



Dedication at every turn.

Executive Summary
And Regional Comparisons
2010 3PL CEO Surveys

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Executive Summary—2010 3PL CEO Surveys—September 2010

The surveys discussed below mark a continuation of a series of annual surveys of the CEOs of major 3PL service providers that began in 1994. During 2010, three separate surveys were conducted—one of the CEOs of large companies serving the North American 3PL marketplace, another of those serving the European 3PL market, and a third of companies serving the Asia-Pacific 3PL marketplace. Thirty-one CEOs were involved in the surveys, and collectively their companies generated in excess of \$37 billion in 3PL revenues in those three markets during 2009.

- Fifteen of the 31 companies failed to meet their revenue growth projections during 2010 (eight in North America, three in Europe, four in APAC).
- The average revenues reported for 2007 by the companies involved in the surveys were: North America--\$1.3 billion; Europe--\$1.7 billion; and the Asia-Pacific region--\$298 million.
- Twenty-five CEOs reported their companies were profitable during 2010, with three reporting they broke even and three reporting their companies were unprofitable.
- Eleven CEOs believed that the 3PL industry in the geography in which they operated had been unprofitable during 2010.
- The CEOs in all three regions were considerably more bullish about future revenue growth prospects of not only their companies, but also the regional 3PL industry, than they were last year.
- From a company standpoint, the one-year revenue growth projections were 10.4 percent for North America (6.9 percent in 2009), 7.2 percent for Europe (-3.3 percent in 2009), and 22.5 percent of APAC (12.9 percent in 2009).
- The average three-year company growth projections were 10.6 percent for North America (11.8 percent in 2009), 8.3 percent for Europe (8.7 percent in 2009), and 19.5 percent for APAC (16.7 percent in 2009).
- The one-year regional 3PL industry revenue growth projections averaged 7.3 percent for North America (3.5 percent in 2009), 4.8 percent for Europe (-1.4 percent in 2009), and 15.4 percent for APAC (10.7 percent in 2009).
- The average three-year regional 3PL industry growth projections were 7.8 percent for North America (7.9 percent in 2009), 5.4 percent for Europe (4.9 percent in 2009), and 12.9 percent for APAC (11.7 percent in 2009).
- Only five of the 31 companies were involved in significant merger/acquisitions during 2009, and the CEOs generally believe that revenue growth through acquisitions will be very modest over the next three years.
- Despite the aftermath of the recession, these companies are still heavily committed to environmental sustainability issues. Fourteen of the 31 companies began new green initiatives during the year. Eighteen expanded existing sustainability programs. Twenty-five now have formal sustainability groups within their companies. Twelve of the 31 CEOs believe that their sustainability capabilities differentiate them from their competitors.
- Twenty-four CEOs indicated that they believe that an economic recovery has occurred in their region. Twenty-seven companies have started to rebuild their workforces. Fifteen indicated long-term strategy changes within their companies as a result of the recession, and 11 said the long-term prospects in the regional 3PL industries have changed as a result of the recession.
- The major industry dynamics identified by the CEOs were quite similar across the regions. In North America the most important market dynamics were identified as price compression, the aftermath of the recession, and the growing role of procurement in the 3PL selection process. The same dynamics were ranked first, second, and third by the European CEOs. In the APAC region, price compression was also ranked first, the role of procurement again ranked third, but the overall growth of the market for outsourcing services ranked second.

- In terms of industry opportunities, CEOs in all three regions ranked the overall growth of the market for outsourcing services as the most important opportunity. Ranking second and third respectively in North America were opportunities related to potential differentiation based upon the companies' environmental sustainability capabilities and opportunities related to expansion of service offerings.
- In terms of problems facing the industry, a shortage of managerial and operational talent was ranked first or second in all three regions. Among the other important problems mentioned were price compression and procurement's growing role in the North American survey, the slow economic recovery and decreasing margins in Europe, and managing increased costs and dealing with "unrealistic competition" were highlighted by the APAC CEOs.
- Twenty-seven of the 31 CEOs noted that some of their manufacturing customers have begun to move toward "near-shoring" options during the past year.
- Twenty-eight of the 31 CEOs reported that their companies have performance-based contracts with many of their clients. Approximately one-third of the contracts of the companies involved in the surveys in North America and Europe contain such provisions, and 17 percent of the contracts of the APAC respondents have included such provisions.
- Only 11 of the companies involved in the surveys have a separate consulting unit, with none of them generating more than 10 percent of the companies' total logistics revenues.
- Twenty-four of the companies sell logistics services to the supply chain partners of their existing customers. On average, this strategy produces 37 percent of the revenue base of the North American participants, only 6 percent of European revenues, and only 11 percent of APAC revenues.
- Twenty-nine of the 31 companies have business continuity plans at the corporate level; 20 have them at the regional level.
- Eighteen of the CEOs reported that their companies had put new risk management programs in place during the past year.
- Those surveyed in the three regions expect a wide variety of changes to occur in their marketplaces over the next three years. A continued restructuring of the industry through merger and acquisition activity and failures ranked first in all three surveys. In second and third places in North America respectively was more attention being paid to environmental sustainability issues and more pressure emerging to share risks with customers. In second and third places in Europe were growing price compression and an increase in the importance of collaboration with customers. In APAC, the second and third changes that are expected are a rising level of 3PL customer sophistication in the region and the growth of intra-Asian trade to become the main business driver in the region.

What do we expect?

- Resumed growth in all three regions, at very different rates of growth
- Generally a more cautious approach to new initiatives
- More emphasis on "qualifying" customers
- Less 3PL interest in cyclical industries
- Increased interest in outsourcing in general may lead to new 3PL initiatives
- More emphasis on risk sharing and environmental sustainability in new contracts
- Continued restructuring of the industry
- Focus on rebuilding the workforce, with more emphasis on part-timers

2010 3PL CEO Surveys—Regional Comparisons

| NORTH AMERICA | EUROPE | APAC |
|---|---|---|
| Number of companies involved in survey | | |
| <ul style="list-style-type: none"> • 16 companies with a total of \$21 billion in North American revenues • Average revenue was \$1.327 billion | <ul style="list-style-type: none"> • 8 companies with a total of \$14 billion in European revenues • Average revenue was \$1.707 billion | <ul style="list-style-type: none"> • 7 companies with a total of \$2.1 billion in APAC revenues • Average revenue was \$298 million |
| Growth projections | | |
| <ul style="list-style-type: none"> • Company one year: 10.4% • Company three year average: 10.6% • Industry one year: 7.3% • Industry three year average: 7.8% | <ul style="list-style-type: none"> • Company one year: 7.2 % • Company three year average: 8.3 % • Industry one year: 4.8% • Industry three year average: 5.4% | <ul style="list-style-type: none"> • Company one year: 22.5% • Company three year average: 19.5% • Industry one year: 15.4% • Industry three year average: 12.9% |
| Meeting growth projections and profits | | |
| <ul style="list-style-type: none"> • Company projections: 1 exceeded, 7 met, 8 did not • Company profitability: 3 very profitable, 10 marginally profitable, 2 broke even, 1 marginally unprofitable • Industry profitability: 6 marginally profitable, three broke even, 7 marginally unprofitable | <ul style="list-style-type: none"> • Company projections: 4 met, 3 did not • Company profitability: 1 very profitable, 6 moderately profitable, 1 very unprofitable • Industry profitability: 4 moderately profitable, 1 broke even, 2 marginally unprofitable, 1 very unprofitable | <ul style="list-style-type: none"> • Company projections: 3 met, 4 did not • Company profitability: 1 very profitable, 4 moderately profitable, 1 broke even, 1 marginally unprofitable • Industry profitability: 5 moderately profitable, 1 broke even, 1 marginally unprofitable |
| "Green" issues and environmental sustainability | | |
| <ul style="list-style-type: none"> • 8/16 began new green initiatives during year • 11/16 expanded existing green programs during year • 13/16 have formal sustainability groups within their companies • 8/16 said their sustainability capabilities differentiate them from their competitors | <ul style="list-style-type: none"> • 3/8 began new green initiatives during year • 4/8 expanded existing green programs during year • 5/8 have formal sustainability groups within their companies • 4/8 said their sustainability capabilities differentiate them from their competitors | <ul style="list-style-type: none"> • 3/7 began new green initiatives during year • 3/7 expanded existing green programs during year • 7/7 have formal sustainability groups within their companies • 2/7 said their sustainability capabilities differentiate them from their competitors |
| Mergers/acquisitions | | |
| <ul style="list-style-type: none"> • 5/16 involved in M/A activity last year • 11.3% of their three year average revenue growth is expected from M/A | <ul style="list-style-type: none"> • 0/8 involved in M/A activity last year • 8% of their three year average revenue growth is expected from M/A | <ul style="list-style-type: none"> • 0/7 involved in M/A activity last year • 4% of their three year average revenue growth is expected from M/A |

| NORTH AMERICA | EUROPE | APAC |
|---|---|---|
| Global recession | | |
| <ul style="list-style-type: none"> • 10/16 said recovery has occurred in region • 15/16 started to rebuild workforce • Over 40% of new hires are from other 3PLs • 7 reported long-term strategy changes as a result of the recession • 5/16 said long-term outlook for prospects in regional 3PL market have changed as a result of the recession | <ul style="list-style-type: none"> • 7/8 said recovery has occurred in region • 6/8 started to rebuild workforce • 25% of new hires are from other 3PLs • 3/8 reported long-term strategy changes as a result of the recession • 5/8 said long-term outlook in regional 3PL market has changed as a result of the recession | <ul style="list-style-type: none"> • 7/7 said recovery has occurred in region • 6/7 started to rebuild workforce • 58% of new hires are from other 3PLs • 5/7 reported long-term strategy changes as a result of the recession • 1/7 said long-term outlook in regional 3PL market has changed as a result of the recession |
| New services and consulting | | |
| <ul style="list-style-type: none"> • 14/16 introduced new services last year • 15/16 reported on average nearly a third of their contracts contain performance based elements • 7/16 have separate consulting unit, but none generate more than 5% of their total logistics revenues • 13/16 sell logistics services to supply chain partners of existing customers; on average this generates in excess of 37% of their logistics revenues | <ul style="list-style-type: none"> • 4/8 introduced new services last year • 6/8 reported on average more than a third of their contracts contain performance based elements • 2/8 have separate consulting unit, but neither generated more than 10% of their total logistics revenues • 6/8 sell logistics services to supply chain partners of existing customers; on average this generates only 6% of their logistics revenues | <ul style="list-style-type: none"> • 4/7 introduced new services last year • 7/7 reported on average 17% of their contracts contain performance based elements • 2/7 have separate consulting unit, but neither generated more than 5% of their total logistics revenues • 5/7 sell logistics services to supply chain partners of existing customers; on average this generates only 11% of their logistics revenues |
| Industry dynamics | | |
| <ul style="list-style-type: none"> • Pricing pressures • Global recession • Growing role of procurement in 3PL selection process • Increased CEO/CFO participation in 3PL selection process • Increased IT expectations of customers | <ul style="list-style-type: none"> • Pricing pressures • Global recession • Growing role of procurement in 3PL selection process • Growth of the outsourcing market | <ul style="list-style-type: none"> • Pricing pressures • Growth of the outsourcing market • Growing role of procurement in 3PL selection process • Global recession |
| Manufacturing shifts | | |
| <ul style="list-style-type: none"> • 14/16 report shift of some customer manufacturing back from Asia to North or Central America | <ul style="list-style-type: none"> • 6/8 report shift of some customer manufacturing from Asia to Eastern Europe | <ul style="list-style-type: none"> • 7/7 report shift of some customer manufacturing from the region |

| NORTH AMERICA | EUROPE | APAC |
|--|--|---|
| Opportunities | | |
| <ul style="list-style-type: none"> • Growth of the outsourcing market • Differentiation through sustainability • Service expansion • Acquisitions • Global service integration • Reverse logistics | <ul style="list-style-type: none"> • Growth of the outsourcing market • Servicing emerging markets • Service expansion • Acquisitions • Sustainability | <ul style="list-style-type: none"> • Growth of the outsourcing market • Growth of intra-Asian trade • More C-level interest in 3PLs • Domestic versus international growth • Chance to follow some manufacturing from China to other Asian countries |
| Problems | | |
| <ul style="list-style-type: none"> • Pricing • Talent shortage • Expanded role of procurement • “Dumb” competition • Growing IT requirements | <ul style="list-style-type: none"> • Talent shortage • Slow recovery • Decreasing margins • Irrational competitors | <ul style="list-style-type: none"> • Talent shortage • Managing increased costs • “Unrealistic” competition • Regional currency fluctuations |
| Changes expected in next three years | | |
| <ul style="list-style-type: none"> • Continued consolidation • More emphasis on sustainability • More pressure to share risks with customers • Information technology to become more of a differentiator | <ul style="list-style-type: none"> • Continued consolidation • Margin pressures • Increased importance of collaboration • More customer emphasis on “green” issues | <ul style="list-style-type: none"> • More 3PL consolidation in China • Rising level of customer sophistication • Growth of intra-Asia trade to become main business driver |
| Business continuity planning | | |
| <ul style="list-style-type: none"> • 15/16 have business continuity plan at corporate level • 11/16 have such plans at the regional level | <ul style="list-style-type: none"> • 7/8 have business continuity plan at corporate level • 6/8 have such plans at the regional level | <ul style="list-style-type: none"> • 7/7 have business continuity plan at corporate level • 4/7 have such plans at the regional level |
| Risk management | | |
| <ul style="list-style-type: none"> • 9/16 put new risk management programs in place in past year | <ul style="list-style-type: none"> • 4/8 put new risk management programs in place in past year | <ul style="list-style-type: none"> • 5/7 put new risk management programs in place in past year |