

# EXECUTIVE SUMMARY

2012 Third-Party Logistics Study  
The State of Logistics Outsourcing

*Results and Findings of the 16th Annual Study*



# Executive Summary

This report presents findings of the *2012 16th Annual Third-Party Logistics Study*, based on research conducted in mid-2011. In addition to documenting the ongoing evolution of the third-party logistics market, this year's report also takes a close-up look at three special topics:

- The logistics of operating in emerging markets
- The unique challenges facing the electronics supply chain
- For the first time in the study's history, the report considers the implications of talent in the supply chain and in shipper-3PL relationships

Effective with this report, we are branding each *Annual 3PL Study* in terms of its first full year of circulation following the report's annual October release. Therefore, this report constitutes the *2012 3PL Study*.

## Current State of the Market

Survey responses from 1,561 industry executives and managers representing users and non-users of 3PL services, as well as responses from 697 3PL executives and managers, confirm that 3PLs continue to provide strategic and operational value, provide new and innovative ways to improve logistics effectiveness and are key contributors to shippers' overall business success. Total logistics expenditures represent an average of 12% of shippers' sales revenues, and of this, an average 42% is devoted to outsourcing. Metrics relating to logistics cost reduction, inventory cost reduction, and logistics fixed asset reduction remain consistent with the two previous years' studies.

A majority of shipper respondents, 64%, are increasing their use of 3PL services, while 24% are returning to insourcing some 3PL services and 58% report they are reducing or consolidating the number of 3PLs they use. Logistics activities most frequently outsourced continue to include those that are more transactional, operational and repetitive, while those that are more strategic, customer-facing and IT-intensive tend to be less frequently outsourced. A similar phenomenon is present in expectations of 3PLs' IT capabilities; execution-oriented activities and processes such as transportation and warehouse/DC management-related IT capabilities are more in demand than those that are more strategic and analytical.

3PLs continue to rank their relationships with shippers a bit higher than shippers do, but the vast majority (88% of shippers and 94% of 3PLs) view their relationships as successful. Openness, transparency, and good communication as well as agility and flexibility contribute to this success. Interestingly, figures from this year's study suggest decreases in the use of gainsharing and collaboration.

## Emerging Markets

A substantial 80% of shippers and 77% of 3PLs in the survey conduct business with or within an emerging country — nations with economies that are experiencing rapid growth through industrialization. China, India, Brazil and Mexico are considered top emerging market opportunities by survey respondents.

Operational difficulties, including logistics challenges, threaten to erode the potential benefits associated with doing business with or within emerging markets. For shippers based in mature markets, difficult laws and regulations, cultural differences, the ability to deliver against promises or agreed-to service levels and complicated tax regimes top the list of challenges.

Brazil is representative of the risk/reward challenges that are posed by an emerging economy. Government investment in infrastructure, as well as tax reductions and participation in the Mercosur free trade agreement, have contributed to the fast growth that has attracted global manufacturers and 3PLs. But companies moving into Brazil face the very challenges shippers cite. Indeed, entering any new market requires due diligence; when it's an emerging market, it's even more critical. More than half of shippers based in both mature and emerging markets agree that a global 3PL coordinating with a local 3PL is the most successful operating model for 3PLs operating with or within an emerging market.

The 3PL capabilities shippers most value when entering emerging markets are visibility, expertise on the latest global trade regulations and managing and optimizing shipment routing based on free trade agreement (FTA) knowledge. Those participating in workshops supporting the study also added proactive consulting services, local insight and expertise and integrated solutions to that list. The majority of shippers in mature and emerging markets call 3PLs' knowledge of FTAs very important (65% and 73%, respectively).

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## Electronics

Electronics products can be highly popular, but along with enviable demand comes pressure to make products smaller, faster, cooler and at a lower price point. Hitting these targets demands a fast and nimble supply chain.

Increasing pressure to lower costs and manage material and suppliers more efficiently has triggered a preference among electronics companies for asset lightness, outsourcing both production and logistics, especially in emerging markets. Shippers call price pressure to reduce operating costs their top logistics challenge (59%), but electronics manufacturers also wrestle with other issues incurred by a long, thin supply chain, employing strategies such as postponement.

The electronics industry is notoriously disintegrated, with multiple players involved in the supply chain and a high rate of mergers and acquisitions. Further complicating matters, electronics companies sell into many vertical markets, each with its own unique needs. Multiple layers, supply constraints, mashed-together supply chains and the specific challenges of retail channels introduce cost, safety stock, forecast challenges and additional time into logistics processes. Another challenge is to design a common, cost-efficient infrastructure across supply chains.

Because electronics products are often high value, they pose challenges including assuring security, preventing counterfeit and packaging sufficiently to handle long-distance transportation. Short life-cycles combined with the challenges of accurately forecasting demand also mean inventory obsolescence is a significant problem, leading electronics companies to seek solutions such as on-line auctions.

Unfortunately, electronics shippers give low marks to 3PLs' ability to solve their top logistics challenges. The largest gaps occur on their highest priorities: for example, 59% regard price pressure to reduce operating costs as their top challenge, while just 28% believe 3PLs can help them with this challenge. 3PLs need to do a better job of selling the quality and value of their capabilities to electronics customers, and shippers need to be more open to collaborating with 3PLs to address their top challenges.

## Talent Management

Despite the supply chain's role as a significant contributor to attaining strategic business goals, the logistics industry is experiencing a shortage of capable and well-rounded supply chain managers prepared to step into key management positions. This can be overcome by developing programs for talent management — the vigorous, systematic process of connecting a clear, well-defined business strategy to the recruitment, retention and development of talent.

Many shippers and 3PLs are troubled by the current state of talent management within their organizations, with promotion and rotation practices and identifying and developing leaders the top concerns.

As supply chains grow more complex and intrinsic to a company's ability to attain its business goals, they require leaders who are more diverse and multi-faceted. A significant number of shippers and 3PLs feel their current leaders don't have what it takes to address future business challenges. Shippers and 3PLs most highly value operational execution (51% and 60%) followed by people management and development skills (54% and 43%) in their leaders.

Today's supply chain leaders have been required to grow well beyond their operations backgrounds, developing a broad range of competencies while on the job; shippers (37%) and 3PLs (39%) are most confident in the learning ability of today's leaders. Also important are leaders' ability to deduce, execute, conduct talent review processes and lead visionary change and organization buy-in. But few organizations have been indoctrinating these competencies into mid-management training and development, leading to the talent crisis.

The scarcity of supply chain talent presents a real challenge for many shippers and 3PLs. To date, the majority of both shippers and 3PLs recruit from inside their own industries, but a growing trend is to look for talent in adjacent industries. Company success and performance, attractive salary and benefits and personal development opportunities within the company are considered the top qualities needed to attract talent.

## Strategic Assessment

Constantly changing economic and political dynamics necessitate continual re-evaluation of supply chain directions. Inspired by the findings of this year's study, in this strategic assessment, the study team examines several trends spurring yet more change and innovation in the supply chain world.

The survey found shippers in developing regions exhibit a greater inclination to both outsource and insource logistics services than those in the more developed countries. While these results may seem to contradict one another, the underlying finding is that shippers in developing economies are more likely to make changes to their outsourcing strategies than those in more developed regions. Considering the increasing complexity of many supply chains, there is a strong argument that shippers should be looking carefully at bolstering logistics capabilities via 3PLs and 4PLs.

A growing number of companies aspire to manage this complexity via supply chain control towers, a central repository for all event data, and several 4PLs offer this service. A well-designed supply chain control tower enables a company to measure and control the effectiveness of the supply chain in terms of agility, resilience, reliability and responsiveness. This trend can be viewed as a positive method of managing overall supply chain activities and processes, but 3PL and shipper must collaborate to prevent duplication of efforts and undue added costs.

Nearshoring is another sign of constantly changing global dynamics. Companies have moved production to emerging markets in pursuit of lower costs, but that decision sometimes changed conditions in those very markets. This challenges companies to reconsider the overall economics and in some cases return to nearshoring.

Like other industries, the supply chain industry is in the early stages of working out how to best leverage social media for tasks such as collaboration, enhancing forecasting and locating talent, to enhance day-to-day business functions while minimizing the risks. Though social media was not included as a topic during this year's survey, a significant number of respondents and participants see the benefits of social media in the logistics world and question not whether social media will take off, but only when.

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