White Paper

New Reality of the 3PL

With the economic recession now behind us, it has become critical for the 3PL industry to adopt a more effective strategy toward inventory management. This paper will show how 3PLs will be affected by this new economic environment and how a lower reliance on storage revenue will help them drive better business performance.

The Recession is over! Well, that is what we are being told. The truth is that it probably is over … however … this one is different, there hasn't been a marked bounce-back in demand, unemployment is still growing, growth is slow and inventory pipelines are still being choked. Manufacturing in the US has seen four straight months of expansion and the overall economy grew for the seventh month in a row, according to the latest (Dec 1, 2009) Manufacturing Institute for Supply Management (ISM) Report On Business®.

For the 3PL industry the trends evident in this 'recovery' are frightening. Inventory, the lifeblood of our industry, is still being constrained, and will continue to be. According to a recent CAP Gemini study 48% of supplier companies are pursuing inventory optimization projects, 45% are adopting new supply chain projects and 44% are looking to improve long term forecasting and planning of inventory levels. Their objective is universally the same, to grow their business out of the recession, without building inventory levels back to pre-recession levels.

If your business is reliant on storage revenue, or truckload carriage of goods, this has major implications. If the owners of the inventory pipeline are successful then velocity, not volume, will dictate the 3PL landscape of the future. Smaller orders, less SOH, faster response times, reduced safety stocks and ever increasing demands on inventory visibility will be the trends. Overcapacity will drive down rates and error intolerance, along with the demand for more and faster information by customers will spell the end for the traditional truckload-in, truckload-out 3PL.

Moving your business into a faster paced 'distribution' operation model, with greater reliance on transaction based revenue, rather than storage based, is the only hope for sustained presence. What proportion of your existing revenue base comes from storage? How much is transactional and how much is from value adding? The success stories of our industry tomorrow will increasingly be those with heavy reliance on value-adding and transactional based revenue, those companies who are both agile and adaptable to the new environment. The big box warehouses will remain underutilized for a long time to come and we all need to look now at how we can adapt to this new post-recession reality. Information will increasingly be the commodity in demand, with electronic transmission of data between systems and a total customer reliance on automated event management. Storage will be a low value add-on.

In a soon-to-be-released White Paper we will look at strategies to address this changed business landscape and how you can capitalize on the new realities of the 3PL role.

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