The European Third Party Logistics Industry in 2011: The Provider CEO Perspective

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January 2012

The authors would like to express their appreciation to Penske Logistics for their support of this project.
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INTRODUCTION

The global marketplace for third party logistics (3PL) services stabilized somewhat during 2010, reflecting generally improving economic conditions. However, the larger 3PLs serving the European marketplace continued to deal with economic uncertainties related to the ongoing debt crisis involving Greece, Portugal, Spain and Italy.

Still, the financial condition of those companies generally improved, and they began to focus on new market opportunities. However, their operations were abruptly interrupted by the Japanese earthquakes and tsunami and their far-reaching impacts on supply chains around the world. The disaster not only impacted the customer base of many of the largest 3PLs in the industry, but also the logistics service providers themselves.

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

The 2011 survey focused on a variety of issues, including the key marketplace dynamics in the European 3PL industry, the industry's response to the earthquakes/tsunami, 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 Europe was contacted, and the CEOs of all those companies agreed to participate. Nine of the 10 CEOs 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.
Revenues and Profitability

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

Annual Provider Revenues. Seventeen companies reported revenue data in responding to the survey. Collectively, these companies generated more than $20 billion in European revenues during 2010, with four companies reporting 2010 revenues in excess of $1 billion. The annual revenues for 2011 survey participants averaged $2.55 billion.

Success in Meeting Growth Projections. The CEOs were also asked about the success of their companies in meeting their European revenue growth projections during 2010. Two CEOs reported their companies exceeded company revenue growth projections for the year; three indicated that their companies met their projections; and four reported their companies failed to meet their projections. These results are similar to those recorded in our 2010 European survey, in which three of the seven participating companies reported that they failed to meet their projections during 2009.

Company and Industry Profitability. The CEOs were next asked to categorize the profitability of their companies’ European business units during 2010. Five CEOs said their companies had been marginally profitable; and one reported his company had broken even; and three reported their companies had been unprofitable. Those surveyed were also asked their opinions concerning the European 3PL industry as a whole in 2010. Six believed the industry was marginally profitable, and three believed the industry had broken even for the year.

Mergers and Acquisitions (M/A)

While there has been a worldwide consolidation movement in the 3PL industry in recent years, the pace of that movement slowed considerably in Europe during the past year. In fact, only one of the nine companies reported that his company made an acquisition during 2010, which involved acquiring another 3PL company. The respondents expect acquisitions to play a very minor role in company revenue growth during the next three years. In fact, only two of those companies expect acquisitions to play any role in growing company revenues over the next three years, with one expecting the company to average a 10 percent acquisition-related revenue growth rate over the period, and the other expecting an average of 1 percent per year.

Introduction of New Services and Consulting Services

Reflecting the sluggish economic recovery in Europe, only three CEOs indicated their companies had introduced new services during the past year, including:

- Establishment of a supply chain solutions group within the company
- Initiation of a consulting service that will operate on a stand-alone basis
- Development of an air-freight hub in Budapest to serve CEE customers
Green/Environmental Sustainability Issues

A wide range of environmental sustainability topics has been incorporated into the last four European surveys. The data generated in those surveys have shown a very strong commitment to the pursuit of “green” goals by those companies; however, the continuing economic turmoil in Europe has slowed not only the expansion of existing sustainability programs, but also the initiation of new sustainability programs. Only two of the companies involved in this year’s survey reported that they expanded their existing sustainability programs during the past year. Expansion efforts included expanding company infrastructure on a sustainable basis, designing new services to provide visibility to customers on the environmental impact of those services, and involving subcontractors in existing sustainability programs. Further, only one CEO reported that his company began a new environmental sustainability program during 2010, which involved development of a plan to move the company fleet to green label vehicles.

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 has asked them to analyze their current supply chain practices in terms of environmental impact/cost. On average, the CEOs indicated that 8.4 percent of their existing customers did so, but the responses ranged from 0-25 percent. Those surveyed 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 frequently, and eight said infrequently, not unusual given the industry’s customer base tending 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 Europe, and four said that they had. When those four were asked to explain the nature of that impact, most focused on related disruptions of customer inventory levels and production schedules, particularly in the automotive sector. Two CEOs also highlighted specific impacts on their companies, such as lower volumes and the related decline in East-West trade. It’s interesting to note that none of the companies reported making any operational changes within their companies due to the natural disaster which may have been a function planning prior to the event. In fact, seven of the nine 3PLs reported that they had business continuity plans in place prior to the tsunami/earthquakes, and five of those reported that these plans covered responses to natural disasters. When asked how important those continuity plans were in guiding company responses to the disaster, surprisingly all five said not important! Three CEOs reported that following the disaster their companies put additional contingency plans in effect.

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

- Customer supply chains are fragile
- Flexibility and redundancy in supply chain design is critical
- Relationship management with key accounts is very important
- Business continuity plans should be developed for each company site
- Crisis management teams should be created
- It is very important to balance the benefits of lean supply chains against risk averseness
All nine CEOs said their European customers had been impacted by the earthquakes/tsunami. While six 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 disaster. Four identified the automotive industry, and three mentioned the electronics/high tech industry. Those surveyed were also asked to identify the most significant consequences for their customers. They emphasized the following: disruption of supply (mentioned by seven respondents), transportation disruption (6), supplier failure and reduced production (4 each), and disruption of lean and/or JIT manufacturing programs (3).

The 3PL executives were 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 it can be caused by a variety of factors, such as oil shocks, political upheaval, trade retaliation, supplier bankruptcy and natural disasters
- Inventory tactics must be improved
- We need to better understand sourcing of critical components
- We should avoid single sourcing
- We need to implement best practices risk management within our organization.

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?” Their responses clustered in several areas. Four suggested their customers were likely to pursue greater supply chain diversification by adding multiple suppliers. Three believed they would be more active in planning for supply chain disruptions. Greater customer emphasis on accumulation of more safety stock, balancing of risk versus agility, more geographically dispersed sourcing strategies, greater diligence related to single source suppliers, more geographical dispersion of supply, and less focus on JIT were each mentioned once.

**3PL Use of Social Media**

The 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 European 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, only two 3PLs reported having company Facebook pages. The content of those pages typically include 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 European CEO reported his company has a public-facing blog, and it was established in early 2011.

LinkedIn is a business-oriented social networking site launched in 2003. Five European CEOs reported corporate LinkedIn accounts that have generally mostly 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 only one of the 3PLs involved in the European survey. Finally, only two CEOs reported that their companies post videos on YouTube, a video-sharing launched in 2005.
Three CEOs believe the use of social media is vital to brand-building in the industry, but only one believes it is vital to building customer loyalty. When asked to identify the broader goals of their social media initiatives to date, three CEOs cited brand building initiatives, while three CEOs mentioned one of the following: increasing customer communications and visibility, attracting young talent to the company, and establishing another channel linking the company to the press. The CEOs whose companies have been actively using social media were then asked to describe its impact to date. The impact was typically cited as being positive but limited. One said, “We are just playing and learning at this point.” Even though the European 3PLs have been slow to adopt the various forms of social media, five of the nine CEOs indicated that they believe the use of social media will become increasingly important in the 3PL industry. However, another observed, “Our business model is B-to-B on long-term contracts. Social media is better suited to consumer companies and businesses that sell on a transactional basis.”

**Capacity Shortages**

There has been considerable discussion within the European logistics community about the possibility of shortages of transportation capacity in certain markets as the global economy recovered. In many markets, capacity had been reduced by carriers 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 two of nine said “yes.” They were then asked in which markets those shortages had emerged, and in response, they cited trucking capacity within Europe, air freight from Europe to Brazil, air freight from Europe to China, and ocean freight from the Far East to Europe during peak season.

The CEOs were then asked what steps, if any, were taken to protect their customers against those shortages. Among the steps taken were contracting and chartering of capacity in affected areas, creation of an allocation management tool to better forecast customer demand and protect space, and establishment of a core carrier program in which “we stick with them through highs and lows, building mutual loyalty.”

**Customer Response to Fuel Price Volatility**

There has been substantial fuel price volatility in the European marketplace during the past several years. As fuel prices rose, triggering increasing transportation costs, many 3PL customers made changes in their transportation strategies to limit the impact of those increases on their operations. In this year’s survey, we asked the European 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 one said that some of those changes had been institutionalized. This respondent indicated that some customers have continued to divert some air shipments to surface modes, and that one customer “is reviewing its European network using scenarios involving various oil prices.”

**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 regional 3PL industry. Specifically, they are asked to identify the most important 3PL industry dynamics, opportunities and problems. They are also asked to indicate the most important developments within 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 European 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 European 3PL marketplace was economic uncertainty, with 10 total weighted points and three first-place mentions. No other dynamic registered more than two “top three” mentions. In second place with six total weighted points and two first-place mentions was decreased volume, and in third place was the continuing merger/acquisition movement that accounted for five total weighted points. Among the other dynamics mentioned were the uncertainty caused by the debt problems in Greece, Spain, Portugal and Italy; poor infrastructure utilization; import/export imbalance; customer hesitation in making significant decisions/investments; increased government regulations; and a shortage of qualified labor.

Industry Opportunities. In the survey, the CEOs were asked to identify the three most significant opportunities for 3PL service providers in the European market, and as in previous surveys, there was little consensus. In fact, while 16 “Top 3” choices were made, none was mentioned more than once. Among the opportunities mentioned were:

- The possibility of attracting new customers who are dissatisfied with the performance of their 3PLs following acquisitions by those companies
- Expansion of specialized services in such areas as pharmacology and the food industry
- Selling customers on the concept of a pan-European warehouse as a buffer against shifting markets and demand in response to debt and currency volatility
- Further process automation
- Emerging market growth in Eastern Europe
- Broader application of transport optimization tools

Industry Problems. When asked to identify the three most important problems facing their companies in the European 3PL industry, CEOs identified a broad range of problems. According to the CEOs, the European 3PL industry’s two most important problems were finding and keeping management talent, which generated seven total points and one first-place mention; and poor capacity utilization, which registered six points on the basis of two first-place mentions. Only one other problem, continuing downward pressure on prices, was mentioned more than once, registering five total points and one first-place mention. Among the other problems mentioned once were road network challenges, difficulties encountered in attempting to provide consistent operational excellence, customer concerns about possible 3PL retrenchment in Europe and increasing government regulation.

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:

- Process standardization and commoditization of services previously considered premium services
- Increased customer use of small warehouses coupled with overcapacity of warehousing space in the industry
- Increasing dominance of European truck freight by large players
- Shortage of transport capacity in some markets
- Pricing pressures resulting from the consolidation movement in the 3PL industry
- The arrival of new competitors from other countries, including China, South Africa and Australia
- Increased government regulations in security, health and safety, and environment.
Major Changes Expected During the Next Year. The CEOs were then asked what major changes they expected to take place in the European 3PL industry during the next year, and six responded to this question. As had been the case in our recent annual European surveys, the merger and acquisition movement dominated their thinking, and four CEOs indicated that they believed the consolidation movement would accelerate in Europe during the next year. No other change was mentioned more than once. Among those possible changes mentioned once were the emergence of more intense competition between European or global 3PLs and in-country logistics solution providers, more focus on operational excellence and customer satisfaction, consumer goods companies moving back toward “in-sourcing” of logistics services, and more cross-company cooperation to increase utilization of equipment and capacity.

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 and discussed below.

In terms of one- and three-year company revenue growth projections, the CEO estimates were slightly higher than those registered in the 2010 survey. The average company revenue growth projection for the next year was 8.44 percent (7.2 percent last year), and the projected three-year company revenue growth average was 9.11 percent (8.3 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 2 percent-15 percent, and three-year projections ranging from 3 percent-15 percent.

In terms of industry revenue growth projections, the also CEOs projected higher 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 6.13 percent (4.8 percent last year), and the three-year industry projections averaged 6.25 percent (5.4 percent last year). The individual CEO projections of the industry’s growth rates ranged from 3 percent-12 percent for both the one-year and three-year periods.
Summary

This paper has discussed the results of a 2011 survey of the CEOs of nine of the largest 3PL service providers operating in the European marketplace. Collectively, those companies generated more than $20 billion in European 3PL revenues during 2010.

While the companies participating in the survey experienced mixed financial results during 2010, the CEOs of those companies were quite optimistic concerning the revenue growth prospects of their European operations and the regional 3PL industry for both the one- and three-year periods.

Likely reflecting the economic uncertainties facing companies in Europe, few of the 3PLs either expanded their existing environmental sustainability programs or launched new initiatives in the area during the year. At the same time, only one of the nine CEOs indicated that the green/environmental sustainability capabilities of his company is frequently a major factor in determining whether it wins or extends existing contracts. Customers are still much more cost focused.

Four of the nine 3PLs involved in the survey indicated that the Japanese earthquakes and tsunami impacted their operations in Europe. Seven CEOs reported their companies had business continuity plans in effect at the time of the disaster, and five plans covered responses to natural disasters. However, CEO responses to subsequent questions raise questions about the content of those plans because, when asked how important those plans were in guiding company responses to the disaster, all five said “not important.” Further, three CEOs reported their companies subsequently put additional contingency plans in place for dealing with such events in the future.

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, supplier failure, reduced production, and disruption of lean and/or JIT manufacturing programs. In response, the 3PLs expect their customers to broaden their supply base, accumulate more safety stock, geographically diversify their sourcing and production patterns, and focus more attention on supply chain risk management issues.

Few of the European 3PLs have begun using social media, such as Facebook, LinkedIn, Twitter and YouTube. Their most extensive use involves Twitter. As a result, the impact of these social networking efforts on the European 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.

Economic uncertainty, reduced volume, and the continued consolidation of the regional 3PL industry were identified as the three most important European 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 European 3PL marketplace as finding and keeping management talent and poor capacity utilization.

Implications

Despite the economic uncertainties facing Europe at this time, we expect the European market for 3PL services to continue to grow as more companies join the growing movement toward outsourcing of business activities in general. However, in the near term, 3PL expansion efforts in the region are likely to be constrained by those same uncertainties. The regional consolidation movement in the 3PL industry is by no means complete, and it is likely to accelerate as economic conditions improve.
The supply chains of many of the companies served by the European 3PLs involved in this survey were severely impacted by the Japanese earthquakes and tsunami, especially true in the automotive and electronics/high technology 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 Europe has lagged behind the usage rates of the same tools by 3PLs in both North America and the Asia-Pacific region. Most of the European service providers seem to have adopted a “wait and see” attitude toward attempting to integrate those tools into their operations. While that may be prudent, there may be significant first-mover benefits that might accrue to companies that move more aggressively in this area. The 3PLs may find that the pace at which they adopt and refine the use of these tools may become an important source of market differentiation.

The companies involved in this survey have maintained a strong commitment to environmental sustainability goals during a prolonged period of economic uncertainty. Those uncertainties have been reflected in a more moderate approach by the 3PLs in expanding existing programs and/or launching new initiatives in the area.

Exhibit 1

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

<table>
<thead>
<tr>
<th>Agility Logistics</th>
<th>Menlo Worldwide Logistics</th>
<th>UPS Supply Chain Solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEVA Logistics</td>
<td>MIQ Logistics</td>
<td>UTI</td>
</tr>
<tr>
<td>DHL Exel Supply Chain</td>
<td>Penske Logistics</td>
<td>Wincanton</td>
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</tbody>
</table>

TABLE 1

European 3PL Use of Various Social Media Tools

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<thead>
<tr>
<th>Social Media Categories</th>
<th>Number of Companies Using (n=9)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Has a Facebook page</td>
<td>2</td>
</tr>
<tr>
<td>Has a public facing Blog</td>
<td>1</td>
</tr>
<tr>
<td>Has company LinkedIn account</td>
<td>5</td>
</tr>
<tr>
<td>Has company Twitter account</td>
<td>1</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, European 3PL Industry, and Comparisons with 2010 Projections

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