# The North American 3PL Market:

## A brief analysis of eyefortransport's recent survey

## 2009

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## II. Introduction

The 2008 edition of our annual 3PL survey reflected a thriving and highly optimistic market for outsourced logistics. Expansion was the order of the day, and there was little to predict the sea change to come. Nonetheless the 2009 survey reveals with stark clarity just how are different the industry, and the opinions of its members.

What's on the mind of logistics executives is the economy, and the biggest question mark is over when things will pick up, how to take advantage when the time comes, and how to survive in the meantime. Being in a position to gain market share is crucial, and having solid data on industry issues is perhaps more crucial than ever. Our 3PL survey has historically focused as much on the mindsets of 3PLs and their customers as on their actions and strategies. Now more than ever the optimism or pessimism of market players is the catalyst of change, and getting accurate insight into that collective conscience will help industry executives make smarter decisions.

With this in mind we asked respondents how the economy is affecting their business and their relationships, when they expect changes to occur, and how they are preparing for them. Over 500 executives told us how they are combating the financial crisis, what they're doing to sustain their business amidst volatile fuel prices, and how the relationship between 3PLs and their customers is changing.

As always we went in-depth into the reasons for non-renewal of 3PL contracts, comparing the views of those on either side of the bargaining table. We then probed the manufacturer and retailer logistics executives who use 3PLs to find out how their priorities are changing, and whether pricing pressure is eclipsing issues such as the environment, port congestion, cargo security, etc. The results are in some ways surprising, especially where the opinions of 3PLs and their customers diverge sharply.

It's a key moment in the relationship between 3PLs and their users. The bargaining strength of shippers on the one hand, and changing 3PL business models on the other, means that links among industry members are being tested. The business decisions executives in this industry make this year will affect their business for the next decade and beyond, and we hope this year's annual study will shed light on these decisions and their rationale.

All the data gathered in this report will be discussed and debated by 3PLs and 3PL Users at eyefortransport's **7th 3PL Summit in Atlanta** this June 22-24, 2009. The 3PL Summit is the world's largest gathering of industry executives – and an essential strategy meeting place for executives who need up-to-date and accurate insight into the industry.

For more information on the survey results or the Summit please contact Katharine O'Reilly, Senior Vice President of Research at koreilly@eft.com, 1800 814 3459 ext.329 or +44 (0)207 375 7207 or visit the website at www.3plsummit.com

## III. Methodology and approach

This survey was conducted in January and February 2009 with responses solicited by targeted e-mail lists, select trade association memberships, various related-industry databases and other targeted methods. No individual responses were analyzed, but rather all responses were consolidated. The report is co-sponsored by MercuryGate International.

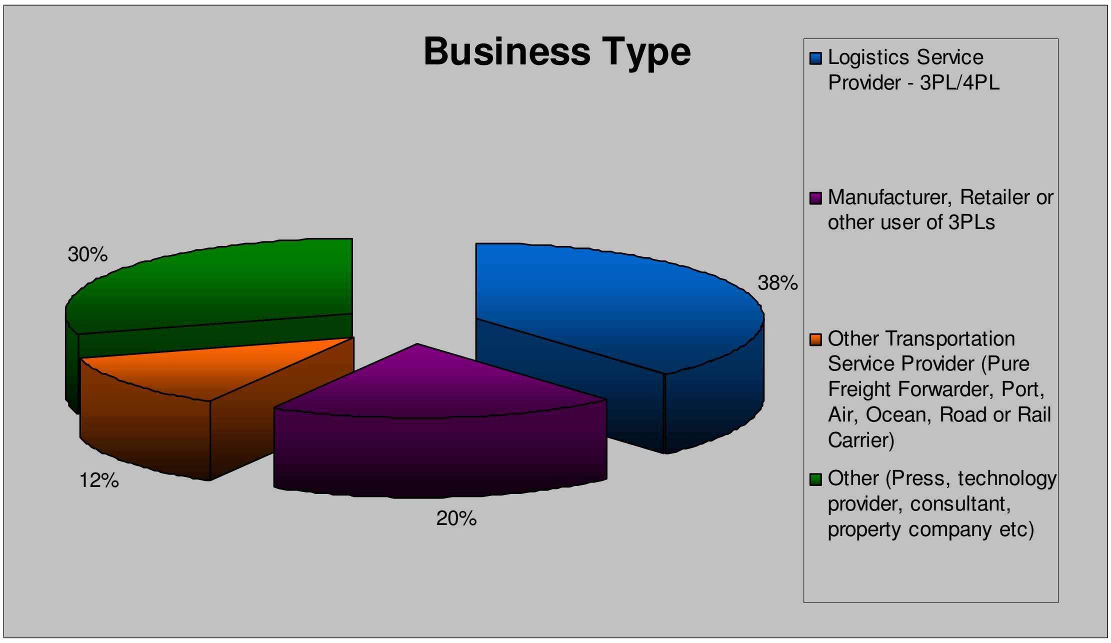
The aim of the survey was to identify the main challenges for North American 3PLs and 3PL users, as well as the best potential opportunities in the different geographical regions, and the impact on operations of the global economic downturn.

Respondents were asked a number of questions to establish the key criteria for choosing a 3PL as well as the main reasons for non-renewal of 3PL contracts. It is interesting to see the difference between what is important to the client and what the 3PL thinks are the clients' priorities.

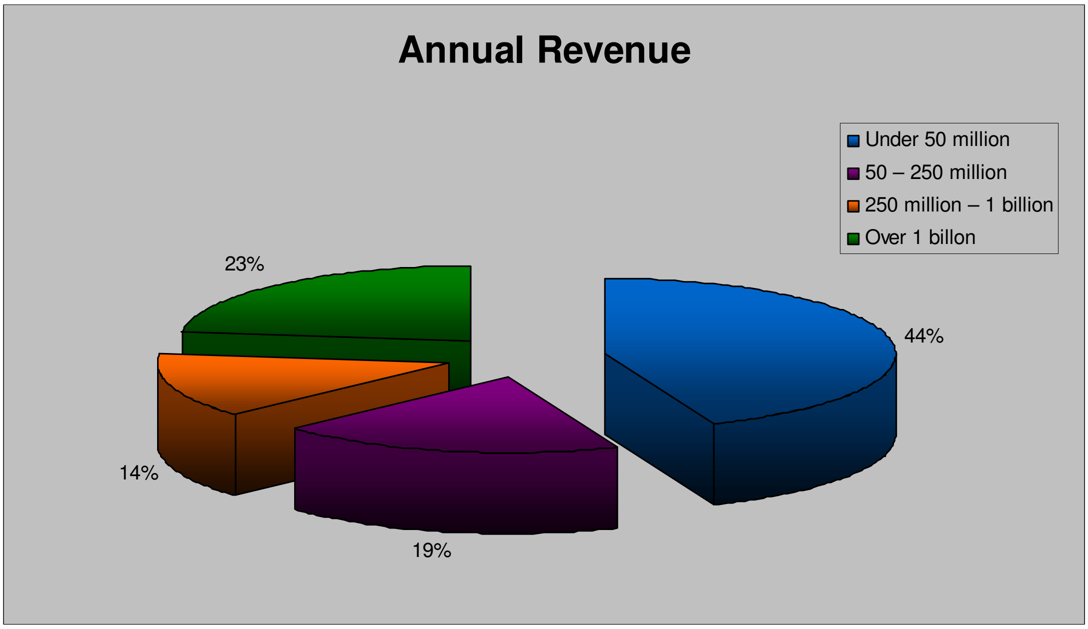
## IV. Profile of respondents

558 logistics professionals from 3PLs, freight forwarders, carriers, warehouse operators, shippers, consultants and technology providers responded to the survey.

38% of the total respondents were logistics service providers (either 3PLs or 4PLs), while 20% were manufacturers, retailers, or other users of 3PLs. 12% of respondents were other transportation service providers (pure freight forwarder, port, air, ocean, road or rail carrier), with a further 30% representing other business types.

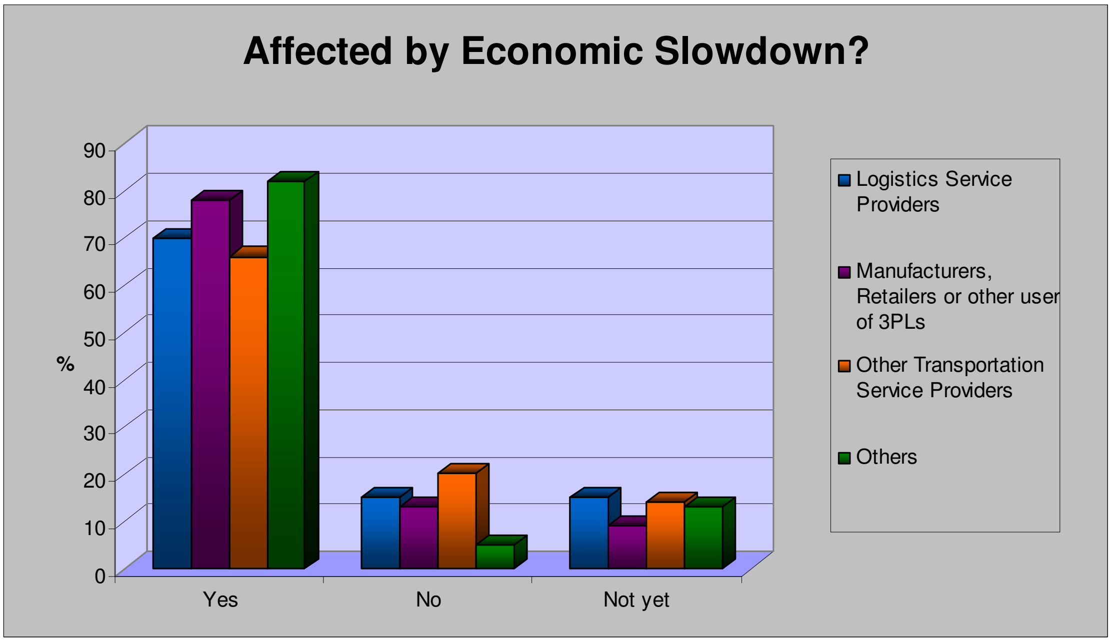


23% of the respondents represented companies with an annual revenue of over US$ 1 Billion. 14% were from companies with annual revenues between US$ 250 million and US$ 1 billion, 19% had annual revenues between US$ 50 million and US$ 250 million, and 44% had an annual revenue below US$ 50 million.



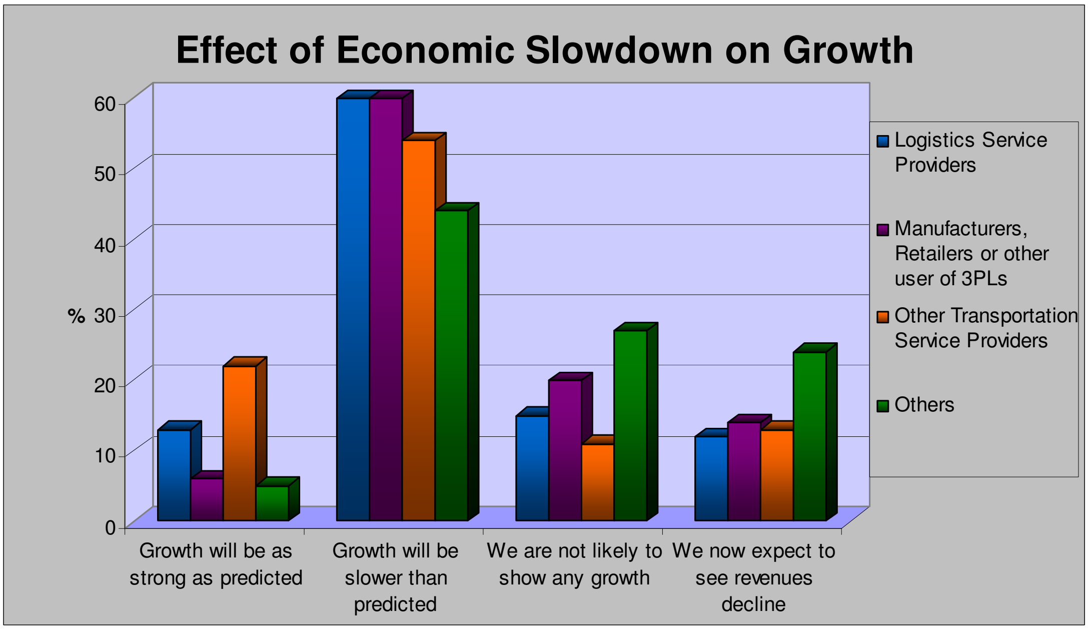
# V. Impact of the global economic downturn

We asked all respondents whether they were experiencing the economic slowdown within their business operations. Unsurprisingly, the vast majority from all groups replied that they were, though this was slightly more pronounced among 3PLs Users (78%) than among 3PLs (70%). 15% of 3PLs said that they were not yet affected but expected to be, as opposed to only 9% of 3PL users, which left a similar number of each who were unaffected, with 15% of 3PLs and 13% of 3PL users responding accordingly.



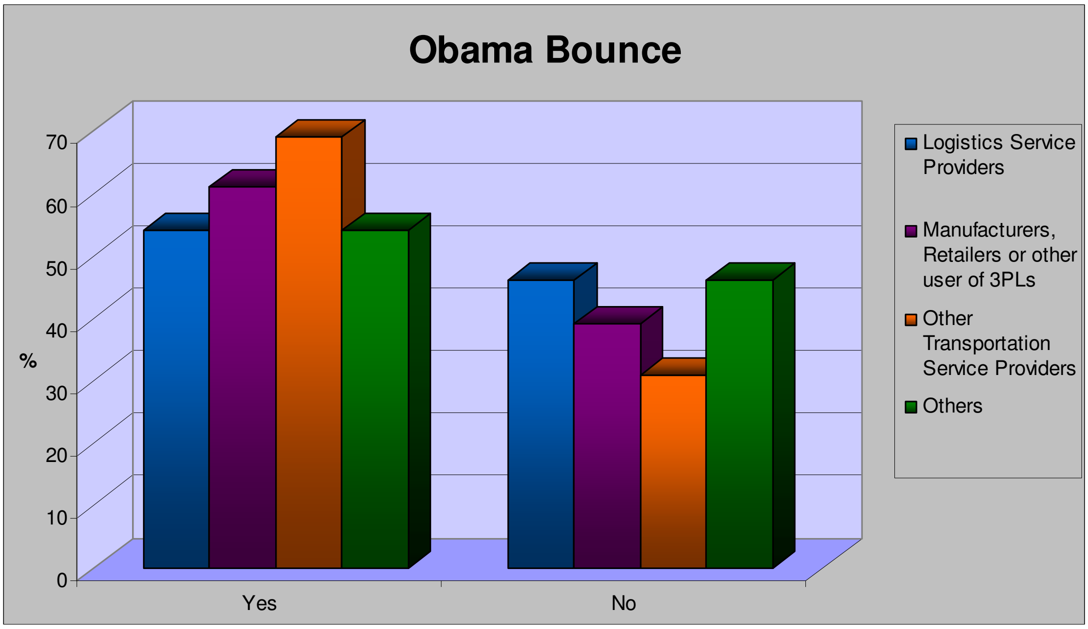

When discussing the effects of the global economic slowdown on companies' growth over the next 12 months, the most common response is that growth would be slower than predicted. Identical amounts (both 60%) of 3PLs and 3PL users responded in this fashion, and the similarity continued with those who expect their revenues to decline (12% of 3PLs and 14% of 3PL users).

The biggest difference between 3PLs and 3PL users occurred with those reporting their growth to be as strong as predicted. Only 6% of 3PL users responded this way, compared with more than twice as many 3PLs (13%). Most notable of all was the percentage (22%) of other transportation service providers (pure freight forwarder, port, air, ocean, road or rail carrier) who expect their growth to be as strong as predicted, far higher than the percentage for any other group.

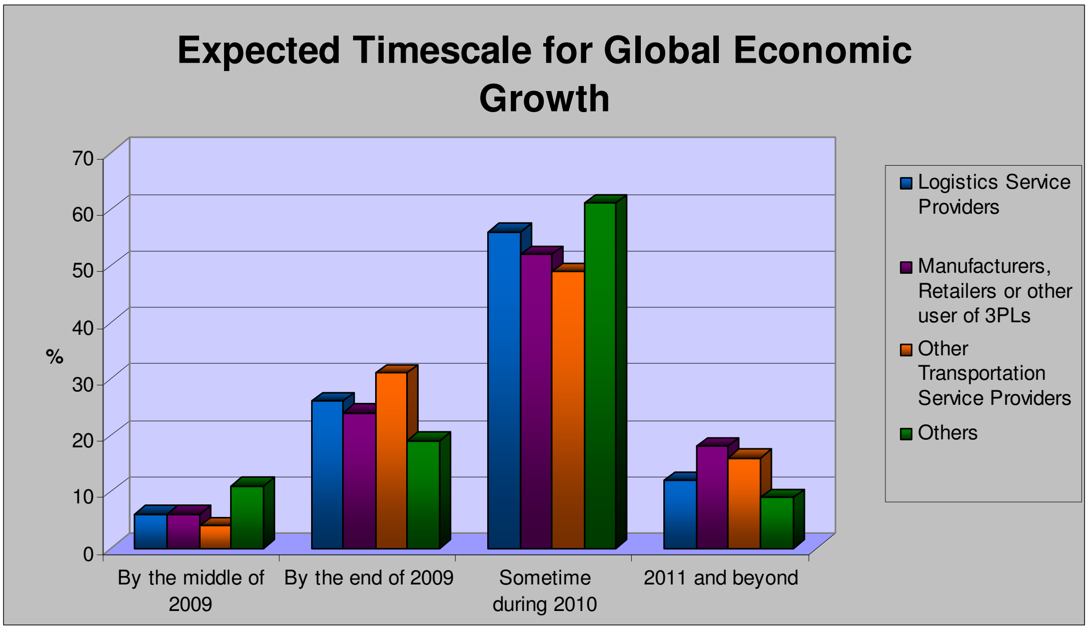



There is optimism about the new presidential term, with a general consensus that the economy will have an increase in confidence following the inauguration of President Obama.

This trend was more notable in some groups than others. While there was not such strong agreement with this view among 3PLs (54% agreeing and 46% disagreeing), the opinion was stronger among 3PL users (61% agreeing and 39% disagreeing), but most notable in other transportation service providers (69% agreeing and 31% disagreeing).



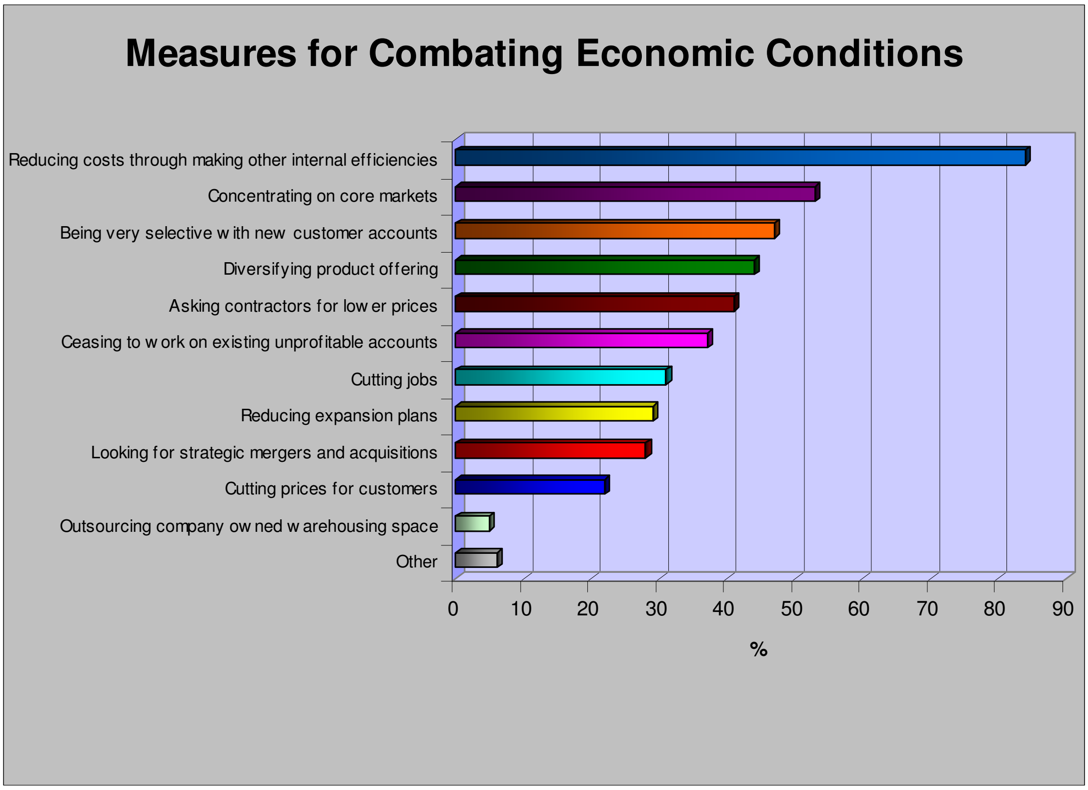
We asked respondents when they think the global economy will turn around and begin to show significant growth, resulting in markedly similar responses from all groups. The prevailing opinion is that this will occur sometime during 2010, though a notable number think it will be by the end of 2009, and a slightly smaller number expect the turn-around to occur by 2011 or later. Only a small minority of respondents think this will happen by the middle of 2009.



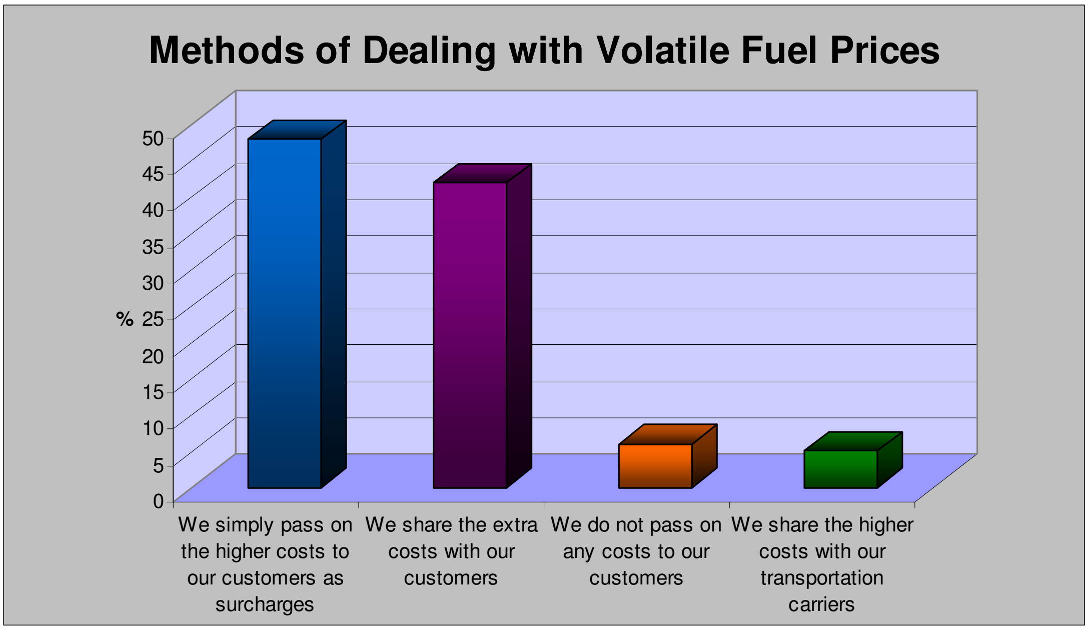
# VI. Combating the economic crisis

We asked the logistics service providers among our respondents what steps they were taking to combat the current economic crisis. Popular options included concentrating on core markets (53%), being very selective with new customer accounts (47%), diversifying product offering (44%), asking contractors for lower prices (41%), and ceasing to work on existing unprofitable accounts (37%).

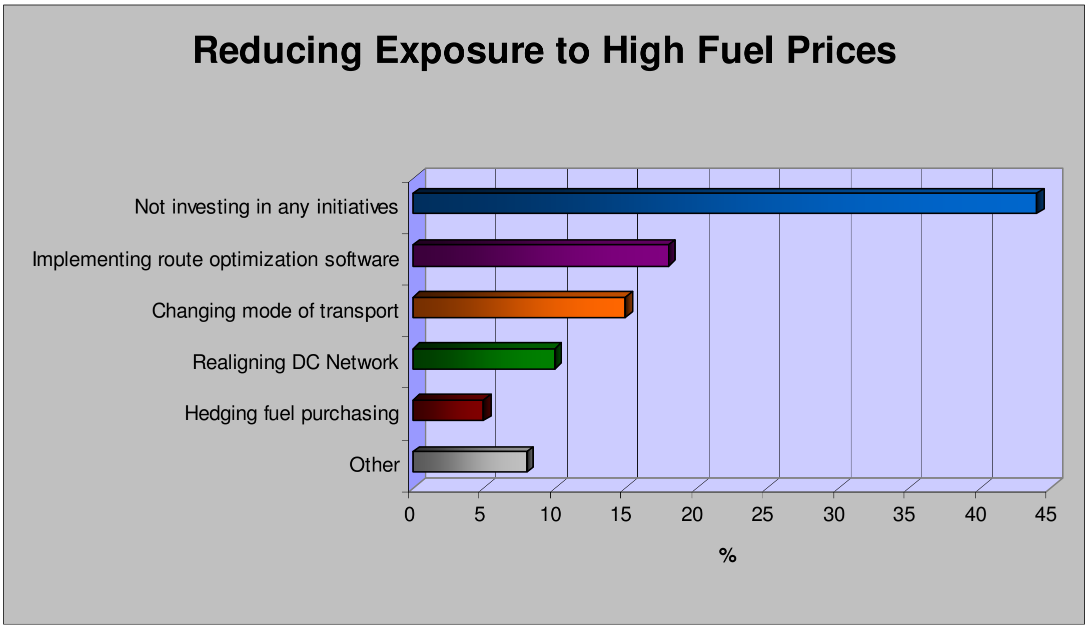
Other notable responses were cutting jobs (31%), reducing expansion plans (29%), looking for strategic mergers and acquisitions (28%), and cutting prices for customers (22%). Outsourcing company owned warehousing space was only utilized by 5% of respondents.



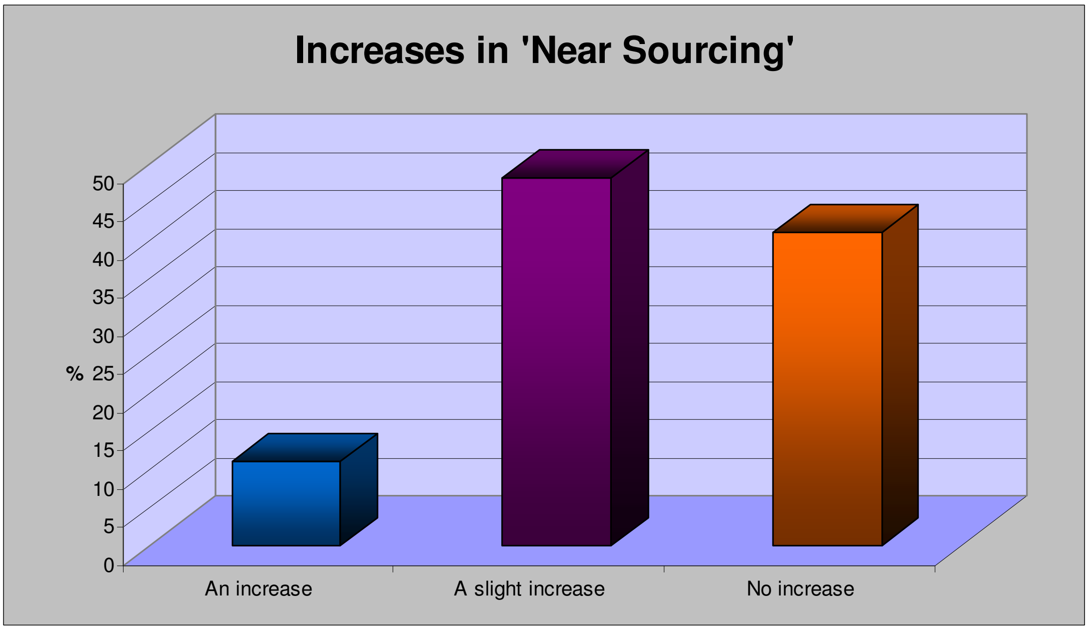

When asked about methods of dealing with volatile fuel prices, the vast majority of logistics service providers said that they either pass the higher costs to their customers as surcharges (48%) or share the extra costs with their customers (42%). 6% of respondents said they share the higher costs with their transportation carriers.




Very few measures have been taken by logistics service providers to reduce exposure to high fuel prices. 44% say that they are not investing in any initiatives. Of the responses given, implementing route optimization software (18%), changing mode of transport (15%), realigning DC Network (10%), and hedging fuel purchasing (5%) were the most commonly adopted strategies.

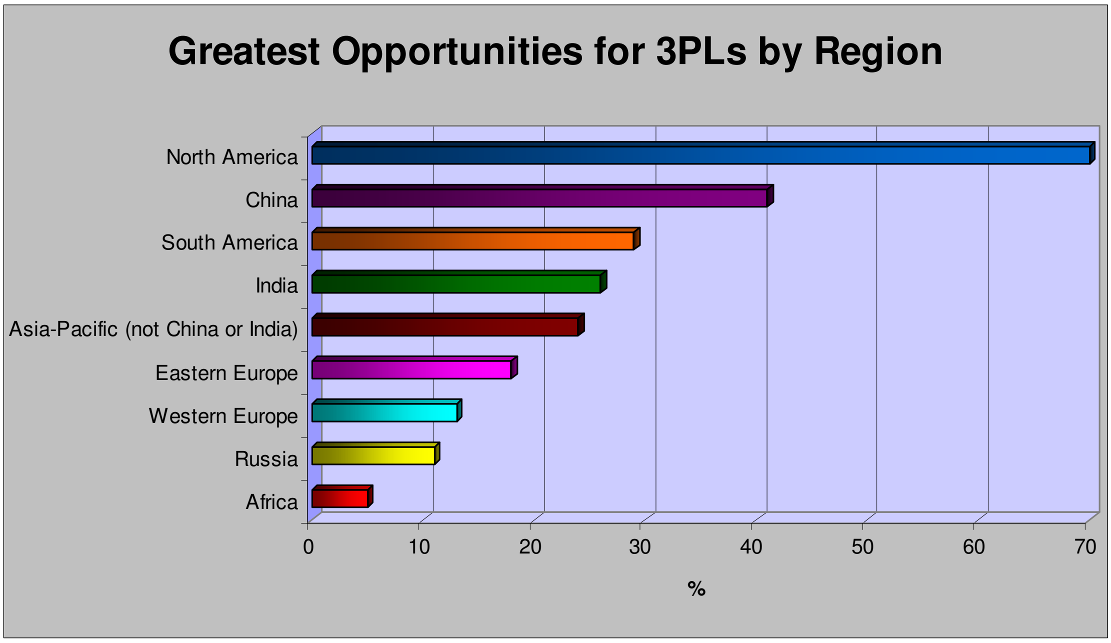



3PLs have largely observed an increase in the amount of 'near sourcing' by their customers, with 11% reporting it to be marked, and 48% reporting it to be slight. Still, a noteworthy 41% have not noticed any increase.




In looking at which geographical areas present the greatest opportunities to 3PLs, North America come out on top with a massive 70%, a possible consequence of the increased trend of 'near sourcing'.

A significant number also see opportunities in China (41%), South America (29%), India (26%), and other Asian countries (24%), though less see opportunities in Eastern Europe (18%), Western Europe (13%), Russia (11%), or Africa (5%).

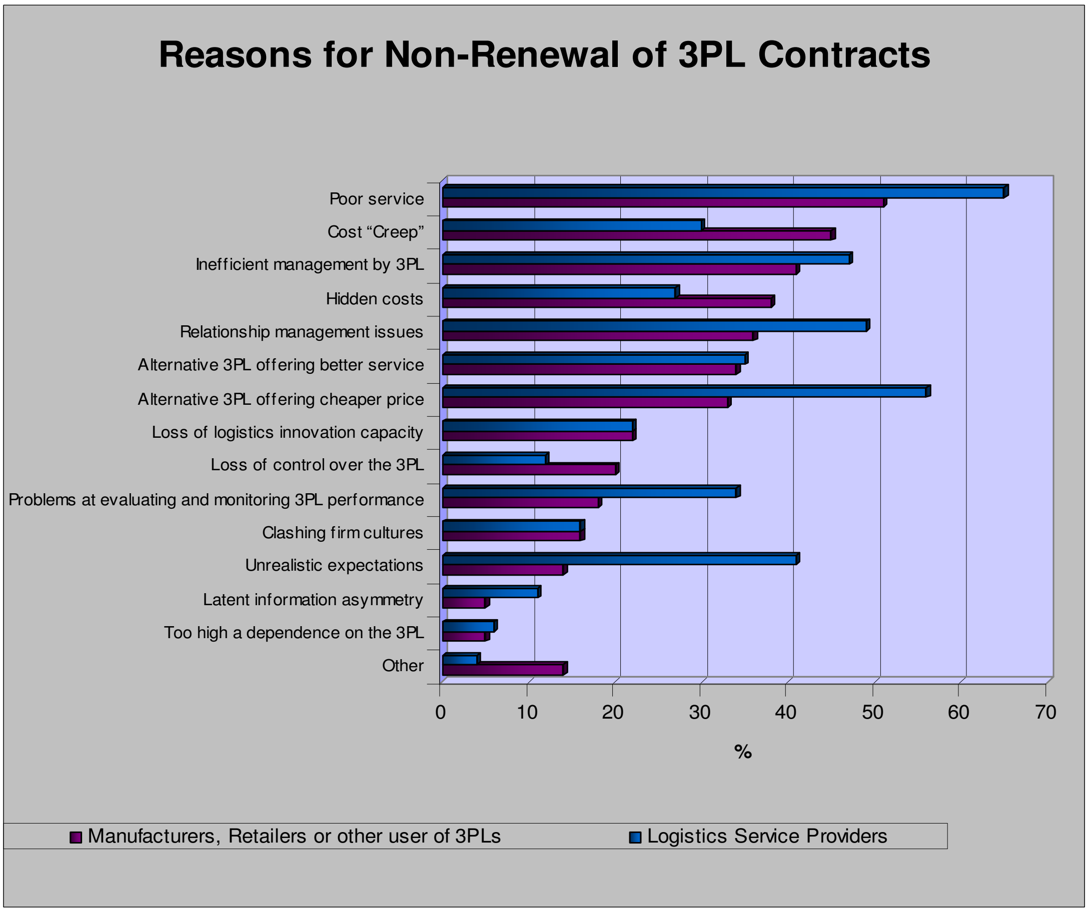


# VII. Comparing 3PL users' views with those of 3PLs

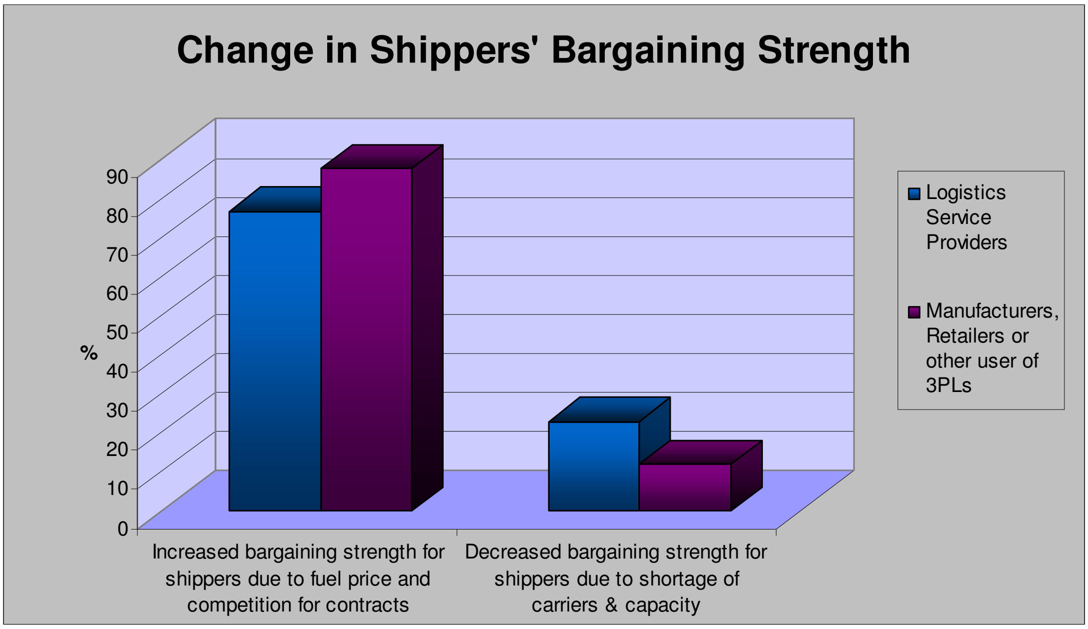
Interesting results were obtained when comparing the views of 3PL users with those of 3PLs. When looking at reasons for non-renewal of 3PL contracts there were some issues where there was agreement and some where opinion diverged.

The issue of poor service was identified as being the key reason for non-renewal by both groups, however it was given greater weight by 3PLs (65%) than by 3PL users (51%). The second reason for 3PL users was cost 'creep' (45%), however it was only identified as the eighth reason by 3PLs (30%). Other reasons that were more pressing to 3PL users than 3PLs realize include hidden costs (highlighted by 38% of 3PL users but by only 27% of 3PLs) and loss of control over the 3PL (highlighted by 20% of 3PL users but by only 12% of 3PLs).

Greater differences were seen by issues whose importance has been over-estimated by 3PLs. 41% of 3PLs thought unrealistic expectations were a key reason, however only 14% of 3PLs agreed. Alternative 3PLs offering cheaper prices was the second most commonly selected reason by 3PLs (56%) but was only the seventh most commonly selected reason by 3PL users (33%). Other reasons that were overstated by 3PLs were relationship management issues (highlighted by 49% of 3PL users but by only 36% of 3PLs) and problems at evaluating and monitoring 3PL performance (highlighted by 34% of 3PL but by only 18% of 3PLs users).



There was a consensus among 3PL users and 3PLs in predicting increased bargaining strength for shippers due to fuel price and competition for contracts, though this opinion was slightly more prevalent with 3PL users (88%) than with 3PLs (77%).

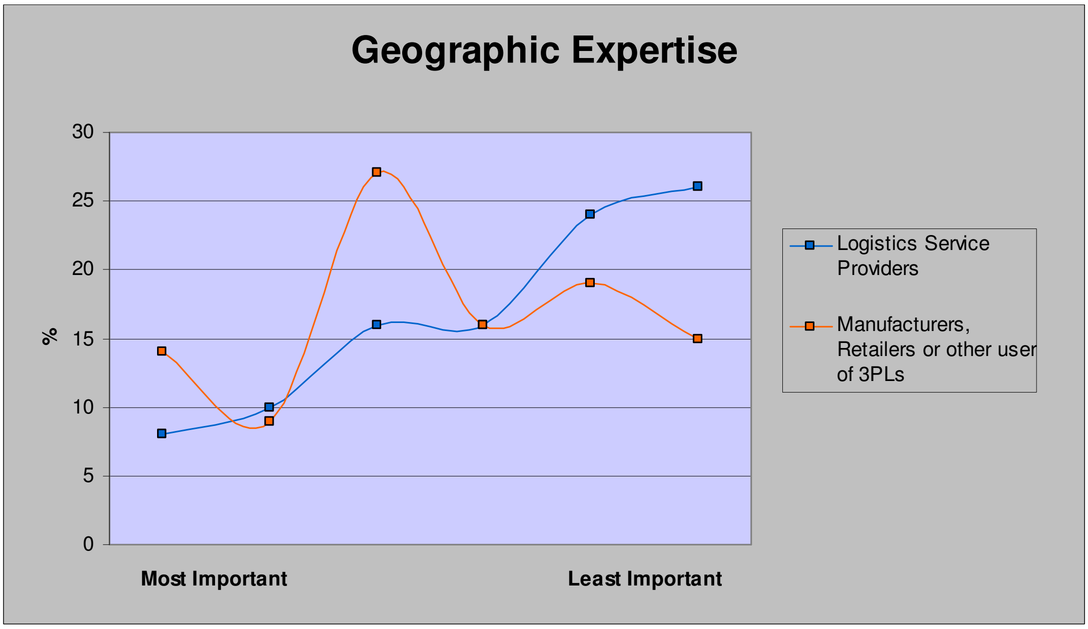



We asked a series of questions to manufacturers/retailers about what they look for when choosing a new 3PL, and to 3PLs about what they think manufacturers/retailers are looking for.

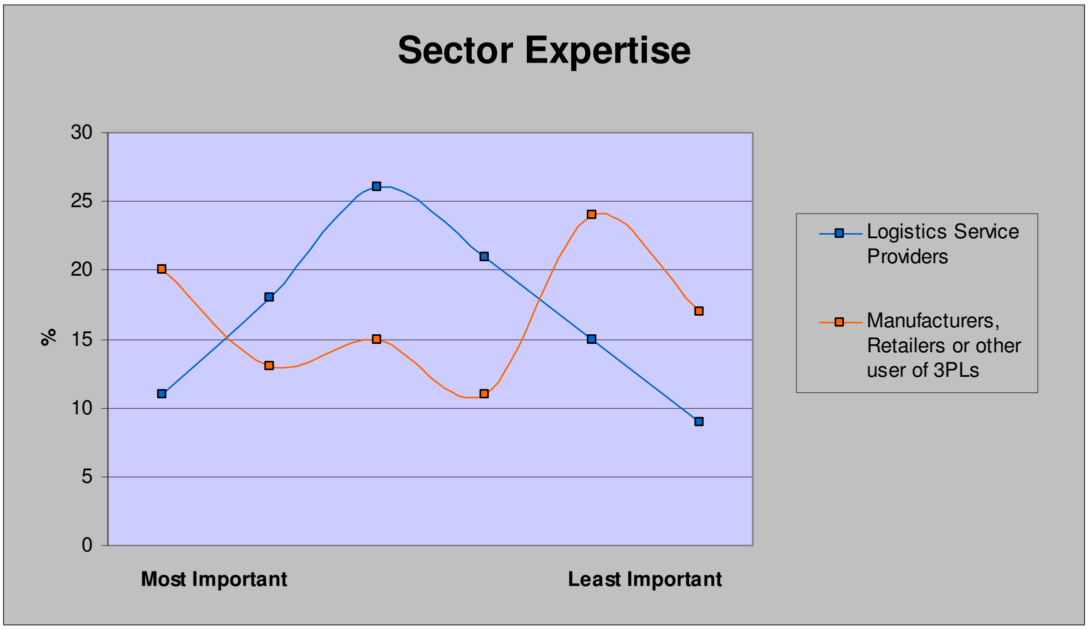
Lowest price was seen as a key factor by both groups.

Best quality service was the other main factor highlighted by 3PL users, and again it was identified with the same degree of importance by 3PLs.

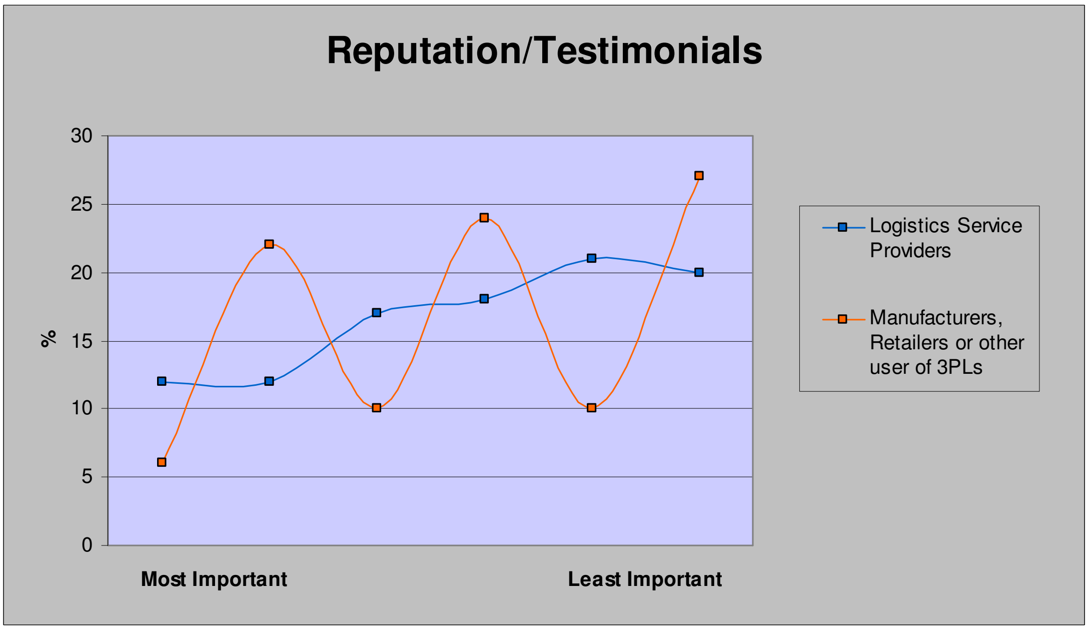

There was a greater difference in opinion regarding geographic expertise. It was not such a clear-cut issue for 3PL users, with a spread of importance placed upon it. This is in contrast to the view of 3PLs, who generally regard it with less importance.



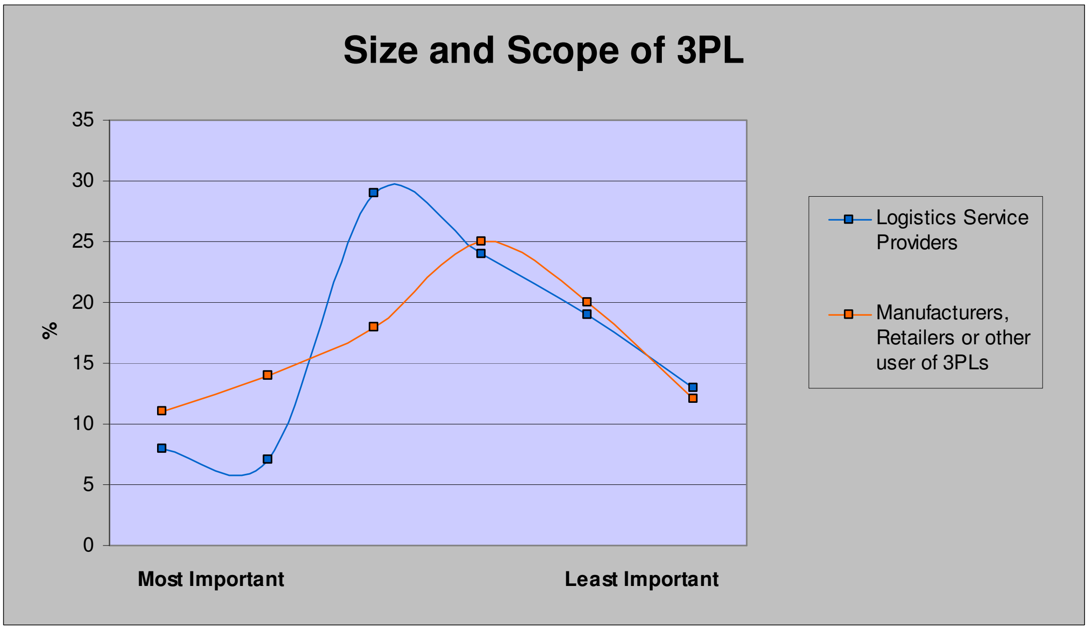

This is countered by sector expertise, where again it causes a spread of opinion among 3PL users (though with a slightly larger tilt towards lower importance), but this time its importance is largely over-estimated by 3PLs.




Reputation/testimonials caused polarity among 3PL users, though there was a general trend towards giving it less importance as a reason for non-renewal. This trend towards lesser importance was also shown in the results from 3PLs.

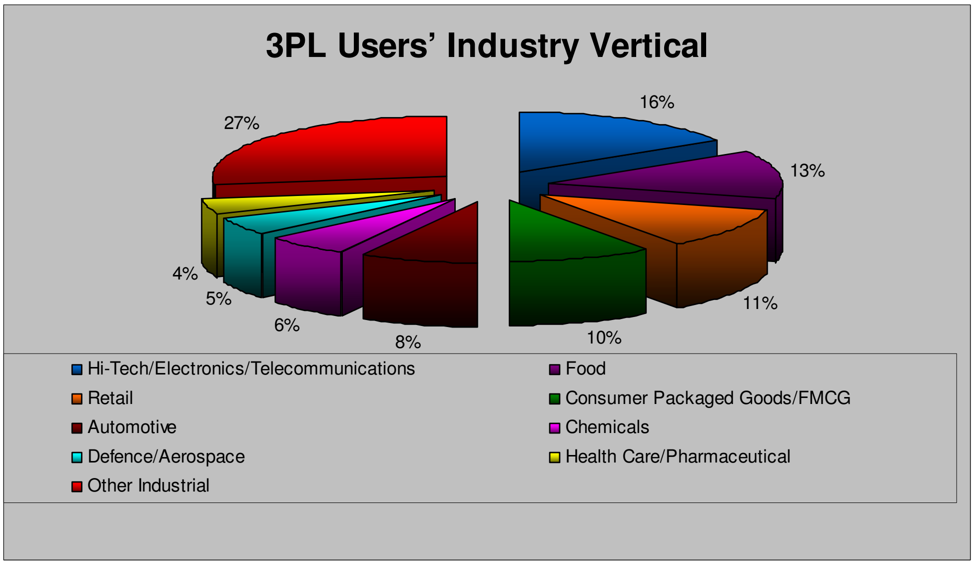


The size and scope of a 3PL was given an average level of importance by 3PL users, and was remarkably closely matched by the opinions of the 3PLs.

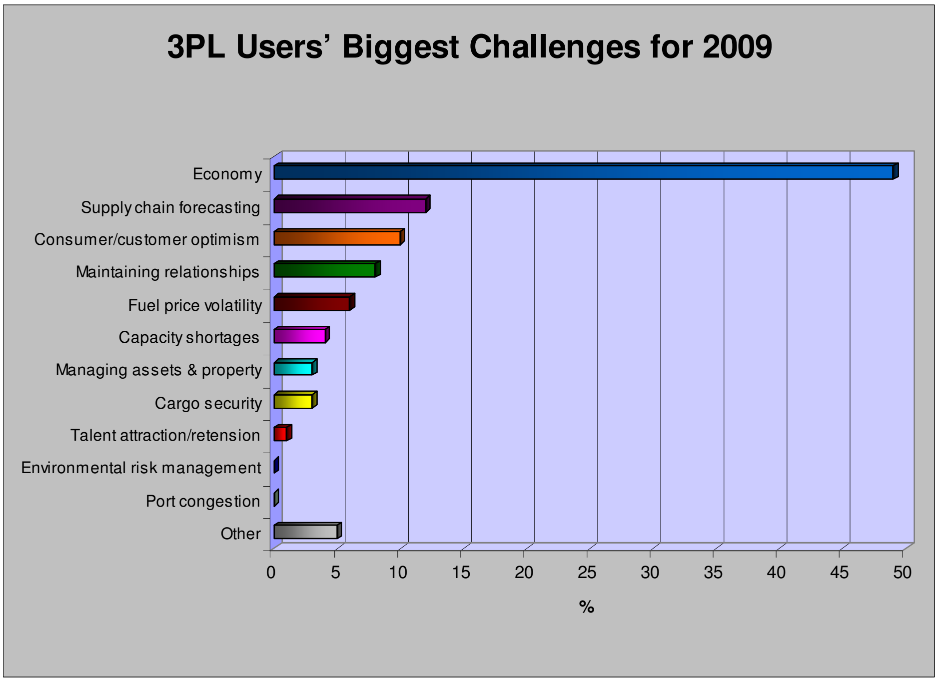


# VIII. Opinions of manufacturers/retailers and other 3PL users

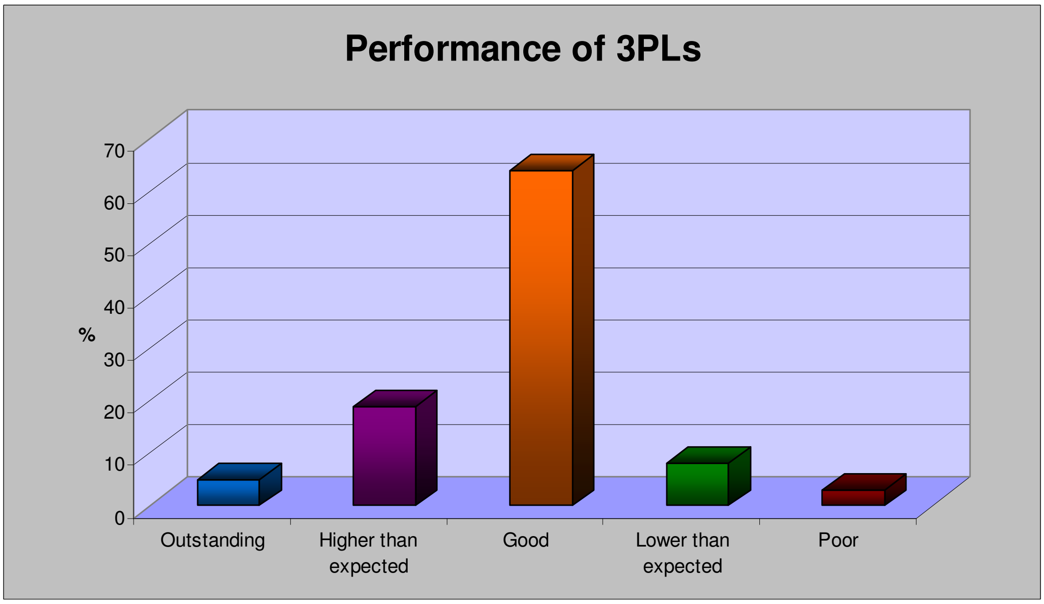
We asked a number of questions aimed at the customers of 3PLs. Of these 16% were from the hi-tech/electronics/telecommunications industry, 13% were in food, 11% in retail, 10% in consumer packaged goods/FMCG, 8% in automotive, 6% in chemicals, 5% in defence/aerospace, and 4% in healthcare/pharmaceutical.



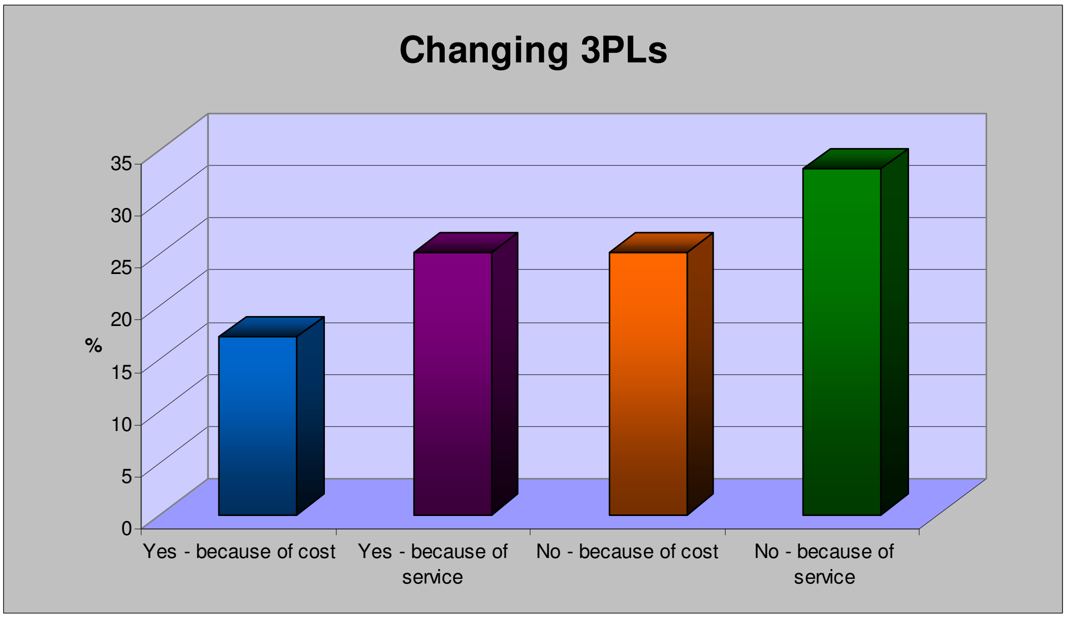

When asked about the biggest challenges for 2009, the economy dominated the responses. 49% of the 3PL users queried saw it as the biggest challenge ahead. Of the other challenges, only four were seen as the biggest by more than 5% of the 3PL users. They were: supply chain forecasting (12%), consumer/customer optimism (10%), maintaining relationships (8%), and fuel price volatility (6%).



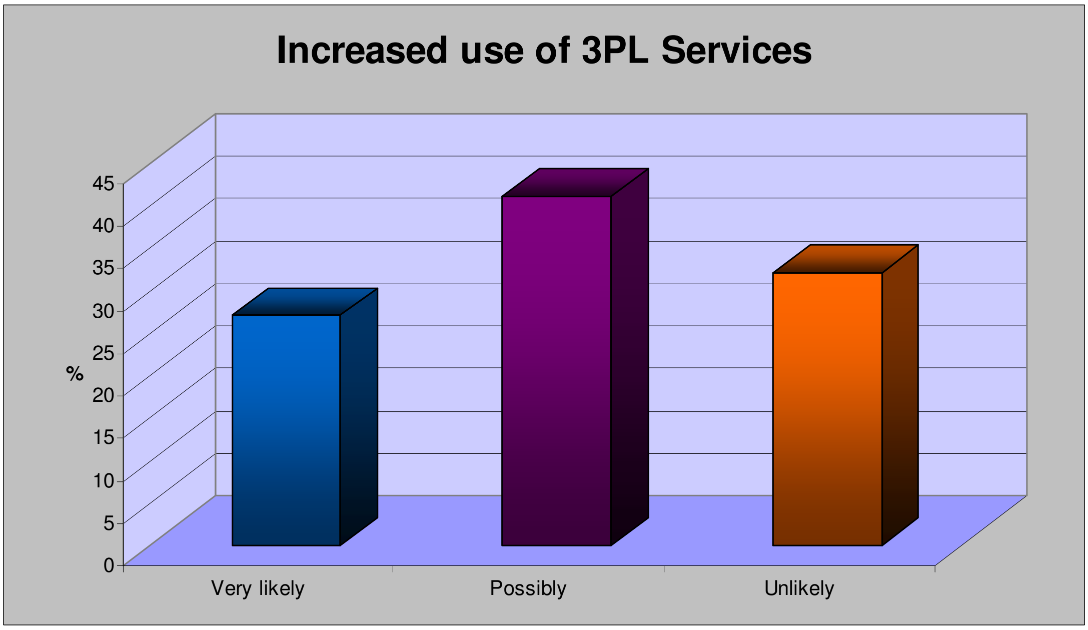
The overall opinion of the performance of 3PLs by their users is good (64%). More respondents see them as outstanding (5%) than poor (3%), and more see a higher than expected performance (19%) than a lower expected performance (8%).



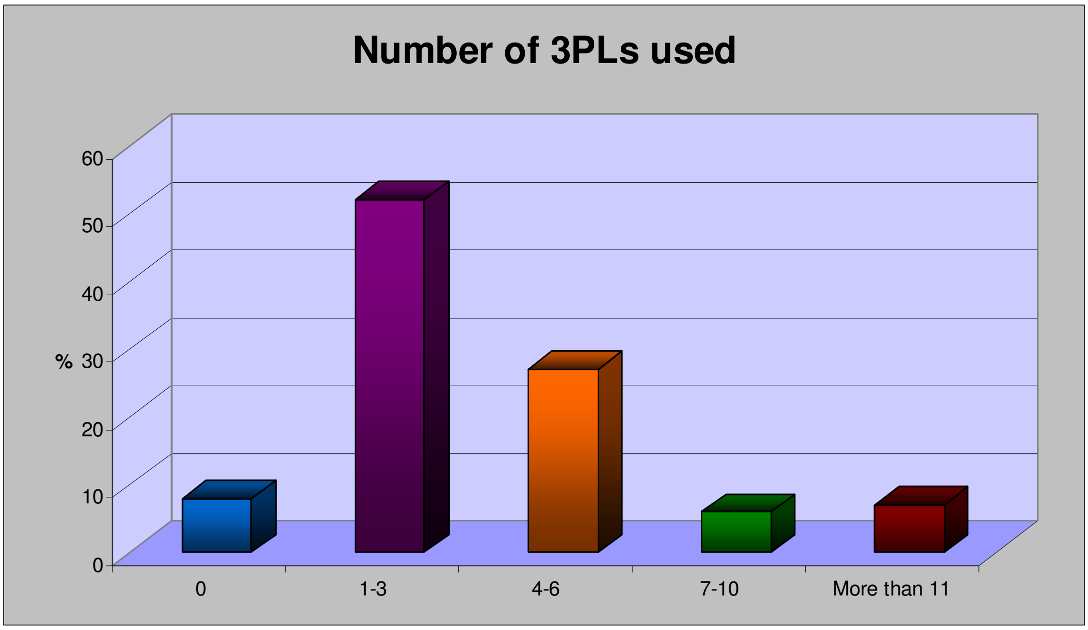

When asked whether they had recently switched 3PL, or are currently planning to switch to a different 3PL, 42% of 3PL users replied 'yes' (17% of these doing so because of cost and 25% doing so because of service). Of the 58% who replied 'no', 25% were due to cost and 33% due to service. In both cases the importance of service has greater importance than the cost.



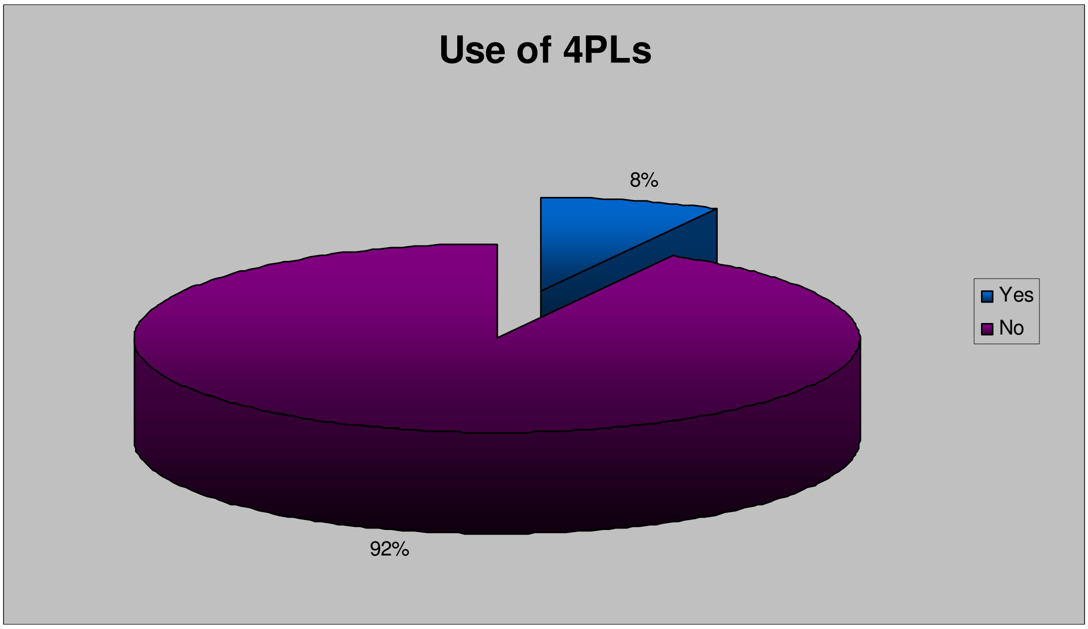
Mixed responses were given when respondents were asked if it is likely that they will increase their use of 3PL services in the future. Many respondents see it as possible (41%) and 27% see it as very likely, but there was also a noticeable number who see it as being unlikely (32%).




The majority of respondents use between one and three 3PLs (52%), and another 27% use between four and six 3PLs.

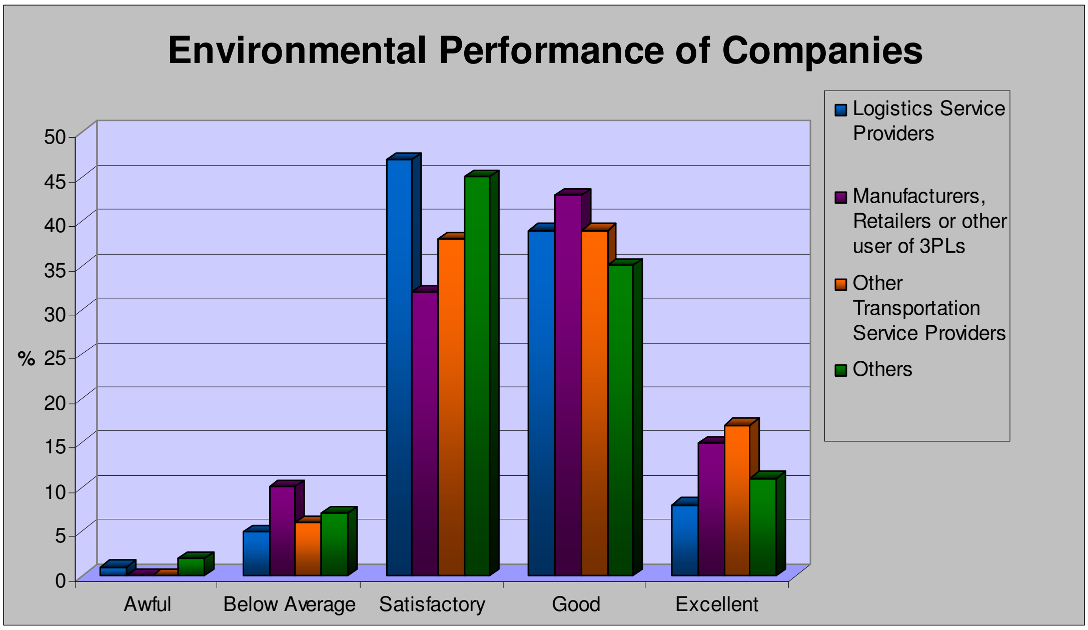


8% of the manufacturers/retailers surveyed report that they also make use of 4PLs.

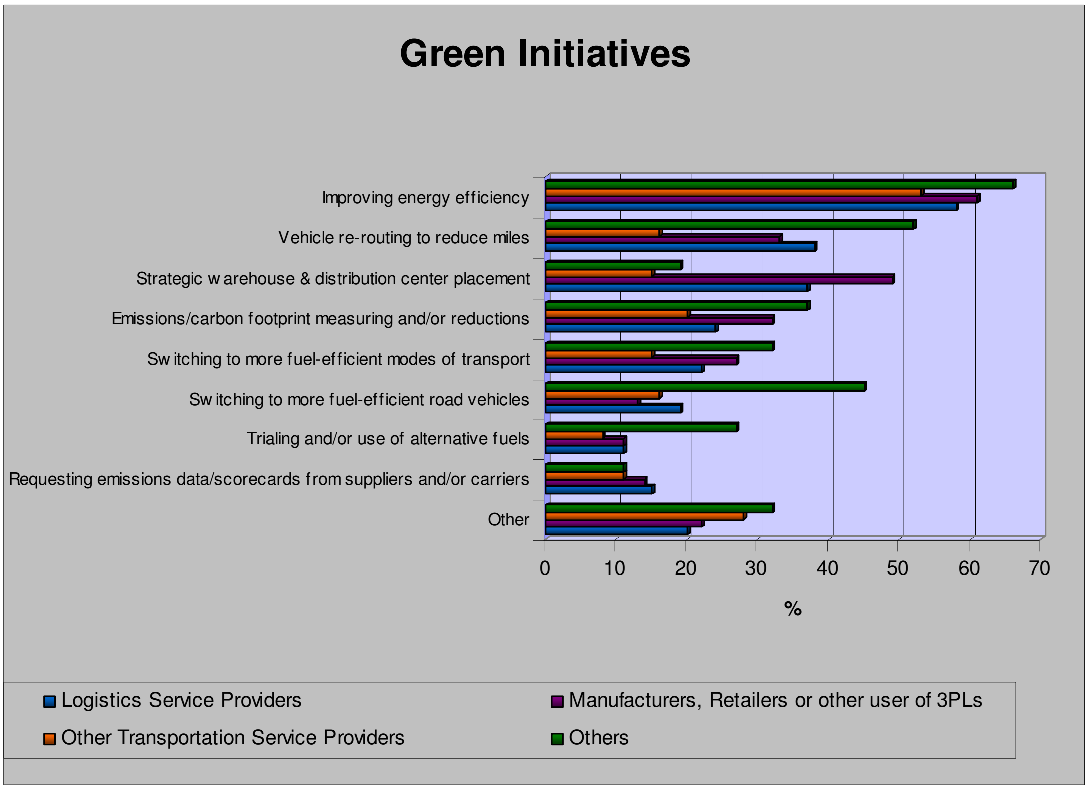


# IX. Environmental performance of companies

All groups in the survey were asked to rate the environmental performance of their companies. Satisfactory or good was the overwhelming response, and there is a higher number who rate their companies excellent than who rate them below average. Only a tiny percentage see their performance as awful.



Improving energy efficiency was the most commonly adopted initiative by all groups. The next most popular initiatives were vehicle re-routing to reduce miles and strategic warehouse & distribution center placement, though these are not as common among other transportation providers.



## X. Overall industry implications and conclusions

The changes experienced by the logistics industry in the last year have affected the business models of 3PLs, and the supply chain strategies of their customers, in a serious and long-term way. As pricing pressure rises and each party tries to pass that pressure from it's customers to it's suppliers, those suppliers will either adapt, push back, or forge a closer relationship, becoming a strategic business partner rather than a mere contractor.

Increased collaboration and interesting new business models will emerge, and the shape of the industry will never be the same. Success in this new and unknown environment requires thinking and acting today, and staying ahead of the game through good research into the latest technologies and strategies is the smart way of achieving short- and long-term growth goals.

For more information on how 3PL CEOs and senior supply chain directors from Fortune 500 manufacturers and retailers are adapting to change and preparing for future growth, check out the cutting-edge, research-driven agenda of the **7th 3PL Summit** at www.3plsummit.com

## XI. About MercuryGate International

MercuryGate delivers end-to-end freight management software solutions that allow logistics service providers to increase their revenues & profits. The MercuryGate TMS manages true multimodal and multi-stop shipments so 3PLs can offer services to even the most complex customer requirements.

The MercuryGate TMS allows service providers to operate different business models such as buy/sell, gain share, management fee, and brokerage - all in the same solution. The ability to consolidate loads, track shipments and allocate transportation costs across customers makes it an ideal tool for 3PLs interested in expanding into new lines of business.

Reusable templates make it simple to add new customers and carriers so 3PLs and brokers can quickly respond to new customer demands. Through an easy-to-use web-based interface, the service provider's customers can also enter and track their own shipments. Now, 3PLs and brokers can expand their business without a corresponding increase in costs.
For more information, visit www.mercurygate.com.