The North American Third Party Logistics Industry In 2012: The Provider Ceo Perspective

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THE NORTH AMERICAN THIRD PARTY LOGISTICS INDUSTRY IN 2012: THE PROVIDER CEO PERSPECTIVE

Introduction

This paper, which is based on a survey of the CEOs of 20 large 3PLs serving North America, was conducted in mid-2012 and focused on the state of the North American marketplace for 3PL services at that time. This was the 19th iteration of this annual survey. The authors conduct similar annual surveys in Europe and the Asia-Pacific region.

The 2012 survey focused on a variety of issues including the key marketplace dynamics in the North American 3PL industry, the industry’s ongoing commitment to environmental sustainability, its expanded 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.

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 20 of the 50 largest 3PLs in North America was contacted, and the CEOs of all those companies agreed to participate. However, only 16 CEOs subsequently completed the survey online. Exhibit 1 lists the companies that participated in the 2012 North American 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

Fourteen companies reported revenue data in responding to the survey. Collectively, these companies generated approximately $15.6 billion in North American revenues during 2011, with six companies reporting 2011 revenues in excess of $1 billion. If all sixteen companies had reported revenue data the collective total would have exceeded $20 billion. The annual revenues for fourteen companies reporting revenue data averaged ($1.11) billion.
Success in Meeting Growth Projections
The CEOs were also asked about the success of their companies in meeting their North American revenue growth projections during 2011. Five reported their companies exceeded company revenue growth projections for the year, six indicated they met their projections and four reported their companies failed to meet their projections. Collectively, these results were slightly worse than those reported in our 2011 survey.

Company and Industry Profitability
The CEOs were next asked to categorize the profitability of their companies’ North American business units during 2011. Three reported their companies had been very profitable, ten said marginally profitable, and two indicated their companies had broken even. For the second year in a row none of the companies involved in the survey were unprofitable.

CEO views were also solicited concerning the profitability of the North American 3PL industry as a whole in 2011. All sixteen participants responded to the question with fifteen categorizing the regional industry as marginally profitable, and one saying it 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 has slowed considerably in North America. In fact, only two of the sixteen companies involved in the survey reported their companies made one or more acquisition during the past year, collectively acquiring one 3PL and a freight forwarder/customs broker. Similarly activity levels were reported in the 2011 survey when only two of seventeen companies reported acquisitions 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 world economy slowly recovers. In the United States stock prices have risen steadily during the past year, making acquisition of publicly traded substantially more expensive than it was in the previous few years.

The respondents expect acquisitions to play a relatively modest role in company revenue growth during the next year. On average they expect acquisitions to generate only 5.0% of their revenue growth (down from 8.82% in the 2011 survey), and nine respondents indicated they don’t expect any of their companies’ growth next year to come from acquisitions.

Introduction of New Services
Despite the modest level of economic growth in the region during the past year, ten CEOs indicated their companies introduced new services over that period. Those service offerings took a variety of forms and included the following:
• Consulting services
• Load management services
• Testing and recycling electronics
• Enhanced value added technology
• Improved modeling capabilities
• Healthcare solutions
• Door-to-door intermodal services
• Expanded 4PL services in new industries and geographies
• Electronics manufacturing (component builds)
• Trucking services

Green/Environmental Sustainability Issues
A wide range of environmental sustainability topics has been incorporated into the last four North American surveys. The data generated in those surveys have shown a very strong commitment to the pursuit of “green” goals by 3PLs, and that commitment was maintained throughout the global economic downturn. This continuing commitment was again demonstrated by responses to the 2012 survey.

Expansion of Existing Sustainability Programs
Eleven of the sixteen companies involved surveyed reported they expanded their existing sustainability programs during the past year. Those expansion efforts typically involved such things as:

• Consolidation of multiple sustainability initiatives across business units under single sustainability leadership
• Movement to the next level of parts and materials reclamation
• Conversion of additional facilities to more efficient lighting systems
• Upgrading modeling software suite
• Increased participation in the EPA’s Smartway program
• Expanding recyclable waste customer base

New Sustainability Initiatives
Eight of the sixteen 3PLs also reported launching new sustainability initiatives during the past year. Among the more interesting initiatives were introduction of:
• EPA approved proprietary trailer skirting on existing fleet
• Onboard driver management technology
• Solar panels on company facilities
• A metrics package to measure monthly use of water, electricity, and propane gas at distribution centers
• Double prismatic skylights in distribution centers
• Improved fan and ventilation systems in facilities to reduce use of air conditioning

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 5.7% of their existing customers did so (down from 7.9% last year), but there was a very wide range of responses-0-20%.

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. The responses were nearly identical to those obtained in last year’s survey. None of the CEOs said very frequently, one said frequently, and fifteen said infrequently. In the 2011 survey none of the CEOs said very frequently, two said frequently, and fifteen said infrequently.

For the past several years our survey data has indicated that the commitment of these 3PLs to environmental sustainability improvements continue to expand, but their customer base is still primarily cost and service driven. However, the 3PLs continue to expand such programs for a variety of reasons such as company perception is that is the socially responsible thing to do, pressures from some customer groups, a long-term desire to attract "green" customers, and anticipation of future regulations that will require such changes. At the same time, many of these companies have found that their investment in such programs has yielded substantial operating efficiencies and cost savings. There is nothing that would indicate a retrenchment of 3PL efforts in this area.

3PL Use of Social Media
Social media use has grown dramatically during the past several years and the related tools are increasingly being used by 3PLs. As a result, for the past two years the North American surveys have contained a number of questions addressing that development. The responses to the 2012 survey questions are summarized in Table 1.

Facebook is a social networking service and website that was established by in 2004, and it has more than 800 million users. As shown in the table, nine North American 3PLs reported their companies had Facebook pages. Page content varies substantially by company, but they typically include information on company background, discussion of service offerings, and markets served. Those 3PLs having Facebook pages were asked what has
been the most productive use of their corporate Facebook accounts to date, and eight CEOs responded to the question. They indicated Facebook has been most valuable to their companies by:

- Providing a means of disseminating “driver centric” information
- Disseminating human interest stories about employees
- Sending safety-related messages to employees and customers
- Supporting company recruiting efforts
- Expressing company thought leadership to a variety of audiences
- Supporting company marketing efforts
- Providing a way to “get the pulse of employee engagement”

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. Six 3PL CEOs reported their companies had public-facing blogs, all of which were created between 2009 and 2012. Those companies with blogs were asked to estimate how many followers their corporate blogs have and only three responded to the question. All three responses were quite low and ranged between 1,000 and “a few thousand.” They were also asked what has been the most productive use of those blogs to date, and the five who answered the question said the blogs accomplished the following:

- Provided a great means of “telling stores about the company” that range outside the spectrum of stand press releases
- Assisted the company in liquidation of product for customers
- Managed “disinformation” about the company that can occur through social media before those “less than factual” stories go viral
- Established another outlet to share company and industry information with employees, customers, and prospects

LinkedIn is a business-oriented social networking site started in 2003. Eleven CEOs reported 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 those accounts has been to date and all eleven CEOs responded to the question. Eight indicated LinkedIn had been very effectively used to support recruiting efforts through job postings, and six noted its importance as an alternate channel to connect with potential customers. The CEOs also cited LinkedIn’s value in supporting a variety of business development initiatives, disseminating industry research results, and connecting with employees.
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 nine of the 3PLs involved in the survey. Those with Twitter accounts were asked what the most productive use of those accounts had been to date and eight CEOs answered the question. Their responses tended to focus on such goals as pushing traffic to company websites, fielding customer complaints via social media, sharing job postings, providing supply chain alerts, and establishing relationships with carriers.

Finally, eight 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 their companies’ social networking efforts had been on their companies to date. While three said there had been little or no impact, the others listed a wide range of impacts. The most frequently cited impact was enhanced brand awareness that was mentioned six times. Three respondents cited improvements in connectivity with employees and customers. Additionally, a wide variety of other impacts were identified including:

- Establishment of a proactive means of receiving and handling potential customer or consumer issues
- Provision of a new means of addressing inaccurate information about the company that may have been disseminated through social media
- Increased public awareness of the company’s corporate social responsibility efforts

Twelve of the sixteen CEOs (75%) indicated they believe the use of social media will become increasingly important in the 3PL industry.

3PL Services to the Healthcare Industry
Widespread national 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 North America 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. Eleven (68.75%) of the respondents said “yes” while five (31.25%) indicated their companies didn’t serve clients in the industry. Those that had healthcare clients were asked to estimate the percentage of their companies’ North American revenues that originated in the healthcare industry. Ten CEOs responded to the question and the average was 10.7% with a range of 3-20%. Those ten CEOs were next asked to estimate what they believed that percentage would be three years from now, and the average response was 17.5% with the range being 5-35%. Four CEOs expect more than 30% of company revenues to originate in the healthcare sector in three years. This industry is clearly a major growth target for many of the companies involved in this survey.

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. Nine CEOs identified the medical device manufacturers’ sector, five mentioned pharmaceuticals, and two cited the medical supplies sector. 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. Eight CEOs identified such trends, including:

- Increasing cold chain requirements
- More stringent product tracking requirements
- More stringent regulatory requirements
- Increasing frequency of supply chain breaches
- Heightened FDA enforcement of good manufacturing practices
- More theft/counterfeiting of pharmaceuticals and medical devices
- Steadily increasing cost pressures
- Strong merger and acquisition activity
- Aging population and increased infrastructure development, such as construction of new hospitals and clinics.
Medical Device Manufacturers

Ten 3PLs indicated their companies provided supply chain management services to medical device manufacturers. Those ten were then asked what they perceived to be the most important supply chain challenges facing medical device manufacturers and they provided a long list that included:

- Maintaining the quality and accuracy of material shipments
- Being able to handle distributed inventory with a high level of control and quick response times
- Controlling costs while developing recall and compliance capabilities
- Pressure to maintain high fill rates
- Security, primarily in international markets
- Developing product visibility in multi-tiered channels
- Reducing supply chain costs when products become commoditized
- Coping with long, inconsistent supplier lead times
- The need to shift supply chain strategies as more of their business comes from global markets, particularly emerging economies

The CEOs were next asked what range of supply chain services their companies provide to medical device manufacturers. Six mentioned warehousing services, four each cited value-added services and transportation management, and air and ocean transportation services were each mentioned twice. Among the other services mentioned once were order fulfillment, data management, inventory management, reverse logistics, and sales support.

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 introduction/expansion of the following services: network distribution of finished products, forward positioning of inventory for rapid fulfillment, systems and network integration, managing merge-in-transit services for orders shipped from multiple sources, supporting post-acquisition activities, managing integration, consolidation, and optimization of supply chains for companies with multiple business units, expansion of warehousing and transportation management services, provision of state-of-the-art technology to support visibility and control from manufacturer to final delivery, and provision of global trade services to facilitate import and export activities.

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:
• Servicing small, specialized sites
• Dealing with executives that move slowly in making decisions and changes
• Serving customers who are often “roll-ups” of a number of smaller companies leading to fragmented systems and decision-making
• Finding reliable carriers that provide high value for the prices charged
• A lack of supply chain “visionaries and innovators” within senior management teams in this segment of the industry
• Finding ways to apply best practices across an industry filled with companies that have very unique supply chain needs

Pharmaceuticals
Eight CEOs indicated their companies provide services to clients in the pharmaceuticals sector of the healthcare industry, and they identified a broad range of supply chain challenges facing those companies. Six mentioned tightened regulatory compliance, five focused on security issues, three identified problems with cold chain reliability, product visibility, quality tracking, and controlling inventory in those supply chains. The 3PLs provide a wide range of services to pharmaceuticals. Among those services are:

• Warehousing and value-added services (six mentions)
• Air, ocean, trucking services, and temperature controlled movements (3 mentions each)
• Freight forwarding, contract logistics, reverse logistics, including product recalls and returns (2 mentions each)
• Import/export services, express delivery, consulting services, 4PL services, clinical trials transport, and supply chain design services (1 mention each)

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

• Provision of supply chain visibility services
• Managing information for customers
• Cold chain movements by air
• Integration, consolidation, and optimization of customer supply chain networks
• Support of higher levels of logistics outsourcing for companies
• Provision of global end-to-end services
• Introduction of supply chain best practices to the sector
• Support for the highest level of industry regulatory compliance
• Consolidation of warehousing operations across geographies
• Support for new ventures in emerging markets
• Provision of infrastructure and flexibility for clients
• Support efforts to reduce cycle time and buffer stock while supporting increasingly stringent quality requirements

However, if 3PLs are to realize that growth potential in this sector of the industry they must overcome some significant challenges. These include competing with large global 3PLs who have the scale to handle small shipments around the globe and to remote locations, heavy long-term infrastructure commitments in return for short-term contracts, dealing with managers who move very slowly in making decisions and changes, a shortage of people who really understand this industry sector, and dealing with performance standards that are higher than any other healthcare industry sector.

Hospitals
Only two of the 3PLs involved in the 2012 North American survey said their companies provide services to hospitals. They identified the most important supply chain challenges facing hospitals as pressures to get the right product to the right place, at the right time, in the right quantity—to the OR shelf, and pressures to reduce purchasing costs through consolidation efforts, and the need for not only better inventory management but also significant process improvements. Among the 3PL services provided to hospitals were dedicated contract carriage, warehousing, and distribution services. The major opportunity for 3PLs in this sector was identified as assisting hospitals in reducing supply chain waste through better visibility and improved inventory practices.

Distributors
Six of the 3PLs provided services to healthcare industry distributors. The 3PLs identified the most significant supply chain management challenges facing those companies as pressures to optimize their distribution center capabilities, balancing customer service levels with working capital constraints, disintermediation pressures, steadily increasing global competitiveness, and expansion of government regulation of the healthcare industry. Among the services 3PLs provided to industry distributors were visibility technology, contract logistics, fulfillment, transportation, warehouse management, global services (including international freight forwarding, customs brokerage, and global trade management), and a variety of value-added services. The CEOs identified expansion of service opportunities in this industry sector as being integrating technology with logistics to provide shorter order-to-cash cycles, expansion of temperature-controlled movements, and assisting distributors in dealing with rising costs as they are increasingly squeezed by governments, insurance companies, and patients to reduce costs. The 3PLs also acknowledged several significant challenges faced by their companies in developing supply chain solutions for distributors. They included the substantial capital investment needed to serve this sector, developing company expertise in this sector, and overcoming the belief that distributors have the same competencies/skill sets as 3PLs.
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Industry Dynamics
In each annual North American survey the CEOs are asked to identify and rank order the three most important industry dynamics affecting the North American 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 2.

According to the respondents to the 2012 survey, the most significant dynamic operating in the North American 3PL marketplace was increased cost pressures on existing and potential 3PL customers with twenty total weighted points and four first-place mentions. In second-place with thirteen total weighted points and four first-place citations was continued economic uncertainty. Two other dynamics, fuel cost instability and tightening carrier capacity, tied for third-place with eight total weighted points. Rounding out the top five dynamics was regulatory changes with six total weighted points. Among the other dynamics mentioned more than once were increased near-shoring activity, healthcare reform, and labor shortages in key markets.
Industry Opportunities
The CEOs were also asked to identify the three most significant opportunities for 3PLs in the North American market, and, as has been the case in previous surveys, there was little consensus. In fact, while there were 48 “Top 3” choices available (3 x 16 respondents), only three opportunities were mentioned more than three times. Opportunities related to service integration and data management were each mentioned four times, and opportunities related to expansion of service offerings were cited by three CEOs. Several opportunities were mentioned twice including those related to supporting customer near-shoring activities, offering expanded technology solutions to customers, expanding transportation management services, potential acquisitions, and offering more flexible solutions to customers.

Industry Problems
The CEOs were next asked to identify the three most important problems facing their companies in the North American 3PL industry, and they identified a broad range of problems. According to the CEOs, the North American 3PL industry’s most important problem was finding and keeping management talent registering twenty-one total weighted points and five first-place mentions. That problem had tied for first-place in the 2011 survey. In second-place with eighteen points and four first-place mentions was continuing downward pressure on prices that had also tied for first-place in 2011. It should be noted that the pricing issue had also been ranked as the region’s top problem in both the 2009 and 2010 North American surveys. Those two problems dominated the responses, with capacity shortages, complex procurement processes, economic uncertainty, and growing pressures to differentiate company service offerings each generating six or seven total weighted points.

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 put greatest emphasis on pressures related to uncertain economic conditions. Four focused upon the slow pace of the economic recovery, and the same number cited increased customer focus on controlling costs. Three emphasized growing customer interest in establishment of more collaborative relationships with 3PLs, and two said the most significant regional development was related to technological innovations in the 3PL industry. Among the other developments mentioned were increased volume from automotive clients, growth of Mexico/US cross border traffic, 3PL overcapacity in the region, foreign multi-national 3PLs entering the North American market, and design and implementation of CSA monitoring programs and network redesigns due to hours of service regulatory changes.

New Major Human Resource Management Initiatives
In recognition of the continuing problem the 3PL industry has with finding, training, and keeping management and operating talent, the CEOs were asked if their companies had launched any new major human resource management initiatives during the past year, and ten said “yes.” Their new efforts addressed a broad range of issues in this area, including:
• Increased use of external recruiters
• Expansion of internal recruiting resources
• Establishment of a two-year rotational and multi-location program for new management hires
• Design and implementation of a supply chain leadership development class for new hires from eight universities with logistics programs
• Expanded use of social media programs to connect not only with potential employees but to strengthen ties to existing employees
• Adding more subject matter expertise in the healthcare and cold chain operations
• More emphasis on hiring new college graduates into a management training program
• Split human resource management out as a direct report to the CEO
• Recruited new Chief Human Resource Officer
• Studied the causes of driver turnover, and implemented company-wide initiatives focused on identification of best practices, stay interviews, and regular employee roundtables
• Implemented new Learning Management system offering online access to training and development courses
• Designed global talent management and leadership competency assessment initiatives

Major Changes Expected During the Next Year
The CEOs were next asked what major changes they expected to take place in the North American 3PL industry during the next year, and thirteen responded to the question. As had been the case in each of our last eight North American surveys, the merger and acquisition movement dominated CEO thinking, with five CEOs indicating they believed the consolidation movement would accelerate in North America during the next year with private equity interest in the 3PL industry increasing. No other change was mentioned more than once. Among those possible changes mentioned once were:

• Emergence of true end-to-end supply chain visibility
• Increased industry investment in natural gas vehicles
• More customer consolidation of supply chain operations with global 3PLs
• Fuel cost increases
• Expanded use of 4PL and freight brokerage services by customers
• Increased use of near-shoring by large American manufacturers and retailers
• Growing recognition of the value of strategic supply chain relationships
• More emphasis on environmental sustainability in the 3PL industry
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, and 16 CEOs provided those estimates. Their projections are shown in Tables 3 and 4 and are discussed below.

In terms of company growth projections, the CEO estimates were very similar to those registered in the 2011 and 2010 surveys. The average company revenue growth projection for next year was 10.00% (10.81--2011 and 10.4%--2010), with the projected three-year company revenue growth average being 10.43% (10.25--2011 and 10.6--2010). 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%-15%, and three-year projections ranging from 6%-17%.

In terms of industry growth projections, the CEOs projected that the regional industry’s one-year revenue growth rate would average 6.93%, up slightly from last year’s 6.88% projection. The three-year industry projections averaged 8.33%, up slightly from last year’s 8.0% projection. The individual CEO projections of the industry’s growth rates ranged from 2%- 11% for the one-year period a 5%-19% for the three-year period.

SUMMARY AND IMPLICATIONS

Summary

This paper has discussed the results of a 2012 survey of the CEOs of sixteen of the largest 3PL service providers operating in the North American marketplace. Collectively those companies generated approximately $20 billion in North American 3PL revenues during 2011. None of the companies reported being unprofitable in 2011.

The CEOs continue to be quite bullish concerning the revenue growth prospects. The average company estimates for revenue growth in both the one and three-year period were 10.0% and 10.43% respectively.

Many of these companies expanded existing environmental sustainability programs and launched new sustainability initiatives during the year. However, their commitment to those programs still has little effect in the marketplace in terms of retaining customers or attracting new customers. They do, however, not only reflect responses to the industry’s social responsibilities, but also, in many cases, result in increased efficiency and lower costs.

Social media use in the North American 3PL industry continues to grow, with Twitter and LinkedIn having the most significant impact to date, particularly in the areas of branding and recruiting.

Eleven of the sixteen companies involved in this survey provide 3PL services to clients in the healthcare industry in North America. On average, those clients account for 10.7% of their revenue base, and they project that to grow to an average of 17.5% in three years. They expect the greatest growth to occur in the medical device manufacturing and pharmaceutical sectors of the industry.
Increased cost pressure on current and potential customers, and continued economic uncertainty were identified as the most important North American market dynamics. The most important opportunities were identified as further integration of services for clients, and expanded data management services. The CEOs identified the most important problems facing their companies in the North American 3PL marketplace as finding and keeping management and operations talent and continuing downward pressure on prices. These are chronic problems in the North American market for 3PL services.

Implications

Over the next several years the North American 3PL market will likely continue to grow, and with cost control issues increasing on the buyer’s side of the industry. Competitive pressure will intensify, particularly in terms of pricing. 3PL price compression continues to be a major problem, not only in North America, but also in Europe and the Asia-Pacific region as well. We expect the 3PLs to devote considerable attention to defining their key customers and tailoring their increasingly information intensive services to those market niches. The days of 3PL providers being all things to all customers are over. Many service providers will continue to search for defensible market niches while expanding their service base in the healthcare sector. The opportunities in healthcare appear to be greatest in the industry’s medical device manufacturing and pharmaceuticals sectors.

A major challenge moving forward will be consistently meeting the service expectations of a marketplace that increasingly demands more from the 3PLs while squeezing them on the price dimension. Branding efforts, supported by social media initiatives, will play an important role in establishing and supporting 3PL market differentiation.

Many of the CEOs involved in this survey believe the merger and acquisition movement will accelerate over the next few years, but the difficulties inherent in large-scale restructuring were clearly shown in the recent decision by United Parcel Service to withdraw its bid for the European TNT Express. Companies pursuing such transactions must commit enormous amounts of management time, capital and/or stock to facilitate the deals, while understanding that the benefits of those transactions are likely to take at least several years to be realized.

With this as a backdrop the North American 3PL industry continues to struggle with the long-term challenge of attracting and keeping talent at not only the managerial but also the operational level. These struggles continue despite high levels of unemployment in the region, and numerous company initiatives aimed as strengthening recruiting, training, and retention. Expanded efforts to hire graduates of universities with logistics/supply chain programs are to be applauded, but the industry needs to collectively examine why this problem persists. Is it the industry’s image, workload expectations, compensation levels, or some combination of those with many other dimensions of the industry’s jobs that perpetuate this situation? Those questions need to be answered before a viable industry strategy might be developed to lessen this problem. It may be time for the industry to take a collective look at this problem and not only establish a research agenda to identify the nature and scope of the problem, but also recommend approaches to creatively dealing with it over time.
Exhibit 1
Third Party Logistics Companies Included in the 2012 North American 3PL Industry CEO Survey

Agility Logistics
Cardinal Logistics
Caterpillar Logistics
DSC Logistics
DHL Exel Supply Chain
Genco Supply Chain Solutions
Kuehne + Nagel Logistics, Inc.
Menlo Logistics
MIQ Logistics
Penske Logistics
DB Schenker
Transplace
UPS Supply Chain Solutions
UTi Integrated Logistics
Werner Logistics
Yusen Logistics

Table 1
2012 3PL Use of Various Social Media Tools

<table>
<thead>
<tr>
<th>Social Media Categories</th>
<th>Number of Companies Using (n=16)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Has a Facebook page</td>
<td>9 (10 in 2011)</td>
</tr>
<tr>
<td>Has a Facebook page</td>
<td>6 (4 in 2011)</td>
</tr>
<tr>
<td>Has company LinkedIn account</td>
<td>11 (12 in 2011)</td>
</tr>
<tr>
<td>Has company Twitter account</td>
<td>9 (8 in 2011)</td>
</tr>
<tr>
<td>Posts company videos on YouTube</td>
<td>8 (8 in 2011)</td>
</tr>
</tbody>
</table>
### Table 2
CEO Perception of the Three Most Important North American 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>
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<td>Economic volatility</td>
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<td>1</td>
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<td>20</td>
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<tr>
<td>Rising costs</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>18</td>
</tr>
<tr>
<td>Continuing downward pressure on pricing</td>
<td>3</td>
<td>2</td>
<td></td>
<td>13</td>
</tr>
<tr>
<td>Regulatory changes</td>
<td></td>
<td>2</td>
<td>2</td>
<td>16</td>
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### Table 3
2012 Survey CEO One and Three-Year Revenue Growth Projections for Their Companies, North America, and Comparisons with 2011 Projections

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<td>10.81%</td>
<td>10.43%</td>
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### Table 4

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<td>6.88%</td>
<td>8.33%</td>
<td>8.0%</td>
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