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3PLs Face Window of Opportunity

Following a tumultuous year and a half of disruption to the supply chain, third-party logistics providers find themselves operating in a sweet spot of continuing demand from customers who need to find ways to navigate this new world of ever-evolving challenges.

That was one of several conclusions reached by the 33rd annual State of Logistics report, published each year by the Council of Supply Chain Management Professionals. The report was researched by the Kearney management consulting firm and sponsored by Penske Logistics.

"The role of 3PLs is becoming markedly more valuable as the economy adapts to the continued growth of ecommerce, reshoring and nearshoring, and the push to improve supply chain resilience through diversified supply options," according to the researchers.

"In fact, a window of opportunity has opened for 3PLs to become more full-fledged consultative partners to shippers, where in the past they were often viewed as interchangeable commodity-service providers."

3PLs did very well in 2021, earning both robust revenues and profits. This was especially true for those big players in the market who proved themselves capable of investing in additional warehouse capacity and automation, and who could offer integrated solutions that were built around data insights, the Kearney researchers found.

In 2021, United States business logistics costs rose 22.4% to \$1.85 trillion, or 8% of 2021's \$23 trillion Gross Domestic Product. Total business logistics costs were \$1.557 trillion in 2020, a 4% decrease from the previous year, according to the council's 2021 State of Logistics report.

The researchers specifically advise 3PLs who are not yet involved in warehousing to make that a priority. "3PLs could stake out a more valued place in the market by building and operating specialized warehouse space," they advised.

The researchers point to recent surveys suggesting that 45% of 3PLs identified adding warehouse space as one of their most significant opportunities for business growth in the coming year. Many of these are already important providers of warehouse space and are expanding their footprints.

Rising demand for last-mile fulfillment is driving a growing need for compact, strategically distributed warehouse spaces suited to customer picks. "3PLs could weave this fast-growing niche into a larger growth strategy," the report suggests.

This is hardly the only warehousing subcategory that could heat up in the years to come, add the researchers – 3PL Central's 2022 Annual Third-Party Logistics Study found that 91% of shippers and 100% of 3PLs expect demand for cold-chain capacity to increase over the next three years.

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From March 2021 to March 2022, warehouse construction costs rose by 29%, which has done little or nothing to tamp down the persistent desire to build more space.

“In such a cost environment, investing in warehouse capacity makes little sense without corresponding investments to ensure the space can efficiently meet shippers’ increasingly diverse and specialized needs, including smart automation, smart storage, and retrieval systems,” the SOL report said.

‘Technology investments will likely become more common among 3PLs, particularly as longer, more lucrative contracts and higher manual labor costs justify the expense.”

Smaller warehouse-based 3PLs are under pressure to keep up with their larger competitors, even if they need to pick and choose the most effective and cost-efficient technologies so that they can secure their share in the growing opportunities.

The top 10 U.S. 3PLs in terms of warehouse space include giants such as DHL Supply Chain, XPO Logistics, Ryder SCS, NFI, Geodis, FedEx Logistics, Kenco Logistics, Penske Logistics, Saddle Creek Logistics and CJ Logistics.

“Contract logistics providers find themselves at a crossroads,” the researchers stress. “Should they focus their investments on additional capacity, or wager instead on optimizing the performance of available space via technology and other new capabilities? They can’t do it all.”

The supply chain challenges and disruptions of the past several years have left shippers more willing than ever to outsource the management of their supply chains, which they tend to look upon as non-core functions that serve as an extra expense and a drag on their primary operations.

“A proverbial pot of gold is now enticingly within reach,” the researchers contend. “3PLs can break free from the historical perception of contract logistics as a commoditized service and raise margins to unprecedented heights by focusing on high-touch, value-add services.”

However, they warn that shippers will not entrust such a wide range of responsibilities to just anyone. Instead, you can expect that they will seek out 3PLs with a partnership mindset and the capabilities that are required to provide customized solutions.

They quote Josh Garrison, head of Cisco Logistics strategy, sourcing and digital transformation: “Harnessing the value of quality data, leveraging data-driven insights, and executing across the supply chain with digital precision are required to succeed in today’s world and to truly leverage your supply chain as a competitive differentiator.”

This must be a shared journey between customer and logistics partner, he adds. “Investment and strategic alignment on a digital road map is an imperative to drive a truly successful relationship.”

The researchers said this means multi-service offerings “that include well-connected and frictionless international and domestic transportation structured around tailored warehousing solutions, all the while using rich data to keep shippers fully informed.”

The required investments will be substantial, and not all 3PLs will be able to keep up. Some 3PLs will win and others will lose. But the partnership path has an intrinsically higher upside with arguably less long-term risk, they explain.

“3PLs that invest purely in building and selling contract capacity as a hot commodity will find plenty of eager customers in the current environment – but once the demand-versus-capacity balance inevitably corrects itself, all of that added capacity could become a costly burden. This is why 3PLs need to protect themselves by linking leases to the length of underlying contracts with shippers.”

Whatever investments 3PLs care to make, the researchers believe the key to earning returns is building trusted partner relationships with shippers. “This begins with articulating a sophisticated value proposition, and with sales professionals who can cultivate very high levels of confidence.”

The 3PLs who persuade shippers to share their data and move to a managed transportation model can then use that access to achieve network economics, building a deep moat that those 3PLs unable to invest in capacity and efficient operations to offer integrated solutions will find it difficult to overcome, the researchers argue.

“In turn, shippers who select the best, most forward-looking 3PLs as their partners may be best positioned to make their supply chains markedly more resilient to shocks, as well as more adaptive to evolving consumer and customer demands.”

IRE Slows Due To Ecommerce

Although growth in ecommerce activity has slowed in recent quarters, longer-term trends offer a better view of the performance of this asset type in the future, contends Jim Costello, executive director of MSCI Research.

Investment in IRE properties increased with this surge in pricing, and the sector grew from a 15% share of the market before the pandemic to a level consistently above 20%, according to MSCI data. This surge in asset pricing was tied closely to the growth in ecommerce activity and tenant demand.

Growth in ecommerce activity has slowed of late, however, lagging growth in total retail sales for the last four quarters. The slowing growth in ecommerce affected Amazon.com, which noted a miss in its first-quarter earnings release. Amazon cited, among other items, an excess of capacity built up during the worst parts of the pandemic.

The pace of growth in total retail sales over this period appears to be an aberration, however, standing well above the long-run trend. In fact, the growth in personal consumption into the first quarter of 2022 was higher than that of disposable personal income, a situation that is not sustainable.

"Households cannot spend at a higher pace than disposable personal income forever, without taking on ever-increasing levels of debt," MSCI noted.

Ecommerce sales as a share of total retail sales had been growing sharply from 2013 to 2019 then spiked to a 16.4% share in Q2 2020.

Fitting a trend to ecommerce sales from the pace of growth from 2013 to 2019 would suggest ecommerce sales would have represented 13.6% of total retail sales in the first quarter of 2022, according to MSCI.

Instead, ecommerce activity represented 14.3% of all retail sales in the quarter. The company concluded, "With the harshest restrictions of the pandemic lifted in the United States, some return to previous patterns in consumer behavior should not be a surprise."

Ports Still Make IRE Investible

When choosing a market for industrial real estate investment, port markets are emerging as a safe bet for investors to park capital due to their positive rental growth profile, reports JLL Capital Markets.

With an average vacancy of 2.8%, port markets were well below the national average of 3.4% for industrial product at the end of the first quarter of 2022. Also, 22.1% of total new inventory built in the industrial market during the first quarter was delivered in port markets.

"Both pent-up investor and occupier demand from the pandemic along with new buildings being delivered to the market have boosted asking rents," said John Huguenard, JLL senior managing director and industrial co-leader in capital markets. "This ultra-competitive environment continues to drive average asking rents in port markets to new highs."

Leading the top five port markets is Miami, with 53.3% year-over-year increase in rental growth, followed by Los Angeles with 45% growth, Orange County, 27%; New York/New Jersey, 26%; and Boston with 22.9%. Congestion at West Coast ports is driving freight to Southeast ports, JLL notes.

While recent interest rate increases have impacted the sector, the effects on pricing and overall investor demand will not be homogenous across markets. In addition, these coastal cities represent an attractive opportunity for investors looking to secure long-term NOI growth, despite a near 40-basis point pricing premium. "Industrial assets in port markets are trading for a premium," said Trent Agnew, also a JLL senior managing director and industrial co-leader in capital markets.

"Despite the fact that port markets are more expensive, they still present themselves as a better long-term play for investors. The lack of available land for development, as well as other barriers to new supply, is expected to drive property fundamentals well beyond 2022."

PECO's Modest Return Proposal

Joe Dagnese, chief executive officer of PECO Pallet, would like to have a word with you. Not to put a too fine a point on it, he would like you and your customers to return his pallets more quickly.

He understands the pressures customers are under that were brought by a myriad of events you have no control over. like the Covid 19 pandemic and worldwide disruptions of the supply chain, which have made it more desirable to hold onto freight and maintain safety stocks, especially when you don't know when the next shipment will arrive – or if it will..

"Rental pallet pool operators are constantly seeking balance -- between what goes out of the pool to the user, and when those pallets are recovered and returned, and can then be reissued," Dagnese said in a recent commentary in *Material Handling & Logistics* magazine (which your editor writes for).

Every business wants to maximize inventory turns and maintain the optimal level of safety stock to meet consumer demand, he said. "Pallet assets – and how they are deployed – must be completely aligned with and in support of those objectives"

Pallet rental programs – balancing cost, asset availability and the flexibility and agility of national pallet networks – can deliver consistent and sustainable resources and services shippers need. But, he says, they only succeed when all players in the pallet use cycle live up to their end of the deal.

If someone hangs on to a pallet too long, it disturbs the cycle. Balance in the system and the impact on supply chain efficiency depend on participants living up to their commitments," Dagnese argues.

"All parties must be fully invested in maintaining sufficient pallet supply and keeping costs manageable. The consequences of not going so cause ripples throughout the supply chain that ultimately end up in higher costs of goods sold."

OSHA's Chief Looks Ahead

OSHA is working on a permanent rule to replace its Covid 19 Emergency Temporay Standard after that ETS was struck down by the Supreme Court because it had required that all private employees must be vacinated against the disease.

Douglas L. Parker, OSHA's new chief, told a recent congressional hearing ,"Covid 19 has been the occupational health issue of our time."

At the hearing, he described the development of an infectious disease standard to apply to high-risk workplaces as a top priority for the agency. Had one been in place prior to the pandemic, he argued, "OSHA would have been in a better position to address Covid."

However, he did not provide a target date for when the new standard would be issued. Unlike the ETS on Covid which was greeted with such fierce opposition, this time the agency will follow all of the notice and public comment procedures normally required for the development of a federal regulation.

This delay does not mean OSHA is waiting for the new rule to take action on Covid, he pointed out to the legislators. Since early 2021, agency staff have conducted 1,826 Covid 19 related inspections in health care facilities, with an additional 701 inspections conducted by state plans, Parker said. He noted that the agency also has responded to complaints filed by workers in other industries.

OSHA also launched an enforcement initiative in March to evaluate and ensure the readiness of hospitals and skilled nursing care facilities to protect workers when Covid 19 surges occur.

"While Covid 19 remains a priority, we are also looking ahead to ensure workers in the highest risk workplaces are protected against future infectious disease outbreaks and pandemics," Parker said.

"Those efforts include developing an infectious disease standard to ensure health care workers are protected in future pandemics and developing infectious disease preparedness training so all workplaces can be more prepared."

China Slavery Law Rules in Effect

U.S. Customs and Border Protection issued guidelines for importers regarding enforcement of the Uyghur Forced Labor Protection Act (UFLPA), which went into effect on June 21.

Under the law, all goods produced in whole or in part in the Xinjiang Uyghur Autonomous Region (XUAR) of China, or produced by entities on the UFLPA Entity List, are presumed to be made with forced labor and banned from entry into the U.S.

In anticipation of the June 21 deadline, the CBP issued "known importer letters" to companies who previously imported merchandise subject to the ban. However, importers are not in the clear if they have not received a letter from CBP.

Since then, CBP has issued a detailed guidance for importers about how they can demonstrate the goods that are blocked by CBP should not be held up under the terms of the law.

"This guidance has been anticipated by industry, especially importers sourcing products from China, since Dec. 23, 2021, when the UFLPA was signed into law by President Biden," observe attorneys for the law firm of Foley Hoag.

Under the law, importers must provide "clear and convincing" evidence to CBP to rebut the presumption of forced labor. This presumption also applies to goods made in, or shipped through, other parts of China and other countries that include inputs made in the XUAR.

Under the UFLPA, an importer will have 30 days to challenge a detention, instead of the 90 days previously that were previously allowed by the Tariff Act, which blocked import of specific products that were assumed to have been made with Chinese forced labor.

The UFLPA supersedes Withhold Release Orders (WRO) previously issued blocking import of cotton from XUAR and products made by the Xinjiang Production and Construction Corps.

The list of high-priority sectors included in the law was expanded by the CBP guidance to include apparel; cotton and cotton products; silica-based products (including polysilicon); and tomatoes and downstream products.

After a shipment is detained, importers must respond to all CBP requests for information and demonstrate by clear and convincing evidence that the goods were not produced wholly or in part by forced labor. The importer also must demonstrate due diligence processes, and effective supply chain tracing and management measures taken to ensure they do not import any goods made by forced labor.

If CBP decides the information provided by the importer demonstrates that the merchandise is outside the scope of the UFLPA, the importer will not need to overcome the law's rebuttable presumption and CBP will release the shipment.

If an importer can demonstrate by that the goods were not made wholly or in part with forced labor, CBP will grant an exception to the UFLPA presumption and allow the goods to be imported.

The law also mandates that when an exception is granted, CBP must submit to Congress and the public a report identifying the goods and the evidence considered in reaching the determination that an exception was warranted.

China may implement new countersanctions and in addition to an existing blocking statute, which creates significant legal consequences for Chinese who comply with the new law. Its government already has said the act violates international law and grossly interferes in China's internal affairs.

"U.S. importers may be left unable to gather from their Chinese suppliers the documentation necessary to satisfy the UFLPA's high evidentiary standard, say attorneys for the Gibson Dunn law firm.

Click here to access the full version of CBP's published guidance for importers