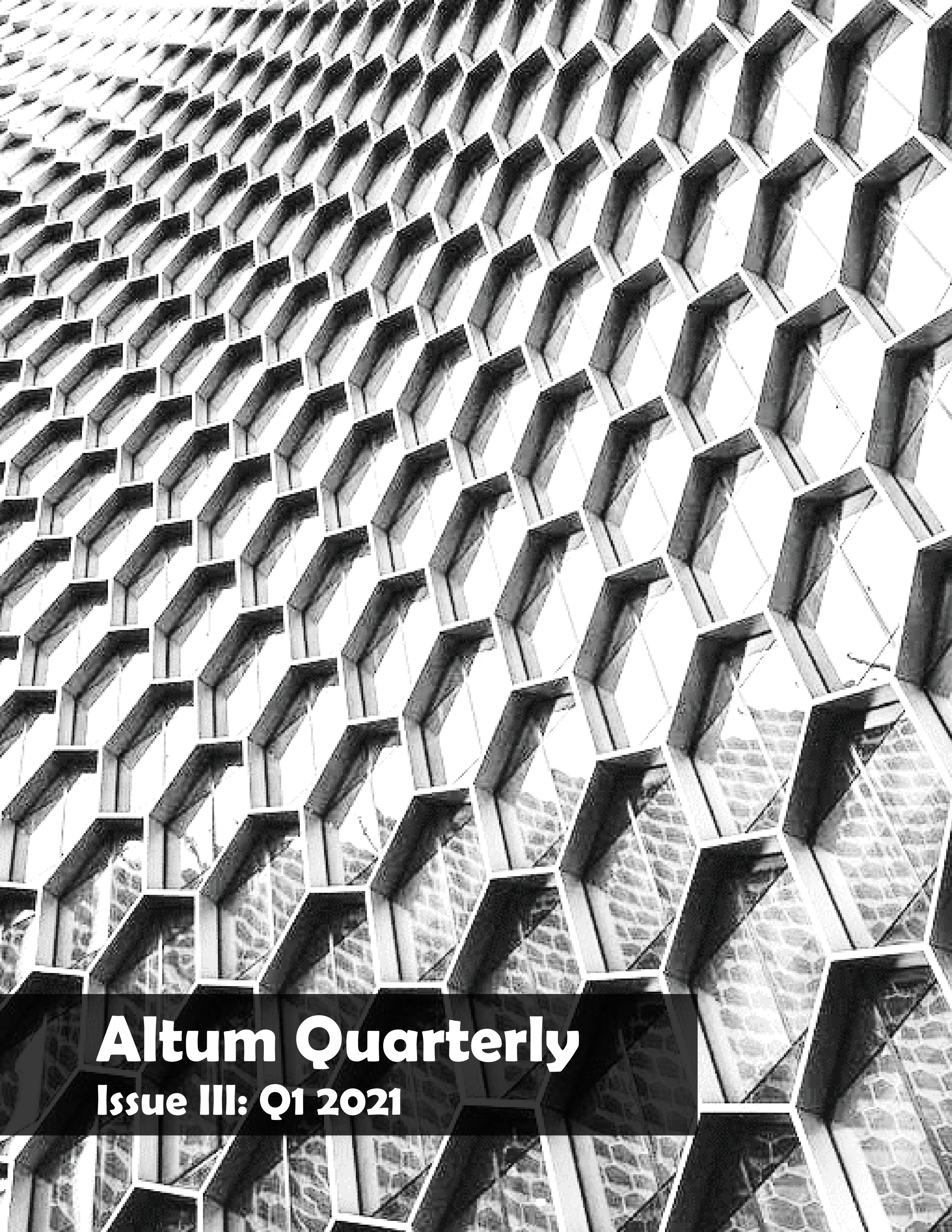

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Contract logistics in the era of omnichannel commerce

As e-commerce volumes surge, contract-logistics companies face increasing complexity. How can they capture more value in a $600 billion opportunity?

E-commerce sales have soared by 160 percent between 2014 and 2019, six to eight times the rate of growth in traditional retail. This global trend has only been accelerated by the pandemic—e-commerce rose from 13 to 17 percent of total retail within a year ….. the shift is likely permanent.

This presents a huge opportunity for contract-logistics companies. Consumer goods and retail make up almost half of the logistics market, and the rise of e-commerce has driven up demand for omnichannel distribution, which depends on a single inventory-management system to fulfill orders from both traditional stores and e-commerce.

Total value of omnichannel distribution is projected to grow 7% every year, from $600 billion in 2019 to $840 billion by 2025. This means a ***strategic pivot toward e-commerce and omnichannel logistics will likely unlock higher growth for contract-logistics companies***, which collectively account for a fifth of omnichannel logistics' total value in revenues today, while the rest is handled by in-house logistics of big brands, e-commerce giants, and tech start-ups.

Who's leading in omnichannel logistics?

Since e-commerce fulfillments are significantly more complex, contract logistics can charge around 50 percent more than for traditional store fulfillment. Therefore, those companies that overcome the complexities stand to gain the most. As a result of smaller average order sizes, e-commerce fulfillments typically require more touchpoints than do traditional retail logistics.

The storage capacity required tends to increase to accommodate a long tail of products typical for e-commerce, and e-commerce goods are frequently stocked in decentralized locations to allow for faster last-mile delivery. Furthermore, omnichannel fulfillment involves more complex processes to efficiently handle the full gamut, from single-unit promotional e-commerce orders to large fill-in orders for stores. This drives up complexity, labor, and inventory costs, and many contract-logistics companies have found it difficult to move toward more agile and diffused operations in a cost-effective way while still catering to their traditional brick-and-mortar customers.

So, how can contract-logistics players address these challenges and carve out a larger slice of the omnichannel pie?

Logistics companies that already operate at a certain scale and with the financial means can start by understanding their customers' needs, which have evolved alongside shifts in consumer behavior and the logistics landscape. In this article, we profile four emerging customer types—each with a specific set of logistical needs and requirements—and identify five levers for omnichannel-distribution success that companies can pull to increase their competitiveness while solving for some of the aforementioned complexities. The bar is high and rising, and players should act now to develop their strategy.

In theory, contract-logistics players should be well positioned to capitalize on the growth of omnichannel logistics to meet their customers' different needs. They benefit from specialist knowledge in order fulfillment and strong industrial-engineering teams. They're also better equipped to add scale.

By having a firm grip on the following ***five levers***, contract-logistics companies should find themselves in a good position to devise omnichannel-service offerings that best cater to the needs of their customers while having a positive effect on their top and bottom lines.

Warehouse automation

Many logistics players still operate predominantly manual warehouses, even though warehouse automation is essential to cost-efficiently meet increasingly exacting customer expectations around cutoff times. Automation is becoming even more critical, given e-commerce's wide range of SKUs and increased touchpoints.

Automation technologies vary and have different cost trade-offs between space efficiency and labor requirements. Naturally, choosing the right technology will depend on the type of product the contract-logistics company is handling—its size, fragility, and storage needs all factor in.

Contract-logistics players can consider partnering up with automation providers to develop customized blueprints to allow for flexible automation that can handle a variety of customer needs.

Over time, companies will build the necessary experience to plan and tailor their automation technologies according to strategic business decisions on customer segments and locations.

Contracting for high capital expenditures with volatile volumes

To meet customer demand, contract-logistics players could offer flexible contract structures that allow customers to adjust their storage capacity.

To balance out their risk/return profile, contract-logistics players can consider operating multiuser warehouses for smaller customers, which can then switch to a dedicated warehouse when volumes reach a critical mass over time.

Contract-logistics providers can also explore other solutions, such as investment co-sharing with their customers, automation provider, or other investors; process standardization to reduce automation complexity; longer contract periods; or structuring their pricing to allow for a greater share of investment recovery in the initial years.

Multi-customer networks

Multi-customer facilities can be a potential value proposition for contract-logistics players. However, logistics players may need to first invest in risky nodes without securing initial volume flows. They may also have to develop a flexible-footprint model where the size of the nodes can be adjusted as, and when, new customers join or leave the network.

IT integration and advanced data analytics

The challenge of IT integration grows as the number of warehouses and customers in the network becomes larger. At the most basic level, logistics players need to integrate three systems: the warehouse-management system; the transportation-management system; and the order-management system (OMS), which provides an interface for customers. Contract-logistics companies may either develop open APIs on their own platforms or actively integrate their services within external major enterprise-resource-planning (ERP) systems and e-commerce platforms, such as Shopify, Magento, and WooCommerce.

Having a modular approach for service offerings helps customers make decisions tailored to their specific needs. While larger customers tend to have a lot of order-routing logic in their own ERP systems and may want to plug in their own OMS, smaller customers often prefer the contract-logistics company's OMS to provide functionalities such as holding back orders or checking for the best fulfillment location.

Logistics players may also consider offering data-analytics products such as inventory and demand analytics to help their customers predict consumer-behavior trends based on the volume flows across the logistics company's network.

Last-mile delivery

Seamless integration with last-mile and inbound transport facilitates high-speed deliveries and smooth inventory flows. The closer the warehouse is located to sortation centers for last-mile deliveries, the later orders can be placed for next-day deliveries. While it may be tempting for contract-logistic companies to partner with last-mile players to place warehouses directly next to sortation hubs and share sorter capacity, many customers prefer choosing their couriers, so it may be more prudent to leave them with multiple carrier options.

If a warehouse enjoys large enough volume flows, providing direct "zone skip" injections to the destination terminal can shave off distribution time. In some regions, such as India, hyperlocal delivery riders on motorized bikes and small vans can also be an important partner for fast delivery and forward-stocking locations. Additionally, logistics players can advise retailers on how to leverage their logistics networks for fulfillment.

Getting a handle on these ***five levers*** is a complex, iterative process that calls for contract-logistics players to collaborate and experiment with customers, investors, and technology providers—often hyperlocally—over a significant period.

But the payoff is more than worth it. These levers are not only likely to help contract-logistics companies draw more value from the continued growth of omnichannel logistics but will also ***defend their market share*** in a crucial category.