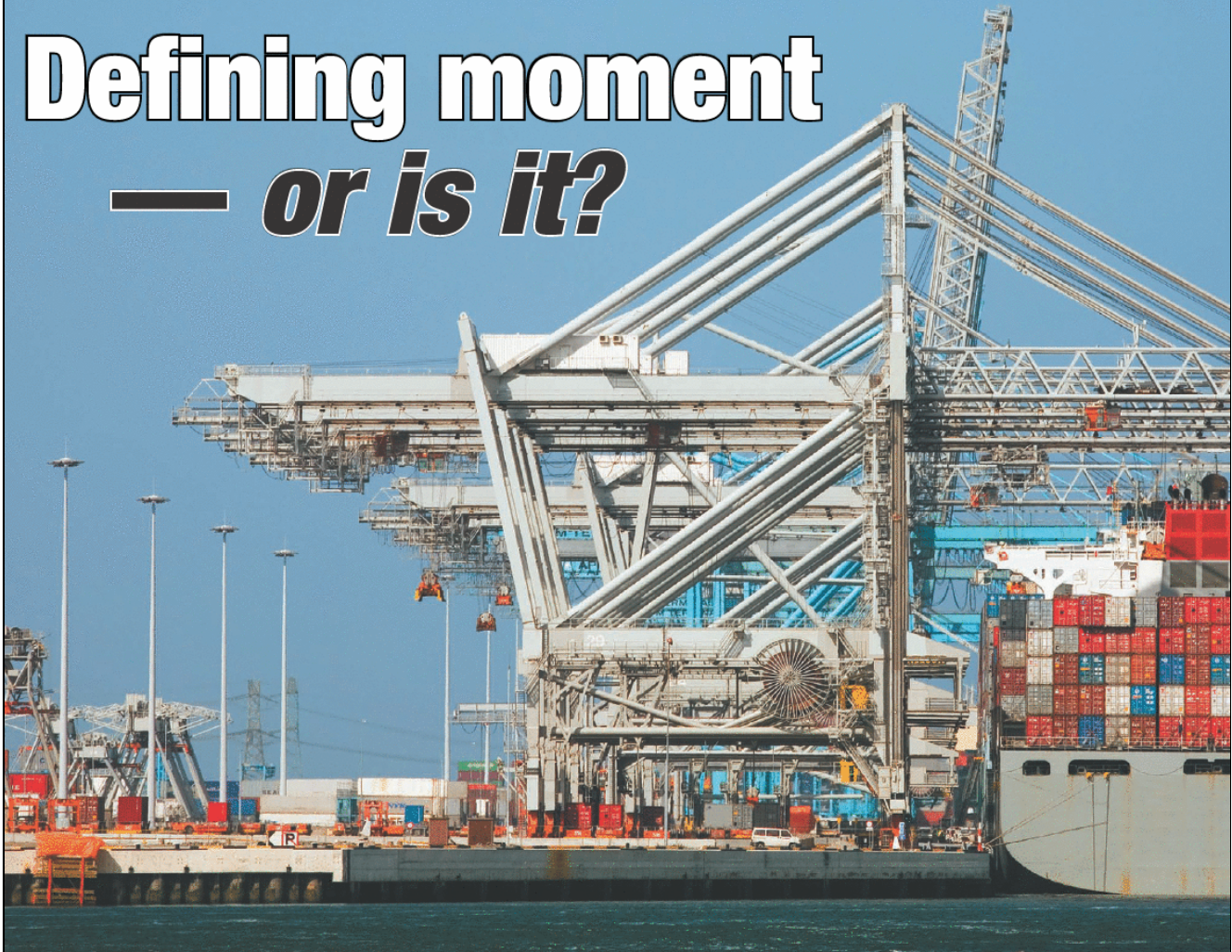


THIRD-PARTY LOGISTICS

Defining moment — *or is it?*



New law's definition doesn't settle debate over what constitutes a 3PL

BY BILL DIBENEDETTO

Ever since third-party logistics became an important part of the supply-chain industry, people have been trying to agree on a definition of 3PLs. A new law takes a stab at it, but not everyone agrees with the result.

Buried in Section 235 of the recently enacted Consumer Product Safety bill is this four-line definition: "The term 'third-party logistics

provider' means a person who solely receives, holds or otherwise transports a consumer product in the ordinary course of business but who does not take title to the product."

The product safety measure, signed into law by President Bush last month, significantly expands the authority and enforcement powers of the Consumer Product Safety Commission. The legislation, which attempts to deal with hazards

before they reach the marketplace, was passed in response to well-publicized cases involving the safety of import goods such as toys from China. It includes new requirements and penalties for manufacturers, distributors and retailers.

The law's definition of a 3PL is important for the logistics industry from an ownership and liability-limit perspective, according to Pat O'Connor, Washington representative of the International Warehouse Logistics Association, which has claimed much of the credit for inserting the 3PL definition into the bill.

The new law "reaffirms the role

of the 3PL as an intermediary in the supply chain, similar to the carrier or forwarder," O'Connor said. "It sets a critical precedent as Congress turns to similar legislation for food, pharmaceuticals and cargo security."

With that, let parsing and interpretation begin.

The Council of Supply Chain Management Professionals has a more detailed definition of 3PL: "A firm which provides multiple logistics services for use by customers.

Preferably, these services are integrated, or 'bundled' together by the provider. These firms facilitate the movement of parts and materials from suppliers to manufacturers, and finished products from manufacturers to distributors and retailers. Among the services which they provide are transportation, warehousing, cross-docking, inventory management, packaging and freight forwarding."

Rick Blasgen, president and chief executive of CSCMP, said the new law's definition won't necessarily change logistics and supply-chain professionals' perspectives on what a 3PL is.

"I do not see this as a major issue, given the context in which they are using the term," he said. "This seems to me to simply be a way for the bill to hold a 3PL entity in some context legally as it relates to the overall bill.

"Obviously, our definition is more detailed, defines 3PL as a firm as opposed to a person, and I have no comment on the legal implications of what their definition might produce," Blasgen said.

"I would hope that the definitions put forth by the logistics industry would continue to take precedence," said Cliff Lynch, executive vice

Origins of the term

Third-party logistics generally refers to outsourcing all or much of a company's logistics operations to a specialized company, according to the Council of Supply Chain Management Professionals.

The term "third-party logistics" was coined in the early 1970s to identify intermodal marketing companies in transportation contracts. Up to that point, contracts for transportation had featured only two parties, the shipper and the carrier. As intermediaries that accepted shipments from cargo owners and tendered them to the rail carriers, IMCs became the third party to the contract, the 3PL. But over the years, that definition has broadened to the point where these days, every company that offers some kind of logistics service for hire calls itself a 3PL.

Third-party logistics "is a broad term and has evolved over the years as a way to express additional value that one might achieve by outsourcing some functions," said Rick Blasgen, president and chief executive of CSCMP.

president of CTSI, a Memphis-based supply-chain management firm. "If there should be a definition, it probably shouldn't be this one. It really muddies the water, and raises more questions than it answers about ownership, services and who is a person or business."

A 3PL "can't be identified as a person; it's a business," Lynch said. He added that he's not sure what the term "who solely" means in the product-safety bill's definition.

"The terms 3PL and 4PL may not be something we ought to be dealing with anymore anyway," Lynch said. "They have become a misnomer; they should be called logistics service providers."

The definition "puts the 3PL in a position apart from manufacturers and distributors, and one which is not to be considered during product recalls and legal actions," said Kate Vitasek, managing partner of Supply Chain Visions, based in Bellevue, Wash.

"In our highly litigious society, anything that exempts a party from

legal action has to be considered 'landmark legislation' from their perspective," Vitasek said. "However, other supply-chain partners may not welcome this so warmly, as it does not allow them to 'spread the pain' associated with these actions to the 3PL."

She also noted that it is not uncommon for a 3PL to own and control inventory under a performance-based logistics contract.

"Today, the term 3PL is so broad that most outsourcing relationships fall under 3PL. With this definition, some companies may not want to associate themselves with the term 3PL. Others might love it." ♦

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