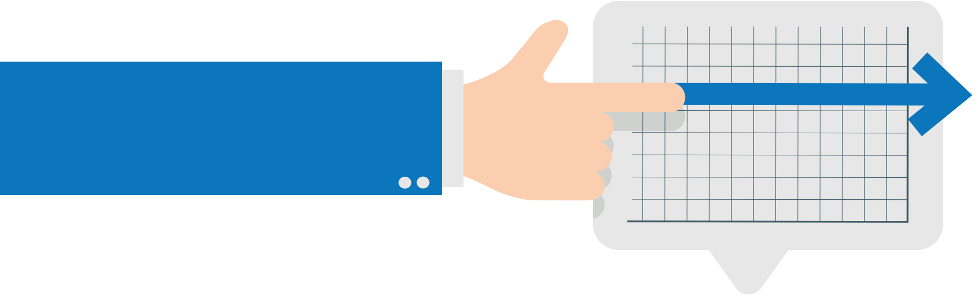
EasyMetrics

Three Silent Profit Killers in 3PL Operations

How to Fix Them to Boost Operating Margins by up to 3%



In 2024, the third-party logistics (3PL) industry generated $194B* in revenue, yet **40% of 3PLs saw no profit gains**, with 73% of executives citing **rising operational costs** as their top challenge.

Meanwhile, 74% of customers prioritize service over price, adding pressure to meet evolving demands. By addressing the three silent profit killers, 3PLs can **price competitively**, **reduce operational costs**, and **boost operating margins by up to 3%**.

Source: https://www.inboundlogistics.com/articles/2024-perspectives-3pl-market-research-report/

PROFIT KILLER #1

Cost Capture

3PL providers almost always pool labor costs, where costs are aggregated across customers. This makes it difficult to identify which accounts are breaking even or losing money. This cost aggregation complicates negotiation, as 3PL providers lack detailed cost data attributed to specific services or processes.

PROFIT KILLER #2

Order Mix, Types, and Seasonality

As customers change their requirements, the lack of cost transparency often results in providers charging the same rates for increasingly complex workflows. This issue becomes worse when operations fulfill orders for multiple customers at that same time, with the same labor. What results is a flurry of activity to meet SLAs without cost allocation apportioned to those activities. Costs get lumped together, perhaps on a daily basis, with no corresponding revenue increase where it is justified.

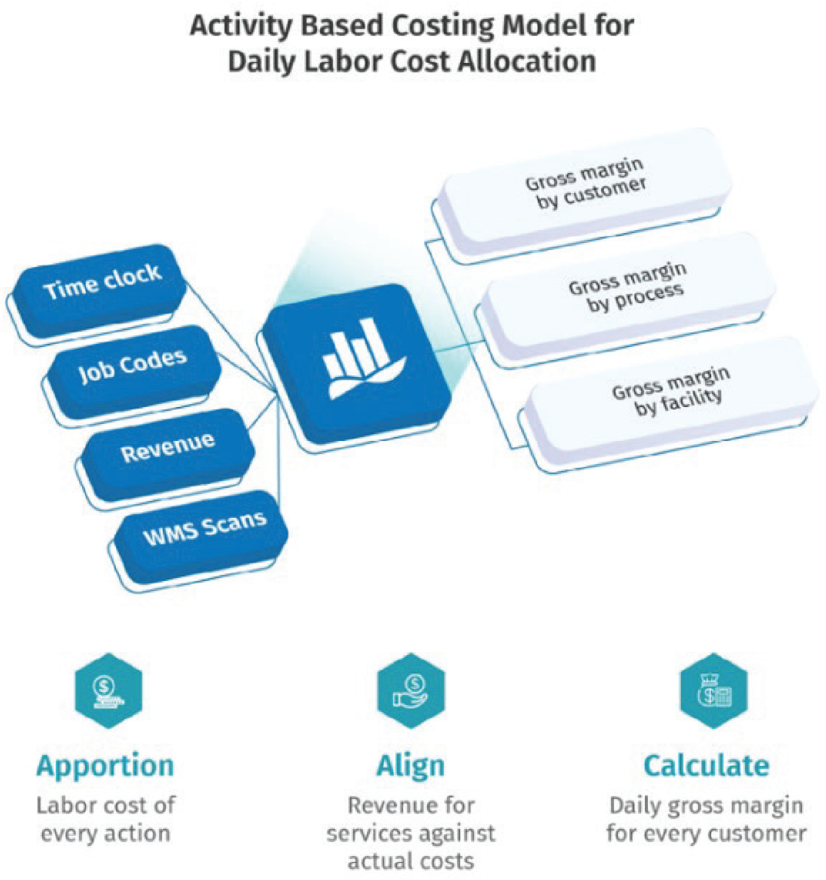
PROFIT KILLER #3

Rates

Many 3PL providers rely on rough estimates for their service rate cards, which can lead to mismatches between service costs and charges, eroding profit margins. Without precise end-of-day reporting, it becomes difficult for providers to assess operating margins or identify the sources of cost overruns promptly. This lack of visibility and data-driven insight limits the capacity for operations teams to assess what's going wrong and causing losses. This leaves 3PLs vulnerable to losses and reduces their ability to optimize operations for profitability. But it also hinders their ability to negotiate competitive and profitable rates, and adjust them over time.

How to Gain Control of the Silent Profit Killers

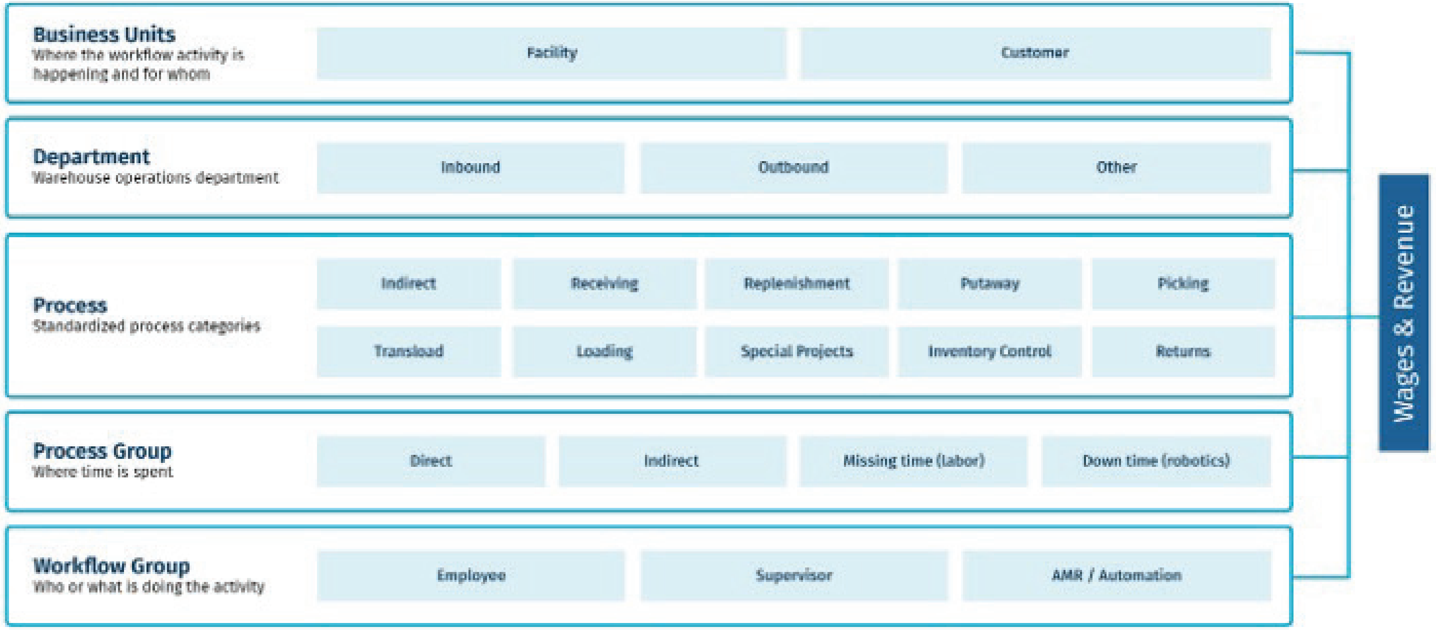
To regain control, 3PLs can implement an **automated activity-based costing model** that tracks labor costs for every action in their operation, **comparing them to the revenue** from each service. By breaking down costs by customer, facility, process, and employee, and comparing them to revenue in real time, they can uncover unprofitable workflows and can quickly make adjustments. This instant, detailed visibility also ensures pricing reflects the true cost to serve, empowering 3PLs to negotiate better rates and **boost operating margins by up to 3%** through better pricing strategies.



Why Traditional Approaches Fail to Address Silent Profit Killers

Spreadsheets were never meant to manage the complexities of 3PL operational financial metrics. The Warehouse Management System (WMS) and activity-based costing data necessary to perform these calculations would overwhelm spreadsheets. Siloed data and manual reporting processes – often taking 20 to 30 days for detailed operating margin analyses – slow down the 3PL's ability to react and improve, preventing real-time decision making that can drive profits.

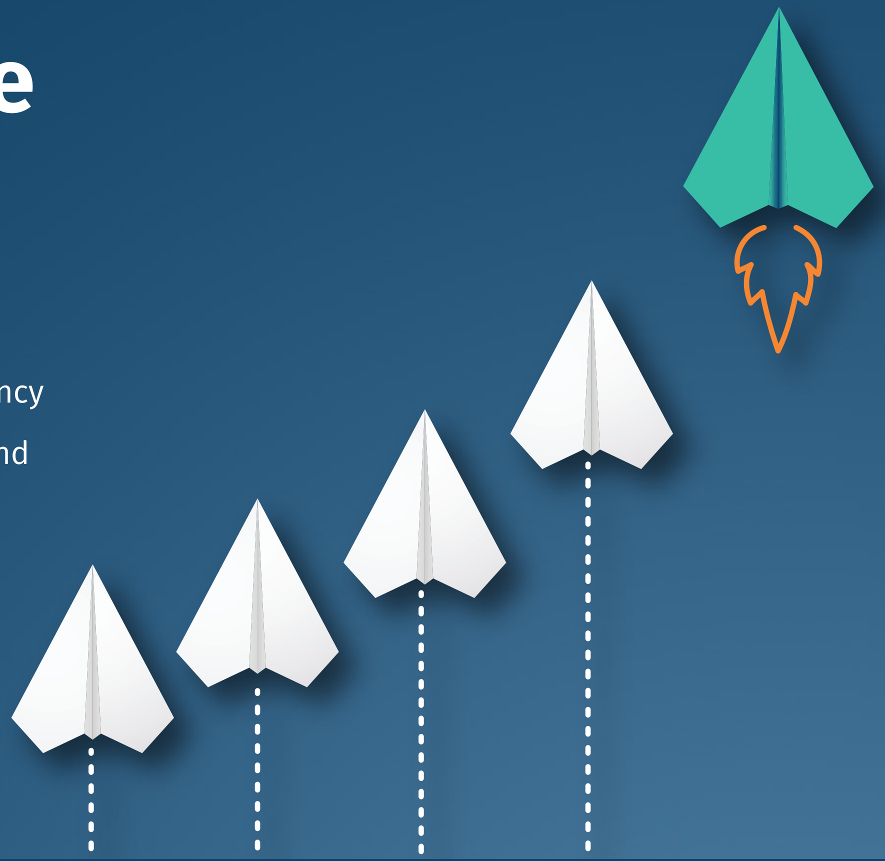
Automated Granularity: The Key to the Modern 3PL's Profitability



Warehouse performance management technology can now process vast amounts of data from multiple systems, automating the comparison of activity-based costs with revenue to provide **instant, granular profitability insights**. This allows 3PLs to assess profitability from many operational angles and uncover new opportunities to boost operating margins.

Gain a Competitive Advantage

In a competitive market with slim margins, 3PLs must optimize profits across every process, customer, and facility to stay ahead. Managing operating margins at a granular level allows 3PLs to identify unprofitable workflows, make targeted improvements, and price services more accurately. This accuracy ensures transparency in pricing discussions, building trust with customers, strengthening relationships, and fostering loyalty—all while driving long-term profitability and success.



EasyMetrics

Easy Metrics can help your 3PL eliminate the three silent profit killers and improve your current operating margins by up to 3%.

Request a demo today at EasyMetrics.com

"Easy Metrics is a very effective tool in managing the business day to day and enhancing our profitability as well as our customers'."

Val Ramroop
Vice President Operations, National Logistics Service (NLS)