

EXECUTIVE SUMMARY AND REGIONAL COMPARISONS

2008 3PL CEO SURVEYS

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The surveys discussed below mark a continuation of a series of annual surveys of the CEOs of major 3PL service providers that began in 1994. During 2008 three separate surveys were conducted—one of the CEOs of large companies serving the North American 3PL marketplace, another of those serving the European market, and a third of companies serving the AsiaPacific 3PL marketplace. Thirty-nine CEOs were involved in the surveys, and collectively their companies generated in excess of \$60 billion in 3PL revenues in those three markets during 2007.

- Nine of the 39 companies failed to meet their revenue growth projections during 2007 (five in North America, three in Europe, one in APAC).
- The average revenues reported for 2007 by the companies involved in the surveys were: North America \$1.33 billion; Europe \$2.6 billion; and, the AsiaPacific region \$693 million.
- Thirty-five reported their companies were profitable during 2007, with four reporting their companies were unprofitable.
- Only one CEO believed that the 3PL industry in the geography in which they operated had been unprofitable during 2007.
- While the CEOs in all three regions continue to be bullish about future revenue growth prospects of not only their companies but also the regional 3PL industry, their growth projections have become more modest over the past several years, particularly in Europe. The average one and three year industry revenue growth projections of the CEOs involved in the North American and European surveys are in the single digits.
- From a company standpoint, the one year revenue growth projections were 12.6% for North America (12.9 in 2007), 10.8% for Europe (12.5% in 2007), and 21.4% of APAC (28.8% in 2007).
- The average three year company growth projections were 13.4% for North America (13.2% in 2007), 10.0% for Europe (15.1% in 2007), and 23.1% for APAC (26.7% in 2007).
- The one year regional 3PL industry revenue growth projections averaged 9.0% for North America (11.1% in 2007), 7.3% for Europe (7.5% in 2007), and 11.2% for APAC (12.9% in 2007).
- The average three year regional 3PL industry growth projections were 9.8% for North America (11.4% in 2007), 6.5% for Europe (9.7% in 2007), and 12.9% for APAC (12.6% in 2007).
- There has been a substantial increase in the attention paid to “green” and environmental sustainability issues within the 3PL industry in the past several years. Many of the companies involved in these surveys have formal sustainability programs, formal sustainability statement, a leader designated to head company efforts in the area, and they have made major changes in the operations to pursue “green” goals. According to the CEOs, while many existing and potential 3PL customers discuss such issues in their negotiations with the 3PLs, to date those issues have been relatively insignificant in getting new business or retaining existing clients. However, as a group the CEOs believe such issues will become considerably more important over the next three years.

- Only 10 of the 39 companies were involved in significant merger/acquisitions during 2007; nevertheless, more than half the CEOs expect the industry's consolidation to continue and that acquisitions will make a significant contribution to their companies' revenue growth during the next three years.
- The CEOs of 36 of the companies indicated that their companies had undertaken significant "branding" activities during the past several years to attempt to differentiate their services from those of competitors. These efforts were often directed at offsetting the perceived "commoditization" of the 3PL industry.
- In all three geographies the CEOs identified various forms of international expansion among the most important opportunities in their markets. In North America the CEOs tended to focus on possible expansion of international services, while in Europe they tended to focus on possible expansion of services in Eastern Europe and Russia, and in the APAC region they focused on the growth potential in China and India as well as the growth potential of intraAsia business.
- As has been the case for the past several years, the CEOs in all regions identified the "talent shortage" as the most significant problem faced by 3PL service providers in all three regions. Their difficulties in recruiting, training, and retaining talented managers have been well documented in our previous annual surveys.
- Price compression continues to not only be perceived as the most important industry dynamics in all three regions, but also is considered to be one of the top problems faced by 3PL managers across the regions. This problem continues to be exacerbated by the growing involvement of procurement professionals in the 3PL selection process in all three regions, and more recently by rising fuel costs. The growing involvement of procurement professionals in the process was also identified as a "Top 3" industry dynamic in both the North American and European surveys.
- All nine of the companies involved in the APAC survey provide 3PL services in China, but only one reported that the Olympics provided any significant business opportunity for his company. Fortunately, only two CEOs reported that their companies had been impacted by the natural disaster in the region during the past year.
- Six of the nine companies involved in the APAC survey provide 3PL services in India, and nearly all report their companies have been successful in such areas as penetrating the market, establishing their brands in the market, and generating operating profits in India.
- When asked to identify the most important changes they expect in their markets over the next three years, the North American CEOs tended to focus on continued consolidation activity and the continued globalization of the industry. The European survey participants focused on continued consolidation and expanded growth opportunities in Eastern Europe and Russia. The APAC CEOs predict a more general acceptance of the concept of logistics outsourcing in the region, continued increases in labor and fuel costs, and transportation improvements as the most important changes.

What do I expect?

1. Continued growth, at more modest rates, in all three geographies.
2. Continuation of the consolidation movement in all three geographies, possibly at a slower pace.
3. More pressure on 3PLs to establish and extend their "brands." The 3PL industry to become "greener" and the "green" issues to become considerably more important not only in terms of increased regulations but also in the 3PL selection process.
4. Many of the recent operational and strategic decisions made by 3PLs in response to rising fuel costs to become "institutionalized."
5. Continued increases in labor costs in China coupled with rising fuel costs to lead many manufacturers to reassess their global sourcing and manufacturing strategies, particularly related to exports. This may ultimately lead to redeployment of assets and talent by the 3PL industry in response to any related shifts.
6. Despite those cost increases the emergence of substantial domestic markets in Asia, particularly in China and India will not lead to any nearterm outmigration of manufacturing activities from China and India.

7. Price compression will continue, exacerbated not only by the growing involvement of procurement professionals in the 3PL selection process, but also increased fuel costs. While contract provisions allow most of the large 3PLs to recover a high percentage of their fuel cost increases, customers will likely resist any increases related to the other increased costs incurred by the 3PLs.
8. While the industry has taken many steps to improve its success in recruiting, hiring, training, and retaining managers and operating employees, due to intense competition for talent in this area, this will continue to present a significant challenge to the industry in the near term.

2008 3PL CEO Surveys—Regional Comparisons
Prepared by Professor Bob Lieb, Northeastern University, September 15, 2008
The 2008 surveys were sponsored by Penske Logistics

	North America	Europe	APAC
Number of Companies Involved in survey	20 with total revenues of \$30B+ in NA	10 with total revenues of \$23B+ in Europe	9 with total revenues of \$5B+ in APAC
Growth Projections	-Company-1 yr. -12.6% 3 year ave-13.4% -Industry-1 yr.-9.0% 3 year ave.-9.8%	-Company-1 yr 10.8% 3 year ave-10.0% -Industry-1 yr.-7.3% 3 year ave.-6.5%	-Company1 yr 21.4% 3 year ave-23.1% -Industry 1 yr.-11.2% 3 year ave.-12.9%
Meeting Growth Projections and Projects	-company growth projections: 5 exceeded, 10 met, 5 didn't meet -company profitability: 1 companies very profitable, 18 moderately profitable, one broke even -industry profitability: 1 said the industry was very profitable, 16 CEOs said the NA 3PL industry was moderately profitable last year, 3 said it broke even	-company growth projections: 3 exceeded, 4 met, 4 didn't meet -company profitability: 3 companies very profitable, 4 moderately profitable, 1 broke even -industry profitability: 3 CEOs said the industry was very profitable, 4 said it was moderately profitable, 1 said it broke even, 1 said it was unprofitable	-company growth projections: 4 exceeded, 5 met, one failed to meet -company profitability: 2 companies very profitable, 4 moderately profitable, 3 unprofitable -industry profitability: 1 CEOs said APAC 3PL industry was very profitable last year, 1 moderately profitable, 1 said it broke even, and 1 said it was unprofitable

"Green" Issues and Environmental Sustainability	<ul style="list-style-type: none"> -Numerous impacts on providers -Many steps taken in response -Considerable customer interest -“green skills” have little impact on whether 3PLs get business -more emphasis will be given to these issues over next three years 	<ul style="list-style-type: none"> -Numerous impacts on providers -Many steps taken in response -Considerable customer interest -“green skills” have little impact on whether 3PLs get business -more emphasis will be given to these issues over next three years 	<ul style="list-style-type: none"> -Numerous impacts on providers -Many steps taken in response -Considerable customer interest -“green skills” have little impact on whether 3PLs get business -more emphasis will be given to these issues over next three years
Mergers/Acquisitions	<ul style="list-style-type: none"> -4/20 involved last year -17% of 3 year average revenue growth expected from M/A 	<ul style="list-style-type: none"> -4/10 involved last year -28% of 3 year average revenue growth expected from M/A 	<ul style="list-style-type: none"> -2/9 involved last year -27% of 3 year average revenue growth expected from M/A
Branding Activities	<ul style="list-style-type: none"> -17 identified some “branding” activities over past several years; variety of steps taken 	<ul style="list-style-type: none"> -All 9 identified some “branding” activities over past several years; variety of steps taken 	<ul style="list-style-type: none"> -All 10 identified some “branding” activities over the past several years; variety of steps taken
Dynamics	<ul style="list-style-type: none"> -pricing pressure slow growth economy* -growing procurement* involvement -pressures to expand international services *new in 2008 	<ul style="list-style-type: none"> -pricing pressure -growing procurement* involvement -pressure to expand international services -growing interest in logistics outsourcing* *new in 2008 	<ul style="list-style-type: none"> -pricing pressure -fuel cost increases* -pressure to expand international services -growing interest in logistics outsourcing* *new in 2008
Opportunities	<ul style="list-style-type: none"> -international expansion -IT enhancements -integrated SCM services -selling more deeply into existing client base 	<ul style="list-style-type: none"> -expansion of services in Eastern Europe -serve new verticals -integrated SCM services -opportunities to grow market share 	<ul style="list-style-type: none"> -growth of domestic business in China -India other APAC countries
Problems	<ul style="list-style-type: none"> talent shortage -pricing pressure -slow growth economy -IT costs/yields 	<ul style="list-style-type: none"> talent shortages -pricing pressures -fuel cost increases -difficulty establishing operational consistency 	<ul style="list-style-type: none"> -talent shortage -transportation problems -fuel cost increases -pricing pressure

Changes Expected in Next Three Years	-13/21 focused on M/A -continued globalization of the industry -many others	-6/9 focused on M/A -continuation of 3PL growth opportunities in Eastern Europe and Russia -capacity shortages in 3PL and trucking industries	-5/7 focused on M/A -continued growth in region, particularly intra-Asia trade continued talent shortage
Operations in China			-All 9 operate in China -cite more general acceptance of logistics outsourcing -rising labor and fuel costs -transport improvements
Operations in India			-6/10 provide 3PL services in India -high revenue growth rates -nearly all successful in penetrating the market, establishing their brands, and generating operating profits
Manufacturing Shifts	-11/20 report some shift of customer manufacturing back from Asia to North or Central America	-2/10 reported a number of their customers have moved some manufacturing from Asia to Eastern Europe	-3/9 reported a number of their customers have moved some manufacturing from the region—sourcing more heavily impacted