3PL CEO PERSPECTIVES ON THE CURRENT STATUS AND FUTURE PROSPECTS OF THE ASIA-PACIFIC REGION THIRDD-PARTY LOGISTICS INDUSTRY: THE 2014 SURVEY
3PL CEO Perspectives on the Current Status and Future Prospects of the Asia-Pacific Region Third-Party Logistics Industry: The 2014 Survey

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This paper is based upon a 2014 survey of the CEOs of 10 of the largest third-party logistics (3PL) companies serving the APAC marketplace. The survey marks the twenty-first iteration of this annual study, and it continues to address such topics as the major dynamics operating in that marketplace and the opportunities and challenges facing 3PLs in the region. The 2014 survey also examined such issues as the impact of prevailing economic conditions in China on the market for 3PL services, 3PL operations in Thailand and Vietnam, regional 3PL actions with respect to environmental sustainability issues, Amazon’s impact on supply chain management in the APAC region, and the growing involvement of some 3PLs in supporting e-commerce clients. The CEOs were also asked to provide one- and three-year forecasts of company and regional 3PL industry revenue growth, while also identifying the major changes they believed would occur in the regional 3PL industry during the next year. The implications of the data to 3PLs and their customers are also discussed.

The 3PL industry has evolved into an important outsourcing option for logistics managers around the globe. The industry, which now generates more than $750 billion in annual operating revenues, provides a broad range of services to managers seeking not only to reduce operating costs and improve service levels, but also, in many cases, to reduce their capital commitments by using assets provided directly or indirectly by 3PLs. As this industry has continued to evolve, the CEOs leading those 3PLs have faced the formidable task of matching service offerings and geographical coverage to the ever-changing needs of an increasingly diverse customer base. Over the past several years that task has been complicated by economic shifts in the APAC region and a series of large-scale natural disasters in the region.

Survey Participants
DHL Logistics
Menlo Logistics
Penske Logistics
UPS Supply Chain Solutions
UTi Integrated Logistics
Understanding the perspectives of these individuals on contemporary issues in the 3PL industry is important not only to their peers as they develop market strategies, but also to those using or considering the use of 3PL services, and those conducting research into the 3PL industry. The purpose of the research discussed below is to provide insight into those perspectives.

**METHODOLOGY**

This paper is based on a mid-2014 survey of the CEOs of 10 of the largest 3PLs serving Europe. The survey focused on the state of the APAC marketplace for 3PL services at that time. As noted earlier, this was the twenty-first annual iteration of this survey. The authors also conducted similar annual surveys of 3PL CEOs in North America and Europe.

Each company’s CEO was contacted by e-mail and asked to participate in a web-based survey. An initial target group of ten of the largest 3PLs in the region was contacted, but only five CEOs subsequently completed the survey online. The companies that participated in the 2014 APAC survey are shown in Exhibit 1.

**FINANCIAL STATE OF HEALTH**

_*Revenues and Profitability_*

The CEOs were asked about the success of their companies in meeting their APAC revenue growth projections during 2013, and all five responded to the question. One company exceeded its projections, two met their projections, and two reported their companies failed to meet their projections. The responses to the same question in our 2013 survey were also mixed, with two exceeding their projections, three meeting them, and four failing to meet them.

The CEOs were next asked to categorize the profitability of their companies’ APAC business units during 2013. Four said marginally profitable and one said marginally unprofitable. CEO views were also solicited concerning the profitability of the APAC 3PL industry as a whole in 2013. In response, four categorized the regional 3PL industry as marginally profitable for the year and one categorized it as break even in 2013. In aggregate, these responses were more positive than responses to the same question in our 2013 APAC survey.
MERGERS AND ACQUISITIONS (M/A)

While the global 3PL industry has undergone a major consolidation movement in the past decade, the pace of that movement slowed considerably in the APAC region over the past several years. In fact, none of the companies involved in the 2014 survey reported their companies made any acquisitions during 2013. Similarly, in our 2013 survey only one of nine CEOs reported any acquisitions during the previous year.

In the 2014 survey (conducted mid-year) the CEOs were asked why M/A activity continued to lag. Their responses focused on two issues. First, there was consensus that it is difficult to find quality acquisition candidates in the region, and second, if an attractive candidate is found, it is unrealistically priced. It was also noted that many potential candidates are small- to mid-size companies that are purely domestic operators that generally don’t meet international standards in terms of operations and compliance. One CEO also suggested that the larger 3PLs in the market can keep up with market growth organically, and another observed that there have been relatively few instances of successful integration of acquisitions into the acquiring 3PLs in the region.

While there has been relatively little M/A activity in the region during the past several years, three of the executives indicated they believed that activity would accelerate during the next three years. It should be noted that in the months following our three regional surveys, 3PL M/A activity increased significantly in both the North American and European markets. Four major acquisitions involving large global European 3PLs were announced. In July 2014 Norbert Dentressangle, a large French transportation and logistics service company, acquired Jacobson Companies, a U.S.-based value-added warehousing company, for $750 million from private equity company Oak Hill Capital Partners. (1) Then, in October 2014 Korean-based Kintetsu acquired APL Logistics from NOL. (2) The acquisition spree continued in February 2015 when FedEx announced it had acquired GENCO, a U.S.-based 3PL with a strong market niche in reverse logistics. (3) Another potential FedEx acquisition was announced in April 2015 when it agreed to acquire the European company TNT Express for $4.8 billion. (4) It should be noted that UPS had attempted to acquire TNT in 2013 and was rebuffed by the European Union. At the time of this writing, the FedEx acquisition of TNT had not yet been approved by the EU.

Now that the long-predicted M/A movement has accelerated in other regions, it will be quite interesting to see if that pattern is repeated in the APAC region. Such behavior has often been seen in other industries where “defensive” acquisitions follow the first wave of mergers and acquisitions.
CHINA AND SHIFTS IN MANUFACTURING

After decades of double-digit growth in GDP, China’s growth rate has declined significantly over the past few years, with recent forecasts suggesting a growth rate of approximately 7 percent in 2015. While that growth rate is still rather robust, and is related to a much larger industrial base, many question the impact that the slower growth rate will have not only on manufacturing and sourcing in China, but also on the service sector, including the 3PL industry. The 3PL CEOs who participated in the APAC survey were asked if the slower economic growth rate had impacted their companies’ strategies and operations in China, and interestingly, none said that it had.

However, as we have documented in our two previous surveys, the focus of some large 3PLs in China has shifted as domestic consumption has increased, and some manufacturing has left China due to a variety of factors including rapidly escalating salaries and benefits, rising resource costs, and the increasing interest of many companies in shortening their supply chains to North America and Europe. While many foreign 3PLs entered China primarily to support import/export activities, an increasing part of their business is now related to domestic distribution and consumption. In fact, on average these five companies reported that 58 percent of their revenue base in China is now related to domestic distribution and consumption, and 42 percent comes from supporting import/export business.

For five years we have been asking the CEOs involved in our annual APAC surveys if any of their key customers were discussing the possibility of moving some of the manufacturing and sourcing activities they had established in China to other countries. Initially, the 3PLs reported that many of their key customers were simply discussing that possibility. Now, three CEOs have reported that some of their American and European customers have actually moved some of those activities to other countries. While many American companies are participating in the near-shoring movement and relocating activities to Mexico, other American and European companies have moved operations from China to Singapore, Malaysia, Vietnam, Thailand and, to a lesser extent, India. Among the industries that have been most extensively involved in this out-migration movement have been automotive, retail, high tech, fast-moving consumer goods, and packaging companies, particularly those companies serving high-tech clients. It is interesting to note that two 3PLs reported their companies had followed customers from China to other APAC countries, and one indicated that it had involved a significant redeployment of capital by his company.
OPERATIONS IN THAILAND AND VIETNAM

The growth of manufacturing activities in both Thailand and Vietnam has attracted some large 3PLs to those markets. In fact, all five companies involved in this year’s APAC survey currently operate in Thailand.

When asked which industries currently provide most of their business in Thailand, four mentioned automotive, three cited consumer goods, and high tech and retail were each mentioned once. The CEOs were next asked what the major opportunities for 3PLs in Thailand were, and they were most bullish on potential business in the industries mentioned above, with significant growth possibilities in high tech, pharmaceuticals, agribusiness, and ground transportation. However, that optimism was tempered by their responses concerning the major risks and problems related to providing logistics services in Thailand. All five expressed concerns about the political instability of the country, particularly in the aftermath of the recent military coup, and three indicated it is a very tight market for managerial talent, with high employee turnover. Those comments seem to reflect a sentiment that, at this point, it would be hard for these 3PLs to make Thailand an APAC priority due to those elements of instability. Despite those concerns, only one CEO reported any impact of that unrest on any of its key customers in Thailand.

Three 3PLs reported operations in Vietnam and identified a number of opportunities for their companies in that country. They included: offering ground transportation for movement of freight from one end of the country to the other; providing services to the hypermarket chains that have been expanding their operations from neighboring Thailand; supporting manufacturing operations in such areas as vendor-managed inventory (VMI), lean logistics and supplier management; offering import/export management; and providing international freight services by air and ocean.

In response to questions concerning the risks and problems 3PLs might encounter in Vietnam, infrastructure, fraud and corruption were each mentioned twice, and complex government regulations, restrictions on trucking operations by foreign companies, a shortage of English-speaking supply chain talent, and compliance issues were each mentioned once. Despite recent political unrest and labor strikes in Vietnam, none of the 3PLs cited any significant impact on their key customers in the country. All factors considered, one CEO indicated his company was in the process of deciding if Vietnam would be a focus development country for his company in 2015.
ENVIRONMENTAL SUSTAINABILITY

For the past seven years our three annual regional surveys have tracked the environmental sustainability activities of 3PLs. The survey results have established that these companies have made major commitments to improve their carbon footprints and have also assisted many of their customers in pursuing similar goals. Those surveys have traced their specific programs and the impact of those programs on those 3PLs and the environment. (5)

Many APAC 3PLs already have rather robust sustainability programs, and in this year’s survey two companies reported expanding the scope of those programs during the past year. The same number indicated their companies had launched new sustainability programs in the past year. One of the more interesting new initiatives reported was that of a company being a founding member of Green Freight Asia, a nonprofit association of private sector companies that aims to reduce freight emissions. Three respondents also reported their companies planned to launch new environmental sustainability initiatives within the next year.

3PL SUPPORT OF E-COMMERCE ACTIVITIES

The CEOs involved in this year’s APAC survey acknowledged significant opportunities for their companies in supporting the e-commerce activities of current and potential customers. Many of their companies had made major commitments to supporting early e-commerce customers prior to the crash of that sector in the early 2000s and had taken substantial losses related to that collapse. However, e-commerce has not only stabilized but also grown dramatically in the ensuing years and that has again attracted the interest of many large 3PLs. Reflecting this development, four of the five CEOs reported their companies support e-commerce activities for some customers in the region. However, while many 3PLs established separate business units focused on e-commerce more than a decade ago, only one respondent reported that his company still has such a dedicated unit.

When the executives were asked what services their companies most frequently provide to support e-commerce activities, they gave a rather extensive list including the following: warehousing, transportation between distribution centers, fulfillment, managing orders and deliveries, B2C small package delivery, and specific services tailored to the needs of drug and apparel stores. On average, supporting e-commerce activities accounted for 3.25 percent of the revenue base of these companies, with B2B producing the dominant revenue share, and they projected that percentage would grow to an average of 14.5 percent within three years.
The APAC CEOs were also asked to identify the major 3PL opportunities they saw in e-commerce and their responses included the following activities: distribution and fulfillment, e-store management, warehousing services, logistics technology solutions, supply chain design, backroom activity support, and financial services. While the CEOs were generally very optimistic about the opportunities for 3PLs in supporting e-commerce activities, they also acknowledged there are a variety of risks and problems that come with that territory. Their concerns were:

- E-commerce customers are usually small companies with a high risk profile
- E-fulfillment tends to be rather capital intensive
- It’s difficult to provide consistent service levels during peak seasons
- Services to remote locations are costly and inefficient
- In the APAC region the size and scope of most 3PLs makes it difficult for them to support B2C throughout Asia
- There are large companies with huge sums of capital entering the market (i.e., Alibaba and the Rookie Network in China), and there are large capitalized state-owned monopolies that may also emerge as competitors

AMAZON

It has become increasingly common to discuss the “Amazon Effect” on the field of supply chain management. Because of Amazon’s moves into fields ranging from diapers to drones, there are wide-ranging views on its impact. (6) To attempt to further frame that discussion we decided to include a number of questions in our 2014 surveys to solicit the opinions of the 3PL CEOs not only on the impact of Amazon on supply chain management, but also its current and potential impact on the 3PL industry.

Amazon’s Impact on Supply Chain Management

Not surprisingly, in expressing their views the respondents identified a number of ways in which they believed Amazon has already impacted supply chain management. Among their observations were:

- Amazon’s focus on same-day shipping has resulted in much higher customer service level expectations
- Amazon’s expansion has dramatically increased the demand for e-fulfillment services that did not exist as recently as a decade ago in Asia
• Its success has led to proliferation of other online stores
• It has succeeded in bringing all of its resources together under one platform
• It is driving 3PLs to develop short- and long-term plans to support online retailers with B2C and B2B solutions
• At this point, Amazon has little presence in China. It was only granted access in August 2014 through the Shanghai Free Trade Zone. Amazon faces formidable competition from Alibaba, the Rookie Network and their alliance partners in China

There is also no question that Amazon has played a major role in increasing customer service level expectations around the world without requiring customers to pay the true costs of providing those service levels. Also, the surge levels created by Amazon’s sales have not only placed significant pressures on their service providers to devote more resources to serving its peak demands, but also have effectively reduced the capacity available to other shippers during those surges.

Amazon and the 3PL Industry
The CEOs were also asked several questions concerning the existing and potential impact of Amazon on the APAC 3PL industry. All five reported their companies have provided logistics services to Amazon in the APAC region including distribution, value-added warehousing, transportation, and import/export services.

While only one CEO indicated his company competes with Amazon in the region (and he considers Amazon to be a 3PL), three identified Amazon as a potential competitor. Concerns were expressed that not only might Amazon spin off its logistics function into an independent 3PL serving other retailers, but also that Amazon and other e-commerce companies might set up collective service networks that could take market share away from 3PLs that currently support B2B and B2C customers.
CURRENT INDUSTRY ENVIRONMENT

Industry Dynamics
In each annual APAC survey the CEOs are asked to identify the most important industry dynamics affecting the regional 3PL marketplace. The dynamics most frequently mentioned this year included:

- The continued economic growth of the region
- Ongoing infrastructure problems in the less-developed countries in the region
- Political instability in the region
- Regional growth of e-commerce
- More intense competition with “local” logistics service providers
- Rising labor costs in the region and competition for scarce logistics talent
- More customers in the region considering re-shoring some of their manufacturing and sourcing activities to points outside the region

Industry Opportunities
Those surveyed were similarly asked to identify what they believed to be the most important opportunities for growth in the APAC market for 3PL services. As is typically the case in our annual surveys, the CEOs identified a wide range of opportunities. Predominant among those were support for e-commerce, particularly in handling fulfillment services; provision of one-stop logistics solutions for customers; offering lead logistics provider services; value-added warehousing; bringing new logistics concepts to customers in the region; and offering technology solutions to customers.
Industry Challenges
Each year the CEOs are also asked to identify the most significant challenges facing 3PLs in the APAC region, and once again they responded with a rather extensive list of concerns. Predominant among them were:

- The lack of quality infrastructure in emerging markets
- Political instability in many of the emerging markets
- Fragmentation of the regional market with too many players
- Depressed margins don’t support investments for long-term regional growth
- A real shortage of skilled employees at all levels
- Steadily increasing labor costs

Most Significant Development in the APAC 3PL Industry in Past Year
When asked to identify the most significant development in the APAC 3PL market during the past year, CEO responses covered a broad range of topics, including the following:

- The demand for supply chain visibility increased
- Global economic problems continued to pressure companies in the region to seek lower-cost logistics networks
- The 3PL industry seems to have found a firmer footing in the region with some players recapitalizing or receiving new funding
- The worries about a significant regional economic slowdown have not materialized, and large 3PLs have continued to invest to position themselves for future regional growth
- Infrastructure issues continued to cause problems for logistics service providers, particularly in meeting service commitments
**Major Changes Expected During the Next Year**

The CEOs were asked what major changes they expected to take place in the APAC 3PL industry during the next year. The potential changes included the following:

- Further consolidation of the regional 3PL industry
- Several strong Asian 3PLs appear to have the resources and appetite for acquisitions
- 3PLs lacking resources to acquire companies will attempt to expand through alliances with other 3PLs and transportation companies
- Without additional financial support, many of the smaller players will fail

**ESTIMATED COMPANY AND INDUSTRY REVENUE GROWTH RATES**

Finally, the APAC CEOs were asked to estimate the rates of annual company and industry revenue growth in the region for the one- and three-year periods, and all five CEOs provided estimates. The average company revenue growth projection for next year (2015) rebounded to 15 percent from 9 percent in our 2013 survey. The projected three-year company revenue growth average of 16.2 percent was also higher than the 11.6 percent in 2013. Once again, as we have observed in previous surveys, the estimates varied significantly from company to company, with one-year company projections ranging from 5 to 30 percent, and three-year projections ranging from 5 to 35 percent.

CEO projections of the APAC 3PL industry revenue growth over the next year averaged 7.6 percent (8.57 percent last year) and the three-year industry projections averaged 10.4 percent (8.0 percent last year). The range of regional industry projections in the 2014 survey was 5 to 12 percent for the one-year projections and 5 to 20 percent for the three-year projections.

While these numbers are interesting, caution should be used in any attempt to project these estimates to the broader industry because of the limited number of companies that participated in our 2014 survey in the APAC region.

**SUMMARY AND IMPLICATIONS**

This paper discussed the results of a 2014 survey of the CEOs of five large 3PLs operating in the APAC marketplace. Collectively, the executives were considerably
more bullish about company revenue growth projections than their counterparts were in last year’s APAC survey. This year the average one-year revenue growth projection was 15 percent and the three-year average was 16.2 percent. Their revenue growth projections for the regional 3PL industry were much lower. However, as noted earlier in this paper, these projections should be viewed with caution due to the limited number of companies that participated in this year’s APAC survey.

While 3PL merger and acquisition in the region has been very limited over the last several years, a new wave of acquisitions has emerged in the global 3PL marketplace, primarily involving North American and European 3PLs. Based upon past experience, that trend often leads to a series of defensive acquisitions, and that may emerge in the APAC region.

The APAC region is experiencing significant economic changes. The growth rate of GDP in China has fallen from years of double-digit growth to a forecast of 7 percent in 2015. While that is still a very robust growth rate, there are concerns that the decline will continue as government spending programs decline and other issues like the movement of some manufacturing and sourcing activities from China to other emerging Asian economies and Mexico reduce the industrial base. This is leading some 3PLs to rethink the extent of their involvement in China while considering expansion of their operations is countries such as Vietnam and Thailand. While there are significant opportunities in such areas, they have also been troubled with political instability and inadequate infrastructure.

The CEOs involved in this year’s APAC survey identified a number of opportunities in the region, with most targeting expansion of services to support the regional growth of e-commerce. However, they also acknowledged the possibility of intense competition for B2B and B2C business from not only Amazon but also Alibaba, the Rookie Network in China and their alliance partners. Such companies already offer services that mirror those of many 3PLs and if they decide to expand more aggressively into those areas, they could do real damage to 3PLs. Again, based upon past experience, those companies often engage in intense price competition with their prices having little relationship to costs.

The market for 3PL services in the APAC marketplace continues to grow and become more sophisticated. Large North American and European 3PLs now also face more significant competition from “local” 3PLs. Some of them have now achieved scale and broader market coverage, and as they have done so they have become more formidable competitors.
References