

# The Road Ahead for Logistics Service Providers (LSPs)

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ARC Advisory Group

# Key Takeaways

- The scope / definition of a Logistics Service Provider (aka 3PL) continues to change.
- The LSP industry is healthy and strong, but future growth depends on penetrating the mid-market, expanding in emerging economies, and moving up the value chain.
- Are LSPs at the IT tipping point? If not today, then soon—it's a question of survival.

# What is a LSP/3PL?

Source: 2006 Third-Party Logistics 11<sup>th</sup> annual Study, Georgia Tech et al

Outsourced Logistics Services					
Logistics Activity	All Regions	North America	Western Europe	Asia-Pacific	Latin America
Transportation	90%	83%	95%	95%	90%
Warehousing	74	74	76	77	57
Customs Clearance and Brokerage	70	71	59	83	65
Forwarding	54	55	54	66	15
Shipment Consolidation	47	44	50	53	35
Reverse Logistics (Defective, Repair, Return)	35	28	44	36	30
Cross-Docking	34	36	40	30	18
Transportation Management	34	27	36	48	18
Freight Bill Auditing/Payment	33	55	22	18	17
Product Labeling, Packaging, Assembly, Kit	33	26	45	33	20
Fleet Management	19	13	20	21	30
Supply Chain Consultancy by 3PL Provider	18	21	16	16	10
Order Entry, Processing, and Fulfillment	14	14	10	14	19
LLP/4PL Services	11	12	13	6	15
Customer Service	10	8	9	13	10

Transportation & Warehousing services still dominate

- Asset or non-asset based entity that manages one or more supply chain or logistics processes on behalf of a client.
- Scope of services has expanded beyond transportation and warehouse management to include Strategic Sourcing, Order Management, Contract Manufacturing, Inventory Management, Customer Service, Global Trade Management, IT Services...any process a client wishes to outsource.

# Convergence of Business Models

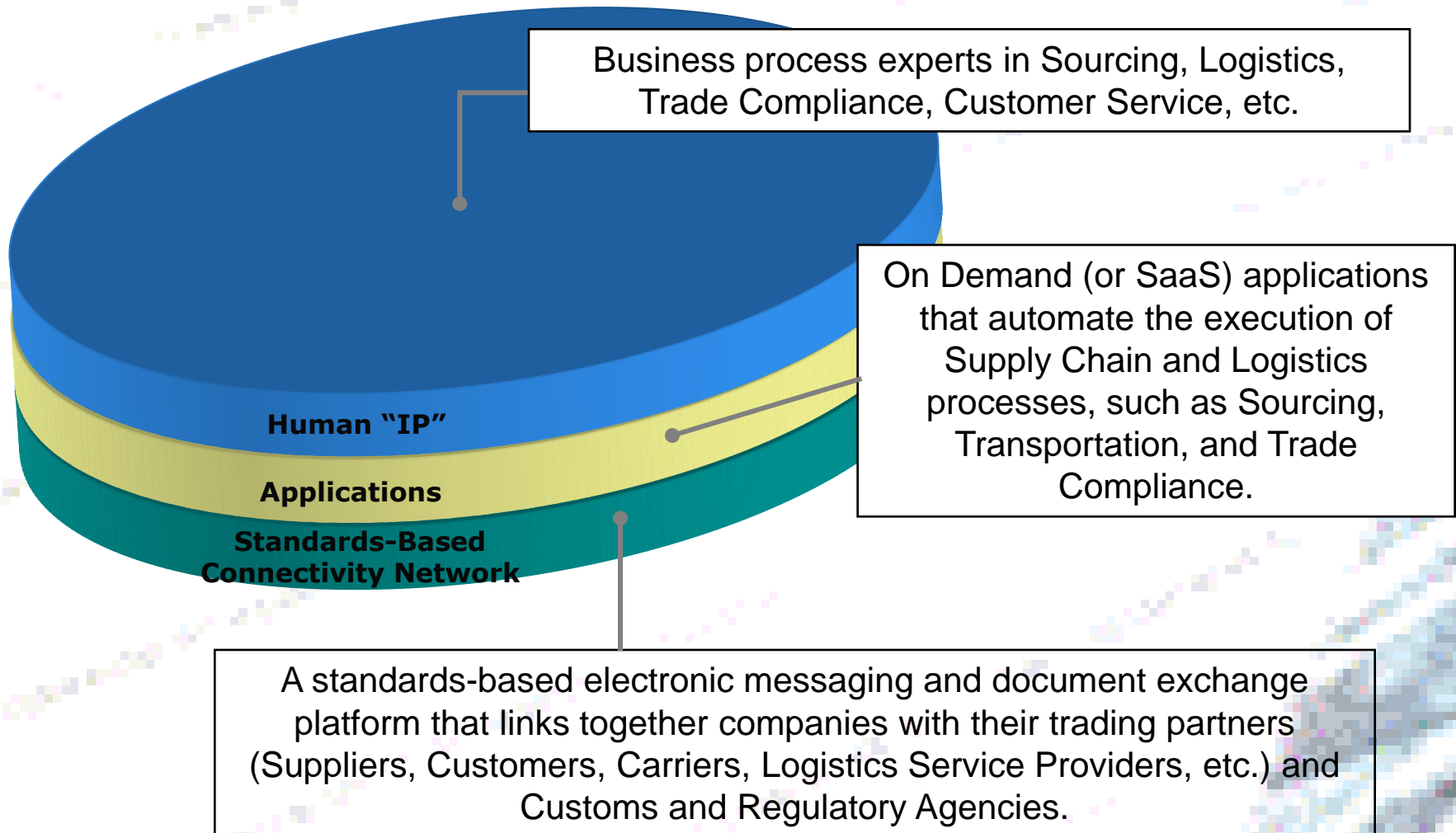
Software  
Vendors



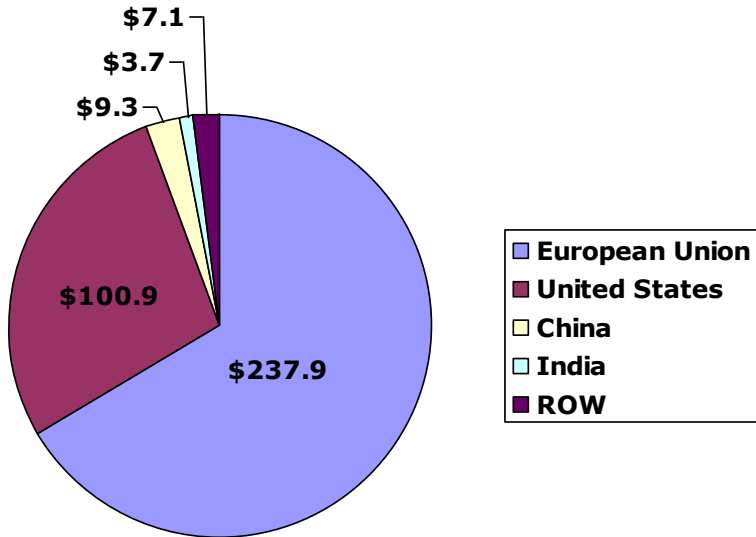
Consultants/  
IT Services

Logistics Service Providers

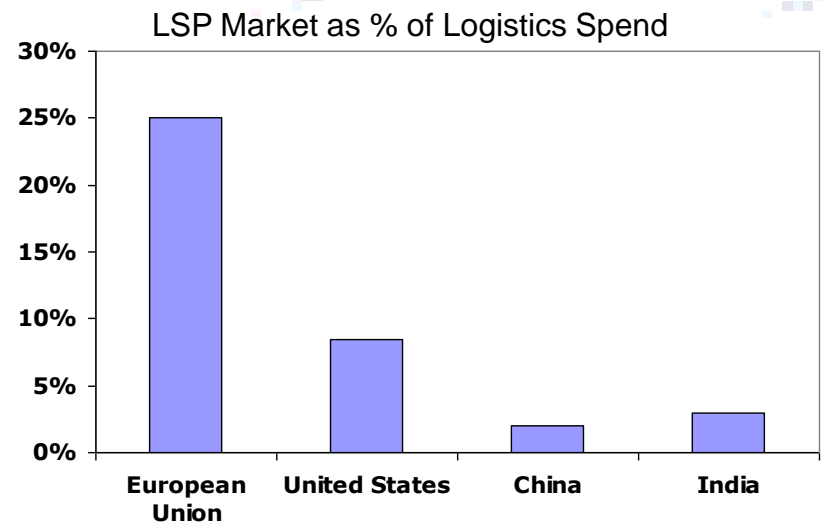
# The Next 'Big Thing' in Logistics



# WW LSP Industry: \$565 Billion by 2012

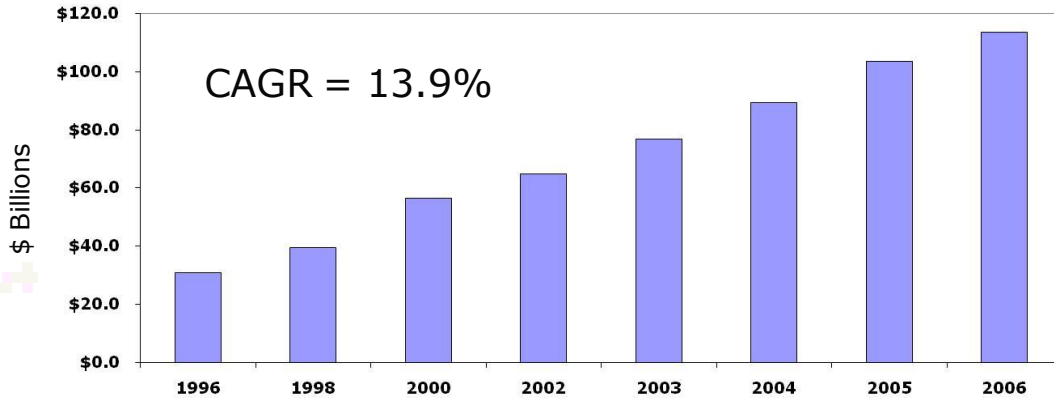


Breakdown of Worldwide LSP Market (\$ Billions)

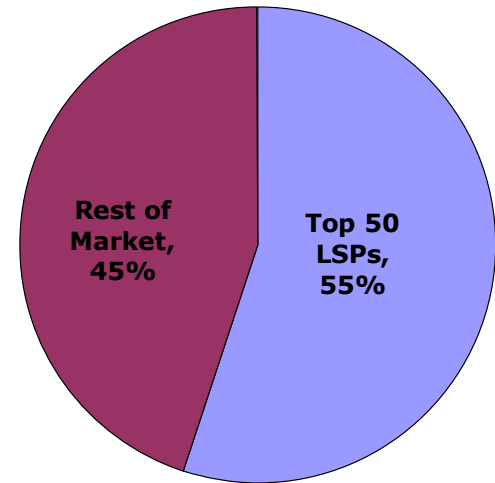


Greatest growth opportunity in Asia

# LSP Industry in the US



Source: Armstrong & Associates

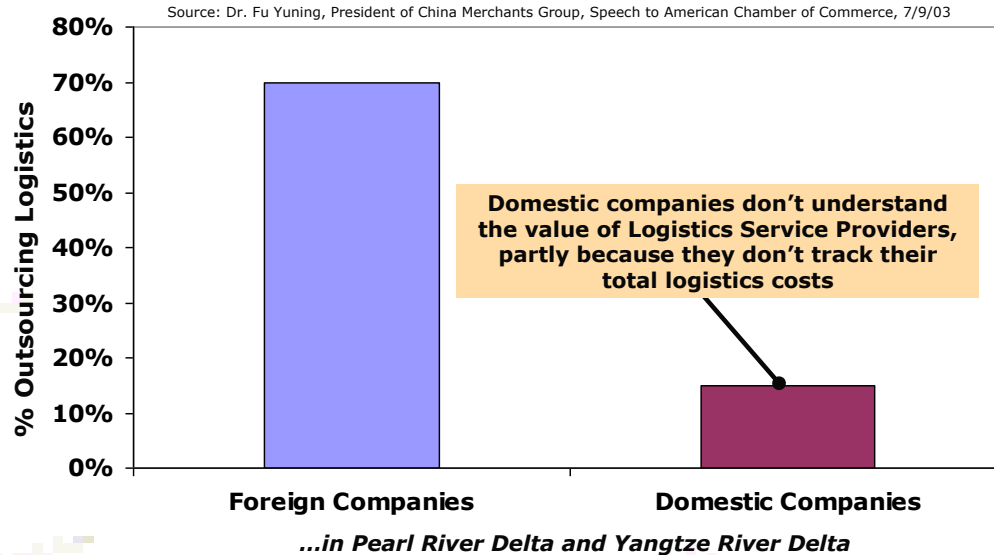


Breakdown of US LSP Revenues

## LSP market continues to grow

- *Tactical drivers*: LSP customers (manufacturers and retailers) want to reduce costs by eliminating assets and overhead
- *Strategic drivers*: LSP customers want to gain flexibility and enter new markets and geographies

# LSP Industry in China



- LSPs account for only 2-3% of total logistics spend
- LSP market growing about 20-30% per year
- No LSP controls more than 2% of the market
- Foreign investment in logistics is increasing
  - UPS, FedEx, DHL, Caterpillar Logistics, Meridian IQ...

Source: "State of Logistics in China," ARC Advisory Group, December 2005

## Chinese LSP Market: \$24 Billion by 2012

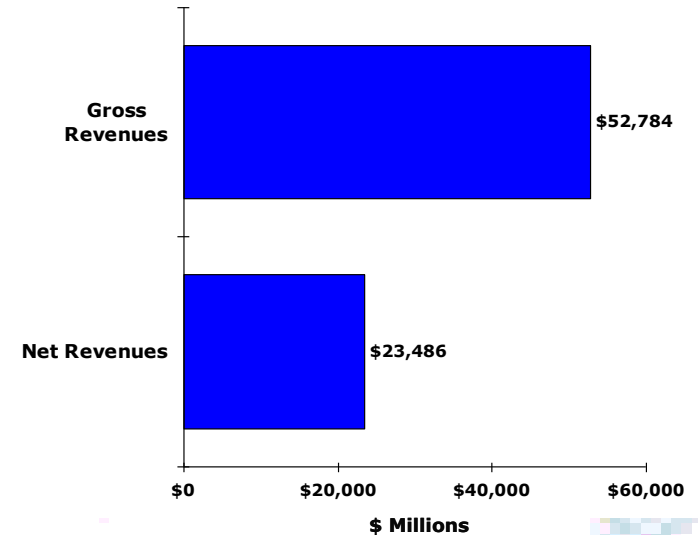


# ARC's LSP Market Study

## LSPs Profiled in Study

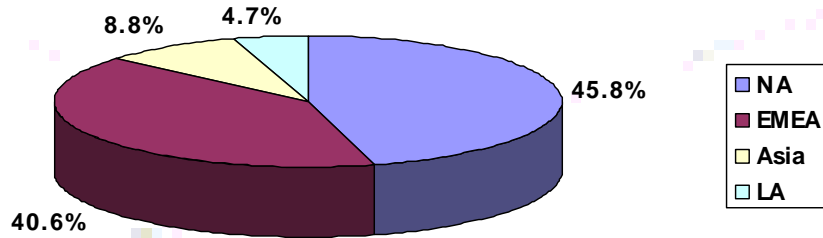
*BDP International*  
*Cardinal Logistics*  
*Caterpillar Logistics*  
*CH Robinson*  
*Choice Logistics*  
*DHL Logistics*  
*Exel*  
*Kuehne & Nagel*  
*Logistics Management Solutions*  
*Menlo Worldwide*

*Meridian IQ*  
*Odyssey Logistics & Technology*  
*Ozburn-Hessey Logistics*  
*Penske Logistics*  
*Ryder Logistics*  
*Saddle Creek*  
*Schneider Logistics*  
*TNT Logistics*  
*Transplace*  
*UPS Supply Chain Solutions*

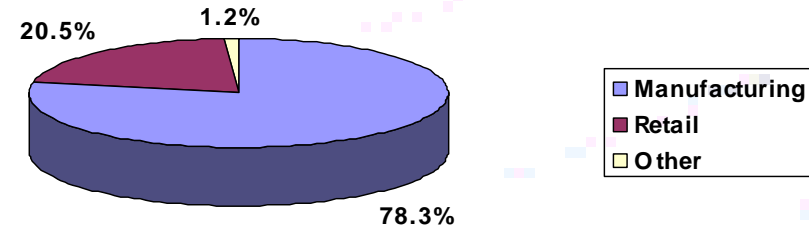


Study focused on 20 LSPs that serve as a reasonable proxy for overall market

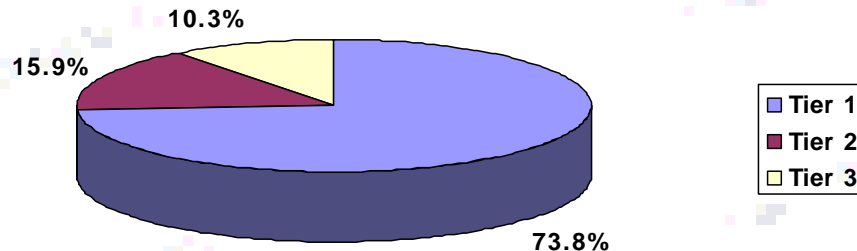
# Breakdown of Net Revenue



**Breakdown of Net Revenues  
by Geography**

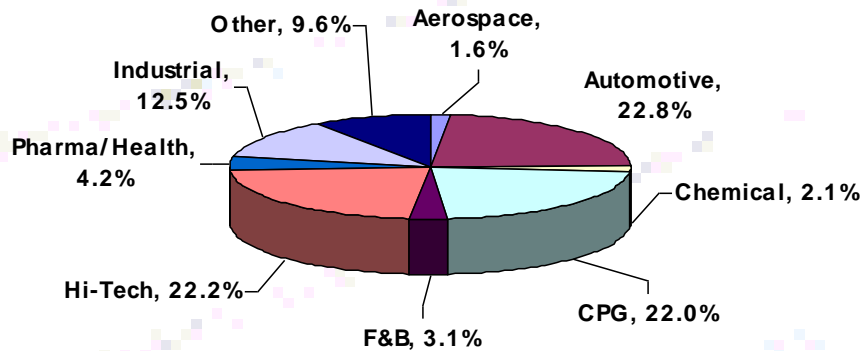


**Breakdown of Net Revenues  
by Sector**

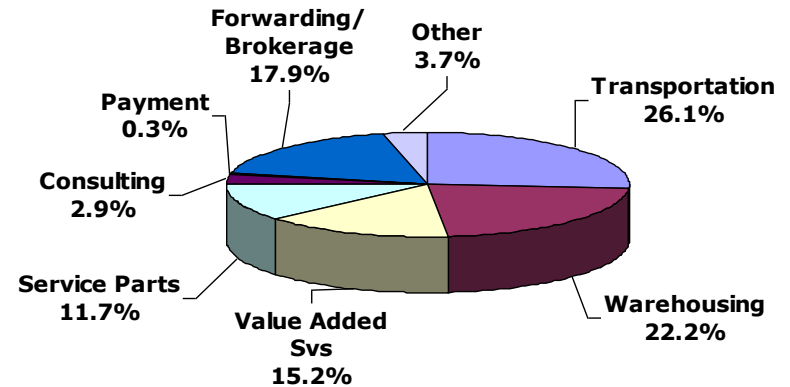


**Breakdown of Net Revenues  
by Customer Tier**

# Breakdown of Net Revenue



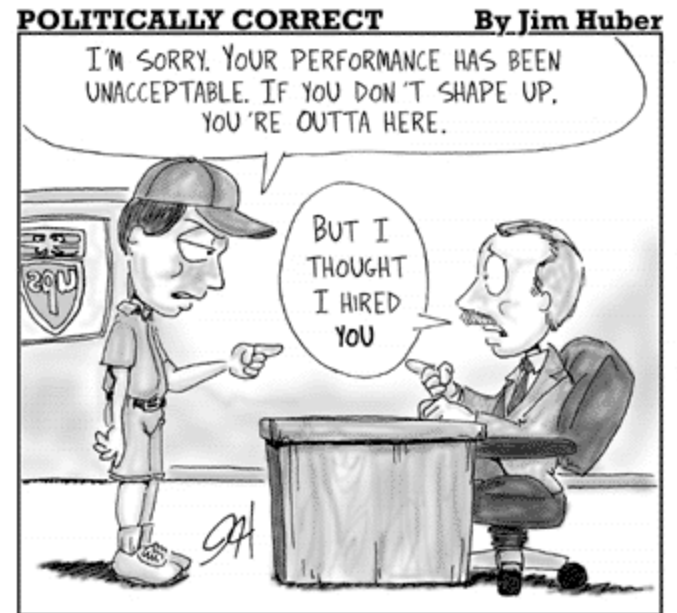
**Breakdown of Manufacturing Net Revenues by Vertical Industry**



**Breakdown of Net Revenues by Service**

# LSP Industry Trends

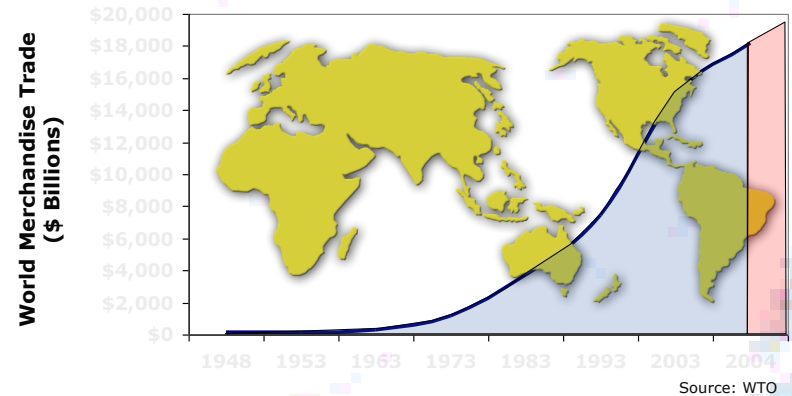
- ◆ Emphasis on PROFITABLE growth
  - LSPs becoming more selective on which clients to serve
  - LSPs becoming more selective on which services to offer
  - LSPs want to become more productive and efficient
- ◆ LSPs want to create end-to-end SOLUTIONS for clients as opposed to offering standalone services
  - Integrate services, assets, and expertise into well-defined solutions
  - Solutions aligned with specific processes and vertical industries
    - Example: RFID compliance in CPG, Retail, Pharma, and Defense



# LSP Industry Trends

## ◆ LSPs are beginning to take a GLOBAL perspective

- LSP customers requiring global presence and support
- LSPs see stronger growth opportunities in China and 'transitional' economies
- LSPs establishing global presence via acquisitions or partnerships
- Global Trade Management capabilities are critical for success



# LSPs Are Going Global



**Big Orange Gets the Green Light to Operate in China**  
*Schneider National Receives Business License; Will Begin Offering Domestic Transportation and Logistics Services in World's Third Largest Market*

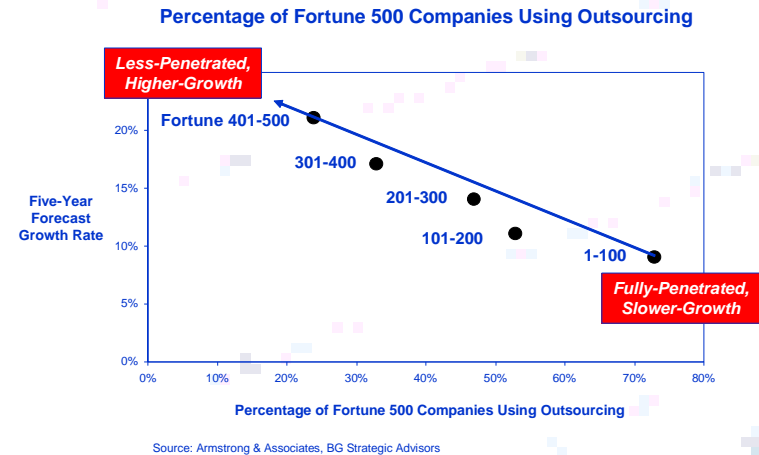


**Yellow Roadway Corporation Announces Name Change to YRC Worldwide Inc.**

*"Simply put, the breadth and depth of the enterprise is greater than the name Yellow Roadway conveys. We now operate in over 70 countries around the world and our services have expanded to encompass logistics as well as global, national and regional transportation," said Bill Zollars, chairman, president and CEO of YRC Worldwide.*

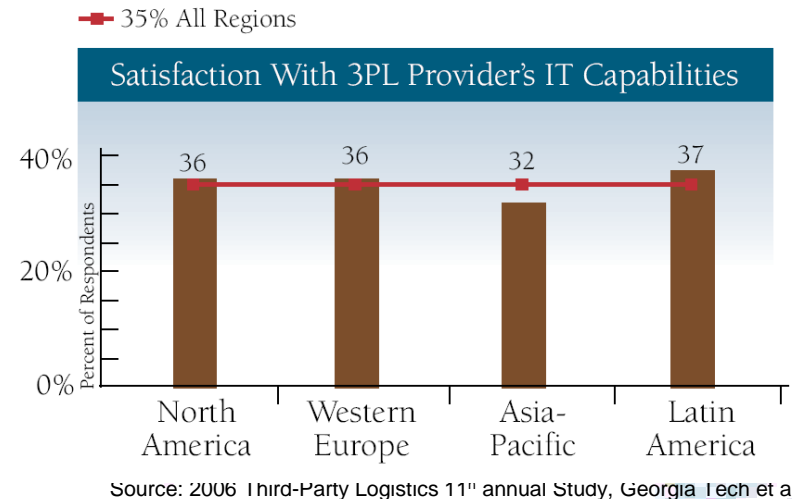
# LSP Industry Challenges

- ◆ LSPs must penetrate the mid-market to drive future growth
  - Must reduce 'cost of sales' to achieve profitable growth
  - Must simplify and standardize IT infrastructure
  
- ◆ Mergers & Acquisitions are changing competitive landscape
  - Threat of getting squeezed out by niche players from one end and by global, integrated providers from the other end
  - Threat of being commoditized



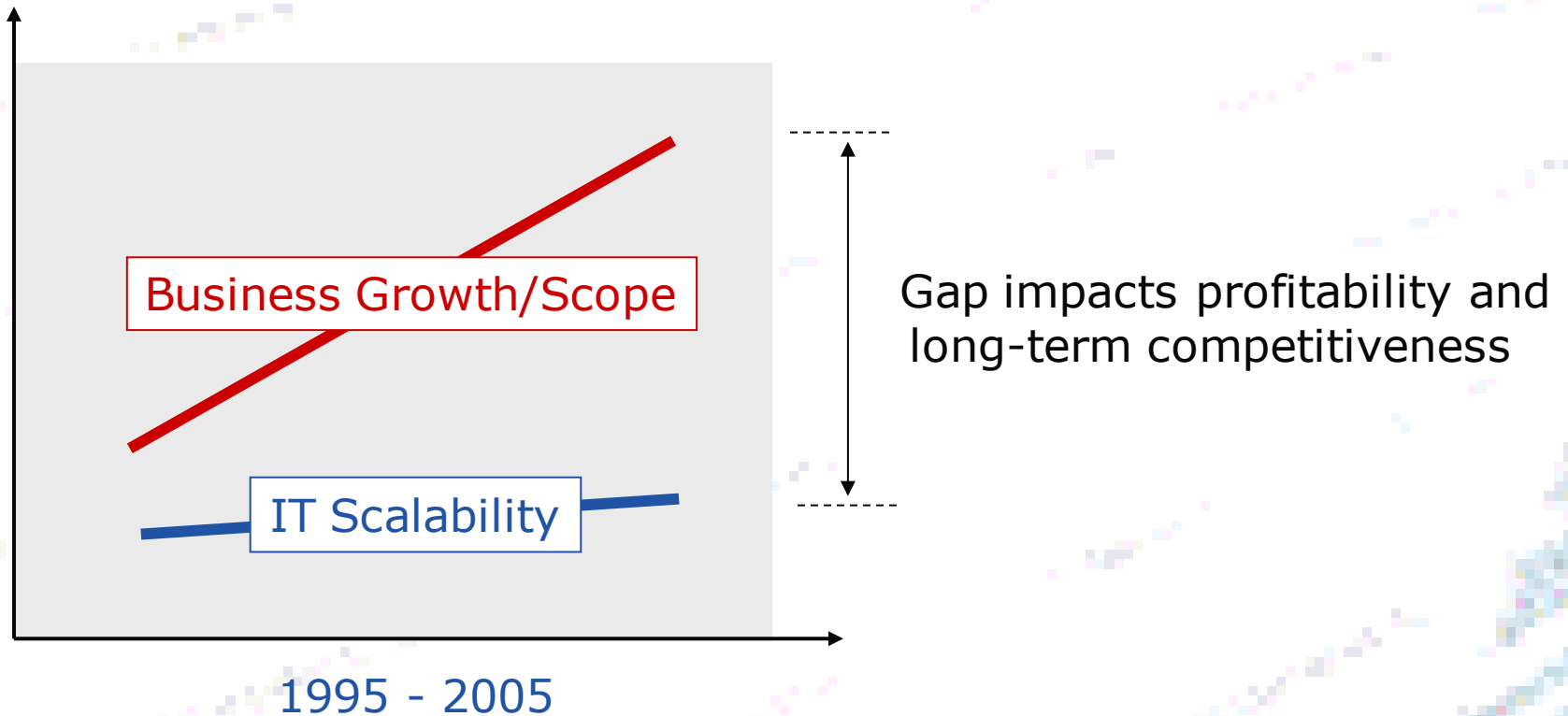
# LSP Industry Challenges

- ◆ Many LSPs falling short on IT
  - Only 35% of LSP customers are satisfied with IT capabilities of their LSPs
- ◆ LSPs have traditionally been forced by customers to support multiple software applications (e.g. 10 WMS, 5 TMS, ...)
  - Poor integration between applications
  - Inability to leverage IT investments across all customers
  - Difficult to add new functionality in response to customer demands





# LSPs Outgrow IT Capabilities




LSPs must replace proprietary, outdated, and non-scalable systems

# Poor Data is Costly Issue

**ARC BRIEF**  
By ARC Advisory Group  
JANUARY 2007

**IT in the LSP Industry: The CIO Perspective**

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IT Goals: Standardize and Globalize .....	4
Measuring the Success of IT.....	5
SOA: A Long and Costly Road.....	6
Master Data: 'One Version of the Truth' .....	8
Information Drives Process Innovation .....	9
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THOUGHT LEADERS FOR MANUFACTURING & SUPPLY CHAIN

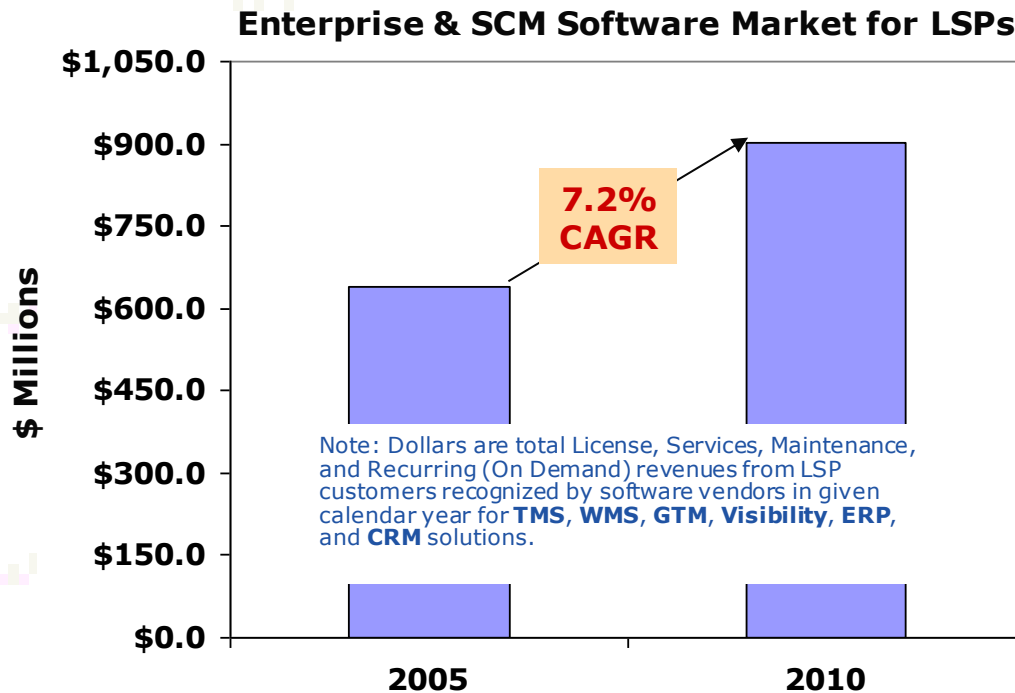
“Data quality management is very important. Everything we do is based on data. **We spend 50% of our time preparing data and cleaning it.**”

“We spend a lot of time and pain scrubbing data. **You’ll be amazed how many times something fails** because [customers] change something and they don’t tell us.”

“We’ve spent a lot of time to build a team and [develop] processes to standardize and control data as it come in. Operations and IT need to work together [in this effort]; **the end goal is standardization.**”

Many LSP CEOs still view IT as a cost of doing business

# Are LSPs at IT Tipping Point?



Source: ARC Advisory Group Market Worldwide Studies

Forecast assumes...

- ◆ Software vendors will increase their commitment to the industry and add more LSP-specific functionality to their solutions.
- ◆ LSP industry has truly reached the IT investment tipping point.

If not today, then soon; it's a question of survival

# Burning Platform for LSPs

## Grow PROFITABLY by....

- Transforming business model to compete in a global and dynamic business environment
- Providing a more holistic BPO value proposition
- Reducing costs by improving productivity and utilization of people, assets, processes, and IT
- Becoming a more customer-centric enterprise
- Hiring and retaining talented employees

# Customer Expectations Changing

**DIAGEO**

“A company's outsourcing strategy cannot remain static. As the nature and complexity of supply chains change, so must the nature of outsourcing relationships.”

*Simon Wootton, Logistics Director at Diageo North America  
ARC Best Practices in Logistics Outsourcing Forum track, June 2004*

**LSPs must become more  
Flexible & Responsive**

# LSPs Must Become Innovation-driven

*Ability to introduce new or improved services and processes, quickly and cost-effectively, in response to customer requests and market opportunities*

- How many process improvement proposals do they proactively generate per year?
- How many weeks does it take them to implement a process change requested by a client?
- How many weeks does it take them to implement a new service?
- What percent of their IT investments is for enabling new or improved processes and services?

# How Should LSPs Be Evaluated?

## LSP Maturity and Performance Model

LEVEL \ FACTOR	Service Diversification	Client Diversification	Information Technology	Operational Performance	Financial Performance	Brand Management
Innovator	◆ Have timely, accurate, and complete visibility to financial performance, operational activities, and customer relationships across all services, business units and geographies					
Leader	◆ Provide end-to-end solutions for customers across multiple vertical industries					
Performer	◆ Introduce new or improved services and processes, quickly and cost-effectively, in response to customer requests and market opportunities					
Laggard	◆ Provide "one face" to customers					
	◆ Integrate quickly with external systems and partners to facilitate collaboration and information exchange					

Source: "Strategic Guide for Logistics Service Providers," ARC Advisory Group, 2005

## Framework for Strategy Development and a Guide for Continuous Improvement

# Summary

- LSPs operate in a very dynamic environment
  - Changing competitive landscape, changing customer requirements, changing regulations...
- LSPs must become more agile and flexible, which requires them to upgrade their outdated and non-scalable IT infrastructure
- LSPs must realign their costs and service offerings to successfully penetrate the mid-market.



# Thank You!



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2007 Northeast Supply Chain Conference &  
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