ASK THE EXPERTS

How Can Today's Third-party Logistics (3PL) Providers Capitalize on the E-commerce Boom?

MEET THE EXPERTS

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MADE4NET

We asked six supply chain industry experts for their advice to 3PLs when adding e-commerce service offerings to their operation, and we detailed their guidance in our whitepaper. Here's a preview of their top tips:

‣ Prepare your facility for change

‣ Secure the right technology

‣ Harness the power of automation

‣ Get smart about labor

E-commerce sales are expected to cross the $1 trillion mark for the first time ever in 2022—a milestone that was originally set for 2024, but that was moved up courtesy of the pandemic. As sales continue to grow, so does the need for shippers to develop scalable distribution strategies that allow them to keep up.

Anyone shipping anything today has a variety of key performance indicators (KPIs) to hit when it comes to fulfillment, the most important ones being:

- On-time in-full (OTIF)
- Order accuracy
- Days to delivery
- Returns turnaround time
- Next-day shipping

When you add in the complexities that manufacturers have with creating and developing quality items, or the challenges a brick-and-mortar store faces taking sales online, fulfillment becomes an even tougher nut to crack.

This is where third party logistics (3PL) providers come in. According to Logistics Management, more and more companies are exploring the 3PL route, "for help meeting changing customer expectations and dealing with the supply chain disruption, labor constraints, transportation woes, inflation and other challenges that have become the "new normal" in today's operating environment."

But in order to take advantage of new e-commerce fulfillment opportunities, traditional 3PLs must adjust their operations to be more flexible and automated. With that in mind, Made4net reached out to six industry experts for their insight into how 3PLs can adapt their operations to best service the needs of e-commerce retailers. We'll cover their top tips in this paper.

How 3PLs Can Thrive

The 3PL market is a competitive landscape. According to IBISWorld, there were over 20k 3PL businesses in the US in 2022. As such, 3PLs need to expand their capabilities to keep their current customers and win new ones in the e-commerce space. How can they do that? According to our experts, there are four key actions 3PLs need to focus on:

- Prepare their facilities for change
- Secure the right technology
- Harness the power of automation
- Get smart about labor

These are all massive undertakings and each impacts operations differently, but these efforts are critical for 3PLs looking to capitalize on the growing e-commerce market.

Action 1: Prepare for Change

The days of pallet in, pallet out operations are long over. As Lance Jordan, Director of Professional Services at Zethcon shared, "Over the past 10 years, we've noticed a dramatic shift in order profiles and the movement of goods. There are less truckload and far more less-than-truckload shipments. We're seeing fewer items per order and a lot more orders. These trends change how you manage everything within the four walls of a distribution center."

According to Jim Chamberlain, Senior Managing Director at Alpine Supply Chain Solutions, "After completing more than 50 storage-type analysis projects, we've noticed one consistent trend: Traditional order profiles have more items and the quantity of each item is higher, which allows for easier picking. In contrast, e-commerce order profiles average 1.8 items per order, which requires significantly different, more complex picking strategies."

To prepare 3PLs need to take a look at their entire layout and audit their physical space, flow, and usage. Jordan suggests taking a holistic view of the entire operation and studying the current movement of goods versus future state requirements. He encourages 3PLs to look into the nitty-gritty:

Physical: What can be done to accommodate higher SKU count/order picking velocity from the same footprint?

- Warehouse layout
- Racking
- Shelving
- Bins

Automation: What technology can be harnessed to accommodate higher SKU count/order picking velocity?

- Powered takeaway lines
- Pick to light
- Voice picking

It's important to determine what order processing looks like today and to establish what it will need to look like to manage e-commerce. Howard Turner, Director, Supply Chain Systems at St. Onge Company, offers several strategies that may be effective including, "Setting up new areas with carton flow forward pick locations and adding in conveyors that service different zones which will allow for picking by zone and picking eaches to tote." He states it's best to, "Start with a small area within the warehouse and build out functionality from there that allows you to scale up and grow."

> With the right physical layout determined, 3PLs can transition their focus to technology…

Action 2: Secure the Right Technology (WMS)

It comes as no surprise that the right technology will go a long way in helping 3PLs adapt to e-commerce demands and choosing a Warehouse Management System (WMS) built for both 3PL needs and ecommerce needs is key. Using a single WMS versus multiple systems across all customers and/or sites is recommended. Trying to work with multiple solutions presents challenges with different versions, varying interfaces, and disparate methods of communication.

When looking for the right WMS, our experts indicate the following six features are critical.

1 Order Management

When it comes to picking smaller orders and more of them, you need to be efficient about the way you manage orders in the warehouse. It's critical to choose a WMS that allows you to intelligently aggregate multiple orders, this will allow you to organize all orders that need to be shipped into smart buckets of work that are combined according to a variety of characteristics, such as:

- ▶ Customer
- ▶ Common SKUs
- ▶ Common Carrier
- ▶ Small parcel
- ▶ Etc.

The technology you choose should have the ability to automate order grouping once orders are imported into the system, aggregate them against templates, and automatically push those waves of work to the floor.

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> If you're transitioning to an e-commerce model, this means dealing with a marked increase in order quantity. You want to ensure your WMS smartly groups orders based on the criteria you select, be it by common SKUs or carriers.
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> **Lance Jordan**
> Director of Professional Services, Zethcon

2 Billing Granularity

Every customer in a 3PL building will have variations in their contracts. For instance, will you be charging for picking by eaches, by the case, or by the pallet? This is why, Kevin Hume, Project Executive at Thru-Put Partners, suggests seeking, "A WMS that was built for multi-client environments, not adapted to them, as many are."

With rising operating costs, 3PLs need to be sure they capture every revenue opportunity. Hume states that you need to be able to audit your operational processes to ensure you capture every step taken for a customer, including any value-added services provided, and align this data to the customer contract and service commitments. Why? Because, "You can't bill what you can't capture!"

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>
> **Kevin Hume**
> Project Executive, Thru-Put Partners

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3 Value-added Services (VAS)

If you want to stay ahead of the competition, then it makes sense to provide more value to your customers by adding extra service offerings. VAS can vary greatly based on a customer's needs, from inserting a coupon or free gift into a shipment, to providing customized wrapping and light assembly.

VAS provides 3PLs with the opportunity to offer customers a suite of services that will improve their customers' experience while growing their own revenue. Some common value-added services include:

▸ Kitting: Packaging related items together into a kit that is then sold as a single new product, with its own SKU.

▸ Blister packaging: Used in a wide range of industries including food production, pharmaceuticals and small consumer goods, this type of packaging is designed to deliver the highest level of protection for fragile products.

▸ Personalization: The ability to customize orders, such as adding an inscription or monogram, is becoming increasingly desirable to companies who want to personalize customer experiences.

There are countless other offerings including reverse logistics, product re-work, product disposal, and more. If a 3PL wants to put its best foot forward, VAS is a great way to do so.

4 Returns Processing

In 2021, 20.8% of all goods purchased online were returned to their sellers, which means a simplified returns process is essential for 3PLs looking to manage e-commerce business. When it comes to returns, there are two phases to consider: Providing the customer with a replacement, credit, or refund, and dealing with the physical goods, be it to restock and resell, or properly dispose of. According to Jordan, "The key here is the speed at which a 3PL can process the return and get the item back into active inventory. And as a 3PL provider, you want to be able to do that in as few steps as possible."

5 Scale As You Grow

Business can be unpredictable. Volatility is the new norm. 3PLs are wise to find ways to equip their operations to scale as needed, without any added burden. Whether you need to expand into a new facility or add a second facility, You want a solution that accommodates that from a commercial standpoint. Jordan recommends, "a WMS that is licensed at the user level, so you're always only paying for the number of active users."

You also want a solution that empowers you to onboard new customers quickly. A WMS that lets you create new facilities and new customers in test, clone them, and move them into production rapidly without outside help, can be a great asset.

Both Michael Sawyer, Senior Project Manager at enVista, and Bo Thomson, VP at enVista, agree that time is of the essence when you onboard a new customer and offer three keys for successful onboarding. "First, it is important to have standard, simplified e-commerce fulfillment processes in place that fit the majority of e-commerce fulfillment needs. Second, a 3PL should have a nimble and agile technology stack that allows for quick setup and integration into a customer's system. Third, given the lead time for equipment and racking, e-commerce facilities should be pre built or have needed material handling equipment on hand to quickly meet the needs of e-commerce companies before taking them on."

6 Reliable Integration

Seeing as 3PL environments are highly complex, with many clients using varying systems, addressing integration needs on a client by client basis can consume a lot of time and cost a lot of money. You want a WMS that can create and publish endpoints that are easy to interpret. This will allow you to seamlessly integrate data directly in and out of your system.

Hume recommends "developing a 'standard' approach across a range of customers that allows you to limit initial integration efforts and minimize ongoing work to maintain integration points in the future." Thru-Put Partners offers three integration options to connect a customer to a 3PL's WMS. "Tier 1 is typically a very basic manual file load/order entry process that can be supported by any emerging e-commerce customer with no IT support. Tier 2 typically involves some type of 'self-serve portal' where a customer can support their own order entry via a secure file download process. Tier 3 is reserved for those customers with an IT group and the ability to develop API integration into your platform."

> With the right WMS in place, 3PLs can transition their focus to automation…

Action 3: Harness the Power of Automation

3PLs that use automation to improve their processes are extremely attractive to e-commerce companies, as they can benefit from the technology, without having to make investments in it or be experts on it.

According to Envista, "E-commerce profiles are typically small and very applicable to automation concepts. Many 3PL companies have developed partnerships with autonomous mobile robotics (AMR) companies such as 6 River Systems, Locus and Fetch, which means this type of technology can be utilized by smaller customers to scale with their growth. This allows these companies to streamline processes such as picking, packing and manifesting to reduce cost per order. And, leveraging a 3PL reduces the cost of the automation to the e-commerce company and minimizes capital investment as the costs are embedded into the contract."

Chamberlin suggests a variety of options for how automation can be used effectively:

▸ **Cartonization:** Picking eaches directly into the appropriately sized shipping carton and by-passing pick to tote minimizes touches, worker decisions, dunnage, and most importantly, shipping costs.

▸ **Automated Material Handling:** Whether it is conveyance, co-bots, Automated Guided Vehicles (AGVs), or other means, it is critical to minimize worker travel time by bringing products to them. In typical non-automated operations, travel can comprise over 60% of task time, which is all non-value-added time.

▸ **Pick-to-Light:** Visually directing the worker to the correct location, item, and quantity, while allowing them to keep their hands-free increases productivity, accuracy, and safety.

▸ **Item Attributes:** Ensuring every SKU within your operation has accurate dimensions and weight is critical to eliminating manual processes within an e-commerce operation. The ability to rely on system information eliminates rework, checking functions, and incorrect user decisions. Technology enabled by accurate item attributes includes in-line weight verification, carton erectors, and print-and-apply equipment.
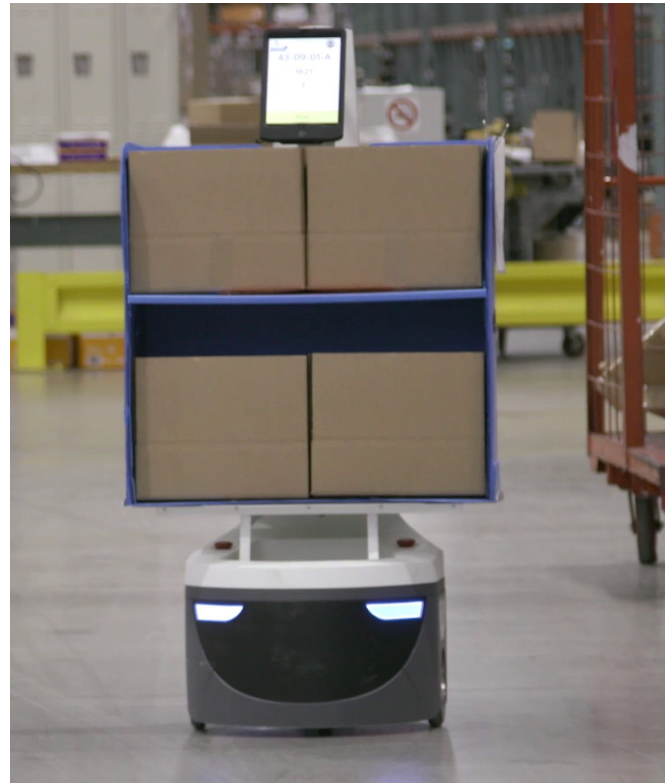
Test-driving different automation tactics before fully deploying one within a 3PL operation is critical however. Turner recommends a "proof of concept approach to testing out automation. Start with a specific use case – looking at automation in a small portion of the operation to make sure it works in their business." Should that test prove successful, the next step can be taken to expand automation to other sectors of the operation. It's important to remember that automation is not a one-size-fits-all approach, which is why testing is so valuable.

> With the right automation in place, 3PLs can transition their focus to labor…

Action 4: Get Smart about Labor

According to Jordan, "Resource challenges are the largest issues I've seen our 3PL customers struggle with over the past two years. It's simply getting harder and harder to find folks to work in the warehouse." This is why user-friendly systems are key. "While we will never remove the human element from a warehouse, we can create good processes and set up strong guard rails so that we can work with lightly trained staff and still be very effective."

In addition to user-friendly WMS systems, 3PLs can gain extra advantage from using a Labor Management System (LMS). According to our Envista experts, "3PLs can leverage a robust labor management system (LMS) to accurately plan, monitor, track and report on labor by customers so that management can make effective day-to-day decisions." Ultimately, improved labor management can allow a 3PL to reduce reliance on staffing agencies and untrained labor as they are able to improve planning and leverage associates across multiple accounts.

Finally, 3PLs should focus on retention by offering performance bonuses, quality working conditions, flexible schedules, and non-traditional benefits to reduce turnover.

Look Before You Leap

Before you commit to any of the actions suggested here, you want to be sure your investments align with both your short term and long term needs. The best way to do so is to perform a detailed ROI analysis to compare proposed improvements versus the current state.

Chamberlin, states that the key components of an ROI analysis should always include:

- One-time and ongoing investments
- Labor, space, equipment, onboarding, and training savings
- Cost of capital
- Break-even point
- Cumulative cash flow

Most importantly, you want to make sure when making changes to your operation that you keep your current customers in mind and communicate with them often. Hume suggests you remain cognizant of the impact any potential changes you make could have on your deployed customer features. "Don't turn customer smiles into frowns when making improvements." It's easy to do if your improvements negatively impact existing customer processes and experiences.

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> **Kevin Hume**
> Project Executive, Thru-Put Partners

About Made4net

Made4net is a leading global provider of best-in-class, cloud-based supply chain execution and warehouse management software for organizations of all sizes to improve the speed and efficiency of their supply chain.

Our 3PL solutions, including Synapse 3PLExpert, are cutting-edge warehouse management systems built for the complexity and unique demands of modern 3PL operations. Completely paperless, the solution incorporates innovative technology for real-time tasking and optimization across a broad range of critical functions. Our 3PL software delivers fast time-to-value and clear ROI, with a highly configurable package to help optimize warehouse processes, drive revenue and provide end-to-end reliability.

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