White Paper

Increase Your Services Revenue

This paper gives an overview of a report by Armstrong & Associates analyzing how 3PLs manage to increase their revenue by providing additional value-added services for their warehousing operations.

In the current market the 3PL provider has two choices, substantially increase revenue from value added services or struggle to survive in a storage focused world with diminishing inventory.

Arguably the recession is over, but this one is different. Unemployment is still high, inventories are still being held back and neither is looking at changing in the foreseeable future. Traditional 3PL truckload in, truckload out businesses are suffering and there seems little hope of a turnaround. According to data from the Bureau of Economic Affairs warehousing grew at a rate of nearly 7.5% per year from 2000 to 2008, with 2002 and 2003 having year over year growth of almost 13%. This growth was a result of two factors, increasing demand for goods and increasing inventory pipelines. The recession removed the demand and the accountants removed the inventory. Current estimates put today's 3PL market revenue base at around that of 2005 ($103 billion) versus a 2008 peak of $127 billion.

Armstrong and Associates 1[1] estimated that there were 8,000 3PL warehouses of size in the US in 2008 (pre-recession) with about 1.25 billion square feet of combined storage space. There is no current data available but it would be reasonable to assume that those numbers still apply today. The problem is inventory; over 30% is gone, so storage supply now significantly exceeds demand. In that report Armstrong and Associates segmented 3PLs into 3 categories: Case/Pallet Shipping, Piece picking/shipping, Manufacturing and Production support. They indicated that profitability went up with each category, and that was when inventory levels were at their peak.

To prosper today the industry must move towards a much higher proportion of revenue from value added services. In discussions with our own 3PL partners I'm seeing significant growth in those who are able to move their business into the fulfillment arena or offer 4PL type services to their customers. I'm also seeing those locked into a storage/handling model suffering and losing business.

There are opportunities out there, significant opportunities. Change is required to capitalize on them. In my next email I will explore those opportunities and provide a strategy for transforming your business into a 3PL focused on today's, and tomorrow's, market.

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With storage volumes negatively impacted by inventory pipeline reductions and storage billing under pressure from excess capacity 3PL's have to look elsewhere to make up revenue shortfalls and grow. The opportunity to grow will come from value added services and operational efficiencies. The Aberdeen Group have suggested that 76% of 3PL's are pursuing operational efficiencies to reduce their cost of service and increase margins. 31% of 3PL's are looking to increased value adding services to grow their top line. There is a clear correlation between the complexity of services offered and the profitability of operators.

The primary value adding services offered today are kitting, light assembly and packaging. These are just the tip of the iceberg and moving beyond these to a point where the 3PL is seem as an integral part of a manufacturers supply chain will ensure continuity of a customer and the opportunity to demand premium rates for integrated services.

1[1] Warehousing in North America – 2008
Market Size, Major 3PLs, Benchmarking Prices and Practice.

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