

3PLs are Buzzing with Innovation

Bridging the Expectation Gap Between 3PLs and Shippers



We are seeing the convergence of two supply chain megatrends:

- The high corporate priority for innovation, both in the supply chain directly and in support from the supply chain for product/service innovation.
- The continued strong growth in logistics outsourcing, which regularly advances at a rate greater than GDP growth, taking share.

Put these trends together, and the need for greater focuses on innovation successes and limitations in shipper-3PL relationships becomes apparent.

This study looks at this issue from many angles, often comparing shipper and 3PL views on a given subject. It is some of the best data I have seen in the many such studies developed by SCDigest, and should be viewed with great interest by shippers and 3PLs alike.

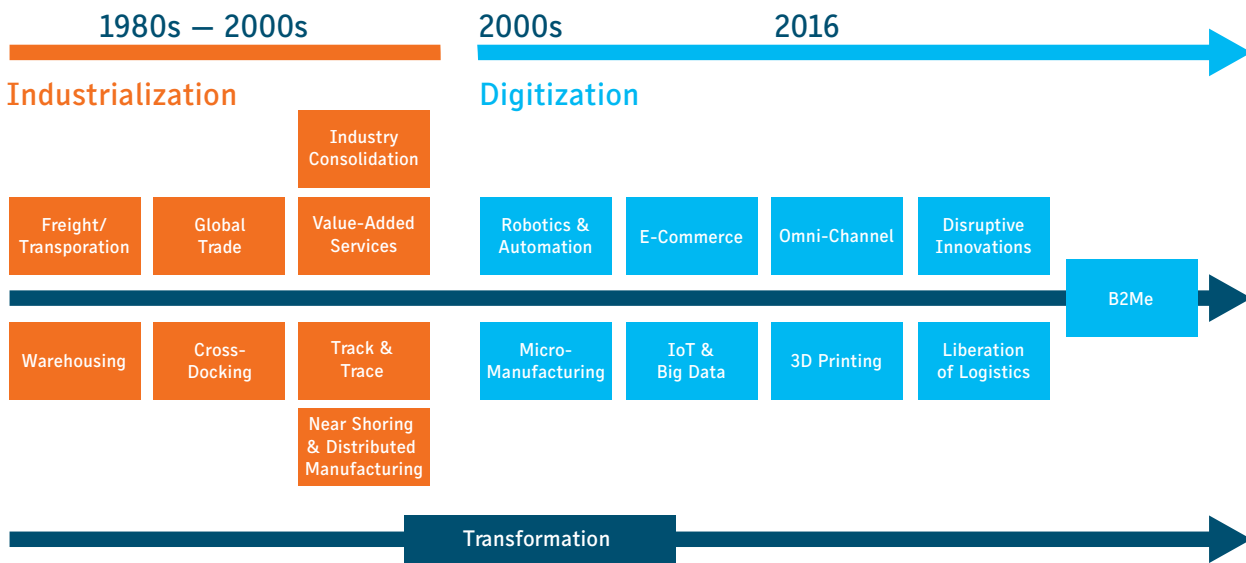
Dan Gimore

Editor
Supply Chain Digest



Defining innovation in logistics

What does innovation mean in logistics? It's apparent to everyone in the industry that we've been on a continuous upward path of innovation for the last three decades. During the early period of globalization, from the 1980s to around the turn of the century, 3PL companies focused on scaling capacity by building and consolidating their networks and becoming more efficient and cost-effective in serving their markets. These companies built warehousing, cross-docking, track and trace and distributed manufacturing capabilities. But now the focus is on digitization, e-commerce, big data and the Internet of Things (IoT).



Key trends driving innovation

There are three major trends driving innovation today:

- Omni-channel is reshaping B2B relationships
- Retailers are innovating
- The global workforce is shrinking

Omni-channel is reshaping B2B relationships

The rise in omni-channel has set new expectations for B2B relationships. Buyers want the same quality experience as they receive from B2C vendors (e.g., Amazon, Alibaba) with virtual customer service, free two-day shipping, instant confirmation and, soon if not already, on-demand delivery. This phenomenon has been referred to as the rise of the B2Me by Jim Tompkins, CEO of Tompkins International.

The changing B2B relationships are forcing 3PL companies to shift their business models from what used to be moving goods, to now providing services, such as personalization, additive manufacturing, merchandising support and even inventory management. This change is difficult as it forces the companies to change their value propositions.

Retailers are innovating

The rise of the intelligent store is changing the way logistics are run from the warehouse to the store. The store is becoming an omni-channel center, and this means the warehouse must also adapt and become more agile in its support.

The global workforce is shrinking

The aging and retiring global workforce is not being replenished quickly enough by millennials entering the industry. This gap, along with the shifting of the manufacturing base from offshore to near-shore and changing regulatory policies around the world, have increased the price of labor in every industrializing region.

Process re-engineering can help solve many of the problems created by these trends. It can streamline many key processes, increase productivity to offset some of the capacity constraints, and create a more agile value-chain overall. But the implementation of new processes is often stymied due to change management reasons and competing priorities. Thus, a disruptive innovation seems to be the more promising approach to delivering important changes in logistics.

▶ Disruptive innovation examples include:

- Prime Air service from Amazon
- Logistics manufacturing services from Panalpina
- 3D printing from UPS
- Drone delivery testing from DHL
- Uber trucks by Uber



Innovation provides an opening for new competition

It's not only the big companies that launch game-changing innovation. In fact, many much smaller start-ups have launched their own local logistics services and are already solving the future challenges that the big companies have not economically solved, i.e. last-mile, same-day delivery. These smaller companies are agile and filling the gaps in the market by focusing on availability, visibility and speed to delivery. For example:

- **Go-Jek** in Asia www.go-jek.com – a fast growing 3PL company operates a fleet of 200,000 independent motorcycle riders to provide on-demand delivery.
- **Go-Share** in USA www.goshare.com – an up and coming Uber-model 3PL company that provides local delivery services using small trucks/vans.
- **Shutl** in London www.shutl.com – a local Uber-model 3PL service that provides on-demand, point-to-point delivery service.

There are also digital improvements that have spurred innovation to help companies increase agility and efficiency, such as:

- **Verizon Telematics** <https://www.verizontelematics.com> – an integrated set of capabilities offered by Verizon based on their acquisitions of Fleetmatics and Telogis.
- **Flexe** www.flexe.com – an online marketplace for warehouse space that allows companies to flex their storage capacity without a full two to three year commitment, especially beneficial when they are preparing inventory for seasonal peaks and don't need the space in the slow season.
- **JDA Software** <https://jda.com/industries/distribution-and-logistics> – seamless fulfillment capabilities that connect warehouse and transportation management with real-time insights and predictive analytics, offered by JDA and its partners, including Transvoyant.

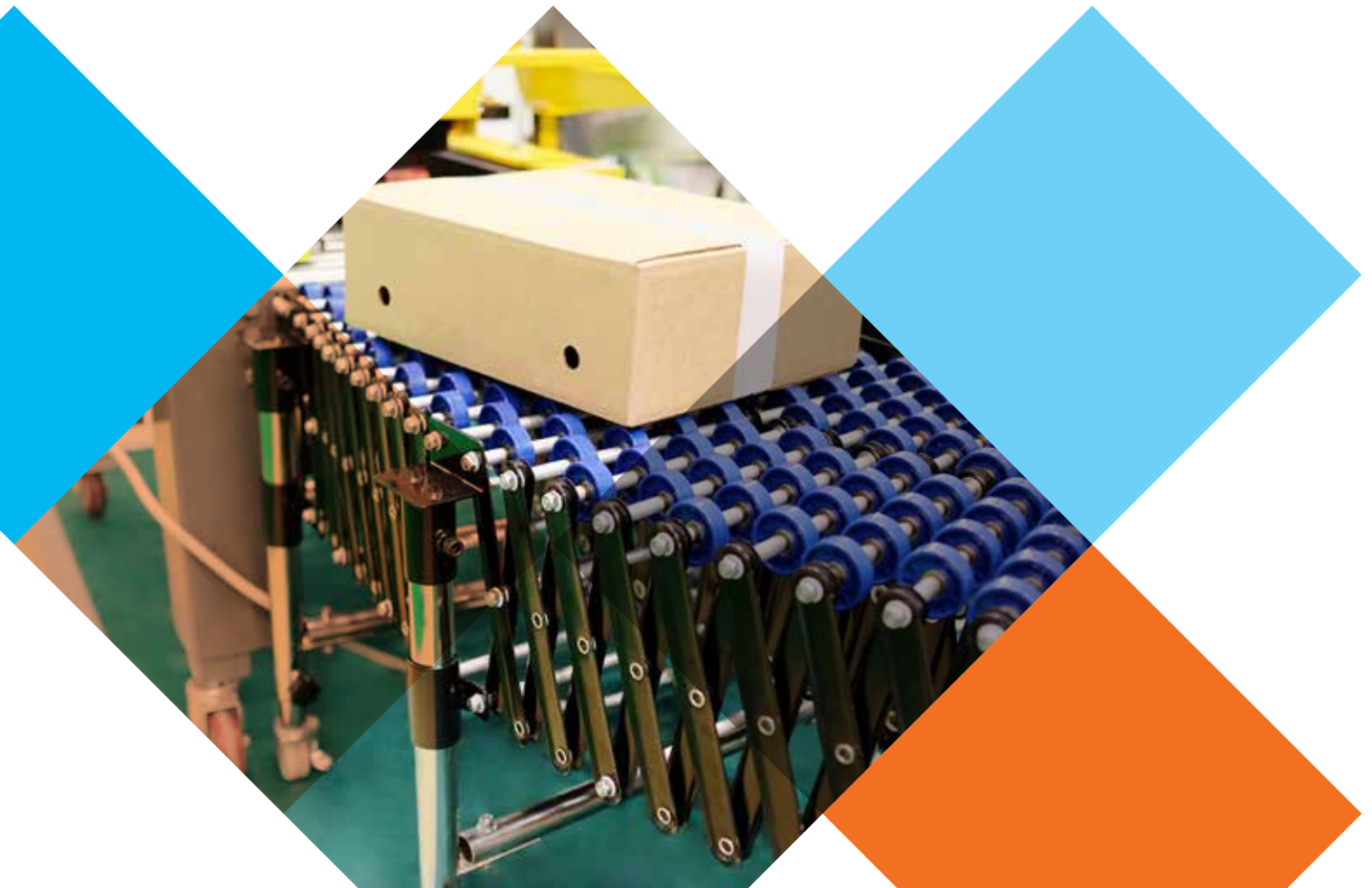


How important is innovation?

Now that we've defined innovation and identified the key trends, the big question is how important is it to companies? The answer - it depends on who you ask. In fact, we've heard from many companies that:

- Innovation is important for both shippers and 3PLs
- There is not enough innovation in the market
- Major 3PLs have been investing in innovation, but the shippers are not crediting these innovations

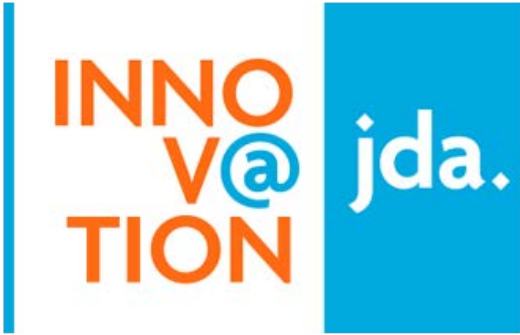
Debating these topics without good data and insight into the true state of innovation in logistics services may not resolve anything meaningful. We need to take a closer look at who wants or needs innovation, who delivers innovation, what kind of innovation is expected or required, and what is the correct and profitable approach to deliver innovation.



The innovation in logistics services survey

The heart of this report is a summary of results from a benchmark survey of Supply Chain Digest readers conducted on-line, using emails to promote participation in the month-month 2016 timeframe.

In the end, nearly 200 valid responses were achieved. As usual, with such studies, as the results started coming in for the first dozen respondents, the summary data did not really change much even as the total responses later passed the 100 mark.



What best describes your company/organization?



Forty-one percent of respondents were shippers or clients of 3PL providers, while 43.4 percent were 3PLs or logistics services providers. A small number of respondents, 15.6 percent were academics, technology providers, consultants and others.

The bulk of respondents (64 percent) are headquartered in North America. But Europe (11.6 percent) and Asia Pacific (14.6 percent) are well represented. Other respondents are based in South and Latin America, the Middle East and Africa.

In terms of company size, it was also a diverse mix, with 39.1 percent of shipper respondents claiming more than a \$1 billion in revenues, but 28.1 percent (the next largest group) were under \$100 million. For 3PL respondents, 21.2 percent had more than \$1 billion in revenues while 32.7 percent (the next largest group) ranged from \$10 million to \$50 million.

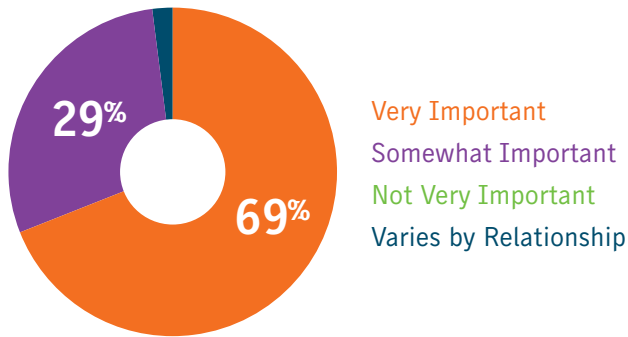


SURVEY RESULTS

What are shippers saying about their logistics providers and innovation

Innovation is important, but not for all shippers. When it is not important – they also may not want to pay for innovation

In general, how important is innovation by 3PLs in your relationship(s) with them?



From the shippers' perspective; 69 percent of respondents say 'innovation is very important' to their relationship with 3PLs. Growing needs to support e-commerce, online fulfillment, personalization and omni-channel expectations definitely require innovation that can help turnaround orders quickly and cost-efficiently. Logistics services providers should be at the leading edge of technology and supply chain trends in order to keep up with the changing business needs of their customers. And, with their large customer base, they should be able to offer best practices, develop creative solutions and provide services that improve business performance.

Some interesting comments were made by shipper respondents to this question:

- "3PL innovation, which enhances the service to our customers, is a big plus when looking at renewing our contract with the 3PL or changing to a different provider."

- "We would like our 3PLs to be leading adopters of new warehouse technologies. They operate more facilities than we do, so we expect them to be evaluating and implementing new technologies first."
- "3PLs need to be at the edge of technology and future supply chain trends in order to keep up with the business needs."
- "3PLs need to anticipate where the market and logistics trends will be and work to develop services and innovation solutions around those trends that are sustainable and replicable."
- "Looking for 3PLs to be the experts, know all the latest trends and be looking to what is coming in the future and how it will improve logistics."

But not all shippers have the same needs for innovation

Manufacturing and retail are very diverse industries. With this diversity comes the fact that not all businesses are equal. Some companies don't want or need sophisticated solutions or services, and aren't willing to pay for innovation. To this point, a subset of respondents stated:

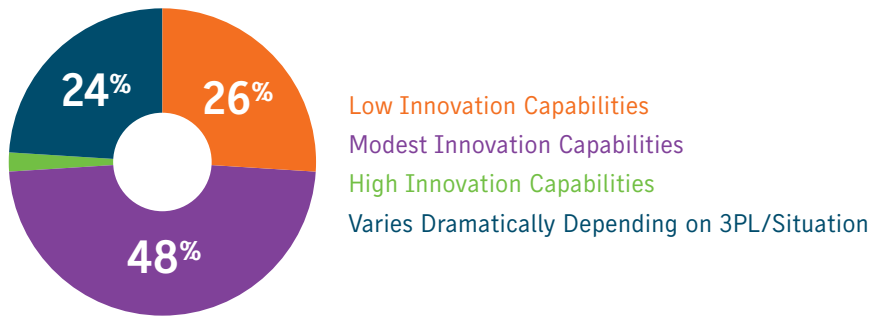
- "Innovation is important if it is needed. NO need to make changes for change itself."
- "We look to 3PLs to handle pick, pack, ship and complexity better than we do but our needs are pretty vanilla."
- "Innovation is important, but operational excellence must be established first."

▶ **Manufacturing and retail are very diverse industries. With this diversity comes the fact that not all businesses are equal. Some companies don't want or need sophisticated solutions or services, and aren't willing to pay for innovation.**

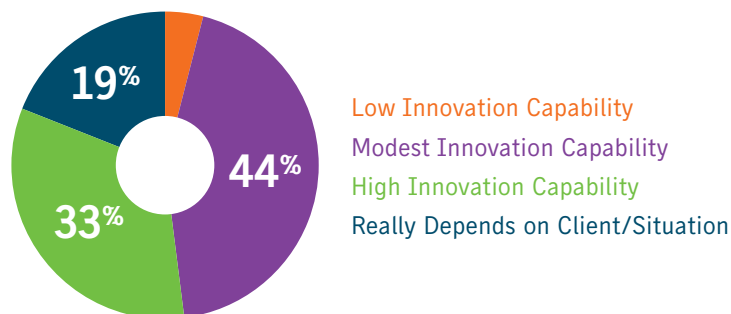
Do shippers see 3PLs as being innovative?

Some businesses have high expectations for their logistics providers to deliver innovation, but are not seeing the innovations that are relevant for their businesses. This is often at odds with how 3PLs see their own innovation capabilities. This applies to both process-driven innovation and technology innovation.

Overall, how would you rate the 3PL sector in terms of process innovation capabilities?



Overall, how would you rate your ability to deliver process innovation to clients?



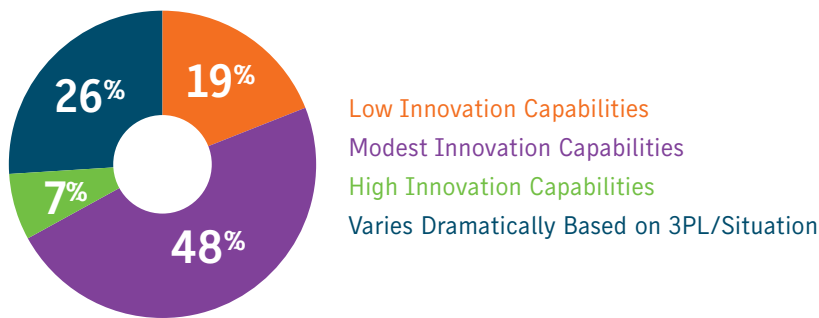
Some shippers believe that they benefit from the fact that many logistics providers work with global, multi-billion dollar companies and continue to improve their processes. On the other hand, logistics providers agree that they are always improving their efficiency but innovation also depends on their customers' willingness to change. Again, there is a gap between what shippers expect and what logistics providers think they can deliver:

- “Many 3PLs are \$50B+ global companies with large R&D budgets, but many are small, niche players. Both can bring innovation to our supply chain, but we expect more from our strategic partners.”

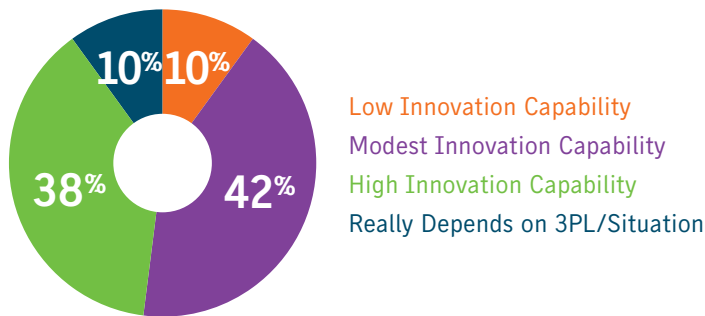
- “[Our ability to deliver process innovation is] very high in cases where we get the chance.”
- “It really depends on the size of the “sandbox” we are allowed to play in. Many clients still want basic transactional services. No one wants innovation for innovation’s sake. There needs to be tangible value. It is very difficult to get clients to change their processes.”

▶ **There is a gap between what shippers expect and what logistics providers think they can deliver.**

Overall, how would you rate the 3PL sector in terms of technology innovation capabilities?



Overall, how would you rate your ability to deliver technology?



Some shippers believe that 3PLs are challenged to offer innovation, and discussions about innovation is not often brought up in the quarterly reviews. The majority of shippers in the market believe that 3PLs deliver low and modest levels of innovation. The concerns are too often that they invest in technologies whether or not they fit in their customers' business models.

Comments from both shippers and logistics providers on this topic include:

- “Too often [3PLs] sell technology they have developed whether or not it fits the business needs of the customer.”
- “3PLs typically have lower profit margins and invest in R&D at a lower rate than manufacturers.”
- “We [3PL] could deliver more were they not so rudimentary with their own tech or prescriptive.”

- “Modest capabilities but ability to deliver largely relies on customers’ openness to change and ability to effectively manage change and ability to provide technology resources.”

The data and comments support a common theme – innovation is not for every customer. Therefore, a segmentation approach is needed. 3PLs need to look forward: what will their business look like in 5-10 years and who will their customers be (or become) in that time?

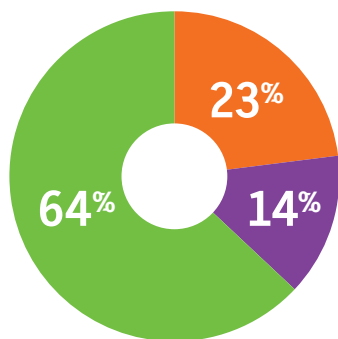
The data and comments support a common theme – innovation is not for every customer. Therefore, a segmentation approach is needed. 3PLs need to look forward: what will their business look like in 5-10 years and who will their customers be (or become) in that time?

“Joint” collaboration is important to deliver the “right” innovation

What is most interesting is that when asked how shippers engage with logistics providers to develop innovation, a large number of shipper and 3PL respondents agree that the 3PLs are allowed to find methods/solutions as long as they achieve the goals. At the same time, shippers could also be very

prescriptive in what they want/expect from the 3PL, and thus not leave much room for innovation. Some ‘lucky’ 3PLs may work with shippers that allow a hybrid approach where they are prescriptive in what they want, but at the same time are open to suggestions.

What best describes your relationship with shippers / clients in terms of innovation?

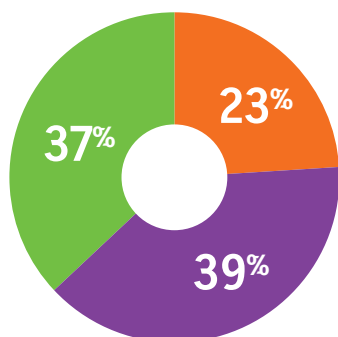


Client Focuses on Goals and Allows Us to Determine the Best Approach to Achieve Them

Most Are Fairly Prescriptive in Terms of How They Want 3PLs to Run the Business for Them

Hybrid - Varies by Specific Relationship

What best describes your relationship with 3PLs in terms of innovation?



We Focus on Goals and Allow the 3PL to Determine the Best Approach to Achieve Them

We Are Fairly Prescriptive in Terms of How We Want 3PLs to Run Our Business for Us

Hybrid - Varies by Specific Relationship

The following comments provide context to the data:

- “We currently are prescriptive but want to focus only on goals, however the 3PL is allowed to use the best approach.”
- “We want them to learn and understand our business; then we seek out suggestions to improve and innovate.”
- “Fulfillment and distribution are pretty much prescribed, ‘Get it out the door accurately and fast.’ Logistics and transportation management are more open to innovative approaches driven by us [3PL]”.
- “Customers are focused on goals and expect us to achieve them the best way using our expertise and know how. They trust us.”

- “Client relationships vary greatly, but the trend is for more collaborative relationships in both procurement and supply chain strategy.”

Several 3PLs claim that they can deliver innovation in the form of process or technology re-engineering – but only if they are allowed. When the customer doesn’t value innovation or doesn’t foster strategic collaboration, there is a lot of resistance to initiate any consultative discussion. This is in addition to the lengthy internal procedures and approvals to start new services. In addition to perceptions around 3PL capacity for innovation, the perceived lack of strategic relationships was called out by both sides.

Please rate each of the following in terms of barriers to innovation by your company for your clients

Answer Options	Low Barrier	Modest Barrier	Important Barrier	Very High Barrier
The typical shipper culture	11.1%	40%	35.6%	13.3%
Our culture	39.1%	32.6%	26.1%	2.2%
Nature of the contracts	19.6%	28.3%	37%	15.2%
Our technology capabilities	26.1%	34.8%	28.3%	10.9%
Relationships are not strategic	20%	28.9%	35.6%	15.6%

Please rate each of the following in terms of barriers to innovation by 3PLs

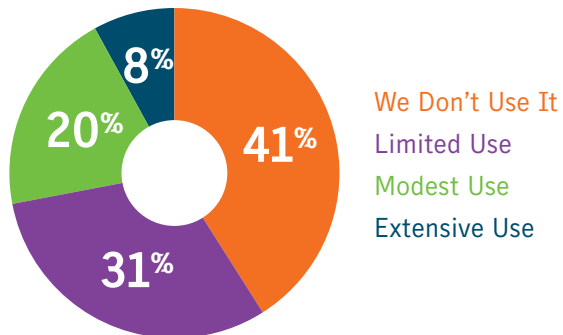
Answer Options	Low Barrier	Modest Barrier	Important Barrier	Very High Barrier
Our culture	11.9%	42.9%	40.5%	4.8%
The typical 3PL culture	12.2%	39%	41.5%	7.3%
Nature fo the contracts	4.8%	42.9%	38.1%	14.3%
3PL Technology	9.8%	29.3%	46.3%	14.6%
Relationships are not strategic	7.3%	29.3%	41.5%	22%

This reinforces the theme that innovation is not for every customer. Some customers value innovation that drives lower costs, other customers value innovation that drives long-term business benefits.

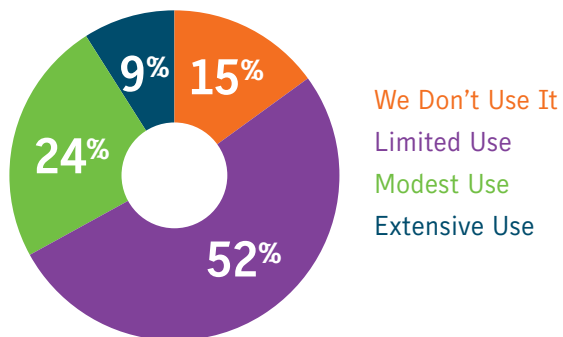
The limited success of gainsharing

Many innovations are stymied by the short-term nature of contracts for logistics services. Is gainsharing the solution to that hurdle? The answer appears to be, "Not yet."

What is your company's perspective on gainsharing arrangements with 3PLs?



What is your company's perspective on gainsharing arrangements with shippers?



Some comments highlight the issues:

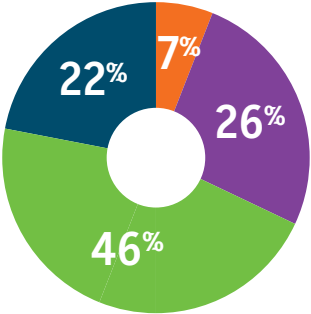
- "Great idea, but upper management is not in favor of it."
- "Not enough information, sounds interesting."
- "We do not mind exploring this if the indicators/metrics can be determined and easily measured."



Sometimes innovating also means showing the possibilities on the horizon

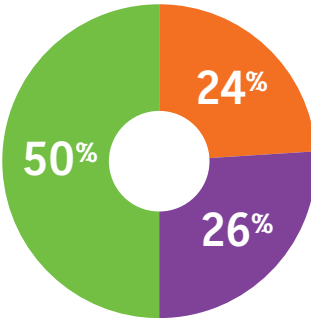
But what about the truly leading-edge innovation: augmented reality, robotics, 3D printing, drones? Survey results are mixed with many shippers having doubts about providers being able to lead out on those innovations, but many providers believe that they should.

How do you perceive clients views the potential for 3PLs to bring advanced new technologies (robotics, smart glasses, 3D printing, etc.) to their offerings?



- Clients Don't Expect/Want Those Advanced Technologies from 3PLs
- Most Clients Don't Expect/Want Those Advanced Technologies from 3PLs
- A Growing Number Expect/Want Those Advanced Technologies from 3PLs
- It Is Too Early to Tell

What is your perspective on 3PLs bringing advanced technologies (robotics, smart glasses, 3D printing, etc.) to their service offerings / capabilities?

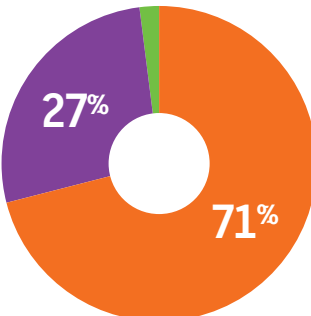


- Wish They Would Do More of That
- We Do Not Expect Our 3PLs to Be Early Adopters of Advanced Technologies
- Just Depends on How It Impacts Costs/Service

What does it take for a logistics provider to be a true technology innovator?

Becoming a thought leader and being able to show shippers the art of the possible requires an investment from the 3PL community. When Henry Ford asked people what they wanted, their answer was “faster horses.” Innovators everywhere, therefore, need to actively create a viable vision for the future rather than just continuing to do what they do now but faster, better, cheaper. Leading logistics services providers recognize this.

In general, how important would you say your ability to deliver innovation is to your overall success in the market?



- Very Important
- Somewhat Important
- Not Very Important
- Varies by Relationship

But providers understand the challenges. From their perspective, most of their customers want innovation as a means to lower their operational costs instead of improving business performance; they want year-over-year lower costs with the perception that innovation drives lower costs instead of new business capabilities.

For regional or niche players, however, innovation is critical to differentiate from others. Some customers want innovation but they are not sure what it means. They see more expectations coming from the bigger customers in retail and high-tech industries – presumably driven by omni-channel, customization/ personalization and product lifecycle.

► **Shippers don't always look for innovation from a new technology perspective, some are looking for service or solution innovations that help them to improve service levels and clear bottom-line results.**

The following comments show how far ahead logistics services providers are really looking:

- “The days of undercutting price to gain business are long gone (diminishing returns) so innovation is the only way to create efficiencies and lower costs.”
- “Freight is largely commoditized. Technology is becoming more equalized and less of a differentiator. Innovation is immune from this. It creates economic value that can be bundled into a TCO discussion with a customer.”
- “They don't want technology or innovation for its own sake. If technology or process innovation reduces their cost, or improves service, or improves their ability to serve their customers, then there's an interest.”
- “However, I believe the situation will be way different in three years. As CEOs see the impact of successes from their competitors, the rush will be on.”



SUMMING UP THE DATA

The best path forward to innovation in logistics services

There is a rich array information in this report for both shippers and 3PLs, all supporting the importance of driving more innovation in those relationships.

The results show that shippers clearly place a high priority on 3PL innovation. However, in general, 3PLs are not where they need to be in terms of innovation in the eyes of shippers. For example, just 2 percent and 7 percent view 3PLs overall as having high levels of process and technology innovation, respectively.

At the same time, 3PLs tend to rate their innovation capabilities higher than do shippers. Which side is correct? In the end, it doesn't matter, because as the saying goes, perception is the reality. On the technology side, for example, a growing number of 3PLs are adopting the same type of tier 1 supply chain solutions shippers themselves use, yet it appears they are less effective than they might be about communicating what capabilities they really have from those technologies.

On the 3PL side, innovation is really no longer a “nice to have,” but rather a competitive essential. A combined 65 percent of shipper respondents, for instance, say they always or usually evaluate a 3PL's innovation capabilities as part of the selection process.

That said, the nature of contracts continues to be a barrier to innovation in many cases, with a disappointing percentage of shippers and 3PLs seeing adoption of gain sharing or vested outsourcing types of relationships that might better foster innovation.

But given the importance of innovation to their business, what should 3PLs do now? Here are several ideas to up the innovation ante:

Develop a formal innovation strategy

Innovation capabilities cannot be effectively communicated to shippers from only a series of anecdotes about what has happened in other relationships.



Source: DHL Logistics Trend Radar, DHL.com

Shippers will want to see a plan of how the 3PL is developing innovation capabilities, and a document history of innovation in existing or previous relationships. Not included in this report, one question in the survey showed already 34.6 percent of 3PLs have an established innovation budget, and another 42.3 percent have a formal innovation roadmap.

That's a good start, but still leaves a high majority of 3PLs without the advantage of either tool to drive and communicate their focus on innovation.

As the survey and comments suggested, 3PLs need to be specific and aligned with their customers on the right innovations that their shippers want or need. Some shippers look for disruptive technology innovations, and some look for solution innovations that help them improve bottom-line results. Offering solutions such as forecasting, procurement, distributed order management, and inventory optimization may be the innovations that their shippers value more than the drones or autonomous/driverless vehicles, for example.

Segmentation

Given that customers don't all have the same needs for innovation, 3PLs need to determine which customers to target for innovation. Remember that not all customers will pay for innovation – and that may be okay. Think about who your 'future' customers will be, because the ones you have today may not be the same ones in the future as their businesses, customers and markets change as well.

Strategic engagement

Don't just show it, help your customer make sense of it. A strategic engagement is not a topic brought up during contract renewal time, it is an on-going engagement that is initiated, aligned, and measured at the top level and then get executed by all the right players in both companies. Both companies should agree on the objectives and return on investment of the joint initiatives.

Innovation centers

True innovation is not intended to show just short-term benefits. Demonstrate a credible long-term vision. Creating an innovation center for your customers can help do that. This is the focal point for understanding your competence and developing a vision for your future competence.

Sometimes it is good to get an outside-in perspective, and be open to partnerships. Be willing to work with anyone in the field including similar companies, consulting firms and technology vendors. An innovation roadmap, such as the "innovation radar" example from DHL below, can help map out all of the complex technologies that will impact supply chain in the future.



A solid innovation platform

Innovation that delivers value must be repeatable and adaptable. This requires a platform that can grow and promote agility to respond to dynamic changes in the market. JDA Intelligent Fulfillment is an example of an innovation platform that connects seamless execution capabilities involving warehouse and transportation management, makes them iterative and constraints-aware, and extends these capabilities to an open range of other capabilities that shippers need such as forecasting, inventory management, distribution/allocation, and supply chain analytics.

Continuous discovery

Finally, innovation is an ever-changing cycle. Continuous discovery and technological curiosity is critical for success in this type of environment. What do we mean by that? Simply, a new business model or disruptive technology can become available anytime, anywhere and in any form. And, it happens so fast that you must be prepared, or be caught off guard.

A great example of this curiosity and preparedness is the Kenco Innovation Lab led by Innovation Research Manager, Matt McLelland. At Kenco, they understand the importance of innovation and invest in continuous research into how emerging technologies can add value to their customer's business. From IoT inside the warehouse to tag reading drones in the delivery yard, Kenco Innovation Labs create a culture of innovation across their organization because they understand that complex supply chain solutions require creativity AND innovation.





About JDA Software Group, Inc.

At JDA, we're fearless leaders. We're the leading provider of end-to-end, integrated retail and supply chain planning and execution solutions for more than 4,000 customers worldwide. Our unique solutions empower our clients to achieve more by optimizing costs, increasing revenue and reducing time to value so they can always deliver on their customer promises.

Using JDA, you can plan to deliver.

jda.com

