Automating 3PL Profit Management

Expose daily service costs and gross margin to help maximize profit – for even the most complex 3PL environments

40% of Third-party logistics (3PL) providers did not see gains in profits in 2024, though industry revenue grew to $194B*. 73% of 3PL executives cite rising operational costs as their primary challenge. For shippers, 74% prioritize service over price. Logistics executives understand that paying slightly more for a 3PL with superior service can lead to long-term cost savings, as these providers help optimize supply chain management. This explains why nearly three-quarters of shippers continue to place greater value on service when partnering with 3PLs.

Part of providing excellent service as a 3PL is being able to meet ever-changing customer requirements - no matter how the product mix or volume changes. The dynamic nature of 3PL operations makes it even more challenging to understand the actual costs of those services.

Common challenges of 3PL profitability

Cost allocation - 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.

Cost transparency - As changes in customer requirements, order mix, order types, and seasonality occur, 3PLs lack the cost transparency of those impacts. Providers end up 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.

Rate card accuracy - Another significant challenge lies in maintaining accurate rate cards. 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 over-runs promptly. This lack of visibility and data-driven insight limits the capacity for operations teams to assess what's going wrong and causing losses. Is it productivity, a process, or the customer requirement? 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.

Why traditional approaches fail

Spreadsheets, the dominant tool for 3PL profit analysis, were never meant to handle the complexities of 3PL operations financial metrics. The WMS and activity based costing data necessary to perform these calculations would overwhelm spreadsheets. Data is siloed, processes are manual, and all of this slows down the 3PLs ability to react and improve, preventing real-time decision making that can drive profits.

What's needed is a **simplified and automated activity based costing model** which tracks every action in your operation, and the labor resources consumed by those actions, every day.

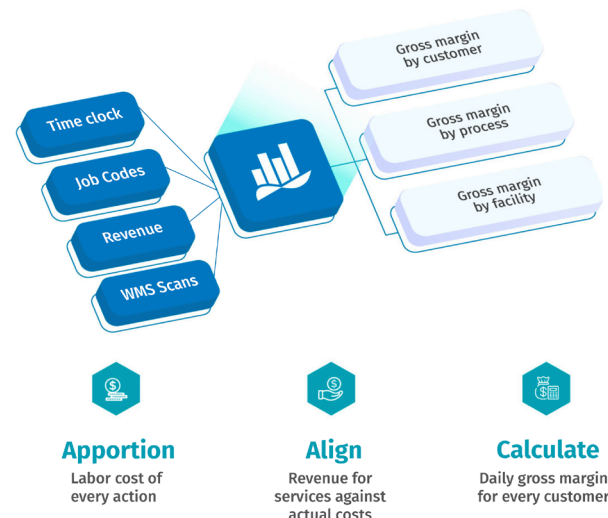# Gaining control with Easy Metrics Profit Management

Profit Management by Easy Metrics puts 3PLs in control of operational costs and profitability by customer. With it, operations leaders have daily visibility to maximize their operating margin. They can identify, drill down, and correct the issues causing operational cost overruns, in real time. With a powerful workflow cost allocation model, and ability to ingest the 3PL's revenue, invoices, or rate cards, operations leaders have visibility into the profitability of every step in their workflow.

This puts operations leaders in control of their financial performance, and equips them with the ability to have data-informed conversations with their cross functional leadership team, as well as customers.

Allocating costs across the network by customer, facility, process, and employees offers a range of strategic advantages for 3PLs. Teams can use the language of financial performance to motivate and align teammates, fostering a deeper understanding of how their work contributes directly to company success. This approach also improves communication between operations and finance and executive teams. With a common language of cost and value across the business, operations leadership can align with overall business goals.

By breaking down costs by customer, 3PLs can quickly identify and correct unprofitable processes that may be negatively impacting gross margins. This granularity also helps spot unprofitable customer requirements early, providing an opportunity to address them before they escalate. Armed with clear financial metrics specific to each customer, and across their network, 3PLs are also in a stronger position to negotiate rates, ensuring that pricing reflects the true cost of serving each customer, for every process.

Activity Based Costing Model for Daily Labor Cost Allocation

Apportion
Labor cost of every action

Align
Revenue for services against actual costs

Calculate
Daily gross margin for every customer

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> Ultimately, the data speaks for itself. We can actually tailor it to specific processes. If there are deviances, we can say to our clients, "this is what is attributing to your cost per unit."

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

How Easy Metrics Profit Management works

Easy Metrics Profit Management starts with raw data extracted from a company's WMS, job code tracking system, or Easy Metrics' JobTrak, and financial data from payroll, revenue, rate card or invoices. Easy Metrics maps the activity touch points to a workflow group, that represent who or what is doing the activity. From there, the data engine distributes the activity costs by process groups, process categories, individual processes, department, and business unit (facility and customer).
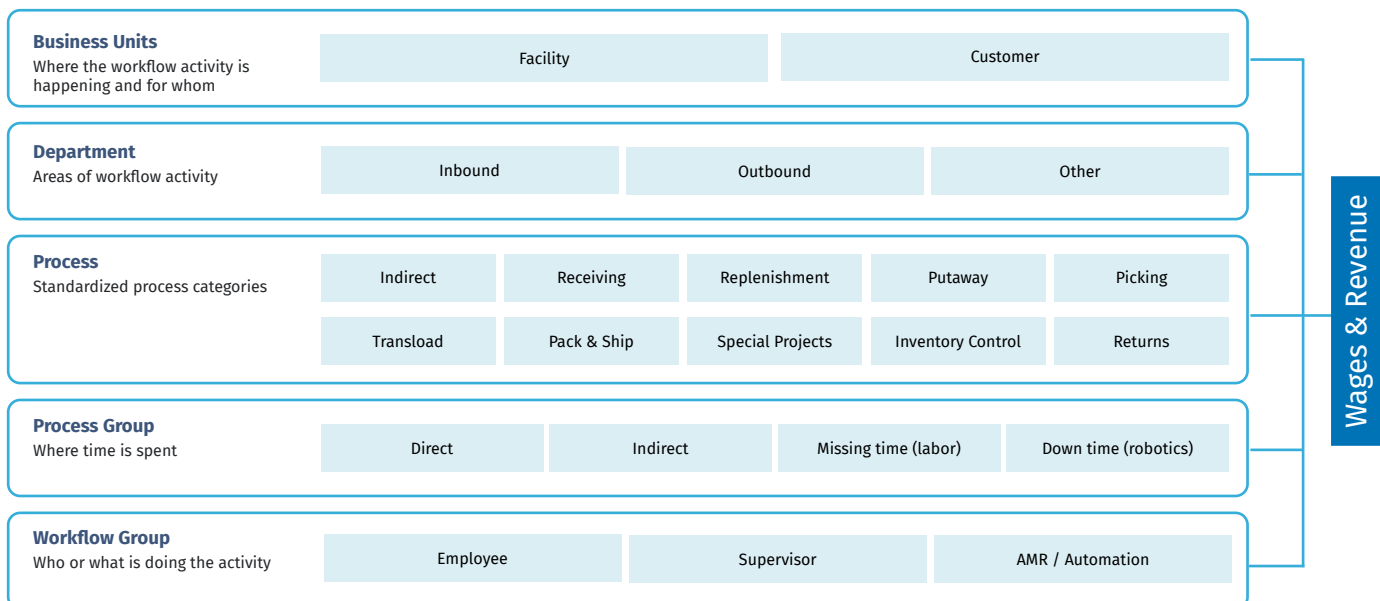
Easy Metrics simplifies the setup and data gathering with its Warehouse Performance Management Taxonomy of Operations Categories, a standardized taxonomy and pre-defined cost allocation method.

Wages are broken down into the activity that consumed the labor. Activity based costing apportions labor costs based on actual workflow activities. By starting with an operation organization's actual spend, and not assumptions or estimates, Easy Metrics captures hidden buckets of labor spend, like missing time and indirect. Easy Metrics intelligently break downs labor costs so they can be fairly allocated to the customers and processes that consume them. And because it captures and allocates workflow data and costs in real time, with rich self-serve analytics, operations teams can explore the data and discover insights on the fly.

What is Activity Based Costing?

In activity-based costing, costs are assigned to specific activities or products based on the actual resources they consume, which provides a more precise distribution of costs compared to spreading them evenly. Instead of distributing costs equally across all departments or products, ABC allocates costs based on actual usage, effort, or impact.

Warehouse Performance Management Taxonomy of Operations Categories

Business Units Where the workflow activity is happening and for whom	Facility			Customer	

Department Areas of workflow activity	Inbound		Outbound		Other

Process Standardized process categories	Indirect	Receiving	Replenishment	Putaway	Picking
	Transload	Pack & Ship	Special Projects	Inventory Control	Returns

Process Group Where time is spent	Direct	Indirect	Missing time (labor)	Down time (robotics)

Workflow Group Who or what is doing the activity	Employee	Supervisor	AMR / Automation

Wages & Revenue

Easy Metrics Profit Management flexibly connects revenue data, pairing costs on every action in their workflow to the rates they are charging for it. With apportioned costs by customer and process, and revenue in one place, operations teams have full financial visibility and the unparalleled ability to drill into the root cause when gross margin on one customer or process is astray. Unlike other tools that show end of month snapshots, Easy Metrics empowers operations leaders in real time, so they can address cost overruns before it's too late.

Deliver outcomes with Profit Management

3PL Operations leaders can maximize profitability by using Easy Metrics Profit Management to:

Understand labor cost and trends - What percentage of and how much labor spend is being consumed by customer

Accurately cost every process - Know what it costs to perform every process in your workflow, on a daily basis

Detect and correct root causes of missed KPIs - Expose where the issue is, in your processes, productivity, or workflow mix

Proactively manage labor spend to budget - See where your labor costs are accumulating in your operation

Price services accurately - Confidently bid on services, and monitor customer and process costs over time

Negotiate rates with data-backed facts - Whether bidding on new work, or re-negotiating rates, knowing the cost of every workflow action puts you in the driver's seat

Proactively manage productivity to KPIs - Account for variances in workflow difficulty by order mix, customer, and process

	Without Profit Mangement	With Easy Metrics Profit Management
Pooled costs	Your costs are lumped together across all your customers, so you can't see which ones are break even or unprofitable.	Your costs are broken out by facility, customer, and process so you can measure profitability every day.
Negotiation	You need scalpel precision to negotiate with your customers but don't have the cost data attributed to individual services or processes.	You know exactly what it costs to meet customer requirements by service or process.
Bill rates	Your customers change their product mix or other requirements, but you are still charging the same - even though it's costing you more.	You know the cost impact of customer workflow changes, that same day, and over time.
Cost allocation by customer	You try to allocate costs by customer, but end of the month reporting is too late to take action on too-high costs.	You have real-time visibility into the actual service cost of each customer, and the ability to take immediate action on issues as they arise.
Cost allocation by process	You have high level visibility into your overall labor costs by customer, but lack the ability to see the true cost of performing each process.	You have real-time visibility of service costs down to the process level, and you know your exact costs for each customer by process.
Customer requirements	You have a hunch that labor costs for a customer are more than you are charging them, but have no way to match costs to revenue.	You confidently know when workflow by customer is profitable, and which customers should be re-priced.
Rate card accuracy	Your rate cards for services are not aligned with actual costs to perform those services - it's a best guess.	Your rate cards are both competitive and profitable to your business. Your competition might take on unprofitable work, but you won't.
Daily profit analysis	You lack the business visibility to report end of day profits & losses, and to find out what is causing negative or too-low operating margins.	You identify the cause of, and fix, too-high labor costs before it's too late.

How Easy Metrics delivers transparency to maximize profitability

Gross margin by customer

Matches direct and indirect labor costs to revenue on customer specific workflows. Expose labor cost by customer, gross margin by customer and gross margin %.

What you can do with it:

▶ Identify which customers have too-low gross margins and/or a high labor costs as compared to other customers you serve

▶ Drill down to department, process, and employee to compare revenue, labor cost, gross margin, and productivity %

Gross margin by process

Matches direct and indirect labor costs to revenue by process in your network. Expose processes that are inefficient or under-priced.

What you can do with it:

▶ Understand the actual cost to perform every process in your operation, and set rates accordingly

▶ Flag processes where labor costs are too high compared to what you are charging

▶ Drill down into individual processes to find out what is causing negative or too-low gross margins, such as: travel distance per pallet, feet traveled per unit, weight, order mix, or excessive overtime costs

▶ Identify when a process changed and how the labor cost was impacted

Gross margin by facility

Matches direct and indirect labor costs to revenue by facility in your network. Expose facilities that are operating unprofitably.

What you can do with it:

▶ Identify which facilities have too-low gross margins and/or high labor costs as compared to other facilities in your network

▶ Drill down to individual facilities by customer, department, process, and employee to compare revenue, labor cost, gross margin, and productivity %

Customer gross margin across facilities

Matches direct and indirect labor costs to revenue on customer specific workflows. Compare profitability on a single customer served across multiple facilities.

What you can do with it:

▶ Understand the actual cost to perform every process in your operation, and set rates accordingly

▶ Benchmark profitability on a single customer across facilities, and flag facilities with too-low gross margin on a customer account

▶ Drill in for root-cause analysis to discover why profitability is too low or negative – such as a specific process

▶ Drill in further to assess product mix difficulty or productivity, and whether your pricing is reflecting real world scenarios

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Easy Metrics is a very effective tool in managing the business day to day and enhancing our profitability as well as our customers'. I can look at my profitability by customer. I can look at it by building. I can look at it by process. I can do the drill down. I can see what my revenue is. I can see what my labor is. Essentially, it's my one stop for P&L, even within a process now.

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

Do you have real-time visibility into customer and process costs?

Great 3PL leaders understand the role of metrics in making good business decisions. Automate your 3PL workflow cost and performance with Easy Metrics.

▶ A labor analytics platform that aligns workflow costs to revenue

▶ Advanced labor cost allocation model, designed for 3PLs and networks

▶ One unified platform across your organization

▶ Data from multiple sources normalized, merged, and transformed

▶ Daily visibility from a secure cloud native application, part of Easy Metrics OpsFM platform

Request a demo at
https://easymetrics.com
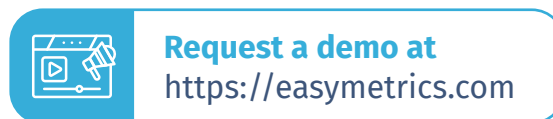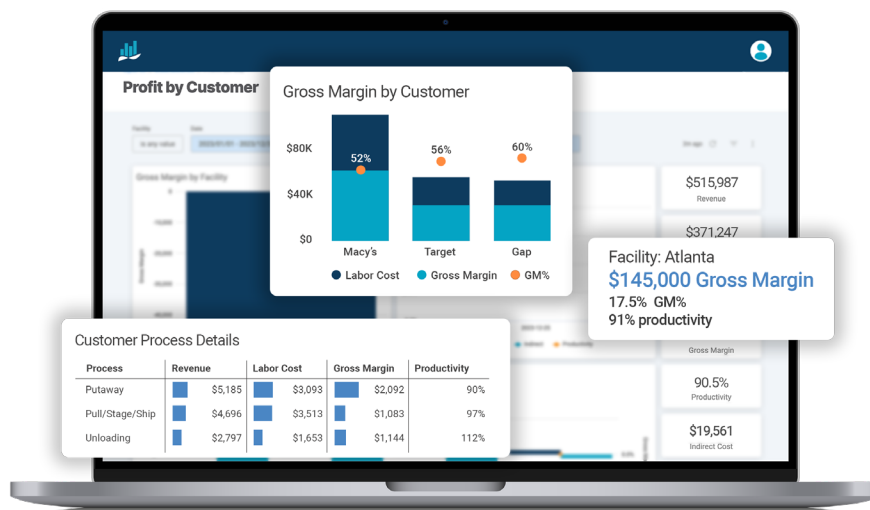
About Easy Metrics

Easy Metrics fuels operational excellence in distribution operations.

Operations and finance leaders use Easy Metrics to measure the performance and business impact of their warehouse network. Easy Metrics' predictive analytics and machine learning-driven labor standards enable operations to analyze, plan, and forecast so they can drive operational speed and efficiency, price their products and services profitably, and drive a positive teammate experience.

With Easy Metrics, they translate raw operations data from multiple data sources into their costs by: activity, process, facility, people, and equipment. They use actionable reports across their network to optimize labor spend, cut waste, plan facility investments, and drive labor strategies that ultimately fuel the growth of their business.