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The European Third Party Logistics Industry In 2009: The Provider CEO Perspective

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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 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 10 major logistics service providers operating in the European market.

The 2009 survey focused on a variety of issues including the key marketplace dynamics in the European 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, 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, and subsequently completed the survey online. Exhibit one lists the companies that participated in the 2009 European survey.

Two points should be noted before proceeding. First, due to individual company policies concerning financial disclosure not all respondents answered every question. 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 European 3PL provider revenue and profitability issues were addressed in the 2009 survey and each is discussed below.

Annual Provider Revenues. Nine companies reported revenue data in responding to the survey. Collectively, these companies generated in excess of 25 billion euros in European operations during 2008, with four companies reporting 2008 revenues in excess of one billion euros, with an average of 2.82 billion euros.

Success in Meeting Growth Projections. Those surveyed were also asked about the success of their companies in meeting their European revenue growth projections during 2008. Four CEOs reported their companies met their projections and six indicated their companies failed to meet their projections.

Company and Industry Profitability. The CEOs were also asked to categorize the profitability of their companies' European business units during 2008 and their responses were quite positive. Despite the fact that more than half of the companies failed to meet their revenue targets during the year, one CEO reported that his company had been very profitable, eight said their companies were moderately profitable for the year, and one indicated that his company broke even for the year. None of the CEOs reported that their companies had been unprofitable for the year. In the 2009 survey the CEOs were also asked to categorize their views of the profitability of the European 3PL industry as a whole in 2008. In response, all 10 classified the industry as being moderately profitable for the year.

Geographic Shifts of Customer Manufacturing Activities

In response to rising labor and material costs in China and the volatility of oil prices (which influence transportation costs), some European manufacturers that had established manufacturing operations in China for export to Europe are beginning to reduce their manufacturing base in that country, and are moving some manufacturing activities back to either Eastern or Western Europe. In this year's survey the CEOs were asked if any of their major manufacturing accounts had participated in such a movement, and six of the 10 respondents said "yes."

The CEOs then responded to a question that asked how significant that shift had been to their companies and what were the long-term implications of that shift. Only one of the respondents believed the shift had been moderately significant, with the others indicating that it had been of limited significance to date. However, two CEOs suggested that the shift has longer-term importance. One suggested that it is the beginning of a fundamental shift that will benefit Eastern Europe, and the other expects the trend to accelerate significantly as the world economy recovers.

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 what percentage of their major customers had taken steps to shorten their supply chains during the past year, and the average response was 21 percent with a range of less than three to 60 percent. Two respondents indicated that more than half of the major customers had done so in the past year.

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

- More customer requests for 3PL expertise with respect to optimizing the shorter supply chains
- Depressed short-term volumes, but increased business opportunities in the longer-term
- More traffic flows from Central Europe and less through Rotterdam and other ports
- Loss of revenue and margin erosion
- More flexible solutions will be required by customers

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 2009 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 26.6 percent.

Extent of M/A Activity. Five of the 10 European CEOs indicated their companies had been involved in significant mergers or acquisitions in the region during the past year. Collectively, the 3PLs acquired two 3PL companies, four transportation companies, and one freight forwarder/customs broker.

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, only two of the ten European CEOs indicated that their companies had increased branding outlays during that period, four indicated that those expenditures had remained approximately the same, and four said the branding expenditures had decreased.

Those surveyed were also asked to comment on company spending on a variety of marketing-related activities during the past year. In response, six CEOs reported increased spending on personal selling, four reported increases in publicity outlays, and two each indicated that their companies had increased spending in the areas of sales promotion and management presentations at professional conferences. In terms of reduced spending on marketing related activities, three CEOs cited cuts in radio advertising, and two each reported cuts in presentations at professional conferences, Internet advertising, direct mail, and sales promotion.

Impact of the Global Recession

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

Customer Industries Most/Least Affected by the Recession. The CEOs were asked which of the industry verticals served by their companies had been hardest hit by the recession. Not surprisingly, eight of the 10 cited the automotive industry. The only other industry mentioned by more than one CEO (two) was the high technology industry. Among the other industries mentioned by a single CEO were truck manufacturing, diversified industrials, chemicals, recycling, building, consumer goods, retail, and fashion.

Those surveyed were also asked to identify which industry verticals served by their companies had been least affected by the recession. The pharmaceutical industry and the fast moving consumer goods industry were each mentioned by three CEOs, and food retail and healthcare were each cited twice. Among the other industries mentioned by a single CEO were consumer goods, defense, high-tech post-sales, and automotive service parts.

Layoffs, Recruiting and Training. Seven of the 10 companies involved in the survey reported layoffs, with the average being approximately 11.5 percent of the workforce. The reported layoffs ranged from five to 25 percent. Nine of the 10 companies also reported reduced recruiting efforts. In a somewhat surprising development, only two of the 10 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. It should also be noted that six of the 10 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 European marketplace, and nine of the 10 respondents said "yes." They were then asked how their companies had responded to the intensified pricing pressures, and they cited a broad range of responses. Foremost among these were cost reduction efforts that were noted by seven of the CEOs. The cost reduction steps mentioned included such actions as focusing on LEAN warehousing, efforts to optimize transport networks, revisiting modal selection, and reviewing sourcing strategies. Among the other responses cited were working closely with customers to meet their challenges, implementation of "shared user" solutions, and introduction of a global efficiency program.

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 eight of the 10 CEOs said that it had. They were then asked to highlight what the most significant of those changes have been. Seven of the eight responded to that question. Not surprisingly, all seven highlighted increased customer focus on cost reductions. Specifically, they said their customers were:

- Seeking to reduce overcapacity, particularly in high labor cost markets
- Showing a greater willingness to outsource in-house operations
- Systematically reviewing existing supply chains to identify excess capacity and inefficiencies
- Taking a more "mercenary" approach to business
- Downgrading service levels and opting for cheaper slower transport modes
- Demanding straight fee reductions
- Placing increased focus on payment terms
- Delaying decision making

Implications of Those Changes to the 3PLs. Those surveyed were then asked to discuss the implications of those customer changes to their companies, and seven CEOs responded to that question. Three CEOs noted that certain revenue streams have disappeared in Western Europe, and that they would have to be replaced with new business. Two noted the need for their companies to reduce costs as their volume has declined. Among the other implications

noted were increased RFI activity that may yield new business opportunities; a need to change the service mix offered by the company; a greater company focus on cash; and possible opportunities for larger, more transformational changes for customers, particularly if the economic upturn is delayed.

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 of the nine CEOs who responded to the question, six said that it had. Those six were next asked how the recession had influenced those decisions, and the responses were quite varied. They included:

- Suspension of external growth initiatives
- Previous strategic decisions were being reviewed
- Non-core activities were being aggressively restructured
- Product management and service standardization were receiving more attention
- More emphasis being placed on key countries generating company profits
- Some projects were being delayed and capital expenditures were being reduced

Impact on Customer Relationships. Those surveyed were asked 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. On average, the relationships were categorized as follows:

- More adversarial – 20 percent
- The same – 60 percent
- More collaborative – 20 percent

Interestingly, on average, one-fifth of their relationships became at least more collaborative during the downturn. It should be noted that similar results were reported by the CEOs in responding to our survey questions during the last significant economic downturn.

When asked if their companies had taken any particular steps to foster greater collaboration with key customers during the downturn, all ten CEOs said that they had done so. Those that had were then asked to briefly discuss the steps that had been taken, and, as might be expected, their responses were varied. They included:

- Staffing levels for customer service were increased
- Investments were made in one company's global accounts organization
- An existing relationship management program was expanded
- The number of customer visits was increased
- One company cited working proactively with customers to take fixed costs out of their supply chains, and performing network modeling on their behalf
- Operational excellence and cost reduction efforts were given more emphasis
- Improving relationships with key customers was made a top priority

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 varied, and included:

- Be flexible and continuously investigate if you are delivering the services your customer needs
- Focus on opportunities to jointly reduce costs
- Consult frequently and listen
- Attend meetings only if you can “bring something”
- Maintain “situational awareness” of their business and their industry
- Increase communications with key 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 European survey reported scaling back any of the sustainability initiatives that they reported last year. In fact, seven CEOs reported that their companies had expanded their existing sustainability projects, and the same number reported launching new sustainability initiatives during 2008. Among the new sustainability projects reported were:

- Measuring the carbon footprint of customer supply chains
- Movement toward paperless offices within the company
- Use of low energy lighting in company facilities
- Reduction of vehicle operating speeds
- Conducting a global environmental audit
- Incorporation of sustainability concerns into new building designs and materials
- Investment in alternative energy vehicles

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 10 percent of their customers were giving substantial attention to such issues; 50 percent of their customers were giving some attention to those issues; 30 percent of their customers were giving little attention to those issues; and 10 percent of their customers were giving no attention to those issues.

Current Status and Future Prospects of the Industry

In each annual European 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 European 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. These points were used in calculating the total weighted points shown in table one.

Not surprisingly, according to the respondents, the most significant dynamic operating in the European 3PL marketplace was the global recession which not only generated the greatest number of total weighted points with 20, but also the most first-place mentions with six. It was accorded "Top 3" status by seven of the 10 CEOs who answered that question. In second-place with 13 total points and two first-place mentions was the increased involvement of procurement professionals in the 3PL selection process. Continued downward pressure on pricing, placed third this year with 12 total points and two first-place mentions. In fourth place with nine point and one first-place mention was growing customer interest in outsourcing a broader array of services. Rounding out the top five dynamics was increased CEO/CFO involvement in the 3PL selection process with six points.

Industry Opportunities. The CEOs surveyed were also asked to identify the three most significant opportunities available to providers in the European 3PL marketplace during 2009.

Topping the list with four first-place mentions and 12 total points were opportunities related to the growth of the outsourcing market. In second place with one first-place mention and seven total points were increased opportunities in Eastern Europe and Russia. In third-place with six total points were opportunities related to gaining market share from smaller players. The only other opportunities mentioned by more than one CEO were business growth related to "near-shoring," and good acquisition opportunities.

Industry Problems. The CEOs were also asked to identify the three most important problems facing their companies in the European 3PL industry. According to the CEOs, the industry's most important problem was identified as significant fluctuations in business volume. That garnered two first-place mentions and 12 total weighted points. Ranking second with one first-place mention and seven total points was pricing pressures from clients. In third-place with one first-place mention and five total points were customer financial problems. Among the other problems receiving a first-place mention from the CEOs were the lack of availability of trained and experienced personnel, increased competitive intensity, problems associated with refinancing investments and debt, and risk and liability management.

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 European business units and within the European 3PL industry during the previous year.

As has been the case in previous years, their responses related to company developments covered a broad range of topics. Not surprisingly, five of the 10 CEOs focused on internal changes within their organizations caused by the decline in their business volume related to the global recession. Among the other company developments mentioned by individual CEOs were the sale of a business unit, restructuring of non-core activities within a company, and increased emphasis on common metrics and benchmarking.

Most Significant European 3PL Industry Developments of the Past Year. The CEOs were also asked to identify the most significant development that had taken place in the European 3PL industry during the past year.

Eight CEOs responded to the question, and again, not surprisingly, seven focused on the decline in 3PL volume and the related financial problems caused by the global recession. The only other industry development mentioned by one CEO was the continued consolidation of the European 3PL industry.

Major Changes Expected During the Next Three Years. The CEOs were then asked what major changes they expected to take place in the European 3PL industry during the next three years, and eight responded to this question. As has been the case with past several European surveys, the merger and acquisition movement dominated their thinking, and six CEOs indicated that they believed the movement would continue to accelerate, accompanied

by a shakeout of weaker players. Among the other changes expected by the CEOs were the development of more sophisticated solutions for customers; a slow economic recovery in Europe; increased "near-shoring;" a reduction in transportation costs; and the possibility of moving from one crisis to another with associated volatility (finance, CO2, food shortages, etc.)

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 10 CEOs provided those estimates.

The average company revenue growth projection for the next year was negative 3.3 percent, with the projected three-year average of 8.7 percent. It should be noted that the estimates varied significantly from company to company, with the one-year company projections ranging from negative 30 to plus five percent, and three-year projections ranging from five to 15 percent.

In terms of industry growth projections, the CEOs projected that the industry's one-year revenue growth rate would average negative 1.4 percent. They also forecasted an annual average growth rate of 4.9 percent over the next three-year period. Individual CEO projections of the industry's growth rates ranged from negative 15 to plus five percent for the one-year period, and one to 10 percent for the three-year period.

SUMMARY AND IMPLICATIONS

This paper discussed the results of a 2009 survey of the CEOs of 10 of the largest 3PL service providers operating in the European marketplace. Collectively, these companies generated more than 25 billion euros in European 3PL revenues during 2008. However, more than half of the respondent companies failed to meet their revenue projections during 2008.

As a result of the global recession and its impact on the 3PL industry, the CEOs of these companies were not optimistic about either company or European 3PL industry prospects for the next year. On average, they projected that the revenue base of their companies would decline by an average of negative 3.3 percent during the next year. That was the lowest annual growth projection recorded in the 15-year history of these annual surveys. At the same time, they projected that the revenue base of the European 3PL industry would also decline by an average of 1.4 percent during the next year. Again, this was dramatically lower than any one-year industry forecast recorded in the history of these surveys.

However, anticipating an economic recovery in Europe, the CEOs were considerably more optimistic about prospects for their companies and the European 3PL industry in the three-year time frame. Their average annual company revenue growth projection for the three-year period was 8.7 percent, and their three-year annual projection for the European 3PL industry was 4.9 percent.

Five of the 10 CEOs involved in the 2009 survey reported that their companies were involved in significant merger/acquisition activity during the past year, and the consensus among the larger group is that the consolidation movement will continue in the European 3PL industry.

In the 2008 survey, it was determined that most of the European 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, seven of the companies reported

expanding their existing sustainability programs during the year, and the same number reported launching new sustainability initiatives.

As might be expected, the global recession has impacted European 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 toward near-shoring and substantial redesign of their supply chain networks.

The recession, the increasing role of procurement professionals in the 3PL selection process, and continuing downward pressure on pricing were identified as the three most important European market dynamics. The most important opportunities were identified as the continuing growth of the market for outsourcing services, growth possibilities in Eastern Europe and Russia, and the possibility of gaining market share from smaller, financially-challenged 3PLs. The CEOs identified the three most important problems facing their companies in the European 3PL marketplace as significant fluctuations in business volume, continuing downward pressure on prices, and the financial problems of many customers.

What Do We Expect?

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

- A quite slow recovery of 3PL business in the European marketplace
- Stronger relationships to emerge with many key 3PL customers
- Greater emphasis to be placed by the 3PLs on "quality" customers and solid verticals
- Some adversarial clients are likely to become ex-clients
- A less aggressive posture with respect to mergers and acquisitions
- Slower geographic expansion
- More emphasis to be placed by large 3PLs on alliances with other 3PLs, carriers and middlemen
- A significant number of failures among small/medium 3PLs in the region
- The chronic talent shortage in the industry to be lessened due to recession-related provider and user layoffs
- Sustainability issues to receive substantial more attention from both 3PLs and their customers in the region

EXHIBIT 1

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

Caterpillar Logistics Services	Penske Logistics
CEVA Logistics	Schenker
DHL Exel Supply Chain	Schneider Logistics
Kuehne & Nagel Logistics, Inc.	UPS Supply Chain Solutions
Menlo Logistics	Wincanton

TABLE 1

**CEO Perception of the Three Most Important
North American 3PL Industry Dynamics, 2009**

Industry Dynamic	# of CEOs Ranking It #1 2009	# of CEOs Ranking It #2 2009	# of CEOs Ranking It #3 2009	Total Weighted Points 2009
The global recession	6	1	0	20
Growing procurement involvement in 3PL selection process	2	2	3	13
Continuing downward pressure on pricing	2	3	0	12
Increased customer interest in outsourcing a broader array of services	1	2	2	9
Increasing role of CEOs and CFOs in the 3PL selection process	1	1	1	6