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The European 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 European 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 European 3PL companies, was conducted in mid-2010 and focuses on the state of the European 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 third party logistics 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 eight major logistics service providers operating in the European market.

The 2010 European 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 continuing involvement in "green" and environmental sustainability issues, and, the industry's response to improving economic conditions.

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 eight of the CEOs subsequently completed the survey online. **Exhibit 1** lists the companies that participated in the 2010 European 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 European 3PL provider revenue and profitability issues were addressed in the 2010 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 \$9.4 billion in European revenues during 2009, with three companies reporting 2009 revenues in excess of \$1 billion. The annual revenues for 2009 European survey participants averaged \$1.346 billion.

Success in Meeting Growth Projections. Those surveyed were also asked about the success of their companies in meeting their European revenue growth projections during 2009. Only one CEO reported his company had exceeded company revenue growth projections for the year, four indicated that their companies met their projections and three indicated their companies failed to meet their projections. In the 2009 survey, four companies reported meeting their revenue projections, and six failed to meet those projections.

Company and Industry Profitability. The CEOs were also asked to categorize the profitability of their companies' European business units during 2009, and their responses were mixed. One CEO said his company had been very profitable, six classified their companies as marginally profitable, two said their companies broke even, and one said his company was very unprofitable. In the 2009 survey, one CEO indicated that his company had been very profitable, eight categorized their performance as marginally profitable, and one reported breaking even for the year.

In the 2010 survey, the CEOs were also asked to categorize their views of the profitability of the European 3PL industry as a whole in 2009. Four of the eight CEOs believed the industry to be marginally profitable, one said that it had broken even, and the other categorized the industry as very unprofitable for the year. Last year, all ten of the participants believed the industry had been moderately profitable.

Mergers and Acquisitions (M/A)

During the past decade, the global 3PL industry has been restructured through a wave of mergers and acquisitions. In recognition of this fact, several questions related to that restructuring were included in the 2010 survey.

Extent of M/A Activity. None of the eight 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 2.9 percent, and three of the respondents indicated that they expected none of the 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 Europe, but also its customer base. Seven of the eight CEOs indicated that they believed that a significant economic recovery has occurred in Europe. Those surveyed were also asked which of the industry verticals their companies serve have "recovered" fastest, and the most frequently mentioned industries were the automotive and high technology industry that were each mentioned by three respondents. The fast-moving consumer goods industry was mentioned twice. Among the other industries receiving a single mention were the chemical, health-care, and industrial goods industries.

Layoffs, Recruiting and Training. Six of the eight 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 eight 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:

- cold chain services
- air charter services
- logistics services in the healthcare industry
- temperature/humidity controlled warehousing
- hazardous material storage and transport
- integrated procurement and logistics services

The CEOs were also asked if their companies had established a separate business consulting unit, and only two of eight CEOs indicated their companies had done so. However, the revenues generated by those business units are relatively low, and in neither case did they exceed two 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, three of the eight said “yes.” Those that responded affirmatively were then asked to identify those strategy changes. They included the following:

- divesting non-core logistics activities
- focusing on a more limited number of industry verticals
- aggressively growing core logistics activities
- placing external growth efforts on hold

The CEOs were also asked if the outlook for long-term prospects in the European 3PL industry had changed as a result of the recession. Five said “yes,” and some of their comments addressed the overall market for supply chain services while others addressed the prospects for specific service offerings. Two CEOs expect a slower rate of growth in the European economies in the foreseeable future, and one of those cited recent government debt turmoil as a complicating factor. Another added that many companies are now more “bottom-line” focused, and that they are looking for more added value from logistics providers—this may drive moderate growth in the European 3PL industry. Two respondents focused on the transport sector. One noted that lower profitability in road transport in Europe has led to reduced capacity, and that the capacity “is not reappearing in Western European trucking.” Another said that as customers seek to reduce inventory levels those 3PLs who provide transport services will be making more deliveries with smaller loads per run.

Capital and IT Spending Programs. Those surveyed were also asked several questions concerning their companies’ capital spending and IT upgrades during the recession. Six of the eight CEOs indicated their companies had postponed capital spending programs during the downturn, and four reported that those spending programs have since resumed. Interestingly, only two of the eight 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 all eight said “yes.” Their responses touched on a broad range of lessons including the following:

- a more thorough review is needed for investments leading to fixed investments
- customer relationships need fundamental changes
- more extensive “early warning” signals need to be established to detect major market changes
- operating leverage is key
- asset utilization and productivity improvements are essential to survive
- ROIC is the key metric for managing the business
- good business principles don’t change—do good deals, but also watch the cash
- back to basics
- maintain flexibility in labor force staffing
- develop action plans for economic downturns

Business Continuity Planning

Seven of the eight CEOs indicated that their companies have formal business continuity plans at the corporate level. Six 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:

- scenario planning that addresses various disasters
- backup plans and tests related to various scenarios
- master operating plans including contingency plans and disaster recovery plans
- a backup data center
- redundant telecom links
- work-from-home plans
- a relationship with a large warehouse leasing company to access space quickly
- full operational plans in the event of a disaster
- planned redundancies
- detailed response plans that are reviewed annually

Four CEOs indicated that many of the RFPs now received by their companies require business continuity plans as part of any response to the bid request.

Risk Management Programs

Four of the eight CEOs reported that their companies had launched new risk management programs during the past year. Those programs generally reflected the experience of those companies during the economic downturn. There was a heavy emphasis placed on the credit worthiness of subcontractors and new customers. That process is now being incorporated into the business development process of several companies. The industries in which potential customers operate are also being reviewed thoroughly before commitments are made to new customers. One respondent said his company had established a globally coordinated team on risk, which also covers health and safety issues.

Performance Based Contracts

Considerable attention has been given to the perceived expansion of performance-based contracts in the 3PL industry. Six of eight CEOs reported that their companies had such contracts covering an average 37 percent of their customers. When asked what form those contracts take, five CEOs mentioned gain-sharing plans, three cited penalties for service failures, and two highlighted the inclusion of bonuses for superior performance in their contracts.

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, four of the eight CEOs involved in the survey believe that their companies’ sustainability capabilities differentiate them from their competitors in the marketplace. The 2010 European survey again addressed a broad range of environmental sustainability issues that are discussed below.

Establishment of Formal Company Sustainability Groups. Five of the eight 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 European survey market and communications (three times), operations (twice), engineering, strategy, finance and accounting, account management, and country “champions.” In some organizations the team members are from the same management level, in others the team consists of a cross-section of the organization from vice president to analyst levels. While the vice president or director of Environmental Sustainability in these companies is typically a full-time position, committee membership varies across these companies from full-time to part-time. Two CEOs indicated that committee membership is on an “ad hoc” basis, and two others indicated that their core members work on environmental sustainability on a full-time basis.

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 four of the eight CEOs said “yes.” They identified several industries, with high tech being mentioned three times, and fast moving consumer goods and retail were each mentioned twice. Two other industries were mentioned, each by one CEO —healthcare and “consumer focused industries.”

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 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 and reduction—mentioned four times
- possible reduction of waste
- possible reduction in transport costs
- potential packaging improvements and their effect on warehouse and truck utilization
- recycling programs
- mileage reduction programs

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. Surprisingly, only three respondents indicated that any of their clients had done so, and one of those that said “yes” indicated that less than one percent of his company’s customers had done so! In contrast, one executive indicated that approximately 35 percent of his company’s existing customers had done so, and the other estimated that 15 percent of existing customers had requested such assistance.

Expansion of Existing Sustainability Programs. Four of the eight companies involved in the survey reported that they expanded their existing sustainability programs in the past year. These programs included expansion of company efforts to improve data gathering and include all company vendors in their programs, appointment of a global company head of sustainability to oversee existing programs, expanding the company’s environmental partnership programs, more extensive use of a carbon calculator, and expansion of company efforts to reduce energy consumption in company buildings, and fuel consumption in the company’s fleet operations.

New Sustainability Initiatives. Three of the eight 3PLs also reported starting new sustainability initiatives during the past year. Among the more interesting initiatives were introduction of new programs to introduce the concept of carbon neutral shipping, expansion of customer-facing sustainability products, and introduction of new company programs to more effectively engage customers in discussion of environmental sustainability issues.

Most Successful Sustainability Initiative. The CEOs were asked to identify their companies’ “most successful” sustainability initiatives to date. Seven CEOs responded to the question, and their responses covered a broad range of initiatives including: development of carbon metrics, reduction in vehicle fuel consumption and emissions through driver training programs, modernization of the company’s aircraft fleet by equipping them with a new generation of engines, imposition of speed limits on the company’s trucking fleet, and recycling (this CEO indicated that his company recycles 90 percent of the materials used in company facilities).

Sustainability Initiatives Most Likely to Generate Future Cost Reductions. The CEOs also were asked to identify the sustainability initiatives that were most likely to generate future cost reductions. Again, their responses were quite varied. Four mentioned network optimization efforts. Three cited ventures with multiple clients that might involve cross-company collaboration and shared user distribution networks. Several transport related topics were also mentioned including, driving training to improve fuel efficiency, shifting of traffic to more fuel-efficient modes, and mileage reduction programs. Solar projects and potential investments in carbon neutral facilities were also mentioned in terms of potential cost reductions.

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. These included: sourcing from Eastern Europe and Asia (mentioned twice), centralization of warehousing (also mentioned twice), lean manufacturing, and steadily increasing service levels requests. Collectively, these management initiatives have often led to longer distance shipments, smaller, more frequent shipments, and use of less fuel-efficient modes of transport.

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 European 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 European 3PL marketplace was continued downward pressure on pricing which ranked first with 18 total weighted points, and the most first-place mentions with five. Despite the signs of a global recovery, the global recession still ranked second this year with 16 total points, and the other three first-place votes. Only two other dynamics were mentioned more than once, each being mentioned twice—the financial health of certain European countries, and increasing customer expectations with respect to IT support, which registered four and two total points respectively.

Industry Opportunities. The CEOs were asked to identify the three most significant opportunities that exist for 3PL service providers in the European market, and there was little consensus. In fact, while there were 24 top three choices available (3 x 8 respondents), no opportunity was mentioned more than twice. The following opportunities were each cited twice: the growth of the market for outsourcing, opportunities in “emerging” markets, opportunities related to service expansion, and opportunities with respect to mergers and acquisitions. Among the opportunities receiving a single mention were the provision of services to the healthcare industry, and expansion of “green” projects.

Industry Problems. The CEOs were also asked to identify the three most important problems facing their companies in the European 3PL industry. Finding and keeping managerial and operational talent ranked first with 10 total points, and two first place mentions. In second place with eight total points and two first place mentions was continuing downward pressure on prices. The recent global recession ranked third with seven points and two first place mentions. Irrational competitor behavior and company pressures to regain volume were each mentioned once.

Major Changes Expected During the Next Three Years. The CEOs were next asked what major changes they expect to take place in the European 3PL industry during the next three years, and six responded to this question. As has been the case in our most recent annual European surveys, the merger and acquisition movement dominated their thinking with five CEOs indicated that they believed the movement will accelerate in Europe. No other change was mentioned more than once. Among those being mentioned once were: more emphasis being placed on collaboration, capacity shortages in road transport, increased importance of regulations affecting the industry, more emphasis on “green” issues, and continuing pressure on margins from customers.

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. 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 7.2 percent (-3.3 percent last year), with the projected three-year company revenue growth average being 8.3 percent (8.7 percent last year). The estimates once again varied significantly from company to company, with the one-year company projections ranging from three to 10 percent, and three-year projections ranging from six to 15 percent.

In terms of industry growth projections, the CEOs projected that the industry's one-year revenue growth rate would average 4.8 percent (-1.4 percent last year). They forecasted an annual average growth rate of 5.4 percent over the next three-year period (4.9 percent last year). Individual CEO projections of the industry's growth rates ranged from zero to 10 percent for the one-year period, and three to 10 percent for the three-year period.

Summary

This paper summarized the results of a 2010 survey of the CEOs of eight of the largest 3PL service providers operating in the European marketplace. Collectively these companies generated more than \$9 billion in European 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 7.2 percent during the next year. At the same time, they projected that the revenue base of the European 3PL industry would increase by 4.8 percent during the next year.

They were similarly 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 8.3 percent, and their three-year annual projection for the European 3PL industry was 5.4 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 European 3PL industry.

Six of the companies reported that on average slightly more than one-third of their contracts now include performance-based elements. The same number sell logistics services to the supply chain partners of their existing customers.

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

Seven of the eight CEOs indicated that they believed the economic recovery has begun in the European marketplace, and six companies have started to rebuild their workforce. The respondents reported that their companies learned many lessons during the global economic downturn, and the CEOs typically mentioned the need to move more slowly on capital spending projects, the need to develop more “early warning” signals of economic downturns, and the need for greater company flexibility to adjust to current market conditions.

Continuing downward pressure on pricing and the lingering effects of the global recession were identified as the two most important European market dynamics. The most important opportunities were identified as the continuing growth of the market for outsourcing services, “emerging” market opportunities, and possible gains related to expansion of SCM service offerings. The CEOs identified the three most important problems facing their companies in the European 3PL marketplace as difficulties associated with rebuilding their workforce, continuing downward pressure on prices, and the lingering effects of the recession.

Seven of the companies reported that they have business continuity plans in place at the corporate level, and four 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 European 3PL industry. Based upon the data generated in this survey we expect:

- moderate growth to resume in the demand for 3PL services in Europe
- considerably more attention to be given by the 3PLs to “qualifying” customers, vendors and carriers

- European 3PLs to move more slowly on major capital projects
- regional expansion efforts of the companies to reflect concerns about the debt problems that have recently emerged in several European countries
- the merger and acquisition movement to resume in the region, albeit slowly
- environmental sustainability to become a more important source of market differentiation for 3PLs operating in the region
- continuing downward pressure on pricing forcing 3PLs to focus on cost reduction efforts
- the 3PLs to feel increasing pressure to differentiate their service offerings in the marketplace

EXHIBIT 1

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

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

TABLE 1

**CEO Perception of the Three Most Important
European 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	5	1	1	18
The global recession	3	3	1	16
Financial health of certain European countries		2		4

TABLE 2

**2010 Survey CEO One and Three-Year Revenue Growth Projections for Their Companies,
Europe, 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
7.2%	-3.3%	8.3%	8.7%

TABLE 3

**2010 Survey CEO One and Three-Year Revenue Growth Projections for the
European 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
4.8%	-1.4%	5.4%	4.9%