



# SLOWING,



# BUT GROWING

Global 3PLs are tempering their growth outlooks, and this time the slowdown might stick around awhile

By David Biederman

**THERE'S GOOD AND** bad news for third-party logistics providers. First, the good: The industry is fundamentally strong and 3PLs are growing. Now the bad: That growth is slowing, and many 3PLs are scaling back expectations for profits and growth amid uncertainty about the global economy.

With pressure on margins and profits, providers are relying on innovation, new markets and services, lean operations and collaborative partnerships with key customers to hold the line until there's real improvement in the global economy.

3PLs' biggest challenge is the economic uncertainty that is causing companies to sit on the sidelines with the biggest pile of cash reserves in corporate history, said Carl Fowler, senior director of business development for Menlo Worldwide Logistics. "People remember the crash and what

happened when credit markets tightened and consumers stopped spending," he said.

Slower spending is flattening or eliminating demand spikes and causing companies to postpone network realignments and other supply chain initiatives.

Even as customers tighten their belts, 3PLs can't afford to do the same. To compete, they must continually reinvent themselves, establish a presence in emerging markets and keep up with customers' changing demands.

Menlo's focus is on driving extended value, employing lean tools and methodologies, mapping out supply chain flows to eliminate waste and synching upstream business processes with supply chain activities to improve efficiency.

Industries that have been slower to adopt outsourced logistics are increasingly reaching out to 3PLs. Menlo is seeing increasing activity in the aerospace and oil and gas industries, the latter to supply projects worldwide. In the booming health care sector, hospital consortiums are focusing on wringing cost savings from supply chain operations.

Menlo prefers long-term strategic partnerships with customers, rather than short-term arrangements for finding the cheapest rates or lowest-cost warehousing. "We have always had a customer-facing strategy," Fowler said. "We don't want to be just a line item on a balance sheet."

Menlo's main growth driver in recent years has been China and, more recently, intra-Asia trade. The company in January opened a 400,000-square-foot distribution center in Singapore, where Menlo serves more than 100 companies in various industries. The facility consolidates some of Menlo's regional operations into a multi-user site and supports the intra-Asian trade.

For the first time in the survey's history, The 19th Annual Survey of Third-Party Logistics Providers found the CEOs of major 3PLs in North America, Europe and Asia-Pacific aren't projecting double-digit growth for an upcoming three-year period. The 31 respondents to the survey include some of the world's biggest 3PLs and represent some \$45 billion in revenue.

CEOs of North American 3PLs forecast average annual growth of 8.3 percent for the next three years. CEOs in Asia-Pacific and Europe project 8 percent and 5.1 percent

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growth for the period, according to the survey, conducted by Northeastern University and sponsored by Penske Logistics.

Economic uncertainty, tightening capacity, pricing pressure and shifting customer procurement are the primary challenges facing the industry. 3PLs are responding by revising their operating models, entering new industries and emphasizing collaboration, said Robert Lieb, author of the survey and professor of supply chain management at Northeastern University.

"3PLs continue to benefit from a downturn-driven trend to outsourcing, as companies look to lower costs by reducing capital investments and headcount," he said. "They're also adding higher-margin services that help to offset lower margins on the transportation side."

The industry faces ongoing difficulties in attracting and retaining talent because 3PLs compete with retailers, manufacturers and consulting firms for a small pool of talented logistics professionals. "Academic institutions aren't producing enough students," Lieb said. "3PLs have to be very aggressive in training, mentoring and developing talent."

Companies that are postponing investments still tend to see outsourced logistics as a cost saver, said Michael Collins, senior vice president of global operations for Overland Park, Kan.-based MIQ Logistics.

A shift in global sourcing patterns, particularly near-sourcing in Latin America, is driving deeper and broader shipper-3PL relationships. To stay ahead of the curve for their customers, 3PLs often partner with local and regional providers. "Changes in sourcing bring more complexity and difficulty," Collins said.

MIQ has been aggressive in entering new and emerging markets. It is expanding its operations in Africa and the Middle East, and has realized solid growth in Southeast

Asia and western China. The company opened an office in New Orleans in February to support its growing project logistics business, and last month opened a cross-border logistics center in Laredo, Texas, to serve fast-growing cross-border trade.

MIQ is a big player in Latin America's thriving mining and energy sectors. The company last year entered into an agency relationship with Tolepu, Ecuador's largest customs broker, and announced a multi-year service agreement with Minera San Cristobal, Bolivia's largest mining company and a subsidiary of Japanese trading giant Sumitomo.

MIQ has doubled down on its work for the U.S. government, particularly the State and Defense departments, and is moving goods worldwide for the U.N., Collins said. "In an age of sequesters and deficits, they try hard to deliver supply chain cost savings," he said.

Amid a trend to consolidation, not all shippers think that's a good thing for the 3PL industry or for them. Not everyone wants a 4PL. They feel there's an important role for midmarket players and want to include them in their mix.

Economic uncertainty is pervasive, and softness in air and ocean freight markets is pressuring 3PL margins and pricing. The upside is that providers can prove their worth, and capture more business, by lowering costs and improving supply chain efficiency, said Kim Wertheimer, executive vice president of CEVA Logistics' global industrial sector.

The Netherlands-based logistics provider this month reported 2012 earnings before interest, taxes, depreciation and amortization fell 22 percent from a year earlier to \$322.8 million. Revenue increased 4.8 percent to \$9.3 billion. It subsequently withdrew plans for an initial public offering on the New York Stock Exchange.

"These are difficult times for everyone in the global logistics industry, and CEVA has not been immune to those pressures," CEO Marvin O. Schlanger said. Late last year, he said the company was "addressing the decline in profitability with a comprehensive plan to reduce overhead costs and improve contract performance."

Going into 2013, it was clear there would be pressure on growth and profitability. CEVA's overhead and contract performance

efforts are part of broader program initiatives. The biggest problem remains global: economic uncertainty and investment cash sitting on the sidelines. "Companies have just not been as aggressive in their initiatives, and continue to tighten the belt," Wertheimer said.

Adaptability and a culture of continuous improvement are necessary as markets evolve and customer needs change, whether it's expanding to a new market or rolling out new services. CEVA, for example, in January launched a standardized global e-fulfillment solution that enables buyers and sellers to manage transactions at country, regional or global levels. The technology is modular and highly scalable, and provides enhanced visibility of customer, sales and returns data.

For CEVA, providing an infrastructure for the evolving e-commerce industry is mostly a matter of tailoring its global scale, technology systems, and distribution and warehousing capabilities to the changing needs of its customers. "We're responding to a market need, and enabling e-commerce companies to focus on their marketing," Wertheimer said.

In March, CEVA announced a new China-Europe rail service that connects Suzhou in China with the Netherlands. Transit time is about 28 days, covering 6,835 miles. The service, developed collaboratively with technology companies as an alternative to ocean freight, showed improved transit times in a pilot program.

As shippers increasingly embrace lean inventory strategies, they're counting on 3PLs to provide flexible, efficient management of supply chains. Increasingly, shippers favor the one-stop-shop solution, Kazuo Ishizuka, president and CEO of Yusen Logistics (Americas), wrote in The Journal of Commerce's Annual Review and Outlook in January. "Leaders in the logistics service industry know this, and we will see continued consolidation in the market along with heavy technology investments from third- and fourth-party logistics providers as they develop seamlessly integrated logistics networks," he wrote.

Yusen Logistics is the forwarding and logistics arm of NYK Line, Japan's largest shipping company in terms of sales.

Yusen Logistics' group net profit plunged 54.5 percent in the first nine months of fiscal 2012 from a year earlier, while operating profit fell 57.8 percent, despite a 7.0 percent increase in revenue.

The company downgraded full-year 2012 operating and net profit forecasts, citing falling air cargo volumes, declining profitability of ocean cargo operations and a "harsh" business environment. "There were no signs of a recovery in Europe. A recovery in the United States was slow. In Asia, emerging-market economies such as China and India have slowed," the company said in an earnings release.

Yusen Logistics (Americas) has fared pretty well, with 3.3 percent growth in operating revenue in the April-December period from a year earlier, to \$604 million, and improved operating profit for the period. The company has 67 offices and facilities and 1,750 employees in the Americas.

Today's markets demand that 3PLs provide continuous innovation and be able to deliver efficiencies, said Tim Nolan, senior vice president of international services for Yusen Logistics (Americas). "As a 3PL, whether you're asset-light or non-asset-based, you can't stay still," he said.

Latin America is a core focus area for Yusen Logistics. The company has offices in Mexico, Brazil, Chile, Argentina and Uruguay, and exclusive agency agreements in other nations. It is investing heavily in Latin America and building up its freight infrastructure in Mexico to support the rapid influx of automotive manufacturers and suppliers.

U.S.-Mexico trade grew an average of 24 percent annually between 2009 and 2012. The value of cargo shipped by rail and truck between the two countries jumped 10 percent in 2012 to \$387.8 billion, according to the Bureau of Transportation Statistics.

Yusen Logistics' cargo volumes in the intra-Latin America trade are growing rapidly, with trade between Mexico and Brazil and within Brazil especially strong. North-south trade between Latin America and Asia, Europe and the U.S. is growing at double-digit rates.

Growth is also strong in emerging markets such as Turkey, where the company last August established a subsidiary called Yusen Logistics Turkey Lojistik. The company hopes to leverage its local knowledge and geographical strengths as multinational companies establish hubs in Turkey for developing business networks in the Black Sea and Mediterranean regions, Central Asia and the Middle East. **joc**

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Count On MOL.

**GLOBAL\***

**OPERATIONS**

OCT. - DEC. 2012

|                            |      |
|----------------------------|------|
| Vessel On-Time Performance |      |
| Asia-U.S. West Coast       | 88%  |
| Asia-U.S. East Coast       | 81%  |
| Transatlantic              | 67%  |
| Asia-Europe                | 78%  |
| Asia-Mediterranean         | 40%  |
| Asia-East Coast            |      |
| South America              | 93%  |
| Asia-Mexico/West Coast     |      |
| South America              | 100% |
| Intra Asia                 | 99%  |

**SAFETY**

JAN. - FEB. 2013

|                                |   |
|--------------------------------|---|
| Long-Time Operational Stoppage | 2 |
|--------------------------------|---|

**ENVIRONMENTAL\*\***

FY2011 vs. FY2010

|   |        |
|---|--------|
| Carbon Dioxide (CO2) Emissions per TEU-Mile | ↓ 2.1% |
| Nitrogen Oxide (NOx) Emissions per TEU-Mile | ↓ 2.1% |
| Sulfur Oxide (SOx) Emissions per TEU-Mile   | ↑ 2.6% |

**REGIONAL**

**OPERATIONS**

FEB. 2013

|  |           |
|--|-----------|
| In-Terminal Truck Turn Time                  |           |
| Jacksonville                                 | 17.0 min. |
| Los Angeles                                  | 25.1 min. |
| Oakland                                      | 22.0 min. |
| Missed Vessel Connections Due to Rail Errors | 1.5%      |

OCT. - DEC. 2012

|  |     |
|--|-----|
| Intermodal Transit On-Time Performance | 74% |
|--|-----|

**CUSTOMER SERVICE**

FEB. 2013

|   |            |
|---|------------|
| Lost Calls                                    | 1.29%      |
| Phone Wait Time                               | 15 seconds |
| U.S. Export B/L Documentation Completion Rate | 98.21%     |
| Documentation Accuracy                        |            |
| U.S. Export                                   | 99.63%     |
| Asia to U.S.                                  | 97.35%     |

**EDI**

FEB. 2013

|                                    |        |
|------------------------------------|--------|
| Message Processing Without Failure | 99%    |
| EDI Uptime                         | 99%    |
| Customer Setup Time                | 48-hrs |
| Customer Scorecard Compliance      | 99%    |

\* Global KPIs are international; regional KPIs are North American.

\*\* MOL has also established a target to reduce CO2, NOx and SOx emissions by 10% by FY2015 vs. FY2009.