THE NORTH AMERICAN THIRD PARTY LOGISTICS INDUSTRY IN 2008: THE PROVIDER CEO PERSPECTIVE

Dr. Robert C. Lieb
Professor of Supply Chain Management
College of Business Administration
Northeastern University
214 Hayden Hall
Boston, MA 02115
617-373-4813
r.lieb@neu.edu

Dr. Kristin J. Lieb
Assistant Professor of Marketing Communication
Emerson College
120 Boylston Street
Office 924
Boston, MA 02116
617-824-3425
kristin_lieb@emerson.edu

May 2009

The author would like to express his appreciation to Penske Logistics for their support of this project.

THE NORTH AMERICAN THIRD PARTY LOGISTICS INDUSTRY IN 2008: THE PROVIDER CEO PERSPECTIVE

INTRODUCTION

The third party logistics (3PL) industry continues to change as a result of large-scale consolidations, the pressures to globalize service offerings, and market pressures on prices and margins. Management is challenged on a regular basis to develop global positioning strategies, restructure their organizations, and deliver solid value propositions to increasingly demanding customers.

For more than a decade several co-authors and I have attempted to give insight into the provider side of the 3PL industry by conducting annual surveys of the CEOs of many of the largest 3PL companies in the world. While these surveys initially began in 1994 in the North American 3PL marketplace, in 2004, recognizing of the increasing globalization of the 3PL industry, we decided to restructure the annual CEO surveys, and focus on three separate third-party logistics marketplaces. The three areas selected were North America, Europe, and the Asia-Pacific region. Separate questionnaires were developed that specifically focused on those three regions, and the CEOs of major companies operating in each of those regions were contacted and asked to participate in the market-specific surveys.

We have been very fortunate in that many of the individuals contacted initially agreed to participate in the surveys, and have continued to share their perceptions of regional market dynamics with us each subsequent year. Collectively, the results of the three annual surveys allow us to provide a truly global overview of the third party logistics industry from the perspective of the CEOs of many of the major participants in the industry. We have continued to follow the regional approach since 2004, and this paper focuses on the results of a 2008 survey of the CEOs of 20 major logistics service providers operating in the North American market.

The 2008 survey focused on a variety of issues including the key marketplace dynamics in the North American 3PL industry, the industry's service offerings in the region, 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, and the barriers that exist within the 3PL industry to developing and selling integrated supply chain management solutions to customers.

The CEO of each of the companies included in the survey was contacted by telephone or e-mail and asked to participate in a web-based survey. An initial target group of 20 companies was contacted, and the CEOs of all those companies agreed to participate, and subsequently completed the survey online. Exhibit 1 lists the companies that participated in the 2008 North American 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 the paper, but there is often substantial variability around those averages. That variability reflects a number of factors, including differences in company strategies, operating policies, and market segments served.

RESULTS

Revenues and Profitability

Several North American 3PL provider revenue and profitability issues were addressed in the 2008 survey and each is discussed below.

Annual Provider Revenues. Seventeen companies reported revenue data in responding to the survey. The annual revenues for 2007 reported by the respondents ranged from $225 million to $8.5 billion, with the average being $1.330 billion. Their average revenues in the two preceding years were $1.231 billion in 2006 and $1.087 billion in 2005. Four of the companies included in the survey registered annual North American operating revenues in excess of $1 billion in 2007. Based upon those numbers, and our general knowledge of the revenue base of the companies that did not provide financial data, we believe the 20 companies involved in this survey generated well in excess of $35 billion in North American 3PL revenues in 2007.

Those surveyed were also asked to indicate where their companies' North American revenues were generated during 2007 (United States, Canada, and Mexico), and to project the revenue split by geography for 2010. As shown in Table 1, the averages for companies participating in this survey were 82% from the United States (85% in the 2007 survey), 11% from Canada (10% in the 2007survey), and 7% from Mexico (5% in the 2007 survey). Collectively, the participants projected modest shifts in that revenue split for 2010, with the averages being 80% from the United States, 10% from Canada, and 10% from Mexico.

Success in Meeting Growth Projections. Those surveyed we also asked about the success of their companies in meeting their North American revenue growth projections during 2007. Five CEOs (25%) reported their companies had exceeded company revenue growth projections (8--40%--last year), ten (50%) indicated that their companies met their projections (8--40%-- last year), and five (25%) indicated their companies failed to meet their projections (four—20%-- last year).

Company and Industry Profitability. The CEOs were also asked to categorize the profitability of their companies' North American business units during 2007, and for the fifth straight year their responses were quite positive. While only one CEO (5%) reported that his company was *very profitable* during 2007, 18 others (90%) reported their companies were *moderately profitable* for the year. Only one CEO (5%) indicated his company was *marginally unprofitable* for the year. It should be noted that this is only the second time in the past five years that a CEO involved in the North American survey has indicated that his company failed to record a profit for the year in that market.

In the 2008 survey the CEOs were also asked to categorize their views of the profitability of the North American 3PL industry as a whole in 2007. One (5%) categorized the North American 3PL industry as being *very profitable* during the year. Sixteen (80%) classified the industry as being *moderately profitable* for the year, and three estimated that the industry *broke even* for the year. Only once in the past five annual surveys has one of the participating CEOs believed the North American 3PL industry was unprofitable during the year.

Geographic Shifts of Customer Manufacturing Activities

Due not only to rising manufacturing costs in China, but also substantial increases in international transportation rates caused by rising fuel costs, some American manufacturers that had established manufacturing operations in China for export to North American are beginning to reduce their manufacturing base in China, and moving some manufacturing activities back to either North or Central America. The CEOs were asked if any of their major manufacturing accounts had participated in such a movement, and eleven of the 20 respondents (55%) said "yes." Nine of those surveyed responded to a subsequent question that asked how significant that shift has been to their companies and what were its long-term implications**.** All but one respondent, who said the impact had been moderate, but increasing, indicated that the shift has had little significance to their companies to date. However, six CEOs said they expect this trend to continue and to become more significant. Several of their comments are quite interesting, including the following:

1. "We are in the first year of this shift….supply chains will be shortened and require more flexibility. Those 3PLs with analytical and optimization capabilities will have competitive advantage."

2. "There will be more focus on consulting, flexibility, and optimization as a result of the shifts."

3. "We have had several opportunities to partner with customers who are adapting their supply chain networks to support the move in their manufacturing base."

<u>Mergers and Acquisitions (M/A)</u>

The worldwide consolidation movement in the 3PL industry continues. This movement is dramatically affecting the structure of the industry, and in recognition of this fact, several questions related to that restructuring were included in the 2008 survey.

<u>Percentage of Revenue Growth Expected from Acquisitions</u>. Those surveyed were first asked what percentage of their companies' revenue growth over the next three years was expected to come from acquisitions. The average response was 12.8% (14.2% last year) with a range of zero to 25%. Interestingly, seven CEOs indicated that they do not expect any of their companies' growth over that time period to come from acquisitions.

<u>Extent of M/A Activity</u>. Only four of the 20 CEOs indicated their companies had been involved in significant mergers or acquisitions in the region during the past year. However, several reported their companies made multiple acquisitions. Collectively, the 3PLs acquired one 3PL company, one transportation company, three warehousing companies, and one freight forwarder/customs brokers.

Branding Activities

As many 3PL companies have grown through acquisitions, or been acquired, the acquisitions have led to some degree of "brand" confusion in the marketplace. In recognition of this, our last two surveys have included questions related to industry branding activities. This year, the CEOs were asked to identify what steps, if any, were taken by their companies to build their brand recognition and brand value during the past year. Fifteen CEOs indicated that their companies had taken "branding" steps during the year.

Their 3PL branding activities took many forms. Several CEOs indicated that their companies had taken steps to better align their logistics brand with the better known corporate brand of their parent companies. In one instance, that involved re-branding the logistics unit logo. Several others mentioned company efforts to emphasize the "customization" capabilities of their companies in the 3PL marketplace as a means of differentiating their service offerings. Expanded media relations programs were also cited by several CEOs. These generally included expansion of company press releases and working with the editors of professional journals to get the company name in those publications on a more frequent basis. Among the other branding steps taken by these companies in the past year were conducting an annual brand recognition survey, focusing on end-to-end solutions in the companies' promotional materials, utilization of trade shows, advertising and direct mail to support the companies' branding messages, more "C" suite selling, upgrading of company websites, and highlighting "case studies" in promotional materials to emphasize the companies' capabilities.

Barriers to Developing and Selling Integrated Supply Chain Solutions

While the desire for integrated supply chain solutions is often discussed in the marketplace, many contend that it is difficult for 3PLs to actually deliver such solutions. In response to those concerns, the survey asked the CEOs what they believed were the most important barriers 3PL companies must overcome to provide integrated logistics services to their customers. Eighteen of the 20 CEOs responded to the question. Most of their responses clustered into three major areas--IT systems capabilities, a lack of internal expertise across service areas, and organizational issues.

Nine of the CEOs expressed concerns about the limitations that their companies' IT systems placed on offering truly integrated services to their customers. The specific concerns addressed such issues as the inability of their systems to:

- "stitch" their organizational silos together
- provide visibility and transparency of data and information
- promote integration both internally and externally
- provide integrated solutions across the portfolio of customer products

Some CEOs also expressed concerns about the multiple legacy systems that existed within their organizations, and the difficulty of obtaining the necessary resources within their organizations to build an appropriate IT infrastructure for the organization.

Five CEOs expressed concerns about the lack of expertise across their organizations. One commented that the biggest problem is "not being experts at each service provided." Similarly, another said that "no one does everything well." Another indicated that too few 3PL employees "really understand the overall supply chain." When trying to supplement internal expertise another reported that the cost of using consultants is prohibitive. This problem is clearly related to the industry's long-term problems of attracting and keeping management talent.

Four respondents said that another important barrier which must be overcome by 3PLs in providing integrated logistics services to their customers is the outdated organization structure of their companies. They expressed concerns about the silo management structures of their companies, and the inability of management to think and act outside those traditional silos. Those structures "inhibit costing, pricing and managing integrated solutions." Some of these structural problems can be attributed to the difficulty associated with attempting to integrate acquisitions into existing companies, particularly when the acquisitions cross national boundaries.

Among the other service integration barriers identified by the CEOs were:

- maintaining consistent service levels across multiple products and across multiple regions
- managing key global customers with multiple regional offices
- offering services that rely upon agents or licensing agreements.

It should be noted that the CEOs also identified problems on the "buy" side of the equation. One said that very few of his company's customers really want to buy integrated solutions, while another noted that many of their customers are still organized in silos, and a third indicated that customers are often reluctant to "put all their eggs in one basket," and would prefer to buy services from several 3PLs rather than one.

The Impact of Recent Fuel Cost Increases in the 3PL Industry

At the time the 2008 survey was conducted, fuel prices had risen to record levels and those surveyed were asked a variety of questions concerning the impact of fuel cost increases on not only their companies but their customer base as well.

The 3PL CEOs indicated a wide variety of impacts on their companies. Naturally, their operating costs rose dramatically and there was increased pressure on their margins. Several reported friction with customers related to imposition of fuel surcharges on their accounts. At the same time, as fuel costs rose it became more difficult for the 3PLs to obtain prices increases on their other services, and accounts receivable began to take longer to liquidate.

In some instances the 3PLs reported that due to the effects that the fuel cost increases had on their customers, demand for 3PL services had fallen, and their companies had adjusted their growth projections accordingly. Operationally the 3PLs began shifting some traffic to less expensive modes on behalf of their clients. The most significant shifts were from international air to ocean services and from domestic air to surface modes accompanied by some shift from trucking to rail services.

Among the other steps reported by the 3PLs in response to the fuel cost increases were: an increased focus on reducing empty mileage with key carriers, route restructuring, mileage reduction efforts, active discussion of alternative fuel options, making sure that 100% of their customers had fuel surcharge agreements in place, and reassessing their asset-based operations. One CEO reported closing such an operation.

In response to a related question about the long-term implications to 3PL service providers of the fuel cost increases, the CEOs tended to focus on three major areas. Five suggested that the industry's cost structure was likely to be significantly higher, the same number said that the pressure to shift to cheaper modes was likely to increase, and three focused on the impact on their customers and suggested that there would likely be changes in the supply chain structures of some customers. In particular they expected changes in customer sourcing strategies with greater emphasis being placed on suppliers that were “closer to home.” It was also suggested that some customers might shift to regional warehouse solutions, or redesign their supply chains to source closer to their customer base.

Ten of the CEOs responded to a question that asked which of the industry verticals that their companies served had been most affected by fuel cost increases. Three noted the automotive industry, and two each cited the high tech industry and the chemical industry. Among the other industries mentioned by one CEO were retail, consumer products, agricultural imports, grocery, and “those that rely upon air transportation services.”

Green/Environmental Sustainability Issues in the 3PL Industry

During the past several years considerable attention has been devoted to “green” and 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 North American 3PL 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. Eleven of the 20 companies (55%) that participated in the survey indicated that they have formal green/environmental sustainability programs in place. Nine did not (45%). Most of the existing programs are rather new. Three were established in 2008, three in 2007, one each in 2006 and 2005, and two in 2004. One company did not indicate when its program was initiated.

Ten of the 11 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.

Of the eleven companies with formal programs, ten have established a management position to oversee company efforts in the area. The titles of those individuals vary widely and include Vice President Environmental Sustainability, Senior Manager for Enterprise Sustainability, Vice President of Environmental Affairs, Director-Sustainability, Chief Quality Officer, and Vice President of Quality Assurance.

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 2. By far, two factors, *A Corporate Desire to do the Right Thing*, and *Pressure from Customers*, which each garnered 35 total weighted points, were the most important reasons for establishing these programs. Those two factors also accounted for the highest number of "most important" responses, generated nine and seven CEO mentions respectively. Rounding out the "Top Five" reasons for establishing the programs were *A Desire to Enhance the Company's Image* (19 points), *A Desire to Attract "Green*" *Customers* (14 points), and *Competitive Pressures* (13 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. Thirteen CEOs responded to the question, and their responses covered a broad range of activities. The most frequently mentioned step was participation in the Smartway compliance program which was mentioned by five respondents. Three reported installing more efficient lighting systems in their facilities. Among the steps reported by two CEOs were: efforts to reduce fleet idling time, investments in evaluation models, an increase in the alternative fuel component of the company's fleet, investment in hybrid vehicles, shifting traffic to more fuel efficient modes, and investment in "green" material handling equipment.

Numerous other initiatives were mentioned by a single CEO. These included:

- efforts to reduce truck mileage operated
- freight consolidation initiatives
- recycling of office supplies and packaging materials
- development of a formal environmental sustainability statement for the company
- reconsideration of network design
- establishment of groups within various units of the company to drive related changes
- investment in routing software
- focusing on measurement of the carbon impact of various network design and transportation strategies
- leasing of new high efficiency tractors for the company's fleet
- retro-fitting of company aircraft with more fuel efficient engines
- setting of specific carbon reduction goals for operating units
- and, significant reduction of printed materials produced by the company.

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, 18 (94.7%) CEOs said their companies were working with customers on initiatives in this area, and 17 (89.5%) said they were working with suppliers toward similar improvements. Twelve (63.2%) reported working with transportation companies and 11 (57.9%) were working with government agencies on such matters. Among the other organizations that the 3PLs reported working with on sustainability issues were: trade associations 9 (47.4%), non-government organizations 6 (31.6%), consultants 3 (15.8%), and competitors 1 (5.3%).

The Importance of Sustainability Issues in the Sales Process. We were interested in knowing what percentage of existing and potential 3PL customers in North America 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 2-75% with an average of 19.9%. In terms of potential customers, the reported range was 5-50% with the average being 16.9%. 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. The most frequently cited issue, mentioned by eight CEOs, was what the provider might do to assist the customer in reducing its current carbon emission levels. Five mentioned customer interest in how the 3PL might support "greener" transportation solutions for their clients, and the same number cited customer interest in the capabilities of the 3PLs in supporting customer recycling program. Two other issues, customer interest in potential water/waste management programs and returnable packaging possibilities, were each mentioned by four CEOs. Three CEOs noted customer interest in the possibility of shifting freight to more fuel efficient modes. Numerous other areas of existing or potential customer interest in green/environmental sustainability issues were mentioned by a single CEO.

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 (5%) said it happened *very frequently*, while the other 19 (95%) 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 2.1%, 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 North America, 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, eight CEOs (40%) said their companies were *more successful* in this area than their competitors, eight (40%) said their *success was comparable* to that of their competitors, one (5%) said his company *lagged behind* its most important competitors, and three (15%) were *not sure*.

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 3.

As shown, *balancing green/environmental sustainability efforts with customer expectations for low priced 3PL services*, generated not only the highest number of total weighted points with 32, but also the highest number of first-place votes with six. Fifteen of the 20 CEOs included this challenge in their "Top 3." In second place 24 total points was *identifying appropriate environmental benchmarks/targets*. In third-place with 22 total points and four first-place votes was *generating accurate company information related to current environmental practices.* In fourth-place with 21 points was *establishing green/environmental sustainability priorities within the company.*

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

In each annual North American survey the CEOs are asked a series of questions concerning their perceptions of the current status and future prospects of the 3PL industry in the region. Specifically, they are asked to identify the most important 3PL industry dynamics, opportunities, and problems. They are also asked to indicate the most important developments within their companies and within the 3PL industry during the past year.

Industry Dynamics. In any industry, managers are challenged to understand the dynamics of the marketplace in which their companies operate. In recognition of this, the CEOs were asked to identify and rank order the three most important industry dynamics operating in the North American 3PL marketplace in 2008. 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 4.

According to the respondents, the most significant dynamic operating in the North American 3PL marketplace was *continuing downward pressure on pricing* which not only generated the greatest number of total weighted points with 28, but also the most first-place mentions with eight. It was accorded "Top 3" status by11 of the 20 CEOs who answered that question. The pricing dynamic had also been ranked first in three of the four previous annual surveys. In second place was *the impact of the slow-growth economy* with 21 points, with five first place rankings and 10 "Top 3" mentions. In a surprising development, *the increased involvement of procurement professionals in the 3PL selection process* ranked third with 20 points, three first place mentions, and 10 "Top 3" mentions. Tied for fourth place with 16 points were *increased pressure to internationalize company service offerings* (which ranked third last year), and *rising fuel costs*. The only other dynamics accounting for double-digit points were *growing customer interest in outsourcing a broader array of logistics services* and *increasing customer expectations with respect to IT support* each generating 13 total points.

Industry Opportunities. The CEOs surveyed were also asked to identify the three most significant opportunities available to providers in the North American 3PL marketplace during 2008.

For the second year in a row, the opportunity receiving the most "Top 3" hits was *increased globalization of service offerings*. That was mentioned by five CEOs, with three listing it as the most important opportunity. It accounted for 13 total weighted points. Most of the related comments focused on the possibility of supporting existing customer moves into other geographies. In second-place with 10 total weighted points and three first-place mentions was *possible IT enhancements for customers*. Tied for second-place with ten total weighted points and two first-place votes was *possible expansion of integrated SCM services*. In fourth-place with seven total weighted points was opportunities related to *company fuel mitigation efforts.*

The only other opportunities mentioned by more than one CEO were *possible green initiatives* and *opportunities to assist distressed customers.*

Industry Problems. The CEOs were also asked to identify the three most important problems facing their companies in the North American 3PL industry, and their responses are summarized in Table 5. According to the CEOs, the industry's most important problem is *finding and keeping managerial and operating talent,* which garnered 32 total points. It also accounted for the greatest number of most important mentions with six, and was ranked as the first, second, or third most important problem by 14 of the 20 CEOs. This is clearly a problem that won't go away. The CEOs had ranked it as the most important industry problem in each of the past three annual surveys, and it was ranked second in the 2004 survey. In second-place was c*ontinuing downward pressure on prices* which garnered 21 points and six first-place mentions. It had ranked third in the 2007 survey. The *deteriorating economic conditions* ranked third with 15 total points and three first-place mentions. Rounding out the top five problems were *the high-cost, low yield of IT investments,* and *economic problems of clients,* each of which accounted for seven points.

Most Significant Company Developments of the Past Year. The CEOs were also asked to identify what they believed to be the most significant development that had taken place within their North American business units and within the North American 3PL industry during the previous year.

As has been the case in previous years, their responses covered a broad range of internal developments. However, the responses can be clustered into three categories—organizational issues, sales and marketing developments, and technology.

In terms of organizational issues, the CEOs cited such developments as integration of acquisitions into their organizations, reorganization of logistics service units, exit from some asset-based operations, and the sale of the company's logistics unit to a private equity company. The continued investment in new talent was also highlighted by several CEOs.

Sales and marketing developments were also highlighted by the CEOs. Several indicated that expansion of company service offerings were the most significant internal development of the year, with particular emphasis being given to new international offerings. The issue of customer selectivity was also mentioned again, as was development of a new industry focus by several companies. New investments in information technology were also mentioned by several CEOs as the most important internal development of the year.

Most Significant North American 3PL Industry Developments of the Past Year. The CEOs were also asked to identify the most significant development that had taken place in the North American 3PL industry during the past year. There was more consensus in this area than there was with respect to company changes. Of the 19 CEOs who responded to the question, four identified fuel cost increases as the most important industry development of the year. The same number cited continuation of the merger and acquisition movement as most important. Not surprisingly three highlighted the slowing economy. Pricing pressures, the continued hunt for talent, and the increased involvement of private equity firms in the industry were each mentioned by two CEOs. Interestingly, one respondent identified "overselling" by 3PLs as the most important industry development of the past year.

Major Changes Expected During the Next Three Years. The CEOs were then asked what major changes they expected to take place in the North American 3PL industry during the next three years, and 16 responded to this question. As was the case in the four most recent annual surveys, the merger and acquisition movement dominated their thinking, and 10 CEOs indicated that they believed the movement will continue to accelerate not only in North America, but also on a global basis. Most of the respondents also projected the effects of the continued consolidation and these included:

- emergence of an oligopolistic industry structure with 3-5 main competitors and many smaller providers serving regional and niche markets
- greater specialization among the remaining 3PLs

- marginal players will exit the market

Four CEOs predicted that there will be increasing pressure on the 3PLs to expand their service offerings, and three believe the marketplace will witness the emergence of "smarter" customers. Among the other major changes expected by the CEOs are:

- reverse globalization, in some cases triggered by fuel cost increases
- continued talent shortages in the industry
- more business going to 4PLs and LLPs
- significant growth in Mexico and Latin America
- private equity money will leave the industry
- greater demand for global integrated solutions.

<u>Estimated Company and Industry Growth Rates</u>

Finally, the CEOs were asked to estimate annual company and industry revenue growth rates for the one and three-year periods. Nineteen CEOs provided estimates, and while their estimates were lower than they had been in the last two annual surveys, as a group they still were very bullish about the next three years with respect to not only company growth, but industry growth as well. Their projections are shown in Tables 6 and 7. It should be remembered that these projections were developed by the CEOs in May-June, 2008.

The average company revenue growth projection for the next year was 12.6% (down from 12.9 and 16.6% in the two previous years), with the projected three-year company revenue growth average being 13.4% (up slightly from 13.2% last year, but down considerably from 17.5% the previous year). It should be noted that the estimates varied significantly from company to company, with the one-year company projections ranging from 5% to 21%, and three-year projections ranging from 7% to 25%.

In terms of industry growth projections, the CEOs projected that the industry's one-year revenue growth rate would average 9.0% (down from 11.1% and 10.5% in the two previous years) and they forecasted an annual average growth rate of 9.8% over the next three-year period (down from 11.4% and 10.5% in the two previous years). Individual CEO projections of the industry's growth rates ranged from 5% to 15% for the one-year period, and 5% to 15% for the three-year period.

SUMMARY AND IMPLICATIONS

Summary

This paper has discussed the results of a 2008 survey of the CEOs of 20 of the largest 3PL service providers operating in the North American marketplace. Collectively these companies generated more than $35 billion in North American 3PL revenues during 2007. All but five of those companies met their revenue growth projections in 2007, and 19 reported that their companies were at least moderately profitable during the year.

As a group these companies are also quite bullish about the next three-year period for both their companies and the North American 3PL industry. On average, they projected that the revenue base of their companies would grow by 12.6 during 2008, and that their revenue growth rates would average 13.4% per year over the next three years. Their projections for revenue growth in the North American 3PL industry for the one and three-year periods were estimated at 9.0% and 9.8% respectively.

While slightly less than one-quarter of the CEOs reported their companies were involved in significant merger/acquisition activity during the past year, most respondents believe that the consolidation movement will continue in the North American 3PL industry.

Most of the North American 3PL companies involved in the survey have become increasingly involved in green/environmental sustainability issues. Their 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 competitive pressures. Many of these companies have not only involved establishing formal programs in the area, but also developed 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 North America express strong interest in related topics during contract discussions with the 3PLs, but according to the CEOs, green/environmental sustainability issues are major determining factors in getting or keeping existing business about 5% of the time.

The CEOs continue to rank *continuing* downward pressure on pricing as the most important North American 3PL market dynamic. Based upon the results of our 2008 surveys in Europe and Asia, price compression in the industry continues to be a major issue throughout the world. This issue appears to be growing in importance as half of the North American 3PL CEOs indicated that procurement professionals are increasingly involved in the 3PL selection process, and that they tend to be much more focused on pricing issues than the value being generated for their companies through the 3PL relationship. The slow growth economy, ongoing pressures for 3PL service providers to internationalize their service offerings, and rising fuel costs were among the other important industry dynamics identified by the respondents.

The respondents, in recognition of the continuing globalization of the 3PL industry, once again selected further expansion of international services as the most significant opportunity for 3PL service providers in North America, followed by providing more integrated supply chain services to their clients.

Not surprisingly, the CEOs again identified finding and keeping management talent as the major problem faced by their companies in the North American marketplace. Ongoing pricing pressures and the slow growth economy were identified as the second and third most significant problems faced by 3PLs in the market.

Implications

This survey was conducted between May-July, 2008. At that time, the CEOs involved in the survey were quite optimistic about the North American 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 a slow grow/no growth mode of operations in the near-term.

Regardless of the economic conditions that prevail over the next several years, top management in the North American 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.

Merger and acquisition activity is likely to slow down, 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 industry 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

Third Party Logistics Companies Included in the
2008 North American 3PL Industry CEO Survey

Cardinal Logistics
Caterpillar Logistics Services
CEVA Logistics
DSC Logistics
DHL Exel Supply Chain
Genco
Kuehne & Nagel Logistics, Inc.
Landstar
Menlo Logistics
NYK Logistics
Panalpina
Penske Logistics
Pittsburgh Logistics
Ryder
Schenker
Schneider Logistics
Transplace
UPS Supply Chain Solutions
UTi
YRC Logistics

TABLE 1
Percentage of Revenues Generated in the United States, Canada, and Mexico, 2007 and 2010 Forecast

Geographic Area	Actual 2007	Projected 2010
United States	82%	80%
Canada	11%	10%
Mexico	7%	10%

TABLE 2
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	9	2	4	35
Pressure from customers	7	5	4	35
Desire to enhance company image	1	6	4	19
Desire to attract "green" customers	1	3	5	14
Competitive pressures	2	2	3	13
Pressure from the corporate board	1	2	1	8
Pressure from investors		1	3	5

TABLE 3
The Top 3 Short-Term Challenges Faced by North American 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
Balancing green efforts with customer expectations for low 3PL prices	6	5	4	32
Identifying appropriate environmental benchmarks/targets	2	8	2	24
Generating accurate company information concerning current environmental practices	4	4	2	22
Establishing green priorities within the company	5	2	2	21
Developing organizational sensitivity to these issues	3	1	3	14
Redesigning company processes to reduce carbon footprint	3		3	12

TABLE 4

CEO Perception of the Three Most Important
North American 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
Continuing downward pressure on pricing	8	1	2	28
Impact of slow-growth economy	5	1	4	21
Growing procurement involvement in 3PL selection process	3	4	3	20
Increased pressure to internationalize service offerings	1	4	5	16
Rising fuel costs	3	2	3	16
Growing interest in outsourcing broader array of services	1	4	2	13
Increasing customer expectations with respect to IT support	2	3	1	13

TABLE 5

The Most Important Problems Facing 3PL Providers in North America, 2008

Problem	# of CEOs Ranking It #1	# of CEOs Ranking It #2	# of CEOs Ranking It #3	Total Weighted Points, 2008
Finding and keeping managerial talent	6	6	2	32
Continuing downward pressure on prices	6	1	1	21
Economic slowdown	3	2	2	15

TABLE 6

2008 Survey CEO One and Three-Year Revenue Growth Projections for Their Companies, and Comparisons with 2007 Projections

One-Year Company 2008 Projection	One-Year Company 2007 Projection	Three-Year Company 2008 Projection	Three-Year Company 2007 Projection
12.6%	12.9%	13.4%	13.2%
Range—5-21%		Range—7-25%	

TABLE 7

2008 Survey CEO One and Three-Year Revenue Growth Projections for the North American 3PL Industry, and Comparisons with 2007 Projections

One-Year Industry 2008 Projection	One-Year Industry 2007 Projection	Three-Year Industry 2008 Projection	Three-Year Industry 2007 Projection
9.0%	11.1%	9.8%	11.4%
Range—5-15%		Range—5-15%	