The European Third Party Logistics Industry In 2012: The Provider CEO Perspective

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Introduction

This paper, which is based on a survey of the CEOs of ten large 3PLs serving Europe, was conducted in mid-2012 and focused on the state of the European marketplace for 3PL services at that time. This was the 19th iteration of this annual survey. The authors conduct similar annual surveys in North America and the Asia-Pacific region.

The 2012 survey focused on a variety of issues including the key marketplace dynamics in the European 3PL industry, the industry’s ongoing commitment to environmental sustainability, its use of social media tools, its current role in meeting the logistics service needs of companies in the healthcare industry, and a wide range of other aspects of the industry’s current status and future prospects in the region. Large 3PLs serving the European marketplace still continue to cope with adverse economic conditions that have forced them to focus on controlling costs and capacity while attempting to meet the demands of existing and potential customers.

The CEO of each company included in the survey was contacted by e-mail and asked to participate in a web-based survey. An initial target group of ten of the fifty largest 3PLs in Europe was contacted, and the CEOs of all those companies agreed to participate. However, only seven CEOs subsequently completed the survey online. Exhibit 1 lists the companies that participated in the 2012 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. That variability reflects a number of factors, including differences in company strategies, operating policies, and market segments served.

Results

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

Annual Provider Revenues
All seven companies reported revenue data in responding to the survey. Collectively, these companies generated approximately $7 billion in European 3PL revenues during 2011.

Success in Meeting Growth Projections
The CEOs were also asked about the success of their companies in meeting their European revenue growth projections during 2011. Two reported their companies exceeded company revenue growth projections for the year, two indicated they met their projections and three reported their companies failed to meet their projections. Collectively, these results were quite similar to those reported in our 2011 survey.
Company and Industry Profitability
The CEOs were next asked to categorize the profitability of their companies’ European units during 2011. Only five CEOs responded to the question, and all five reported their companies were moderately profitable.

The CEOs were also asked to share their perceptions concerning the profitability of the European 3PL industry as a whole in 2011. Five indicated they believed the industry had been moderately profitable, and two believed it had broken even for the year. Again, the estimates provided were quite similar to those given in the 2011 European survey in which six believed the industry was marginally profitable and three believed it had broken even for the year.

Mergers and Acquisitions (M/A)
There has been a worldwide consolidation movement in the 3PL industry in recent years, but the pace of that movement has slowed considerably in Europe. In fact, only two of the seven companies involved in the 2012 survey reported their companies made an acquisition during the past year, with one acquiring another 3PL and the second acquiring a warehousing company. This continues the trend reported in the 2011 survey in which only one European CEO reported his company made an acquisition during the previous year. While there still appears to be substantial interest in 3PL acquisitions in the region, particularly in the private equity community, larger 3PLs appear to be reluctant to make large capital outlays as the European economy struggles.

The respondents have quite different expectations concerning the role that acquisitions will play in company revenue growth over the next three years. Four of the companies indicated they expect acquisitions to account for less than one percent of that growth, while at the other end of the spectrum one CEOs indicated that 75% of his company’s growth would be acquisition-related during that period.

Introduction of New Services
Despite the economic problems experienced in Europe over the past year, four CEOs indicated their companies introduced new services during the year. Those new service offerings took a variety of forms and included the following:

- Consulting services
- Transportation management services for shipment execution
- Returns management
- Expansion into new countries
- Origin consolidation for clients using multiple foreign vendors
- Expansion of less-than-container load ocean services
- Global trade management services
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 longerterm commitment to the pursuit of “green” goals by 3PLs, and that commitment was generally maintained throughout the global economic downturn. However, this year’s data shows that industry activity in this area moderated again in the past year.

Expansion of Existing Sustainability Programs
Three of the seven companies involved surveyed reported they expanded their existing sustainability programs during the past year (two reported having done so in the 2011 survey). Those expansion efforts typically involved such things as:

• Expansion of carbon footprint modeling capabilities
• Continued use of LEED guidelines in facility expansion
• Increased emphasis on distribution optimization efforts
• More extensive offering of shipment consolidation services
• Expansion of electronic documentation

New Sustainability Initiatives
Two 3PLs also reported launching new sustainability initiatives during the past year (one in the 2011 survey). Among the more interesting initiatives were introduction of:

• EPA approved proprietary trailer skirting on existing fleet
• Employee participation in community environmental initiatives such as waterway clean up efforts and Earth Day activities
• Improvements in fan and ventilation systems to reduce air conditioning requirements
• Increased building, wall, and roof insulation
• Use of double prismatic skylights in distribution facilities
• Built in sensors to shut off lighting in facilities if no motion is detected or sufficient natural light is available

Customer Interest in Sustainability Issues
Those surveyed were asked several questions concerning 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 existing customer supply chain practices in terms of environmental impact/cost. On average, the CEOs indicated that only 6.9% of their existing customers did so (up slightly from 5.7% last year), but there was a very wide range of responses-0-25%.
Those surveyed were also asked how frequently the green/environmental sustainability capabilities of their companies were a major factor in determining whether they won new contracts or extended existing contracts, and all seven said *infrequently*.

During the past two years our European survey data has indicated that the companies involved in our surveys have become rather conservative in both starting new sustainability programs and expanding existing programs. Given the state of the European economy during that period, that is not surprising. Their customer base is primarily cost and service driven, and the commitment of 3PLs to environmental sustainability improvements has done little to retain existing customers or attract new customers. Nevertheless, some of these companies have found that their investment in such programs has yielded substantial operating efficiencies and cost savings. In this economic environmental low-capital cost sustainability initiatives are far more likely to be undertaken than those requirement high-levels of new capital investment.

**3PL Use of Social Media**

During the past several years social media use has grown dramatically around the world. As a result, for the past two years our surveys have contained a number of questions addressing the use of those tools in the European 3PL industry.

Facebook is a social networking service and website that was established by in 2004, and it has more than one billion users. Four of the European 3PLs reported their companies had Facebook accounts. Those 3PLs were then asked what has been the most productive use of their 7 corporate Facebook accounts to date, and three CEOs responded to the question. They indicated Facebook has been most valuable to their companies by:

- Driving people to the company website
- Pushing news stories to customers and employees
- Getting a sense of employee engagement
- Providing another means of sharing information with employees and customers

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 two European 3PL CEOs reported their companies had public-facing blogs. Neither company was able to estimate the number of followers their corporate blogs have. They were also asked what has been the most productive use of those blogs to date, and the only one responded indicating that it has been beneficial in company marketing efforts.

LinkedIn is a business-oriented social networking site started in 2003. Five CEOs reported their companies have corporate LinkedIn accounts that have generally focused on company awards, new stories, and industry trends. Those companies with LinkedIn accounts were also asked what the most productive use of LinkedIn had been. Four indicated it had been most productive in recruiting efforts. Three also noted that it has been helpful in supporting sales and marketing efforts.
Two also noted that provides another effective channel to connect with employees, customers and potential customers.

Twitter is another social networking tool that allows users to send and read text based postings of up to 140 characters, and this social networking tool had been used by three of the seven European 3PLs involved in the survey. Those with Twitter accounts were asked what the most productive use of those accounts had been to date and in response they mentioned driving traffic to company websites, providing a means of hearing the voices of employees and customers on current supply chain topics, sharing industry information, and providing supply chain alerts and company updates to customers and employees who follow their companies on Twitter.

Finally, three CEOs reported their companies posted videos on YouTube, a video-sharing website that commenced operation in 2005. Those using YouTube were also asked to identify the most productive use of those accounts to date and seven CEOs shared their views on that subject. Their responses included the following:

- Visually demonstrating company abilities to handle various types of supply chain challenges
- Sending holiday messages to employees
- Supporting business development efforts
- Providing driver testimonials to support recruiting efforts
- Highlighting company contests for employees and customers
- Supporting product liquidation efforts for customers

The 3PLs that used social media tools were asked what the collective impact of the companies’ social networking efforts had been on their companies to date. While three said there had been little or no impact, the other four listed a variety of impacts. Those included enhanced recruiting, support for brand building efforts, better connections with existing and potential customers, closer ties with employees, and provision of another means of going to market with company messages. Based upon the results of our last two European surveys, the use of social media has gained relatively little traction in the European 3PL industry to date. Nevertheless, four of the seven CEOs indicated they believe the use of social media will become increasingly important in the European 3PL industry.

3PL Services to the Healthcare Industry

Around the world widespread attention has been given to healthcare issues in recent years as both the private and public sectors have struggled to control rising costs while meeting the needs of an aging population. While much has been written about the political side of related issues, little has been written about the importance of effective supply chain management in that field.

The structure of the healthcare industry is rather complex and includes a broad range of participants including, among others, pharmaceutical companies, medical device manufacturers, distributors, and hospitals. This survey
sought to document the extent to which 3PLs in Europe provide supply chain services to those four sectors of the industry, the most important supply chain challenges facing each sector, the range of services each sector buys from 3PLs, the most important opportunities each of those sectors provides to 3PLs, and the difficulties encountered by 3PLs in attempting to serve each of those sectors.

In our effort to develop such an industry profile we first asked the CEOs if their companies provided 3PL services to companies in the healthcare industry. Six of the seven European 3PL CEOs (86%) of the respondents said “yes.” Those that had healthcare clients were asked to estimate the percentage of their companies’ European revenues that originate in the healthcare industry. The average reported was 13.7% with a range of 7-20%. Two CEOs placed those estimates at 20%. The CEOs were next asked to estimate what they believed that percentage would be three years from now, and the average response was 25.8% with the range being 10-50%. Four of the CEOs expect more than 20% of company revenues to originate in the healthcare sector in three years. This industry is clearly a major growth target for many of these companies as they attempt to broaden their customer base.

Two other background questions were asked before we began to examine the various sectors of the healthcare industry in detail. The CEOs were asked, in terms of their companies’ customer base, what segment(s) of the healthcare industry they expected to grow fastest over the next three-years. In response, a few respondents identified more than one industry sector. Five mentioned medical devices, three cited pharmaceuticals, while medical supplies and medicine by prescription were each mentioned once. The last question in this background section of the survey asked the CEOs if any interesting/important trends had emerged in the healthcare industry over the past several years that had implications to their companies. Several trends were identified, including:

- Increasing cold chain requirements in transportation and inventory management
- More compliance pressures
- Greater cost awareness in the healthcare industry
- The aging population is driving infrastructure development in this industry
- Expansion of urban hospitals and clinics is driving the demand for medical devices
- Purchasing decisions are moving from doctors to professional buyers
- A continued consolidation of warehouses serving this industry is taking place

Medical Device Manufacturers
Five 3PLs indicated their companies provided supply chain management services to medical device manufacturers. Those five were asked what they perceived to be the most important supply chain challenges facing medical device manufacturers and they sited the following:
• Managing returns and reverse logistics
• Development of recall capability
• Development of strategies and plans to service global markets
• Rapid order turnaround requirements
• Controlling rapidly rising costs
• Managing compliance issues
• Developing and meeting operational standards

The CEOs were next asked what range of supply chain services their companies have provided to medical device manufacturers. Among the services mentioned were:

• Full supply chain management services including cleaning and sterilization
• Transportation management
• Warehouse management
• Distribution services
• Value added services
• Global support services including freight forwarding, brokerage, and global trade management

Those surveyed were then asked to identify the most important opportunities for their companies in supporting the supply chains of medical device manufacturers. Their responses were quite varied and included provision of cost efficient solutions, supporting hospital logistics, adjusting solutions when customers acquire new companies, managing merge-in-transit activities for customers, consolidation services, provision of state-of-the-art technology to give visibility and control along customer supply chains, and supporting import and export activities for customers.

The companies with clients in the medical device manufacturing sector were also asked what were the most significant challenges faced by their companies in developing supply chain solutions for those clients. The challenges identified included:

• Gaining access the public hospital environment
• Finding reliable carriers that provide high value for rates charged
• Finding a way to apply best practices across an industry with very unique supply chain needs
• Being able to leverage systems and integration points between our customers, our operations, and our customers’ customers
• Being able to operate at a consistent standard across all geographies.
Pharmaceuticals
Four of the seven CEOs indicated their companies provide services to clients in the pharmaceuticals sector of the healthcare industry, and they identified several supply chain challenges facing those companies, including: cost pressures due to their complex supply chains, increased theft, the need to protect products from temperature fluctuations, international trade compliance, the need to trace shipments, and last mile distribution.

The 3PLs have provided a wide range of services to pharmaceuticals, including:

- Transportation management
- Supply chain design services
- Product distribution of products to many countries by road, sea and air
- The full range of logistics services (mentioned by two CEOs)
- White chamber logistics

The CEOs see the pharmaceuticals sector of the healthcare industry as being very important to company growth prospects. They identified opportunities in each of the following areas:

- Attracting business in that sector once company credibility and a related track record is established
- Selling the concept of logistics outsourcing in that sector—currently at low levels
- Building an integrated transport network in a collaborative manner between multiple healthcare companies
- Consolidating warehouses serving this industry sector throughout Europe

However, if European 3PLs are to realize that growth potential they must overcome some significant challenges. These include acquiring specific industry knowledge to develop staff with deep industry experience, short-term customer commitments versus heavy long-term investment requirements to serve the industry, making prudent investments in developing an infrastructure to serve that industry sector, and serving pharmaceutical companies that tend to have higher performance standards than any other sector of the healthcare industry.

Hospitals and Distributors
None of the seven companies involved in the European survey had provided supply chain services to hospitals, and only one reported clients in the distributors sector of the European healthcare industry. According to that company’s CEO the major supply chain challenges facing that industry sector are related to increased global competitiveness and more stringent government regulation of distributors. The 3PL reported providing a broad range of services to customers in this sector including contract logistics, warehouse management, fulfillment, value-added services, and a full range of global support services. Distributors are being pressured by governments, insurance companies and patients to reduce the prices of medical services. That pressure has driven distributors to examine their supply chains to seek greater efficiencies and that should increase
opportunities for 3PLs. However, 3PLs face a number of challenges in developing supply chain solutions for distributors, with the most significant of those being the ability to find leverage points that will deliver value to distributors by reducing the complexity of their supply chains.

### Industry Dynamics

In each annual European survey, the CEOs are asked to identify and rank order the three most important industry dynamics affecting the European 3PL marketplace. A first-place mention is given three points, a second-place mention is given two points, and a third-place mention is given one point. These points were used in calculating the total weighted points shown in Table 1.

According to the respondents to the 2012 survey, the most significant dynamic operating in the European 3PL marketplace was *Eurozone economic instability* with fifteen total weighted points and five first-place mentions. Five of the seven CEOs ranked that as the most important dynamic operating in the region. Not surprisingly, that dynamic also ranked first last year.

In a second-place tie with five total weighted points were *increased competitive intensity* and *declining demand for 3PL services*. Obviously, those are linked to the recent economic instability in the region.

No other dynamic accounted for more than three points, but several were mentioned once including opportunities in emerging markets, the inability of 3PLs to accurately forecast demand, the emergence of near sourcing on a limited scale, centralization of country distribution centers into regional distribution centers, and a trend involving 3PL customers sourcing from a more limited number of 3PLs to consolidate their buys.

### Industry Opportunities

The CEOs were also asked to identify the three most significant opportunities for 3PLs in the European market, and, as has been the case in previous surveys, there was little consensus. In fact, all seven CEOs ranked different opportunities number one. Their first-place selections were as follows:

- The possibility of providing 3PL services to industries that don’t currently use 3PLs
- More outsourcing of logistics spend by European companies
- The potential emergence of new customers who are seeking to shed assets and people
- Expansion of services to existing customers through bundling of services
- The return of manufacturing activities from Asia to Europe (near shoring)
- Potential 3PL cost savings through consolidation of European operations
- Expansion of value added services

Many other opportunities were ranked second or third by the CEOs. The majority of those were related to possible expansion of linkages with such growth markets as India, China, Turkey, Russia, Africa, and South
America. Opportunities were also identified with respect to possible expansion of 4PL services in Europe, and gaining volume as smaller 3PLs fail.

Industry Problems
The CEOs were also asked to identify the three most important problems facing their companies in the European 3PL industry, and they identified a broad range of problems. According to the CEOs, the European 3PL industry’s most important problem was declining demand/overcapacity registering nine total points and two first-place mentions. Ranking second with eight total points and two first-place votes was finding and keeping management and operating personnel. Ranking third with five points was declining margins.

Among the other problems that were mentioned once were: coping with outsourcing initiatives that are cancelled or postponed just before or after an award, legacy issues related to poorly integrated acquisitions, and continuing risks associated with market uncertainty.

Most Significant Development in Regional 3PL Industry in Past Year
When asked to identify the most significant development in the European 3PL industry during the past year, the CEOs put greatest emphasis on pressures related to uncertain economic conditions. Three CEOs focused on the negative impact that declining volume has had on 3PL asset utilization. Three also mentioned the growing need for 3PL flexibility in meeting the changing business requirements of customers, the need for 3PLs to focus on cost controls and service enhancements, and expanded use of business alliances by 3PLs to move aggressively into new geographies.

New Major Human Resource Management Initiatives
In recognition of the continuing problems the European 3PL industry has with finding, training, and keeping management and operating talent, those surveyed were asked if their companies had launched any new major human resource management initiatives during the past year, and four said “yes.” Their new efforts addressed a variety of issues in this area, including:

- Expanded use of social media to recruit new employees
- Establishment of a corporate learning management system with online access
- Initiation of an annual employee engagement survey
- Initiation of better connectivity with universities to better position the company as a preferred employer
- Putting greater emphasis on gender diversity in hiring decisions
- Attempting to develop broader skill sets within the company, not just traditional logistics

Major Changes Expected During the Next Year
The CEOs were next asked what major changes they expected to take place in the European 3PL industry during the next year, and five responded to the question. Four expect an increase in mergers and acquisitions involving
3PLs, with lower stock prices due to reduced profits making some companies attractive acquisition targets. Three CEOs expect a wave of smaller 3PL bankruptcies as the industry struggles with volume declines and low or non-existent profits. One CEO also expects much greater emphasis to be given to identifying the financial and economic indicators that should be used to forecast the industry’s future. He asserted that the past several years have eliminated history as being a good indicator of the future.

**Estimated Company and Industry Revenue Growth Rates**

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

In terms of company growth projections, the CEO estimates were somewhat lower than those registered in the 2011 survey, but they were still rather optimistic given prevailing economic conditions in the Eurozone. As shown in Table 2, the average company revenue growth projection for next year was 7.17% (8.44% last year), with the projected three-year company revenue growth average being 9.0% (9.11% 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 4%-14%, and three-year projections ranging from 4%-20%.

As shown in Table 3, in terms of industry growth projections, the CEOs projected that the regional industry’s one-year revenue growth rate would average 3.71%, down considerably from last year’s estimate of 6.13%. The three-year industry projections averaged 5.14%, also down from last year’s 6.25% estimate. The individual CEO projections of the industry’s growth rates ranged from 0%-7% for the one-year period (with two CEOs forecasting zero growth for the industry) and 0%-10% for the three-year period.

**SUMMARY AND IMPLICATIONS**

**Summary**

This paper discussed the results of a 2012 survey of the CEOs of seven of the largest 3PL service providers operating in the European marketplace. Collectively those companies generated approximately $7 billion in European 3PL revenues during 2011. None of the companies reported being unprofitable in 2011.

The European CEOs projections of company revenue growth over the next three years were somewhat lower than those reported in last year’s survey, but still rather optimistic given the economic climate in Europe. They were less optimistic about the prospect of growth for the European 3PL industry during the same period.

Reflecting these economic uncertainties, these 3PLs were relatively conservative in both initiating new environmental sustainability programs and expanding existing programs during the past year. Increased emphasis on cost reduction in both the 3PLs and their customers has effectively slowed the pace of such initiatives.

Social media use in the European 3PL industry has gained little traction so far, but is likely to continue to expand on a limited scale. It will continue to be used primarily for recruiting and branding purposes.
Six of the seven companies involved in this survey provide services to clients in the European healthcare industry. On average, those clients account for 13.7% of their revenue base, and the CEOs projected that will grow to an average of 25.8% in three years. They expect the greatest growth to occur in servicing the medical device manufacturing and pharmaceutical sectors of the industry.

*Eurozone economic instability, declining demand for 3PL services, and overcapacity* were identified as the most important European market dynamics. The most important opportunities were identified were primarily related to selling 3PL services to European companies that currently don’t use them, and taking advantage of a perceived increase in the willingness of some European companies to outsource more of their business activities. The CEOs identified the most important problems facing their companies in the European 3PL marketplace as the *declining demand for 3PL services and finding and keeping management and operations talent*.

**Implications**

Over the next several years the European 3PL market is likely to be on a slow-growth trajectory. Profits will not come easily as large 3PLs struggle to right size their companies, while trying to be flexible enough to meet the changing needs of their customer base. It also seems clear that European 3PLs will place even more emphasis on developing more extensive business linkages into developing economies in Eastern Europe, Africa, and South America.

Cost pressures will likely limit new environmental sustainability initiatives by 3PLs in Europe, but existing programs that have yielded operating efficiencies will remain in place.

Ongoing 3PL efforts to assess the current and future profitability of existing customers and industries served are likely to intensify, and 3PL attention devoted to the healthcare industry in Europe will take on more importance, particularly in the medical device and pharmaceutical sectors of that industry.

To date the European 3PL industry’s use of social media to support branding, communication an recruiting goals has been quite limited, and given existing cost pressures that is not likely to change significantly in the near future.

While the merger and acquisition movement in the European 3PL industry has slowed dramatically during the past several years, it appears likely to accelerate with the financial problems of many of small to medium size 3PLs who may have market niches that might become increasingly attractive to the larger companies. At the same time, private equity companies have been sitting on the sidelines for some time, and they are potentially an important source of capital to finance such acquisitions.
## Exhibit 1
Third Party Logistics Companies Included in the 2012 European 3PL Industry CEO Survey

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<thead>
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<th>Company</th>
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<td>CEVA Logistics</td>
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<td>Menlo Logistics</td>
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<td>MIQ Logistics</td>
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<td>Penske Logistics</td>
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<td>Rhenus Contract Logistics</td>
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<td>UPS Supply Chain Solutions</td>
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<td>UTI</td>
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### Table 1

CEO Perception of the Three Most Important European 3PL Industry Dynamics, 2012

<table>
<thead>
<tr>
<th>Industry Dynamic</th>
<th># of CEOs Ranking It #1, 2012</th>
<th># of CEOs Ranking It #2, 2012</th>
<th># of CEOs Ranking It #3 2012</th>
<th>Total Weighted Points 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eurozone Economic Instability</td>
<td>5</td>
<td></td>
<td></td>
<td>15</td>
</tr>
<tr>
<td>Decreasing 3PL Demand</td>
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<td>2</td>
<td>1</td>
<td>5</td>
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<tr>
<td>Increased Competitive Intensity</td>
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<td>5</td>
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### Table 2

2012 Survey CEO One and Three-Year Revenue Growth Projections for Their Companies, Europe, and Comparisons with 2011 Projections

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<td>7.17%</td>
<td>8.44%</td>
<td>9.0%</td>
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### Table 3

2012 Survey CEO One and Three-Year Revenue Growth Projections for the European 3PL Industry, and Comparisons with 2011 Projections

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<tr>
<td>3.71%</td>
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