

2015 THIRD-PARTY LOGISTICS STUDY

The State of Logistics Outsourcing

Results and Findings of the 19th Annual Study



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Executive Summary

Current State of the 3PL Market

In the 2015 19th Annual Third Party Logistics Study, survey results showed the continuing, positive overall nature of shipper-3PL relationships. Both parties view themselves as being successful, and shippers are seeing positive results again this year: an average logistics cost reduction of 9% an average inventory cost reduction of 5% and an average fixed logistics cost reduction of 15%.

In addition to seeing cost reductions, shippers said they've seen average improvements in their order fill rate and order accuracy. The 2015 3PL Study showed that 73% of those who use logistics services and 77% of 3PL providers are satisfied that they have received open, transparent and effective communication from their partners. A distinct majority—92%—of shippers report that their relationships with 3PLs generally have been successful. Among 3PLs, 98% say their relationships with shippers have been successful.

While there are more positive business environments in certain geographies, industry verticals and niche types of services, the global logistics industry is one that does have its challenges.

Similar to last year, several ongoing factors are impacting progress toward the advanced end of the maturity model for shipper-3PL relationships. The generally less-than-exciting levels of global economic activity are driving highly variable and sometimes sluggish or neutral demand for outsourced logistics services. Shippers report an average of 36% of their total logistics expenditures are related to outsourcing compared to an average of 44% reported last year.

Again with this year's study, the most frequently outsourced activities tend to be those that are more transactional, operational and repetitive. Activities that are strategic, IT-intensive and customer facing tend to be outsourced to a lesser extent.

However, there is some indication that those activities, particularly the provision of capable IT services, can be a key element in the value proposition in shipper-3PL relationships. The results from this year's study again confirm that the IT gap continues to narrow to some extent.



The New Landscape of Omni-Channel Retailing

Today's consumers are looking for always-on, always-open shopping opportunities, and retailers are investing in technology, supply chain resources and fulfillment strategies that will provide a seamless experience across all retail sales channels. While retailers understand the importance of the omni-channel network, this year's survey shows that omni-channel supply chains are still maturing. Nearly one-third of the respondents participating in the study said they are not prepared to handle omni-channel retailing and only 2% of respondents rated themselves as high performing in the omni-channel space.

About half of respondents said they are not testing new fulfillment strategies. However, several are either already investing in or considering home delivery from local stores (16%), Sunday delivery (15%), customer delivery in which an in-store shopper delivers goods (12%) and locker pickup (11%).

Since retailers are increasingly dependent on technology for real-time visibility into operations, they are gradually moving all of their platform-based solutions to the cloud. They are also using integrated technologies to improve the omni-channel network. Respondents are investing in warehouse management systems (58%), enterprise resource planning software (54%), transportation management systems (54%), supply chain visibility (43%), warehouse management system add-ons (33%) and RFID (21%). Respondents also said they are investing in technologies that allow them to personalize and customize the shopping experience, such as mobile apps (33%).

By obtaining and transmitting information more efficiently and in new ways, retailers are able to better meet customers' needs and offer more fulfillment options, further improving their customer service, which is a priority. About one-third of respondents—32%—listed customer service as the top reason they are investing in omni-channel fulfillment; 23% cited service levels; 11% listed freight costs.



Strategic Workforce Management Throughout the Supply Chain

Strategic workforce management will be particularly important for the 3PL industry as it is expected to face a shortage of talent. Nearly 50% of respondents said they are already having difficulty in finding or attracting talent, and the average hiring growth rate within the supply chain industry is expected to be higher than the average growth rate across other occupations. Estimates show that 60 million people will exit the industry by 2015, but there are only 40 million people to fill the gap.

Existing positions within the supply chain industry are changing rapidly. By 2015, three out of four jobs within the industry are expected to change. Furthermore, the dynamics of supply chain professionals are changing. In the future, only having hard skills in operations management will not be sufficient. Instead, there will be a mix of both soft and hard skills involving leadership qualities and cross-functional competencies that will shape the industry.

Logistics providers face competition for employees. Not only do they compete with other 3PLs, they also compete with manufacturers, retailers and consulting firms. Many managers in leadership roles leave large 3PLs for better opportunities in other industries.

Without strategic workforce planning, companies may struggle to grow. The return on investment from strategic workforce management is substantial, contributing to a boost in morale, increased productivity, increased discretionary effort, lower turnover and higher customer satisfaction.

One study found that a one standard deviation increase in investment in aligning and integrating human resources practices is associated with a 7.5% decrease in employee turnover and, on a per employee basis, \$27,044 more in sales, \$18,641 more in market value and \$3,814 more in profit.



Customer Relationship Management and Use of Mobile and Cloud Technologies in 3PL Sales Processes

Third-party logistics providers are continuously looking for ways to improve their sales processes and profit margins, and many are turning to contemporary technologies to assist with this challenging assignment.

The use of Customer Relationship Management (CRM) and mobile-cloud technologies can significantly enhance and streamline the productive activities of 3PL sales executives. Although there are more generic sales-related CRM technologies, 75% of shippers and 77% of providers agree the 3PL sector could benefit significantly from the availability of industry-tailored CRM capabilities compared with what is currently available.

There are a number of ways in which the use of CRM and mobile technologies can create value for the 3PLs and their customers. Overall, the principal benefits of using these technologies are they streamline global workflows and processes, provide executive-level visibility to commercial leaders, and identify inefficiencies and bottlenecks in commercial operations. There are a number of ways customers of these 3PLs can benefit directly from the types of information available, particularly real-time information regarding topics such as shipment visibility, etc.

The use of CRM and mobile technologies can also provide an advantage for 3PLs. This year's survey revealed that 40% of shippers indicated that their bid processes place emphasis on 3PLs utilizing capable CRM technologies.

Although there are a number of opportunities related to the use of CRM and mobile technologies in the 3PL sales process, getting more experienced, productive sales executives to welcome these new technologies is sometimes easier said than done.

Mexico Rising as Manufacturing and Logistics Hub

The manufacturing industry in Mexico is improving, which is creating opportunities for 3PLs as logistics services play a crucial role in rendering Mexico's businesses cost competitive as compared with similar ventures globally. Mexico has more free-trade agreements than any other country, a strategic geographic location, and is renowned as a low-cost manufacturing and export destination.

Just under half of study respondents—40%—said they have already moved some of their operations to Mexico, citing reduced freight transport time and closer proximity to sources as the most important factors driving the change. Study respondents said their businesses are primarily moving operations to Mexico from the U.S. (55%), China (36%) and Canada (9%).

However, a lack of quality infrastructure and certain regulatory aspects continue to challenge Mexico.



Strategic Assessment

Evolution of the 3PL Business Model: New Competition

Customers are demanding more responsiveness from companies, and companies are investing in alternative solutions to meet these needs while expanding and differentiating their services. These investments are typically significant, and companies are looking for additional ways to leverage the money they are spending to increase revenue streams. In some cases, companies are offering these services to new customers or competitors and may create a solution that can be spun off or provided as a service to others in a similar or even the same industry.

As customers continue to demand more from retailers and ultimately from 3PLs, it is likely that investments on both ends of the supply chain will be either shared across companies or developed into alternative service offerings for a wider customer base to improve the return on investment. If companies continue to creatively invest in omni-channel/fulfillment solutions and embark on new partnerships, these new solutions have the potential to alter the way existing 3PLs do business.



Supply Chain Risk Management

The risks associated with supply chains are evolving from a back-office concern to a prominent position on the boardroom agenda at an increasing number of organizations. Recognizing the importance of risk management is significantly enhancing the effective management of supply chains worldwide, and the development of processes, metrics and tools for supply chain risk management has become one of the highest priorities for supply chain executives at many organizations today.

Third-party logistics providers are showing a growing level of commitment to including risk management services among those they promote and provide clients. Given the current interest in risk management and the emphasis most 3PLs are placing on developing new products and services to create value for their customers, this appears to be a prime area for collaboration between 3PLs and their customers.

The Intensifying Truck Driver Shortage

New supply chain models and mobile devices are making just-in-time ordering and fulfillment all the more possible, but professional truck drivers remain one of the most critical links within the supply chain. As the economic rebound continues, freight demand is increasing as are concerns over who will deliver it. The impending truck driver shortage in the United States has been an ongoing topic of conversation and academic concern for many in the supply chain for years, and the driver shortage is continuing to intensify.

If freight demand grows as it is projected to, the driver shortage could balloon to nearly 240,000 drivers by 2022. The impact the truck driver shortage will have on the supply chain is significant. Many manufacturers, distributors and other intermediaries operating private truck fleets are outsourcing their trucking to 3PL providers as a solution, but this may be just kicking the can down the road. It is likely companies will also begin making upstream adjustments, such as shifting distribution patterns, relying on intermodal transportation and shipping larger quantities at one time. Regardless, professional drivers remain vitally important to provide the last-mile delivery of goods.



Working Corporate Social Responsibility Into the Supply Chain

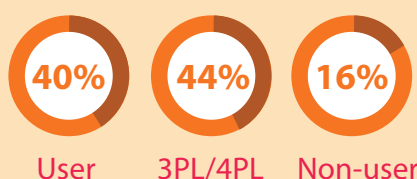
Corporate social responsibility (CSR), which comprises all facets of how companies should do business in a sustainable manner, is growing in importance. A growing number of companies are concerned not just with natural resources, but also human rights, labor practices, environmental impact, business ethics and corporate governance. The new world of CSR utilizes a proactive approach and includes a stronger emphasis on issue resolution, risk reduction and nimble reaction to problems, accompanied by innovation (e.g., green materials, carbon footprint optimization), capacity building, stakeholder engagement (internal and external), crisis management and media relations.

This has significant implications for businesses' supply chains, including logistics and distribution operations, and there is increasing demand for better checks and balances on sourcing and manufacturing. CSR plays a role along the supply chain, all the way from material sourcing to production and global transportation. As companies increasingly embrace CSR, they are changing how they address talent management and the individuals who oversee sustainability.

2015 Third-Party Logistics Study

About the Study Respondents...

100 respondents



Organization anticipates sales for 2014

Shippers

US\$25 billion or more /
€20 billion or more **17%**

37%

US\$1 billion – less than US\$25
billion / €750 million – less
than €20 billion

US\$500 million – less than US\$1
billion / €375 million – less than
€750 million **15%**

31%

US\$1 billion – less than US\$25
billion / €750 million –
less than €20 billion

Providers

US\$25 billion or more /
€20 billion or more **8%**

26%

US\$1 billion – less than US\$25
billion / €750 million – less
than €20 billion

US\$500 million – less than US\$1
billion / €375 million – less than
€750 million **11%**

55%

Less than US\$500 million /
€375 million

Industry representation

Automotive

**4%**

Chemicals

**7%**Construction/ Building
Materials/ Lumber
Products**4%**

Consumer Products

**12%**

Food and Beverage

**9%**

Healthcare

**7%**

Hi-Tech

**10%**

Manufacturing

**14%**

Oil and Gas

**3%**

Retail

**10%**

Telecom

**3%**

Other

**17%**

Title within company

Shippers

3%

President/Chief
Executive Officer

5%

Corporate
Officer

10%

Vice President/
Sr. Vice President

42%

Director/
Managing
Director/General
Manager

29%

Manager

6%

Supervisor

5%

Other (including consultant,
student, educator, researcher
and writer)

Providers

23%

President/Chief
Executive Officer

7%

Corporate
Officer

20%

Vice President/
Sr. Vice President

31%

Director/Managing
Director/General
Manager

12%

Manager

1%

Supervisor

5%

Other (including consultant,
student, educator, researcher
and writer)

2015 Third-Party Logistics Study Current State....

Financial aspects of users' logistics and 3PL expenditures

- Total logistics expenditures as a % of sales revenue **7%**
- % of total logistics expenditures directed to outsourcing **36%**
- % of transportation spend managed by third parties **51%**
- % of warehouse operations spend managed by third parties **36%**

Benefits from use of 3PL services

Logistics cost reduction **9%**



Inventory cost reduction **5%**



Logistics fixed-asset reduction **15%**



Order fill rate from **60% to 66%**



Order accuracy from **61% to 66%**



What tools a 3PL needs to be successful (top 6 from user vs top 6 from provider)

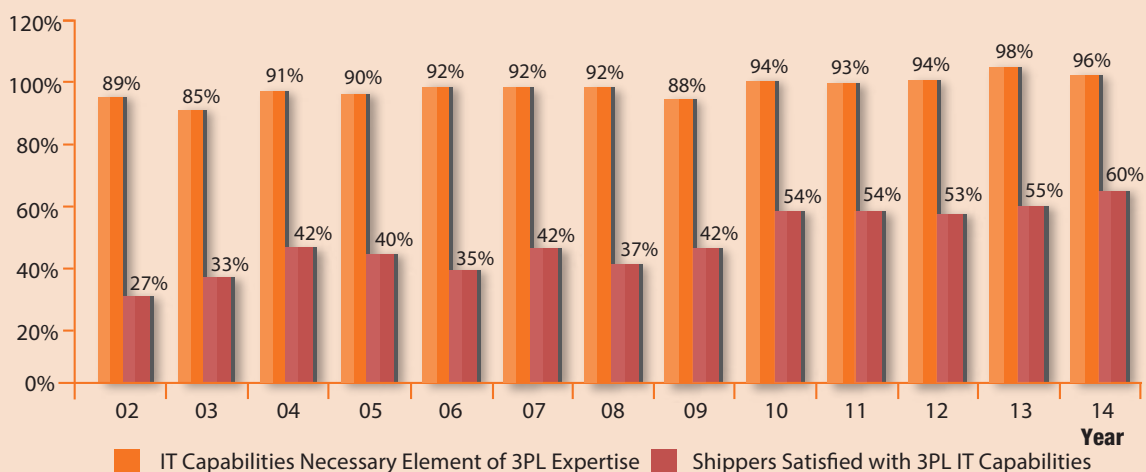
Shippers

1. Transportation management (execution)
2. EDI
3. Transportation management (planning)
4. Warehouse/DC management
5. Visibility (order, shipment, inventory, etc.)
6. Web portals for booking, order tracking, inventory, etc.

Provider

1. EDI
2. Transportation management (execution)
3. Customer order management
4. Transportation management (planning)
5. Visibility (order, shipment, inventory, etc.)
6. Web portals for booking, order tracking, inventory, etc.

IT gap narrows



Current State of the 3PL Market

Changes and Innovation Lie Ahead but Much of the Industry Operates at a Slow Heavy Pace



The current status of the global 3PL industry continues to be affected by a number of factors. Principal among these are the levels of economic activity in regions and countries of the world and the volatility or lack thereof. Also, the supply of asset-based capacities of various types, along with the underlying demand for services related to the use of those assets, has significant impacts on the pricing and availability of capacity to meet the needs of customers.

Although there are other factors of concern, there are a growing number of examples of modal substitution, typified by shippers who have shifted freight movements from air to ocean. Aside from more positive business environments in certain geographies, industry verticals and niche types of services, the global logistics industry is one that is currently not without its challenges.

Results of this year's *Annual 3PL Study* again document the evolving logistics marketplace in which 3PLs have continued to enhance their ability to drive innovation and create value for their customers and clients. At the same time, those same shipper customers have continued in many ways to become more proficient buyers and managers of 3PL services.

Although 3PL providers generally will provide a more positive evaluation of themselves than will their customers, the 2015 study again confirms that both 3PLs and customers view their relationships as successful.

The results and findings of the 2015 19th *Annual Third Party Logistics Study* provide current perspectives on the nature of these relationships, why they are generally successful and some of the ways in which they could be improved. Aside from these generally positive perspectives, discussions at some of the research workshops this year suggested that management structures in many shipper organizations have not yet been transformed to reflect how core the supply chain is to the business. One participant indicated that many legacy supply chains exhibit poor leadership and little inertia for change. While there were many compliments relating to 3PL providers, the discussions suggested that the providers could benefit from becoming more innovative and moving away from legacy operations and systems.

Again this year, the generally less-than-exciting levels of global economic activity and the associated impacts on the demand and supply of logistics and 3PL services have affected

the progress toward the advanced end of the maturity model for shipper-3PL relationships. The details discussed in this section provide further perspectives on where progress is being made and where it may be constrained.

While some of these findings are consistent with recent *Annual 3PL Studies*, readers are cautioned when comparing results from this year with those in past reports as a result of significant changes in this year's respondent base. Please see the *About the Study* section of this report for more information on the research process and the study respondents.

3PL Usage Reflects Global Trends

Global markets continue to be impacted by volatility and low-growth in many economies throughout the world, thus driving highly variable and sometimes sluggish or neutral demand for outsourced logistics services. [Figure 1](#) provides global 3PL revenues by region for 2012 and 2013 from Armstrong & Associates, along with a summary of percentage changes in these revenues reported for 2012-2013 and the two previous years, and it includes compounded annual growth rates (CAGR) by region for 2006 to 2013.

Figure 1: Global 3PL Revenues Rise Only Modestly for 2012-2013

Region	2012 Global 3PL Revenues (US\$Billions)	2013 Global 3PL Revenues (US\$Billions)	Percent Change 2012 to 2013	Percent Change 2011 to 2012 ^a	Percent Change 2010 to 2011 ^b	CAGR 2006-2013
North America	\$ 171.2	\$ 176.2	+ 2.9%	+ 6.7%	+ 7.2%	+ 4.0%
Europe	158.0	158.1	+0.01%	- 2.6%	- 2.8%	- 0.6%
Asia-Pacific	242.7	255.6	+ 5.3%	+ 23.6%	+ 21.2%	+ 10.9%
South America	43.6	44.9	+ 3.0%	+ 12.4%	+ 43.6%	+ 10.4%
Other Regions	69.6	69.0	- 0.01%	+ 6.4%	+ 54.0%	
Total	\$ 685.1	\$ 703.8	+ 2.7%	+ 9.9%	+ 13.7%	

Source: a) 2014 18th Annual 3PL Study and © 2013 Armstrong & Associates, Inc.
b) 2013 17th Annual 3PL Study and © 2012 Armstrong & Associates, Inc.

While the CAGR figures for Asia-Pacific and South America are both slightly above 10%, results for North America are 4% and those for Europe are slightly in the negative. Looking at the percentage changes in global 3PL revenues by region from 2012 to 2013, and particularly in comparison with the percentage changes reported in the two previous years, it is clear that growth rates are moderating significantly over time. Overall, it appears that the “cooling off” of many global economies may be responsible for the somewhat slower or limited growth in 3PL revenues throughout the regions of the world.

Shipper Spending Patterns on Logistics and 3PL Services

According to this year’s study results, shippers report an average of 36% of their total logistics expenditures are related to outsourcing. This compares with an average of 44% reported last year and 42% reported in the previous year. Total logistics expenditures include transportation, distribution, warehousing and value-added services. Considering Armstrong & Associates’ estimated and projected global 3PL revenues cited in Figure 1, these percentages support the notion that the slowing global economic conditions have had a negative impact on aggregate shipper spending on 3PL services as a percentage of total logistics expenditures.

Increased Outsourcing Continues to Outpace Insourcing

Two consistent observations over the past several years of *Annual 3PL Studies* are that some customers will report having increased their use of outsourced logistics services and others will indicate a return to insourcing some or all of these same services. (Movements to either increased or decreased use of outsourcing may be measured in terms of funds expended on outsourced logistics services, percentage

Figure 2: 3PL Services Deliver Measurable Benefits				
Results		2013 Study	2014 Study	2015 Study
Logistics Cost Reduction		15%	11%	9%
Inventory Cost Reduction		8%	6%	5%
Logistics Fixed Asset Reduction		26%	23%	15%
Order Fill Rate	Changed From	58%	66%	60%
	Changed To	65%	68%	66%
Order Accuracy	Changed From	67%	68%	61%
	Changed To	72%	69%	66%

Source: 2015 19th Annual Third-Party Logistics Study.

of overall logistics spending represented by outsourcing or number of activities outsourced.)

- **Outsourcing:** 67% of shippers indicate they are increasing their use of outsourced logistics services this year, which compares with 72% reported last year. In comparison, 86% of 3PL providers agreed that their customers showed an increase this year in their use of outsourced logistics services. These figures are consistent with the slower growth of overall revenues in the global logistics marketplace, as discussed above.
- **Insourcing:** Generally, returning to insourcing remains less prevalent, as 26% of shippers report they are returning to insourcing at least some of their logistics activities. In comparison, 37% of 3PL providers agree that some of their customers are returning to insourcing.

- **Reducing or Consolidating 3PLs:** The ongoing trend toward strategic sourcing by many shippers is evident in the number who report that they are reducing or consolidating the number of 3PLs they use—an average of 53%. This is consistent with previous years’ findings and provides continuing evidence that more than half of shippers place a priority on tightening up their rosters of 3PLs.

One observation that has been consistent for the past several years is that the percentage of shippers reporting they increased their use of outsourced logistics services has outstripped by 3:1 the percentage of shippers indicating they have returned to insourcing many of their logistics activities.

Shipper Experiences with 3PLs: Measures of Success

Once again, a distinct majority (92%) of shippers report that their relationships with 3PLs generally have been successful. Interestingly, but predictably, an even higher percentage of 3PLs (98%) say their relationships with shippers have generally been successful. [Figure 2](#) summarizes the tangible benefits shippers report from their use of 3PL services, including three example types of cost reduction, and also average improvements in order fill rate and order accuracy. The average logistics cost reduction reported by shippers was 9%, the average inventory cost reduction was 5%, and the average fixed logistics cost reduction was 15%. This is the second consecutive year in which each of these percentage figures was down modestly from those reported in the previous year's study.

Again, this is not unexpected, because both shippers and 3PLs have been working earnestly to attain these efficiencies. It now appears that

the magnitude of annual savings of these types has begun to taper off somewhat. This idea is supported by the results of a discussion held during the London workshop around the assertion that many big customers already have taken significant cost out of their supply chains.

3PL Services Deliver Measurable Benefits

Also highlighted in [Figure 2](#) are the changes in order fill rate and order accuracy that shippers attribute to their use of 3PL services. These percentages have remained somewhat stable over the past several years' studies, and they also validate continuing improvements that result from the use of 3PL services. This year, 70% of shipper respondents report their use of 3PLs has led to year-over-year incremental benefits, while 98% of 3PLs say their customers' use of 3PL services has led to year-over-year benefits. The 70% figure is up from a reported 55% last year and 56% the year before.

Shifting Expectations in Shipper-3PL Relationships

In the six years that this study has included both shippers and 3PL providers in the survey process, researchers have observed that in most instances 3PLs rate their capabilities higher than do shippers. Conversely 3PLs tend to have a lesser perception of problems in relationships, etc. Although there are likely a number of reasons for this disparity, the study is always seeking to better understand how well aligned shippers and providers are on matters of importance to the overall relationship.

One attribute that shows a degree of alignment is that of openness, transparency and effective communication in 3PL-customer relationships. The *2015 3PL Study* showed that 73% of shippers and 77% of 3PLs are satisfied that they have received open, transparent and effective communication from their partners.



Figure 3: Shippers Continue to Outsource a Wide Variety of Logistics Services

Outsourced Logistics Services	Percentages of Users	Outsourced Logistics Services	Percentages of Users
Domestic transportation	80%	Order management and fulfillment	18
International transportation	70	Inventory management	18
Warehousing	67	Supply chain consultancy services provided by 3PLs	15
Customs brokerage	53	Service parts logistics	14
Freight forwarding	51	Information technology (IT) services	14
Reverse logistics (defective, repair, return)	36	Fleet management	13
Freight bill auditing and payment	33	LLP (Lead Logistics Provider) / 4PL services	11
Product labeling, packaging, assembly, kitting	30	Customer service	5
Cross-docking	30	Sustainability/green supply chain-related services	3
Transportation management and planning	25		

Source: 2015 19th Annual Third-Party Logistics Study.

An area in which a difference exists between shipper and 3PL provider customer ratings is that of agility and flexibility to accommodate current and future business needs and challenges. This year 99% of 3PLs feel their customers expect these qualities from them, while 75% of shipper respondents agree that their 3PLs are sufficiently agile and flexible. This continuing gap suggests a further need for improvement.

An interesting comment made during the London workshop was that companies with the most responsive supply chains were either new companies, or ones that were vertically integrated and had recently redesigned or significantly transformed their existing supply chains. Also, a discussion thread in the workshop held in San Francisco focused on the extent to which “big box” stores and their supply chain practices were “changing the customer landscape.” Specifically, 3PLs serving these types of accounts need to be very diligent about understanding, complying with and meeting stated customer expectations, while also being sufficiently agile and flexible to execute as flawlessly as possible.

For the past several years, this report has addressed issues relating to the use of “gainsharing” and “collaboration” in shipper-3PL relationships. We consider both of these concepts legitimate and useful elements of well-structured shipper-3PL relationships:

- **“Gainsharing” between 3PLs and shippers:** This year, 41% of shippers report they have engaged in gainsharing arrangements with their 3PLs, while 58% of 3PL provider respondents indicate they have engaged in gainsharing with customers. As stated in last year’s report, our opinion is that while the use of gainsharing is a valuable element of many shipper-3PL relationships, there are other relationships where some variation of a more traditional “fee for service” model is preferred. Although this has not been formalized into a research question, our hypothesis is that the use or non-use of gainsharing would be related to whether customers prefer more tactical/operational relationships with their 3PLs or relationships that are more strategic in nature.

- **Interest in collaborating with other companies, even competitors, to achieve logistics cost and service improvements:** 39% of this year’s shippers agree that they are collaborating with other companies to achieve logistics cost and service improvements. This percentage is down from 48% reported last year, while the percentage of 3PL providers in agreement is a reported 72%. As with gainsharing, it is likely that this approach is more suitable in certain types of shipper-3PL relationships than in others. Also noted in the workshops held this year: There continues to be a reticence on the part of both shippers and providers to share relevant information that is central to the process of taking the greatest advantage of their relationships and the opportunity to collaborate effectively.

What Shippers Outsource and What 3PLs Offer

Figure 3 shows the percentages of shippers outsourcing specific logistics activities. While there are similarities with some of the results reported in recent years, this year’s data also includes a number of instances that suggest

modest declines in the percentages of shippers indicating they outsource certain activities and processes. Also, one perspective that received attention in this year's workshops was that there is continuing evidence that, in many instances, shippers will choose not to outsource operations where they feel they can serve their customers better.

Again with this year's study, the most frequently outsourced activities tend to be those that are more transactional, operational and repetitive. These include domestic and international transportation (80% and 70%, respectively), warehousing (67%), customs brokerage (53%) and freight forwarding (51%). With the exception of domestic transportation, these percentages are several points lower than those reported in the previous study.

The less frequently outsourced activities indicated in Figure 3 continue to be those that are more strategic, customer facing and IT intensive. Examples include: order management and fulfillment, inventory management, supply chain consultancy services, IT services, LLP/4PL services and customer service. Generally, these

percentages also are lower than those reported in the previous study.

Among the many topics of interest during workshops was that there appears to be an evolution of demand for and increasing acceptance of the concept of 4PL services (broadly defined). Although there are a growing number of companies (or divisions of companies) that are viewed as commercial providers of 4PL services, the types of services that would be offered by a 4PL are also the same types of services that should be evident in any well-run customer supply chain organization.

Although it is not fair to draw conclusions based on one year's supply of new survey results, the analysis looks carefully at the reasons why shippers generally reported lesser percentages in terms of utilizing many of the logistics services and processes than they did in the previous year's study. Among the reasons that may bear some relevance are: impacts of lagging global economies; decisions made by providers of logistics services that have impacts on pricing and availability of those services; responses to shippers feeling pressure to reduce

costs wherever and whenever possible; and changing purchasing patterns among shippers. Also, the composition of this year's survey respondents may also have some impact on the results included in Figure 3.

3PL's IT Capabilities: What are the Front-Running Types of Information Technologies?

It has been clear for some time that the provision of capable IT services has been a key element of the value proposition in shipper-3PL relationships. As shown in Figure 4, shippers indicate a greater need for activities such as transportation management, warehouse/distribution center management, EDI, visibility, etc., which are mostly execution and transaction oriented. In fact, there is a relatively discernable relationship between the propensity of shippers to utilize specific IT-based services and the types of logistics services that are outsourced to 3PLs (as summarized in Figure 3). Looking at the IT-based services in Figure 4 that are of a somewhat lesser priority at present, it is apparent that these are generally related



Figure 4: Shippers Still Focus Attention on Execution-Oriented 3PL IT Capabilities

Region	Percentages Reported By					
	3PL Users			3PLs		
	2013	2014	2015	2013	2014	2015
Transportation Management (Execution)	72%	75%	73%	84%	81%	86%
Warehouse/Distribution Center Management	64	74	65	78	71	76
Electronic Data Interchange	68	78	65	79	76	80
Transportation Management (Planning)	67	69	64	80	77	79
Visibility (Order, Shipment, Inventory, etc.)	60	76	63	75	78	76
Web Portals for Booking, Order Tracking, Inventory, etc	59	62	50	72	75	76
Bar Coding	50	50	47	60	53	55
Transportation Sourcing	45	45	48	58	52	59
Customer Order Management	41	42	41	64	66	79
Global Trade Management Tool	43	51	36	42	38	31
Advanced Analytics and Data Mining Tools	26	34	30	39	42	45
Supply Chain Event Management	26	38	30	49	53	50
Network Modeling and Optimization	30	35	29	44	55	51
Supply Chain Planning	30	36	26	59	59	53
Collaboration Tools (SharePoint, Lotus Notes, etc.)	32	43	25	41	46	46
CRM (Customer Relationship Management)	-	-	23	-	-	59
Yard Management	17	30	21	28	35	37
RFID	24	22	18	36	26	28
Cloud-Based Information Technologies	-	-	12	-	-	38
Mobile Technologies for Sales Support	-	-	11	-	-	36

Source: 2015 19th Annual Third-Party Logistics Study.

to processes that are more strategic and customer facing.

For 13 years this study has tracked measurable differences between shippers' opinions as to whether they would agree that information technologies are a necessary element of 3PL expertise and whether they are satisfied with their 3PLs' IT capabilities. We have referred to this as the "IT Gap." While Figure 5 reveals that over the long term this gap has narrowed significantly, recent years' data suggests there may be continued convergence occurring between shipper ratings of the necessity of capable IT-based services from 3PLs and their

current satisfaction with those services. As indicated, 96% of this year's user respondents agreed that IT capabilities are a necessary element of 3PL expertise and 60% agreed they were satisfied with 3PL IT capabilities.

Although last year's report suggested that the "(IT) gap appears to have largely stabilized," this year's study continues to look for reasons that may explain why this gap continues to narrow. As explained later in this report, a special topic within this year's study is CRM (Customer Relationship Management) and the use of mobile and cloud technologies by 3PLs.

Key Takeaways

Key findings about the Current State of the Market for the 2015 19th Annual 3PL Study include:

- The continuing uncertainty and volatility of global economic conditions has impacted global markets for 3PL services and related industry revenues. Armstrong & Associates reported aggregate global revenues for the 3PL sector grew by 13.7% from 2010 to 2011, 9.9% from 2011 to 2012 and only by 2.7% from 2012 to 2013.
- Shippers report an average of 36% of their total logistics expenditures are related to

outsourcing compared with an average of 44% reported last year. These figures help to explain how the slowing global economic conditions have impacted aggregate shipper spending on 3PL services as a percentage of total logistics expenditures.

- This year's *Annual 3PL Study* reports that 67% of the shippers surveyed are increasing their use of outsourced logistics services. Only 26% report a return to insourcing many of their logistics activities. This ratio of approximately 3:1 (67% increased outsourcing divided by the 26% that returned to insourcing) has been apparent for the past several years. Also, 53% of shipper respondents indicate they are reducing or consolidating the number of 3PLs they use.
- Shippers report an average logistics cost reduction of 9%, an average inventory cost reduction of 5% and an average fixed logistics cost reduction of 15%. These figures are down modestly from those reported in last year's study, but confirm the reasons why 92% of

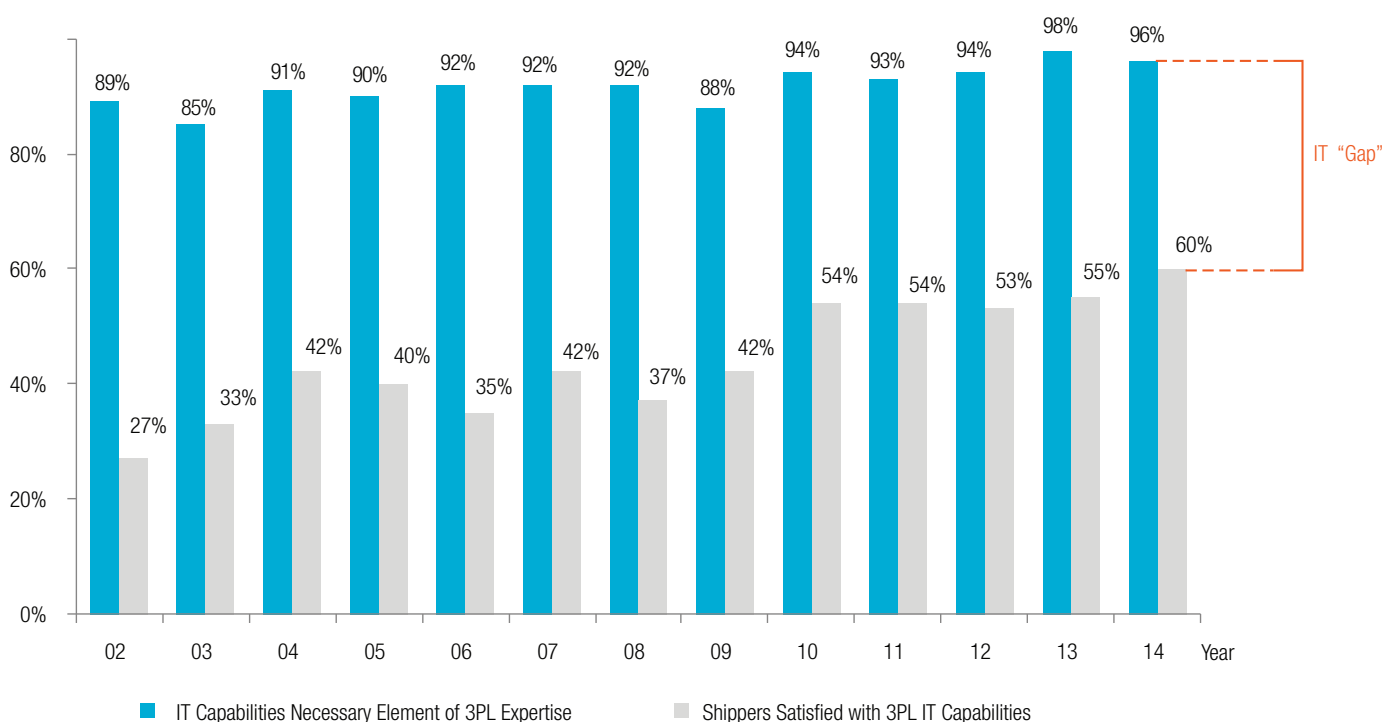
shippers report that their relationships with 3PLs generally have been successful.

- In the survey, 73% of shippers and 77% of 3PL providers indicate they are satisfied with the openness, transparency and good communication in their relationships, and 75% of shipper respondents judge their 3PLs as sufficiently agile and flexible to meet future business challenges.
- Involvement in "gainsharing" arrangements with their 3PLs was reported by 41% of shippers, and 39% indicated involvement in collaboration with other companies, even competitors, to achieve logistics cost and service improvements. Variances in these results over the years suggest that, rather than reflecting levels of maturity, these approaches simply fit better with some shipper-3PL relationships than they do for others.
- Consistent with past studies, transactional, operational and repetitive activities tend to be the most frequently outsourced, while

those that are strategic, IT-intensive and customer facing tend to be outsourced to a lesser extent. Also, for many of the logistics activities and processes of interest to this study, this year's percentage of shippers indicating they outsource those activities decreased by a few points.

- For the past 13 years, this study has been tracking the "IT Gap," which is defined as the difference between the percentage of shippers indicating that IT capabilities are a necessary element of 3PL expertise (96% in the current study) and the percentage of the same shippers who agree that they are satisfied with 3PL IT capabilities (60%). The results from this year's study again confirm that the IT Gap continues to narrow to some extent, and so future research will place a priority on providing further explanations and rationale for any apparent convergence.

Figure 5: The "IT Gap" Exhibits Continuing Convergence



The New Landscape of Omni-Channel Retailing



Today's retail landscape is evolving rapidly, adjusting to changes in consumer demand as well as technological innovations. Now more than ever consumers expect an always-on, always-open shopping experience, and they are looking for seamless interaction across retail sales channels. To meet those expectations, retailers need to have a robust fulfillment strategy and a highly detailed, integrated approach.

And there are more consumers than ever as changing economics are affecting the face of retailing. Within the United States, household net worth has been improving, increasing 13.4% in 2013 after a 9.5% rise in 2012. Globally, the middle class is growing and is on track to more than double in size to 4.9 billion by 2030 from 2 billion today.

The growth of the middle class means consumers have more discretionary income. To capture these new and growing spenders, retailers are gradually transitioning their offerings to match the expectations of what, when and where customers want to shop. To succeed in this changing landscape, retailers are enhancing the consumer-facing side of their operations, requiring a redesign of their supply chain and testing new fulfillment options to keep up with rapidly evolving consumer expectations.

The customer-facing operations of retailers are emphasizing consumer engagement and turning to tailored marketing and promotions, such as customized messages pushed to shoppers' mobile devices based on their location and product suggestions influenced by their previous shopping history. As a result, retailers are trying to be more dynamic

than their competition and creating a unique customer experience.

But respondents said they have found customers' expectations differ based on their geography. What meets customers' needs in one area may not in another, so the ability to differentiate offerings by geographic location can improve customer service while also requiring greater flexibility across global operations..

So while retailers' sales and marketing departments are promoting the tailored, customized content, the fulfillment and logistics divisions have to ensure a seamless experience for the customer. As consumers become more exposed to improved offerings from retailers, they begin to expect more in terms of when and how they can get their products delivered. And while several companies are blazing a trail with new fulfillment models, others are trying to determine a customer expectation versus a customer requirement.

To succeed in this changing landscape, retailers are enhancing the consumer-facing side of their operations, redesigning their supply chain, testing new fulfillment options and focusing on a specialized model with a specific purpose in mind.

Changes to the Supply Chain

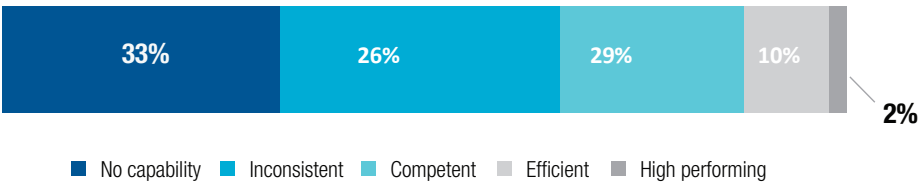
Enabling the growth of the omni-channel network is a priority for retailers, and they are testing a wide range of cross-channel fulfillment options. However, nearly one-third of the retailers participating in the study said they are not prepared to handle omni-channel retailing. Figure 6 shows that only 2% of respondents rated themselves as high performing in the omni-channel space, while 10% ranked themselves as efficient. The highest percentage—33%—said they had no capability and 26% said they are inconsistent.

For many companies, the issue is their existing infrastructure simply cannot support a true omni-channel. Previously, retailers created dedicated e-commerce distribution centers that were designed to pick, pack and ship partial shipments. The rest of their distribution centers were for full shipments, and, in the past, companies rarely shipped directly to consumers from the store.

Today, retailers are trying to better utilize space and creating more in-store integration with online channels, using bricks-and-mortar stores as fulfillment centers for internet shopping sites and to facilitate Web order pickup in which the

Figure 6: Omni-Channel Supply Chains Remain Immature

How prepared do you think your organization is to handle omni-channel retailing?



Source: 2015 19th Annual Third-Party Logistics Study.

customer shops online then picks the package up at the store. Office Depot, for example, has introduced an updated Web order, in-store pickup program called “Buy Online Pick Up in an Hour” whereby online orders at OfficeDepot.com are ready for pickup in about 60 minutes. Ship-to-store options have the potential to reduce the retailer’s transportation costs and possibly spur additional in-store sales made when shoppers pickup an online purchase.

Yet in spite of the benefits, respondents said most companies don’t have the space to run a pick-and-pack operation from the store. They said to get to a true omni-channel, they would have to dismantle their current network, which would be costly.

Companies have to determine how much of their current infrastructure they are willing to take apart to build new delivery channels. Many are taking a “wait and see” approach to determine which customer requirements stick and which are a fad. Consumer goods companies are also questioning whether or not it makes sense for them to create their own fulfillment solutions or if they should partner with another type of service provider who can handle the services for them. This may create additional opportunities for 3PLs going forward.

Varied Fulfillment Options

While respondents are still developing their omni-channel supply chains, they are attempting to provide flexible fulfillment options and testing new approaches, including in-vehicle pickup, warehouse pickup and buy-online-and-pick-up-in-an-hour options. Figure 7 shows that among respondents, 36% currently offer order-online-and-pickup-at-the-warehouse, 29% allow consumers order in store for home delivery, 22% allow mobile orders to be picked up at the warehouse and 20% offer warehouse pickup of orders placed in the store.

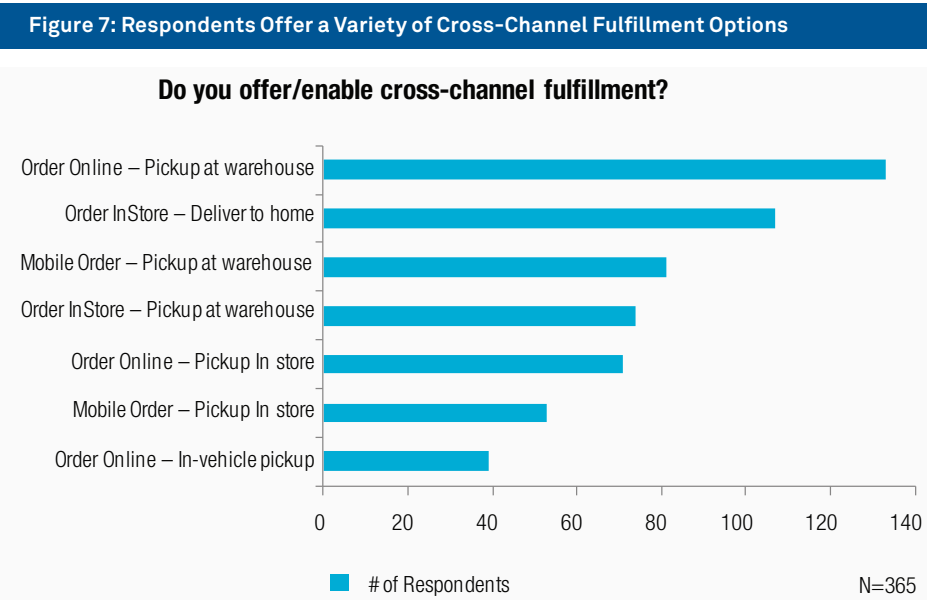
Nearly half of respondents, as shown in Figure 8, said they are not testing new fulfillment strategies, but 16% are either utilizing or considering home delivery from local stores, 15% either do or plan to offer Sunday delivery, 12% are either using or investigating customer delivery in which an in-store shopper delivers goods, and 11% are using or interested in locker pickup. A smaller number—4%—are considering drone delivery and bike/messenger delivery.

Wal-Mart is among those looking to tap into shoppers who are already in the store to deliver products to customers who ordered online. In-store shoppers would inform the retailer of their destination and volunteer to deliver

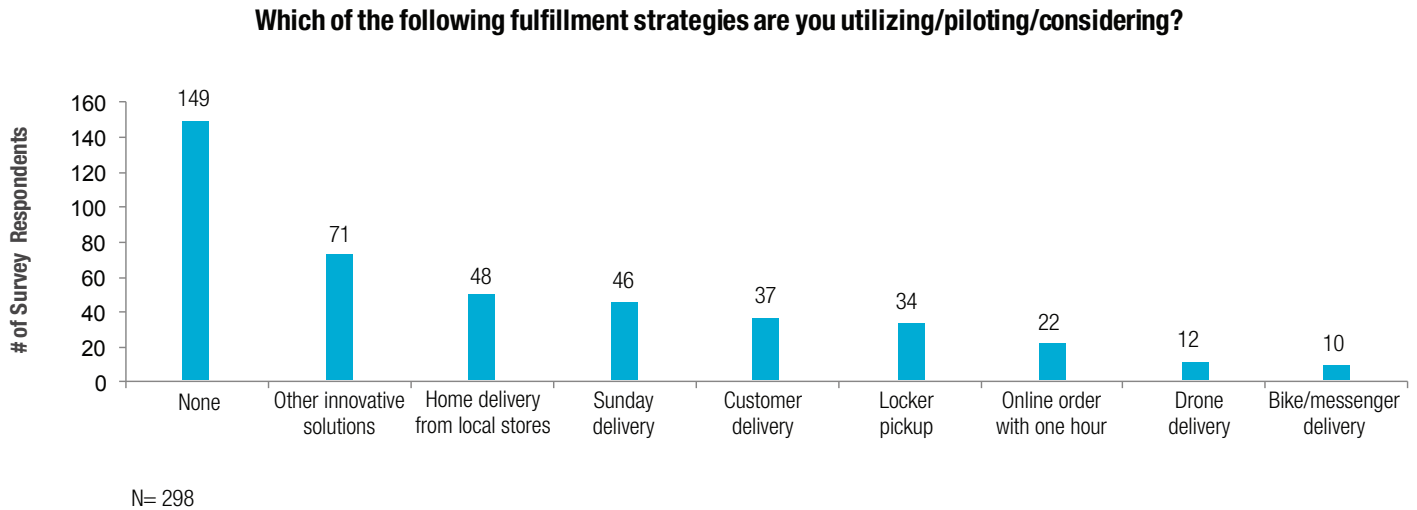
packages to shoppers nearby in exchange for a discount on their bill.

Amazon has made headlines by testing drones for faster delivery of goods. The drones can carry packages weighing about five pounds to locations within a one-mile radius of an Amazon fulfillment center. The online retailer has also installed delivery lockers in grocery, convenience and drugstore outlets at several locations in the U.S. and the United Kingdom. The lockers hold packages weighing less than 10 pounds and customers can pick up their deliveries at their convenience, eliminating the chance of missing a delivery or theft from their doorsteps. In the Los Angeles and New York metropolitan areas, Amazon is collaborating with the U.S. Postal Service to provide Sunday package delivery.

Yet with new opportunities come new challenges. Retailers have the opportunity to provide customers with more options than ever before, but they also have to ensure flawless execution. To support the rollout of the omni-channel consumer experience, retailers are investing in new technologies, allowing them to make decisions based on real-time information from stores.



Source: 2015 19th Annual Third-Party Logistics Study.

Figure 8: Shippers are Testing and Using a Variety of Fulfillment Options

Source: 2015 19th Annual Third-Party Logistics Study.

The Role of Information Within the Supply Chain

With timely information, retailers are focusing on the retail shelf and working to speed deliveries to the store to keep product in supply. Now planning cycles can take place hourly or more frequently, and the total supply chain response time takes place in hours or days—a transition from the old supply chain model in which retailers focused on replenishing the distribution center with fulfillment at the retail level taking days or weeks.

Technology in retail enables the retailers to analyze consumer data, track products and reduce operational cost while also serving as a tool for product promotions through various digital platforms. Retailers said they are trying to figure out how to create increased visibility and transparency to profitably manage inventory and delivery.

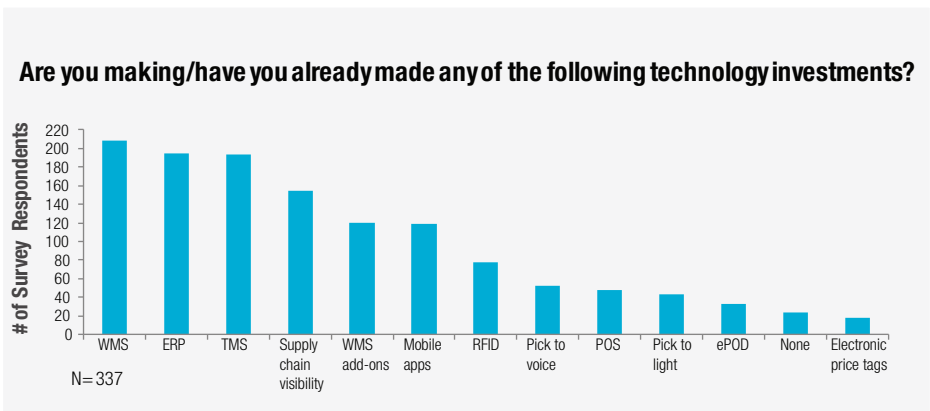
The visibility and accuracy of inventory data is crucial. Figure 9 shows that to better manage inventory and product delivery, respondents are investing in such technology, including warehouse management systems (58%), enterprise resource planning software (54%),

transportation management systems (54%), supply chain visibility (43%) and warehouse management system add-ons, which include labor management, analytics, slotting organization, etc. (33%).

About one-fifth of respondents—21%—have also invested in RFID technology, which can save shoppers time and also reduce inventory levels as a result of real-time information about the movement of goods. Products with RFID tags need not be scanned separately, resulting in shorter checkout lines and less time spent at the cash register. For retailers, RFID captures and stores information over time enabling them

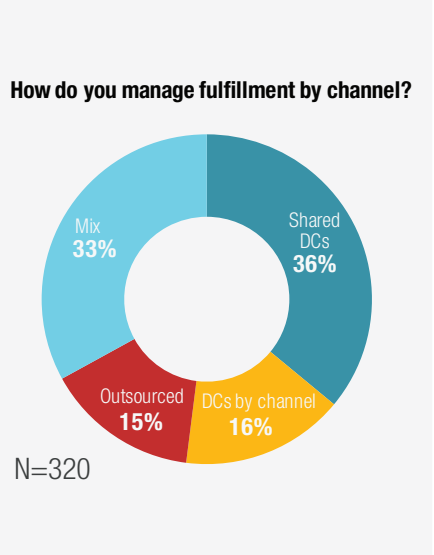
to trace the product's origin and differentiate products from their competitors.

Respondents said the physical and digital information necessary to successfully manage omni-channel offerings has been met with varied success. Warehouses operate in an integrated fashion, yet many require manual movements of digital inventory and information across systems or tools. Figure 10 demonstrates that when it comes to managing fulfillment by channel, 36% of respondents said they utilize shared distribution centers, 16% have distribution centers by channel, 15% outsource and 33% use a mix.

Figure 9: Companies are Adapting with Integrated Technologies

Source: 2015 19th Annual Third-Party Logistics Study.

Figure 10: Respondents Use a Mix of Solutions to Manage Fulfillment



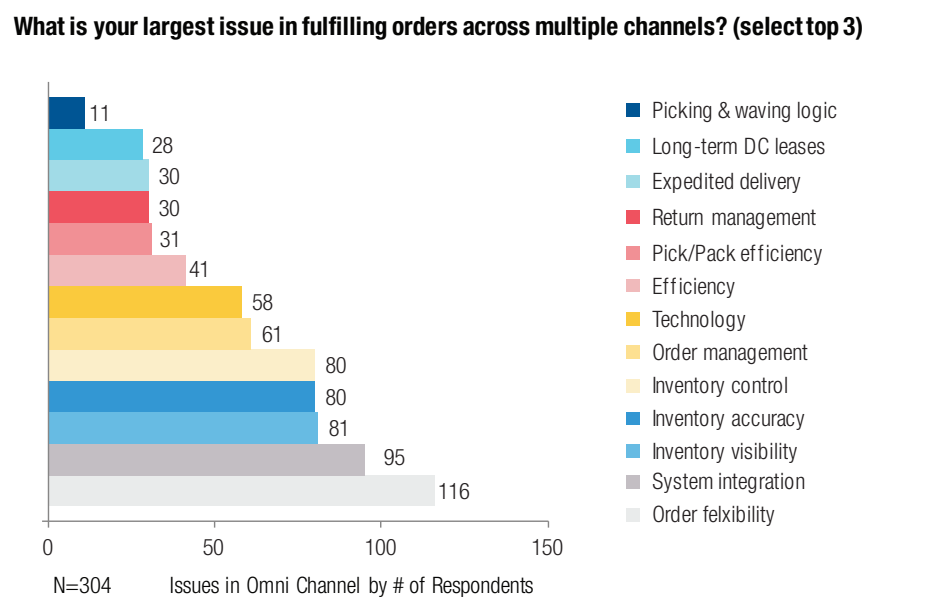
Source: 2015 19th Annual Third-Party Logistics Study.

However, fulfilling orders across multiple channels can create issues. Respondents were most concerned with order flexibility (last-minute changes to either the quantity, shipping address or shipping speed), system integration and inventory visibility, accuracy and control (Figure 11).

As online shopping continues to grow, shippers are left trying to figure out how to merge information to consolidate shipments and increase efficiency. During the London workshop, a respondent shared the story of one DHL truck showing up at a business to deliver business-to-business orders while another arrived to deliver packages to employees from their personal orders. Technology that creates additional visibility is a likely solution.

The rise of new technologies is affecting retailers' perspectives. Digital promotions, mobile promotions and digital wallets are impacting retailers the most. These technologies give retailers greater insight, and therefore the ability to customize solutions. For example, digital wallets combine the functionality of mobile payments with digital couponing, and digital storage of various cards and loyalty

Figure 11: Fulfilling Orders Across Multiple Channels Creates Certain Issues



membership programs into one solution, enabling retailers to acquire more information about their actual and potential customers compared to traditional payment methods.

Because retailers are increasingly dependent on technology for real-time visibility into operations to track products when they leave the manufacturing facility, throughout the supply chain and until they arrive at the final point of sale, retailers are gradually moving all of their platform-based solutions to the cloud. This enables retailers to process large amounts of customer data faster, better match customers' demands with a sales season and provide personalized solutions, not only in what customers buy and how they buy it, but also in how they receive it.

By obtaining and transmitting information more efficiently and in new ways, retailers and shippers are able to offer more fulfillment options, giving customers the option of picking products up in the store or the warehouse or having them delivered to their store. These technologies, along with others, enable the concept of mass customization, which has been

of growing interest to both manufacturers and retailers.

Personalized Products and Experiences

Retailers are focusing more on consumer engagement in response to customers' targeted, time-efficient, needs-based trips while also seeking to develop more profitable, complex solutions offering real value to shoppers.

Custom solutions are becoming prevalent in a wide variety of retail operations. For example, retailers are now offering home décor product selection and installation services ordered in a single touch. In apparel, shoe manufacturer New Balance allows customers to create custom shoes either online or in its flagship Manhattan store. Once the shopper designs his or her shoe, it is manufactured at a U.S. facility within six to 10 business days and shipped to the customer.

With mobile technologies, retailers can send a mobile coupon for a product that complements other items on the customer's shopping list or inform customers about special offers based on

their location in the store. Mobile technologies also allow in-store promotions through interactive touch screens that customers with smartphones can connect to and search for particular products. Over one-third of respondents—33%—said they have invested in mobile apps.

Opportunities and Challenges

Customer service continues to be the driving force behind shippers' omni-channel efforts. As seen in Figure 13, about one-third of respondents—32%—listed customer service as the top reason they are investing in

omni-channel fulfillment; 23% cited service levels; 11% listed freight costs.

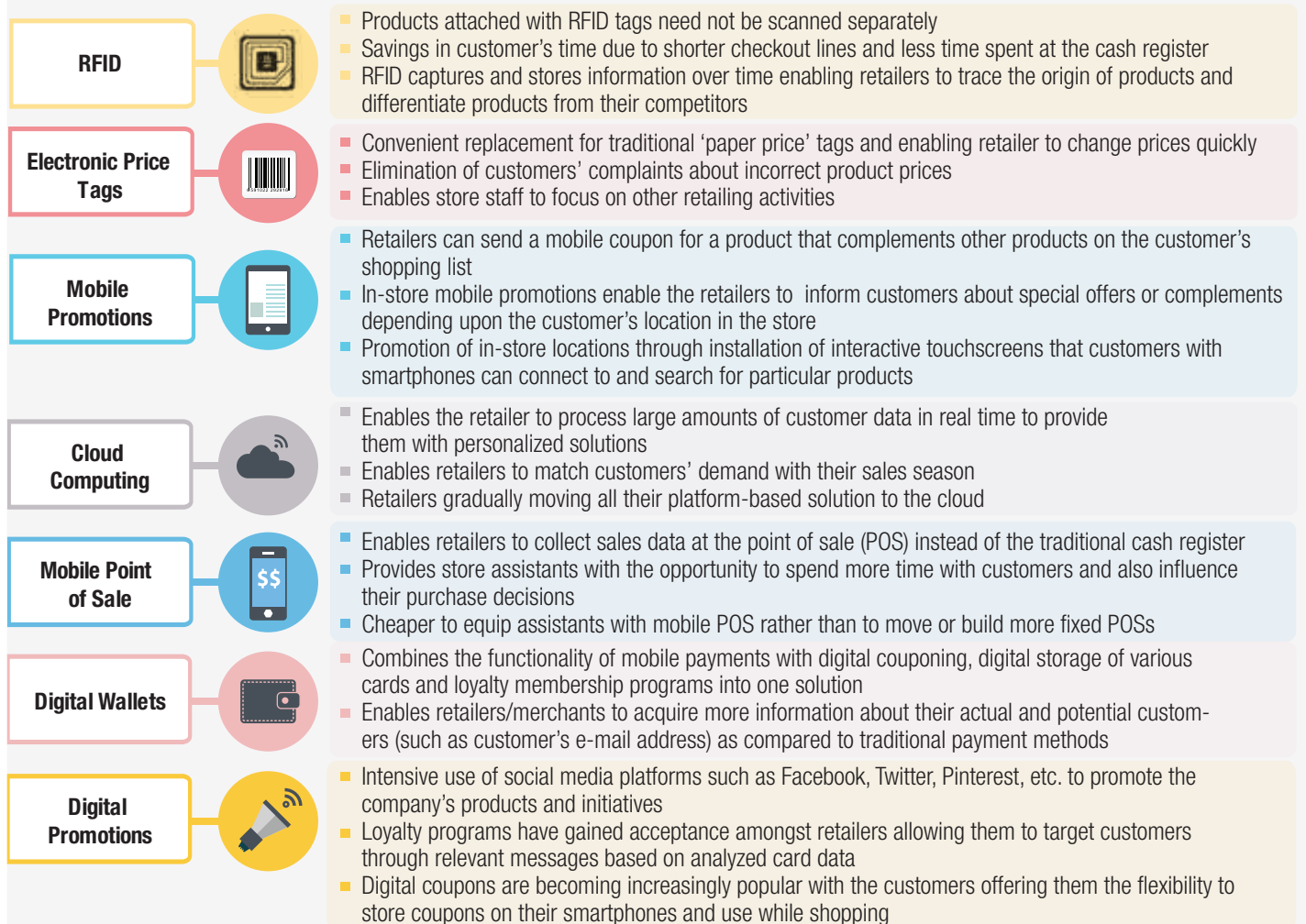
While technology is making it easier for retailers to allow consumers to buy when and where they want and choose how the order is fulfilled, the number of order channels multiplied by the number of delivery options creates a complex operating environment for shippers and logistics providers.

Moreover, shoppers expect ease in returns, and data shows that the most profitable online customers purposely order multiple items and

return 60% to 80% of what they order. This creates additional challenges surrounding logistics and inventory as distribution centers may restock an item then get a flood of returns resulting in overstocks. An even greater challenge can come when online shoppers return an item to a store, which then has to be returned to a distribution center. Respondents admitted that returns are often an afterthought, and this is an area where retailers and shippers will need to focus on in the future.

Figure 12: Technology Enables Retailers to Analyze Consumer Data, Track Products and Reduce Costs

Technology in retail enables the retailers to analyze consumer data analysis, track products and reduce operational cost... while at the same time serving as a tool for product promotions through various digital platforms



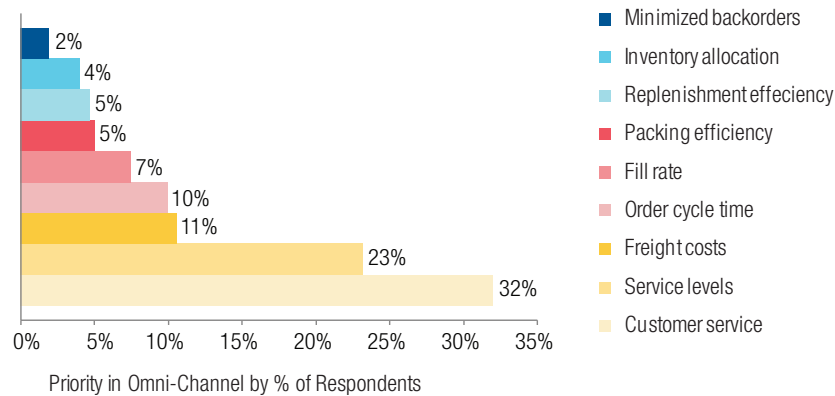
Omni-Channel's Potential Dividends

Many retailers are already making investments within the omni-channel space, but the question remains: Are customers willing to pay or will this become a cost of doing business? Is there a point when it becomes too expensive, too risky and of little value for retailers to build their own capability? For retailers and shippers, there has to be some type of revenue to justify the service. It may be that omni-channel fulfillment becomes the final straw that forces companies to merge operations versus maintaining competing supply chains, especially for last-mile fulfillment.



Figure 13: Priorities in Omni-Channel Fulfillment

What is your priority in omni-channel fulfillment?



Source: 2015 19th Annual Third-Party Logistics Study.

Omni-Channel Key Takeaways

- Retailers are working to provide consumers with an always-on, always-open shopping opportunity. Shoppers are looking for a seamless experience across their retail sales channels. Thus retailers need to have a robust fulfillment strategy and a detailed, integrated approach to meet consumers’ needs.
- Customer service continues to be the driving force behind omni-channel efforts. About one-third of respondents—32%—listed customer service as the top reason they are investing in omni-channel fulfillment; 23% cited service levels; 11% listed freight costs.
- Companies are investing in technology that gives them greater customer insights and enhances shoppers’ experiences, with 33% of respondents saying they’ve invested in mobile apps and 21% saying they’ve invested in RFID.

- The visibility and accuracy of inventory data is crucial, yet the physical and digital information necessary to successfully manage omni-channel offerings are met with varied success. Warehouses operate in an integrated fashion, yet many require manual movements of digital inventory and information across systems or tools. When it comes to managing fulfillment by channel, 36% of respondents said they utilize shared distribution centers, 17% have distribution centers by channel, 15% outsource and 33% use a mix.
- The survey data shows that omni-channel supply chains are still maturing and retailers are attempting to provide flexible fulfillment to customers. Nearly half of respondents said they are not testing new fulfillment strategies, but 16% are either utilizing or considering home delivery from local stores, 15% do or plan to offer Sunday delivery, 12% are either using or investigating customer delivery in which an in-store shopper delivers goods, and 11% are using or interested in locker pickup. A smaller number—4%—are considering drone delivery and are either utilizing or testing bike/messenger delivery.
- Companies see the advantage of integrated technologies and are adapting as necessary. Respondents are investing in such technology, including warehouse management systems (58%), enterprise resource planning software (54%), transportation management systems (54%), supply chain visibility (43%) and warehouse management system add-ons (33%).

2015 Third-Party Logistics Study

Omni Channel – Creating a Seamless Customer Experience

What is driving this trend?



Retailers are venturing into new markets and store formats while integrating their in-store and digital offerings to cater to the demand of several consumer groups

Where to sell?

How to sell?

How to operate?



Focus towards consumer engagement and cost efficiencies is driving...

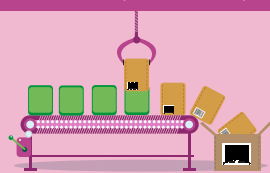
- Personalized products
- Reduction in store size
- Focus on consumer engagement
- Greater utilization of store space



Customer service continues to be the driving force behind shippers' omni-channel efforts



Immaturity of supply chains for omni-channel operations



Shift from the traditional supply chain model to a modern, more agile model

Traditional model	Modern model
Total response time from order to retailer DC in weeks or days	Total supply chain response time from demand estimation to shelf delivery in days or hours
Quality defect per million at the plant	Quality defects per million at the retail shelf
Forecast accuracy in replenishing the retail DC	Zero stock outs on the shelf
New product design, manufacture and delivery	Speed to deliver innovation to the shelf

Some info in the above chart from: The Consumer Driven Supply Chain: IBM

Largest issue in fulfilling orders across channels

Order Flexibility



System Integration



Inventory Visibility



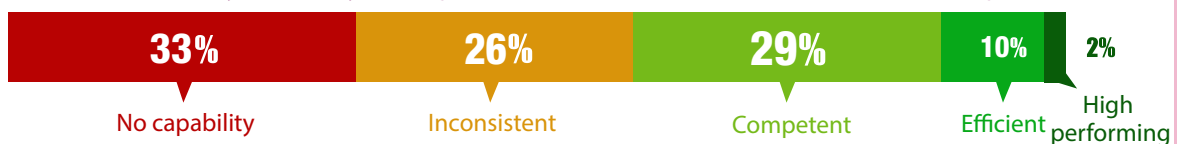
Inventory Accuracy



Inventory Control



How prepared do you think your organization is to handle omni-channel retailing?



Will shippers focus on developing their own innovative solutions or will they turn to 3PLs to help them determine how to fulfill customer demands?

Strategic Workforce Management Throughout the Supply Chain



Strategic workforce management—the system and processes by which leaders ensure they have the right talent in the right place and time—is relevant to everyone involved in the supply chain, be it an hourly employee or the company CEO. [Figure 14](#) shows that companies that practice strategic talent management have 40% lower voluntary turnover among their high performers and generate 26% greater revenue per employee compared to their peers.

In most organizations, total human capital costs account for as much as 70% of operating expenses. To maximize the investment, key human resources leaders need to be close partners with the CEO to understand the strategy and direction of the company. About 60% of respondents, as shown in [Figure 15](#), said having the right people and leadership in place is a primary driver of the organization's success in the next five years and roughly the same amount said success relies on having the right strategy and roadmap. Yet, less than one-third of companies said they are effective at building the next generation of leadership capabilities.

While the transactional nature of the logistics industry can limit the ability of individuals to think about strategic workforce planning, companies said that without people

development, they struggle to grow. [Figure 15](#) shows that organizations value operational execution, the ability to drive growth, and people management and development.

When a company aligns its talent strategy to its business strategy, it is more likely to achieve its strategic objectives, perform better in the market and retain high-performing individuals. However, a business strategy simply details where the company wants to go. Getting there takes people. To align the two, management can ask themselves the following:

- What are the top three to five organizational goals in the next five years?
- What specific objectives will help to support those goals?
- What are the talent implications of each objective?
- What key roles/skills are required for each talent implication?
- What external business issues, such as trends, economic realities and industry context, are shaping the business strategy?
- Can the needs be qualified?

Yet, aligning business strategy with the talent strategy does not mean the talent strategy simply imitates business strategy. For example, if the business strategy is to drive innovation, HR does not innovate. Instead, HR provides the talent that will drive innovation. The talent strategy is designed to make the business strategy successful.

Demand for Supply Chain Talent

Aligning talent to business objectives helps a business get the proper talent focused on the right initiatives to drive the organization's strategy and accelerate business outcomes. This is especially crucial in the supply chain, where estimated demand for supply chain professionals is expected to exceed supply by six to one.

[Figure 16](#) reveals that 44% of respondents said they are already having difficulty in finding or attracting talent. The average hiring growth rate within the supply chain industry is expected to be higher than the average growth rate across other occupations. Estimates show 60 million people will exit the industry by 2015, but there are only 40 million people to fill the gap.

Figure 14: The Benefits of Strategic Workforce Management



Source: 2015 19th Annual Third-Party Logistics Study.

Figure 15: Organizations' Primary Drivers of Success in Five Years

Source: 2015 19th Annual Third-Party Logistics Study.

Not only does demand for supply chain experts have the potential to grow exponentially (as shown in [Figure 17](#)) with demand being greater than the supply across all supply chain roles, positions within the industry are changing. As a result of the dynamic nature of the supply chain industry, three out of four jobs are expected to change by 2015 alone, and there is a potential shortage of new talent resulting from the constant evolution of supply chain processes. As noted in [Figure 18](#), respondents said changes to the business model along with difficulty in finding and/or attracting talent are among their top pressures.

The 3PL industry's perception of and competition for supply chain talent has worsened the demand-supply talent gap. As seen in [Figure 19](#), the majority of survey respondents feel that closing the gap between supply and demand is one of their largest challenges affecting 28% of respondents to a great extent and 58% of respondents to some extent.

3PLs compete for talent with other 3PLs, manufacturers, retailers and consulting firms.

Many managers and others in leadership roles leave large 3PLs for better opportunities in other industries, and the 3PL industry is struggling to contain a high management attrition rate. To overcome challenges and industry perceptions, 3PLs may need to continue to develop their staff and invest in workforce management at all levels. In [Figure 20](#), 47% of respondents said a top issue in the organization is developing leaders, 28% said they struggle with effectively managing succession and 20% say they need to improve supervision and coaching.

Going forward, top employees are going to need a mix of both soft and hard skills involving leadership qualities and cross-functional competencies. Of concern to those within the industry is that the leadership of today may not have the skills or capabilities that will be necessary in future leadership roles. Employers will need to develop the skills of senior management to ensure they are equipped with the right skills and mindset to make the right hiring decisions. This will require a well thought out strategic talent management plan.

Vertical and Horizontal Management Links

Strategic talent management consists of two key elements—a vertical link to strategy and a horizontal link across all talent management practices. The vertical link—also known as strategic alignment—is the connection between business needs and individual performance. The horizontal link—known as integrated talent management—reflects how all the talent management practices are integrated into a coherent system and leveled at the same goals. By optimizing both these vertical and horizontal links between talent and strategy, an organization builds a talent machine that fuels strategy execution and achieves business results.

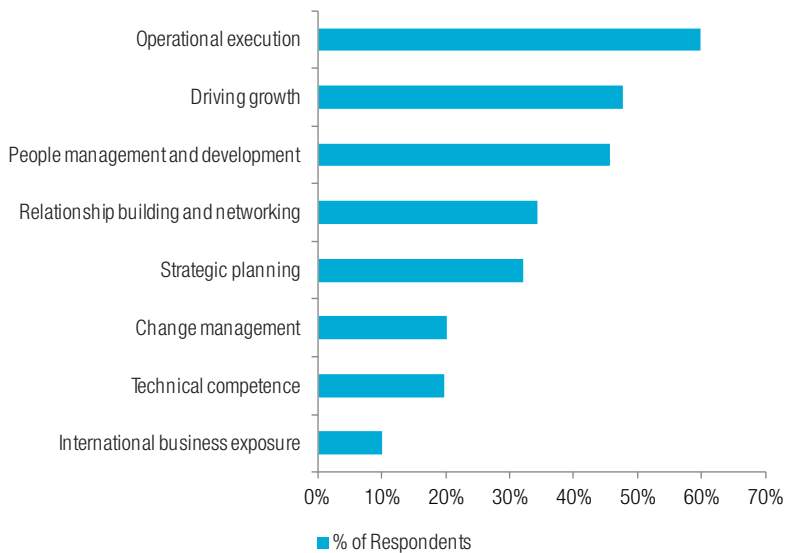
Ultimately business strategies determine which roles provide a competitive advantage, the type of talent required, and the skills to be cultivated and rewarded. The company's talent management practices must develop people with the skills, knowledge and motivation to implement the business strategy. [Figure 21](#) shows what the best leaders do differently.

Talent Leaders and People Leaders

Every organization has both people leaders and talent leaders and both fulfill distinct roles. People leaders are more adept at coaching and developing others and serve as a role model of the company's values and culture. Great talent leaders use talent as a strategic lever, make good decisions around people and have a proactive plan for how and when to move talent to drive business outcomes.

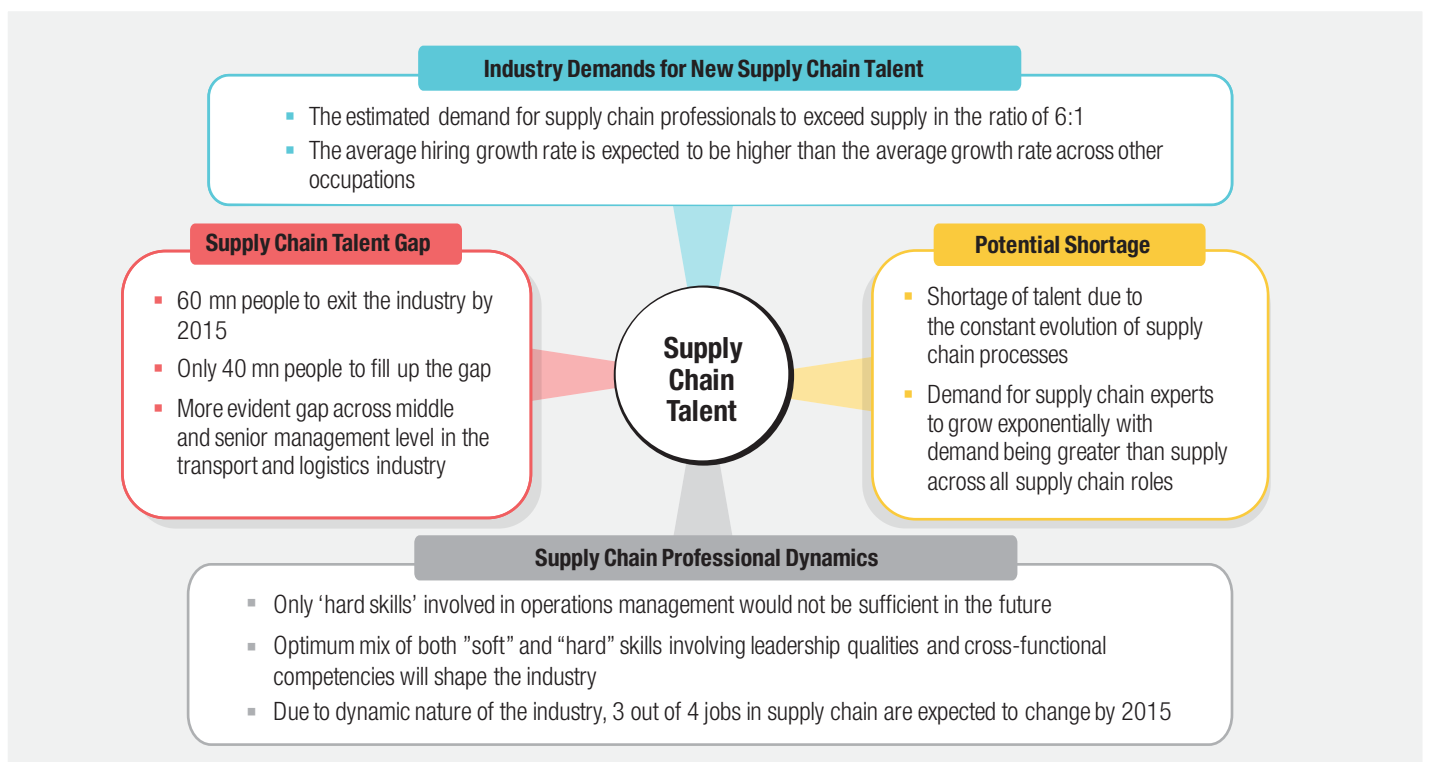
Return on Investment

The return on investment from strategic workforce management is substantial. It contributes to a boost in morale, increased productivity, increased discretionary effort, lower turnover and higher customer satisfaction. A recent study found that a one standard deviation increase in investment in aligning and integrating HR practices is associated with a 7.5% decrease in employee turnover and, on a per employee basis, \$27,044 more in sales, \$18,641 more in market value and \$3,814 more in profit.

Figure 16: Capabilities Organizations Value in a Functional or Business Leader

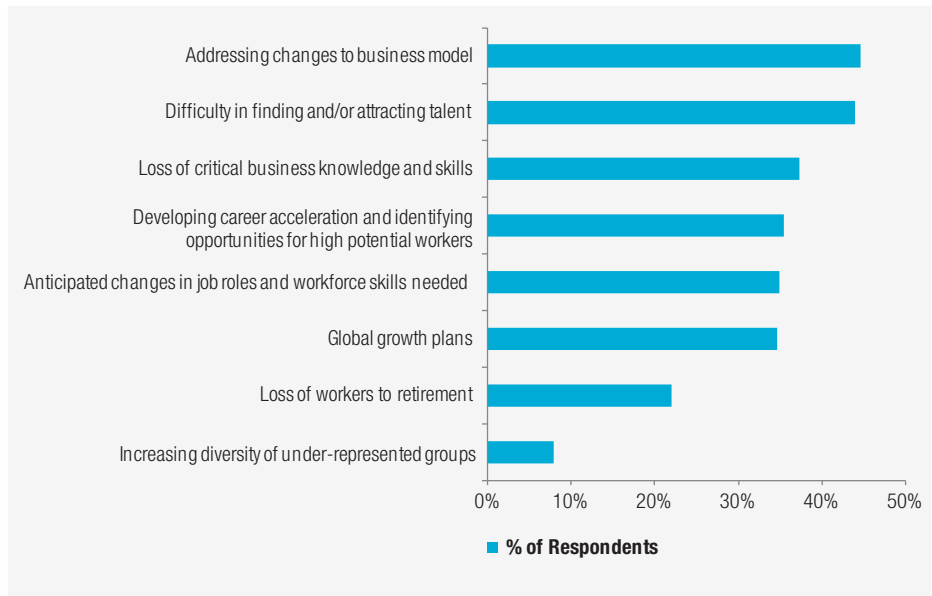
Source: 2015 19th Annual Third-Party Logistics Study.

However, to see the benefits, a company must have a sound business strategy. In addition, its talent strategy must be designed to support the business strategy and be integrated across all human resource practices. The joint strategy works best when the approach includes thought leaders experienced with strategic alignment who have insight on the industry as well as talent practices. It is also crucial to have an open, facilitated dialogue among top business and HR leaders.

Figure 17: Industry Demands for New Supply Chain Talent

Source: 2015 19th Annual Third-Party Logistics Study.

Figure 18: Top Pressures Driving Workforce Planning



Source: 2015 19th Annual Third-Party Logistics Study.

Figure 19: Challenges in Effectively Implementing Workforce Planning

Challenges	Not at all	To some extent	To a great extent
Focus too much on short-term needs	16%	46%	38%
Closing the gap between talent supply and demand	14	58	28
No clear vision of future workforce demands	28	52	19
Keeping the process simple and easy to use	22	59	19
Limited or no integration of data needed	32	51	18
Value proposition is not realized	31	52	17
Lack of skills for workforce planning	27	58	15
Integrating with other planning processes	31	56	13
Difficulty prioritizing solutions to close gaps and mitigate risks	27	60	13
Lack of budget for workforce planning	31	57	12
Monitoring progress and updating strategies	29	59	11

Source: 2015 19th Annual Third-Party Logistics Study.

Strategic Workforce Management Key Takeaways

- Companies that focus on strategic talent management have stronger performance than their peers, with 40% lower voluntary turnover among their high performers and 26% greater revenue per employee.
- Strategic workforce management will be particularly important for the 3PL industry, which is expected to face a shortage of talent. Nearly 50% of respondents said they are already having difficulty in finding or attracting talent. The average hiring growth rate within the supply chain industry is expected to be higher than the average growth rate across other occupations. Estimates show that 60 million people will exit the industry by 2015, but there are only 40 million people to fill the gap.
- Existing positions within the supply chain industry are changing rapidly. By 2015, three out of four jobs in supply chain are expected to change.
- The dynamics of supply chain professionals are changing. In the future, only having hard skills in operations management will not be sufficient. Instead, there will be a mix of both soft and hard skills involving leadership qualities and cross-functional competencies that will shape the industry.
- About 60% of respondents said having the right people and leadership in place is a primary driver of the organization's success in the next five years. Roughly the same amount said success relies on having the right strategy and roadmap. Yet, less than one-third of companies said they are effective at building the next generation of leadership capabilities.

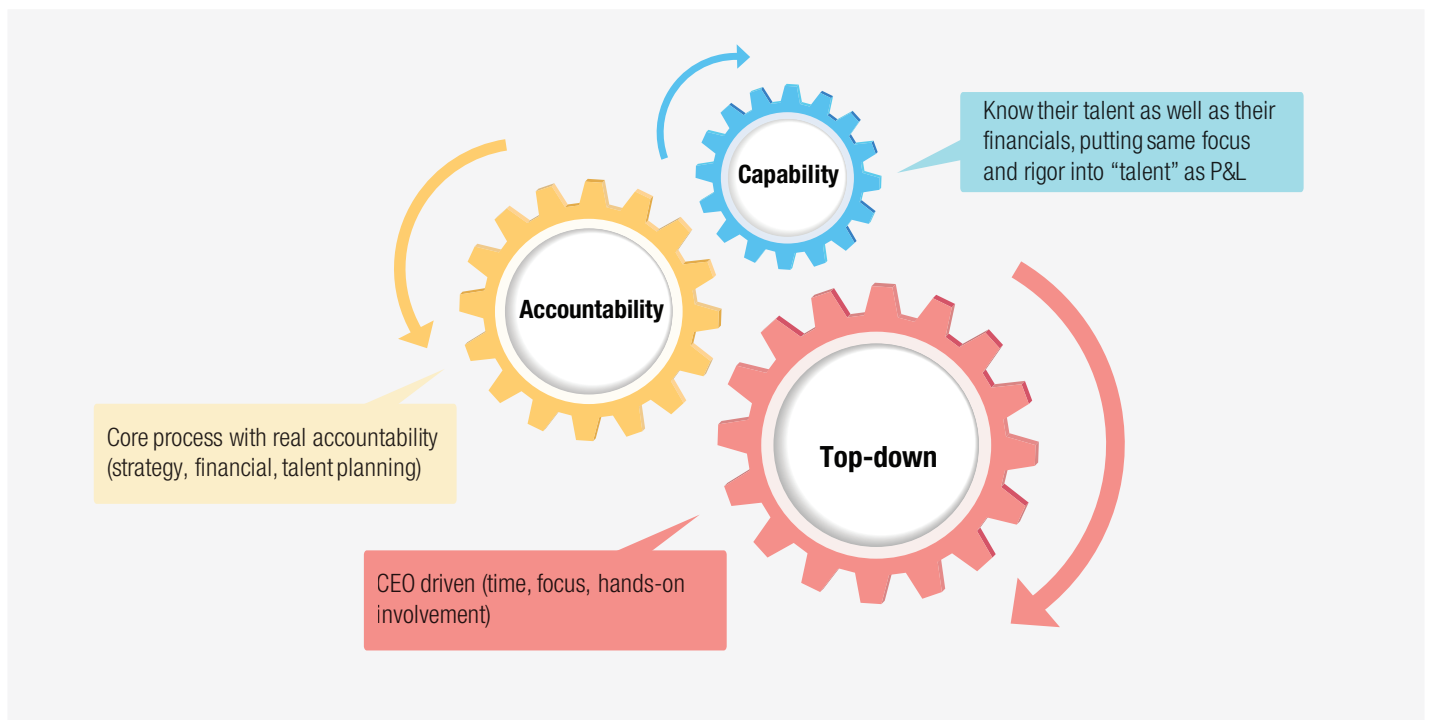
- Logistics providers face competition for employees. Not only do they compete with other 3PLs, they also compete with manufacturers, retailers and consulting firms. Many managers in leadership roles leave large 3PLs for better opportunities in other industries.
- While the transactional nature of the logistics industry can limit the ability of individuals to think about strategic workforce planning, companies said that without people development, they struggle to grow. Tailoring talent management practices to a company's specific circumstance involves paying attention to industry, business life cycle and strategic direction considerations.

Figure 20: Organizational Challenges to Workforce Management

Please check the top 5 workforce issues that you believe your organization is currently facing. (Select 5 items.)	Percent
Attracting the best talent	62.60%
Developing leaders	46.88%
Developing bench strength	43.63%
Retaining high performers	42.01%
Enhancing workforce performance	35.23%
Enhancing employee motivation and engagement	33.33%
Accelerating learning and development	28.73%
Reducing workforce costs	27.91%
Effectively managing succession	27.64%
Improving supervision and coaching	20.60%

Source: 2015 19th Annual Third-Party Logistics Study.

Figure 21: What the Best Leaders do Differently



Source: 2015 19th Annual Third-Party Logistics Study.

2015 Third-Party Logistics Study

Strategic workforce planning – Having the right talent at the right place at the right time. Did you know...

45%

Difference in market capitalization growth between firms ranked in the top & bottom clusters based on leadership quality



40%

Companies that practice strategic talent management have lower voluntary turnover among high performers than peers

Supply chain talent gap



26%

Companies with strategic talent management programs generate greater revenue per employee than their peers



31%

Less than 1/3 of companies say they are effective at building the next generation of leadership capabilities

- 60 mn people to exit the industry by 2015
- 40 mn people to fill the gap
- More evident gap across middle and senior management level
- Demand for supply chain professionals expected to exceed supply 6:1

What challenges are you facing in effectively implementing workforce planning?

Challenges	Not at all	To some extent	To a great extent
Focus too much on short-term needs	16%	46%	38%
Closing the gap between talent supply and demand	14%	58%	28%
No clear vision of future workforce demands	28%	52%	19%

Top 5 workforce issues your organization is facing...

63%

Attracting the best talent

47%

Developing leaders

44%

Developing bench strength

42%

Retaining high performers

35%

Enhancing workforce performance

What are your primary drivers for org success in the next 5 years?

- Having the right people and leadership in place
- Having the right strategy and roadmaps
- Ability to execute and drive operational efficiency and improvements

Do you know the critical roles for your organization?

Do you have succession and training plans in place for your strategic roles?

What roles are the primary feeders/launch pads into your strategic roles?

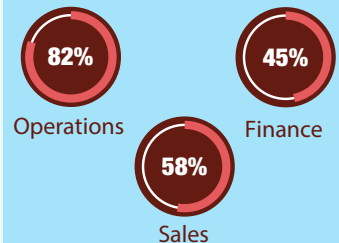


What capabilities do you value most in a leader?

- ✓ Operational Execution
- ✓ Driving Growth
- ✓ People management and development



Which functional backgrounds will be most strategically important for your general management leadership to have expertise in?





CRM and Use of Mobile and Cloud Technologies in 3PL Sales Processes



Considering most 3PLs are continuously looking for ways to improve their sales processes and profit margins, it is no surprise many are turning to contemporary technologies to help them meet their goals. There are several ways in which available and emerging technologies can empower commercial executives in the 3PL industry and facilitate effective Customer Relationship Management (CRM). Correspondingly, the use of such technologies also creates downstream benefits for current and prospective customers of 3PL providers.

Framing the Topic

Traditionally, 3PLs have relied on relationship-based selling, which frequently depended upon personal connections and customized solutions to meet customers' needs. However, in today's contemporary world of logistics, these time-honored approaches are no longer enough. As 3PLs' operations have become more complex, their customers have become more sophisticated and structured in the ways they do business. Today's 3PL business development and operations teams are looking for new, improved and innovative ways to create value for their customers.

Additionally, many 3PLs are looking to standardize their "front office" operational processes on a worldwide basis, giving customers in Memphis the same customer experience as those in Mumbai. This places a high priority on solutions that can enhance long-term relationships among 3PLs and their customers, deal with lengthy and sometimes uncertain sales cycles, and address the unique project management of supporting global customers while also providing global visibility across commercial operations. In short, 3PLs need to be aware of emerging technologies that can address these challenges and be willing to implement appropriate technologies to "raise the bar" in terms of the quality of interaction and relationships with their customers.

Research on this topic included a special section in the annual global survey sessions at each of the study workshops, work by Capgemini's Strategic Research Group (SRG) and research through Penn State University's Center for Supply Chain Research (CSCR). Each of these components reinforced a key finding that the use of CRM technology is growing. The majority of respondents—70% of shippers and 77% of 3PL providers—agreed that the use of capable CRM technologies is essential to 3PLs providing capable support and interaction to their customers. Although there are more generic sales-related CRM technologies that are available, 75% of shippers and 77% of providers agree that the 3PL sector could benefit significantly from the use of CRM capabilities that are more tailored to the industry than what is currently available.

Also, 84% of shippers and 89% of 3PL providers agreed that customers are demanding value-added services from their 3PL providers and are seeking vendors based on competitive differentiation and strategic alignment.

Evolving Technologies

For purposes of this study, the following definitions may be helpful:

- **CRM(Customer Relationship Management):** CRM is a set of processes, systems and workflows for managing a company's interactions with current and prospective customers. CRM leverages rich data insights to enable commercial operations to increase productivity, close more business, and improve customer satisfaction and retention. (Source: www.lanetix.com)
- **Mobile Technologies:** These technologies allow companies to deliver IT services to employees working on mobile devices, including, but not limited to, tablets, iPads, PDAs, smartphones, etc.

- **Cloud Technologies:** Rather than using a direct connection to a server, cloud technologies allow users to retrieve data from the internet through Web-based tools and applications. Although data and software are stored in servers, the structure of cloud computing allows access to information as long as they have access to the Web. (Source: Adapted from www.investopedia.com)

Figure 22 illustrates the relationship between CRM, mobile and cloud technologies, and shows how use of these technologies facilitates accomplishment of the CRM goals and objectives. Of specific interest are the ways in which the use of these mobile technologies allows 3PL providers to respond to customers' needs and improve 3PL-customer relationships. Also of note is how cloud-based CRM solutions can facilitate interaction between 3PL sales executives and customers.

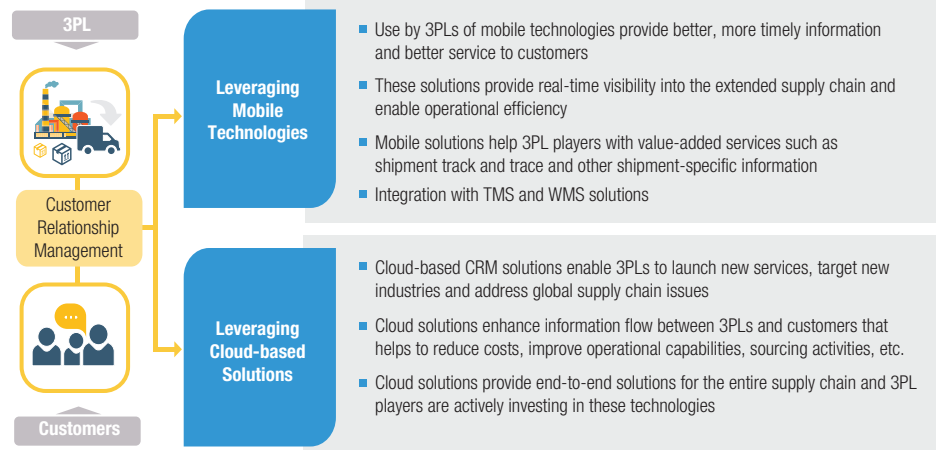
Essentially, the combination of CRM, mobile and cloud technologies provides 3PL sales executives with great opportunities to enhance the effectiveness of customer-facing activities. Although historically there have been some concerns about the security and privacy of cloud computing, workshop participants felt these concerns are overstated, saying they are not valid reasons to disqualify the use of any supply chain solutions that involve cloud technologies.

There are several key roles for the use of CRM in the 3PL industry, according to Lanetix and CRMBuyer:

- **CRM Strategy:** Effective CRM capabilities are significant assets to 3PLs seeking to improve customer relationships, support sales and marketing services, and integrate customer-facing technologies with back-end systems, such as order fulfillment, etc.
- **Standardization of Global Workflows and Processes:** Effective CRM solutions allow business users (without involvement of the Information Technology department) to break complex processes into easy-to-understand workflows, so tasks are assigned to team members based on their expertise. This gives commercial leaders global visibility across sales, operations, solutions and customer service departments.
- **Global and Competitive Environment:** CRM, mobile and cloud technologies are particularly useful when business circumstances require real-time connectivity in geographically separated locations.
- **Improved Organizational Productivity:** CRM strategies can lead to significant improvements in overall organizational and sales productivity, and they can facilitate innovative approaches to customer service, account management, prospect management, and campaign and order management.
- **KPI Scorecards:** CRM solutions also include integrated KPI (key performance indicator) scorecards, so commercial leaders can measure and manage the performance of their workforce, from customized solutions to customer success.

To establish some baseline metrics regarding current usage of CRM or mobile technologies in support of customers, the survey asked shippers if they “currently see any 3PL sales executives who are using CRM or mobile technologies (e.g., tablets, smartphones) as part of their sales responsibility.” The survey also asked

Figure 22: 3PL CRM Solutions Leverage Mobile and Cloud Technologies



Source: 2015 19th Annual Third-Party Logistics Study.

3PL providers if their sales executives use these technologies in support of their customers. Although 48% of shippers indicated they see 3PL sales executives using these technologies (smartphones, in particular), and 73% of 3PL respondents indicate using these technologies, we feel the results to some extent may overstate the current use of the robust and fully capable CRM and mobile technologies that are being developed and refined for use in real-time environments. We look forward to greater clarity on this issue.

3PL Sales Processes – Purposes and Realities

In a perfect world, 3PL sales and business development staff would spend 100% of their time in customer-facing activities and situations. However, this is actually far from the truth. A recent article suggested that “most sales reps spend less than half of their time actually selling.” Additionally, the article suggested that some “inside” sales reps at a global manufacturer spent 75% of their time away from their phones, and that highly paid field reps spent 45% of their time providing internal sales support and tracking the progress of deals. Developing a standard proposal sometimes required meetings with as many as seven people, and field reps had to spend

up to three weeks of constant effort to get a special price approved. Given that the greatest value of capable sales executives occurs when they are in contact with current and prospective customers, the prevailing situation leaves a lot to be desired.

To provide greater insight on this topic as it applies to 3PL sales executives, this year’s survey asked 3PL providers “What do 3PL sales executives do with their available time?” Looking at the content of [Figure 23](#), survey results report that 3PL sales executives spend an average of 45% of their time engaged in customer-facing activities, such as phone meetings/conversations (23%) and face-to-face meetings (22%).

A look at the remaining portions of [Figure 23](#) suggests that 3PL sales executives spend the other 55% of their time on other topics, including navigating pricing issues, inputting and updating data, preparing and collecting data for customers, managing internal issues and team meetings and responding to RFPs. These are all important activities, and for some the direct involvement of the 3PL sales executives is helpful and possibly essential. However, if these executives spend more than half of their time with non-customer-facing

responsibilities, then this becomes a problem that needs a solution.

Ideally, principal activities in the processes of “relationship building” and “relationship management” might include face-to-face meetings, telephone conversations and interactions using available technologies, such as tablets, smartphones and similar devices. Utilizing technology during these types of interactions likely provides easy access to customer account information and the ability to quickly request and acquire special pricing. It could also allow sales executives to quickly pull customer information to identify solutions to improve customers’ supply chains, track performance in all areas—from sales to invoicing—and provide visibility that allows access to track and trace information.

In the workshop held in London, one participant suggested sales executives think of themselves as having two roles, one as a “hunter” and one as a “farmer.” The hunter is the one who gets new business and services as an “escalation point” for further development of the business relationship between a 3PL and customer. The

“farmer” is one who is equipped with more operational knowledge and familiarity with potential supply chain solutions to propose to the customer. The use of CRM and mobile technologies that leverage the power of cloud technologies helps 3PL sales executives refine their skills as hunters. Armed with these technologies, hunters can access competitive sales resources, such as playbooks or battle cards, at the touch of a finger from an iPad. Similarly, farmers can improve customer responsiveness by knowing whom to call with specific requests through CRM solutions that map the expertise of global commercial operations. Although most sales executives are primarily hunters, as they are responsible for developing new customer relationships, etc., the added knowledge and familiarity with 3PL operations and potential supply chain solutions can turn some of these hunters into farmers as well.

Additionally, capable CRM and mobile solutions provide total flexibility in managing and orchestrating workflows. By standardizing the way in which sales executives request and receive special pricing, for example, 3PLs can

respond in a timely manner to customer issues and gauge their market competitiveness. As a result of this global visibility, trade managers and commercial leaders can quickly identify bottlenecks in their revenue operations and align resources to gain a competitive edge.

Figure 23: What do 3PL Sales Executives Do With Their Available Time?

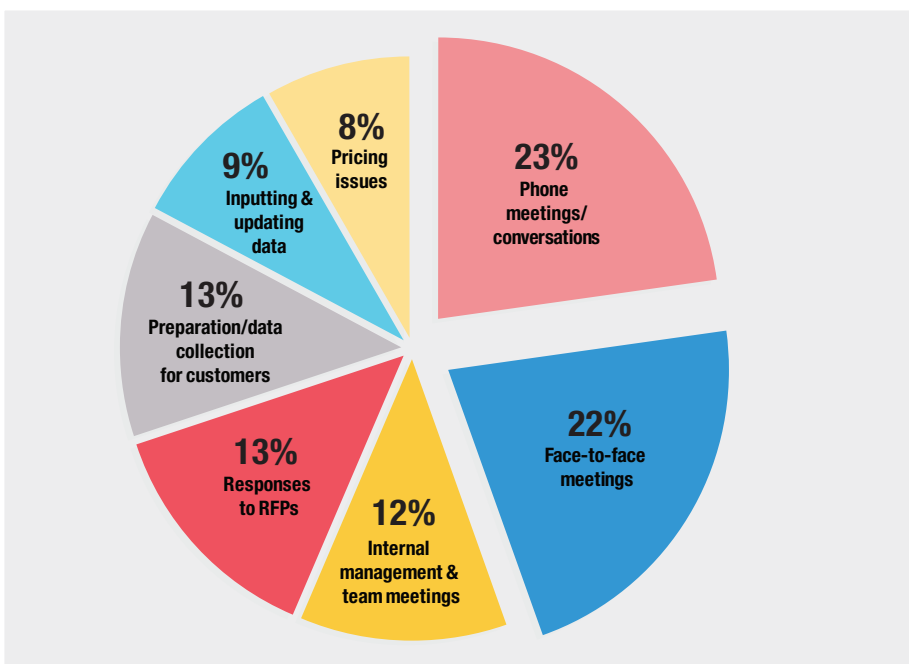
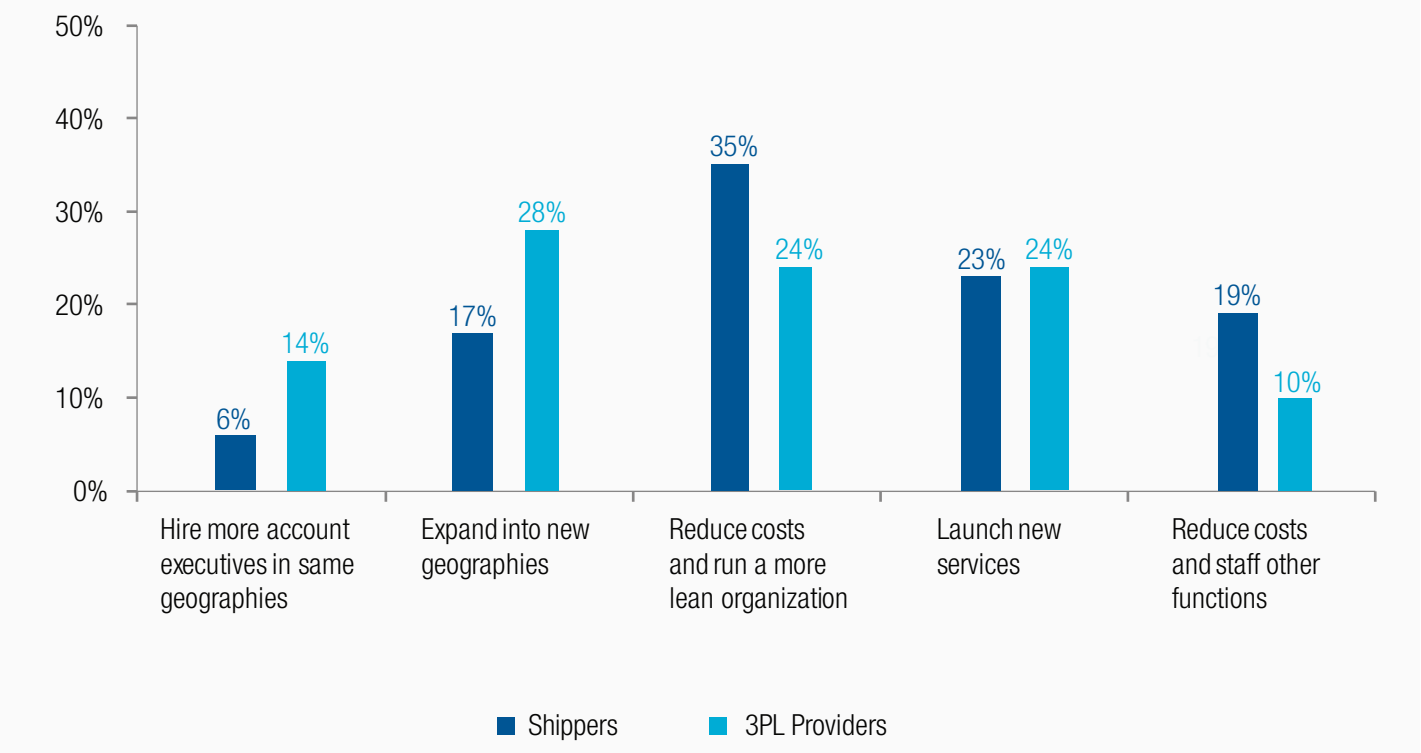


Figure 24: How 3PL Sales Organizations Should Respond to 20% More Sales Capacity



Source: 2015 19th Annual Third-Party Logistics Study.

Also, the survey asked both shippers and providers of 3PL services how their sales organizations should respond if they suddenly had 20% more sales capacity and if the “3PL had a CRM system of its dreams.” The information in Figure 24 summarizes the responses, and it is apparent that there are several potential courses of action that would create significant improvements in effectiveness and/or efficiency of 3PL provider sales processes. Of these, 35% of shippers and 24% of 3PL providers said that the 3PL should “reduce costs and run a more lean organization.” This suggests that many are aware of the inefficiencies of their commercial operations, yet they lack the visibility to identify the bottlenecks in their processes, redundant resources and tasks that distract from the value-creation process. To a somewhat lesser extent, shippers/providers felt that the 3PL should “expand into new geographies” or “launch new services,” and the least preferred options were to “hire more account executives

in the same geographies” or “reduce costs and other staff functions.”

Views from 3PLs and Customers Regarding 3PL Sales Activities and Processes

Part of what makes CRM and mobile technologies attractive to 3PL-customer relationships is the value that both shippers and providers place on the importance of specific features and benefits associated with the use of these technologies.

Features of CRM and Mobile Technologies

As indicated in Figure 25, both shippers and providers have similar thoughts about the usefulness of specific features associated with CRM and mobile technologies. Primary among these is real-time shipment analysis, and both shippers and providers rank this highest in usefulness among the alternatives that were

listed. Similarly, both sides agree on the relative usefulness of tablet-based “dashboards” that provide access to details related to individual customer accounts, collaborative online workplaces and service request updates sent via text messaging. The feature titled “sales process automation” is rated as more useful by 3PL providers, which is not surprising, but it would make sense that this feature also would be useful to shippers because it would help 3PL providers create a more efficient and effective CRM and sales management process. Also, another significant aspect is that sales executives may be able to create different service offerings for different customers based on CRM data.

Figure 25: Importance of Specific Features for 3PLs Providing and Managing Customer-Facing Activities

Technologies for providing and managing customer-facing activities	1 = Least Useful 5 = Most Useful	
	3PL User Average Rank	3PL Provider Average Rank
Real-time, accurate shipment analysis	4.2	4.1
Tablet-based “dashboard” to access details relating to individual customer accounts	3.8	3.9
Collaborative online workplaces	3.4	3.4
Service request updates via text messaging	3.3	3.2
Sales process automation	2.9	3.4

Source: 2015 19th Annual Third-Party Logistics Study.

3PLs and Customers Benefit from CRM and Mobile Technologies

As shown in Figure 26, shippers and providers rated the usefulness of several types of potential benefits from the use of CRM and mobile technologies. Similar to the results regarding features of CRM and mobile, the availability of real-time tracking information relating to customer shipments was top-rated by both 3PLs and their customers.

Next, the potential benefits of easy access to cost and shipment pricing information and greater visibility of global operations were rated as more useful to shippers than providers. However, the providers had higher ratings for an increased ability of 3PL sales executives to respond to customer requests. They also had a higher rating on the prospect of more-professional and productive sales calls and customer presentations by 3PL sales executives. Looking objectively at these results, it would

appear that this latter potential benefit also would be of great value and convenience to shippers during sales calls and/or follow-up visits to existing customers. Last, survey data revealed that 40% of shippers said their bid processes place emphasis on whether or not 3PLs utilize capable CRM technologies.

Challenges and Opportunities for 3PL Use of CRM and Mobile Technologies

Although there are opportunities that surround the use of CRM, mobile and cloud technologies, it is clear there are challenges. One observation that became a topic of discussion in the San Francisco workshop is that getting sales executives to use these technologies is not always easy to accomplish. Also, it is not unusual that the more experienced, more productive and more successful sales executives may be among those who might be termed “laggards” when it comes to using new technologies. The problem is that those who fit this description typically

have proven themselves over a long period of time as outstanding sales executives, and they are not always among the early adopters of new technologies. The solution may be to work with these sales executives so that they will be more receptive to these technologies while also transferring the sales and sales management skills of these people to others in the organization who are among the “hunters” and “farmers.”

Figure 26: Potential Benefits from the Use of CRM and Mobile Technologies by 3PLs

Potential benefits of CRM and mobile technologies	1 = Least Useful 5 = Most Useful	
	3PL User Average Rank	3PL Provider Average Rank
Availability of real-time information relating to customer shipments (e.g., tracking, etc.)	4.2	4.0
Easy access to cost and shipment pricing information	3.9	3.6
Greater visibility of global operations	3.7	3.4
Increased ability of 3PL sales executives to respond to customer requests	3.7	4.0
More professional and productive sales calls and customer presentations by 3PL sales executives	3.0	3.7

Source: 2015 19th Annual Third-Party Logistics Study.

Key Takeaways

- The general conclusion is that the use of CRM-mobile-cloud technologies can significantly enhance and streamline the productive activities of 3PL sales executives. Although there are more generic sales-related CRM technologies, 75% of shippers and 77% of providers agree that the 3PL sector could benefit significantly from the availability of CRM capabilities that are more tailored to the industry than what is currently available.
- While there are some logistics professionals who have expressed some concerns about security and privacy in relation to the use of mobile and cloud-based technologies, discussions within workshop sessions supported the view that these are not valid reasons to disqualify any supply chain solutions that may involve use of these technologies.
- A major finding of this research is that 3PL sales executives spend an average of 45% of their time engaged in customer-facing activities, such as phone meetings/conversations and face-to-face meetings. More than half of their time is spent on other activities that are not directly related to securing new customers or directly serving existing customers, perhaps because many commercial leaders lack global visibility across their commercial operations and do not have individual KPI scorecards to measure and manage performance.
- If commercial leaders knew where these inefficiencies resided in their commercial operations, almost one-fourth admitted they would “cut costs and run a leaner organization.” Shippers have taken note of the lack of alignment, too, and more than one-third agreed and recommended the cost-cutting approach.
- An interesting distinction in the processes of “relationship building” and “relationship management” is that of the “hunter” and the “farmer.” Although most sales executives are primarily hunters, as they are responsible for developing new customer relationships, etc., the added knowledge and familiarity with 3PL operations and potential supply chain solutions can turn some of these hunters into farmers as well.
- There are a number of ways in which the use of CRM and mobile technologies create value for the 3PL providers and their customers. Overall, the principal benefits of the technologies are streamlining global workflows and processes, providing executive-level visibility to commercial leaders, and identifying inefficiencies and bottlenecks in commercial operations. Also, there are a number of ways in which 3PL customers can benefit directly from the corresponding information, particularly real-time information regarding topics, such as shipment visibility, etc.
- Although there are a number of challenges and opportunities related to the use of CRM and mobile technologies in the 3PL sales process, getting more experienced, productive sales executives to welcome these new technologies is sometimes easier said than done. The best results occur when the more experienced sales executives are amenable to using these technologies, and they are also willing to work with less-experienced sales executives to focus on the important qualitative elements of relationship building and relationship management.

2015 Third-Party Logistics Study

CRM & Cloud Solutions

CRM Benefits for 3PLs

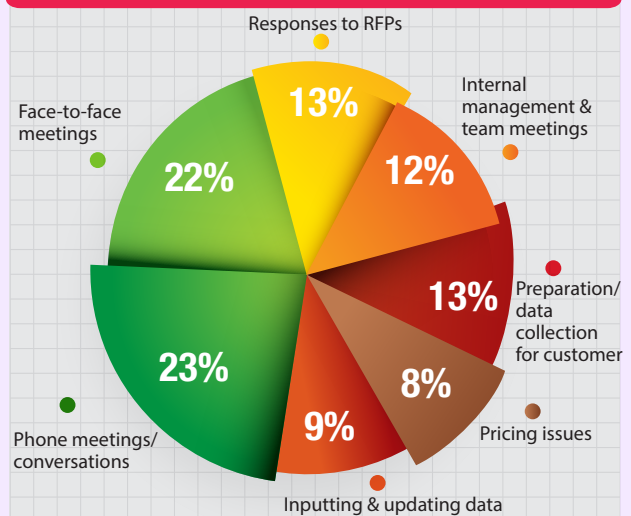
- Increased productivity
- Systematic way to track business activity
- Measurability of marketing and sales activity
- Individual customer service
- Automated information updates
- Ensured safety of shipments



Cloud Benefits for 3PLs

- ✓ Reduction of the total cost of services (including cost for installations, upgrades, maintenance fees, etc.)
- ✓ Pay-per-use model offers more agility, flexibility and elasticity of business, as well quick and cost-effective reaction to less-predictable events
- ✓ Customized, personalized logistics services becomes affordable for end customer

What do 3PL sales executives do with their available time?



3PL Users

3PL Providers

Potential Benefits of CRM (1 least helpful, 5 most helpful)

Availability of real-time information relating to customer shipments (e.g., tracking, etc.)

4.2

4.0

Easy access to cost and shipment pricing information

3.9

3.6

Increased ability of 3PL sales executives to respond to customer requests

3.7

3.4

Greater visibility of global operations

3.7

4.0

More professional and productive sales calls and customer presentations by 3PL sales executives

3.0

3.7

Mexico Rising as Manufacturing and Logistics Hub



With more free-trade agreements than any other country, a growing manufacturing base and a strategic geographic location, Mexico is emerging as an economic powerhouse. A number of companies are moving manufacturing to the country, which creates strong growth opportunities for 3PLs on both freight movement and ancillary services.

Mexico is the 14th largest economy in the world and the second largest economy in Latin America, as shown in Figure 27. American trade with Mexico has grown by nearly 30% since 2010 to \$507 billion annually, according to the Office of the United States Trade Representative, and Goldman Sachs reports that Mexico is on-track to become the fifth largest global economy by 2050.

Mexico's 12 Free Trade Agreements along with an Economic Partnership Agreement that grants it preferential access to 44 countries and over one billion consumers guarantees access to international markets. The country has also signed 28 Investment Promotion and Protection Agreements and Double Taxation Treaties with more than 40 countries, presenting additional incentives for companies to move operations there.

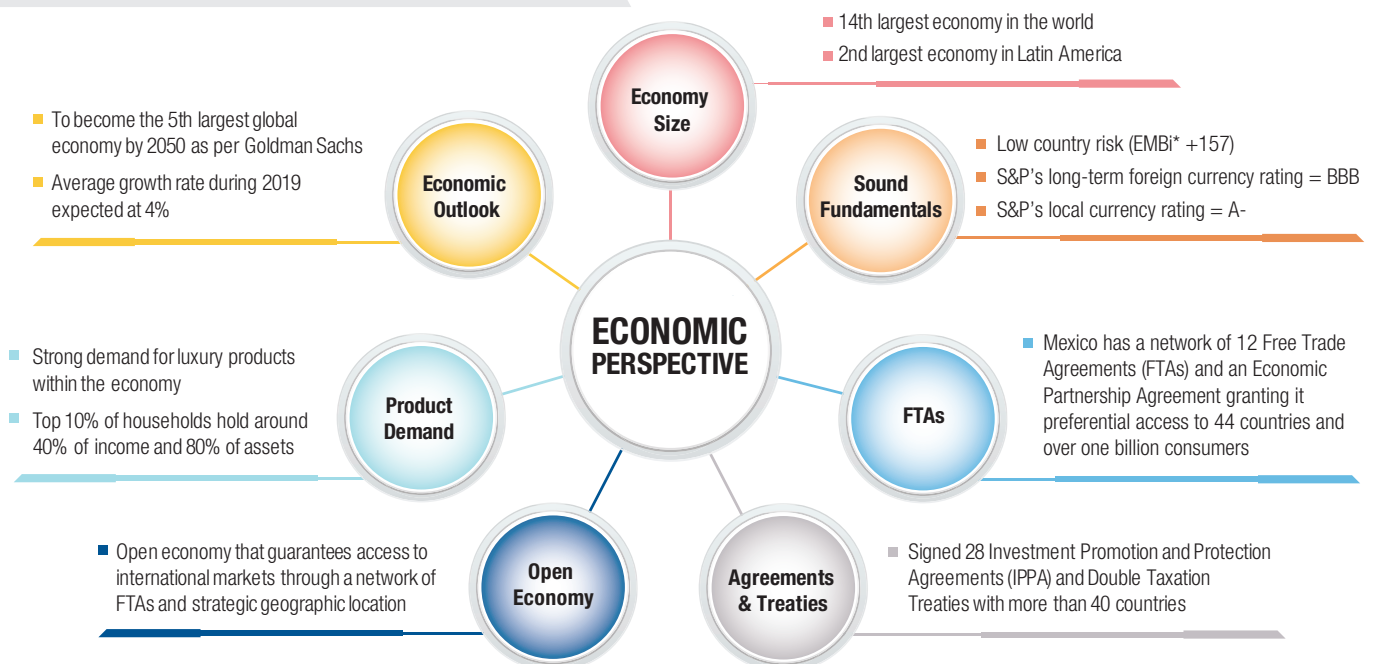
From a business perspective, Mexico is renowned as a low-cost manufacturing and export destination. It provides a near-shore option for the North American market, and study respondents said businesses are primarily moving operations to Mexico from the U.S. (55%) and China (36%), shown in Figure 28.

Figure 29 highlights respondents' reasons for shifting operations to Mexico, with the most important reasons being lower cost wages and moving operations closer to the point of consumption. Mexico also offers lower overall operating costs as well as tariff and tax incentives. The strong correlation between the peso and the U.S. dollar is creating additional opportunities in Mexico.

Figure 30 shows that just under half of study respondents—40%—said they have already moved some of their operations to Mexico. Workshop participants said concerns over contaminated products being imported from China, which in recent years have caused recalls on goods ranging from pet food to toys, could drive even more people to Mexico.

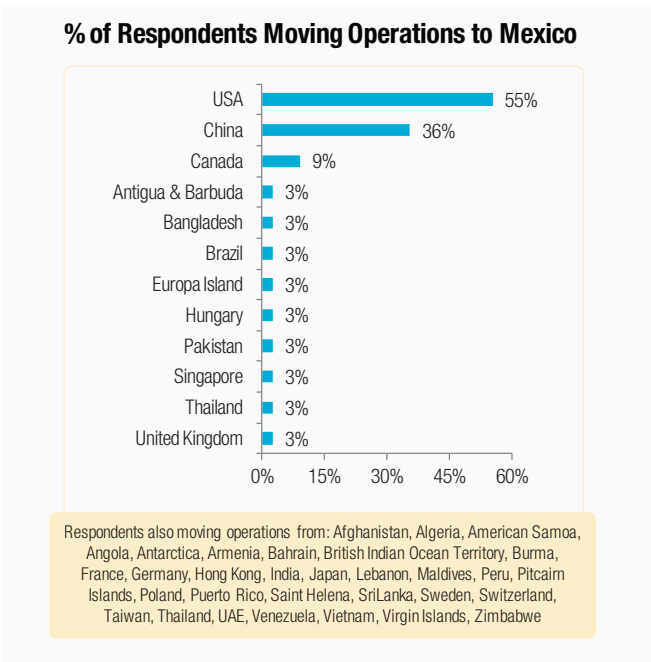
Figure 27: An Open Economy Backed by Sound Fundamentals and Alliances Offers Lucrative Opportunities Within Mexico

Opportunities in Mexico – Economic Perspective



Source: 2015 19th Annual Third-Party Logistics Study.

Figure 28: Percentage of Respondents Moving Operations to Mexico



Source: 2015 19th Annual Third-Party Logistics Study.

Respondents in the U.S. and China are the largest percentage of those that are moving operations to Mexico. Just over 80% of Mexican exports ship to the United States, demonstrating that Mexico is providing a near-shoring alternative option for the North American market. Moving production closer to the point of consumption of goods shortens the supply chain, which minimizes potential disruptions and cuts costs. It also enables companies to carry less inventories.

Labor costs are also creating an advantage for Mexico, particularly as wages in China have started increasing. Mexico’s labor costs are comparable with other nations, and it has higher productivity, which enables low-cost manufacturing. What’s more, free-trade transit zones, local consolidation points on both inbound and outbound loads and localized customs clearance lead to optimized time, transportation costs and administration efficiency.

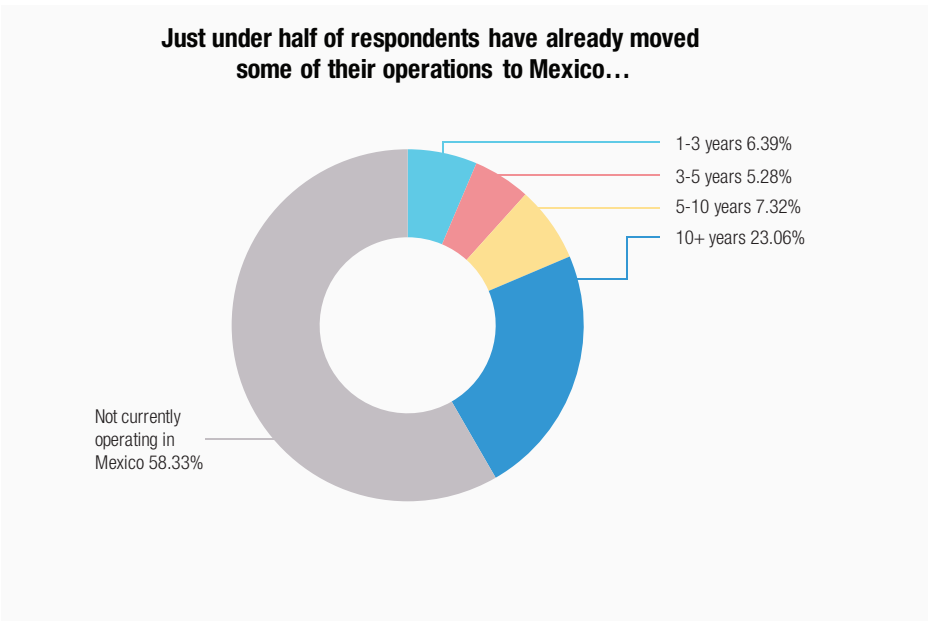
Figure 29: Primary Reasons Businesses are Moving to Mexico

1 is the most important reason, 10 is least important

Why has your business shifted operations to Mexico from other regions of the world?	Avg Rank (1-10)
Lower Cost Wages	3
Closer to Point of Product Consumption	3
Risk Management	5
Tariff/Tax Incentives	5
Lower Overall Operating Costs	5
Competitive Advantage	5
Exchange Rate	6
Closer to Supply Sources	7
Reduced Freight Transport Time	7

Source: 2015 19th Annual Third-Party Logistics Study.

Figure 30: Respondents Currently Operating in Mexico



Source: 2015 19th Annual Third-Party Logistics Study.

Manufacturing Within Mexico

The majority of Mexico's exports—80%—are in manufacturing. Mexico exports more than the rest of Latin America and is the 15th largest exporter in the world. Figure 32 shows the top three manufacturing industries included food, transportation equipment and chemicals.

In 2013, computer and electronics manufacturing saw the highest year-over-year production growth—14.3%—as a result of a surge in exports. It was followed by a 5% growth in food and a 1.2% increase in beverages and tobacco, shown in Figure 33.

While there is growth in exports, the amount of goods produced for domestic consumption, particularly in the food and beverage sector, is also increasing. As employment rates within Mexico rise, consumers have more disposable income and purchase more.

Opportunities for 3PLs

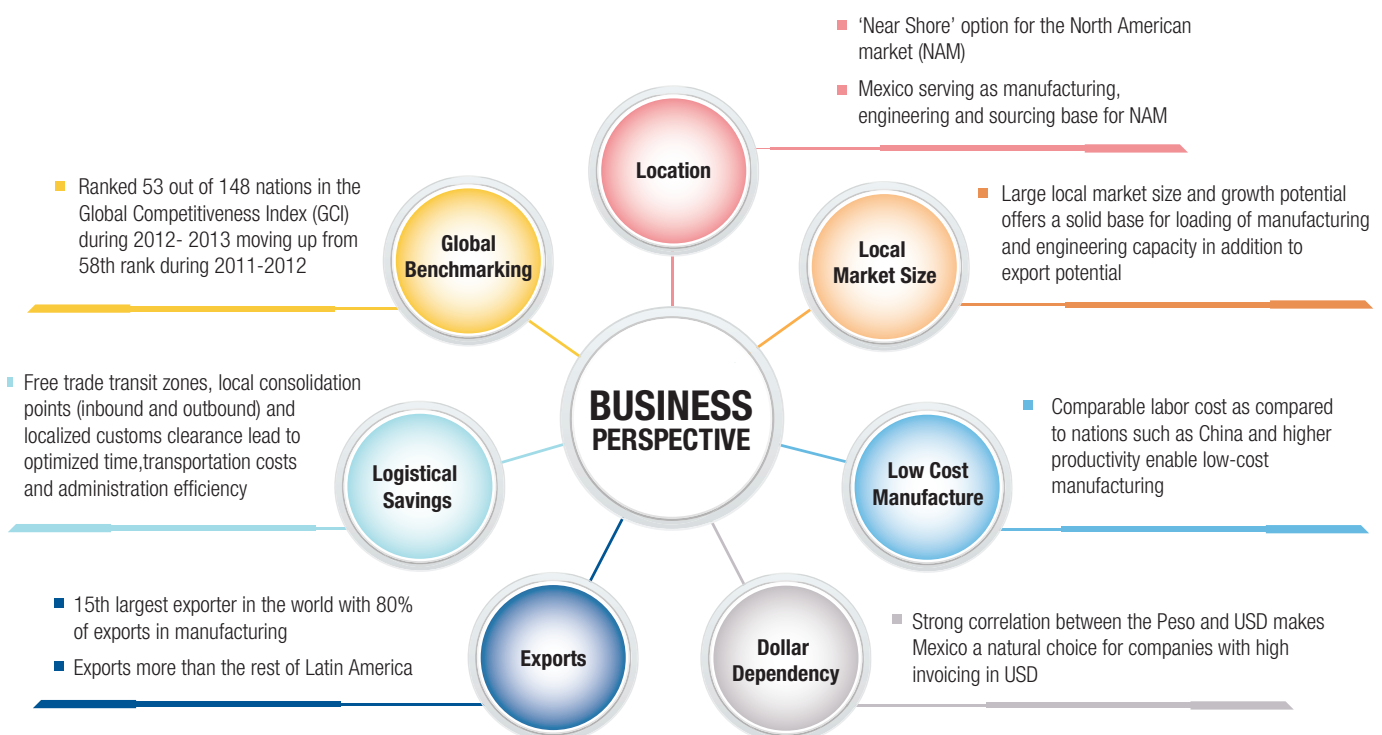
The growth of logistics services plays a crucial role in rendering Mexico's businesses cost competitive as compared with similar ventures globally. For years shippers have been reporting significant logistics cost reductions from moving operations to Mexico. As early as 2012, shippers reported an average logistics cost reduction of 21% compared with other parts of the world. They also saw inventory cost reductions of 12% compared to 9% globally and order fill rates move to 77% from 68%.

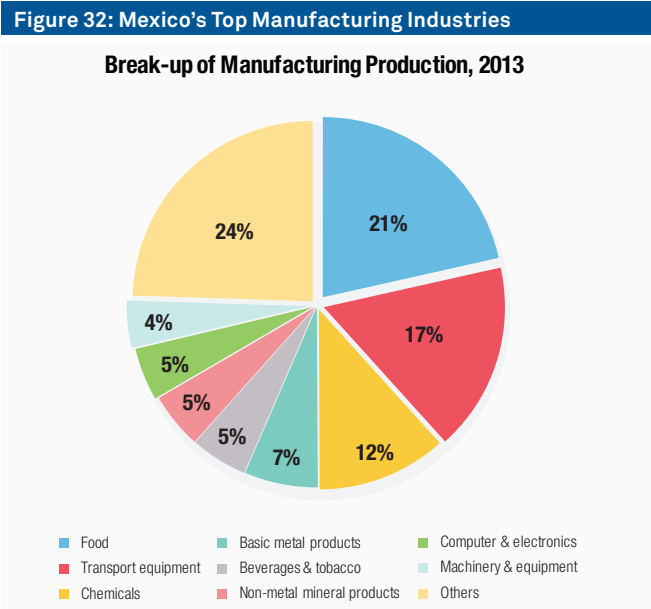
Remaining Challenges

Although respondents have seen a benefit from lower costs, of those that have moved operations to Mexico, the majority said they have yet to see large revenue growth from the growing Mexican economy, proving that both opportunities and challenges remain. Respondents said they are most concerned

with security, crime and corruption along with workforce readiness and infrastructure (Figure 34).

Figure 31: Mexico is Renowned as a Low-Cost Manufacturing and Export Destination





A lack of quality infrastructure, limited use of technology and certain regulatory aspects continue to be a challenge for Mexico's logistics industry. However, this also can create opportunities for 3PLs that have expertise in these areas.

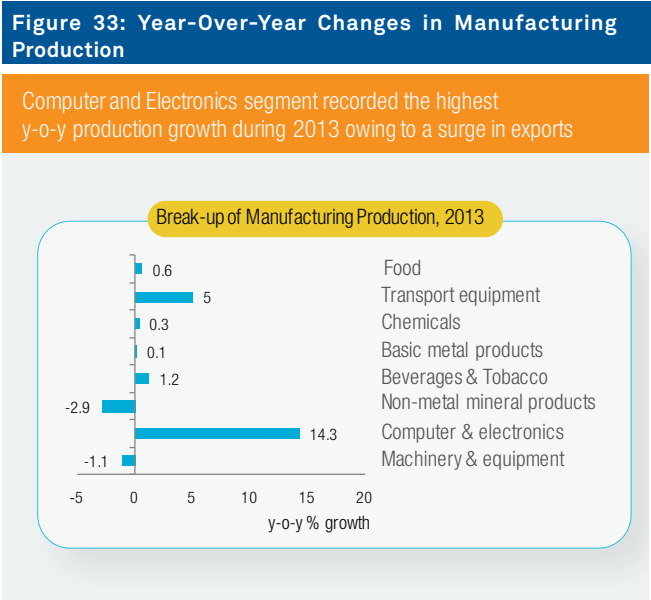
Of the logistics service offerings in Mexico, 68% of respondents said they are currently buying or providing domestic transportation, international transportation and warehousing, and 12% said they plan to invest in those areas in the next 12 to 18 months (Figure 35). Nearly half—47%—of respondents said they are purchasing or providing customs brokerage, but 25% said it needs improvement and 6% plan to make an investment in it in the next 12-18 months. There are limited licenses for customs brokers on the Mexico side, which can create challenges and also provide opportunities for those that provide the services. Just over 40% are purchasing or providing freight forwarding.

The area that shows the most potential for growth is within information technology services that logistics providers offer. Currently, there is little use of information technology

by small and medium-sized companies, and most of them see the technology as an expense, instead of as a tool or investment. While 27% of respondents said they are currently buying or providing technology services, 14% said they plan to invest in technology over the next 12 to 18 months.

Respondents said technologies, such as warehouse management equipment and software and asset and vehicle-tracking solutions need to be increasingly adopted to ensure cost effectiveness. This may create an advantage for 3PLs that are already using and have expertise in these technologies, and 3PLs said they are seeing increased demand from companies looking to leverage technology. In addition, 3PLs typically use software with global platforms and can integrate systems easily with their customers' enterprise resource planning software and any existing warehouse management systems.

Technology can also help assuage concerns about security, crime and corruption. Mexico ranks 106th in the world on the Corruption Perceptions Index, and the country is faced



with a shortage of institutions to keep organized crime and corruption in-check. To improve security and visibility, a number of companies utilize track and trace technology, and 3PLs have the opportunity to differentiate themselves by providing such updates to their customers. Shippers and logistics providers are also encouraging the county to keep the border open 24 hours a day, seven days a week. Expanded border hours would help fight or minimize cargo theft as freight on trucks would not sit idle. Currently, the border has limited hours on Sunday and closes to truck traffic from midnight to 6 a.m. daily.

Figure 34: Top Concerns of Challenges About Doing Business in Mexico**Top concerns or challenges about doing business in Mexico: (Rate 1 to 10)**Source: 2015 19th Annual Third-Party Logistics Study.**Figure 35: Trends in Logistics Service Offerings in Mexico**

Services	Currently buying or providing	Need Improvement	Planned Investment (12-18mos)
Domestic transportation	68%	61%	12%
International transportation	68%	33%	12%
Customs brokerage	47%	25%	6%
Information technology (IT) services	27%	22%	14%
Order management and fulfillment	32%	21%	6%
Customer service	32%	21%	6%
Warehousing	68%	20%	12%
Transportation planning and management	33%	19%	7%
Freight bill auditing and payment	19%	14%	4%
Inventory management	29%	13%	5%
Freight forwarding	41%	10%	5%
Reverse logistics (defective, repair, return)	32%	10%	3%
Service parts logistics	20%	10%	2%
Cross-docking	38%	10%	4%
Sustainability/green supply chain related services	13%	9%	2%
Fleet management	7%	8%	3%
Product labeling, packaging, assembly, kitting	36%	7%	4%
LLP (Lead Logistics Provider) / 4PL services	21%	7%	4%
Supply chain consultancy services provided by 3PLs	20%	7%	4%

Source: 2015 19th Annual Third-Party Logistics Study.

Issues with Infrastructure

Mexico's economy has grown faster than its road system, and respondents cited a lack of transportation infrastructure as one of the top challenges they face in moving freight by truck. The majority of freight traveling within Mexico moves by truck or rail and intermodal trucking is integral to freight movement. However, trucking costs are expensive as a result of highway fees and the structure of the trucking industry.

What's more, the lack of a border-crossing agreement for trucks between the U.S. and Mexico causes delays and inefficiency in import and export processes. Although foreign carriers can haul goods into limited zones surrounding the border, freight has to be handed off to either a Mexican carrier in Mexico or a U.S. carrier within the United States to travel farther into the countries by truck.

In addition, there is limited connectivity between maritime ports and railroads and truck transportation systems. Air transport of

cargo is almost nonexistent in Mexico although it is greatly used in other countries, including the U.S., Canada, France and China. The air transportation that does exist only offers connections with trucking companies but not with railroads.

Recent growth in certain manufacturing industries within Mexico, such as aerospace and automotive parts, has encouraged investment in multi-modal transport corridors. The country has focused on infrastructure development through building and modernizing an 82,500-plus-mile network of highways, 76 airports, about 17,000 miles of railroads and 117 maritime ports (Figure 36).

Political, Regulatory and Workforce Concerns

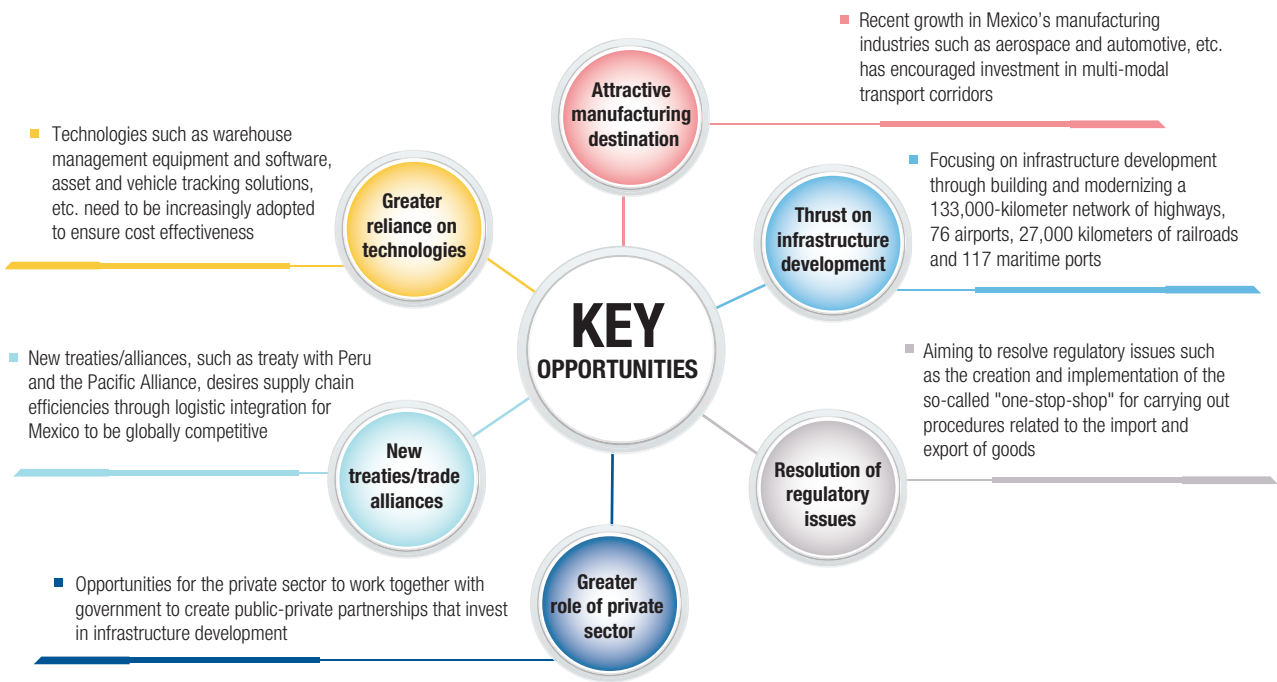
Export dependence and political accountability are among the challenges for doing business in Mexico. During the 2008 financial crisis, Mexico was the most-affected Latin American economy because of its export dependence. Going forward, export growth from other economies

such as China and Brazil can affect the growth of Mexican business.

Furthermore, dealing with the Public Registry of Property of the Federal District can be particularly time consuming, and paying of taxes consumes around 337 hours of business time per year. For example, filing a corporate income tax payment at a rate of 30% takes an average of 155 hours to complete. Registering property in Mexico can be a long and arduous task, requiring 74 days in total compared with the 26-day norm for OECD countries—a group of 34 countries that have joined forces to foster global development. However, many 3PLs often lease space, so they aren't faced with the challenges that come with buying and building a facility.

While respondents also had concerns over workforce readiness, 3PLs said they have been able to tap into an increasingly well-educated, younger workforce with experience and expertise in supply chain management. Workforce readiness can depend on where a

Figure 36: Opportunities from the Rise of Infrastructural Development and the Increasing Role of the Private Sector



manufacturing facility is located and how big the pool of surrounding employees is, and one respondent from a leading 3PL stated during a phone interview that he had a good experience with workforce readiness, and the 3PL has been able to ramp up faster than anticipated based on its ability to recruit qualified employees.

Key Takeaways

- The manufacturing industry in Mexico is improving, with respondents reporting that Mexico is becoming a stronger market for both consumption and as a manufacturing source. The majority of Mexico's exports—80%—are in manufacturing, and the top three manufacturing industries are food, transportation equipment and chemicals. Mexico exports more than the rest of Latin America and is the 15th largest exporter in the world.
- Growth in manufacturing is creating opportunities for 3PLs as logistics services play a crucial role in rendering Mexico's businesses cost competitive as compared to similar ventures globally.
- Just under half of study respondents—40%—said they have already moved some of their operations to Mexico, citing reduced freight transport time and closer proximity to sources as the most important factors as the primary drivers of the change.
- Respondents in the U.S. and China make up the largest percentage of those moving operations to Mexico. Just over 80% of Mexican exports ship to the United States, and a shortened supply chain can minimize disruptions and cut costs. Manufacturers are also seeing an increase in the domestic consumption of goods within Mexico as employment increases. Respondents said those that are looking to move operations to Mexico have to consider the effect on the entire supply chain.
- A lack of quality infrastructure, limited use of technology and certain regulatory aspects continue to be a challenge to Mexico's logistics industry. There is little use of information technologies by small and medium-sized companies, and most companies see technology as an expense, instead of as a tool or investment. However, technologies such as warehouse management equipment and software, and asset and vehicle tracking solutions need to be increasingly adopted to ensure cost effectiveness. This creates an advantage for 3PLs that have expertise in these areas.

2015 Third-Party Logistics Study

Doing Business in Mexico

Economic Overview - Mexico is a leading Latin American nation specializing in manufacturing and exports of goods



An open economy backed by sound fundamentals and several alliances offer lucrative opportunities for doing business in Mexico

14th largest economy in the world



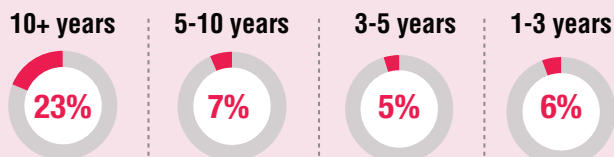
To become the **5th** largest global economy by **2050** (per Goldman Sachs)



15th largest exporter in the world with **80% of exports** in manufacturing



Around 40% of survey respondents are currently running operations in Mexico



Companies operating for more than **10 years** primarily come from the **manufacturing, consumer products and high-tech industries**

A network of **12 Free Trade Agreements (FTAs)** and an **Economic Partnership Agreement** granting it preferential access to 44 countries and over one billion consumers



Businesses are primarily moving operations to Mexico from the US and China to take advantage of lower wages as well as moving their products /services closer to the point of consumption

Security, crime and corruption are the most concerning factors for those currently doing business or looking to do business in Mexico

Top reasons for moving operations to Mexico

- 1 - Lower Cost Wages
- 1 - Closer to Point of Product Consumption
- 3 - Risk Management
- 3 - Lower Overall Operating Costs
- 3 - Competitive Advantage
- 3 - Tariff/Tax incentives

Top 3 concerns or challenges about doing business in Mexico

Security/
crime/
corruption



Workforce
readiness



Infrastructure





Strategic Assessment



Evolution of the 3PL Business Model: New Competition

Customers are demanding more responsiveness from companies, and accordingly, companies are investing in alternative solutions to meet these needs while expanding and differentiating their services.

These investments are typically significant, and companies are looking for additional ways to leverage the money they are spending to increase revenue streams. In some cases, companies are offering these services to new customers or competitors and may create a solution that can be spun off or provided as a service to others in a similar or even the same industry. This concept has already been tested and proven in some sectors, including the logistics divisions of large manufacturers.

Twenty-seven years ago, Caterpillar, a heavy-duty equipment manufacturer, created a logistics unit to ship products to customers around the world as a division of Caterpillar Logistics Services. Caterpillar was able to capitalize on relationships with existing clients to expand services provided. The manufacturer partnered with Ford Motor Co. and the software manufacturer SAP to create a state-of-the-art service parts logistics execution software package. The cooperative approach allowed both Ford and Caterpillar to share development costs and risks and leverage similar requirements. The end product also increased 3PL market opportunities for Caterpillar beyond its own operations.

As customers continue to demand more from retailers and ultimately from 3PLs, it is likely there will be increased investments on both ends of the supply chain to fulfill omni-channel and future expectations. As a result of the significant capital required, many of these investments will be either shared across companies or developed into alternative service offerings for a wider customer base to improve the return on investment.

While 3PLs offer the experience and resources to help retailers, a growing number of companies are looking to bring some of their outsourced

omni-channel supporting technology services back in-house. For example, some are bringing mobile and Web development in-house to test the best features and structure for their customer base. By doing so, they are able to spend more time developing in-house systems and processes that contribute to their omni-channel competitive advantage and ultimate success. Although these companies may be spending more to develop a custom solution of their own, they are ensured that it will be exactly what their customers are requesting. As a result, they may develop a top-tier solution or skill set that can be used within their own business and even beyond.

In a different scenario, some companies are choosing to create partnerships to share in the investment. This can be an interesting decision because often the partners may compete for some of the same customers. Procter & Gamble's partnership with Amazon, in which the consumer goods company lets Amazon set up shop inside its warehouses, means it is competing with its own direct-to-consumer model. However, the company is able to gain insights into trends, receive a boost in online sales through the Amazon platform and enjoy reduced transportation costs. The partnership also provides preferential treatment because product will always be in stock.

What is the pricing model? What is the value proposition to others, particularly for those that compete in the same retail space?

Alternatively, some companies are looking to avoid additional investments altogether. As noted in the omni-channel section of this study, Wal-Mart is investigating the possibility of using their existing in-store customer base to make deliveries to online shoppers, effectively crowd-sourcing package delivery. The in-store shoppers can inform the retailer about their destination location and volunteer to deliver packages for online customers. In return for the delivery, customers would receive a discount on their shopping bill.

If companies continue to creatively invest in omni-channel/fulfillment solutions and

embark on new partnerships, these new solutions have the potential to alter the way existing 3PLs do business. However, the timing is unclear.

The competition within the logistics industry is increasing, and there are many startups on the horizon looking to provide last-mile logistics and courier services to replace UPS, FedEx and other similar services. Amazon, for example, is creating in-house delivery services to meet their customers' increasing demands for next-day and same-day deliveries. The company has built out a fleet of delivery trucks in test markets including San Francisco, New York and London. Between the test trucks and drone news that has flooded the market, tomorrow's last mile is quickly evolving.

What will we see happening in the 3PL market in the near future? Where will companies invest? Will they focus on last-mile logistics and will they replace other players that currently offer these services?

Supply Chain Risk Management

There are an increasing number of organizations where supply chains and the risks they face have evolved from a back-office concern to a prominent position on the boardroom agenda and where recognizing the importance of risk management is significantly enhancing the effective management of supply chains worldwide. In fact, the development of processes, metrics and tools for supply chain risk management has become one of the highest priorities for supply chain executives at many organizations today.

Of note is the growing level of commitment 3PLs are placing on risk management services among those they promote and provide clients. When looking at risk management, logical questions shippers should ask are to what extent they rely on their 3PLs to become involved in the risk management process and how they can create strategies to determine how those involvements will be helpful. Within the London workshop, participants discussed an example of risk sharing whereby 3PLs take

ownership of inventory once it is in transit within a certain geographic location. During the San Francisco and Singapore workshops, participants discussed how CRM, mobile and cloud-based technologies may significantly facilitate the ability of 3PLs to support their clients with capable risk management services. An example of this is to enhance the effectiveness of real-time shipment visibility that is so critical to 3PLs and their clients.

Within the risk management process, it is helpful to understand the range of risks an organization, and therefore a supply chain, might face. Next companies can assess the potential impact for each type of risk and its likelihood of occurrence. On one extreme are major natural disasters, such as the 8.9 magnitude Tohoku earthquake off the northeastern coast of Japan. It was responsible for a deadly tsunami that struck the Japanese coastline and also caused the largest supply chain disruption in modern history. A less-extreme event, but one that is still of great concern to supply chain managers, is a spike in demand for seasonal holiday gifts, and the extent to which service failures may arise from a logistics provider's inability to deliver all shipments when they were promised to and expected by customers. This is becoming even more important as companies increasingly focus on providing a perfect customer experience.

An example of a company with a well-developed approach to risk management is the global coffee and beverage provider Starbucks Coffee Co., which operates 20,000 outlets in 63 countries and does business with 9,000 suppliers worldwide. Starbucks has created an enterprise risk management (ERM) program to identify any trends or risk factors that could interrupt its supply chain. The program provides early involvement and exposure to emerging threats before they hinder Starbucks' ability to service its customers.

Potential risk factors for Starbucks include supply interruptions, financial volatility and geopolitical events. As part of its risk management program, Starbucks has also

created centers of excellence staffed by experts in areas critical to the company's success, such as coffee, other commodities and advanced analytics. The centers provide consulting and analysis that can benefit regional and local operations. To ensure the ERM program remains relevant, Starbucks' board of directors reviews it annually.

Given the current interest in risk management and the emphasis most 3PLs are placing on developing new products and services to create value for their customers, this seems to be a prime area for collaboration between 3PLs and their customers. In the interest of determining the value derived from risk management processes, it would be useful to better understand the roles that 3PLs may play in partnership with their customers to identify and then mitigate, eliminate or deal with the types of risks that may affect the overall supply chain process.

Where are the areas of opportunity for 3PLs and their customers to work together on the formalization and implementation of processes, metrics and tools related to risk management?

The Intensifying Truck Driver Shortage

The impending truck driver shortage in the United States has been an ongoing topic of conversation and academic concern for many in the supply chain for many years. During the Great Recession in 2007 to 2009, freight demand dwindled and many trucking carriers shuttered and parked their trucks.

As the economic rebound continues, freight demand is increasing, but concerns over who will deliver it are increasing. Coming out of the Great Recession, the pool of aging truck drivers has become older. Retirements and regulations focused on improving health and safety have further whittled down the driver pool. New regulations surrounding drivers' hours of service have made the existing pool of drivers less productive in an effort to improve safety,

and fewer young people continue to select trucking as a career option. New supply chain models and mobile devices are making just-in-time ordering and omni-channel fulfillment all the more possible, but professional drivers remain one of the most critical links in supply the chain.

According to the American Trucking Associations' American Trucking Trends study, in 2013 trucks moved 69.1% of all domestic freight tonnage. Trucks also move the majority of all NAFTA trade, hauling 55.4% of all trade with Canada and 65.4% of all trade with Mexico.

"Today, the industry has in the range of 30,000 to 35,000 unfilled truck driver jobs," said Bob Costello, chief economist for the American Trucking Associations. "As the industry starts to haul more because demand goes up, we'll need to add more drivers—nearly 100,000 annually over the next decade—in order to keep pace."

It is clear the truck driver shortage is intensifying and its impact on the supply chain is potentially significant. Media outlets have touted the use of drones or driverless trucks, and companies are testing the technology. While both may be future options, they are still years away from being a reality on the long stretches of highway that lead to the narrow, winding streets that dot American neighborhoods.

Manufacturers, distributors and other intermediaries operating truck fleets are vexed by the driver shortage. Many are outsourcing their trucking operations to 3PLs as a solution, but this may be just kicking the can down the road. During a recent Council of Supply Chain Management Professionals press conference, Penske Logistics President Marc Althen said,

“If I could hire 2,000 truck drivers right now I could put them to work, today.”

Trucking and logistics companies are doing everything they can to attract and retain truck drivers. This ranges from utilizing social media recruiting techniques and creative advertising methods to offering higher wages, signing bonuses, concierge-type services, benefits, perks and better routing to get truckers more at-home time. Trucking companies are also investing in equipment to improve the drivers’ experience. However, these all contribute to a higher cost of doing business.

Many companies are also turning to the abundance of veterans returning from the battlefields of Iraq and Afghanistan. Some federal programs are making it easier for veterans to get commercial drivers’ licenses. Still, it isn’t enough to meet demand.

Complicating the issue is the amount of competition the trucking industry faces from other industries, including the building, construction and energy sectors. Those industries pull employees from the same pool of candidates of would-be drivers, but don’t require long travel or much time away from home.

It is likely that companies will begin making upstream adjustments, such as shifting distribution patterns, relying on intermodal transportation and shipping larger quantities at one time. However, trucking remains the dominant freight mode within the U.S., and the last leg of the journey requires trained, professional drivers. If freight demand grows as it is projected to, the driver shortage could

balloon to nearly 240,000 drivers by 2022, according to ATA data.

Are shippers and 3PLs considering the effect a driver shortage will have on their fulfillment capabilities? Will carriers and 3PLs start to have preferred shippers in times of tight capacity? As companies expand the number of fulfillment options for customers and provide a seamless omni-channel shopping experience, who will provide and pay for the increases required for the final-mile of delivery?

Working Corporate Social Responsibility Into the Supply Chain

For international corporations, corporate social responsibility (CSR), which comprises all facets of how companies should do business in a sustainable manner, is growing in importance. Not only are companies demanding more of themselves and their suppliers, consumers increasingly scrutinize companies’ approaches and demand improved social and environmental standards. CSR is now broader than ever, and companies are concerned not just with natural resources, but also human rights, labor practices, environmental impact, business ethics and corporate governance.

This has significant implications for businesses’ supply chains. Much of today’s manufacturing, particularly in labor-intensive sectors, such as textiles, apparel, footwear and consumer electronics, takes place in low-cost countries where working conditions, compliance standards and human rights enforcement are less advanced. Emerging economies often offer even cheaper labor and an even weaker regulatory and compliance environment. These countries attract foreign investment through

favorable conditions for production while sometimes trading off occupational health and safety.

A number of leading businesses, including Nike, Levi Strauss and Walt Disney, have incorporated sustainability into their corporate culture. Others are joining suit and providing guiding principles on how to manage the business while contributing to the social and economic development of the communities where they operate and serve.

The new world of CSR utilizes a proactive approach and includes a stronger emphasis on issue resolution, risk reduction and nimble reaction to problems, accompanied by innovation (e.g., green materials, carbon footprint optimization), capacity building, stakeholder engagement (internal and external), crisis management and media relations.

Strategies often address actions throughout the entire supply chain, including logistics and distribution operations, and there is increasing demand for better checks and balances on sourcing and manufacturing. CSR plays a role along the supply chain, all the way from material sourcing to production and global transportation.

As companies increasingly embrace CSR, they are changing how they address talent management and the individuals who oversee sustainability. Achieving success as a leader in the past required a strong focus on operational issues, but today’s executives are expected to also be strong business partners and influencers. In addition to having technical skills, the next generation of leaders will need to have certain leadership attributes to improve the sustainability of the global supply chain.

Effective leaders need to know how to mitigate the emerging risks to the key value drivers of the supply chain, propose remedial measures addressing crucial issues, and respond to requests while maintaining independence and objectivity. They need to have passion and courage, as generally sustainability practitioners must be meticulous and strict

about various procedures and principles meaning they may not be the most popular group of people within an organization.

Companies tend to be shifting the reporting chain of command for sustainability executives. Historically, supply chain sustainability has come under the sourcing and/or operations portfolio. However, a recent study by Korn/Ferry International showed that half of organizations now have that function reporting to the C-suite and above level, including CEOs, the board of directors or the steering committee, and 36% of executives had CSR reporting into legal, corporate governance or human resources divisions. This shift shows that while a sustainability approach is a vital factor in the end-to-end supply chain, the two are not necessarily under the same leadership hierarchy.

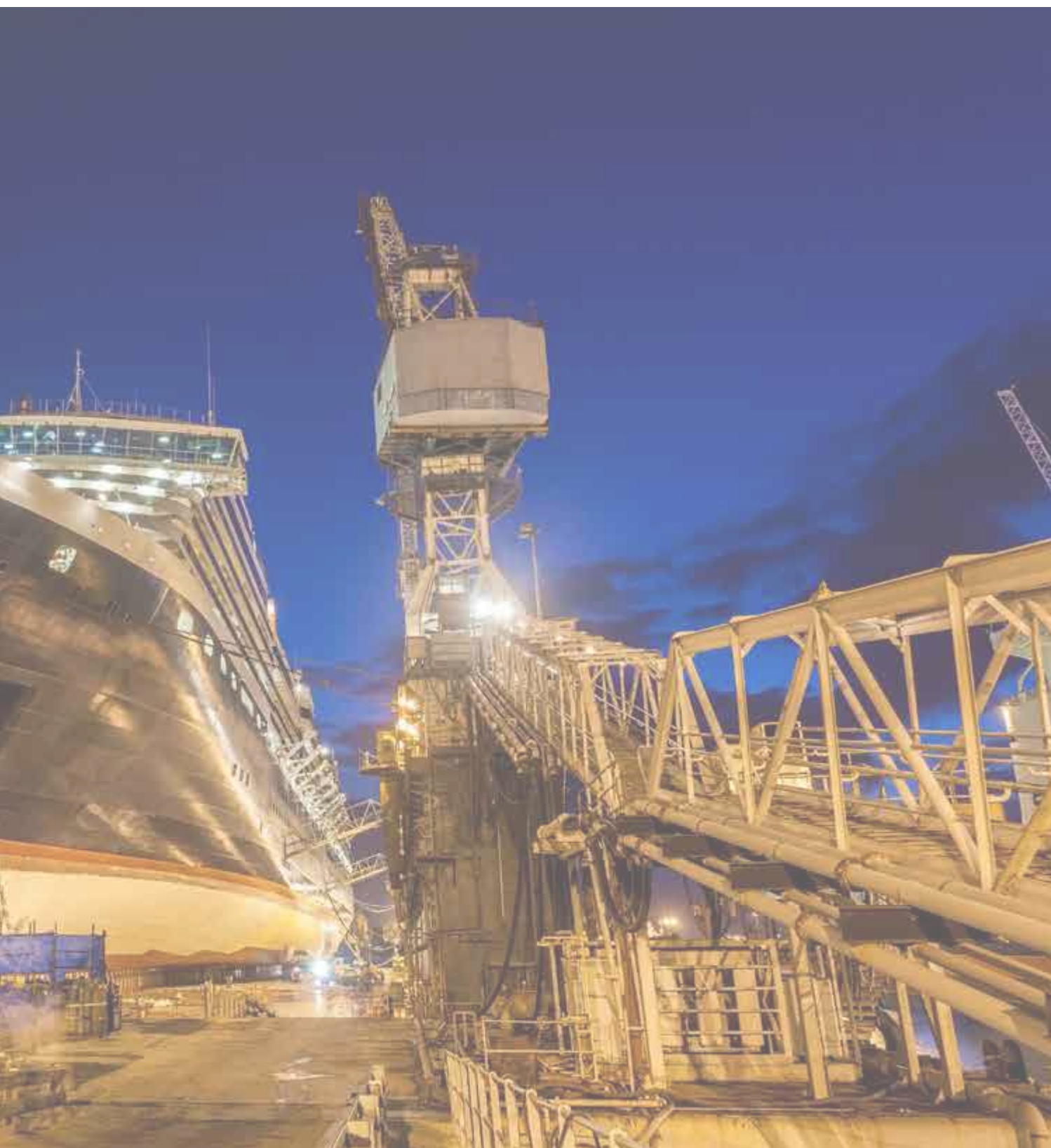
However, sustainability and sourcing functions must remain well connected, as they drive toward a mutually agreed upon destination. As a result, a CSR leader needs strong influencing skills, business savvy and courage to make advancements without jeopardizing the overall company mission.

While embedding social and environmental concepts into the business operation is important, it needs to be done without jeopardizing the commercial intent. That means executives need the ability to understand various business models, including the visible/physical operations along with how companies can make money off sustainable products and services.

Although taking a sustainable supply chain approach can require additional spending to meet social compliance regulations, it can help generate savings through alternative energy, resource recycling, cleanup avoidance and overall business risk reduction, as well as potentially enhance a company's public image.

How will 3PLs respond to the growing importance of CSR? What will shippers demand of their partners within the supply chain? Will CSR improve productivity and efficiency of shippers and 3PLs?





About the Study



Over the span of 19 years, this study has documented significant transformation of the global 3PL industry. In that time, many 3PLs have evolved from tactical service providers to collaborative partners delivering, in many instances, a comprehensive suite of integrated logistics services. Additionally, we have observed an evolution in which providers have become more proficient at the provision of 3PL services, and customers have become better buyers and users of 3PL services. Dr. C. John Langley, Clinical Professor, Supply Chain and Information Systems and Director of Development, Center for Supply Chain Research at Smeal College of Business at The Pennsylvania State University, initiated this study to capture and measure this rapidly evolving industry.

The *Annual 3PL Study* now serves as a vital tool for use by shippers and 3PLs, and as a widely anticipated, heavily referenced index on the state of the 3PL industry. In a year-round process, the study team establishes topics of interest, develops the survey tool, conducts the research, analyzes the results, writes this report, and presents and shares the findings. The study has evolved in both reach and scope.

Just as this study has evolved and changed, so has the participation rate among members and affiliates of the *Annual 3PL Study's* partner organizations. As part of this year's survey process, we attracted 770 respondents, which is lower than in previous years. The study team attributes the change to a variety of factors, from competing priorities to survey fatigue among prospective respondents.

As a result, information included in the Current State of the 3PL Market chapter rely primarily on data gathered from respondents in North America (67%) and Europe. Readers are asked to be cautious about comparing the data in this report to data from *Annual 3PL Study* reports produced prior to 2014, since the base of respondents is more geographically limited.

The Annual 3PL Study Process

Steps and elements of the development of the *Annual 3PL Study* include:

Accessibility: Links to the Web-based survey tool are circulated through Annual 3PL Study partner organizations for distribution to their members and affiliates. This year's survey circulated in mid-2014, garnering 433 usable responses, from both shippers (users of 3PL services) and non-users of 3PL services, as well as responses to a separate, related version of the survey by 337 respondents from the 3PL sector. The study report and additional materials are also presented on a dedicated Website, www.3PLstudy.com.

Topics: In addition to measuring core trends in the 3PL industry, the *Annual 3PL Study* conducts in-depth examinations of contemporary supply chain topics that affected both shippers and 3PL service providers. This year's topics include omni-channel, strategic workforce planning, CRM and mobile technologies and business in Mexico.

Contributing Sponsors: The *Annual 3PL Study* is jointly owned by Capgemini and Dr. Langley. Sponsors of the 19th *Annual 3PL Study* are Korn/

Ferry International, Penske Logistics, eft (formerly eyefortransport) and IndustryWeek.

Multiple Research Streams: A distinguishing feature of the *Annual 3PL Study* is the multiple streams of research the study team undertakes to validate and illuminate the findings in this report. The team solicits survey topic ideas throughout the year from key industry participants and through desk research conducted by the team and Capgemini's Strategic Research Group, which also helps to vet potential topics of interest. Survey topics and questions attempt to reflect key issues and trends facing both shippers and logistics services providers. Following the survey, the team conducts intensive, one-day facilitated shipper workshops that enable the team to work side by side with shippers to explore survey results in the context of overall industry trends to discover deeper implications.

This year the team conducted three such interactive workshops, held in London, United Kingdom; San Francisco, California; and Singapore. The study team members would like to express their appreciation to the National University of Singapore and the participation of The Logistics Institute – Asia Pacific as a co-sponsor of the workshop held in Singapore. Events in recent years also have been held at selected Capgemini Accelerated Solutions Environment® facilities that are available throughout the world. (See <http://www.capgemini-consulting.com/acceleration-capabilities/accelerated-solution-environments> for more detail about ASEs.)

Wide Coverage: The *Annual 3PL Study* is presented and discussed in prominent supply chain industry venues, including the following:

- Presentations at influential industry conferences, such as the Council of Supply Chain Management Professionals (CSCMP), 3PL Summit and Chief Supply Chain Officer Summit, annual THINK! events conducted by The Logistics Institute – Asia Pacific at the National University of Singapore, the Gordon Institute of Business Science (GIBS), the business school of the University of Pretoria in Johannesburg, South Africa, executive education programs available through the Center for Supply Chain Research at The Pennsylvania State University and Penn State Executive Programs and NASSTRAC (National Association of Strategic Shippers Transportation Council).
- Analyst briefings, typically conducted in the weeks following the release of the annual study results in the fall.
- Magazine and journal articles in publications such as *Supply Chain Management Review*, *Logistics Management*, *Inbound Logistics*, *Logistics Quarterly*, *Supply Chain Quarterly* and *Supply Chain Digest* and *IndustryWeek*.
- Webcasts conducted with media, publications and investment analyst firms, including *Supply Chain Management Review*, *Logistics Management*, Stifel Nicolaus and others.

Supporting Organizations: Each year a number of supply chain organizations facilitate the research process by asking members and other contacts to respond to the survey. In addition to completing the survey, individual companies help out by enabling executives to participate in facilitated workshops and by lending subject matter expertise. Please see the Credits page for a listing of these valued contributors.

Definitions: Survey recipients were asked to think of a “third-party logistics (3PL) provider” as a company that provides one or more

logistics services for its clients and customers. A “fourth-party logistics (4PL) provider” is one that may manage multiple logistics providers or orchestrate broader aspects of a customer’s supply chain. To ensure confidentiality and objectivity, shippers were not asked to name which specific 3PLs they use.

2015 Third-Party Logistics Study Goals

Research and analysis for the **Current State of the Market** chapter sets out to:

- Understand what shippers outsource and what 3PLs offer.
- Identify trends in shipper expenditures for 3PL services and to recognize key shipper and 3PL perspectives on the use and provision of logistics services.
- Update our knowledge of 3PL-shipper relationships, and to learn how both types of organizations are using these relationships to improve and enhance their businesses and supply chains.
- Quantify the benefits reported by shippers that are attributed to the use of 3PLs.
- Document what types of information technologies and systems are needed for 3PLs to successfully serve customers, and to assess the extent to which this success is being achieved.
- Examine why customers outsource or elect not to outsource to 3PLs.

Goals for the **Special Topic** chapters include:

- **Omni-Channel:** The growing interest in and reliance on an omni-channel network is creating both opportunities and challenges for retailers and shippers. While the importance of the omni-channel network is well understood, omni-channel supply chains are still maturing. The research seeks to understand the opportunities and obstacles associated with the omni-channel network, the growing number of fulfillment options retailers offer and how technology is facilitating growth within the network.

- **Strategic Workforce Planning:** The 3PL industry is on track to face a shortage of talent. The study seeks to understand how strategic workforce management can aid in hiring and retaining top talent among 3PLs. The study also looks at how positions within the industry and the dynamics of supply chain professionals are changing, and the study team sought to understand the return on investment companies obtain from strategic workforce management.

- **CRM and Mobile Technologies:** Given advances in mobile technologies (e.g., smartphones, mobile applications, tablets, iPads, etc.), and in the use of CRM (Customer Relationship Management) by 3PLs, it is an ideal time look at how these can enhance the quality of 3PL-customer relationships. In addition to trying to understand the ways in which customers can benefit from the use of CRM and mobile technologies, the research focuses on how companies can help to make 3PL sales processes more efficient and effective.

- **Business in Mexico:** The strong growth within the manufacturing industry is creating strong growth opportunities for 3PLs on both freight movement and ancillary services. The survey seeks to understand respondents’ reasons for shifting operations to Mexico and how logistics services can play a part in rendering Mexico’s businesses cost competitive as compared to similar ventures globally.

- Based on what was learned from the study process, the team uses the Strategic Assessment to take an introspective view of the future of the 3PL industry and shipper-3PL relationships.

About the Respondents

Shippers: Figure 37 reveals the percentage of shipper respondents to the survey, including both shippers (users) and non-users of 3PL services and the percentage of 3PLs. The non-user responses are helpful because they provide valuable perspectives on why they do not currently use 3PLs at this time, as well as on a number of other relevant topics. Shipper respondents are typically managers, directors, vice presidents and C-suite executives.

Figure 38 reflects the most prominent industries reported by shippers, accounting for almost 92% of the overall respondents.

Figure 39 includes all shipper respondents' anticipated total sales for 2015.

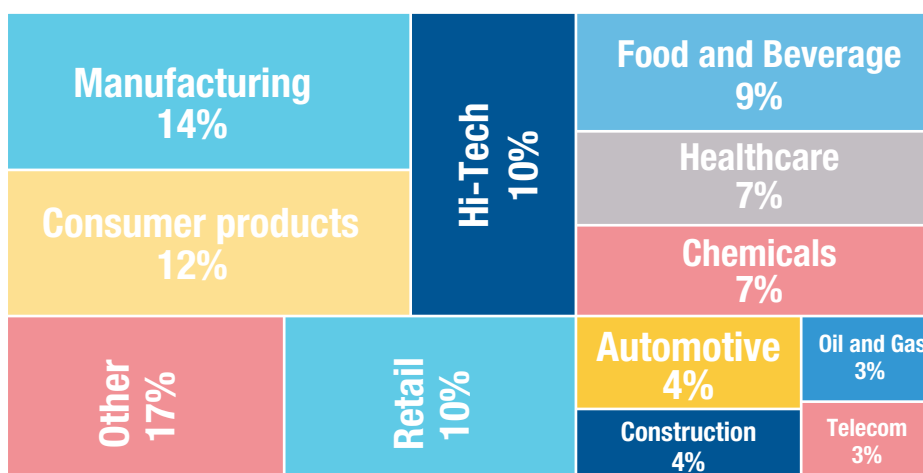
3PLs: 3PL executives and managers responded to a similar, but separate version of the survey. The 3PL respondents represent: 1) several operating geographies; 2) an extensive list of industries served (actually quite similar to the shipper-respondent industries); and 3) a range of titles, from managers to presidents/CEOs. Approximately 34% of the 3PL firms expected 2014 company revenues in excess of U.S. \$1 billion (approximately €750 million), while about 66% reported revenues of less than U.S. \$500 million (approximately €375 million).

Figure 37: Respondents by category

	Percent
User	40%
Non-User	16%
3PL/4PL	44%
Total Respondents	100.00%

Source: 2015 19th Annual Third-Party Logistics Study.

Figure 38: Respondents by industry



Source: 2015 19th Annual Third-Party Logistics Study.

Figure 39: Respondents by sales

Which of the following categories best represents your organization's anticipated total sales for 2014? (select one)	Percent
US\$25 billion or more / €20 billion or more	17%
US\$1 billion – less than US\$25 billion / €750 million – less than €20 billion	37%
US\$500 million – less than US\$1 billion / €375 million – less than €750 million	14%
Less than US\$500 million / €375 million	32%
Total Respondents	100.00%

Source: 2015 19th Annual Third-Party Logistics Study.

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