The State of Logistics Outsourcing

2007 Third-Party Logistics

RESULTS AND FINDINGS OF THE 12TH ANNUAL STUDY
THE STATE OF LOGISTICS OUTSOURCING IN 2007

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SUPPORTING ORGANIZATIONS
This is the 12th annual study to look at trends in the outsourcing of logistics. The study summarizes user experience with Third-Party Logistics (3PL) providers worldwide and offers a vision on key future developments.

More than 1,500 senior supply chain executives from 61 countries participated in the web-based survey. The findings presented in this report are supplemented with the results of in-depth discussions with participants in three workshops on three continents.

The State of the Market
Some of the trends recognized in last year’s study continued this year. Traditional services like transportation and warehousing remain the most outsourced activities, while outsourcing customer-facing activities and other more strategic services remains substantially less common. Among companies that currently do not outsource logistics, nearly half are contemplating outsourcing at least part of their operation in the future. In the meantime, over a third gives the reason for not outsourcing as being that they see logistics as a core competency. In addition, they do not believe they would save costs if they outsourced parts of their logistics, a fear not supported by the majority of respondents who do outsource and report cost savings that average 13% after outsourcing.

Collaboration
Discussions with logistics executives reveal a gap between the desire to work collaboratively with 3PLs and how to go about it. To drive change and improvement in the overall business relationship, 3PLs and customers must work toward a common set of goals and objectives, and establish a meaningful exchange of information relating to planning, management, execution and performance measurement. Preferably, the collaboration should involve not only 3PLs and their customers, but also the customers’ trading partners, and other key stakeholders.

Meaningful personal relationships, including a mutual respect for what each party brings to the table, are crucial, but long-term success requires the effectiveness of sound process and technology to enable success to continue, even when key people involved in the relationship change. The many benefits of successful collaboration should outweigh the financial costs – they should pay for themselves in measurable financial terms.

When asked about which business processes would benefit most from improved collaboration with 3PLs, respondents seemed to associate the greatest benefits with business processes such as inventory management, customer order management, customer service and supplier order management.
Dragon boat racing originated in China and is one of the fastest growing team sports. It is a sport recognized for the camaraderie, strength and endurance fostered among participants, and is illustrative of the teamwork necessary to turn logistics outsourcing into a sustainable success. Given our special focus on the topics of collaboration and emerging markets, we believe the images of dragon boats you see within the report appropriately symbolize both of these important topics.
This report also includes a maturity model that classifies the attributes of 3PL-customer collaboration as traditional, progressive and leading. We believe this model can be leveraged as a transformation tool that 3PLs and customers can use to develop a joint strategic plan for increasing the extent and the effectiveness of collaboration.

**Technology**
After years of mediocre comments, the number of users satisfied with 3PL IT performance grew by 7% this year. This is a positive development, but the IT capabilities of 3PLs remains a top three issue for their customers. As in previous years, warehouse and transportation management systems are the technologies most commonly provided by 3PLs. When we add predicted future growth into the equation, visibility tools and web-enabled communication are expected to become the technologies most used by 3PLs.

Expectations for RFID are still high but actual RFID usage remains low, showing only a modest increase over last year. Cost and ease of use of RFID are still major issues. We find some cynicism in the market: is it really going to happen in the near future? Even if the expected future use is included, our survey participants tell us that RFID will still not become a top five technology.

**Emerging Markets**
The top five expansion destinations for companies remain unchanged, with China and India as clear leaders followed by Russia, Brazil and Poland. But proximity certainly influences choice, with Eastern Europe more popular with European companies while Latin America is more of a choice for those in North America. Asia Pacific companies choose China and India as the main destinations but Vietnam rates as “more interesting” to them than Russia. Latin American companies do look to China to expand but generally not to other countries outsider their own continent.

Despite popular belief, language, IT and cultural differences are not the main obstacles that companies face when dealing with China and India. In India, the biggest challenge is the poor infrastructure, followed by the ability to deliver against promises. In China the latter is considered the biggest problem followed by legislation.

Companies have a variety of planned activities in both countries. India dominates in global process outsourcing, while manufacturing is more oriented towards the domestic market. This is very different from China where manufacturing is the leading sector and drives its huge export. China, seen as a consumer as well as a producer of finished goods, is on its way to becoming the second largest global exporter and is expected to become the number one in 2008.

**Additional Perspectives**
The report looks at the bigger picture and discusses more general trends and issues addressed by the study. Included are insights into topics such as: 3PL selection factors, customer success with 3PL relationships, areas for improvement and transportation contracting. Additionally, we hear from companies who don’t use 3PL services and why they came to that decision.

**Strategic Assessment**
The report concludes with several areas of great interest to 3PL-customer relationships:

- **Supply Chain Value** – 3PLs and customers need to align goals and objectives to help achieve overall supply chain objectives.
- **Business Network Transformation** – Outsourcing will continue to grow. 3PLs are growing into new services, ultimately enabling business networking.
- **Leveraging Information Technology** – Given there is significant “unused” capability in currently used IT solutions, it is imperative that companies make better use of existing technology, standardizing data and establishing cross-industry platforms for 3PLs.
- **Customer Management of 3PL Services** – Customers need to understand and appreciate the strategic and operational value that can be created through the use of 3PLs. Additionally customers, along with 3PLs, need to develop a strategic plan to help guide the relationship in the desired directions.
- **Sustainability of Collaborative Relationships** – Customers and 3PLs must invest in two-way processes and move toward collaborative and sustainable supply chain business models over the long term.
This report presents findings from the 12th Annual Third-Party Logistics Study, which was carried out in mid-2007.

Since it started in 1996, this study has helped to identify and track key trends and views of the third-party logistics (3PL) industry. Taking the point of view of the customer has helped to better understand the 3PL sector and to identify areas in the industry that can be improved. In addition, the study has collected information that highlights the reasons why some logistics executives do not currently outsource their logistics activities, and what their plans may be for the future.

2007 Study Objective
The objective of the 2007 Third-Party Logistics Study was to better understand the perspectives of 3PL service users, across major industry segments and across several diverse regions of the world. Included are specific topics such as those listed below:

- 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, information technology, structuring and managing effective 3PL relationships and how customers view success and value from 3PL relationships
- Look into key issues relating to 3PL use in emerging markets, with particular emphasis on China and India
- Provide a strategic assessment for the future of the 3PL industry

2007 Study Methodology
The world has changed considerably over the past 12 years. Globalization is part of everyday conversation. Outsourcing has grown from a fledgling industry into one worth billions of US dollars. Over the years, the study has grown to encompass an increasingly broader range of user industries and geographic regions. The study has also grown beyond a simple survey to one that employs several means to reach both users and non-users of 3PL surveys. The 2007 study was conducted using three interrelated streams of research: a web-based survey, workshops conducted with logistics executives and desk research.
To ensure confidentiality and objectivity, respondents were asked not to name their specific 3PL providers. During the spring and summer of 2007, a total of 1,568 logistics executives completed our web-based survey. The overall response rate from companies who were sent the survey was 10.5%. Although most were located in North America, Europe, Asia Pacific and Latin America, a number of executives from South Africa and the Middle East also participated in the survey. In total, responses were received from participants located in 61 countries.

To complement the survey, the research team also conducted Accelerated Solutions Environment (ASE) sessions and a workshop with logistics executives to add a more personal, intimate understanding to the experiences of using and working with 3PLs (for more information about the ASEs, see the Appendix section at the end of this document). To provide greater depth of knowledge in certain areas (such as logistics outsourcing in India), desk research was conducted in parallel with the survey and the workshops.

Using Email to Make Initial Contact
Executives were contacted by email. The target respondent typically holds the title of Manager, Director, or Vice President of Logistics or Supply Chain Management. Targeted respondents are based in a number of key industries identified below. Those willing to participate in the survey were asked to click an Internet link that led them to an on-line survey. The survey was available in English, Spanish, Portuguese, French, German and Chinese.

Defining a 3PL
Survey recipients were asked to think of a 3PL as a company that provides multiple logistics services for its clients and customers. In addition, recipients were asked to think of a fourth-party logistics (4PL) provider as one that may offer more advanced logistics outsourcing services than a conventional 3PL normally would provide.

What is New in 2007?
Each year, the methodology and design of the study are updated to reflect the changing nature of the business and to ensure that we present a meaningful assessment of the global 3PL business environment. Following are several specific areas in which the 2007 study is different from previous years.

Restructuring the Survey
The survey was restructured so that the core question section was shorter and more concise. This placed greater relative emphasis on the specific questions that were most relevant to the 2007 survey.

Expanding Areas of Particular Interest
The survey was expanded to include in-depth questions relating to collaboration and its impact on 3PL customers’ business processes; IT and contracting practices; and emerging markets with specific emphasis on China and India.

Improving Contact Database Management
The database of logistics and supply chain executives was updated and expanded to include executives in the following industries: automotive, chemical, consumer products, financial, food and beverage, high-tech and electronics, industrial manufacturing and defense, life sciences and healthcare, retail and telecommunications.

More Emphasis on ASEs and Workshops
To better understand the results of the survey and to gain valuable perspective from 3PL users, the research team also held facilitated sessions at the Capgemini Accelerated Solutions Environment (ASE) facilities in Chicago, Illinois, USA, and Paris, France. Additionally, a highly effective workshop/focus group session was held in Shanghai, China, with key logistics executives based in China. The participating executives reviewed selected research results and commented on various topics related to the use of 3PL services. This year, greater emphasis has been placed on analyzing and discussing the findings that resulted from the ASEs and workshops.

Developing Follow-Up Activities
A program of events and ancillary activities was developed to present the findings to a wider audience. These include:

- Analyst briefings
- Published articles
- Presentations at influential industry conferences such as the Council of Supply Chain Management Professionals (CSCMP)
- Survey results posted at www.3PLstudy.com (In addition to an electronic version of the study report for download, the site contains other valuable content.)
Asking the right questions is only half the story. For a study to be of real value the quality of the respondents must be high. This is the reason that the 3PL study team goes to great lengths to ensure the participation of logistics executives across key geographies and key industry verticals.

Characteristics of Survey Respondents
The discussions in this report are based on responses from 1,568 logistics and supply chain executives. As indicated earlier most of them were located in the four major geographies of interest: North America, Europe, Asia Pacific and Latin America (see Exhibit 1). In addition to these regions of the world, there were also a number of responses from areas such as South Africa and the Middle East.

The following sections discuss some key characteristics about the firms participating in the 2007 12th Annual 3PL study:

Users vs. Non-Users
Of the total number of respondents, 1,287 identified their organization as a user of 3PL services and 281 as non-users. This means that approximately 82% of the study respondents are classified as users of 3PL services.

Industries Represented
Exhibit 2 shows how 3PL users classified their organization in terms of industry. The most prevalent industries were high-tech and electronics (16%), consumer products (13%), industrial manufacturing and defense (13%), life sciences and healthcare (11%). The percentages of automotive and high-tech and electronics respondents tended to be higher in Asia Pacific, consumer product respondents higher in Latin America, and food and beverage respondents higher in North America. Also, the respondents included a small number of 3PLs who likely contracted with other (generally smaller) 3PLs to serve their customers.

Respondent Organization Sales Revenues
Based on information provided by the responding 3PL users, the percentage of organizations for each geographical area having projected 2007 sales revenues in excess of US$1 billion was 62% in North America, 55% in Europe, 47% in Asia Pacific and 27% in Latin America. As in previous years, the respondents from Latin America generally represented smaller organizations, with 62% of the Latin American respondents indicating 2007 anticipated sales of US$500 million or less.

Strategic Perspectives
3PL users surveyed attach great importance to logistics and supply chain management. For example, 86% of the North American respondents, 90% from Europe, 94% from Asia Pacific and 94% from Latin America agree, “Logistics represents a strategic, competitive advantage for our company.”
EXHIBIT 1

2007 3PL Study Geographic Areas Represented

North America: 364 (29%)
Latin America: 269 (21%)
Europe: 341 (27%)
Asia Pacific: 302 (23%)

Note: Figures indicate number of responses from each major geography studied (only includes respondents who specified a primary work location).

EXHIBIT 2

Industry Classifications of 3PL User Respondents

- Financial: 3%
- Food and Beverage: 8%
- High Tech and Electronics: 16%
- Automotive: 9%
- Chemical: 7%
- Retail: 5%
- Other: 8%
- 3PL: 4%
- Industrial Manufacturing and Defense: 13%
- Life Sciences and Healthcare: 11%
- Telecommunications: 3%
- Consumer Products: 13%
Impact of 3PLs on Logistics Effectiveness

When asked to consider whether they felt that “3PLs provide us with new and innovative ways to improve logistics effectiveness,” the following percentages of respondents indicated agreement:

- North America (62%)
- Europe (43%)
- Asia Pacific (69%)
- Latin America (78%)

These results suggest that respondents felt that 3PLs could still improve their logistics effectiveness. It is also interesting to note that the highest percent in agreement with the statement was from respondents in Latin America, which has a higher percentage of smaller revenue organizations. The low percentage for Europe may reflect some dissatisfaction with how 3PLs in that region are approaching logistics effectiveness.

Additional findings relating to the impact of 3PLs on logistics effectiveness include the following:

- Approximately two-thirds of the respondents felt that the use of 3PLs had a positive impact on the customer service to their customers.
- Almost three out of four respondents indicated agreement with the statement that “Our use of 3PLs has had a positive impact on business process efficiencies.”
- Almost half of the respondents agreed that their organizations were able to measure the return on investment (ROI) from using a 3PL.
- The majority of respondents (53%) indicated that they are not considering a move from a 3PL to a 4PL. Across the regions studied, 20% are considering this as a possible move, but in North America only 14% consider this an option.

Overall Trends

Logistics Activities Outsourced

Exhibit 3 shows the logistics activities outsourced by respondents’ organizations. The most frequently outsourced services include domestic and international transportation (83% and 79%, respectively), warehousing (69%), customs clearance and brokerage (67%), and forwarding (51%). Notable observations from Exhibit 3 include:

- Outsourcing of transportation (both domestic and international) tends to be somewhat higher for organizations located in Europe and Asia Pacific.
- Respondents from Europe indicate a greater propensity to outsource transportation management.
- Organizations in North America have a much greater tendency to outsource freight bill auditing and payment (51%) than organizations in the other regions studied (i.e., 10% in Latin America, 18% in Europe, and 14% in Asia Pacific).
- Asia Pacific and Latin American organizations have a greater incidence of outsourcing customer service than in the other regions. In Latin America the outsourcing of order entry, processing and fulfillment is twice as popular as in other parts of the world.
- In line with the thriving emerging markets in Asia, forwarding and customs clearance outsourcing is considerably higher there than in the rest of the world.

Factors Relating to Selection of 3PL Providers

Not surprisingly, the two most prevalent 3PL selection factors were the price of 3PL services (87%) and quality of tactical, operational logistics services (87%). Last year we noticed there was a slightly higher emphasis on price (87% vs. 85% on quality) but that difference has now disappeared. More information about the selection of service providers can be found in Chapter 7.

Expenditures on 3PL Services

An interesting question that has been asked for several years is “What percentage of your total current logistics expenditures is directed to outsourcing both currently (2007) and in the next 3-5 years (2010-2012)?” The 2007 results for this question are shown in Exhibit 4 for the four major geographic regions studied. Two important observations are:

- 3PL users in Europe and Asia Pacific tend to spend greater portions of their logistics budgets on outsourcing than their counterparts in North America and Latin America.
### EXHIBIT 3
Outsourced Logistics Services

<table>
<thead>
<tr>
<th>Outsourced Logistics Service</th>
<th>All Regions</th>
<th>North America</th>
<th>Europe</th>
<th>Asia Pacific</th>
<th>Latin America</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Transportation</td>
<td>83%</td>
<td>77%</td>
<td>91%</td>
<td>85%</td>
<td>79%</td>
</tr>
<tr>
<td>International Transportation</td>
<td>79%</td>
<td>68%</td>
<td>87%</td>
<td>89%</td>
<td>71%</td>
</tr>
<tr>
<td>Warehousing</td>
<td>69%</td>
<td>71%</td>
<td>68%</td>
<td>73%</td>
<td>60%</td>
</tr>
<tr>
<td>Customs Clearance and Brokerage</td>
<td>67%</td>
<td>65%</td>
<td>58%</td>
<td>78%</td>
<td>64%</td>
</tr>
<tr>
<td>Forwarding</td>
<td>51%</td>
<td>51%</td>
<td>51%</td>
<td>60%</td>
<td>38%</td>
</tr>
<tr>
<td>Shipment Consolidation</td>
<td>43%</td>
<td>44%</td>
<td>44%</td>
<td>45%</td>
<td>37%</td>
</tr>
<tr>
<td>Product Labeling, Packaging, Assembly, Kitting</td>
<td>34%</td>
<td>31%</td>
<td>33%</td>
<td>34%</td>
<td>41%</td>
</tr>
<tr>
<td>Transportation Management</td>
<td>32%</td>
<td>33%</td>
<td>41%</td>
<td>27%</td>
<td>24%</td>
</tr>
<tr>
<td>Reverse Logistics</td>
<td>31%</td>
<td>32%</td>
<td>33%</td>
<td>29%</td>
<td>29%</td>
</tr>
<tr>
<td>Cross-Docking</td>
<td>31%</td>
<td>36%</td>
<td>35%</td>
<td>26%</td>
<td>25%</td>
</tr>
<tr>
<td>Freight Bill Auditing and Payment</td>
<td>25%</td>
<td>51%</td>
<td>18%</td>
<td>14%</td>
<td>10%</td>
</tr>
<tr>
<td>Fleet Management</td>
<td>15%</td>
<td>11%</td>
<td>21%</td>
<td>12%</td>
<td>13%</td>
</tr>
<tr>
<td>Supply Chain Consultancy</td>
<td>14%</td>
<td>18%</td>
<td>11%</td>
<td>11%</td>
<td>17%</td>
</tr>
<tr>
<td>Order Entry, Processing and Fulfillment</td>
<td>14%</td>
<td>13%</td>
<td>7%</td>
<td>15%</td>
<td>28%</td>
</tr>
<tr>
<td>Customer Service</td>
<td>13%</td>
<td>10%</td>
<td>10%</td>
<td>17%</td>
<td>18%</td>
</tr>
<tr>
<td>LLP/4PL Services</td>
<td>11%</td>
<td>13%</td>
<td>11%</td>
<td>10%</td>
<td>10%</td>
</tr>
</tbody>
</table>

### EXHIBIT 4
Current vs. Projected Logistics Expenditures Directed to Outsourcing (As Percentages of Total Logistics Expenditures)

- **North America**: 47% (2007) 55% (2010-2012)
- **Europe**: 65% (2007) 71% (2010-2012)
- **Asia Pacific**: 62% (2007) 67% (2010-2012)
- **Latin America**: 49% (2007) 57% (2010-2012)
When looking at expected spend on outsourcing in the next 3-5 years, 3PL users in each region suggest that for total logistics expenditures, the percentage amount spent on outsourcing will increase. The greatest expected percentage increases are reported by 3PL users in North America and Latin America, the same regions that exhibit the lower reported current spends as a percent of total.

To further examine the issue of “future expectations” as reported in past annual studies, Exhibit 5 provides a 7-year perspective on the “current year” percentages for total logistics spend attributed to outsourcing as reported from 2001-2007. Looking at the longitudinal data points for each region, there are no clearly apparent growth rates for any of the regions. For North America and Latin America, specifically, the trend lines are relatively flat over the 7-year period, and Europe and Asia Pacific exhibit modestly increasing trend lines, at best.

Contracting Practices

This year’s study asked several survey questions that provide insight into the contracting practices and preferences of 3PL users. Among all respondents, 54% indicated that a “carefully drafted and signed contract with detailed descriptions of services and performance tracking” contributed to 3PL success. A larger percent of 3PL users in North America (62%), and a smaller percent in Latin America (41%) felt that a carefully drafted and signed contract contributed to success with 3PLs. Among all respondents this success factor was second only to “personal relationships on an operational level” (71%).

Overall, the average reported length of 3PL contracts was 2.98 years, with users in North America, Europe and Latin America reporting slightly longer average length of contracts (3.10, 3.10 and 3.14 years, respectively). Average contract length reported by users in Asia Pacific was 2.59 years. Exhibit 6 provides details included in

EXHIBIT 5
Current Logistics Expenditures Directed to Outsourcing
(As Percentages of Total Logistics Expenditures)
EXHIBIT 6
Issues Addressed in Contract or Agreement for 3PL Services

<table>
<thead>
<tr>
<th>Issue</th>
<th>All Regions</th>
<th>North America</th>
<th>Europe</th>
<th>Asia Pacific</th>
<th>Latin America</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rates and Compensation Details</td>
<td>92%</td>
<td>99%</td>
<td>91%</td>
<td>82%</td>
<td>94%</td>
</tr>
<tr>
<td>Service Standards and Performance Requirements</td>
<td>87</td>
<td>91</td>
<td>93</td>
<td>86</td>
<td>72</td>
</tr>
<tr>
<td>Process for Termination or Dissolution of Agreement</td>
<td>72</td>
<td>83</td>
<td>68</td>
<td>67</td>
<td>63</td>
</tr>
<tr>
<td>Renewal of Service Beyond Initial Term of Agreement</td>
<td>63</td>
<td>77</td>
<td>54</td>
<td>56</td>
<td>63</td>
</tr>
<tr>
<td>Procedures for Conflict Resolution</td>
<td>60</td>
<td>61</td>
<td>61</td>
<td>63</td>
<td>50</td>
</tr>
<tr>
<td>Penalties for Non-Performance</td>
<td>59</td>
<td>57</td>
<td>59</td>
<td>61</td>
<td>54</td>
</tr>
<tr>
<td>Key Performance Indicators (KPIs) to Determine Compensation</td>
<td>59</td>
<td>57</td>
<td>67</td>
<td>65</td>
<td>41</td>
</tr>
<tr>
<td>Specific Goals Related to Continuous Improvement</td>
<td>49</td>
<td>52</td>
<td>58</td>
<td>46</td>
<td>32</td>
</tr>
<tr>
<td>Information Technology Mandates (e.g., must use specific software for TMS, WMS, etc.)</td>
<td>45</td>
<td>50</td>
<td>39</td>
<td>47</td>
<td>46</td>
</tr>
</tbody>
</table>

contracts or agreements for 3PL services. Although rates and compensation details was mentioned most frequently (92%), other issues of importance include service standards and performance requirements (87%), process for termination or dissolution of agreement (72%) and renewal of service beyond initial term of agreement (63%). Interesting among the responses to this question is that 3PL users from Latin America generally reported a lower percentage of interest in issues relating to service standards and performance measurement, key performance indicators to determine compensation, and specific goals related to continuous improvement. These results appear to correspond to a reported lesser interest among Latin America respondents for carefully drafted and signed contracts.

When asked about their financial arrangements with 3PLs, the following were reported as being in use: transaction-based fee (65%), fixed price (44%), cost-plus (27%) and gain-sharing (19%). (Totals do not add up to 100% as multiple responses were allowed). Interestingly, the cost-plus and gain-sharing approaches were more prevalent among North American and European 3PL-customer relationships.

Last, the 2007 results indicate that 48% of the respondent organizations “are moving to rationalize or reduce the number of 3PLs they use.” When compared with last year’s result of 55%, perhaps this may be a reflection of the continuing consolidation on the side of the 3PL providers. In any case, these figures suggest that customers are taking steps to more strategically manage the range of 3PLs they use.

Overall Success of Logistics Outsourcing to 3PLs
Exhibit 7 shows that 3PL users in North America, Europe and Asia Pacific characterize their 3PL relationships as successful by 87%, 86%, and 88%, respectively. The percentage for Latin America has annually been lower and continues that trend with a 76% rating.

When asked what factors contributed to the overall success with 3PLs, the most prominent answers were:
- Personal relationships on an operational level (71%)
- Carefully drafted and signed contract with detailed descriptions of services and performance tracking (54%)
- Clearly measured improvement in service levels to customers (52%)
- Peer-to-peer relationships on executive level providing guidance and sponsorship (50%)
- Clearly measured cost reductions (50%)

Interestingly, improvement in service levels is rated higher than clearly measured cost reductions. However, personal relationships on an operational level rate higher than both of these. Not surprisingly, a detailed contract fundamentally contributes more to success than a minimal contract.

Views of Non-Users
The non-users were asked several questions to better understand their thinking about the use of 3PL services. When asked why they were not currently using 3PL services, the most prevalent reason, expressed by 37% of the non-users, was that “logistics is viewed as a core competency at our firm.” In declining order of frequency, other factors used to explain the non-use of 3PL services were:
- Cost reductions would not be realized (36%)
- Service level commitments would not be realized (28%)
- Logistics too important to consider outsourcing (28%)
- Control over outsourced function(s) would diminish (23%)
- We have more expertise than 3PL providers (21%)

Another question to the non-users was whether future plans may include logistics outsourcing. The percentage of those saying “yes” were:
- North America (45%)
- Europe (42%)
- Asia Pacific (31%)
- Latin America (53%)

Among those who allow for future outsourcing, the two most likely services in which they are interested are warehousing and transportation.

Conclusion
Regardless of why a company may or may not choose to outsource logistics services, due diligence by corporate logistics and supply chain executives should include the consideration of commercial alternatives as a business progressive option. Even if the result of such an analysis is a reaffirmation of the decision to continue with an “insourcing” strategy, the exercise should add valuable perspective and insight into how the organization might improve its own logistics and supply chain processes.

In a broader sense, 3PLs should be counted on as a source of advice and innovation that can help customers identify and solve logistics problems. However, it is only when customers apply professional management skills to the areas of logistics and the management of outsourced logistics services that the talents and abilities of the 3PL sector can be meaningfully developed and utilized.

EXHIBIT 7
Percentages of Companies That Consider Their Outsourcing to Be Successful
CHAPTER 1

Working together – collaboratively – is such an obvious attribute that it may seem odd to highlight it as a special topic in this report. However, as we all know, creating good relationships is hard work, particularly when those relationships involve the sensitive issue of outsourcing key logistics activities.

Discussions with users and providers of 3PL services reveal a disconnect between the desire to work collaboratively and how to go about it. In fact, it is apparent that the model most often followed does not usually work. The ASE and workshop sessions held in conjunction with the survey provided excellent opportunities for participants to discuss the issue, to compare their own experiences and to share their own methods of success.

Creating and growing relationships has never been easy in any industry or business situation. As suggested by the late Robert V. Delaney in the 11th Annual State of Logistics Report, “Relationships are what will carry the logistics industry into the future.” He continued by stating that “We recognize and appreciate the power of the new technology and the power it will deliver, but, in the frantic search for space, it is still about relationships.”

The 2007 edition of this premier benchmark for US logistics activity concludes that with ever-growing trade volumes and increasing logistics costs, managing those activities will remain a daunting task, but the best managers are proving that global collaboration is now the key to improved efficiency.

Defining Supply Chain Collaboration

The following is a suggested definition of collaboration in the context of a 3PL-customer relationship:

Supply chain collaboration between a 3PL and a customer occurs when both organizations work toward a common set of goals and objectives, and when there is a meaningful exchange of information relating to planning, management, execution and performance measurement. Collaborative relationships thrive on the dedication of both parties to share responsibilities of people, process and technology, in order to drive change and improvement in the overall business relationship. To be effective, the collaboration process should involve not only 3PLs and their customers, but the customers’ customers, suppliers and other key stakeholders. In reality, 3PLs are in a great position to facilitate collaboration between a customer organization and its trading partners.

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4 This definition has been adapted from one provided in Tom Anthony, “Supply Chain Collaboration: Success in the New Internet Economy,” ASCET, Volume 2 (San Francisco, CA: Montgomery Research, Inc., 2000), pp. 41-42.
Cooperation is tactical; collaboration is strategic (ASE participant, Chicago)
The Three Key Dimensions of Collaboration
To be meaningful and effective, collaboration must go well beyond vague expressions of partnership and aligned interest. The 3PL and the customer must leverage each other on a strategic and operational basis so that when working together, they perform better than they would separately. Exhibit 8 explores three key dimensions of collaboration—people, process, and technology, and suggests traditional, progressive, and leading characteristics of 3PL-customer collaboration. Essentially, the content of Exhibit 8 represents a “maturity model” that can be used by 3PLs and customers to design a strategic plan for the development of a truly collaborative relationship. This topic is further discussed later in this chapter.

Behaviors That Promote Collaboration
Discussions with 3PL users helped to identify a number of behaviors that seem to go hand-in-hand with successful 3PL-customer collaborations. Personal relationships, a mutual desire for success and respecting what each party brings to the table were seen as crucial, but long-term success relies on the effectiveness of process and technology.5

Benefits of Collaboration
ASE workshop participants helped to identify several meaningful benefits of successful collaborations with 3PLs, such as:
- A seamless, 360-degree view of the supply chain (an upstream view to suppliers, a downstream view to customers)
- Access to and knowledge about the global marketplace by leveraging the 3PL’s experience and relationships in other markets
- Improved customer service—for example, a 3PL has opportunities to interact with end customers and create a positive experience during order entry and order fulfillment
- Enhanced business processes (discussed in further detail below)
- Improved capacity during peak seasons or promotions, because the 3PL works more closely with its customer to understand forecasts and scheduled promotions and plans its own resources accordingly
- Higher service levels at lower cost. This relates to the above point: better sharing of forecast information means the 3PL does not have to plan for worst-case scenarios
- Improved new product introduction and management of new SKUs (product lifecycle management)
- Reduced inventory and stockouts as a result of collaborative forecasting activities
- Navigating governmental regulations—particularly relevant in China and where language and terminology issues may be a problem

Financial vs. Non-Financial Benefits of Collaboration
In general, executives felt that the many benefits of successful collaboration outweighed the financial costs, in other words collaboration pays for itself. They also felt that collaborations should be formed as a way of delivering financial results, not just for their own sake.

One net positive financial value of collaboration was to achieve a balanced cost reduction strategy for both 3PL and customer. Additional benefits were “incentives for innovation” and alignment of 3PL-customer key performance indicators with drivers of total economic value.

5 Ironically, long-term relationships can be an impediment to effective collaboration. An interesting example was related by one of the executive participants who suggested that Japanese and Korean businesses tend to change partners only on an infrequent basis. The relevance of this example is that sometimes a reluctance to change partners may make it difficult for an organization to see new opportunities for improvement and to take advantage of truly collaborative relationships. While these relationships may be longer lasting, they may not be very productive from the perspective of collaboration between the involved parties.
### Exhibit 8

**Maturity Model for Effective 3PL-Customer Collaboration**

<table>
<thead>
<tr>
<th>People</th>
<th>Traditional</th>
<th>Progressive</th>
<th>Leading</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Limited meaningful 3PL-customer interaction</td>
<td>Good working relationships between 3PL and customer on an individual basis</td>
<td>Organizational and strategic alignment from executive level down to operational level</td>
</tr>
<tr>
<td></td>
<td>Individuals focused on area of responsibility within their own company</td>
<td>Management open to discrete opportunities to work together on an “as needed” basis</td>
<td>On-site representatives from other company</td>
</tr>
<tr>
<td></td>
<td>3PL perceived as “just another vendor”, with a focus on cost management</td>
<td>Planning and review meetings on an “as needed” basis</td>
<td>Regular cadence of joint review and planning meetings also on strategic topics</td>
</tr>
<tr>
<td></td>
<td>Detailed attention to the terms and conditions of the contract</td>
<td>Attention to the “spirit” of the contract – to ensure good service to the end customer</td>
<td>Contract structured to foster collaboration, Gain sharing</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Process</th>
<th>Traditional</th>
<th>Progressive</th>
<th>Leading</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Process design and execution confined to intra-company boundaries</td>
<td>Customer and 3PL cooperatively manage business processes across company boundaries</td>
<td>Customer, 3PL, and trading partners work together to optimize processes across extended supply chain</td>
</tr>
<tr>
<td></td>
<td>General awareness of importance information sharing</td>
<td>Value added services beyond traditional transportation and warehousing</td>
<td>Shared KPIs / metrics and a joint focus on continuous process improvement</td>
</tr>
<tr>
<td></td>
<td>Ad hoc Information exchange</td>
<td>Sharing of information put to some good use</td>
<td>Information shared widely with significant benefits</td>
</tr>
<tr>
<td></td>
<td>KPIs limited to internal metrics and vendor (3PL) scorecards</td>
<td>Increasing focus on proactive process improvement to deliver joint benefits</td>
<td>3PL Services extend to customer facing and strategic planning processes</td>
</tr>
<tr>
<td></td>
<td>Reactive improvements to resolve process issues between customer and 3PL</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Technology</th>
<th>Traditional</th>
<th>Progressive</th>
<th>Leading</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Non-integrated point solutions</td>
<td>Selective integration of point solutions. Customer ERP input used</td>
<td>Holistic solutions supporting optimization across the extended supply chain</td>
</tr>
<tr>
<td></td>
<td>Information sharing by e-mail and some EDI</td>
<td>Near real-time visibility and alerts for shipments for some flows</td>
<td>3PL Toolbox of applications (services) allowing fast customer implementations and requirements updates</td>
</tr>
<tr>
<td></td>
<td>Shipment status only available by request (not real time)</td>
<td>Periodic communication of planning information</td>
<td>Open integration based on Service Oriented Architecture</td>
</tr>
<tr>
<td></td>
<td>Proprietary data formats</td>
<td>Upgraded IT, leveraging 3PL best practices</td>
<td>Event Management: real time visibility, forecasting and pro-active alerts</td>
</tr>
<tr>
<td></td>
<td>Legacy IT solutions inherited from 3PL customer</td>
<td></td>
<td>Global standards applied</td>
</tr>
</tbody>
</table>
Impacts of Collaboration on Customer Business Processes

Exhibit 9 provides results from our survey question: “Which business processes would benefit from improved collaboration with 3PLs?” The greatest potential benefits of collaboration seem to be associated with business processes, such as inventory management, customer order management, customer service and supplier order management. Exhibit 10 provides some examples of ways that leading companies are already collaborating with 3PL partners to improve processes.

Interestingly, some ASE participants felt uncomfortable trusting the 3PL with maintaining the customer relationship or making sure there is enough inventory in stock, either of which can directly impact revenue. Generally, the greatest perceived benefits from collaboration seemed to be related to areas that affect suppliers and customers, lead to inventory efficiencies and relate to sales and operations planning.

EXHIBIT 9
Business Processes That Would Benefit From Improved Collaboration With 3PLs

<table>
<thead>
<tr>
<th>Business Process</th>
<th>All Regions</th>
<th>North America</th>
<th>Europe</th>
<th>Asia Pacific</th>
<th>Latin America</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory Management</td>
<td>51%</td>
<td>49%</td>
<td>46%</td>
<td>51%</td>
<td>60%</td>
</tr>
<tr>
<td>Customer Order Management</td>
<td>49</td>
<td>44</td>
<td>55</td>
<td>49</td>
<td>50</td>
</tr>
<tr>
<td>Customer Service</td>
<td>43</td>
<td>39</td>
<td>44</td>
<td>37</td>
<td>58</td>
</tr>
<tr>
<td>Supplier Order Management</td>
<td>41</td>
<td>45</td>
<td>34</td>
<td>41</td>
<td>40</td>
</tr>
<tr>
<td>International Trade Logistics</td>
<td>38</td>
<td>35</td>
<td>27</td>
<td>44</td>
<td>50</td>
</tr>
<tr>
<td>Sales and Operations Planning</td>
<td>36</td>
<td>25</td>
<td>41</td>
<td>34</td>
<td>52</td>
</tr>
<tr>
<td>Supply Planning</td>
<td>33</td>
<td>28</td>
<td>29</td>
<td>36</td>
<td>42</td>
</tr>
<tr>
<td>Repair/Returns Management</td>
<td>29</td>
<td>25</td>
<td>28</td>
<td>35</td>
<td>25</td>
</tr>
<tr>
<td>Compliance (e.g., Sarbanes-Oxley, customs, etc.)</td>
<td>29</td>
<td>24</td>
<td>25</td>
<td>36</td>
<td>34</td>
</tr>
<tr>
<td>Demand Planning</td>
<td>26</td>
<td>23</td>
<td>24</td>
<td>28</td>
<td>27</td>
</tr>
<tr>
<td>Accounts Payable/Receivable Processes</td>
<td>18</td>
<td>18</td>
<td>18</td>
<td>17</td>
<td>18</td>
</tr>
<tr>
<td>Manufacturing Scheduling</td>
<td>17</td>
<td>15</td>
<td>14</td>
<td>22</td>
<td>21</td>
</tr>
<tr>
<td>Product Launch</td>
<td>16</td>
<td>18</td>
<td>11</td>
<td>16</td>
<td>20</td>
</tr>
<tr>
<td>Warranty Management</td>
<td>12</td>
<td>10</td>
<td>6</td>
<td>17</td>
<td>18</td>
</tr>
</tbody>
</table>
Impacts of Contracting on Collaboration
Interesting discussions among executives in the ASEs and workshops centered on how contracting processes can facilitate successful 3PL-customer collaboration. Suggestions included a willingness of both parties to keep the contracting process simple, to be flexible and to build in meaningful and adjustable KPIs. To structure an effective contract, participants indicated that both parties have to give and take a little, or a lot. In fact, one executive stated, “you know when you have a good contract when everyone walks away feeling ‘a little bit screwed.’” It was also mentioned that when a relationship is truly collaborative there’s really no need to look at the contract everyday.

Elements of World-Class 3PL-Customer Collaborations
Exhibit 11 summarizes the elements that the executives participating in the ASE and workshop sessions considered central to successful 3PL-customer collaborations.6

Goals and Objectives
Both 3PLs and customers need to understand each other’s individual organizational objectives and be willing to share them openly. Both parties will then find it easier to discuss the objectives of their relationship and how they can create value for each other and for the extended customers and suppliers who are involved in the supply chain.

EXHIBIT 10
Leading Companies Are Already Collaborating with 3PL Partners to Improve Processes

| Sales and Operations Planning | • 3PL can be a partner in the collaborative process to align operational capacity with the sales plan
| • Allows the 3PL to better manage:
  |   • Network shared capacity (sq. ft.)
  |   • Shared labor resources
  |   • Transportation capacity
| • Customer can count on the 3PL to deliver to plan, especially during operational peaks |
| Manufacturing Planning | • 3PL can be a partner in planning and controlling the flow of inbound parts to manufacturing
| • Examples of 3PL involvement:
  |   • Materials management from offshore suppliers to a domestic plant, including deconsolidating and metering components into plants
  |   • Simplify sourcing through creation and management of regional hubs spanning multiple suppliers
  |   • Train and manage offshore suppliers |
| Sourcing | • Companies are attracted to offshore sources for low unit product cost
| • 3PL partner can add value to the sourcing process, determining total landed cost and other factors
  |   • Hard cost factors like inbound transportation, import/export duties, inventory-in-transit and incremental safety stock add to the unit cost
  |   • Soft cost factors include ease of doing business in sourcing country and operational risk |

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Trust and Commitment

Widely recognized as a fundamental relationship building block, trust may be thought of as “reliance on and trust in one’s partner.” Both trust and commitment have a great relevance because they encourage companies to work at preserving relationship investments, to resist alternatives that may have just a short-term attractiveness and to view potentially high-risk action as desirable from the point of view of trying new alternatives.

Corporate Compatibility

Of greatest importance here is that the relationship includes a sharing of vision, goals, objectives and cultures. Facilitating mechanisms include: meaningful alignment of individuals and processes; executive and operational champions on both sides; stable, professional work force, particularly on the 3PL side, and a willingness to fund it; and regular executive visits to customer sites. When discussing compatibility of corporate cultures, one executive participant sited the philosophy of Kyosei and the principles of San-ji, both of which guide the success of Canon.

Communication

Regular communication and sharing/use of information is central to an effective collaborative relationship. To be effective, the shared data must be meaningfully used by the parties, both individually and collectively. Too often, either the data is not shared at all or very little is done to meaningfully utilize what has been shared. One participating executive reported that his organization regularly shares sales forecast information with its 3PLs.

Shared Decision Making

Matters relating to the success of the relationship should be handled by both 3PLs and customers. These include decision making and the ability to reach consensus on matters of importance. Suggestions

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7 Ibid, page 80.
8 Adapted from Ibid, page 80.
9 According to details available at www.canon.com, Kyosei, a Japanese word meaning “living and working together for the common good,” is a genuine philosophy that guides the mission, objectives, and culture that the company strives to develop every day, and encourages every staff member to aim not just for high performance, but for excellence. San-ji is a universal principle that encourages staff members to be proactive in everything they do, to conduct themselves responsibly and to understand the situation they find themselves in and their role in the situation.
Strategic Plan
Successful collaborations between 3PLs and customers are not without their challenges and difficulties. Developing a strategic plan for the relationship can be of considerable value. As part of the process of developing the plan, a checklist for successful collaboration should be developed jointly by the 3PL and the customer. Everyone involved should realize that a successful collaboration should last longer than the people who are involved in its formation. 3PLs and customers should place a high priority on identifying the objectives of their collaborative relationships and then develop a sound strategic approach for establishing a truly collaborative business relationship.

In the words of a participating executive at an ASE, “Cooperation is tactical; collaboration is strategic.” Although collaboration itself is a strategic concept, it can occur at both strategic and operational levels. The primary issue is whether the involved parties work together in a manner that truly reflects the essence of a collaborative relationship.

Equitable Sharing
Successful collaborations require that 3PLs and customers develop mechanisms to share gains, losses and investments. This involves both parties knowing the benefits that result from the sharing (financial and non-financial) and a belief that the sharing has been “equitable”.

Overall Benefits
To be sustainable over the longer term, successful collaborations need to create benefits for the involved parties that exceed what those organizations could accomplish individually. While achieving individual organizational objectives will always be of great importance, a successful 3PL-customer collaboration can lead to even better results.

The success of any collaboration depends on establishing meaningful linkages among individuals, organizations, processes and practices. One ASE participant visualized a row boat metaphor, illustrated in Exhibit 12, which captures the essence of what is expected: Through collaboration, both parties can plot a straighter course and are able to reach their goals quicker. Building on this metaphor, a dragon boat might well be seen as the best-in-class or visionary version of collaboration. The row boat represents the traditional version of collaboration which certainly provides benefits for both shipper and 3PL, while the streamlined dragon boat with up to 22 team members embodies the tuned and trimmed collaboration that extends across many more parts of the supply chain.

Effective Measurements
A commitment by both 3PLs and customers to measurements and the development of measurement strategies will be a key to the success of the relationship. 3PLs and customers need KPIs that show shared ownership and a commitment to objectives and to making process improvement a priority.
CHAPTER 5

The IT capabilities of 3PLs have been the subject of discussion in many forums around the world. They clearly draw a lot of attention, but are the capabilities really as disappointing as reported? Is it a perception problem? Is IT an easy scapegoat for things that go wrong in the operation? Is the technology provided really in need of improvement or are the 3PLs simply not providing the functionality needed by their customers?

Most Popular Technologies Provided by 3PLs

A logical first question to ask is what technologies offered to 3PL clients are currently being used. This year’s results are very consistent with last year. Warehouse management systems (WMS) and transportation management systems (TMS) are, once again, rated as the most used technologies provided by 3PLs.

A related question is: “What technologies would 3PL users like to add to their current use?” Exhibit 13 adds together user responses for both current and future use to illustrate what the most popular technologies should be going forward. The rankings remain virtually the same as they were in 2006:

- Visibility tools (91%)
- Web-enabled communication (88%)
- Transportation management (execution) systems (86%)
- Warehouse management systems (85%)

Given that the current usage of WMS and TMS is already very high serves to point out the growth potential for visibility and web-enabled tools.

Least Popular

The survey also shows which technologies are the least popular with 3PL customers. About half of the 3PL users currently do not use and do not expect to use in the future the following technologies supplied by their 3PL: supply chain planning, yard management, customer relationship management, customer order management and supplier order management. This finding is consistent with the remarks made about the current state of the 3PL market in Chapter 3: 3PL users are reluctant to outsource services that include direct contact with their end customers.

The Link between Technology and the Logistics Services Outsourced

Clearly there is a relationship between logistics services outsourced to 3PLs and the technology used. For example, providers of transportation management services are likely to provide transportation management technology as part of their service offering. But what about a popular logistics service, such as customs clearance and brokerage? This was not mentioned in our multiple choice answers on technology, but it is a service that is quite common in some parts of the world.

A participant at our workshop in Shanghai mentioned it as an opportunity for 3PLs to provide connectivity with the client country’s customs offices. Other areas where 3PLs could potentially offer new services and related IT support might be the new legislation in the European Union around border security, the changing role of customs and the responsibilities an operator acquires once it is recognized as a secure trader and obtained Authorized Economic Operator (AEO) status.
3PL users indicated that they could see that the increasing emphasis on compliance could drive standardization of IT.
RFID – Is it Still the Future?

As in the previous two years, RFID is the technology with the highest future expectations. Last year we did not see any of these high expectations fulfilled. There was no growth in actual usage compared to our study results in 2005. This year we recorded a very modest change from 12% to 14% in the use of 3PL-provided RFID technology, with 56% of the 3PL users expecting more from this technology in coming years. However, even if all the predicted future use of RFID was realized, it still would not be in the top five technologies used by 3PLs.

The optimism expressed for RFID in the web survey was not fully shared in our workshops. RFID is still too expensive and ease of use is questioned. Although support was expressed for attempts at global standardization by organizations like GS1, there was doubt whether we really are close to a future breakthrough. A participant in one of the ASEs made an interesting observation: In an analysis of the questions expressed in Requests for Proposals (RFPs) to 3PLs, only 3% to 5% of the potential 3PL users asked about RFID in 2006, while three years ago questions relating to it were found in 10% of the RFPs.

User Satisfaction With IT Provided by 3PLs

Every year we ask 3PL users how important the IT capabilities of 3PL providers are to them. We also ask whether they are satisfied with the 3PL’s IT capabilities. The difference between these two answers has become known as the IT expectation/ performance gap, which is illustrated in Exhibit 14.

After years of an increasing gap, there is some good news in the 2007 results. As indicated in Exhibit 15 the percentage of users that expressed satisfaction with the IT capabilities of their 3PLs has increased from 35% (2006) to 42% (2007), while the expectation percentage remained the same at 92%, thus resulting in a shrinking of the IT expectation/performance gap.

The results for North America, Europe and Asia Pacific are similar to the overall score, but the situation in Latin America differs. This is because although there is a small increase in satisfaction in Latin America, the expectations have grown considerably. In previous years Latin American 3PL users considered IT less crucial than their peers in other parts of the world. This year that difference has disappeared: 91% of the Latin American users now consider IT capabilities

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10 The printed version of our 2006 3PL report contained an error on page 11. The use of RFID in 2006 was 12%, the same as in 2005. The updated version can be downloaded from our website: www.3plstudy.com.
a necessary element of a 3PL’s expertise, and, as a consequence, the gap between expectation and actual satisfaction for Latin America grew from 42% to 51%.

Although overall the IT expectation/performance gap has shrunk, there is clearly no reason for complacency here: The majority of users are still dissatisfied. The picture is confirmed when we look at the continuing problems that 3PL users report with their 3PL providers: Insufficient IT capabilities are still a top three issue in the performance of 3PLs.

The Way Forward?
In the ASEs and workshop we discussed how 3PL users saw the desired future of 3PL technology capabilities and services. And we asked them how in their mind the gap between client expectations and the actual performance of their 3PLs could be closed. Some highlights of the responses from participating executives are shown in Exhibit 16.

We were encouraged that some 3PL users recognize the value of standardizing IT, a process that many of them have gone through in their own organizations. There are indications that this process makes them more open to accepting the needed rationalization of the extreme diverse, complex and expensive IT solutions that their 3PL providers have developed or acquired.

Contracts
In the survey we added new questions about the way 3PL providers and their customers use contracts. One of the multiple choice questions asked what things should be included in contracts between the 3PL and the customer—in other words, what software would be used, upgrade commitments, etc. The assumption was that unknown, and possibly unrealistic, expectations might be identified and the findings might also have a bearing on the IT expectation/performance gap.

The ideal scenario would be for both parties to agree on what information they will exchange and which technology is going to be applied to achieve that. However, the responses clearly illustrated that— for the moment at least—this is not common practice. IT turned out to be the least favorable option for inclusion in the contract, particularly in Europe.

In fact, standard operating procedures or service level agreements are often the best place to put detailed IT requirements and commitments, rather than into contracts.

EXHIBIT 16
Future IT Expectations and How to Close the Gap - Workshop Results

<table>
<thead>
<tr>
<th>Desired Future State</th>
<th>How to Get There</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Plug and play integration to reduce implementation time</td>
<td>• Willingness to invest in the right solution</td>
</tr>
<tr>
<td>• 3PL offers high technical flexibility and fast turnaround to business requirements</td>
<td>• Establish a plan to move towards a more collaborative relationship during the contract lifetime</td>
</tr>
<tr>
<td>• 3PL provides a flexible choice of IT solutions (a toolbox)</td>
<td>• Keep focus on the right solution. Don’t give up!</td>
</tr>
<tr>
<td>• New releases/software upgrades committed in contract</td>
<td>• 3PL to develop better project management skills for IT implementations</td>
</tr>
<tr>
<td>• Shared and correct master data/meeting industry standards (Advance Ship Notice (ASN), etc.)</td>
<td>• Involve IT service providers</td>
</tr>
<tr>
<td>• Software standardization on a global basis</td>
<td></td>
</tr>
</tbody>
</table>
The term emerging markets is commonly used to describe business and market activity in industrializing or emerging regions of the world. With their large populations and low per capita income, strong economic development and investment, these countries are playing an increasingly important role in the global supply chain market.

This year, the study looked into the challenges and opportunities these markets present to 3PL users and providers, and selected two of the front-runners – China and India – to profile for this special topic.

**Emerging or Arrived?**

How long can a country remain emerging? China is now widely seen as an economic powerhouse, but at the same time it is still an emerging country, at least based on its income per capita. Exhibit 17 shows data for the top emerging markets – the so-called BRIC (Brazil, Russia, India and China) countries – compared to the leading economies in North America, Europe and Asia.

### EXHIBIT 17

Core Economic Data Compared

<table>
<thead>
<tr>
<th>Country</th>
<th>Population</th>
<th>Pop. Rank</th>
<th>GDP (billions of USD)</th>
<th>GDP Rank</th>
<th>GDP (PPP) Per capita (USD)</th>
<th>GDP (PPP) Per capita Rank</th>
<th>Exports (billions of USD)</th>
<th>Exports Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>1,321,851,888</td>
<td>1</td>
<td>2,518</td>
<td>4</td>
<td>7,700</td>
<td>84</td>
<td>974</td>
<td>3</td>
</tr>
<tr>
<td>India</td>
<td>1,129,866,154</td>
<td>2</td>
<td>804</td>
<td>15</td>
<td>3,800</td>
<td>124</td>
<td>112</td>
<td>28</td>
</tr>
<tr>
<td>United States</td>
<td>301,139,947</td>
<td>3</td>
<td>13,210</td>
<td>1</td>
<td>44,000</td>
<td>6</td>
<td>1,024</td>
<td>2</td>
</tr>
<tr>
<td>Brazil</td>
<td>190,010,647</td>
<td>5</td>
<td>967</td>
<td>10</td>
<td>8,800</td>
<td>72</td>
<td>138</td>
<td>21</td>
</tr>
<tr>
<td>Russia</td>
<td>141,377,752</td>
<td>9</td>
<td>734</td>
<td>16</td>
<td>12,200</td>
<td>61</td>
<td>318</td>
<td>12</td>
</tr>
<tr>
<td>Japan</td>
<td>127,433,494</td>
<td>10</td>
<td>4,883</td>
<td>2</td>
<td>33,100</td>
<td>16</td>
<td>590</td>
<td>4</td>
</tr>
<tr>
<td>Germany</td>
<td>82,400,996</td>
<td>14</td>
<td>2,872</td>
<td>3</td>
<td>31,900</td>
<td>20</td>
<td>1,133</td>
<td>1</td>
</tr>
</tbody>
</table>


Note: IMF and UN cite Russia’s GDP as 979 billion and 987 billion, respectively, which would place it 11th in the rankings.
One advantage of producing in an emerging market is the time it takes to set up a new plant – whereas in Italy it takes 10 years, it takes only 2 years in China or Russia. (ASE Paris participant)
Companies Prefer to Stay Close to Home

Which countries were the most popular choices for 3PL users to expand their activities? The top five in our survey were consistent with last year: China (60%) and India (46%) are clear winners, followed by Russia (30%), Brazil (26%) and Poland (20%).

When respondents were asked which country or region they would choose, the answers reflected their own localities. Proximity (distance and cultural) is still important. For example, respondents in Europe are much more interested in expanding to Eastern Europe than are North American respondents. At the same time, Latin America is clearly more attractive to North American executives than to their European counterparts. As an example, Brazil, not even a top ten growth area for Europeans, is the third most attractive country for North Americans after China and India. For Europeans, Russia comes second after China. Latin American companies do plan to expand to China but do not appear keen to expand to any other countries outside their own continent. There is less interest to expand to Africa. Our survey found that only 10% of respondents outside Europe are planning to expand their activities in Africa; however this changes to 21% for European companies.

The Business Challenges in China and India

Our study found that both countries have their own barriers to business. In China the biggest challenge according to our respondents is the ability to deliver against promises and agreed-upon service levels. In our workshop in Shanghai this was nicely coined as: “3PL service in China: Willingness? There is more than enough of that. It’s the capabilities that are troublesome!” Another interesting opinion that came from the same workshop was that 3PLs in China are indeed able to deliver upon committed service levels consistently, but only when these service levels have been set at a lower level than in more developed countries.

In India, the biggest problem that overshadows all others is the poor physical infrastructure. Exhibit 19 shows some results from studies the World Bank did on the topic. One specific problem for India is a very complex,
multi-tier tax system. In our workshops, the tax that is required for interstate movement of goods was mentioned as an important barrier to an efficient supply chain.

China does not suffer to the same extent from infrastructure problems. One of the reasons is that extensive export activities have stimulated the development of roads and ports, at least in the important coastal region.

**Planned Activity in Emerging Markets**

Many factors come into play when companies decide to expand into new countries. Cheap labor can be a reason to start production in a new country. Sometimes the new country is simply a new sales territory, which means the supply chain executive may need only to send the products over. Where difficulties develop, creative solutions are found. A company represented in our Paris ASE explained that they sell to the new countries on an “ex-works” basis. That way the logistics in the new territories are not their problem. But a representative from a fast-moving consumer goods company explained that this solution would not work in their situation because they wanted much more local control over when goods are available in stores.

We asked our survey participants what activities they intended to pursue in China and India. Importing goods from China is still the number one activity, but it is clear that companies now also value China, with its large population and growing buying power, very highly as a market where they can sell their products. Companies are also showing interest in setting up their own facilities, as well as using the more traditional option of having their products produced by third parties.

As Exhibit 20 shows, there remains a substantial difference between expansion plans for the two countries. Off-shoring of non-core business processes to India has become very popular while this cannot be said for China. Of course, this applies in particular to IT services, but the off-shoring of other business processes, such as finance and HR, is a growing area for India.

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**EXHIBIT 19**

World Bank on the Infrastructure Challenges in India

India faces an enormous challenge in reducing poverty, with more people living on less than a dollar than any other country in the world. Economic reforms have triggered an unprecedented growth in GDP by 6.0–6.5% a year over the last ten years. But India’s transport system has serious deficiencies; its services are, by international standards, highly inefficient and poor transport has become a major drag on economic growth.

Within India, infrastructure capacity constraints are widely acclaimed to be the main reason for the poor services. But the problem is more complicated. Operational weaknesses not only reduce service quality, but also exacerbate capacity shortages.

During the last ten years, total transport demand has grown at 10% a year. However, 25% of highways are congested and truck speeds average only 30-40 km per hour. Capacity shortages are real and there are frequent stops at state and municipal checkpoints.

The quotes above come from a report published in May 2002. The growth in GDP has since reached 8% per year. Has the situation improved? The World Bank website of August 2007, suggests not:

- India’s roads are congested and of poor quality. The density of India’s highway network is similar to that of the US and much greater than China’s. However, most highways in India are narrow and congested with poor surface quality, and 40% of India’s villages do not have access to all-weather roads.
- The railways are facing severe capacity constraints. Freight transportation costs by rail are much higher than in most countries as freight tariffs in India have been kept high to subsidize passenger traffic.
- Urban centers are severely congested. The dramatic growth in vehicle ownership has reduced rush hour speeds to 5-10 km an hour in the central areas of major cities.
- Ports are congested and inefficient.

much more so than for China. Although production is also moving to India, the primary expansion is aimed at selling products to India’s nearly 1.2 billion inhabitants.

**China and India: Different Models**

India is not following the classic Asian strategy to success, which concentrates on exporting labor-intensive, low-priced manufactured goods to the West. India’s economy is driven more by its domestic market than exports, services more than industry, and high-tech rather than low-skilled manufacturing.

Until the early 1980s, agriculture was the largest sector in India, but since then the services sector has taken over the top spot. Now the industry sector is catching up, but with only 27% of GDP, it is still considerably smaller than the services sector, which has 48% of GDP (World Bank data).

Exhibit 17 shows China as the number three export country in the world, based on 2006 data. But recent information gathered by Germany’s federal foreign trade body, BFAI, shows that Chinese exports for the first quarter of 2007 grew by 27.8% compared to the same quarter in 2006. If this growth rate continues, at some point in 2007 China will move into the number two spot, overtaking the US and will be closing in fast on the number one position, traditionally held by Germany. India, meanwhile, is ranked at a modest 28th place among exporting countries of the world.

The domestic market of both countries is protected by legislation. This has an impact on 3PLs and on their potential retail clients, for example. There are significant differences between the two countries. In China major international brands such as Wal-Mart, Carrefour and Tesco are allowed in, to enable them to become anchor tenants in new shopping malls. They attract foot traffic and higher rental incomes. However, in India direct foreign investment in multi-brand retailing is not allowed. As many as 96% of the 5 million-plus outlets in India are smaller than 500 square feet, and are typically family businesses. The Indian government is very careful not to radically change this. However, large domestic companies are now moving into this space, and it is expected that once these have established themselves, the Indian government is likely to ease regulation for international retailers.

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11 An important source for this paragraph is “Special Report Investing in India”, published by *The Financial Times*, October 10, 2006

### The Role of 3PL Providers
Most 3PL users (83%) that expand their activities into China use their existing 3PLs to do so. This figure is similar to last year but we notice some reduced dependency, as fewer companies indicated that they “rely extremely” on their current 3PL. Instead, they chose the “rely somewhat” option for their 3PL.

Although we expected a larger difference, users rated the performance of global 3PLs in emerging markets only slightly higher than the performance of local 3PLs. In the ASE, an often heard comment was that many global 3PLs subcontract quite a bit of their work to local parties anyway, which contributes to a smaller difference in performance. Local 3PLs know the authorities better (and they know the local, unwritten rules), whereas global 3PLs are better at using foreign languages.

Overall, satisfaction with the performance of 3PL providers in emerging markets is lower than customer satisfaction measured across all markets.

### How Important is IT in Emerging Markets?
According to one argument, IT is not as important in emerging markets because of the availability of cheap labor. However, our survey shows that companies find IT for emerging markets to be at least as important there as elsewhere. Moreover, a considerable group of respondents rated IT as more important in emerging markets than in mature markets. Their reasons for using IT include to minimize risks, standardize processes and to reduce uncertainty down the supply chain, especially with longer lead times to and from many emerging markets.

### Looking Forward
In our workshops we asked the participants to describe what the future of emerging markets will look like and what both 3PL providers and users can contribute to achieve that future. Exhibit 21 summarizes the results.

It is hardly surprising that shippers would like to see 3PLs further improve their capabilities in these difficult markets. However it is encouraging to see that, in the solution for the future, shippers stressed the fact that a joined or collaborative approach will make a better future within reach.

#### Exhibit 21
The Future View on Emerging Markets

<table>
<thead>
<tr>
<th>Desired Future State</th>
<th>How to Get There</th>
</tr>
</thead>
<tbody>
<tr>
<td>* Markets will be more open, mature and professional.</td>
<td>* 3PLs expand presence within a local market to gain critical mass.</td>
</tr>
<tr>
<td>* Opportunities still exist within emerging markets – some countries will continue to emerge as others mature.</td>
<td>* 3PLs provide consulting services to help users be successful in the local market.</td>
</tr>
<tr>
<td>* Global 3PLs will operate in emerging markets as well as within their home region.</td>
<td>* 3PLs share strategic intentions regarding emerging markets with customers.</td>
</tr>
<tr>
<td>* Some local 3PLs will mature but will continue to differentiate themselves through special knowledge of the local market.</td>
<td>* Shippers plan entry to an emerging market with assistance of 3PLs, developing and evaluating scenarios together.</td>
</tr>
<tr>
<td>* 3PLs will limit operational scope to countries where they are able to provide good service.</td>
<td>* Shippers and 3PLs conduct tactical and strategic business planning together.</td>
</tr>
<tr>
<td>* Technology will work locally at reasonable costs, providing global connectivity.</td>
<td>* Support standards organizations (like GS1) in establishing international standards for technologies (such as RFID) that enable information flow.</td>
</tr>
<tr>
<td>* Shippers will worry less about how because 3PLs provide information and visibility.</td>
<td>* 3PLs develop and roll out global solutions for shipment visibility, vendor management and inventory management.</td>
</tr>
<tr>
<td>* Local 3PLs will have good IT capabilities, but still less capability than global 3PLs.</td>
<td></td>
</tr>
</tbody>
</table>
In the three preceding sections of the report, we have focused on some very specific topics relating to third-party logistics:

- Collaboration as an enabler for best-in-class logistics execution
- Bridging the gap between customer requirements and 3PL capabilities with regards to information technology
- Benefits and challenges of leveraging 3PLs within emerging markets.

In this section, we look at the bigger picture and discuss more general trends and issues addressed by the study.

We received and analyzed many survey responses letting us know how users felt about their 3PL providers. These responses informed us of what is working well and what can be improved. We have perspectives from both users and non-users of 3PL services, which allow us to compare and contrast these two points of view and gain some additional insights into this fast-growing market.

**The View From Those Who Use 3PL Services...**

With reference to Exhibit 22, we questioned users about the factors considered when selecting a 3PL. Quality of tactical, operational services (87%) and the price of 3PL services (also at 87%) top the list as the most important considerations. This is not surprising, indicating a clear desire to get the best value possible when contracting for services. More than two-thirds of users indicated that the expected capability to improve service levels is the next most important selection criterion, implying that most users believe 3PLs can help them to achieve a higher service level than they could achieve by themselves.

The majority of users gravitated towards pragmatic options when choosing selection criteria. These range from the breadth of available, value-added services to the expected ease of doing business and the 3PL’s global capabilities. Users do not place as much value on criteria such as knowledge and advice on supply chain innovations and improvements, cultural and strategic fit with the 3PL provider and the ability to deliver end-to-end solutions across supply chain processes and regions. However, these characteristics are what many of our ASE participants indicated would mark the future of collaborative relationships with 3PLs. Consequently, we believe that companies should give renewed consideration to these less popular selection criteria.

Once a 3PL provider is selected and engaged, it is encouraging to see that most users are satisfied with the relationship, with 85% of users reporting their logistics outsourcing efforts successful. This satisfaction rating is very comparable to that of previous years, and as indicated in Exhibit 23, is reflected by an average 18% reduction in fixed logistics assets, an average 13% reduction in logistics costs and an average reduction in order cycle time from 14 to 10 days. When we questioned users about the factors contributing to this success, two of the top responses were personal relationships on an operational level (71%) and peer-to-peer relationships providing guidance and sponsorship (50%). Again, these are some of the factors that ASE participants highlighted as important in promoting meaningful collaboration between 3PLs and users.
### EXHIBIT 22
Factors Considered When 3PL Providers Selected

<table>
<thead>
<tr>
<th>Factors</th>
<th>All Regions</th>
<th>North America</th>
<th>Europe</th>
<th>Asia Pacific</th>
<th>Latin America</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price of 3PL Services</td>
<td>87%</td>
<td>89%</td>
<td>88%</td>
<td>88%</td>
<td>83%</td>
</tr>
<tr>
<td>Quality of Tactical, Operational Services</td>
<td>87%</td>
<td>88%</td>
<td>86%</td>
<td>88%</td>
<td>87%</td>
</tr>
<tr>
<td>Expected Capability to Improve Service Levels</td>
<td>67%</td>
<td>61%</td>
<td>67%</td>
<td>75%</td>
<td>65%</td>
</tr>
<tr>
<td>Range of Available, Value-Added Services</td>
<td>62%</td>
<td>62%</td>
<td>61%</td>
<td>66%</td>
<td>59%</td>
</tr>
<tr>
<td>Capable Information Technologies</td>
<td>61%</td>
<td>64%</td>
<td>54%</td>
<td>65%</td>
<td>61%</td>
</tr>
<tr>
<td>Expected Ease of Doing Business</td>
<td>57%</td>
<td>62%</td>
<td>47%</td>
<td>62%</td>
<td>55%</td>
</tr>
<tr>
<td>Availability of Strategic Logistics Services</td>
<td>54%</td>
<td>51%</td>
<td>48%</td>
<td>60%</td>
<td>60%</td>
</tr>
<tr>
<td>Global Capabilities</td>
<td>51%</td>
<td>50%</td>
<td>52%</td>
<td>58%</td>
<td>42%</td>
</tr>
<tr>
<td>Knowledge and Advice on Supply Chain Innovations and Improvements</td>
<td>44%</td>
<td>38%</td>
<td>40%</td>
<td>54%</td>
<td>46%</td>
</tr>
<tr>
<td>Cultural and Strategic Fit With 3PL Provider</td>
<td>42%</td>
<td>49%</td>
<td>42%</td>
<td>43%</td>
<td>34%</td>
</tr>
<tr>
<td>Ability to Deliver End-To-End Solutions Across Supply Chain Processes and Regions</td>
<td>40%</td>
<td>35%</td>
<td>33%</td>
<td>52%</td>
<td>39%</td>
</tr>
<tr>
<td>Coverage and Experience in Emerging Markets</td>
<td>35%</td>
<td>38%</td>
<td>26%</td>
<td>53%</td>
<td>19%</td>
</tr>
<tr>
<td>3PL Vision and Investment Strategy</td>
<td>33%</td>
<td>34%</td>
<td>29%</td>
<td>41%</td>
<td>28%</td>
</tr>
</tbody>
</table>

### EXHIBIT 23
Results Experienced From Use of 3PL Services

<table>
<thead>
<tr>
<th>Results</th>
<th>All Regions</th>
<th>North America</th>
<th>Europe</th>
<th>Asia Pacific</th>
<th>Latin America</th>
</tr>
</thead>
<tbody>
<tr>
<td>Logistics Cost Reduction (%)</td>
<td>13%</td>
<td>11%</td>
<td>13%</td>
<td>12%</td>
<td>16%</td>
</tr>
<tr>
<td>Fixed Logistics Asset Reduction (%)</td>
<td>18%</td>
<td>14%</td>
<td>20%</td>
<td>17%</td>
<td>25%</td>
</tr>
<tr>
<td>Average Order Cycle Length Changed FROM Days</td>
<td>14.0</td>
<td>17.4</td>
<td>12.7</td>
<td>13.8</td>
<td>10.2</td>
</tr>
<tr>
<td>Changed TO Days</td>
<td>10.3</td>
<td>13.1</td>
<td>10.2</td>
<td>9.7</td>
<td>6.8</td>
</tr>
</tbody>
</table>
Despite a respectable level of success, some users do report chronic problems with 3PL providers, as indicated in Exhibit 24. Clustered at the top of the list are the problems one would naturally expect – service level improvements not realized (46%) and cost reductions not realized (35%). Also, it is clear that users are not satisfied with ‘business as usual’ performance levels as 40% of respondents indicate that lack of continuous, ongoing improvements and achievements in offerings is a problem. Reflecting a topic previously addressed in the report, a significant number of users say that 3PL information technology capabilities are not sufficient.

Given that transportation is one of the top areas for logistics outsourcing, and that cost reduction and service improvements not being realized are the top continuing problems, we see a missed opportunity for a good many 3PL users. Specifically, 37% of users responded negatively when asked if their 3PLs contracted directly with carriers. Because 3PLs can aggregate volume across multiple shippers, in theory, they should be able to negotiate better rates and service levels than individual users. Therefore, many users may be missing out on an opportunity to reduce cost and improve service by not leveraging the 3PLs carrier contract. Of course, potential transportation cost benefits will depend on how the 3PL carrier handles its transportation rate mark up.

**EXHIBIT 24**
Continuing Problems With 3PL Providers as Reported by Customers

<table>
<thead>
<tr>
<th>Problem with 3PL Provider</th>
<th>All Regions</th>
<th>North America</th>
<th>Europe</th>
<th>Asia Pacific</th>
<th>Latin America</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Level Commitments Not Realized</td>
<td>46%</td>
<td>43%</td>
<td>46%</td>
<td>46%</td>
<td>50%</td>
</tr>
<tr>
<td>Lack of Continuous, Ongoing Improvements and Achievements in Offerings</td>
<td>40</td>
<td>37</td>
<td>41</td>
<td>41</td>
<td>43</td>
</tr>
<tr>
<td>Cost Reductions Have Not Been Realized</td>
<td>35</td>
<td>37</td>
<td>37</td>
<td>34</td>
<td>32</td>
</tr>
<tr>
<td>Information Technology Capabilities Not Sufficient</td>
<td>35</td>
<td>38</td>
<td>31</td>
<td>38</td>
<td>33</td>
</tr>
<tr>
<td>Lack of Project Management Skills</td>
<td>33</td>
<td>31</td>
<td>35</td>
<td>36</td>
<td>31</td>
</tr>
<tr>
<td>Unsatisfactory Transition During Implementation Stage</td>
<td>30</td>
<td>34</td>
<td>28</td>
<td>33</td>
<td>21</td>
</tr>
<tr>
<td>Ineffective Management of Key Performance Indicators (KPIs)</td>
<td>30</td>
<td>28</td>
<td>27</td>
<td>31</td>
<td>39</td>
</tr>
<tr>
<td>Too Many Human Conditions Related Problems</td>
<td>29</td>
<td>30</td>
<td>23</td>
<td>32</td>
<td>34</td>
</tr>
<tr>
<td>Lack of Consultative/Knowledge-Based Skills</td>
<td>26</td>
<td>22</td>
<td>23</td>
<td>34</td>
<td>27</td>
</tr>
<tr>
<td>Lack of Global Capabilities</td>
<td>19</td>
<td>16</td>
<td>19</td>
<td>20</td>
<td>21</td>
</tr>
<tr>
<td>Lack of Business Process Integration Across Regions and Supply Chain Services</td>
<td>20</td>
<td>21</td>
<td>18</td>
<td>28</td>
<td>12</td>
</tr>
<tr>
<td>Inability to Form Meaningful and Trusting Relationships</td>
<td>13</td>
<td>15</td>
<td>13</td>
<td>13</td>
<td>12</td>
</tr>
<tr>
<td>Poor Post-Merger Integration of Acquired Companies</td>
<td>13</td>
<td>12</td>
<td>13</td>
<td>21</td>
<td>3</td>
</tr>
<tr>
<td>No Problems</td>
<td>13</td>
<td>17</td>
<td>16</td>
<td>5</td>
<td>15</td>
</tr>
</tbody>
</table>
...and the View From Those Who Don’t

Responses from non-users of 3PL services also yield interesting insights. Prefacing this topic, one should note that “non-user” does not necessarily mean “never-user.” Many non-users may have direct experience with 3PL services from previous work experience. If they have no direct experience with 3PLs, they likely work with and exchange thoughts with colleagues who do have direct experience. Therefore, one should not assert that non-users do not have an informed point of view.

Of non-users surveyed, 44% plan to consider logistics outsourcing in the future. The top services in which non-users are interested are warehousing (76% of respondents) and transportation (69%). Not surprisingly, these are also the top services contracted by 3PL users.

For the 56% of non-users who are not considering future logistics outsourcing, Exhibit 25 depicts the reasons why. The top reason identified is that logistics is considered a core competency at the non-user’s company. However, given the breadth of services offered by 3PLs, one must question if any company can claim to have a core competency in all its logistics activities across all of its operating regions. Arguably, even the most competent companies running the largest supply chains have some niche appropriate for a 3PL to provide services.

Putting It All Together

Overall, based on survey responses, we see an attractive business case for leveraging third-party logistics providers. Many users are overwhelmingly positive about their experiences and the average improvement metrics are certainly attractive. There are, however, grounds for saying that there should be more effort by 3PL providers to ensure that performance levels continue to improve over time. 3PL selection criteria should also take into account factors like personal relationships that will foster collaboration.

Many of our non-user respondents are naturally cautious about entering a relationship with a 3PL provider. But as many of our user respondents discovered when they examined their operations, there are places where a 3PL can fit in and offer real value.

As many organizations have found, learning from the experiences of companies who have successfully leveraged 3PL relationships can and does help to mitigate risk.

EXHIBIT 25
Non-users: Reasons for Not Using or Considering Use of 3PL Services

<table>
<thead>
<tr>
<th>Reason</th>
<th>All Regions</th>
<th>North America</th>
<th>Europe</th>
<th>Asia Pacific</th>
<th>Latin America</th>
</tr>
</thead>
<tbody>
<tr>
<td>Logistics is a Core Competency at Our Firm</td>
<td>37%</td>
<td>34%</td>
<td>28%</td>
<td>28%</td>
<td>51%</td>
</tr>
<tr>
<td>Cost Reductions Would Not Be Experienced</td>
<td>36</td>
<td>39</td>
<td>44</td>
<td>36</td>
<td>26</td>
</tr>
<tr>
<td>Service Level Commitments Would Not Be Realized</td>
<td>28</td>
<td>34</td>
<td>28</td>
<td>32</td>
<td>21</td>
</tr>
<tr>
<td>Logistics Too Important to Consider Outsourcing</td>
<td>28</td>
<td>30</td>
<td>30</td>
<td>24</td>
<td>26</td>
</tr>
<tr>
<td>Control Over Outsourced Function(s) Would Diminish</td>
<td>23</td>
<td>32</td>
<td>23</td>
<td>8</td>
<td>23</td>
</tr>
<tr>
<td>We Have More Expertise Than Most 3PL Providers</td>
<td>21</td>
<td>23</td>
<td>26</td>
<td>12</td>
<td>21</td>
</tr>
<tr>
<td>Corporate Philosophy Excludes Use of Outsourced Logistics Providers</td>
<td>17</td>
<td>11</td>
<td>16</td>
<td>20</td>
<td>23</td>
</tr>
<tr>
<td>Global Capabilities of 3PLs Need Improvement</td>
<td>16</td>
<td>16</td>
<td>23</td>
<td>8</td>
<td>15</td>
</tr>
<tr>
<td>Issues Relating to Security of Shipments</td>
<td>14</td>
<td>18</td>
<td>7</td>
<td>20</td>
<td>13</td>
</tr>
<tr>
<td>Inability of 3PL Providers to Form Meaningful and Trusting Relationships</td>
<td>12</td>
<td>14</td>
<td>14</td>
<td>8</td>
<td>11</td>
</tr>
</tbody>
</table>
The 2007 report highlights the need for customers to work together more effectively with 3PL providers. This section provides a synthesis of many of the findings included in this report, and also offers a perspective on several key future priorities.

3PL Creation of Supply Chain Value
An established, successful long-term relationship between any 3PL provider and customer is directly influenced through the overall end value that is generated for the supply chain. Short-term metrics may provide day-to-day guidance but it is important to have these short-term metrics aligned with real long-term goals and objectives, relating to both the customer and the overall supply chain.

It is important for both the 3PL and the customer to allow their long-term goals and objectives to develop and adapt. Research has shown high speed and low cost alone are not sufficiently beneficial to ensure supply-chain-based advantage. A more rewarding approach is to shift the relationship focus towards the key principles of agility, adaptability and alignment. By responding flexibly to any sudden changes in supply and demand, adapting to any evolution within the market and by aligning the goals and characteristics of the customer with the supply chain partners, benefits can and will be felt.13

The most important metric in a successful supply chain will continue to be driven by the buying power of the relevant end users. These are the customers and consumers who are the ultimate recipients of any products or services that are facilitated through the supply chain.

Business Network Transformation
In looking at today’s 3PL-customer relationships, we have pointed to many business drivers that indicate a strong relationship between core logistics and transportation processes. One of the larger trends that has been on the rise is the growth of logistics and supply chain management Business Process Outsourcing (BPO) opportunities. IDC, in its 2007 BPO Services report, estimated that this business will grow in the US alone at a pace of 12.9% to reach a total of more than $210 billion dollars.14 This amount is more than 10 times the revenue total for either HR or finance BPO work. Historically, 3PLs have a very strong hold on this opportunity and are well positioned for growth. We see this development as great news for the 3PL-customer collaboration.

To date, the 3PL industry has responded well to meet these challenges particularly in its strategic M&A activity. For example, trucking companies are opening up shops in overseas markets and we have seen 3PLs expand beyond their traditional set-ups to include more services as their clients and shareholders have asked them to deliver more.

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As these demands are expected to increase into new service and regional frontiers, it is hard to see any practical limits at all. Instead, a more holistic approach to full logistics and supply chain value chain will become part of the BPO opportunity facing the 3PL-customer partnership. We can see requirements reaching beyond the areas of traditional functionality.

New investments will undoubtedly be made to expand 3PL functionalities, but the key for 3PLs in the BPO market will be to establish a cross-industry platform that easily integrates complimentary products, services and capabilities across people, processes and systems.

**Leveraging Information Technology**

Is there new technology around the corner that will totally transform supply chains? There are no indications that anything radically different is on the way. However, in many instances there is a lot of unused capability in the IT solutions currently utilized. This is one area where 3PLs and their customers can work together to seize the opportunities that BPO presents. As summarized in a recent study in the *Harvard Business Review*, “It doesn’t really matter if you implement ERP software or a CRM system; it matters very much though that whatever technology you choose to implement you execute it flawlessly.”15 In the same sense, one could say that technology is no different from what shippers expect from their 3PLs overall.

The areas where technological improvements will demonstrate the greatest impact are in the use of timely and accurate data enabling improved control, improved forecasting and quicker remedial actions. Furthermore, we see that improvements in technology will foster the emergence of a tighter and stronger business network, making both parties in the 3PL collaboration more competitive. Web-based technology will now play a much more important and beneficial role than in the previous ten years. What will this take? Something from everyone:

- 3PLs cleaning up their legacy of unconnected and partly outdated application landscape
- Software providers providing better integrated software with an agile and open architecture that allows for quick changes to accommodate ever-changing business needs of different providers, including competitors
- Shippers willing to pay an appropriate amount to 3PLs for better, more reliable IT systems
- All parties contributing to the overall further standardization of data, systems and protocols.

**Customer Management of 3PL Services**

It is fair to suggest that customers sometimes need help in learning about successful management of relationships with 3PLs. Considering the “organizational commoditizing” of certain logistics and supply chain activities, the ability of customers to establish a trusting business partnership with 3PLs is being tested every day. For example, many companies are joining the current trend of centralizing procurement under the banner of “strategic sourcing.” As a consequence, many 3PLs now report to sourcing specialists who think of the 3PL in terms of being a “vendor,” instead of as a “partner.” While 3PLs themselves are not without areas where improvement is needed, perhaps the greatest need is for customers to understand and appreciate both the strategic and operational value that can be created through the successful use of a 3PL. Once the benefits are recognized and established, it is essential to develop a strategic plan with the 3PL that can meet and exceed both the customer’s and supply chain’s needs and requirements. Only when both parties are fully aligned and in harmony with one another, is the maximum benefit of the supply chain realized.

**Sustainability of Collaborative Relationships**

With businesses becoming ever more global and with environmental regulations and complexity of the supply chain increasing, there is constant impact and change affecting customer outsourcing strategies. Successful outsourcing is no longer a transactional relationship between buyer and supplier but one that requires collaboration as a productive way to deliver value beyond simple cost savings. Value is delivered to the relationship by mitigating complexity and allowing for shared capabilities, personnel, talent, relationship flexibility, business transparency, process excellence and competitive advantages.

Customers and 3PLs together need to invest in two-way processes and shift from the more traditional business models to collaborative, long-term, sustainable supply chain business models. To gain the full benefits of collaboration companies might need to develop a collaborative culture beyond their current organizational boundaries and be willing to invest in technology, integrate business processes, share information, accept accountabilities and, at the same time, give control to stakeholders.

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The logos that appear on the covers of this report represent the four organizations that sponsor the Third-Party Logistics Study. In each organization are people who have extensive knowledge of, and experience in, the 3PL market. Working together, they use their industry expertise to assess the current issues, plan the study, set the questions, collect the responses, interpret the data and produce this report. They also host the ASE sessions and the workshop. The respondents who came to Chicago, Paris and Shanghai earlier in the year have met and worked with many of the 3PL study team members.

For those who were not able to attend the ASEs or the workshop, here are a few words from several of the 3PL study team members, giving their personal thoughts and opinions on the 2007 12th Annual Third-Party Logistics Study.
Collaboration: The Only Way Forward
Buyers and Sellers of 3PL Services Need to Work Together More Closely to be Truly Effective.

Sometimes when I see the 3PL sector expanding through acquisition and broadening of geographies and industries served, I get the feeling that things may be falling into place according to some master plan. After all, isn’t the master plan written about in supply chain textbooks as a highly desired theoretical and, one hopes, practical objective? Then, after taking some time to reflect, I am reminded of the challenge and complexity associated with 3PLs actually making good on the promises of global integrated services and customers actually preparing themselves to be effective buyers and users of such services. Unfortunately, and regardless of which side of the 3PL-customer relationship you happen to be on, there are still formidable challenges to achieving the objectives of the master plan.

Perhaps the greatest shared challenge is that of forming and growing successful collaborative relationships between users and providers of logistics services. Unless a relationship is so transactional that a purchaser-vendor model may suffice, it just is not realistic to expect relationship success without considering the concept of collaboration to be “a matter of life and death.” Without making sure that individual organizational objectives are aligned with what it takes for a successful relationship, and then what it takes for a successful supply chain, the result is not likely to be very pretty.

In the words of Dr. Michael Hammer, author of *Reengineering*, logistics is the “sweet spot” for collaboration. Considering that success in any aspect of logistics typically requires multiple organizations to work together, doesn’t it make sense that collaboration is rightfully viewed as a necessary condition for success in logistics and supply chain management?

About The Georgia Institute of Technology
The Georgia Institute of Technology, located in Atlanta, is a leader in logistics and supply chain and logistics education. Through its School of Industrial and Systems Engineering (ISyE) and the Supply Chain and Logistics Institute (SCL), Georgia Tech is committed to serving logistics educational needs through its degree programs and its comprehensive professional education program. Georgia Tech also conducts a fully accredited Executive Masters in International Logistics (EMIL) program, a Supply Chain Executive Forum and a Leaders in Logistics Research Program. Global involvement is facilitated through The Logistics Institute Asia Pacific, a program in partnership with the National University of Singapore. For more information, please visit www.isye.gatech.edu and www.scl.gatech.edu.

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Rising Expectations Need to Be Met
3PL Providers Need to Focus On Pricing and Delivery

From our point of view, the 12th Annual Third-Party Logistics Study provides unique insight into the latest developments, trends, opportunities and challenges in the dynamic and evolving 3PL market.

While the overall picture is more or less the same as last year, it has become particularly clear that collaboration between customer and 3PL is a key driver for successful supply chain management and logistics. The desired future we all want to arrive at is characterized by highly interactive relationships that create continuing value for both parties.

Moreover, with so many mergers and acquisitions in the transport and logistics sector creating ever-bigger players, expectations from customers are increasing, especially when it comes to integrated end-to-end IT solutions.

At the same time, customers want 3PLs to carry more of the risks, and gain- and pain-sharing clauses are more common.

Overall, it is up to the 3PL provider to keep supply chain management simple and priced right for the customer, so they can harness it as a value-added, strategic and competitive advantage, and focus on their core business.

About DHL
DHL is the global market leader of the international express and logistics industry, specializing in providing innovative and customized solutions from a single source.

DHL offers expertise in express, air and ocean freight, overland transport, contract logistic solutions as well as international mail services, combined with worldwide coverage and an in-depth understanding of local markets. DHL’s international network links more than 220 countries and territories worldwide. More than 300,000 employees are dedicated to providing fast and reliable services that exceed customers’ expectations.

DHL is a Deutsche Post World Net brand. The group generated revenues of 60bn euros in 2006. For more information, please visit www.dhl.com.
A business-as-usual attitude will not be good enough given the current pace of change. Companies that collaborate with their 3PL providers along people, process and technology dimensions will significantly increase their prospects for success.

About Capgemini
Capgemini, one of the world’s foremost providers of Consulting, Technology and Outsourcing services, has a unique way of working with its clients, called the Collaborative Business Experience. Backed by over three decades of industry and service experience, the Collaborative Business Experience is designed to help our clients achieve better, faster, more sustainable results through seamless access to our network of world-leading technology partners and collaboration-focused methods and tools. Through commitment to mutual success and the achievement of tangible value, we help businesses implement growth strategies, leverage technology, and thrive through the power of collaboration. Capgemini employs approximately 75,000 people worldwide and reported 2006 global revenues of 7.7 billion euros. More information about individual services lines, offices and research is available at www.capgemini.com.
A New Dimension for 3PL Collaboration
Globalization Leads to Increased Need for Internal Process Improvements and Efficiencies

It is SAP’s privilege to participate in the 3PL Study with DHL, Capgemini and Georgia Tech. For 2007, in addition to offering technology insight from our years of experience with the Logistics Service Provider industry, we wanted to guide the survey investigation into areas that explore more of the business process impact for global shippers. From our experience and working relationships with many global 3PLs, we know that delivering internal process improvements and efficiencies across their customers’ business operations is an important part of the 3PL’s value proposition. It will also become a standard and a critical practice of the collaboration landscape in the future.

Globalization, a common theme in the business world, is now reaching into emerging markets. As a result, coordinating and providing the visibility across the processes and flows of goods, information and finance, from factory floors, across borders, into consumers’ hands, and finally, into bank accounts, has become complex and onerous. This has provided Business Process Outsourcing (BPO) high-growth opportunities for logistics and supply chain activities. The trends are pointing even higher.

No one industry is as positioned to take advantage of these BPO opportunities today like the 3PL industry. What about tomorrow? As these BPO trends expand, so too will the boundaries for the 3PL’s core business. Seizing the opportunities and delivering value in this new era can only be enabled by a business network transformation that integrates complementary products, services and processes as a single solution for 3PL customers.

About SAP
SAP is the world’s largest provider of collaborative business solutions for all types of industries and for every major market. With over 12 million users, 100,600 installations, and more than 1,500 partners, SAP is the world’s largest enterprise software company and the world’s third-largest independent software supplier. SAP has a rich history of innovation and growth that has made it a true industry leader, employing more than 36,000 people in 61 countries. For more information, please visit www.sap.com.
“Holding these sessions on three different continents highlighted a number of differences and provided a good illustration about what globalization really means.”

Sven Hoemmken
DHL Paris ASE
Capgemini’s Accelerated Solutions Environment (ASE)

Throughout this report, extensive references have been made to the Accelerated Solution Environment (ASE) sessions, which were held in Chicago and Paris, and the workshop that took place in Shanghai. These facilitated sessions have become a key element of the 3PL study because they provide the opportunity for us to dig deeper into the state of the 3PL market and to get the views of those who are real 3PL users.

An ASE can be defined as an environment which enables a large number of people from different backgrounds to come together in pursuit of a common goal. It creates an intense atmosphere designed to foster creative thinking and collaboration, delivering workable solutions faster than they could be reached using conventional approaches. In the ASE, a team of facilitators helps the group come up with the best solutions for complex challenges.

The sponsors of the 12th annual 3PL survey and study would like to thank all the companies and individuals who participated in our sessions. The insights you expressed about the issues facing the industry are woven into every part of this report.

Find out more about the ASE concept and how it works at www.capgemini.com/collaboration/tools/ase/

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**Chicago Participants**

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<tr>
<th>Name</th>
<th>Company</th>
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<td>Eaton Corporation</td>
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<td>Thea Andersen</td>
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<td>Andrew Bowker</td>
<td>Sun Microsystems Inc.</td>
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<td>Alta Brink</td>
<td>McKesson Pharmaceutical</td>
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<td>David Bubb</td>
<td>Cosco Marking Inc.</td>
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<td>Akin Ceylan</td>
<td>Lionsgate</td>
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<td>Gary Clark</td>
<td>The Walt Disney Company</td>
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<td>Brian Cronenwett</td>
<td>Ace Hardware Corporation</td>
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<td>Anthony Humphrey</td>
<td>MeadWestvaco Corporation</td>
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<td>Kurt Kravchuk</td>
<td>Limited Brands</td>
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<td>Ken Van Le</td>
<td>Canon U.S.A., Inc.</td>
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<td>Bill Leahy</td>
<td>Mattel Inc.</td>
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<td>Thomas McDonough</td>
<td>Bristol-Myers Squibb Company</td>
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<td>Jack McKinney</td>
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<td>John Naso</td>
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<td>Paul Newbourne</td>
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<td>Dan Schultz</td>
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<td>Carl Turner</td>
<td>Hospira Inc.</td>
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<td>Corey Tyler</td>
<td>Baxter Healthcare Corporation</td>
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