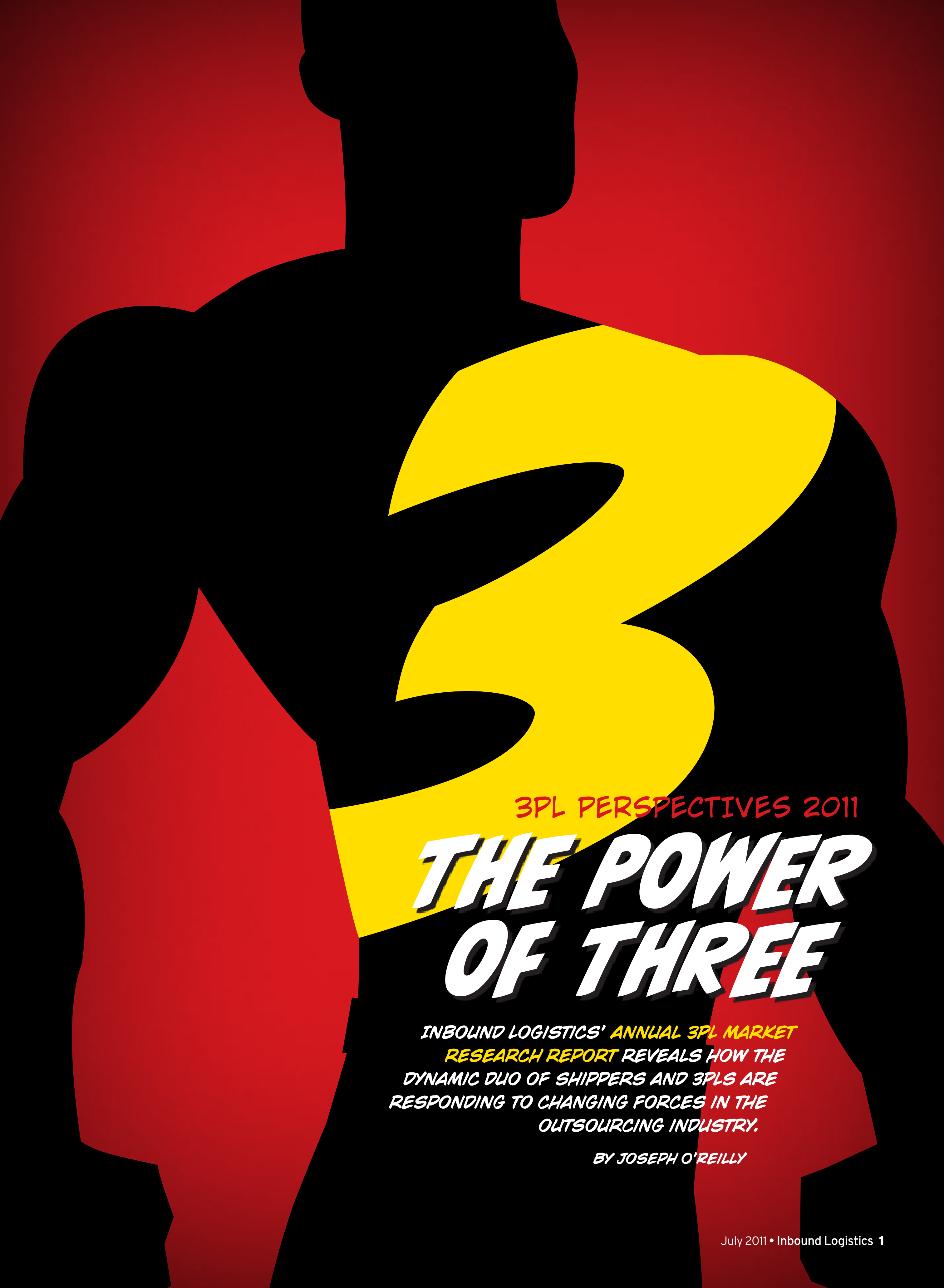


3PL PERSPECTIVES 2011

THE POWER OF THREE

INBOUND LOGISTICS' ANNUAL 3PL MARKET RESEARCH REPORT REVEALS HOW THE DYNAMIC DUO OF SHIPPERS AND 3PLS ARE RESPONDING TO CHANGING FORCES IN THE OUTSOURCING INDUSTRY.

BY JOSEPH O'REILLY

Businesses emerged from a lingering depression in 2010 and early 2011 with a pervading sense of optimism that the economy was improving. Inventory levels dropped, trucks moved, and capacity shrank. Industry began resurrecting old concerns about equipment shortages, driver attrition, and rising transportation costs. Motor freight carriers began raising rates.

Then, economic forecasts started swirling again. Fuel prices soared. Job growth predictions slackened. And debate over the U.S. debt ceiling and potential consequences raised fears of a new fiscal crisis.

Now, U.S. businesses are hedging their bets—again.

When market conditions are either good or bad, there is always a burning platform for action. Businesses expand and capitalize, or contract and optimize. Economic uncertainty, however, muddles decision-making.

Corporate indecision often leads to supply chain complacency. In turn, reactionary tactics curb forward-thinking strategic efforts. Companies bound by indifferent market forces risk the consequences of missed opportunities. Others, unfettered from the shackles of decision-making unease, count on 3PLs to save the day—or at the very least, a few dollars on transportation.

Over the past decade, shippers have increasingly turned to 3PL partners for leadership, expertise, and guidance navigating supply chain complexity. But it's during times like the present—when the near-term outlook is filled with unknowns—that they prove their value by bringing clarity and confidence to otherwise wavering customers.

This year's annual *3PL Perspectives* market insight report offers a comparative analysis of how logistics service providers and shippers fared during the past year. It also documents some of the groundwork gained and lessons learned—efforts that might prove to be invaluable collateral as 3PLs and shippers enter a new period of economic uncertainty.

WHAM! 3PLS PACK A PUNCH

The countercyclical nature of outsourcing contributed to remarkable growth in the 3PL space during 2010, according to this year's research. Service providers document a whopping increase in new customers, with 89 percent building their client rosters by at least five percent, compared to 73 percent in 2010. By contrast, only three percent cite business attrition (seven percent in 2010).

3PL PERSPECTIVES METHODOLOGY

Every year, ***Inbound Logistics*** conducts an extensive survey of the 3PL market to explore how both 3PLs and shippers are adapting to change and pushing the outsourcing needle in different directions. Our outreach effort comprises two parts.

First, ***IL*** solicits questionnaires from more than 400 3PLs, detailing the services they provide and their areas of expertise – geographically, functionally, and vertically. We also ask service providers to augment this empirical data with contextual insight about business during the past year, relationships with customers, and emerging outsourcing trends.

Second, we poll more than 5,000 targeted 3PL users with a similar series of questions to provide a counter-perspective of the different forces that are driving 3PL action and shaping the industry.

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

3PLs are leaving few links untouched in their quest to locate new customers. Retailers and manufacturers are likely targets, but service providers are also gaining traction selling to other intermediaries. Opportunities to leverage proprietary technologies, assets, carrier connections, and regional strengths have opened up new revenue streams, especially among smaller 3PLs. Freight brokers, as one example, see increasing demand for their services from shippers, carriers, and intermediaries trying to locate capacity as supply tightens.

An increase in customers has translated to sales and profit growth. 3PL respondents report considerable gains during the past year. Ninety-one percent of service providers grew sales by at least five percent, with one-third noting 20-percent increases. By comparison, 90 percent report profit growth in excess of five percent.

Such a remarkable rebound in revenue gains—compared to 2009—is due in large part to organic business growth, with 81 percent of 3PLs citing that as a primary reason, and only two percent referencing merger or acquisition activity. Seventeen percent report a combination of both. This data is on par with last year's figures.

Most 3PLs credit improving economic conditions for these positive gains—even as the threat of a double-dip recession tempers current optimism. All indications suggest 3PLs are practicing what they preach by reducing their own expenses while also expanding sales efforts.

With regards to profitability, one survey respondent cites "tighter cost control measurements and improved efficiencies." Another 3PL explains that its customer base of small and medium-sized businesses shrank this year because of downsizing and bankruptcy, but that it has increased revenue "by expanding service offerings and growing with existing clients"—a common response from other 3PLs.

Larger service providers with multiple operating divisions across modes, regions, and functions are cross-selling services to "corporate" customers, unlocking new value and, in some cases, reducing complexity with integrated logistics solutions. Others are focusing on vertical strengths and working back through the supply chain to mine new business opportunities.

It isn't all about strategy. 3PLs also report that they are increasing sales staff and hiring new agents, as well as conducting tried-and-true telemarketing blitzes to customers new and old.

By and large, 3PLs don't rate "finding customers" or "making a profit" as top challenges in today's market, with only 20 percent and 40 percent, respectively, indicating as much. Instead, logistics service providers are following the lead of their customers. They are evolving with, learning from, and responding to demand.

POOF! MORPHING WITH DEMAND

The past few years have seen a recurring shift in how third-party logistics providers position their assets to meet market need *(see 3PLs: Behind the Mask, page 76)*. In 2011, 52 percent of surveyed 3PLs indicate they operate as non-asset-based service providers, with 48 percent identifying their business structure as asset-light or non-asset-based. They can be both.

3PLs have a competitive interest in how they shape and brand their capabilities—sometimes as objective freight brokers and DC managers, other times as capacity-flush carriers and warehouses. Those that identify themselves as both have the luxury of morphing from one to the other as market conditions dictate. In 2010, only 12 percent of 3PLs passed as purely asset-based providers. This year, with capacity constraints potentially looming, that number grew to 16 percent.

Private-fleet shippers, carriers, and 3PLs alike feel economic pressure to streamline assets to match demand. Some are offloading equipment and facilities entirely, and concentrating investments in logistics technology and talent. As in years past, others are spinning off logistics divisions as separate operating units—offering customers the flexibility of selecting a fully integrated transportation/distribution solution or siloed supply chain capabilities.

Asset-based providers build value around core transportation and warehousing functions. By contrast, non-asset-based 3PLs manufacture solutions that are largely driven by technology and intellectual property. Freight brokers, forwarders, consultants, IT companies, materials handling integrators, manufacturers—even healthcare providers—have all made inroads into the outsourcing space largely because they have functional expertise and there is demand.

The ubiquity of Software-as-a-Service technology deployments has similarly enabled service providers of all types and sizes to expand their value propositions by providing executable solutions. It's no longer simply a matter of matching a shipper's LTL need with available carriers in a specific

3PLS BEHIND THE MASK

Inbound Logistics' annual *3PL Perspectives* market insight report collects a wealth of information about the 3PL industry, and in particular logistics service providers. Over the past decade, the efficacy of functional outsourcing has triggered an explosion of new 3PLs that spans the gamut of logistics and supply chain capabilities.

Having evolved from "meat and potatoes" logistics disciplines, the industry—like outsourcing—continues to add layers of value in terms of services, vertical expertise, and technology. Transportation and warehousing are still core, but a new breed of non-asset-based service providers is making its presence felt.

These specialized 3PLs leverage technology and talent to drive their business proposition. Investments in transportation and warehouse management systems, optimization tools, and freight bill auditing software empower them to identify problems and execute solutions. Asset-based 3PLs, too, are using transportation and logistics technology to deliver fully integrated supply chain services that pair capacity with strategic competency.

What the 3PL industry has accomplished in terms of raising the profile and importance of supply chain and logistics is more telling. Demand-sensitive, fast-moving consumer product goods, electronics, food and beverage, and automotive companies are mature outsourcing practitioners that still derive great value working with 3PLs. But a new crop of more specialized industries and companies that includes furniture, cosmetics, and renewable energy is beginning to reap the same benefits as they adopt and adapt industry best practices.

The 3PL space is a dynamic representation of the unique challenges shippers encounter, and capabilities they require, while navigating an increasingly global and complex supply chain.

ASSET-BASED OR NON-ASSET BASED	
Non-asset based	52%
Asset-based	16%
Both	32%

CERTIFICATIONS	
EPA Smartway Partner	57%
ISO	44%
Lean	20%
Six Sigma	18%
C-TPAT	14%
LEED	11%

lane, then comparing rates. Shippers expect 3PLs to collect and archive this information, dissect it, filter it out to necessary parties, and provide fodder for further tactical and strategic improvement.

In some instances 3PLs, and IT companies moonlighting as 3PLs, lure customers by dangling managed-technology solutions with IT sophistication and expert execution. Among surveyed 3PLs, 36 percent identify this as an important strategy to help shippers cope with increasing complexity.

More telling, 55 percent of service providers cite technology investment as the most

VERTICAL SPECIALIZATION

Consumer Product Goods (CPG)	81%
Electronics	72%
Food & Beverage	69%
Automotive	67%
Footwear/Apparel/Textiles	65%
Construction & Building Materials	64%
Healthcare	64%
Pharmaceuticals	55%
Grocery	55%
Chemicals	54%
Furniture	53%
Cosmetics	48%
Agriculture	42%
Aerospace	40%
Renewable Energy (wind & solar)	35%
Trade Show	33%
Oil & Gas	28%

LOGISTICS SERVICES & CAPABILITIES

Inbound Logistics	92%
Integrated Logistics	79%
Inventory Management	72%
Lead Logistics Provider/4th-Party Logistics	72%
JIT	72%
Vendor Management	69%
Logistics Process Reengineering	62%
Payment Auditing/Processing	53%
Product Life Cycle Management	47%
Global Trade Services	43%

WAREHOUSING SERVICES & CAPABILITIES

Crossdocking	82%
Pick/Pack, Subassembly	73%
Fulfillment	72%
Vendor Managed Inventory	64%
Location Services (site selection, real estate)	47%
DC Management	39%

TRANSPORTATION SERVICES & CAPABILITIES

Truckload	94%
LTL	90%
Intermodal	84%
Air Cargo	69%
Rail	68%
Dedicated Contract Carriage	67%
Ocean	62%
Small Package	55%
Bulk	50%
Final Mile	49%
Equipment/Drivers	40%
Fleet Acquisition	15%

SPECIAL SERVICES

Logistics/Transportation Consulting	87%
Direct to Store	79%
Reverse Logistics	77%
Import/Export/Customs	69%
Marketing/Customer Service	48%
Contingency/Crisis Planning	44%
Labor Management	40%
Global Expansion (sourcing/selling)	30%
Direct to Home	26%
Security Analysis	26%

TECHNOLOGY OFFERINGS

TMS	76%
Optimization	61%
WMS	57%
Freight Payment/Claims/Auditing	39%
Reverse Logistics	37%
Sustainability	36%
RFID	35%
Vendor Management	33%
Global Trade Management	25%
ERP	20%
Demand Management	15%

important challenge they face today, second only to rising costs (62 percent).

Transportation management is where shippers and 3PLs mine the most valuable returns. Consequently, 76 percent of surveyed service providers indicate they are investing in Transportation Management Systems—proprietary or hosted—followed by optimization solutions (61 percent), and Warehouse Management Systems (57 percent).

Freight payment/claims/auditing software, which 39 percent of service providers offer, is another way intermediaries can analyze transportation performance and help shippers explore different approaches to reduce spend and increase efficiency.

WHOOSH! IT'S A BIRD! IT'S A PLANE! IT'S A 3PL!

One great advantage that 3PLs provide is their capacity to leap global divides in one seamless bound. For small companies working with a contract manufacturer in China's hinterland, or larger boutique brands looking to establish a retail presence on Dubai's "high street," logistics service providers have the resources to help businesses manage cross-continent supply chains without the risk and cost of going it alone.

The idea of a "global 3PL" is increasingly passé given the breadth of international resources and capabilities many intermediaries already have. To point, only 23 percent of 3PLs identify global coverage as a challenge in today's market.

That said, outsourcing ultimately begins at home. As in last year's data, 88 percent of surveyed 3PLs serve the North American market, while only 15 percent operate in the United States exclusively. Shippers display a similar and expected pattern, with 51 percent outsourcing in North America and 43 percent in the United States alone (SEE FIGURE 1).

Asia remains the top offshore target for both 3PLs and 3PL users, with 54 percent and 28 percent responding in kind. Europe follows at 53 percent and 19 percent, respectively, then Southeast Asia and India with 47 percent and 15 percent. The top three regions where 3PLs provide global services match up with where shippers are most likely to outsource.

The Middle East/North Africa is an emerging target for 3PLs, but not shippers, because it is a growing distribution hub along the Suez trade. South America

FIGURE 1 **Geographic Scope**

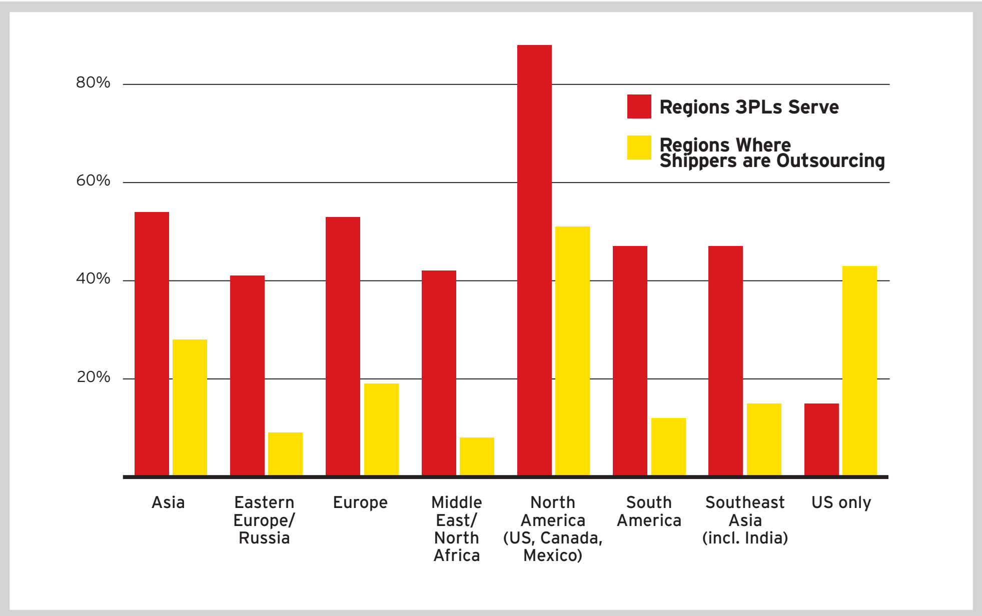
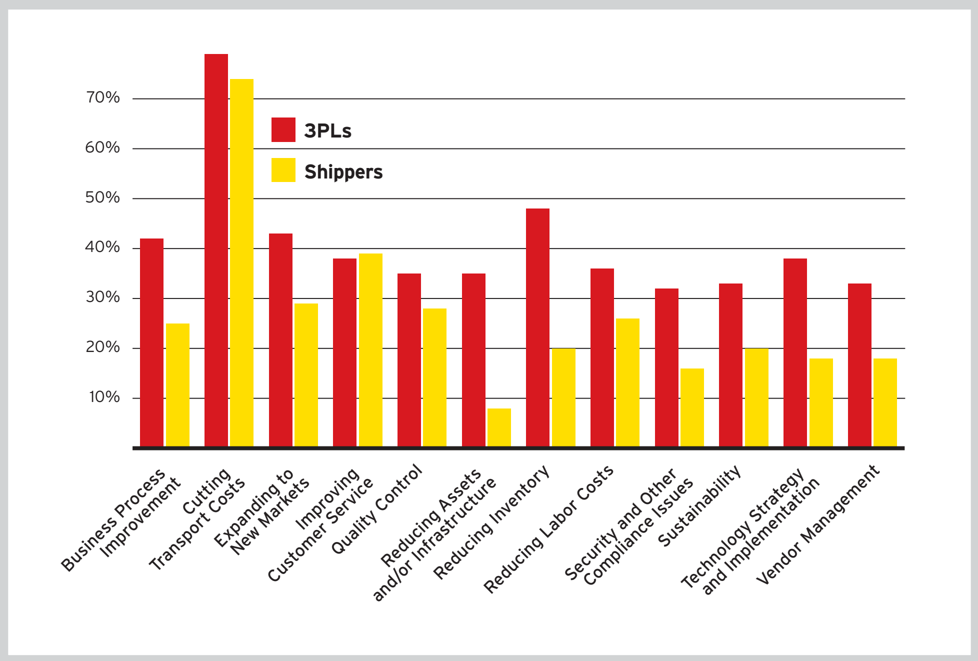


FIGURE 2 **Greatest Challenges**



remains close to home for many U.S. manufacturers and retailers that have homegrown operations in-country. Only 12 percent are using 3PLs in that area. Interestingly, only 28 percent of 3PLs view nearshoring as a viable strategy.

Globetrotting 3PLs have always derived great value by following and leading shippers into new locations around the world—as a means to facilitate offshore sourcing and manufacturing activity, as well as help customers grow new selling opportunities in burgeoning middle-class markets. U.S. manufacturers and retailers rely on 3PLs to manage transportation and logistics operations around the world where cultural and operational variables, labor uncertainty, and lack of business sophistication and standards make outsourcing a preferable strategy. That remains a primary driver.

Beyond geographic scope and physical presence, 3PLs are adapting their technology infrastructure with borders in mind. Operating offshore is a challenge for U.S. businesses. So is customs compliance, security protocol, and communication among suppliers, manufacturers, local carriers, and consignees.

One-quarter of surveyed 3PLs provide customers with global trade management technology—a necessity when navigating complicated compliance requirements that require soliciting important shipment information from hard-to-reach vendors and contract manufacturers, then communicating that documentation to local authorities. That's essentially what U.S. Customs and Border Protection's Importer Security Filing mandate now requires.

In terms of services, import/export customs is the most common among 3PLs, with 69 percent providing this capability, followed by global trade services (43 percent), and global expansion/sourcing and selling (30 percent). The latter competency is an emerging area for U.S. business growth after years of domestic manufacturing and export sluggishness.

Among shippers responding to *IL's* poll, 29 percent cite "expanding to new markets" as a challenge, topped only by "cutting transport costs" and "improving customer service" (SEE FIGURE 2).

The fall of the U.S. dollar comparative to other global currencies has increased the attractiveness of American-made products.

In a tepid economy where recovery has been glacially slow, businesses that have the wherewithal to grow their brands and market share in other countries are doing so—and 3PLs are helping to pave the way for these inroads.

But as much as shippers favor 3PLs that can help them negotiate the complexities of operating in, and shipping to and from, other parts of the world, service providers are equally game to find willing courtiers. Every global success becomes a stepping stone to another.

THWACK! SOARING COSTS, SINKING CONFIDENCE

On the whiplash end of a devastating recession, companies are now wary that the apocalyptic horseman might lay another one down on the U.S economy. But the way shippers and 3PLs have been working collaboratively over the past year indicates some optimism that industry has leaned itself to a point where it will be able to react more positively to change.

3PLs are well-rehearsed in rescuing companies that are stressed by market pessimism. They feel shared pain, but also work toward shared savings and gains.

An overwhelming majority of both 3PLs (79 percent) and shippers (74 percent) identify "reducing transport costs" as the greatest challenge for outsourcers.

Lengthening supply lines and highly volatile fuel prices place great pressure on both shippers and service providers to be more efficient. Technology plays a major role in how businesses collect and analyze data, then leverage visibility and communication to make better decisions. This impacts how well a shipper forecasts demand, positions inventory, and ultimately transports product at every stage in the supply chain.

Corporate social responsibility has a direct impact as well. The green movement has engendered a great deal of support among 3PLs, shippers, and carrier partners to work more collaboratively and reduce carbon footprints, emissions, and unnecessary energy usage—all of which collectively reduce transportation costs.

More than half of surveyed 3PLs are EPA Smartway Partners, which is remarkable considering that non-asset-based service providers are in the majority. This means that even intermediaries that broker transportation are using green standards to measure and reward carrier performance. It also demonstrates the importance some shippers place on sustainability compliance when selecting 3PL and carrier partners.

Perhaps the greatest transportation shift over the last few years, however, is the growing efficacy and acceptance of intermodal solutions. In 2011, 84 percent of 3PLs say they provide services that facilitate freight movement between modes. More telling, 47 percent view intermodal transportation as the most significant outsourcing strategy in the industry today—topping the list.

As long as capacity, transportation costs, and sustainability remain latent concerns, and railroads, carriers, and 3PLs continue investing in the necessary equipment, services, and infrastructure to make transshipment between modes more accessible and convenient, intermodal usage will grow.

Beyond mode, transportation and logistics spend is often derivative of other supply chain successes and failures. For example, sourcing and procurement strategies, warehouse efficiency, and site selection affect inbound and outbound moves. Apart from reducing costs and expanding global presence, 3PLs report that shippers' other greatest challenges are "reducing inventory" (48 percent) and "business process improvement" (42 percent).

Better matching supply to demand will always be on a 3PL's to-do list when engaging a new customer. Shippers have every incentive to know their customers better so they can scale production, purchasing, and inventory accordingly. In a sluggish economy with fickle and unpredictable spending, it's a tricky proposition. Many retailers and wholesalers are replenishing less at the risk of carrying too much stock. Others are carrying more just in case demand spikes. Inventory strategies are predicated by business type, demand responsiveness, and product throughput.

But companies are taking a second look at where they site distribution facilities. After intermodal transportation, 3PLs report that DC network realignment is the second most-favored strategy in today's market along with 4PL/LLP partnerships (43 percent), followed by demand-driven logistics (42 percent). With so much change in the supply chain—from sourcing locations to new consumer markets—shippers have to keep DC networks fluid and adaptable.

Many companies have opted to site smaller facilities, decentralize distribution footprints, or outsource warehousing responsibility entirely to reduce transportation mileage and corollary costs. Having a 3PL manage a distribution operation is often a preferred option because the service provider can optimize functions and drive down costs. It can execute demand-driven logistics principles, as an example, and create greater efficiencies upstream and downstream in the supply chain. This is where 3PLs leverage business process improvements to grow their relationships with customers.

3PLs always want to get more involved in the inner machinations of a shipper's supply chain because it opens new doors to deeper business process change. Engaging customers with sophisticated supply chain strategies such as demand-driven logistics, or taking on the role of a lead logistics provider, only builds stronger partnerships. Ultimately, that's the best strategy for dealing with economic uncertainty.

POW! THE POWER OF ONE OR MORE

Apart from creating new sales opportunities through global expansion, shipper priorities revolve around costs, customer service, and quality—in that order—according to this year's survey respondents.

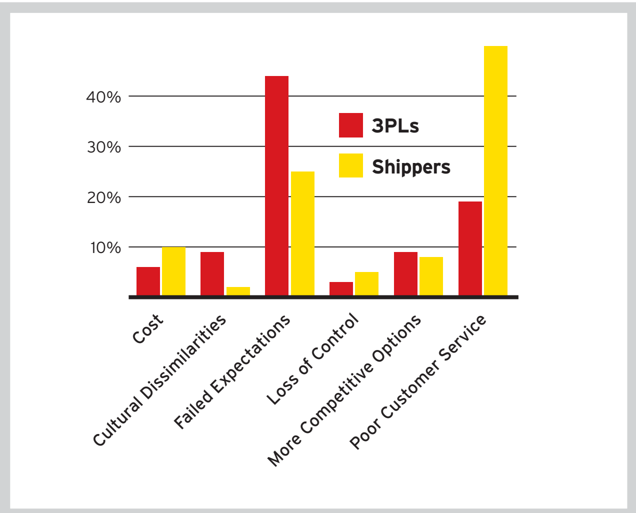
Specifically, 3PL users overwhelmingly value customer service (79 percent) over cost (21 percent)—even with so much pressure to squeeze out supply chain spend. To point, 50 percent of shippers cite "poor customer service" as the primary reason for broken 3PL partnerships, followed by "failed expectations" (25 percent), then cost (10 percent) (SEE FIGURE 3).

Logistics service providers naturally see it differently. They cite "failed expectations" as the number-one reason partnerships don't succeed (44 percent), with "poor customer service" a distant second at 19 percent. "Cost" is a contributing factor according to only six percent of respondents.

There is a natural irony, perhaps hubris, given the fact that 3PLs don't consider customer service a concern for their customers, or a reason why outsourcing partnerships often fall apart. But the anomaly reveals how important it is for 3PLs and customers to establish expectations and set measurable benchmarks when they enter outsourcing agreements.

Shippers appreciate the importance of delivering exceptional quality and service to their customers—at all costs—preserving the value chain between supply and demand. It's a premium that can't be measured simply by price.

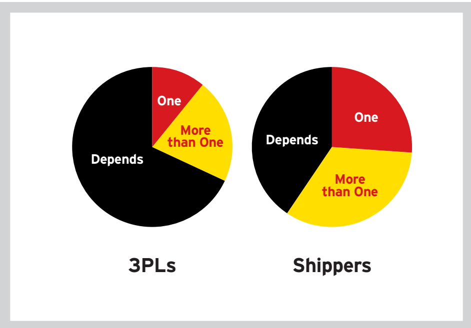
FIGURE 3 **What is the number-one reason for a failed 3PL partnership?**



Shippers also recognize that outsourcing is adaptable. Businesses turn to specialized transportation, warehousing, and logistics service providers when it becomes apparent that managing non-core functions is a poor use of resources. It can be an all-or-nothing corporate-wide effort, or a strategic shift addressing a specific problem area. Some companies are outsourcing more. Others are investing in new technologies, business practices, and talent that allow greater flexibility to effect change internally, then partner with 3PLs as necessary.

Given the proliferation of best-of-breed 3PLs with niche functional expertise, shippers are more inclined to partner with multiple service providers.

FIGURE 4 **Should Customers Generally Partner With One 3PL or More Than One?**



This year, 21 percent of 3PLs indicate customers should partner with more than one service provider, while only 11 percent feel customers should work with one partner (SEE FIGURE 4). In 2010, only 19 percent leaned toward multiple partners.

3PLs understand where and how they can provide value to customers. But they also recognize that shippers have greater flexibility and opportunity to localize specific needs and match outsourcing partners accordingly. The supply chain has become so integrated with 3PLs partnering together, and with carriers and IT companies, that shippers naturally tend to compartmentalize outsourcing. The re-emerging efficacy of 4PLs and LLPs reinforces this trend.

Shippers responding to the same question are more entrenched in their preferences, with 26 percent favoring only one 3PL partner and 33 percent using multiple 3PLs. This data tracks with last year's responses. That said, when asked how many 3PLs they use, 77 percent indicate working with multiple partners.

Such adaptability bodes well for the 3PL space. Shippers value partners that create balance between core and non-core business interests, understanding that when and if logistics and supply chain challenges surface, they have multiple options to choose from. This creates a healthy, dynamic, and competitive market for transportation and logistics services.

BAM! IL'S 2011 TOP 100 3PLS

From this sweeping overview of the 3PL segment, we concentrate our focus on the 2011 Top 100 3PLs as selected by *IL* editors—a composite list of logistics service providers ranging from the venerable old guard to a new collection of industry leaders.

Inbound Logistics' Top 100 3PL Providers list (*next page*) pulls the mask off logistics service providers that excel at what they do. This annual directory presents a diverse group of 3PLs that *IL* editors consider the leaders in the industry, reflecting a broad prism of transportation and logistics capabilities that match unique shipper demands.

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 through 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 it support trends you see in your own day-to-day operations? Email us: *editor@inboundlogistics.com*