THE EVOLUTION OF THE WAREHOUSE SERVICES PROVIDER

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The outsourcing of warehouse logistics services is not a new concept by any means. Although it has become more sophisticated and gained renewed emphasis over the past several years, the practice can be traced back almost as far as one would care to research it. In Europe, a number of warehouse service providers can trace their origins back to the Middle Ages. The first commercial warehouses were built in Venice, Italy, in the 14^{th} century. Merchants from across Europe used them as collection and distribution points for their ocean shipments.

In the U.S. the use of public warehouses has been common for years, but in the 1950's and 1960's, warehousing began to be recognized as an important part of the product distribution process. The relationships were primarily transactional and typically short term in nature. There were some long-term contracts involving large companies such as Dupont and Quaker Oats, but they were the exception rather than the rule. Most warehousing agreements were standard thirty-day contracts, although they were often renewed for continuing periods of time. Most of the warehouse companies were private, family owned businesses, and their facilities were relatively small compared to those of today. The majority of the firms operated in only one city. As the idea of using these warehouses for product distribution centers, rather than storage facilities began to take hold, some became integral parts of user distribution systems, particularly in the consumer goods industry. Contracts became longer to ensure continuity for both parties, and users began to request expanded or new facilities to meet their distribution needs.

Although a few companies had tried to become one, there were no national providers at the time. Those companies that attempted to establish a national presence failed for a number of reasons. For at least one of them, the focus was more on real estate than product handling and customer service. Several dozen identical warehouse facilities were built across the country, but they were often staffed with inexperienced or even incapable managers. The company learned the hard way that the "field of dreams" philosophy of "Build a warehouse and they will come" did not work in the logistics industry. Others found that the customer service requirements of a product distribution center were simply beyond their reach.

When a user wanted to expand into another city, often they would assist one of their current providers in establishing a new facility in that area. This enabled the user to minimize the learning curve and avoid many of the startup problems.

Client Relationships

It was not always easy for traditional warehouse company management to adapt to the product distribution, customer service mindset, and user firms managed them tightly. Since widespread computer use was still a few years away, clients provided detailed manuals of instructions for administrative and product handling functions. They provided the necessary forms for order processing, product loading, and bills of lading, and usually placed a communications terminal in the warehouse office to receive customer orders and transmit messages. It was not uncommon for a warehouse company to have six or eight terminals in its office – one for each of its distribution customers. While the companies were expected to perform according to standards and expectations, for the most part they were not challenged to take more proactive steps.

Innovations

Notwithstanding this user management style, the better warehouse companies often did contribute new ideas, and over the years made significant contributions to the product distribution process. For example, the first consolidation program in the consumer goods industry was started in the late 1950’s by Service Warehouse Corporation in Huntington, West Virginia. Consolidating the products of several of its clients into one large shipment greatly reduced freight costs and improved customer service dramatically. With no computer capability, the process was done manually, but quite efficiently. Several other companies, some using the Service Warehouse system, adopted similar programs and were equally successful. At the time many consumer goods still moved in rail boxcars, and consolidation arrangements resulted in significant improvements in both cost and service. Prior to the deregulation of transportation in 1980, customer savings were considerably greater than similar programs produce now.

In the 1980’s Trammel Crow Distribution, a regional logistics service provider, established a major packaging operation in Houston. There they received shipments of plastic resins from major chemical firms and packaging them for export to Asia where they were used in the manufacture of such products as cameras and electronics. To facilitate handling and relationships in Asia, Trammel Crow Distribution established a facility in Hong Kong, the first U.S. provider to do so.

In the late 1980's, GENCO established a process for the handling of returned merchandise. Up until then, virtually all companies handled their own returns which required a significant amount of time and resources, and interfered with their forward distribution activity. They simply were not equipped to efficiently handle these disruptions to their systems, and many quickly embraced the GENCO system. GENCO continued to improve its systems and processes and became the premier firm in what we now call reverse logistics. With the increase in electronic commerce, the return of goods has increased as well, and their handling has become even more problematic. One third of the goods purchased on line are returned. Recognizing the importance of this activity, FedEx purchased GENCO in 2016, and has continued to expand this capability.

There were other operating innovations as well, and the logistics service providers have been major contributors to logistics efficiencies.

Technology

While the explosion of technology in recent years is well known, several warehouse companies were also pioneers in this area. While there are literally hundreds of warehouse management systems in use today, most were developed in the past fifteen to twenty years. In the 1970's however, Craig Hall designed a warehouse management system for his father's warehouse company, now part of Lean Logistics. He continued to improve this system and began to market it in the 1980's.

The Worley Companies in Cedar Rapids, Iowa, long ago developed an in-house warehouse management which is still in use today. There are other examples, and today some providers still use enhanced versions of their own systems, rather than those marketed by various software companies.

GENCO found that the only efficient wat to handle product returns was with good technology. Since none was available, they developed their own. These systems were expanded to assist in managing not only the returns, but the reconditioning and disposal of products, customer credits, and re-sale, if appropriate.

There are other examples of provider developed technology, but suffice to say that the logistics service providers have made important contribution to warehouse management technology and did so when they did not have the technological capability we have today.

Role of the Provider

While the outsourcing arrangements of the early years were considered to be partnerships, with few exceptions, the warehouse service provider was more akin to a junior partner. A number of the small, privately owned businesses were able to grow and prosper however, often expanding into other cities, and attracting other clients due to the success with their lead clients. Some are still in business today, either independently or as part of a larger provider.

Over the years, the role of the provider has changed dramatically. Users no longer want to micro-manage these operations, but expect them to be professional, knowledgeable, and proactive. Forty or fifty years ago, users simply outsourced their own techniques and processes, assuming they knew more about managing their account than the provider did. If there were inherent problems in the process (as there often were), they were passed on to the provider. Today, the warehouse company is expected to be a full partner; and is being asked to provide ideas and solutions, not just follow instructions. What we have in the warehouse industry today are sophisticated distribution experts that often understand the process better than their clients. They are expected to provide the necessary technology and have a problem-solving expertise. Above all, they must add value to the product distribution functions of their clients.

The Provider of the 2000s

As mentioned earlier, some of the smaller providers have been quite successful; but today, the industry is dominated by large regional and national firms. Their advantage is the portfolio of resources that allows them to provide the service their clients demand. Most of the improvements that have been made in product distribution have resulted from advances in technology, which can sometimes be beyond the reach of a small company.

Today's distribution center is larger, has more efficient handling equipment, and is staffed by knowledgeable personnel. It is operating in a much more difficult environment, however. Users are more demanding. They expect the provider to have necessary technology, as well as attitudes biased toward sustainability, security, and exceptional customer service. But that is just the price of admission. Beyond that, the user also wants problem solving assistance and a true collaborative process. The industry is changing rapidly, and client demands are changing just as fast. As we learn to live with more innovation and rapidly increasing technological developments, outsourcing firms will expect more from their providers than they have in the past. Those that can meet these expectations will prosper. Those that are unable to will not. Despite these advances in the distribution center industry. one important attribute of this business has not changed. The successful distribution of product still is dependent on relationships. While technology is critical to supply chain management, in the final analysis, our focus should be on the fact that the objective of the entire process is to please the customers, whether they be the provider's clients or the ultimate consumers of the product.

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