3PLs & SHIPPERS

PERFECT TOGETHER

Inbound Logistics' eighth-annual 3PL market research report demonstrates how 3PLs and shippers are connecting to confront existing challenges and capitalize on new opportunities.

by Joseph O'Reilly

In the supply chain, some things just go together, beginning with the most obvious—supply and demand. Demand directs supply in an endless cascade of order and shipment transactions, manufacturing, transportation, and warehousing/distribution processes, and countless functional synapses firing every which way between. Everything occurs in harmony with demand. For many companies, it's all a purposeful blur.

But connectivity is paramount in today's supply chain. Nowhere is this more important or apparent than in the synergy that exists between companies and their third-party logistics (3PL) providers. Pairing third-party with logistics creates a modicum of objectivity in the middle of the buyer and seller relationship. Tactically, the 3PL can fill a very basic asset need. Strategically, its detached perspective offers the clarity and oversight necessary to orchestrate and execute myriad transportation and logistics actions along the supply chain.

3PL PERSPECTIVES METHODOLOGY

Every year, *Inbound Logistics* solicits questionnaires from more than 400 3PLs detailing the services they provide and their areas of expertise. We also ask service providers to augment this data with their insight about business during the past year, relationships with customers, and emerging outsourcing trends.

In addition, we poll more than 5,000 targeted shippers with similar questions to gain a counter-perspective of the different forces driving 3PL action and shaping the industry.

Inbound Logistics' 3PL Perspectives report juxtaposes these two points of view to provide a robust overview of trends impacting the 3PL space, and how shippers and service providers are responding.

3PL and shipper partnerships have always shared these features to a certain degree. But the maturation of value-added logistics capabilities beyond transactional services, the emergence of gainsharing strategies, and economic crisis have collectively upped the ante for outsourcing collaboration. This reality has become abundantly clear over the past few years.

GROWTH & DEVELOPMENT

Demand for transportation and logistics outsourcing remains on a solid arc as shippers look to divest non-core functions and focus on their own unique value propositions and growth efforts—especially as the U.S. economy slowly digs out of an entrenched recession. Businesses understand the growing importance of properly managing supply chain functions, and have targeted 3PLs to fill this corporate need.

Mirroring last year's numbers, third-party logistics providers responding to the 2012 3PL Perspectives questionnaire report a steady stream of new customers, with 88 percent growing their client base by at least five percent—compared to 89 percent in 2011 and 73 percent in 2010. By contrast, only two percent cite business attrition, compared to seven percent just two years ago.

While transportation and warehousing is still core, 3PLs continue to adapt as shipper demands evolve. Today's service provider is capable of piecing together and integrating multiple transportation and logistics disciplines—from playing freight broker and providing managed TMS services, to operating co-shared distribution facilities and pooling freight. Increasingly, investments in proprietary technologies offer additional incentives for shippers to partner with 3PLs. This allows outsourcers to tap best-of-breed solutions without the cost and liability of constantly updating and upgrading systems.

At the same time, 3PLs remain committed to filling core needs, especially equipment, freight capacity, and warehouse space. When the market eventually recovers and shippers start looking for available trucks, asset-based logistics service providers will once again find themselves in a position of strength.

Customer demand has yielded considerable returns over the past year in both sales and revenue growth. Ninety-two percent of 3PLs grew sales by at least five percent (91 percent in 2011). By comparison, 81 percent report profit growth in excess of five percent, down from 90 percent last year.

This revenue anomaly is largely due to the increase in fuel costs, which began a steep and sustained climb in early 2011, and have remained relatively high ever since. Only recently did prices fall below February 2011 figures.

Still, 3PLs have been profitable. Both warehouse and trucking capacity have tightened after prolonged softness in the market, allowing some asset-based providers to recapture lost gains. The supply chain upsell has been a familiar and successful tactic for 3PLs that are shifting outsourcing business from traditional transactional relationships to more integrated partnerships.

Not only are integrated partnerships a means to expand and retain existing business, they also help justify outsourcing's value proposition. 3PLs can mine greater efficiencies and economies when they have more control over a customer's operation. Many are encouraging sales teams to cross-sell different functional capabilities. For example, integrated logistics services are becoming much more prevalent. Eighty-five percent of 3PLs report having this capability, compared to 79 percent in 2011.

Perhaps more telling, service providers overwhelmingly attribute growth to organic selling (82 percent), and a combination of organic selling, and mergers and acquisitions (18 percent). For the first time in eight years of research, no respondents cited M&A alone as a means for growth (two percent in 2011)—suggesting there are ample opportunities to sell both existing and new customers.

Alternatively, economic unpredictability and demand variability continue to challenge businesses, while strengthening the business case for outsourcing. When it comes to putting the right amount of inventory in the right place at the right time, 3PLs prove their value.

ANATOMY & PHYSIOLOGY

Over the past 10 years, 3PL anatomy has transformed noticeably as non-asset-based providers continue to emerge and compete with traditional warehousing and trucking-based solutions providers. Even as recently as 2007, there was a relative balance between companies that identify themselves as non-asset-based and those that pass as both asset- and non-asset-based—44 percent and 42 percent, according to *IL's* 2007 3PL Perspectives. But that divide is widening.

In 2012, 47 percent of surveyed 3PLs indicate they operate as non-asset-based service providers, with 37 percent reporting their business structure as both asset-light and non-asset-based. Comparable to last year's numbers, 16 percent are purely asset-based operations.

Given the fact that 3PLs are hyper-sensitive to market demand, the capacity to morph between carrying assets and providing objectivity has become a successful ploy for navigating good times and bad. Many smaller trucking and warehousing companies inevitably went out of business during the recession. Others quickly jettisoned assets to reduce operational costs. Some invested in value-added logistics capabilities to expand their operational breadth.

Non-asset-based 3PLs with functional areas of expertise—freight bill audit and payment, freight brokerage, import/export, and customs brokerage—are looking at ways they can expand their value proposition through technology and talent investment, or even vertical specialization.

For example, the e-commerce boom has generated demand for third-party logistics services that cater specifically to fulfillment. Even big-box retailers are getting into the game now by driving sales through their online channels, often vetting vendors and testing new products prior to rolling them out to brick-and-mortar stores. As a testament to this trend, 48 percent of surveyed 3PLs provide direct-to-home delivery services. In 2011, that number was 26 percent.

THE OLD & THE NEW

A number of new entrants have joined the 3PL party—traditional freight brokers, forwarders, consultants, IT companies, manufacturers, and even healthcare providers—at least in terms of how they are now casting their business proposition to prospective customers. Where there is functional need, and companies have the resources and networks to manage transportation and logistics, shippers inevitably follow.

For the 3PL sector, technology has become both a selling point and a means to better service. When asked to name the most important challenges facing the third-party logistics segment, 61 percent of 3PL respondents cite "technology investment"—second only to "rising costs." By comparison, only 15 percent of shippers see this as a challenge, likely because a wealth of affordable solutions are available to select from, and/or

their 3PLs have already made that investment. This trend follows last year's research.

More than 50 percent of 3PLs are exploring investment in cloud-based solutions, reflecting both the efficacy of Software-as-a-Service deployments and their appeal to outsourcing customers. Specifically, 85 percent of logistics service providers are acquiring transportation management systems, up nearly 10 percent from 2011. Optimization technologies (63 percent) and warehouse management systems (56 percent) are other targeted areas—reflecting customer pain points.

FIGURE 1 **What strategies are shippers and 3PLs using to manage current challenges?**

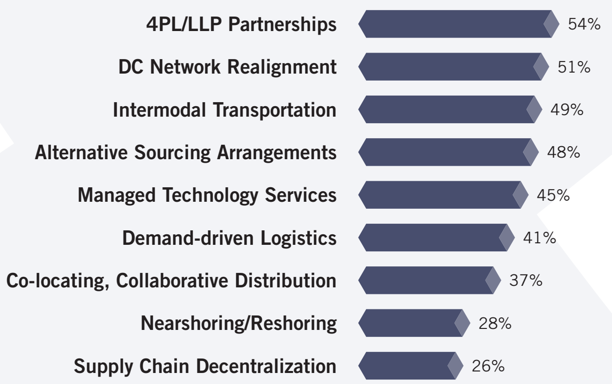
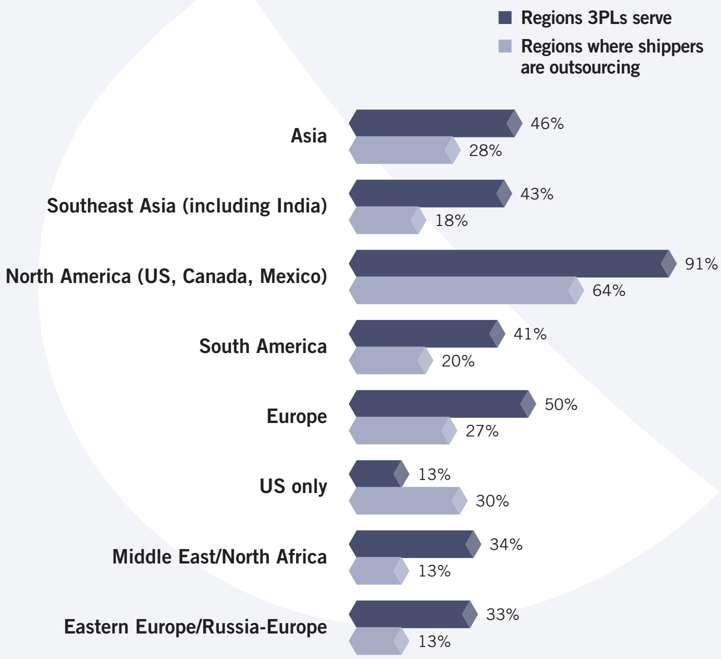


FIGURE 2 **Geographic scope**



Many 3PLs are partnering with IT vendors or even logistics service providers to acquire these types of solutions. Others have developed their own proprietary solutions. On the TMS side especially, more 3PLs are providing managed transportation services that leverage technology sophistication and business process execution in a revenue-sharing arrangement. Forty-five percent of surveyed 3PLs see this as a strategy that lets them help shippers address current challenges *(see Figure 1)*, compared to 36 percent last year.

Managed technology services are an emerging twist in the outsourcing paradigm, placing non-asset-based 3PLs in direct competition with traditional IT vendors. The upside for shippers is considerable. Service providers are using TMS solutions to become more integrated with their customers. Sophisticated analytics allow 3PLs to understand where problems are occurring at the local level, as well as upstream and downstream in the supply chain. Combining this data with strategic business process improvements addresses recurring problems at their root cause. This enables 3PLs to grow their business organically and cross-sell solutions across more functional areas.

OFFSHORING & NEARSHORING

Global supply chain management is one area where many 3PLs have already extended their reach with great success. A decade of offshoring demand has given the third-party logistics sector considerable penetration in developing Asian and Southeast Asian markets, and emerging outsourcing locations such as South America and Eastern Europe. Global coverage is an afterthought for many 3PLs. Only 21 percent of those surveyed indicate global logistics as a challenge, down from 23 percent in 2011.

Outsourcing ultimately begins at the point of demand. Building on last year's data, 91 percent of surveyed 3PLs serve the North American market, while only 13 percent operate exclusively in the United States *(see Figure 2)*. Shippers exhibit a similar and expected pattern, with 64 percent (51 percent in 2011) outsourcing in North America and 30 percent (43 percent in 2011) in the United States alone. The respective increase and decrease in North American and U.S. outsourcing activity indicates that domestic shippers are increasingly operating across borders—a positive sign for NAFTA trade, especially after the United States

EVOLVED TRANSPORTATION MANAGEMENT

THE REVOLUTION OF TRANSPORTATION MANAGEMENT HAS BEGUN. EXPERIENCE IT WITH ECHO.

GET VISIBILITY AND SAVINGS WITH ECHO LOGISTICS–YOUR PARTNER IN PROCUREMENT, TECHNOLOGY AND 100 PERCENT DEDICATED CUSTOMER SERVICE.

With Echo you receive an end-to-end transportation management solution. Gain transparency into your total spend through our superior technology, receive a team dedicated to your business and see significant savings. Find out for yourself how Echo is pushing the limits of transportation management.

ECHO™

WWW.ECHO.COM · 312.604.5519

ECHO A 2012 INBOUND LOGISTICS TOP 10 3PL COMPANY and Mexico finally came to resolution regarding cross-border truck movements.

Farther afield, Europe is now the top offshore target among 3PLs (50 percent), displacing Asia (46 percent), and outdistancing Southeast Asia and India (43 percent), and South America (41 percent). Europe's recession has triggered a number of high-profile acquisitions—UPS and FedEx among the more active companies—which may signal further growth opportunities for North American 3PLs looking to establish a presence in the profitable Asia-European trade.

Among surveyed shippers, the hierarchy of global outsourcing locations remains largely unchanged—with one notable exception. While 28 and 27 percent of respondents identify Asia

THE INS & OUTS OF 3PLS

Inbound Logistics' annual 3PL Perspectives market insight report gathers a wealth of information about logistics service providers. What began nearly 30 years ago as a functional warehousing and transportation sub-sector has now morphed into a multi-billion-dollar hyper-industry spanning all areas of the supply chain.

3PLs have proven their value by adeptly responding to shipper demand – whether it's squeezing out costs in times of economic distress, accessing capacity in a tight market, divesting non-core business functions to focus on corporate growth efforts, or simply tapping global expertise and resources to allay risk. Unique 3PLs have their own strengths. Some are asset-heavy and provide commodity-type capabilities. Others focus development on human talent, technology, and value-added services. In between, there are countless options.

As the following charts suggest, it is difficult to typecast third-party logistics service providers. But this information provides a snapshot of how 3PLs have evolved and where they are migrating. More telling, this representation offers insight into the challenges shippers face in today's market, the types of services and qualities they expect from third-party partners, and areas showing room for improvement.

ASSET-BASED OR NON-ASSET-BASED:

Non-asset-based	47%
Asset-based	16%
Both	37%

INDUSTRIES SERVED:

Manufacturing	99%
Distributors/Wholesale	94%
Retail/e-Business	89%
Service Industries/ Government	72%

CERTIFICATIONS:

SmartWay	62%
ISO	46%
C-TPAT	45%
Lean	24%
Six Sigma	24%
LEED	11%

VERTICAL SPECIALIZATION:

Consumer Product Goods (CPG)	84%
Electronics	73%
Food & Beverage	73%
Automotive	70%
Construction & Building Materials	64%
Healthcare	63%
Footwear/Apparel/Textile	62%
Furniture	56%
Chemicals	54%
Pharmaceuticals	52%
Grocery	52%
Cosmetics	45%
Agriculture	42%
Renewable Energy (Wind & Solar)	35%
Aerospace	34%
Oil & Gas	30%
Trade Show	28%

and Europe, respectively, as places where they use 3PLs, South America has climbed eight percent since last year (20 percent), topping Southeast Asia (18 percent). This is a clear indication that some industries are locating more offshore activities in the Latin American market—a consequence of secondary sourcing strategies, cheaper total landed logistics costs, and faster speed to market.

One other telling detail: while only 28 percent of 3PLs document nearshoring/reshoring as a shared strategy to help customers manage supply chain challenges, 48 percent include alternative sourcing arrangements in that conversation. In effect, one is a subset of the other. But this anomaly suggests nearshoring decisions are very much demand-driven.

LOGISTICS SERVICES & CAPABILITIES:

Inbound Logistics	96%
Integrated Logistics	85%
JIT	74%
Inventory Management	73%
Lead Logistics Provider/4th-Party Logistics	71%
Vendor Management	70%
Logistics Process Reengineering	66%
Payment Auditing/Processing	52%
Shared Services (co-locating, collaborative distribution, etc.)	52%
Global Trade Services	44%

WAREHOUSING SERVICES & CAPABILITIES:

Crossdocking	82%
Pick/Pack, Subassembly	69%
Fulfillment	69%
DC Management	65%
Vendor Managed Inventory	64%
Location Services (site selection, real estate)	56%

TECHNOLOGY/WEB SERVICES & CAPABILITIES:

EDI	99%
TMS	85%
Visibility	84%
Customer/Supplier Relationship Mgmt.	70%
WMS	64%
Wireless/RFID	61%

TRANSPORTATION SERVICES & CAPABILITIES:

Truckload	95%
LTL	93%
Intermodal	84%
Air Cargo	69%
Rail	74%
Dedicated Contract Carriage	67%
Ocean	63%
Small Package	53%
Bulk	50%
Final Mile	49%
Equipment/Drivers	40%
Fleet Acquisition	22%

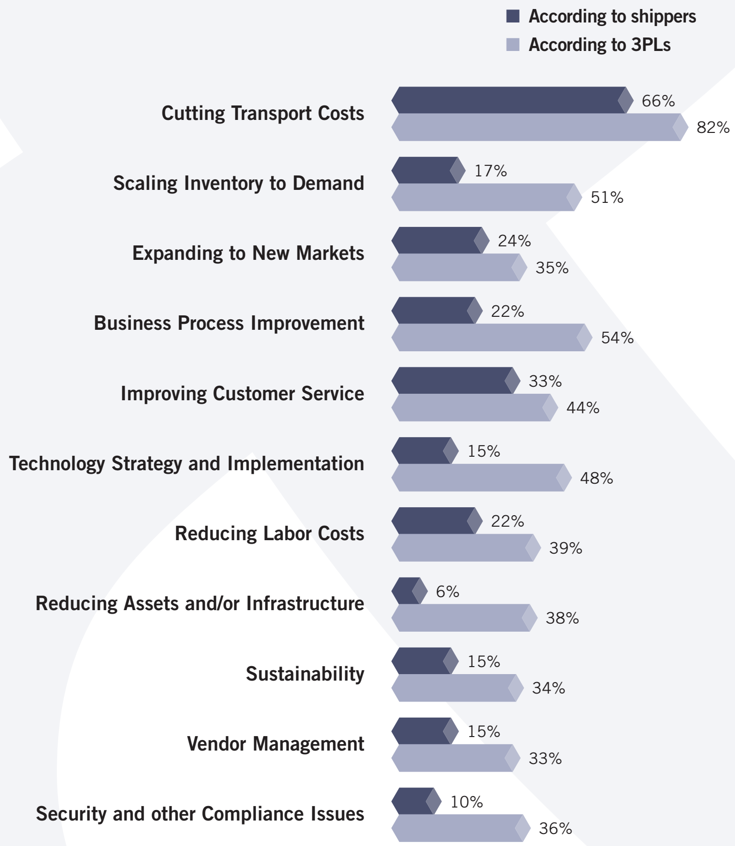
SPECIAL SERVICES:

Logistics/Transportation Consulting	93%
Direct to Store	79%
Reverse Logistics/Product Lifecycle Management	75%
Import/Export/Customs	71%
Marketing/Customer Service	47%
Contingency/Crisis Planning	43%
Labor Management	37%
Global Expansion (sourcing and selling)	25%
Direct to Home	48%
Security Analysis	22%
Sustainability/Green Logistics	57%

Shippers have capitalized on 3PL inroads in global areas where they source, manufacture, or sell into. This leverage is increasingly relevant as economic recession in Europe sweeps eastward into Asia, adding more volatility to global supply chains. Manufacturers are especially sensitive to the type of political and social upheaval that inevitably befalls developing countries stressed by economic crisis. Labor unrest threatens parts availability, which, in turn, can shut down supply lines.

Add the threat of natural disasters to a complex supply network, and risk assessment and management become a priority. Forty-four percent of surveyed 3PLs see this as a challenge for their customers. Interestingly, only 13 percent of logistics service providers identify contingency planning as a challenge within their own industry. For smaller service providers without expansive networks and redundancies built into their operational footprints, this may be a cause for concern—especially for an outsourcing customer that is counting on its third-party partner to allay such risk.

FIGURE 3 **What is the greatest challenge shippers face?**



For shippers, expanding into new markets for both selling and sourcing purposes is also a challenge, according to 24 percent of shipper respondents *(see Figure 3)*. 3PLs that have established local networks and assets on the ground are well-positioned to help companies penetrate new countries or regions without the risks and start-up costs of going it alone. Forty-four percent of service providers offer global trade services, while 71 percent have import/export/customs capabilities.

3PLs are critical links in global supply chains, whether operating co-managed warehouse facilities in the Netherlands, coordinating inbound transportation in coastal China, or expediting cross-border freight between the United States and Mexico. Given market fluctuations in Europe, a weakened U.S. dollar, and Asia's increasing appetite for U.S.-produced goods, new export demands are emerging. U.S. East Coast ports have already witnessed a shift in import/export balance favoring the latter. Beyond this, the Panama Canal's 2015 deadline for adding a third set of locks, and doubling throughput capacity, is expected to shake up global sourcing and domestic distribution dynamics.

U.S.-anchored supply chains will have to adjust and react to new growth opportunities. 3PLs will be front and center as importers and exporters consider their next moves.

SHIPPER YIN & 3PL YANG

Last year in 3PL Perspectives we noted, "on the whiplash end of a devastating recession, companies were still wary that an apocalyptic horseman might lay another one down on the U.S. economy." That hasn't happened yet. But U.S. economic unease is still top of mind for many companies.

3PLs arguably earn their keep in times of economic uncertainty—when shippers don't have a clear path toward future demand, and count on third-party counsel to guide decision-making. While technology investment and global coverage are important considerations, the true measure of successful partnerships ultimately lies in transportation and logistics minutiae.

For example, "cutting transport costs" remains the top challenge for shippers, according to 66 percent of shipper respondents, followed by "improving customer service" (33 percent).

3PLs share their customers' pain. Eighty-two percent see "cutting transport costs" as the most


Decades of award-winning harmony from a group of Jersey boys.
Working as a tightly-knit group of professionals, Port Jersey Logistics has been thrilling its customers with consistent, award-winning performance for more than 55 years.
From public warehousing and distribution to supply chain management, we understand how important loyalty and commitment are to the markets we serve. That's why so many of our customers continually sing our praises and the industry ranks us at the top of the charts, year after year.
Port Jersey Logistics...become a fan.
PORT JERSEY LOGISTICS™
Partnershipped.℠
4 South Middlesex Ave.
Monroe Township, NJ 08831
609.860.1010
PortJersey.com
WAREHOUSING • TRANSPORTATION
ORGANIC CERTIFIED
AIB SUPERIOR • FDA REGISTERED
3PL PROVIDER
TOP 100

important challenge shippers face. "Business process improvement" (54 percent), and "scaling inventory to demand" (51 percent) follow accordingly. Interestingly, in 2011, 42 percent of surveyed 3PLs identified business process improvement as a shipper challenge. Managing inventory was more important.

By contrast, only 22 percent of shippers see business process improvement as an area of need; inventory management (17 percent) ranks just below.

PROCESSES & PLATFORMS

Clearly, 3PLs now see opportunities where their customers can better manage inventory and transportation costs by embracing more sophisticated supply chain processes, such as vendor-managed inventory, pool distribution, and inbound logistics. Shippers might not have the wherewithal to consider these initiatives without a 3PL's guidance. And logistics service providers are building a technology and service platform that allows them to penetrate customer supply chains deeper than ever before. The new outsourcing paradigm is a far cry from transactional relationships bought and sold on capacity and price alone.

Inventory management is still a problem for shippers that are fixated on rising costs and can't forecast variable demand. While consumer spending has picked up, some retailers are still wary about replenishing more at the risk of carrying too much stock. Some are counting on wholesalers and suppliers to hold inventory farther upstream until orders drop. Alternatively, 3PLs are capable of mediating this variability in-house, through leased facilities, or by managing company-owned facilities.

Also, given constant changes in sourcing and selling locations, and the cost of transportation, 3PLs are better equipped to help customers realign their distribution networks—especially where demand may be speculative—and even provide managed or co-managed warehouse services as needed. For example, the Panama Canal's expansion project is already impacting where U.S. retailers locate stores and DCs in the fast-growing U.S. Southeast. Fifty-one percent of 3PLs identify DC network realignment as a viable strategy to help shippers mediate these demand fluctuations.

Outside the four walls, shippers may eventually find themselves looking to 3PLs when capacity tightens and a dormant driver shortage resurfaces. Apart from rising costs, third-party logistics providers count "capacity" (55 percent), "staffing, training, and other HR issues" (40 percent), and "government regulation and compliance" (39 percent) as outstanding concerns. Much of this apprehension is due to the U.S. Federal Motor Carrier Safety Administration's Compliance, Safety, Accountability (CSA) and Hours of Service requirements, which have yet to be enforced. Given the attrition of qualified drivers, and the standards that will be required to qualify drivers—who will have fewer hours to work— shippers, carriers, and 3PLs share many transportation concerns.

But there is also reason for optimism. In 2012, 84 percent of surveyed 3PLs indicate they offer intermodal services. More telling, 74 percent provide rail-specific capabilities, compared to 68 percent in 2011. As a strategy to help shippers circumvent looming capacity issues, 49 percent of 3PLs view intermodal transportation as an appropriate call to action.

Intermodalism is the path of least resistance as U.S. highway infrastructure and congestion constraints continue to raise burrs in the U.S. Congress—without any long-term resolution in sight. As long as capacity, transportation costs, and sustainability remain latent concerns, and railroads, carriers, and 3PLs continue investing in the necessary infrastructure to make transshipment between modes more seamless, multi-modal solutions will grow.

ONE & DONE?

Identifying how and why 3PL arrangements work is no easier than figuring out what leads to broken relationships. When asked to choose, 79 percent of shippers prefer 3PLs that can deliver customer service over cost. It's a popular answer that speaks to the partnership many companies have developed with their third-party logistics partners over the past few years.

The number-one reason for failed outsourcing partnerships among shippers is "poor service" (50 percent), followed by "failed expectations" (24 percent), "cost" (10 percent), "more competitive options" (seven percent), and "loss of control" (six percent). Cultural dissimilarities and lack of communication make up the difference *(see Figure 4, next page)*.

3PLs, naturally, see things differently. They blame "failed expectations" as the number-one

FIGURE 4 **What is the number-one reason for a failed 3PL partnership?**

reason partnerships don't succeed (50 percent), with "customer service" still a distant second at 16 percent, and "cultural dissimilarities" at 10 percent. "Cost" is only a contributing factor, according to six percent of 3PL respondents.

There will always be a disconnect between what 3PLs and shippers view as the discriminating factor in failed partnerships. That's to be expected. Often the problem is derivative of poor alignment at the outset of a contract—whether it's a matter of cultural incompatibility or a failure of one or both parties to understand the needs and/or expectations of the other.

As much as 3PLs relish the opportunity to grow their business with existing customers—becoming more involved in their operations and cross-selling services and capabilities across different functional areas—there is also recognition that the 3PL industry has evolved to a point where unique providers offer best-of-breed solutions. Increasingly, one 3PL is not capable of meeting the specific needs of a customer, especially across lengthening supply chains.

In 2012, 89 percent of 3PLs (the same as 2011) indicate customers should consider partnering with more than one service provider, while only 11 percent feel customers should work with one partner. Two years ago, 81 percent leaned toward multiple partners.

Shippers have greater flexibility and opportunity to localize specific needs and compartmentalize outsourcing activities and partners accordingly. This trend will likely pave the way for more lead logistics and fourth-party logistics arrangements, where one service provider orchestrates operations among the others. Fifty-four percent of surveyed 3PLs identify 4PL/LLP partnerships as a growing strategy; 71 percent currently offer that capability. ■

INBOUND LOGISTICS' 2012 TOP 100 3PL PROVIDERS

The Top 100 3PL Providers list, as selected by *IL* editors, is the appropriate companion piece to 3PL Perspectives. From a sweeping overview of the industry, this annual compendium celebrates logistics service providers that are at the top of their game, reflecting a broad prism of transportation and logistics capabilities that match unique shipper demands. As an information source, this directory provides need-to-know data that outlines 3PL services.

Pulling together this roster of Top 100 3PLs demands a great deal of due diligence. More than 250 companies submitted questionnaires for consideration this year, and *IL* editors conducted a careful analysis of surveys, phone interviews, and online research to qualify and vet these selections.

After you process 3PL Perspectives and pick apart the Top 100 list, we would like to know what you think. Does the information we provide serve as a resource for your business? Does this information support trends you see in your own day-to-day operations? Email us: editor@inboundlogistics.com