
## 3PL PERSPECTIVES 2009

# SCOPED OUT

## MARKET INSIGHT & TRENDS

by Joseph O'Reilly

As demand wanes, opportunity grows. That's an axiom seemingly foreign to any industry. In today's environment, however, standard conventions are turned upside down.

Third-party logistics providers (3PLs) have felt their share of the economic gravity tumbling many trades into reactionary huddles. But the 3PL is a unique construction.

Adaptable by nature, there is a spring-like mechanism built into its core that is flexible to a punch; that bends with pressure, but doesn't break; that bounces back with even greater vim and verve. It's the kind of recoil that finds opportunities to grow even when demand wanes; it's the kind of sense and response companies depend on to more efficiently match supply to demand.

Logistics and supply chain outsourcing has become a conventional strategy for good times and bad, helping companies divest and optimize non-core business processes and ultimately do more with less–responsibility, risk, inefficiency, and cost. In that regard, 3PL partnerships are more important now than ever before.

The value of outsourcing is grounded in finding third-party partners that can tackle core logistics needs. Then collaborative kinetics kick into gear, and 3PLs and

**Less volume in the system creates opportunities to execute more sophisticated supply chain endeavors without bottlenecking product flows.**

customers fling each other in different directions.

In today's economy, logistics service providers are helping customers turn the enterprise upside down, shake loose functional silos, jostle free inefficiencies, then piece it back together and tighten screws across the supply chain. Often this process triggers a second action when outsourcing partners flip conventional tactics and strategies on end to explore innovative ways to do the impossible–make demand and supply ends meet more efficiently and economically.

*Inbound Logistics'* annual *3PL Perspectives* serves a similar purpose, bridging the gap between demand and supply, shipper need and 3PL value. Combining more than 300 detailed 3PL questionnaires with 1,800 targeted responses from manufacturers and retailers, we pull, pry, probe, and process this pool of data into actionable analysis that illustrates trends and innovation–on both sides of the outsourcing divide.

From this panoramic view of the 3PL industry, we then adjust our focus on the Top 100 3PLs–a composite of logistics service providers that are truly manufacturing excellence.

Together, our 3PL Perspectives and Top 100 3PL directory serve up an amalgamation of anecdotal insight, strategic synthesis, and nuts and bolts data that will help you machine a better strategy for outsourcing success.

## INSIDE THE 3PL MACHINE

Even as the global recession strikes at the core of U.S. industry, spiraling manufacturers, retailers, and other companies into operational remission, the outsourced logistics segment remains on solid footing, surpassing $112 billion in gross sales in 2008, according to *Inbound Logistics'* 2009 *3PL Perspectives* research.

On average, 3PL sales increased 5.3 percent this year versus 11.6 percent the year before, indicating that free flow revenue figures have ebbed considerably but still remain positive. Service providers reflect a marked regression in earnings, with only 46 percent reporting sales growth of 10 percent or more (compared to 77 percent last year), and only 17 percent eclipsing the 20-percent threshold (24 percent). One in three 3PLs indicate break-even or lost sales, revealing a sharp year-over-year contrast. In 2008, that figure was less than 10 percent.

Outsourcing profitability has similarly turned south as business shrinks–but not to the same extreme as sales growth. Logistics service providers report a 5.2-percent increase in profits in 2009, compared to 7.8 percent the year before.

3PLs rank "making a profit" third (15 percent) in terms of the single greatest challenge they face in today's market–preceded by "rising costs" (20 percent) and "finding customers" (25 percent). Establishing a middle ground between the two has become a shared objective with outsourcing clients.

"We find many of our customers struggling as they try to maintain low costs and high service levels during these economic times," says one respondent. "Much of our time hasn't been spent on pursuing new business, but rather helping customers survive current conditions so they may thrive when the economy turns."

Only 38 percent of polled 3PLs report profits surpassing 10 percent (compared to 63 percent in 2008); 61 percent grew revenue by at least five percent; and 39 percent operated at a loss or break even, compared to 22 percent in 2008.

Still, that 3PLs have been able to keep profits within a modicum of respectability suggests they are sharing costs with customers. They are also taking a page out of their own operating manuals, working harder internally and along with customers to streamline operations and eliminate expenses for mutual gain.

Many acknowledge that sales

numbers are down largely due to economic conditions, customer volume attrition, a downward pressure on pricing, and increased competition. But 3PLs have been able to mediate drops in gross revenue by tinkering with what they can control–go-to-market strategies, customer focus and retention, new customer outreach, asset management, service expansion, and cost control efforts, among other factors.

"Sales declined due to a general slowdown in all markets," says one survey participant. "However, because there has been a surplus of capacity, carriers have reduced pricing to keep equipment moving, which has helped us realize some profits."

The flipside of this token is that asset-based service providers have absorbed the brunt of the economic collapse. For some transportation 3PLs, profits have evaporated at a rapid clip due to unpredictable fluctuations in fuel prices throughout 2008 and difficulties passing along surcharges to customers. Third-party warehousing companies shared a similar pain, with facility vacancies spiking sharply as less inventory flows through the supply chain.

One interesting aside to this dynamic is that more 3PL respondents identified themselves as asset-based this year than last year (16 percent versus 12 percent). Perhaps an anomaly, it might also suggest that some carriers and contract warehouses are expanding their business capabilities beyond asset-heavy functions, entering the realm of third-party logistics.

## ASSEMBLING NEW PROSPECTS

More so than in years past, and largely as a result of volume shrinkage, 3PLs across the board are aggressively targeting new business. One quarter of survey respondents cite "finding customers" as their single greatest challenge, topping the list.

On average, 3PLs expanded their customer base by 6.7 percent. The majority of 3PLs report an increase between five and 10 percent, while collectively 70 percent cite some growth and only 11 percent acknowledge attrition (SEE FIGURE 1).

With mergers and acquisition activity quieted by the global downturn, and some 3PLs divesting business assets rather than acquiring new ones, service providers are relying on sales and organic growth to fill new business quotas.

"We have experienced a 15-percent decline in revenue with existing clients but we've been able to offset that with new sales. As it relates to profit, we've been able to maintain margins through effective and timely labor reductions, as well as cost-saving initiatives with our vendors," shares one survey participant.

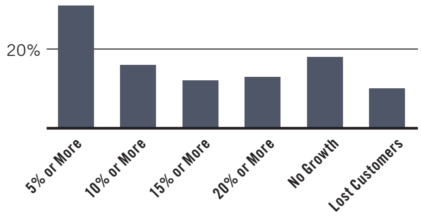
In terms of market penetration, manufacturing remains the most likely outsourcing target, with 97 percent of participating 3PLs serving this niche, followed by distributors and wholesale (95 percent), and retail and e-business (85 percent). Services and government sectors (67 percent) bring up the rear (SEE FIGURE 2).

Competition for business has spiked as service providers explore untapped opportunities, cross-selling existing customers and ramping up external sales and marketing efforts. A sizable contingent of respondents indicate they have increased sales staff and related outreach to preach the value of outsourcing.

The types of companies 3PLs target remain a mixed bag. Depending on core expertise and scope of services and resources, service providers approach new business prospects in a few ways: by size, by vertical/niche, and by outsourcing function.

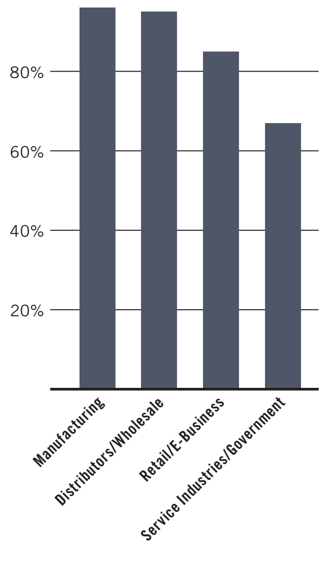
The past few years have seen a general push toward customer diversification, as a result of increasing need to insulate business from under-performing market segments–automotive, for example. Smaller players may be better attuned to like-minded clients, in terms of needs, culture, and vision.

FIGURE 1 **3PLs RESPOND: During the last year, how much did you grow your customer base?**



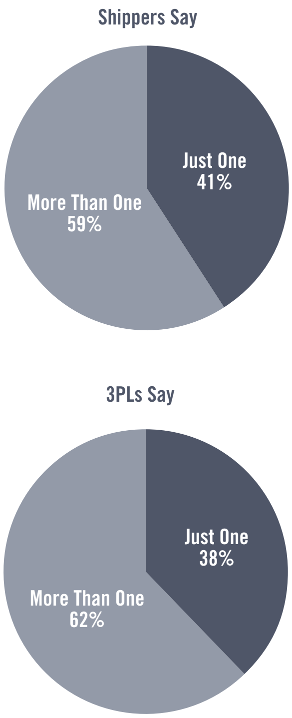

SOURCE: Inbound Logistics 2009 3PL Perspectives

FIGURE 2 **Industries 3PL Serve**




SOURCE: Inbound Logistics 2009 3PL Perspectives

FIGURE 3 **Should customers partner with one 3PL or more than one?**




SOURCE: Inbound Logistics 2009 3PL Perspectives

Larger global 3PLs have the breadth of resources and presence to tackle more sweeping outsourcing challenges.

Many niche-driven service providers are tweaking their traditional transactional approach by embracing a total supply chain management ethos, investing in technology and services to capture a greater piece of the outsourcing pie–essentially developing more strategic chops in addition to functional expertise.

Others are taking unique vertical-specific capabilities and transferring these best practices to other industries or areas of the supply chain that share similar demands–often by mining new prospects through existing outsourcing channels.

Last year we reported how larger 3PLs were pursuing larger customers, eschewing recent tendencies to diversify their footprint among small and medium-sized businesses (SMBs). This trend appears to remain intact, especially as smaller 3PLs become more adept at developing customer-centric solutions with higher levels of service and commitment.

Bypassing lower-yield, transactional business enables larger 3PLs to seize opportunities where they can grow relationships through an outsourcing host's network of suppliers and customers. Apparently there are equal opportunities to penetrate a bigger enterprise and focus on long-term collaboration rather than extending and expending resources across a wider pool of smaller players.

"We're targeting a niche market and larger customers," reports one specialized large service provider. "We are not changing our services, only deepening our relationships."

Arguably, though, when overall business volumes are down and 3PLs have a captive audience, go-to-market strategies continue right on out the door if they have the scale to competently meet challenges of any size.

One medium-sized 3PL shares that it is turning past convention upside down by circumventing SMBs and going after larger shippers: "It is easy for us to ramp up to larger clientele and their demands due to our technology investments and depth of operational knowledge."

## ONE FOR ALL OR ALL FOR ONE?

For many companies, the decision to outsource then becomes a question of how many? Some outsourcing customers still prefer the simplicity of having one point of contact to manage their supply chains. But given the specialization of logistics and supply chain functions, the geographic scope of globe-wandering supply lines, and the increasing importance of customer service, others value multiple logistics partners. Consensus is building that many 3PLs recognize their strengths and weaknesses, and believe businesses should consider all their options.

This year, 62 percent of 3PLs indicate customers should consider partnering with more than one service provider, while 38 percent feel customers should work with only one partner (SEE FIGURE 3). In 2008, 70 percent leaned toward multiple partners, suggesting competitive self-interest in a tight economy is hardening past altruism.

Manufacturers and retailers responding to the same question reveal more conflicted opinions, with 41 percent favoring one 3PL partner and 59 percent preferring more than one 3PL. Clearly there is agreement that meshing together a network of niche service providers creates value by matching specific resources to specific needs. But 3PLs that can be a one-stop shop have a captive audience as well.

## CALIBRATING THE OUTSOURCING COMPASS

While recessionary trends have forced some manufacturers and retailers to table international expansion opportunities, the global marketplace still remains fertile ground for 3PLs.

Going global is always an intriguing enterprise for companies, but often one fraught with the most risk, especially during tough economic times.

Shipper respondents report "expanding into new markets" (12 percent) is their second-greatest obstacle after "cutting transport costs" (44 percent). By comparison, global expansion doesn't even crack the top 10 among 3PL perceptions of their customers' top challenges.

Small and large companies alike share this hurdle. Whether it's an upstart company seeking a single-source production facility or a multinational attempting to integrate a multi-tiered network of suppliers and contract manufacturers, piggybacking on the geographic penetration, resources, and cultural knowledge of a 3PL is a safe bet.

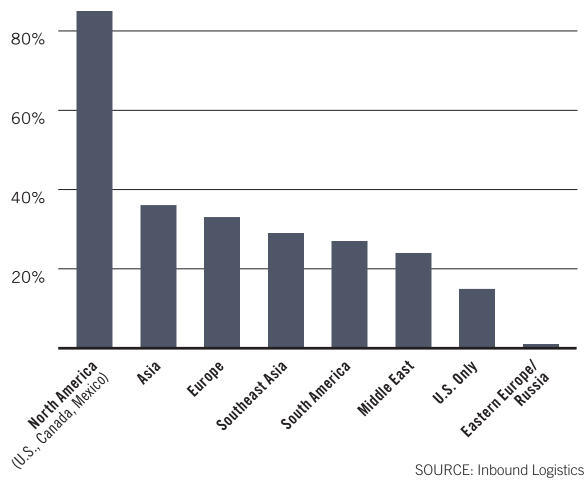
3PLs remain committed to meeting the current and future, near-shore and far-shore expansion needs of their customers. Eighty-five percent of respondents operate in North America, followed by Asia (36 percent), Europe (33 percent), Southeast Asia (29 percent), South America (27 percent), the Middle East (24 percent), and Eastern Europe/Russia (one percent). Only 15 percent of 3PLs are exclusively serving the United States, reflecting the increasingly global demands of U.S. companies (SEE FIGURE 4).

Many logistics service providers that have established a presence in global locations to help businesses at the point of origin are counting on a reversal of fortune as U.S. companies begin looking at emerging consumer markets to sell product into–especially in light of a major downturn in U.S. consumption.

Some large multinationals, have, in fact, started incorporating regional approaches into their global supply chain management strategies, locating and operating manufacturing and distribution facilities closer to demand, thereby reducing transportation and total landed costs. Nearly one-quarter of surveyed 3PLs (23 percent) provide global expansion services geared toward both sourcing and selling.

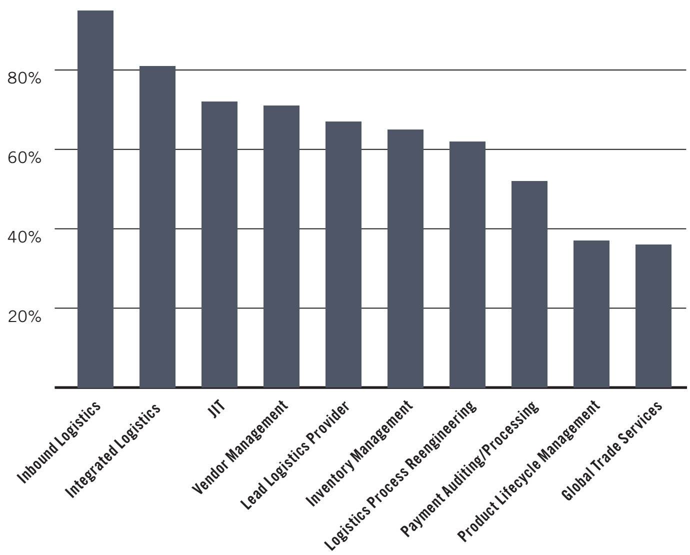
Global shippers are also increasingly challenged by new security and regulatory restrictions that complicate offshore operations and inbound transportation. U.S. Customs and Border Protection's (CBP) pending Importer Security Filing (10+2) for ocean cargo shipments, and the Transportation Security Administration's Certified Cargo Screening Program and Certified Cargo Screening Facilities effort to pre-screen cargo on passenger aircraft

FIGURE 4 **Regions 3PLs Serve**




SOURCE: Inbound Logistics 2009 3PL Perspectives

FIGURE 5 **Logistics Services 3PLs Offer**




SOURCE: Inbound Logistics 2009 3PL Perspectives

**Inventory-to-sales ratios have spiked. Companies are not accurately capturing demand signals and aligning them to production schedules, creating an inventory surplus.**

similarly challenges shippers, and vicariously 3PLs, to comply. To help customers with these hurdles, 64 percent and 36 percent of 3PLs, respectively, provide import/export/customs and global trade services (SEE FIGURE 5).

One challenge importers will encounter meeting the CBP's 10+2 mandate is driving visibility and securing communication among off-shore vendors–no small task when many companies are working through multi-layered supply networks with varying degrees of sophistication. Outsourcing vendor management is often an easy fix, and 67 percent of service providers offer this type of functionality.

As some larger global companies decentralize their global supply chain footprint, they often partner with multiple service providers that serve specific logistics functions or have penetration in a given region. The rise of the fourth-party logistics provider has followed the tide of global expansion–as well as the domestic broker–and is quickly becoming an invaluable asset as businesses manage synergies and operations across regional pockets and global supply chains. Accordingly, 71 percent of polled 3PLs provide lead logistics capabilities.

## TRANSPORTATION NUTS AND BOLTS

It has been well-documented that many businesses are turning back the clock and getting back to transportation and warehousing basics to tune up their supply chains during the current recession. Strip away all their value adds and 3PLs serve the greatest utility moving and storing product. It's where design-centric manufacturers and marketing-savvy retailers are least inclined to sink resources and capital, and where outsourcing really proves its mettle.

More than three-quarters of 3PL survey respondents cite "cutting transport costs" as their customers' greatest challenge (SEE FIGURE 6). Shippers share that pain and opinion, with 44 percent regarding it as their "single" greatest hurdle–by far the top contribution percentage-wise.

In years past, tight capacity has been a recurring problem. But with less volume in the pipeline, the supply/demand pricing pendulum has shifted in favor of shippers. Still, 2008 proved to be a bumpy road for shippers, carriers, and service providers as dropping volumes and soaring fuel costs caused plenty of friction when assets stopped rolling.

Technology has become a big enabler for 3PLs and a reason to outsource for shippers. Even with the explosive growth of on-demand logistics solutions, which make the risk and cost of investment much easier to swallow, businesses can tap these same resources as part of comprehensive 3PL services. Many third-party logistics providers, in fact, have already embraced these technologies as part of their own service offerings.

Consequently, transportation management systems (TMS) are a hot commodity for 3PLs, with 68 percent offering this technology capability–either through IT vendor partnerships or their own proprietary solutions. The value of an outsourced TMS arrangement is that customers benefit from having a 3PL that can wrap its services and resources around that IT functionality.

It's advantageous for the service provider too, because it can leverage transportation management and various other optimization and freight-costing tools to drive out inefficiencies and reduce expense elsewhere. To point, 54 percent and 38 percent of 3PLs, respectively, provide optimization and freight payment/claims/auditing technologies.

In terms of transportation services, truckload (TL) and less-than-truckload (LTL) remain in high demand, with 94 percent and 87 percent of 3PLs offering these services. Noticeably, both numbers dropped this year–three and five percent, respectively–perhaps reflecting contraction in the domestic trucking market. Expectedly, 3PLs providing dedicated contract carriage (67 percent), equipment/drivers (43 percent), and fleet acquisition services (23 percent) also showed marked declines this year (SEE FIGURE 7).

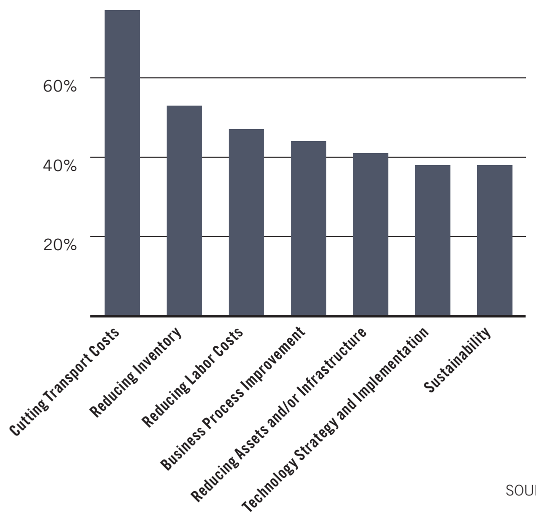
While capacity is soft, capacity utilization is a hard target for optimization. Many shippers are working with logistics partners and carriers to consolidate LTL moves into TL moves where possible, use more expensive transport options as a last mile resort, and thereby rationalize costs.

Transportation price sensitivity and green goodwill are manifest in the building interest in, and acceptance of, rail/intermodal solutions as a reliable option for moving product domestically–in and around congested port chokepoints and across long-haul corridors. Among 3PL respondents, 85 percent and 70 percent, respectively, provide intermodal and rail services–both incremental increases over last year's data.

Many outsourcing customers value

**Executing inbound-centric tactics in vacuums, without looking at the supply chain as a whole, only illuminates dysfunction elsewhere.**

FIGURE 6 **3PLs RESPOND: What are your customers' top challenges?**




SOURCE: Inbound Logistics 2009 3PL Perspectives

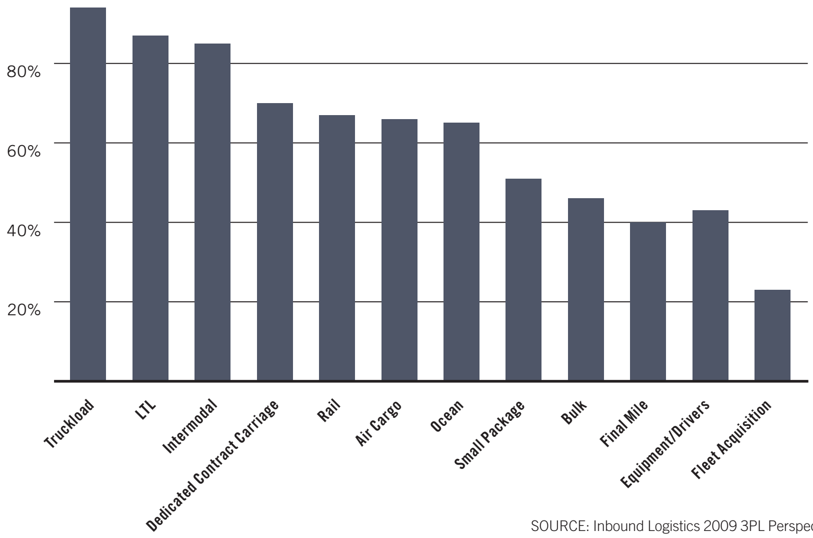
their third-party partners as an extension of the enterprise, especially during the final leg of the supply chain–from the moment a shipment leaves the DC until the customer takes custody. Three-quarters of surveyed 3PLs provide direct-to-store services, while 45 percent offer direct-to-home delivery. Shippers also depend on service providers as their direct interface with the end consignee. Premium customer service sometimes comes with the job, in terms of specialized deliveries, installations, and asset recovery–40 percent of 3PL survey respondents offer white glove and final mile options.

Elsewhere in the transportation fray, third-party logistics providers are becoming more heavily involved in handling ocean and air shipments. Lines continue to blur between freight forwarders and 3PLs as both parties explore new ways to expand their value propositions beyond core functions. Forwarders are bundling logistics services around freight handling and brokerage capabilities, and traditional 3PLs are getting more involved in global transportation services–particularly as they reach farther upstream in the supply chain to grow their operational tentacles and help customers better control inbound costs. The number of 3PLs providing ocean and air cargo services remains balanced, with 66 percent and 65 percent reporting those capabilities.

## WAREHOUSING BEYOND THE DOCK

In the warehouse, inventory reduction remains both an opportunity and challenge. A precipitous drop in consumer spending has drained inventory from the system, giving both shipper/distributors and service providers a primer for streamlining distribution processes.

FIGURE 7 **Transportation Services 3PLs Offer**




SOURCE: Inbound Logistics 2009 3PL Perspectives

Not surprisingly, reducing inventory is a top priority, with 8.3 percent of polled shippers labeling it their single greatest challenge–third to cutting transportation costs and global expansion. 3PLs, too, recognize the importance of helping companies lean out their pipelines; 53 percent recognize this as a top obstacle.

Inventory-to-sales ratios have spiked as businesses struggle to match inventory flows to sluggish consumerism. Essentially it means they're not accurately capturing demand signals and aligning them to production schedules, creating an inventory surplus.

Additionally, some companies are hedging their bets on how consumer demand may drift, holding stock just in case. It's a gamble rife with more risk than reward in today's economy, leading many to completely outsource inventory and DC management to third parties–65 percent and 63 percent of polled providers offer these capabilities (SEE FIGURE 8).

Given unpredictable consumer trends, and the costs associated with sitting inventory that doesn't sell, 3PLs are helping customers absorb some of this risk. Nearly 70 percent of survey respondents offer vendor managed inventory solutions. The conflicting challenges and liabilities of being too lean and carrying too much stock compel some companies to push product in its least value-added form farther back in the supply chain–and rely on intermediaries and vendors to take ownership of that inventory until it changes custody.

Beyond completely contracting out a facility, companies partner with 3PLs to manage internal distribution functions. Pick/pack, subassembly, and fulfillment services are core parts of the warehouse, and core outsourced functions–67 percent and 60 percent of 3PLs provide these capabilities, respectively.

Outside the four walls, transportation pricing pains and shifting offshore manufacturing patterns have compelled many companies to reconfigure their DC networks. In some cases where business and demand allows, big box distribution models have yielded to more decentralized networks, where businesses can better coordinate TL and LTL hauls to reduce costs. Nearly one in two 3PLs offer location services to help customers site DCs, as well as determine appropriate strategies for operating these facilities–build-to-suit, build-to-own, lease, or completely outsource the operation.

How companies plan their distribution networks often dictates the layout of facilities. For example, decentralized distribution strategies are creating a foundation for more quick-turn, cross-docking activities. These types of facilities give shippers the ability to eliminate inventory carrying costs, better utilize space and assets, and expeditiously break loads, consolidate, and repack for transshipment.

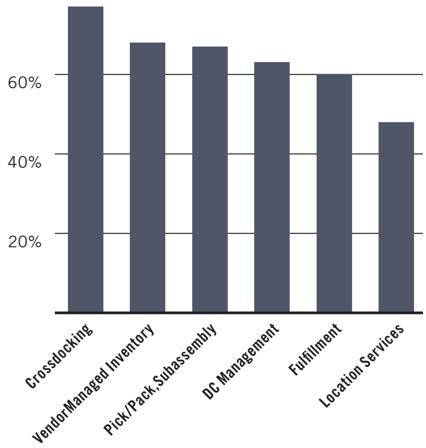
Running a crossdock necessarily requires cooperation from multiple logistics parts to ensure timely and efficient progress. As in most areas of the supply chain, what happens in one functional silo often impacts processes elsewhere upstream and downstream. Where 3PLs are truly creating value for customers is capturing and executing on details while embracing the bigger picture. It's where tactics give way to strategy.

## SHIFTING FOCUS TO STRATEGY

Capturing visibility and leveraging real-time information to better manage freight flows or massage exceptions when they occur are competitive enablers–but ones that companies struggle to grasp. Logistics service providers have made great progress investing in and applying technology solutions to help customers improve supply chain transparency, evidenced by the fact that 97 percent report having EDI capabilities while 86 percent provide visibility and Web enablement solutions.

When shippers have greater visibility into supply and demand, and control over inventory in between, they can address more far-reaching strategic impulses. Less volume in the system creates opportunities to execute more sophisticated supply chain endeavors without bottlenecking product flows. Part and parcel of increasing enterprise-wide visibility is exploring innovative ways to recast existing operations, create synergies among various logistics functions, then manage them as a single entity. To facilitate this, 81 percent of 3PLs provide integrated logistics services and 62 percent can help customers

**FIGURE 8 Warehousing Services 3PLs Offer**




SOURCE: Inbound Logistics 2009 3PL Perspectives

**Where 3PLs are truly creating value for customers is capturing and executing on details while embracing the bigger picture.**

reengineer logistics processes.

Inbound logistics strategies and just-in-time practices exploit demand visibility to help companies rationalize assets and inventory, and reduce costs. Accordingly, 94 percent and 72 percent of polled 3PLs serve up these capabilities. In lean economic times, opportunities are ripe to utilize these types of integrated designs to build greater operational flexibility and responsiveness to demand. Still, while the majority of service providers offer inbound logistics services, only 19 percent bundle that with demand management technologies.

Executing inbound-centric tactics in vacuums, without looking at the supply chain as a whole, only illuminates dysfunction elsewhere–which, in itself, can provide insight and value as to where problems are occurring. The fact that surplus inventory and rising carrying costs remain glaring problems for manufacturers and retailers suggests mainstream adoption of demand-driven strategies is still nebulous.

One area gaining widespread attention from shippers and service providers alike is supply chain sustainability. Nearly 40 percent of 3PLs cite this as a challenge for customers. The business case for being green and eliminating waste is at the core of supply chain management. Managing products throughout their entire lifecycle– from raw material sourcing to asset recovery and aftermarket support– can significantly reduce cost, and, in some cases, create new revenue streams. As such, 83 percent of 3PLs offer reverse logistics solutions, while 37 percent provide product lifecycle management services. ■

## DIALING IN
### THE TOP 100 3PL PROVIDERS

*Inbound Logistics'* Top 100 3PL Providers list *(next page)* puts an appropriate cap on our 3PL Perspectives section. This annual directory presents a composite snapshot of logistics service providers *IL* editors consider best tooled to meet your evolving outsourcing needs.

Assembling our annual group of Top 100 3PLs demands a great deal of industry and analysis. More than 300 companies submitted questionnaires for consideration this year, and *IL* editors conducted a diligent process of evaluating these surveys and speaking with companies and customers, in addition to our own online research. The service providers we selected are companies that possess skill sets and resources capable of matching most outsourcing needs.

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