

The 2015 3PL Report

- Year on year increase in customer dissatisfaction
- 32% of manufacturer/retailer respondents expect their 3PL to have at least some expertise/knowledge of augmented reality
- 30% of manufacturer/retailers expect 3PLs to have at least some expertise/knowledge on drone delivery



Introduction

The 3PL industry is on the verge of a major crossroads. One the industry hasn't faced since the implementation of the GPS and the invention of the 3PL. On the one hand, 3PLs are fighting to maintain relevance in an increasingly commoditized service-area. On the other hand, technology is playing, and has the potential of playing an immense role in changing how the industry operates, and how 3PLs can claw back the margins they've been losing over the last decade.

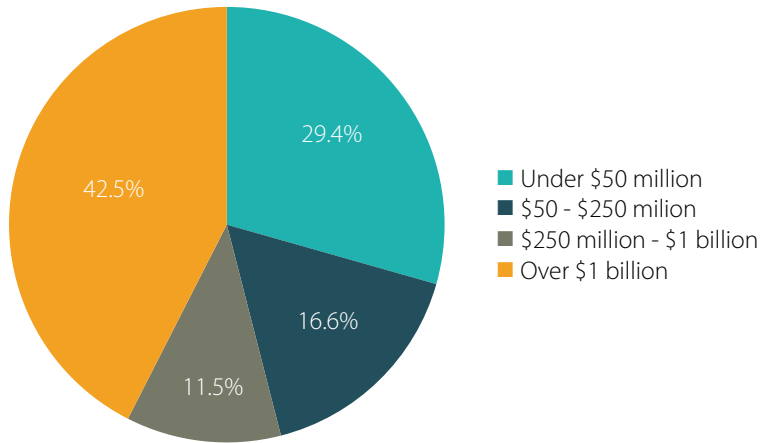
This report outlines the results of a survey of 400+ logistics and supply chain executives representing the key decision-makers in the field of 3PL Contracting from both the manufacturer and retailer perspective and the LSP perspective. The survey provides an unprecedented glimpse into how these industry players are coping with contracting. It spells out the challenges associated with the contracting process, but also looks towards pain-points affecting the

decision-making behind 3PL service procurement, and the level of service customers are experiencing.

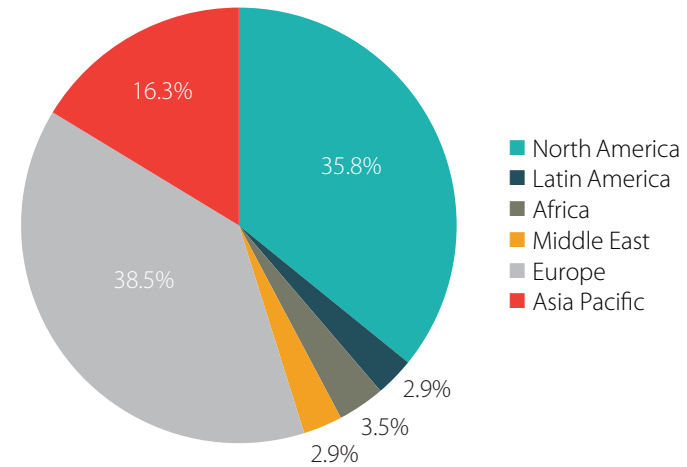
The report's findings are fascinating. First of all 3PLs appear to be on their back foot as service satisfaction drops renewal rates decrease and contract length remains low. It also explores for the first time the impact of cutting edge technologies on the industry, and the perceived value they might serve in the industry in the coming years. They represent promising areas that might change the industry forever, and provide 3PLs with future potential growth opportunities and value-added service areas. The industry is clearly at a crossroads, but with huge untapped potential in technology, new markets, existing markets and service-level, the potential for growth is huge, but the chance of stagnation is also omnipresent. Only the most forward thinking and customer-centric 3PLs who are willing to take a risk are likely to thrive.

Respondent Demographic Information

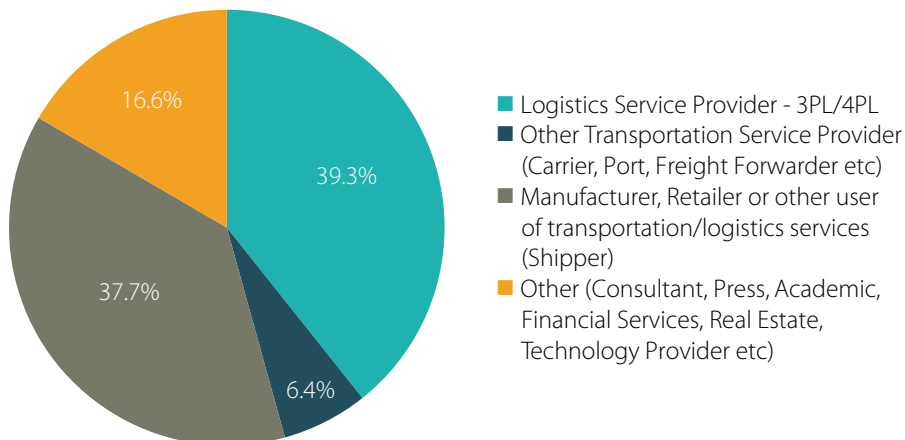
What is your company's annual revenue?



Where do you personally conduct the biggest amount of your work?

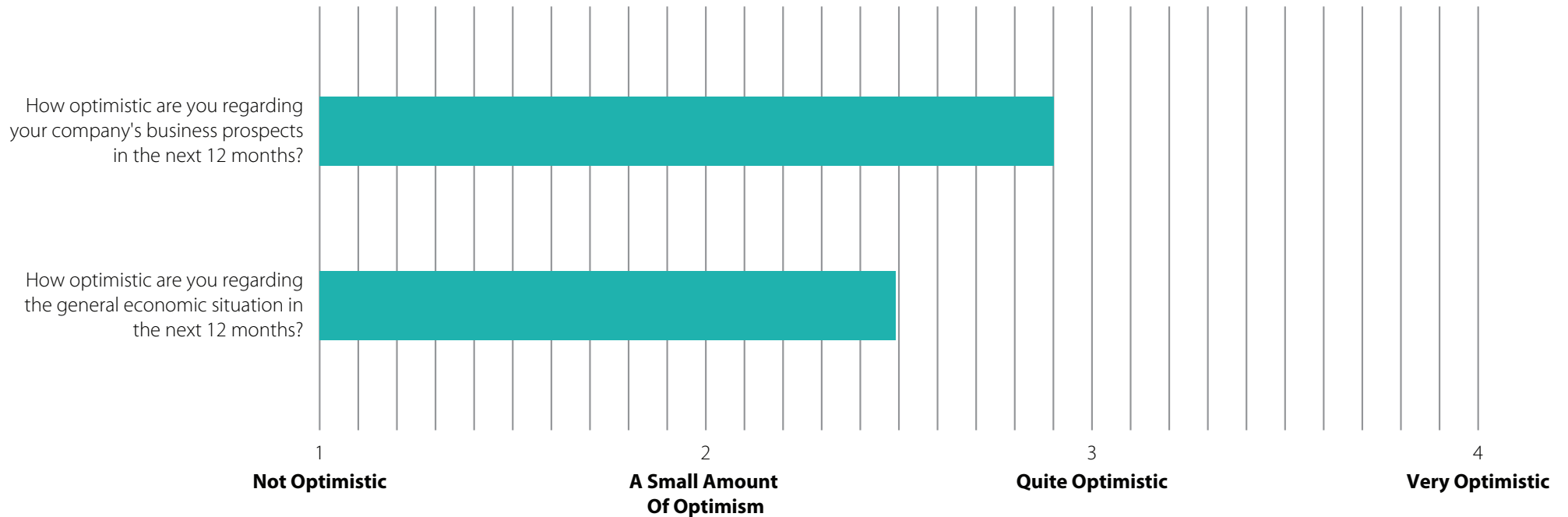


What type of business do you work for?



The State of the Industry

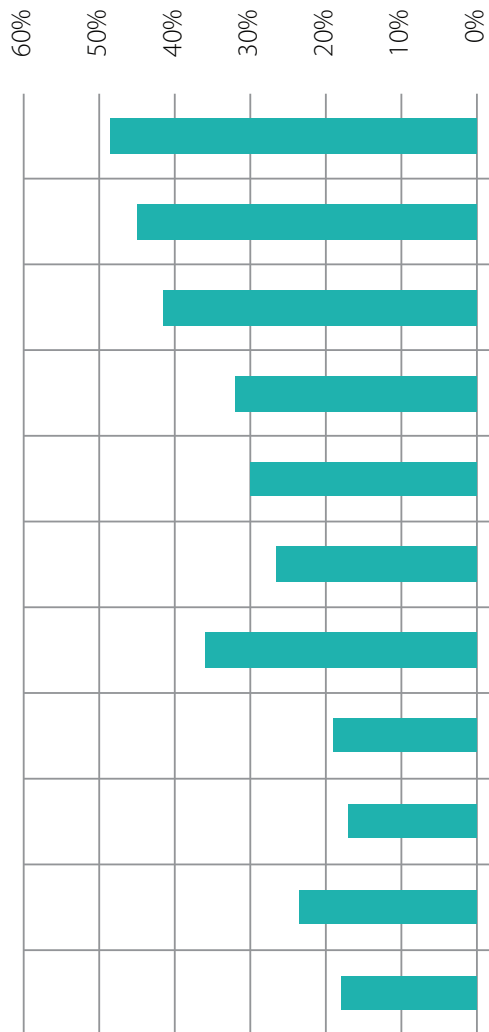
Business Optimism



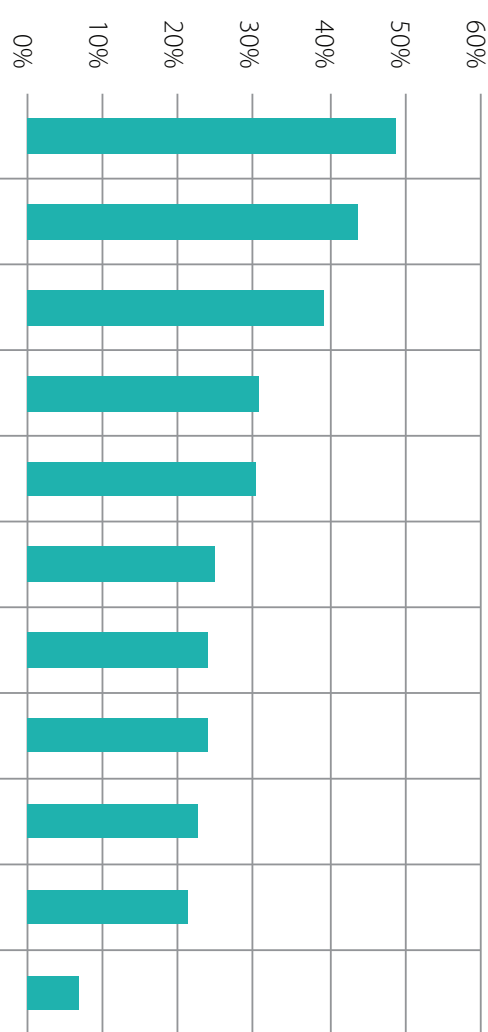
Key words respondents submitted highlighting why their budgets were changing included: 'New' – ie. new investments, new technology and other areas companies are needing to invest. 'Customer' – the customer features heavily. As we see in the next graph, the customer plays a central role in why companies are investing in new technologies, so it's no surprise seeing this

word highlighted. 'Efficiency' also features heavily, something we also see as a key driver for new technology investments as we see later in the report. Other phrases respondents submitted included: Legacy refresh, demand for IT development from customers, implementation of new systems, modernizing and innovating.

According to 3PLs, which regions do you think offer the best opportunities for 3PLs?



According to shippers, which regions do you think offer the best opportunities for your business?



China has been the quintessential emerging market for the last decade. From a 3PLs perspective, it's a bit more difficult to understand why this was again selected as the best region for 3PLs to find opportunities. Reasons for this are that China offers a level of complexity that is much higher than other growing markets including a difficult regulatory environment, a lack of infrastructure beyond the East coast and major competition from local providers that understand local customs and business practices to name a few. Should these barriers prove surmountable, China boasts one of the biggest consumer markets on the planet, providing plenty of room for growth in the 3PL Sector, not the least of which is in the eCommerce space which is currently booming in China behind giants such as Alibaba and even forays by Amazon into the area.

North America on the other hand, while not an emerging market, understandably offers substantial opportunities for logistics providers. It has an established network, it has a growing economy, and it has a consumer base that is significant. Furthermore, with shifting manufacturing strategies, and space for innovation regarding the distribution of consumer products, LTL, etc. North America has plenty of room for companies to gain market share. On the other hand, there have been some difficulties in North America as well that do play against it: A driver shortage limiting capacity, port strikes and a regulatory environment amidst some shifts that many have not seen as favourable towards business. Though, one could argue,

that these challenges actually present an opportunity for 3PLs – companies will be more incentivised to have a 3PL help them navigate these difficulties.

The regions selected by manufacturers and retailers closely reflect those chosen by 3PLs. As 3PLs look to enable their customers' access into new areas, we can see this alignment as a positive in terms of 3PL-shipper alignment. From the shipper perspective, entry into China seems more obvious given the growing consumer base in the country, and the enablement of companies such as Alibaba for reaching them via eCommerce.

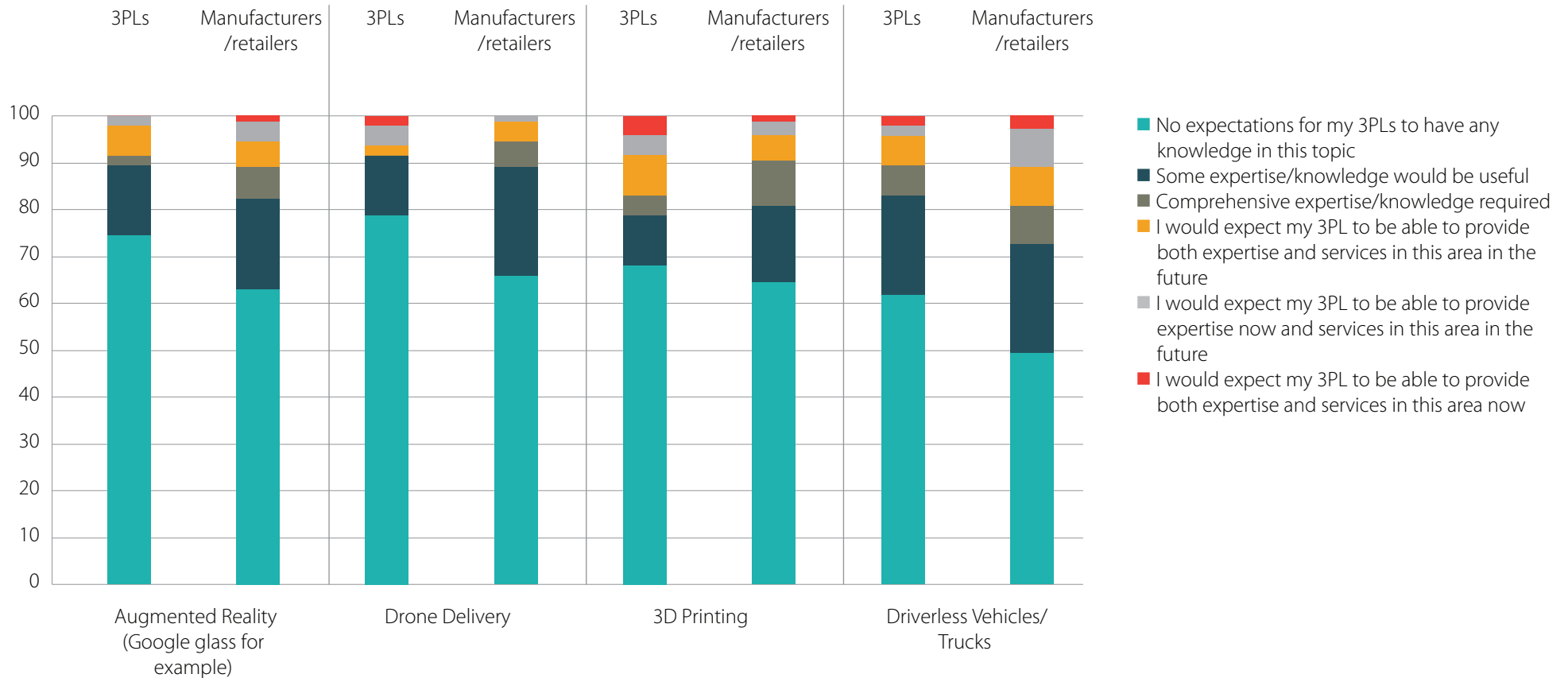
One major difference exists in the manufacturer/retailer and 3PL perspectives on regional business opportunities are in terms of Western Europe/Africa. Africa and Western Europe presented equal opportunities for 3PLs, with just over 24% of respondents selecting these regions as areas of potential growth. For manufacturers and retailers on the other hand, Africa was out of the top 7 areas, while Western Europe was 4th, with 37.5% of respondents seeing opportunity in this area. If we think of 3PLs as facilitators of market access, we can begin to understand why Africa rates so lowly on the manufacturer/retailer perspective – Africa is still in the midst of developing its 3PL infrastructure, making manufacturer/retailer entry difficult. Western Europe has one of the most complete 3PL networks in the world, and a sizable consumer base making it attractive to manufacturers and retailers, but not an area to expand business for 3PLs.

Moving forward, we are likely to see more efforts by 3PLs to crack emerging economies. It becomes a question of willingness to take risk by 3PLs to enable market access for manufacturers and retailers and open the potential for growth in emerging economies.

New Technologies and Their Projected Impact on 3PLs and their Customers

Do you expect to provide either expertise and/or services to your customers in the following areas?

Do you expect your 3PL to have any expertise of, and to be looking to provide services which incorporate:



We all know how important innovation is in the 3PL space. While it is unsurprising that the bulk of respondents are not exploring drones, 3D printing, driverless vehicles and augmented reality, what is interesting is that a not insignificant number of respondents have expertise in each of these 4 technology spaces, and respondents for all except Augmented Reality are already currently providing expertise, knowledge and services in these areas.

Overall, roughly ¼ of respondents were engaging in work – whether expertise, planning to have expertise, or full-fledged service – in the areas of drones, 3D printing, driverless vehicles and augmented reality. This illustrates that despite the lack of innovation in the logistics space, there are a significant number of LSPs that are forward looking and willing to not only embrace technology with the potential that disrupt, spend resources towards turning these ideas into value propositions.

The overall manufacturer/retailer expectation was that their 3PL not be in-tune, to some degree, with the cutting edge technologies mentioned. However, ¼ of respondents did think their 3PL should have some knowledge or expertise in the area, with some manufacturers and retailers going so far as to expect expertise now, and services in the area in the future. As 3PLs fight for innovation, methods to create value added services, and to differentiate themselves from one another, based on these results, cutting edge technology – for those with the budgets - doesn't seem like a bad area to gain expertise. As 3PLs represent

the gateway for manufacturers and retailers into new markets, they potential equally possess the know-how and abilities to serve as this bridge for advanced technologies.

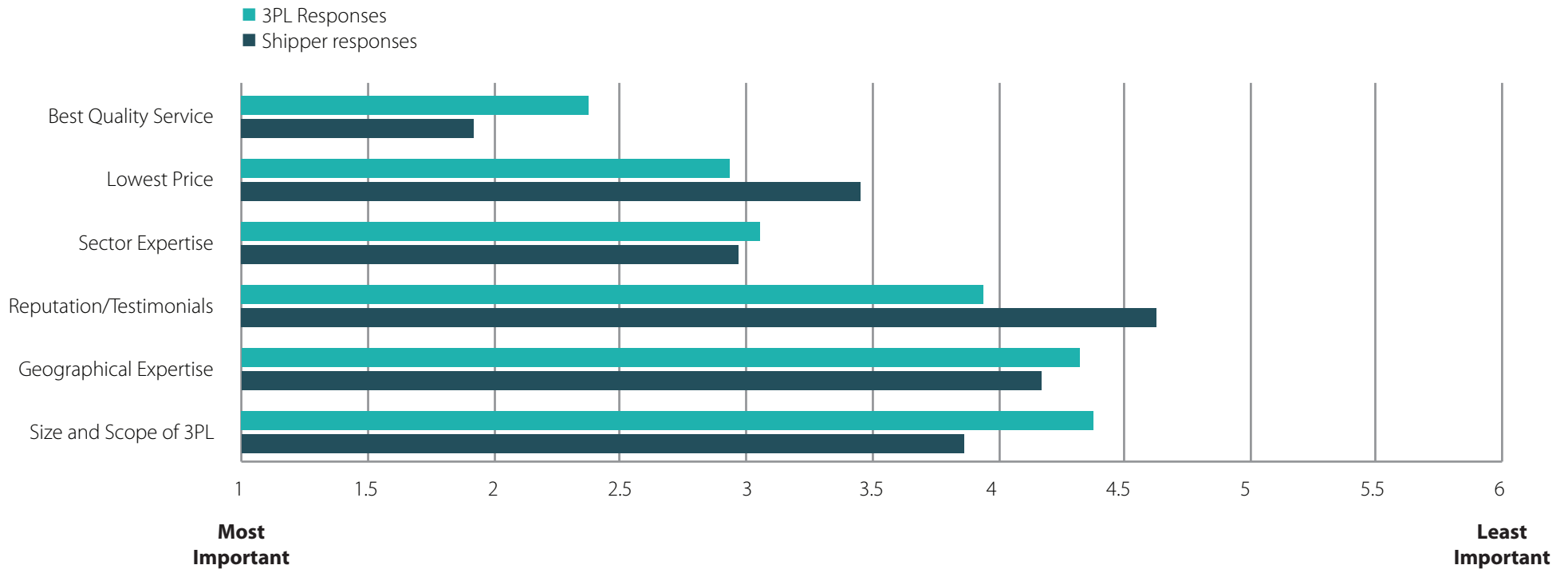
However, if we combine all of those manufacturers interested to some degree of having their 3PL have at least some knowledge in these cutting-edge technology areas, you actually have 32% wanting their LSPs to have at least some knowledge of augmented reality, 30% wanting some knowledge of drone delivery, 33% wanting LSPs to have some knowledge on 3D Printing and 42% wanting their 3PLs to have some knowledge of driverless vehicles. These are significant numbers of shippers looking towards their 3PLs for leadership in the technology space.

Conversely, 3PLs don't seem prepared to take on-board such knowledge-bases or expertise with only 20% having some knowledge of augmented reality, 18% drones, 25% 3D Printing and the biggest separation between shipper and 3PL, only 24% driverless vehicles.

This is certainly a space worth watching in the coming year to see how these results shift from No to Yes, and how 3PL-customer alignment develops.

3PL Selection and Contracting – The State of 3PL-Customer Relationships

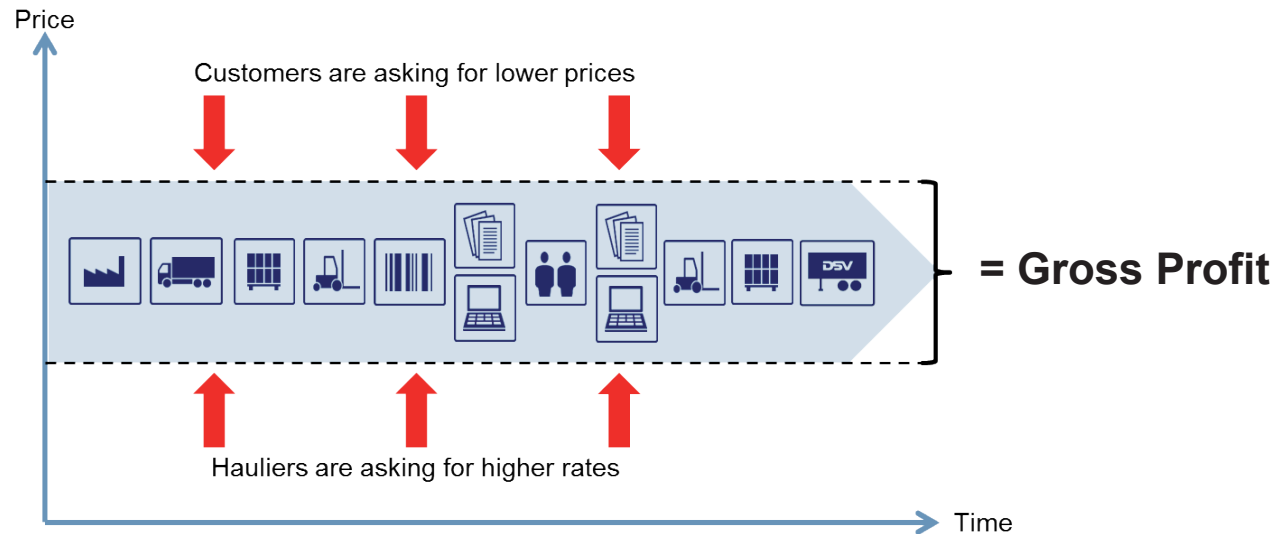
What do you think manufacturers/retailers look for when choosing a new 3PL?



3PLs and their customers were both in alignment when it came to the top reason for choosing a 3PL – Best Quality of Service. However, manufacturers and retailers ranked this area almost .5 places higher than their 3PL counterparts, emphasizing how much service quality is of value over other factors. Both 3PLs and their shipper counterparts were in alignment on sector expertise; however 3PLs ranked lowest price ahead while shippers ranked lowest price behind. In addition, we see reputation and testimonials as ranking higher from the perspective of 3PLs than from the perspective of their customer counterparts.

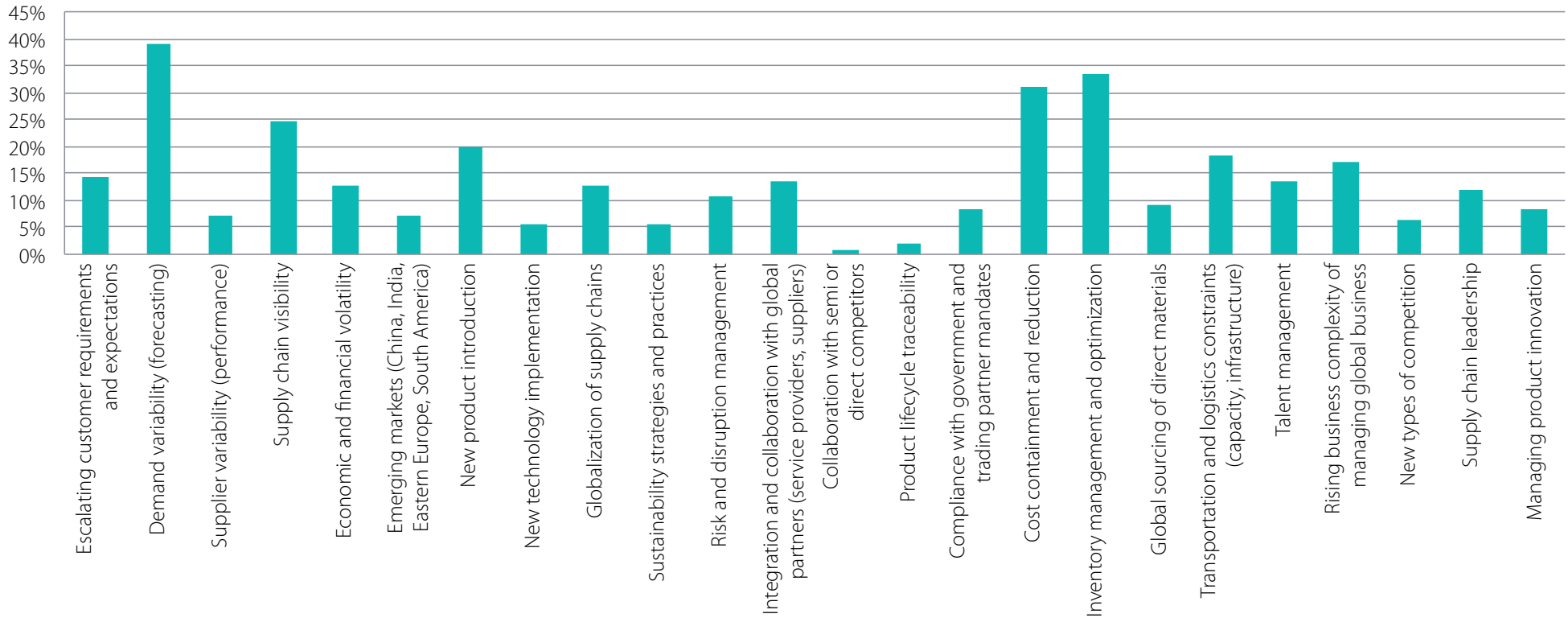
Overall, what we see from these graphs is the tendency for 3PLs to focus more on the features of their service – ie. low-cost, good reputation, good testimonials etc. where shippers are more focussed on the operational capabilities of 3PLs ie. sector expertise, size and scope of 3PL, quality of service etc. This disconnect is an important one to underline though as it helps emphasize the difference in perspective and priority for 3PLs vs. shippers.

This graph here outlines what tends to be one of the primary 3PL challenges



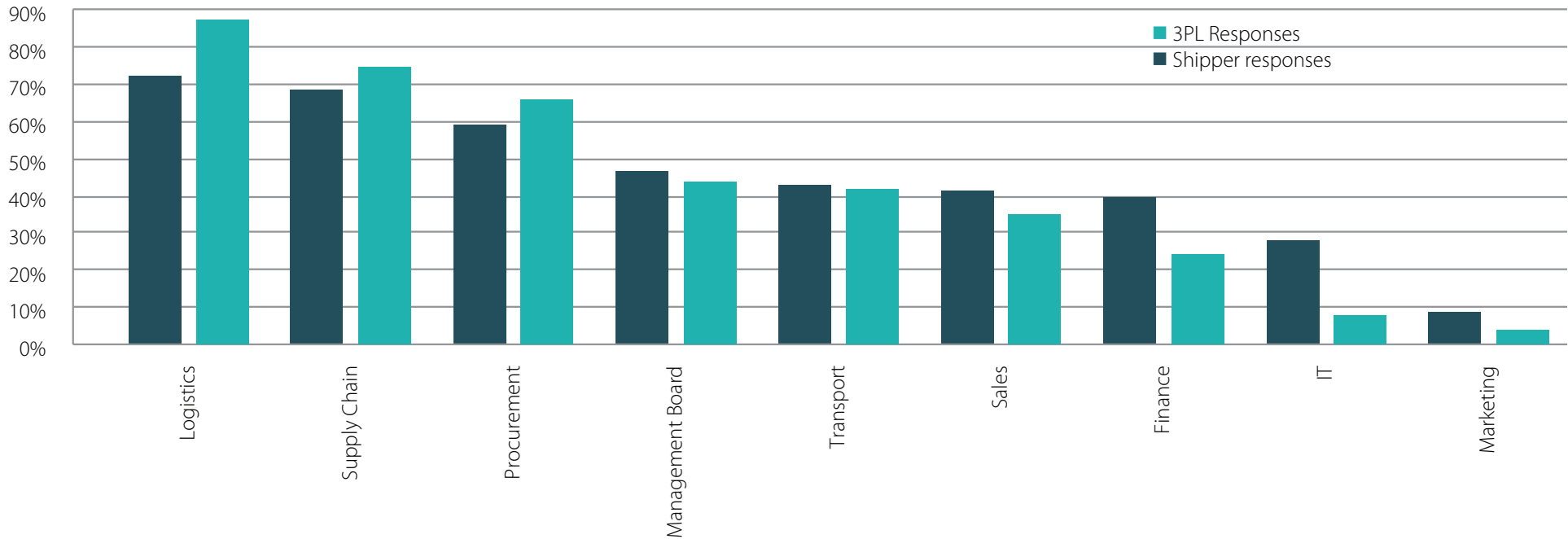
This means that efficiency and automation is needed!

While the shipper focus tends to be more along the lines of a multi-pronged juggling of priorities:



Contract Negotiation and the Procurement Department

When negotiating 3PL contracts with customers which departments in your customer's business are involved?

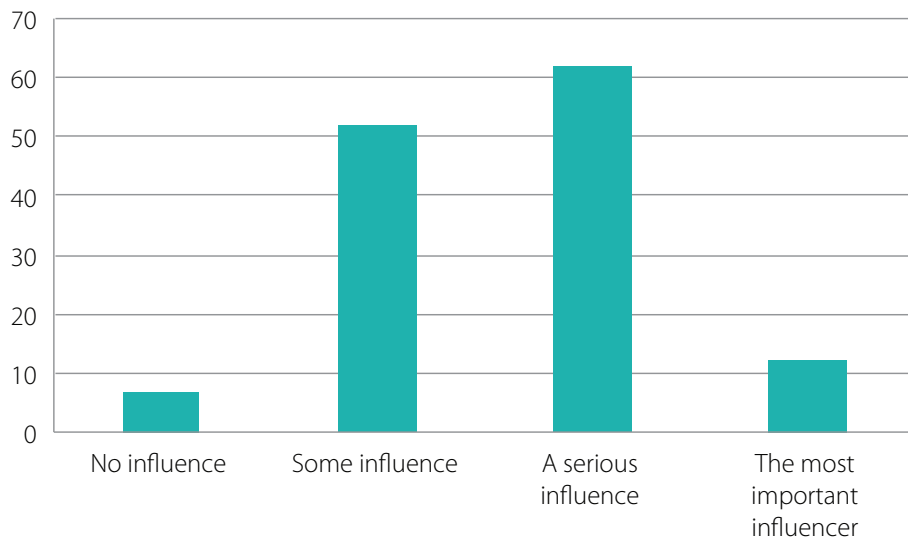


There has recently been an increase in discussion on the role of procurement at manufacturers and retailers as these companies look to cut costs wherever possible and stay in control of expenditures. While these are clearly important priorities for these companies, there has been some frustration expressed from the supply chain and logistics side of the industry due to the lack in specialist expertise of the department. As such, procurement has gained notoriety for slowing down the procurement process, and hampering, to some degree, the contract process. Based on the responses of the charts above, we see how embedded procurement is in the contracting process with almost 60% of respondents seeing it play a role in the process. Further, 46% indicated that it has a 'serious influence' in the contracting process while a further 11% indicated it was the most important influencer.

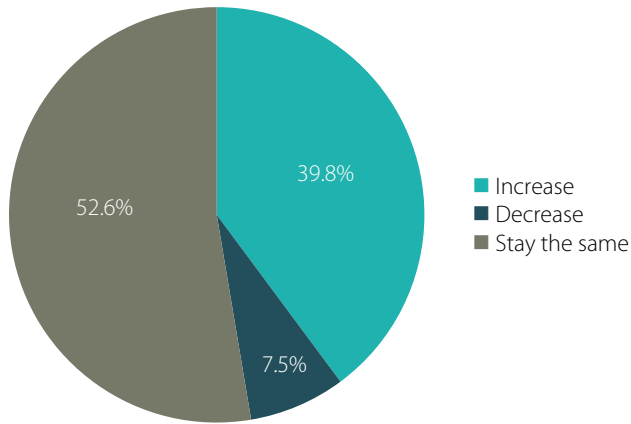
As cost continue to be a major factor in the operations of manufacturers and retailers, we are likely to see procurement executives have more and more involvement in the contracting process. 40% of 3PL respondents see the procurement department's role increasing in the future. This is in contrast with a 25% increase from the perspective of customers.

We also polled manufacturers and retailers on this matter to understand what level of agreement they had in terms of the involvement of the procurement department. Generally speaking they were in alignment with procurement playing a significant role in the contracting process. When looking at \$1 Billion + shippers however, you see a stronger influence of the procurement department versus their smaller counterparts.

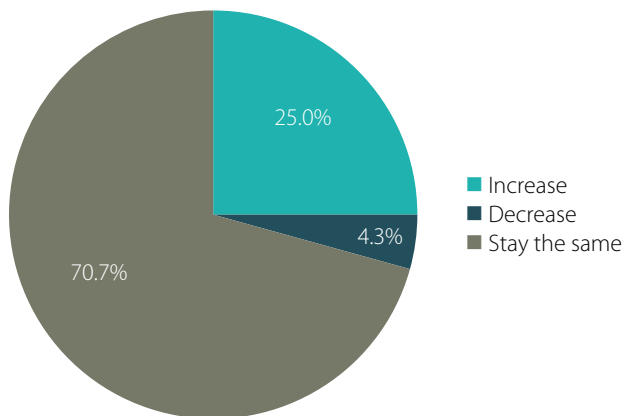
In your opinion what is the influence of your Procurement Department when negotiating contracts and deciding which 3PL to use?



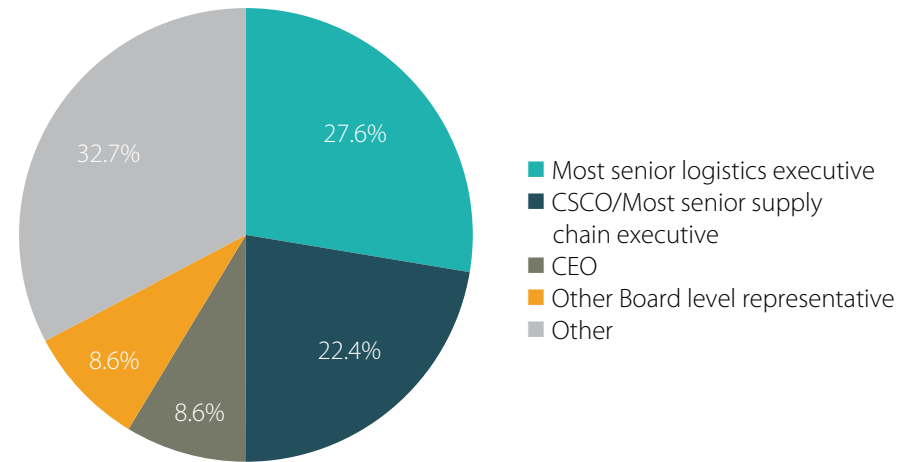
Do you expect the role of your customer's procurement departments when negotiating 3PL contracts to increase, decrease or stay the same in the future?



Do you expect the role of your procurement department when negotiating 3PL contracts to increase, decrease or stay the same in the future?



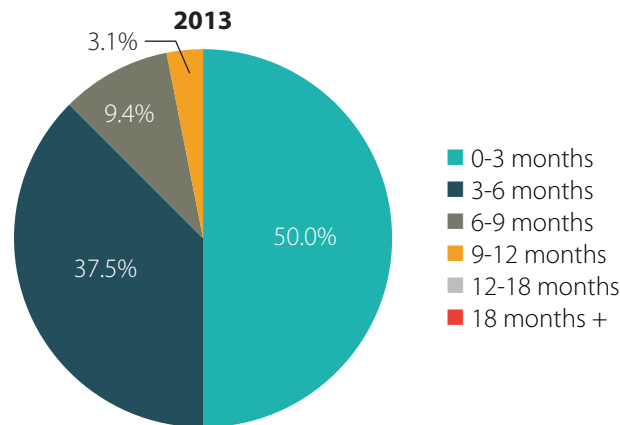
Which individual, in your company, has the final say on which 3PL is selected?



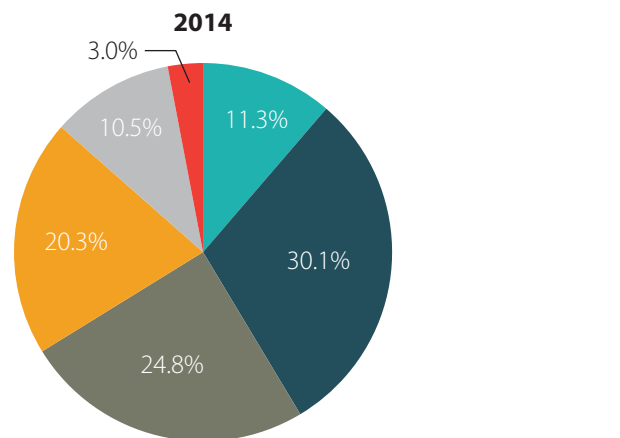
While procurement clearly plays a significant role in the 3PL contract decision-making process, we asked manufacturer and retailer respondents to highlight the top decision-maker (individual) in the process. From the shipper perspective, this was the most senior logistics executive at their organization with 28.9% of respondents mentioning this. Second highest was the CSCO/most senior supply chain decision maker at 23.2%. All other job roles were in the single digit percentages with CEO and COO coming 3rd and 4th respectively. As such, while procurement plays a role in the process, the ultimate decision still lies squarely with the top logistics-specific decision maker in the shipper organization.

The Contracting Process, Renewal and Trends

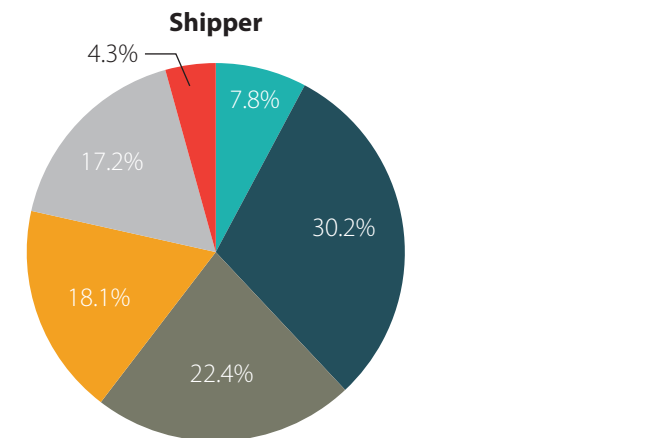
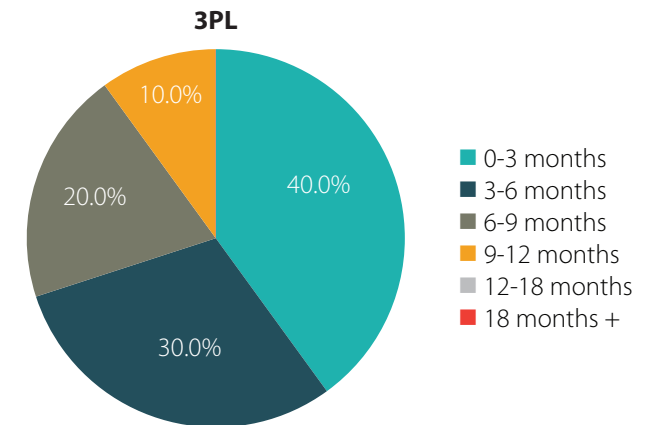
How far in advance of the end of an existing contract do you start the renewal process?



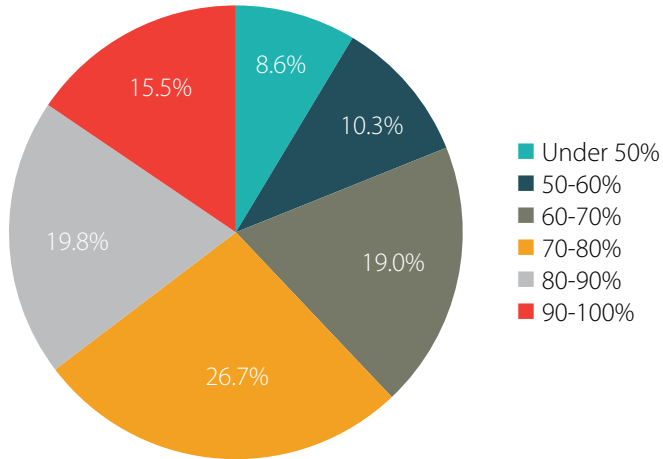
Despite challenges outlined in previous questions, the renewal rate of contracts is quite high, with 36.8% of respondents having a 90-100% contract renewal-rate. A further 46.6% have their contracts renewed between 70-90% of the time. With many shippers choosing short contract-lengths to help them maintain controls over costs, expectations, etc., it begins to make the statistics in this graph clear as to why the majority of contracts are renewed. Clearly many 3PLs are succeeding in the relationships they've fostered with their customers, as well as their service-levels etc.



With contracts being generally short in nature (mostly in the 1-2 year range, according to the 2013 contracting report) it makes sense that negotiations are crammed into the 0-12 month period. Most contract renegotiations though are in the 3-6 month range; giving shippers time to evaluate the service-level, while giving the negotiations sufficient time to avoid the complications of a last minute contract negotiation.



What percentage of your 3PL contracts get renewed with the same 3PL provider?

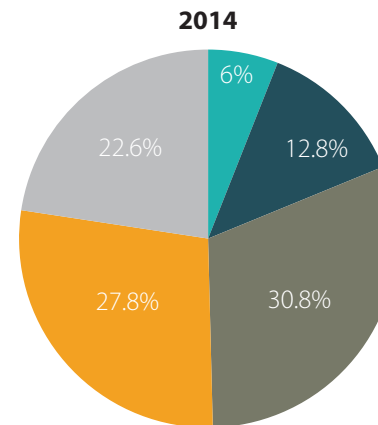
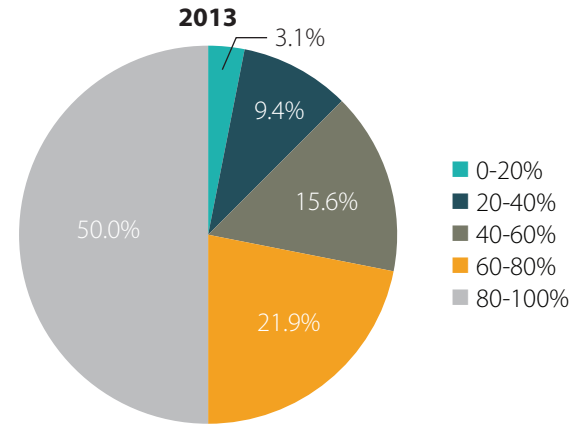


Benchmark your renewal rate

Manufacturers and retailer respondents to the survey questions suggested that they renew their contracts with 3PLs on a far less regular footing than their 3PL counterparts suggested. Only 16.1% of manufacturers and retailers renewed their contracts at a rate of 90-100% with the bulk renewing their contracts 70-90% of the time. This plays into the notion that contracts are generally short-term, allowing shippers the flexibility to switch providers should cost requirements, changing strategy require this. As a consequence having fewer shippers indicate high contract renewal rates is likely reflective of this strategic need.

Similar to their 3PL counterparts, the renewal process generally takes place in the 3-6 month range, again a reflection of the bulk of contracts being short in length, and the requirement for significant negotiation time between contracts.

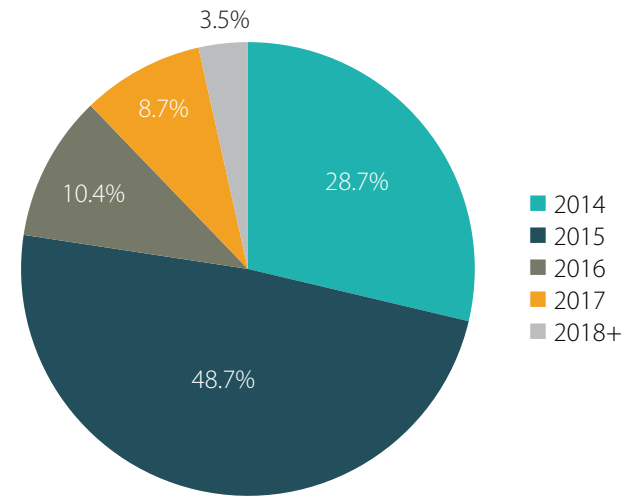
Of those RFPs, how many do you typically respond to?



In 2013, 50% of 3PLs responded to 80-100% of the RFPs they received. In 2014, that number has plummeted to 22.6%, with many more responding to only 40-80% of the RFPs they receive. The shift in RFP responses is a difficult one to explain, but some reasons that this might be the case come down to:

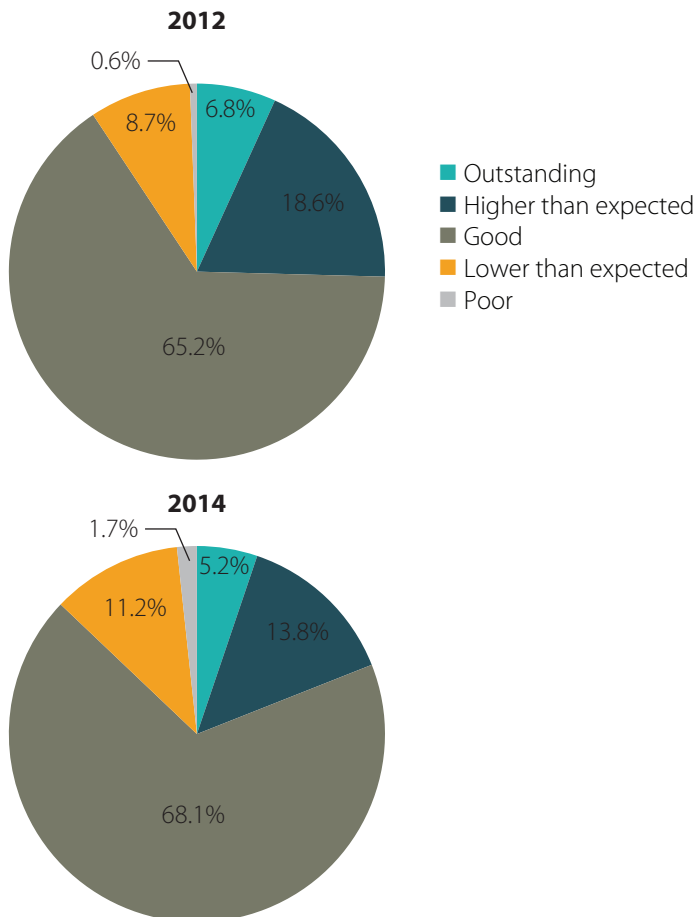
- 3PLs are more conscious than ever on how much their service offering has to line-up with customer expectations and are not willing to entertain RFPs that might not fit.
- The need to build a rapport with customers is increasing, as such the time necessary to properly establish this prevents every RFP from being responded to
- RFPs are becoming more and more common-place given shortened contracts; as such 3PLs are concentrating more and more on long-term prospects
- Procurement departments are getting more involved in the RFP process, slowing things down and preventing LSPs from responding to every RFP
- Ultimately, this is a question we'll have to put back to the 3PL community and understand why in 2014 they are no longer responding to the bulk of their RFPs

When are you next negotiating a new 3PL contract or renewing an existing contract?



With this survey having been conducted on the back-end of 2014, results for this question are slightly skewed in favour of 2015. The thing again to emphasize in respondents answers of this specific question however is the frequency in which contracts are negotiated and renewed, again a reflection of 1) short contract length, and 2) need for additional services as strategies change. It also means that fresh opportunities are available on a regular basis for 3PLs.

How would you rate the overall performance of your current 3PL?

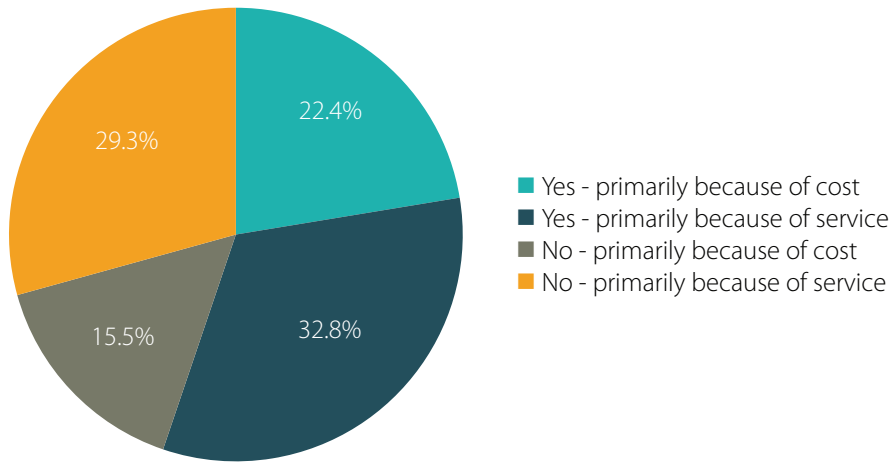


This is one of the key questions we ask manufacturers and retailers every few years to understand how 3PL services are evolving in the eyes of their customers. With the question last asked in 2012, the breakdown was as follows:

In 2014, we see even more dissatisfaction amongst 3PL customers with a 4% jump in less than satisfied manufacturers and retailers with 13.4% dissatisfied in 2014 vs 9.3% in 2012. Furthermore, despite focusses on value added services and innovation in recent years, more shippers than before are just satisfied with their services at over 67%.

While there are many reasons for there to be a dip in satisfaction of 3PL Services it is clear that the fight against commoditization is ongoing for 3PLs as customers are not seeing the benefits of differentiation and value added services we've been hearing from 3PLs over the past few years.

Have you recently switched 3PL/ are you currently planning to switch to a different 3PL?



In a reflection of the previous question, the majority of manufacturers and retailers have or are planning to switch 3PLs with over 55% of respondents saying-so. In addition, despite the focus in supply chain on cost controls, service was the primary driver for change of 3PL. It was also the primary driver for 'keeping' one's 3PL. As a consequence, the above question looking at service satisfaction is very important, especially given that the number of those just 'satisfied' and those 'dissatisfied' are growing. With shippers using service as a major factor in staying with a 3PL, for 3PLs to retain business, a renewed focus on aligning their services to their customers is going to be necessary.

Conclusion

The story regarding 3PLs has many similarities with recent reports –service-level required is greater and greater, margins are squeezed, contracts are short and customers are demanding more than ever. However, the 3PL industry is coming to a crossroads where the path of margin squeezes, etc. is paved with new technologies, new business-models, new approaches to customer relationships and the prospect of growth in the coming year. 3PL services may be commoditized, but they are not doomed. With real innovation on the horizon, potential abound, we look towards 2015 to see improved partnerships, increased revenues, and more value in logistics services.

Want to learn more?

The North American Summit is the biggest gathering of C-level logistics executives in North America. The unique nature of the event is that it also brings together over 200 manufacturers and retailers, including the heads of supply chain of many major North American companies. As such, the topics discussed in this report – contracting, service-level, value added services, cutting edge technology, etc. are very much tied to the topics of discussion of the Summit, and on the minds of the delegates in attendance.

13th 3PL Summit June 16-18, The Radisson Blu Aqua, Chicago

Join this year's event to answer the fundamental questions affecting logistics today – is it under threat from new up and coming technology companies? Is commoditization a reality the industry needs to deal with? How has the latest M+A activity changed the logistics landscape? How can the industry solve the talent shortage? Will driverless vehicles ease the driver shortage challenges? And many more.

Save your space today: www.3PLSummit.com/Register

For more information about the 3PL Summit taking place June 16-18, including agenda topics, latest speakers and sponsorship opportunities, visit www.3PLSummit.com Or contact the event director below:

Mr. Haley Garner

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Join These Leading 3PI Speakers

- John Costanzo, President, **Purolator**
- Chris Taylor, GM Chicago, **Uber**
- Brad Jacobs, CEO, **XPO**
- Hervé Montjotin, CEO, **Norbert Dentressangle**
- Scott Temple, President Contract Logistics, **Norbert Dentressangle**
- James Welch, CEO, **YRCW**
- Jose Ubeda, SVP, **Expeditors**
- Tom Sanderson, CEO, **Transplace**
- Doug Waggoner, CEO, **Echo Global Logistics**
- John Carr, CEO, **MiQ**
- Egil Moller Nielsen, SVP, eCommerce, **SmartCentres**
- Scott McWilliams, Executive Chairman, **OHL**
- Chris O'Brien, CCO, **C.H. Robinson**
- John Hextall, President North America, **Kuehne + Nagel**

As Well As These Customer Speakers:

- Don Hnatyshin, SVP Chief Procurement Officer, **Jabil**
- Reuben Slone, SVP Supply Chain, **Walgreens**
- Scott Spata, VP Direct Fulfillment, **Home Depot**
- Gautam Grover, VP, Logistics Services, **US Foods**
- Neil Swartz, VP and GM Parts Operations, **Toyota North America**
- Pat Lalonde, SVP Supply Chain, **CareFusion (retired)**
- Paul F Nehlen III, SVP Operations, **Neptune Benson**
- Jim Hourigan, COO, **BuildDirect**
- Kurt Doelling, VP SC, **Oracle**
- Larry Hartley, SVP Supply Chain, **Office Depot**
- Kehat Shahar, VP of Supply Chain Planning, **SanDisk Corporation**
- David Wilkins, VP of Contracts and Supply Chain, **Raytheon Company**
- Jim Tompkins, CEO, **Tompkins International**