



The State of Logistics Outsourcing
2009 third-party logistics

results and findings of the 14th annual study



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supporting organizations





Executive Summary

The State of Logistics Outsourcing in 2009

This report presents findings from the *2009 Fourteenth Annual Third-Party Logistics Study*, conducted in mid-2009. This study examines the state of the global market for 3PL services and explores key issues affecting the industry: economic volatility, the IT capability gap and the challenges of supply chain orchestration.

Each year in this report, shippers describe their 3PL relationships as successful, reporting cost, fixed asset and inventory reductions due to use of 3PLs, and measurable impacts on order cycle time, order fill rate, and order accuracy. This year, for the first time 3PLs were invited to share their perspectives on the issues impacting 3PL relationships. Perhaps not surprisingly, throughout the results their ratings for 3PL-shipper relationships were somewhat more positive than those reported by shippers.

Shippers and 3PL respondents agree that key factors responsible for the success of their relationships include: openness, transparency and good communication; the ability to create personal relationships on an operational level; the flexibility of 3PLs to accommodate customers' needs; and the ability to achieve cost and service objectives. Shipper respondents devote on average 47% (in North America) to 66% (in Europe) of their total logistics expenditures to outsourcing, and all geographies anticipate increases in these percentages in the next five years.

As revealed in past studies, shipper respondents most frequently outsource logistics activities that are more transactional, operational and repetitive, and less frequently those that are more strategic, customer-facing and IT-intensive. However, shipper respondents suggest that in the future they may be more receptive to outsourcing strategic services that may be available from 3PLs. As revealed in later chapters, the economic downturn is serving as impetus

for shippers to reconsider the roles their 3PLs play in helping them make decisions about their supply chain networks.

As this study has reported since 2002, a discernable gap persists between the importance shipper respondents attach to 3PLs' IT-based services and their satisfaction with those services. Other problems shippers cite with 3PL services include a lack of continuous, ongoing improvements and achievements in service offerings and unrealized service level commitments (both 46%).

Economic Volatility

The economic downturn has challenged shippers to contend with factors such as unpredictable demand, volatility in fuel costs and currency valuation, and excess inventory.

To overcome these obstacles in the near-term, shipper respondents are employing tactics such as cutting operating costs (82%) and improving forecasting and inventory management (77%). But they're also using the downturn as an opportunity to assess their supply chains' strengths and weaknesses and make changes designed to increase agility, be more responsive and reduce costs. Strategies here include network redesign and creative collaboration with trading partners and even competitors.

Those strategies most likely to increase shipper respondents' use of 3PLs include converting fixed to variable costs (59%), expanding to new markets or offering new products (56%) and restructuring the supply chain network to improve financial performance (48%). In Accelerated Solutions Environment® (ASE) workshops (For more information please see *About the Study* on page 40.) held with shippers to discuss the results, participants suggested that 3PLs could weather the storm using steps such as sharing assets across multiple customers to reduce risk and providing inventory financing to shippers.



ASE participants as well as executives interviewed for the study recommend that while taking steps to survive the storm, shippers should also embrace the opportunity to take a creative approach to rethinking their supply chains, including the role 3PLs can play in attaining business goals.

The IT Capability Gap

This study has consistently reported a gap between shippers' expectations for 3PLs' IT capabilities and their satisfaction with those capabilities. A deep dive into these results reveals several contributing factors. According to ASE participants, shippers and 3PLs seek IT that is responsive, delivers valued information such as inventory visibility, leverages existing investments, and allows for innovation. But considerable investment in functionally siloed, legacy systems stands in the way. Lack of internal IT integration within 3PLs leads the list of shipper respondent complaints (55%) with 3PL IT. Current methods to attain required data, such as EDI, are not fully delivering on their potential due to widespread use of manual practices and variations on the standards.

As a result of these IT challenges, shipper respondents say they lack the KPIs, alerts and visibility required to run adaptive supply chains. 3PLs, in the meantime, face similar difficulties in getting the data and commitment they need from shippers. Number one on their wish lists is real-time interfaces to shipper order management systems (63%), followed by timely demand forecasts (54%). Issues of trust and risk impede progress; 3PLs hesitate to devote resources to a shipper who may not stay, while shippers avoid becoming too invested in one provider; both fear sharing data will cost them control.

But ASE and focus interview executives posit that many of these issues can be surmounted through investment in a global cross-industry IT platform that allows for functional flexibility while preserving existing IT investments and limiting costs.

Supply Chain Orchestration

Changing global market conditions such as a reversal in the decline of inventory as a percentage of US gross domestic product, rising labor costs in previously low-cost countries and fuel and currency volatility were already challenging the notion of long, thin supply chains. Then slumping economies turned up the pressure. Now, nearly 60% of shipper respondents agree that current conditions are serving as an inflection point to rethink their supply chains as well as their relationships with 3PLs.

Total landed cost reporting and analysis (64%) leads the list of critical capabilities shipper respondents would like their 3PLs to have in order to attain more strategic relationships, followed by deep business process and IT expertise (60%). Fully 75% of shipper respondents agree that more strategic 3PL relationships would help them reduce their total landed and distributed costs. But there are additional capabilities required on both sides to fulfill this vision.

In addition to seeing 3PLs invest in enhancing IT, shippers want them to build up their vertical and regional market expertise and better understand their particular businesses. But shippers have their own work to do to attain the deeper 3PL relationships that can deliver the benefits they anticipate. Shipper respondents acknowledge that they need to be more forthcoming with plans and data (58%) and be willing to team with 3PLs to reengineer business processes (66%). Steps to change include getting organizational buy-in, establishing better collaborative methods, investing in open platforms and beginning to collect the data required to calculate metrics such as total landed costs.

Strategic Assessment

The world experienced exceptional global conditions over the past two decades, a time of rapid economic expansion which gave rise to the third party logistics industry. We are unlikely to again see the confluence of rapidly multiplying global manufacturing capacity, free trade agreements, ready access to credit, and enhanced IT capability. As a result, shippers and 3PLs alike must rethink their supply chains and the ways they go to market.

3PLs would like shippers to view them as strategic partners in this effort, but the results of this year's research show that many shippers don't think of 3PLs in a strategic capacity; 40% of shippers surveyed want their 3PLs to remain execution-focused, and nearly as many say 3PLs lack the business expertise that would encourage them to increase outsourcing. The IT capability gap, as well as issues of trust and risk, also impede more strategic relationships.

As mentioned, the majority of shipper respondents are viewing this as a good time to re-evaluate relationships with their 3PLs and possibly drive them deeper. Newer concepts and technologies are emerging to help both 3PLs and shippers cope with this new, slower-growth world, including horizontal collaboration, new business and resource-sharing models and more open, standardized IT platforms. By overcoming current limitations and being open to change, 3PLs and shippers can help each other weather the current economic storm and be prepared for tomorrow's volatility.





Current State of the 3PL Market

3PLs and Shippers Bring Different Perspectives to Ongoing Issues

The findings of the *2009 14th Annual Third Party Logistics Study* again confirm that companies across industries and around the globe regard logistics and supply chain management as key components of their overall business success. Many users feel their relationships with 3PLs have helped them achieve critical goals related to service, cost, and customer satisfaction.

These results are based on a survey of supply chain executives conducted in the spring and summer of 2009. Also, for the first time in the history of the study, the scope was expanded to include the perspectives of 3PL providers (referred to as 3PL respondents throughout the text), in addition to 3PL users (called shipper respondents for the purposes of this report) and non-users. Please see *About the Study* on page 40 for more information about survey responses and the three streams of research used to fully analyze the state of the 3PL market: a web-based survey, workshops leveraging survey contents and Capgemini's Accelerated Solutions Environment® (ASE), and focus interviews with industry executives.

Economic Volatility and the Use of 3PLs

Shipper-3PL relationships are being impacted significantly by the prevailing uncertainty and economic volatility impacting global markets. One major purpose of the *2009 3PL Study* is to better understand how 3PL users and providers are adapting to these conditions and striving to improve their relationships. Consequently, this issue has been identified as one of this year's special topics, along with the need to better understand how to close the gap between user and provider perspectives on the IT services provided by 3PLs, and on the need for improved orchestration of supply chain activities and processes – many of which involve 3PLs.

“It is very important for us to mitigate or reduce any adverse service level impacts or financial risks that result from the current economic environment,” concurs Mark Holifield, Senior Vice President of Supply Chain Management at The Home Depot. “Although supply chain and logistics management are areas of core competency for our company, there are selected instances where the use of 3PLs may be a wise business decision.”

3PLs' Role in Logistics Success

Apart from a one-point rise in Europe (88%), the percentages of shipper respondents reporting that logistics represents a strategic, competitive advantage for their companies are down slightly from the *2008 3PL Study*: the average for North America fell from 87% to 84%; Asia Pacific 90% to 88%, and Latin America from 97% to 90%. Interestingly, from the 3PL respondent perspective, 94% feel that logistics represents a strategic, competitive advantage for their respective customers.

This finding is consistent with a gap evident throughout the study results between the ratings shipper respondents assign to various aspects of the 3PL provider-customer relationship and a somewhat more positive evaluation by the 3PL respondents themselves. For example, 50% of shipper respondents agree that 3PLs provide them with new and innovative ways to improve logistics effectiveness, while 82% of the 3PL respondents feel they provide services of this nature.

Similarly, 59% of shipper respondents feel their use of 3PLs has a positive impact on service to their customers, while 88% of the 3PL respondents feel this way about their customers' businesses, and 79% of shipper respondents state that 3PLs provide operational flexibility, compared with 89% of the 3PL respondents who participated.

Both shippers and 3PLs view their relationships as successful. As indicated in **Figure 1**, 89% of shipper respondents rate their relationships as extremely or

FIGURE 1:
Shippers and 3PLs Have Similar Evaluations of the Success of their Relationships

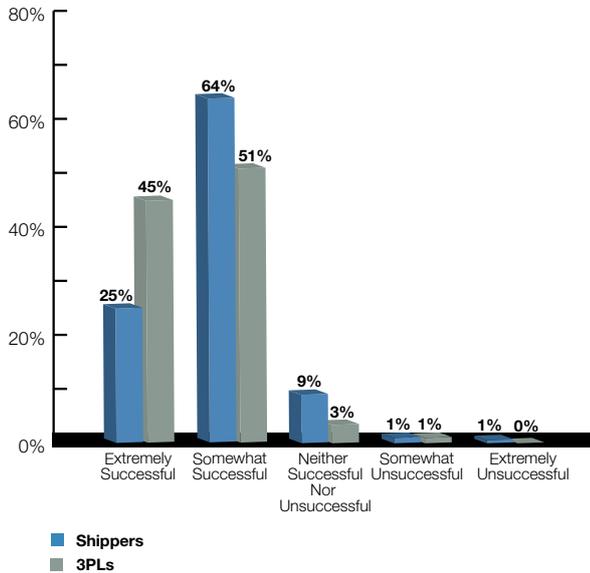


FIGURE 2:
A Number of Factors Contribute to Successful Shipper Experience with 3PLs

Factors	Percentages	
	Reported by Shippers	Reported by 3PLs
Openness, Transparency, and Good Communication	74%	77%
Personal Relationships on an Operational Level	65	72
Flexibility of 3PL to Accommodate Our/Customers' Needs	64	65
Effective Partnering and Collaboration between Customer and 3PL	61	72
Achieving Target Cost Reductions	54	58
Achieving Improvements in Service Levels	54	71
Peer-to-Peer Relationship on Executive Level Providing Guidance and Sponsorship	44	51
The Capability of the 3PL/Customer to Provide Valuable Ideas for Supply Chain Improvement and Innovation	35	57
Willingness of 3PL/Customers to Share Risk	30	25
Financial Arrangement for Compensating the 3PL/ Being Compensated by Customers	15	19

somewhat successful, while the parallel figure for the 3PL respondents is 96%. Consistent with the other ratings, far more 3PL respondents termed the relationships extremely successful (45%) than did shipper respondents (25%). Success ratings as reported by shipper respondents tend to be highest for Asia Pacific (94%) and lowest for Latin America (81%), with North America (84%) and Europe (85%) in-between.

Figure 2 details the factors that contribute to successful shipper experiences with 3PLs. Survey findings suggest that the following three elements make for the most optimal 3PL-shipper relationships.

- Openness, transparency and good communication: 74% of shipper respondents and 77% of 3PL respondents identify this factor as contributing to successful shipper experiences with 3PLs. Particularly in light of the unprecedented, adverse economic conditions that currently prevail, it is of crucial importance for 3PLs and customers to help achieve a level of proficiency toward these objectives.
- Personal relationships on an operational level: This factor, agreed to by 65% of shipper respondents and 72% of 3PL respondents, suggests that 3PL-shipper relationships are best served when members of both organizations develop personal relationships to enhance the people, process, and technology attributes needed for successful collaboration. The 2009 study also provides validation that effective partnering and collaboration, as well as peer-to-peer relationships on an executive level to help provide guidance and sponsorship, are viewed by both 3PLs and shippers as being an important ingredient of success.
- Flexibility of the 3PL to accommodate shippers' needs and the ability to achieve cost and service objectives: Of great significance is the ability for 3PLs to achieve the goals and objectives that (hopefully) are agreed-to in advance with their customers. Shipper respondents and 3PL respondents rank these similarly, however, there seems to be slightly more agreement by both parties on the importance of cost reductions than on service improvement. As one ASE participant put it, "While all parties agree that strategic thinking is the way forward, everyone seems to focus more on today's costs."

Looking at Figure 2, it is interesting to see that 35% of shipper respondents and 57% of 3PL respondents agree that the success factors include the capability of the 3PL/ customer to provide valuable ideas for supply chain improvement and innovation. The fact that a greater percentage of 3PLs rate this as a success factor than do

"It is very important for us to mitigate or reduce any adverse service level impacts or financial risks that result from the current economic environment," concurs Mark Holfield, Senior Vice President of Supply Chain Management at The Home Depot. "Although supply chain and logistics management are areas of core competency for our company, there are selected instances where the use of 3PLs may be a wise business decision."



FIGURE 3:
Shippers Report Measurable Benefits from Use of 3PL Services

Results		All Regions
Logistics Cost Reduction (%)		12.3%
Logistics Fixed Asset Reduction (%)		23.4
Inventory Cost Reduction (%)		8.6
Order Cycle Time	Changed From	10.2 days
	Changed To	9.8 days
Order Fill Rate (%)	Changed From	86.0
	Changed To	92.7
Order Accuracy (%)	Changed From	90.4
	Changed To	95.3

FIGURE 4:
Shippers and 3PLs Report a Number of Continuing Problems with 3PL Services

Problems	Percentages	
	Reported by Shippers	Reported by 3PLs
Lack of Continuous, Ongoing Improvements and Achievements in Offerings	46%	19%
Service Level Commitments Not Realized	46	31
Information Technology Capabilities Not Sufficient	43	31
Cost Reductions Not Realized	36	34
Lack of Project Management Skills	35	17
Unsatisfactory Transition During Implementation Stage	31	25
Lack of Global Capabilities	30	21
Benefits Not Achieved in a Timely Manner	25	18
Promising Premium Services that they Do Not Have	25	Not asked
Lack of Business Process Integration Across Regions and Supply Chain Services	26	26
Lack of Industry-Specific Knowledge	20	11
Inability to Form Meaningful and Trusting Relationships	12	13

shippers should not come as a surprise. Depending upon the structure and objectives of the 3PL relationship, sometimes the focus is more on execution than on strategy, and so it is understandable that some shippers may not rely on their 3PLs for valuable ideas for supply chain improvement and innovation.

Other shippers, however, view their 3PLs as a valid source of useful information relating to supply chain improvement and innovation. Foster’s Wine Estates Americas, for example, includes continuous improvement in its 3PL contract, asking the provider to identify best practices in warehousing and transportation each year; savings are shared between the 3PL and Foster’s.

Interestingly, relatively small percentages of shipper respondents (30%) and 3PL respondents (25%) think of the willingness of 3PLs and shippers to share risk as a success factor. However, several of the thought leaders interviewed and industry executives participating in the workshops and ASE sessions held as part of the research effort view the willingness to share risk as an important attribute of a successful relationship, even given the state of the global economy.

“For a 3PL to be part of a business, they need to understand the entire business, not just logistics,” says one participant in the Singapore workshop. “It is also important for 3PLs to share in the customer’s risks and to think like the customer about the customer’s business.”

Measurable Benefits from Use of 3PL Services

As seen in **Figure 3**, shipper respondents report measurable benefits from 3PL services. Metrics relating to logistics cost reductions and to logistics fixed asset reductions are consistent with those reported in previous years, except that the 2009 results tend to be slightly lower than in 2008. This year, we also asked shipper respondents to indicate any inventory cost reductions they experience; users report an average 8.6% decrease due to use of 3PLs.

“In today’s environment, it’s all about money,” says Woody Blaylock, VP of Information Services for Saddle Creek, a 3PL. “If we can show potential customers ways we can save them money, those are the bids we are winning.”

We also asked shipper respondents about changes in order cycle time, order fill rate, and order accuracy resulting from use of 3PLs. Users report improvements in all of these metrics, although the absolute improvement in order cycle time (10.2 days to 9.8 days), was more modest than figures recorded in other years.

3PL-Shipper Relationships: Opportunities for Improvement

Each year we investigate problems, or opportunities for improvement, cited by shippers using 3PLs. With the inclusion of 3PLs in this year's study, we have the opportunity to compare shipper respondents' reports of problems with the 3PL respondents' perceptions of the same set of potential problems. Looking at **Figure 4**, it is readily apparent that in almost all cases shippers tend to report a higher incidence of problems than do 3PLs.

For example, looking at the first item in Figure 4, 46% of shipper respondents report problems with a lack of continuous, ongoing improvements and achievements in offerings. This is cited by only 19% of 3PL respondents. Less dramatic, but still notable, gaps are apparent when looking at service level commitments not realized and IT capabilities not sufficient.

Of course, problems occur on both sides of the relationship. One ASE participant related the story of a 3PL customer dissatisfied because the 3PL was not providing expected information. After some investigation, it was revealed that the customer's own IT department had stopped sending the pertinent data to the 3PL, unbeknownst to the logistics department. The 3PL was being held accountable, but the problem was really a customer failure.

Other performance issues of significance include: cost reductions not realized; lack of project management skills and unsatisfactory transition during implementation stage; and lack of global capabilities. The problem of 3PLs promising premium services they do not have is cited by 25% of the shipper respondents, but no parallel question was designed for the 3PL respondents.

Essentially, the list of problems identified in Figure 4 represents a "to do" list not only for 3PLs, but for shippers as well. The first step toward improvement should be for both parties in any relationship to caucus to make sure they are measuring the same set of key performance indicators (KPIs) and using identical measurement strategies.

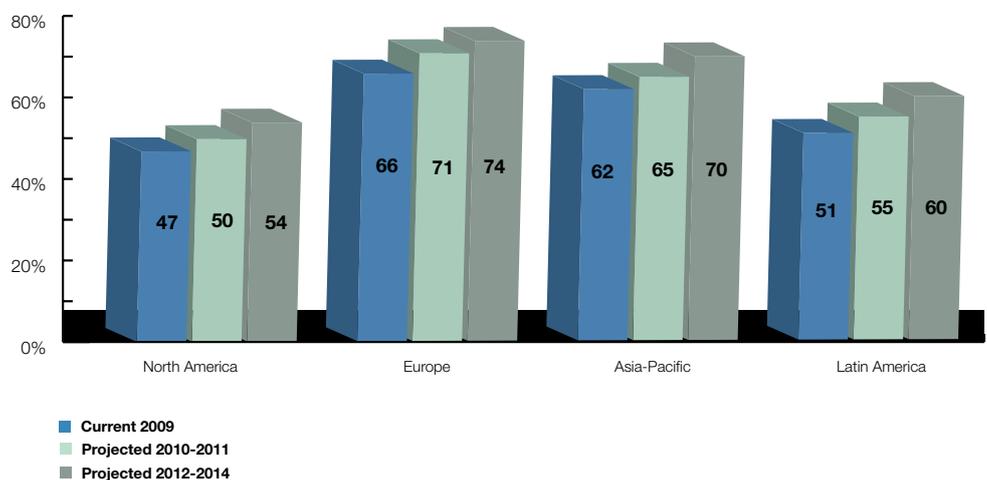
At an ASE session on this topic, shippers agreed. "We would like to really work together and invest in long term strategic relationships with the 3PLs, thus saving costs together and investing in opportunities. We need to set up a good KPI structure to monitor costs and measure customer service."

What Shippers Spend

Each year we ask shippers what percentage of their total logistics expenditures is allocated to 3PL use, and what this percentage is expected to be in the future. In the 2009 study, we created two categories of "future:" 1) what is projected in the next year or two, in 2010-2011; and 2) what is projected in the three to five-year period ahead, in 2012-2014, presuming that at that point some level of, or movement toward, economic recovery will have occurred.

The current percentages of logistics shipper respondents' budgets devoted to outsourcing for Europe, Asia Pacific, and Latin America (66%, 62%, and 51%, respectively) are slightly higher than those reported in the 2008 study (**Figure 5**). This may indicate a small increase in expenditures on 3PL services over 2008 in those regions. The 2009 percentage for North America (47%) is actually slightly less than the 49% reported for 2008.

FIGURE 5:
Expenditures on Outsourcing as Percentages of Total Logistics Expenditures are Projected to Increase



"We would like to really work together and invest in long term strategic relationships with the 3PLs, thus saving costs together and investing in opportunities."

Each year and in each region, shippers predict that the percentage of logistics budgets they devote to outsourcing will increase in the future. That finding is repeated this year, for both the one- to two-year and three- to five-year periods ahead. Looking at results from recent years' studies, however, suggests that anticipated increases are not realized once the time period is reached. Perhaps the modest increases for this year noted above for Europe, Asia Pacific, and Latin America will prove to be an exception.

What 3PL Users Outsource and What 3PL Providers Offer

Figure 6 shows the percentages of shipper respondents outsourcing specific logistics activities. Following are some general observations about the 2009 results and the contrasts they reveal from previous years:

- The most frequently outsourced activities tend to be those that are more transactional, operational and repetitive. These include domestic and international transportation (86% and 84% across all regions), customs brokerage (71%), warehousing (68%), and forwarding (65%).
- The less-used activities indicated in Figure 6 tend to be somewhat more strategic, customer-facing, and

IT-intensive. Examples include transportation planning, information technology, supply chain consultancy, and customer service.

- Again in 2009, the percentages of shipper respondents outsourcing individual logistics activities tend to be higher for Europe and Asia Pacific than for North America or Latin America. In comparison with results from recent years, however, this year shipper respondents in Asia Pacific and particularly in Latin America exhibit generally larger increases in these percentages than do shipper respondents in North America and Europe.
- Overall, the data in Figure 6 indicates increases in the percentage of shipper respondents reporting outsourcing of customs brokerage, forwarding, and fleet management services. While overall business volumes have declined in 2009, this observation suggests that larger percentages of shipper respondents are choosing to outsource at least some portion of these services.
- Use of 3PL-provided freight bill and auditing services is up slightly in Europe and Asia Pacific, and has doubled in Latin America from 14% in 2008 to 28% in 2009.

FIGURE 6:
Shippers Currently Outsource a Wide Variety of Logistics Services

Outsourced Logistics Service	Percentages				
	All Regions	North America	Europe	Asia Pacific	Latin America
Domestic Transportation	86%	75%	92%	95%	80%
International Transportation	84	70	91	91	88
Customs Brokerage	71	73	61	78	74
Warehousing	68	71	72	65	52
Forwarding	65	61	57	82	66
Cross-Docking	39	40	42	42	20
Product Labeling, Packaging, Assembly, Kitting	38	33	42	40	34
Reverse Logistics (defective, repair, return)	38	31	43	47	26
Freight Bill Auditing and Payment	33	53	24	26	28
Transportation Planning and Management	32	32	33	34	20
Information Technology (IT) Services	30	28	34	30	26
Fleet Management	22	14	26	28	15
Supply Chain Consultancy Services Provided by 3PLs	21	21	19	25	20
Customer Service	13	10	13	15	14
Order Entry, Processing and Fulfillment	13	12	8	20	15
LLP/4PL Services	12	10	12	17	6

One of the new features of the 2009 study is that, in addition to current outsourcing, shipper respondents are also asked which logistics activities they are likely to outsource in the future. Interestingly, many of the activities that are outsourced less often right now are prime candidates for future growth. Included are: product labeling, packaging, assembly and kitting; reverse logistics; freight bill auditing and payment; transportation planning and management; supply chain consultancy services provided by 3PLs; customer service; LLP/4PL services; and order entry, processing and fulfillment.

One example of how 3PLs are moving into other areas came from an ASE participant who needed a better solution to ship his company’s highly perishable, high-end food product globally. The company turned to its 3PL, which designed packaging that presented well and also stood up to varying temperature conditions.

Additional insight into the topic of the outsourcing of individual logistics activities is covered in the *Supply Chain Orchestration* chapter of this report starting on page 31, including how 3PLs and customers can work together to integrate a broad range of logistics and supply chain services to achieve overall goals and objectives.

The Role of Information Technology

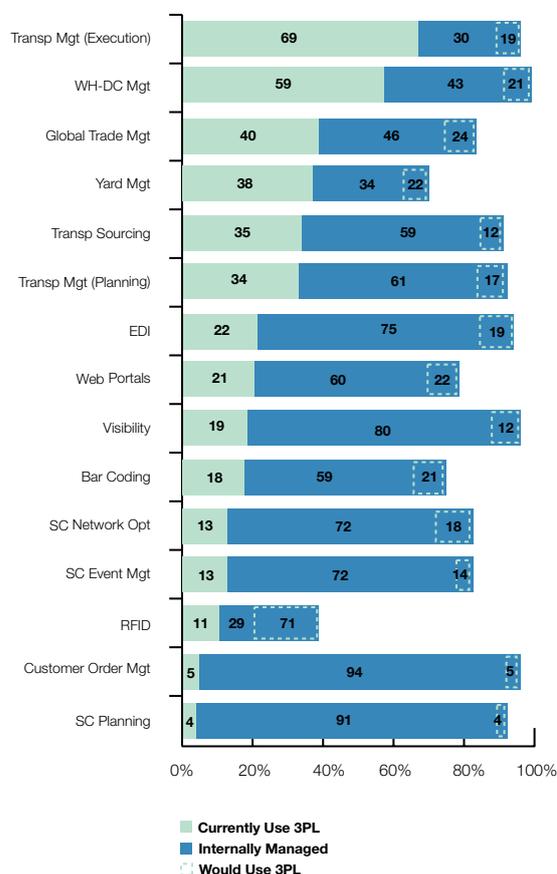
Information technology is viewed as central to the overall performance and effectiveness of 3PL-customer relationships, and is also the subject of a special topic discussion beginning on page 22. **Figure 7** summarizes many of the IT-based services that are provided to shippers by 3PLs, and for each service the data points indicate: 1) the percent of shipper respondents who currently use a 3PL for the services; 2) the percent that manage these activities internal to their own customer organizations; and 3) the percent of those internally managing the activity that would use a 3PL if it offered the service. Generally, the usage patterns indicated for outsourced activities in general (Figure 6) also hold true for the outsourcing of specific, IT-based services. Namely, the more repetitive services tend to be outsourced more frequently, and those that are strategic and customer-focused are outsourced less frequently.

For those readers who may be comparing our 3PL study results from year to year, it is important to note that in the interest of continuous improvement, the survey question that generates the data in Figure 7 was modified significantly from the IT-related question used in previous years’ studies. While the data in Figure 7 is therefore not directly comparable with previous study results, the

question in its 2009 structure provides a more meaningful and comprehensive look at the outsourcing of 3PL IT-based services.

Since we began investigating the topic eight years ago, the annual 3PL study has consistently found a gap between shipper expectations of 3PL IT-based services and their actual experiences with these services. For example, **Figure 8** on the next page indicates that 88% of shipper respondents feel that 3PL IT-based services are important, while only 42% of the same users indicate they are satisfied with those capabilities. Although this topic is investigated in greater depth in the *IT Capability Gap* chapter on page 22, it is interesting to note that fully 81% of 3PL respondents feel their customers consider IT-based services as important, and that only 59% feel their customers are satisfied with these same services. While it is evident that both shippers and 3PLs recognize the significance of this issue, the “gap” seems to be much wider from the shippers’ point of view.

FIGURE 7: There Continue to Be Significant Opportunities for Outsourcing of IT-Based Services



Why Not Use 3PLs

Since our annual 3PL survey also reaches a substantial number of organizations who do not currently use 3PLs, it is always interesting to ask why they do not choose to do so at the present time. Among the most frequently occurring reasons are: cost reductions would not be realized (32%); logistics is a core competency at our firm (27%); control over the outsourced functions would diminish (25%); logistics is too important to consider outsourcing (25%); service level commitments would not be realized (23%); and we have more expertise than 3PL providers (17%).

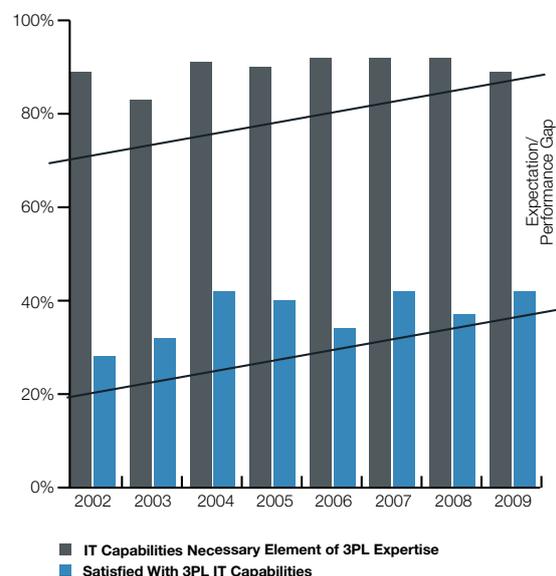
Key Takeaways

Key findings regarding the *State of the Market* for the 2009 14th Annual 3PL Study include:

- The economic downturn had measurable impacts on how shippers perceive and use 3PL services, a topic explored in more depth in the chapter, *Supply Chain Orchestration*, on page 31.
- The first-time inclusion of a 3PL provider survey that was complementary to the traditional 3PL shipper survey provided some insightful results. While there is significant agreement between shippers and 3PLs on critical issues, generally speaking 3PLs tend to provide more positive ratings of relationship success and lower ratings of problems that may creep into 3PL-customer relationships.
- Both shipper and 3PL respondents agree on the general success of 3PL-customer relationships. Key factors responsible for this success include: openness, transparency and good communication; the ability to create personal relationships on an operational level among people working for 3PLs and customers; the flexibility of 3PLs to accommodate customers' needs; and the ability to achieve cost and service objectives.
- The 2009 3PL study documents several operational measurements that validate the cost and service improvements resulting from successful 3PL relationships. These measurements relate to cost, fixed asset and inventory reductions due to use of 3PLs, and order cycle time, order fill rate, and order accuracy.
- The 2009 3PL study also provides insight into several key areas that need to be improved in 3PL-customer relationships. Primary among these are: lack of continuous, ongoing improvements and achievements in service offerings; service level commitments not realized; and information technology capabilities not sufficient.

- Shipper respondents devote an average of 47% (in North America) to 66% (in Europe) of their total logistics expenditures to outsourcing. The actual percentages differ among the major geographies studied, but all anticipate increases in these percentages in the next five years.
- The logistics activities most frequently outsourced include those that are more transactional, operational and repetitive, while those less frequently outsourced are those that are more strategic, customer-facing and IT-intensive. When asked about which activities were most likely to be outsourced in the future, shipper respondents suggest that in the future they may be more receptive to outsourcing strategic services that may be available from 3PLs.
- Although the current market utilization of 4PL/LLP services is reported as only 12% overall, another 14% of shipper respondents identify this as a service they would take advantage of in the future. This is an encouraging sign indicating that shippers are thinking seriously about more comprehensive involvements with providers of outsourced logistics services.
- Information technology remains a key component of 3PL-shipper relationships, and a discernable gap persists between the importance shipper respondents attach to 3PLs' IT-based services and the success they feel has been achieved.
- There are several interesting reasons for choosing against outsourcing of logistics services to 3PLs, relating mainly to cost, competence and control issues.

FIGURE 8:
There Has Been a Continuing Gap Between Shipper Expectations and Experiences Relating to 3PL IT Capabilities







Economic Volatility

Shippers Thinking both Short- and Long-Term

The impact of the global recession on logistics has been sobering: bankruptcy for as many as 3,000 trucking companies in North America. More than one million ocean containers sitting idle. Increasing plant shutdowns. Slower financing and expensive credit. Suppliers teetering on the edge of financial meltdown. Consumers tightening the purse strings and becoming more price conscious. Even as a few hopeful signs emerge, uncertainty remains pervasive.

There's nothing like a recession to expose a supply chain's vulnerabilities. Forecasting weaknesses, inflexibility to adapt to fluctuations in demand, and cash flow vulnerability are some of the more glaring examples of supply chain shortcomings that can seriously impact operations.

Shipper responses to the crisis run the gamut, from putting the squeeze on transportation providers all the way to entering collaborative capacity-sharing relationships with direct competitors. Some shippers respond by pulling in the oars and waiting out the storm, while others are embracing the opportunity to build flexibility and resilience into their supply chains, and hopefully emerge from the recession in a stronger position than before – perhaps even gaining some of their competitors' marketshare.

“There are winners and losers,” confirms Hal Morris, CEO of the Australian Logistics Council (ALC).

This special topic chapter seeks to understand the dynamics of economic volatility. What are its most difficult aspects? What strategies are companies using to survive? How can 3PLs help their customers remain strong?

Points of Vulnerability

Unpredictable demand is the most difficult challenge to managing and operating a supply chain in an economic downturn, according to 71% of the survey respondents (**Figure 9**). For example, many consumers turn to private label goods as their confidence wanes, but that trend typically reverses itself if analysts report good numbers, a difficult-to-predict event.

Other vexing issues include fuel price volatility, excess inventory in the supply chain, currency exchange rate fluctuations and supplier financial risk. “In the highly volatile logistics market that sees sudden drops and hikes in volumes and fuel prices, Panalpina's asset-light business model is very helpful since it allows us to react to these changes in a flexible manner,” says Monika Ribar, CEO of 3PL Panalpina.

Another stressor resulting from an economic downturn, cited by an ASE participant, is government intervention such as tariffs on garments and government-controlled labor rates.

For 3PL respondents, the two most difficult aspects of the downturn are unpredictable demand (67%) and supplier financial risk (49%). “3PLs can be hurt during a downturn because so many things are based on a turnover ratio – that is a big part of what sets the rate base,” notes Jeremy Van Puffelen, Director of Business Development at 3PL Prism Team Services.

The right path is not always clear. One ASE participant's company seeking to convert fixed costs to variable, for example, sold its ocean barge, instead chartering the vessel to get transport service. But the new owner ran into financial trouble, and there were so many liens on the barge, selling it to a viable operator became impossible. The shipper was forced to shift its supply chain to truck and rail.

“3PLs can be hurt during a downturn because so many things are based on a turnover ratio – that is a big part of what sets the rate base,” notes Jeremy Van Puffelen, Director of Business Development at 3PL Prism Team Services.

Coping Strategies

Every company is looking for the best strategy to survive the recession. ASE participants concurred that doing nothing is not an option. One ASE team summed it up this way: “The sooner you accept it and the faster you respond, the sooner you’ll get out of it.”

Figure 10 reveals 3PL shipper respondents’ top strategies for coping with the downturn, and the percentages of shipper respondents indicating that each strategy leads to increased 3PL use:

Reducing Operating Costs: Shippers respond to an economic downturn in myriad ways, but one common denominator is that cash becomes king. Reducing operating costs is the most frequent strategy cited by shipper respondents (82%) in response to market volatility. Often internal cost savings may come in the form of layoffs, inventory reductions, and SKU rationalization, though these steps must be taken with a full understanding of their implications.

A familiar, yet still potentially cost-saving, alternative approach to the supply chain network is commodity swapping. Sebastian Seifarth, Director, Logistics and Supply Chain for Holcim (US) Inc., a leading cement manufacturer, indicates industry swaps are a common practice to reduce emissions and costs from the transportation of goods to the final distribution point.

Improving Forecasting and Inventory Management: With demand in flux, shipper respondents are prioritizing forecasting and inventory management (77%) to avoid the perils of either too much or too little stock. ASE participants concurred that a heightened focus on forecasting is the best way to be prepared and proactive and to identify signals of economic improvement.

Renegotiating Supplier Contracts: The third-most common strategy is re-negotiating supplier contracts and rationalizing the number of 3PL partners (66%). One ASE participant’s company gathered its 200+ suppliers in one room and promised continuing business only to those

FIGURE 9:
Difficult Aspects of Managing a Supply Chain in an Economic Downturn

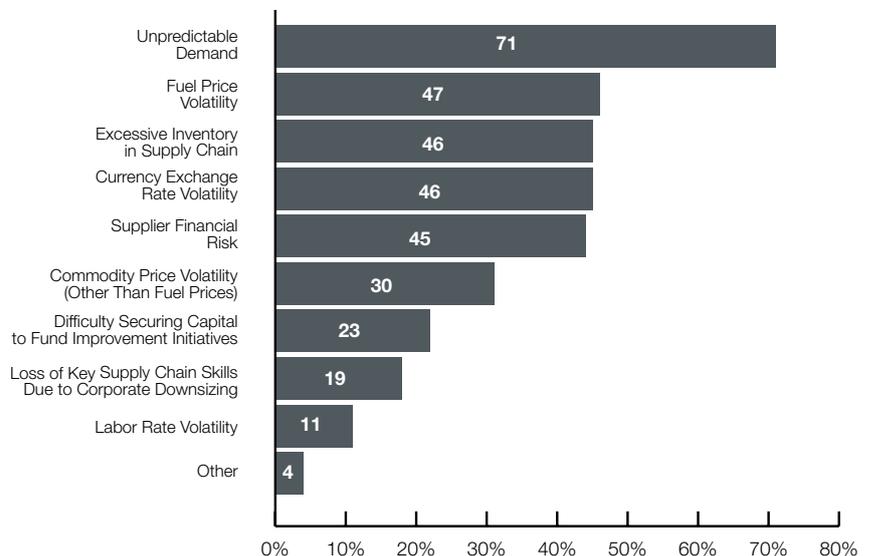
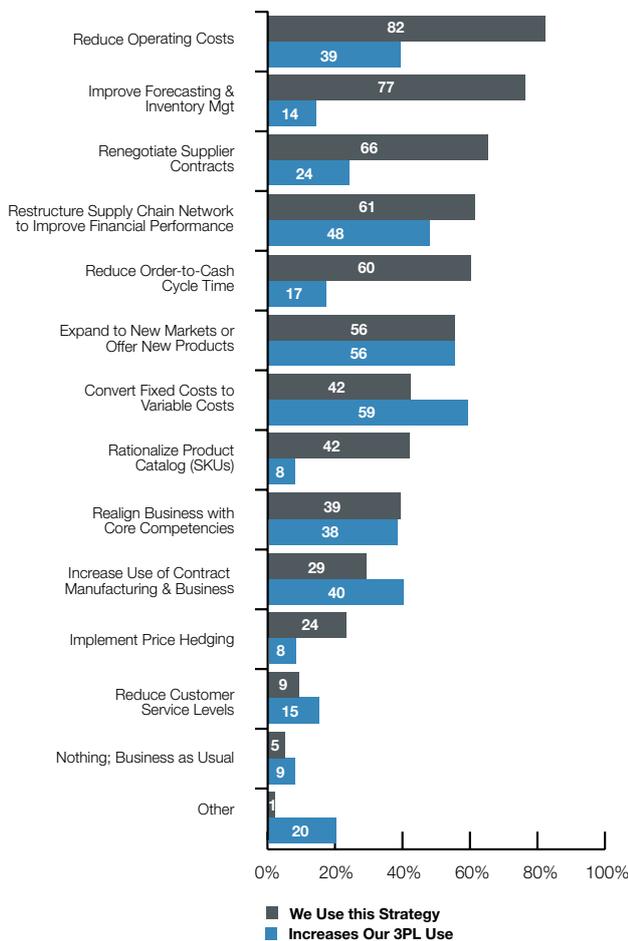


FIGURE 10:
Strategies Used by Shipper Respondents in Response to Economic Volatility,
and Which Ones Increase 3PL Usage



After early challenges in outsourcing to 3PLs at LEGO System A/S, “We realized we have to agree to collaborate instead of beating each other up,” says Lars Kjørboelling, Director, Strategic Projects, Global Distribution Logistics at LEGO.

willing to make concessions. “By doing this we reduced our supplier base, got lower prices and the surviving suppliers got more volume and a better rate. Because of this, we’ve reached double digit savings.”

Another participant reports, “Our experience was that by asking we receive a 5% discount. By sending out an RFP we got 20% because of their fear of losing the volume.”

But some take a longer view, surmising that such tactics will backfire when the economy improves, capacity tightens and 3PLs gain greater leverage over shippers. After early challenges in outsourcing to 3PLs at LEGO System A/S, for example, “We realized we have to agree to collaborate instead of beating each other up,” says Lars Kjørboelling, Director, Strategic Projects, Global Distribution Logistics at LEGO.

Expanding to New Markets or Offering New Products:

Many shippers would welcome 3PL assistance in their global expansion. 3PLs often know local landscapes better and offer expertise in global trade management, enabling trade compliance and other key capabilities. Expanding to new markets and offering new products is the second most likely strategy (56%) to prompt shipper respondents to increase their use of 3PLs.

Network Redesign: Another tactic is redesigning the supply chain network (60%), considering moves such as rationalizing the number of warehouses, using reverse logistics practices, or near-sourcing to reduce transport time and increase predictability. Shipper respondents rank restructuring the supply chain to improve financial performance the third most-likely strategy to cause them to increase their use of 3PLs (48%). As one ASE participant

noted, global recession provides a good opportunity to look at operations critically and take out waste. Another key concept offered by ASE participants is to build the supply chain to accommodate average, rather than maximum, throughput, attaining flexibility through 3PL and other provider relationships to accommodate swings in demand — a strategy that reduces risk.

Rationalizing the Product Catalog: A significant minority of shipper respondents (42%) are rationalizing their product catalogs to reduce inventory and other supply chain costs. ASE participant Rockwell Automation B.V.’s approach to reducing inventory began with analyzing its inventory databases. The company determined for EMEA that 6,000 of its 24,000 active parts were responsible for more than 80% of the revenues and designated about 5,000 of those items as preferred, spurring increased interest from buyers. “We publish this data to our customers and account managers and this has led to higher availability and faster lead times for those items,” says Joost Riemsdag, EMEA Director of Supply Chain and Customer Service. “We have partially realized about a 30% value reduction in inventory by focusing on those parts.”

Converting Fixed to Variable Costs: While the barge sale didn’t work out so well, other strategies shipper respondents are using to convert fixed to variable costs (42%) include outsourcing more logistics activities to 3PLs and using a SaaS (Software as a Service) model, a pay per use concept, when implementing new technology. This strategy is the one most likely to increase shipper respondents’ use of 3PLs (59%, Figure 10).

An alternative to converting fixed costs to variable is for the shipper to act as a 3PL. The recession prompted one US retailer to minimize idle capacity by contracting out its private fleet, storing products for other companies and moving volume out of the 3PL and back into self-distribution centers to justify fixed labor costs.

Additional strategies cited by ASE and focus interview participants include:

Increasing Control: A consistent finding in the annual 3PL study is that companies would like more control over their supply chains. That is especially the case in these volatile times. Companies would like 3PLs to use track and trace tools, event management and supply chain visibility technologies to keep both the 3PL and the shipper informed about supply chain disruptions so the shipper may in turn act proactively and inform their customers.

Contingency Planning: A valuable brainstorming exercise, suggested by ASE participants, is to co-develop what-if scenarios much as insurance companies do, devising contingency plans for various outcomes in strategic areas including currency and fuel price fluctuations as well as supply chain disruptions.

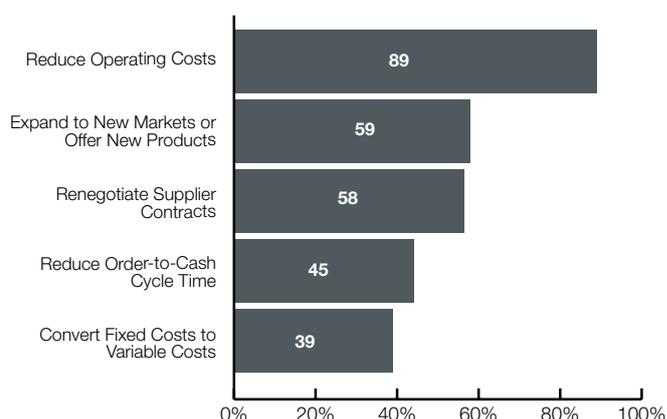
Horizontal Integration: Shippers are more actively seeking shared transportation/shared warehousing opportunities, particularly in retail, where they would like to compete on the shelf and not on the road. Some feel this should already be part of a 3PL’s daily tasks while others would not even consider sharing truck hauling space with a competitor.

Getting Creative: Some companies are using the downturn as a stimulus to re-think their supply chains. One ASE participant, floral exporter Wesseling Export, is investigating the feasibility of transporting flowers in reefer [refrigerated] containers by boat from South America to their target markets. “We are now exploring which type of flowers we can do that with. This may cause a real mind shift in our organization,” says Kees Guichelaar, Manager, Wesseling Export BV.

Improve Integration with 3PLs: Another strategy that emerged in ASE and focus interview discussions is to look to 3PLs for more partnership thinking. For example, 3PLs can help their customers to re-evaluate inventory or help them out with network redesign.

As seen in **Figure 11**, for 3PL respondents, reducing operating costs leads the list of strategies to cope with the downturn (89%), followed by expanding to new markets

FIGURE 11: Strategies Used by 3PL Respondents in Response to Economic Volatility



or offering new products (59%) or renegotiating supplier contracts (58%). 3PLs focusing on deeply impacted vertical markets need to shift that focus, suggests the Australian Logistics Council's Morris. "If you can swing capacity as a 3PL to relevant and growing industries you'll be okay."

The Role of the 3PL

Shipper respondents clearly view 3PLs as an important component in enacting some of these strategies. Referring back to Figure 10, nearly 60% say converting fixed to variable costs increases their use of 3PLs. Other strategies shipper respondents associate with increased use of 3PLs include expanding to new markets or offering new products (56%), restructuring the supply chain network to improve financial performance (48%) and increasing use of contract manufacturing and business process outsourcing (40%).

ALC's Morris urges shippers to consider increasing their use of 3PLs to share risk and increase their own flexibility, as well as helping to avoid stranded assets within their supply chains.

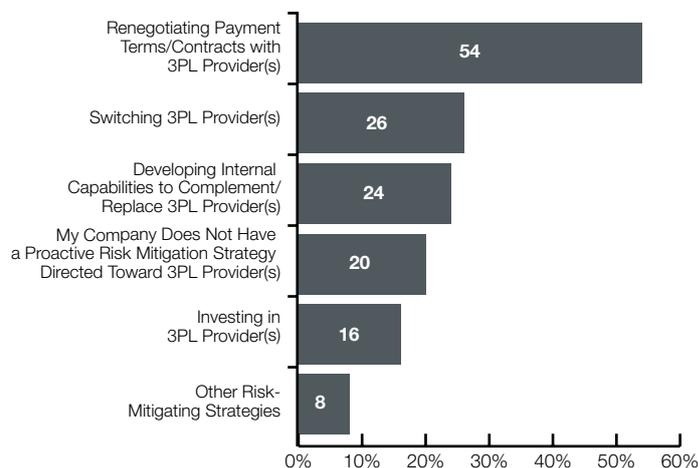
None of the strategies listed in Figure 10 are strongly associated with decreasing 3PL use, and for most strategies, shipper respondents say 3PL use would not change at all.

Shipper respondents are viewing the economic downturn as an opportunity to re-evaluate their 3PL relationships and make changes where required. (Figure 12) Rosalyn Wilson, Senior Business Analyst, Delcan Corporation and author of the *Annual State of Logistics Report*, sponsored by the CSCMP, says "in general, 3PL users in larger companies are looking to rationalize the number of 3PLs they use and intensify their 3PL partnerships."

LEGO System A/S credits its 3PL with helping the company recover from its own financial crisis in 2004. In response to these challenges, the toy company decided to outsource both production and distribution. When the number of pallets increased due to changes in product design and mitigation stock for the movement of the production, LEGO's 3PL partner offered the flexibility to handle the excess capacity, in addition to helping consolidate costs and reduce the number of carriers. A gain sharing contract between LEGO and the 3PL helps foster positive results.

Foster's Wine Estates Americas views its 3PL partners as a route to a more flexible response to market fluctuations. "There is a greater sense of urgency around the whole outsourcing thing, leveraging 3PL assets to shed fixed cost and create flexibility," says Susie Uramoto, VP, Fulfillment Operations. "If we decided to make a drastic strategic

FIGURE 12: Strategies for Improving Service Levels and/or Mitigating Financial Risks Associated with 3PLs in a Downturn



change in how we fulfill our product, it would be much easier to have the 3PL to do it. 3PLs don't have to go through change management, which you would have to do within your own organization."

Shipper respondents are looking for 3PLs that help them attain the next level of efficiency, and if they can't get that from current providers, they're willing to switch, a strategy being implemented or considered by 26% of respondents.

One ASE participant noted, "We want a 3PL that can offer mirrored category management. 3PLs are organized by countries. This doesn't fit us because we are international providers. What is needed is cross-regional and cross-service management of international shippers. This means establishing strong account management with decision power over boundaries, operations, project management and commercial. The organization of the 3PL and the shipper should be mirrored."

Other ways ASE participants believe 3PLs could help them through the economic downturn include:

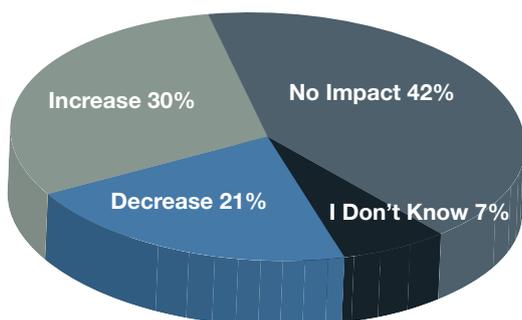
- Increased 3PL collaborative cross-services, such as direct competitors using the same warehouses, trucks, etcetera, to get their products to the same set of stores. One 3PL notes, "Some of our larger customers are being more collaborative, for example, sharing fleet, resources and working together to reduce our cost base."
- Mutual agreement on supply chain optimization targets, including a reward for the 3PL when targets are reached.

- A flexible service menu based on delivery date requirements. One ASE participant expressed the desire to dictate specific shipment dates to the 3PL, without a surcharge for this level of service, rather than accept a multi-day delivery window that allows the 3PL to shop for the lowest possible cost. “What we typically see is that they decide based on average shipment. We need to really take control of the decision-making process.”
- “Proactively communicate suggestions for improvement,” said one ASE participant. “For example, sometimes 3PLs manage stock that is gathering dust – which could be an indication that there is slow demand for this particular product. The customer would appreciate a notification from the 3PL. What we don’t see enough is sharing of best practices and lessons learned.”

Steps 3PLs can take internally include sharing assets across multiple customers to spread or dilute risk, similar to inventory risk pooling, and helping customers fill underutilized buildings with goods from other customers, according to ASE participants. 3PLs could also provide financing (like inventory factoring — the purchase and sale of accounts receivable invoices at a discount from their face value, which is common in retail) and improve on basic capabilities such as process, communication, visibility and interfaces. Network modeling and optimization tools can also be used by 3PLs to explore possibilities for their customers.

Despite the ways shipper respondents say 3PLs can help them through the downturn, the largest group of respondents, 42%, (**Figure 13**) report the economic uncertainties have had no impact on their need for 3PLs. It’s significant, however, that 30% are seeing their 3PLs as partners with the skill sets and services that can help

FIGURE 13:
The Net Effect of Current Economic Uncertainties on Shippers’ Need for 3PL Services



them weather the storm, while 21% are seeing the current climate as reason to pull back and reduce their use of 3PLs. One ASE participant’s company took the downturn as an opportunity to centralize its transportation management, which reduced its 3PL headcount. That freed up cash to fund a TMS improvement effort, which resulted in better integration with its ERP.

Interestingly, 3PL respondents have a different take. Two-thirds of them say economic uncertainties increase shippers’ use of 3PL services, versus the 30% of shipper respondents who feel this way. As stated, 42% of shipper respondents say it has no impact on their use of 3PL services, while just 10% of 3PL respondents report this.

Several 3PLs report shippers’ tendency to gravitate toward the largest brand names within logistics and away from smaller players as the economy sours. However, this can backfire. One ASE participant recalled, “I know a company who had a pretty small 3PL and changed to a bigger one because they felt it was risky to use such a small company. But the smaller ended up buying the bigger one and so the company ended up where they were before. Know your market to avoid future surprises.”

Economic Volatility: The Takeaways

Unpredictable demand, volatility in fuel costs and currency valuation, and excess inventory are just a few of the significant challenges shippers are facing in these challenging times. Savvy supply chain operators are viewing the current economic crisis with two minds. One is focused on devising a near-term strategy to weather the storm and avoid catastrophic loss, employing tactics that include cost cutting and contract renegotiation. The second is taking a longer view, using lessons from this current test of their supply chain’s veracity to reinforce its ability to withstand future volatility. Strategies here include network redesign and creative collaboration with trading partners and even competitors.

3PLs clearly have a role to play in devising and enacting both short-term and long-term approaches. Shippers think of 3PLs for converting fixed to variable costs, expanding to new markets or offering new products and restructuring the supply chain network to improve financial performance. From the ASE and focus interview participants comes the message that while survival certainly must be a priority, another imperative is to accept the current circumstances and embrace the opportunity to take a creative approach to rethinking old assumptions about supply chain, including the role 3PLs can play in attaining business goals.

IT Capability Gap

Complaints Persist, But Solutions are at Hand

Logistics and IT have become inexorably linked; there is widespread agreement across the industry that the information that IT systems provide is the lifeblood of supply chain planning and execution processes. So when shippers outsource logistics functions to a 3PL, IT is an essential part of the relationship. Shippers must decide how much of this responsibility to outsource to the 3PL and what to retain.

3PL IT capabilities are a key issue in this decision. Since 2002 this study has reported on a gap between shippers' expectations for their provider's IT capabilities and their satisfaction with those services. As seen in Figure 8 on page 14 in the *Current State of 3PL Logistics* chapter, the margin of difference has fluctuated slightly over that time, but the differences themselves have persisted.

Although shippers and 3PLs spend significant amounts on IT, as much as 80% of the spend goes toward maintenance. With complex legacy applications, aging infrastructure, multiple data repositories, and complex point-to-point integrations consuming substantial resources, 3PLs have been unable to close the gap. But there is good news: According to ASE and focus interview participants, the technology to build open, flexible integration platforms exists today, ready for shippers and 3PLs prepared to dedicate time and effort to integrate and transform the applications and technologies they use for supply chain planning and execution.

Dissecting the Issues

The roots of today's IT challenges lie in yesterday's technology investments. Many 3PL providers operate legacy ERP and operational applications that run on

mainframes or mid-range systems. Acquisitions add to the systems complexity. As a result, 3PLs are spending the lion's share of their IT resources keeping it all running. The difficulty of rationalizing and modernizing legacy applications means some 3PLs are maintaining multiple data silos with duplicate and incorrect data. Integration that does occur within the 3PL as well as with partners is often based on proprietary protocols and legacy electronic data interchange (EDI) standards. Shippers, too, face issues with legacy technologies that consume resources and impede integration efforts.

ASE participants report that shippers and 3PLs alike want IT that can respond quickly to the needs of the business and that delivers value now without increasing IT costs later. They would like to leverage existing investments while allocating a higher percentage of resources to developing solutions that can support innovation versus maintaining existing solutions.

Getting to these outcomes is difficult, however. "Future state architecture is an issue," says Gene Tyndall, Executive VP for Global Supply Chain Services for Tompkins Associates. Many 3PLs and shippers "do not know how to ask the questions so they can link architecture to strategy."

IT is a critical enabler of enterprise business strategy; without close alignment enterprises run the risk of having IT platforms and infrastructure become the bottleneck as opposed to the engine for growth. Managing information is as critical as managing the physical flow of goods in enterprise supply chains.

Unfortunately, more than two-thirds of shipper respondents indicated that alignment between their businesses and IT is either weak (11%), or adequate but could be better (58%). Similarly, 8% of 3PLs feel their own IT alignment is weak and 53% say it is adequate but could be better.

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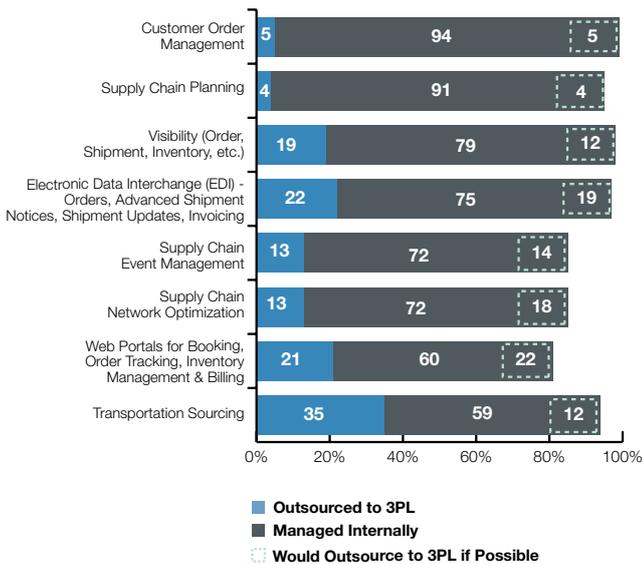
Another factor is whether the 3PL's IT organization is centralized or decentralized. Advocates of centralization of IT say it results in better IT governance, better visibility to IT spend, greater standardization in IT applications and infrastructure, and consequently more standardized business processes. Decentralization, they argue, tends to have the opposite effect, leading to complex infrastructure, lack of visibility, higher IT spend, and a lack of standardization for IT management and business processes.

The good news is that 3PL respondents have gotten the message; 87% indicate their IT organizations are centralized, although their applications may or may not be centralized.

IT Outsourcing: What 3PLs Offer, What Shippers Use

Perhaps as a result of perceived 3PL IT deficiencies, 3PL users tend to manage customer-facing and planning applications internally. As seen in **Figure 14**, 94% of shipper respondents operate customer order management and 91% run supply chain planning applications internally, while just a small percentage (5% and 4%, respectively) outsource these. A handful (5% and 4% of those who currently manage the IT applications internally) would like to outsource them.

FIGURE 14:
Shipper Perspective: Who Manages Shippers' Logistics Applications

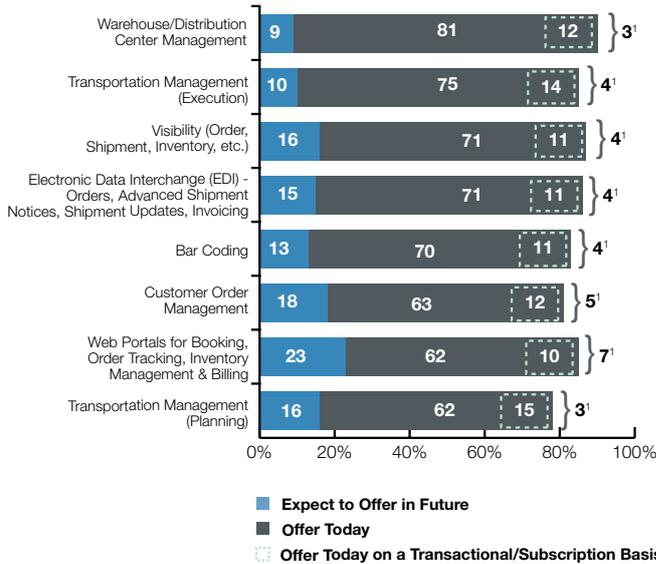


More than a third of shipper respondents, 35%, outsource transportation sourcing currently, but only 12% of respondents who run these applications internally would consider outsourcing in the future.

But a growing number of shipper respondents are currently outsourcing or are planning to outsource execution applications, hosting of an electronic data interchange platform and messaging services, and applications that provide supply chain visibility. At the ASE workshops, a recurring theme was the need for clear-eyed assessment of shipper versus 3PL IT capabilities in order to make an informed decision, rather than relying on old perceptions. For example, a 3PL's Web-based solutions can lower costs, but shippers often reject these in favor of fully integrated solutions. The economy is also a factor in reconsidering the balance of outsourced versus internal operations.

Openness to increased IT outsourcing is evident in the slight increases in IT spend projected for 2009, with even higher numbers in 2010 and 2011, says Tyndall. "Shippers are turning more to providers with their decreases in staff. With the economy bottoming out, opportunities will increase in the future."

FIGURE 15:
3PL Perspective: What 3PLs Offer Shippers Today



¹ This percentage represents respondents who will offer the specified application on transactional/subsidiary basis to their customers in the future.

Transportation and warehousing are the most commonly outsourced logistics services, so it makes sense that transportation (TMS) and warehouse management systems (WMS) are the most commonly offered 3PL applications (75% offer TMS, 81% offer WMS) as reported in **Figure 15**. It is easier for 3PLs when shippers use the 3PL's applications, as it is either already integrated or easier to integrate with other 3PL IT systems. This also makes for a "stickier" relationship because it increases the cost for shippers seeking to switch 3PLs. Shippers who have not committed to strong partnership with 3PLs need to consider whether they would like this level of IT dependence during 3PL selection.

Surprisingly, 3PL respondents report they are increasingly offering their IT platforms on a subscription basis, as a part of their service contract. IT services most likely to be sold this way are transportation management (planning), transportation management (execution), warehouse/distribution center management, visibility and customer order management. An average of 10% of the 3PLs responding indicate that they offer all of these services today on a subscription basis.

About a third of the shippers surveyed report they require their 3PLs to adopt the ERP or TMS platforms they use for logistics planning and execution to ease integration, and 44% of shipper respondents require 3PLs to use the shipper's WMS. This is particularly the case when 3PLs are brought in to manage existing shipper warehouses attached to manufacturing plants or to manage existing shipper DCs.

Somewhat more shipper respondents report they are open to 3PLs bringing in their own logistics planning and execution applications (47%). This fits in with the broad trend of complete outsourcing of logistics to 3PLs including facilities, IT systems, and labor.

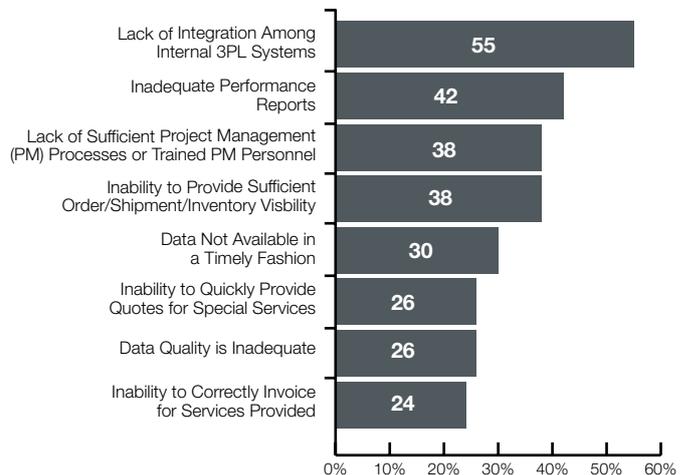
Recurring Issues – What Shippers and 3PLs Think

Lack of integration among 3PLs' multiple applications can mean they lack global visibility to orders and shipments within their networks. Shipper and 3PL respondents alike cite this lack of integration (Shipper responses are reported in **Figure 16**) as the biggest recurring issue (55% for shipper respondents, 50% for 3PLs) shippers experience with 3PLs.

Other IT issues of concern include:

- Inadequate performance reports was the next biggest issue for shipper respondents, cited by 42%. This is

FIGURE 16: Shipper Perspective: Recurring Issues Shippers Experience with 3PLs' IT Applications



perhaps a symptom of a larger issue: the failure of current technology to deliver all of what shippers need. "If you survey your top 25 customers each year, you find the feedback is rarely about consistency in reporting and processes across locations," notes Woody Blaylock, VP of Information Services at 3PL Saddle Creek Corporation.

- Both 3PL and shipper respondents rank lack of sufficient project management (PM) processes or trained PM personnel as the third most-recurring issue (38% of shipper respondents, 27% of 3PLs). Because outsourcing involves simultaneous changes to organization, business processes and information technology platform, 3PLs need to very carefully plan and execute outsourcing engagements both in the startup phase and while managing ongoing operations. This finding suggests 3PLs need to recruit more personnel who are certified and experienced in planning and delivering projects.
- Shipper and 3PL respondents alike acknowledge an inability for some 3PLs to provide sufficient order/shipment/inventory information. Data quality and timeliness issues often stem from 3PLs' multiple internal systems. They may also face integration challenges when trying to attain this data from carriers, many of whom have legacy systems.

One ASE team concluded that "most 3PLs' IT systems look like a plate of spaghetti. This is unsustainable and a lot of gaps exist. You can't achieve timely and accurate information with this system." In an example

of the inaccuracies that can slip through, one participant shared an experience in which a 3PL entered one pound instead of 13,000 pounds for a high cost item into a database, then passed that data to the shipper. The error wasn't uncovered until the incorrect data surfaced in an executive management report card.

- Other areas where 3PLs have some ground to make up include streamlining the quote-to-cash process, so they accurately quote for services, execute as quoted, and bill as executed for the services provided.

Underlying each of these issues is the need for 3PLs to rationalize and modernize their internal systems for managing transportation, warehousing and other services and adopt open, industry standards-based tools for integration so they can exchange data, coordinate business processes and thus collaborate more effectively.

Integrating Shippers and 3PLs

The time and effort required to ensure the exchange of data continues to be the biggest hurdle to greater collaboration between shippers and 3PLs. Although EDI standards are available, there is much room for variation in compliance, and shippers and 3PLs may be using different releases.

This means integrations often need to be customized, which requires longer integration and testing time and, in turn, leads to increased costs.

As seen in **Figure 17**, just over half of shipper respondents use EDI for purchase orders, advance shipment notices, and shipment status messages — a surprisingly low number for these common documents. What's more, of those using EDI for purchase orders, about 57% use standard methods to integrate with 3PLs while 43% implement custom integrations. The pattern is similar for shipment status updates.

Shipper respondents report a lot of manual data interchange via spreadsheets, flat files, FTP, and other communication methods, particularly for production and transportation schedules and demand forecasts.

Figure 18 reveals differences in EDI transaction usage by 3PL respondents. For example, while the number one EDI transaction for shipper respondents is purchase orders, it is third on the list for 3PL respondents. The number one EDI transaction for 3PL respondents is inventory visibility. Just over two-thirds of 3PL respondents use EDI for the most common business documents, such as purchase orders and shipment documents, although the number reporting use

FIGURE 17:
Shipper Perspective: Integrating With 3PLs; Automated or Manual, Unique or Standardized?

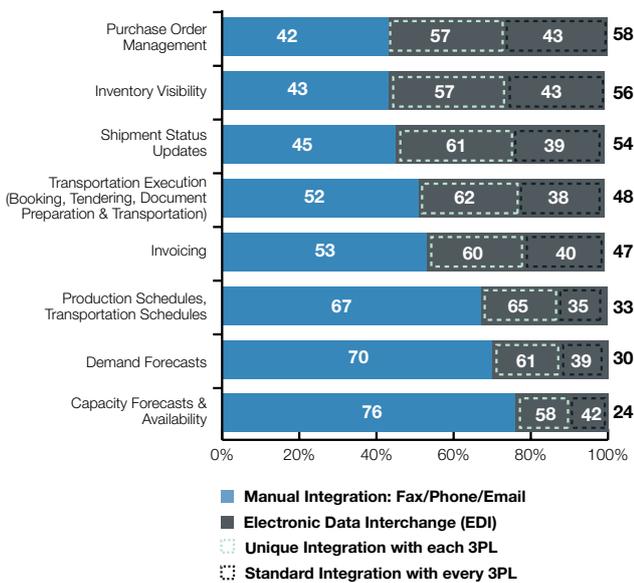
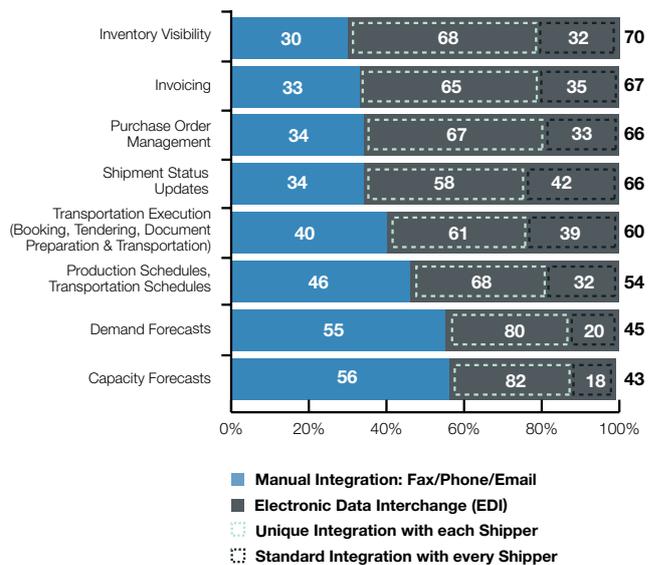


FIGURE 18:
3PL Perspective: Integrating With Shippers; Automated or Manual, Unique or Standardized?



of standardized transactions for these is somewhat higher than the figures that shipper respondents report. Almost 67% of 3PL respondents use standard EDI approaches for integrating with shippers for purchase orders, for example, while 57% of shipper respondents make this claim.

According to ASE participants, the challenges of attaining EDI integration are sometimes minimized by both 3PLs and shippers, particularly in the sales process. One ASE participant noted, “Integration is a big issue, but it is not just a shortfall of 3PLs. Shippers are to blame as well. 3PLs seem to think integration takes only one week to get to ‘ready to interface.’ In saying that they are already interfaced, say with an ERP, and not recognizing how long it takes to really integrate data, these companies are doing the industry a big disservice and creating a huge perception gap.”

Many of the time and cost issues incurred by these manual and/or custom integrations can be alleviated through adoption of open, industry standards-based integration tools.

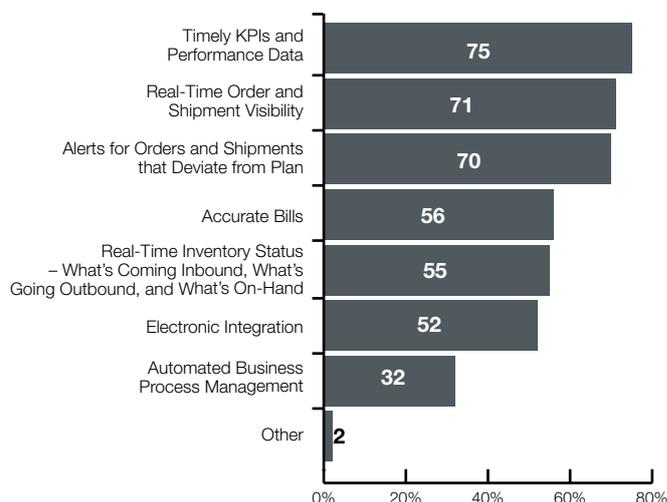
Shipper-3PL Collaboration

Many shippers turn to 3PLs in an effort to develop adaptive logistics networks that permit them to keep inventories low while responding quickly to demand fluctuations. To achieve this goal, shippers need enhanced visibility into the location and status of orders and shipments, and visibility into inventory across a product’s supply chain – what’s at the supplier, what’s in-process in manufacturing, what’s in the warehouses, what’s in transit, and what’s ready for sale in retail stores.

This is evident in **Figure 19**; three-quarters of shipper respondents report seeking key performance indicators (KPIs) from their 3PLs so they can respond more quickly when these or other performance metrics are not in the desired range. Additionally, 71% want real-time reports and 70% would like to see targeted alerts for shipments and orders that deviate from plan. More advanced services such as “automated business process management” are nice-to-haves, but shippers need 3PLs to address these basics first.

Unfortunately, multiple internal systems and predominantly manual data collection and analysis leads to delayed reporting from some 3PLs. This can be overcome with technology implementation, but “who pays for the investment in technology becomes an issue,” says Tompkins’ Tyndall. “There is very little joint development. Why aren’t shippers and 3PLs doing more together and sharing the benefits?”

FIGURE 19: Shipper Perspective: What Shippers Would Like to See 3PLs Deliver



Perhaps some of the reticence is rooted in shippers’ past experiences with 3PL IT capabilities. In one of the ASE workshops, a participant lamented, “I have not seen flawless integration in my 25 years’ time working with 3PLs.” Another noted, “I need flexibility because I will change my partners,” perhaps illustrating 3PLs’ fears that they will make costly investments only to lose the customers for whom they made these investments.

3PLs bring their own IT wish lists to their relationships with shippers; as **Figure 20** shows, the top IT capabilities 3PL respondents would like to see from shippers are real-time interfaces to shipper order management systems (63%), timely demand forecasts (54%) and real-time inventory status (53%). More real-time order data enables 3PLs to get more accurate information for planning and execution, minimizing rework and shipment failures. Timely forecasts ensure they have the right resources at the right place to meet shipper demand. 3PLs also seek more automated collaboration with shippers, as well as tools that lower the cost of delivery, such as self-service portals.

As with shippers, 3PLs face their own challenges in obtaining needed data. “Some customers are very willing to share all kinds of data; others are more cautious about providing any data,” notes Saddle Creek’s Blaylock. In other cases, say some ASE participants, shippers develop their own “standards” for data formatting and ask 3PLs to adopt them, driving up 3PL time and costs.



FIGURE 20:
3PL Perspective: What 3PLs Would Like to See in Shippers' IT

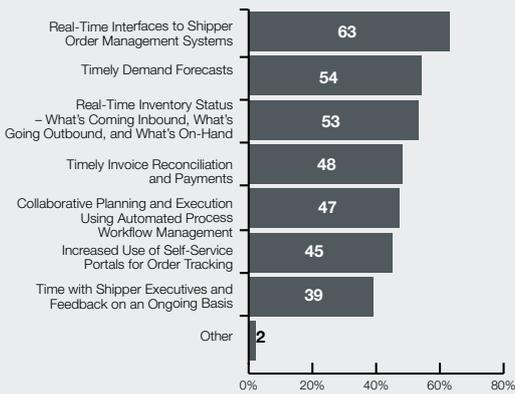
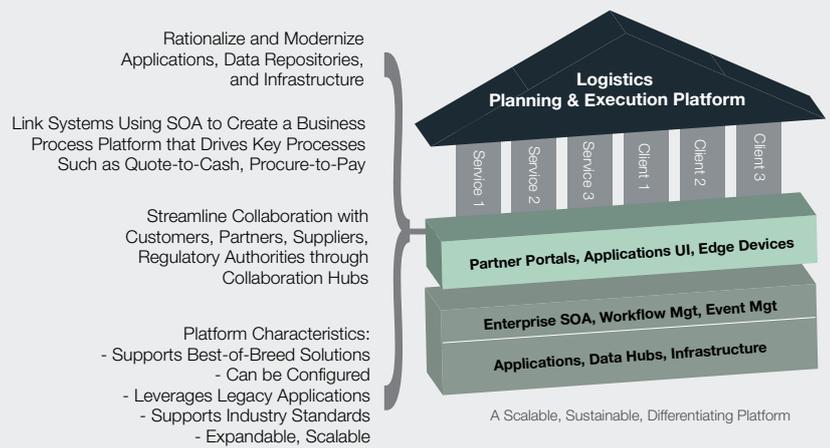


FIGURE 21:
Solving the IT Capability Gap: Should Shippers and 3PLs Adopt a Platform Strategy?



Solving the IT Capability Gap: Should Shippers and 3PLs Adopt a Platform Strategy?

This deep dive into the issues underlying the persistent gap between shippers' expectations versus satisfaction with 3PL IT capabilities reveals several reasons the gap has persisted.

ASE participants determined that, at its heart, it's a trust issue. Both sides come to the relationship with limited resources, and perhaps unfairly, expect the partner to make the investment required to close the gap. 3PLs hesitate to pour resources into satisfying the specialized IT needs of a customer who may then jump ship. Shippers are reluctant to become too intertwined with one provider. Both sides fear that open, complete data exchange will reveal too much: 3PLs will be beaten up on price, while shippers will lose control.

One ASE participant summed it up this way: "While 3PLs have multiple capabilities, customers are not willing to pay for them. This suggests that there is not necessarily a gap in IT capabilities available but a huge gap in what a customer expects to get for free and what 3PLs are willing to give."

But the ASE participants also suggest a pathway out of this impasse: adoption of a global, flexible, standardized, cross-industry IT platform. This approach, formulated in **Figure 21**, leverages existing applications while helping 3PLs implement and develop new applications, all using service-oriented architecture (SOA) and open industry standards. This enables 3PLs to offer multiple services to multiple clients from a single platform. It allows shippers to support multiple lines of business through multiple 3PLs, using one platform. SOA permits users to design and link applications in different ways, accommodating different needs, yet benefit from the standardization of a shared foundation. No one loses, because the same investment is leveraged across any 3PL-shipper relationship. "We need an open door – a common harmonized platform," said one participant.

This approach solves the business problems resulting from existing 3PL IT because it integrates 3PL and shipper across the three key areas of integration: order management, transportation planning and execution, and track and trace. Key measures or pre-conditions include:

- **Data Integration:** Accurate data must flow through systems consistently
- **Process alignment:** IT process must be in line with business process
- **Exception Management:** Alerts to customers when things do not occur as planned.

IT Capability Gap: The Takeaways

The gap this study has traced since 2002 between shippers' expectations for 3PLs' IT capabilities and their satisfaction with those services persists. ASE participants cite 3PLs' considerable investment in functionally siloed, legacy systems, and indeed, lack of internal IT integration within 3PLs leads the list of shipper respondent complaints. Even long-standing standardization efforts such as EDI are subjugated as shippers and 3PLs alike bend the standards to accommodate existing IT limitations. As a result of these IT challenges, shipper respondents say they lack the KPIs, alerts and visibility required to run adaptive supply chains. 3PLs, in the meantime, face similar difficulties in getting the data and commitment they need from shippers. Issues of trust and risk on both sides of the relationship feed the status quo. But ASE and focus interview executives concur that these issues can be overcome through investment in a global cross-industry IT platform that allows for functional flexibility while preserving existing IT investments and limiting costs.



Supply Chain Orchestration

Shippers Rethinking Current Global Networks

A sea change is underway in logistics as companies rethink their long, thin supply chains.

Over the past 15 years or so, many manufacturers have shifted production to Asia, trading off longer lead times for low-cost labor and the benefits of cheap transportation. Even before the current economic recession started, however, some executives had begun to rethink this strategy. Several factors are contributing to this shift. For one, after 15 years of decline, for the last four to five years inventory and transportation as a percent of the US gross domestic product has been growing. (See **Figure 22**)

Other factors suggesting reconsideration of current supply chain strategies include:

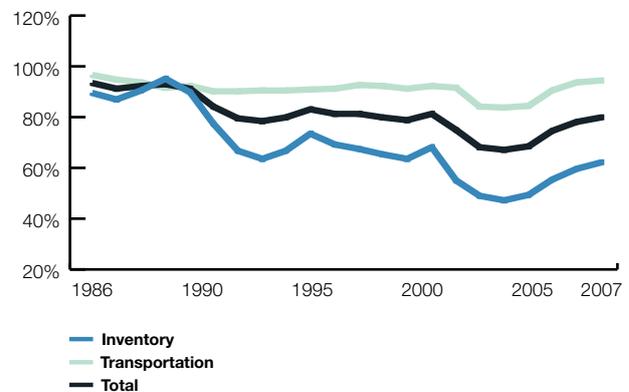
- The influx of production has given rise to a new middle class in lower-cost countries such as China, India, Mexico, Thailand, and Vietnam, leading to rapidly changing local labor rates. Now, with labor rates more similar in, say, China and Mexico, the cost of shipping from one or the other gains increased significance. High tech and other vertical markets are also embracing lower-cost, growth markets in Eastern European countries including Hungary, The Czech Republic, Slovakia, and Poland.
- Fuel prices have fluctuated between \$40 US per barrel to \$146 US per barrel.
- Government intervention on currency matters can often lead to a skewing of trade relationships.
- A special concern of US companies is the increased risk of goods in transport resulting from the threat of terrorism and piracy.
- Quality Assurance (QA) issues are grabbing headlines, such as use of environmental toxins in clothing and lead paint in toys. The resulting need for QA drives up costs.

- Newly developed transport options continue to emerge, such as an expanded Panama Canal and more cost-efficient inter-modal combinations.

Together with the economic downturn, these developments are prompting some executives to revisit current supply chain strategies. A critical consideration in this process is the role 3PLs can play in restructuring the supply chain to better meet current and emerging conditions, as well as serving in a more strategic capacity in the new infrastructure that results.

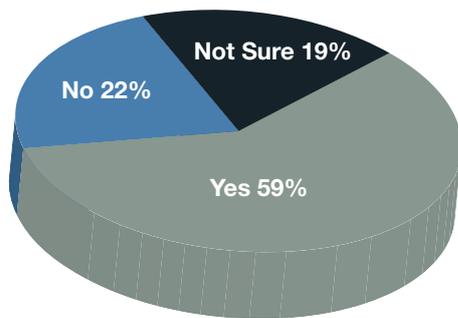
As seen in **Figure 23**, nearly 60% of shipper respondents feel this is the time in which to re-evaluate their relationships with their 3PLs and possibly drive these relationships deeper. A significant 19% are unsure, perhaps indicating they are somewhat confused by what the current environment means for their businesses and 3PL relationships.

FIGURE 22:
Index of Logistics Costs as a Percent of GDP 1986 - 2007



Source: Council of Supply Chain Management Professionals *19th Annual State of Logistics Report* (2008)

FIGURE 23:
Shipper Respondents' View of the Economic Crisis as an Inflection Point to Rethink Supply Chain/3PL Relationships



Despite the high percentage of shipper respondents who are rethinking their 3PL relationships, many still appear to feel they are better at supply chain design and execution than their 3PLs. More than half (56%) of shipper respondents agree that supply chain is a core competency for their companies; indeed, where organizations compete on supply chain, such as fast-moving consumer goods or high-tech, it's understandable that they would seek to build and retain such expertise. The concept of outsourcing such a strategic aspect of decision making is a fairly new one.

More telling is the 40% who want their 3PLs to be execution focused, and the 38% of shipper respondents who say their 3PLs lack the business expertise that would coax them to increase outsourcing to 3PLs.

One ASE participant noted, "We had one major 3PL. We were driving them to find a solution in the open deck arena. Eventually their lack of expertise was revealed and we took that business and segmented it to another party that does have the expertise."

The inflection point in rethinking the supply chain and the 3PL clearly shows that shippers are prepared to consider 3PLs differently, but only when 3PLs have the specific business lines of expertise and skill sets required to serve in a strategic capacity.

New Era, New Metrics

Changing market dynamics are also influencing supply chain design. Shippers want responsive supply chains capable of reacting more quickly to rapidly changing customer demands. They also want to create more

sustainable, environmentally conscious supply chains. That means striking a balance between labor and transportation costs and the market value of carbon-reducing processes and compressed production cycles that beat the competition. One route to lower costs is to increase the use of automation in manufacturing processes, rather than chasing low labor rates. Another approach is to choose manufacturing locations that deliver proximity to markets along with low, but not necessarily, lowest, production costs, as well as energy-saving strategies. To select these locations, some supply chain leaders are beginning to embrace total landed cost, or total distributed costs, as a new metric.

Of course, relying on total landed cost (TLC) requires being able to calculate that metric. That's not a simple task; the data for TLC calculations is often not available or spread across multiple systems, so estimating total landed costs, adjusting the estimates based on actuals, and then using the TLC data to redesign supply chains is still very much a work-in-progress initiative at most companies. Of the few shippers currently using total landed cost, many rely on homegrown solutions; joint 3PL-shipper efforts to determine total landed costs are rare. However, these shippers are dependent on 3PL partners to deliver data in the right formats if their algorithms are to be fed correctly. TLC also demands that 3PLs supply data about real costs that they may be hesitant to share. Another issue complicating TLC calculation is that some organizations lack the detailed data these formulas require.

"From my past experiences, companies don't really measure total landed cost," says Danny Tan, Director, Materials at Schering-Plough and a participant in the Singapore workshop. "They tend to measure freight costs and manufacturing costs, in other words, individual costs. These measurements just take snapshots of the situation. Maybe 3PLs can help measure total landed costs."

Indeed, as seen in **Figure 24**, total landed cost reporting and analysis leads the list of critical capabilities shipper respondents would like their 3PLs to bring as strategic partners.

These responses suggest that shippers are closely considering major changes in sourcing and/or networks, and would welcome contributions from 3PLs if they had the requisite skills and expertise. It is important to note that only a few of these would be typical of 3PL services offered today, and not all shippers are necessarily willing to pay for them. In the *2008 Third-Party Logistics Study*, shipper respondents expressed an interest in more strategic

FIGURE 24:
Critical Capabilities Shippers Would Like to See in 3PLs

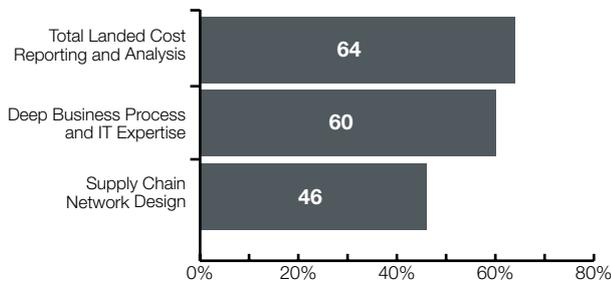
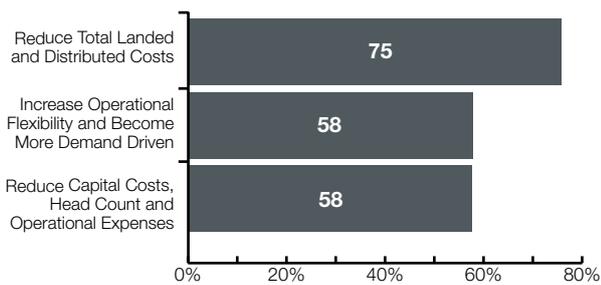


FIGURE 25:
The Value of A More Strategic 3PL Relationship to Shippers



relationships with 3PLs, including future use of 3PL IT services such as collaboration tools, supplier relationship management, supply chain planning, Internet-based exchanges, RFID and global trade management.

The value of these capabilities to shippers is clear. As seen in **Figure 25**, a substantial three-quarters of respondents feel a more strategic relationship with 3PLs would reduce total landed and distributed costs.

Nearly sixty percent indicate more strategic 3PL relationships would increase their operational flexibility and help them become more demand-driven, as well as reduce capital costs, head count and operational expenses.

But there is work to do before they can attain these benefits. As stated previously, 38% of shipper respondents say their 3PLs lack the business expertise that would motivate them to increase outsourcing to 3PLs. However, it's certainly the case that a number of 3PLs have built up market-specific services and expertise in individual industries.

It seems there are more specialists in some vertical markets than others, however. "It is difficult to come across customer needs being met when 3PLs do not understand the industry they are working with, and it is rare that 3PL employees have experience in their customers' industries," says Andre op't Hof, Manager, Material Support for Embraer Asia Pacific Pte Ltd. and a participant in the Singapore workshop. Another participant suggested companies and 3PLs make an effort to hire from one another's industries, to cross-pollinate knowledge, noting one 3PL strong in pharma that hired a pharmacist to deepen the 3PL's industry knowledge.

Regional expertise can also attract shippers seeking to leverage local knowledge. For example, in the Australian region, "Shippers will run to 3PLs with the strongest brand in the region where the shipper's headquarters is based," according to one 3PL. A Singapore workshop participant noted that 3PLs in the ASEAN (Southeast Asia) region are younger companies, and "the maturity has not been reached yet. There is a difference between what they want to be and what we want them to be."

Because of all of these factors and the reported perceptions they have of 3PLs, shippers need to be shown that their 3PLs have the capabilities and deep business expertise needed to move to the strategic partner level; this suggests that, as with IT capabilities, a gap persists between what capabilities shippers would like to see from 3PLs and what they perceive as 3PLs' actual abilities.

Figure 26 traces the evolution of the logistics service provider from a traditional model offering individual, mostly execution-based, services, through the 3PL and 4PL/lead logistics provider models, to a full orchestrator of supply chain services. A full orchestrator co-develops a supply chain coordination strategy in concert with the shipper, and then manages the complete cycle of supply chain activities.

As logistics providers transition from one stage to the next, they assume more control and responsibility for the customer's supply chain. As the previous results indicate, shippers are willing to entrust their providers with this mounting responsibility only when that provider demonstrates extreme expertise in their industries. As revealed in the next section, shippers also need to see — and accept for themselves — readiness to share confidential data as well as to share risk.

Getting in Ship-Shape

3PLs are not the only ones who need to make adjustments in order to draw more benefit from their relationships. Shippers recognize that they need to make some changes as well. **Figure 27** on page 36 shows that 66% of shipper respondents believe they need to team with 3PLs to reengineer business processes.

Interestingly, a slightly lower percentage of shipper respondents, 58%, believe a more strategic 3PL relationship requires them to undertake detailed data sharing, including demand forecasts, financials, business plans, sourcing, and so on.

There may be several reasons for this; for one, the persistent IT gap between shippers' expectations of 3PL IT capabilities and what they actually offer may lead shippers to believe that 3PLs lack the ability to use this data if it were made available. Another possibility is that shippers do not trust this data in the hands of a third party, particularly one that may also be working with the shipper's competitors. To date, sharing of data as sensitive as demand forecasts has been very rare.

In such a scenario, "the customer would give away core competencies. This is a huge risk if your entire business suddenly lies on a 3PL server somewhere," said Bjorn Vang Jensen, Vice President, Group Purchasing at Electrolux S.E.A. Pte Ltd., a participant in the Singapore workshop. "You would need to run the 3PL's processes on the

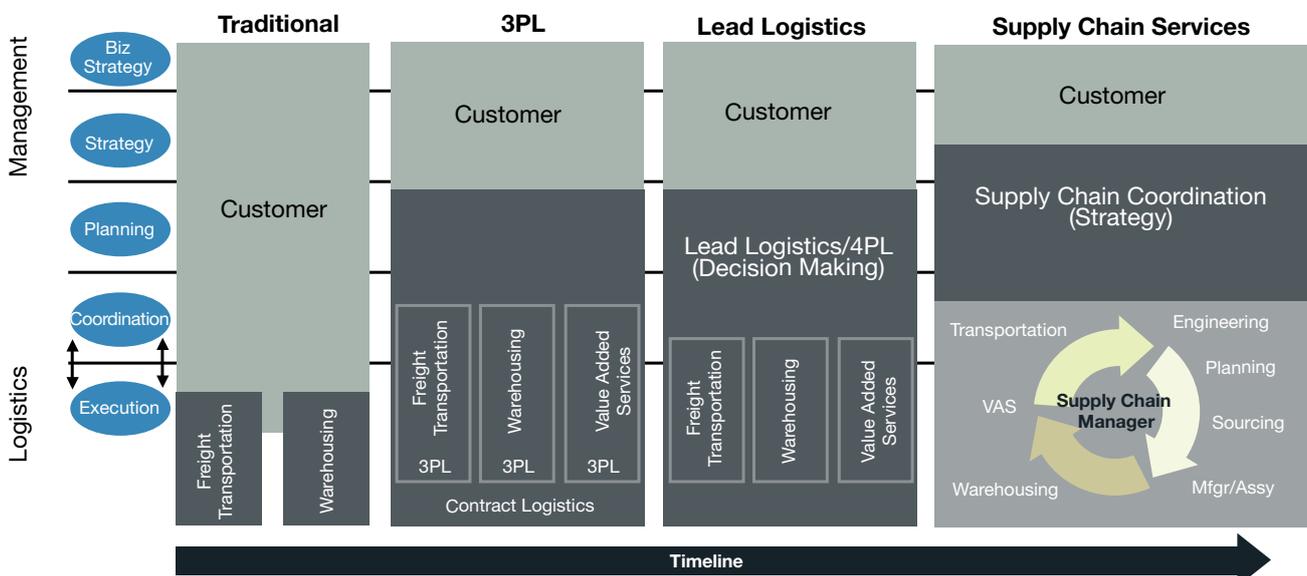
customer's server infrastructure, which could decrease the potential savings for them. You need contracts that ensure the handling of data, responsibilities and reliabilities." 3PL Saddle Creek has seen a wide range of attitudes about data sharing, says Woody Blaylock, VP of Information Services. "We have declined to bid on business in an RFP because the data and process represented significant risk to us."

The story behind the survey results is that, in order for 3PLs to move to the strategic level of partnership with their customers, they need to demonstrate deep business process knowledge and expertise, offer flexible and integrated IT platforms and systems, and be able to convince these customers that highly sensitive data sharing can work to their benefit.

"There exists a real lack of partnership between 3PLs and customers," said one ASE team considering the issue. "Both sides could benefit from sharing infrastructure. The challenges are fear of openness and limited IT resources to achieve a beneficial integration." ASE participants also noted that both 3PLs and shippers fear having squandered resources should the relationship come to a premature end.

This fear has helped to limit the evolution of 3PLs toward the models illustrated on the right side of Figure 26. Without shipper confidence in 3PL industry expertise and a willingness on both sides to share data and risks as well as potential gains, newer, more value-added business models remain an idea rather than a reality.

FIGURE 26:
3PLs Are Evolving Into Supply Chain Orchestrators



3PL Saddle Creek has seen a wide range of attitudes about data sharing, says Woody Blaylock, VP of Information Services. “We have declined to bid on business in an RFP because the data and process represented significant risk to us.”



Steps to Change

Shipper respondents feel strongly that more strategic relationships with 3PLs can help them attain critical goals in re-aligning their supply chains to meet today’s demanding market conditions. But getting to that level of partnership requires overcoming significant barriers on both sides of the relationship. ASE and focus interview participants suggest these steps:

- **Get Sponsorship at All Levels.** To influence executives, one ASE participant suggested, “if you share success stories you may overcome the lack of support by top management.”
- **Establish Excellent Communications.** One ASE team said “good communication throughout the entire organization and alignment of internal and external strategies helps to increase the courage to change the supply chain model. What also helps is knowing what is driving the business, cost drivers/profit drivers and trying to find each other on those issues.”
- **Sharpen 3PL Skill Sets** in strategic services such as selecting sourcing locations, network redesign and calculating total landed cost.
- **Ensure Deep Understanding** of the market and the shipper’s unique business needs.
- **Use Joint Workshops** to map the supply chain and undertake business process redesign. Another ASE team concluded, “Supply chain orchestration: We need to get it on the agenda of the 3PLs. We should create a strategic management session to share and exchange the strategic information and knowledge, both internally and externally, including the business plans.”
- **Work to Overcome IT Gaps** through investment in standardized, open platforms.

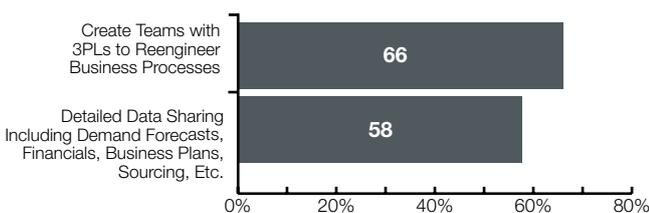
- **Agree on Clearly Identified Standard Operating Procedures and KPIs** to facilitate implementation of sound processes for measurement and continuous improvement.
- **Begin to Collect the Data** required to calculate total landed or distributed costs rather than siloed, individual activity costs. One ASE participant noted that his company would love to share data with its 3PL to arrive at a total landed cost, but they simply don’t collect data at the level of detail required to undertake a total landed cost calculation.

This last point is critical. As the research shows, now more than ever, shipper respondents are primed to look at their supply chains with fresh eyes, reconsidering everything from where they produce to what they outsource. But thinking differently about supply chain demands that shippers also take a new approach to collecting data from their supply chains. It takes a new level of detailed data, as well as the willingness to share that data with a trusted 3PL partner, to extract new levels of value from 3PL relationships.

Supply Chain Orchestration: The Takeaways

Global market conditions were challenging old paradigms about the appropriate positioning of production and logistics resources even before the souring economy turned up the pressure. Now, nearly 60% of shipper respondents agree that current conditions are serving as an inflection point to rethink their supply chains as well as their relationships with 3PLs. Total landed cost reporting and analysis leads the list of critical capabilities shipper respondents would like their 3PLs to have in order to gain a more strategic relationships, followed by deep business process and IT expertise. These respondents feel strongly (75%) that such deeper relationships would improve their total landed and distributed costs. But there are additional capabilities required on both sides to fulfill this vision. Beyond the aforementioned IT and business process investments, shippers want to see 3PLs attain substantial vertical and regional market expertise as well as the ability to fully understand their particular businesses. Internally, shippers recognize their need to be more forthcoming with plans and data and be willing to team with 3PLs to reengineer business processes. Despite these obstacles, the steps toward a more strategic 3PL-shipper relationship are readily available for those with confidence and commitment.

FIGURE 27:
Changes Shippers Need to Make to Be More Strategic with 3PLs





Strategic Assessment

Collaboration and Trust are Keys to Strong Future Supply Chains

“Past performance does not guarantee future results.” This disclaimer, found on many a financial prospectus, applies equally to most every type of business in the current economy. Supply chain is no exception.

A long-term perspective in the current recession reveals that the last two decades represent exceptional conditions that are unlikely to return. Unprecedented factors including rapidly multiplying global manufacturing capacity, free trade agreements, ready access to credit, and enhanced IT capability fostered significant commercial growth and in turn, the genesis and expansion of the third-party logistics industry.

This study, now in its 14th year, has documented much of that growth. Today, however, the conditions that delivered us to today’s 3PL marketplace are quickly changing. As this study explores in depth in both the *Economic Volatility* and *Supply Chain Orchestration* chapters, the logistics industry is now experiencing excess capacity, price pressures, plant shutdowns, financing constraints, consolidation, a shrinking supplier base and diminished consumer demand.

All this has shippers questioning old assumptions and seeking to reinvent themselves and the ways they go to market. In the near term, they need to cut costs. Longer term, they’re seeking to understand what the “new normal” will be and how to adapt their businesses and supply chains. A significant part of this re-evaluation is the role 3PLs can play in helping shippers attain the more agile, adaptable and efficient supply chains that will help them weather future fluctuations in market conditions, both ups and downs.

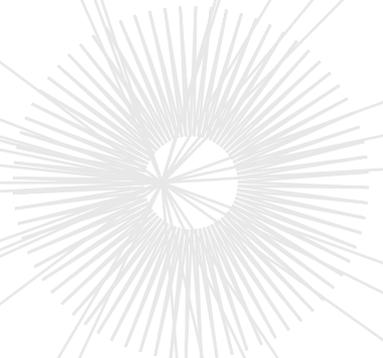
Perceptions and Realities

Or at least, 3PLs would like shippers to consider them for that role. 3PLs are seeing volumes decrease and are also seeking short-term and long-term strategies to contain costs and retain and build business with shippers. They don’t want to be stuck with underutilized assets, but they do want to provide the agility, capacity and supply chain expertise needed to support shippers’ increasingly complex logistics needs.

The results of this year’s research show that many shippers don’t necessarily think of 3PLs in a strategic capacity. But as reported in the chapter, *Supply Chain Orchestration*, they’re now open to hearing ideas from 3PLs – 60% of shipper respondents say this is the time to re-evaluate relationships with their 3PLs and possibly drive them deeper. Already, shippers are turning to transportation providers for innovation, such as mode shifts or inter-modal solutions.

But 40% of shippers surveyed want their 3PLs to remain execution-focused, and nearly as many say 3PLs lack the business expertise that would encourage them to increase outsourcing. Just a few approach their 3PLs to collaborate on strategies to cope with the recession; others take the opposite tack, asking for price concessions without additional business commitments. One shipper comments that keeping their 3PLs in business was not one of his company’s key performance indicators (KPIs). This stance will push logistics toward commodity status and negate any opportunity to tap 3PLs’ innate supply chain expertise.

Those aren’t the only issues standing in the way of more collaborative, strategic relationships among shippers and 3PLs. As explored in the *IT Capability Gap* chapter, a gulf persists between shippers’ expectations of 3PL IT capabilities, and their satisfaction with those capabilities.



In fact, there is a gap between shipper and 3PL perceptions of this very issue. What is clear is that current legacy, siloed architectures are not delivering the KPIs, alerts and visibility needed to run supply chains today and tomorrow. Another significant IT need emerging from our research is the ability for 3PLs to deliver reporting and analysis tools to calculate total landed cost (TLC) so shippers can make the best decisions about their supply chain network design. But issues of trust and risk have constrained progress toward adoption of more open platforms and shared data, as well as toward such advanced capabilities as calculating TLC.

Forging New Ground

Newer concepts and technologies are emerging to help both 3PLs and shippers cope with this new, slower-growth world. One of them is to create horizontal, cross-company supply chains refereed by neutral third parties. This innovation is based on the concept that by clustering specific logistics activities and consolidating supply chains, significant economies of scale can be achieved in terms of efficiency (logistics cost), effectiveness (customer service) and environmental sustainability (carbon footprint). A pioneer in this field is TRI-VIZOR, based in Belgium. According to Sven Verstrepen, founding partner for the company, the logistics sector is on the verge of a paradigm shift as some of the largest shippers in the world are gearing up to bundle their supply chains. Similar horizontal collaboration is explored in *Future Supply Chain 2016*, by the Global Commerce Initiative and Capgemini.

The authors of the *2009 14th Annual 3PL Study* advocate these essential steps as building blocks toward more fruitful 3PL-shipper relationships that maximize the potential for success in the future economy:

- 3PLs need to reinforce and productize skill sets such as network optimization and sustainability guidance, advertise these to shippers and reinforce their value by showcasing results. The logistics industry needs to see examples of successful, progressive relationships.

- Shippers need to be open to tapping 3PLs' internal expertise and to asking for the services they want, such as assistance with optimizing the network. There is nothing to lose by asking, and potentially much to gain.
- 3PLs should consider new models and a new way of looking at their customer sets. They need to improve their ability to build networks and spread assets across multiple shippers. Some, such as Panalpina, are using the downturn to embrace new opportunities. "Panalpina views the current economic climate also as an opportunity to invest into our future in order to strengthen our position in the market," says Monika Ribar, CEO. "My colleagues from the Executive Board and I have brought various initiatives on the way, which we firmly believe will contribute as soon as the economy will pick up."
- 3PLs need to adopt a *platform strategy* — they need to rationalize and modernize their current IT applications and infrastructure to attain an operations IT platform that is scalable, flexible, and based on open industry standards. By evolving to a single operations platform that supports multiple lines of business, and multiple clients, 3PLs can speed time to market, lower IT costs, and ease collaboration with shippers and carriers.
- 3PLs and shippers need to develop new methods and frameworks for collaboration, including shared key performance indicators, joint brainstorming, long-term commitments and models that share both the risks and rewards of innovation.

The sum of 3PL plus shipper can indeed be greater than its parts. Collaboration has the potential for helping both parties survive today's conditions and emerge better prepared for those to come. The economic downturn may well be a catalyst for collaboration and change, taking 3PL-shipper relationships to the next level.

About the Study

This report presents findings from the *2009 Fourteenth Annual Third-Party Logistics Study*, which was conducted in mid-2009.

Since its inception, the Annual Third-Party Logistics study has documented the growth and evolution of the third-party logistics (3PL) industry. To date, the focus has been on identifying and tracking key trends and views of the 3PL industry largely from the perspective of 3PL customers (shippers) and others who currently choose not to use 3PLs. This year, however, the study scope was expanded to include the views of 3PL providers on these topics.

The 2009 3PL study includes three streams of research: a web-based survey, workshops with shippers leveraging survey content and the Capgemini Accelerated Solutions Environment® (ASE) and focus interviews with industry executives. Respondents represent a broad range of industries and hail predominantly from North America, Europe, Asia Pacific and Latin America, in addition to other locations throughout the world such as South Africa and the Middle East.

Multiple perspectives and a diverse array of research streams enable us to attain a broad-based, multi-faceted view of attitudes, trends and results experienced by 3PL users, non-users and 3PL providers.

2009 Study Objective

Discovering and exploring 3PL industry trends, issues, and opportunities is the overall objective of the *2009 Third-Party Logistics Study*.

Each year, the study results as well as greater industry developments suggest trends that warrant closer examination. Included in the 2009 study are special topic reports on economic volatility, the IT capability gap and supply chain orchestration.

Goals for each portion of the study include:

Current State of the 3PL Market:

- Summarize the current and anticipated future uses of 3PL services.
- Identify shipper needs and how well 3PL providers are responding to those needs, from the perspective of both shippers and the 3PLs themselves.
- Understand how customers select and manage 3PL providers.
- Examine why shippers outsource or elect not to outsource to 3PL providers.

Special Topics:

- Look into key issues affecting 3PL use, including economic volatility, the IT capability gap and supply chain orchestration.

Strategic Assessment:

- Provide a strategic assessment of the future of the 3PL industry in light of the findings of this research.

2009 Study Methodology

The capabilities and uses of 3PLs have evolved considerably over time as supply chains have grown more complex, market conditions have become even more dynamic and 3PL best practices have emerged. To assess these changes, the study team uses three complementary channels of research.

Web-Based Survey

During the spring and summer of 2009, a Web-based survey was sent to logistics and supply chain executives in North America, Europe, Asia Pacific, Latin America, as well as other regions and geographies of the world. Additionally, for the first time, surveys were sent to executives from companies providing 3PL services in order to gain their perspectives on many of the issues and topics included in the user survey.



We contacted executives by email. Those willing to participate were asked to click an Internet link that led them to an on-line survey. The survey was available in English, Spanish, Portuguese, French and German. To maintain confidentiality and objectivity, shippers were not asked to name which specific 3PL providers they used.

The contact database of logistics and supply chain executives represented a wide range of industries, including automotive, chemical, construction building, consumer products, food and beverage, high-tech and electronics, industrial manufacturing/defense industry, life sciences and healthcare, retail, telecommunications, and 3PL/4PL.

Survey recipients were asked to think of a “third-party logistics (3PL) provider” as a company that provides one or more logistics services for its clients and customers and a “fourth-party logistics (4PL) provider” as one that may manage multiple logistics providers or orchestrate broader aspects of a customer’s supply chain.

3PL Users: The number of survey responses received from logistics and supply chain executives (i.e., shippers) in various regions of the world is indicated in **Figure 28**. These totals reflect the numbers of users and non-users of 3PL/4PL services who responded to the web-based survey. **Figures 29** and **30** provide information on the industry and revenue levels of the respondents who identified themselves as users of 3PL/4PL services. Most of the 3PL/4PL user survey respondents held corporate positions including Manager/Director, VP/SVP, and Corporate Officer/President/CEO.

3PL Non-Users: Included in the totals shown in Figure 28 are 175 non-users of 3PL services who provided us with perspectives on why they do not currently use 3PLs, and on a number of other topics relevant to their classification as non-users.

3PL Providers: Responses were received from 279 executives and managers representing the provider side of the 3PL business. General characteristics of these respondents included: 1) a wide spread of operating geographies; 2) an extensive list of industries served (actually quite similar to the industries represented by the participating 3PL users); 3) a range of titles, from managers to Presidents/CEOs; 4) approximately 40% of the 3PL firms expected 2009 company revenues in excess of US \$1 billion (approximately €750 million), while about half reported revenues of less than US\$500 million (approximately €350 million).

Focus Interviews

The study team conducted “focus interviews” with industry observers and executives, primarily relating to the examination of the special topics that were identified for this year. These focus interviews provided exceptionally valuable opportunities to gather pertinent information and perspectives from a wide range of professionals who have knowledge about the 3PL sector and the special topics — economic volatility, the IT expectation/capability gap and supply chain orchestration.

ASE Workshops

We leveraged the Capgemini Accelerated Solutions Environment® (ASE) as a brainstorming setting where participants, all shippers, collaborated on shared issues. (See www.capgemini.com/ase for more about ASEs.) To better understand the results of the survey and to gain valuable perspective from 3PL users, the research team held facilitated ASE sessions based on composite supply chain challenges related to the study material. ASE sessions were held in Chicago, Illinois and in Utrecht, The Netherlands. A similar, non-ASE workshop was co-hosted with The Logistics Institute - Asia Pacific in Singapore and addressed overall study issues in addition to specific topics related to 3PL use in the ASEAN (Association of Southeast Asian Nations) region.

Follow-Up Activities

In addition to this publication, the results of the *2009 Fourteenth Annual Third-Party Logistics Study* will be presented in a variety of venues. These include:

- Presentations at influential industry conferences such as the Council of Supply Chain Management Professionals (CSCMP)
- Analyst briefings
- Magazine and journal articles
- A web site, www.3PLstudy.com, which includes copies of the report for download as well as supplementary materials

FIGURE 28:
Shipper Respondents Represented Several Major Geographies

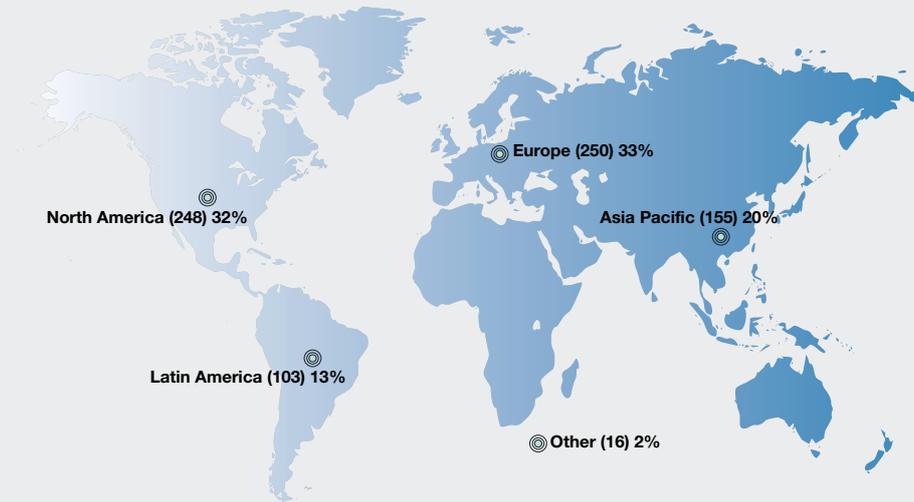


FIGURE 29:
Eight Industries Represented 76% of Shipper Respondents

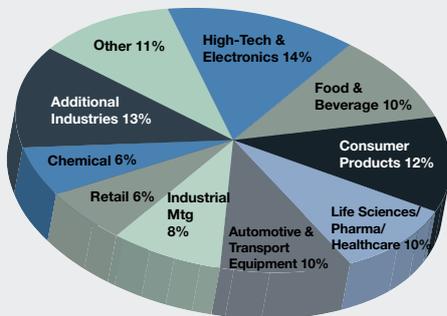


FIGURE 30:
About 2/3 of Shipper Respondents Anticipated 2009 Sales Over US\$1 Billion (€750 Million)

Anticipated Total Sales for 2009		All Regions	North America	Europe	Asia Pacific	Latin America
High	US\$25 billion or more (€20 billion or more)	18%	19%	20%	17%	9%
Medium-High	US\$1 billion – less than US\$25 billion (€750 million – less than €20 billion)	39	50	41	34	16
Medium	US\$500 million – less than US\$1 billion (€375 million – less than €750 million)	17	15	16	24	11
Low	Less than US\$500 million (€350 million)	26	16	23	25	64

Credits

The sponsors of the *14th Annual 3PL Study* would like to thank all of the companies and individuals who shared their experiences and insights with us through focus interviews, the workshop in Singapore and ASE workshops in Chicago and Utrecht. Your contributions are invaluable to the analysis of the survey results and the ideas expressed in this report.

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