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The Asia Pacific Region Third Party
Logistics Industry In 2009:
The Provider CEO Perspective

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February, 2010

*The authors would like to express their appreciation to
Penske Logistics for their support of this project.*

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INTRODUCTION

The third-party logistics (3PL) industry continues to change because 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 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 2009 survey of the CEOs of eight major logistics service providers operating in the Asia-Pacific (APAC) region market.

The 2009 survey focused on a variety of issues including the key marketplace dynamics in the 3PL industry, its service offerings in the region, and the 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, and, most importantly, the impact of the global recession upon the industry and its 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 10 companies was contacted, and the CEOs of all those companies agreed to participate. However, only eight of the CEOs subsequently completed the survey online. Exhibit one lists the companies that participated in the 2009 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 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.

Revenues and Profitability

Several APAC 3PL provider revenue and profitability issues were addressed in the 2009 survey and each is discussed below.

Annual Provider Revenues. All eight companies reported revenue data in responding to the survey. Collectively, these companies generated in excess of \$2.5 billion in APAC revenues during 2008, with one company reporting 2008 revenues in excess of \$1 billion. The annual revenues for 2008 reported by the respondents average being \$319.5 million.

Success in Meeting Growth Projections. Those surveyed were also asked about the success of their companies in meeting their APAC revenue growth projections during 2008. One CEO reported his company had exceeded company revenue growth projections, six indicated that their companies met their projections, and one company failed to meet its revenue projections.

Company and Industry Profitability. The CEOs were also asked to categorize the profitability of their companies' APAC business units during 2008, and the responses were quite positive with one CEO reporting this company had been very profitable, six CEOs reporting that their companies had been moderately profitable and only one indicating his company had been very unprofitable. In the 2009 survey the CEOs were also asked to categorize their views of the profitability of the APAC 3PL industry as a whole in 2008. In response, seven classified the industry as being moderately profitable for the year, and one said the industry was moderately unprofitable for the year.

Geographic Shifts of Customer Manufacturing Activities

In response to rising labor and materials costs in China and the volatility of oil prices (which influence transportation costs) some foreign manufacturers that had established manufacturing operations in China for export are beginning to reduce their manufacturing base in China, and moving some manufacturing activities back to either North or Central America, Eastern Europe or other Asian countries. In this year's survey the CEOs were asked if any of their major manufacturing accounts had participated in such a movement, and only two of the eight said "yes."

Shorter Supply Chains

During the past several years, many companies have taken steps to shorten their supply chains to not only reduce costs, but also improve service levels. Those surveyed were asked if any of their major customers had taken such steps during the year, and only three said "yes." When those three CEOs were asked to estimate what percentage of their major customers had taken steps to shorten their supply chains during the past year, their responses ranged from 10 to 15 percent.

Those CEOs were next asked what the implications of those shorter supply chains were to their companies, and they identified a broad range of implications including the following:

- Possible reduction in the logistics spend of such customers (but the respondent said that his company could mitigate this scenario by broadening its conventional portfolio of warehousing and transportation offerings into other value-added services)

- Reduced customer activity levels
- Increased pressure to be more innovative in the solutions offered to customers
- More frequent, smaller shipments
- More regional production and consumption making line-haul services less profitable due to overcapacity

Mergers and Acquisitions (M/A)

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.

Percentage of Revenue Growth Expected from Acquisitions. 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 19.7 percent. However, it should be noted that four CEOs indicated that they do not expect any of their companies' growth over that time period to come from acquisitions.

Extent of M/A Activity. None of the eight companies involved in this year's APAC survey indicated their companies had been involved in significant mergers or acquisitions in the region during the past year. That is the first time that has happened in the history of the APAC surveys.

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 three surveys have included questions related to industry branding activities. In the 2009 survey the CEOs were asked if their companies' expenditures on branding activities had increased, stayed the same, or decreased since the start of the recession. In response, a number of the respondents indicated that they had increased branding expenditures despite the economic downturn. Six said they had increased personal selling outlays, while three spent more on publicity. Two each reported increased spending on management presentations at professional conferences, Internet advertising, and sales promotion. And, increased outlays in direct mail and print advertising were each cited by one CEO. The most significant decreases were in the areas of print advertising (4), presentations at professional conferences (3), and two respondents reported less spending on Internet and television advertising. Cutbacks in publicity and direct mail spending were each mentioned by one CEO.

Impact of the Global Recession

The global recession has had a dramatic impact on not only the 3PL industry in the APAC region, but also its customer base. This year's survey contained a number of questions related to such topics as the customer verticals most/least affected by the recession, industry layoffs, hiring practices, training efforts, and executive travel. The responses to these questions follow.

Customer Verticals Most/Least Affected by the Recession. When those surveyed were asked to identify the customer verticals that were most affected by the recession, they identified three industries. Five mentioned the automotive industry, three cited the technology industry, and one mentioned the chemicals industry. They also mentioned a number of industry verticals that had been least affected by the recession. Two each mentioned healthcare and consumer goods, while the automotive, low-end retail, food and beverage industry, and electronics were each mentioned once.

Layoffs, Recruiting and Training. Six of the eight companies involved in the survey reported layoffs, with the average being approximately 7.7 percent of the workforce. As might be expected, seven of the eight companies also reported reduced recruiting efforts. In a somewhat surprising development, only one of the eight CEOs reported that their companies had reduced training expenditures as a result of the economic slowdown. Such outlays are often among the first to be eliminated by companies during an economic downturn. In contrast, seven of the eight CEOs reported that their companies had reduced the frequency with which it sends its managers to professional conferences as a result of the downturn.

Pricing Pressures. Those surveyed were asked if the recession had intensified the long-standing price compression pressures in the APAC marketplace, and seven of the eight respondents said "yes." They were then asked how their companies had responded to intensified pricing pressures, and they cited a broad range of responses. It should be noted that many of the CEOs cited several responses by their companies. Two mentioned living with lower prices and margins, with one indicating his company was passing some of the pressures to its vendors. Two others cited greater internal emphasis on cost controls and efficiency and one noted greater emphasis being placed on controlling purchased transportation costs and other input costs as well as capping salaries. Additionally, two CEOs mentioned more attention being given to emphasizing value versus price to customers, while highlighting differentiating factors such as the companies' IT systems capabilities. One CEO cited a company effort to propose alternative solutions above those requested in RFPs that emphasize potential costs savings for the client.

Changes in Customer SCM Strategies and Practices. The CEOs were also asked if the global recession had led to significant changes in the supply chain management practices of their major clients, and six of the eight CEOs said that it had. They were then asked to highlight what the most significant of those changes have been. In response, they indicated that their customers were:

- Increasingly aggressive with respect to pricing (four respondents)
- Making modal shifts to lower transport costs (two respondents)
- Showing greater willingness to reduce some service levels to cut costs
- Now cost-focused instead of partnership-focused
- Now entering China to serve domestic Chinese market versus export market

Implications of Those Changes to the 3PLs. Those surveyed were then asked to discuss the implications of those customer changes to their companies. Their responses were quite varied, but tended to emphasize such things as lower margins on many accounts, revenue dropping faster than volume, the need for greater focus on operational efficiency and pressures to increase service levels while reducing costs. One CEO said that because of customer strategic and operational changes, Asia regional distribution and the Chinese domestic market would dominate the growth of 3PL business in the region for the next five years.

Changes in 3PL Provider Strategies. The CEOs were also asked if the global recession had influenced the major strategic decisions being made by their companies and seven of the eight said it had. They were next asked how the recession had influenced those decisions, and the responses were again quite varied. They tended to focus on such

issues as giving more scrutiny to capital expenditures, relying more heavily on organic growth rather than growth through acquisitions, identifying “quality” customers and making hard decisions about what markets and customers to serve.

Impact on Customer Relationships. We asked those surveyed several questions concerning the impact of the recession on their companies’ relationships with their major customers. We first asked the CEOs to comment, on average, how the recession had impacted their relationships with their major customers. The results were quite interesting. The relationships were categorized as follows by the eight CEOs:

- Much more adversarial - 0
- More adversarial - 2
- The same - 5
- More collaborative - 1
- Much more collaborative - 0

When asked if their companies had taken any particular steps to foster greater collaboration with key customers during the downturn, seven of the eight CEOs said that they had. Those that had were then asked to briefly discuss the steps that had been taken, and as might be expected their responses were quite varied. Two mentioned more frequent meetings at the “c” level with key clients to make sure customer needs were understood. Two also discussed proactive approaches to help customers identify potential cost savings within their organization. Such approaches were mentioned not only in terms of forming partnerships with key clients, but also in presenting opportunities for the 3PLs to participate in gain sharing with key clients.

The CEOs were also asked what advice they would give other 3PL executives about the steps that should be taken to sustain a collaborative working relationship with key customers during a major economic downturn. Their responses were quite varied, and included the following:

1. Take neutral approaches that consider “the” cost instead of “your” costs and “my” costs.
2. Focus on delivering value through collaborative efforts.
3. Become more of a partner than a service provider.
4. Be more flexible and communicate often.
5. Offer to take over other non-core activities for customers.

Green/Environmental Sustainability Issues in the 3PL Industry

In our 2008 survey we determined that nearly all of the 3PL companies involved in the survey had made significant commitments to green/environmental sustainability programs. Many had established formal programs in that area, and had appointed individuals to lead their efforts in that area. The companies reported that they had launched numerous sustainability projects, and that those projects had yielded significant environmental and company benefits.

However, economic conditions worsened dramatically subsequent to that survey, and we were concerned that financial pressures might lessen the commitment of those companies to sustainability goals. That didn’t happen. None of the companies involved in the 2009 APAC survey reported scaling back any of the sustainability initiatives that they reported last year. In fact, three CEOs reported that their companies had expanded their existing sustainability projects, and five reported launching new sustainability initiatives during 2008.

Among the new sustainability projects reported were:

- Setting new emission control standards for company trucks
- Consolidation of warehouses
- Reducing the company's carbon footprint by 5 percent against the baseline established the previous year
- The provision of "Think Green" services to clients to help them reduce the carbon footprint of their supply chains,
- Establishment of a dedicated team to review energy saving and fuel use in equipment and facilities
- Promotion of a paperless environment within the company
- Raising awareness of sustainability issues not only within the company, but also with vendors and customers

The CEOs were also asked to comment on the amount of attention currently being given to sustainability issues by their customers in discussions with the 3PLs. On average, they reported that none of their customers were giving substantial attention to such issues; 62.5 percent of their customers were giving some attention to those issues; 25 percent of their customers were giving little attention to those issues; and 12.5 percent were giving no attention to such issues.

Current Status and Future Prospects of the Industry

In each annual APAC 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 Asia-Pacific region 3PL marketplace in 2009. 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. According to the respondents, the most significant dynamic operating in the APAC 3PL marketplace was continued downward pressure on pricing which garnered three first-place votes and 15 total weighted points. In second place, with three first-place votes and 12 total points was the global recession. Rounding out the top five dynamics were increasing customer expectations with respect to IT support, increased pressure to internationalize company services offerings which each totaled five points, and customer interest in purchasing a broader array of 3PL services that generated four points.

Industry Opportunities. The CEOs surveyed were also asked to identify the most significant opportunities available to providers in the APAC 3PL marketplace during 2009. In response, four CEOs focused on the continued growth of the domestic marketplace in China. Several other opportunities were mentioned by individual respondents, including the general growth of outsourcing in the region, freight forwarding, the ability to offer improved supply chain technologies to customers, and opportunities related to offering improved levels of quality in Chinese logistics.

Industry Problems. The CEOs were also asked to identify the three most important problems facing their companies in the APAC 3PL industry. According to the CEOs, the industry's most important problem is finding and keeping managerial and operating talent, which received five "Top 3" mentions and 10 total weighted points. Government bureaucracy and corruption accounted for three "Top 3" mentions and seven total points. The only other problem mentioned by more than one CEO was transportation problems in China cited by two CEOs and accounting for three

points. Among the other problems mentioned by a single CEO were:

- Managing the dynamic cost environment in the global recession
- Increasing cost pressures
- Failure to bring new ideas/solutions to the marketplace
- The high capital cost of operating in the region
- Difficulties in managing joint venture relationships
- Non-standardized service standards across geographies
- Competition from government companies that do not need profits

Most Significant APAC 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 APAC business units and within the APAC 3PL industry during the previous year. In response, four CEOs highlighted growth of their business in the Chinese domestic market, with one also citing the opening of a new Intra-Asia hub in Shenzhen. Two others mentioned acquisitions, one of a global freight forwarder, and the other of a technology company, and in both cases the respondents emphasized how the acquisitions would allow their companies to broaden existing service offerings. Finally, one respondent emphasized his company's increased focus on operational excellence in the region.

Most Significant APAC 3PL Industry Developments of the Past Year. The CEOs were also asked to identify the most significant development that had taken place in the APAC 3PL industry during the past year, and six responded to the question. Three mentioned volume declines in the region related to the global recession, and three others focused on industry efforts to reduce costs to cope with recessionary pressures. Two respondents added second developments and those included improved technologies in the industry, and greater rate competition in the marketplace.

Major Changes Expected During the Next Three Years. The CEOs were then asked what major changes they expected to take place in the APAC 3PL industry during the next three years, and all eight CEOs responded to this question. As has been the case in our most recent regional surveys, the merger and acquisition movement received considerable attention, and three CEOs believed the movement will continue to accelerate in the region. In addition, several other changes were predicted by the CEOs. These included expansion of 3PL services in the region and increased focus on organic growth in many companies; sustainability becoming a more important industry consideration; the return of strong growth in the region, particularly in the domestic Chinese market; greater opportunities in India; and entry of new 3PL providers into the region.

Estimated Company and Industry Growth Rates

Finally, the CEOs were asked to estimate annual company and industry revenue growth rates for the one and three-year periods, and all eight CEOs provided those estimates.

The average company revenue growth projection for the next year was 12.9 percent, with the projected three-year company revenue growth average being 16.7 percent. Both of those projections were substantially higher than those projected in this year's North American and European surveys.

In terms of industry growth projections, the CEOs projected that the industry's one-year revenue growth rate would average 10.7 percent. They also forecasted an annual average growth rate of 11.7 percent over the next three-year period.

SUMMARY AND IMPLICATIONS

This paper has discussed the results of a 2009 survey of the CEOs of eight of the largest 3PL service providers operating in the Asia-Pacific regional marketplace. Collectively, these companies generated more than \$2.5 billion in APAC 3PL revenues during 2008.

As a result of the global recession and its impact on the 3PL industry, this group of companies was still rather optimistic about both company and industry prospects for the next year. On average, they projected that the revenue base of their companies would grow by an average of 12.9 percent during the next year. At the same time, they projected that the revenue base of the APAC 3PL industry would only increase by 10.7 percent during the next year.

The CEOs were also rather optimistic about prospects for their companies and the APAC 3PL industry in the three-year time frame. Their average annual company revenue growth projection for the three-year period was 16.7 percent, and their three-year annual projection for the APAC 3PL industry was 11.7 percent.

While none of the CEOs reported their companies were involved in significant merger/acquisition activity during the past year, approximately half of them believe that the consolidation movement will continue in the APAC 3PL industry.

In the 2008 survey it was determined that most of the APAC 3PL companies involved in the survey had become increasingly involved in green/environmental sustainability issues. In this year's survey we determined that none of those companies had scaled back their commitment to such issues. In fact, three of the companies reported expanding their existing sustainability programs, and five reported launching new sustainability initiatives.

As might be expected, the global recession has impacted APAC 3PL service providers in many ways. The related reduction in volume and steadily escalating pricing pressures have led to 3PL layoffs, reduction in recruiting efforts, and increased emphasis on cost controls. Those same pressures have led many of their most important customers to reassess their supply chain strategies and operations, and that reassessment has led to such changes as movements and substantial redesign of their supply chain networks.

Continuing downward pressure on pricing, the global recession, pressures to increase international service offerings, and the steadily increasing demands of customers for more sophisticated IT support were identified as the three most important APAC market dynamics. The most important opportunities were identified as the continued growth of the Chinese domestic market and the general growth in the use of outsourcing in the region. The CEOs identified the three most important problems facing their companies in the APAC 3PL marketplace as finding and keeping talented people, government bureaucracy and corruption, and the availability and quality of transportation in China.

What Do We Expect?

This survey was conducted between May and July, 2009, and the global recession was clearly impacting the APAC 3PL marketplace. Based on the results of the survey, we expect the following:

- A more rapid recovery of 3PL business in the APAC marketplace than is likely to occur in either North America or Europe
- Stronger relationships to emerge with some key customers in the region
- Greater emphasis to be placed by 3PLs in the region on "quality" customers and solid industry verticals
- At the same time, adversarial clients are likely to become ex-clients
- A less aggressive posture with respect to mergers and acquisitions in the region
- More company focus on organic growth
- A significant number of failures among small/medium 3PLs in the region
- The chronic talent shortage in the industry to be lessened as the global economy recovers due to recession-related provider and user layoffs
- Sustainability issues to receive considerably more attention from both 3PLs and their customers in the APAC region

EXHIBIT 1

**Third Party Logistics Companies Included in the 2009 APAC
3PL Industry CEO Survey**

CEVA Logistics

DHL Exel Supply Chain

Landstar

Menlo Logistics

Penske Logistics

Schneider Logistics

UPS Supply Chain Solutions

UTi