

The IT Gap in 3rd-Party Logistic Providers



easypost

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Overview

Outsourcing logistics is the new paradigm. The relationship between businesses and outsourced logistics has continued to grow year after year, with 3PLs providing more capacity and savings than most in-house logistic operations. As a result, 3PLs have become almost irreplaceable parts to many businesses. While businesses and 3PLs are becoming more interconnected, many businesses aren't satisfied with the current levels of service that 3PLs are providing.

Many of these shortcomings can be traced back to a lack of technological investment in most 3PLs. In Cap Gemini's 2014 3rd Party Logistics Survey, 98% of 3PLs agree that IT is necessary for them to operate, but only 55% of customers believe that 3PLs have adequate IT (1). Despite the explosive growth in 3PLs in the last decade, 3PLs themselves have not developed technology to keep up with shifting needs.

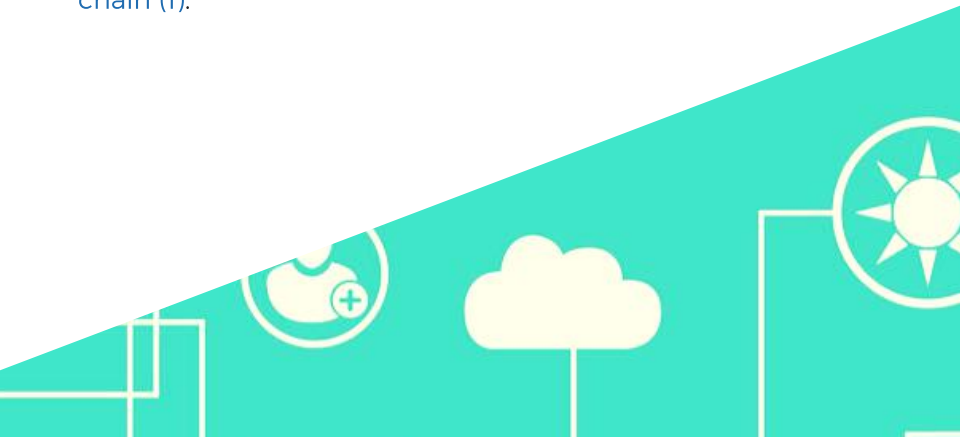


Differences in Philosophy on Big Data

Successful growth is driven by data-informed decision making, and in the world of logistics, there is no shortage of data to parse through and analyze. Both 3PLs (93%) and the businesses they service (97%) agree that data-driven decision making is critically important to their business (1).

This is where Big Data comes in. Big Data represents an intriguing opportunity for 3PLs, since they're operating at a scale where making even the tiniest adjustments can lead to substantial savings. Having the infrastructure and technology to parse through and properly analyze Big Data is critical to obtaining visibility over the true performance of 3PL operations.

The problem lies in most 3PLs' lack of investment to leverage Big Data. Most 3PLs are either unwilling or unable to make the necessary investments to properly parse through their huge data sets. According to Cap Gemini's 2014 3rd Party Logistics Survey, only 27% of 3PLs believe that Big Data can help improve their operations, while only 5% of those 3PLs have actually implemented Big Data initiatives into their supply chain (1).



Differences in Philosophy on Big Data

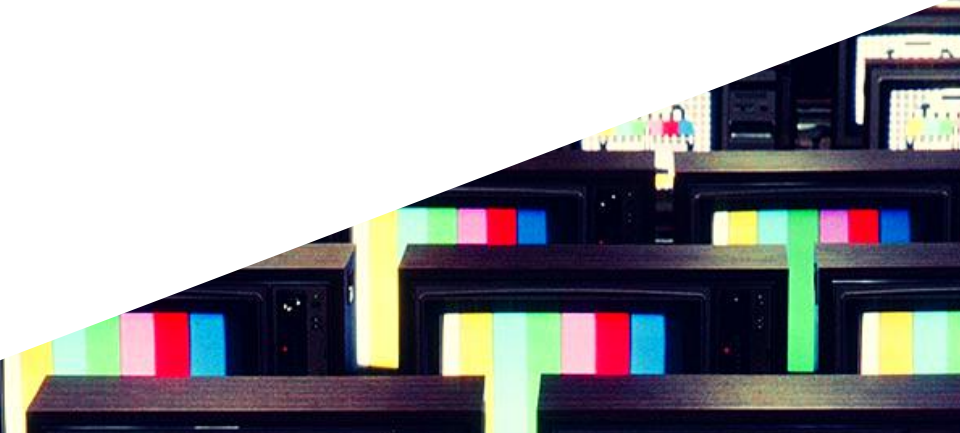
This skepticism towards technology is symptomatic of many 3PLs, and can explain why there is such a huge gap in 3PL functionality and customer satisfaction. 3PLs themselves can admit that data-driven decision making is critical to their future success, but many of them do not find value in investing the necessary infrastructure to leverage data. This could be attributed to huge investments made already to other technology, like Manhattan logistics systems or warehouse conveyers, but such investments are symbolic of 3PLs handcuffing themselves to legacy tech. Such outmoded thinking will only maintain the IT gap going forward.



Legacy Systems Hinder Flexibility

The current expectation is for businesses to fit their operations into what 3PLs can handle. Unless it's a huge account, most 3PLs will not create custom workflows to accommodate their customers. It's the customer that has to create custom workflows to accommodate their 3PL.

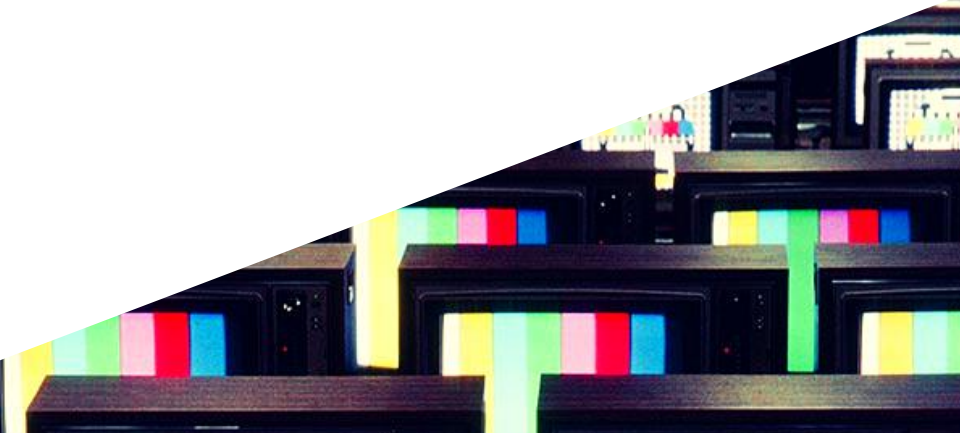
A big part of this is most 3PL's reliance on legacy technology. In 2014, Inbound Logistics published a study stating [that technology investment is the second-highest concern facing 3PLs today \(2\)](#). This is due to many 3PLs using outdated systems and technology to maintain and execute their operations. For instance, [faq-logistique reported that 78% of 3PLs are still investing into EDI solutions \(3\)](#) instead of more agile API endpoints. On the customer side, eCommerce use of APIs has [grown by nearly 10x from 2010 to 2015 \(4\)](#) according to Anders Innovations. This only further underlines the divide between the technology that 3PLs possess and the technology that businesses require.



Legacy Systems Hinder Flexibility

EDI has been the industry standard for some time, but it's also an extremely monolithic and inflexible way to transmit and process data. EDI was first born in the 1940s and went through a revamp in the 1970s, it's technology that's almost 70 years old. On top of that, it's very burdensome for companies to build up their own EDI solutions to connect with their 3PLs. So much so, that there is a market for EDI specialists to solve the lack of EDI technology at many businesses. APIs are much easier to build and integrate with, especially for eCommerce businesses that need to maintain lean tech teams.

The investment into EDI is symbolic of most 3PLs having a short-sighted view in technology investments. Yes, it's important to have an EDI tool in order to maintain interconnectivity, but it is also important to allocate the right amount of resources to implement better technology.



Reverse Logistics Remains an Issue

Returns are an important part to many eCommerce businesses. A 2014 report by Harris Interactive states that **85% of customers will stop buying from a business if the returns process is difficult (5)**. It's extremely important for today's online businesses to have access to reliable reverse logistics, which is the core to providing a better returns experience.

By design, 3PLs are built to take individual packages from a huge stack and ship them out to customers. They're very good at disseminating product, but that doesn't mean they're good at re-receiving product. The same systems and processes that are in place to push out product is ill-equipped to receive them. Despite the name, reverse logistics simply isn't the opposite of normal logistics. There are multiple factors that complicate receiving individual shipments and reallocating them into the larger inventory stock:

- **Ensuring quality of return, which also includes training for quality assurance**
- **Establishing connectivity to other endpoints to trigger refunds or exchanges**
- **Reshipping replacement or exchange shipments**
- **Reinserting return into larger inventory stock, or disposing of return properly**



Reverse Logistics Remains an Issue

While today's 3PLs are very good at automating the shipment of outbound packages, many are relying on manual processes to handle returns. Reverse logistics requires a different kind of thinking in order to automate, especially when it comes to quality assurance and restocking/disposing of returns. Relying on manual touchpoints - like opening a box, inspecting the product, then repackaging the product - to ensure return quality will only bog down the process.



Technology Must Be at the Core

In Cap Gemini's 2014 3rd-Party Logistics Survey, they've stated that [they've tracked the "IT Gap" between 3PL functionality and customer satisfaction for 12 years \(1\)](#). Outsourcing logistics has been a boon for customers, but a moment of truth is approaching. 3PLs are behind the curve when it comes to the latest technology, and they're notoriously slow to adapt to trends that can provide instant efficiency for themselves and their customers. At the end of the day, 3PLs are logistic companies, they can't be asked to be technology providers. By design, they're built to consider logistic problems as physics (labor, capacity, coordination) instead of technology (systems, endpoints, data).

The IT gap will continue in earnest until 3PLs put in the necessary investments to stay on-trend. There are existing tools that can improve the functionality of 3PLs - Big Data and API technology being two major examples - but it remains to be seen if 3PLs will implement them before the IT gap becomes untenable to customers.



Finding Ways to Fix The Gap

Another way to approach the IT Gap is by newer technology companies moving into physical logistics. As we've mentioned before, 3PLs have had more than a decade to address their lack of IT infrastructure. The slow pace in which they're addressing the IT Gap shows that they're not approaching the problem correctly.

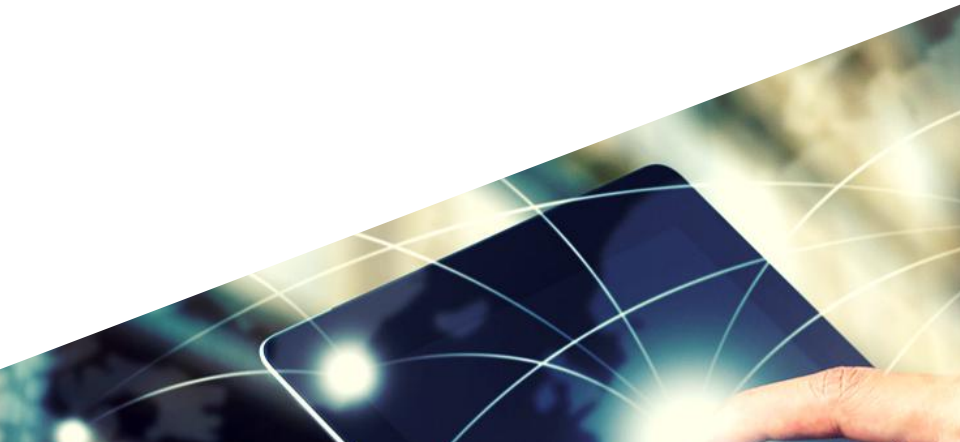
For problems that are inherently technological, it may be best to trust the technologists to solve them. 3PLs have demonstrated that they're slow to adopt the latest technology that could streamline their operations. So what would happen if we entrusted a technology company to build a 3PL from the ground up?



The New Age 3PLs

Imagine a new age 3PL, one that uses API endpoints over monolithic EDI solutions. That 3PL would be much easier to integrate with, allowing businesses and 3PLs to coexist more smoothly. The new age 3PL finds ways to make use of the massive sets of data at its disposal, having the infrastructure and solutions to parse through those data sets and come away with critical learnings. The new age 3PL would make use of the latest robotics to automate as many touchpoint as possible, making it easier to send out more packages at a lesser cost.

It seems like that new age 3PL would have all the technology it needs to succeed. It just needs to purchase the space, equipment, and labor to get it started.



Support and Resources

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Supported Carriers:

<https://www.easypost.com/carriers>

EasyPost Client Libraries:

<https://github.com/EasyPost>



Linked Sources

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(2) <http://cerasis.com/2016/04/05/3pl-logistics-companies/>

(3) <http://www.faq-logistique.com/CAP-GEMINI-3PL-02-Current-State.htm/>

(4) <https://www.andersinnovations.com/en/blog/biggest-ecommerce-trends-for-2016/>

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