Supply Chain Research · Cornerstone Reference

3PL and 4PL Selection

How Do I Choose a 3PL, and What Is the Difference Between 3PL and 4PL?

A 3PL operates logistics work. A 4PL coordinates whoever operates it. Neither term is defined by a standards body, so the functional test matters more than the label, and the selection turns on scope definition, pricing structure, and whether the technology fit is real or asserted.

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01 The short answer

A third-party logistics provider operates logistics work on your behalf, running warehousing, transportation, or both with its own facilities, labor, and systems. A fourth-party or lead logistics provider coordinates a set of providers, including 3PLs, and typically holds performance management and control tower functions. Choosing between them, and between candidates within either, depends on defining scope precisely, understanding how the pricing model behaves when volume moves, and testing technology fit against your own data rather than accepting it as a claim.

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functional roles: operating the work, or coordinating whoever does	standards bodies define either term	pricing structures that behave differently when volume changes

Key takeaways

- **The labels are marketing, the functions are real.** Ask whether the provider executes the work or manages others who do, since no standards body defines either term.
- **Scope precision determines everything downstream.** Pricing, service levels, and disputes all trace back to what was and was not written into the statement of work.
- **Pricing structure matters more than the rate.** How a model behaves when volume falls is usually the larger financial exposure.
- **A 4PL that also operates has a structural conflict.** It is workable, but it must be addressed in the contract rather than assumed away.
- **Outsourcing moves the operation, not the accountability.** You still need inventory and order visibility, and you still answer to your customer.

02 What is the difference between a 3PL and a 4PL?

The functional distinction is between operating and coordinating. A 3PL runs the physical work: receiving, storing, picking, packing, and moving goods, using its own or contracted resources. A 4PL sits above that, managing multiple providers, allocating work between them, and holding the visibility and performance management layer. Some 4PL arrangements involve no physical assets at all.

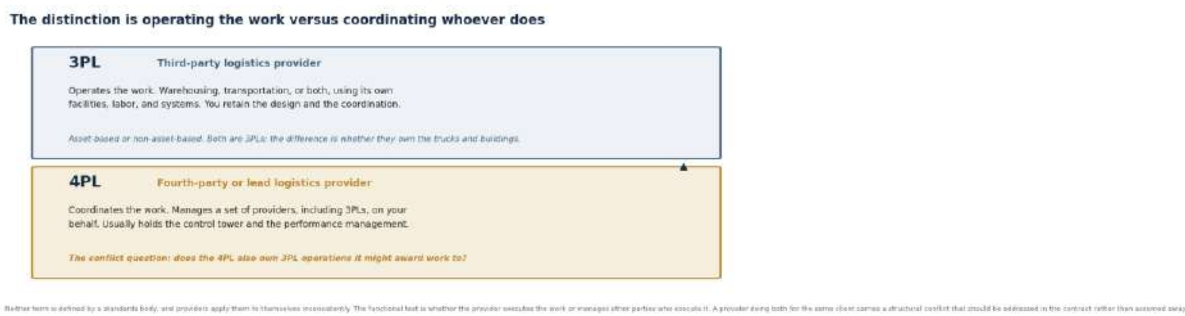

Figure 1. The functional distinction. Neither term is defined by a standards body, and providers apply them to themselves inconsistently, so the test is what the provider does rather than what it calls itself.

A secondary distinction inside the 3PL category is asset-based versus non-asset-based. An asset-based provider owns the vehicles and buildings. A non-asset-based provider contracts them. Both are legitimately 3PLs. Asset-based providers offer more direct control over capacity, particularly in tight markets, while non-asset providers offer more flexibility in sourcing and are less inclined to route volume toward filling their own assets.

The conflict question deserves explicit attention where a 4PL is also a 3PL. A provider coordinating carrier selection while owning carrier operations has an incentive worth naming. This does not disqualify such arrangements, which are common and often work, but it should be handled in the contract through transparency on award decisions and the right to audit them, rather than left to good faith.

03 How should the scope be defined before going to market?

In more detail than feels necessary, because every ambiguity becomes a change order at a price set after you have committed. Specify volumes with seasonality rather than annual averages, order profiles including line and unit counts, handling requirements, value-added services, and the returns process. The profile matters more than the total: a hundred thousand units in single-line orders is a different operation from the same units in twenty-line orders.

Two items are omitted often enough to name. Peak, because a provider pricing against average volume will charge separately for the capacity that peak actually requires, and peak is where service failures become visible to your customers. And exit, meaning what happens to inventory, data, and systems if the relationship ends. Exit terms are cheap to negotiate before signature and expensive afterward, when the provider holds your stock and the leverage has reversed.

04 How do 3PL pricing models actually work?

Three structures dominate and they behave differently. Transactional pricing charges per unit of activity, such as per pallet stored or per order picked, and scales cleanly with volume in both directions. Cost-plus passes through the provider's costs with an agreed margin, offering transparency but weaker efficiency incentives. Gain-share arrangements attach part of the provider's return to agreed improvements, which aligns interests but requires a baseline both parties accept, and that baseline is where these arrangements typically fail.

The question to model is not the rate but the behavior under change. Ask what happens if volume falls thirty percent, since fixed cost recovery clauses and minimum volume commitments determine whether the provider's economics or yours absorb it. Ask what happens if the order profile shifts toward more, smaller orders, which is the direction most consumer-facing operations are moving. A rate card that looks competitive at today's profile can become expensive at next year's without a single price changing.

Model	How it works	Suits	Main exposure
Transactional	A rate per activity: per pallet, per order, per line, per shipment	Stable, well-understood profiles	Rates assume a profile; the profile drifts
Cost-plus	Provider costs passed through with an agreed margin	Complex or changing operations	Weak efficiency incentive; requires open-book audit
Gain-share	Part of the provider return tied to agreed improvements	Mature relationships with good data	Depends on a baseline both parties accept
Minimum volume	A commitment underwriting the provider's fixed cost	Dedicated space or labor	You carry the downside if volume falls

Table 1. Pricing structures and how each behaves. The final column is the one to model, because structure rather than rate determines what happens when conditions change.

05 What service levels are worth contracting?

A small number that are measurable from data both parties can see, and that connect to something your customer experiences. On-time shipping against the agreed cutoff, order accuracy, inventory record accuracy, receiving turnaround, and returns processing time cover most operations. Each needs a definition specific enough to survive a dispute: on-time against whose clock, measured at which event, excluding what.

Attach consequences that are proportionate and reciprocal. Penalty-only regimes tend to produce defensive reporting rather than better performance, and a provider managing to avoid a penalty is not the same as one managing to deliver service. Agreeing the measurement method and the data source before signature matters more than the penalty size, because most service disputes are arguments about measurement rather than about performance.

06 How do I test technology fit rather than accept a claim?

Ask what the provider runs, how you will see your inventory and orders, and what integration is required on your side. Outsourcing the operation does not outsource the need for visibility: you still have to answer where stock is and whether an order shipped, and if that answer arrives in a spreadsheet the following morning, the operation has moved but the accountability has not.

Three questions separate real fit from asserted fit. What is the update frequency of inventory data available to you, since daily and near real time support different customer promises. What integration methods are supported, and have they been used with a system like yours before. And if the provider operates several sites, is the same system running at the site that will handle your work, because multi-site providers frequently run different platforms and the capability demonstrated may not be the capability delivered.

The fair case for accepting a weaker technology position is that operational quality and network fit often matter more than system sophistication, and a provider with excellent execution and modest reporting can outperform the reverse. That is frequently true. It becomes false at the point where your customers require visibility you cannot produce, which is a threshold worth identifying before selection rather than after.

07 Frequently asked questions

Do we still need a WMS if we use a 3PL?

Not usually for warehouse operation, since the provider runs its own. You still need inventory visibility and the order and receipt records on your side, typically held in ERP or an order management system. What changes is who operates the system, not whether the data is required.

Is a 4PL worth it for a mid-sized company?

It depends on provider count and coordination burden rather than company size. A 4PL earns its margin where several providers must be managed across regions or modes and nobody internally holds that view. With one or two providers, the coordination layer usually costs more than the complexity it removes.

How long should a 3PL contract run?

Long enough for the provider to recover implementation investment and short enough to preserve leverage, with the balance depending on how much dedicated capacity is involved. What matters more than duration is the review mechanism and the exit terms, since a long contract with a working exit is safer than a short one without.

Should we run a pilot before committing?

Where practical, yes, and a single site or lane reveals more than any presentation. The limitation is that providers staff pilots attentively, so a successful pilot demonstrates capability rather than the steady state. Ask who will run the account after transition and whether those people are named in the contract.

What is the most common reason these relationships fail?

Scope ambiguity that surfaces as cost disputes. Work nobody priced still has to be done, and the argument about who pays for it damages the relationship more than the amount involved. Precision in the statement of work prevents more failures than any clause added afterward.

Can we use multiple 3PLs?

Commonly, and many organizations do so by region or by channel. The cost is coordination and the loss of consolidated volume leverage. This is the circumstance where a 4PL or an internal control tower capability starts to justify itself, since someone has to hold the cross-provider view.

How do we benchmark 3PL rates?

With difficulty, and with care about the sources. Published logistics cost benchmarks are rarely like for like, because rates depend on profile, geography, and service level in ways summary figures do not capture. SCR does not publish rate benchmarks for this reason. Competitive tendering on a well-defined scope produces a better comparison than any published figure.

08 Method, sources, and where to go deeper

Method

- The functional distinction between operating and coordinating is SCR's own framing, adopted because neither term has a standards definition and provider self-description is inconsistent.
- Process placement follows the SCOR Digital Standard, which locates outsourced logistics execution within Fulfill and provider governance within Orchestrate.
- Supply Chain Research is independent and vendor-neutral. We accept no payment from the providers or categories covered, and this page names no providers.

Caveats

- No standards body defines 3PL or 4PL, and usage varies between providers and regions. Any definition, including this one, describes common usage rather than an authority, and the terms should not be relied on in a tender document without a functional description alongside them.
- SCR publishes no rate benchmarks for logistics outsourcing. Published figures are rarely comparable, because rates depend on order profile, geography, and service level in ways summary numbers do not capture, and many circulating benchmarks originate with parties selling advisory services.
- Table 1 and Figure 1 describe structures rather than measured data. The suitability judgments reflect common practice observed across engagements.

Where to go deeper

Three SCR guides carry the detail behind the technology and execution questions raised here. The transportation management guide covers the systems and processes a provider will either supply or integrate with, and the visibility requirements that outsourcing does not remove. The warehouse management guide covers what the provider operates on your behalf and what data you should expect back. The last mile guide covers the delivery stage where service commitments made in a 3PL contract are ultimately tested.

Sources

[1] Association for Supply Chain Management. SCOR DS model reference, Fulfill and Orchestrate processes.
[2] Association for Supply Chain Management. SCOR Digital Standard overview.
[3] Association for Supply Chain Management. Introduction and front matter, SCOR Digital Standard, 2025 edition.