PENSKE

Rental
Leasing
Logistics

2014 3PL CEO STUDY

EUROPE

3PL CEO PERSPECTIVES ON THE CURRENT STATUS AND FUTURE PROSPECTS OF THE EUROPEAN THIRD-PARTY LOGISTICS INDUSTRY: THE 2014 SURVEY

3PL CEO Perspectives on the Current Status and Future Prospects of the European Third-Party Logistics Industry: The 2014 Survey

Dr. Robert C. Lieb
Professor of Supply Chain Management
D'Amore-McKim School of Business Northeastern University
Boston, MA

Dr. Kristin Lieb
Associate Professor of Marketing Communications
Emerson College
Boston, MA

April 5, 2015

Robert C. Lieb

Dr. Robert C. Lieb is a professor of supply chain management at Northeastern University, where he established both the undergraduate and graduate programs in supply chain management within the D'Amore-McKim School of Business.

He has been a visiting professor at three French universities and has written extensively in the fields of supply chain management, logistics and transportation policies. Each year Professor Lieb conducts four studies based on CEO surveys worldwide. These studies have been cited in The Wall Street Journal, Business Week and Financial Times, among other publications.

He is a member of the editorial boards for The Transportation Journal, the Supply Chain Management Review and the International Journal of Logistics: Research and Applications.

Dr. Lieb earned a BS degree from Duquesne University, an MBA from University of Maryland and a DBA in Transportation and Logistics from University of Maryland.

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

Survey Participants

Agility Logistics
DHL Logistics
Menlo Logistics
Neovia
Penske Logistics
Rhenus Logistics
UPS Supply Chain Solutions
UTi Integrated Logistics

This research is based upon a 2014 survey of the CEOs of eight of the largest third-party logistics (3PL) companies serving the European marketplace. The survey marks the 21st 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 Europe on the market for 3PL services; 3PL actions with respect to environmental sustainability issues; Amazon's impact on supply chain management in Europe and the 3PL industry; the growing interest of some 3PLs in supporting e-commerce clients; and the impact of Russia's incursion into Crimea on 3PLs in the region. The CEOs also were asked to provide one- and three-year forecasts of company and regional 3PL industry revenue growth, while 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 to not only reduce operating costs and improve service levels but also, in many cases, 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 continuing economic problems in Europe, military conflicts around the globe, economic sanctions against Russia, and a series of large-scale natural disasters, particularly in the Asia-Pacific region.

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 European marketplace for 3PL services at that time. As noted earlier, this was the 21st annual iteration of this survey. The authors also conduct similar annual surveys of 3PL CEOs in North America and the Asia-Pacific region.

The CEO of each company included in the survey was contacted by email and asked to participate in a web-based survey. An initial target group of 10 of the largest 3PLs in Europe was contacted, and eight CEOs subsequently completed the survey online.

The companies that participated in the 2014 European survey are shown in Exhibit 1.

FINANCIAL STATE OF HEALTH

Revenues and Profitability

Seven companies reported revenue data in responding to the survey. Collectively, these companies generated approximately $24 billion in European revenues during 2013 which represents approximately 15 percent of the estimated $158 billion revenue base of the region's entire 3PL industry. (1)

All seven participants categorized the regional 3PL industry as *marginally profitable* for the year.

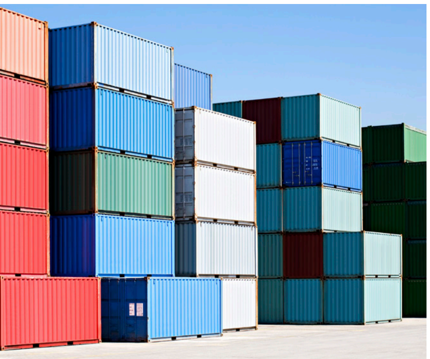
The CEOs were asked about the success of their companies in meeting their European revenue growth projections during 2013, and all seven responded to the question. Only one CEO (14 percent) reported his company exceeded those projections for the year, four (57 percent) indicated they met their projections, and two (29 percent) reported their companies failed to meet their projections. Those results were substantially better than those reported in our 2013 European 3PL survey in which six of the nine companies involved reported they had failed to meet their revenue growth projections in 2012.

The CEOs were next asked to categorize the profitability of their companies' European business units during 2013. Four (57 percent) said *marginally profitable*, one (14 percent) reported his company *broke even* for the year, and two (29 percent) reported their companies were *marginally unprofitable*. CEO views were also solicited concerning the profitability of the European 3PL industry as a whole in 2013. All seven categorized the regional 3PL industry as *marginally profitable* for the year. Once again, these results were better than those recorded in our 2013 survey in which three of the 10 companies believed the European 3PL industry had been in a *break even* posture in 2012 and one categorized the industry as *moderately unprofitable*.

While this year's financial results are encouraging, the executives were unanimous in the view that the European 3PL industry had not yet rebounded significantly from the region's economic woes over the past year. When asked if there were particular countries that were showing significant growth, three CEOs mentioned Eastern Europe, particularly the Czech Republic and Poland; Germany, England and Turkey were each mentioned twice; and the Nordics, Belgium and the Netherlands were each mentioned once. According to the respondents, several industries that were showing increasing demand for 3PL services were: automotive and health care/life sciences, each mentioned four times, and e-commerce/retail, each mentioned by three executives.

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 Europe over the past several years. In fact, only one of the eight companies involved in the 2014 survey reported their companies made one or more acquisitions during 2013. Similar results were reported in the 2013, 2012 and 2011 European surveys.



Only one of the eight companies involved in the 2014 survey reported their companies made one or more acquisitions during 2013.

In the 2014 survey (conducted mid-year), the CEOs were asked why M/A activity continued to lag. Certain themes emerged in their answers. First, several mentioned the continuing economic challenges faced by 3PLs operating in Europe. Second, it was suggested that given the large scale already achieved by some 3PLs in Europe, those companies may have reached their limits in terms of scale economies. Third, companies that might have been viewed as attractive acquisition candidates were generally seen as being overpriced.

As a group, the 2014 respondents indicated they expected acquisitions to play a relatively modest role in company revenue growth over the next three years, with only two suggesting that their companies would seek any acquisitions over that period.

However, in the months following the survey, two major acquisitions involving European 3PLs were announced. In July, 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. (2) Then, in April 2015, FedEx announced it had agreed to acquire the European company TNT Express for $4.8 billion. (3) 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.

In the first instance, the primary motivation appears to have been the European company acquiring a significant base for North American operations. In the second, the acquisition of TNT Express would provide FedEx with a very extensive road delivery network in Europe.

Now that long-predicted M/A movement has accelerated, it will be quite interesting to see if other large European 3PLs follow suit, or if North American or Asian 3PLs would take advantage of the weakness of the Euro and move aggressively on acquiring European 3PLs. Such behavior has often been seen in other industries where "defensive" acquisitions follow the first wave of mergers and acquisitions.

SHIFTS IN MANUFACTURING: NEARSHORING

Many manufacturers have reconsidered locations due to substantial increases in labor and material costs in China.

Over the past several years a number of factors have led many manufacturers who had followed cheap labor offshore, most commonly to China, to reconsider those location decisions. Among the factors that led to that reassessment were substantial increases in labor and material costs in China, rising transportation costs in ocean and air transportation, and major supply chain disruptions in the Asia-Pacific area due to several natural disasters. Our three annual regional 3PL surveys have been addressing that possibility for the past five years. While the data generated in our 2014 North American survey clearly indicated that movement is accelerating with some key 3PL customers beginning to move sourcing and manufacturing activities from China to Mexico, the data generated in the 2014 European survey indicates that trend has not really gained much traction in Europe, at least for the key customers of the 3PLs involved in the survey. Only one of the eight CEOs indicated that any of their key customers have moved any of those activities from China back toward Europe. However, three of the eight indicated they believed that trend is likely to accelerate in the mid- to long-term.

Some companies believed Russia offered important opportunities in both the healthcare and retail industries, and in provision of warehousing services.

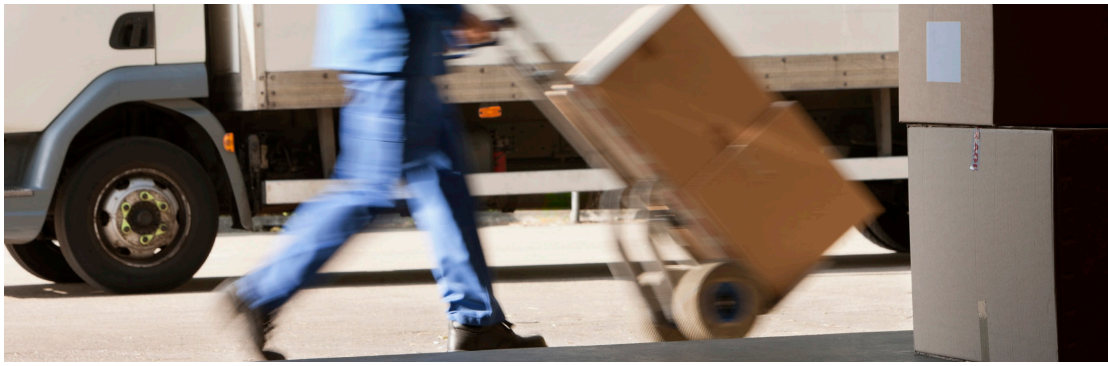
OPERATIONS IN RUSSIA

Russia's incursion into Crimea has led not only to military conflict in the region, but also to a broad range of economic sanctions against Russia. In recognition of this development we decided to include several related questions in the 2014 European survey. Five companies reported that they provide 3PL services in Russia. They were asked what they believed to be the major opportunities for 3PLs in Russia and they responded in both general and specific terms. Generally, they believed there were opportunities related to Russia's large population, the internal growth of consumption, its "immature" 3PL market, and that market's need for greater service reliability. More specifically, they believed there were important opportunities in both the healthcare and retail industries, and in provision of warehousing services. However, they also noted major problems and risks associated with providing 3PL services in Russia. Three mentioned the uncertain political environment, two cited the prevailing business culture and corruption, one mentioned that the availability of good property is a continuing problem, and long-standing problems with customs were also highlighted noting that barriers to entry are high, and delays for Western products going into Russia are frequent.

ENVIRONMENTAL SUSTAINABILITY

For the past seven years our three annual 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 provided assistance to 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. (4)

While many of the European 3PLs already have rather robust sustainability programs, in this year's survey three companies reported expanding the scope of them during the past year. Among the steps reported were: expansion of programs offering sustainability measurement tools to customers, investment in larger electric vehicle fleets, and installation of LED lighting in all company offices. In addition, two companies initiated new sustainability programs during the year, and one reported plans to launch new sustainability programs next year. It should be noted that the expansion of existing sustainability programs, the initiation of new programs, and plans for the future are quiet modes compared to previous years. That has undoubtedly been influenced by the continuing slow growth of the European economies and its impact on 3PL profitability.



3PL SUPPORT OF E-COMMERCE ACTIVITIES

Many of the CEOs involved in this year's European survey saw tremendous 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 3PL. Reflecting this development six of the eight CEOs reported their companies support e-commerce activities for some customers. However, while many 3PLs established separate business units focused on e-commerce more than a decade ago, only one of our respondents reported still having such dedicated units.

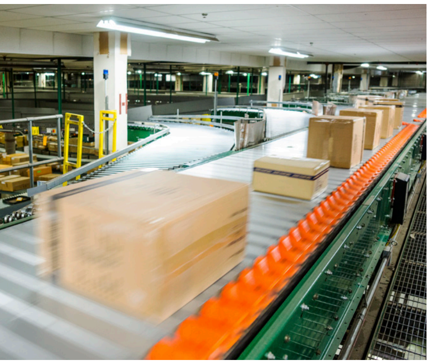
When the executives were asked what services their companies most frequently provide to support e-commerce activities, they gave a rather extensive list including the following: warehousing; fulfillment services; pick and pack services; order preparation; sorting; returns management; B2C deliveries; transportation services; front-end web support; inbound product management; delivery to lock boxes and pack stations near customer homes; and last mile delivery services. On average, these e-commerce services comprised 4.5% of the revenue base of the 3PLs and that was projected to increase to an average of 12% in three years. At this point, by far the majority of those revenues are generated servicing B2B accounts.

The European CEOs were asked to identify the major 3PL opportunities they saw in e-commerce and their responses included the following activities: provision of multi-client warehousing services; multi-channel management; consulting services; last mile delivery services; value added services; order management; management of funds and information; and the ability to provide scale for smaller companies or start up operations.

While many CEOs were 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. These included:

- Risks associated with servicing start-ups — failures
- The unpredictability of the market and its seasonality
- 3PLs might have to make significant investments to support e-commerce
- It involves competition with integrators and express companies
- Compliance with related laws and regulations that vary widely across Europe
- Competition with Amazon that makes money from a broad range of services including promoting and selling products rather than just providing logistics support

AMAZON



Amazon has increased customer service level expectations, particularly with respect to same day shipping and free home delivery.

It has become increasing 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 about its impact. (5) 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 has increased customer service level expectations, particularly with respect to same day shipping and free home delivery
- As it has grown it has dramatically increased the demand for on-line fulfillment activities

- It has put pressure on cost-to-serve and often shifted transportation to postal services
- It has led many 3PLs to shift their attention away from servicing e-commerce accounts toward other opportunities in such areas as healthcare, automotive, and high tech
- Amazon has impacted real estate and labor markets when it opens new facilities
- It has become the obvious service provider for at least the smaller pure play retailers
- It has become a competitor for 3PLs, especially in the B2C market

There is also no question that Amazon has played a major role in increasing customer service level expectations 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 servings its peak demands, but also effectively reduced the capacity available to other shippers during those surges.

Amazon and the 3PL Industry

The CEOs were also asked to respond to several questions concerning the existing and potential impact of Amazon on the European 3PL industry. Three reported their companies have provided logistics services to Amazon including distribution, value added warehousing, transportation, and bulky good fulfillment. Seven of the eight indicated that Amazon had already impacted 3PLs in the region.

Most respondents indicated Amazon had already impacted 3PLs in the region.

Three respondents noted their companies currently compete with Amazon, primarily in providing an alternate channel to market for B2C customers, and supplying transportation services. Further, five see Amazon as a significant competitor for 3PLs in the future. The potential areas of competition cover a broad range of existing 3PL services including expanded B2C and B2B services, introduction of an Amazon fleet for same day deliveries, and areas such as order management, inventory management, delivery, and billing. Two raised questions about what Amazon's core competencies will be in the future, both suggesting that the infrastructure that Amazon has put in place with multiple warehouses and distribution centers looks more like a 3PL than a retailer.

CURRENT INDUSTRY ENVIRONMENT

Industry Dynamics

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

- The continued growth of e-commerce
- The stagnant European economy
- "Crisis countries" in Europe including Greece, Spain and Portugal
- Increasing globalization of customers and related demands
- Rising 3PL cost to serve in Europe
- Longer client decision cycles
- Customer demand for more flexible and shorter contract terms
- Slower growth in China impacting European manufacturers and 3PLs

Industry Opportunities

Those surveyed were similarly asked to identify what they believed to be the most important opportunities for growth in the European 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 increasing support for e-commerce activities, real opportunities to reduce costs for customers, expansion of value added services, opportunities related to possible expansion of European/African trade, cost reductions related to 3PL facility consolidations, and expansion of services to the health care/life sciences industry.

Predominant among the opportunities cited for growth in the European market for 3PL services was increasing support for e-commerce activities.

Industry Challenges

Each year the CEOs are also asked to identify the most significant challenges facing 3PLs in Europe. Not surprisingly, Europe's continuing economic problems were at the top of the list, followed by increasing competitive intensity, with price becoming more important. That combination has tended to reduce profitability in the low growth market, and that is particularly challenging as 3PL labor costs rise and customers feel more pressure to reduce their costs. To compete effectively on a non-price basis the companies also are challenged to differentiate themselves and their service offerings in the marketplace. Interestingly, while capacity shortages were identified as a major challenge in the North American marketplace by many CEOs, only one European CEO cited that as a problem in Europe.

Most Significant Development in the APAC 3PL Industry in Past Year

When asked to identify the most significant development in the European 3PL industry during the past year, CEO responses covered a broad range of topics, including the following:

- The spectacular rise of e-commerce activities and its impact on customer expectations
- An increase of supplier alliances
- Greater customer emphasis on reducing stock levels, increased focus on flexibility
- Increased customer interest in eliminating private fleets
- New security regulations/requirements
- Growing commoditization of 3PL services in Europe with less customer appreciation for value added services
- Increased pressure on 3PLs to become more agile

Major Changes Expected During the Next Year

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

- Further consolidation of the 3PL industry
- Emergence of more consistency in global 3PL service offerings
- Supplier alliances will become more common
- 3PLs will face more pressure to become closer to customer/suppliers
- Increased 3PL investment in technology linking WMS and TMS systems
- Some customers will take some logistics activities that had been outsourced back into their organizations

Among the major changes expected during the coming year are increased 3PL investment in technology linking WMS and TMS systems, and further consolidation of the 3PL industry.

ESTIMATED COMPANY AND INDUSTRY REVENUE GROWTH RATES

Finally, the European CEOs were asked to estimate the rates of annual company and industry revenue growth for the one- and three-year periods, and seven of the eight CEOs provided estimates. The average company revenue growth projection for the next year, which is 2015, was somewhat higher than the previous year's projection at 7.71 percent versus 6.38 percent in 2013; however, the projected three-year company revenue growth average was substantially lower than the previous year at 8.33 percent versus 10.25 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 2 to 15 percent, and three-year projections ranging from 4 to 20 percent.

The projected three-year company revenue growth average was substantially lower than the previous year at 8.33 percent versus 10.25 percent in last year's survey.

CEO projections of the European 3PL industry revenue growth over the next year averaged 4.0 percent and the three-year industry projections averaged 4.17 percent. While the one-year projection was very close to the 4.13 percent projection of 2013, the three-year projection was down substantially from the 5.88 percent projection in 2013. The range of regional industry projections in the 2014 survey was 2-7 percent for both time frames.

SUMMARY AND IMPLICATIONS

This paper discussed the results of a 2014 survey of the CEOs of eight of the largest 3PLs operating in the European marketplace. Collectively those companies generated approximately $24 billion in European 3PL revenues during 2013. Two companies involved in the survey reported being unprofitable in 2013.

While CEO projections of one-year revenue growth for their companies and the European 3PL industry were quite similar to those generated in our 2013 survey, their three-year projections for both their companies and the European 3PL industry were down substantially from last year. None of the CEOs believe the European 3PL marketplace had rebounded significantly during the past year, and their companies were still challenged by the slow growth of the European economy and an intensively competitive marketplace in which it is hard to differentiate their service offerings from those of not only their traditional competitors, but also of Amazon.

While merger and acquisition activity within the European 3PL industry had slowed during the economic crisis, the pace of that activity has recently increased and if past history is any indication, this may well lead to a series of defensive acquisitions. The weakness of the Euro may also make some European 3PLs look much more attractive to foreign 3PLs that had viewed them as overpriced.

It is very likely that Amazon's presence in areas such as the B2B space will increase over time as will the related competitive pressure on 3PLs.

Amazon has clearly impacted the global market for 3PL services by raising customer service level expectations and moving into areas such as the B2B space that provided an important revenue source for many 3PLs. It is very likely that Amazon's presence in such markets will increase over time as will the related competitive pressure on 3PLs. On the positive side, the growth of e-commerce is likely to be substantial enough to provide real opportunities for 3PLs in Europe as will the possible provision of shared services for customers and potential growth in Eastern Europe. However, the European 3PL industry is still in a slow-growth mode that will only change with the recovery of the "challenged" economies of the European Union.

References

1. Armstrong and Associates, Global Market Size Estimates, 2014, Madison, WI.
2. Jeff Berman, "Norbert Dentressangle acquires Jacobson Companies," Logistics Management, July 31, 2014 (web).
3. Chad Bray, "FedEx Agrees to Acquire TNT Express in $4.8 Billion Deal," The New York Times, April 7, 2015 (online edition).
4. Robert Lieb and Kristin Lieb, "Environmental Sustainability in the Third Party Logistics Industry," International Journal of Physical Distribution and Logistics Management, 40(7), 2010, 524-533.
5. Robert Lieb and Kristin Lieb, "Is Amazon a 3PL?" Supply Chain Quarterly, Q3/2014, 26-30.