TRENDS IN 3PL/CUSTOMER RELATIONSHIPS

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ABOUT ARMSTRONG & ASSOCIATES, INC.

Armstrong & Associates, Inc. (A&A) was established in 1980 to meet the needs of a newly deregulated domestic transportation market. Since then, through its leading Third-Party Logistics (3PL) market research and history of helping companies outsource logistics functions, A&A has become an internationally recognized key resource for 3PL market information and consulting.

A&A's mission is to have leading proprietary supply chain knowledge and market research not available anywhere else. As proof of our continued work in supporting our mission, A&A's 3PL market research is frequently cited in media articles, publications, and securities filings by publicly traded 3PLs. In addition, A&A's email newsletter currently has over 40,000 subscribers globally.

A&A's market research complements its consulting activities by providing continually updated data for analysis. Based upon its unsurpassed knowledge of the 3PL market and the operations of leading 3PLs, A&A has provided strategic planning consulting services to over 30 3PLs, supported 17 closed investment transactions, and provided advice to numerous companies looking to benchmark existing 3PL operations or outsource logistics functions.

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Introduction

Each year we analyze our research database of third-party logistics provider (3PL) customer relationships to gain insights into customer logistics outsourcing trends and overall market dynamics. This report is based on an analysis of more than 7,200 current 3PL customer relationships in our database. These relationships are based in 41 countries and represent nearly 20,000 services. Many of these relationships are explained in detail in the cases section of our *Who's Who in Logistics* 3PL guide.

3PL Value-Added Services

Value-added services differentiate 3PLs from transactional transportation companies and basic warehousing operations. Figure 1 includes some of the primary 3PL value-added services and capabilities. The major changes since 1995 have been an increase in the degree and clustering of these services. Several of the largest 3PLs (CEVA Logistics, UPS Supply Chain Solutions, DB Schenker, DHL Supply Chain & Global Forwarding, Kuehne + Nagel, DSV, GEODIS, and XPO Logistics) offer all or most of these services to their largest customers.

Figure 1. Third-Party Logistics Value-Added Services and Capabilities

Both — 3PL/4PL	Domestic and International Transportation Management
4PL/Lead Logistics Provider	Cargo Insurance
Call Centers	Carrier Contracting/Brokering/Freight Payment
Consolidation/Deconsolidation	Customs Brokerage
Consulting/Process Reengineering	Duty Drawback Processing
EDI Handling	Freight Forwarding/NVOCC
Exception Handling	Incoterms Management — EXW to DDP
Financial Services	Letters of Credit/Negotiable BOLs
Food Grade/Temperature Controlled	Merge-In-Transit
Hazmat Skills	Multimodal Transportation
ISO Certification	Project Logistics
Inventory/Vendor Management	Transportation Execution
Lean Management Skills	Transportation Network Planning/Optimization
Order Management	**Value-Added Warehousing & Distribution**
Pool Distribution/Cross-docking	Bonded Facilities
Radio Frequency/RFID	Easily Deployable IT and Work Processes
Security Processes	Installation/Removal
Sourcing/Procurement Skills	JIT/Kanban
Supply Chain Systems	Kitting/Pick & Pack
	Light Manufacturing/Assembly
	Order Fulfillment
	Reverse Logistics
	Subassembly

The key competitive differentiators among 3PLs include supply chain management systems capabilities, operations management skills, and logistics engineering expertise. Most tier-one 3PLs have implemented integrated systems platforms to support global transportation and warehouse management operations. These platforms offer internet visibility and exception handling capabilities combined with transportation management functionality for the daily management of orders, customer inventory, and the optimization of thousands of shipments across large geographical areas. The same 3PLs can run value-added warehousing operations, perform supply chain network analysis and design, and manage call center and fulfillment operations. Several 3PLs have expanded their global scope to provide significant coverage in those countries which make up the majority of the world's gross domestic product. With the continued expansion of major 3PLs, often via acquisition, integration of operational pieces is a significant initiative. Approximately 15 3PLs have built the network scale required to offer single-source global solutions to large multinational companies. These Global Supply Chain Managers (GSCMs) can be expected to become increasingly dominant over the next few years.

The size of 3PL accounts varies in net revenues from a few hundred thousand dollars to over $500 million. Major 3PL contracts with Fortune 100 companies regularly exceed $50 million per year. Most of these $50 million-and-greater accounts are with automotive and high-tech companies.

Traditionally, large 3PLs steer away from accounts of less than $5 million in purchased transportation, or warehousing and distribution management. Smaller accounts with transportation management needs often turn to freight-brokerage-centric domestic transportation management 3PLs such as C.H. Robinson, Total Quality Logistics, Coyote Logistics, or Echo Global Logistics. Our experience shows that these small accounts tend to be more profitable on a gross margin percentage basis and change 3PLs less often.

While our database does not include every 3PL customer relationship, it is large enough to identify how and to what extent customers use 3PL services. Table 1 lists the top Global Fortune 500 3PL customers utilizing 10 or more 3PLs within their supply chain operations.

Table 1. Top Global Fortune 500 Buyers of 3PL Services

# of 3PLs	Company
63	Wal-Mart Stores
57	Volkswagen
55	Nestlé
51	Procter & Gamble
49	General Motors
46	PepsiCo
45	Unilever
38	Ford Motor, General Electric
37	Kraft Heinz
36	Royal Philips
35	BMW Group
34	Samsung Electronics
33	Daimler
32	Johnson & Johnson
30	Siemens
29	Hewlett-Packard
27	LG Electronics, Toyota Motor
26	Coca-Cola, Nissan Motor
25	Colgate-Palmolive, Home Depot, Honda Motor
24	Panasonic, Sony
23	General Mills, Pfizer
22	BASF, Volvo, Whirlpool
21	Bayer, Danone, Deere, Kroger, Robert Bosch
20	Koch Industries, Royal Dutch Shell, WestRock
19	Abbott Laboratories, Caterpillar, Tyson Foods
18	DuPont, Goodyear Tire & Rubber, Mars, Nike, Target
17	Dow Chemical, International Business Machines, International Paper, Kimberly-Clark, L'Oréal, Midea, Sanofi, Sears Holdings, United Technologies
16	Adidas, Dell, Emerson Electric, Michelin, Tata Motors
15	Anheuser-Busch InBev, Cargill, Christian Dior, Fiat Chrysler Automobiles, Henkel AG & Company, L Brands
14	BP, Bridgestone, Continental, Eaton Corporation, GlaxoSmithKline, Honeywell International, IKEA, Johnson Controls, Kellogg, Mitsubishi Group, Starbucks, Toshiba, Weyerhaeuser, Xerox
13	Asustek Computer, Berkshire Hathaway, Canon, Chevron, ConAgra Foods, Delphi, Exxon Mobil, Heineken International, Hitachi, Lenovo Group, Medtronic, Merck, Renault, U.S. Department of Defense
12	3M, Haier, Kingfisher, Novartis, Office Depot, Onex, Reckitt Benckiser
11	ABB, Amazon.com, AT&T, Carrefour, Diageo, J.C. Penney, Mondelez International, Peugeot
10	Altria Group, Best Buy, Cerberus Capital Management, Cisco Systems, Huawei Investment & Holding, Kering, Lear, Lowe's, Nokia, Pinnacle Foods, PPG Industries, Scotts Miracle-Gro, Technicolor

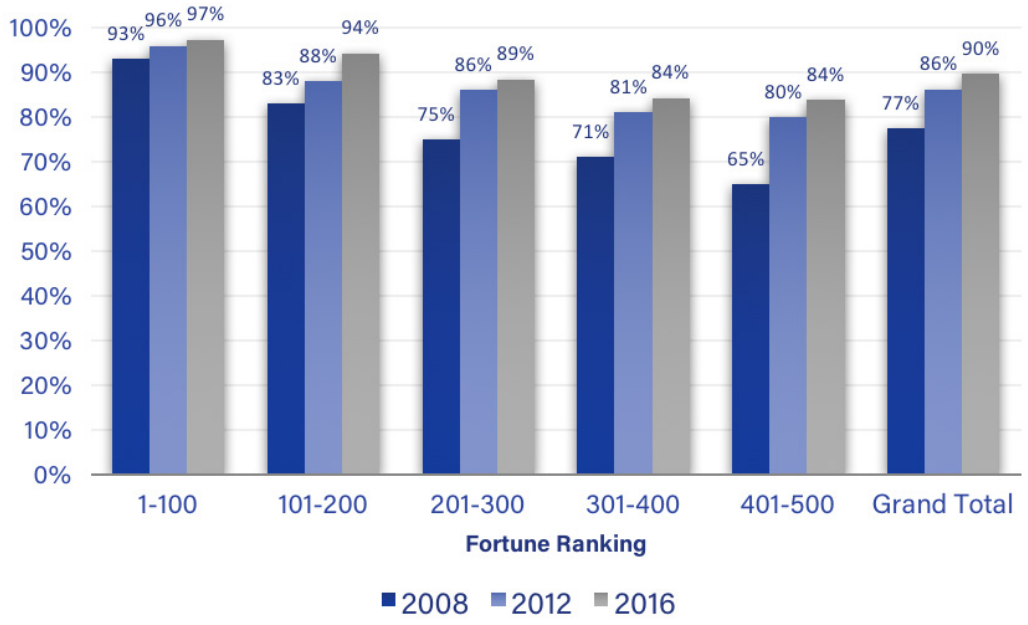
Wal-Mart Stores ranks first in 3PL use with 63 3PL relationships. Globally, Damco International, Yusen Logistics, DHL Supply Chain & Global Forwarding, Cargo Services Far East Limited, and XPO Logistics are significant players in Wal-Mart's supply chain. Domestically, it utilizes the services of C.H. Robinson, and GEODIS/OHL for a host of services from transportation management to value-added warehousing. With extensive import, warehousing, and transportation management needs, Wal-Mart leans heavily upon 3PLs in managing its global operations.

Volkswagen, seventh on the Global Fortune 500 list, ranks second in 3PL use with 57 3PL relationships. Key global 3PLs servicing Volkswagen include Imperial Logistics, TRADISA, arvato, ARS Altmann, and BLG Logistics Group. Domestically, syncreon provides a full suite of services for Volkswagen.

Nestlé ranks 66th in Global Fortune 500 revenues and third in overall 3PL use with 55 3PL relationships. Global 3PLs providing services to Nestlé include Ryder Supply Chain Solutions, CEVA Logistics, Americold, JSL, NFI, and VersaCold Logistics Services.

Not all Fortune 500 companies have business models that would require the services of a 3PL. We have excluded most Advertising, Financial, Insurance, Real Estate, Utilities and Waste companies from our analysis. Domestic Fortune 500 use of 3PLs is shown in Figure 2.

Figure 2. Domestic Fortune 500 Use of 3PLs 2008 – 2016



In 2016, 90% of Domestic Fortune 500 companies worked with at least one 3PL. This is a significant increase from our initial tracking in 2001, when only 46% of the companies had 3PL relationships. The increase reiterates the ongoing trend for companies to outsource logistics functions to 3PLs in order to control costs and increase supply chain efficiency. As Figure 2 shows, company size continues to be a good predictor of 3PL use. The larger the company, the more likely it will have at least one relationship with a 3PL. In addition, larger companies utilize more services from 3PLs than smaller ones, which we discuss later in this report.

In our analysis of 3PL use, there is some inter-year variation due to changes in the mix of customer

relationships being reported by 3PLs and shifts in the Fortune rankings. There is also some underreporting of customer relationships in all categories; this is usually attributed to confidentiality agreements preventing 3PLs from naming customers. However, the overall trend shows a significant increase in the penetration of all Fortune 500 companies by 3PLs since 2008. The increase is largest in the Fortune 401–500 group, as smaller companies increasingly recognize the strategic importance of 3PL relationships and services. The increase from 2012 to 2016 is smallest in the Fortune 1–100 group, which has maxed out at 97%. Since 2012, the largest change occurred in the Fortune 101–200 group. The majority of companies in this group (94%) now have 3PL relationships—nearly as many as the top 100 companies. The overall pattern of increases in each group indicates a significant trend of smaller companies outsourcing more functions to 3PLs over the last eight years.

In a shift from initial 3PL sales strategies emphasizing relationships with large Fortune 500 accounts, most 3PLs are now also pursuing smaller accounts, which offer the potential for strategic relationships with better profit margins.

Trends indicate continued awareness to the benefits of using 3PLs among Fortune 101–1,000 companies. This growth should hold over the foreseeable future. Since 2010, 3PLs developed business at an average of two to three times the rate of growth in the U.S. economy. Growth was diluted in 2015 due to lower fuel prices, which negatively impacted fuel surcharge revenue, while ample carrier capacity decreased demand for Domestic Transportation Managers. The overall U.S. 3PL market growth was 2.2% in 2015 and 3.5% in 2016. Employment growth has been a bright spot and has created a solid base of consumer spending. Credit availability has generated spending on premium items such as motor vehicles, residential housing, and nonresidential construction.

The increased 3PL usage described above is consistent with information from our other ongoing 3PL market research. Our estimate of 3PL penetration of the total potential U.S. 3PL market is 21%, up from 10% in 2002. This compares to current 3PL market penetration rates of 22% in Europe and 16% in the Asia Pacific. Consistent with the increased U.S. market penetration is our estimate of total U.S. 3PL revenues increasing from $65.3 billion in 2001 to $166.8 billion in 2016.