3PL Central

2020 State of the Third-Party Logistics Industry Report

The 20 Best Practices 3PLs Must Follow to Succeed in a New Decade

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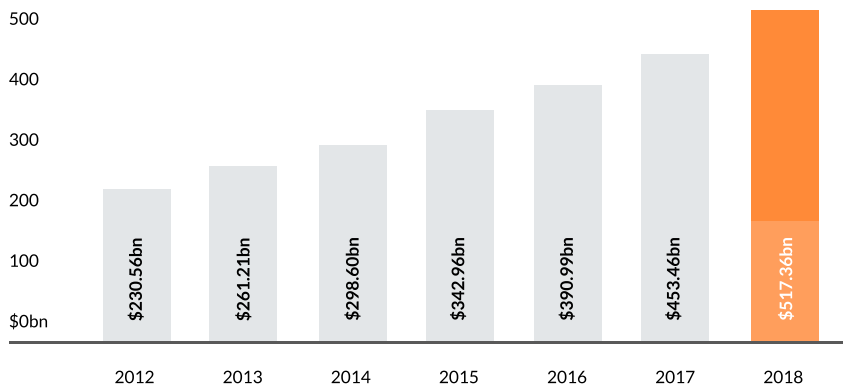
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The 20 Best Practices 3PLs Must Follow to Succeed in a New Decade

Ready or not, a new decade is here, and with it comes a renewed sense of optimism for the supply chain and logistics industry. While the past few years have offered many challenges for logistics professionals, such as increased shipping rates and trade agreement uncertainty, 2020 is predicted to offer balance to a growing supply chain ecosystem.

In this dynamic environment, ecommerce and omnichannel strategies have become a must-have for expanding logistics businesses. With **86% of American shoppers** using a minimum of two channels and spending up to 11 hours a day engaging with electronic media, having a strategy to target this flourishing market is crucial for growth. Additionally, in the United States alone, **ecommerce grew 14.2% in 2018**, reaching $517.36 billion—making the U.S. the third largest and most advanced ecommerce marketplace in the world. Third-party logistics professionals looking to take advantage of these developing channels will need a partner to help provide the ultimate customer experience, shipping needs, reporting metrics, and more.

US Ecommerce Sales (2012-2018)

Year	Sales
2012	$230.56bn
2013	$261.21bn
2014	$298.60bn
2015	$342.96bn
2016	$390.99bn
2017	$453.46bn
2018	$517.36bn

Source: Internet Retailer, 2019

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Who better to tackle these challenges than 3PL warehouses? As one of the oldest businesses in the supply chain ecosystem, 3PLs have been honing their skills since the 19th century—meeting customer expectations, implementing new technologies, keeping up with software innovations, and navigating shipping trends—making them the best and most effective partner.

B2B organizations who do not embrace the latest digital technology **could lose almost half of all future revenue** over the next 3–4 years.

3PL Central's 2020 State of the Third-Party Logistics Industry Report

For this year's annual report, we will focus on the year of the 3PL warehouse and how they can utilize best practices to overcome challenges and create growth opportunities. As we enter a new decade, many 3PLs will find themselves facing momentous technological changes impacting everything - from the competitors they face to customer expectations, their ability to **streamline and automate operations**, and more.

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The Growing Requirement for 3PLs to Add Value Via Business Intelligence & Analytics

According to Supply Chain Executive Magazine,

> **"The days of third-party logistics companies competing on prices are over. The successful ones now use another factor to gain an edge: analytics."**

Forward-thinking 3PLs should see the vast amount of information flowing through their fulfillment chains as a potential goldmine. When properly harnessed, it can enable warehouses to deliver significant value to both their customers and partners. It's no wonder that predictive analytics ranked as the top technology to be implemented in third-party logistics warehouses in 2019.

3PL warehouses should start by implementing **warehouse management software** (WMS) that offers business intelligence and analytics. This will help satisfy customers who not only demand a high level of quality delivery but also predictive analytics in how their business is performing as well. These tools will enable these 3PLs to do the following:

- Better predict future demand and requirements to establish a baseline
- Help customers better manage their inventory and incoming orders
- Spot positive trends and potential problems for order status details
- Anticipate future workloads and estimate peak season task management
- Manage resources to help with profitability, such as parcel spend, accessorial charges, and shipping times

In addition to helping their customers and operations, the ability to view and analyze the data flowing through a warehouse's supply chain, especially in real-time, can help 3PLs save significant amounts of money.

In fact, according to iGT Solutions, "3PL providers can **save up to 40% on operational costs** by improving decisions such as the optimal selection of inventory placement and transportation modes."

With demand for analytical data, insights, and forecasts continuing to surge, so will the desire to use this data to save on operational costs. In fact, some warehouses are already using solutions like **rate shopping** to save on labor and shipping costs by simply using the data already available in their WMS.

This is still relatively new to 3PL warehouses who have been slow to adopt new technologies. According to a **Janeiro Digital report**, 85% of supply chain and logistics professionals expressed that they felt the industry lagged in digital maturity, while about half stated they aren't implementing new technologies.

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However, according to Eye For Transport (EFT), 95% of shippers and 99% of 3PLs agree that **analytics are a necessary element of 3PL expertise**. Moreover, only 26% of shippers and 27% of 3PLs are satisfied with current analytic capabilities.

This has created a huge "analytics gap" in the shipping and 3PL industry—a gap that forward-thinking 3PLs could use as a huge opportunity, especially considering the growth to come.

3PLs who are wise enough to fill this gap quickly through offering their customers and partners technology solutions that are layered on top of their warehouse systems can avoid being commoditized as just another logistics service provider.

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3PL Central's Recommended Best Practices

In order to capitalize on the growing customer demand for predictive analytics, we recommend 3PLs implement the following best practices:

1   **Utilize a comprehensive warehouse management system (WMS) capable of connecting with every player across the supply chain to capture all data.**

2   **Categorize data into buckets, such as Descriptive, Diagnostic, Predictive, Prescriptive, or Cognitive, to build a foundation for future analysis.**

3   **Examine data to measure operational processes, drive insights, and make better business decisions.**

4   **Work with customers to understand what data services they need to grow their businesses—then share that data with them.**

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The Inevitable Pressure to Automate Processes and Become a "Paperless" Warehouse

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While the logistics industry has many challenges, it is still an exciting time to operate a 3PL warehouse. Our industry has been one of the primary beneficiaries of the ongoing boom in ecommerce and omnichannel sales. The **online shopping sector continues to grow**—posting an additional 15% growth during 2018, as consumers spent over $517 billion in the U.S. alone.

This growth has been heavily supported by 3PLs, enabling our industry to expand at an unprecedented rate in recent years. In fact, **3PLs saw a 21.6% revenue increase** between 2016 and 2018.

All of this soaring growth, of course, has led to a huge increase in the total number of orders that must be fulfilled. According to Forbes, the number of **ecommerce packages sent has increased by more than 20%** over the past few years—to a total of 165 billion packages shipped in 2018.

In fact, **Pitney Bowes Parcel Shipping Index** recently reported that 23 parcels per person are shipping globally and 2,760 parcels are shipped every second.

This growth has been a challenge for many 3PL warehouses who are compelled to run operations that are faster, cheaper, and 100% transparent while achieving an expected accuracy rate of 99.8%.

In addition to this, 3PLs must satisfy all of these increased expectations during **one of the greatest skilled warehouse worker shortages** in history. It is currently estimated that the demand for skilled warehouse workers is outpacing supply by a ratio of 6 to 1.

This ongoing crisis has forced Logistics Viewpoints and the ARC Advisory Group to conclude that this enormous gap between labor demand and supply is rapidly becoming unsustainable.

These factors all combine to put 3PLs in a tight spot—even though their profits continue to grow. It is abundantly clear, however, that

> ### 3PLs who want to remain competitive must transform their warehouses into highly automated and completely "paperless" operations sooner rather than later.

Automating operations and adding **"paperless" functionality** can greatly improve a 3PL's ability to increase output and shipping, reduce manual errors, and limit training requirements for warehouse staff. In 2019, 3PL Central introduced the **3PL Intelligence Initiative**, a comprehensive program based on over 250 hours of extensive research with

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3PL warehouses dedicated to delivering best practices to third-party logistics professionals. This research identified the need to move traditional paper-based tasks to modern paperless workflows that deliver complete visibility into operations for management and customers as a high priority.

Integrated picking, packing, and shipping software from within their warehouse management platform will help 3PLs increase their fulfillment speed—while reducing their costs and eliminating the lost time and inevitable errors that are inherent with manual input.

Given today's realities, switching to a more automated and "paperless" environment is the best way 3PLs can keep up with the accelerating pace of ecommerce and escalating demands of their customers and shoppers.

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3PL Central's Recommended Best Practices

In order to respond to the urgent need to transform your warehouse into a fully automated and "paperless" operation, we recommend 3PLs implement the following best practices:

5 Automate pick and pack processes with a **mobile barcode scanning** application integrated for both enterprise and consumer-grade devices (Android and iOS).

6 Create best practice workflows that are repeatable and scalable for all warehouse customers.

7 Implement a small parcel shipping suite that offers rate shopping to reduce manual labor while increasing accuracy for warehouse staff.

8 Use billing automation for day-to-day operations and all value-added services to continue to be competitive.

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The Growing Impact of "The Amazon Effect"

It is no surprise that Amazon is the top online retailer.

According to the United States' respected Journal of Commerce,

"Amazon is reshaping logistics as we know it."

They continue to expand their presence across the entire supply chain and logistics ecosystem, exerting what has been called "The Amazon Effect" on almost every aspect of the 3PL industry.

And nowhere is this impact stronger than ecommerce. **Amazon saw 30% growth in 2018 sales**, giving it a shocking 50% of the $500 billion+ U.S. ecommerce market. That makes them a formidable competitor for every one of your 3PL's ecommerce clients.

Amazon continues to disrupt the supply chain and logistics industry—not just ecommerce. In a regulatory filing in 2019, **Amazon listed "transportation and logistics services" companies as competitors**.

Additional sectors include the following:

- Last mile delivery
- Truck transportation
- Air and ocean freight
- Self-driving truck & other vehicle product distribution
- Drone delivery

For many 3PLs, the biggest threat Amazon imposes may still be their **Fulfillment By Amazon** services, introduced over a decade ago in 2006. The company continues to **expand its own 3PL service offerings** to merchants through a series of partnerships, acquisitions, and technological applications, according to firm Armstrong & Associates, Inc.

The firm has predicted that "Amazon's growth–in the form of third-party sales, international expansion, and new product categories—will cause **Amazon to present increasing competition to 3PLs**."

While many may fret about Amazon's growing incursions, some in our industry welcome their arrival. According to omnichannel distribution specialists KANE Logistics, Amazon can be a force for good.

KANE sees Amazon as a disruptive element who is teaching third-party logistics warehouses that they must totally focus on the end ecommerce customer experience. Their implementation of the latest automation, distribution, and delivery technologies will **force 3PLs to upgrade their game** across the board, which will eventually benefit our entire industry.

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Despite Amazon's significant presence, there are companies who have decided not to sell on their marketplace, such as Glossier and Nike. **Glossier** doesn't believe that the 'fastest' or 'cheapest' offering - Amazon's key differentiators - are in line with their brand or buyers. Others include **Nike Inc., who decided to 'break up' with Amazon** altogether, ending a pilot program that began in 2017 so they could "focus on elevating consumer experiences through more direct, personal relationships."

Only time will tell how many brands will follow these outliers. In the meantime, **3PLs must implement best practices** in order to build strong relationships with their customers by offering complete visibility and control.

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3PL Central's Recommended Best Practices

In order to deal with the ever-expanding Amazon Effect, we recommend 3PL warehouses implement the following best practices:

9   **Use a warehouse management system (WMS) that offers connections with supplier and retailer platforms via API or EDI.**

10   **Integrate with multiple ecommerce shopping carts and marketplaces.**

11   **Provide value-add services, such as kitting and final assembly, pallet in/pallet out, the ability to attach images to invoices, and more.**

12   **Treat warehouse customers' businesses, brand images, and end shoppers with the ultimate respect and care.**

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Section 04

The Increasing Expectations of Ecommerce Customers

> **"Alongside life, liberty and the pursuit of happiness, you can now add another inalienable right: two-day shipping on practically everything." — The Wall Street Journal**

Welcome or not, Amazon's dominance of ecommerce has almost single-handedly upgraded expectations of all online shoppers. This has placed substantial pressure on 3PLs, their delivery partners, and the ecommerce retailers they serve.

On the positive side, "The Amazon Effect" has helped many **ecommerce retailers realize how critically important 3PLs are to their success**, as online stores are largely fueled by their customers' offline experiences.

For example, a negative shipping experience can have an irreparable impact on a customer relationship. 84% of consumers say that they won't return to a brand after just one poor delivery experience. Furthermore, **89% of younger consumers are likely to promote a brand** as a result of a positive customer experience.

Average ecommerce shoppers now expect the following:

- Total, real-time visibility of available inventory 24/7
- Nearly unlimited product choices
- Free two-day shipping guaranteed almost anywhere in the U.S.
- Additional shipping options such as same-day—or within hours
- Options to have products delivered or available for in-store pickup
- 100% accurate, fast, and perfectly branded fulfillment of orders
- Real-time visibility into product tracking and delivery
- The ability to change the final destination of a product in mid-delivery
- Easy to follow and 100% hassle-free returns of products

Of course, this is what your "average" ecommerce shopper wants. But those expectations are about to rise even further with the arrival of a whole new wave of consumers known as "Gen Z."

Born after 1995, this new block of shoppers will constitute nearly **40% of all consumers by 2020**. Growing up with unprecedented access to technology, they have even higher levels of expectations when it comes to ecommerce.

And while they certainly want all of the benefits demanded by older shoppers, **Gen Z shoppers place more importance on the total experience**, focusing on speed of delivery, opportunities to provide feedback, and a visually appealing online dashboard.

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Gen Z buyer demands include the following:

Seamless mobile shopping experiences

Gen Z's lives revolve around their smartphones. They will research, ship, and buy directly from their screens.

Direct connection to social media

80% of purchases made by Gen Z'ers are influenced by a retailer's presence on social media—particularly Instagram.

Reliance on online reviews

94% of people have **avoided a business because of a negative online review.**

Superior customer experience at every touchpoint

Many Gen Z shoppers are looking for 24/7 access to live people or chatbots, crystal-clear FAQs, and searchable help content to **quickly solve problems.**

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As ecommerce continues to mature, third-party logistics providers will soon be facing a host of other rising demands from both consumers and governments. From activist consumers looking for ethical ecommerce practices, growing pressures to demonstrate environmental sustainability, or the long-avoided burden of merchant and customer sales taxation, **warehouses need to be prepared to service a multitude of consumers**.

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3PL Central's Recommended Best Practices

In order to meet the rising demands of today's consumers, we recommend 3PLs implement the following best practices:

13   **Use technology that gives customers visibility into real-time inventory 24/7 via a customer portal.**

14   **Implement omnichannel best practices and capabilities to streamline service.**

15   **Offer multiple delivery options, including free 2-day, in-store, same-day—or even within a few hours—shipping.**

16   **Provide customers with total visibility and control over product shipments.**
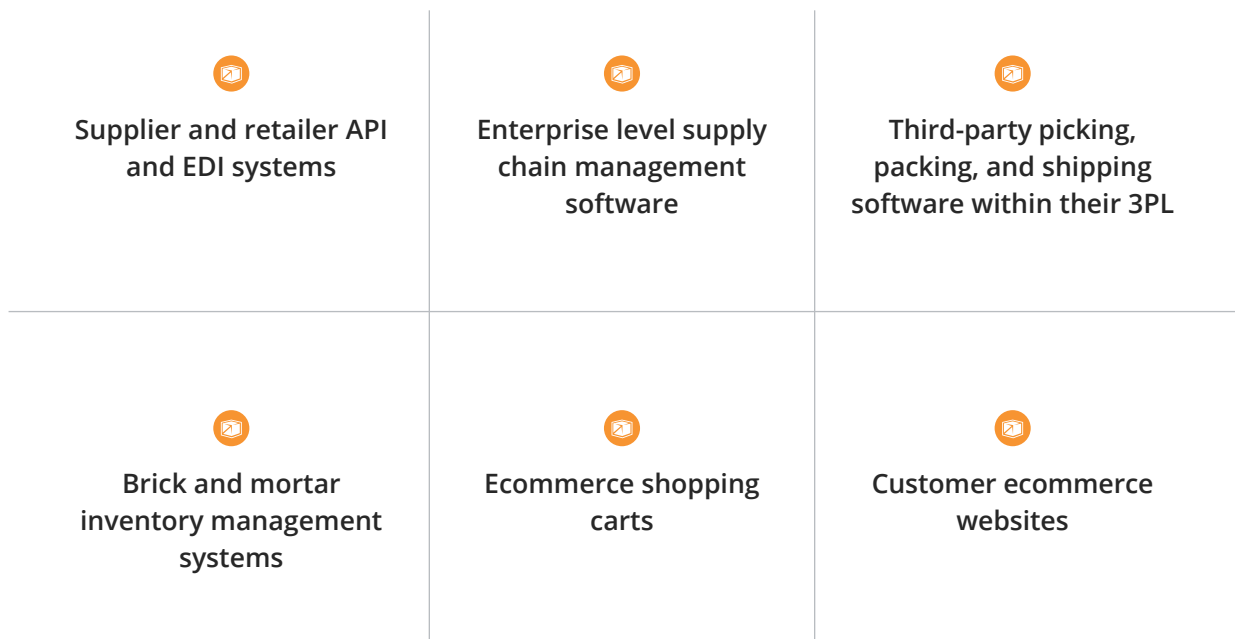
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Section 05

The Expanding Requirement to Integrate Systems, Partners, and People

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Today's third-party logistics warehouses sit at the epicenter of the modern global supply and fulfillment chain. As of 2018, according to Armstrong & Associates, **86% of domestic Fortune 500 companies use 3PLs for logistics and supply chain functions.**

As the only partner directly connected to every player along that chain, 3PLs must ensure that the terabytes of data processed on a daily basis flow through without any flaws or disconnections.

This will require 3PLs to create protected, comprehensive, and transparent connections throughout the entire length of their supply and fulfillment chains that **integrate with a wide range of systems** prior to a sale, such as:

Supplier and retailer API and EDI systems	**Enterprise level supply chain management software**	**Third-party picking, packing, and shipping software within their 3PL**
Brick and mortar inventory management systems	**Ecommerce shopping carts**	**Customer ecommerce websites**

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3PLs must also be capable of building flawless connections that will ensure proper fulfillment after a sale that may include:

Third-party shipping, rate calculating, and postage and label programs	Larger shipment tracking, transport, and TMS systems
Third-party customer accounting software, such as **QuickBooks**	A wide range of small-parcel and package delivery partners
Physical brick and mortar retail locations for in-store pickup options	External hardware and software providers, such as **mobile barcode scanners**

Most importantly, third-party logistics warehouses must ensure visibility through a variety of touchpoints for their customers and consumers. This means a 3PL warehouse must be able to connect with the people who own, manage, and run their customers' operations by providing:

- **The ability to view inventory 24/7 in real-time to help optimize stock control and order management, as well as access to on-demand status updates**

- **Easy access to information and opportunities to speak with customer service representatives and other professionals who provide effective solutions to problems and troubleshooting assistance**

- **Accurate and seamlessly-integrated billing functionality that is easy to review and offers customer-specific billing rules and automation to capture service charges, recurring billing, and more**

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While it may seem daunting to research, develop, and build these connections and networks, the good news is that there are a number of **logistics companies who are leading the way** to leverage the latest warehouse technologies and best practices for 3PLs.

3PL Central has been working with **partners** for over a decade, and continues its tradition of **evolving warehouse ecosystems**. In fact, 3PL Central has nearly one thousand access credentials connecting more than 7,000 different endpoints and continues to expand, offering comprehensive solutions used by over 10,000 logistics professionals daily.

When 3PLs hire the right people to elevate their business, implement best-of-breed technology, and invest in partnering with third-party logistics leaders, they will work towards the common goal of enabling intelligent distribution and driving growth for their business.

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3PL Central's Recommended Best Practices

17 Provide 3PL customers with a secure customer portal to view their own inventory, orders, billing, and reporting.

18 Provide automated notifications for inventory activity, low stock, shipped orders, etc.

19 Partner with technology companies that offer best practices to modernize and optimize warehouse costs.

20 Hire teams who are highly focused on warehouse customer expectations.

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Conclusion

This new decade brings a wealth of opportunities for third-party logistics warehouses, their partners, and their customers. Those looking to take advantage and succeed in the evolving supply chain and logistics industry will need to embrace advanced technologies, initiate compelling partnerships, and implement best practices to ensure efficient operations and growth opportunities.

Third-party logistics professionals, operators, and staff are squarely at the center of this expanding market. They have the power to change how they meet customer expectations, implement and support new innovations and technology, and define key logistics trends by streamlining and automating best practices across the industry—and not just in the warehouse.

3PL Central is dedicated to helping these 3PLs connect their entire supply chain ecosystem by leveraging the power of a centralized WMS platform to strengthen customer connections, help warehouses operate more efficiently, and quickly deliver value.

Interested in learning how 3PL Central can help your warehouse implement a comprehensive WMS platform and share our expertise in building best practices across your warehouse in 2020?

REQUEST A DEMO

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