



2018 STATE OF THE
THIRD-PARTY LOGISTICS
INDUSTRY

THE DEMAND FOR A SUPERIOR
CUSTOMER EXPERIENCE



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Over the past decade there has been an extraordinary amount of change within the logistics industry. From new requirements, to new competitors, new technologies, and more, the entire industry is now dramatically different than it was just five years ago. But of all the factors that have sparked this upheaval, none has been more revolutionizing than the rising demand for a superior customer experience.

In fact, the still-escalating rise of eCommerce has completely transformed the entire 3PL warehousing economic model. Once dependent largely on a series of B2B clients, many 3PL warehouses now make the bulk of their revenue from B2C clients – most of whom are involved with some form of eCommerce. And these new B2C clients are under relentless pressure from their own customers.

Enabled by online and mobile innovations, these consumers are now requiring every retailer to provide unprecedented levels of visibility and service. Every day seems to bring a new demand to have more products available – all of which must be delivered faster than ever before.

In short, today's consumers will accept nothing less than a superior experience at every single touchpoint of their journey: browsing, purchasing, fulfillment, delivery, and returns. And warehouses should be up to the challenge in delivering this experience in order to grow their businesses.

At 3PL Central, we believe that today's smartest warehouses will view these increased levels of customer expectations as a significant opportunity to differentiate themselves from their competition. 3PLs who can delight today's customers will be poised to increase both their market share and profitability.

In fact, in 2018, we predict these new levels of customer expectations will produce five specific new opportunities for 3PL warehouses to do just that. While each may require new investments or ways of thinking, we believe they will present amazing prospects to those 3PLs who are forward-thinking, nimble, and fully committed to adapting.

Our five new opportunities for the coming year are as follows:

- » Handling the Pressure of Growing Customer Support
- » Supporting of Omnichannel Fulfillment to Meet Retailer Demands
- » Embracing the Big Data Era
- » Discovering New Logistics Technologies to Meet Growing Demands
- » The Opportunity to Partner With New and Non-Traditional Fulfillment and Delivery Players



Section 01

Handling the Pressure of Growing Customer Support

The overwhelming pressure on a 3PL's B2C and eCommerce clients to provide spectacular levels of customer support at every single touchpoint will provide one of the best opportunities 3PLs will have to set themselves apart from their competition.

There is no doubt this will be as big a challenge as it is an opportunity. For all of the players in the logistics industry facing the impact of rising consumer expectations, no one will be under more pressure than the individual 3PL warehouse.

This pressure will be increased by the ongoing shortage of qualified warehouse workers. In fact, according to a study by The Manufacturing Institute and consulting firm Deloitte, the manufacturing and warehousing sector is projected to fall to a startling 2 million workers short of its needs¹. In addition to impacting a 3PL's ability to fulfill orders and deliver to their customers' standards, it will also drive up their labor costs.

The surge in eCommerce orders and B2C fulfillment in general has also created tremendous competition for warehouse space – especially on the coasts, due to the surging import and export business. According to the New York Times, the nationwide vacancy rate stood at 5.2% at the end of September 2017, lower than the average rate of 8.1% over the previous decade. Asking rental rates hit a high of \$5.40 per square foot last fall².



This boom has produced an increase in new warehouse development. **According to the commercial real estate company JLL, developers are expected to build about 225 million new square feet of warehouse space, about the same as last year's tally and more than double the 10-year average of 120 million square feet.** But the competition to rent these spaces will be fierce, as well – especially in or close to dense, built-up cities, where land is often scarce.

This combination of events will make it even more difficult for 3PLs to provide the incredible levels of service consumers now require. 3PLs will also be under more pressure to handle increasing scrutiny and compliance with regulations governing product labeling and expiration dates. With few options in terms of new space or workers, 3PLs may need to adopt radical new technologies or outsourcing solutions if they hope to survive.

In terms of new opportunities and profits, 2018 would appear to be a golden age for the 3PL warehousing industry. If properly aware of the challenges, 3PLs have a massive opportunity to grow and learn from new customer requirements. While there is pressure to accommodate customer needs, the opportunities for growth and financial gain outweigh the initial costs.



How to Provide a Better Customer Experience than Your Competition



WHITE GLOVE SERVICE

Present your clients' products within their precise brand guidelines so that their end-customers are 100% satisfied with the purchase they made.



FANATICAL CUSTOMER SERVICE

At every point of the end-customer's buying journey, you need to deliver personalized, 24/7 responses to any inquiry received either before, during or after the final purchase.



TRANSPARENCY

Total, accurate, 24/7 visibility, availability and trackability of all products. Customers today expect to be able to have instantaneous access to shipment status.



HASSLE-FREE RETURNS

Clear and simple return policies that make it easy for recipients to send unneeded items back remind your customers why they choose to use your warehouse. The lifetime value of an eCommerce shopper warrants the extra effort to make sure they are happy even when a product isn't exactly what they wanted.



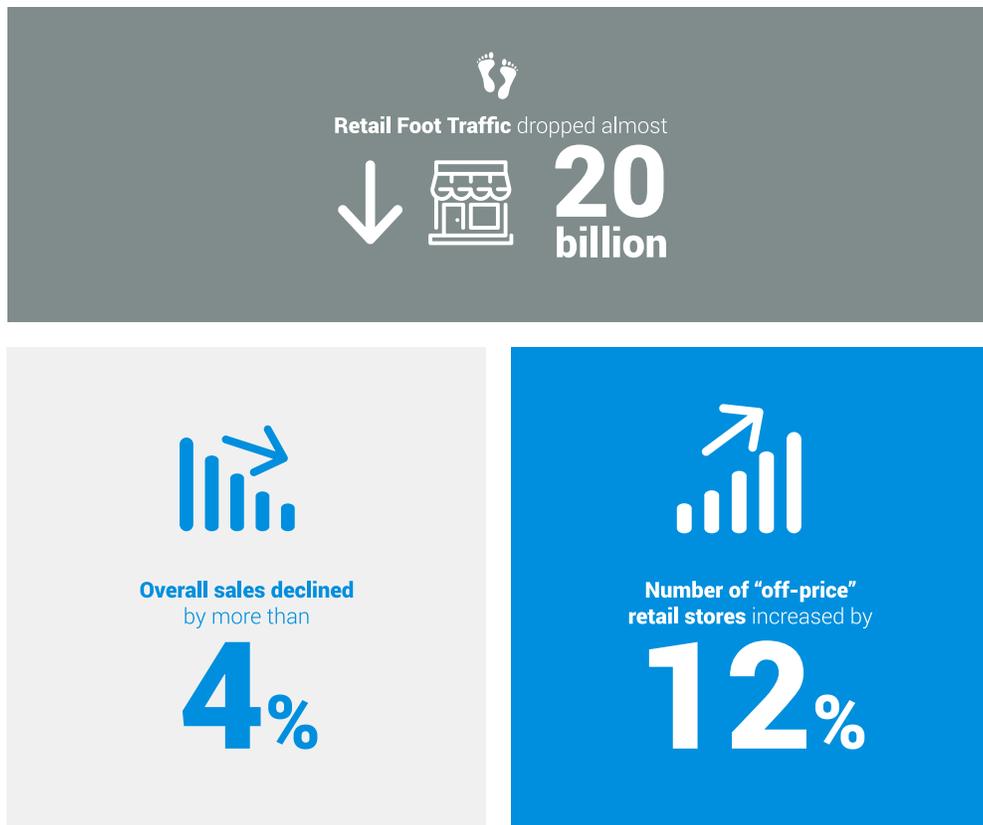
Section 02

Supporting Omnichannel Fulfillment to Meet Retailer Demands

3PL warehouses aren't the only players in our industry who will be faced with enormous challenges and opportunities in 2018. Just about every major retailer in the world is now feeling the pressure to offer omnichannel purchasing options. And once again, this is being driven by the escalating demands of today's consumer expectations.

As previously stated, these consumer expectations are being further enabled by the dramatic growth of both mobile and eCommerce shopping. Together, the two have led consumers to expect to be able to get whatever they want, wherever they want it, in the manner in which they prefer.

This amazing rise of both online and mobile commerce has had a dramatic impact on retailers around the globe. **In just the short timeframe of 2013 to 2015, retail foot traffic dropped by almost 20 billion in the United States alone. Overall sales declined by more than 4% during that time as well. And during this time, the number of "off-price" retail stores increased by 12%³.**



Given these facts, it comes as no surprise that enormous retailers like Walmart, Best Buy, and Target are scrambling to give these consumers what they want. They fully realize that if they do not, these consumers will simply go buy what they want at Amazon, often for a far lower price.

The good news for retailers is that recent studies have shown that omnichannel retailing actually works. According to the Harvard Business Review, the more omnichannel touchpoints a retailer offers, the more likely consumers are to use them and remain loyal.

And the more they use the retailer's touchpoints – the more valuable they become over the long-term. **In fact, those customers who use a retailer's own site or sites of other retailers to perform pre-shopping research led to 13% greater in-store spending among omnichannel shoppers⁴.**



Greater in-store spending
among omnichannel shoppers

This surging need for omnichannel fulfillment once again represents a tremendous opportunity for those 3PLs who are set to capitalize. Few retailers have the in-house expertise to effectively fulfill and deliver products to their customers' satisfaction, much less run an effective drop-shipping operation or handle returns. This will mean that more and more retailers will need to partner with companies, like 3PLs, who can provide such capabilities.

In short, the demand for a superior customer experience will force almost all retailers to support omnichannel capabilities in 2018. A fact that will provide extraordinary opportunities to savvy 3PLs for years to come.



Five ways your 3PL can become a retailers' drop-shipping partner of choice

01

EXPAND PRODUCT ASSORTMENT

Be the first choice for all the additional items, options, SKUs and inventory retailers now must carry to retain their customers by offering expanded, easy to access - and significantly more cost-effective warehouse space.

02

OFFER VALUE ADDED SERVICES

Make sure your warehouse is an extension of the brand experience and offers competitive differentiators like gift wrapping, kitting and bundling, and partial shipments, if customers want.

03

COME IN, WE'RE ALWAYS OPEN

Help retailers better service their mobile consumers to create an endless aisle of limitless choices with 24/7, real-time product visibility.

04

REAL-TIME REPORTING

Offer comprehensive tracking of item location, availability and status for customers.

05

BE WHERE YOUR CUSTOMERS ARE

Give your customers the options they want to shop and ship on their terms. Forge partnerships with local, last-mile delivery providers, provide in-store pickup, standard 2-day delivery – or even same day drop-offs at a consumer-designated location.



Section 03

Embracing the Big Data Era

The steadfast levels of consumer expectations, increased demand for speed and ever-shrinking margins for error will require warehouses to become even more flexible, nimble, and predictive than they ever have before. Fortunately, today's reliance on technology throughout the supply chain provides many organizations with the tools needed to accomplish all three and meet growing expectations.

Warehouses have always produced massive amounts of data during the course of their operations. And the increased use of technology has multiplied the amount of data they're producing exponentially. What's more, this virtual tsunami of data seems poised to become ever larger as the Internet of Things continues to come into play.

Considering that most of what is currently captured isn't really being used for day-to-day operations, this river of incoming data is a relatively new challenge for many 3PLs. However, 3PLs who can identify and harness the information produced by their customers and clients can use it to gain an enormous competitive advantage.

If properly identified, gathered and analyzed, this data can enable 3PLs to engage in what is known as "predictive analytics." Predictive analytics is the practice of examining the data produced by your warehouse operation, customers and clients to spot trends, desires, and preferences at a macro level. This can give a 3PL the incredible ability to "predict" what their customers want – before they even know to ask for it themselves.

In addition to creating massive opportunities for new profits, predictive analytics can tell 3PLs what technologies they should buy, which customers they should keep, and what services will bring in the most revenue. It will also allow them to be faster and more responsive than ever before – enabling them to create even better customer experiences.

The pressure to embrace Big Data will also come from every partner in their supply chain. Players throughout the supply chain now expect seamless, transparent, and totally secure sharing of data with all of their partners. This extends all the way down to the end-consumers' laptops, tablets, and mobile phones.

Huge players like Amazon, Costco, Target, and Walmart are already investing billions in big data as part of their efforts to dominate (or perhaps, just survive), the incredibly competitive retail environment⁵.

Jon Markman, Forbes

The end goal of Big Data is to ensure the consumer has the perfect shopping, purchasing, and delivery experience they want – sometimes before they even know they want it. 3PLs in 2018 should begin to start looking at Big Data as a potential means to deliver this experience.



How to Use Your Warehouse's Own Data to Increase Profitability



KNOWLEDGE IS POWER

Offer value to every partner in your entire supply chain by mastering your own data. Position your business as the partner of choice and use your leadership role to add new revenue channels by offering value-added consultative or technology services.



DEEPEN RELATIONSHIPS

Remember, your 3PL's data is your customers' data as well. Make it easy for customers to rely on you to offer them data and insights that they might not otherwise have. The more you can learn from it, the more you can help them increase their profitability.



IMPLEMENT CONTINUOUS IMPROVEMENT PROCESSES

The ability to review and assess your own data will show where you can get faster, improve your processes or better allocate your resources.



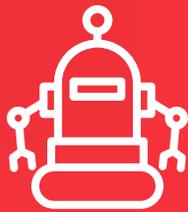
MAXIMIZE YOUR ROI

Use data to identify your most – and least – profitable customers. Understanding your data will also reveal your levels of effort, cost, and profitability on a per-customer basis.



INTELLIGENTLY GROW

Use predictive analytics to identify new opportunities for sales, upgrades, and value-added services. The ability to assess data and profitability at the customer level could also enable you to recognize changes in the market or new customer needs long before they become apparent to everyone else.



Section 04

Discovering New Logistics Technologies to Meet Growing Demands

In addition to investing in Big Data, the largest logistics players are also investing heavily in the new waves of fulfillment, automation, picking and packing, and delivery technologies. This includes everything from robotic fulfillment vehicles, to Google-Glass enabled warehouses, and manufacturing workers, to driverless vehicles, drone deliveries, and more.

And once again, these new rounds of investment are all being made with one thought in mind: to provide today's consumer with better, faster, cheaper fulfillment options, and a flawless experience at every stage of their purchasing journey.

It should come as little surprise that these initial investments in cutting-edge tech are being led by some of the biggest players in the logistics marketplace. This includes massive players like Amazon, UPS, Walmart, FedEx, and more. And the reason is pretty simple: only firms of that size have the financial ability to make such enormous investments – investments which could take years to pay off.

Given the enormous sums required, many of these new technologies are likely beyond the financial means of small to mid-sized 3PLs. But that doesn't mean they cannot keep tabs on how these technologies perform, see if they actually pay off – and then capitalize on new technologies as they become more affordable.

In addition to seeing which technologies will actually pan out, 3PLs who wait will benefit from the many improvements such technologies will undergo as they are rolled out in the real world. And as these improvements are made, it is also likely that the costs will drop. The benefit to new technology is that you can almost always count on it to get progressively better, faster, easier to use – and above all, less expensive.

Today's 3PLs also now have access to a variety of innovative new startups who are looking to disrupt the warehousing industry. These startups often require a far lower investment – and can help smaller 3PLs bridge the technology gap without spending above their means. Newer startups can help a 3PL operate faster and cheaper – while helping them improve their overall customer experience.

Some of these breakthroughs include innovative new LIFO (Last In, First Out) pallets, “push-back” racking solutions that can maximize the use of internal space, and smart Material Handling Equipment (MHE) machines.

Requiring little of the massive investment associated with full-scale automation systems, these smaller solutions can be implemented quickly and cost effectively. Added together, they can help a warehouse achieve vast improvements in their ability to give their customers the high levels of service and experience they now demand.



Companies Who Are Providing Innovative Fulfillment Services

Full-scale implementation of warehouse-wide robotics, augmented reality and A.I. may be beyond the budgets of the average 3PL, but that doesn't mean you just have to watch from the sidelines.

A new wave of innovative warehousing equipment is currently being rolled out in warehouses around the world, including:



LIFO PUSHBACK PALLET RACKING SYSTEMS

Ideal for warehouses that need to maximize storage – but whose products are not subject to expiration dates, these systems don't require heavy equipment like forklifts to move, can be accessed quickly and easily, and can effectively double a warehouse's storage capacity without renting any additional space.



FIFO PALLET FLOW STORAGE SYSTEMS

FIFO systems, ideal for warehouses with perishable goods or products that could become obsolete, are used to ensure consistent stock rotation so that the oldest items in your inventory are shipped before the newer ones³. A FIFO pallet racking system increases operational efficiency, makes the best use of available warehouse space, and reduces the potential for inventory write-offs due to expirations.

*Companies offering **LIFO** and **FIFO** solutions include **Westfalia Technologies, Inc.**, **Interlake Mecalux**, and **Cisco-Eagle**.*



SMART MATERIAL HANDLING

The arrival of the Industrial Internet of Things brings the large-scale implementation of machines that can “talk” to one another via sensors and other communications devices like conveyors installed with smart diverts, unit sorters, ship sorters, and inbound sorters.

Able to understand everything from cartons to orders to pick tickets, these machines can communicate with one another, eliminating hours of manual labor without requiring a wholesale redesign of an entire warehouse.

*Some companies offering Smart Material Handling Equipment and Automated Conveyor solutions include **Verne Solutions**, **Dematic** and **DMW&H**.*



Section 05

The Opportunity to Partner With New and Non-Traditional Fulfillment and Delivery Players

It should come as no surprise that the large, somewhat slow-moving – but exceedingly lucrative – logistics industry has become the target of dozens of new “non-traditional” fulfillment startups.

Their arrival is no doubt encouraged further by the never-ending demands of today's consumers. Combined with breakthroughs in communication, delivery, and connectivity technologies, it is no wonder that so many companies today see the warehousing industry as ripe for massive disruption.

Initially considered to be small inconsequential threats, many of these new fulfillment options are rapidly becoming serious challengers to traditional 3PLs. Today's eCommerce vendors want a reliable provider – at an incredible price. Their clients really don't care who delivers the goods they buy online as long as they can provide the superior service they demand. Which means today's 3PLs are now being asked to compete for business with companies and solutions that barely existed a year or two ago.

This scenario has led to the birth of dozens of new fulfillment solutions that are looking to carve into the lucrative 3PL fulfillment pie. These include:



Fulfillment by Amazon

One of the biggest, most well-funded, and eminently capable, Fulfillment by Amazon (FBA) leverages the eCommerce giant's technology and significant logistical expertise to provide a turnkey fulfillment solution.

While currently limited to those vendors who have a “Selling on Amazon” account, many eCommerce companies would likely find it very easy to sign up. And if history is any guide, once Amazon begins to encroach on a new space, they tend to keep expanding.



Pop-up Warehousing

Today's small and startup eCommerce businesses are nimbler, more flexible, and more cost-conscious than ever before. And they expect their fulfillment and warehousing partners to be so, as well. This is reflected in the rise of new "pop-up" warehousing options.

This includes companies like Flexe. Founded in 2013, Flexe works in cooperation with online marketplaces and matches retailers who need warehouse space with warehouses that can house their inventory. This is a huge win for retailers, who no longer have to worry about seasonality or paying huge upfront costs to store their goods⁶.

Although it remains to be seen whether such pop-up options can remain commercially viable over the long term, they will certainly present a formidable opponent for 3PLs fighting for eCommerce retailer business over the year ahead.



On-Demand Delivery

Today's eCommerce customers have so many choices. While they may not expect free same day delivery services, there is now an assumption that ordered items can, and should be, delivered now. No longer are the days of customers waiting a day or two for their items to be delivered. This expectation has helped create a whole new last mile category known as "on-demand delivery."

Often hyper-local, such services tend to be online platforms that work with a network of independent couriers who will pick up the items ordered and deliver them directly to the customer. In doing so, the customer will totally avoid going through the global logistics companies who move most products around the world.

Retailers like Amazon, Target, and Walmart are taking advantage of on-demand delivery already, working with providers like Postmates, UberRUSH, Doordash, PigeonShip, Instacart, and Google Express⁷.

As opposed to competition, these new delivery networks can provide a tremendous and valuable new asset to a 3PL's delivery arsenal. The ability to facilitate delivery within hours of purchase will surely delight their customers – thrilling even the most demanding eCommerce shoppers.

Indeed, it is likely that these services will become so popular that they could even grow from a “nice-to-offer” to a “must-offer” for any 3PL with a significant eCommerce clientele, as the relentless demand for superior customer experiences drives change.



Five Ways Local On-Demand Delivery Partnerships can set your 3PL Apart

Some of the latest – and most innovative – newcomers to the logistics world are the many startup companies offering local, on-demand “Last Mile” delivery services. Powered by GPS, mobile apps and mobile connectivity (think Uber for Delivery) – these new delivery services could be ideal partners for any 3PL trying to stand out from the pack. Your partnership will enable you to:

1. Establish your 3PL as an innovative, forward-thinking partner. Making sure clients are current with the latest technological breakthroughs can showcase how savvy your warehouse is.
2. Provide faster service options to today's busy consumers.
3. Rate shop to provide retailers with lower costs – and less responsibility for tracking – than if they were to contract with local deliverers themselves.
4. Help your 3PL clients differentiate themselves from their competition. The ability to not only offer faster delivery, but to give their own shoppers multiple options isn't just your competitive advantage, it's theirs, too.
5. Ultimately make your clients' customers happier. Because providing a superior customer experience is the only way you can survive in today's marketplace.

Summary

The overwhelming demand to provide a superior customer experience at every consumer touchpoint will impact every aspect of the logistics and supply chain world in 2018.

This new reality will present both enormous challenges – and enormous opportunities – to every player in our industry.

Meeting these new challenges will not be easy. It could require new investments in technology, new partnerships with emerging startups, or even fundamental changes to the way warehouses run their operations.

Some 3PLs may not rush to embrace these changes. But at 3PL Central, we firmly believe that those 3PLs who do will position themselves to profit enormously – not only over the course of the next year – but throughout the entire decade to follow.

About Us

3PL Central is a leader among cloud-based supply chain software providers, offering warehouse management solutions that are reliable, secure, cost-effective, and easy-to-use. Our products seamlessly integrate with a large and growing number of eCommerce enablement technologies, EDI providers, ERP platforms, accounting packages, shipping partners, and other supply chain technologies delivering a full warehouse management platform to effectively grow and scale your business. Offering core WMS functionality, 3PL Central customers include small-to-medium sized 3PLs to private Fortune 500 distribution centers.

Looking to revolutionize your warehouse?

Request a demo to learn more about our award-winning, cloud-based WMS solution built to simplify today's complex logistics.

REQUEST A DEMO

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