

**THE YEAR 2008 SURVEY:
PROVIDER CEO PERSPECTIVES
ON THE CURRENT STATUS AND FUTURE PROSPECTS
OF THE THIRD PARTY LOGISTICS INDUSTRY
IN THE ASIA-PACIFIC REGION**

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The 2008 Survey: Provider CEO Perspectives on the Current Status and Future Prospects of the Third Party Logistics Industry in the Asia-Pacific Region

INTRODUCTION

The landscape of the Asia-Pacific third-party logistics marketplace continues to change. New providers continue to enter the marketplace, and a number of Chinese and other Asian companies have now become important competitors in the region. The spectacular economic growth rate of the region has abated somewhat, but is still quite impressive.

During the past year fuel costs in the region rose dramatically, and environmental concerns have become more of an issue in both industry and government.

The volume of 3PL activity in the region has grown significantly during the past decade, however, very little is known about the industry's regional structure, operations, problems and prospects. This paper attempts to provide insight into such matter.

As part of an ongoing research effort, since 2004 annual surveys of the CEOs of many of the largest 3PL companies operating in the region, based on sales volume, have been conducted to attempt to provide insight into the provider side of the 3PL industry in the Asia-Pacific region. While the CEOs involved in the annual surveys are also asked questions concerning the international operations of their companies, the primary focus of the annual surveys has been on their operations in the Asia-Pacific region. The data that has been generated in the five annual surveys has provided a solid regional overview of the 3PL industry from the perspective of the CEOs of many of the major logistics service market participants. This paper focuses on the results of the 2008 Asia-Pacific provider CEO survey.

A questionnaire was developed that focused on a variety of issues including the key marketplace dynamics in the APAC 3PL industry, and the current status and future prospects of the industry in the region. It also gave considerable attention to a number of other important issues including the 3PL industry's involvement in "green" and environmental sustainability issues, the impact of recent fuel increases on the industry and its customer base, recent branding efforts of 3PL companies operating in North America, the barriers that exist within the 3PL industry to developing and selling

integrated supply chain management solutions to customers, and key marketplace developments in China.

The chief executive officer (CEO) of each of the companies included in the survey was contacted by telephone or email, and asked to participate in a web-based survey. A target group of 10 companies was contacted, and the CEOs of all of those companies agreed to participate. Nine of the 10 subsequently completed the questionnaire online. Exhibit 1 lists the companies that participated in the 2008 APAC survey.

Two points should be noted before proceeding. First, due to individual company policies concerning financial disclosure, some questions were not answered by all respondents. Second, in a number of instances, average industry data is presented in this paper, but there is often substantial variability around that average. That variability undoubtedly reflects a number of factors including differences in company strategies, operating policies, and markets served.

RESULTS

Revenues and Profitability

Several revenue and profitability issues were addressed in the survey which was conducted during the summer of 2008. Each of these issues is discussed below.

Annual Provider Revenues. Those surveyed were asked to provide their companies' annual APAC regional revenues for 2007, and the companies averaged \$556 million. The average figures reported by the group in were \$530 in 2006 and \$500 million and \$245 million in the two previous years. It should be noted that several of the companies included in the survey are relatively new to the APAC logistics service market.

The CEOs were also asked if their companies had succeeded in meeting their revenue growth projections in the region during 2007. In response, four reported exceeding those projections (four in last year's survey), while four indicated their companies had met those objectives (five last year), and one reported his company did not meet those objectives during 2007 (one in 2006).

Company and Industry Profitability. The CEOs were asked to categorize the profitability of their companies' APAC business units during 2007. Two indicated that his companies had been *very profitable* (four last year), four categorized company

performance as *moderately profitable* (three last year), and three said their companies had been *unprofitable*. That was the first time in the five years that the APAC has been conducted that any of the participants reported that they had been *unprofitable* for the period studied.

The CEOs were also asked to categorize their views concerning the profitability of the 3PL industry in the APAC region during 2007. One said the industry was *very profitable* during 2007 (three last year), six said *moderately profitable* (three last year), one said *breakeven* (two last year). One said his company had been *unprofitable* for the period (one last year).

Operations in China

For the past several years we have asked many questions in our annual APAC surveys related to 3PL operations in China. This year, it was decided that the questions would focus on several areas of interest. The CEOs were not only asked to identify what they believed to be the most significant development that occurred in the Chinese market for 3PL services in the past year, but were also asked questions concerning any business opportunities that might have arisen because of the Olympics being held in Beijing, the impact of the natural disasters experienced by China on the 3PL industry, and the possible shift of some manufacturing activities from China.

With respect to the most significant developments, three focused on transportation infrastructure improvements, with particular emphasis given to development of domestic trucking network, transportation improvements in the western regions, and the establishment of a new transport super ministry. Those developments are significant in that in our last several surveys the CEOs had indicated that both the quantity and quality of domestic transportation services were far from acceptable. Two other respondents mentioned an increased willingness to outsource logistics services, particularly with respect to industry sectors that had not previously outsourced. The same number focused on cost increases, particularly with respect to labor inputs and fuel. New labor laws and signs of a slowing Chinese economy were also mentioned by the CEOs.

Only one CEO said that the Olympics provided a significant business opportunity for his company—and that opportunity was substantial! That 3PL was the preferred

logistics provider for the games and managed the Olympics Logistics Center for the Games. It was also the only package delivery provider allowed to deliver to the Games.

Three of the CEOs indicated that some of their 3PL clients are in the process of scaling back their commitments to manufacturing in China. The 3PLs are helping those clients rethink the location of those activities.

Operations in India

During the past several years we have also included a number of questions in the APAC questionnaires concerning 3PL operations in India. We did so again this year. Six of the nine companies involved in the survey offer 3PL services in India. The companies offer those services both directly and in conjunction with alliance partners. Those surveyed were also asked to estimate their companies' revenue growth rate in India in 2007 and to estimate what the average annual revenue growth rate would be over the next three years. Those numbers were 48% and 31% respectively. However, it should be kept in mind that these companies are generally working from a relatively modest revenue base in India at this time.

Finally, the six CEOs were asked to comment on the success of their companies in India to date in three areas, and to rank that success as *very successful*, *successful*, or *unsuccessful*. In terms of penetrating the market, one ranked his company as very successful, four said successful, and one said unsuccessful. They were less satisfied with their efforts in establishing their company brands in the market. One said his company was very successful and five said unsuccessful. With respect to generating operating profits in India, one CEO indicated his company was very successful, four said successful, and one said unsuccessful.

Mergers and Acquisitions

Many of the large 3PL companies serving the APAC region have recently expanded the scope of their operations through mergers and acquisitions (M/A). As we have in previous surveys, we asked the CEOs if their companies had made any significant acquisitions in the region during the past year, and only two of the nine CEOs said they had. Collectively, those three 3PLs acquired one 3PL, one transportation company, one warehousing company, and two freight forwarders/customs brokers.

Those surveyed were also asked what percentage of their companies' regional revenue growth during the next three years was likely to come from acquisitions. On average, they expect 27% (21.9% last year) of their revenue growth to come from acquisitions.

Private equity companies have attempted to establish a position in the region through a wave of 3PL acquisitions. We addressed a number of related issues in last year's survey. This year we asked the CEOs if those companies were still having a significant impact on the 3PL industry in the region, and five of nine said "yes." When they were asked to comment on that impact, their responses were rather succinct! One said, "THEY OWN MY COMPANY!" Two others emphasized the reduction in the number of major players within the industry and intensifying price competition. There were several other negative comments about their impact including:

- "They have driven up valuations to unrealistic levels. It is impossible for strategic investors to make ROI at these levels."
- (The PEs) "are creating unrealistic expectations within the industry."
- (The PEs) "have not yet made any noticeable advancement of the industry as a whole."

Industry Branding Efforts

As many 3PLs have grown through acquisitions, those acquisitions have led to some degree of "brand" confusion in the marketplace. Those surveyed were asked to discuss what steps, if any, their companies had taken to build their brand recognition and brand value in the regional marketplace during the past year. Their responses were quite varied. Three CEOs emphasized branding issues related to organizational structure. One highlighted company efforts to provide "one face to the customer" which can be challenging in a complex organization with a number of stand-alone operating units. Another focused on company efforts to leverage the brand recognition of acquired companies for some period before completing re-branding their operations. The third focused on company efforts to feature the global brand of the company rather than individual operating units in its relations with the media. Two CEOs discussed more aggressive media campaigns that were seeking greater brand visibility in the media. Several others mentioned company commitments to consistent messaging on a global

basis, and the need to emphasize quality as a differentiator in the marketplace. Finally, one CEO suggested that the company' emphasis on a commitment to sustainability issues was being emphasized in company brand-building efforts.

Barriers to Providing Integrated Logistics Services

It has often been asserted that it is very difficult for 3PLs to provide truly integrated logistics services to their clients. When asked if this is really the case, all nine of the CEOs who participated in the APAC survey said "yes." They were then asked if there were important barriers within their own companies that made that difficult, and five of the nine said that there were.

Those surveyed were next asked to identify the most important barriers faced by 3PLs in attempting to provide such integrated services to customers. In response, they identified many barriers. Several mentioned barriers related to information. Those barriers included outdated systems not only within 3PLs but also within their customer base, lack of reliable customer information, and limited funds available for systems upgrades. In terms of internal problems, the CEOs mentioned such issues as a lack of internal cooperation between business units, limited scale, and service limitations that make such integration impossible. With respect to external issues they cited such barriers as political/geographical barriers, a lack of reliable partners with which the 3PLs might form alliances, and organizational issues with respect to the customer base—many are not organized in a way in which such integrated services might be used/valued.

When asked what steps their companies have taken to promote further integration within their companies, the CEOs cited a number of interesting initiatives. These included:

- development of KPIs for the senior management team to foster better collaborative efforts across business units
- development of a global operating platform that will eventually run across all business units
- integrated training and coaching within the organization
- development of strategies to improve overall network usage.

Rising Fuel Costs

During the summer of 2008 fuel prices reached record highs in world markets. Naturally, this affected 3PLs operating in the APAC region and their customers. The survey addressed a number of related issues including how those fuel cost increase affected the 3PLs involved in the survey, the customer verticals most adversely affected by the increases, and the strategies that were used by the 3PLs to minimize the impact of fuel cost increases on their companies and customers.

The CEOs noted a variety of impacts on their companies. While all realized higher operating costs, some had to adjust fuel surcharge formulas for their customers, and this generally led to pushback from the customer base. It became increasingly difficult to raise prices as other costs rose. The 3PLs put increased emphasis on such operational aspects of their businesses as land and load optimization.

In terms of the customer verticals most affected by the fuel cost increases, three CEOs mentioned the automotive industry, two mentioned high tech, and the fashion, retail, oil and gas, and airline industries were each cited once. It should also be noted that the CEOs generally noted that heavy users of air freight in any industry were significantly impacted, and this often led to lower volume from those customers.

The strategies used by the 3PLs to minimize the impact of fuel cost increases tended to fall into three categories. These were increased use of analytical tools aimed at transportation optimization and route structure improvements, tightening fuel surcharge agreements with customers, and operational changes including driver slow-downs, efforts to reduce idling time, and improved dispatch planning and execution.

Green/Environmental Sustainability Issues in the 3PL Industry

During the past several years considerable attention has been devoted to green/environmental sustainability issues, not only in the media, but also in board rooms across industries around the world. As a result, it was decided that a section of this year's APAC3PL CEO survey would be devoted to the industry's involvement in such issues to date.

The survey not only investigated the extent to which the companies that participated in the survey were focusing on green/environmental sustainability issues, but also their reasons for doing so. Further, the survey investigated such related issues as

organizational responsibilities for related programs, and how important those issues have been in the 3PL sales process to date, and how important will they be in the future.

Formal Programs and Leadership. Eight of the 9 companies (89%) that participated in the survey indicated that they have formal green/environmental sustainability programs in place. Most of the existing programs are rather new. One was established in 2008, two in 2007, one each in 2006, 2005, 2004, and 1994. One company did not indicate when its program was initiated.

Seven of the 8 companies that have green/environmental sustainability programs also have formal corporate sustainability statements. It should be noted, however, that even if a 3PL reported that they did not have a formal green/environmental sustainability program, the company could still be actively involved in responding to environmental issues

All seven companies with formal programs have established a management position to oversee company efforts in the area. The titles of those individuals vary widely and include such titles as Sustainability Senior Manager, KN Environment, Corporate Sustainability Manager, VP of Sustainability, and Director-Sustainability.

Reasons for Establishing the Sustainability Programs. The CEOs were asked to identify the three most important reasons that their companies had established their sustainability programs, and their responses were weighted with three points being given for a “most important” response, two for a “second most important” response, and one point awarded for a “third most important” response. The weighted responses are shown in Table 1. By far, one factor, *A Corporate Desire to do the Right Thing*, which generated 8 “most important” mentions and 25 total points, was the most important reason for establishing these programs. Ranking a distant second, with 12 points was *Desire to Enhance the Company’s Image*. In third place with 11 points was *Pressure from Customers*. Ranking fourth with 8 points was *A Desire to Attract “Green” Customers*. No other reason accounted for more than three points.

Steps Taken by 3PLs to Address Green/Environmental Sustainability Issues. The CEOs were asked to identify any steps that their companies have taken to support the green/environmental sustainability goals of their companies. Seven CEOs responded to the question, and their responses covered a broad range of activities. The most

frequently mentioned step was development of specific environmental goals for their organizations which was cited by six of the executives. Four discussed steps that had been taken to promote greater fuel efficiency within the organization including such actions as moving freight to more fuel efficient modes, limiting the speeds at which their equipment is operated, and qualifying fleet operators based upon their actions and equipment. Many other initiatives were mentioned including the following:

- setting specific targets by location with monthly reporting on results
- benchmarking the company's carbon footprint, then committing the company to targets for carbon footprint reduction in subsequent time periods
- reduction in solid and liquid wastes from company distribution centers
- determination of the environmental quality of all company buildings (owned or rented)
- improving the control of company service providers through use of checklists with an environmental focus
- establishment of a Sustained Management Committee and KPIs

The CEOs were then asked to evaluate the impact of those steps on their companies to date. Interestingly, four CEOs indicated that their efforts have reduced operating expenses, particularly with respect to fuel consumption. Three others mentioned that “green” had now become a part of their corporate cultures, and that this had raised environmental awareness within their organizations. Three respondents also reported that their companies had received positive press for their efforts in the area and that this has enhanced the public images of their companies. The same number also said that their efforts had gained additional business for their companies, particularly with existing customers.

Partners in Sustainability Efforts. The CEOs were also asked who their companies worked with in pursuing green/environmental sustainability improvements. In response, 8 (88%) CEOs said their companies were working with customers on initiatives in this area, and the same number said they were working with suppliers toward similar improvements. Six (67%) reported working with government agencies and 3 each (33%) said they were working with transportation companies and non-government organizations on green/environmental sustainability matters. Two (22%) 3PLs in the region reported

working with consultants, and 1 (11%) said it was working with trade associations. None of the companies involved in the survey reported working with competitors on these issues.

The Importance of Sustainability Issues in the Sales Process. We were interested in knowing what percentage of existing and potential 3PL customers in the APAC region raise green/environmental sustainability issues with the 3PLs in their contract discussions. In response to related questions, the CEOs indicated that among existing customers, the range was 0-50% with an average of 17.2%. In terms of potential customers, the reported range was 0-30% with the average being 16.7%. So, it is clear that there is customer interest in such issues, at least at the discussion stage.

The CEOs were also asked what are the major green/environmental sustainability issues most frequently emphasized by potential or existing customers in those meetings. According to the respondents, the questions tend to fall into two categories. The first involves customer questions concerning the existing sustainability practices of the 3PLs organization, and the second involves questions about how the 3PL might help the customer attain certain sustainability goals. In terms of the 3PL itself, customers often ask them to discuss their internal practices related to such issues as recycling, energy conservation, and reduction of its own carbon footprint. With respect to assistance that might be provided to the customer by the 3PL the emphasis tends to be on such topics as helping the customer attain a reduction in its carbon footprint, the possible establishment of return logistics program, what steps might be taken to help them with fuel, gas, water, and electricity concerns, and assistance that might be given to help them comply with various certification programs.

While the degree of existing and potential customer interest in such topics is interesting, we also wanted to know how frequently green/environmental sustainability issues were a major determining factor in either getting new 3PL business or extending existing contracts. Interestingly, only one CEO (11%) said it happened *frequently*, while the other 8 (89%) said it happened *very infrequently*. Going one step further we asked what percentage of the existing 3PL contracts of the companies participating in the survey had green/environmental sustainability performance metrics in them, and the average response was 3.3%, with the highest number reported by an individual CEO

being 10%. Clearly, while there is considerable customer interest in discussing green/environmental sustainability issues with 3PLs in the APAC region, those issues are not yet playing a major role in the 3PL selection or retention process.

Success of Green/Environmental Sustainability Efforts to Date. The CEOs were asked to rate the success of their companies' efforts in this area to date in comparison to those of their most important 3PL competitors. In response, 3 CEOs (33%) said their companies were *more successful* in this area than their competitors, and six (66%) said their *success was comparable* to that of their competitors. None of the CEOs involved in the survey believed that their companies' efforts lagged behind those of their most important competitors.

Short-Term Green/Environmental Sustainability Challenges for 3PLs. For a 3PL becoming and remaining green involves considerable corporate challenges and trade-offs. The 2008 survey asked those surveyed to rank order in terms of importance the three most important green/environmental sustainability challenges faced by their companies. Again, a first-place vote was awarded three points, a second-place vote two points, and a third-place vote one point. The results are summarized in Table 2.

As shown, *establishing green/environmental sustainability priorities within the company* generated not only the highest number of total weighted points with 14, but also the highest number of first-place votes with 3. Seven of the 9 CEOs included this challenge in their "Top 3." In second place 12 total points was *identifying appropriate environmental benchmarks/targets*. Tied for third-place with 10 points each were *balancing green/environmental sustainability efforts with customer expectations for low priced 3PL services*, and *redesigning company processes to reduce carbon footprint*.

Two other short-term challenges each garnered 7 points. They were: *generating accurate company information related to current environmental practices*, and *developing an organizational sensitivity to sustainability issues*.

Importance of Green/Environmental Sustainability Issues Three Years from Now. The CEOs were asked how important they believed 3PL Provider "Greenness" will be three years from now, and they were divided in their opinions. Seven (35%) said they believed it would be *substantially more important*, 10 (50%) indicated that they thought it

would be *marginally more important*, 2 (10%) believed it would be *about at the same level of importance*, and 1 (5%) thought it would be *marginally less important*.

Current Status and Future Prospects of the Industry

Industry Dynamics. Managers are routinely challenged to understand the dynamics that are operating in the marketplace served by their companies. The CEOs included in the survey were asked to identify, and rank order, the three most important industry dynamics currently operating in the APAC marketplace for 3PL services. As has been the case in our previous surveys, a first-place mention was given three points, a second-place mention was given two points, and a third-place mention was given one point. These points were used in calculating the total weighted points shown in Table 3.

As shown, *continuing downward pressure on pricing*, ranked as the most important dynamic, with three first-place votes and 17 total points. The *pricing* dynamic had been also been ranked first by the CEOs in the 2007, 2006 and 2005 regional surveys and second in the 2004 survey. The only other dynamic that recorded double digit points was *dramatically increasing fuel costs*, which also was ranked first by three CEOs and accumulated 13 points. That dynamic did not make the list last year. Two other dynamics, *entrance of large foreign-based 3PL providers into the market*, and *increased pressure to internationalize company service offerings* each accounted for seven points. Rounding out the Top 5 industry dynamics with 6 points was *growing customer interest in outsourcing a broader array of logistics services*.

Industry Opportunities. The CEOs surveyed were also asked to identify the most significant opportunities available to logistics service providers in the APAC 3PL marketplace at this time, and they responded with a broad range of opportunities. While several focused their attention on the growth potential of specific geographies such as China and India, others focused on opportunities related to specific service offerings.

Five of those surveyed highlighted opportunities related to the continued growth of the Chinese 3PL, and three specifically focused on opportunities in India. Among the other APAC countries cited for their growth opportunities were Thailand, Cambodia, and Vietnam. Service opportunities were highlighted in transportation operations and management, packaging, and service parts logistics. Attention was also given to the

possibility of moving 3PL customers who use multiple providers to a single service provider, in some cases on a global basis.

Industry Problems. Those surveyed were asked to identify the three most significant current problems faced by 3PL companies operating in the region, and they identified a wide range of problems. Only two of them, human resource management (HRM) issues, and problems related to transportation infrastructure and services generated double-digit weighted points, accounting for 15 and 10 points respectively. It should be noted that six of the CEOs identified continuing HRM issues among their Top 3 most important problems. This continuing problem in the region (and globally) tends to be multifaceted. There is a shortage of managerial talent with a logistics background, it is difficult to find and hire them, and it is even more difficult to retain them. Again, the transportation infrastructure issues addressed were both the availability and quality of for-hire transportation services in many part of the region. Only three other problems were mentioned by more than one CEO they were rapidly rising fuel costs with three mentions, continuing problems with regulatory hurdles and corruption also mentioned three times, and continuing downward pressure on pricing which was mentioned twice.

Most Significant Developments during the Past Year. The CEOs were also asked to identify what they believed to be the most significant developments that had taken place not only within the APAC operations of their companies during the past year, but also within the regional 3PL industry. It should be noted that a number of the respondents mentioned more than one development in those categories.

With respect to company developments, their responses focused on a broad array of topics ranging from company acquisitions, mentioned by three CEOs to expansion of service offerings in the region which was cited by the same number of respondents. Three CEOs also mentioned human resource management developments including continued development of their “local” management team. Other internal developments mentioned were increased IT investments, development of an internal metrics system to evaluate company performance, and additional investment in assets in the region.

When asked to identify what were the most significant developments that had occurred in the APAC 3PL industry during the past year, the CEOs also cited a number of developments. Increasing fuel costs were cited by three CEOs as the most significant

development. Three others cited industry structure issues including the continued consolidation of the 3PL industry in the region, a perceived deterioration of service quality offered by companies acquired by private equity firms, and an increase in the number of 3PLs operating in the region, partially driven by the recent rise in the number of Chinese and other Asian 3PLs. Among the other industry developments mentioned were:

- a reduction in the number of 3PLs being used by many of the “top” customers in the region
- the increasing importance of environmental issues in the region
- a perception that the “big guys” in the 3PL industry are having a hard time delivering on their promises in the region.

Major Changes Expected During the Next Three Years. Those surveyed were also asked what major changes they expect to take place in the APAC 3PL industry during the next three years. Once again there was a strong focus on the likely continuation of merger and consolidation activity in the region, as it was mentioned by three of the eight CEOs who answered the question. In responding, one CEO said “Several will be bought, many will simply grow tired of losing money and leave, and customer expectations will rise significantly.” Two other CEOs expect further advancement of sustainability as an important corporate agenda in the region. Among the other major changes expected by the CEOs during the next three years are: more outsourcing of non-core services by 3PL customers in the region, significant growth in the region, outside of China, greater demand for quality 3PL services, increasing fuel and food costs, and while one CEO expects improved 3PL margins, another anticipates even more downward pressure on pricing.

Estimated Revenue Growth Rates

Finally, the CEOs were asked to estimate annual company and industry revenue growth rates in the APAC region for next year and the next three years. As shown in Table 4 the average one-year company revenue growth projection for the APAC region was 21.4% (28.8 in 2007, 30.9% in 2006 and 55.7% in the 2005 survey). The projected three-year company revenue growth average was 23.1% (26.7%, 23.2%, and 29.6% in the three previous surveys). Because of the limited number of companies involved in this

survey, the varying size of the regional revenue base of these companies, and the dramatic variation in their growth projections, these company revenue growth “averages” have limited value in capturing the true dynamics of the marketplace.

CEO projections of estimated revenue growth rates for the 3PL industry in the region for the one and three-year periods appear more “normal.” The average one-year industry projection was 11.2% (12.9%, 16.5% and 20.3% in the three previous surveys), and the three-year projection averaged 12.9% (12.6%, 14.8% and 16% in the three previous surveys).

SUMMARY AND IMPLICATIONS

Summary

This paper has discussed the results of a 2008 survey of the CEOs of 9 of the largest 3PL service providers operating in the Asia-Pacific marketplace. Collectively these companies generated approximately \$5 billion in Asia-Pacific 3PL revenues during 2007. While 8 of the 9 companies at least met their regional revenue growth projections for 2007, three of the companies reported that their regional operations were unprofitable during the year.

Nevertheless, as a group these companies were quite bullish about the next three-year period for both their companies and the APAC region 3PL industry. On average, they projected that the revenue base of their companies would grow by 21.4 during 2008, and that their revenue growth rates would average 23.1% per year over the next three years. Their projections for revenue growth in the APAC 3PL industry for the one and three-year periods were estimated at 11.2% and 12.9% respectively.

On average, the CEOs expect slightly more than one-quarter of their revenue growth to be generated through acquisitions during the next three years.

All of the 3PL companies involved in this regional survey have become increasingly involved in green/environmental sustainability issues, with 8 of the 9 reporting that they already have formal programs in place. This involvement has been triggered by many factors, but the most important of those to date have been a corporate desire to do the right thing, and a desire to enhance the image of their companies. Seven of the 8 companies reporting formal green/environmental sustainability programs also have written formal green/environmental sustainability statements, and appointed key

individuals to lead related initiatives. Further, these companies have collectively taken numerous steps to pursue green/environmental sustainability goals. The survey also determined that many potential and existing 3PL clients in Asia-Pacific region express strong interest in related topics during contract discussions with the 3PLs, but only one CEO indicated that green/environmental sustainability issues are frequently a major determining factor in getting or keeping existing business.

The CEOs continue to rank *continuing* downward pressure on pricing as the most important APAC 3PL market dynamic. Based upon the results of our 2008 surveys in Europe and North America, price compression in the industry continues to be a major issue throughout the world. Obviously, the second most important APAC dynamic *dramatically increasing fuel costs* is also an issue of global importance at this time.

Implications

This survey was conducted between May-July, 2008. At that time, the CEOs involved in the survey were quite optimistic about the Asia-Pacific region's 3PL industry's outlook for the next several years. However, the global economic decline that has emerged in subsequent months raises serious questions concerning that optimism. Clearly, at this point those companies are developing strategies more closely aligned with much slower growth prospects in the near-term.

Regardless of the economic conditions that prevail over the next several years, top management in the APAC 3PL industry clearly has some important work to do.

These companies must be right-sized for the economic environment in which they will operate. In many instances this may involve reduction in the scale of their operations in some markets. As this occurs, the 3PLs have the opportunity to re-think their market priorities while attempting to align their operations with attractive industry verticals and their most attractive customers. As noted earlier in this paper, there has been a small-scale out-migration of some manufacturing from China, and in a number of instances 3PLs are playing an important role in assisting clients in developing new location patterns.

Merger and acquisition activity is likely to slow down in the region, and the involvement of private equity companies in the industry is also likely to lessen. These developments may allow the companies the time to aggressively attempt to integrate what

in many instances are stand-alone business units that make it difficult, if not impossible, for their companies to offer truly integrated supply chain services to their clients.

The 3PL industry in the APAC region is likely to get “greener” over the next several years, but large-scale green/environmental sustainability projects will likely be tabled until an economic recovery occurs. Those projects would be difficult to sell internally in the capital budgeting process as the financial picture of the industry changes.

Throughout this process these companies must continue to address the chronic problems it faces with respect to human resources and a viable pricing structure. In the short-term these problems may worsen as possible recruits worry about the industry’s future, and customers, faced with their own economic challenges, resist any pricing changes. The development of collaborative relationships with key customers would seem to be a major priority, but one that might be difficult to achieve in the current marketplace.

EXHIBIT 1
3PL Companies Included in the 2008 APAC Region CEO Survey

CEVA
DHL Exel Logistics
Kuehne+Nagel Logistics
Landstar Logistics
Menlo Logistics
Penske Logistics
Schneider Logistics
UTi
YRC Logistics

TABLE 1
The Three Most Important Reasons for Establishing
Green/Environmental Sustainability Programs

Reason	# of CEOs Ranking It #1	# of CEOs Ranking It #2	# of CEOs Ranking It #3	Total Weighted Points
Corporate desire to do the right thing	8		1	25
Desire to enhance company image	1	2	5	12
Pressure from customers	1	3	2	11
Desire to attract "green" customers		3	2	8

TABLE 2
The Top 3 Short-Term Challenges Faced by APAC 3PLs
Related to Green/Environmental Sustainability Issues

Challenge	#of CEOs Ranking It #1	# of CEOs Ranking It #2	# of CEOs Ranking It #3	Total Weighted Points
Establishing green priorities within the company	3	1	3	14
Identifying appropriate environmental benchmarks/targets	2	1	4	12
Redesigning company processes to reduce carbon footprint	2	2		10
Balancing green efforts with customer expectations for low 3PL prices	1	3	1	10
Generating accurate company information concerning current environmental practices		3	1	7
Developing organizational sensitivity to these issues	2	1		7

TABLE 3
CEO Perception of the Three Most Important
APAC Region 3PL Industry Dynamics, 2008

Industry Dynamic	# of CEOs Ranking It #1, 2008	# of CEOs Ranking It #2 2008	# of CEOs Ranking It #3 2008	Total Weighted Points 2008
Continued downward pressure on prices	3	2	1	14
The entrance of large foreign-based 3PLs into the market	3	1	3	14
Increased pressure to internationalize company service offerings	4			12
Growing customer interest in outsourcing a broader array of logistics services	1	1	1	6

TABLE 4
One and Three-Year Average Revenue Growth Rate Projections,
Company and Industry, APAC Region, 2008 Survey

One-Year Projection, Company	Three-Year Projection, Company	One-Year Projection, Industry	Three-Year Projection, Industry
21.4%	23.1%	11.2%	12.9%