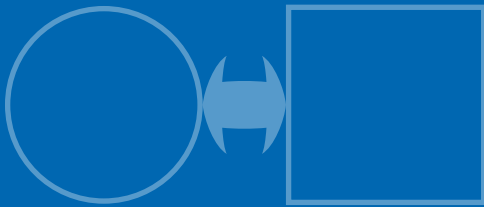


3PLs:
Between a Rock
and a Hard Place



3PLs: Between a Rock and a Hard Place



83% *say reducing costs is very important, but*

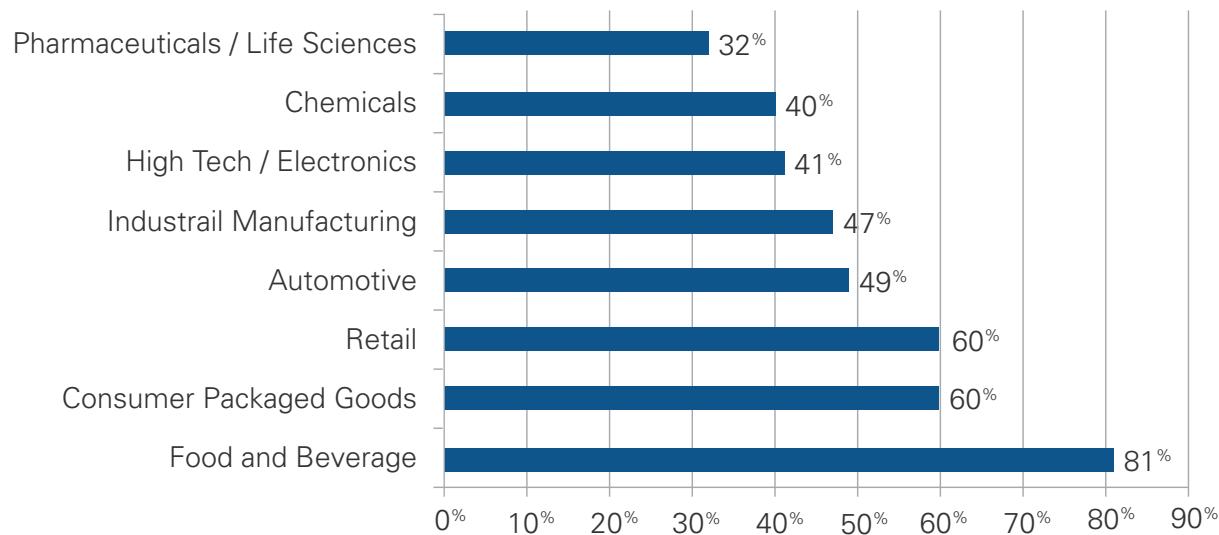
A total of 83 percent of executives from third-party logistics providers (3PLs) who responded to a December 2012 survey by market research firm SimplyDIRECT stated that reducing costs to remain competitive is the most important factor driving their business operations. Yet a whopping 94 percent of those executives identified accurately understanding profitability by customer as a challenge that is impacting their business success. Thus, they are stuck between a rock and a hard place — having to reduce costs, but not knowing how their actions might affect profitability.

94% *state that understanding profitability is an issue.*

The Survey

In December 2012, JDA Software sponsored a survey conducted by independent market research firm SimplyDIRECT to learn how 3PL executives view the 3PL marketplace, their customers and challenges. The survey received more than 100 responses from 3PL executives across Europe and North America. The respondents supported a wide range of industries (Figure 1) and ranged from small (less than \$10 million annual spend on transportation or labor) to large (more than \$100 million annual spend on transportation or labor). Most — 94 percent — support more than one customer per facility, with 74 percent managing the operational complexities of supporting more than 10 customers per facility. This report summarizes and analyzes what these executives revealed and provides actionable recommendations for how 3PLs can address their greatest challenges today.

Figure 1 – Industries Supported



Getting Costs Down



63% *say improving workforce planning and scheduling is very important for reducing costs, and*

With 3PLs facing an increasingly competitive environment, it is no surprise that 83 percent of the 3PL executives identified reducing costs as a key objective. How do they expect to get their costs down? Sixty-three percent stated that improving workforce planning and scheduling will be very important in this effort, and 62 percent said that increasing truck capacity and efficiency will be very important. This result likely reflects the split between those service providers that are warehouse centric versus those that are transportation centric.

62% *say increasing truck capacity and efficiency is very important.*

Getting Costs Down *Continued*

Typical labor savings are

10%
to
35%



It is unlikely that the 3PLs will be able to reach these goals, and do so profitably, without deploying the latest workforce management and transportation management technology. Implementing workforce management solutions can increase labor productivity from an average of 65 to 75 percent to upwards of 100 percent, resulting in a typical savings of 10 to 35 percent in labor costs. Similarly, implementing transportation management systems typically reduces transportation spend by 5 to 35 percent.

Typical transportation savings are

5%
to
35%



Providing Differentiated Value



80% *say that providing differentiated value is important, yet*

Having to reduce costs while not understanding profitability is just one of many contradictions putting 3PL executives between a rock and a hard place. Their second-largest challenge according to the survey results — identified by 80 percent of respondents — is providing differentiated value to their customers. Yet 96 percent stated that even adapting their operations to handle customer requirements is an issue. So how are 3PLs going to provide differentiated value to customers if they struggle just to meet basic customer requirements?

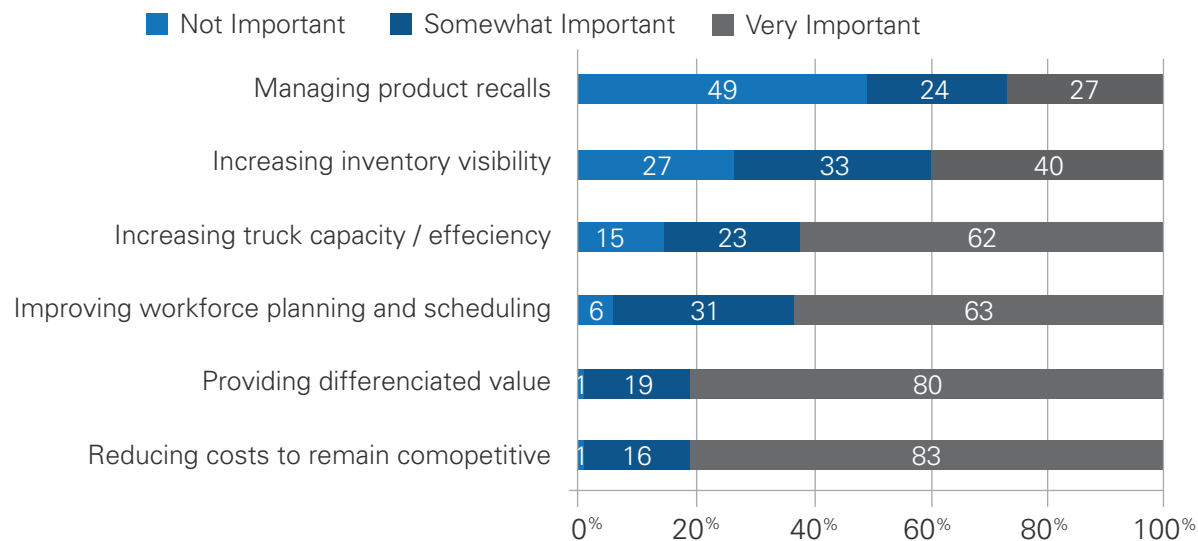
96% *state that adapting to customer needs is an issue.*

Providing Differentiated Value *Continued*

Similarly, 94 percent of the 3PLs reported that pricing value-added services — a common value differentiator — is an issue, even though 63 percent already offer these services and another 22 percent plan to offer the service within two years. Once again, 3PLs are caught between having to provide services that customers demand, yet not understanding how to do so profitably. To address this challenge and effectively understand the relationship between services and profitability, 3PLs must implement advanced supply chain management applications.

94% say pricing value-added services is a challenge, even though

Figure 2 – Importance to Business Operations



85% either already offer these services or will within two years.

Inventory Visibility as a Differentiator



Even though 56 percent of 3PL executives indicated that they currently provide their customers with inventory and shipment visibility, and another 27 percent plan to do so within two years, 73 percent of the 3PLs recognize that increasing visibility will be somewhat or very important going forward. Surprisingly, 27 percent say it is not important at all. These seeming contradictions may indicate that while roughly half of those 3PLs offering visibility today are satisfied with their capabilities, the rest of the market recognizes the opportunity for increasing their value to customers through enhancing this capability.

Even though
56%
*say they
provide inventory
visibility, and*

27%
*say they
will within
two years,*

73%
*recognize
that further improving
visibility is important.*

Inventory Visibility as a Differentiator *Continued*



3PLs

Leading 3PLs are implementing supply chain visibility software within their customer technology offerings because studies have shown that it can:

- Reduce inventory costs for 3PLs and their customers
- Improve profitability
- Reduce risk and improve resiliency
- Improve service

that do not offer adequate supply chain visibility capabilities to their customers will risk losing customers and revenue to 3PLs that do.

Inventory Visibility as a Differentiator *Continued*

The importance of supply chain visibility was confirmed in other recent research. The “2013 Third-Party Logistics Study: The State of Logistics Outsourcing” by Penn State University and Capgemini¹ reported that 47 percent of shippers surveyed felt that their 3PLs were not meeting their expectations, with “a major frustration” being lack of visibility. In addition, 67 percent of 3PLs and 61 percent of shippers agreed that supply chain visibility tools should be part of their risk mitigation plans — a hot topic since the 2011 earthquake in Japan and further heightened after Hurricane Sandy.

67%
of 3PLs and

As an example of how important supply chain visibility can be in responding to disruptions, Penn State and Capgemini’s third-party logistics study related the following story.

“Just hours after Japan’s 2011 earthquake and tsunami, construction equipment maker Caterpillar was able to determine which containers and inventory had remained in an affected port and which had made it onto a ship and out of harm’s way, and adjusted production schedules to keep plants running. Competitors were not so well prepared and had to shut down production, according to Supply Chain Management.”

61%
of shippers
feel supply chain visibility
should be part of their risk
mitigation plans.

1 C. John Langley, Jr., Penn State University, and Capgemini, “2013 Third-Party Logistics Study: The State of Logistics Outsourcing,” 2012

Traceability and Recalls

Although
81%
support the
food and
beverage industry,

Two issues that go hand-in-hand with inventory visibility are traceability and recalls. These issues are important to any company that touches the public directly or indirectly, but especially in the food and beverage industry where governmental regulations have tightened recently and high-profile recalls have raised consumer concerns. Therefore, it is interesting that although 81 percent of the 3PL executives stated that they support the food and beverage industry, only 30 percent felt that providing quarantine holds was necessary and, surprisingly, 49 percent said that managing recalls was not important.

Traceability and recall management would seem to be areas in which 3PLs could provide differentiated value to their customers. Today's advanced supply chain management technology provides these capabilities through cloud-based partner collaboration applications.

49%
felt that
managing recalls is not
important and only

30%
felt that
providing quarantine
holds is a requirement.

Traceability and Recalls *Continued*

In an April 2012 survey of food and beverage, consumer goods and life sciences executives conducted by Gatepoint Research and sponsored by RedPrairie² (now JDA), only 54 percent of respondents stated that they were compliant with traceability regulations, and 52 percent said it would take them days or even weeks to execute a product recall. In addition, only 19 percent of these executives said their tracing capabilities were fully automated, and they stated that their biggest risks as a result are financial loss and brand reputation.

Download the full report at:
[On The Trail To Traceability](#)

ON THE TRAIL TO
TRACEABILITY
NEW LEGISLATION, NEW COMPLEXITY
LEAD TO NEW CHALLENGES

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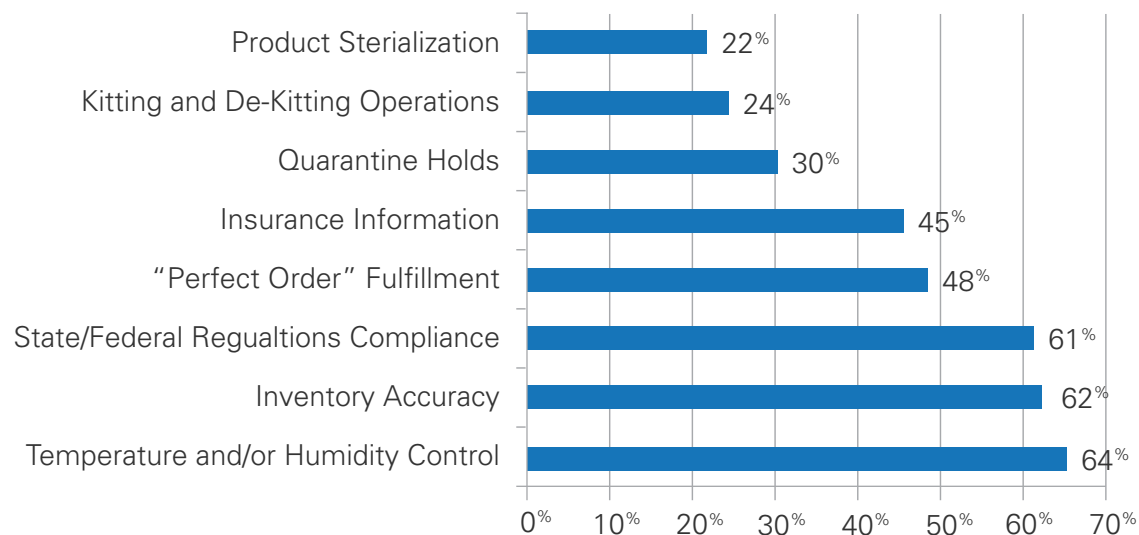
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Giving Customers What They Want

When the 3PL executives were asked what capabilities they needed to supply to meet customer requirements, the number-one response (64 percent) was temperature and/or humidity control. While this might be a bit surprising at first glance, when you consider that 81 percent support the food and beverage industry, this makes perfect sense.

What is not surprising is the number two and three choices — 62 percent stated that inventory accuracy is important and 61 percent identified compliance with local and national regulations. These are issues that every company deals with on an ongoing basis and should be considered “table stakes” for the 3PL industry. They are also key drivers for 3PLs to upgrade their supply chain technologies.

Figure 3 – Requirements That 3PLs Must Meet to Satisfy Customers’ Needs



Giving Customers What They Want *Continued*



97%
of 3PLs feel that their customers expect them to be agile and flexible, but only

3PLs may be missing other opportunities to provide customers with what they want, and thus differentiate themselves from their competition. In Penn State and Capgemini's 2013 third-party logistics study, almost 97 percent of 3PLs felt agility and flexibility were qualities that their customers expected of them, but only 67 percent of shippers who responded to the survey felt that their 3PLs sufficiently exhibited those qualities. Older, less flexible technologies may be a major cause of this gap between perceived need and execution. This is another reason many companies are looking to upgrade to newer supply chain systems built on more agile and flexible technologies and that enable 3PLs to re-configure processing to meet customers' changing needs.

67%
of shippers feel that their 3PLs sufficiently exhibit those qualities.

Giving Customers What They Want *Continued*

The need for agility and adaptability to change can be seen in others ways as well. According to industry analyst Adrian Gonzalez:

“The number-one complaint of customers — by a wide margin — is that their 3PLs are not proactive enough in identifying continuous improvement opportunities. Another top complaint is that 3PLs are slow to implement process changes and other requests.”³

But while customers complained that 3PLs are not being proactive in identifying improvements, 34 percent of the 3PL survey respondents said they are already sharing continuous improvement gains with their customers, and another 26 percent plan to do so within two years. Even so, with 94 percent of 3PLs stating that understanding profitability is an issue for them, how can they identify the value of continuous improvement gains in order to share those gains with customers? It would seem likely that there is a gap between what both 3PLs and their customers want versus what the 3PLs' technology enables them to provide. 3PLs won't get past this expectation gap until they have the configurable technology needed to support change.

60% *want to share continuous improvement gains with customers, yet*

94% *don't understand their own profitability.*

Service Over Costs



Despite 3PLs' overwhelming focus on reducing costs, customers are more focused on service issues. In a July 2012 survey by Inbound Logistics magazine of 3PLs and shippers that use their services, shippers reported that service trumped cost as key 3PL selection drivers, and conversely, cost was seldom mentioned as a reason why partnerships with 3PLs fail.

*"When asked to choose, 79 percent of shippers prefer 3PLs that can deliver customer service over cost. ...The number-one reason for failed outsourcing partnerships among shippers is 'poor service' (50 percent), followed by 'failed expectations' (24 percent)."*⁴

Only 10 percent selected cost as the reason behind a failed 3PL partnership. 3PLs may want to shift investment from strictly cost reduction initiatives to considering capabilities that will help them provide the differentiated services that customers are seeking.



The Technology Gap

Only
55%
*feel that their
systems are flexible enough.*

As indicated above, part of the 3PLs' problem in adapting to meet customer needs while struggling to understand profitability may be the technology that they are using. Only 55 percent of respondents felt that their systems were flexible enough to adapt to changing business requirements, and 59 percent said they have plans to upgrade or replace their systems — 38 percent with definite plans to do so within the next two years.

59%
*plan to replace
or upgrade
their technology.*

The high percentage of 3PLs planning to upgrade or replace their systems reflects their executives' understanding that IT capabilities are an important element of the service they deliver to their customers. They know they cannot continue to reduce costs, provide differentiated services or keep up with changing customer and regulatory requirements without advanced technology.

The Technology Gap *Continued*

It has been difficult for 3PLs to keep up with their stated intentions of providing their customers with the differentiated technology services that they expect. The 2012 Inbound Logistics survey identified technology investment as a key challenge.

“For the 3PL sector, technology has become both a selling point and a means to better service. When asked to name the most important challenges facing the third-party logistics segment, 61 percent of 3PL respondents cite ‘technology investment’ — second only to ‘rising costs.’ By comparison, only 15 percent of shippers see this as a challenge.”

Similarly in Penn State and Capgemini’s 2013 third-party logistics study, 94 percent of the shippers that responded to the survey identified IT capabilities as an important element of any 3PL’s services, but only 53 percent of shippers were satisfied with their 3PL’s IT capabilities. Smart 3PLs will close this gap quickly through wise technology investments.

94% *say IT capabilities are important, but only*

55% *of 3PL customers are satisfied with their 3PL’s IT capabilities.*

A 3PL Perfect Storm



In addition to all of the challenges that 3PLs face in striving to profitably meet customer expectations while dealing with acknowledged technology gaps, there are also the specific challenges presented by the operational and contractual environments in which most 3PLs work. Ninety-four percent of respondents have two or more customers in each facility, with 74 percent having 10 or more. This creates tremendous operational complexity and billing issues, yet 62 percent of respondents have contracts of three years duration or less with their customers, making it difficult to cost-justify technology investments. 3PLs must use standardized processes and technology to address this complexity cost effectively.

The combination of 3PLs' desire to provide customers with differentiated value while not understanding profitability — with the complexity of multi-customer facilities and short contract durations — sets up a perfect storm of challenges for 3PLs:

- *Wanting to provide differentiated value for customers — but lacking the technology to understand profitability*
- *Complex, multi-client environments requiring advanced technology solutions — yet only short-term contracts in which to recoup the costs of technology investments*

To overcome this perfect storm, 3PLs must use standardized technology with templated implementation processes so they can roll out solutions to customers quickly and efficiently.

Addressing Challenges With Technology



The challenges of the “3PL perfect storm” can be addressed through the deployment of supply chain technology readily available in the marketplace today. The 3PL executives already identified two remedies in their survey responses: 1) improved workforce planning and scheduling and 2) increased truck capacity and efficiency. These capabilities are embodied in workforce management and transportation management systems, respectively.

Workforce management (WFM) systems combine customer demand with knowledge of work content to predict how many associates with which skills are needed to complete the work. The WFM system uses this information to plan workforce requirements and schedule the appropriate staff. These systems, along with industrial engineering services, also help make associates more productive. And their ability to monitor each associate and each task enables the system to provide activity-based costing, which is critical for understanding profitability by customer. These systems routinely pay for themselves in less than one year through labor cost savings of 10 to 35 percent.

Activity-based costing is critical to understanding profitability by customer.

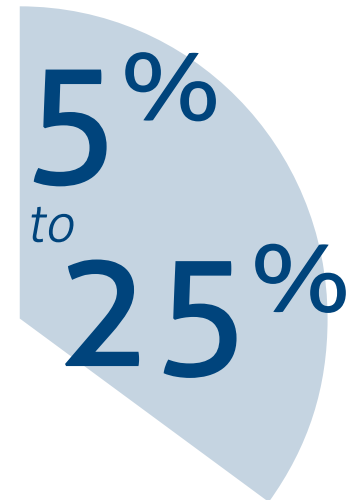
Addressing Challenges With Technology *Continued*

In addition to increasing truck capacity and efficiency, transportation management systems offer several capabilities for the 3PL industry.

Transportation management systems (TMS) allow 3PLs to consolidate shipments from multiple customers onto a single truckload, reducing shipping costs while keeping proportional shipment billing separate by customer. The use of multi-stop pick-ups and drop-offs further enhances this multi-shipment load consolidation, with the TMS calculating the most economical routes and shipment combinations.

An advanced TMS will also offer fleet management and parcel shipping capabilities within the load planning engine to optimize all modes of transport simultaneously, thereby ensuring that the lowest cost option is always used. The TMS will also handle freight payments to carriers and billing to customers.

An advanced TMS typically reduces transportation costs



Addressing Challenges With Technology *Continued*

Another “must-have” technology for 3PLs, especially those with multiple customers in a facility, is a warehouse management system (WMS). A WMS can keep multiple clients’ inventories separate virtually, even if the inventory is interspersed or shared within the facility. The WMS can also segment value-added services work by customer. This enables costing and billing by customer, another important factor in understanding profitability.

An advanced WMS also provides slotting capabilities that make order fulfillment activities more efficient by reducing travel times. Some also offer further efficiencies through voice recognition, pick-to-light and automation integration capabilities. These capabilities improve efficiency and throughput while maintaining strict separation of inventory and billing.

Advanced TMS, WMS and WFM systems allow 3PLs to be more efficient while tracking costs and accurately billing customers accordingly. This is critical to understanding and achieving profitability.

Addressing Challenges With Technology *Continued*

Satisfying multiple customer demands, managing supply chain complexity, dealing with volatile cost factors — 3PLs have a very difficult job.

Assuming that everything will always go smoothly, even with advanced technology, is wishful thinking. There will be problems, disruptions and dynamic changes. In order to stay on top of all of this and continue to anticipate and respond to customer needs, companies require sophisticated analytics capabilities built into their supply chain technology. Analytics provide warning of problems and disruptions in real time, enabling corrective action before little problems become big ones. They also can help analyze profitability by customer and service to drive better understanding of which customers and services are making money and which ones aren't.

Inline analytics provide a dashboard showing operational performance and what to expect — so the business is not run by looking in a rearview mirror.

Customer Alignment in the Cloud

Most 3PLs understand that advanced supply chain execution solutions can help them deal with complexity and provide differentiated service while getting a handle on profitability. But with relatively short customer contracts, return on investment in these technologies has to be quicker than the long, multi-year implementations common with past technology deployments.

One solution is to deploy these supply chain technologies under a cloud services arrangement. Rather than burden in-house IT staff with lengthy and time-consuming deployment of systems with which they are not familiar, system vendors can deliver faster, at less cost and with lower risk. Perhaps more importantly, it is often possible to align the cloud service agreements with the duration of customer contracts to reduce the risk of investments not being balanced with revenue.

Cloud deployments are faster, at less cost and with lower risk.

Customer Alignment in the Cloud *Continued*

Another factor in cloud implementations that is often overlooked is the templated rollouts that cloud vendors offer for quickly implementing new customers or sites. These industry- or segment-specific templates and battle-tested rollout strategies speed implementations while keeping costs down. The templates and strategies can be made available even to those 3PLs that implement systems in-house.



Survey Says...



The SimplyDIRECT/JDA 3PL survey demonstrates many areas where 3PLs are between a rock and a hard place.

- *3PLs must reduce costs, but aren't sure of the impact on profitability*
- *3PLs want to provide differentiated services, but are struggling just to conform to customer requirements*
- *3PLs know that supply chain visibility is important, but may not have the technology to provide it*
- *3PLs want to share continuous improvement gains, but don't have a basis for valuing the improvements*
- *3PLs know that they must be agile and flexible, but may be limited in this regard by their technology*

The good news is that technology to help 3PLs get out from between the rock and a hard place is available today. It can be quickly and efficiently deployed in the cloud to begin meeting customer needs and start earning return on investment faster. And cloud service contracts can be aligned with customer contracts to limit long-term exposure and risk. It's a solution to make everyone happy.

About JDA Software Group, Inc.

JDA® Software Group, Inc., The Supply Chain Company®, offers the broadest portfolio of supply chain, retail merchandising, store operations and all-channel commerce solutions to help companies manage the flow of goods from raw materials to finished products and into the hands of consumers. JDA's deep industry expertise and innovative cloud platform help companies optimize inventory, labor and customer service levels. As a result, JDA solutions have become the standard for the world's leading retailers, manufacturers and distributors.



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