



3PL Central State of the Industry

How 3PL Warehouses Can Profit from
5 Challenges in 2017

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As we enter the new year, 2017 may be one of the most memorable years the warehousing and fulfillment industry has seen in some time. This year promises an unprecedented amount of opportunity for the savvy 3PL warehouse operator juxtaposed against significant uncertainties stemming from a continued shift in consumer habits, a more daunting competitive landscape and, of course, a controversial incoming Presidential administration who has vowed to “stir the pot”.

This eBook identifies five of the largest challenges facing 3PL warehouse operators in the year ahead and shares insights, reactions, and guidance from two leading 3PL and warehousing industry experts John Watkins, CEO of 3PL Central and Rich Moline, 3PL Central’s Executive Vice President of Strategic Accounts.

With more than 50 years of combined operational experience in the 3PL industry, Mr. Moline and Mr. Watkins offer unique perspectives as to how 3PLs can strategize, plan and win in this environment despite the many challenges which lay ahead.

John Watkins, recently speaking to group of 3PL professionals noted, “We have seen more changes in our industry over the past five years than the previous twenty-five. Technology alone, with the advent of SaaS software, has significantly changed the 3PL playing field. When you couple that with the meteoric rise in ecommerce and the ever-changing requirements of retailers, the 3PL Warehouse industry has been completely turned on its head. While the physical warehouse hasn’t changed as much, the way we deliver service, communicate and satisfy customer demands is nothing like what we did just 25 years ago.”



Challenge 1

The Industry-Wide Shift from B2B to
B2C Fulfillment

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As most 3PLs know first-hand, changing consumer demands are forcing retailers to become a multi- or even omni-channel vendors. This is evidenced by the increasing growth in B2C e-Commerce sales, along with the advances in delivery tracking and technology.

Due to the B2C movement, most 3PL warehouse operators have had to become experts in both B2B and B2C fulfillment. According to Tompkins International, “Gone are the days of B2B pallet picks and deliveries to retailer warehouses. Shippers want to maintain a single logistics service provider, but want them to support the requirements of both B2B and B2C.”¹ Tomkins has noted several other trends as “Traditional B2B Shifts to B2C.” These include:

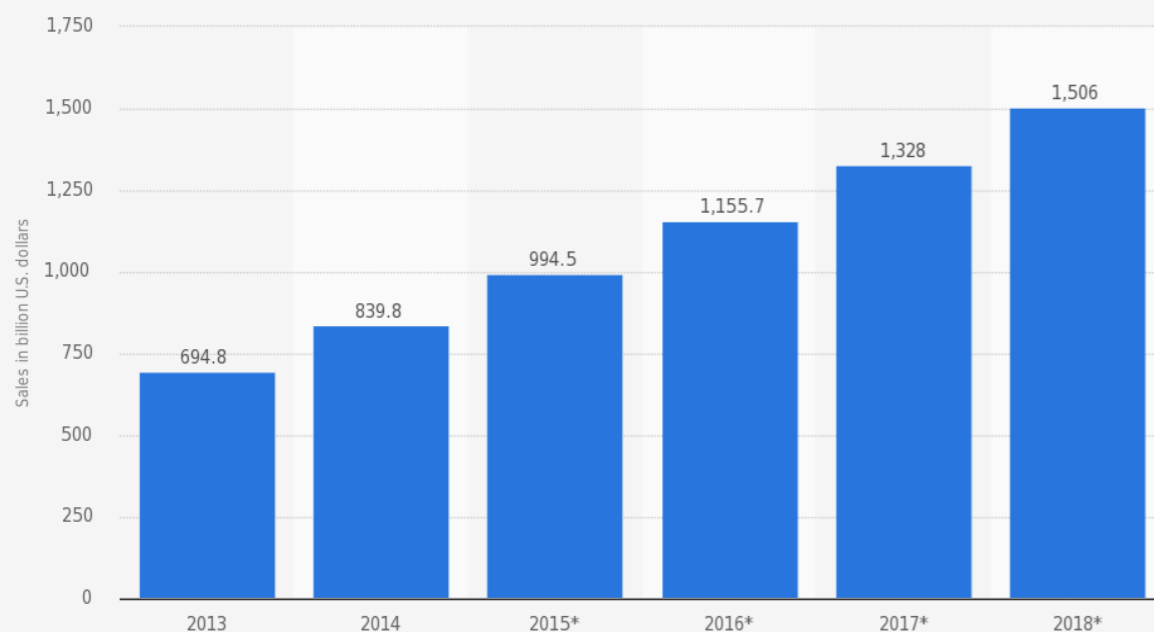
- Contract logistics arms of integrators are owning their networks, opening “click-and-collect” locations, and making deliveries to consumer homes.
- More and more 3PLs opening new facilities to handle B2C shipments alone or segmenting warehouses for B2C work for the same customer.
- New technology to support fulfillment, along with an increase in value-added service offerings such as product kitting, gift wrapping and personal greetings, and special labeling.

Given the need to support both B2B and B2C fulfillment, how should today's successful 3PLs respond?

3PL Central's Response

The Industry-Wide Shift from B2B to B2C Fulfillment

Global retail e-commerce sales volume from 2013 to 2018 (in billion U.S. dollars)



Sources:
A.T. Kearney, Euromonitor
© Statista 2015

Additional Information:
Worldwide, 2013 to 2014

statista

The shift to B2C fulfillment is not a short-term phenomenon. Customer expectations for speed, convenience, and service are only rising and vital to building lasting relationships. And e-Commerce is still growing exponentially.

In 2015, online retail sales increased by nearly 20% and 2016 is expected to have equal or greater growth reports. For 2017, experts are predicting an expected growth of 23% more².

Along with the tremendous growth comes an equal rise in consumer expectations for speed, convenience, and service. To succeed and profit in 2017, 3PL's must be able to adapt to these growing service expectations.

3PL Central's Response

The Industry-Wide Shift from B2B to B2C Fulfillment

To prepare your warehouse to accommodate the shift to B2C fulfillment, we recommend the following:

Analyze Warehouse Space and Procedures

Consider whether you have implemented the most efficient fulfillment process. Some warehouses create separate work areas and teams for B2B and B2C fulfillment, while others share common areas. These two methods of fulfillment are significantly different and usually pull from the same inventory. B2C fulfillment revolves around high volume pick and pack shipping eaches as opposed to wholesale shipments to vendors. Organizing the warehouse into separate processing areas with common inventory locations could increase efficiency and productivity in both disciplines. If you haven't already, you may want to analyze your warehouse layout and procedures to best accommodate a growing demand for fulfillment orders. 3PLs who use scalable industry best practices are able to adapt more quickly and be more productive.

Analyze Brand Management and Customer Service Standards

B2C fulfillment means 3PLs are now responsible for the final presentation of a customers' brand. The 3PL has to consider and be prepared to deliver on everything from the box, to the packaging, label, return label, and so on. As far as the consumer is concerned, the 3PL is the same as the supplier. For the 3PL warehouse, it's all about the details for their customer. This not only requires accurate, real-time data and inventory reporting (electronically) from one end of the supply chain to the other, it necessitates that a 3PL warehouse can print custom logoed packing slips, invoices, and labels for a variety of customers or retailers and exchange data seamlessly with a number of third parties.

Analyze Technology

Maintaining and communicating accurate and timely inventory is critical to the success of any 3PL Warehouse. Most warehouse management systems of the past decade handle this aspect of the business well. However, having a warehouse management system (WMS) that is flexible and adaptable to your business needs is key. A flexible WMS can manage a bulk order with a standard VIC's Bill of Lading as easy as a single unit order with a custom packing slip with a return label. In addition, your warehouse management system must be able to integrate with a variety of third party systems and provide real-time data to e-tailers across various channels. Conducting a system audit to make sure your 3PL has the best technology will help determine if it is time to upgrade which will help increase customer retention and revenue.



Challenge 2

The Increased Pressure to Collaborate
and Share Data

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The Increased Pressure to Collaborate and Share Data

As customer and shopper expectations increase, the pressure on 3PLs to improve visibility, responsiveness, and partner relationships has intensified. As a result, 3PLs are now expected to collaborate and share data with every other player involved in their fulfillment chains.

While some 3PLs may hesitate integrating with everyone connected to their fulfillment chains, the long-term benefits could outweigh the initial investments. According to Penske Truck Leasing, Rental and Logistics, 3PLs who do provide such data will “optimize the network and create value for shippers,” turning them “from tactical service providers to collaborative partners.”³

The demand for near-instantaneous information has been climbing for years now. Given the rise of e-Commerce shopping and customer expectations, 2017 may mark the year where the sharing of data across the supply chain becomes ubiquitous.

How can today's 3PLs turn the requirement of sharing information into a competitive advantage?

3PL Central's Response

The Increased Pressure to Collaborate and Share Data

As 3PLs embark on the path to collaboration, there are investment considerations. However, the view of a new heightened data-sharing era should be seen as a positive for 3PLs, partners, and most importantly, their customers.

With so many technological advances, 3PLs will be able to see how the implementation of collaboration software and tools will pay off enormously in terms of the following:

Increased Savings: The requirement to share data will inevitably force 3PLs to automate processes across the board. By some estimates, as much as 70% of 3PL processes can be automated. Using a WMS will help 3PLs save money, increase accuracy, and free staff to focus on higher-level tasks. The days of using Excel spreadsheets for data are now over.

Better Customer Service: Collaborating with suppliers, customers, and delivery partners will ensure that little to no product or shipment data will go missing. The ability to access data instantaneously via a WMS will help keep consumers happy, a fundamental requirement for success in the new, far more demanding B2C fulfillment world.

New Opportunities for Growth: The willingness and ability to share and collaborate with every player involved in fulfillment chains will position a 3PL as a "Provider of Choice" in the event one of your suppliers or delivery partners is asked to provide a warehousing recommendation.

Access to the whole of the data flowing throughout a 3PL's extended operation will provide critical insights into operations, allowing 3PLs to optimize their businesses, spot new trends, develop new services and/or products to serve needs of customers.



Challenge 3

The Never-Ending Pressure to Upgrade
In-House Technology

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The Never-Ending Pressure to Upgrade In-House Technology

The pressure to stay current with the latest warehousing technology will only continue to escalate in 2017. Competitors looking to gain an edge, new entrants into the market like Amazon, and potential new prospects, who may base their entire decision on the 3PLs level of technology alone, are looking for the best new technology trends.

This is particularly true with the fastest growing industry segment, B2C fulfillment and the boom of the e-Commerce marketplace. In fact, when the e-Commerce giant Big Commerce provided recommendations for choosing a fulfillment solution, their number one advised question was “What is the 3PL’s level of technological sophistication?”⁴

The question is not only appropriate but timely. E-Commerce success revolves around a 3PL’s ability to provide inventory availability and customer delivery information in real-time, 24/7. In order to do so, 3PLs must maintain seamless digital connections with all of their customers, suppliers, and delivery partners.

In addition, 3PL warehouses should have the expertise to help their clients choose and integrate smoothly with any number of e-Commerce engine options. They may also need to invest in the latest scanning, picking and packing hardware, and software technologies. Finally, 3PLs need a WMS capable of serving as the command center for all of these disparate components.

In short, 3PLs will remain under pressure to upgrade hardware and software technologies throughout 2017. How can a 3PL keep up with the latest breakthroughs without falling behind, overspending, or investing in technology that could potentially become obsolete?

3PL Central's Response

The Never-Ending Pressure to Upgrade In-House Technology

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The decision to invest in new technology can be tricky. 3PL sales teams want the latest and greatest to impress new prospects. However, many 3PLs fear it could take years for this sort of investment to pay off. Anecdotally, many 3PLs continue to be slow to upgrade technology, or are very reluctant to invest in technology at all. “The days of spending hundreds of thousands of dollars on a WMS solution are long gone,” noted Watkins. “The best news for 3PLs is in the area of technology. Sophisticated and affordable WMS software is here to stay and it is available to not only the small-to-medium 3PL warehouse operations, but it is rapidly bumping into the mid-market 3PLs as well. The depth and breadth of functionality continues to rise, while the cost continues to be very compelling.”

Even with these advancements, many 3PLs have been historically slow to upgrade technology, or are very reluctant to invest in technology. That said, it is clear that technological sophistication is rapidly becoming one of the most important factors for success. Using a leading WMS, mobile hardware, and other software technologies could give a 3PL a decisive advantage over their competition to gain new customers.

3PL Central's Response

The Never-Ending Pressure to Upgrade In-House Technology

Remember, according to Big Commerce, a prospect's number one question should be "What is the 3PL's level of technological sophistication?" With the on-going shift to the more data-intensive and "always on" B2C fulfillment process, this will only increase over time.

When considering a new technology investment, we recommend the following:

Assess Customer and Prospect Needs

Decisions should be customer driven. 3PLs constantly need to be thinking about customer needs and being able to deliver in a timely fashion without incurring more costs for themselves or customers. This is especially true with technology. Pay attention to the market and what customers are asking for. If a customer or prospect has a specific request, make sure this functionality will benefit existing customers as well.

Assess the Level of Technology Used by Competitors

Take the time to ask around and learn. Have your sales team investigate or quiz your customers. Asking prospects what other 3PLs they may be considering and why will also provide competitor insights. This information may be the defining factor when deciding to upgrade. A well-researched decision will offer a 3PL the opportunity to get a leg up on their competition.

Purchase the Right Software

Ultimately, the decision to purchase software must make the most financial sense for a 3PL. Upgrades should attract the kind of prospects the 3PL wants, help keep existing customers they need, and provide cost-savings to help cover the investment in the long run.

Software should provide maximum flexibility, scalability, and the greatest opportunity for collaboration with partners so a 3PL can remain prepared for the many changes to come in the future.

We strongly recommend that any software a 3PL considers purchasing is easy and uncomplicated to:

- Upgrade
- Maintain
- Scale
- Learn and use
- Integrate
- Control costs

“There have been more changes in the 3PL Warehousing industry within the past five years than the previous twenty-five.

While the physical warehouse hasn’t changed as much, the way 3PLs deliver service, communicate and satisfy customer demands is nothing like what we did just 25 years ago.

John Watkins, CEO, 3PL Central



Challenge 4

The Potential Impact of Amazon on the
3PL Industry

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The fast-growing logistics market is attracting a host of potential new entrants into the third-party logistics industry. Of all of these, the most well-known and, in some cases, deeply feared, is the e-Commerce giant Amazon.

Amazon has long operated its own warehouses. But a host of signs indicate that they are preparing to disrupt the 3PL industry. These include the recent purchase of thousands of trailers, a lease of 20 cargo planes, and the continued expansion of fulfillment and sortation centers, Amazon Prime Now hubs, and Amazon Fresh grocery delivery stations across the U.S.⁵

This is in addition to Amazon's investments in cutting-edge warehousing technology and their recent abilities to provide same-day delivery via a van, self-driving truck, or even drone. According to the Journal of Commerce, Amazon is in the process of "reshaping logistics as we know it."⁶

Without question, Amazon's presence and competitive threat to the 3PL market will continue to grow in 2017. There remains some debate, however, as to how significant the long-term impact might be. Some feel their capital investment might prove too costly. While others, like Kane Logistics, have argued that Amazon's disruption will ultimately be good for the industry.

But, given all they have on their plate, how much should the average 3PL worry about Amazon during the next year or so?

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3PL Central's Response

The Potential Impact of Amazon on the 3PL Industry

***“Like many in our industry, we view Amazon’s entry into the market as a good thing for 3PLs. It certainly validates that we’re in a hot space.*”**

Despite all of the new changes and challenges 2017 will bring, there are still plenty of opportunities and profits for everyone in the fulfillment space.”

John Watkins, CEO, 3PL Central

Amazon’s constant breakthroughs in customer service, technology, and delivery options will definitely push the warehouse and fulfillment industry to maintain a higher standard of service in each of these areas. This could be especially helpful to 3PLs which are historically slow to adapt. This type of disruption may offer the prime opportunity to invest in new technologies and build better partnerships.

There is little doubt that Amazon’s experiments, successes, and failures will be well documented and dissected. This will provide an excellent opportunity for 3PLs to learn which of these new processes or services customers will actually want and, more importantly, pay for. Amazon will assume the risk allowing 3PLs to follow their lead without having to make the initial investment.

In the end, although we suspect Amazon will make incursions into the 3PL marketplace, the local 3PL can use its advantages over a large, and more dispersed, corporate organization. Customer relationships are the key to success for 3PLs who rely on referral business and continued partnerships. 3PLs also have a variety of tools and technology that help level the playing field for the 3PL marketplace. In the end, the 3PL and logistics industry is a very large pie and we believe there is room for a lot of players and great benefits to the well-run 3PL.



Challenge 5

The Impact of the New Trump
Administration

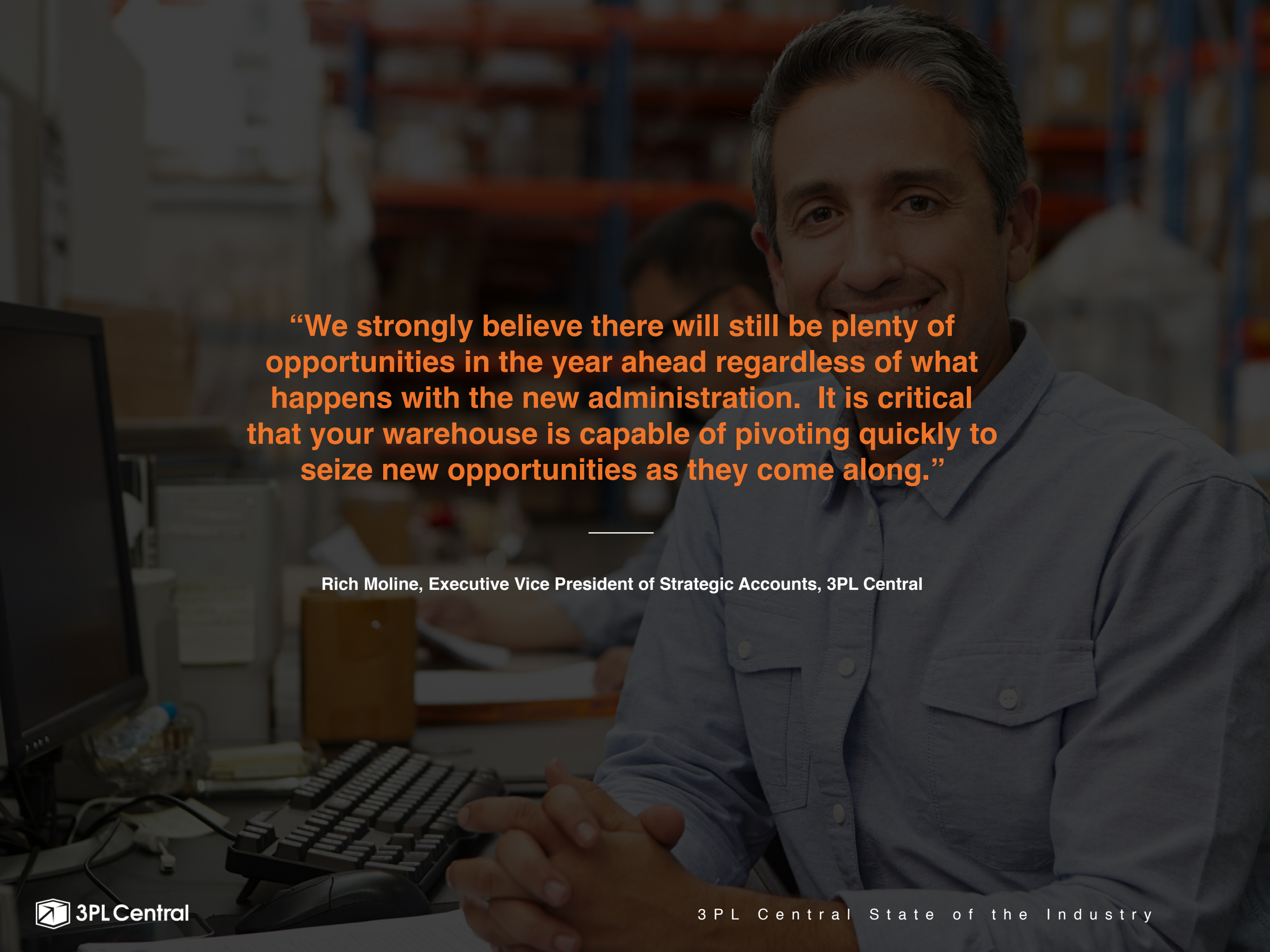
Challenge 5

The Impact of the New Trump Administration

The new White House administration presents an uncertainty to the economics around foreign trade and our relationships with our business partners. Decision that are yet to be made will ultimately impact, positively or negatively, the third-party logistics industry.

As a presidential candidate, Donald Trump became well-known for his criticism of a number of existing trade agreements, our relationships with certain U.S. trading partners, and the overall effects of the global economy as it relates to the U.S. domestic economics. While it remains to be seen how much of this hyperbole was just good politics, or a real actionable plan, the one thing we do see is that the business environment is an uncertain one.

For the 3PL, this uncertainty represents a major challenge when it comes to setting strategy and long-term planning. What kind of investments should 3PLs make in operations, technology and even **warehouse** space when they are unsure of what the future will bring?



“We strongly believe there will still be plenty of opportunities in the year ahead regardless of what happens with the new administration. It is critical that your warehouse is capable of pivoting quickly to seize new opportunities as they come along.”

Rich Moline, Executive Vice President of Strategic Accounts, 3PL Central

3PL Central's Response

The Impact of the New Trump Administration

The 3PL Industry, in large part, owes its existence to the global economy and the “outsourcing” trends of the past several decades. Any new tariffs, or revisions to existing trade agreements, will definitely impact the industry. And no one will be immune as the trickle-down theory is alive and well in logistics. A stark example is the recent dockworker strike at the Port of Long Beach / Los Angeles that brought West Coast trade to a standstill. Hundreds of loaded container ships sat offshore and idle while warehouses and store shelves emptied. The strike lasted only ten days but the impact on 3PL's, their customers, and ultimately consumers was enormous. Imagine the effects a larger event might have on a national level.

“At this point, the jury is still out,” said Watkins. “We do not know what, if anything, will happen. While we are definitely in a ‘wait, and see’ environment, our advice to 3PLs with regard to this dilemma is simple: Be prepared.”

Being prepared is imperative to 3PLs. This means staying current of the geopolitical environment, employing the right people, using the right technology, and constantly evaluating your operations. It also means staying close and paying attention to the needs and desires of your customers. As the 3PL industry continues to evolve into a high-tech marketplace, the largest opportunities still come down to personal relationships, trust, and outstanding customer service.

Rich Moline continued, “we strongly believe there will still be plenty of opportunities in the year ahead regardless of what happens with the new administration. It is critical that your warehouse is capable of pivoting quickly to seize new opportunities as they come along.”

Regardless of changes in trade agreements, technologies, or the political environment, true changes are always customer driven. One of the tricks of the third-party logistics industry is to be able to deliver everything your customer wants in a timely manner – without incurring excessive expenses or charge backs.

Conclusion

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With 2017 upon us, 3PLs have their work cut out for them. In periods of uncertainty, often come the greatest rewards and we are bullish on the ability of all kinds of 3PLs to navigate these waters and come out on top. There is no replacement for some good fundamentals like taking the time to audit current procedures, processes, partner relationships, as well as review your staff capabilities and make an honest assessment about where you sit in your technology capabilities and how able are you to attract and retain good customers. At 3PL Central, we see 3PLs every day that are successful and continue to profit and drive valued customer service.

In the end, today's 3PLs need to be prepared for globalization, modernization, and collaboration all while being flexible and scalable.

1. <http://www.tompkinsinc.com/consumers-affecting-todays-logistics-service-providers/>
2. <https://www.emarketer.com/Article/Worldwide-Retail-Ecommerce-Sales-Will-Reach-1915-Trillion-This-Year/1014369>
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We welcome you to contact us directly if you have any questions.

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3PL Central provides the most powerful – and the most affordable – warehouse management software (WMS) available through the Cloud. Our easy-to-use and extremely cost-effective products help our clients reduce their expenses and grow their business – while satisfying the needs of their customers.

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