Annual Global CSCMP Conference 2011

October 2-5 Philadelphia

North American, European & Asia-Pacific Markets for 3PL Services:

The 2011 3PL Provider CEO Perspective

Dr. Robert C. Lieb	Dr. Kristin Lieb	Joseph Gallick
Professor | Supply Chain Management	Assistant Professor | Marketing	Senior Vice President | Sales
Northeastern University	Emerson College	Penske Logistics

Discussion Topics

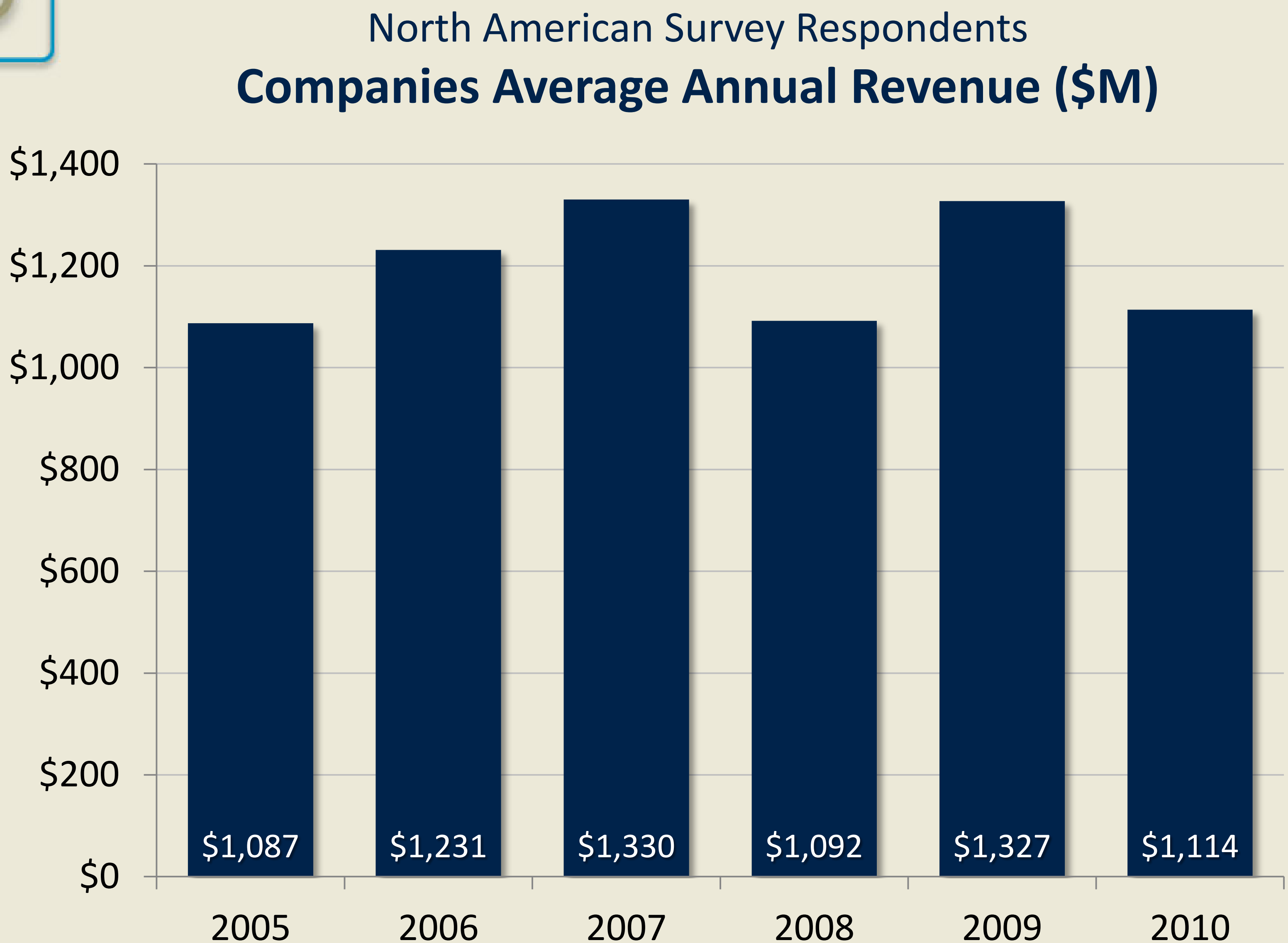
- Introduction to the Surveys and Findings
- Summary of Major Regional Findings
  - North America
  - Europe
  - Asia-Pacific
- Other Key Findings
- Observations and Expectations

2011 Third-Party Logistics Provider CEO Surveys

- This is the 18th iteration of these annual CEO surveys.
- 36 CEOs of the world's leading 3PLs participated in the three regional surveys.
  – North America, Europe, and Asia-Pacific.
- Collectively their companies generated approximately $58 billion in 3PL revenues in those markets in 2010.
- The surveys provide insights to the 3PL industry:
  – Global overview from the CEO perspective.
  – Regional market specifics, allowing comparisons across geographies.

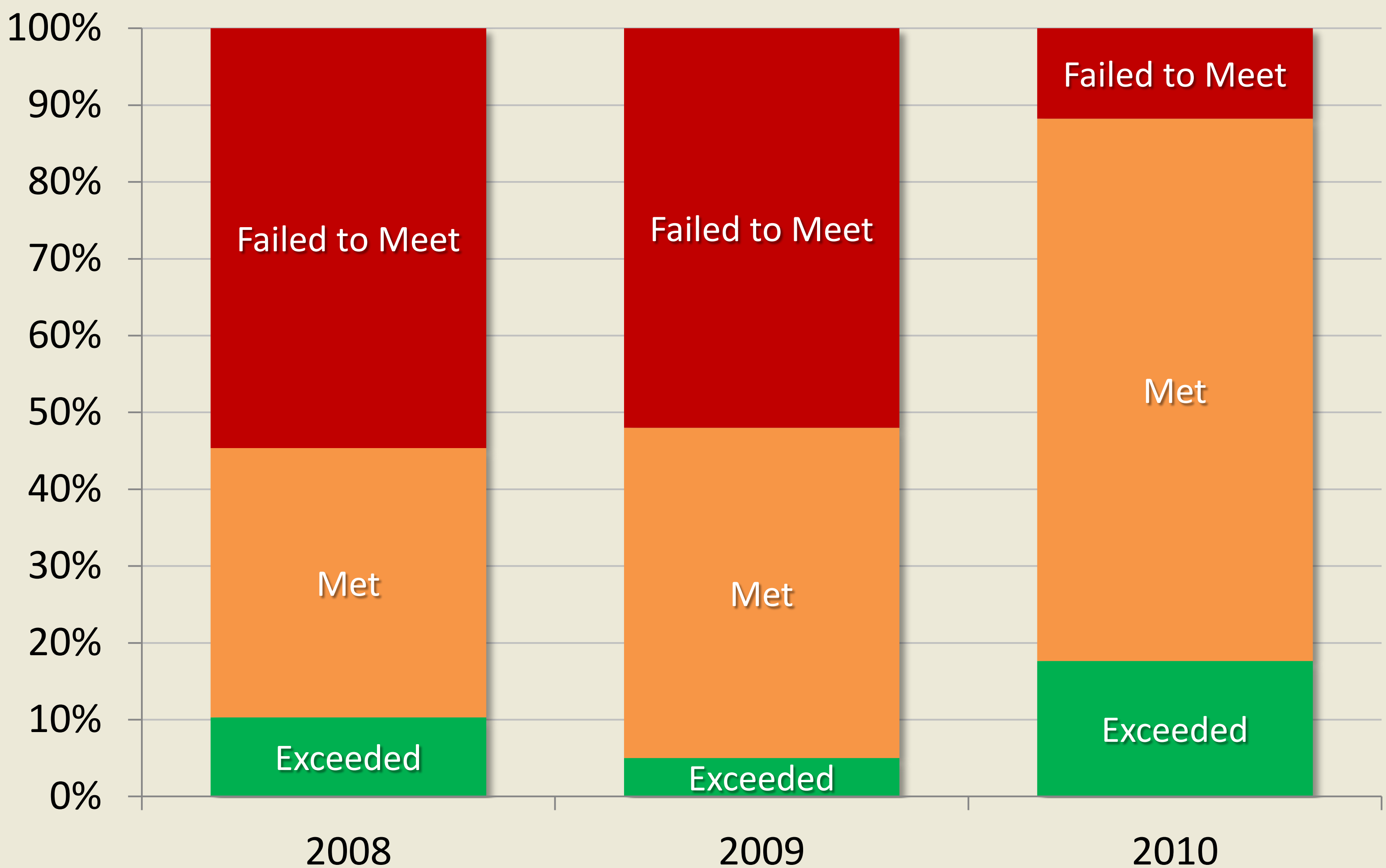
North American Survey Respondents
CEO Participants

- Agility Logistics
- Cardinal Logistics
- Caterpillar Logistics
- DHL Exel Supply Chain
- DSC Logistics
- Genco Supply Chain Solutions
- Kuehne + Nagel Logistics, Inc.
- Menlo Logistics
- MIQ Logistics
- Penske Logistics
- Schenker
- Schneider Logistics
- Transplace
- UPS Supply Chain Solutions
- UTi Integrated Logistics
- Werner Logistics
- Yusen Logistics


North American Survey Respondents
Companies Average Annual Revenue ($M)
$1,400
$1,200
$1,000
$800
$600
$400
$200
$0
$1,087
$1,231
$1,330
$1,092
$1,327
$1,114
2005
2006
2007
2008
2009
2010

North American Survey Response

Performance to Growth Objectives



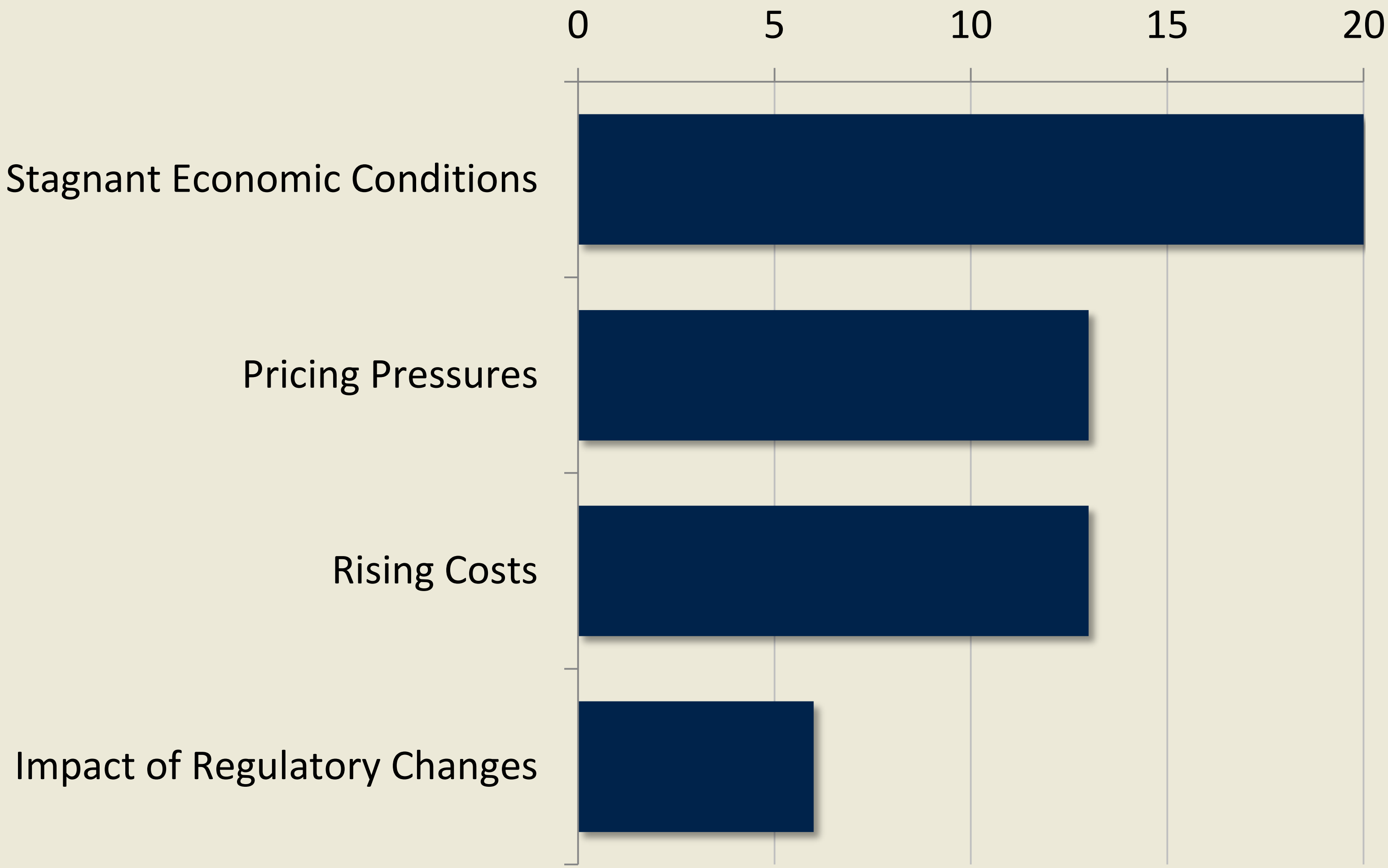
3PL Profitability

None of these companies were unprofitable in 2010, and no CEO believed the regional 3PL industry operated at a loss for the year.

- Company Performance
  - 3 Very Profitable
  - 12 Moderately Profitable
  - 1 Broke Even
- Industry Performance
  - 13 Moderately Profitable
  - 4 Broke Even

North American Survey Respondents

CEO Concerns | Industry Dynamics



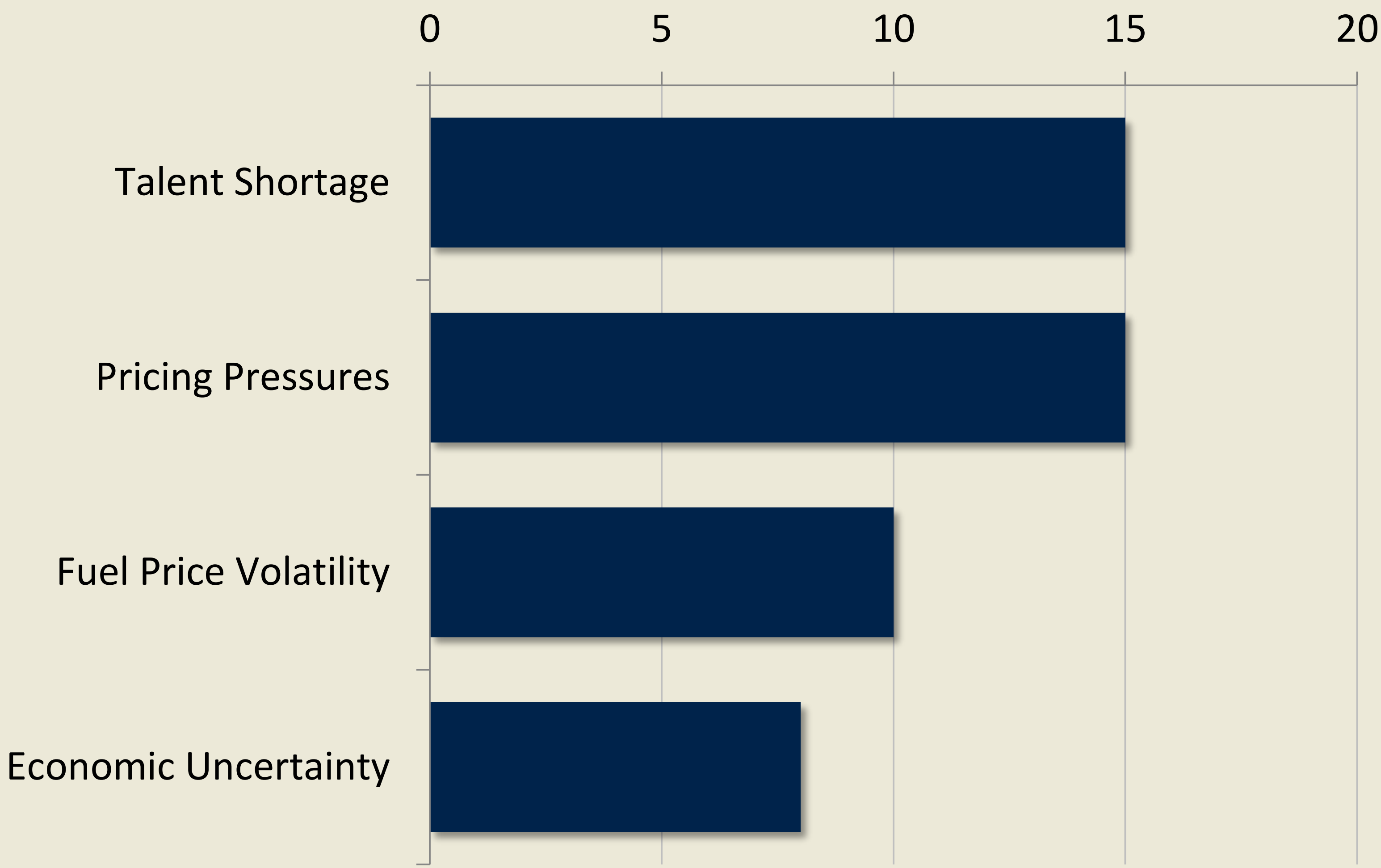
North American Survey Response

Regional Market Opportunities

- Offering enhanced technology solutions
- Collaborative relationships with key customers
- Expansion of value-added services
- Expanding scope of services to existing customers
- Expansion of NAFTA cross-border logistics services
- Gaining market share through mergers & acquisitions

North American Survey Respondents

CEO Concerns | Most Significant Problems



North American Survey Response

Significant Market Developments

- Most cited…
  - The economic rebound
  - Risk of another recession
  - Price driven customer decision making with short-term focus
  - Capacity shortage in the TL marketplace
  - Erratic fuel prices
- Sustainability is now a market differentiator
- Unpredicted change is the norm; quick response capability has real market value
- The soft economy led to excess warehouse capacity in the industry
- New federal regulations, such as CSA2010
- Many new mid-size competitors entered the industry
- The cost of all inputs continue to rise as pressure on rates increases

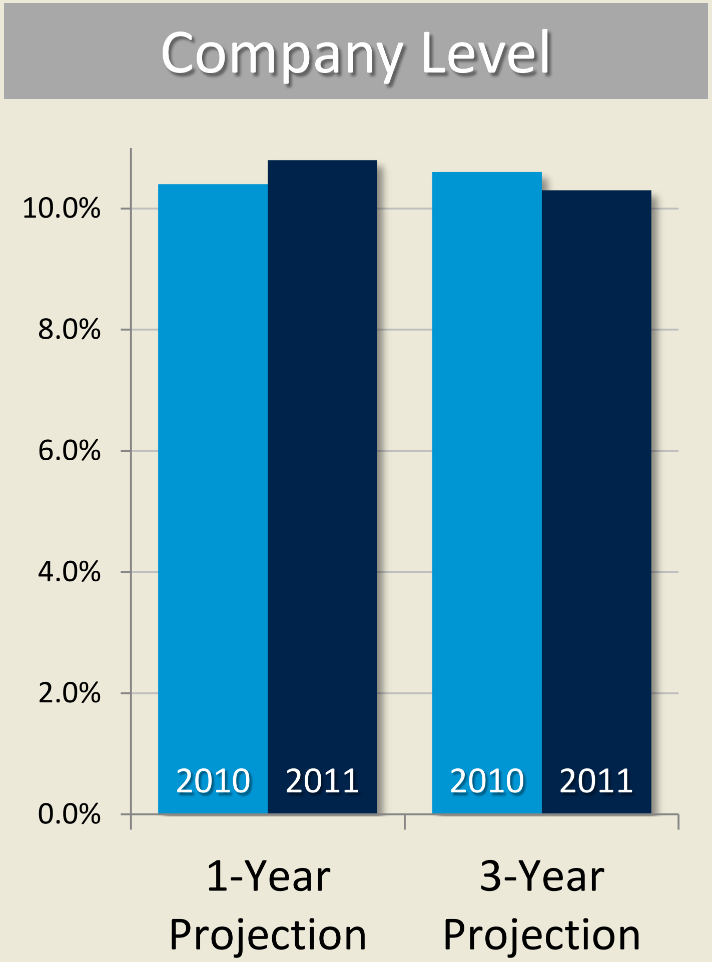
North American Survey Response

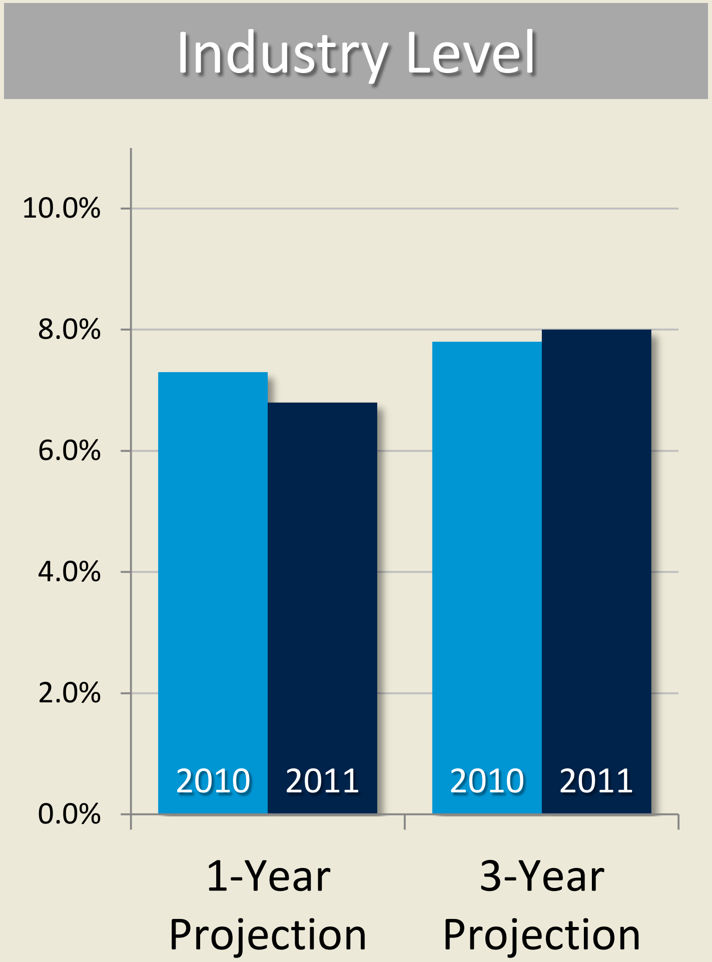
Expected Market Changes (1 Year)

- More regional 3PL industry mergers and acquisitions
- Continued regional economic volatility
- More collaboration in customer supply chains
- Greater pressure to control costs in 3PL operations
- More visibility for “green” initiatives in regional 3PL
- More focus on transportation infrastructure in NA
  - Particular attention given to port infrastructure

North American Survey Respondents

Revenue Growth Forecast



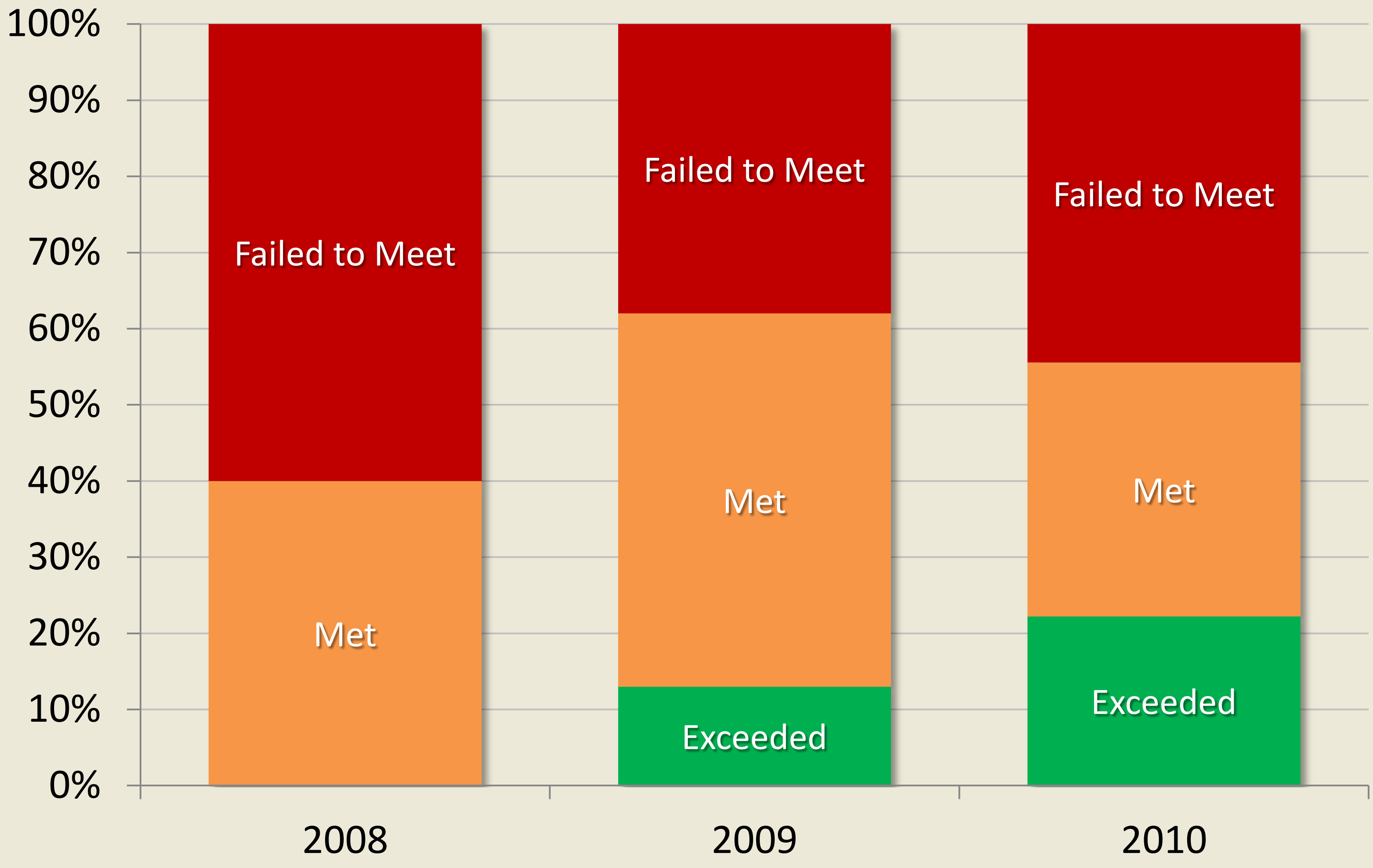


European Survey Respondents
CEO Participants

- Agility Logistics
- CEVA Logistics
- DHL Exel Supply Chain
- Kuehne + Nagel Logistics, Inc.
- Menlo Logistics
- Penske Logistics
- UPS Supply Chain Solutions
- UTI
- Wincanton

European Survey Response

Performance to Growth Objectives



European Survey Response

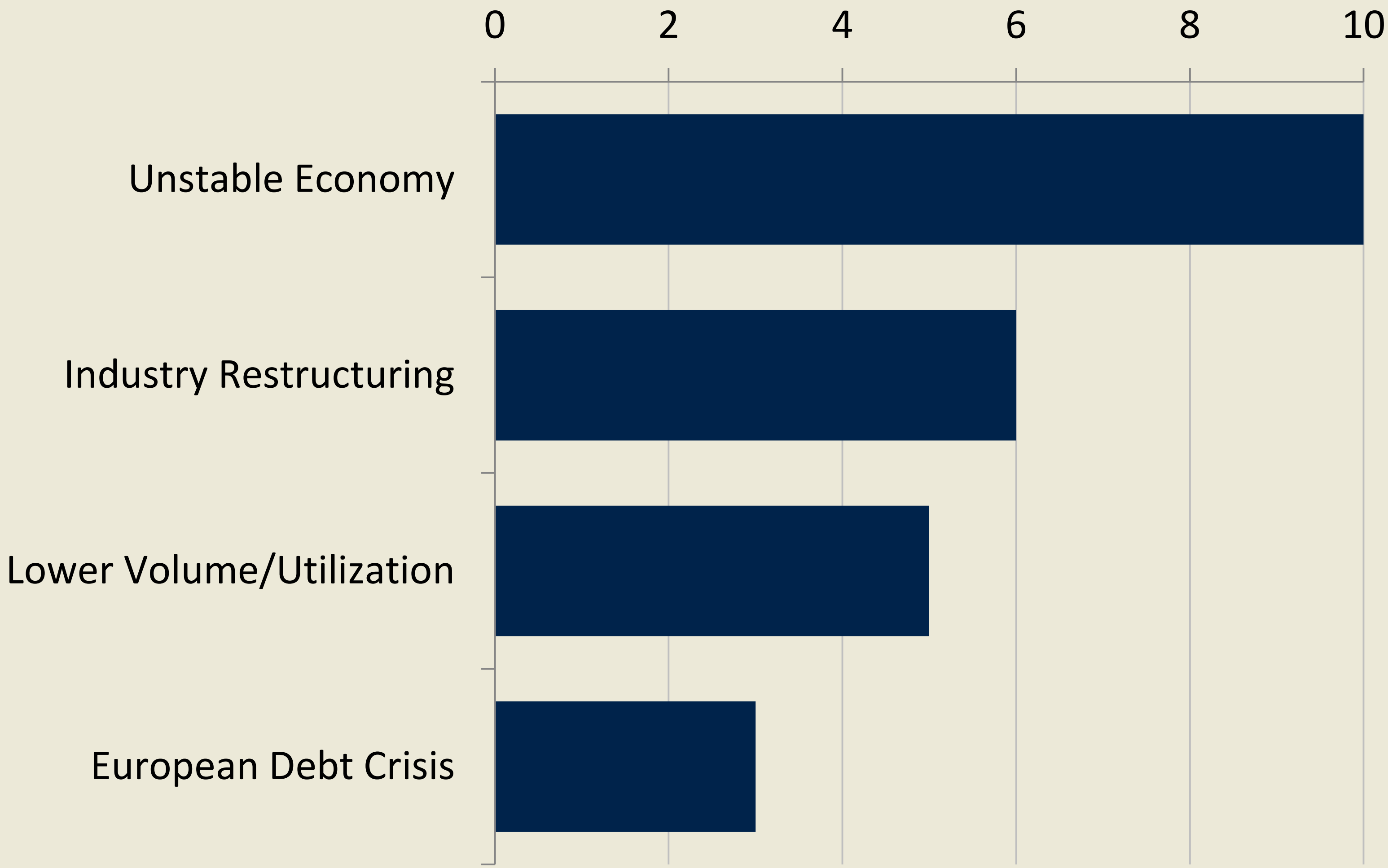
3PL Profitability

Three of the CEOs indicated their companies were unprofitable in Europe in 2010; none believed the regional 3PL industry lost money during the year.

- Company Performance
  - 5 Moderately Profitable
  - 1 Broke Even
  - 3 Unprofitable
- Industry Performance
  - 6 Moderately Profitable
  - 3 Broke Even

European Survey Respondents

CEO Concerns | Industry Dynamics



European Survey Response

Market Opportunities

- Gain market share through M/A
- Take market share from 3PLs with M/A problems
- Build collaborative relationships with key accounts
- Expand services in Eastern Europe
- Offer more specialized services in certain industries such as pharmaceuticals
- Promote the concept of the pan-European warehouse in the market

European Survey Respondents

CEO Concerns | Most Significant Problems

European Survey Response

Significant Market Developments

- Many customers are using smaller warehouses
- European truck freight increasingly dominated by large players
- Continued consolidation within the European 3PL industry
- Overcapacity of warehousing space, and undercapacity of transport equipment
- Increasingly difficult to support customers in an uncertain market
- New competitors from Emerging Markets entered market
  - China, South Arica, Australia, etc.
- Government regulations increased in the areas of security, health and safety, and the environment
- Commoditization of products previously considered premium goods

European Survey Response

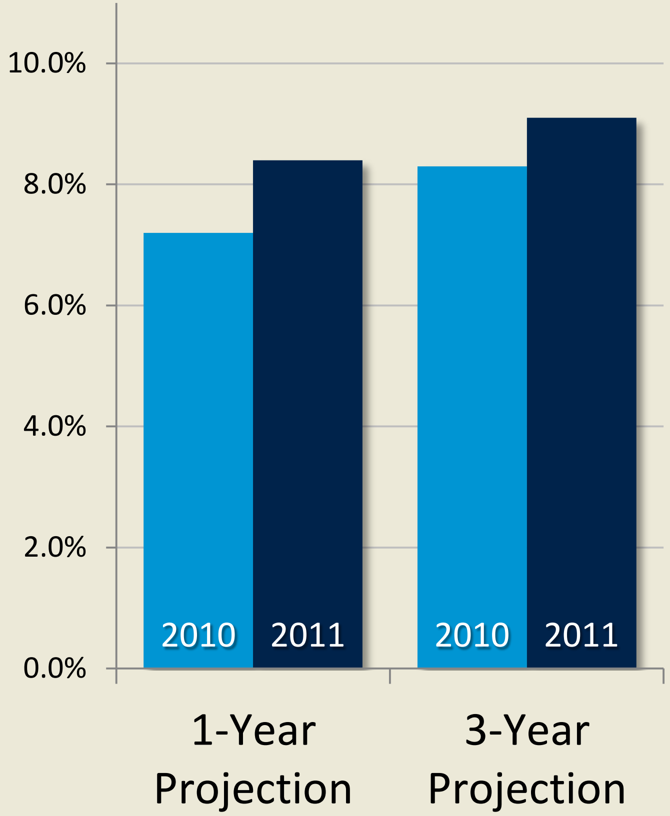
Expected Market Changes (1 year)

- Consolidation with large 3PLs becoming dominant
- Intense competition between large and niche players
- Continued service and geographic rationalization
- Increased focus on operational excellence and customer satisfaction
- Some return of in-sourcing, particularly in the consumer goods industry

European Survey Respondents

Revenue Growth Forecast

Company Level



Industry Level

Asia-Pacific Survey Respondents

CEO Participants

- Caterpillar Logistics
- CEVA Logistics
- DHL-Exel Supply Chain
- Kuehne + Nagel Logistics, Inc.
- Menlo Logistics
- MIQ Logistics
- Penske Logistics
- Schneider Logistics
- UPS Supply Chain Solutions
- UTi Integrated Logistics

Asia-Pacific Survey Response

3PL Profitability

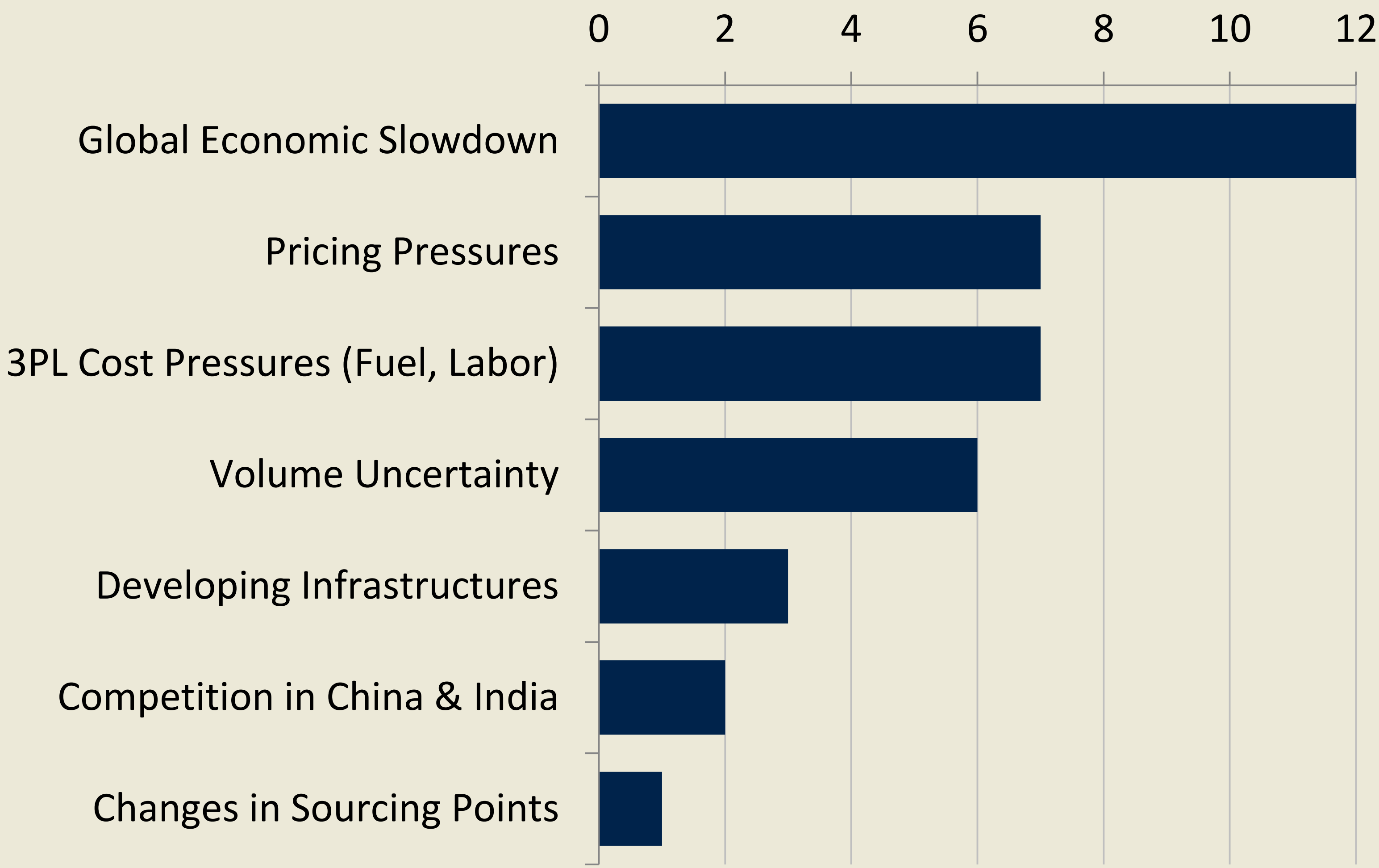
Nine of the ten companies at least met their regional revenue projections in 2010

All believed the regional 3PL industry was at least moderately profitable for the year.

- Company Performance
  - 2 Very Profitable
  - 6 Moderately Profitable
  - 1 Broke Even
- Industry Performance
  - 1 Very Profitable
  - 9 Moderately Profitable

Asia Pacific Survey Respondents

CEO Concerns | Industry Dynamics



Asia-Pacific Survey Response

Market Opportunities

- Grow volume in China and India
- Expand intra-Asia services
- More extensive road transport services to support manufacturing in China as it moves inland
- Attract new 3PL customers as market grows & expands
- Sell more deeply into existing accounts
- Support emerging B2C e-commerce supply chains
- Oil and gas industry logistics
- Rollout low cost technologies to support best practices

Asia-Pacific Survey Respondents

CEO Concerns | Most Significant Problems

Asia-Pacific Survey Response

Significant Market Developments

- Guangdong & Hong Kong decline as manufacturing centers
- Manufacturing shifted to other low-cost countries and to China's Western Provinces
- Wages and benefits continued to rise in China
- Increased demand for "all-in-one" supply chain services
- The 3PL market continued to be too fragmented
- Increased focus on oil/gas and related logistics activities
  - These industries are still "immature"
- Unpredicted changes rocked the industry

Asia-Pacific Survey Response

Expected Market Changes (1 year)

- Continued regional growth driven by increased domestic consumption
- Increased import traffic, particularly into China
- More consolidation activity
- Acceleration of Go-West policy in China
- 3PLs will increase their presence in low-cost countries such as Vietnam and Bangladesh
- Changes in customer sourcing patterns and their requirements for 3PL services in the region

Asia-Pacific Survey Respondents

Revenue Growth Forecast

Company Level

Industry Level

2011 CEO Survey

Other Key Findings

- Mergers & Acquisitions
- Tsunami & Earthquake
- Social Networking & 3PLs
- Environmental Sustainability
- Regional Comparisons
- Observations & Expectations

Other Key Findings

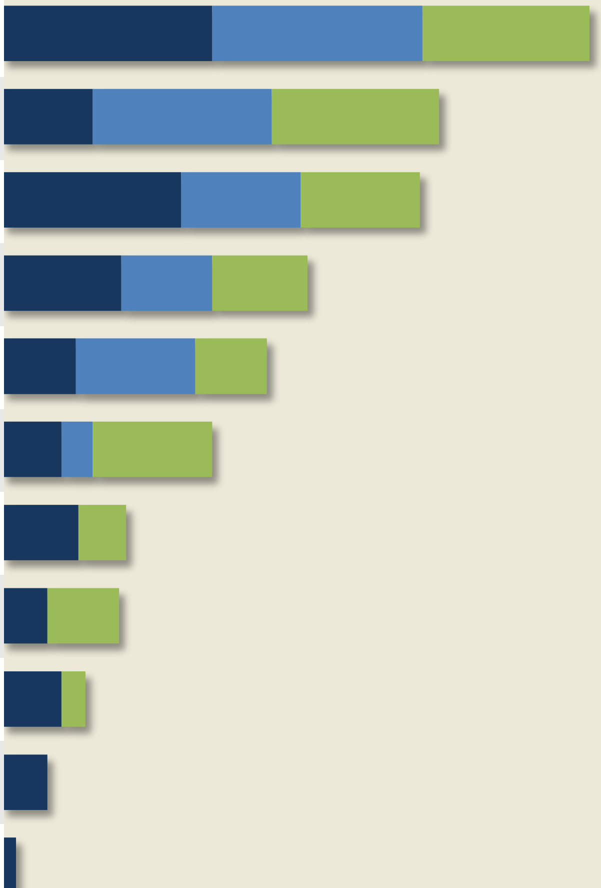
Mergers & Acquisitions

- Only 5 of the 36 CEOs reported significant M/A activity during the past year
- Most believed the 3PL consolidation movement will continue in their regions
- CEOs expect less than 9% of average annual revenue growth to come from M/A over the next three years
  - North America: 8.7%
  - Europe: 1.8%
  - Asia-Pacific: 6.3%

Other Key Findings | Tsunami & Earthquake

Issues with Significant Customer Impact by Region

	NA	EU	APAC
Disruption of Supply	88%	88%	70%
Transportation Disruption	38%	75%	70%
Reduced Production	75%	50%	50%
Disruption of Lean Operations	50%	38%	40%
Supplier Failure	31%	50%	30%
Loss of Sales in Japan	25%	13%	50%
Customer Service Problems	32%	0%	20%
Communication Disruption	19%	0%	30%
Loss of Facilities	25%	0%	10%
Power Disruption	19%	0%	0%
Lost Data	6%	0%	0%



Other Key Findings

Tsunami & Earthquake

- Industries hardest hit; Automotive & High-Tech/Electronics
- Likely changes in customer strategies:
  - More suppliers
  - More active planning for supply chain disruption
  - More safety stock
  - More near-shoring
- Only two 3PLs reported operating practice changes related to the tsunami; 8 reported new contingency planning efforts
- 31 (86%) of the 3PLs had business continuity plans in place prior to the event; 28 plans had natural disaster elements

Other Key Findings

Tsunami & Earthquake | Lessons Learned

- Disaster preparedness must be embedded into a business model
- Contingency planning is very important
- A detailed, deeper operational plan is necessary to ensure customer needs are met if a particular office cannot function
- Strong collaboration and timely sharing of information is essential
- You must have a comprehensive plan managed by a dedicated team
- Updated on-the-ground status reports to customers are critical
- The importance of supply chain flexibility and redundancy
- People are the most important component of any plan
- Customer supply chains are fragile
- It's important to balance lean supply chains against risk averseness
- Relationship management with key accounts becomes critical
- Crisis management teams are needed to coordinate an effective response

Other Key Findings | Tsunami & Earthquake

Likely Impact On Future Supply Chain Strategies

Other Key Findings

Social Networking & 3PLs

- 3PL goals related to use of social networking: build brand awareness, attract/connect with customers, employees, and potential employees, solicit customer feedback, link to industry organizations

64% have LinkedIn Accounts

47% have Facebook pages

36% have Twitter accounts

28% post videos on YouTube

17% have company blogs

- 69% believe social media will become increasingly important in 3PL industry
- 50% believe social media is vital to brand building
- 31% believe it is vital to building customer loyalty
- Impact to date—positive but minimal

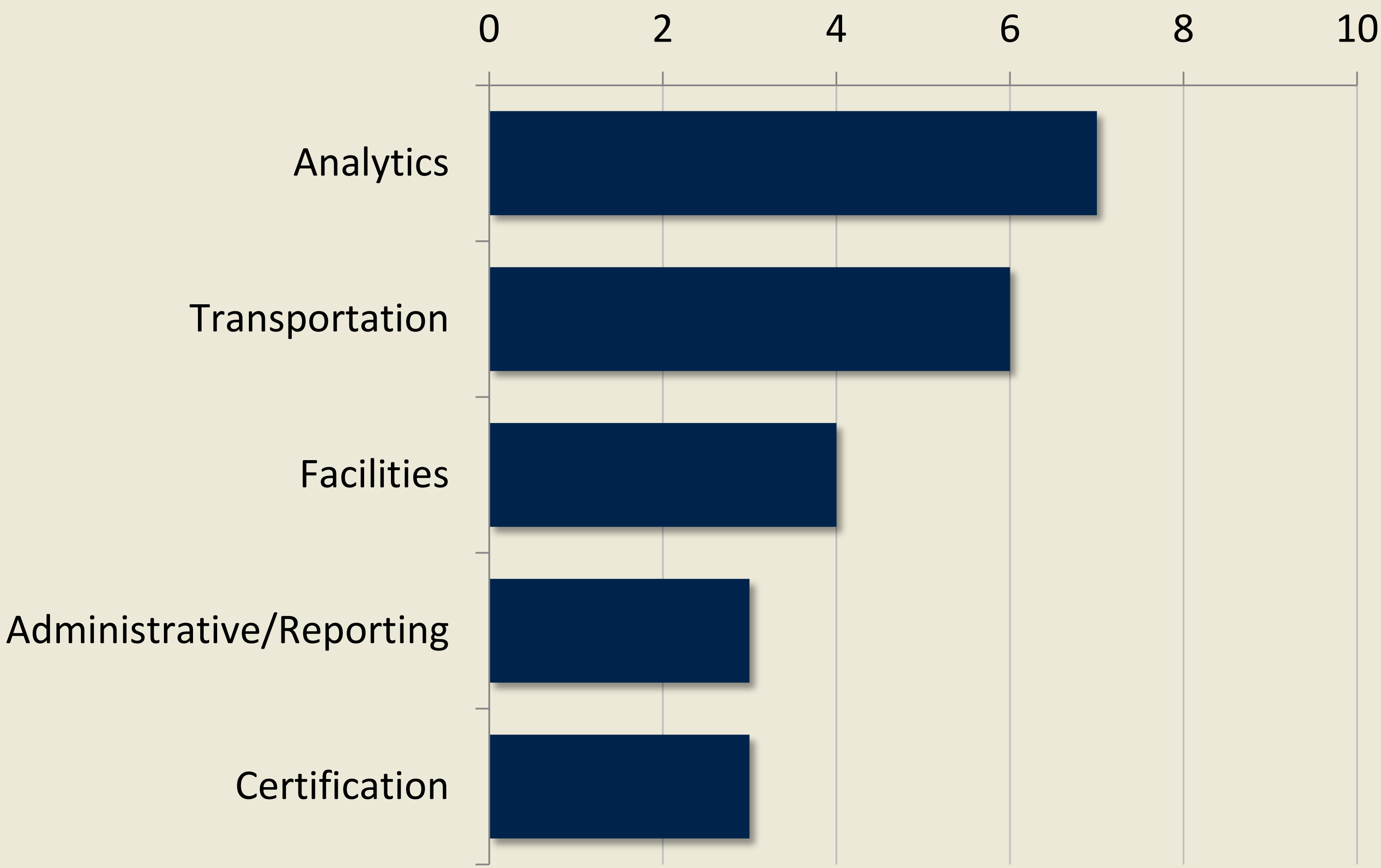
Other Key Findings

Environmental Sustainability

- Despite the volatility of the global economy 3PL involvement in environmental sustainability issues continued to expand
- 16 of the 36 CEOs reported their companies launched new sustainability initiatives during 2010
- 19 CEOs reported expanding existing sustainability projects
- Percentage of existing customers asking 3PLs to analyze their supply chains in terms of environmental impact/cost:
  - North America: 15% last year, 8% this year
  - Europe: 7% last year, 8% this year
  - Asia-Pacific: 9% last year, 7% this year
- “Green” capability major factor in getting/keeping clients:
  - “Infrequently” according to 86% of respondents

Other Key Findings

Most Significant Sustainability Developments



Other Key Findings

Environmental Sustainability

- Examples of new and/or expanded efforts…
  - Developed carbon measurement system for clients
  - Installed solar panels in DC
  - Initiated use of hydrogen fuel cells
  - Established new position of VP of sustainability
  - Began governed speed systems for vehicle fleet
  - Began testing concept of reusable fuels
  - Introduced DCC services to recycling and waste management companies
  - Invested in related software
  - Institutionalized modal shifts to more fuel efficient modes
  - Mandated use of “green” cleaning supplies
  - Installed water recapture/recirculation pond for landscaping
  - Established DC bypass program, saving 600,000 miles
  - Replaced fuel forklifts with electric units

Other Key Findings

Regional Comparisons

- On average, NA and APAC were more successful in meeting growth projections & generating profits than Europe last year
- The revenue growth projections continue to be strongest in the APAC region and weakest in Europe
- Revenue growth likely attributed to acquisitions over the next three years projected to be quite limited in all three regions
- The involvement of the 3PLs in social networking activities has been most extensive in NA
- The Japanese tsunami and earthquake significantly impacted 3PL customers in all three regions and led to review of SCM strategies
- 3PLs in all three regions have maintained, and in many cases expanded, involvement in environmental sustainability programs

Other Key Findings

Regional Comparisons

- But "Green" still of limited significance in getting and maintaining 3PL contracts
- The dominant industry dynamic in all three regions was the stagnant global economy, with pricing pressures continuing in all regions
- The most significant opportunities identified by the CEOs varied widely by region
- In all three regions the most significant problem remains finding and keeping management talent
- In all three regions CEOs anticipate a continuation of industry restructuring, primarily through mergers & acquisitions

Other Key Findings

Observations & Expectations

- Revenue growth will continue in all three regions
- Industry restructuring will continue with more private equity money coming into the industry
- Many 3PLs will focus greater attention on business continuity planning
- Many 3PL clients will reassess sourcing strategies, inventory commitments and the future extent of their commitment to lean and JIT principles
  - This may provide new opportunities for 3PLs
- Near sourcing will become a more significant SCM consideration

Other Key Findings

Observations & Expectations

- Much more extensive use of social networking tools
- Environmental sustainability commitments will continue and expand in the industry, particularly as 3PLs realize the cost savings potential of such efforts
- Managerial talent will remain in short supply in the industry reflecting concerns about industry stability
- Many 3PLs will follow existing customers to lower cost markets in APAC while lessening commitments in China
- More 3PL industry attention to be given to expansion efforts in Central and South America as well as Africa

Questions