3PL Landscape & Selection Strategies

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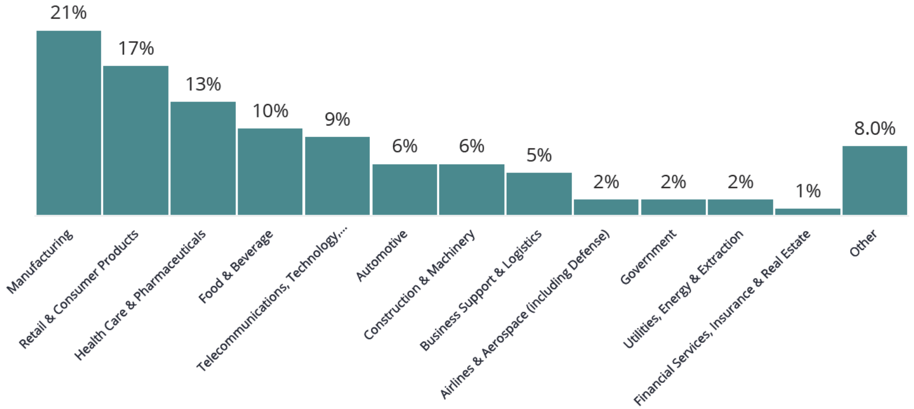
Source Documents & Study Information

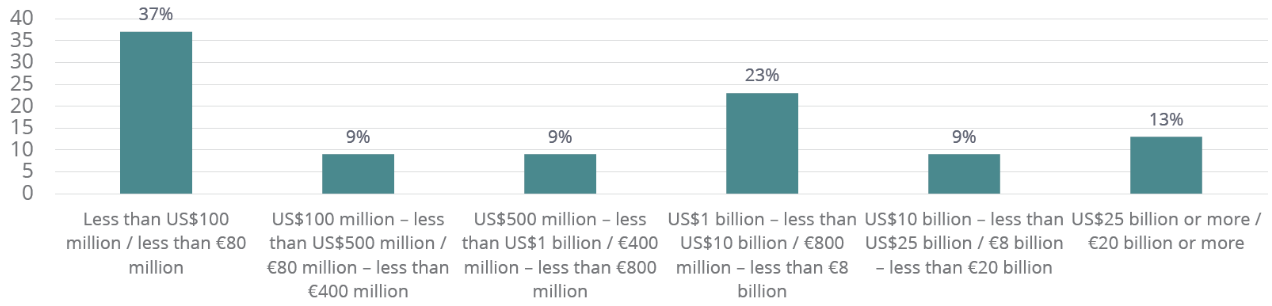
- 2020 24th Annual Third-Party Logistics Study: The State of Logistics Outsourcing – C. John Langley Jr., Ph.D., and Infosys, 2020
  - Respondents to study
    - Shippers – 54%
      - 37% Shippers currently using 3PL/4PL
      - 17% Shippers not using 3PL/4PL
    - 3PL/4PLs – 46%

FIGURE 23: SHIPPER RESPONDENTS MAJOR INDUSTRIES



- Annual State of Logistics Report - CSCM
  - 29th Annual Report
  - 30th Annual Report

FIGURE 24: SHIPPER RESPONDENTS' ANTICIPATED SALES



Our 3PL Practice Clients Include

Agenda

- Executive Summary
- State of the 3PL Market
- Analytics in the Shipper-3PL Relationship
- Greening of the Supply Chain
- How do I select the optimal provider

EXECUTIVE SUMMARY

Executive Summary

1. Partnerships between 3PLs and Shippers remain strong
   - Perception from 3PLs – 99% successful (98%)
   - Perception from Shippers – 93% successful (91%)

2. Contribution to Shipper's success
   - 3PLs point of view – 93% (98%)
   - Shipper view – 83% (89%)

3. Improved Shipper Effectiveness
   - 3PL view – 93% (91%)
   - Shipper view – 66% (73%)

4. IT from the Shipper's perspective
   - Importance – 94% (93%)
   - Satisfied with 3PL – 56% (55%)

Most Prevalent Outsourced	%
Domestic Transportation	73%
International Transportation	65%
Warehousing	73%
Freight Forwarding	52%
Customs Brokerage	54%

Most frequently outsourced activities are those that are transactional, operational, and repetitive.

2019 Executive Summary

5. 3PLs contributed to reducing overall logistics cost
   - Perception from 3PLs – 96% (95%)
   - Perception from Shippers – 67% (72%)

6. Shippers increasing their use of 3PLs
   - 3PLs point of view – 83% (86%)
   - Shipper’s view – 57% (63%)

5. Consolidating number of 3PLs used
   - 3PL view – 76% (73%)
   - Shipper’s view – 60% (61%)

6. Shippers returning to insourcing logistics
   - 3PL view – 43% (36%)
   - Shipper view – 31% (28%)

SELECTED INFORMATION	2018 Study	2019 Study	2020 Study
Total Logistics Expenditures as a Percentage of Sales Revenues	11%	11%	11%
Percent of Total Logistics Expenditures Directed to Outsourcing	50%	51%	52%
Percent of Transportation Spend Managed by Third Parties	55%	49%	55%
Percent of Warehouse Operations Spend Managed by Third Parties	39%	35%	43%

Shipper’s Logistics and 3PL Expenditures

3PLs consistently over-estimate key aspects of success

STATE OF THE 3PL MARKET

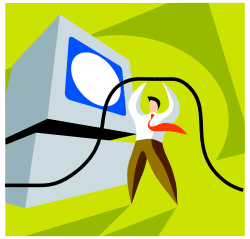
Domestic Logistics Expenditures

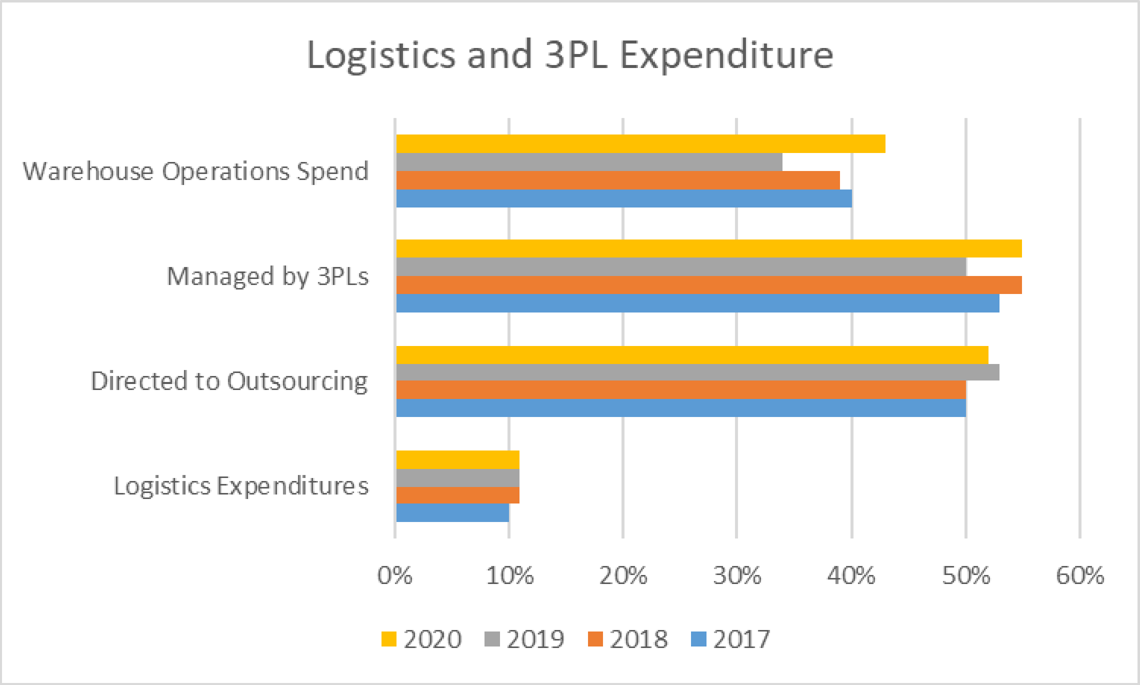
- 11% of total logistics expenditures are related to outsourcing. This is unchanged from 2019. Included in the percentage is transportation, distribution, warehousing, and value-added services.

- Total logistics expenditures directed to outsourcing was slightly less at 52%.

- Transportation spend managed by 3PLs increased increased by 6% from 2019.

- Warehouse operations spend managed by 3PLs increased by 8% from 2019.

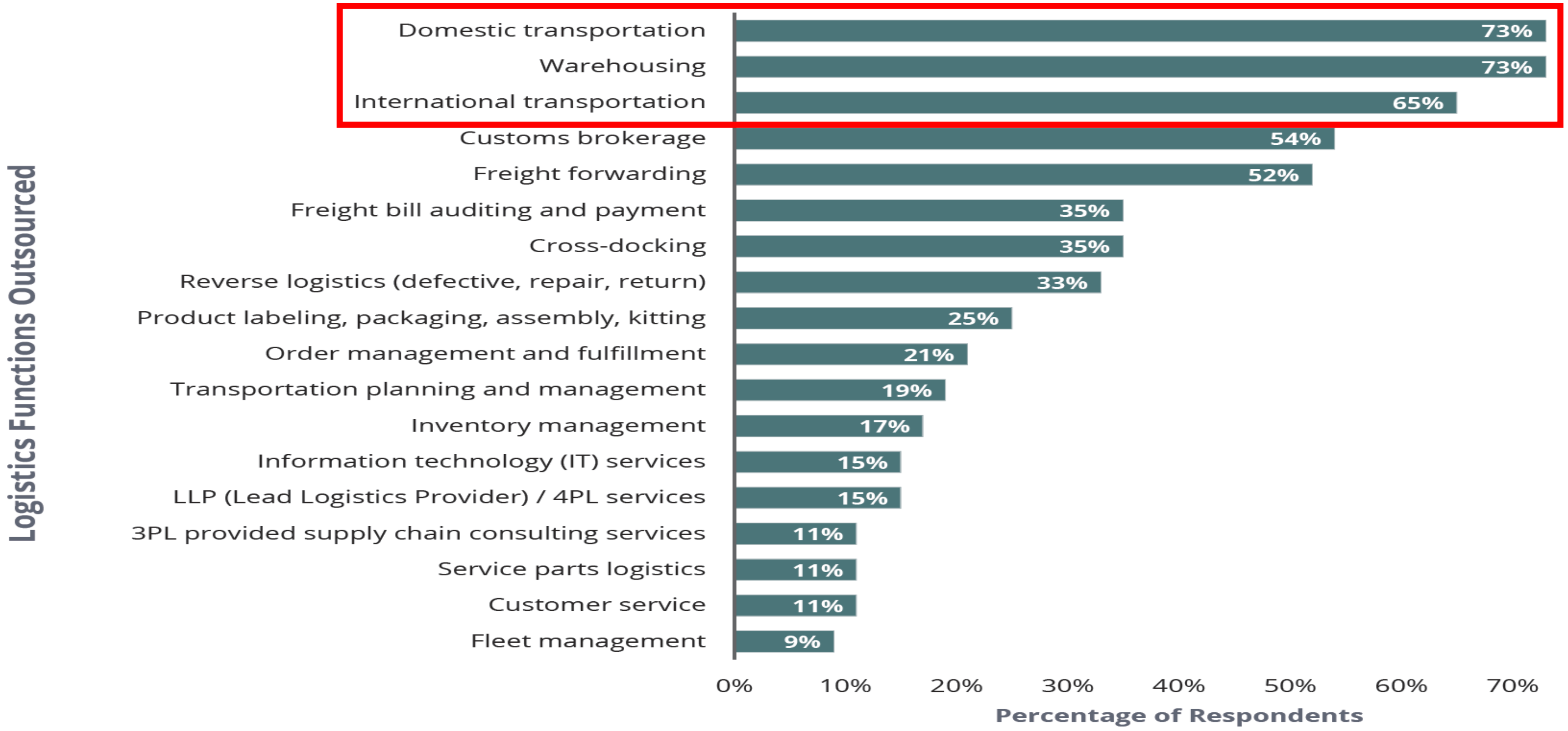


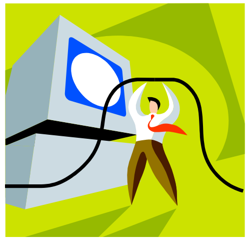


Activities Outsourced

More strategic and customer-facing activities tend to be outsourced less than more tactical and operational

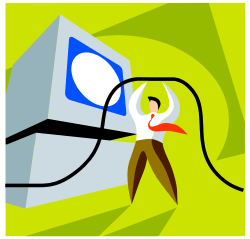
FIGURE 3: SHIPPERS CONTINUE TO OUTSOURCE A WIDE VARIETY OF LOGISTICS SERVICES





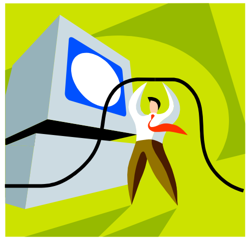
Information Technology

- Information technologies required by Shippers and perceived by 3PLs
- Transportation management (planning) and Warehouse Management Systems continue to be the top needs of Shippers
- Most frequently needed technologies continue to be execution and transaction-based

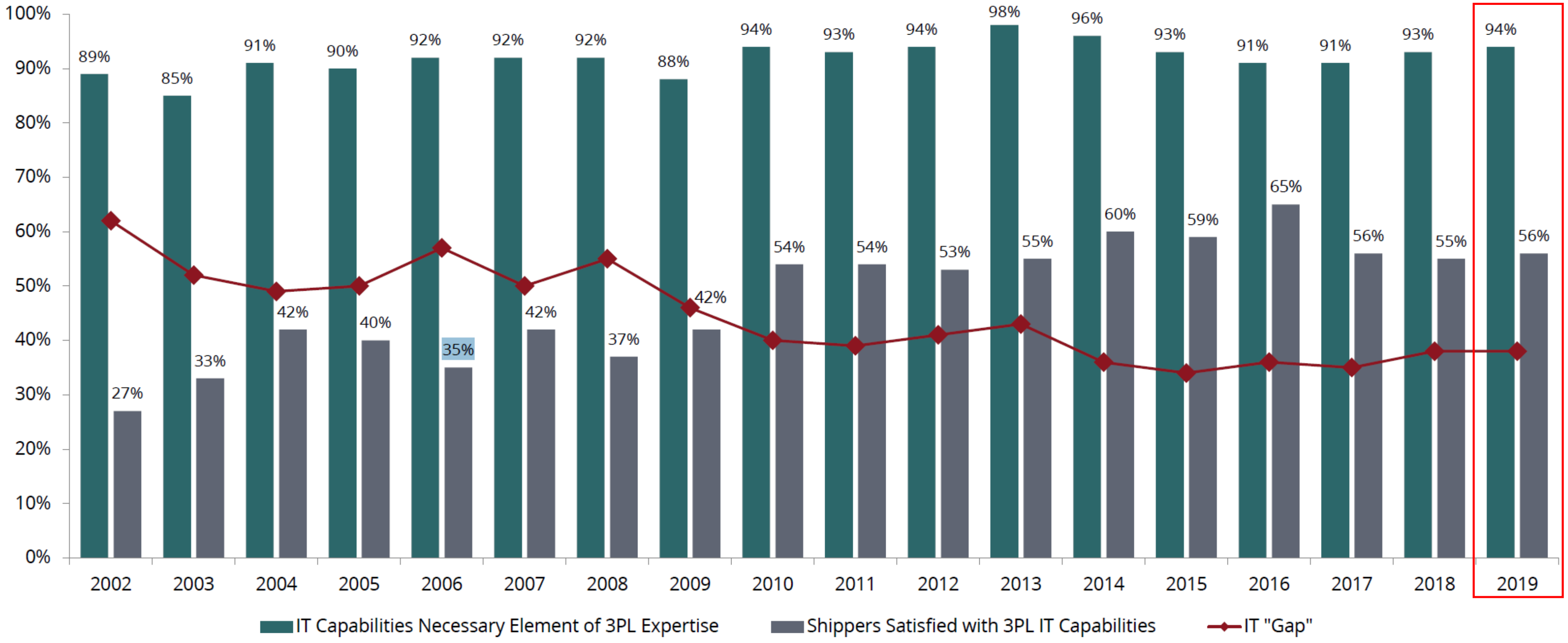


INFORMATION TECHNOLOGY	% Reported by Shippers	% Reported by Providers
Transportation management (planning)	64%	77%
Warehouse/distribution center management	63%	71%
Visibility (order, shipment, inventory, etc.)	58%	77%
EDI data interchange - orders, advanced shipment notices, updates, invoicing	66%	78%
Transportation management (scheduling)	57%	70%
Transportation sourcing	39%	48%
Global trade management tools (e.g., customs processing and document management)	48%	32%
Network modeling and optimization	41%	51%
Bar coding	44%	56%
Supply chain planning	39%	52%
Web portals for booking, order tracking, inventory management and billing	34%	54%
Customer order management	24%	47%
Cloud-based systems	29%	50%
CRM (customer relationship management)	25%	62%
Advanced analytics and data mining tools	30%	46%
RFID	14%	21%
Distributed order management	23%	25%
Yard management	18%	34%
Blockchain	6%	14%

Information Technology Gap



Shippers' view of 3PLs IT capabilities



ı the most recent ːudy, Shippers agree 4% of the time that IT apabilities are ecessary for 3PLs.

owever, 56% of hippers are satisfied ith 3PL IT apabilities.

Information Technology Capabilities

- Shippers view of IT capabilities needed

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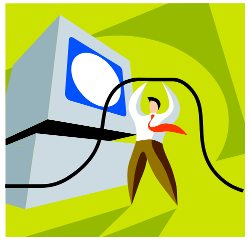
Outsourcing vs. Insourcing

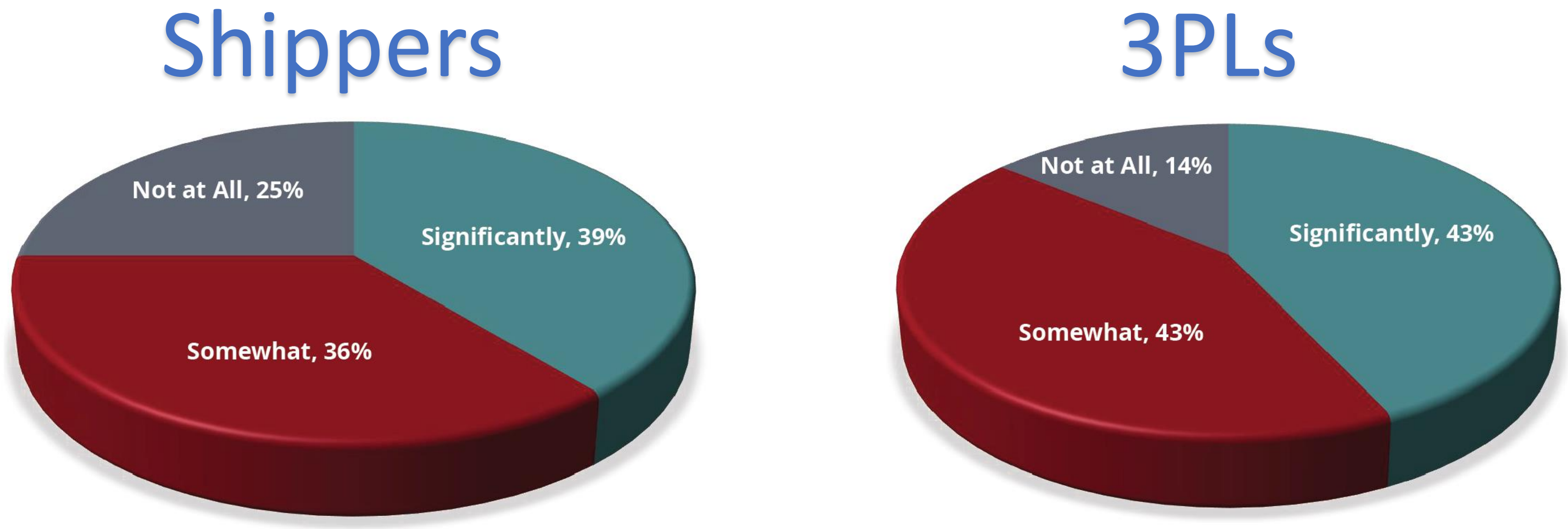
	2018	2019	2020
Increase Outsourcing	61%	63%	57%
Increase Insourcing	28%	28%	31%
Reduce 3PLs	53%	61%	60%

Non-3PL Users	
Concerns	**%**
Loss of Control	32%
Fear of cost reduction not realized	21%
More experience than 3PL	15%
Integration concerns	13%



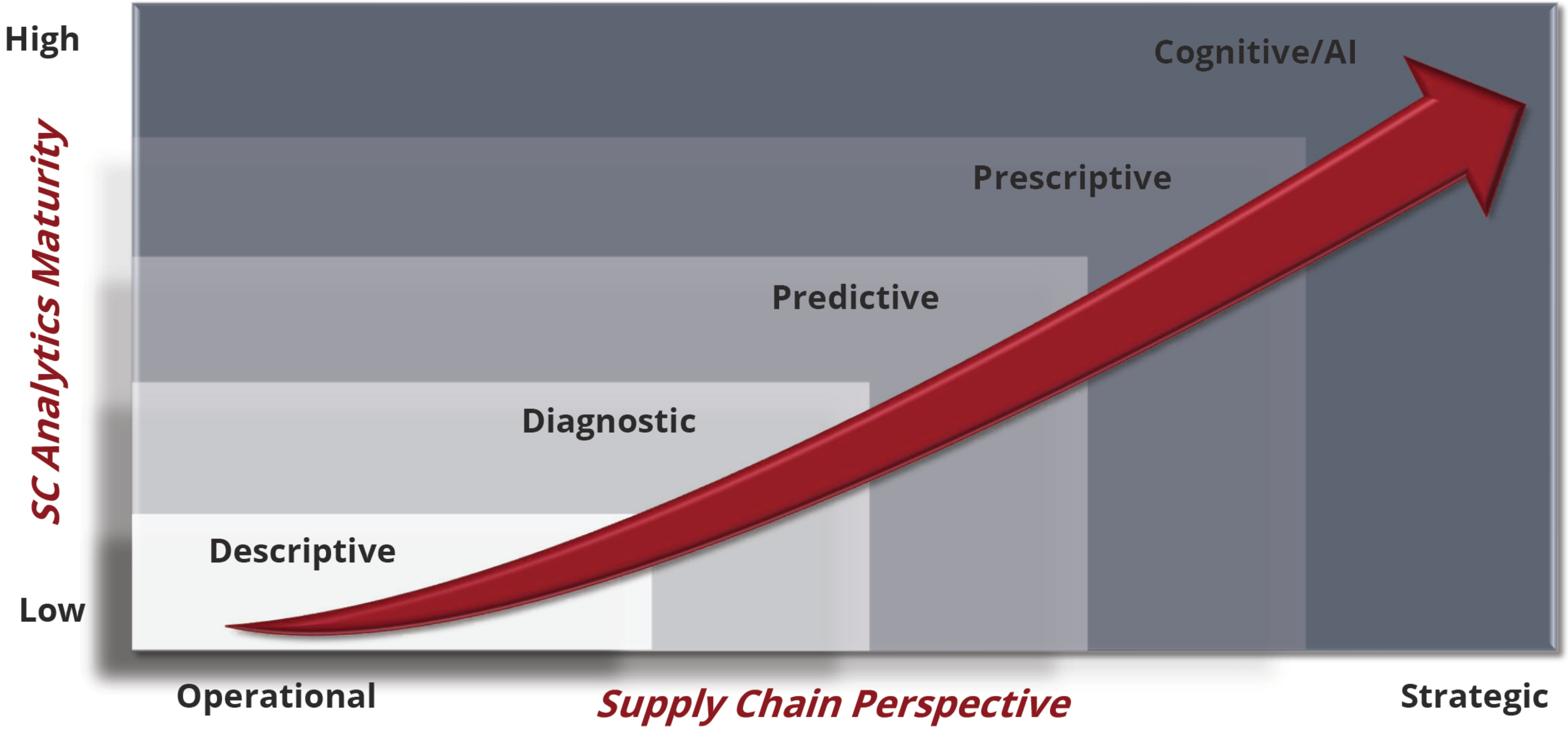
ANALYTICS IN SHIPPER-3PL RELATIONSHIP

Current Involvement with Analytics

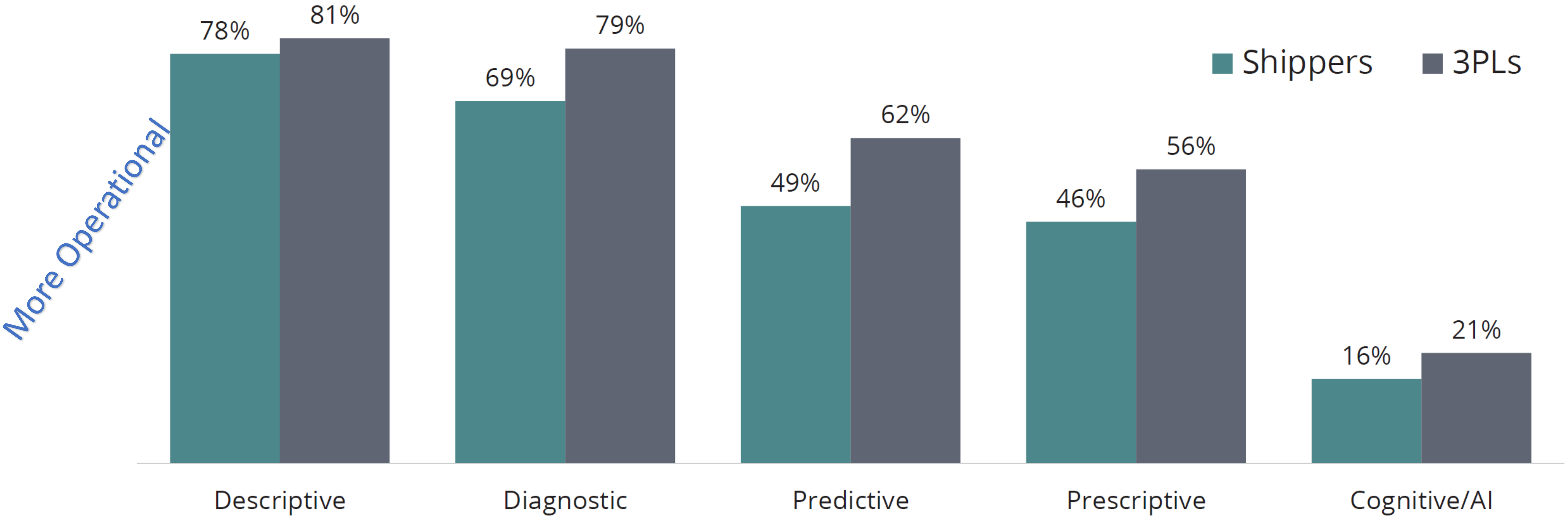


- Shippers and 3PLs are significantly involved with analytics to better understand and plan their operations

Five types of analytics and their relationship to maturity and perspective



Shippers and 3PLs have similar experiences as it relates to analytics



Areas where analytics are most helpful

TYPES OF PROBLEMS	% Shippers	% 3PLs
On-time and complete order fulfillment	69%	66%
Shipment visibility	63%	65%
Freight costs per shipment	60%	65%
Transit time	59%	55%
Cost to serve	58%	65%
Order-to-delivery cycle time	58%	63%
Flexibility and adaptability	47%	54%
Inquiry response time to shippers	28%	40%
Sustainability - use of approved carriers	24%	29%
Damage-free shipments	23%	22%

Where Shippers and 3PLs agree regarding analytics

% Shippers Agree	Statements	% 3PLs Agree
95%	Analytics capabilities necessary element of overall 3PL expertise	99%
26%	Satisfied with the analytics capabilities of our 3PLs	27%
66%	Analytics a key to success with our 3PL providers	74%
58%	We have carefully-defined KPIs to measure 3PL performance	75%
68%	Our 3PLs have input into the KPIs used	72%
76%	Agreement with 3PLs on the KPIs used	74%
45%	We have data scientists or other specialists in analytics	51%

Problems with implementing analytics

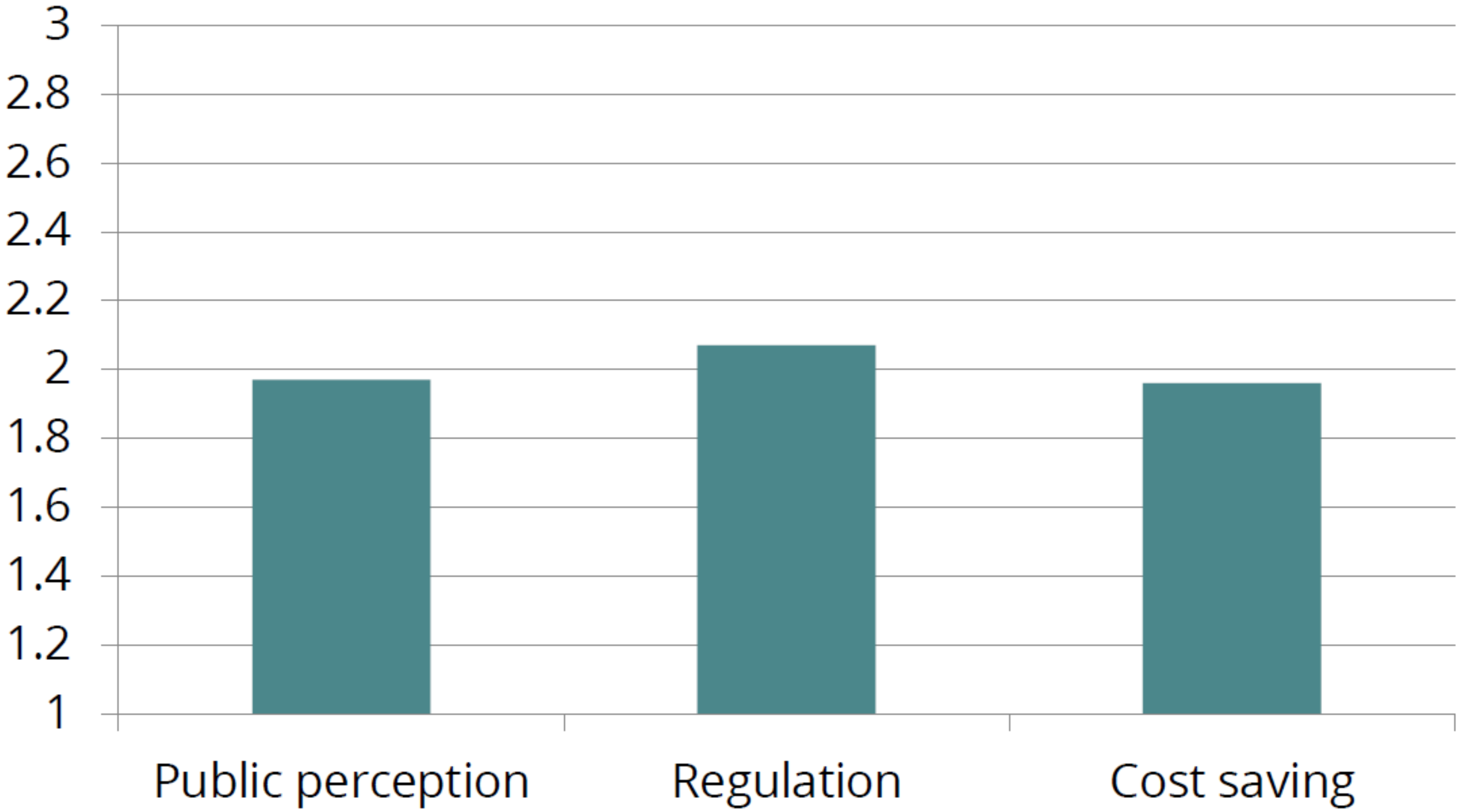
% Shippers Agree	Statements	% 3PLs Agree
77%	Availability of “clean” and useful data	82%
59%	Insufficient analytics resources	53%
41%	Need for additional data science talent	40%
41%	Software difficulties	36%
37%	Need for structured, formal plan for implementation	39%
36%	Lack of agreement with shippers or 3PLs on what is to be done and how	39%
34%	Shippers/3PLs do not have the needed analytics capabilities	42%
24%	Security concerns	30%

Problems with analytics

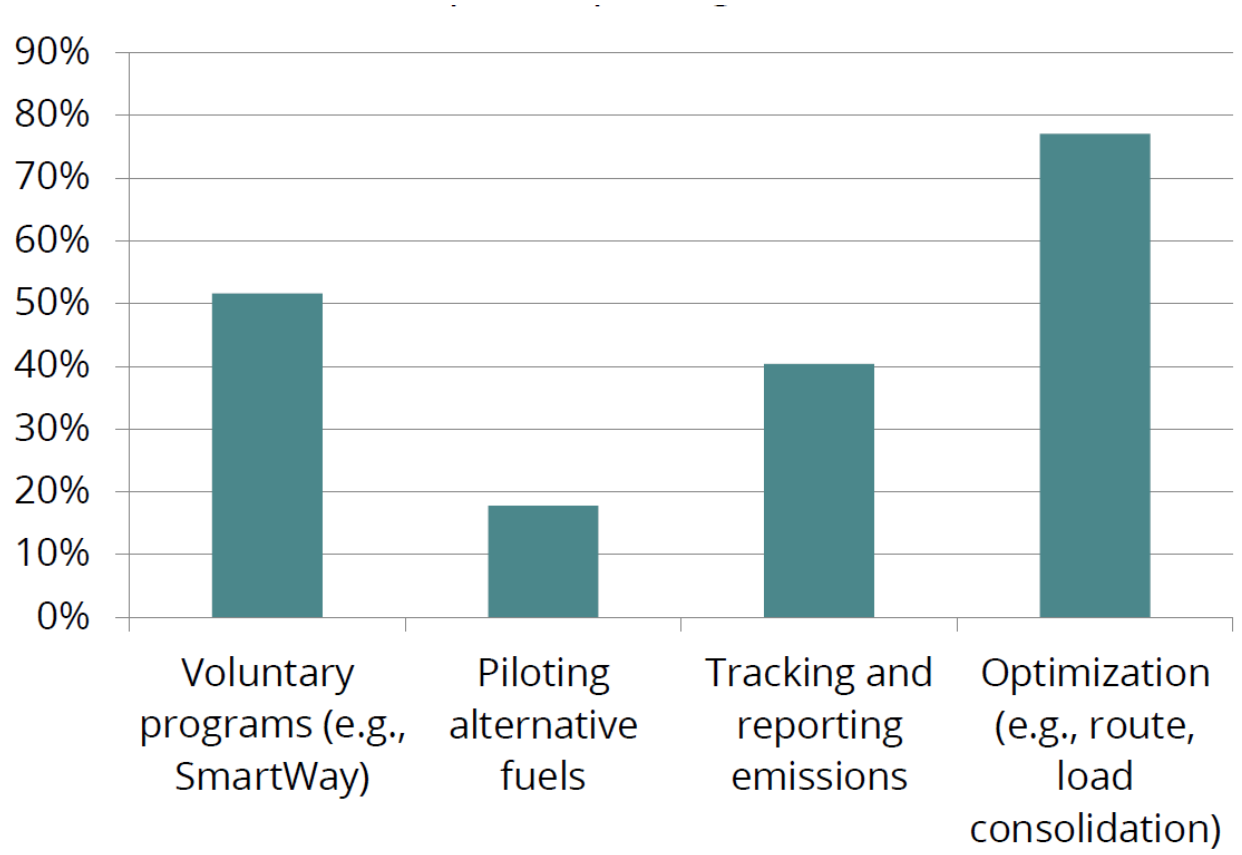
TYPES OF PROBLEMS	% Shippers	% 3PLs
Accuracy and completeness	79%	83%
Availability of needed data	66%	72%
Differences between your data and shipper/3PL data	50%	44%
Lack of alignment with KPIs	40%	50%
Measurability	39%	33%
Complexity of data	38%	36%
Issues relating to use of sensitive or proprietary data	17%	27%
Too much data	15%	13%

Greening of the Supply Chain

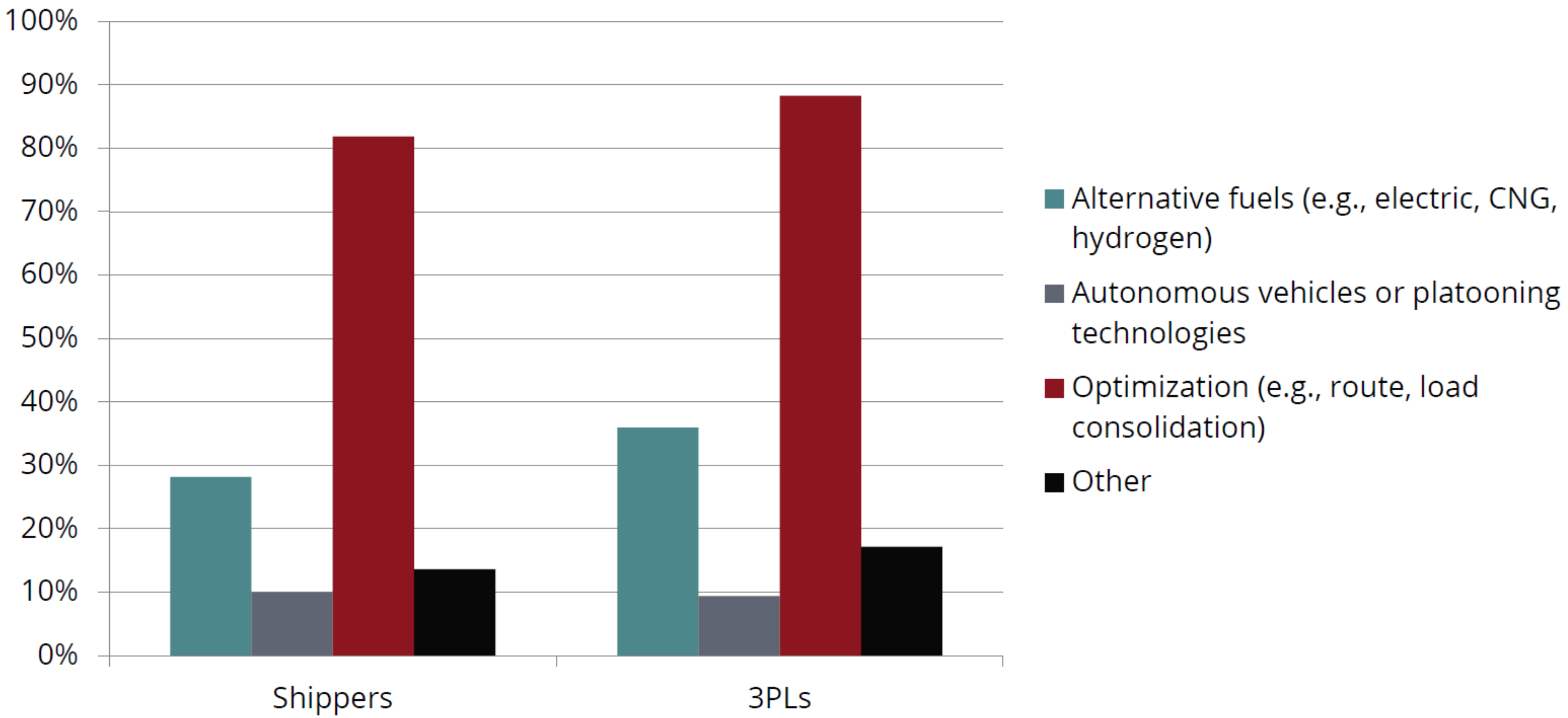
Factors driving greener efforts



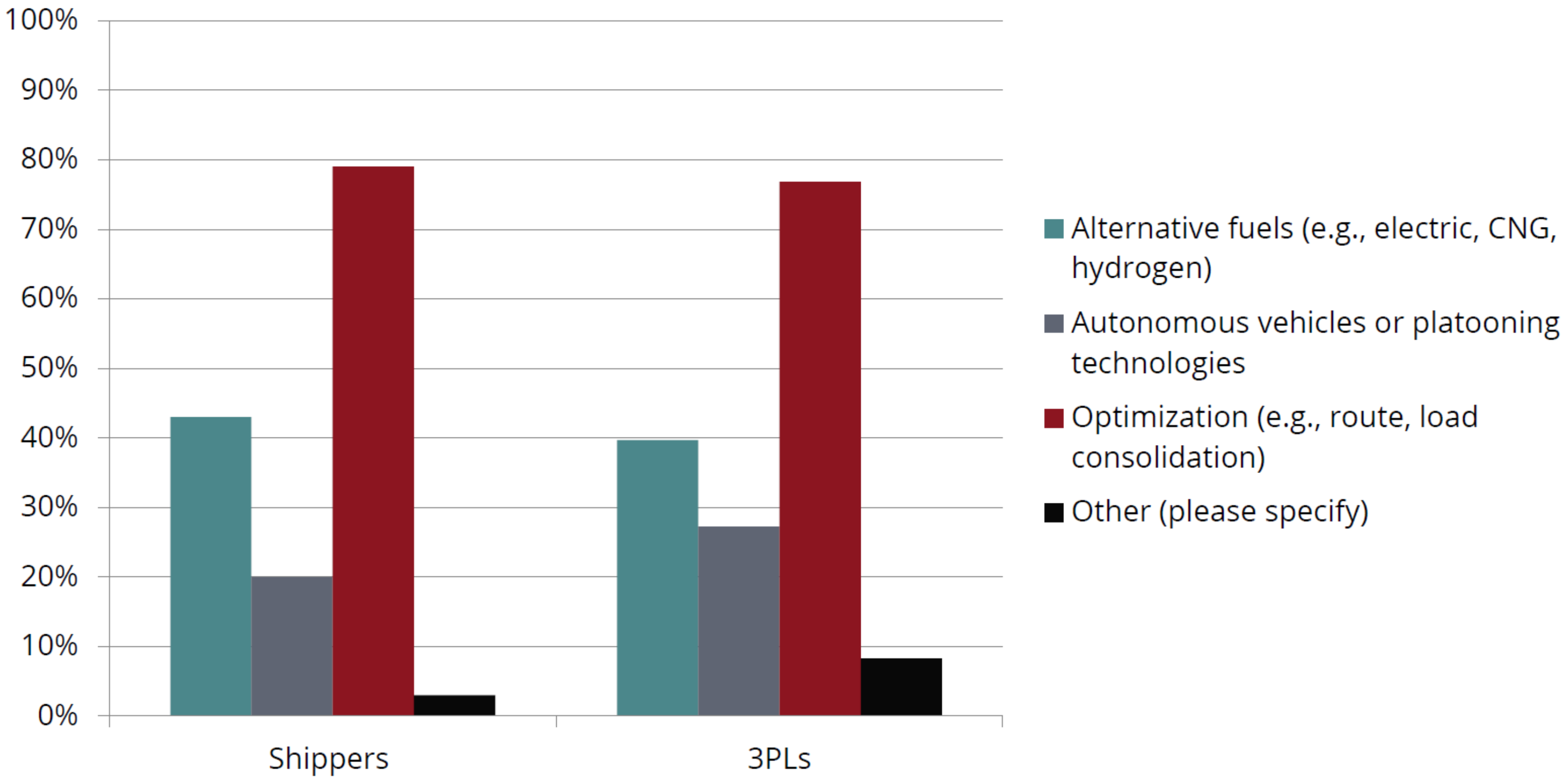
Optimization is the leading initiative driving greener efforts



Current initiatives driving green



Future initiatives driving green are similar to current



3PLs path to green

3PLs	
Clean Initiatives	**%**
Optimization Initiatives	77%
Alternative Fuels	40%
Autonomous Vehicles	27%

Vehicles of the future will be cleaner

0	1	2	3	4	5
No Automation	**Driver Assistance**	**Partial Automation**	**Conditional Automation**	**High Automation**	**Full Automation**
Zero autonomy; the driver performs all driving tasks.	Vehicle is controlled by the driver, but some driving assist features may be included in the vehicle design.	Vehicle has combined automated functions, like acceleration and steering, but the driver must remain engaged with the driving task and monitor the environment at all times.	Driver is a necessity, but is not required to monitor the environment. The driver must be ready to take control of the vehicle at all times with notice.	The vehicle is capable of performing all driving functions under certain conditions. The driver may have the option to control the vehicle.	The vehicle is capable of performing all driving functions under all conditions. The driver may have the option to control the vehicle.

How do I select the optimal provider?

How do I know a 3PL can provide my organization value?

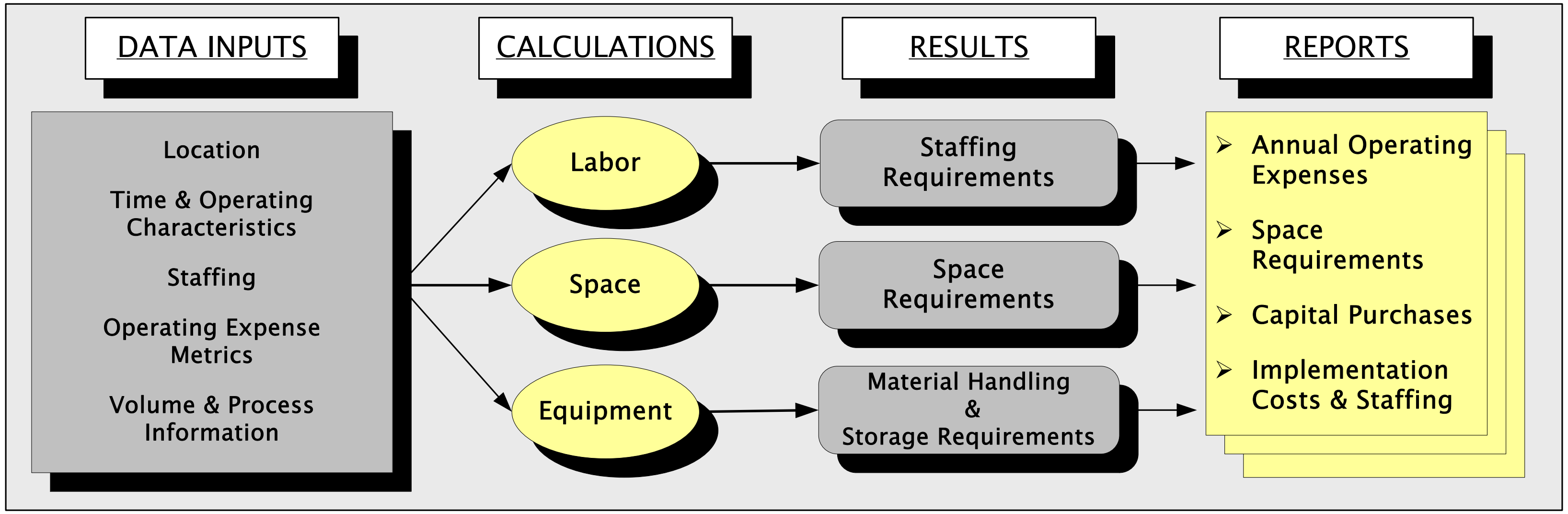
- They should respond to the areas of greatest concern
  - Simplify Complexity
  - Demonstrate IT Capability
  - Provide a Material Handling Technology Evaluation (more equipment is not always better but they should demonstrate they have evaluated that)
  - Establish their ability to lead to logistically
  - Start with Cost Plus but ensure they can support gain sharing or alternative “share the benefit” plans
  - Stand on their ability to support continuous improvement processes

How do I know a 3PL can provide my organization value?

- Simplify Complexity
  - Show previous success in perceived complex areas (co-pack, kitting, direct to consumer operations, multi-channel)
- Demonstrate IT Capability
  - Internal WMS
  - Prove success with client's WMS
  - Demonstrate interfacing capability
- Prove a Material Handling Technology Evaluation (more equipment is not always better but demonstrate they have evaluated that)

How do I know a 3PL can provide my organization value?

- Establish their ability to lead to logistically
  - Share the details of their pricing methods



  - Can they support location analysis? (Logistics Leadership)
  - Innovative Design (with corresponding investment)
  - Can they meet emerging service requirements (Big Data)?

How do I know a 3PL can provide my organization value?

- Start with Cost Plus (or Activity Based Costing) but ensure they can support either pricing approach along with gain sharing or other approaches you may be comfortable with
- Stand on their ability to support continuous improvement processes supported by previous successes
  - Coupled with gain share drives a potential win/win situation with a partner who desires long term partnerships
- Clearly define impacts to cost across the relationship
  - Volume, Inventory Turn Shifts, Storage Profile Shifts, Order Profile Shifts

How do I know a 3PL can provide my organization value?

- The best providers realize while cost is always a consideration, and customers can be won on cost, they are *kept* through:
  - Exceeding Client Expectations (even as they change)
  - Frequent meaningful communications
  - Clear vision of business requirements & their impact
  - Willingness to invest
- Commitment by Supplier & Client is paramount

"When my customer puts their head on their pillow at night, the last worry they should have is their distribution partner's ability, performance and cost."

Take Aways

- E-com is growing
- 3PL use is growing
- The two together are causing some **‘Growing Pains’**
  - Labor challenges everyone (or is it payroll??)
  - Technology investment and integration
  - Fulfillment Growth is outpacing other distribution needs
  - Seasonality presents larger and larger challenges
- Evaluate you 3PL partner in their ***proven*** abilities to solve the tougher challenges to enhance you chance of successful selection

(Or be a 3PL with the ability to solve the tougher challenges to realize a competitive advantage in the 3PL industry!)

For more information:

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Or visit MODEX Booth #5011