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Is Logistics Undergoing a Reset?

If the authors of the 34th annual State of Logistics report are right, third-party logistics warehouse operators need to invest in preparations for dealing with a supply chain facing tumultuous change.

The report, which is published annually by the Council of Supply Chain Management Professionals, is written by logistics experts from the management consulting firm of A.T. Kearney Inc. and enjoys financial support from the giant 3PL services provider Penske Logistics.

The logistics system has been seriously out of whack since the disruptions inflicted by Covid 19 began. Contributing factors were systemic disruptions in port traffic and rail operations practices that emptied shelves and raised prices.

All of these and other factors such as rampant inflation, combined to drive up the overall cost of logistics in the U.S. to the highest it has been in history, the researchers found.

In 2022, business logistics costs, topped $1,1494 billion, or 9.1% of nominal GDP – the greatest percentage seen in the report's 34-year history -- and grew 19.6% year-over-year from the level measured by the same researchers in 2021.

The 2023 report probes the current state of the supply chain, and how it is being shaped by macroeconomic trends as well as the actions taken by service providers, shippers, and their customers to confront economic and operational challenges.

For example, the researchers are not shy about criticizing the management of the major freight railroads for their disastrous embrace of extreme cost cutting practices instead of the seeking to work closely with their customers to create additional efficiencies while growing their business.

"At this moment, then, railroads and shippers have a converging interest in both innovation and collaboration," the report's authors declared. "It's a moment that both sides would do well to seize."

Controlling Inventory Risks

The Covid 19 pandemic spurred skyrocketing demand for warehouse space, but that had waned by 2022 resulting in overstock. Warehouse vacancy rates fell sharply, to as low as 2.9%. This was down 41% from the 4.9% high recorded in 2021, and well below pre-pandemic levels, which tended to hover around 6.5%.

The low vacancy rates resulted in higher rents, although new construction continued at a healthy pace. However, as available space is increasing, companies are hesitating to occupy it as they try to get rid of excess inventory and use existing space more efficiently.

Net absorption peaked in the second quarter of 2022 but decreased nearly 20% by the fourth quarter.

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As a result, pricing and availability ended up becoming more favorable for shippers in 2023 as inventories built and rates fell.

Negatively impacting warehouse owners and 3PL warehouse providers were what turned out to be overoptimistic retail forecasts based on the surges in ecommerce, resulting in an inventory glut that companies have been trying to shrink over the course of this year.

Many retail companies adopted aggressive inventory management practices to reduce "days on hand," the standard measure of how long it takes to sell inventory. Those measures included heavy reliance on discounts and promotions, liquidation sales, repurposing, and recycling, and even the outright donation of lingering goods.

Also helping with the situation this year is the fact that consumers are continuing to buy, particularly through digital channels, despite the lingering inflation and growing economic uncertainty.

"We have seen in recent years just how suddenly consumer appetites can shift, and how vulnerable the warehouse sector has been to such sharp adjustments in demand," the researchers stress.

Even if consumers keep buying retail goods, the continued strength of the retail market and smarter inventory management is not likely to be enough to fill up all new construction that is in the current pipeline, note the report authors. In fact, a very high proportion of warehouse construction now in progress – 83% -- is speculative in nature.

"Our sense is that the recently constructed square footage and the availability of lease-break options are likely to result in a level of warehousing supply that will outstrip projected demand," they predict. "Under such a scenario, companies will look for alternative ways to make the most of all this excess square footage, or to get out of it entirely."

They suggest that potential courses of action for warehouse owners can include consolidation through square footage reduction; the repurposing of warehouse space for other operations, including manufacturing; and, where feasible, the subletting of space to other companies.

One challenge continuing to bedevil both private and 3PL warehouse operators is the difficulty in finding the workers they need. Labor available for warehouse work continued to be a scarce resource, and the hourly cost for workers rose steadily.

Last year concluded with the nationwide average hourly wage of warehouse workers at $16.16 per hour, with the low range at $10.26 and high at $25.43. This represented a 7% increase from the already inflated 2021 labor rates.

3PLs Need to Become 4PLs

Warehouse operators who cast themselves as providers of a wide range of logistics services, must prove to be capable of keeping up with rapidly changing technology demands.

The challenge for smaller 3PL warehouse companies will be keeping up with the necessary investments in technology ranging from using warehouse robots to take pressure off the need to add more employees, and deploy sophisticated TMS and WMS systems to help manage customer needs.

These are systems must be capable of analyzing data to better manage the entire supply chain, from sourcing raw materials to delivering shipments to the ultimate customer's front door, which requires adoption of a 4PL model.

Amid the supply chain shocks and reconfigurations of the pandemic era, shippers are more reliant on 3PLs to manage increasingly stressed and complex logistical networks. As a result, capabilities involving data management, visibility and analytics are moving firmly to the forefront of what shippers look to 3PLs to provide.

These capabilities typically fall outside the shippers' areas of expertise and are not easy to build on their own because they entail addressing massive complexity (for example, systems interfaces), intensive resource requirements, large capital expenditures and long lead times.

4PLs strive to ideally manage all aspects of their client's supply chains and act as the single interface between the shipper and multiple logistics service providers. The more advanced ones go even further and help shippers design their supply chain.

"For 3PLs, moving into a 4PL role can be an attractive prospect; it inherently deepens the relationship with the customer. As shippers increase their trust in the 4PL model, they allow providers to manage more of their freight."

ATRI Assesses Cannabis Impact

The rapid adoption of laws legalizing marijuana sweeping the country increases challenges for truck fleet managers, finds recent research from the American Transportation Research Institute.

"As an industry committed to workplace and roadway safety, we owe it to ourselves and our families to make sure we can screen to maintain a clean and sober workforce," says Minnesota Trucking Association President John Hausladen.

"Minnesota recently joined the growing list of states legalizing recreational marijuana," he adds. "This action underscores the critical need for tools to effectively determine marijuana impairment by current and prospective employees."

ATRI's first-ever research into the impact of marijuana on trucking outlines several steps that need to be taken to effectively tackle the issue.

- More robust data collection is needed at the state- and federal-level to understand the prevalence and safety outcomes that result from marijuana-impaired driving.
- Safety campaigns must be employed to mitigate driving while impaired by marijuana, particularly among non-commercial drivers.
- Law enforcement requires better tools and more training to identify marijuana-impaired driving; a quantitative field sobriety testing device does not currently exist.

There are currently 23 states where recreational marijuana can be legally purchased and consumed, and approximately half of the U.S. population lives in those states. Likely more states will move in this direction since polls show a majority of Americans (59%) support legalization.

The report is available through ATRI's website.

WERC Issues DC Measures

The Warehousing Education & Research Council published its 2023 DC Measures Survey and Report and updated its online benchmarking tool designed to assess and improve operational performance.

The report captures 37 key operational metrics that are meaningful for warehouse and distribution center operations. The metrics are grouped into five balanced sets – customer, operations, financial, capacity/quality, and employee – plus additional sets related to cash-to-cash cycle measurement.

For each metric, there is a definition outlined and information about how to calculate it.

"Used from year to year and based on responses from a diverse network of warehousing, logistics, and distribution professionals, the metrics provide a strong base and consistent approach to reporting performance," WERC says.

For the first time, DC Measures surveyed the current application of environmental, social, and governance (ESG) frameworks in the warehousing and distribution industry.

"It has become clear that DC managers must begin to consider ESG to manage stakeholders. The report identifies simple steps companies can take to develop an ESG strategy," WERC explains.

WERC also announced that it also updated the Online Benchmarking Tool. This digital resource hosts a compilation of all DC Measures data since 2013. It is designed to help practitioners, 3PLs and consultants customize benchmarking data to meet internal evaluation needs quickly.

Acquiring a subscription to the updated WERC benchmarking tool also includes a full year of unlimited access to all the data, which covers the full DC Measures library, data breakdown functionality as well as saved report comparisons, the organization points out.

For more information about these updated reports and other information resources that are offered by WERC, visit https://werc.org/page/metrics.

Employers Get New Posters

Employers need to make sure they display two revised posters issued by the Department of Labor regarding the Family and Medical Leave Act and the Fair Labor Standards Act

"Employers will need to take action to remain in compliance with their posting obligations under these laws," says attorney Fiona W. Ong of the law firm of Shawe Rosenthal.

Both the FMLA and FLSA require that these notices be displayed in a "conspicuous" location in each establishment.

DOL also states electronic posting is sufficient if all the employer's employees exclusively work remotely, customarily receive information from the employer by electronic means, and always have readily available access to electronic posting.

"In other words, if any employees work on-site, electronic posting alone will not be sufficient," explains Ong.

Employers covered by the FMLA (private employers with 50 or more employees within a 75-mile radius) are required to display a DOL notice informing employees of their rights under that law.

Every employer whose employees are covered by the FLSA minimum wage provisions (meaning non-exempt employees) must post a DOL notice explaining the act, including its minimum wage, overtime, and child labor provisions.

The poster has been revised to include obligations under the new Providing Urgent Maternal Protections for Nursing Mothers (PUMP) Act, which expands existing lactation protections for nursing mothers under the FLSA.

DOL says the February 2013 and April 2016 versions of the FMLA poster still can fulfill that law's posting requirement. However, the older versions of the FLSA poster will not continue to satisfy the posting obligation. A copy of the revised FLSA poster can be downloaded from the DOL's webpage here.

Unions Must Pay for Damage

The U.S. Supreme Court has ruled that labor unions can be held liable for intentional damage they do to an employer's property during a strike.

The 8-1 High Court majority ruled in a case involving the Teamsters union that such conduct goes beyond that which is even "arguably protected" under the terms of the National Labor Relations Act.

In this case, drivers, of cement trucks who were acting on their union local's instructions, refused to finish deliveries in progress and returned the fully loaded trucks before walking off the job. Although the company was able to unload the wet concrete and avoid damage to its trucks, all the concrete it mixed that day had to be destroyed.

A lawsuit filed by the employer against the union seeking to collect damages was dismissed by a lower court judge who held that the activity was legal under the terms of the NLRA. The Supreme Court disagreed.

"In rejecting this 'oversimplification' of the NLRA, the Court again emphasized that the right to strike is not unlimited and requires that workers take reasonable precautions to protect the employer's plant, equipment, and products from foreseeable imminent danger," said attorney John Hodges-Howell of the Davis Wright Tremaine law firm.

Although application of the decision's precedent seems limited, "the mere possibility of holding unions accountable for at least some of the economic consequences of their work stoppages may cause them to think twice before planning a strike in a way that inflicts maximum economic harm on employers," he adds.

The costs of litigating such cases alone may have a deterrent effect, he believes "Even if the full scope of this decision is not yet clear, many employers may view it as harbinger of better times ahead."

Retail Sales Remain Flat in May

When it comes to predicting the future of the economy, monthly retail sales figures seem to have become no more reliable a method than reading tea leaves, and you don't even get a cup of tea out of the process to salve your nerves.

The U.S. Commerce Department reported that advance estimates for May retail and the food services sales are expected to have increased just 0.3% from the previous month, and up 1.6% above the May 2022 numbers, when all the dust clears, for a total of $686.6 billion in sales.

Retail trade sales were up 0.3% from April 2023, and up 0.7% above last year. Non-store retailers (ecommerce) were up 6.5% from last year, while food services and drinking places were up 8.0% from May 2022.

In a separate report that was issued on June 15 the Commerce Department also reported that business inventories were at $2.5 trillion for April, which was up a slight 0.2% from March.

Drilling down into the retail sales data, the PYMNTS corporate data analytics firm found that consumer spending was notably pronounced year over year in the auto and auto parts sector, and at supermarkets and other kinds of grocery stores.

Consumers also appear increasingly willing to eat away from home, with food and drinking establishments' sales rising 0.4% from April and 8% compared to last May. The numbers also showed people spending more on building materials and gardening supplies.

"The portrait that emerges, then, is of a consumer who's fixing up the car, maybe even taking the plunge to buy a new one," PYMNTS reported.

The National Retail Federation's calculation of retail sales – which excludes automobile dealers, gasoline stations and restaurants – showed May was up 0.4% from April and increased 4.4% unadjusted year over year.

In April, sales were up 0.6% month over month and up 1.4% year over year. NRF's numbers were up 3% unadjusted year over year on a three-month moving average as of May. Sales were up 4.2% year over year for 2023's first five months.

"Consumers continued to spend on household priorities in May, supported by gains in the job market and wages," said NRF President Matthew Shay.

"Retailers recognize the ongoing pressure on cost-sensitive consumers and are offering competitive pricing, a wide product mix and convenient shopping options to help stretch family budgets."

NRF Chief Economist Jack Kleinhenz was equally optimistic. "This was a positive report with no sign of an abruptly slowing economy despite what has happened with inflation and interest rate pressures."

Consumers are overcoming their negative reactions to inflationary pressures to shop, he believes.

"Even though shoppers dialed back in some categories on a year-over-year basis, these numbers confirm that consumers still have the capacity to spend. Job growth and wages are providing buoyancy, although inflation continues to take a bite out of consumer income."

Kleinhenz pointed out that May is typically a strong month for retail as spring shopping hits its peak, also observing that "above-average temperatures and below-average precipitation no doubt played a favorable role."

NRF said that May sales rose in six out of nine retail categories on a yearly basis, led by health and personal care stores (up 9.7%), online sales (8.7%), and grocery and beverage stores (3.7).

Clothing and clothing accessory stores were down 0.2% unadjusted year over year, as were electronics and appliance stores decreased 4.1%, and furniture and home furnishings stores, also were down 4.5%, unadjusted year over year.