



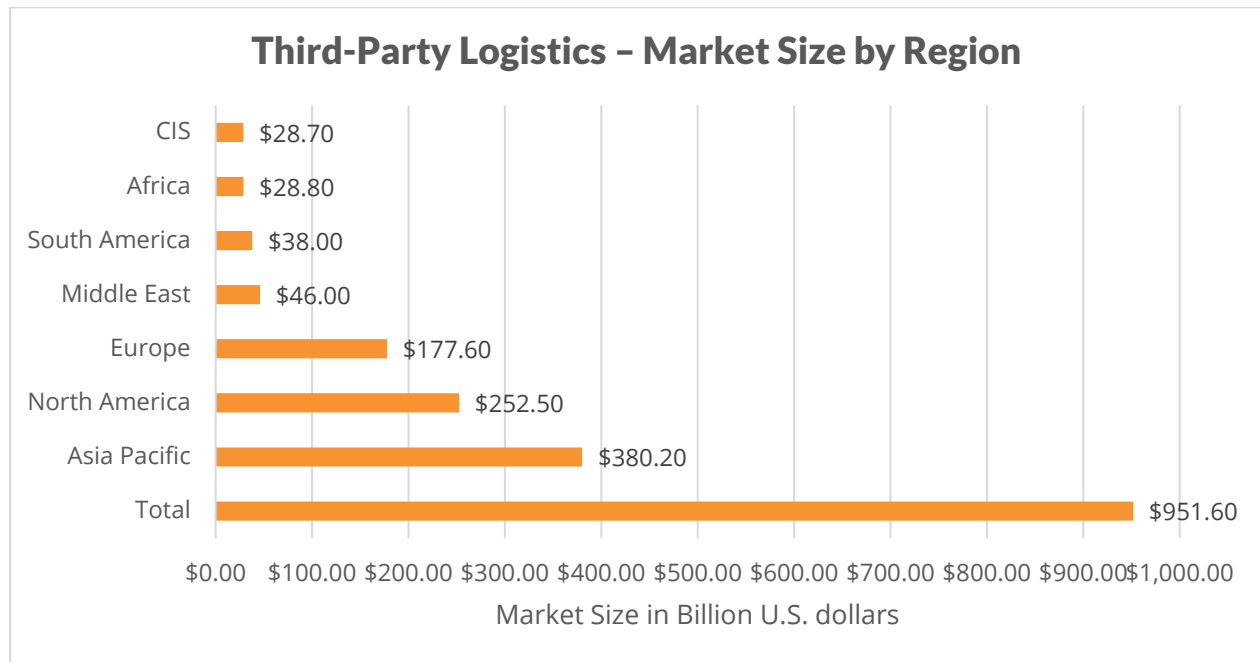
Five Point Warehouse Tune-Up

Proven Ways to Improve 3PL Profitability



Introduction

As the global economy grows ever more connected, the third-party logistics (3PL) market in North America is now the second largest in the world, sized at [\\$252.5 billion](#). Considering the rise of ecommerce spending, which is up in the United States [17.9% year over year \(YoY\)](#), fulfillment opportunities for 3PL warehouses continue to expand exponentially. These opportunities have the potential to increase profitability for fast-acting warehouses and distribution centers. However, they also bring new challenges to the logistics industry.



Source: [Statista](#)

From growing customer expectations to increased order volumes to fiercer levels of competition, warehouses must be able to meet these challenges head on to drive more revenue and meet growing demands.

Tune-Up For Profitability

[3PL warehouses](#) seeking to improve profit despite these obstacles must be at the top of their game in every area—which is why it is strongly recommended to perform a regular and comprehensive “warehouse tune-up.” Such tune-ups enable you to identify gaps, evaluate new technologies, and position your warehouse for the lucrative years ahead.

Below, we will outline the top five “Tune-Up Tips” critical for success and profitability. These tips will help make warehouse operations more efficient, your staff more valuable, and your warehouse capable of seizing the tremendous opportunities our industry has to offer.

1. [Analyze Profitability by Account](#)
2. [Evaluate Warehouse Staff](#)
3. [Question Processes and Workflows](#)
4. [Assess Physical Assets](#)
5. [Upgrade Technology](#)



1. Analyze Profitability by Account

The key to improving warehouse profit margins revolves around your ability to gain a detailed understanding of the activities that make your business money—as well as the ones that cost you dollars every day.

In many cases, 3PLs must go beyond simply knowing their warehouse's overall margin. To receive a true understanding of your operations, we recommend drilling down to the individual customer level to perform a comprehensive profitability analysis in the following categories: Handling, Storage, Materials, and Freight.

Handling

The most efficient and profitable warehouses track labor much like a high-priced law firm, allocating each quarter or half-hour to specific accounts. This includes activities like receiving, picking, shipping, etc.

Handling Revenue less Direct Labor = Handling Profit

Handling Profit / Handling Revenue = Handling (Profit) Margin

Storage

Storage Profit is calculated by taking your storage revenue and subtracting the cost or expense of storing those goods. The Storage Margin is your storage profit divided by your storage revenue. This is relatively easy on a warehouse level, but at the customer level, it becomes a bit tricky. Calculating storage costs by customer takes some effort and forethought, but it is worthwhile.

Storage Revenue less Storage Costs = Storage Profit

Storage Profit / Storage Revenue = Storage Margin

Materials & Freight

The cost of materials should include all materials purchased for your warehouse operations, including pallets, tape, labels, stretch film, boxes, etc. The cost of freight should also include all direct freight spent by your warehouse on each account, including freight you paid to correct your own errors.

Handling: 40% margin

Materials: 50% margin

Freight: 10%

Storage: 105% of your average footprint, including a pro-rated share of common space for docks, aisles, and offices.

When looking to optimize profitability, apply this analysis to every active account and monitor the results monthly. Sudden changes in your margin may mean sudden changes in your customer profile. The longer you wait, the harder it will be to adjust prices when warranted. A healthy profit margin for a 3PL warehouse runs between **16 and 18%**.



2. Evaluate Warehouse Staff

Warehouse [employees have an enormous impact](#) on every aspect of a business's operation. An effective tune-up to increase profits must include an evaluation of everyone on your payroll. This analysis should involve both hard dollar evaluations of each employee and their costs—along with softer assessments as to whether your training, scheduling, and project assignments are fully optimized.

Hard Cost Assessments

This is determined by calculating an Average Labor Rate for the entire warehouse operation. This will serve as the baseline cost measurement by which you compare your Average Billing Rate per account.

Direct Labor Costs / Direct Labor Hours = Average Labor Rate

If the Average Billing Rate at an account level exceeds the Average Labor Rate of the warehouse, the difference is the profit margin of that account. When you know the profit margin of a specific account, you can then compare that to the profit margin of your warehouse and to the profit margins of other accounts. This allows you to assess which accounts are most profitable and which accounts need an adjustment.

Soft Cost Assessment

Soft cost assessments should focus on the quality of your training, the commitment of your staff, and the effectiveness of your scheduling.

If you notice sub-par performance for a specific task among multiple workers, consider adding training resources. Offering training content to employees that shows how their performance impacts overall profitability has been shown to boost performance. This can also play a role in accountability for their contributions and commitment to “buy-in” to processes.

Scheduling

Lastly, proper scheduling is one of the most impactful components of performance. To achieve maximum efficiency, a schedule for the next day's workload, goals, and assignments should be created at the end of every business day. This should include open orders, receipts, and other anticipated activities.

Once you complete the evaluation and assess the data, you should compare it to your profitability findings. This will show you where your warehouse can improve your employees' performance.



3. Question Processes and Workflows

3PL operations often revolve around a series of repetitive processes that are designed to get products out of the door quickly. An analysis of every internal process will identify areas of improvement. The first question regarding any process is whether it can be automated using technology.

A close examination of your processes can reveal multiple opportunities for improvement. You should know the basic mechanics of every operation, including how many people are involved, how the process is physically staged, and how much time it takes. Once a review has been executed for each process individually, look at the overall time and labor to complete an order in its entirety.

Best Practices

First and foremost, 3PLs should confirm that their processes and workflows are following best practices. This will ensure that you are able to scale for growth, enabling you to use the same processes for multiple customers to speed up warehouse training and increase efficiency.

Duplicate Workflows

Without best practices in place, many warehouse staff may process orders, receipts, label printing, etc. in different ways—thus duplicating core workflows. Each warehouse worker should follow the same process to ensure you can properly report on **billing**, inventory levels, picking and packing times, and any other key performance indicators (KPIs). This will allow your 3PL to easily measure profitability later.

Warehouse Layouts

Having a warehouse layout designed to easily manage your 3PL's fulfillment strategies is key. Check that printer stations are in easily accessible locations, use dedicated pick and pack stations, and keep faster moving inventory closer to the front of your warehouse.

Technology

Don't skimp on time-saving technologies like mobile scanners or better performing Wi-Fi. For example, with mobile printing, warehouse staff can save minutes on each order if they don't need to keep walking back and forth to get labels. For a warehouse with high order volume, or one looking to move into ecommerce, this can add up to hours per week—the savings of which can potentially allow a warehouse to take on more customers.

If a certain process is crucial to your long-term growth strategy, invest the time and budget required to ensure it is as efficient and profitable as possible. While there may be an upfront cost now, there can be significant time and money savings in the long term.



4. Assess Physical Assets

To understand whether investment in a new physical asset is warranted, you must be fully aware of where you stand today and where you want to be in the future.

This usually involves an analysis of the following factors:

- Warehouse location and space
- Existing warehouse equipment and automation

Is your current equipment enabling you to achieve peak efficiency—or is it obsolete, slow, or frequently malfunctioning? If any of these are true for your warehouse, it could cost you more money over time than an investment in new equipment today. Ensuring your business has the tools to grow can improve profitability and help you win new customers. It can also help you offer existing customers new services to keep them loyal and happy.

As with all businesses, it is difficult to invest significant amounts of capital when revenue is only anticipated. Yet, the most successful 3PLs constantly plan how to best invest in their future.

Warehouse Location and Space

Warehouse size and location are obviously two of the most important aspects of your business. They can also be costly or difficult to upgrade. Leases are typically long-term, and the expense of relocating your operations can be prohibitive.

Moving to a larger space with a better location, however, can pay off in the long run. [Finding real estate](#) closer to a major port or transportation hub, for example, could result in lower fuel costs or additional sales. Upgrading to a larger facility could also allow you to bring in more or larger customers. If that is not possible, many 3PLs are looking to [4PL networks](#) for growth opportunities.

Warehouse Equipment and Automation

Having state-of-the-art equipment throughout your warehouse is one way to help maintain high levels of efficiency. Ensuring you are always on the cutting edge, though, can be extremely expensive and difficult to identify the right time to invest.

The best way to evaluate this is to return to your previous analysis of your processes. Assess how your equipment is impacting each operation. Does it help you achieve peak efficiency, or could you use a newer model? Is it obsolete, slow, or frequently malfunctioning? If so, then it could be costing you more money over the long run than an investment in new equipment might require.

Don't let obsolete equipment or fear of investing in new technology stop your warehouse from future profitability.



5. Upgrade Technology

As with almost any business, technology is one of the fastest, most powerful, and cost-effective ways to upgrade operational performance. Considering this, a full evaluation of the technology you use is the final and most important tip for your warehouse tune-up.

Start by understanding the current status of your technology, such as:

- What is required of your technology and systems?
- What can your technology actually do?
- Will your current technology scale to help grow your business?

Then consider whether you need to:

- Upgrade your existing technologies to grow
- Explore other software solutions to meet customer and consumer demands
- Evaluate whether you need to invest in a [warehouse management system \(WMS\)](#)

Evaluate Current Technology

Many 3PL warehouses dread the idea of purchasing new technology—especially a warehouse management system. However, a WMS is one of the best ways to improve warehouse performance, increase accuracy, and operate more efficiently. When looking to [evaluate WMS software](#), look at the processes and workflows you reviewed in the previous sections. For systems you already have in place, contact your technology partners to ensure you are utilizing the systems to the best of their ability and implementing recommended best practices.

Explore Cloud-Based Technologies

Using innovative technology and equipment throughout your warehouse is one way to help maintain high levels of efficiency. Utilizing [cloud-based](#) or software as a service (SaaS) systems can help improve costs, add security, and offer more reliable access to data for you and your customers. While ensuring you are always on the cutting edge can sometimes require up-front costs, it is important to have the right systems in place to properly scale your business without impacting customer satisfaction.

Futureproof with Integrations

For 3PL warehouses looking to evolve—especially those looking at omnichannel or ecommerce fulfillment—integrations to shopping carts, EDI, API, and even handheld devices like mobile barcode scanners are a must. Today's warehouses must consider the complete ecosystem required for their customers, delivery partners, developers, and beyond.



Conclusion

With the unprecedented growth of the warehouse and logistics industry, evaluating your business becomes critical when looking to compete and expand your customer-base. Performing a Five Point Tune-Up can positively impact your 3PL business and offer long-term viability.

While some of these processes may take time, the best and most profitable warehouses perform such analyses on a regular basis. By following these tips, your business can remain above the competition and position your warehouse to seize all of its opportunities in the coming years ahead.

Want to learn more?

Interested in learning how 3PL Central can help your warehouse create a better customer experience by implementing best practices to operate more efficiently and grow faster?

Request a demo by calling us at (888) 375-2368
or visit us at www.3plcentral.com

About 3PL Central

3PL Central is the leader in cloud-based warehouse management system (WMS) solutions built to meet the unique needs of the 3PL warehousing community. Serving as the backbone of our customers' operations, our platform quickly transforms paper-based, error-prone businesses into service leaders who can focus on customer satisfaction, operate more efficiently, and grow faster. Offering a comprehensive warehouse management platform, we make it easy for 3PLs to manage inventory, automate routine tasks, and deliver complete visibility to their customers. As the proven industry leader for over a decade, 3PL Central accurately manages billions of dollars in inventory and processes more than 1 million orders a week from our customers' systems. To learn more, please visit www.3plcentral.com.

