
2012 THIRD-PARTY LOGISTICS STUDY

The State of Logistics Outsourcing

Results and Findings of the 16th Annual Study



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Balance is the state of equilibrium — a continuous and sometimes evasive quest for supply chain executives — and the theme of this report. Whether they're exploring emerging markets, navigating the challenges of the electronics supply chain or in finding the right talent, attaining equal and satisfactory distribution of resources is an ongoing challenge.



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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).

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.



Balancing internal logistics competencies with external expertise

Current State of the 3PL Market

Shippers Reflect Continued Confidence with Use of 3PL Services

Results of the *2012 16th Annual Third-Party Logistics Study* once again reaffirmed that third-party logistics providers continue to provide strategic and operational value to many shippers across the globe. Shippers consider logistics and supply chain management as key contributors to their overall business success, and approximately three-quarters of survey respondents say 3PLs provide new and innovative ways to improve logistics effectiveness.

These results are based on survey responses from 1,561 industry executives and managers representing users and non-users of 3PL services (referred to as shippers or shipper respondents throughout this report), as well as 697 executives and managers representing firms that provide 3PL services (called 3PLs or 3PL respondents). 3PLs were added to the survey group in 2009 in order to capture both sides of the buyer-seller relationship. The number of usable survey responses continues to rise each year, with a significant increase for the *2012 Study*.

Please see About the Study on page 44 for detailed information about survey responses and the four streams of research used to fully analyze the state of the 3PL market: a web-based survey, desk research, focus interviews, and facilitated workshop sessions at Capgemini Accelerated Solutions Environment® (ASE) locations in Chicago, Illinois, and Utrecht, The Netherlands, and at the 2011 eyefortransport 3PL Summit in Atlanta, Georgia.

Current Global Economic Climate and Use of 3PLs

As acknowledged in our *Annual 3PL Studies* over the past two to three years, economic volatility and uncertainty have impacted global business markets and in turn, global markets for 3PL services. [Figure 1](#) includes data from Armstrong & Associates that estimates the magnitude of global 3PL revenues for 2010 (US \$541.6B), and provides breakdowns for the four major geographies that are included in the *2012 3PL Study*. Global 3PL revenues reported for 2010 represent an increase of 6.8% over those reported in 2009, confirming the general trend toward improving global business conditions. Focusing specifically on the US, 3PL revenues reported by Armstrong & Associates have increased from US \$107.1B in 2009 to US \$127.3B in 2010, and are expected to increase to US \$141.2B in 2011. Generally, these reflect the somewhat-improving global business environment and ongoing economic globalization.

The Competitive Starting Line Has Been Re-Set

The chief reason for conducting the *2012 3PL Study* is to update our knowledge of 3PL-shipper relationships, and to learn how both types of organizations are using these relationships to improve and enhance their businesses and supply chains. Many shippers are currently in search of new and innovative global supply chain strategies, suggesting new opportunities for 3PLs to make significant contributions to supply chain

Figure 1: Global 3PL Revenues for 2010

Region	2010 Global 3PL Revenues (US\$ billions)
North America	149.1
Europe	165.1
Asia-Pacific	157.6
Latin America	27.5
Other Regions	42.3
Total	541.6

Source: Armstrong & Associates, 2011

efficiency and effectiveness. Many shippers and 3PLs agree that today's business challenges represent some version of a "new normal," driving the need for both types of organizations to identify and implement new strategies for success. In effect, the starting line has been re-set, injecting a new, highly invigorated and highly competitive spirit into the logistics business environment.

"Today's 3PL marketplace is experiencing significant change. Established 3PLs are recalibrating their business models to provide greater value to their shipper-customers," noted one prominent 3PL industry observer. "At the same time, they are looking over their shoulders at emerging sources of competition and the new and innovative offerings they are bringing to market."

Spending on Logistics and 3PL Services

As seen in [Figure 2](#), shipper respondents to the *2012 3PL Study* report that total logistics expenditures represent an average of 12% of their companies' sales revenues. Total logistics expenditures include transportation, distribution, warehousing and value-added services. Regional differences range from 11% in each of three regions to Latin America's 14% of company sales revenues.

Shippers devote an average 42% of this total to outsourcing, the same as reported in last year's study. That suggests that in comparison with the previous year, average changes in expenditures for outsourced logistics have been proportional to changes in total logistics expenditures. The average percentages of logistics spending shippers devote to outsourcing by region

are also similar to last year. A new series of questions in the *2012 3PL Study* asked shippers to report the percentages of transportation and warehousing spend that are managed by third parties. As indicated in [Figure 2](#), the overall average for transportation was 56%, but the regional averages ranged from 41% in North America, to more than 60% for shippers in Europe, Asia-Pacific and Latin America. The average warehouse operations spend managed by third parties was 39%, with only modest variation by individual region.

Reported Changes in Use of 3PL Services

In recent years' studies, we began to ask shippers whether they were increasing their use of outsourced logistics services, or returning to insourcing many of them. The responses represent an interesting record of the shifting use of 3PL services:

- **Increasing use of 3PL services:** Nearly two-thirds (64%) of shipper respondents report an increase in their use of outsourced logistics services, and 76% of 3PL respondents agree this is what they are seeing from their customers. Regionally, 58% of North America shippers reported increased use, as well as 57% of European, 78% of Asia-Pacific and 73% of Latin American shippers.
- **Returning to insourcing:** Consistent with the churn that occurs each year with some companies increasing outsourcing and others bringing logistics activities back in-house, an average of 24% of shipper respondents are returning to insourcing some of their logistics activities, and 37% of 3PL respondents observe that some of their

customers are returning to insourcing logistics activities.

- **Reducing or consolidating the number of 3PLs used:** Slightly over one-half (58%) of shipper respondents are consolidating the number of 3PLs they use, and 72% of 3PLs feel that customers in general are reducing or consolidating the number of 3PLs they use. This general trend toward consolidation is consistent with contemporary trends in procurement and strategic sourcing.

Interestingly, the percentage of shippers increasing/decreasing their use of 3PL services is very close to the figures we reported in last year's study. So, again this year, there is strong evidence that the predominant direction among shippers is to move toward increased use of outsourced logistics services.

3PL-Shipper Relationships Continue to Progress and Improve

Similar to last year's study, 88% of shippers view their 3PL relationships as generally successful, compared with 94% of 3PL respondents. Shippers' ratings are consistent across regions: North America 89%; Europe 88%; Asia-Pacific 89%; and Latin America 87%.

Somewhat fewer shippers, 71%, indicate that 3PLs provide them with new and innovative ways to improve logistics effectiveness; 91% of 3PL providers feel that this statement accurately characterizes the services they provide. The gap continues between the ratings that shipper respondents assign to various aspects of the 3PL-shipper relationship and the more positive evaluations provided by the 3PL respondents themselves.

Figure 2: Outsourcing Spending Remains Consistent

Selected Information	All Regions	North America	Europe	Asia-Pacific	Latin America
Total Logistics Expenditures as a Percentage of Sales Revenues	12%	11%	11%	11%	14%
Percent of Total Logistics Expenditures Directed to Outsourcing	42	38	46	47	35
Percent of Transportation Spend Managed by Third Parties	56	41	66	61	66
Percent of Warehouse Operations Spend Managed by Third Parties	39	36	42	42	40

Figure 3: Shippers Continue to Experience Measurable Benefits From Use of 3PL Services

Results		All Regions
Logistics Cost Reduction (%)		13%
Inventory Cost Reduction (%)		9%
Logistics Fixed Asset Reduction (%)		25%
Order Fill Rate	Changed From	70%
	Changed To	79%
Order Accuracy	Changed From	80%
	Changed To	87%

Source: 2012 16th Annual Third-Party Logistics Study

Success Factors: According to the survey findings, the following are key ingredients to successful 3PL-shipper relationships:

- **Openness, transparency and good communication:** While 69% of shipper respondents are satisfied with the openness, transparency, and communication received from 3PLs, only 62% of 3PLs are satisfied with these characteristics in

their relationships with customers. So, apparently there is a need for both parties to consider the value that could be gained by being more willing to share appropriate information with their business partners.

- **Agility and flexibility to accommodate current and future business needs and challenges:** Nearly all (98%) 3PLs feel

that their customers expect them to be sufficiently agile and flexible to accommodate their (shippers') current and future business needs and challenges. But just 68% of shippers judge their 3PLs as sufficiently agile and flexible, down from 72% last year. This aspect of 3PL-customer relationships clearly needs improvement, and deserves careful watching.

- **Interest in "gainsharing" between 3PLs and shippers:** Gainsharing comes up frequently during our shipper workshops, and we are receiving mixed signals regarding this form of shipper-3PL collaboration. This year 56% of 3PL respondents and 42% of shippers (versus 56% last year), report engaging in gainsharing arrangements. While many shippers consider gainsharing to be a useful incentive for themselves and their 3PL providers to work toward agreed-upon objectives and in keeping with the principles of good collaboration, others seem to feel that the basic agreement with a 3PL should cover all areas where

Figure 4: Shippers Still Prioritize Execution-Oriented 3PL IT Capabilities

Information Technologies	Percentages Reported By	
	Shippers	3PL Providers
Transportation Management (Execution)	75%	79%
Transportation Management (Planning)	68	76
Warehouse/Distribution Center Management	67	79
Electronic Data Interchange (Orders, Advanced Shipment Notices, Invoicing)	66	78
Visibility (Order, Shipment, Inventory, etc.)	63	75
Web Portals for Booking, Order Tracking, Inventory Management, and Billing	55	68
Bar Coding	47	56
Customer Order Management	42	63
Transportation Sourcing	41	51
Global Trade Management Tool	37	37
Supply Chain Planning	31	54
Network Modeling and Optimization	25	42
Collaboration Tools (SharePoint, Lotus Notes, Video Conferencing, etc.)	25	38
Supply Chain Event Management	24	44
RFID	21	32
Advanced Analytics and Data Mining Tools	19	37
Yard Management	16	26

Source: 2012 16th Annual Third-Party Logistics Study

performance is expected, and that it is not necessary or appropriate to engage in gainsharing practices. Interest in gainsharing may be diminishing somewhat due to slight improvements in the global business economy. We plan to follow this closely in future studies.

– **Interest in collaborating with other companies, even competitors, to achieve logistics cost and service improvements:** When this question was asked last year for the first time, 68% of shipper respondents and 80% of 3PLs expressed interest in these strategies. This year these percentages dropped to 44% and 67%, respectively. So, while last year we stated it was “reassuring to see percentages that suggest a true interest by both parties in working with other companies, even competitors,” perhaps the easing of global economic conditions have made this less of a priority. We will continue to focus on this issue in future studies.

Measurable Benefits: Shipper respondents experience measurable benefits from 3PL

services, as seen in [Figure 3](#). Metrics relating to logistics cost reduction, inventory cost reduction, and logistics fixed asset reduction are consistent with what was reported in the two previous years’ studies.

Shippers also report improvements in order fill rate and order accuracy resulting from use of 3PLs, although the absolute levels of these metrics are a little lower than those reported in both the *2009* and *2010 3PL Studies*. This may be an indicator of the continuing impact of the global economic recession.

Finally, survey results showed that 60% of the shipper respondents report their use of 3PLs has led to “year-over-year incremental benefits;” and 88% of 3PL respondents agree. Despite the positive success ratings perceived by both shippers and 3PLs, there appears to be opportunity to enhance the benefits experienced by users of outsourced logistics services.

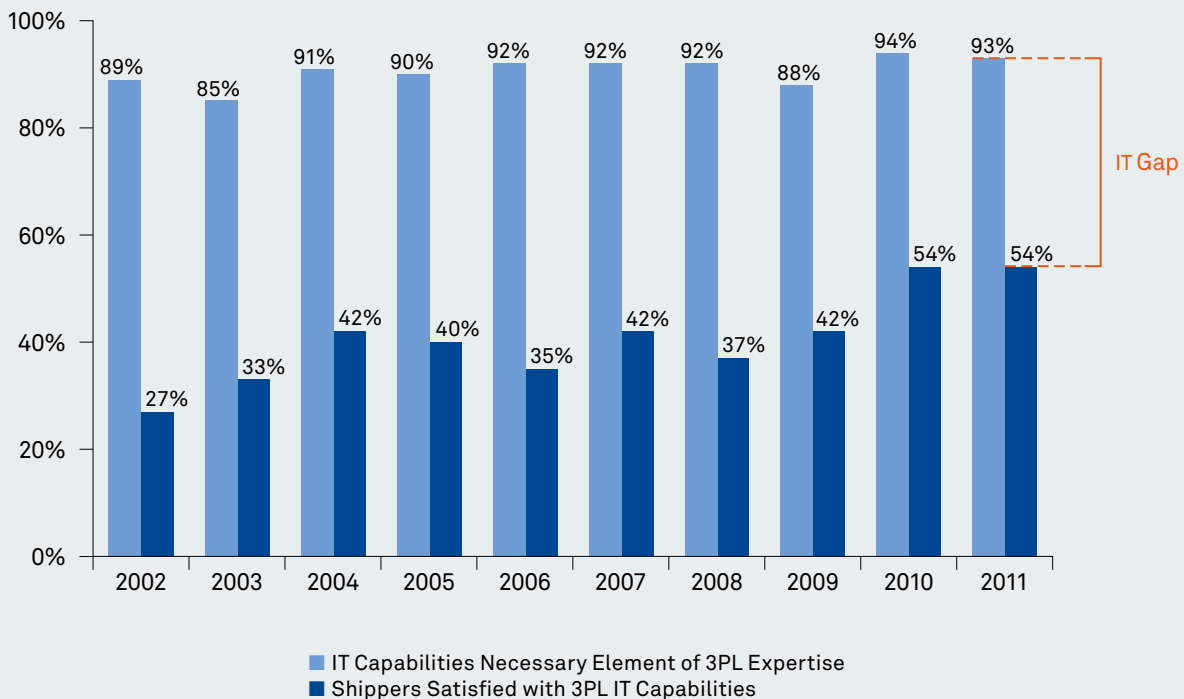
Information Technology

[Figure 4](#) summarizes the information technology (IT) capabilities that shippers and

3PLs feel are “must haves” for 3PLs to successfully serve customers. Overall, the most needed capabilities are those that relate directly to execution-oriented activities and processes such as transportation, warehouse/DC management, electronic data interchange, visibility, etc. Others that have somewhat lower rankings tend to be more strategic and analytical.

Highlighted in [Figure 5](#) is a ten-year view of shippers’ opinions on whether they feel information technologies are a necessary element of 3PL expertise, and whether they are satisfied with their 3PL providers’ IT capabilities, the difference that has become known as the “IT Gap.” In recent years there has been a modest increase in the percentages of shippers who indicate satisfaction with the IT capabilities of their 3PLs; in fact, it is worth noting that the satisfaction rate has doubled since this question was first asked in 2002. Despite this improvement, the opportunity remains to further narrow the gap between these two ratings. Similar to last year’s study, 68% of 3PLs feel that their customers are satisfied with the IT services they provide.

Figure 5: “IT Gap” Shows Improvement, But Further Opportunity Remains



Source: 2012 16th Annual Third-Party Logistics Study

What 3PL Users Outsource and What 3PL Providers Offer

Figure 6 shows the percentages of shipper respondents that outsource specific logistics activities. Provided below are some general observations about this year's results and the contrasts they reveal from previous years:

- Transactional, operational, and repetitive activities tend to be the most frequently outsourced. These include international and domestic transportation (78% and 71% across all regions studied), warehousing (62%), freight forwarding (57%) and customs brokerage (48%). This usage varies across each of the regions. Another observation

is that for the most part, the percentages indicated in Figure 6 for the “all regions” results are somewhat lower than comparable percentages from the previous year's study. This may be explained somewhat by the fact that the current study yielded a higher percentage of shipper respondents in the lowest revenue category than in the previous year's study, as noted in the About the Study chapter later in this report. Further analysis of the available data confirmed that the higher the sales category, the higher the average number of logistics activities outsourced.

- Perhaps due to the globally volatile business environment, the percentage

of shippers outsourcing international transportation declined from 84% in 2009 to 75% in 2010, and now has increased slightly to 78%. Over the same time frame, the reported use of customs brokerage declined from 71% to 58% to 48% and the reported use of freight forwarding services declined from 65% to 53% and then increased to 57%.

- The less-frequently reported activities indicated in Figure 6 tend to be somewhat more strategic, customer-facing, and IT-intensive. Examples include: IT services; supply chain consultancy services; order management and fulfillment; fleet management; customer service; and LLP/4PL services.

Figure 6: Shippers Continue to Outsource a Wide Variety of Logistics Services

Outsourced Logistics Service	User Percentages				
	All Regions	North America	Europe	Asia-Pacific	Latin America
International Transportation	78%	66%	91%	77%	84%
Domestic Transportation	71	65	77	74	69
Warehousing	62	65	61	65	63
Freight Forwarding	57	52	54	64	65
Customs Brokerage	48	49	43	56	45
Reverse Logistics (Defective, Repair, Return)	27	25	28	33	22
Cross-Docking	26	29	28	25	22
Product Labeling, Packaging, Assembly, Kitting	24	19	28	24	26
Transportation Planning and Management	23	24	27	21	16
Inventory Management	21	20	16	27	25
Freight Bill Auditing and Payment	17	35	12	11	8
Information Technology (IT) Services	15	15	14	13	16
Order Management and Fulfillment	14	19	10	15	14
Service Parts Logistics	14	10	14	19	10
Customer Service	11	9	7	14	16
Supply Chain Consultancy Services Provided by 3PLs	11	15	7	13	9
Fleet Management	10	8	9	14	9
LLP (Lead Logistics Provider)/4PL Services	9	7	10	13	4
Sustainability/Green Supply Chain-Related Services	4	3	3	6	4

Source: 2012 16th Annual Third-Party Logistics Study

Figure 7 is a summary of the types of logistics services provided by 3PLs participating in the 2012 survey and reveals that many 3PLs provide a wide range of services. Based on findings from last year, it is very common for 3PLs to offer many, or even most, of the range of services included in the question: the typical model is for 3PLs to offer a substantial number of services to respond effectively to their customers and their logistics needs.

Earlier, the *2008 3PL Study* included a special topic focus on shippers' expectations and usage of 3PLs as a part of their green supply chain initiatives. Follow-up questions on this topic in the *2012 3PL Study* reveal that 29% of shippers rely on 3PLs to provide visibility to fuel efficiency and carbon emissions information. Fully 53% of shippers say fuel efficiency and carbon emissions have become an important part of their 3PL procurement decision processes.

The Voices of Current Non-Users of 3PL Services

The *Annual 3PL Study* survey also reaches a substantial number of organizations who do not currently use 3PLs. One objective of this study is to provide insight into shippers' decisions not to outsource. As indicated in Figure 8, the most common reasons are core competency, the importance of logistics, realization of cost reductions, integrating IT systems with 3PL systems and control over outsourced activities. While there is a certain logic behind using these concerns to support a decision not to outsource, our discussions with shippers indicate that sometimes these very issues are used by other companies to justify their decision to outsource certain logistics services.

Figure 7: 3PLs Provide a Wide Range of Outsourced Logistics Services

Outsourced Logistics Service	Provider Percentages All Regions
Domestic Transportation	83%
Warehousing	81
International Transportation	70
Inventory Management	66
Order Management and Fulfillment	65
Customer Service	64
Transportation Planning and Management	63
Cross-Docking	62
Product Labeling, Packaging, Assembly, Kitting	62
Freight Forwarding	58
Customs Brokerage	50
Reverse Logistics (Defective, Repair, Return)	56
Information Technology (IT) Services	51
Supply Chain Consultancy Services Provided by 3PLs	51
LLP (Lead Logistics Provider)/4PL Services	42
Service Parts Logistics	38
Freight Bill Auditing and Payment	34
Sustainability/Green Supply Chain-Related Services	31
Fleet Management	26

Source: 2012 16th Annual Third-Party Logistics Study

Figure 8: Why Non-Users Do Not Use 3PLs

Reason	Percent in Agreement
Logistics is a Core Competency at Our Firm	19%
Logistics Too Important to Consider Outsourcing	18
Cost Reductions Would Not be Experienced	17
Too Difficult to Integrate Our IT Systems with the 3PL's Systems	14
Control Over the Outsourced Function(s) Would Diminish	13
Service Level Commitments Would Not Be Realized	12
We Have More Logistics Expertise Than Most 3PL Providers	9

Source: 2012 16th Annual Third-Party Logistics Study

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www.3plstudy.com

Current State of the Market: Key Takeaways

Key findings regarding the Current State of the Market for the 2012 16th Annual 3PL Study include:

- **3PLs Make Valued Contributions:** Again in 2012, companies across industries and around the globe regard logistics and supply chain management as key components of their overall business success, and many credit their 3PLs with helping to provide new and innovative ways to improve logistics effectiveness.
- **Logistics Spending is Consistent:** Across all regions included in the 2012 survey, shipper respondents report that total logistics expenditures represent an average of 12% of sales revenues, and they spend on average 42% of their total logistics expenditures on outsourcing.
- **Transportation Spend Dominates:** Overall, survey respondents who use 3PL services report that their outsourcing activities account for 56% of transportation spend and 39% of warehouse operations spend.
- **3PL Use is Rising:** A majority of shipper respondents, 64%, report they 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.
- **The Success Rating Perception Gap Remains:** Most shipper respondents (88%) and most 3PL providers (94%) view their relationships as successful. In addition, just over two-thirds of shippers say 3PLs provide them with new and innovative ways to improve logistics effectiveness – whereas 91% of 3PL providers feel this is the case.
- **Gainsharing and Collaboration Lose Ground:** The 2012 3PL Study provides insight into several factors that relate to the success of 3PL-shipper relationships: openness, transparency, and good communication; agility and flexibility to accommodate current and future business needs and challenges; interest in “gainsharing” between 3PLs and shippers; and interest in collaborating with other companies, even competitors, to achieve logistics cost and service improvements. Interestingly, results from the current study suggest that both gainsharing and collaboration may have lost some popularity due to the recent modest improvements in the global economic picture.
- **3PL Use Pays Off:** Metrics including logistics cost, inventory cost, and fixed asset reductions due to use of 3PLs, as well as order fill rate and order accuracy, validate the cost and service improvements resulting from successful 3PL relationships.
- **Execution-Oriented Activities Still Lead:** The logistics activities most frequently outsourced continue to include those that are more transactional, operational and repetitive, while those less frequently outsourced are those that are more strategic, customer-facing and IT-intensive. In the future customers may be more receptive to strategic services that may be available from 3PLs. One observation from this year’s study is that generally, the percentages reported by shippers for outsourcing of individual logistics activities is down slightly from those reported in recent years. As indicated earlier, this is likely due to the fact that this year’s shipper survey respondents included a higher percentage of respondents in the lowest annual sales category than in the previous year’s study – and companies in the lower annual sales categories tend to outsource fewer logistics services.
- **The IT Gap Remains:** Information technology remains a key component of 3PL-shipper relationships, and the 2012 3PL Study results indicate that 54% of shipper respondents are satisfied with 3PL IT capabilities compared with 93% who indicate that IT capabilities are a necessary element of 3PL expertise.
- **New 3PL Selection Criteria:** Fuel efficiency and carbon emissions are becoming a more important part of shippers’ 3PL procurement decision processes.
- **Reasons for Non-Use Persist:** Non-users of 3PL services provide reasons why they choose not to outsource to 3PLs. Among the most prevalent: logistics is a core competency at our firm; logistics is too important to consider outsourcing; cost reductions would not be experienced; too difficult to integrate our IT systems with the 3PLs’ systems. Other shippers tell us these are some of the same factors that are responsible for their decisions to use 3PLs.



Balancing growth and opportunity

Emerging Markets

Opportunities for Driving Corporate Growth

For many companies, doing business in emerging markets is no longer a nice-to-have; it's a must-have to fuel continued growth. For example, General Motors sold more cars in China than it did in the United States last year, and PepsiCo captured about half of the Russian juice market through an acquisition, according to a *CNNMoney* report. As seen in [Figure 9](#), a substantial 80% of shippers in the survey conduct business with or within an emerging market, with the majority (52%) doing so from a mature market and 28% from within emerging markets. Among 3PL respondents, 77% conduct business with or within an emerging market, 48% from a mature market.

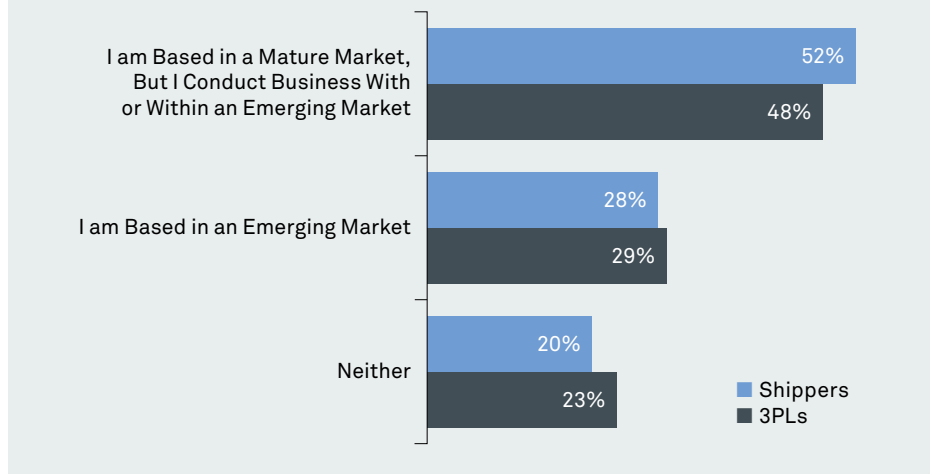
We define emerging markets as nations with economies that are experiencing rapid growth through industrialization. Mature markets are largely industrialized nations with economies growing at a slower, steadier rate. As seen in [Figure 10](#) on page 16, shippers and 3PLs in mature markets concur that their top emerging market opportunities are in China, India, Brazil and Mexico, though their rankings differ a bit.

Market Expansion Challenges

The potential benefits of moving into an emerging market are often far more clear than is the correct path to establishing business there, particularly when making logistics decisions. Successfully balancing risk and reward requires a careful assessment of the unique characteristics of each market.

As seen in [Figure 11](#) on page 17, 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. Because of such obstacles, "I could set up a new operation in a more mature market in much less time than in an emerging market," says Gokhan Cakmak, Global Logistics Manager for Oriflame. "This is mainly due to the state of laws and regulations as well as the infrastructure and lack of international 3PL players present in these markets."

Figure 9: Most Shippers Are Active In Emerging Markets



Source: 2012 16th Annual Third-Party Logistics Study

Global trade compliance also represents a hurdle for many companies operating in emerging markets. For example, one Logistics Director for a US-based apparel manufacturer described the application of customs regulations in Asia as a vexing challenge. "The authorities can become bureaucratic and are normally not very transparent, leaving a lot of execution and interpretation to the field officers, and they can be very erratic in their classification."

"Bureaucracy and local processes make working in emerging markets more challenging," says Cyrill Gaechter, Head of Marketing and Sales for Panalpina Black and Caspian Sea. "In more mature markets it is less complex, however the emerging markets are catching up continuously. Proper preparation such as documentation is of high importance around the world but even more critical in emerging markets to achieve reliable end-to-end-service."

Concerns vary by market and industry. For example, shippers in electronics express far more concern than the overall respondents (45% vs. 22%) about global trade compliance, as well as attracting and retaining good local staff and lack of security for their goods.

Indeed, in contrast with the overall survey respondents, *3PL Study* ASE workshop participants and focus interview participants assert that security and counterfeit intervention are key considerations in operating global supply chains: How well do you know the suppliers you're working with and the quality of their due diligence? Governments that are clear and consistent on their security metrics and initiatives make it easier to manage risk than those where security efforts are less evident, notes one US manufacturer. Some shippers engage transportation security providers when they perceive a high level of risk.

In focus interviews, several experts also cited green concerns as they move into emerging markets. One Head of Distribution for a communications equipment manufacturer noted the difficulty in reducing its CO₂ footprint, which requires limiting air freight and road transportation, while catering to the sales growth expected in the next two years. "To minimize these modes we need to plan ahead to allow for alternative modes like sea freight and rail," not always an easy task in a fast-growing market.

Case in Point: Brazil

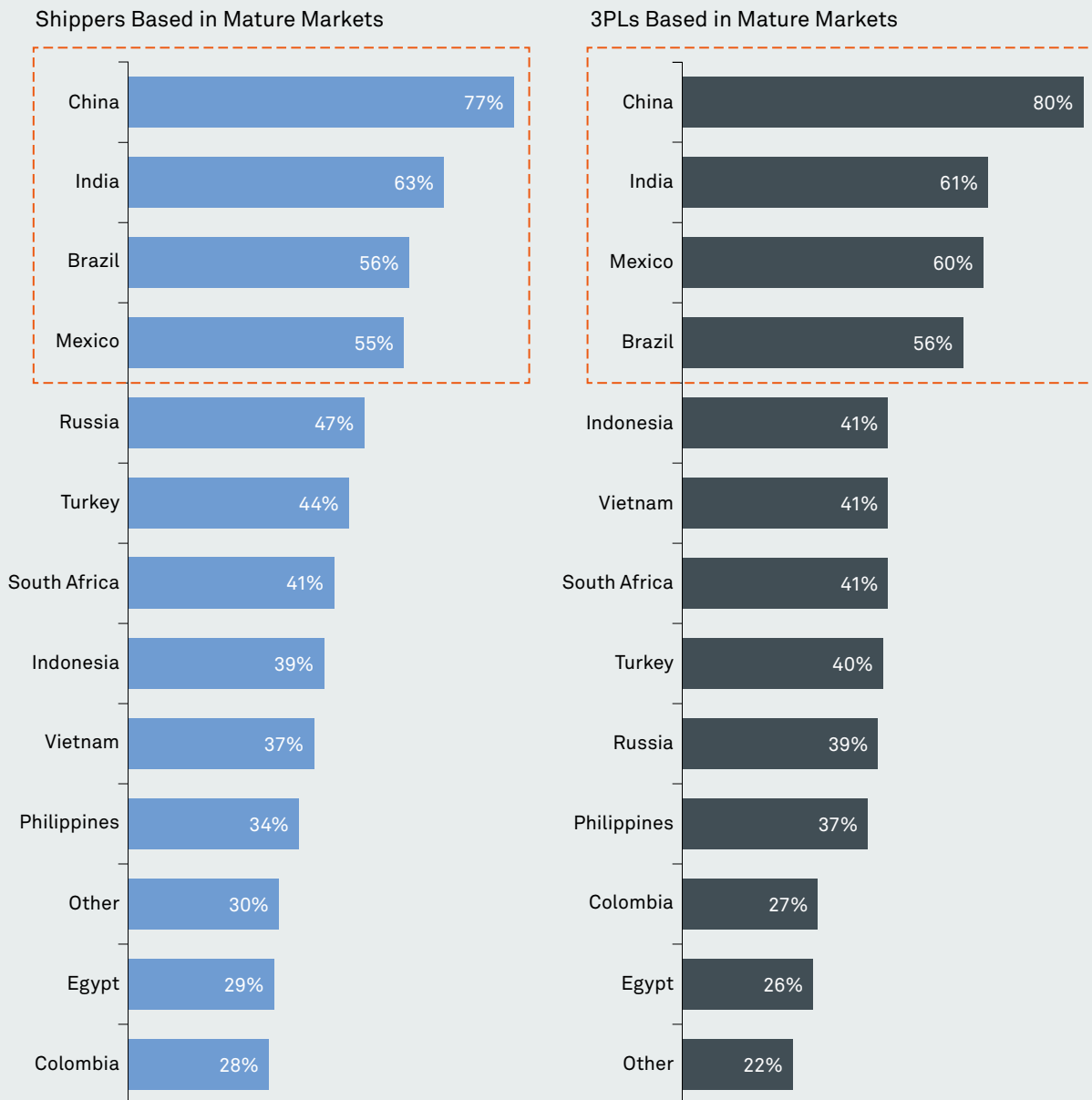
Brazil is representative of the risk/reward challenges posed by an emerging economy. Brazil will play host to two mega sporting events, the FIFA World Cup in 2014 and the Olympics in 2016, events which are driving a large-scale infrastructural improvement program. The Brazilian government plans to invest up to US \$880B in an economic stimulus program by 2014 to propel growth, with a portion of those funds devoted to upgrading its infrastructure, primarily roads and railways, but also ports and waterways. The government

is also offering eligible corporations a 75% corporate tax reduction on “exploration profits” until 2013. Brazil’s gross domestic product average growth rate from 1991 through 2011 was 3.26%, according to *Trading Economics*.

A critical step in Brazil’s growth was the formation of Mercosur, the South American free trade agreement. Regional growth together with the tax incentives available in free trade zones such as Manaus have attracted global manufacturers such as Sony, Whirlpool, Samsung

and Honda, as well as international 3PLs, according to a story in *DC Velocity*. Fast growth in the 3PL market has enabled the emergence of modern, specially built warehouses that meet the needs of multiple shippers. More than 90% of Brazilian companies outsource transportation, according to a survey by BDP International, while 75% outsource other activities, such as customs expediting and warehousing. Quality of service has become a key metric for Brazilian shippers.

Figure 10: Shippers and 3PLs Concur on Top Emerging Markets



However, for all of its opportunity, Brazil presents some logistics challenges:

– **Byzantine Tax Laws:** Brazil’s complex tax laws can vary significantly among regions, with at least 70 different types of taxes, many of which require monthly debits and credits. Enforcement is notoriously inconsistent. For example, regulatory law requires products manufactured in Brazil to be returned to their point of origin for disposition. One electronics manufacturer was excused from

compliance in 2009, then required to follow the regulation in 2010, and was once again excused in 2011.

In addition, companies “must get a license for a warehouse to ship to customers, and then goods can only flow from that warehouse,” says Wally Shaw, Market Group Supply Lead, Americas, for Philips Consumer Lifestyle. “You cannot ship from an overflow warehouse; you have to ship the goods back to the main licensed warehouse, which is very inefficient.”

– **Limited Infrastructure:** Brazil is best considered as different countries inside one country in terms of its infrastructure and markets. In the south and southeast regions, there is a big saturation of providers, which generates more competition and lower costs. The central west, northern (Amazon area) and northeast regions lack providers and infrastructure, so costs are much higher. Many companies work with independent drivers who own their own trucks as a cost efficient solution for transporting

Figure 11: Difficult Laws Top Mature-Market Shipper Challenges in Emerging Markets

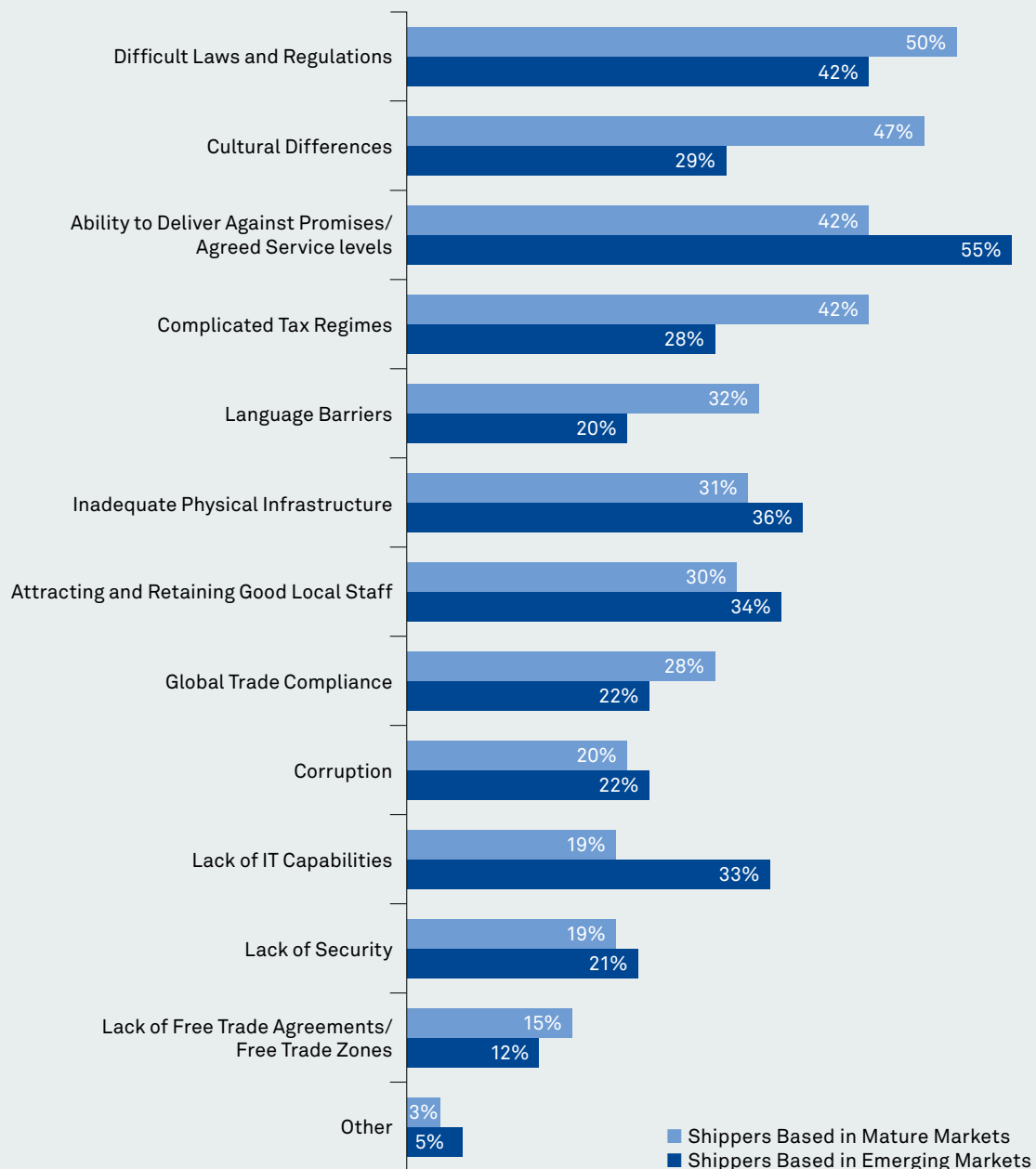
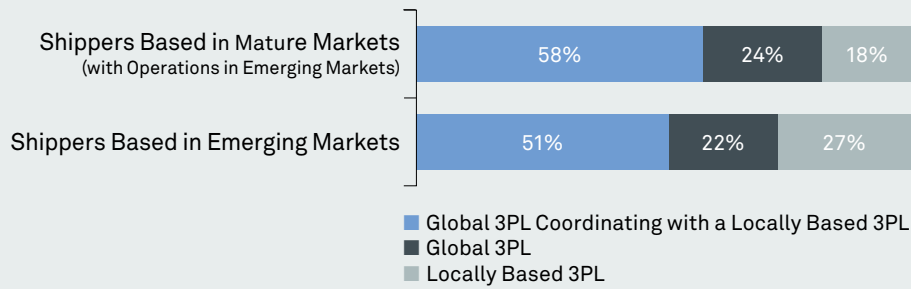


Figure 12: Shippers See Global 3PLs with Local 3PL Partners as Most Successful

Source: 2012 16th Annual Third-Party Logistics Study

low-cost products such as seeds and construction materials, but it's a challenge for these independent truck drivers to secure a steady volume. Brazil's investment in ports and airports has been limited over the past many years; a consequence is that containers can sit in certain ports for weeks awaiting unloading. Brazil's government has resisted private investment in infrastructure.

- **Trade Zone Tradeoffs:** Free trade zones such as Manaus encourage growth in underdeveloped areas by attracting large manufacturers, but also serve as an example of how tax benefits alone do not translate into logistics efficiency. Manaus has one road in and out, which cannot take heavy truck traffic, forcing many shippers to use air/water freight.
- **Political and Regulatory Obstacles:** Like many emerging markets, Brazil has its share of political influences that impact supply chain efficiency. For example, Brazil's customs and duty regulations have created a protectionist market for some goods.
- **Evolving Logistics Marketplace:** Rapid growth has fueled demand for outsourcing, creating a fragmented marketplace populated by a range of providers. Many were started by individual truck drivers who acquired more trucks and then eventually bought a warehouse, though Brazil is also served by major national and international players. "Many logistics providers are individual-function oriented, with few integrated supply chain, value-added offerings," says Mauricio Ferreira, Latin America Supply Chain Director for Kraft

Foods. A fragmented logistics infrastructure often drives companies to maintain higher inventory levels.

"In Brazil we are ten hours away from the US by air and 11 hours from the main European cities by air. It takes 17 days navigation by water to Europe and 38 to 45 days to reach China ports with direct service," says Gilberto Zanon, Head of Industry Verticals, Brazil at Panalpina. "The longer lead times mean planning to avoid stock-outs or excess stock is a challenge that companies need to overcome. Successful companies and 3PLs work together to do this."

Like other emerging markets, Brazil's compelling rate of growth and potential for improvement has convinced many companies that the obstacles are worth the investment. As one participant at the eyefortransport workshop noted, emerging markets have the opportunity to build on what the developed markets have already done and then leapfrog over them. One example is the pervasive use of cell phones for banking purposes in some emerging markets.

Selecting a 3PL Partner for Emerging Markets

Entering any new market requires due diligence; when it's an emerging market, gaining local insight is even more critical, since conditions are often evolving rapidly. 3PLs can play a critical role in both the planning and execution of shippers' entry and growth in emerging markets.

Early in the process, shippers must ask themselves: What type of 3PL partner do we want? Is it best to seek out a local player with

intimate knowledge of local practices, or a global partner with more resources to bear?

As seen in [Figure 12](#), 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. "We look for two different types of providers," says Tony Xia, Senior Logistics Manager with Emerson Electric. One must be "big enough to have good coverage and good IT, good assets, and can help growth and expand." The other type is "niche players, where they are pretty good in a small piece of logistics."

The ideal, many shippers say, is to find a global player with strong local knowledge. When they don't find these qualities available in emerging markets, the combination of global and local 3PLs is the next best thing. Michael Keong, Director, Regional Logistics Asia, Levi Strauss and Company, noted, "We need to ensure 3PLs have the right resources, content experts, etcetera, to understand the local flavor. A strong account manager who understands the local area is important to us. That person need not know it all, but must have the right network to solve any problems that break."

Shippers participating in the ASE workshops illustrated the value of local knowledge: One shared the story of a global company that established a supply warehouse in China to US specifications, only to find the unloading docks to be at the wrong height for local supply trucks. Another shipper found its pallet shifters

did not work in the narrow-bodied aircraft coming out of Panama.

Signs indicate that the combination of global and local players is working; as seen in [Figure 13](#) on page 20, shippers and 3PLs are pretty well aligned in what they believe are the most important services in emerging markets. Shippers' primary needs from 3PLs in emerging markets are visibility (77% of those based in emerging markets, 81% of those based in mature markets), expertise on the latest global trade regulations (60% and 69%) and managing and optimizing shipment routing based on free trade agreement knowledge (59% and 57%).

Visibility: With the added risk and uncertainty of emerging markets, the importance of visibility to shippers is understandable. "Delivering products in Russia is complex," says Panalpina's Gaechter, "and visibility over where our customers' products are and a reliable service to ensure products arrive on time are two critical aspects of our customers' needs. This is no different than, for example, China, where lead-time from factory to exporting port can take many days. Visibility and reliability play a key role there as well, and excelling in this is more difficult in emerging markets than more mature markets."

It's highly important for service-centric computer manufacturers to be able to provide order-level tracking to customers, says the Supply Chain Director for a large computer company, and 3PLs need this capability to provide visibility to customers. Even better is a 3PL taking proactive steps to resolve issues detected through visibility, which many 3PLs in emerging markets do not do, he says.

Global Trade Regulations: As noted in [Figure 13](#), 3PLs active in emerging markets concur with shippers' rankings, with the exception of providing expertise on the latest global trade regulations. Shippers ranked this as the second most important service they would like to get, whereas 3PLs in mature and emerging markets ranked it somewhere in the middle.

Compliance: In emerging markets, many shippers rely on 3PL expertise to navigate

import/export documentation, embargoed products/countries screening and other compliance services. "It would be useful for 3PLs to have better relationships with customs officers to ensure they have local input, etcetera," said Levi Strauss' Keong. "3PLs should engage more in customs meetings and be the conduit to discuss customer requirements."

Other Services Sought From 3PLs

In addition to those capabilities cited in the survey, ASE workshop and focus interview participants concur that they would like to see these additional qualities and capabilities in 3PLs active in emerging markets:

- **Proactive Consulting Services:** At the ASE workshop held in Utrecht, shippers concurred that the timing of 3PLs' assistance was also key. Very often an initiative to move into an emerging market begins with the shipper conducting initial research because their 3PL partners lack insight into that market. Then the 3PL follows, ramping up its own investigation. Shippers would like to see 3PLs take a more proactive approach—and are willing to pay for it.
- **Local Insight and Expertise:** It's the lack of local expertise on the part of global 3PLs without a strong local presence, such as the best way to move product in that country, that drives shippers to local 3PLs and other experts. Shippers want creative, informed ideas to overcome local barriers, for example, using a barge in Vietnam to circumvent road congestion, or overland or cross-border trucking in India and Bangladesh – or even how to handle local events such as labor stoppages.

In one telecom company's emerging markets experience, "Logistics service providers fail to come up with new logistics solutions or improvements," says its Head of Distribution. "Any new solution or idea is brought up ourselves. This is where LSPs really fail."

- **Integrated Solutions:** Shippers that want to amass the requisite logistics services and knowledge required for an integrated approach often find they must engage multiple 3PLs because no single 3PL has

what they need. One ASE participant related how his company was seeking integrated warehouse and transportation services in an emerging market it was entering, ideally with the warehouses located close to air hubs. But the 3PL they wanted to work with was not set up to accommodate the shipper's needs.

- **Security:** Shippers in emerging markets expect 3PLs to address their security concerns through measures such as delivery trucks with GPS systems, engine shut-down systems, and drivers trained on security protocols.
- **Long-Term Commitment:** It's also important that 3PLs' efforts be strategic, not tactical. "3PLs still lack a longer term sustainable plan for coming into a country," says Arun Salvi, Logistics Manager Asia Pacific, for Shell Lubricants. "They are taking more of a short-term approach to make profits much quicker than they should be. Global players end up being like the local players, but with a foreign name, because they have not invested properly in infrastructure, people and processes."

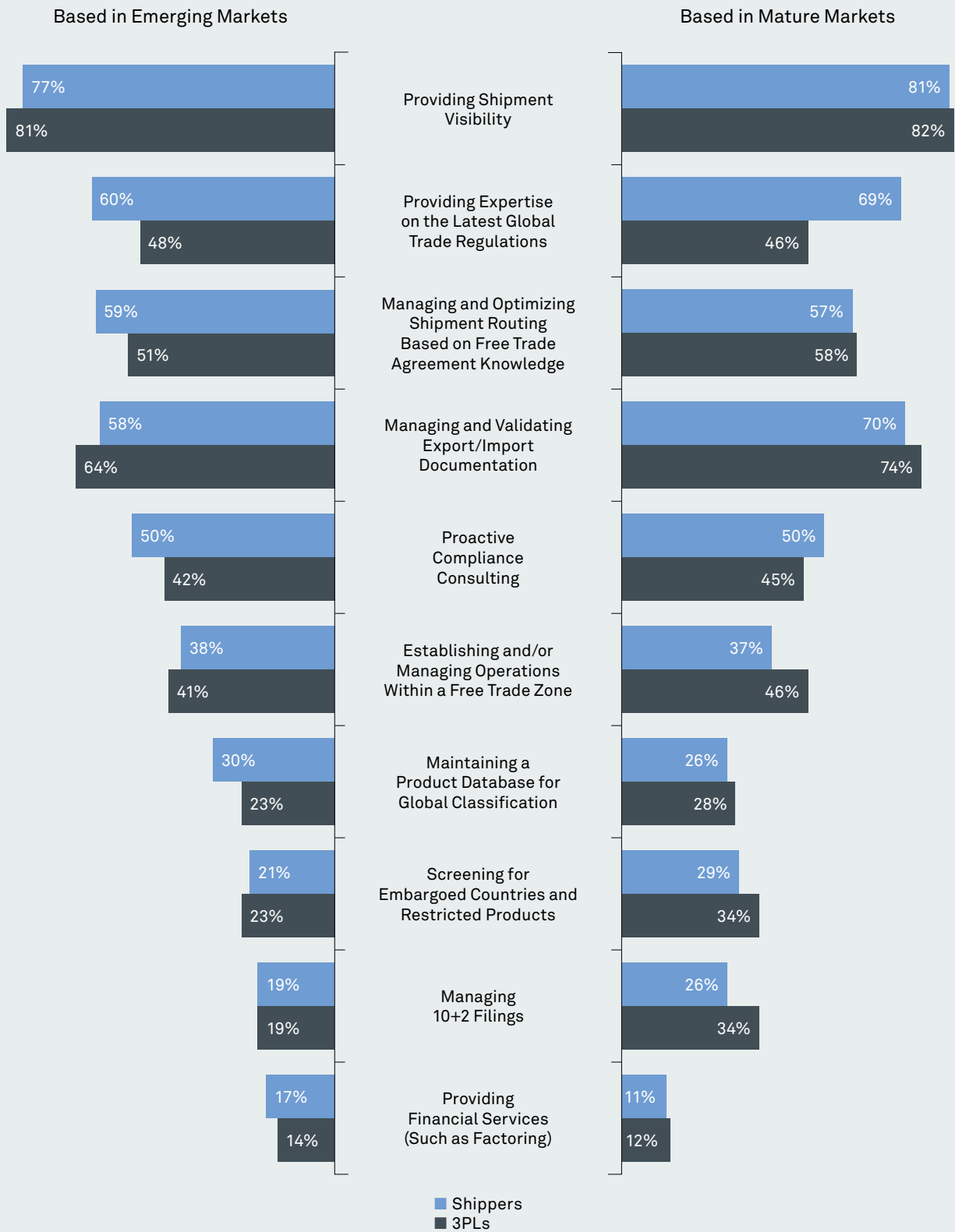
All of these points can make for a difficult environment and require 3PLs and shippers to work closely together and with high degrees of trust if success in emerging markets is to be achieved. This might be one of the reasons people choose global 3PLs working with local players.

Free-Trade Agreements and 3PLs

A free trade agreement (FTA) is a pact between two or more countries or areas in which they agree to lift most or all tariffs, quotas, special fees and taxes, and other barriers to trade among them to allow faster transactions and a higher volume of business. According to the United Nations Statistics Division, FTAs such as the North American Free Trade Agreement (NAFTA), the European Union (EU-27) and the Organisation for Economic Co-operation and Development (OECD) have made a definitive impact on growth across sectors such as machinery, manufactured goods and chemicals.

FTAs, free trade zones (FTZ) and Special Economic Zones (SEZ) have in turn fueled

Figure 13: 3PLs Are Delivering on Shippers' Emerging Market Needs



Source: 2012 16th Annual Third-Party Logistics Study

the growth of third-party logistics companies around these zones. For example, increasing partnerships between US and Mexican carriers via NAFTA have led to growth of logistics companies on both sides of the border, including 3PLs, customs brokers and forwarders. Mexico's maquiladora factory system allows materials to be imported into Mexican towns near the US border, tariff and duty free; after assembly, the finished products are exported duty-free back to the US. The automotive, garment and electronics industries make significant use of the maquiladora system. Many partner with 3PLs for activities such as transportation and reverse logistics.

With such high stakes, it's not surprising that the majority of shippers in mature and emerging markets call 3PLs' knowledge of FTAs very important (65% and 73%, respectively), as seen in Figure 14. 3PLs feel somewhat less strongly; just 54% of those in emerging markets and 38% of those in mature markets agree.

Understanding and keeping up with the changes and nuances of each FTA can be critical to reaping the benefits. "Free trade is not free trade, it's more conditional trade agreements," says one apparel manufacturer. One example of the need for deep understanding is in China's FTA, he explains. "There is a '40% regional content' rule, but many people do not understand what this means. When we ask the experts, we find production and labor costs count towards the 40%, which can significantly impact the attractiveness of doing business there."

The VP of Operations at a large software and peripherals developer says FTAs have "allowed us to expand our business market, although they have not alleviated significant duties and taxes." Others cite the significant paperwork that still must be filed to qualify for the FTA benefits, requiring administrative resources. Shippers value 3PLs that can streamline these processes and maximize FTA/FTZ resources through knowledge and execution of compliant processes.

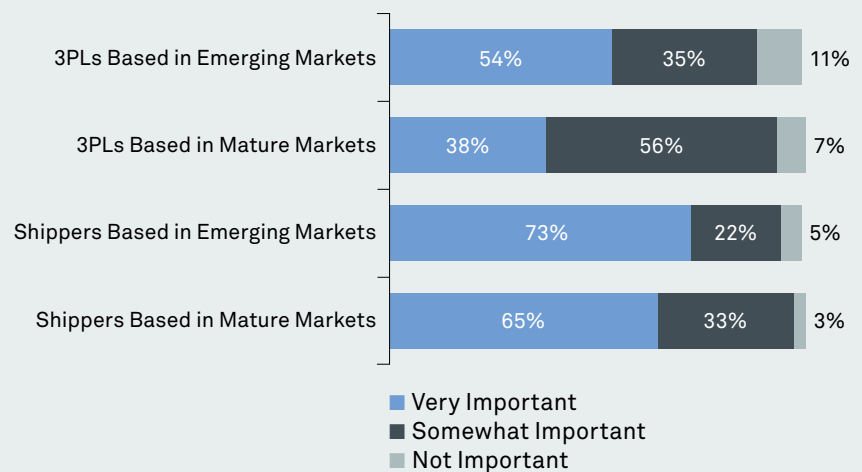
Using 3PLs in free trade zones has been beneficial for a large pharmaceutical company, according to its VP Logistics. For example, the company delivers product

from US and Australian factories into an FTZ warehouse in Panama for distribution to surrounding countries, avoiding duties and holding inventory closer to its markets. "The 3PL does bring the knowledge, and it also brings consolidation of customs entries," he says. "With FTZ we can consolidate multiple \$300-per-entry monthly

customs entries into one \$300 entry. That saves us \$8,700 per month, a pretty big savings that adds up to \$100K annually."

Free trade agreements can be an important factor in choosing whether to enter an emerging market, and the most advantageous ways to operate in that market.

Figure 14: Shippers and 3PLs Agree That 3PL Knowledge of Free Trade Agreements Is Important



Source: 2012 16th Annual Third-Party Logistics Study

Emerging Markets: Key Takeaways

- Compelling growth rates and incentives such as free trade agreements are attracting many global businesses to emerging markets. But 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 are just some of the obstacles shippers cite in moving into these markets. A case in point is Brazil, where the government's commitment to infrastructure investment and participation in Mercosur, the South American free trade agreement, has paid dividends in attracting manufacturers including Sony and Honda. But Byzantine tax laws, political and regulatory obstacles and immature logistics infrastructure are significant challenges to overcome.
- Shippers based in both mature and emerging markets concur 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 they most prefer are visibility, expertise on the latest global trade regulations and managing and optimizing shipment routing based on free trade agreement knowledge. Shippers would like 3PLs to be more proactive in helping them learn about the nuances of new markets and offer creative solutions and local insights that will help them succeed. The majority of shippers in mature and emerging markets call 3PLs' knowledge of free trade agreements very important, helping them to leverage significant benefits when properly applied.



Balancing long lead times with short product lifecycles

Electronics

Complexity Inside and Out

Electronics products are often the rock stars of the consumer and business products worlds, with buyers eagerly anticipating the next release with the latest and greatest features. But along with enviable demand comes pressure to make products smaller, faster, cooler and at a lower price point. Some electronics products' lifecycles closely resemble fashion: What's in today is out tomorrow. But even everyday devices are feeling the heat. Everyone wants to produce the next iPad.

Hitting these targets demands a fast and nimble supply chain. The challenges of attaining this fall into three major buckets: global manufacturing and sourcing issues, channel and network complexity and the implications of an intricate, high-value product set.

Electronics Manufacturing and Sourcing Challenges

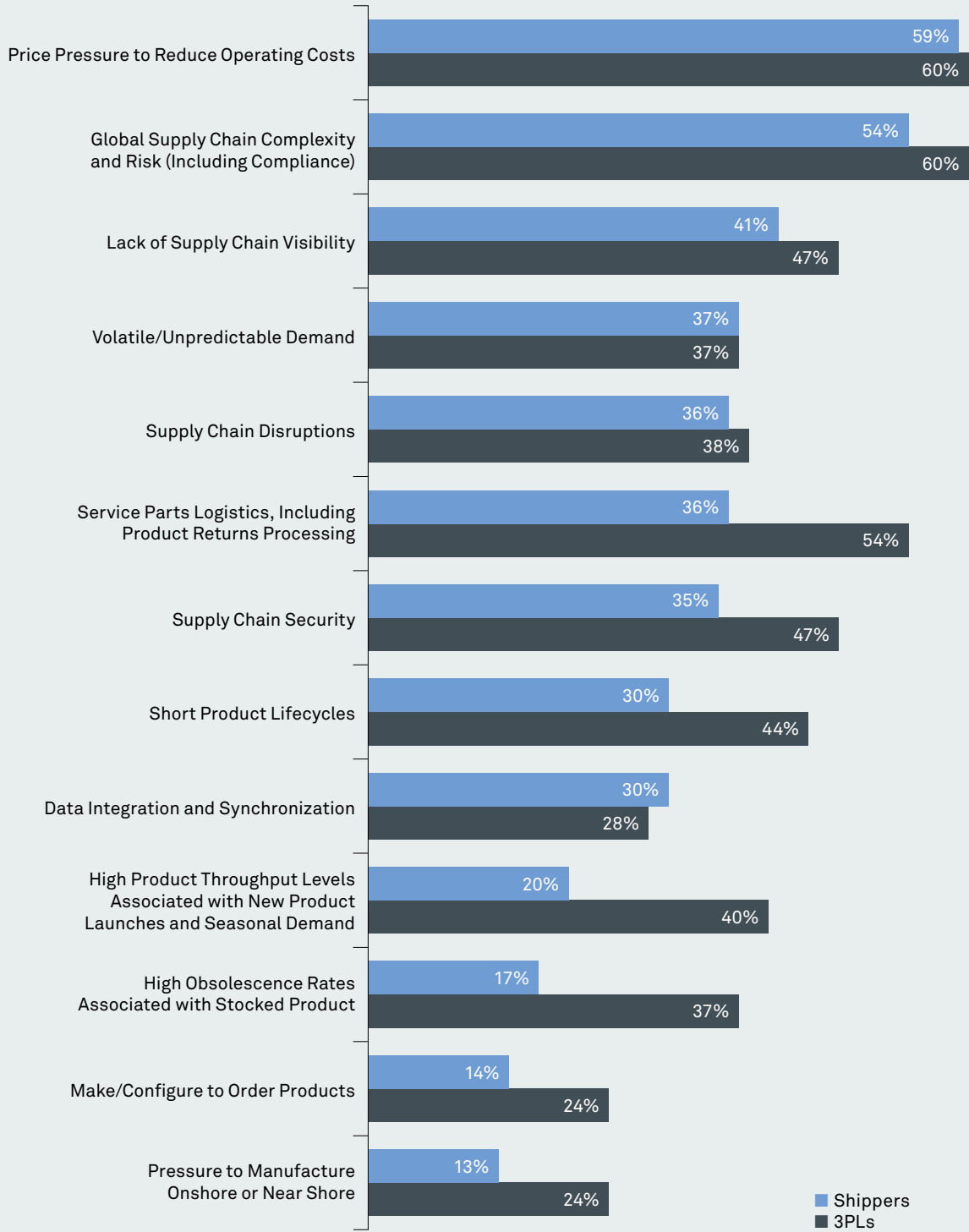
Electronics products lifecycles are growing ever shorter and margins tighter, increasing pressure to lower costs and manage material and suppliers more efficiently. This has triggered the following trends in manufacturing and sourcing:

- **Asset Lightness:** One industry trend is toward fewer original equipment manufacturers (OEMs) actually manufacturing, moving or storing their own products. Many prefer to engage both contract manufacturers and third-party logistics providers for these services. For example, Sony's adoption of an asset light philosophy prompted the company to sell off assets including a major TV manufacturing facility in Mexico to Foxconn Electronics in January, 2010.
- **Emerging Markets Sourcing:** Many electronics companies have sought out manufacturing and logistics partners in emerging markets, a move which can lower costs but at the same time create a long, thin supply chain. Sourcing from emerging markets also often means insufficient infrastructure and emerging logistics capabilities, creating challenges

in expediting freight and maintaining pipeline inventory, as well as increasing supplier and global trade compliance risks. 3PLs with experience in these markets can play a critical role in devising strategies to overcome these obstacles.

- **Global Supply Chain Complexity and Risk:** Too many product lines and too many components sourced from too many faraway places creates a complex, costly and long supply chain. As seen in [Figure 15](#) on page 24, supply chain complexity and risk is the second-highest-ranked challenge for shippers. [Figure 18](#) on page 30 reveals that 3PLs are somewhat more confident in their ability to help address this challenge than shippers are (42% to 22%), perhaps because more of the cost emphasis is on the product itself and not the logistics wrapped around it. An exception is Philips, which merged two divisions, both selling to retail and at times to the same customers, in an effort to reduce complexity and lower its warehouse count.
- **Make to Order/Make to Stock:** A make to order production strategy enables electronics companies to customize products such as computers to customers' exacting specifications. Dell achieved significant supply chain recognition for its work toward its make to order supply chain model. The majority of electronics companies in the survey (78%) agree that for most electronics companies, a make to order supply chain model may not always be as cost effective as a make to stock model. It can also lead to inventory obsolescence, especially when product lifecycles are short. Dell maintains as many as six supply chains. Business products are made to order, but differing demand requirements mean some move via air freight while others leverage alternative modes, according to a *Supply Chain Digest* Webcast. Dell's retail products are made to stock and planned well in advance to get products to market cost effectively for peak seasons.

Figure 15: Price Pressure Tops Electronics Shippers' Logistics Challenges



Source: 2012 16th Annual Third-Party Logistics Study

The bottom line is that one size does not fit all, even within one electronics company, due to varying market and customer needs.

- **Postponement:** A related strategy favored by electronics manufacturers, which both reduces inventory and provides a higher level of customization, is postponing final configuration, including packaging, until the product is in or close to the market where the product will be consumed – services that may be performed by 3PLs in these markets. “People want the benefits of manufacturing in China, but are doing more packaging in the US,” as well as light assembly where possible, says Wally Shaw, Market Group Supply Lead, Americas at Philips Consumer Lifestyle. “This helps with forecasting by reducing the number of SKUs you are planning, and also helps reduce cube in transportation by using a bulk pack.”
- **Price Pressure:** Shippers view price pressure to reduce operating costs as their top logistics challenge (59%). One increasingly common solution is to shift from a heavy emphasis on fast but costly air freight to other modes according to specific channel needs, but this requires significant advance planning. Nearly two-thirds (65%) of electronics shippers in the survey favor air freight over slower modes to shorten supply chain transit time. 3PLs believe they can play a larger role in helping electronics shippers address this challenge than shippers do (Figure 18, 38% vs. 28% of shippers).
- **Use of Contract Manufacturers as 3PLs:** The lines between industry groups are blurring as contract manufacturers in emerging markets offer services that are more traditionally associated with 3PLs, a trend noted by about two-thirds of shippers and 3PLs in the survey. Most common services include transportation management, warehousing and distribution services and returns management. Some contract manufacturers are offering the more “advanced” services typically provided by 3PLs, such as supply chain network design, logistics planning and consulting services. Contract manufacturers see this as a logical extension of their services and a higher-margin opportunity. Discussions with 3PLs reveal that they do not see this as a major threat yet, since logistics is their core competency and they believe that electronics companies will choose them over contract manufacturers for complex international logistics needs.
- **Environmental and Social Sustainability:** Like many industries, electronics manufacturers are concerned with CO₂ emissions and fuel consumption, particularly with long supply chains. Manufacturing byproducts such as lead from printed circuit board production are an additional concern; 70% of heavy metals in US landfills come from discarded electronics products, according to *Supply Chain Brain’s High Tech Outlook*, February 2011. Companies – and savvy 3PLs – are getting creative to solve materials and packaging problems. Dell is trying protective packaging made of bamboo and even mushrooms and is scaling down package sizes to fit more on a pallet, according to an April, 2011, article in *Fortune*.

Complex Networks and Channels

The electronics industry is notoriously segregated, with multiple players involved in the supply chain, not all of which are marching to a common beat. These players include:

- Component suppliers
- Contract Manufacturers, Original Design Manufacturers and Joint Ventures
- Original Equipment Manufacturers/Brand Owners
- Distributors/Partners/Value-Added Resellers
- End Customers

Electronics is also a highly dynamic industry: Technology changes so rapidly that many companies are driven to failure due to their inability to keep up with changing technologies. That in turn drives significant merger, acquisition, and divestiture activity; Cisco alone has acquired more than 145 companies in the last 18 years, according to the company’s Web site. Motorola recently split into a consumer products company and a business and government products company while selling off a division that makes network infrastructure equipment.

Further complicating matters, electronics companies sell into many vertical markets, each with its own unique needs. Among the most trying is retail, which offers opportunity but also complexity to electronics supply chains. Among the challenges of interacting with retailers:

- Inaccurate retail-level forecasts
- Retailers’ risk tolerance
- Exacting vendor compliance programs with significant penalties
- Consumer electronics products often have a long lead time and a short product cycle, which creates obsolescence or excess stock

More than two-thirds of electronics companies in the survey (73%) agree that establishing a branded retail presence themselves is a good way for consumer electronics manufacturers to drive increased revenue.

Multiple layers, mashed-together supply chains and the specific challenges of retail channels introduce cost, safety stock, forecast challenges and additional time into logistics processes.

One impact can be seen in electronics companies' forecast accuracy, which averages 60% to 70%. Chris Armbruster, Senior Director, Business Transformation, at Motorola Solutions, who participated in the ASE workshop in Chicago, noted that the vertically dis-integrated supply chain common in electronics slows and often limits the sharing of forecasts, leading to a bullwhip effect in inventory levels at both the retail and sourcing levels, when changes in supply or demand occur. Sharing information on true demand more quickly would result in improved forecasts and reduced inventory levels. Electronics companies must be agile to adapt to market changes and unanticipated events, such as the recent Japanese tsunami or earthquake in China, and use demand sensing and shaping to detect and influence demand.

Another challenge is to design a common, cost-efficient infrastructure across supply chains. Lean is a common goal – reducing inventory, containing SKU proliferation, and limiting fixed assets, such as in Sony's supply chain, described previously.

These challenges provide opportunity for 3PLs to offer services such as visibility, setting up inventory hubs in key locations, helping to rationalize inventory across the supply chain and finding ways to reduce cycle time on transit legs. Fully 55% of 3PLs report that they can help electronics companies redesign supply chain networks, which can help them respond to differing channel needs while sharing common infrastructure and services wherever cost effective. However, as seen in [Figure 17](#) on page 29, only 14% of shippers use 3PLs for this service. To capture more of this business, 3PLs need to invest in understanding the customer at all levels in the organization. An electronics

manufacturer's Supply Chain Manager participating in the ASE workshop in Utrecht noted that in his experience some 3PLs lack the ability to effectively respond to shippers' organizational changes.

Consumer electronics products share characteristics with fashion retail (velocity) and consumer products (short life-cycles, demand volatility, peak season demands); 3PLs with experience in retail and consumer products can also cross-pollinate best practices in product distribution and demand management with electronics companies.

High-Demand, High-Value Products

Electronics companies build products people want, with the latest, most in-demand features that appeal to specific markets. That makes them high valued – and subject to theft, counterfeit and the whims of consumer tastes. These are some of the challenges this poses:

Visibility: Global supply chain visibility is a clear priority for electronics shippers. In [Figure 15](#), it's the third-most-cited logistics challenge (41%). Electronics shippers in the US rank this more highly than those in Europe and Latin America, and larger shippers place more importance on it than smaller companies. Visibility is essential to provide inventory availability and order status to customers as well as to provide security while in transit.

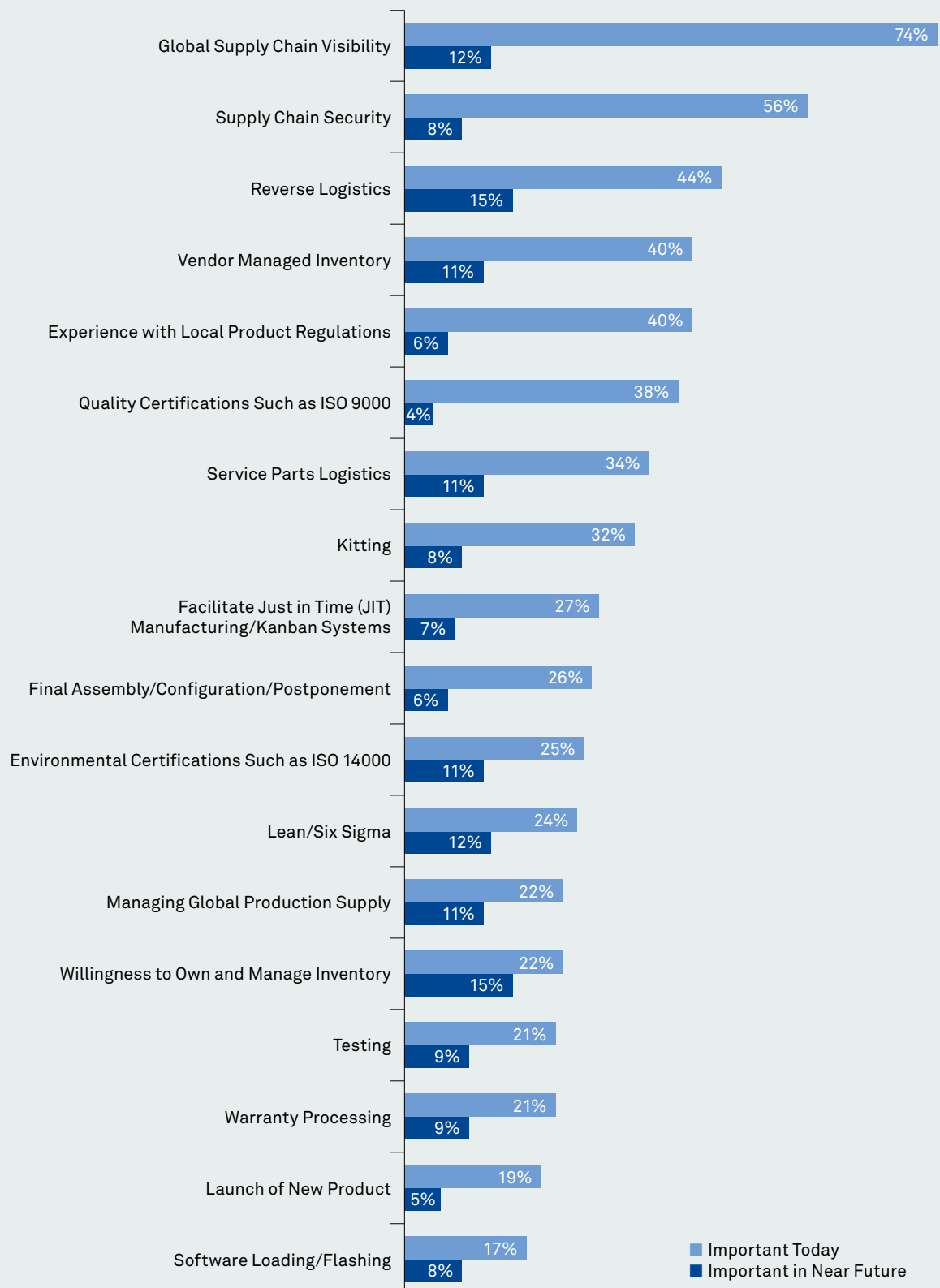
In [Figure 16](#), 74% of electronics companies cite visibility as the top service they would like to see from 3PLs, no matter the size or location of the shipper. A leading computer manufacturer, for example, has begun to pursue a model in which a 4PL manages all of its 3PLs in a given country in order to ensure visibility.

[Figure 17](#) reveals that improved forecasting and inventory visibility is the third most-used cost-saving strategy by electronics companies, although curiously, despite the fact that 3PLs are ideally situated to provide visibility to customers, both shippers and 3PLs report that 3PLs are not very likely to be assisting in this improvement process. Perhaps 3PLs are providing sufficient visibility, but work needs to be done on the shipper side to maximize its use.

74%

of electronics companies cite visibility as the top service they would like to see from 3PLs

Figure 16: Visibility Tops Services Electronics Companies Seek from 3PLs



Source: 2012 16th Annual Third-Party Logistics Study

Security: As seen in [Figure 15](#), 35% of shippers call security a supply chain challenge; while theft of electronics goods has steadily declined over the past five years, it still represents 1 in 5 thefts across all industries, according to FreightWatch's *Annual Supply Chain Survey*. [Figure 16](#) reveals that security is the second most important capability that electronics companies look for when they hire 3PLs. Security is a particular priority in emerging markets which don't have all of the protections available in mature markets. Technologies can help, such as covert and visible shipment tracking solutions, GPS and engine shutdown systems, as well as practices including driver training and use of transportation security companies such as FreightWatch. As the results indicate, shippers are looking to 3PLs to enact these measures.

Counterfeiting: A related need is to combat counterfeiting of goods through prevention and detection; electronics companies must thoroughly vet their suppliers and employ security measures for component parts as well as finished goods. Package seals with serial numbers are an important anti-counterfeit measure. One potential concept is to borrow e-pedigree practices from the pharmaceuticals industry; 3PLs could provide the supply chain integrity and manage the component pedigree processes.

On-Board Intelligence: Electronics companies are beginning to tap the digital supply chain for applications such as remote monitoring and diagnosis. Diebold, for example, enables predictive maintenance of ATMs via an embedded device, according to a company white paper. The company is notified when a component is at risk of failure and dispatches a service repair person with the correct part before it ever affects a user, reducing costs and increasing customer service. 3PLs could act as the centralized depot in this scenario to receive service messages and send replacement parts.

Packaging: Shiny packaging for often-delicate electronics products is designed to attract customers, but often requires outer boxes to protect it. Electronics companies

are testing cost-reduction and sustainability strategies such as using new protective materials, including the mushrooms and bamboo mentioned on page 25, as well as smaller packages and postponement of light assembly and packaging to the destination market—also a SKU reducer, and an opportunity for 3PLs.

Many retailers place electronics cartons right on the sales floor. If this packaging is too thin, it is susceptible to damage, and glossy coatings can be slick, causing cartons to shift in transit and pallets to collapse, damaging cartons and, potentially, contents. Sony solved this problem by improving shipment integrity through the use of corner boards, banding, air bags and improved shrink wrapping techniques.

Local Market Customization: Individual markets come with their own appetites and preferences, such as 220-volt electric service in Europe and Asia with different electrical outlets in different countries vs. 110-volt in The United States and Canada. Regulation may also dictate specific design features. 3PLs might help electronics companies with software downloads or minor localization of the hardware, such as power supply units, as well as insight into local regulations and import/export requirements, especially in emerging markets.

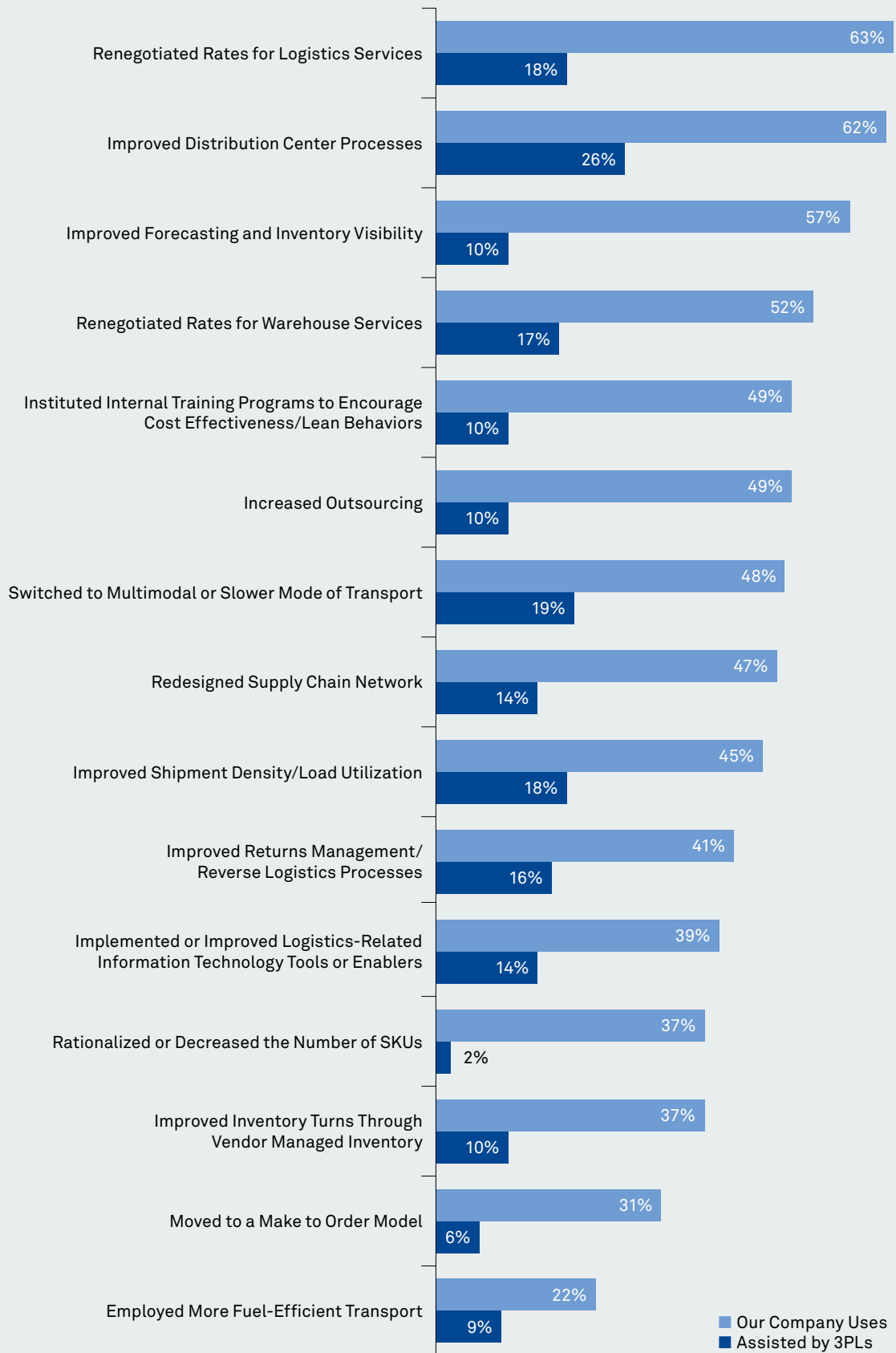
Short Lifecycles: Like fashion apparel, many electronics products are made in emerging countries such as China, Taiwan, India and Brazil and consumed in US and European markets. This means a relatively long supply chain for lifecycles that often run just six to 18 months, creating obsolescence issues.

These short lifecycles combined with the challenges of accurately forecasting demand also means inventory obsolescence is a significant problem for electronics companies, particularly for make to stock. The majority (69%) of electronics shippers believe 3PLs can help them deal with inventory obsolescence by proactively identifying slower moving items and items that have been replaced with newer releases.

26%

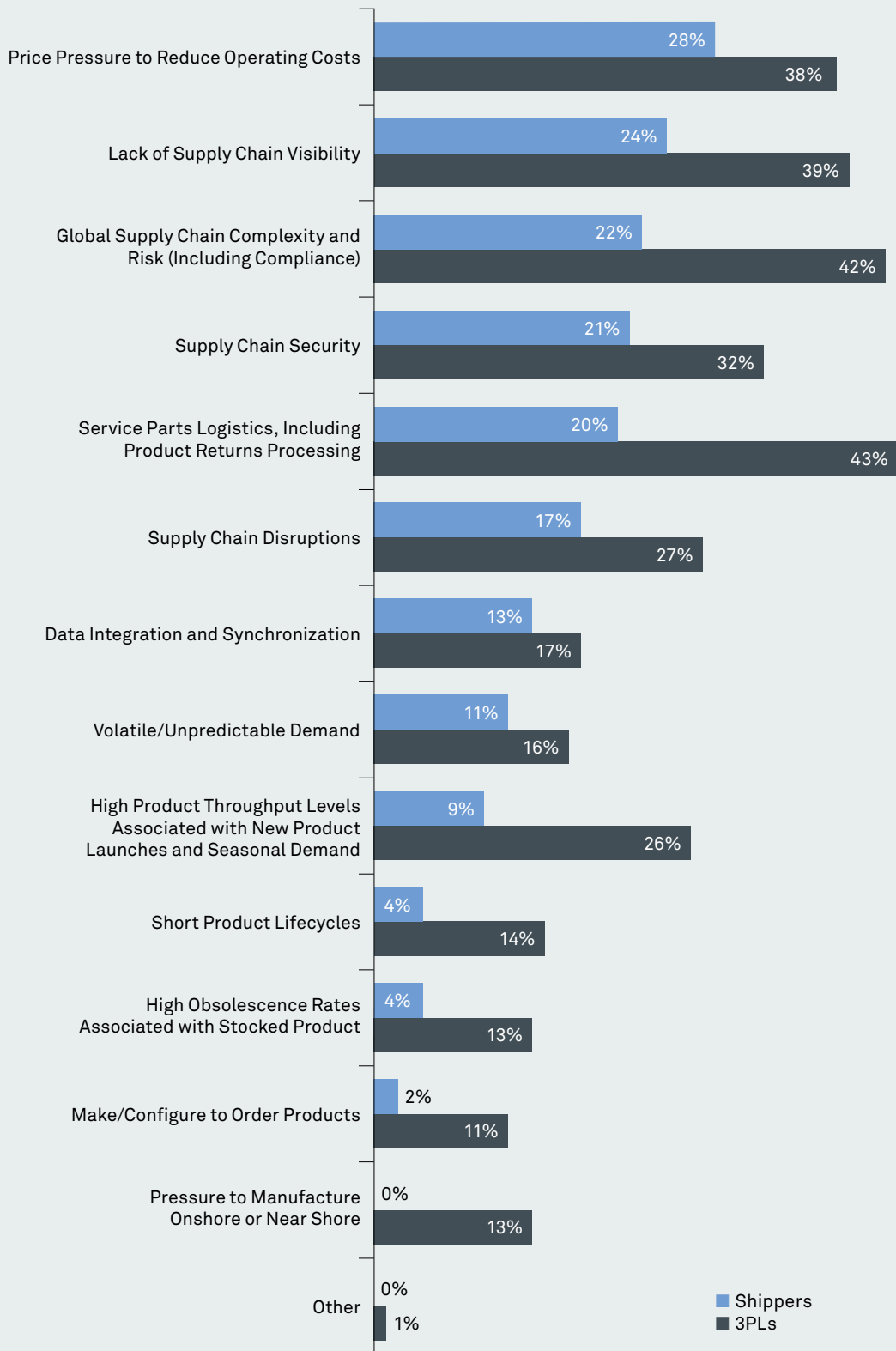
of shippers feel 3PLs can help them improve distribution center processes as a cost-saving strategy, the top-ranked way they believe 3PLs can assist them in lowering costs

Figure 17: Electronics Companies Employ Many Logistics Cost Savings Methods



Source: 2012 16th Annual Third-Party Logistics Study

Figure 18: More 3PLs Than Shippers Believe 3PLs Can Help with Challenges



Source: 2012 16th Annual Third-Party Logistics Study

3PLs could help to identify at risk inventory in the warehouses that they manage, as well as arrange intermodal and other consolidation services to increase the supply chain velocity without dramatically increasing transportation costs. “You need a very good level of integration to be adaptive and flexible to cope with these shorter life cycles,” says Tony Xia, Sr. Logistics Manager with Emerson Electric.

When inventoried items become obsolete, 58% of electronics shippers in the survey agree that online auctions are an important means for electronics companies to reclaim some value. Facilitating online inventory disposition is the next logical step in a 3PL value-added service offering. A number of electronics companies use FreeFlow, provider of online private marketplaces and auctions, to sell at-risk inventory through secure channels for each stage of the inventory aging process.

The Role of 3PLs

As seen throughout this chapter, electronics companies favor outsourcing in both manufacturing and logistics services. That’s especially true in emerging markets. Yet there is a clear gap between the services 3PLs are currently providing and the additional value they could provide.

As seen in [Figures 15 and 18](#), electronics shippers give low marks to 3PLs’ ability to solve their top logistics challenges. The largest gaps occur on their highest priorities: 59% call price pressure to reduce operating costs their top challenge, while just 28% believe 3PLs can help them with this challenge. A similar gap is revealed in 3PLs’ ability to help electronics companies with global supply chain complexity and risk, including compliance. 3PLs themselves also see a gap, albeit smaller, between these challenges and their involvement in helping their customers with these challenges.

The same is true in top savings methods used by electronics companies in [Figure 17](#); there are significant gaps between strategies used and assistance by 3PLs in those efforts, confirmed by 3PLs themselves.

At the ASE workshop in Utrecht, one contract manufacturer shed some light on one of the reasons shippers’ may not seek to undertake problem-solving with 3PLs. “They do not bring cost reductions and a lean approach to the table very often,” he said. “They will do only what they are asked to do; they do not proactively offer many value-added services.”

It’s clear in [Figure 18](#) that 3PLs see opportunities to support shippers in ways electronics shippers themselves do not. Both

sides need to meet in the middle: 3PLs need do a better job in 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.

Generally speaking, electronics shippers view 3PLs as skilled and capable at fundamental logistics capabilities, but don’t necessarily turn to them for collaborative problem-solving to address their more strategic supply chain challenges. The results in [Figure 16](#) confirm that they would like to see more. Embedded throughout this chapter are suggestions for significant contributions that 3PLs can make to address electronics companies’ most vexing supply chain challenges.

Electronics: Key Takeaways

- Electronics products are complex inside and out, featuring many components and delivered to market via a fragmented and far-flung global supply chain. Add to that high demand and ever-shortening product lifecycles, and you get significant logistical challenges. Issues of concern in manufacturing and sourcing electronics include complex global sourcing, including heavy reliance on emerging markets; price pressures; and balancing make to order versus make to stock — issues 3PLs are positioned to help address. Electronics supply chains must also accommodate multiple channels with differing needs, with retail offering substantial opportunity but also exacting supply chain demands. Electronics also sees heavy merger and acquisition activity and a dis-integrated supply chain, boosting its tendency toward outsourcing.
- A high-demand, high-value product set also raises issues of visibility, security and packaging challenges, as well as the need to manage short-lifecycle issues such as obsolescence and selling off excess inventory. While a fragmented supply chain means electronics relies heavily on 3PLs to address these problems, survey results reveal that electronics companies are unlikely to feel 3PLs can help them solve their top logistics challenges. 3PLs need do a better job in selling their capabilities and shippers need to be more open to hearing about them.



Striving for excellence requires the best people

Talent Management

Overcoming the Talent Shortage

A critical shortage going on in the logistics industry today has nothing to do with inventory; it's the shortage of well-rounded supply chain managers prepared to step into key management positions. According to research by employment services provider Manpower Group, in the US, 52% of employers are experiencing difficulty filling supply chain positions within their organizations, up from 14% in 2010.

For many companies, the supply chain has become a significant contributor to attaining strategic business goals, making well-qualified logistics talent essential. As seen

in Figure 19, shippers and 3PLs agree that having the right people and leadership in place is the number one driver of their companies' success in the next five years, slightly outranking the importance of the right strategy and roadmap itself. 3PLs and shippers are aligned on all of the top drivers to organizational success.

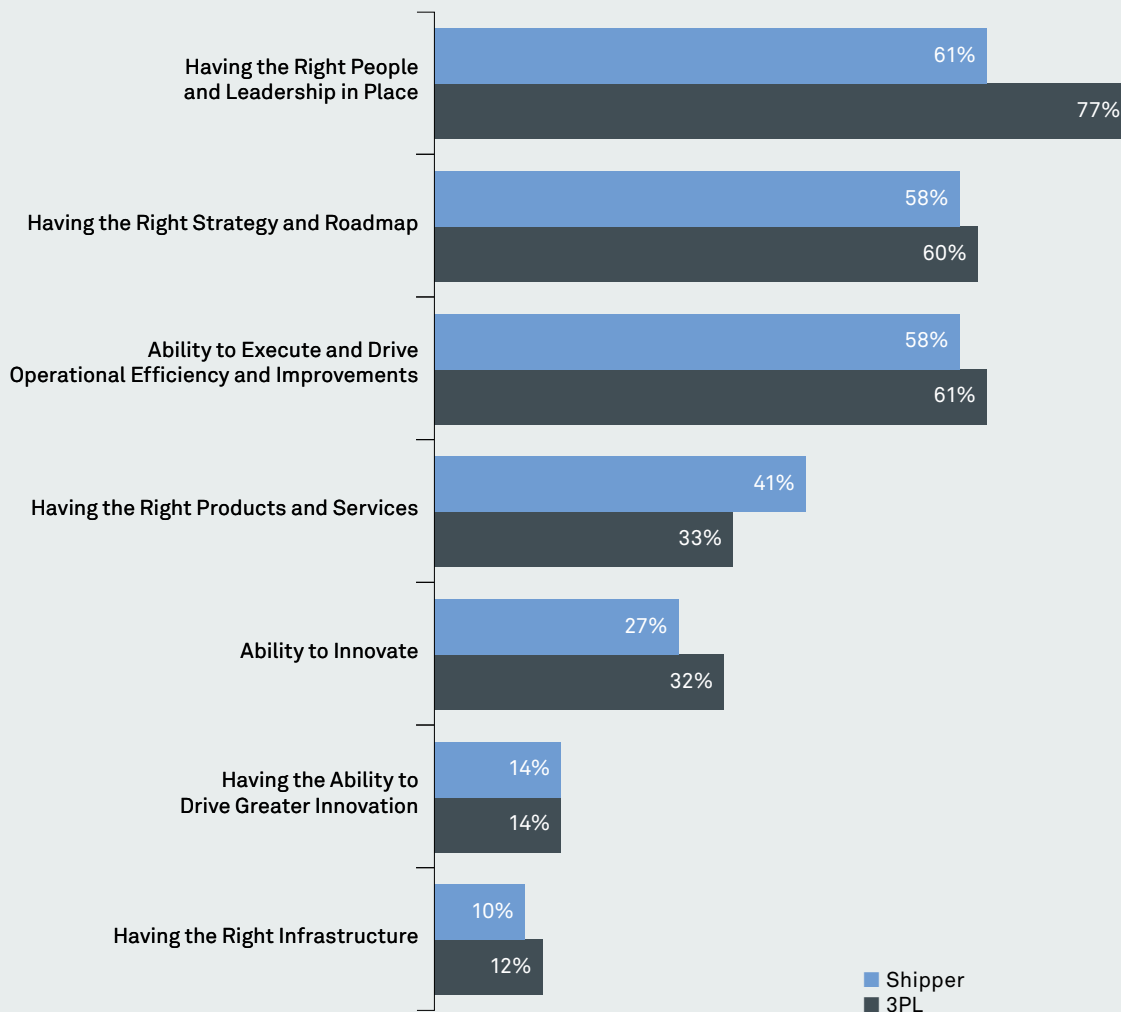
Fortunately, the talent gap can be reduced. Shippers, 3PLs and other organizations active in the supply chain community have the opportunity to both develop and attract the next generation of managers with the diverse skills required to govern

ever-more-complex supply chains. They can get there by investing in talent management, leadership skills and succession planning, as well as by defining the skill sets and capabilities these leaders will require and ensuring a satisfying work environment.

The State of Talent

Talent management is the vigorous, systematic process of connecting a clear, well-defined business strategy to the recruitment, retention and development of talent. At times, talent management is an over-used term and an underutilized discipline

Figure 19: People are the Top Driver of Organizational Success



Source: 2012 16th Annual Third-Party Logistics Study

– particularly in the logistics industry. Too often, senior management turns to talent management in crisis mode, when a key logistics employee has given notice and they dust off that musty, dated talent management manual sitting up high on the bookshelf. Development may consist of an annual performance review that gets filed away in a drawer.

The experience of one manufacturer is typical of the industry: many executives on its supply chain team boast more than 20 years at the company. That speaks volumes about its attractiveness as a workplace. But the company lacks a robust talent development process; as those supply chain executives reach retirement age, the depth of executives on the bench may be limited.

Many progressive companies leading their industries focus on effective execution of total management principles. Talent management becomes a strategic tool integrated into a company’s business practices and a part of every business manager’s responsibilities. Talent is tied to business strategy, so that if, for example, the company was moving into an emerging market, or entering new trade lanes, the need for talent would be a part of that strategic discussion.

At Kraft Foods, for example, “Supply chain executives are part of day-to-day management, an integral part of the business planning roundtable and are partnering with other key functional business leaders on the board,” says Mauricio Ferreira, Latin America Supply Chain Director. At one large pharmaceutical manufacturer, recognition of the significant impact of supply chain has elevated its importance in the executive suite. “Supply chain has been waiting outside the board room for some time, but it’s getting recognition now,” says its VP Logistics, who sits on the company’s Global Risk Management board. “The eruption of the volcanoes in Europe brought this to the table and made it front of mind that disruptions can occur.”

Talent can be a critical differentiator for 3PLs. With many of their services under threat of becoming commoditized on price, superior talent becomes a competitive advantage. Only those organizations with the very best people in place deliver the innovation and standout service that will set that company apart.

Logistics and the Talent Cycle

The Talent Cycle in Figure 20 captures the complete lifecycle of an employee’s experience, not just the initial recruitment, but all of the activities that occur to develop that person through the end of his career. The survey results suggest that many shippers and 3PLs are troubled by the current state of talent management within their organizations and see an opportunity to improve it.

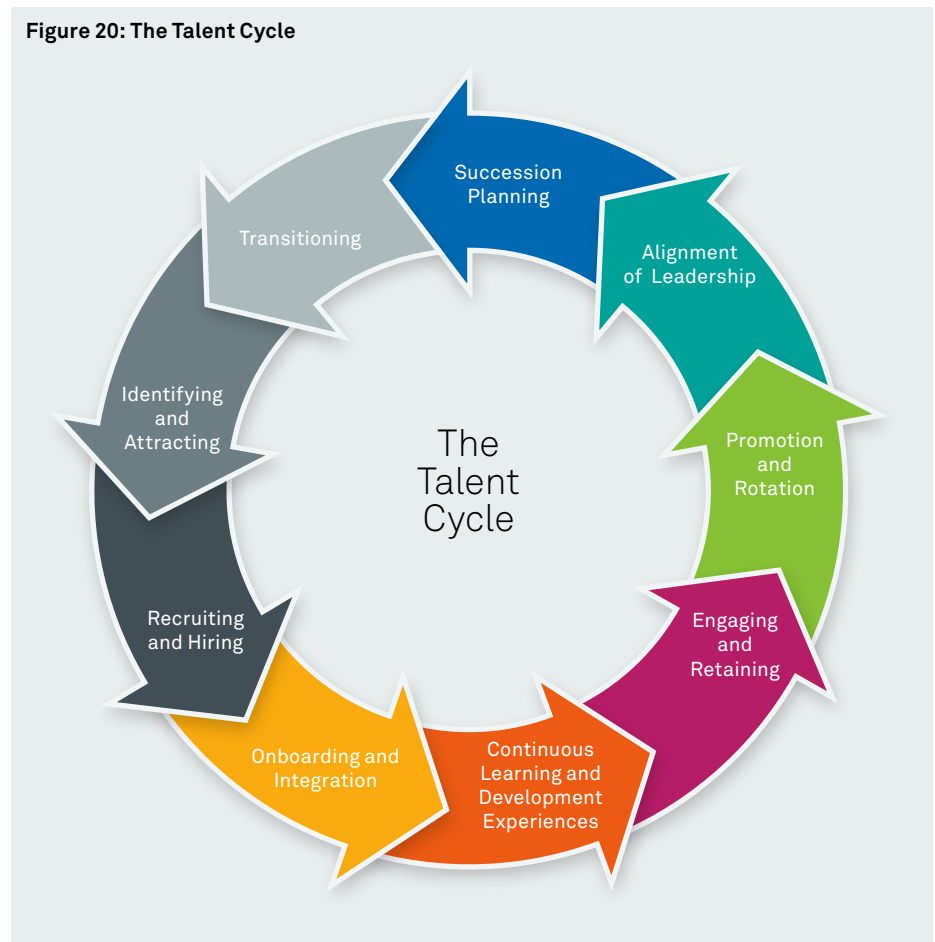
Identifying and Attracting skilled talent starts with creating a workforce strategy to align with your business strategy, then devising ways to discover and communicate what your company has to offer to attract a diverse and talented workforce. This part of the talent cycle presents tremendous opportunity and high risk. Risk is highest during the first 60 days of transitioning a leader into a new role either from inside or outside.

Recruiting and Hiring entails devising strategies for understanding talent needs and sources, executing business/talent

plans, establishing interviewing methods and skills and managing the talent acquisition investment. Often in the logistics industry, hiring occurs through word of mouth or hiring from within; as seen in Figure 21, 39% of shippers and 37% of 3PLs are concerned or significantly concerned that their company could do more to increase diverse external perspectives, such as hiring from other industries (talent recruitment).

Onboarding and Integration processes apply to the period just before and after an employee is hired, including planning and supporting transitions and deploying people in the right teams and leadership roles.

Continuous Learning and Development Experiences occur through formal and informal training as well as experience- and relationship-based learning and coaching, follow-through, and support. Shippers and 3PLs report similar experiences within their organizations; 36% of shippers and 37% of 3PLs say that their companies’ lack of a meaningful and objective process of



Source: Heidrick & Struggles

measuring performance and issuing consequent actions, such as coaching, is a concern or a significant concern (talent review process). In addition, 41% of shippers and 36% of 3PLs are concerned or significantly concerned that their organization has a number of stars, but their culture/history has not encouraged them to work collaboratively as a team (team effectiveness).

Engaging and Retaining employees' interest in a shipper or 3PL as an employer requires active communication and performance and career management exercises. Companies need to encourage and enable a work/life balance and ensure recognition and rewards along the way. A substantial 43% of shippers and 40% of 3PLs say the struggle with keeping their strongest talent in the organization is a concern or a significant concern (retention).

Promotion and Rotation means creating a talent development process with clearly defined promotion and rotation criteria and a system for assessment, feedback, and coaching. The top concern of both

shippers and 3PLs regarding talent management is the lack of a robust system of preparing rising leaders for the future, such as through job rotations, training and mentoring. (53% of shippers and 54% of 3PLs are concerned or significantly concerned about talent development)

When one telecom company outsourced logistics ten years ago, it lost a lot of experienced supply chain talent. So when the company later began to insource some logistics functions, it instituted a system to identify and map potential logistics leaders, ensuring a balance of gender and ages, and established training programs to develop their expertise.

Alignment of Leadership is all about identifying and developing candidates with high potential, including leadership development and coaching. This is the third-biggest talent management concern for shippers (47%), and second-biggest for 3PLs (48%). These respondents are concerned or significantly concerned that the capabilities of current leaders are not aligned with

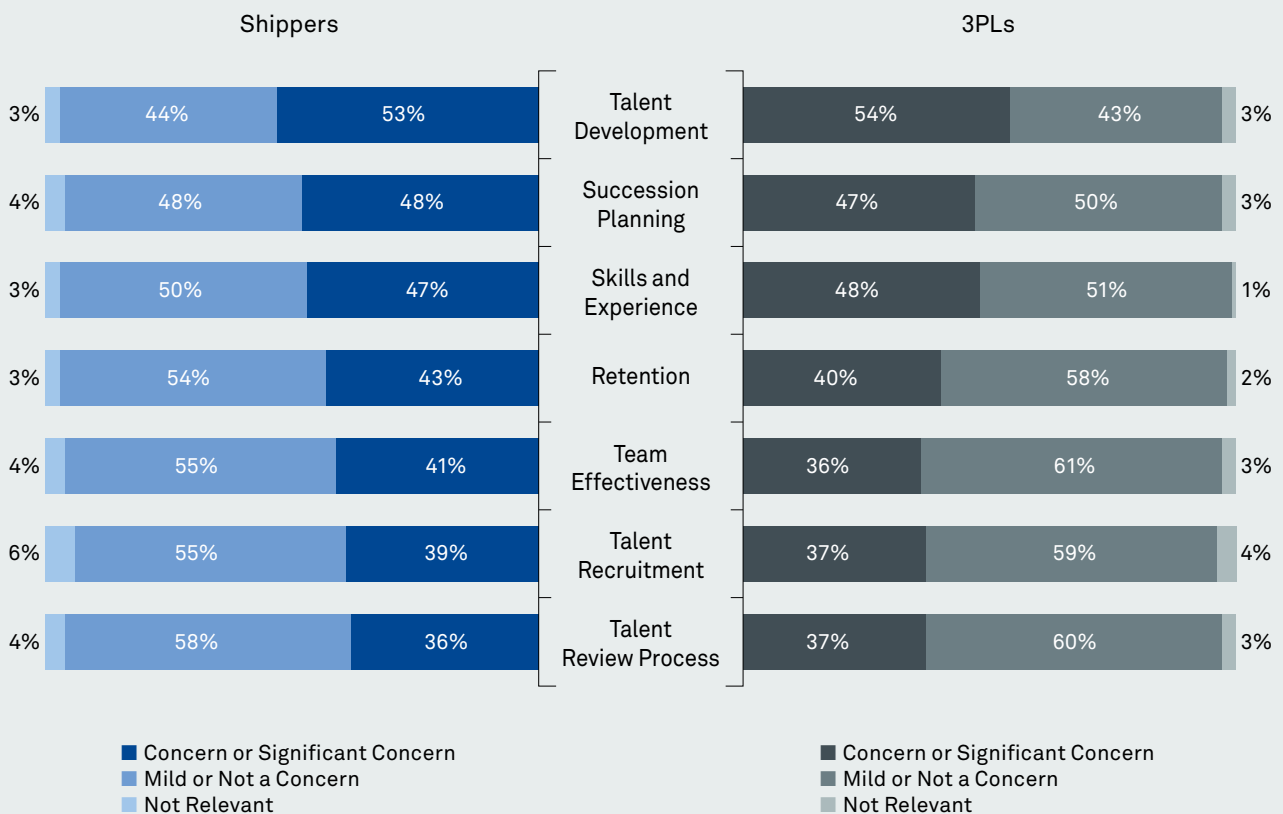
what is necessary to address future strategic challenges (skills and experience).

Succession Planning requires defining roles and needs, creating evaluation criteria and then developing, supporting and coaching successors. Another top-three concern for both shippers and 3PLs (48% of shippers and 47% of 3PLs) is that their leadership does not take an active interest in understanding the pipeline of good people in the organization and ensuring there is a robust succession planning process in place.

Transitioning means enabling smooth career transitions and staying connected with alumni and retired employees.

Organizations that embrace the activities of the talent cycle have the opportunity to ensure a continuous supply of experienced, well-rounded logistics talent.

Figure 21: 3PLs and Shippers are Concerned About Their Talent Management and Development Practices



Grooming Leaders

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.

Unfortunately, as seen previously in Figure 21, a significant number of shippers and 3PLs feel their current leaders don’t have what it takes to address future business challenges. Developing leaders requires devoting considerable effort and resources into defining and delivering training in a broad range of competencies.

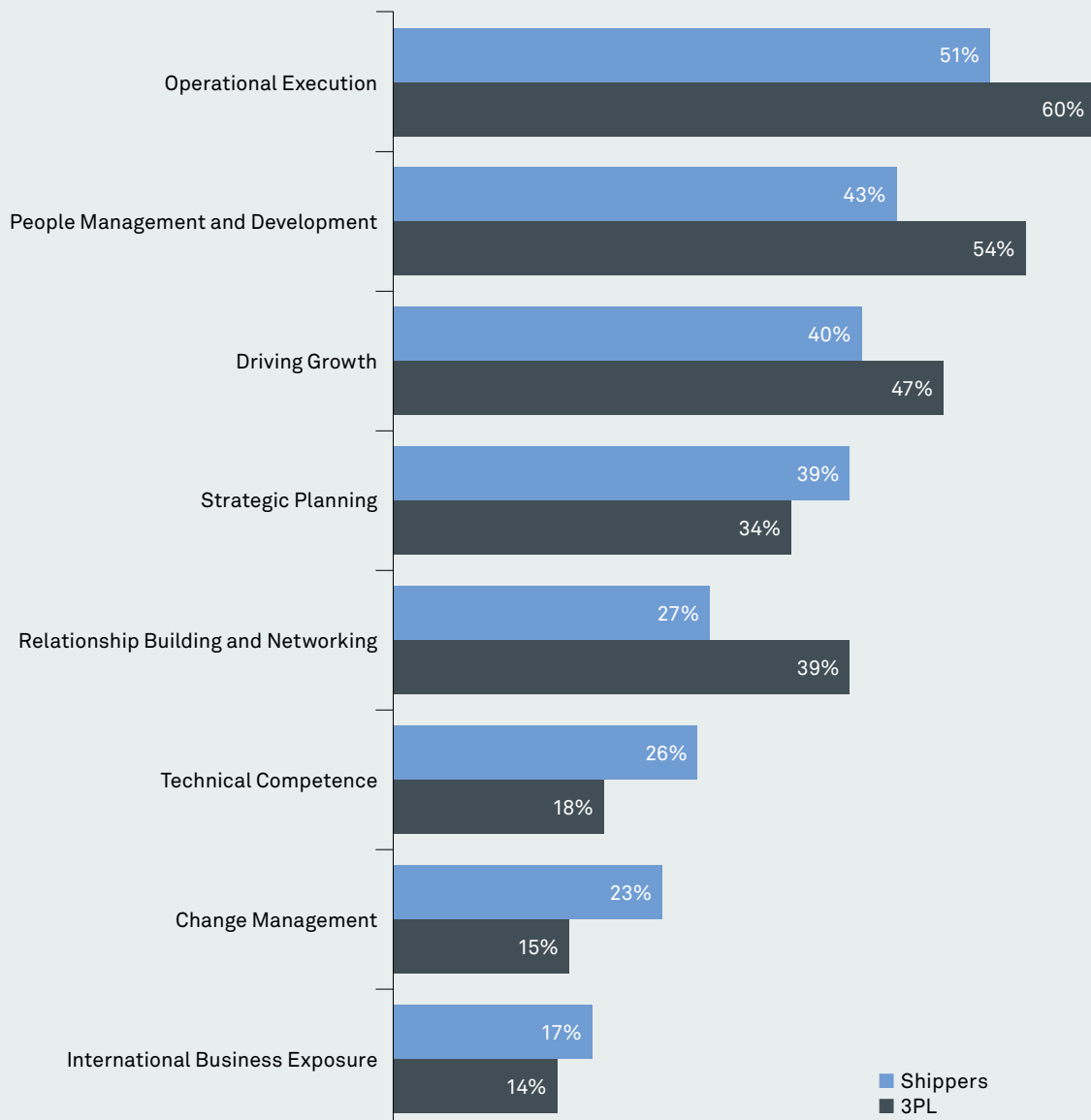
Organizations differ in the skills and attributes they see as essential in supply chain leadership. As seen in Figure 22, both shippers and 3PLs place the highest value on operational execution in their functional or business leaders – not surprising since many supply chain executives have come up through the operations ranks.

Surprisingly, for both shippers and 3PLs this is followed by leaders’ people management and development skills. People are indeed essential to logistics; the importance of the daily decisions people make, as well as relationships among the people at both the 3PL and the shipper, cannot be

underestimated. But given respondents’ assessment in Figure 21 of the current state of talent management in their firms, it’s clear many executives are not backing up this belief in people management with real structure and resources.

While shippers and 3PLs agree on these top two capabilities they value in a leader, after that the difference between a business where logistics is the core competency and one where logistics supports the core competency becomes evident: 3PLs rank a leader’s ability to drive growth as a strong third, while shippers feel it is about equal to strategic planning.

Figure 22: Operational Execution the Top Skill Shippers and 3PLs Value for Leaders



Opportunities for Tomorrow

Today’s supply chain leaders have been required to grow well beyond their operations backgrounds, developing a broad range of competencies including managing sophisticated technology, undertaking competitive and financial analysis and managing people in multiple locations, as well as dealing with flat growth, emerging market expansion and merger and acquisition activity. In many organizations, top logistics officers acquired these additional skills on the job and are clearly skilled at acquiring new competencies. Despite this, Figure 23 confirms that shippers and 3PLs are concerned about the learning agility of their leaders.

Tomorrow’s leaders will need to come into the job with an even broader set of capabilities. Figure 23 also reveals that while the largest percentage of shippers and 3PLs feel their leaders possess solid skills today, and feel their current leaders possess the required skills in relatively equal measure, they are concerned about those abilities long term. While current leaders were learning on the job, few organizations were indoctrinating these new competencies into mid-management training and development. When the time comes for this cohort of managers to move up, the gap between the demands of the job and

the skills of the available workforce will be even larger.

“Often we adopt a strategy that if it’s not broken don’t touch it,” admits the VP Operations at a large software and peripherals developer. “This sometimes leads to a scenario where investment in recruiting new supply chain talent is overlooked.”

In addition, many logistics companies ceased their involvement in supply chain graduate and apprentice programs in the mid-1990s. Today they are experiencing the effects of turning off the pipeline more than a decade ago.

Of course, depth of expertise remains important to fulfill mid-level positions. “There is a strong need for specialists as well because there are so many best practices/changes happening in the industry, which one can turn into opportunities for the company,” says Arun Salvi, Logistics Manager Asia Pacific for Shell Lubricants.

Close behind learning agility as a solid competency in today’s supply chain leaders are their ability to execute, deduce and lead visionary change and organization buy-in, although shippers and 3PLs differ somewhat in their rankings of the importance of these abilities. Also notable is the

percentage of companies developing experienced technical leaders, but struggling with leader competencies.

“At Emerson Electric, highly valued logistics leader qualities include rich experience in supply chain functions, willingness to drive change, and a long tenure of service at Emerson, so that the leader is familiar with people throughout the company’s complex corporate and divisional organization,” says Tony Xia, Senior Logistics Manager at Emerson Electric. The company rotates its candidates through different areas of responsibility to season them and give breadth of experience.

One telecom company defies the trend toward overlooking leadership development; the company maintains three separate leadership training programs, each emphasizing the following capabilities over five different aspects of leadership:

- Customer understanding
- Execution
- Strategic thinking
- Innovation
- Bringing the best out of everyone
- Breaking down complexity
- Mobilizing teams
- Adaptability

Figure 23: Logistics Leaders: Solid Today, But Concerns for Tomorrow

Leadership Capability		Immediate Concern	Somehow Managing Today	Solid Today; Long-Term Concern	Outstanding Leadership for Today and Future	I Don't Know
Learning Agility: Understanding Their Environment	Shippers	13%	24%	37%	24%	2%
	3PLs	10	24	39	25	2
Envision: Leading Visionary Change and Organization Buy-In	Shippers	12	29	33	22	4
	3PLs	12	29	35	22	2
Engage: Open Communication, Modeling Values and Ethics, Delegation and Empowerment	Shippers	13	27	30	28	2
	3PLs	12	25	30	31	2
Execute: Leading Results and Decisiveness/Decision Making	Shippers	12	24	35	28	1
	3PLs	12	21	32	33	2
Deduce: Mastering Complex Business Problems	Shippers	11	29	34	22	4
	3PLs	12	27	32	26	3

Source: 2012 16th Annual Third-Party Logistics Study

In Search of...

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 – 64% of shippers, and 71% of 3PLs, as seen in [Figure 24](#). But 3PLs are more likely than shippers (41% versus 37%) to look outside their own industries. Companies with private equity investment tend to be more likely to take this tack than others. Both shippers and 3PLs may be forced to begin searching in adjacent industries as the talent pipeline continues to dry up.

When one third-party logistics provider sought to infuse top talent into its global leadership team, the company conducted an external search to discover candidates at industries with similar dynamics, including:

- Business-to-business outsourcing services
- Businesses with large numbers of people working at multiple sites
- Industries with some kind of route-based transportation network
- Warehouses and light manufacturing plants, such as contract manufacturers

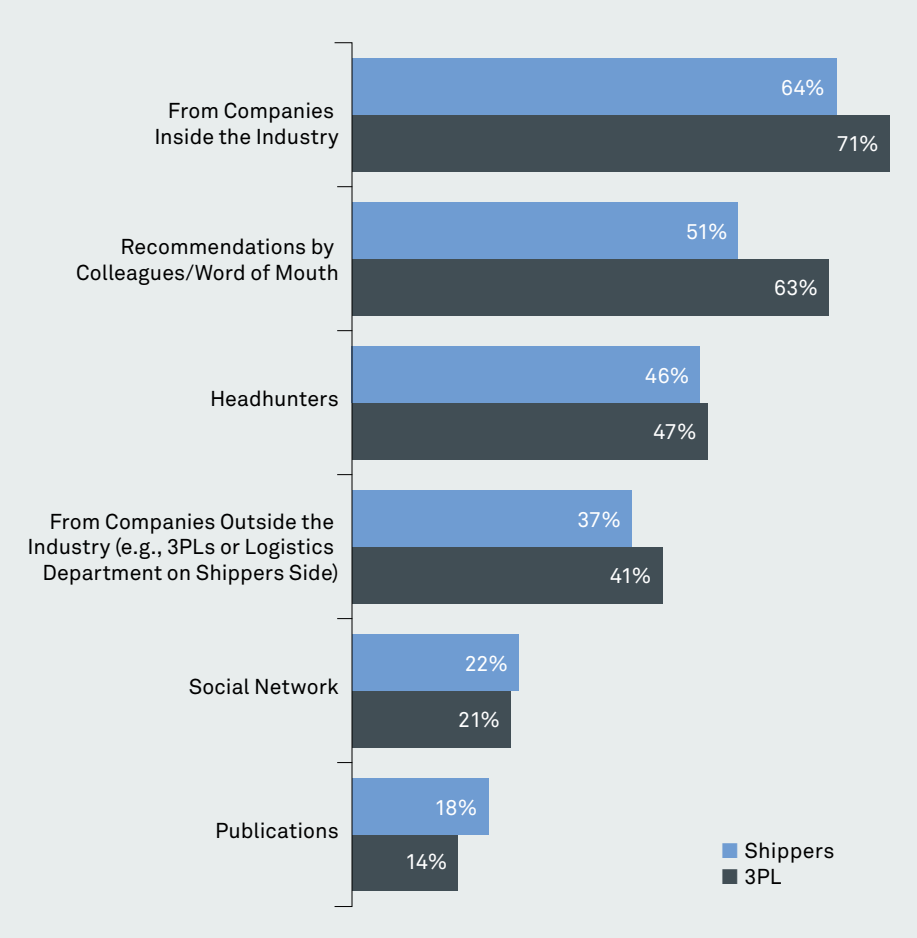
Shippers and 3PLs favor recommendations by colleagues/word of mouth as their number one talent recruitment strategy (51% of shippers, 63% of 3PLs), and are equally likely to use head hunters (46% and 47%). Social networks are used by a surprising 21% of 3PLs and 22% of shippers for recruitment.

Attracting Talent

Enticing the best candidates is far easier when the company searching is a great place to work. Shippers and 3PLs differ marginally in ranking the top qualities of an attractive workplace, but as seen in [Figure 25](#) company success and performance, attractive salary and benefits and personal development opportunities within the company are top-three for both. “Attractive remuneration packages and clear career paths are important,” agreed an executive at a telecom company.

People want to work at one large computer manufacturer, for example, because it’s “constantly changing,” says its Supply Chain Director. “It’s a fast-moving company and there is always a challenge. We are constantly reinventing and reassessing how we do supply chain and systems.”

Figure 24: Companies Look Inside Industry First for Logistics Talent

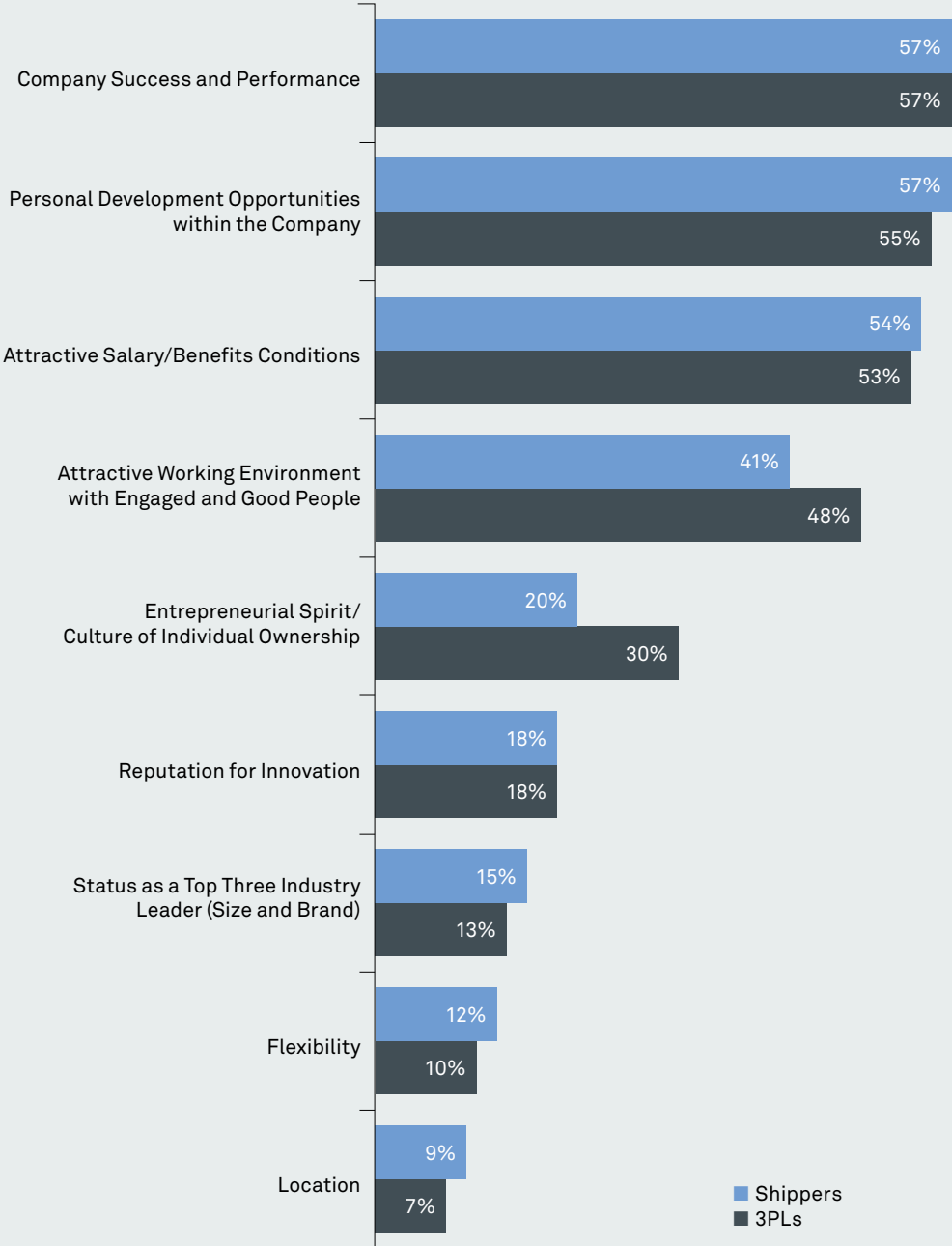


Source: 2012 16th Annual Third-Party Logistics Study

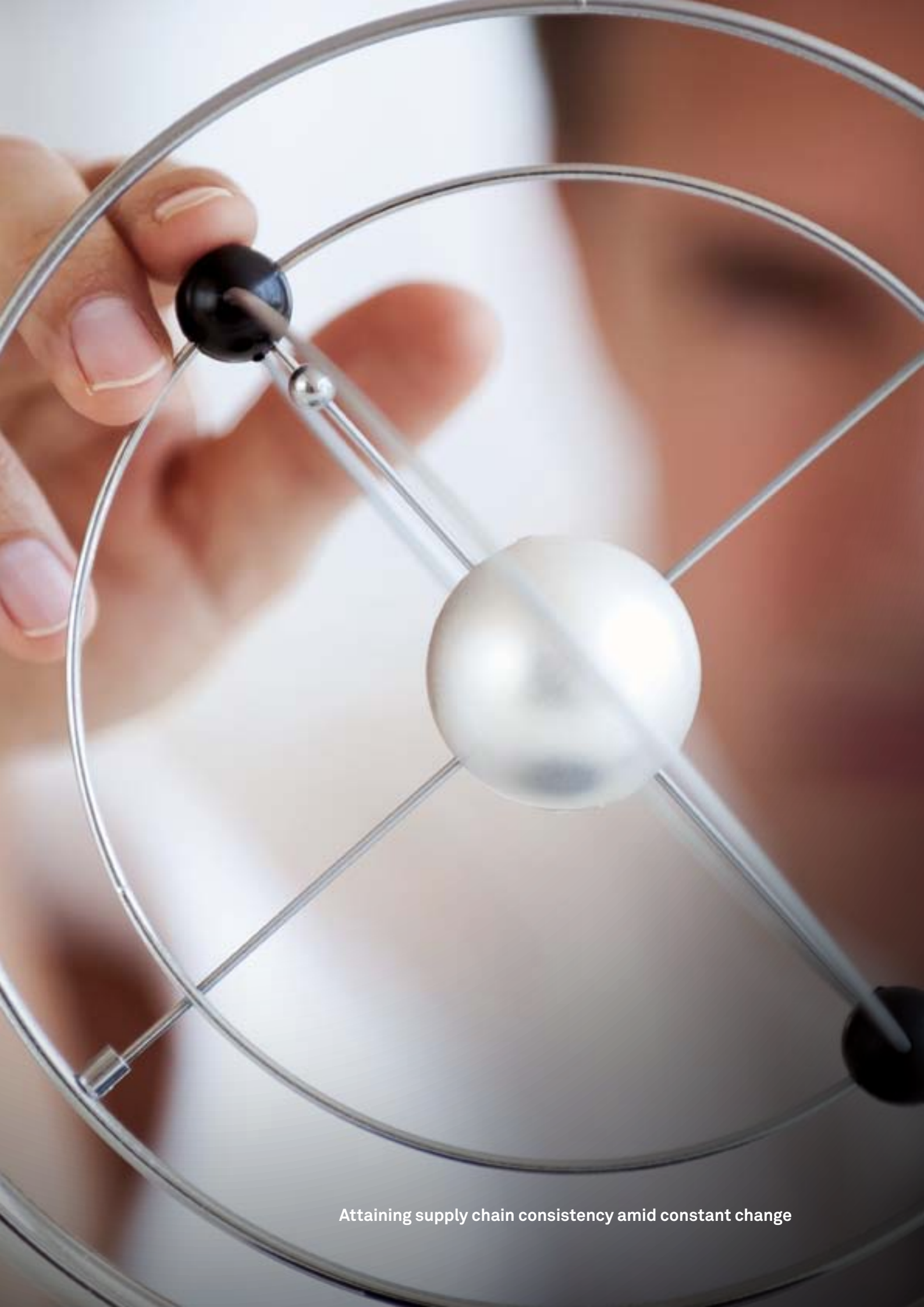
Talent Management: Key Takeaways

- Shippers and 3PLs agree that having the right people and leadership in place is the number one driver of their companies’ success in the next five years. But the supply chain industry is experiencing a talent recruitment crisis. Many shippers and 3PLs are troubled with their talent processes today; too often, executives turn to talent management only when a key employee gives notice. Organizations that embrace the activities of the talent cycle have the opportunity to ensure a continuous supply of experienced, well-rounded logistics talent.
- Shippers and 3PLs most highly value operational execution in their functional or business leaders – not surprising since many supply chain executives have come up through operations. The largest percentage of shippers and 3PLs feel their leaders possess solid skills today, but they are concerned about those abilities long term. While current leaders were learning on the job for today’s expanded logistics demands, few organizations were indoctrinating these new competencies into mid-management, limiting their suitability for leadership roles.
- Most shippers and 3PLs recruit from inside their own industries, but 3PLs are slightly more likely than shippers to look outside their own industries, a growing need as the talent pipeline dries up. Company success and performance, attractive salary and benefits and personal development opportunities within the company are top-three factors for attracting logistics talent.

Figure 25: Company Success and Personal Opportunity Make For Attractive Employers



Source: 2012 16th Annual Third-Party Logistics Study



Attaining supply chain consistency amid constant change

Strategic Assessment

In Supply Chain, the One Constant is Change

Static: It's one word you don't hear in supply chain circles very often, and for good reason: Logistics is synonymous with movement, both in goods and information, and in the design and evolution of the supply chains that make that movement possible. Constantly changing economic and political dynamics necessitate continual re-evaluation of supply chain decisions. The job is never dull, challenging supply chain professionals to think creatively and strategically.

Inspired by the findings of this year's study, this strategic assessment examines several trends spurring yet more change and innovation in the supply chain world. First is the overall rise in outsourcing of logistics, followed by the growing use of supply chain control towers – both indicators of the increasingly complexity of managing today's supply chains.

Emerging markets are a key factor in that complexity, and a trend to nearshoring is another sign of constantly changing global dynamics. Companies have moved production to emerging markets in pursuit of lower costs, but that decision changed conditions in those very markets, challenging companies to reconsider the economics and in some cases turn to nearshoring. Finally, a change impacting every industry is the emergence of social media, and like others, the supply chain industry is in the early stages of working out how to best leverage its power to enhance day-to-day business functions while minimizing the risks.

Global Trends in Outsourcing-Insourcing of Logistics Services

Outsourcing of logistics activities is on the rise, according to survey findings reported in the Current State of the Market Chapter. Nearly two-thirds (64%) of shippers report an increase in their use of outsourced logistics services, and 76% of 3PL respondents agree this is what they are seeing from their customers. At the same time, 24% of shippers are returning to insourcing some of their logistics activities, a

trend confirmed by 37% of 3PLs. Both are consistent with past *Annual 3PL Studies*. So overall, there is a greater momentum for shippers to outsource logistics activities and processes than to insource them. Is there a tipping point? The point at which outsourcing reaches saturation? Possibly there is, but it is our belief that this has not yet occurred.

Shippers in Asia-Pacific (76%) and Latin America (73%) are leading the way, with shippers in these regions much more likely to increase their use of outsourcing than those in North America (58%) and Europe (57%). This suggests that shippers in developing regions of the world have a greater inclination to increase their use of outsourcing than those in the more developed economies in North America and Europe.

One possible reason is that 3PLs' functionality has developed to the point that the 3PL sector is considered a useful alternative for companies in regions that are trying to build out logistics capabilities and infrastructure to support supply chain activities. Or, it may be that shipper decision-makers in more mature markets have become more defensive when making outsourcing-insourcing decisions, opting at times for an insourcing strategy they consider to be less risky. This rationale may also help to explain why many shippers appear to be risk-averse, and generally not very adventuresome, when making decisions as to what activities and processes they are willing to entrust to 3PLs.

Given all that, it might be surprising to hear that shippers in Asia-Pacific and Latin America also report they are returning to insourcing some of their logistics activities to a greater extent than their counterparts in North America and Europe. While this could be viewed as contradictory to the findings above, it also could suggest that shippers in these regions are more likely to make changes to their outsourcing-insourcing strategies (one way or the other, or more often) than shippers in the generally more developed regions.

Overall, these results support the assertion that the markets for outsourced logistics services in Asia-Pacific and Latin America can be very attractive, and are clearly targets for globally focused 3PL operations. Considering the increasing complexity of supply chains and the growing challenges of managing global business activity, there is a strong argument that shippers should be looking carefully at bolstering logistics capabilities with services and processes available from 3PLs and 4PLs.

Creating Supply Chain Control Towers

As addressed throughout this report, supply chain management is becoming ever more complex. Globalization trends such as offshoring, nearshoring and outsourcing of manufacturing and logistics, together with increasing customer demands and competitive pressures, have made visibility even more critical for effective decision making within and across organizations.

A growing number of companies are addressing this need via supply chain control towers. A supply chain control tower is a central hub with the required technology, organization and processes to capture and use supply chain data to provide enhanced visibility for short- and long-term decision making that is well-aligned with strategic objectives. Once this is in place, every product ordered; every shipment shipped; every document created; every cost accrued; and every event generated in the flow of product from order to final delivery is captured, organized and stored in the tower.

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 delivers benefits across inbound and outbound logistics processes as well as operational benefits.

One Capgemini electronics customer, for example, leveraged a supply chain control tower to attain quick information retrieval

and analysis, faster transactions, in-transit visibility and compressed cash-to-cash cycle times. A pharmaceutical manufacturer used its supply chain control tower to realize increases in transit time consistency, efficiency in handling of insurance claims, customer service levels and increased focus on critical service issues while reducing safety stock.

Such results don't come without challenges, of course. One common mistake in implementing is underestimating the amount of IT collaboration needed with trading partners to obtain the messaging and data. Companies also tend to want to track movement of goods at a level that is challenging in terms of granularity,



resulting in excess cost and over-saturation of information. Inadequate transportation management, such as mismanaged spend and use of non-integrated carriers, means those shipments will not be tracked effectively.

Aside from the need for careful and capable planning and implementation of the control tower concept, this trend should be viewed as a giant step forward in terms of better understanding and managing overall supply chain activities and processes. Correspondingly, it is natural that development of these capabilities will be accompanied by the further emergence of logistics providers who establish a core competency in assisting shipper-customers with refining and implementing capable

supply chain control towers. Some 4PLs are already offering such services, as noted in the Electronics chapter. Although this concept may seem to be more applicable to shippers having complex global supply chains, steps in this direction can help to enhance the efficiency, effectiveness, and professionalism of the supply chains of firms of all types.

Reconsidering Emerging Near-Shore Markets

The term emerging markets often brings a list of countries to mind: Russia, India, China, and so on. But what if those emerging countries are not in proximity to the markets where a company intends to sell its goods? As companies begin to reconsider the long, thin supply chains that have chased the lowest prices for key input factors, many are taking a second look at emerging or somewhat-more-developed countries near their target markets whose proximity makes up for somewhat higher factor costs. A case in point: The Boston Consulting Group forecasts net labor costs for manufacturing in the US and China to converge by about 2015, and total landed cost differentials to be in the single digits to zero.

In the *2009 14th Annual Third-Party Logistics Study*, a chapter on Supply Chain Optimization noted the trend to reconsider sourcing strategies, fueled by several factors. For one, after an extended period of decline, inventory and transportation as a percent of the US gross domestic product has been growing. Other factors include a rise in labor rates in emerging markets as growth fuels the formation of middle class, rising fuel prices, the impact of government intervention and emerging transport alternatives such as the Panama Canal and intermodal options. Quality and security concerns are also driving the trend.

The chapter reported that a critical consideration in choosing offshoring versus near-shoring is the role 3PLs can play in restructuring the supply chain to better meet current and emerging conditions, as

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well as serving in a more strategic capacity in the new infrastructure that results. Nearly 60% of shippers said this was the time in which to re-evaluate their relationships with their 3PLs and possibly drive these relationships deeper.

Lower freight costs, improved speed to market and lower in-transit inventory costs are the most attractive advantages shippers expect when they choose near-sourcing, according to *Alix Partners' Low Cost Country (LCC) Analysis, 2010*, a survey of companies selling into the US market. That study found 42% of shippers are already near-shoring or will be within three years. In comparison, 37% are taking an offshoring approach in that time period. Despite concerns about security and safety, 63% of those moving to near-shoring and 42% of those moving to offshoring favor Mexico as their number one outsourced production location, driven largely by favorable total landed cost calculations.

What is clear is that when it comes to production outsourcing, the right decisions are growing less and less clear. As the cost differential for factors such as component price and transportation costs narrows among production locations, metrics such as total landed cost become critical information necessary to fuel decision making, alongside factors such as market pressures for agility, speed and increased capability. Another key decision point is the value 3PLs can offer in enabling production in near or offshore markets.

Leveraging Social Media in the Supply Chain

Social media are weaving themselves into our personal and professional lives. As the day progressed at the ASE workshop in Chicago, social media repeatedly emerged as a potentially useful component of logistics, so much so that by day's end, it became the focus of a special breakout session.

Among the benefits of social media such as LinkedIn and Facebook are a high

scalability and ease of use combined with a low level of investment. It allows more self-reliance while providing greater visibility and more real-time information.

Social media has already found an important role in many businesses. A survey by Econsultancy and Adobe found 31% of European businesses believe social media marketing is a highly significant trend for them; 53% rated it as quite significant. According to Gartner, by 2012, spending on social software to support sales, marketing and customer service processes will exceed \$1 billion worldwide.¹ Popular business functions include marketing and advertising (i.e., crowdsourcing), speed to customer feedback (real-time insight) and recruiting.

31%

of European businesses believe social media marketing is a highly significant trend for them

These concepts can easily be adopted by supply chain managers. For example, crowdsourcing (leveraging the mass collaboration enabled by Web 2.0 technologies) can drive forecasting by amassing insights into purchase intent or price elasticity. Transportation carriers could tap social media for real-time insight into traffic issues. Social media is already serving as a rich venue to locate new talent with the right skills for a particular position, or generate interest in supply chain internship programs.

¹ Gartner, Inc.: "Predicts 2011: CRM Enters a Three-Year Shake-Up", Ed Thompson, et al 22 November 2010

Those aren't the only possibilities. Other potential uses of social media include:

- Collaboration to solve problems, innovate solutions and set benchmarks
- Industry focus groups
- Procurement and sourcing
- Personalized product offers from social media sites linked to an order entry page
- Background checks
- On-demand training

Of course, logistics will be heading up a steep learning curve alongside other industries, working out the best ways to leverage social media's power. Companies will need to develop rules, formats, policies, training programs, case studies and proof of concept cases, and must learn to manage user experimentation and expectations. Issues of concern likely to emerge include liability, inter-generational conflict, pockets of non-users, emerging hacker risks and a tendency to overweight the value of chatter compared with other sources of information.

"Rate negotiations and contracts are currently being freely discussed on blogs," noted eyefortransport participant Peter Starvaski, Director Product Management, Kewill, calling attention to one of the trends occurring in social media. Such struggles are inevitable with any new paradigm. In fact, the *Annual 3PL Study* team is undergoing similar challenges in discerning the best ways to leverage social media to enhance data gathering and analysis as well as create a richer user experience of the study results. Ideas include use of LinkedIn, Twitter and Facebook as well as location-based services, use of QR codes, and formats including ePubs and Kindle that enable readers to share and bookmark content and engage in real-time, interactive feedback. The study team welcomes your feedback on social media venues you would find valuable, as well as on any aspects of this report on which you would like to comment.

About the Study

This report presents findings from the *2012 16th Annual Third-Party Logistics Study*, which was conducted in mid-2011.

This is the 16th year that the *Annual Third-Party Logistics Study* has documented the growth and evolution of the third-party logistics (3PL) industry. The study has evolved and expanded over its history to remain as current as possible while offering additional perspective and enhancing its value to both users and providers of 3PL services. For example, while the study has always looked at 3PL services from the point of view of users of 3PL services (shippers), this is the third year that the study also has included the viewpoints of providers of 3PL services.

Four streams of research make up the *2012 3PL Study* methodology: a web-based survey, desk research, focus interviews with industry experts and facilitated shipper workshops, two of which were held at Capgemini Accelerated Solutions Environment® (ASE) locations. Study respondents and participants represent a broad range of industries and are predominantly from North America, Europe, Asia-Pacific and Latin America, in addition to other locations throughout the world such as Australia, South Africa and the Middle East.

Multiple research streams and a broad array of perspectives result in a rich and heterogeneous collection of the attitudes, trends and results experienced by 3PL users, non-users and 3PL providers.

Observant readers will note that last year's study was the *2010 15th Annual Third-Party Logistics Study*. The study team chose to call this year's report the *2012 Study* to better reflect the time frame in which the results enjoy the most active and lively discussion.

2012 Study Objective

The overall objective of the *2012 Third-Party Logistics Study* is to discover and explore 3PL industry trends, issues, and opportunities.

Each year, the study results together with developments in the global economy and the logistics industry suggest trends that warrant closer examination. Included in the *2012 Study* are special topic reports on emerging markets, electronics and talent management.

The *2012 3PL Study* also provides perspectives on what shippers and 3PLs are doing to enhance their businesses and their business relationships.

Goals for each portion of the study include:

Current State of the Market:

- Understand what shippers outsource and what 3PL providers offer.
- Identify trends in shipper expenditures for 3PL services and recognize key shipper and 3PL perspectives on the use and provision of logistics services.
- Update our knowledge of 3PL-shipper relationships, and learn how both types of organizations are using these relationships to improve and enhance their businesses and supply chains.
- Quantify the benefits reported by shippers that are attributed to the use of 3PLs.
- Document what types of information technologies and systems are needed for 3PLs to successfully serve customers.
- Comment on the importance of fuel efficiency and carbon emissions information in the 3PL selection process.
- Examine why customers outsource or elect not to outsource to 3PL providers.

Special Topics:

- **Emerging Markets:** Examine the role of 3PLs in emerging markets, the challenges faced by both shippers and 3PLs, and factors that impact the success of conducting logistics and supply chain activities in these evolving business environments.
- **Electronics:** Conduct an in-depth analysis of the electronics industry. To identify key issues relating to shippers and their 3PLs and how they work together to achieve individual and mutual objectives.
- **Talent Management:** Understand the strategic importance of talent management as a key set of processes and activities that can greatly influence the success of a shipper or 3PL operation. This is the first *Annual 3PL Study* to consider Talent Management, and the findings and recommendations should be instructive for shipper and 3PL organizations that place a high priority on succession and sustainability of the talent needed to manage their organizations.

Strategic Assessment

- To provide a view of the future of the 3PL industry and shipper-3PL relationships.
- To comment, as appropriate, on topics that are relevant to the future success of business relationships among shippers and 3PLs.
- To examine ideas that may help to explain how the 3PL sector may work more effectively with its customers and clients to provide meaningful solutions to relevant supply chain issues and challenges.
- Essentially, to provide a forward-looking dialogue that may spawn topics that will end up being future areas of inquiry for the *Annual 3PL Study*.

2012 Study Methodology

Rapidly changing global and industry dynamics and the evolution of the logistics industry have driven considerable transformation in the capabilities and uses of 3PLs over the sixteen years of this study. To gain insight

into these changes, the study team uses four complementary streams of research.

Web-Based Survey

During the spring and summer of 2011, a link to a web-based survey was sent via email to logistics and supply chain executives in North America, Europe, Asia-Pacific, Latin America, as well as other regions and geographies of the world. In addition to shippers, surveys were sent to executives from companies providing 3PL services in order to gain their perspectives on many of the issues and topics included in the user survey. The study team extends its appreciation to the global organizations that facilitated the participation of their members and contacts in the web-based survey. These organizations are recognized with the respective logos appearing below the Table of Contents for this report.

The contact database of logistics and supply chain executives represented a wide range of industries, the most prevalent which were automotive/transport equipment, chemical,

consumer products, food and beverage, healthcare, electronics, manufacturing, retail, and 3PL/4PL.

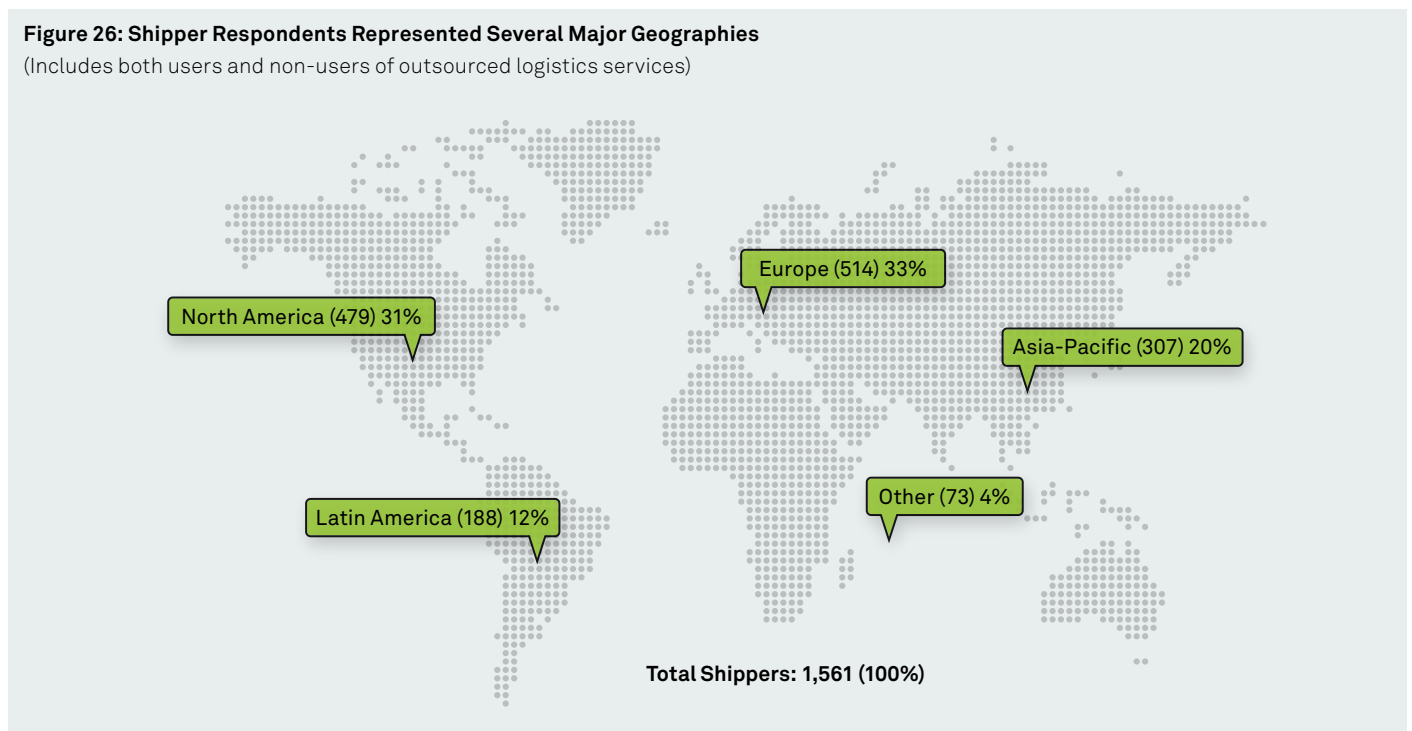
The survey was available in English, Spanish, Portuguese, French and German. To ensure confidentiality and objectivity, 3PL users were not asked to name which specific 3PL providers they used.

Survey recipients were asked to think of a “third-party logistics (3PL) provider” as a company that provides one or more logistics services for its clients and customers and a “fourth-party logistics (4PL) provider” as one that may manage multiple logistics providers or orchestrate broader aspects of a customer’s supply chain.

3PL Users: Figure 26 indicates the number of survey responses received from logistics and supply chain executives (i.e., shippers) in various regions of the world. These totals reflect the numbers of users and non-users of 3PL/4PL services who responded to the

Figure 26: Shipper Respondents Represented Several Major Geographies

(Includes both users and non-users of outsourced logistics services)



Source: 2012 16th Annual Third-Party Logistics Study

web-based survey. Many of the shipper survey respondents held corporate positions including Manager/Director, VP/SVP, and Corporate Officer/President/CEO. [Figure 27](#) and [28](#) provide information on the industry classification and anticipated total sales for 2011 as reported by respondents who identified themselves as users of 3PL/4PL services. A comparison of the sales breakdowns in [Figure 28](#) with those from last year's study reveals that this year there were more respondents (37%) in the lowest sales category than in the previous year's study (29%).

3PL Non-Users: Included in the totals shown in [Figure 26](#) are non-users of 3PL services who provided their perspectives on why they do not currently use 3PLs, and on a number of other topics relevant to their classification as non-users.

3PL Providers: Responses were also received from 697 executives and managers representing the provider side of the 3PL business. General characteristics of these respondents included: 1) a wide spread of operating geographies; 2) an extensive list of industries served (actually quite similar to the industries represented by the participating 3PL users); 3) a range of titles, from managers to Presidents/CEOs; 4) approximately 37% of the 3PL firms expected 2011 company revenues in excess of US\$1 billion (approximately €750 million), while about 53% reported revenues of less than US\$500 million (approximately €375 million).

Desk Research

The research team, with the support of Capgemini's Strategic Research Group, assayed a variety of published research related to the special topics to create survey questions and analyze the responses.

Focus Interviews

Industry observers and experts lent their expertise to the study team through a significant number of "focus interviews" primarily relating to the special topics addressed in this year's report. These focus interviews provided exceptionally valuable opportunities to gather pertinent information and perspectives from a wide range of professionals who have knowledge about the 3PL sector and these special topics.

ASE Workshops

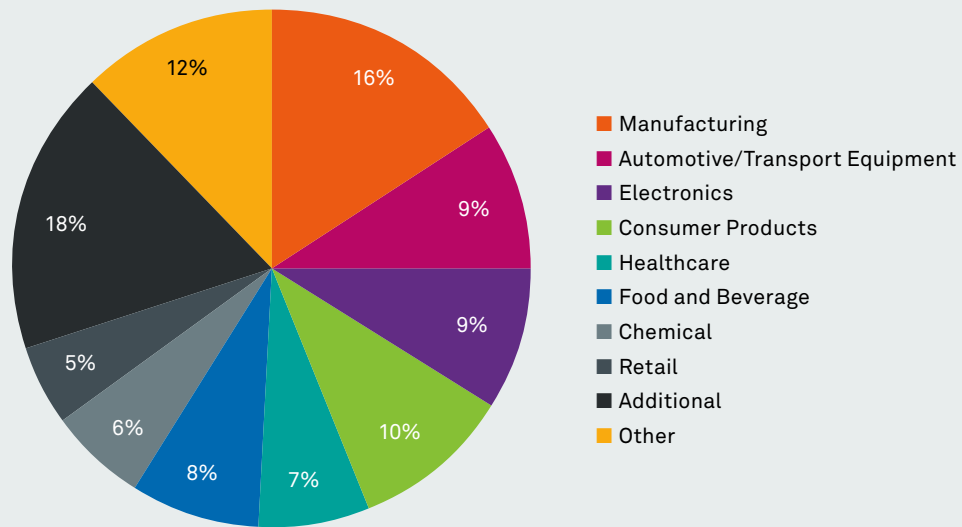
We leveraged the Capgemini Accelerated Solutions Environment® (ASE) as a brainstorming setting where participants, all shippers, collaborated on shared issues. (See www.capgemini.com/ase for more about ASEs.) To better understand the results of the survey and to gain valuable perspective from 3PL users, the research team held facilitated ASE sessions based on sample supply chain challenges related to the study material. ASE sessions were held in Chicago, Illinois and in Utrecht, The Netherlands. A similar, non-ASE workshop, which included a broader base of participants, was held in June, 2011, at the eyefortransport 3PL Summit held in Atlanta, Georgia.

Follow-Up Activities

In addition to this publication, the results of the *2012 16th Annual Third-Party Logistics Study* will be presented in a variety of venues. These include:

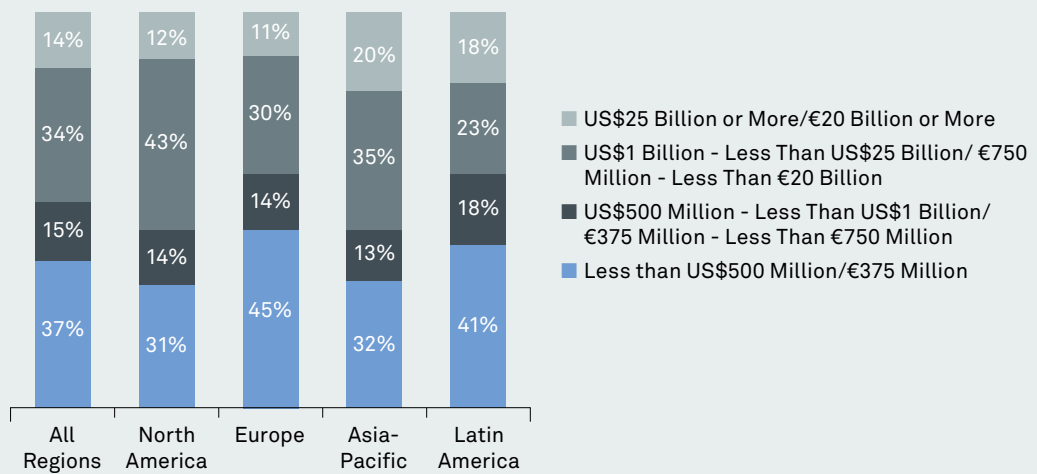
- Presentations at influential industry conferences such as the Council of Supply Chain Management Professionals (CSCMP), eyefortransport 3PL Summit and Chief Supply Chain Officer Summit.
- Analyst briefings that are typically conducted in the weeks following release of the annual study results in the fall of each year.
- Magazine and journal articles in publications such as *Supply Chain Management Review*, *Logistics Management*, *Inbound Logistics*, *Logistics Quarterly*, and *Supply Chain Quarterly*.
- Webcasts conducted with media and publications such as *Supply Chain Management Review*, *Logistics Management*, and others.
- A web site, www.3PLstudy.com, which includes copies of the report for download as well as supplementary materials.

Figure 27: Eight Industries Represent Just Over 70% of Shipper Respondents



Source: 2012 16th Annual Third-Party Logistics Study

Figure 28: Nearly 50% of Shipper Respondents Anticipated 2011 Sales in Excess of US \$1 Billion (€750 Million)



Source: 2012 16th Annual Third-Party Logistics Study

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Credits

The *16th Annual 3PL Study* team would also like to thank all of the companies and individuals who shared their experiences and insights with us through focus interviews, ASE workshops and the workshop at eyefortransport. Your contributions are invaluable to the analysis of the survey results and the ideas expressed in this report.

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