The Asia-Pacific Region
Third Party Logistics Industry in 2011:
The Provider CEO Perspective

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INTRODUCTION

The Asia-Pacific (APAC) regional market for third party logistics (3PL) services stabilized somewhat during 2010, as much of the world recovered slowly from the recessionary pressures of 2008-2009. Many of the larger 3PLs in the region continued to benefit from the steady growth of GDP in China and strong intra-Asian trade. However, this euphoria was dramatically interrupted in March 2011 by the Japanese earthquakes and tsunami that impacted supply chains around the world. This disaster led many 3PL customers to rethink their supply chain strategies, and in turn, regional 3PL service providers had to not only regroup to support their affected clients in the short-term, but also reassess their own strategies moving forward.

This paper, which is based on a survey of the CEOs of 10 large 3PLs serving the Asia-Pacific marketplace, was conducted in mid-2011 and focused on the state of the regional marketplace for 3PL services at that time. The authors also conducted similar annual surveys in North America and Europe.

The 2011 survey focused not only on the tsunami and its impact on the regional 3PL industry and its customers, but also on a variety of other issues, including the key marketplace dynamics in the region, the industry’s commitment to environmental sustainability, its use of social media tools, and a wide range of other aspects of the industry’s current status and future prospects in the region.

The CEO of each company included in the survey was contacted by telephone or email and asked to participate in a Web-based survey. An initial target group of 10 of the largest 3PLs in the APAC region was contacted, and the CEOs of all those companies agreed to participate. All 10 subsequently completed the survey online. Exhibit 1 lists the companies that participated in the 2011 European survey.

Some questions were not answered by all CEOs due to individual company policies concerning financial disclosure. Further, in a number of instances, average industry data is presented in the paper, but there is often substantial variability around those averages. This variability reflects a number of factors, including differences in company strategies, operating policies and market segments served.
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Revenues and Profitability

The 2011 APAC survey addressed several 3PL provider revenue and profitability issues, and each is discussed below.

Success in Meeting Growth Projections. The CEOs were also asked about the success of their companies in meeting their APAC revenue growth projections during 2010. Five CEOs reported their companies exceeded company revenue growth projections for the year; four indicated that their companies met their projections; and one reported his company failed to meet its projections.

Company and Industry Profitability. The CEOs were next asked to categorize the profitability of their companies’ APAC business units during 2010. One said his company was very profitable; and nine reported that their companies had been marginally profitable. Those surveyed were also asked their opinions concerning the APAC 3PL industry as a whole in 2010. One believes the industry had been very profitable and the other nine categorized the regional industry as being marginally profitable.

Mergers and Acquisitions (M/A)

While there has been a worldwide consolidation movement in the 3PL industry in recent years, it slowed in the APAC region during 2010, which was reflected by only two companies making one or more acquisitions in the region over that time period. Collectively, those companies acquired two other 3PLs, a warehousing company and one freight forwarder/customs broker.

Introduction of New Services and Consulting Services

Reflecting a recovering global economy and continued economic growth in the APAC region, nine of the 10 CEOs indicated their companies had introduced new services in the region during the past year, including:

- Sea/Air regional shipping
- Preferred LCL services
- Cross-border trucking services
- More comprehensive transportation management services
- Additional purchase order management services
- Expanded value-added services, including shelf-ready packaging services

Green/Environmental Sustainability Issues

A wide range of environmental sustainability topics has been incorporated into the last five APAC surveys. The data generated in those surveys have shown a very strong commitment to the pursuit of “green” goals by those companies, and 2011 survey data showed that commitment has continued in the region. Seven of the 10 companies reported that they had expanded the scope of existing environmental sustainability programs during the past year. Expansion efforts included expansion of the financial resources devoted to sustainability projects, increasing the number of “environmentally friendly vehicles,” building “green” warehouses, expanded reporting of carbon footprints, increased emphasis on network optimization, and delivering “green” solutions to a larger part of the...
company's customer base. Further, seven companies reported that they launched new environmental sustainability programs during 2010, including the use of wind energy at a new company headquarters, introduction of energy efficient T-5 lighting in company facilities, reliance upon LEED principles in all new company construction, recycling and reuse of packaging materials, building a recapture/recirculation pond to support landscaping activities, and replacement of fuel forklifts with electric units.

**Customer Interest in Sustainability Issues.** Those surveyed were asked several questions about the degree of customer interest in environmental sustainability issues. They were first asked what percentage of their existing customers have asked their companies to analyze the customers’ existing supply chain practices in terms of environmental impact/cost. On average, the CEOs indicated that 8 percent of their existing customers did so, but the responses ranged from 0-20 percent. The 3PLs were also asked how frequently the green/environmental sustainability capabilities of their companies were a major factor in determining whether it won new contracts or extended existing contracts. Only one said very frequently; another said frequently; and the other eight said infrequently, not unusual given the industry’s customer base tends to be more cost-focused during uncertain times, and incorrectly or not, they often view such programs as cost generators rather than cost savers.

**The Japanese Earthquakes and Tsunami**

The CEOs were asked if the recent tsunami and earthquakes in Japan had impacted their operations in the Asia-Pacific region, and six of 10 said that they had. When those six were asked to explain the nature of the impact, most focused on such issues as production shutdowns, the need to reroute global shipments to ports that were not affected by the disaster, and disruption of the operations of automotive clients. It’s interesting to note that only two of the 3PLs reported making any operational changes within their companies due to the natural disaster, which may have been a function of planning prior to the event. In fact, nine of the 10 3PLs reported that they had business continuity plans in place prior to the earthquakes/tsunami, and eight reported that those plans covered responses to natural disasters. Those eight CEOs were then asked about the importance of business continuity plans in guiding company responses to the disaster. Five said very important; one said important; and, surprisingly, two said not important. Two CEOs also reported putting additional contingency plans in effect.

When asked if their companies had learned any lessons throughout the process, only four CEOs indicated the following:

- People are the most important component of any plan
- Flexibility and redundancy are important elements of any supply chain
- It’s important to have a detailed operational back-up plan to ensure that customer needs are covered if an office is not able to function as needed
- A company should have a dedicated team responsible for forming, refreshing and executing the continuity plan; it cannot be a side project spread across a team.

Eight of the 10 CEOs said their APAC customers had been impacted by the earthquakes/tsunami. While four said less than 10 percent of their customers had been impacted, others put those numbers closer to 50 percent. The CEOs were next asked to identify the industries that were hit hardest by the natural disaster. Three mentioned the electronics/high tech industry; two identified the automotive industry; two cited the food export industry; and one mentioned Japanese-based construction operations. When asked to identify the most significant consequences for their customers the CEOs emphasized the following: disruption of supply (mentioned by seven respondents),
transportation disruption (7), reduced production (5), loss of sales in Japan (5), disruption of lean and/or JIT manufacturing programs, and power disruption (4).

The 3PL executives were next asked about the most important lessons that their customers should have learned from the disaster. Their responses were quite varied and included the following:

- The threat of supply chain disruptions is very real and can be caused by a variety of factors, such as unexpected fuel price increases, political turmoil, trade retaliation, supplier bankruptcy, a shortage of rare earth metals and natural disasters
- Have a DRP system that is tried and tested
- Customers should have disaster plans for inventory
- Customers should diversify their vendor base as appropriate
- Customers should not use a “sole sourcing” strategy for key materials!

The 3PL providers were then asked, “Based upon your interaction with key customers, what impact do you believe this disaster is likely to have on their future supply chain strategies and practices?” Seven CEOs responded, focusing on several possible areas: diversification of their supply base, relocation of production outside of Japan, reassessment of emergency inventory to be maintained, and performance of “what if” scenarios analysis to rethink supply chain strategies.

3PL Use of Social Media

The global use of social media has grown dramatically during the past several years, and the related tools are increasingly being used in business-to-business and business-to-consumer settings. As a result, this year’s APAC survey contained a number of questions concerning that topic. The results of those questions are shown summarized in Table 1.

Facebook is a social networking service and website that was established by Facebook, Inc., in 2004. It has more than 800 million users. As shown in the table, five of the 10 APAC 3PLs reported having company Facebook pages. The contest of those pages typically includes information on company background, discussion of service offerings and markets served.

A blog is a type of website or part of a website that is typically updated quite frequently, has current content, and tends to be news-oriented. Only one APAC CEO reported his company had a public-facing blog, which was established in early 2011.

LinkedIn is a business-oriented social networking launched in 2003. Six APAC CEOs reported corporate LinkedIn accounts mainly focusing on company awards, new stories and industry trends.

Twitter is another social networking tool that allows users to send and read text-based postings of up to 140 characters. This social networking tool has been used by four of the 3PLs involved in the APAC survey. Finally, two CEOs reported that their companies post videos on YouTube, a video-sharing website launched in 2005.

Six CEOs believe the use of social media is vital to brand building in the industry, and five believe it is vital to building customer loyalty. When asked to identify the broader goals of their social media initiatives to date, four CEOs cited building brand awareness; three mentioned building closer ties with their customers; and two described company efforts to create a platform for exchanging ideas with customers. Even though the APAC 3PLs have been slow to adopt the various forms of social media, seven of the 10 CEOs indicated that they believe the use of social media
will become increasingly important in the 3PL industry. When asked to comment on the collective impact of social networking efforts on their companies to date, four said the impact has been minimal; one said that it has enhanced his company’s brand credibility, while enabling the company to update customers and employees more frequently on supply chain and company matters; and one suggested that business has to follow the trends of social networking, “especially as the new generation starts to be key decision makers.”

Capacity Shortages

There has been considerable discussion within the APAC logistics community about the possibility of shortages of transportation capacity in certain markets as the global economy recovered. In many markets, carriers had reduced capacity as they attempted to reduce costs and bring about more demand/supply equilibrium. The CEOs were asked if capacity shortages had emerged in any of the markets they serve, and only one of 10 said “yes.” This respondent mentioned shortages of ocean capacity departing the APAC region during 2010.

Customer Response to Fuel Price Volatility

There has been substantial fuel price volatility in the APAC marketplace during the past several years. As fuel prices rose, triggering increasing transportation costs, many 3PL customers changed their transportation strategies to limit the impact of those increases on their operations. In this year’s survey, we asked the APAC 3PL CEOs if any of those changes had been “institutionalized” by their key customers or if customers had returned to earlier strategies as fuel prices fell. Interestingly, only four said that some of those changes had been institutionalized, including diversion of some air shipments to surface modes, increased minimum order sizes for their customers, application of optimization tools to delivery routes, consolidation and pooling of freight, and relocation of some distribution centers.

Current Status and Future Prospects of the Industry

In each annual APAC survey, the CEOs are asked a series of questions concerning their perceptions of the current status and future prospects of the regional 3PL industry. Specifically, they are asked to identify the most important regional 3PL industry dynamics, opportunities and problems. They are also asked to indicate the most important developments within the regional 3PL industry during the past year.

Industry Dynamics. The CEOs were asked to identify and rank order the three most important industry dynamics affecting the APAC 3PL marketplace in 2011. 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 total weighted points. According to the respondents, the most significant dynamic operating in the APAC 3PL marketplace was global economic uncertainty, with 12 total weighted points and two first-place mentions. Tied for second place with seven points and two first-place mentions each were increasing regional costs and downward pressure on pricing. In fourth place with six points was volume uncertainty.

Industry Opportunities. In the survey, the CEOs were asked to identify the three most significant opportunities for 3PL service providers in the APAC market, and as in our recent annual APAC surveys, there was little consensus. In fact, while 30 “Top 3” choices were made, only three opportunities were mentioned more than once. Those three were mentioned twice each and included expansion of intra-Asian services, serving the logistics needs of oil and gas companies in the region, and expansion of domestic distribution activities in China and India. Among the other interesting opportunities cited once were the following:
• Support for B2C ecommerce clients
• Continued rollout of low cost technology that drives performance, e.g. voice pick systems
• Provision of road transportation services in China, particularly as manufacturing moves westward.

Industry Problems. When asked to identify the three most important problems facing their companies in the APAC 3PL industry, CEOs identified a broad range of problems. According to the CEOs, the APAC 3PL industry’s two most important problems were finding and keeping management talent, which generated nine total points and three first-place mentions; and increasing labor costs, which registered six points on the basis of two first-place mentions. Only one other problem, increasing government regulation, was mentioned more than once, registering two total points. Among the other problems mentioned once were the significant investment requirements to operate successfully in the region, more intense competition from Chinese 3PLs, setting company priorities when so many opportunities exist in the region, challenges related to poor infrastructure in some areas of the region, and increasing pressures to provide end-to-end technology solutions for customers.

Most Significant Development in Regional 3PL Industry in Past Year. When asked to identify the most significant development in the regional 3PL industry during the past year, the CEOs cited a broad range of developments, including:

• A reduction in the importance of Guangdong and Hong Kong as manufacturing centers as manufacturing shifted to other low-cost countries in Asia and China’s western provinces
• Increasing demand for “all-in-one” supply chain services
• Growth of business opportunities related to the oil and gas industries
• The emergence of more mature markets for 3PL services in China and India
• Continued consolidation of the 3PL industry in the region through acquisitions
• The growing unpredictability of the 3PL marketplace due to factors such as natural disasters, political changes and fuel price variability

Major Changes Expected During the Next Year. The CEOs were then asked what major changes they expected to take place in the APAC 3PL industry during the next year, and seven responded to this question. As had been the case in our recent annual APAC surveys, the merger and acquisition movement dominated their thinking, and four CEOs indicated that they believed the consolidation movement would accelerate in region during the next year. Only one other potential change was mentioned more than once: continued growth of the Chinese domestic market. Among those expected changes mentioned once were geographic diversification of the region’s manufacturers; acceleration of “go West” policies in China; growing pressures on 3PLs to increase their presence in low cost manufacturing countries such as Vietnam and Bangladesh; growing 3PL customer sophistication in the region, requiring 3PLs to demonstrate real value to gain market share; and increased pricing pressures in the 3PL regional market.

Estimated Company and Industry Revenue Growth Rates

Finally, the CEOs were asked to estimate annual company and industry revenue growth rates for the one- and three-year periods. Their projections are shown in Tables 2 and 3.

In terms of one and three-year company revenue growth projections, the 2011 CEO estimates were considerably lower than those registered in the 2010 survey. The average company revenue growth projection for the next year was 15.75 percent (22.5 percent last year), and the projected three-year company revenue growth average was 14.63
percent (19.5 percent last year). However, once again, as we have observed in previous surveys, the estimates varied significantly from company to company, with the one-year company projections ranging from 5 percent-50 percent, and three-year projections ranging from 7 percent-30 percent.

In terms of industry revenue growth projections, CEOs projected lower growth rates in both the one- and three-year time frames than they did last year. The regional industry’s one-year revenue growth rate averaged 9 percent (15.4 percent last year), and the three-year industry projections averaged 10.25 percent (12.9 percent last year). The individual CEO one-year projections of the industry’s growth rates ranged from 0-16 percent and 6-16 percent for the three-year period.
Summary

This paper has discussed the results of a 2011 survey of the CEOs of 10 of the largest 3PL service providers operating in the APAC marketplace.

The companies participating in the survey remained optimistic about the revenue growth prospects of their APAC operations and the regional 3PL industry for both the one- and three-year periods. However, their growth rate projections for both their companies and the regional 3PL industry over the next three years were considerably lower than last year’s projections over the next three-year period. This likely reflects not only the growing maturity of the Chinese 3PL market, but also projections of slower economic growth of the Chinese economy.

The commitment of large 3PLs in the region to improved environmental sustainability goals was reflected in the fact that seven of the 10 CEOs reported their companies had expanded the scope of existing company sustainability programs during the year, and the same number reported launching new sustainability projects during the year. While “green” topics continue to generate considerable discussion with 3PL customers in the region, a 3PLs “greenness” infrequently is the determining factor in who wins/keeps business in the region.

Six of the 10 3PLs involved in the survey indicated that the Japanese earthquakes and tsunami impacted their operations in the APAC region. Nine CEOs reported that their companies had business continuity plans in effect at the time of the disaster, and eight plans covered responses to natural disasters.

When asked what the most significant consequences of the earthquakes and tsunami had been for their customers, the CEOs cited disruption of supply, transportation disruption, reduced production, loss of sales in Japan, disruption of lean and/or JIT manufacturing programs and power disruption. In response, the 3PLs expect their customers to diversify their vendor base, relocate some manufacturing operations outside of Japan, reassess safety stock levels, and do more “what if” planning in developing supply chain strategies.

Some of the APAC 3PLs have begun using social media, such as Facebook, LinkedIn and Twitter and YouTube. Their most extensive use involves Facebook and LinkedIn. The impact of these social networking efforts on the APAC 3PL industry has been limited to date and primarily focused on brand-building. However, the majority of the CEOs believe that the use of social media will become increasingly important in the regional 3PL industry. The stage of adoption/use of these tools is quite similar to the use of the Internet by these companies in 1996.

Global economic uncertainty, increasing regional costs, downward pressure on pricing, and volume uncertainty were identified as the three most important APAC market dynamics. There was little consensus concerning the most opportunities in the region. The CEOs identified the most important problems facing their companies in the APAC 3PL marketplace as finding and keeping management talent, increasing labor costs and increasing government regulations.

Implications

The market for 3PL services in the APAC region will continue to grow at rates that are well above those likely to be experienced in either the North American or European markets. At the same time, those rates are likely to be more moderate than they have been in the past as the Chinese market for 3PL services matures, and the Chinese economy grows at a slightly lower pace. The large 3PLs serving the region are likely to experience some pressure from their larger manufacturing customers to follow them as they shift some manufacturing activities elsewhere in Asia to take
advantage of lower labor costs. At the same time, many customers in the region have become more sophisticated and now require their 3PLs to offer a broader range of more sophisticated solutions to their supply chain problems. The consolidation of the regional 3PL industry will continue as the larger players attempt to achieve scale in the marketplace.

The supply chains of many of the companies served by the APAC 3PLs involved in this survey were severely impacted by the Japanese earthquakes and tsunami, especially in the electronics/high technology and automotive industries. Many of those customers were clearly not prepared for such an event, and they are highly likely to focus greater attention on business continuity planning in the future. As they do so, those plans are likely to incorporate significant changes in sourcing and manufacturing strategies. The 3PLs serving the region can play an important role in helping their clients to develop those strategies, which will no doubt change their service requirements. In some cases, 3PLs will have to modify their service offerings to meet these new market realities.

The use of social media by 3PLs in the APAC region is still in its infancy, but it is clear that these tools have substantial potential in not only brand-building activities but also in managing linkages with their customers and recruiting new employees.

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### Exhibit 1

**Third Party Logistics Companies Included in the 2011 APAC 3PL Industry CEO Survey**

- CAT Logistics
- CEVA Logistics
- DHL Exel Supply Chain
- Kuehne+Nagel Logistics
- Menlo Worldwide Logistics
- MIQ Logistics
- Penske Logistics
- Schneider Logistics
- UPS Supply Chain Solutions
- UTi

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### TABLE 1

**APAC 3PL Use of Various Social Media Tools**

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<thead>
<tr>
<th>Social Media Categories</th>
<th>Number of Companies Using (n=10)</th>
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<tbody>
<tr>
<td>Has a Facebook page</td>
<td>5</td>
</tr>
<tr>
<td>Has a public facing Blog</td>
<td>1</td>
</tr>
<tr>
<td>Has company LinkedIn account</td>
<td>6</td>
</tr>
<tr>
<td>Has company Twitter account</td>
<td>4</td>
</tr>
<tr>
<td>Posts company videos on YouTube</td>
<td>2</td>
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</tbody>
</table>
### TABLE 2
2011 Survey CEO One and Three-Year Revenue Growth Projections for Their Companies, APAC 3PL Industry, and Comparisons with 2010 Projections

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<tbody>
<tr>
<td>15.75%</td>
<td>22.5%</td>
<td>14.63%</td>
<td>19.5%</td>
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### TABLE 3
2011 Survey CEO One and Three-Year Revenue Growth Projections for the APAC 3PL Industry, and Comparisons with 2010 Projections

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<tbody>
<tr>
<td>9.0%</td>
<td>15.4%</td>
<td>10.25%</td>
<td>12.9%</td>
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