

2005 THIRD-PARTY LOGISTICS

Results and Findings
of the 10th Annual Study



Logistics Outsourcing
Practices



3PL Service Offerings
and Capabilities



Management and
Relationship Issues



Customer Value
Framework



Technology
Enablement



Strategic
Assessment

2005 Third-Party Logistics **Results and Findings of the 10th Annual Study**

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Supporting Organization



Introduction and 10-Year Retrospective

This report presents the findings from the 10th Annual Third-Party Logistics Study. From 1996 to 2005, this study has helped to identify and track key trends and views of the third-party logistics (3PL) industry from the perspective of the customers who use 3PL services. Over its 10-year history, each annual study has addressed for an increasingly broader range of user industries and regions the key issues that have emerged from time to time relevant to the logistics and 3PL industries.

We would first like to acknowledge the much-appreciated participation of the 3,463 logistics executives over the past 10 years who took the time to complete our annual survey and to share their 3PL experiences. They are why this study has been able to provide 10 years of useful information on a vital industry that serves logistics professionals every day.

Second, we would like to recognize the key businesses that have supported and been part of this research over its 10-year history. Among these companies are Exel (formerly Exel Logistics Americas), Ryder System, Inc., FedEx Supply Chain Services, Inc., Capgemini (formerly Cap Gemini Ernst & Young), and beginning this year, DHL and SAP. Without the involvement of key people from these companies and the financial resources they have provided, this study would not have been able to achieve the professional respect and attention it receives today.

Looking back over the past 10 years, the overall business environment and the logistics sector has experienced significant—even tumultuous—change. Here are some of the key ways in which professional life in 1996 was quite different from today:

- ❑ In 1995, U.S. logistics costs were reportedly US\$773 billion. The comparable figure for 2004 was US\$1,015 billion.¹
- ❑ Logistics costs as a percent of U.S. gross domestic product declined from 10.4% in 1995 to 8.6% in 2004.²
- ❑ The U.S. 3PL/contract logistics market grew from an estimated US\$31 billion in 1996 to US\$85 billion in 2004.³ Additionally, a large number of corporate mergers and acquisitions involving 3PL providers, many on a global basis, occurred between 1996 and 2005.
- ❑ According to financial analysts in 1995, the logistics industry could be characterized by “too many trucks chasing too little freight.”⁴ In 2005, it is difficult to find any sector in the logistics industry where lack of capacity is not a significant problem.
- ❑ Although the European Union was in place in 1995, it would be seven years before the euro was introduced as the official currency in most of Europe. In 1997, Hong Kong was returned to China from having been an important British crown colony.
- ❑ Business in general, and the 3PL sector in particular, have become far more global in 2005 than they were in 1995. In response to the expanding regional needs of companies across a broad range of industries, the logistics sector is being asked to expand its services for customers with global logistics needs. This has created a growing market for comprehensive, global 3PL services.

Over the years, this study has provided significant insight into how customers view and use outsourced providers of logistics services. The first six years of the study, 1996 to 2001, focused exclusively on the trends in North America. Since 2002, the study also surveyed users in Western Europe, Asia-Pacific, Latin America, South Africa, and the Middle East. The following are some of the changes we have seen in the 3PL industry over the past 10 years:

- ❑ While for the first six years of the study about 72% of the survey respondents from North America described themselves as “users” of 3PL services, this percentage has increased about 80% in the past four years. Significant use of 3PL providers and services also exists in the other regions studied.
- ❑ In all the years of the study, we asked logistics executives what factors were affecting their businesses. Exhibit 1 shows four major factors and changes in those factor’s rankings. In recent years, respondents have also cited increases in the importance of “emphasis on improved supply chain management” and “intensifying government and regulatory policies,” among other factors.
- ❑ Annually, the most prevalent logistics services outsourced to 3PL providers are transportation (outbound and inbound) and warehousing. In the past 10 years, however, many services have increasingly been outsourced, including customs clearance and brokerage, freight forwarding, cross-docking/shipment consolidation, and order fulfillment and distribution.
- ❑ Throughout the history of this study, 3PL users have given their outsourced 3PL efforts high ratings in terms of “success.” As is discussed each year, however, 3PL users still expect their 3PL providers to improve in a number of service areas.
- ❑ Survey findings in recent years indicate that logistics is increasingly an important area of activity within a company. Results from each of the regions studied substantiate the fact that logistics represents a strategic, competitive advantage.

Exhibit 1

| Factors Perceived by Logistics Executives, 1996-2005 | | | |
|--|--------------------|---------------|-------------|
| Factor | 1996 North America | 2005 | |
| | | North America | All Regions |
| Pressure to reduce cost | 87% | 96% | 91% -100% |
| Pressure to enhance customer service | 65 | 80 | 74 - 84 |
| Globalization | 58 | 80 | 63 - 90 |
| Develop new information technologies | 47 | 82 | 81 - 96 |

One conclusion stands out, though: The 3PL industry is still growing. Among the priorities currently facing 3PL providers are regional expansion, broadening services to meet the needs of current and future customers, integrating information technologies, and developing relationships with customers and other business firms that will facilitate the growth and expansion that lies ahead.

It has been very exciting to see the 3PL industry develop over the past 10 years. We expect to see in the years ahead significant changes and enhancements to the provision and use of outsourced logistics services.

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1 16th Annual State of Logistics Report. Oak Brook, IL: Council of Supply Chain Management Professionals, 2005.

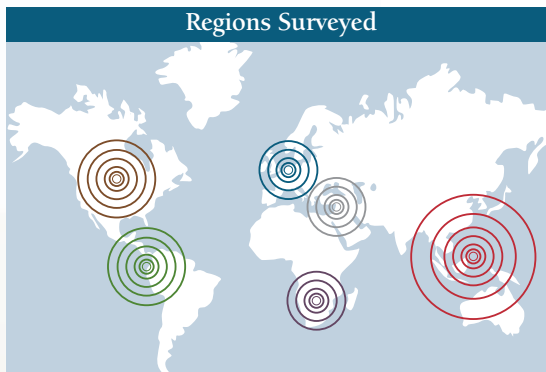
2 Ibid.

3 Armstrong and Associates, www.3PLogistics.com.

4 7th Annual State of Logistics Report. St. Louis, MO: Cass Information Systems, 1996, page 11.

Exhibit 2

- North America
- Western Europe
- Asia-Pacific
- Latin America
- South Africa
- Middle East



Study Objectives and Methodology

During the spring and summer of 2005, C. John Langley Jr., Ph.D., of the Georgia Institute of Technology, with Capgemini, DHL, and SAP, conducted an extensive study about using 3PL services in North America, Western Europe, Asia-Pacific, Latin America, South Africa, and the Middle East.^{5,6} This is now the 10th annual research study to examine critical trends and issues among key markets and key customers in the 3PL industry.

Study Objectives

- Measure the development and growth of the 3PL industry across major industry segments and across several diverse regions of the world.
- Summarize the current use of 3PL services.
- Identify customer needs and how well 3PL providers are responding to those needs.
- Understand how customers select and manage 3PL providers.
- Examine why customers outsource or elect not to outsource to 3PL providers.
- Investigate leading topics, including 3PL service offerings and capabilities, structuring and managing effective 3PL relationships, how customers view success and value from 3PL relationships, and technology enablement.
- Provide a strategic assessment of the future of the 3PL industry.

Methodology and Research Approach

This study identifies and tracks key trends and views of the 3PL industry from the perspective of customers who purchase and use 3PL services. In addition, a number of respondents who are not using 3PL services provide key information as to why they do not currently outsource logistics services and what their plans may be in the future. As is done every year, the 2005 3PL study incorporates appropriate revisions of content and terminology from past year's surveys to be current and to respond to recent changes in the logistics, supply chain, and 3PL/4PL industries.

Survey recipients were asked to think of a "third-party logistics (3PL) provider" as one that provides multiple logistics services for its clients and customers. Following several examples of firms that would be typical of such a definition,⁷ recipients were asked to think of a "fourth-party logistics (4PL) provider" as one that may include more advanced logistics outsourcing services than a conventional 3PL normally would provide.⁸

The study methodology included using e-mail to contact logistics and supply chain executives across North America, Western Europe, Asia-Pacific, Latin America, South Africa, and the Middle East. (In this study, an "executive" holds the title of manager, director, or vice president of logistics or supply chain management.)⁹ Executives willing to participate in the survey were asked to click an Internet link that would lead them to an online survey. Although surveys had been sent by mail in earlier years of this study, the Internet has been used for the past several years to contact participants and to facilitate their involvement. The 2005 3PL study used a web-based commercial firm to



administer and manage the survey, including e-mailing surveys and invitations to participate, tabulating results, and preparing reports for analysis.

To better understand the results of the survey and to gain valuable perspective from 3PL users, the research team also held a workshop session at the Caggemini Accelerated Solutions Environment (ASE) facilities in Boston, MA, USA. Additionally, two focus group conference calls were held with European logistics executives, and a workshop was held in Singapore with key logistics executives from Asia-Pacific. The participating executives helped by reviewing selected research results and by commenting on various topics related to the use of 3PL services. Details about the ASE and the focus group sessions are in the appendix.

Regions Covered and Survey Response Rates

In addition to the regions included in last year’s study (i.e., North America, Western Europe, Asia-Pacific, and Latin America), the current study surveyed logistics executives in South Africa and the Middle East (see Exhibit 2).¹⁰

Exhibit 3 shows the number of companies contacted in each region, the number of responses received, and the response rate. As in previous years, multiple waves of e-mails were sent to logistics executives to increase response rates. The research team also tried to delete obsolete and duplicate e-mail contacts. As a result, the overall response rate doubled from last year’s study to 14%. Unfortunately, the total number of responses in South Africa and the Middle East were not sufficient for meaningful analysis. These two regions have been targeted for improvement in the next annual study.¹¹

Industries Studied

The industries predominantly represented by the survey respondents included:¹²

- Automotive
- Chemical
- Consumer Products
- Food and Beverage
- High-Tech and Electronics
- Industrial Manufacturing
- Life Sciences (Pharmaceutical) and Medical
- Retail
- Telecommunications

These industries were selected because they view logistics as strategically important and because they are viewed as purposefully moving toward integrated supply chain management.

Exhibit 3

| Survey Response Rates | | | |
|-----------------------|---------------------|------------------|---------------|
| Regions | Companies Contacted | Usable Responses | Response Rate |
| North America | 3,649 | 516 | 14% |
| Western Europe | 1,997 | 339 | 17 |
| Asia-Pacific | 881 | 53 | 6 |
| Latin America | 1,060 | 144 | 14 |
| South Africa | 175 | 31 | 18 |
| Middle East | 13 | 8 | 62 |
| Totals | 7,775 | 1,091 | 14 |

5 The authors of the study would like to thank the Latin America Logistics Center (LALC) as a Supporting Organization and particularly Maria F. Rey, Executive Director, for their helpful involvement with the Latin American portion of the 2005 Third-Party Logistics Study. In addition to providing contact information for Latin American logistics executives, Ms. Rey and the LALC graciously translated the entire 3PL survey into both Spanish and Portuguese. Also, the study team would like to thank Gary Allen and Kenneth Edwards, formerly of Caggemini, for their diligent and helpful work as members of the project team.

6 The 2005 study includes the Middle East, but as explained elsewhere, the number of responses was not sufficient for meaningful analysis or a true understanding of the 3PL environment in that region.

7 The firms cited as examples in the survey included DHL, Exel, FedEx, Kuehne & Nagel, Menlo Logistics, Panalpina, Ryder, Schenker, Schneider Logistics, UPS, and UTI Worldwide.

8 As explained elsewhere, the industry executives participating in the ASE, focus groups, and workshop sessions provided valuable insights to help distinguish between the terms 3PL and 4PL, as well as more advanced services that may be available from integrated logistics services providers.

9 To facilitate completion, surveys were translated into French, Portuguese, and Spanish for executives in various parts of the world.

10 South Africa had been included to a limited extent in the 2003 Third-Party Logistics study.

11 The response rate for Latin America increased significantly from 2004 to 2005. The research team is most appreciative of the efforts of Maria Rey and the Latin America Logistics Center (LALC) in helping with this improvement.

12 The study also included a few respondents in the apparel and utility industries.

Characteristics of Survey Respondents

The following are key characteristics about the firms participating in the 2005 3PL study:

- Although a broad range of company types were included in this study,¹³ the percent of respondents representing the manufacturing sector were 70% in North America, 65% in Western Europe, 70% in Asia-Pacific, 59% in Latin America, and 67% in South Africa. The wholesale/distribution/retail sectors were represented by 18% of the respondents in North America, 22% in Western Europe, 13% in Asia-Pacific, 22% in Latin America, and 22% in South Africa.

Exhibit 4

| Regional Scope of Users' Logistics Responsibilities, 2005* | | | | |
|--|----------------|----------------|--------------|---------------|
| Location of 3PL User | Regional Scope | | | |
| | North America | Western Europe | Asia-Pacific | Latin America |
| North America | 96% (98%) | 48% (45%) | 47% (46%) | 46% (43%) |
| Western Europe | 26 (22) | 98 (99) | 28 (28) | 23 (26) |
| Asia-Pacific | 16 (19) | 19 (24) | 97 (100) | 10 (14) |
| Latin America | 16 (16) | 13 (12) | 11 (8) | 95 (96) |

*Numbers in parentheses represent results from 2004 study. Percentages in each "home" region may not quite equal 100% because a number of survey respondents may have responsibilities that exclusively extend beyond their "home" region (e.g., 96% of North American respondents have responsibility that includes North America, while the remaining 4% have responsibilities that do not include North America).

- Users indicated a broad regional scope for their logistics operations. For example, the logistics responsibilities of 96% of the respondents in North America, 98% in Western Europe, 97% in Asia-Pacific, and 95% in Latin America included at least their own region (see Exhibit 4). In general, the respondents also had broad responsibilities for logistics in other major areas of the world. For example, North American respondents had responsibilities in Western Europe (48%), Asia-Pacific (47%), and Latin America (46%). The composition of regional responsibilities has tended to be somewhat the same for the past three years. The study also indicates that North American 3PL users tend to have broader regional responsibility than non-users of 3PL services; non-users more often have strictly local responsibility.
- Respondent firms have a relatively broad range of anticipated sales revenues for 2005.¹⁴ Of the North American respondents, 47% of the firms have revenues between US\$1 billion and US\$25 billion; another 11% project revenues over US\$25 billion. In contrast, 3PL user firms in Western Europe tend to be larger; 77% of them expect 2005 sales revenues to exceed the equivalent of US\$1 billion.¹⁵

- North American 3PL users expect that logistics expenditures will represent approximately 6% of their organizations' anticipated total sales for 2005. Comparable figures are 9% for Western Europe, 8% for Asia-Pacific, and 13% for Latin America. These figures are slightly lower but essentially similar to those reported in the 2004 study.¹⁶

- Exhibit 5 shows how many 3PL users indicated what factors are "having a significant impact on the industry in which your organization competes." Across the regions, "significant pressures to reduce cost" and "emphasis on improved supply chain management" are again in 2005 identified as key business pressures. Of particular interest this year, however, is the extent to which "implementation of new information technologies" is significant.

13 Respondents were asked to classify their firms in one of the following categories: raw materials supplier, manufacturer (components/ingredients, contract manufacturer), manufacturer (finished product), wholesale/distribution, and retail.

14 Respondents were given the option of responding to financial questions in customary monetary units (e.g., US\$ or euro). Results were then converted to US\$.

15 Data from respondents in Asia-Pacific, Latin America, and South Africa were insufficient for meaningful analysis.

16 For reference, the *16th Annual State of Logistics Report* published by the Council of Supply Chain Management Professionals (Oak Brook, IL: CSCMP, 2005) states that for 2004, the U.S. business logistics costs were US\$1,015 billion and equal to 8.6% of the gross domestic product (GDP). This percentage has been between 8% and 9% for the past three years. Although North American organizations in this 3PL study indicate logistics costs average 6% of sales revenues, the respondents generally tend to be from industries with higher-value products. This suggests that total logistics costs as a percent of sales may be slightly lower than for the overall economy.

Generally, the percent of 3PL users citing this as a key business pressure have increased from 76% in the 2004 study to 81% to 96%, depending on region, in the 2005 study. The percent of North American users indicating that “intensifying government and regulatory policies” was of concern rose from 64% in 2004 to 78% in 2005. Last, while the data in Exhibit 5 suggest that issues relating to transportation/logistics capacity and congestion concern 58% to 77% of the users, these percentages are generally lower than for other types of business pressures cited.

Exhibit 5

- Respondents also attach great importance to logistics and supply chain issues. For example, 75% of the North American respondents, 82% from Western Europe, 84% from Asia-Pacific, 94% from Latin America, and 100% from South Africa agree that “logistics represents a strategic, competitive advantage for our company.” Also, the percent of respondents agreeing with “our customers are placing

greater emphasis on logistics customer service” was 84% in North America, 81% in Western Europe, 77% in Asia-Pacific, 78% in Latin America, and 100% in South Africa. Across the regions, about half of the 3PL users felt their buying behavior indicated “a willingness to pay for value-added services.” Overall, the percent of customers agreeing with “using 3PLs is a key to satisfying their company’s customers” was 56% in North America, 49% in Western Europe, 68% in Asia-Pacific, 56% in Latin America, and 89% in South Africa. Interestingly, 73% of the North American respondents agreed with that statement in 2003, and that percentage decreased to 50% in 2004.

| Factors Affecting 3PL User Firms | | | | |
|--|---------------|----------------|--------------|---------------|
| Factor | North America | Western Europe | Asia-Pacific | Latin America |
| Significant pressures to reduce cost | 96% | 99% | 100% | 91% |
| Emphasis on improved supply chain management | 90 | 92 | 89 | 81 |
| Implementation of new information technologies | 82 | 90 | 96 | 81 |
| Significant pressures to enhance customer service | 80 | 84 | 84 | 74 |
| Globalization | 80 | 90 | 86 | 63 |
| Consolidations, mergers, acquisitions, etc. | 78 | 71 | 71 | 61 |
| Intensifying government and regulatory policies | 78 | 76 | 79 | 74 |
| Rapidly accelerating new product introductions | 76 | 79 | 72 | 81 |
| New markets | 76 | 77 | 67 | 63 |
| Security issues | 74 | 60 | 67 | 61 |
| Transportation/logistics capacity issues | 71 | 63 | 75 | 75 |
| Transportation/logistics congestion issues (e.g., port congestion) | 63 | 58 | 75 | 77 |

Organization of This Report

Following a summary of key findings, the 2005 3PL study results are discussed in five sections. The first, “Logistics Outsourcing Practices,” describes trends in logistics among users and non-users of 3PL services. The next four sections deal with areas of strategic interest to 3PL users: “3PL Service Offerings and Capabilities,” “Management and Relationship Issues,” “Customer Value Framework,” and “Technology Enablement.” These discussions encompass results from this year’s study and provide perspectives on the study’s findings over its 10-year history. The final section in the main body of the report provides a strategic assessment of the future of the 3PL industry, including an explanation of the value readers should derive from this study. The appendix details the ASE session held in Boston, the focus groups with European logistics executives, and the workshop that was conducted in Singapore.

Summary of Key Findings

This study helps provide a better understanding of the marketplace for 3PL services and the ways providers of such services continue to develop and grow. Considering that the total annual revenues of U.S.-based 3PL providers in 2004 are approximately US\$85 billion,¹⁷ the services offered by 3PL providers continue to consume a significant portion of overall logistics and supply chain budgets.¹⁸

Here are the major findings of this year's 3PL study:

- ❑ **LOGISTICS OUTSOURCING PRACTICES.** *The use of 3PL services is significant in the five regions studied. Between 1996 through 2001, the percentage of 3PL users remained relatively constant among North American respondents (between 68% and 73%). In the years 2002 to 2005, however, the percentage of North American users has shown modest growth and this year is at 80%. Based on the three most recent years of survey data, the percent of firms using 3PL services in Western Europe has been 77%. In Asia-Pacific, the use of 3PL providers is high (84% in 2004 and 83% in 2005), but in Latin America, outsourced logistics is less prevalent than in the other regions (67% in 2004 and 72% in 2005). In South Africa, the 3PL usage rate was 74%.*
- ❑ **3PL SERVICE OFFERINGS AND CAPABILITIES.** *This year's survey shows continued improvements in overall service levels from suppliers. Moreover, 3PL users continue to view a collaborative partnership approach with their 3PL providers as key to improving the user-company 3PL performance. However, unlike in past surveys, pricing has become the most important attribute in selecting a 3PL provider. This is different from last year's study where value-added services was ranked first. In fact, this year the proficiency of a 3PL provider's core services was considered more important than the provider's ability to deliver value-added services. This shift from frills to core services is a major change; in past surveys, a 3PL provider's delivery of core services was considered a "given." The "value" that is created by a 3PL relationship is a function of several factors, including benefits derived from service offerings, price versus perceived benefit, standardized versus customized service offerings, breadth of service offerings, integration (operational and technology integration), and geographic coverage.*
- ❑ **MANAGEMENT AND RELATIONSHIP ISSUES.** *This year, 88% of those surveyed view their relationship with their service provider as successful. Although users are generally satisfied with their 3PL providers, the providers are continually pressured to expand their service offerings. For 3PL providers to properly address this challenge, they must determine their market positioning, business models, and approach to exceeding customer satisfaction. Pressure to "be all things to all customers," to continually grow, and to maintain profitability makes it difficult for 3PL providers to address this challenge.*

- ❑ **CUSTOMER VALUE FRAMEWORK.** *Across all the regions studied, 3PL users are benefiting from their choice to outsource certain logistics services.* Logistics cost reductions were relatively consistent at 10% or 11% across North America, Western Europe, Asia-Pacific, and Latin America. Order fill rates in each of the regions suggest improvements occurred as the order fill rates increased in all regions. Reductions in average order-cycle length of approximately 25% to 30% were seen in North America, Western Europe, and Asia-Pacific, while the average order-cycle reduction in Latin America was halved. Inventory turns increased for 3PL users in North America and Asia-Pacific, and decreased in both Western Europe and Latin America. In terms of cash-to-cash cycles, the number of days reduction ranged from 2.8 days in Latin America to 4.5 days in North America. Last, 3PL users agreed that service levels had improved (North American executives in agreement, 62%; Western European, 67%; Asian-Pacific, 64%; and Latin American, 77%). Nevertheless, additional study results indicate these user-provider relationships are not without areas for improvement.
- ❑ **TECHNOLOGY ENABLEMENT.** *Approximately 90% of respondents agreed that information technology (IT) capabilities are a necessary element of overall 3PL provider expertise.* Implementing IT ranked third behind cost pressures (97%) and improving supply chain management (89%) as a leading factor affecting 3PL user organizations in 2005. While a high percentage of users identify IT as a necessary element of overall 3PL provider expertise, far fewer (38%) are satisfied with their providers' capabilities. In general, 3PL users have yet to think of their 3PL providers in a newer, more strategic light. Not only do over 70% of the survey respondents characterize their 3PL provider relationships as tactical in nature, their IT-based services align with this thinking. The survey suggests that as more firms progress further into outsourced logistics relationships, the complexity of those relationships necessitates a combination of effective IT services for a broad spectrum of supply chain processes.
- ❑ **STRATEGIC ASSESSMENT.** *Since the inception of this survey, customer evaluation of outsourcing success has ranged between 82% and 90%. In the last four years, satisfaction rates have consistently been around 90%.* Along with high satisfaction rates, users have stated continued benefits over the last six years. Plus, the 3PL industry has continued to achieve annual growth rates greater than 10% over the last decade, while also experiencing a tremendous amount of mergers and acquisitions. Customer expectations have continually increased from year to year while 3PL providers are pressured into ongoing development of new capabilities. Although many 3PL providers satisfy user requirements around basic services, such as transportation or warehousing, users continue to identify ongoing development of capabilities as a key issue. The stated need for advanced supply chain services and for organizations that can serve as "integrators" has validated a "strategic service" model in meeting—and servicing—the needs of 3PL users. The continual gap between user expectations and what 3PL providers deliver is a clear signal that 3PL providers and users need to "re-invent" themselves to be more capable business partners to one another.

¹⁷ Source: Armstrong & Associates, Inc., www.3plogistics.com. Estimated total contract logistics market revenues were US\$56.6 billion for 2000, US\$65.3 billion for 2001, US\$71.1 billion for 2002, and US\$76.9 for 2003.

¹⁸ 16th Annual State of Logistics Report (Oak Brook, IL: Council of Supply Chain Management Professionals, June, 2005) states that for 2004, U.S. business logistics costs were US\$1,015 billion and equal to 8.6% of the U.S. GDP.

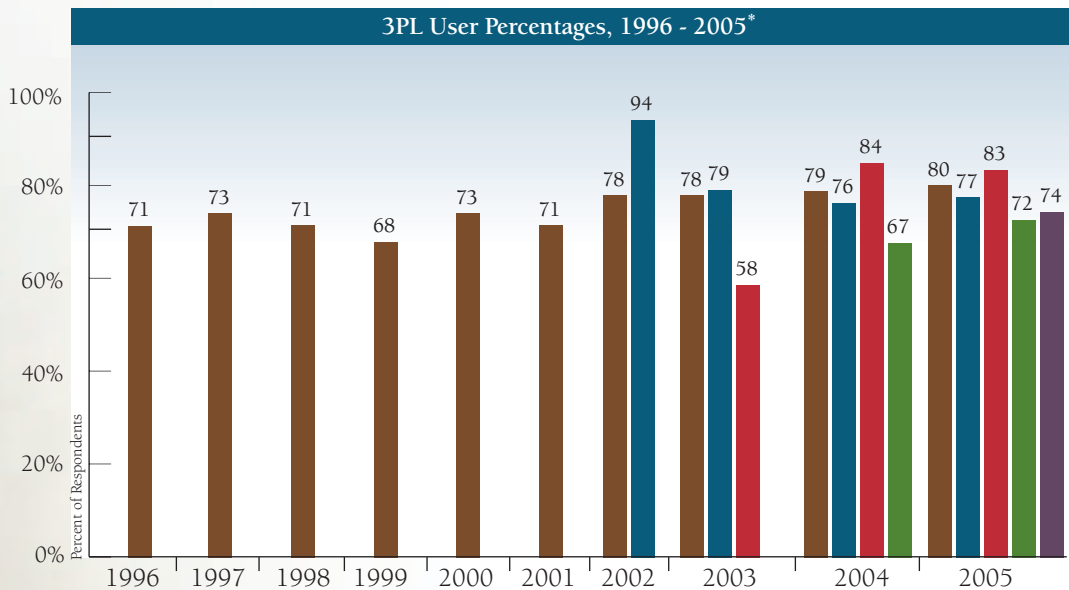
Logistics Outsourcing Practices

Overall Trends

The use of 3PL services is significant in the regions of the world that were studied. Exhibit 6 provides a 10-year profile of the firms using 3PL services. From 1996 through 2001, the percentage of 3PL users remained relatively constant among North American respondents (between 68% and 73%). Between 2002 and 2005, the percentage of North American users showed modest growth coupled with some stability.

In the three most recent years of survey data, the percentage of firms using 3PL services in Western Europe has been between 76% and 79%. In Asia-Pacific, 3PL use for the past two years has been 84% in 2004 and 83% in 2005. Based on two years of 3PL usage data from Latin America, outsourced logistics services here are less prevalent than in the other regions. Last, the single year of information from South Africa shows a 3PL usage rate of 74% in this region.

Exhibit 6



* Although these percentages are comparable from year to year, and respondents are asked to identify themselves as users or non-users of 3PL services, 3PL users may be more likely to respond to this study. This may be particularly true in Asia-Pacific.

We have further insight into the overall use of 3PL providers. As shown in Exhibit 7, from 64% to 82% of the respondents use one to five 3PL providers. Smaller percentages of respondents use larger numbers of 3PL providers, in some instances more than 50 providers.

Exhibit 8 confirms that “cost” and “service” are the two most prevalent factors responsible for using a 3PL provider. Across the board, the percentages of users indicating cost to be a factor are between 65% and 74%. Those indicating service to be a factor ranged between 51% and 64%. The third most prevalent factor for using a 3PL provider was so that

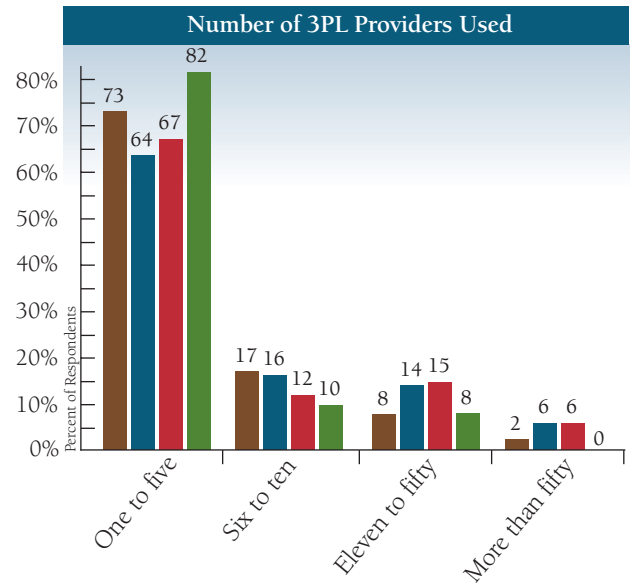
the user company could “focus on corporate core competencies” (percentages ranged from 29% in North America to 43% in Asia-Pacific).

Respondents were asked what percent of total logistics expenditures are directed to outsourcing (see Exhibit 9 on page 12) currently (2005) and in the near future (2008 to 2010). A few observations about their responses are:



Exhibit 7

- ❑ The 3PL users in Western Europe, Asia-Pacific, and South Africa tend to spend greater portions of their logistics budgets on outsourcing than their counterparts in North America and Latin America.
- ❑ One way to look at the future plans for outsourcing is to calculate the expected three- to five-year growth rate of outsourcing expenditures as a percent of overall logistics expenditures. These percentages are: North America, 16%; Western Europe, 18%; Asia-Pacific, 12%; Latin America, 14%; and South Africa, 11%. While these percentages suggest that the growth rate in 2005 for North America is the highest at 16%, over the past few years these growth rates have not provided any consistent pattern of increase or decrease.
- ❑ Between 2002 and 2005, with the exception of Asia-Pacific,¹⁹ the percentage of total logistics expenditures directed to outsourcing has not significantly grown. This is an important observation, considering that users in all regions have reported each year that they have plans to increase this percentage in “three to five years from now.”



The percentage of total logistics expenditures represented by transportation, warehousing, inventory carrying, and administration and information management costs are about the same across North America, Western Europe, Asia-Pacific, and Latin America (see Exhibit 10 on page 12).

Logistics Activities Outsourced

The activities most frequently outsourced to 3PL providers are outbound transportation (North America, 78%; Western Europe, 88%; Asia-Pacific, 96%; and Latin America, 84%), warehousing (North America, 63%; Western Europe, 72%; Asia-Pacific, 88%; and Latin America, 55%), customs clearance and brokerage, inbound transportation, and freight forwarding (see Exhibit 11 on page 13). Interestingly, the use of outbound transportation by North American respondents increased by about 10 percentage points, while the use of warehousing services decreased by about the same amount. The percentages for the other regions remained about the same from 2004 to 2005.

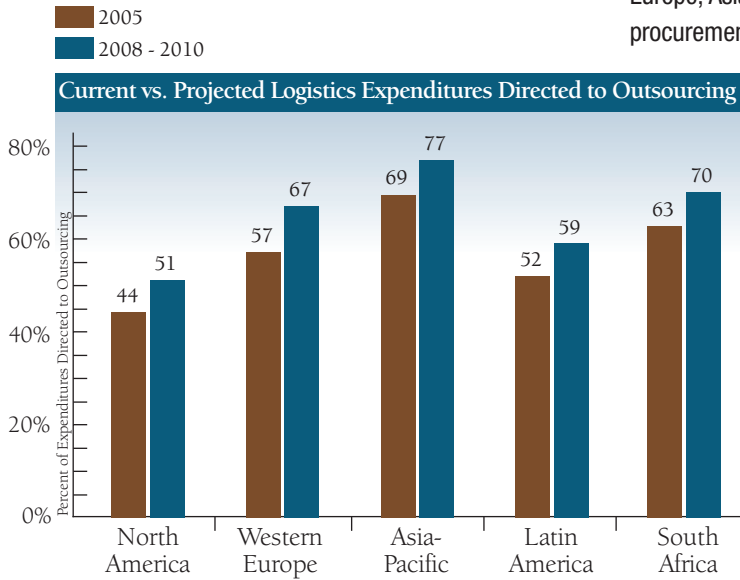
A new question for 2005 asked respondents about how much they outsourced transportation management services to 3PL providers. The percentages were: North America, 49%; Western Europe, 79%; Asia-Pacific, 82%; and Latin America, 53%.

Exhibit 8

| Factor | North America | Western Europe | Asia-Pacific | Latin America |
|--|---------------|----------------|--------------|---------------|
| Cost | 72% | 74% | 71% | 65% |
| Service | 61 | 55 | 51 | 64 |
| Focus on corporate core competencies | 29 | 40 | 43 | 38 |
| Industry experience | 27 | 16 | 20 | 26 |
| Unique services available from 3PL provider | 24 | 14 | 17 | 10 |
| Asset reduction | 22 | 30 | 31 | 30 |
| Access to capable information technologies | 16 | 10 | 20 | 9 |
| Seasonality or surges in logistics activity | 16 | 21 | 9 | 20 |
| Corporate philosophies encourage outsourcing | 12 | 10 | 17 | 16 |
| Need for “change agent” | 3 | 4 | 3 | 3 |
| Labor problems | 2 | 7 | 6 | 7 |

¹⁹ During the three years that Asia-Pacific has been included in this study, the “current use” percentages were reported as 50% in 2003, 63% in 2004, and 69% in 2005.

Exhibit 9



Several logistics activities appear to be outsourced to 3PL providers more in Western Europe, Asia-Pacific, and Latin America than in North America. These activities include procurement of logistics, reverse logistics and waste disposal, and fleet management.

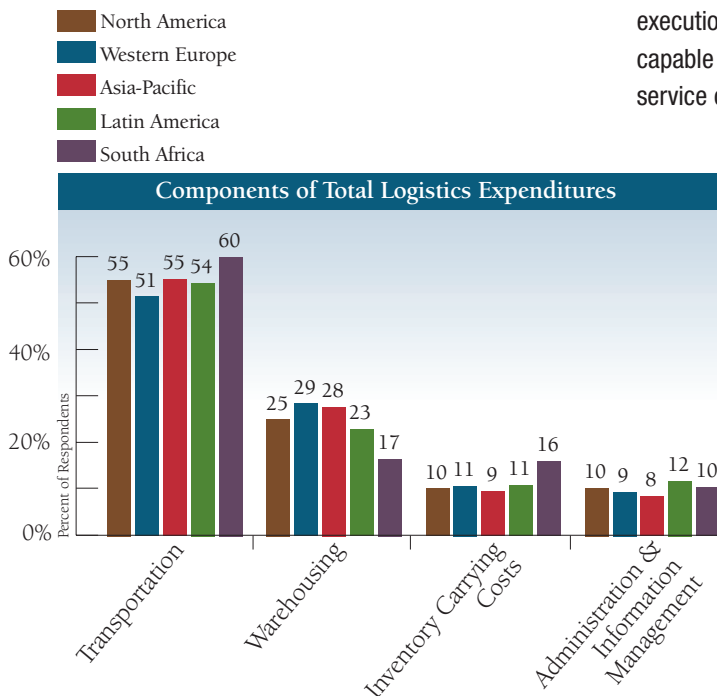
Historically, North American 3PL users have outsourced freight bill auditing/payment activities to a much greater extent than users in the other regions. This year with no exception.

Among the additional observations that can be made from the data in Exhibit 11 are the following:

- Generally, 3PL users in Western Europe, Asia-Pacific, and Latin America tend to outsource logistics activities to a greater extent than users in North America. One obvious exception is freight bill auditing/payment; previous years' studies have noted the much lower incidence of outsourcing of this activity in Western Europe than in North America.
- Again in 2005, the activities most frequently outsourced are those that are more operational in nature. Conversely, those that are less frequently outsourced tend to be customer-related, involve the use of information technology, and are more strategic in nature.

According to Karim Alhuseini of Eaton Corporation and an ASE participant, the “future expectations of a 3PL provider are to do more than the labor intensive and tactical activities, but to expand into consulting/implementation services that integrate the 3PL systems and tools with our applications for turnkey solutions.” His opinion is that execution processes are far easier to outsource, and that users need to rely on capable providers of 3PL services to ensure sufficient depth of talent in key areas of service offerings.

Exhibit 10



Integration of 3PL Services

In recent years, this study has addressed how much 3PL services are “tied together” or “integrated” by 3PL providers. This is a critical issue, particularly when a “strategic” relationship exists between 3PL providers and customers. The percentage of respondents indicating “some” or “significant” integration of 3PL services was 75% in North America, 66% in Western Europe, 64% in Asia-Pacific, 80% in Latin America, and 70% in South Africa. When asked what future expectations 3PL users had regarding this issue, most of the respondents (90% to 100%) in four of the regions expected “some” or “significant” integration of 3PL services. As in last year’s study, 87% of the North American respondents had a future desire for their 3PL suppliers to provide integrated services.

A strategic issue is how customers feel 3PL providers should position themselves in terms of the depth and breadth of their service. When asked whether “third-party suppliers should provide a broad, comprehensive set of service offerings,” most of the 3PL users strongly agreed (84% to 90%). Approximately half of these users agree “our company is moving to rationalize or reduce the number of third parties we use.” As suggested as well in the 2004 study, this observation may be based on a trend among 3PL users to take steps to improve and streamline their procurement practices in relation to externally provided, integrated logistics services.

Views of Non-Users

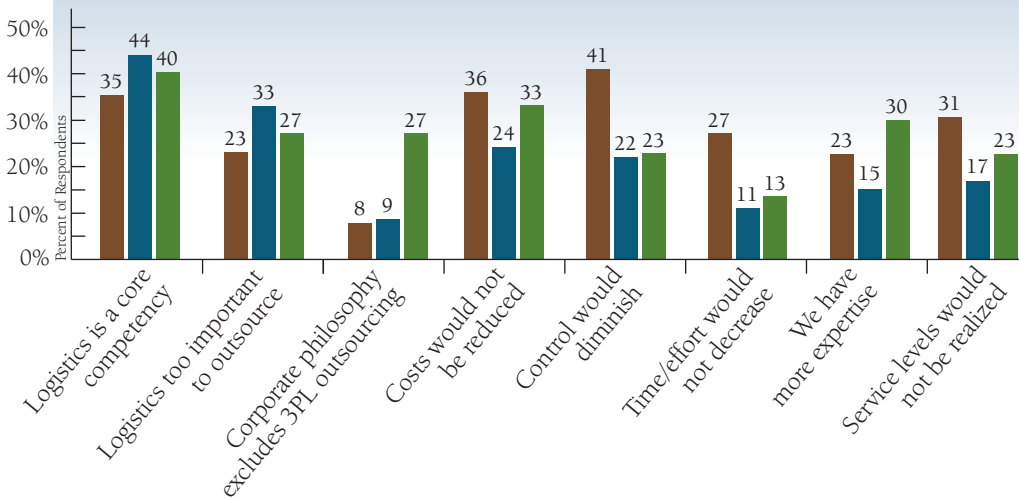
Depending on the region, 20% to 30% of the respondents classify themselves as “non-users” of 3PL services. Thus, several questions tried to determine why these companies chose not to outsource logistics services (see Exhibit 12 on page 14). The most prevalent reason is because “logistics is viewed as a core competency” (this response was given by 35% of the non-users from North America, 44% from Western Europe, and 40% from Latin America). These percentages have increased significantly from those reported in the 2004 study. The reluctance to outsource activities and processes that are “core” is understandable, providing those non-users have sufficient logistics expertise, experience an acceptable return on investment from insourcing, and find that the internal provision of logistics activities fits strategically with the mission of their organizations.

| Outsourced Logistics Services | | | | |
|---|---------------|----------------|--------------|---------------|
| Logistics Activity | North America | Western Europe | Asia-Pacific | Latin America |
| Outbound Transportation | 78% | 88% | 96% | 84% |
| Warehousing | 63 | 72 | 88 | 55 |
| Customs Clearance and Brokerage | 63 | 49 | 67 | 55 |
| Inbound Transportation | 58 | 66 | 68 | 68 |
| Freight Forwarding | 56 | 53 | 49 | 45 |
| Transportation Management | 49 | 79 | 82 | 53 |
| Freight Bill Auditing/Payment | 45 | 10 | 18 | 11 |
| Cross-Docking/Shipment Consolidation | 39 | 50 | 58 | 43 |
| Order Fulfillment and Distribution | 29 | 31 | 52 | 19 |
| Consulting Services | 23 | 22 | 27 | 23 |
| Procurement of Logistics | 23 | 31 | 42 | 47 |
| Carrier Selection | 19 | 16 | 24 | 19 |
| Product Marking/Labeling/Packaging | 18 | 27 | 27 | 19 |
| Product Returns and Repair | 18 | 25 | 30 | 9 |
| Inventory Management | 17 | 23 | 36 | 13 |
| Reverse Logistics and Waste Disposal | 16 | 31 | 24 | 25 |
| Product Assembly/Installation/Manufacturing | 16 | 16 | 18 | 0 |
| Information Technology | 15 | 21 | 18 | 19 |
| Rate Negotiation | 14 | 9 | 12 | 8 |
| Fleet Management | 13 | 26 | 36 | 19 |
| LLP/4PL Services | 11 | 13 | 18 | 8 |
| Materials Management | 10 | 10 | 6 | 9 |
| Inventory Ownership | 8 | 6 | 6 | 9 |
| Order Entry/Processing/Customer Service | 7 | 8 | 15 | 8 |
| Customer and Supplier Compliance | 5 | 4 | 0 | 2 |
| Factoring (Trade Financing) | 2 | 3 | 6 | 6 |

Exhibit 12

North America
Western Europe
Latin America

**Non-User Respondents:
Rationale for Not Using 3PL Services***



* Asian-Pacific and South African results insufficient for meaningful analysis.

For some non-users, “logistics is too important to outsource” (23% of the non-users from North America, 33% from Western Europe, and 27% from Latin America). Other reasons why companies chose not to use 3PL services include the feelings that “costs

would not be reduced,” “control [over logistics activities] would diminish,” more logistics expertise existed within the organization, and “service levels would not be realized.” Again in 2005, these results generally support the contention that logistics executives in North America may have higher expectations of potential 3PL suppliers than do their peers in Western Europe and Latin America. Interestingly, while only 8% and 9% of non-users in North America and Western Europe, respectively, indicated that “corporate philosophy” excludes use of outsourced logistics services,” a much larger 27% of the non-users from Latin America indicated the same thing. Looking back to

Exhibit 6, this may help explain why the percentage of 3PL users from Latin America is the lowest of the regions studied.

Regardless of the reasons why a company might not choose to outsource logistics services, good logistics management suggests that the idea of using a 3PL provider be considered. When doing so, the organization may find that the 3PL alternative has some significant advantages over current operations. Alternatively, evaluating the outsourcing option may reinforce the company’s decision to continue pursuing an approach that includes insourcing logistics. In either case, considering the use of 3PL services should provide valuable knowledge and perspectives for improving logistics in general.

Exhibit 13

North America
Western Europe
Asia-Pacific
Latin America
All Regions

Ranking of Key 3PL Selection Attributes

