INTRODUCTION

This paper is based on a survey of the CEOs of the 20 largest third-party logistics providers (3PLs) serving North America that was conducted in mid-2013. The survey focused on the state of the North American marketplace for 3PL services at that time.\(^1\) This was the 20th annual iteration of this survey. The authors also conduct similar annual surveys of 3PL CEOs in Europe and the Asia-Pacific region.

The 2013 survey focused on a variety of issues, including the key marketplace dynamics in the North American 3PL industry, the industry’s long-standing problems related to finding and keeping management talent, the movement toward nearshoring, its ongoing commitment to environmental sustainability, and a wide range of other aspects of the industry’s current status and future prospects in the region.

The CEO of each company included in the survey was contacted by email and asked to participate in a Web-based survey. An initial target group of the 20 largest 3PLs in North America was contacted, and the CEOs of all those companies agreed to participate. However, only 15 CEOs subsequently completed the survey online. Exhibit 1 (shown on page 2) lists the companies that participated in the 2013 North American survey.\(^2\)

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*The authors would like to express their appreciation to Penske Logistics for their support of this project.*
REVENUES AND PROFITABILITY

The survey addressed several 3PL provider revenue and profitability issues, and each is discussed below.

Annual Provider Revenues

Twelve companies reported revenue data in responding to the survey. Collectively, these companies generated approximately $12.26 billion in North American revenues during 2012, with four companies reporting 2012 revenues in excess of $1 billion. Annual revenues for the 12 companies reporting revenue data averaged $1.02 billion. If all 15 companies had reported revenue data the collective total would have exceeded $16 billion. That total represents approximately 12% of the estimated $134 billion revenue base of the region’s entire 3PL industry.3

The revenues generated by those companies in North America come from the United States, Canada and Mexico. The average revenue split reported by the 3PLs was as follows: the United States, 81%, Canada, 10%, and Mexico, 9%. The CEOs were also asked to project what that split would be in three years, and their responses were as follows: the United States, 78%, Canada, 10%, and Mexico, 12%. As discussed later in this paper, some of the projected growth in Mexico is expected to come from an increase in nearshoring activities as manufacturers move some sourcing and manufacturing activities back from Asia.

Success in Meeting Growth Projections

The CEOs were asked about the success of their companies in meeting their North American revenue growth projections during 2012, and 14 responded to the question. Three (21.43%) reported their companies exceeded company revenue growth projections for the year, six (42.86%) indicated they met their projections, and five (35.71%) reported their companies failed to meet their projections. It should be noted that four companies reported they had failed to meet their revenue growth projections in our 2012 survey.

Company and Industry Profitability

The CEOs were next asked to categorize the profitability of their companies’ North American business units during 2012. Two (14.29%) reported their companies had been very profitable, and 12 (85.71%) said marginally profitable. For the third year in a row none of the companies involved in the North American survey were unprofitable. Interestingly, despite the failure of four of the companies to meet their revenue growth projections, they were still able to generate profits.
CEO views were also solicited concerning the profitability of the North American 3PL industry as a whole in 2012. All 15 participants responded to the question and all of them categorized the regional 3PL industry as marginally profitable. Those results were very similar to those generated in the 2012 survey in which 15 of 16 respondents categorized the regional industry as marginally profitable, and one suggested it had broken even for the year.

Nearshoring

During the past several years, union strength has increased in China, and the country’s wage rates, benefit levels and resource costs have risen dramatically. China is no longer a low-cost destination for manufacturing or sourcing. At the same time, many manufacturers have reported chronic labor shortages leading to difficulties meeting production schedules. Those factors, coupled with a series of catastrophic natural disasters in the Asia-Pacific region and rising international transportation rates, have led many North American manufacturers to give serious consideration to the possibility of nearshoring, or the returning of some manufacturing and sourcing activities that had moved to China from North America back toward North America. As documented in our earlier surveys, this has been a significant topic of discussion at the executive level in many companies for several years.

In our 2013 survey, the CEOs were asked if any of their key North American customers had already moved some of those activities back toward North America, and 10 of 15 (67%) said yes. When asked what industries had been involved in that movement, nine said automotive and four mentioned high-tech. Consumer goods, pharmaceuticals, retail manufacturing and gaming were each mentioned once. To date, nearly all of this movement has been from Asia to Mexico, but one respondent mentioned a movement from Asia to South America. While the broader nearshoring movement may ultimately involve some movement back to the United States, only one CEO indicated any current movement in that direction, and he classified it as “a trickle.”

It should also be noted that some North American manufacturers who have not yet opted for nearshoring have moved operations from China to other less-costly manufacturing locations in Asia, including Vietnam, Cambodia and Bangladesh. However, recent political unrest and concerns about worker safety in such areas as Bangladesh and Thailand will likely act as a damper on that movement.

A continuation of the nearshoring movement has important implications to the 3PLs involved in this survey, and nine of them already have operations in Mexico, despite concerns about security, customer clearance procedures, regulations and currency stability.

Those surveyed were asked how the nearshoring movement had affected their business to date, and in response they mentioned the following: more RFP activity in Latin America, reduced long-distance transportation requirements for those customers participating in the movement, increased warehousing and transportation demands in the NAFTA corridor, less international freight movements to be managed by 3PLs, more in-region demand for services, and greater opportunities to support clients with regional warehousing services and cross-border transportation services.

Mergers and Acquisitions (M/A)

The global 3PL industry has undergone a major consolidation movement in the past decade, but the pace of that movement has slowed considerably in North America during the past several years. In fact, only three of the 15 companies involved in the 2013 survey reported their companies made one or more acquisition during the past year, collectively acquiring three 3PLs. Similar results were reported in the 2012 and 2011 North American surveys.
each of those years only two companies reported any acquisition activity. While there still appears to be substantial interest in 3PL acquisitions in the region, particularly in the private equity community, larger 3PLs appear to be reluctant to make large capital outlays as the world economy slowly recovers. In the United States stock prices have risen dramatically during 2013, making acquisition of publicly traded 3PLs substantially more expensive than they would have been before the market increase.

The respondents expect acquisitions to play a relatively modest role in company revenue growth during the next year. On average they expect acquisitions to generate 8.3% of their revenue growth (up from a 5.0% projection in the 2012 survey). It should be noted that six of the companies included in this year’s North American survey indicated they do not expect any of their companies’ growth next year to come from acquisitions.

**Introduction of New Services**

Despite the modest growth of the U.S. economy during the past year, 12 CEOs indicated their companies introduced new services over that period. The new service offerings took a variety of forms and included the following:

- Expansion of U.S./Mexico cross border services
- Strengthening of company intermodal service offerings
- Introduction of a new express freight product
- Provision of freight consolidation services for multiple consumer goods companies
- Introduction of freight brokerage services
- Development of contract packaging services
- Offering electronics returns/repair services
- Initiation of free trade zone operations
- Expansion of origin consolidation services in overseas locations

**Green/Environmental Sustainability Issues**

The nature and extent of 3PL involvement in environmental sustainability projects have been examined in each of the last five North American surveys. Data generated in those surveys have shown a very strong commitment to the pursuit of “green” goals by 3PLs, and that commitment was maintained throughout the global economic downturn. This continuing commitment was again demonstrated by responses to the 2013 survey. However, this year the 3PLs showed less interest in undertaking new sustainability initiatives.

Nine (60%) of the 15 companies surveyed reported they expanded their existing sustainability programs during the past year. However, only three (23%) of the 3PLs reported launching new sustainability programs during 2012. That was down considerably from the 50% figure reported in the 2012 survey. Further, only 20% of the respondents reported that their companies planned to launch new sustainability programs in 2013.

**Choosing Among Potential Sustainability Projects**

3PL executives are typically faced with a broad range of potential environmental sustainability projects that might be undertaken by their companies. Obviously all of those projects cannot be funded. In this year’s survey we sought to determine the most important standards used by those companies in choosing among the various initiatives that would reduce their carbon footprints.

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60% of 3PLs surveyed expanded their existing sustainability programs during the past year.

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It is important to understand that companies do not typically use one standard to make such decisions, but the most frequently mentioned standard was return on investment (ROI); that was mentioned by seven CEOs. Three others mentioned payback period, and two cited the value of related marketing collateral. Several other standards were mentioned, including the investment’s value in helping the company compete for contracts that target environmental government or commercial metrics; the impact on company costs and fuel efficiency; the cost to customers; the potential cost savings that might be passed along to the customer; and the ability of the 3PL to recover related costs from customers.

**Customer Interest in Sustainability Issues**

Over the past five years we have asked the CEOs many questions concerning the degree of customer interest in environmental sustainability issues. In the 2012 survey the CEOs were asked what percentage of their existing customers had asked their companies to analyze customer supply chain practices in terms of environmental impact/cost. On average, the CEOs indicated that only 5.7% of their existing customers had done so. In that survey they were also asked how frequently the green/environmental sustainability capabilities of their companies were a major factor in determining whether they won new contracts or extended existing contracts. None of the CEOs said very frequently, one said frequently, and 15 said infrequently. Those responses were very similar to those obtained in several of our earlier surveys.

In the 2013 survey we decided to approach that issue from a branding perspective. We asked the CEOs how successful their companies had been in using their sustainability programs/accomplishments to differentiate themselves from other 3PLs. In response, 7% said very effective, 60% said effective, and 33% said not effective.

**Most Successful Environmental Sustainability Initiatives**

Many of the 3PLs involved in the annual North American 3PL CEO surveys have multifaceted environmental sustainability programs. This year they were asked to identify the most successful of those initiatives in terms of reduction of their carbon footprints. They gave a wide range of responses, but two initiatives were mentioned three times. Those were routing software and participation in the EPA’s SmartWay program. Among the other initiatives identified were investment in TMS software, adjustment of equipment specifications, new engine technology, modernization of the company’s air fleet, the use of natural gas in fleet operations, improved lighting systems, working with customers to modify modal selection and minimize transit distances and inventory levels, and investment in monitoring/measurement tools.

**Greatest Opportunity for Company to Reduce Its Carbon Footprint**

The CEOs were next asked to look forward and assess what they believed to be their companies’ greatest opportunity to reduce its carbon footprint in the future. Ten CEOs responded to the question, and five mentioned a possible conversion to alternative fuel vehicles. Among the other opportunities mentioned were the use of solar panels in company facilities, a modal conversion from truck to intermodal, improved efficiency of subcontracted transportation, improving the energy efficiency of company warehouses, leveraging the company’s existing TMS system, fostering greater alignment with key customers on sustainability issues, and helping customers minimize waste and improve efficiency in their supply chains.

The data generated in our last five North American 3PL surveys has shown a real commitment on behalf of those companies to foster improvements in environmental sustainability not only within their
own organizations, but also in the operations of the customers they serve. The success of those programs not only in terms of reducing their carbon footprints but also in terms of cost reduction has been quite impressive. While the 3PLs believe their sustainability initiatives have also generated some brand value, their customer base is still primarily cost driven in making the 3PL selection decision.

3PL Services to the Health Care Industry

Each of the last two North American surveys has examined a variety of issues related to the attractiveness of the health care industry to the regional 3PL industry. The structure of the health care industry is rather complex and contains a broad range of participants, including, among others, pharmaceutical companies, medical device manufacturers, distributors and hospitals. In our 2012 survey we established that the most attractive sectors of that industry to 3PL service providers were medical device manufacturers and pharmaceutical companies. Distributors and hospitals were deemed substantially less attractive as potential clients. We also determined that each of those sectors has a wide variety of supply chain management challenges, and that for a 3PL to effectively serve different sectors of the health care industry it must have very specific sector knowledge, in-house expertise and, in many cases, substantial front-end investment in facilities dedicated to serve health care clients. The logistics services already being provided to health care clients were also documented in that survey. The CEOs also suggested serving clients is, in many cases, very difficult as a result of complicated organization structures, institutional inertia, and low levels of client expertise in the value proposition that might be provided by 3PLs.4

Twelve of the 15 companies involved in the 2013 survey reported that they already served health care clients. On average they indicated that 9.8% of their 2012 North American revenues originated in the health care sector. They expect that percentage to increase to 18% within three years. We asked those 12 CEOs to rate the companies’ effectiveness to date in competing for health care business is several areas. In each area they were given three choices—very effective, effective and not effective.

In terms of their effectiveness in establishing their company brand in the health care field, two (18.18%) said very effective, four (36.36%) said effective, and five (45.46%) said not effective. In terms of effectiveness in attracting health care clients, three (27.27%) said very effective, five (45.46%) said effective, and three (27.27%) said not effective. When asked about their effectiveness in generating profits in serving health care clients, two (18.18%) said very effective, and nine (81.82%) said effective. In the 2012 survey many of the CEOs expressed concerns about the ability of their companies to develop the necessary expertise to compete effectively in this space. However, their responses this year show greater optimism. One (9.09%) said their companies had been very effective in doing so, eight (72.73%) said effective, and only two (18.18%) said not effective. Similarly, in the 2012 survey many of the CEOs were concerned that their companies either would not or could not make sufficient investments in health care related assets to effectively compete for such business. Their responses to a related question in the 2013 survey indicate that is still an area of concern. While one (9.09%) said his company had been very effective in doing so, and five (45.46%) said they had been effective, five (45.46%) still believed their company was not effective in doing so.
RESULTS

Industry Dynamics

In each annual North American survey the CEOs are asked to identify the three most important industry dynamics affecting the North American 3PL marketplace. The dynamics identified this year included:

• The movement toward nearshoring, particularly movements from Asia to Mexico
• Introduction of new regulations and compliance pressures
• Continuation of the slow-growth economy and related market uncertainty
• Increasing customer sensitivity to costs pressures
• Significant customer interest in lower cost supply chain solutions

Industry Opportunities

The CEOs were also asked to identify the most significant opportunities for 3PLs in the North American market, and, as has been the case in previous surveys, there was little consensus. Among the opportunities highlighted by the CEOs were the following:

• Development of closer relationships with key customers
• The possibility of new contracts as 3PL customers reduce the number of 3PLs they use
• Supporting customers in their nearshoring efforts
• Expansion of e-commerce activities, including reverse logistics
• Offering more extensive services to clients in the health care industry
• Growth potential in the energy sector

Industry Problems

As has been the case for the past several years, finding and keeping management talent headed the list of problems. That issue is addressed in detail later in this paper. Among the other problems cited were:

• Coping with increasing regulations, particularly those affecting driver hours of service and health care insurance
• Operating with significant capital constraints
• Continued adjustment to the slow-growth economy
• Coping with increasing pricing pressures and declining margins
• Handling the ongoing driver shortage and other labor issues

Most Significant Development in Regional 3PL Industry in Past Year

When asked to identify the most significant development in the regional 3PL industry during the past year, the CEOs’ responses covered a broad range of topics, including the following:

• Substantial increases in B2C business and its implications to the 3PL labor force (seasonality)
• Less customer interest in expedited shipment services
• Growing customer interest in co-loading programs
• Increased customer acceptance of gain-sharing and pain-sharing pricing models
• Increased regional volume as the economy recovers

• More nearshoring activity
• More 3PL interest in mergers and acquisitions
• More centralized corporate-level decision-making in global supply chains

Managing Human Resources in the 3PL Industry

The 2013 survey marked the 20th iteration of the North American 3PL CEO survey and in most years the CEOs have ranked “finding and keeping talented managers” among the top three problems faced by 3PLs in North America. In many of the previous annual surveys we addressed a broad range of related topics, and we continued that
line of research questions in the 2013 survey. Specifically, we asked the CEOs to tell us why the talent shortage continues to be such a significant problem in the industry. For the first time we asked them to rate the industry’s treatment of young managers along several different job-related dimensions. We concluded by asking them if their companies had specific components in their human resource management programs.

Why Does This Problem Persist?

Fourteen CEOs gave their opinions about the reasons for this ongoing problem. They identified a number of possible reasons, and those reasons can be clustered into several areas. First, the 3PL industry competes for supply chain management/logistics talent in a marketplace in which there is much greater demand than supply.

Second, according to the CEOs, the initial opportunities for supply chain/logistics management people in other industries are often perceived to be more attractive than those in the 3PL industry. Several observed that 3PL company brands are generally not well known to the general public.

Third, many managers leave large 3PLs for what are seen as better opportunities in other industries, leading to a high management attrition rate.

Fourth, and potentially most important, the 3PL industry has been slow to adapt to the changing/evolving needs and expectations of a younger workforce.

Among the other interesting observations made by the CEOs were that other industries pay more for top intellectual talent than 3PLs, and there is constant pressure on 3PL employees to demonstrate value and deliver high quality services to clients at competitive prices. That can create a very stressful environment and a heavy workload for 3PL managers. Compounding this situation is the fact that a significant number of the industry’s clients are very difficult to work with. The CEOs also noted that many 3PL managers come up through the ranks and, as a result, may not have the skills to manage effectively at higher corporate levels.

CEOs Rate the 3PL Industry as an Employer

The CEOs were also asked to rank the 3PL industry’s treatment of young managers on a variety of dimensions, including salary, benefits, career opportunities, travel and workload (see table 1, below). A five-point scale ranging from one to five was used, with one being the lower end of the scale. The results are enlightening.

<table>
<thead>
<tr>
<th>JOB DIMENSION</th>
<th>Excellent (5)</th>
<th>Very Good (4)</th>
<th>Good (3)</th>
<th>Fair (2)</th>
<th>Poor (1)</th>
<th>Average Weighted Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>—</td>
<td>1</td>
<td>12</td>
<td>2</td>
<td>—</td>
<td>2.93</td>
</tr>
<tr>
<td>Benefits</td>
<td>—</td>
<td>1</td>
<td>11</td>
<td>3</td>
<td>—</td>
<td>2.87</td>
</tr>
<tr>
<td>Opportunities</td>
<td>1</td>
<td>8</td>
<td>3</td>
<td>3</td>
<td>—</td>
<td>3.46</td>
</tr>
<tr>
<td>Travel</td>
<td>—</td>
<td>2</td>
<td>4</td>
<td>9</td>
<td>—</td>
<td>2.53</td>
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<tr>
<td>Workload</td>
<td>—</td>
<td>—</td>
<td>3</td>
<td>10</td>
<td>2</td>
<td>2.07</td>
</tr>
</tbody>
</table>
On the five-point scale, the respondents’ average ranking of industry salary was 2.93. Only one CEO ranked the industry above good in terms of salary, and two ranked it fair. The average ranking of benefits was slightly lower at 2.87. Only one respondent ranked it above good, with three ranking the industry’s benefits as fair. The data suggests that the 3PL industry needs to determine how it compares with the salaries and benefits offered by their competitors in manufacturing, retailing, transportation and consulting. That is important not only at the entry level, but also as individuals move up through management ranks. If the industry is not competitive in these areas, this problem will continue to plague the industry.

With respect to career opportunities, the average ranking was substantially higher at 3.46, with nine of 15 respondents ranking it at least very good on that dimension. It is extremely important that employees understand the opportunities and that they are given clear career guidance within these companies. That is critical with respect to retention.

Travel requirements generated an average ranking of 2.53, with nine of 15 CEOs ranking it fair. 3PLs need to examine how much time managers are on the road. At the beginning of one’s career the concept of travel is exciting and interesting. Over time that becomes much less so. How much is too much, and where can technology be used as a substitute for travel? Clearly face time is important in building client relationships, but there are trade-offs to be considered.

Finally, in terms of workload, the CEO rankings averaged a meager 2.07, with 10 ranking it fair, and two ranking it poor on that dimension. This should be a major concern for the industry as it assesses its ability to hire and retain management talent. Based upon the data, the industry is reminiscent of the trucking and warehousing entities that created much of the industry as subsidiaries. It is quite common to hear that potential employees are told that initial workload expectations are likely to be in the 60-70 hour per week range, and they are likely to be on call 24/7. That is not a particularly attractive lifestyle for the new generation that is seeking a greater work/life balance.

Sources of Management Talent

The 3PLs were also asked about their sources of management, and their answers contained some surprises. It was reported that on average 43% came from other 3PLs, 13% came from university recruiting programs, 7% from customers, and 4% from consulting firms. The remaining 32% came from “other” sources that were predominantly acquisitions and internal promotions. There is substantial poaching of management talent between 3PLs and that leads to relatively high management turnover rates in some companies.
3PL Human Resource Programs

The survey also sought to determine if the 3PLs had specific human resource management programs in place within their organizations. Nine of the companies (69.23%) reported that they had university recruiting programs, formal training programs for new employees, formal mentoring programs and profit-sharing programs. Seven (53.85%) reported initial job rotation programs for new employees, while only four (30.77%) reported having employee stock ownership programs.

Major Changes Expected During the Next Year

The CEOs were next asked what major changes they expected to take place in the North American 3PL industry during the next year, and 13 responded to the question. As had been the case in each of our last nine North American surveys, the merger and acquisition movement dominated CEO thinking, with seven CEOs indicating they believed the consolidation movement would accelerate in North America during the next year with private equity interest in the 3PL industry increasing. No other change was mentioned more than once. Among those possible changes mentioned once were:

- Expansion of nearshoring activity
- Continued growth of e-tailing and increased opportunity to provide reverse logistics services
- The emergence of stronger relationships between large 3PLs and their key customers
- More logistics outsourcing and more private fleet transition to 3PLs
- Increased attention will be devoted to selecting better financial and economic indicators to be used in forecasting
- Health care laws will drive up labor costs, particularly with respect to temporary employees
- There will be greater focus on compliance and regulatory oversight
- More emphasis will be given to decisions related to how and where to employ capital resources
Estimated Company and Industry Revenue Growth Rates

Finally, the CEOs were asked to estimate the rates of annual company and industry revenue growth for the one- and three-year periods, and 14 CEOs provided those estimates. Their projections are shown in Tables 2 and 3 and are discussed below.

The average company revenue growth projection for next year was 11.50% (10.00% in 2012 and 10.81% in 2011), with the projected three-year company revenue growth average, at 14.57%, being substantially higher than the projections of the previous two years (10.43% in 2012 and 10.25% in 2011). However, once again, as we have observed in previous surveys, the estimates varied significantly from company to company, with the one-year company projections ranging from 5%-25%, and three-year projections having the same range.

Interestingly, CEO projections of regional 3PL industry growth over the next year, at 6.57%, were lower than those recorded in the last two surveys (6.93% in 2012 and 6.88% in 2011). The three-year industry projections averaged 6.86%, which was also below those estimates given in the 2012 and 2011 surveys: 8.33% and 8.00%, respectively. The individual CEO projections of the industry’s growth rates ranged from 2%-10% for the one-year period, and the three-year projections had the same range.

| TABLE 2 | 2013 SURVEY CEO ONE- AND THREE-YEAR REVENUE GROWTH PROJECTIONS FOR THEIR COMPANIES, NORTH AMERICA, AND COMPARISONS WITH 2012 PROJECTIONS |
|---------------------------------------------------------------|
| 11.50% | 10.00% | 14.57% | 10.43% |

| TABLE 3 | 2013 SURVEY CEO ONE- AND THREE-YEAR REVENUE GROWTH PROJECTIONS FOR THE NORTH AMERICAN 3PL INDUSTRY, AND COMPARISONS WITH 2012 PROJECTIONS |
|---------------------------------------------------------------|
| 6.57% | 6.93% | 6.86% | 8.33% |
SUMMARY

This paper has discussed the results of a 2013 survey of the CEOs of 15 of the largest 3PL service providers operating in the North American marketplace. Collectively those companies generated approximately $15 billion in North American 3PL revenues during 2012. None of the companies involved in the survey reported being unprofitable in 2012.

The 3PL CEOs continue to be quite bullish concerning the revenue growth prospects in the region. The average company estimates for revenue growth for the one- and three-year periods were 11.50% and 14.57%, respectively.

Many of these companies expanded existing environmental sustainability programs during the year, but few launched new sustainability initiatives. Most of the companies believe their sustainability efforts have given them some degree of differentiation in the marketplace, but to date their commitment to those programs has had little effect in the marketplace in terms of retaining customers or attracting new customers. However, they do see real opportunities to improve their carbon footprints in the future, primarily through use of alternative fuel vehicles, and they recognize such efforts frequently not only offer environmental improvements but also reduced costs.

Twelve of the 15 companies involved in this survey provide 3PL services to clients in the health care industry. On average, those clients account for 9.8% of their current North American revenue base, and they project that average will grow 18.0% in three years. To facilitate that growth many of those companies have made substantial investments in not only developing industry-specific expertise within their organizations, but also building dedicated infrastructure to support that growth.

The movement toward greater nearshoring of manufacturing and sourcing activities, the rapid expansion of e-commerce and online sales, increased regulations, and changes in customer demand patterns related to the slow-growth economy were identified as the major dynamics operating in the North American marketplace for 3PL services. Supporting customers in their nearshoring efforts, servicing e-commerce clients, and the health care and energy sectors were viewed as the most significant opportunities. The most important problems were identified as finding and keeping management talent, coping with additional regulations that affect industry operations and costs, and adjusting to the slow-growth economy and its impact on customer requirements.

The industry continues to struggle with human resource issues. Data generated in this survey indicates that the industry has serious problems competing for management talent because of its treatment of young managers in terms of salary, benefits, travel requirements and workload issues. They find themselves in a very competitive marketplace for management talent. The authors have made specific suggestions about how those issues might be addressed in a separate paper.

IMPLICATIONS

The North American economy is rebounding, but it is in a slow-growth mode. Customers are increasingly interested in lower cost solutions and that will continue to challenge 3PL providers to find ways to make that happen. Gain-sharing and pain-sharing pricing models are likely to become increasingly common as the large 3PLs and their key customers seek to find more collaborative approaches to problem-solving for mutual benefit.
The dramatic growth of online sales, particularly during the 2013 holiday season, will undoubtedly lead to greater 3PL involvement in that space, but the large 3PLs would do well to reflect upon the industry’s experience as the dot-com bubble burst. Many of their initial e-commerce customers failed, often owing their 3PLs substantial sums of money. Not all e-commerce companies are created equal, and simply putting an “e” in front of a company name does not make it an attractive client. In assessing the attractiveness of providing services in this space, large 3PLs must decide which segments of the industry to pursue. There are opportunities ranging from support of sourcing activities to handling returns and reverse logistics. The 3PLs need to assess the relative attractiveness of each of those e-commerce supply chain segments in developing their marketing strategies.

The nearshoring movement is likely to provide an important revenue source for 3PLs in North America over the next several years. However, for most of those companies, it will be necessary to expand their NAFTA corridor capabilities to be a significant competitor for this new business, and that expansion will require some reallocation of already scarce capital resources.

A high priority for large 3PLs in the North American marketplace should be a reassessment of company policies related to the hiring, training, treatment and retention of talented managers. 3PLs must compete with manufacturers, retailers, consultants and other potential employers for that talent, and their efforts to do so to date have not produced the results they have sought.

In summary, the large 3PLs serving the North American marketplace have ample reason for optimism, but they face a number of harsh market realities that will have to be overcome to be successful.


2 Some questions were not answered by all CEOs due to individual company policies concerning financial disclosure. Further, in a number of instances, average industry data is presented in the paper, but there is often substantial variability around those averages. That variability reflects a number of factors, including differences in company strategies, operating policies and market segments served.

3 Estimate, Armstrong and Associates.
