

More of the Same from Annual 3PL Study – but Will the Recession Serve as an Inflection Point?

Relationships Still Largely Transactional, but Desire for Agility and Lower Fixed Costs May Finally Change Status Quo

SCDigest Editorial Staff

Dr. John Langley of Georgia Tech plus representatives from Capgemini, Oracle and Panalpina released the annual third party logistics study at the recent CSCMP conference in Chicago. Always an in-depth view of the state of the 3PL market, this year's report finds the trends of recent years largely continuing, but with some idea the recession may ultimately serve as an inflection point in shipper/3PL relationships.

The full report is available for free download here: [2009 Third Party Logistics Study](#).

As has been true for a number of years, this year's report sees the following trends:

- US companies spend less (at 47%) of total logistics spend with 3PLs versus Europe (66%).
- Despite interest on both sides, few shipper-3PL relationships are truly strategic; most are transactional in nature.
- As the study has found since 2002, shippers view 3PL IT services and capabilities as key, but are consistently disappointed in what those capabilities are. "As a result of these IT challenges, shipper respondents say they lack the KPIs, alerts and visibility required to run adaptive supply chains," the report notes (see graphic page 2).

When it comes to views of how well the relationships work, the survey offers a "glass half full/half empty" set of data, depending on your perspective.

As shown in the figure on page 3, 25% of shippers and 45% of 3PLs view their outsourcing relationships as "extremely successful" – a notable gap. That is reverse in the view of "somewhat successful" rela-

The reality is that many companies are being driven by necessity or opportunity in this recession to rethink supply chain networks – and combine with the desire for agility and lower fixed costs, this may drive more use of outsourcing.

tionships, as reported by 64% of shipper respondents and 51% of 3PLs. This data has stayed relatively flat for several years, and whether those are good numbers or not depend on your view of the meaning of "somewhat successful."

Economy Causes an Inflection Point in Thinking about Outsourcing?

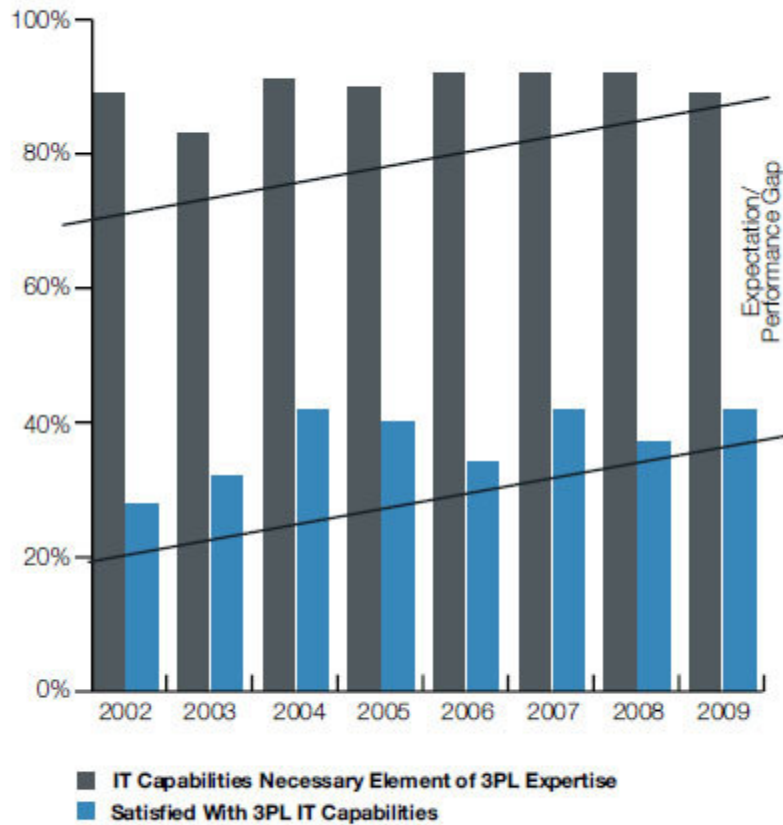
Year after year, the study finds the intention of shippers to increase their use of 3PL services and to get more strategic with some of their outsourcing partners, but it generally fails to materialize, for a variety of reasons.

The report says it is possible, however, that the long and hard economic downturn might actually spur some of these changes this time.

For example, many companies would like to further move their supply chain cost structures to re-

More of the Same from Annual 3PL Study – but Will the Recession Serve as an Inflection Point? (Con't)

There Has Been a Continuing Gap Between Shipper Expectations and Experiences Relating to 3PL IT Capabilities



Source: 2009 Third Party Logistics Study

duce the amount of fixed costs and increase the percent of variable costs, which an outsourcing strategy might help them to do. Nearly 60% of shipper respondents said that converting fixed to variable costs tend to increase their use of 3PLs.

“There is a greater sense of urgency around the whole outsourcing thing, leveraging 3PL assets to shed fixed cost and create flexibility,” said **Susie Uramoto**, VP, Fulfillment Operations at Foster’s Wine Estates Americas.

The reality is that many companies are being driven

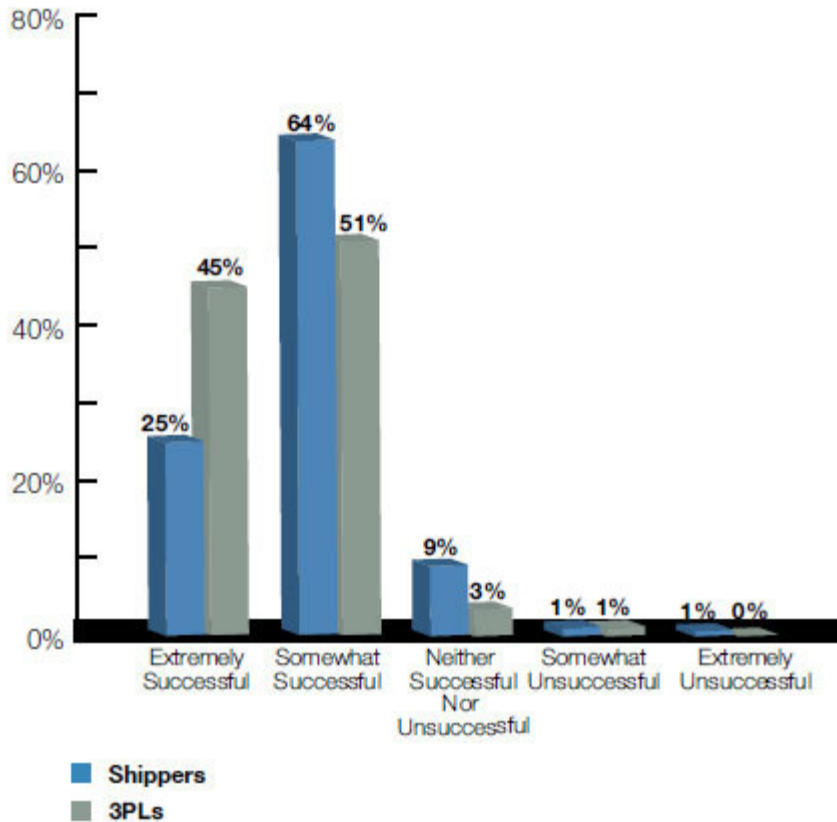
by necessity or opportunity in this recession to rethink supply chain networks – and combined with the desire for agility and lower fixed costs, this may drive more use of outsourcing.

For example, nearly 60% of shipper respondents feel this is the time in which to re-evaluate their relationships with their 3PLs and possibly drive these relationships deeper. Another 66% of shipper respondents believe they will need to team with 3PLs to reengineer business processes.

Will all this lead to more strategic relationships, and

More of the Same from Annual 3PL Study – but Will the Recession Serve as an Inflection Point? (Con't)

Shippers and 3PLs Have Similar Evaluations of the Success of their Relationships



Source: 2009 Third-Party Logistics Study

eventually more 3PLs serving as “supply chain orchestrators” for their clients, which the report positions as being more advanced than even the lead logistics provider or “4PL” concept? It is too early to tell yet, but an important strategic question.

Our bet here is that the level of outsourcing will increase in an attempt to reduce fixed costs, but that the relationships will remain largely transactional in nature.