and expertise by leveraging a request for information (RFI).

- Reduce likelihood of misalignment in scope by being descriptive about their scope of work. Do not assume that leaving tasks out of the scope of work will result in free services or that the service provider will know to include them.
As supply chain complexity increases along with quickly evolving digital imperatives, so do the number of outsourcing providers, capabilities, service options available and scope of work under possible consideration. As a result, the terminology used to reflect the types of services being provided in the logistics outsourcing market today has become opaque. Figure 1 depicts some of the most commonly used outsourced logistics services, as found through Gartner’s Logistics Outsourcing study.¹

![Figure 1. Use of Logistics Outsourcing Services by Service Line](image_url)

### Use of Logistics Outsourcing Services by Service Line

<table>
<thead>
<tr>
<th>Service Line</th>
<th>Outsources</th>
<th>Not Outsourced but Will Be in the Next 2 Years</th>
<th>Not Outsourced/No Plans in the Next 2 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managed Transportation Services</td>
<td>65%</td>
<td>24%</td>
<td>11%</td>
</tr>
<tr>
<td>Domestic Transportation Broker</td>
<td>62%</td>
<td>24%</td>
<td>15%</td>
</tr>
<tr>
<td>Warehouse and Fulfillment/Contract Logistics</td>
<td>57%</td>
<td>26%</td>
<td>18%</td>
</tr>
<tr>
<td>Air/Ocean Freight Forwarding</td>
<td>57%</td>
<td>33%</td>
<td>10%</td>
</tr>
<tr>
<td>Logistics Control Tower</td>
<td>54%</td>
<td>29%</td>
<td>17%</td>
</tr>
<tr>
<td>Management of Company-Owned Transport Assets</td>
<td>53%</td>
<td>33%</td>
<td>14%</td>
</tr>
<tr>
<td>Freight Audit and Payment</td>
<td>48%</td>
<td>32%</td>
<td>20%</td>
</tr>
<tr>
<td>Inventory Planning/Vendor Managed Inventory (VMI)</td>
<td>47%</td>
<td>30%</td>
<td>23%</td>
</tr>
<tr>
<td>Customs Brokerage</td>
<td>47%</td>
<td>32%</td>
<td>20%</td>
</tr>
<tr>
<td>Order-to-Cash Process</td>
<td>47%</td>
<td>33%</td>
<td>20%</td>
</tr>
<tr>
<td>Packaging Design/Engineering</td>
<td>46%</td>
<td>32%</td>
<td>22%</td>
</tr>
<tr>
<td>Repair/Refurbishment</td>
<td>43%</td>
<td>37%</td>
<td>20%</td>
</tr>
<tr>
<td>Network Design</td>
<td>41%</td>
<td>40%</td>
<td>18%</td>
</tr>
<tr>
<td>Manufacturing (OEM)</td>
<td>37%</td>
<td>35%</td>
<td>28%</td>
</tr>
<tr>
<td>4PL</td>
<td>35%</td>
<td>42%</td>
<td>23%</td>
</tr>
</tbody>
</table>

Source: Gartner’s 2019 Logistics Outsourcing Strategy survey
Base: Total Respondents. Excluding DK/NA for each item. Percentages might not add up to 100% due to rounding.
Q. Which of the following has your organization already outsourced or plans to outsource in the next 2 years?
ID: 447961
The following logistics services will be defined and scoped in this research:

- Private fleet transportation (1PL)
- Asset-based transportation carriers (2PL)
- Third-party logistics (3PLs) providers/Logistics service providers (LSPs)
  - Transportation brokers
  - Contract logistics — warehousing, distribution, fulfillment
  - Air/ocean freight forwarder/customs brokers
- Lead logistics providers (LLPs)
- Managed transportation services (MTS)/Logistics as a service (LaaS)
- Fourth-party logistics (4PLs) providers
  - Logistics/Transportation control tower

This research is not intended to address whether companies should or should not outsource their logistics functions. For that advice, see “Evaluate These Influencing Factors When Deciding to Outsource Logistics or Keep It In-House.” Instead, this research is intended to help supply chain leaders responsible for logistics outsourcing navigate the variety of provider categories, names and acronyms that have surfaced as the logistics industry evolves to satisfy expanding customer needs.

**Private Fleet Transportation (1PL)**

Private fleet transportation is when companies such as manufacturers, brand owners and retailers directly own and operate physical assets. Most commonly, these companies will own trucks and employ drivers that are managed directly by the logistics function of the business. This does not preclude the companies from outsourcing some of the transportation needs to supplement company-owned capacity. In addition, some of these organizations employ outsourced partners such as those defined as managed transportation service providers to manage their company-owned assets and resources.

**Asset-Based Transportation Carriers (2PL)**

Carriers own and operate a network of physical assets, equipment, resources and staff to provide a transport service over some segment of the supply chain. It could be a trucking firm, parcel delivery company, maritime shipping company (ocean carrier), railroad or cargo airline that is used to convey freight from an origin (e.g., a supplier or factory) to a destination (e.g., a distribution center).
or end consumer). These companies make up the transportation industry, and their resources are available “for-hire,” usually for a corresponding transactional fee or fixed contracted rate.

**Third-Party Logistics (3PL) Provider/Logistics Service Provider (LSP)**

To be a third-party logistics provider, a company must predominantly operate a business that moves, stores or manages products or materials on behalf of its customer, in some manner, without taking ownership of such products or materials. The 3PL term is most appropriately associated with a company that performs some part or all of a corporation’s logistics operation in an outsourced arrangement. LSP is relatively equivalent to 3PL, and is another common name for providers that offer logistics outsourcing support.

3PLs offer expertise across multiple core logistics services such as warehouse and fulfillment, transportation brokerage, transportation management, and air/ocean forwarding. During the past several years, 3PLs/LSPs have taken on extended supply chain activities, such as customer call centers, kitting, manufacturing assembly, custom packaging, labeling, ticketing, product configuration, returns processing, and the operation of maintenance and repair depots.

Many 3PLs today will target differentiation across two primary dimensions — geographic regional coverage and industry specialization. As the market advances, both of these capabilities continue to mature within the greater logistics industry, as indicated by the continued widespread mergers and acquisitions (M&As) in the space (see “Magic Quadrant for Third-Party Logistics, Worldwide”).

There is some discussion concerning whether a non-asset-based 3PL, as opposed to an asset-based 3PL, would be a better option. The primary concern is that an asset-based 3PL might be biased in the solution design that it aims to “feed” the asset side of the house. The argument further contends that a non-asset-based 3PL would have no vested interest in the selection of logistics services or carriers and, therefore, would be totally free to operate in the client’s best interest at all times. The asset-owning 3PL will claim that its logistics service division is independent and uses only the asset side of the company when it presents an advantage to the client. Actual performance, of course, varies across the industry along this spectrum.

**Transportation Broker**

Transport brokers are a third party to the relationship between shippers and carriers. A broker primarily serves as a middleman between the asset-based transportation carrier and the shipper. Transport brokers are different from carriers in that they do not own the assets or transport capacity to which they sell access. To shippers, the broker acts in a transportation sourcing capacity; to the asset-carrier (2PL), the broker is a paying customer. A broker typically works with a network of prequalified carriers and/or owner-operators to source, price and book freight capacity on behalf of a shipper.

**Contract Logistics — Warehousing, Distribution and Fulfillment**

Many 3PLs provide warehousing, distribution and fulfillment services. Most 3PLs will own or lease real estate for the warehouse building, source and upfit warehouse infrastructure and equipment,
and staff the facility to perform outsourced distribution services. These core services include receiving and storing inventory; order pick, pack and ship; and reverse/repair, return operations for their clients.

The warehouse outsourcing space includes both public (multitenant) warehousing and contract logistics (single occupancy) solutions. A contract warehouse is usually dedicated entirely to one client's operation exclusively. Conversely, a multitenant warehouse maintains the inventory and distribution processes of multiple clients in a shared-space environment. The 3PL accounts for activity performed for individual clients and bills them accordingly.

**Air/Ocean Freight Forwarder/Customs Broker**

A freight forwarder is a type of non-asset-based 3PL that specializes in sourcing, arranging for and securing domestic and international air and ocean cargo transport capacity on behalf of a shipper. Transportation activities may encompass domestic or international shipments that require specialized handling and workflows because of cross-border regulations (e.g., import/export customs clearance procedures).

Forwarders and customs brokers provide a range of services including but not limited to:

- Booking cargo capacity/space
- Negotiating freight costs
- Preparing and tracking origin and destination cartage/drayage
- Preparing shipping documents
- Consolidation and deconsolidation services
- Customs clearance services

**Lead Logistics Provider (LLP)**

The market has numerous logistics service solutions marketed as "lead logistics provider," each with its own portfolio of capabilities. In some circles, a lead logistics provider and a fourth-party logistics provider may be used as interchangeable terms. However, by Gartner’s definition, this is not the case, and the differences between these two services will become much more pronounced in the future. The distinction between an LLP and a 4PL has also been the root cause of some shipper dissatisfaction with LLP performance.

A core difference between these two services is in the expectation to optimize beyond the planning and execution of a siloed logistics operation. The LLP acronym and scope of work is most commonly associated with the planning, optimization and execution of scopes of work for international air/ocean freight for a specific geographic region. The LLP can have a preexisting network of other 3PLs and carriers that it brings to customers to form a readymade network of
capabilities. In certain regions or for certain services, the LLP will subcontract to its network partners to provide a more comprehensive and competitive offering than might be possible by shipper alone. The LLP can bring local operational consistency and efficiency to a shipper because there is a single point of process ownership and control.

A typical LLP scope for international air/ocean freight often includes:

- Specific regions/origin points in a given scope of work (versus central, global perspective)
- Carrier/3PL sourcing
- Shipment planning and optimization
- Carrier/3PL shipment allocation and execution
- Shipment tracking and exception management through control tower functionality
- Oversight and performance management of multiple carriers/3PL providers
- Reporting and business intelligence
- Freight audit, pay and/or claims management
- Value-added services (like purchase order management with OEMs/manufacturers, for example)

However, in many engagements, the LLP is also a player in the shipper’s greater portfolio of carriers/providers in the bid to win the transport business. The LLP does this by bidding on freight with its own asset-based transport and/or nonasset agent/carrier networks. The LLP manages and controls the performance of a number of 3PLs and carriers on behalf of its client. The contractual agreements with these local 3PLs and carriers are usually, but not always, held by the LLP. The LLP, through its network, provides these capabilities for the customer under its LLP contract.

**Managed Transportation Service (MTS) Provider/Logistics as a Service (LaaS)**

A number of companies in the logistics market offer a targeted service for the optimization of over-the-road, intermodal, and/or parcel transportation management across people, process and technology. These companies pair technology such as a transportation management system (TMS) with the people (necessary staff to operate the system) and processes to improve logistics capability, cost and performance. This business process outsourcing (BPO) engagement is sometimes also referred to as logistics as a service (LaaS), an acronym that is primarily used by TMS software providers.

Today, many MTS or LaaS scopes of work look similar if not almost identical to the scopes of an LLP. These three outsourcing terms and subsequent provider engagements are ripe for misalignment if both parties’ expectations of the service and accountability are not captured comprehensively and with clear and defined borders in terms of a scope of work. See “*Toolkit:}
Fourth-Party Logistics (4PL) Provider
The fourth-party logistics solutions model is experiencing a resurgence in popularity and flux with respect to shipper vision and provider service expectation. A 4PL is a logistics provider that assembles, integrates and manages all resources, capabilities, technologies, and the physical execution of carriers and providers such as 3PLs required to deliver a company’s logistics needs. A 4PL typically assumes total responsibility for the design, build, run and measure of an integrated and comprehensive logistics solution that optimizes across the end-to-end supply chain. The scope is not just limited to a specific mode or modes of transportation. This means that the 4PL oversees other 3PLs and carriers and allows the client to deal with one service provider as the central orchestrator. Typically, the transactional contractual agreements with the carriers and 3PLs in this scenario remain direct with the customer, and the 4PL is compensated via a management fee structure. For more details on 4PL engagements, see “The Rise and Future of the 4PL Model.”

Logistics/Transportation Control Tower
Many global and regional LLPs or 4PLs also bring an IT infrastructure to the project — a “control tower” concept — that they use to oversee a client’s global logistics operations to manage the variety of 3PL and carrier operations under their control. Gartner’s definition of a control tower is a concept that combines people with process and organization, facilitated by appropriately combined technology for providing data-driven, end-to-end supply chain insights.

This greater visibility helps to manage transportation network exceptions and optimize costs. In addition, it allows the LLP or 4PL better oversight and a tighter rein on expected performance and service levels. For more information on whether a control tower setup is right for your company, see “Which Logistics Control Tower Operating Model Is Right for Your Business?”

What’s Next?
As we track the maturity of the logistics providers and buyers of outsourced logistics services, we see the strategic involvement and integration of the logistics provider within the business growing. More and more companies are relying on their providers to perform highly advanced functions beyond what can rightfully be termed “logistics.” Consequently, we see the need for the logistics providers to perform customer and service segmentation and, in doing so, develop services and solutions that will cater to specific market segments. As the future unfolds, we can be certain that more names and acronyms will arise. Will we see the maturity and involvement of the 3PL or LSP become more of a supply chain partner or logistics process manager? Only time will tell.

Evidence
1 Gartner’s 2019 Logistics Outsourcing Strategy Survey explored the logistics challenges companies face and how supply chain leaders are adapting their logistics outsourcing strategies
and initiatives to support them. The survey was conducted online by an external partner from April through June 2019.

In total, 190 respondents were interviewed in their native language across North America (n = 45), Mexico (n = 32), Western Europe (n = 60; countries included the U.K., Germany and Spain) and APAC (n = 53; countries included Australia, India and Singapore).

To enable the comparison and contrasting of key trends, quotas were established on key organizational and respondent characteristics:

- Qualifying organizations operate in the manufacturing, retail and healthcare providers/life sciences industries with enterprisewide annual revenue for 2018 of more than $500 million or equivalent. Quotas were also set to ensure that participants have experience with logistics outsourcing — the respondents’ companies outsource some (76%, n = 144) or all of its logistics (24%, n = 46) to third parties.

- Qualified participants have a role linked to one or more of the following — sourcing and procurement of indirect services, logistics, supply chain/logistics center of excellence (COE), supply chain strategy, supply chain performance management and metrics. All respondents are personally involved in logistics outsourcing, either in a decision-making capacity or in the execution.

The survey was developed collaboratively by a team of Gartner analysts who follow these markets and was reviewed, tested and administered by Gartner’s Research Data and Analytics team.

Disclaimer: Results of this study do not represent “global” findings or the market as a whole but are a simple average of results for the targeted countries, industries and company-size segments covered in this survey.

Recommended by the Authors

Ignition Guide to Creating an Effective RFP for 3PL Warehouse Providers
Ignition Guide to Evaluating and Selecting a Logistics Outsourcing Vendor
Key Considerations for Supply Chain Leaders Evaluating Transportation Management Systems

Recommended For You

Coaching Evaluation Template
Developing Direct Reports
Coaching Responsibility Assignment Tool (RACI Chart)
Use Cost of Quality for Performance Improvement
How to Ensure Resilience for Your BCM Program When Implementing Standards