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The Asia-Pacific Region Third Party Logistics Industry In 2010: The Provider CEO Perspective

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INTRODUCTION

The recent global recession had a broad range of effects on third party logistics (3PL) service providers in the Asia-Pacific (APAC) region marketplace. In many instances, customers failed, volume fell, and pricing pressures increased. Typically, the 3PLs responded with cost cutting efforts, layoffs, and postponement of expansion programs. As economic conditions have improved, the 3PLs have generally re-examined their service offerings and strategies, and begun to rebuild their workforce. This paper, which is based on a survey of the CEOs of large 3PLs operating in the region, was conducted in mid-2010, focuses on the state of the APAC marketplace for 3PL services at that time, and the steps being taken by large 3PLs to adjust new market realities while formulating long-term strategies.

This survey is part of a research effort focused on the global 3PL industry that began 17 years ago. While the initial research efforts only focused on the North American marketplace, they now consist of three separate regional surveys that are conducted in North America, Europe, and the Asia-Pacific Region. All companies included in the regional surveys rank among the 50 largest 3PLs in the world, based upon annual revenues.

Collectively, the results of the three annual surveys allow us to provide a truly global overview of the 3PL 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 2010 survey of the CEOs of seven major logistics service providers operating in the APAC marketplace.

The 2010 survey covered a wide variety of issues including the key marketplace dynamics in the APAC 3PL industry and the current status and future prospects of the industry in the region. It also gave considerable attention to a number of other important issues including the 3PL industry's continuing involvement in "green" and environmental sustainability issues, the industry's response to improving economic conditions, and industry's recent efforts in such areas as business continuity planning and risk management.

The CEO of each of the companies included in the survey was contacted by 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 seven of the CEOs subsequently completed the survey online. **Exhibit 1** lists the companies that participated in the 2010 APAC survey.

Two points should be noted before proceeding. First, due to individual company policies concerning financial disclosure, some respondents did not answer all the questions included in the survey. 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 2010 survey and each is discussed below.

Annual Provider Revenues. All seven companies reported revenue data in responding to the survey. Collectively, these companies generated approximately \$2.1 billion in APAC revenues during 2009. The annual revenues for 2009 for the survey participants averaged \$298 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 2009. The responses were mixed, with three companies meeting their projections, and four failing to do so. In the 2009 survey, one company reported exceeding its revenue growth projections, six indicated they met their projections, and one failed to do so.

Company and Industry Profitability. The CEOs were also asked to categorize the profitability of their companies' APAC business units during 2009, and their responses were again mixed. One CEO said his company had been *very profitable*, four classified their companies as *marginally profitable*, one said his company *broke even*, and one said his company was *marginally unprofitable*. In the 2009 survey one CEO said his company had been *very profitable*, six reported being *moderately profitable*, and one said his company had been *very unprofitable*.

In the 2010 survey, the CEOs were also asked to categorize their views of the profitability of the APAC 3PL industry as a whole in 2009. Five of the seven CEOs believed the industry had been *marginally profitable*, one said that it had *broken even*, and the other categorized the industry as *marginally unprofitable* for the year. In the 2009 survey, seven CEOs categorized the industry as being *moderately profitable* and one said it had been *moderately unprofitable*.

Mergers and Acquisitions (M/A)

During the past decade, the global 3PL industry has been restructured through a wave of mergers and acquisitions. However, none of the seven CEOs indicated that their companies had been involved in significant mergers or acquisitions in the region during the past year. That was the first time in the history of these surveys that had been the case. Those surveyed were also asked what percentage of their companies' revenue growth over the next three years was expected to come from acquisitions. The average response was a very low 4.3 percent, and four of the respondents indicated that they expected none of their companies' growth to come from acquisitions during that period.

Impact of the Global Recession

Obviously, the global recession has had a dramatic impact on not only the 3PL industry in APAC, but also its customer base. All seven CEOs indicated that they believed that a significant economic recovery has occurred in the APAC region. Those surveyed were also asked which of the industry verticals their companies serve have "recovered" fastest. Three respondents mentioned the high tech industry and two others cited the automotive industry. Three other industries were mentioned once. They were clothing/textiles, manufacturing, and wine and spirits.

Layoffs, Recruiting and Training. Six of the seven CEOs reported that their companies have begun to rebuild their workforces. Their responses to a question concerning where the new hires were originating were quite interesting. On average, 26 percent of the new hires were former employees of their companies, 32 percent were former employees of other 3PLs, seven percent came from the university community, three percent came from consulting companies, and 32 percent came from many other sources including customers, the military, and other industries.

Introduction of New Services and Consulting Services. Four of the seven CEOs indicated that their companies had introduced new services during the past year. Those service offerings took a variety of forms and included the following:

- freight forwarding and value added services at company facilities
- air charter and on-board courier services
- domestic transportation optimization services using an advanced technology tool
- supply chain technology services under the SAAS “software as a service” model

The CEOs were also asked if their companies had established a separate consulting unit in the region, and only two of the seven CEOs said “yes.” The revenues generated by those two consulting units are relatively low, and in neither case did they exceed five percent of the total logistics revenues of the companies.

Changes in 3PL Provider Strategies. When the CEOs were asked if the global recession had led to long-term strategy changes within their companies, five of the seven said “yes.” Those that responded affirmatively were then asked to identify those strategy changes. They included the following:

- in future acquisitions, acquire businesses that are similar to our current business rather than those that offer more distant adjacent products
- become more focused on the “right” industry and the “right” customer
- future growth should be primarily directed at organic growth through expansion of our services to our existing client base
- diversify into more industry verticals
- place greater emphasis on servicing intra-Asia demand

Capital and IT Spending Programs. Those surveyed were also asked several questions

about the capital spending programs of their companies and IT upgrades during the recession. Only two CEOs indicated their companies had postponed capital spending programs during the downturn, and both reported that those programs had resumed, but on a limited basis. Interestingly, none of the CEOs reported that their companies had postponed IT upgrades during the recession. That not only reflects the perceived importance of IT capabilities in the marketplace, but also the pressures exerted by key customers for more robust IT support from their 3PLs.

Lessons Learned. The CEOs were also asked if there were any corporate lessons learned as a result of the recession, and six said “yes.” Their responses touched on a broad range of issues including the following:

- do a better job “qualifying” revenues
- be asset light and flexible
- add a more flexible component to the workforce
- have a more pro-active approach to key customers to develop ideas for reduction in logistics cost and inventory levels
- talk more frequently with key customers and understand their needs looking forward
- develop strategic value relationships with customers, not strictly tactical relationships
- develop and use more local management talent in the region

Business Continuity Planning

All seven CEOs indicated that their companies have formal business continuity plans at the global level. Four reported similar plans at the regional level. They were also asked to identify the most important components of their plans. In response they listed the following:

- each senior position has a plan two levels down, with appropriate training for those involved
- a detailed succession planning document
- an IT Disaster Recovery Plan
- a back up data center
- redundant telecom links
- work-from-home programs

Only one CEO indicated that some of the RFPs now received by his company require business continuity plans to be submitted as part of any response to the bid request.

Risk Management Programs

Five of the seven CEOs reported that their companies had launched new risk management programs during the past year. Those programs generally reflected the experience of the companies during the economic downturn. They included the following:

- placing far more emphasis on the financial stability of customers (mentioned twice)
- identifying risks in domestic transportation and warehousing operations
- making sure the company has the right insurance to mitigate risks
- giving more scrutiny to the financial viability of companies issuing RFPs
- formation of a "Risk Committee" that reports to the Board

Performance Based Contracts

Considerable attention has been given to the perceived expansion of performance-based contracts in the 3PL industry. All seven CEOs reported that their companies had such contracts covering an average 17 percent of their customers. When asked what form those contracts take, four CEOs mentioned gain-sharing plans. Bonuses based on superior performance, profit sharing, and penalties for non-performance were each mentioned by one CEO.

Selling to the Supply Chain "Partners" of Existing Customers

Many 3PLs have made a concerted effort to sell their services to the supply chain "partners" of their existing customers, and five of the seven CEOs reported that their companies follow that strategy in the region. Those sales account for an average of slightly more than 11 percent of the logistics revenues generated by those companies in the region.

Green/Environmental Sustainability Issues in the 3PL Industry

Over the past three years we have included a wide variety of questions related to environmental sustainability in our regional 3PL surveys. The responses to those questions have clearly shown that most of the companies involved in these surveys have made significant commitments in pursuing "green" goals not only within their companies, but also in helping their customers reach similar goals. Many of the 3PLs have written formal sustainability statements, hired

a person to direct their sustainability activities, and have launched a broad range of sustainability initiatives within their companies. The responses have also shown that the commitment of these companies to sustainability goals was maintained throughout the global economic downturn. In fact, two of the seven CEOs involved in the survey believe that their companies' sustainability capabilities differentiate them from their competitors in the APAC marketplace. The 2010 APAC survey again addressed a broad range of environmental sustainability issues that are discussed below.

Establishment of Formal Company Sustainability Groups. All seven CEOs reported that their companies have established formal environmental sustainability groups within their organizations. The groups are typically cross-functional in nature. Among the functional representatives mentioned in the APAC survey were operations, account management, marketing, finance, audit, legal, and IT.

Industries with Strong Interest in Environmental Sustainability. Those surveyed were asked if there were particular industries in which existing or potential 3PL customers expressed strong interest in sustainability issues, and three of the seven CEOs said "yes." All three indicated that the interest is strongest in industries that either manufacture or sell consumer goods.

Sustainability Issues Most Frequently Raised by Customers. The CEOs were asked which specific sustainability issues were raised most frequently by existing or potential customers in meetings with company representatives. Those issues cluster into two areas: inquiries related to how the internal environmental sustainability issues faced by the 3PLs are being addressed, and how the 3PLs might help customers achieve their environmental sustainability goals. In the latter category, the issues most frequently raised by customers included carbon footprint measurement, cost reduction possibilities related to specific "green" actions, routing optimization, and possible improvements in truck payloads to reduce fuel consumption.

Those surveyed were also asked what percentage of their existing customers have asked their companies to analyze their supply chain practices in terms of their environmental impact/cost. All seven CEOs indicated that some of their clients had done so, but on average only 8.6 percent of their clients had asked for such assistance.

Expansion of Existing Sustainability Programs and New Initiatives. Three of the seven companies involved in the survey reported that they expanded their existing sustainability programs in the past year. Three of the seven 3PLs also reported starting new sustainability initiatives during the past year. No details of those new initiatives were provided by the CEOs.

SCM Processes and Practices Generating Highest Environmental Costs. Many supply chain management processes and practices implemented by companies during the past decade were adopted with relatively little concern about their environmental costs. We asked the CEOs to identify which of those practices, in their opinion, have generated the highest environmental costs. The responses primarily focused on supply chain practices that have tended to produce greater fuel consumption such as the use of faster, less fuel-efficient modes to minimize inventory or support higher levels of customer service. While those changes may have improved the market position of the companies involved, they have also generally increased the carbon footprint of the companies

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 what major changes they expect to occur within the region during the next three years.

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 APAC 3PL marketplace in 2010. 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 1.

According to the respondents, the most significant dynamic operating in the APAC 3PL marketplace was continued downward pressure on pricing which ranked first with 13 total weighted points, and the most first-place mentions with four. In second-place with nine total points and the other three first-place mentions was continued growth of the market for outsourcing services. Tied for third-place with four points each were the growing role procurement plays in the 3PL selection process, and continuing pressure to internationalize service offerings.

Industry Opportunities. The CEOs were asked to identify the most significant opportunities that exist for 3PL service providers in the APAC market, and they identified several. Only one opportunity was mentioned more than once, continued growth of the demand for outsourcing services, which was cited by three respondents. The only other opportunities mentioned were the provision of integrated solutions across the supply chain covering multiple product offerings, the growth of domestic versus international business in the region, the continued growth of intra-Asian trade, and the possibility of following the flow of certain manufacturing activities to other Asian countries (from China).

Industry Problems. The CEOs were also asked to identify the most important problems facing their companies in the APAC 3PL industry. Only one problem was mentioned more than once and that was finding and keeping managerial and operational talent that was mentioned by five CEOs. Among the other problems mentioned by the respondents were currency fluctuations, lack of reliable carriers in the region, infrastructure problems in India, unrealistic competition, and 3PLs attempting to force their way of doing business upon the marketplace without regard to cultural differences.

Major Changes Expected During the Next Three Years. The CEOs were next asked what major changes they expect to take place in the APAC 3PL industry during the next three years, and six responded to this question. The changes they expect are:

- more mergers and consolidations, particularly in China (two mentions)
- intra-Asian trade will become the main economic driver in the region
- the “local” workforce will become more highly skilled
- standardization will increase, especially in domestic transportation
- the level of logistics sophistication will increase in the region
- economic growth will shift to other areas of the Pacific Rim

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 seven CEOs provided those estimates. Their projections, which were much more optimistic than those given in our 2009 survey, are shown in Tables 2 and 3, and discussed below.

The average company revenue growth projection for the next year was 22.5 percent (12.9 percent last year), with the projected three-year company revenue growth average being 19.5 percent (16.7 percent last year). The estimates once again varied significantly from company to company, with the one-year company projections ranging from eight to 50 percent, and three-year projections ranging from 10 to 50 percent.

In terms of industry growth projections, the CEOs projected that the industry’s one-year revenue growth rate would average 15.4 percent (10.7 percent last year). They forecasted an annual average growth rate of 12.9 percent over the next three-year period (11.7 percent last year). Individual CEO projections of the industry’s growth rates ranged from eight to 20 percent for the one-year period, and 10 to 17 percent for the three-year period.

SUMMARY AND IMPLICATIONS

Summary

This paper summarized the results of a 2010 survey of the CEOs of seven of the largest 3PL service providers operating in the APAC marketplace. Collectively these companies generated more than \$2 billion in regional 3PL revenues during 2009.

Reflecting better economic conditions, the CEOs were quite optimistic concerning the growth prospects for the market over the next year. On average, they projected that the revenue base of their companies would grow by 22.5 percent during the next year. At the same time, they projected that the revenue base of the APAC 3PL industry would increase by 15.4 percent during the next year.

They were similarly 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 19.5 percent, and their three-year annual projection for the APAC 3PL industry was 12.9 percent.

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

All seven of the companies involved in the survey reported that they have some contracts with performance-based elements in them. On average, 17 percent of their contracts include such provisions. All of the companies also report selling along the supply chains of their existing customers with those sales accounting for an average of 11 percent of the logistics revenues generated by the companies in the region.

The involvement of these companies in environmental sustainability projects has continued, with four companies beginning new initiatives during the year, and three expanding existing programs. The CEOs of two of the companies involved in the survey believe that the sustainability capabilities of their companies differentiate them from their competitors in the APAC marketplace.

All of the CEOs indicated that they believed the economic recovery has begun in the APAC marketplace, and six companies have started to rebuild their workforce. The respondents reported that their companies learned many lessons during the global economic downturn. Those lessons focused on such matters as the need to better qualify revenues, the desirability of being asset light and flexible, having frequent communications with key customers, and the need to develop local management talent.

Continuing downward pressure on pricing and the continuing growth of the market for outsourcing services were identified as the two most important APAC market dynamics. The most important opportunities were identified as the continuing growth of the market for outsourcing services and the growth of intra-Asian trade. The CEOs identified a variety of problems facing their companies in the APAC 3PL marketplace, with the most important problem being finding and keeping managerial and operational talent in the region.

All seven companies reported that they have business continuity plans in place at the global level, and five reported putting new risk management programs in place in the past year.

What Do We Expect?

This survey was conducted between May and July 2010, and the economic recovery had clearly led to much greater CEOs optimism concerning the short-term prospects of the Asia Pacific Region 3PL industry. Based upon the data generated in this survey we expect:

- substantial growth to resume in the demand for 3PL services in the region
- that selling logistics services to the supply chain partners of key customers will become a much more significant revenue source in the region
- considerably more attention will be given by the 3PLs to developing “local” management talent in the region
- the sophistication of potential users of 3PL services in the region to increase steadily
- a more significant shift of manufacturing from China to other Asian countries will take place, and that shift will likely be followed by 3PLs currently linked to those manufacturers
- the growth of the Indian market for 3PL services to continue to be limited by infrastructure and bureaucratic problems
- the merger and acquisition movement will resume, as companies use those transactions to achieve scale in the region
- continuing downward pressure on pricing will force 3PLs to not only continue to focus on cost reduction efforts, but also upon efforts to differentiate their service offerings in the marketplace
- environmental sustainability capabilities will not only become a more important source of market differentiation for 3PLs operating in the region, but also a means of generating cost savings and operational improvements for those companies
- tighter environmental regulations will be instituted, particularly in China, and should be anticipated by the 3PL community

Exhibit 1

**Third Party Logistics Companies Included in the 2010 European
3PL Industry CEO Survey**

CEVA Logistics

Landstar

Menlo Logistics

Penske Logistics

Schneider Logistics

UPS Supply Chain Solutions

UTI

TABLE 1
CEO Perception of the Three Most Important APAC Region 3PL Industry Dynamics, 2010

Industry Dynamic	# of CEOs Ranking It #1	# of CEOs Ranking It #2	# of CEOs Ranking It #3	Total Weighted Points
Continuing downward pressure on pricing	4	1		13
Growth of the market for outsourcing services	3			9
Growing role of procurement in 3PL selection process		1	2	4
Pressure to internationalize service offerings		2		4

TABLE 2
2010 Survey CEO One and Three-Year Revenue Growth Projections for Their Companies, APAC Region, and Comparisons with 2009 Projections

One-Year Company Projection, 2010	One-Year Company Projection, 2009	Three-Year Company Projection, 2010	Three-Year Company Projection, 2009
22.5%	12.9%	19.5%	16.7%

TABLE 3
2010 Survey CEO One and Three-Year Revenue Growth Projections for the APAC Region 3PL Industry, and Comparisons with 2009 Projections

One-Year Industry Projection, 2010	One-Year Industry Projection, 2009	Three-Year Industry Projection, 2010	Three-Year Industry Projection, 2009
15.4%	10.7%	12.9%	11.7%