



The State of Logistics Outsourcing
2008 THIRD-PARTY LOGISTICS

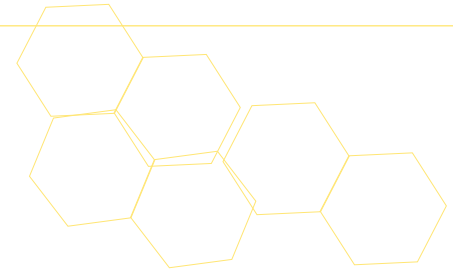
results and findings of the 13th annual study

EXECUTIVE SUMMARY



Executive Summary

The State of Logistics Outsourcing in 2008



This report presents findings from the 2008 13th Annual Third-Party Logistics Study, which tracks the opinions and experiences of users of third-party logistics (3PL) services across the globe.

In mid-2008, 1,644 logistics executives completed a survey on trends and issues in third-party logistics. In addition, the study team conducted a facilitated workshop to interpret survey results, as well as focus interviews with experts on three special topics covered in this report: integrated logistics, green supply chain and supply chain security. The findings presented here are intended to help 3PLs and logistics outsourcers better understand and more effectively manage their relationships.

Current State of the 3PL Market

3PL users highly value their 3PL relationships, with 89% of all users surveyed agreeing they represent a strategic, competitive advantage to their companies. That sentiment is borne out by savings in costs and fixed assets and shorter order cycles. 3PLs are also delivering customer service and business process efficiencies. But these benefits result only from deliberate efforts to form strong relationships and through the use of detailed contracts that include clear expectations and metrics.

Due diligence is required to ensure proposed 3PL partners have demonstrated the ability to meet service-level commitments, invest in continuous improvements and achievements in service offerings, and reduce costs — the most common problems users have with their 3PLs. One area warranting particular scrutiny is a 3PL's planned technology investments; the gap between user IT expectations and 3PLs' ability to meet those expectations has persisted over several years of this study.

Although customers are spending more on average for logistics outsourcing, the percentage of budget devoted to outsourcing logistics, and the services outsourced, haven't changed dramatically over the past several years.

Companies continue their general tendency to outsource relatively commoditized services and to keep customer-facing or more strategic logistics services in-house.

Integrated Logistics

Historically, the needed integration of systems and services was accomplished by companies themselves as they purchased individual logistics services. Today, the 3PL sector has become a capable source of both systems and services integration for their customers. Often, this is referred to by 3PL marketers as “bundled,” “comprehensive,” or “one-stop shopping,” and usually involves integration of processes, technology, people, and services.

Three-quarters of 3PL users rely upon their 3PL providers for systems and services integration, particularly those with more mature, complex supply chains. Easing the burden of internal management, gaining efficiencies, lowering costs and improving overall effectiveness are highly valued benefits. But asking 3PLs to provide integration of systems and services may not be a fit for every situation. Loss of control, visibility and internal competency and perhaps most of all, fear of dependency by customers on 3PLs, make potential customers hesitate. These factors also may help to explain why some customers limit outsourcing contracts to more routine, commoditized services, instead of more innovative, strategic services. 3PL users should take steps to avoid excessive dependency and structure contracts that balance the costs and risks. What is clear is that assigning responsibility for the integration of systems and services requires serious thought and consideration.

Green Supply Chain

A substantial 86% of respondents agree that a green supply chain is somewhat or very important today and are almost unanimous (98%) in their belief that green supply chain initiatives are somewhat or very important to their companies' futures. However, survey questions regarding ROI, green as a factor in selecting 3PLs, and changing transportation modes reveal mixed opinions: Around one-half



of 3PL users are optimistic about taking action and reaping benefits from green initiatives while the other half are either unsure or even pessimistic. Clearly, there is widespread uncertainty about how to move forward with green supply chain initiatives.

Focus interview and workshop participants feel strongly, though, that doing nothing is not an option. They see transforming to a green supply chain as requiring three steps: becoming educated, measuring the company's carbon footprint and identifying change levers, and then embarking on business case-supported initiatives. Green initiatives should clear three hurdles: they must be acceptable financially, environmentally, and socially.

As green becomes a factor in operating a supply chain, those companies outsourcing these functions will inevitably rely on 3PLs to help satisfy green goals. The options for greening of supply chain operations range from small process changes, such as retraining drivers, to substantial capital investments including setting up green distribution centers. A number of changes, particularly those that involve improved use of transportation services, can be made today, often with the assistance of 3PLs. Generally, 3PL users would prefer that green supply chain initiatives not incur extra costs, but feel when costs do occur, they should be shared equitably between the 3PL and the customer. Early adopters are finding that green projects can generate savings. The ultimate challenge is to find ways that green can simultaneously reduce costs, increase revenues, and improve the environment.

Supply Chain Security

Government supply chain security regulations are highly focused on deterring terrorism, but for 3PL users, theft is the top-of-mind security concern. However, the changing business environment means companies must focus more attention on ensuring protection from a range of potential causes of supply chain disruption: other security threats, natural disasters, port or transportation shutdowns, and product tampering. Users are generally satisfied with 3PLs' security performance to date, with 76% calling their 3PLs secure or very secure. However, a review of specific supply chain security measures reveals a gap between 3PL users' expectations and the current security capabilities of their 3PLs.

3PL users believe physical security, collaboration and alerts are the most effective means for 3PLs to provide security. Users appear more concerned with the financial and operational effects of meeting compliance mandates than the

terrorist acts they're intended to prevent. Fortunately, there are a number of concrete steps companies and their 3PLs can take to assess and address security gaps, with attaining visibility, setting up the right processes, and minimizing touches being prominent among them. Perhaps the best news is that companies and 3PLs innovating in supply chain security have proved that these steps also yield considerable collateral benefits that help recoup costs and improve the overall state of the supply chain.

Strategic Assessment

Over the thirteen-year history of this study, we have seen considerable progress in 3PL-customer relationships, but growth has stalled in areas such as the type of services outsourced and 3PL investment in IT. To attain the potential benefits of engaging in more strategic, innovative services, 3PLs and users must step up their willingness to collaborate. Such behavior is also required for those seeking to successfully outsource the integration of supply chain systems and services. Openness to collaboration and use of integration-enabling technology by 3PLs are essential elements to successful use of 3PL systems and services integration.

While engaging a 3PL for integration of systems and services can be considered potentially powerful, but discretionary, our two other special topics, green supply chain and supply chain security, cannot be regarded as optional.

Green is rapidly becoming a measuring stick for supply chain success. The "greening" of the supply chain will have strong and increasing effects on both strategic and tactical aspects of supply chain management. Companies must act now to begin their green supply chain initiatives, and they must also take action to address the growing range of threats to the continuous operation of their supply chains. While compliance with government mandates is a growing burden, if the business community takes the lead in developing supply chain security solutions, there is a good chance that the collateral benefits of supply chain security will address the broader scope of risks and make a positive impact on balance sheets.

Supply chain executives continue to face new challenges in their quest to manage and adapt their operations to market conditions. In the thirteen years of this study, we have seen ample evidence that solid relationships between 3PLs and customers render both even better-equipped to address emerging issues such as environmental concerns, supply chain security demands, and whatever the next challenge becomes.

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