

THE YEAR 2001 SURVEY: CEO PERSPECTIVES  
ON THE CURRENT STATUS AND FUTURE PROSPECTS  
OF THE THIRD PARTY LOGISTICS INDUSTRY  
IN THE UNITED STATES

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# **THE YEAR 2001 SURVEY: CEO PERSPECTIVES ON THE CURRENT STATUS AND FUTURE PROSPECTS OF THE THIRD PARTY LOGISTICS INDUSTRY IN THE UNITED STATES**

## **Introduction**

During the past year, despite the economic slowdown, the third party logistics (3PL) industry in the United States continued to grow impressively. Merger and acquisition (M/A) activity accelerated, and several large U.S. based 3PL providers, including GATX and CTI were acquired by major 3PL providers based in other countries. The global expansion efforts of many large American 3PL providers accelerated, and the scale of several new 3PL contracts was unprecedented. The dot.bomb experience was a sobering one for many providers, but they have generally continued to pursue B2B opportunities.

Over the past eight years, we have attempted to provide insight into the changes taking place on the provider side of the industry by conducting annual surveys of the CEOs of many of the largest companies within the industry, based on sales volume. Because industry sales data are rather elusive, the companies selected for the analysis have been chosen after extensive discussions with executives not only within the industry, but also within the user community.

Each year, a mail questionnaire is developed that focuses on a variety of issues including the evolution of the 3PL industry, the industry's service offerings, the selling of third party services, and the current status and future prospects of the industry. This year, the survey also gave considerable attention to such issues as the merger and acquisition movement in the industry, the impact of the economic slowdown on industry volume and profitability, and the status of the industry's involvement in E-commerce business. The chief executive officer (CEO) of each of the companies included in the survey was contacted by telephone and asked to participate in the survey. A target group of 20 companies was contacted, and all 20 of the CEOs agreed to participate. Exhibit 1 lists the companies that participated in the survey.

## **Results**

*Revenues.* Several revenue-related issues were addressed in this year's survey. These included: (1) the operating revenues generated by the companies during the past year; (2) the relative importance of existing clients versus new clients in generating revenue growth; (3) the relative importance of mergers and acquisitions in generating revenue growth during the next three years; and, (4) the source of revenue by client size. Each of these issues is discussed below.

*Annual Provider Revenues.* The annual revenues for 2000 reported by the respondents ranged from \$114 million to \$6.4 billion, with the average being \$1.18 billion. As shown in Table 1, the average figure reported by the group for 1997, 1998, 1999 and 2000 were \$545 million, \$610 million, \$1.05 billion and \$1.18 billion respectively. Four of the companies included in the survey reported 2000 operating revenues in excess of \$2 billion.

For the first time, we asked the CEOs about their companies' success in meeting revenue growth projections during the year. The responses were quite positive. Nine companies exceeded their projections, 10 met projections, and only one company failed to meet its projections. We see this as a very impressive performance for the group given the recent economic climate.

Those surveyed were also asked to estimate what percentage of last year's revenue growth came from new accounts versus existing accounts. The percentage of 2000 revenue growth that came from new accounts ranged from 5% to 80% with the average being 43% (35%, 42% and 45% in the previous three years). The percentage of growth attributed to existing clients ranged from 3% to 80% with the average being 57% (65%, 58% and 55% in the previous three years).

When asked to estimate what those percentages would be during the next three years, the percentage of annual revenue growth attributed to new accounts ranged from 10% to 80% with the average being 49% (42% and 45% in the previous two years), while that attributed to existing accounts ranged from 5% to 80% with the average being 51% (58% and 54% in the previous two years).

Given both the scope and impact of the current merger and acquisition movement in the 3PL industry, we asked the CEO to estimate what percentage of their revenue growth was likely to come from acquisitions during the next three years. Their responses ranged from zero to 75% with the average being 23%. Conversely, these companies, as a group expect 77% of their revenue growth to come from internal growth. While acquisitions are clearly an important part of the industry's growth strategy, as a group, the CEOs still believe that more than three-fourths of their growth in the next three years will be driven by their existing enterprise.

*Services with Highest Revenue Growth Rates in 2000.* The CEOs were asked which of their service offerings generated the highest revenue growth rate in 2000. Of the fourteen CEOs who answered the question, five indicated warehousing services (average growth rate of 82%) five indicated transportation services/management (average growth rate for the year of 29%), two others specified international services/freight forwarding (average growth rate of 16%), and single mentions were given to 4PL services, reverse logistics, and integrated supply chain management services. It should be noted that the average increase in warehousing revenues reported by the CEOs was somewhat skewed by one company reporting a 200% increase in warehousing revenues due to an acquisition. As has been noted in previous years, despite the fact that large 3PL providers have dramatically broadened their service offerings,

much of the revenue growth of those companies is still driven by expansion of transportation and warehousing services.

### **Customer Characteristics**

*Customer Size.* As we have done several times in the past, we asked the CEOs to provide information about the size of their clients. Their responses are shown in Table 2. As shown, the majority of the clients served by these large providers are themselves large companies, with approximately 78% of their clients having annual operating revenues in excess of \$500 million (83% and 72% in the two previous years). In the seven previous surveys that number ranged from 52% to 83%. The 2001 survey numbers reflect not only the increasing scale of many of the recently announced 3PL contracts, but also the steps taken by many large 3PL providers to eliminate marginal accounts. They also show that despite the steps taken by a number of the providers included in this survey to attract small to medium size clients, they are still primarily aligned with large customers.

*Focus on Smaller Accounts.* As shown in Table 2, a relatively small percentage of the accounts of the 3PL providers included in this survey are companies with annual sales revenues of less than \$50 million. Last year they collectively they accounted for only 8% of the revenue base of the 3PL providers included in this survey. And, as reported elsewhere, the European 3PL industry, which is generally perceived to be more “mature” than its American counterpart, serves a much higher percentage of smaller clients. During the past three years it has been reported that a number of large U.S. providers have taken steps to develop service offerings specifically targeted at smaller accounts. The CEOs surveyed this year were again asked if their companies had done so, and 6 said “yes.”. When asked how successful their companies have been in attracting smaller accounts, two CEOs said “very successful” with one of them indicating that nearly three-fourths of their revenues now come from smaller accounts. The other four executives indicated that their companies had been “moderately successful” in cultivating such business.

### **International Expansion**

Our 2001 CEO survey also addressed the U.S. 3PL industry’s movement toward globalization. Among the issues addressed were the geographies served by the companies included in the survey, and the current and projected revenues generated in those geographies.

*Geographies Served.* The geographic coverage of the individual 3PL providers included in this survey varies widely. Nevertheless, all but three of those companies also operate outside the United States. It should be noted that three of the companies included in the survey, Exel Logistics, Tibbett and Britten, and TNT Logistics are subsidiaries of European companies, and that APL Logistics, which recently acquired GATX, is owned by NOL a Singapore-based transportation and logistics company. These relationships clearly demonstrate the on-going globalization of the 3PL industry.

*Revenues by Geography, 2000 and 2003.* To get a sense of the relative importance of their international operations to total operations, we asked the CEOs to indicate what

percentage of their companies' annual revenues currently comes from U.S. versus foreign markets. They were also asked to project those figures out to the year 2004. As shown in Table 3, in terms of the percentage of revenues coming from the U.S. market, the responses ranged from 24% to 100% with the average being 67% (72% and 75%, in the two previous years). Reflecting the growing globalization of their companies, that average was projected to decline to 57% by 2004.

Exploring the globalization issue further, we asked the CEOs to project the international revenues of their companies, by geography, as a percentage of total corporate revenues, for the years 2001 and 2004. As also shown in Table 3, by a significant margin, Western Europe is the current major source of international revenues for these companies, accounting for an average of nearly 13% of their projected total corporate revenues for 2001. That percentage is projected to rise slightly to 14% by 2004, and, on average, it would still be the largest source of non-U.S. 3PL revenues for this group. However, all of the other non-U.S. geographies are also projected to increase in importance, with the most significant percentage increases projected for Eastern Europe, Mexico, and Asia.

In our previous annual surveys we have focused considerable attention on the dynamics of 3PL globalization, including its motivation, its fit with corporate strategies, and the approaches used to pursue those strategies. This year we asked the CEOs to identify the most significant problems that their companies' had encountered in their international expansion efforts. The most frequently mentioned problem was systems integration difficulties across different geographies, and that was mentioned by 6 CEOs. Five others cited the problems associated with trying to develop business in areas where the company lacks a market presence and has generated little local brand awareness. Four CEOs mentioned the problems associated with finding and retaining qualified employees in foreign locations, while three others mentioned problems related to finding strategic partners in those areas who had similar business approaches and strategies. Two other CEOs cited the difficulty of adapting to dramatic cultural differences encountered in foreign settings.

### **Service Offerings**

In our previous annual surveys we have clearly documented the breadth of traditional logistics services offered by the companies included in the CEO survey. During the past two years, we have also examined whether these companies are involved in contract manufacturing support for any clients, and if the companies provide financial services, such as financing inventory for clients.

Six of the companies included in this year's survey offer contract manufacturing support to their clients. All six companies provide those services directly rather than through alliance partners. When the CEOs were asked if their companies offered those services in the United States, other countries, or both, 5 said "both" and one indicated their services are limited to the United States.

Ten of the CEOs indicated that their companies do provide financial services to their clients. When asked if those services were provided directly or through alliance partners, 3 said “directly,” 4 said through “alliances,” and 3 said both. The specific financial services offered by those companies include the following: six companies offer financing of customer inventory, four offer insurance services, three offer fleet financing, three offer accounts receivable financing, two offer capital equipment financing, two offer freight payment services, one offers real estate financing, and one offers import/export financing.

### **Purchasing Support Offered by 3PLs**

We also asked the CEOs if their companies offer services to clients involving the purchase of materials. Eight of the CEOs said “yes.” We also asked them to identify the specific purchasing services their companies’ offered to clients, and the range reported was quite broad. While several indicated that they could handle the entire purchasing process from requisition through inventory management for clients, others were more specialized in their offerings. Their services included support for: purchase of anything from office supplies to capital goods, purchase of lower level materials to support light manufacturing, purchase of packaging materials for custom packaging projects, the purchase of inventory, and vendor management, including vendor selection.

### **The Importance of Electronic Commerce**

The past three years have interesting, to put it mildly, with respect to 3PL provider involvement in serving E-commerce clients. In our 1999 survey, the CEOs identified E-commerce as the most significant opportunity available to 3PL providers, and the strategic plans of many of the large providers were heavily focused upon developing broad E-commerce offerings. In view of the volatility of that space during the past two years, we decided to ask a series of E-commerce questions again this year.

When asked if their companies currently served customers involved in E-commerce activities, 16 of the 20 CEO said “yes.” In fact, many of the companies have established separate business units for serving E-commerce clients.

The CEOs were then asked to indicate what percent of their companies’ current revenues come from serving E-commerce clients. The average was 3% (2.75% in last year’s survey), with the range being from less than one percent to 24%. When asked to project what those percentages will be three years from now, the average reported was 7%, with the range being 5% to 25%. That projection is dramatically lower than the average of 15.85% that was projected by the CEOs last year. We were also interested in knowing what was the mix of B2B and B2C revenues of these 3PL providers. They reported that, on average, 70% of their current E-commerce revenues are B2B (range 0-100%), with 30% related to B2C activities (range 0-100%). Again, those percentages are dramatically different than the figures reported last year, when the average respondent generated 45% of their E-commerce revenues from B2B accounts, and 55% from B2C accounts. When asked what those percentages would be in three years, the average response was 81% B2B, and 19% B2C. The ranges were 35-100% and 0-60% respectively. CEO responses throughout the questionnaire highlighted their

growing interest in the B2B sector, and their increased scepticism about the future of many B2C businesses.

While 11 of the 16 CEOs who answered the question indicated that the economic slowdown of the past year had significantly affected their E-commerce business, on average the companies involved in serving such accounts registered an average gain of 26% in E-commerce revenues last year. Nevertheless, the CEOs not only expressed far greater caution in taking on new E-commerce accounts, but also noted that there are less opportunities in that area due to a drying up of venture capital to finance start ups. In an extreme case, one CEO noted that all of that provider's E-commerce clients had ceased operations during the past year.

We were also interested in knowing where the 3PL E-commerce revenues were originating. The CEOs reported that on average, 60% of those revenues came from established companies that had initiated E-commerce activities, with the balance coming from newer, pure-play E-commerce companies. We also asked for a breakdown of their E-commerce revenues by customer type. The average percentages reported were as follows: manufacturers (38%), retailers (27%), distributors (14%), exchanges/marketplaces (7%), and other (4%).

### **The 3PL Selling Process**

This year we decided to explore another aspect of the process by which 3PL services are sold. We asked the CEOs to estimate what percentage of their companies' "selling time" was spent at different management levels in potential client organizations. On average, they estimated that 22% of that time was spent with CEOs, 10% with CFOs, 12% with CIOs, 49% was spent with Corporate Directors/VPs of Logistics or Supply Chain Management, and 7% of the selling time was spent with "Other" managers including executives involved in the Transportation, Operations, Human Resource Management, and Marketing functions. It is interesting to note that nearly half of the selling time is spent within the Logistics/Supply Chain Management functional area, but, as will be noted later in this paper, the 3PL CEOs believe that one of the most important current dynamics of the industry is increased participation of client CEOs and CFOs in the 3PL decision-making process.

### **The Economic Slowdown and the Demand for 3PL Services**

In view of the economic slowdown of the past year, we included several questions that examined its impact on the 3PL industry. We asked the CEOs if the economic slowdown of the past year had significantly affected their companies' business. Thirteen of the 19 CEOs who answered the question said "yes." When asked to identify those effects, not surprisingly, 11 said that it had led to lower volume from existing clients whose businesses had been affected, with certain industries being very hard hit. Among the other effects noted by the CEOs were a related slowing of the rate of service innovation within the 3PL industry and greater willingness on the behalf of executives in non-3PL using companies to discuss the concept of logistics outsourcing.

We also asked the CEOs if they had seen any significant change in buyer values resulting from the slowing economy. Fourteen said “yes.” The most frequently cited change, which was noted by six CEOs, was greater client focus on cost reduction (with clients often requiring a “faster payoff”). In contrast, three noted less interest in adding service enhancements to their existing agreements. Each of the following changes was also noted by three CEOs: existing users are more inclined to consider new solutions; buyers want more of a variable cost focus in their contracts; and, executives in non-3PL using companies are more willing to consider the concept of logistics outsourcing.

### **Mergers and Acquisitions in the 3PL Industry**

Merger and acquisition (M/A) activity in the 3PL industry has accelerated dramatically during the past two years. This year’s questionnaire included a number of questions related to the impact of these transactions on the 3PL industry.

When asked if they viewed the M/A movement as a positive or negative development, 17 of the 20 responded that they saw it as a positive development. The potential benefits of the M/A movement most frequently cited by the CEOs focused on the expanded international capabilities of individual providers, potential service improvements, including expanded one-stop shopping capabilities, and the related ability of larger providers to achieve the scale of operations that would lead to greater efficiency and cost reductions. Several also believed that the M/A activity would not only lead to more attention being given to the industry, but also would facilitate greater industry stability.

The CEOs who viewed the M/A activity as a negative development expressed concerns that smaller providers might be overwhelmed by the larger consolidated providers in the marketplace. In fact, six of the CEOs indicated that they believe the M/A movement poses a serious market threat to their companies. Those executives feel increased pressure to accelerate their companies’ globalization efforts while expanding their service portfolios. Without such strategic moves, several expressed concerns about their ability to compete head-to-head with the emerging industry giants. Concerns were also expressed about the possibility of poorly executed combinations creating a negative marketplace image for the 3PL industry in general.

Seven of the companies included in the survey indicated that they had made significant acquisitions during the past year. Among the acquisitions made by those companies were six 3PL companies, three transportation service providers, three warehousing companies, three freight forwarders/customs brokers, and one information technology company.

Nine of the CEOs consider their companies to be acquisition targets for other major 3PL providers. On a related matter, we asked the CEOs how many of the “Top 20” 3PL providers they believed would still be active in the 3PL marketplace as independent companies in five years. The average response was ten, with a range of three to fifteen. Clearly, the CEOs believe the M/A movement is far from complete within the 3PL industry.

In several previous surveys we have asked many questions about the industry's use of provider alliances as a means of broadening their service offerings and geographies. With all of the media attention given to the recent mergers and acquisitions within the industry, we wondered if the CEOs still considered development of such alliances as an important element of their corporate strategies. Sixteen of them said "yes." It is important to remember that alliances provide an important strategic approach to support expansion efforts while minimizing capital requirements. They also provide a substantially higher degree of flexibility than mergers and acquisitions.

### **Current Status and Future Prospects of the Industry**

In each of our annual surveys, the CEOs are asked a series of questions concerning their perceptions of the current status and future prospects of the industry. Specifically, they are asked to identify the most important 3PL industry dynamics, opportunities, and problems. They are also asked to indicate the most important developments within their company and the 3PL industry during the past year. Their responses to these questions are discussed below.

*Industry Dynamics.* A major challenge to management is to understand the dynamics that are operating in the marketplace. The CEOs were asked to identify and rank order the three most important industry dynamics currently operating in the market for 3PL services. A first-place mention was given three points, a second-place mention was given two points, and a third-place mention was given one point. These points were used in calculating the weighted points shown in Table 4. The responses are summarized in the Table, and are compared with the responses obtained in our last three surveys. As shown, increased pressure *to internationalize company service offerings* was ranked first, by a slight margin, in terms of total weighted points with 23, and tied for the most first place mentions with 5. Ranking second in terms of total weighted points with 22 was *increased CEO and CFO participation in the 3PL decision making process*. It is interesting to note that the two most highly ranked dynamics in this year's survey ranked fifth and sixth respectively in last year's survey. *Growing customer interest in outsourcing a broader array of logistics services* which ranked third this year in total weighted points with 19, was ranked second last year. Rounding out the top four dynamics in the 2001 survey was *continuing downward pressure on pricing* with 17 points. It also tied for the highest number of first place votes with five. That dynamic was ranked first last year in terms of total weighted points.

It is interesting to note that the top two dynamics identified in this year's survey marked a significant break with our past survey results. While their relative rankings had changed from year to year, the top-three dynamics identified in each of our previous seven CEO surveys had been: *continued downward pressure on pricing*, *growing customer interest in outsourcing a broader array of logistics services*, and *increased customer desire for one-stop shopping*. These three dynamics were collectively displaced in the top two spots this year for the first time.

*Industry Opportunities.* Those surveyed were also asked to identify the three most significant opportunities available to 3PL providers. The CEOs see a number of significant

opportunities in the marketplace. As shown in Table 5, the most frequently cited opportunity was *continued globalization*, with 35 total weighted points and 7 first place votes. The CEOs had selected that as the second most significant opportunity in the 2000 survey, following *E-commerce related business*. This year's response is obviously linked to the responses to the previous question that indicated that the most current important industry dynamic is the need to respond to pressures to internationalize company service offerings. In second place this year in terms of both total weighted points and first place mentions, with 27 and 6 respectively, was *information systems integration opportunities*. Opportunities related to *cross-customer supply chain integration* ranked third with 10 total weighted points, and *E-commerce related opportunities*, dropping dramatically in the rankings since last year, ranked fourth with 7 total weighted points. The CEOs had ranked E-commerce first in terms of the most significant opportunities in both the 1999 and 2000 surveys.

*Industry Problems.* CEO perceptions of industry problems are summarized in Table 6. The most important problem identified by the CEOs was the continued downward pressure on prices with 18 total weighted points, and 3 first-place mentions. That had been ranked as the second most important problem last year. The problem that was ranked first last year, *the ability to keep and find qualified people*, ranked second this year with 16 total weighted points, and 3 first-place mentions. The third most important problem identified by the CEOs in this year's survey was *difficulty in meeting customer expectations* with 14 total weighted points, and 2 first-place mentions. Rounding out this year's top four problems was *lack of capital availability* with 9 total weighted points, and one first-place mention. It's interesting to note that only one CEO identified the economic slowdown as one of the three most significant industry problems, and that individual put it in third place.

*Most Significant Developments During the Past Year.* The CEOs were also asked to identify what they believed to be the three most significant developments that had taken place within their companies and within the 3PL industry during the past year.

With respect to company developments, the development that had the greatest number of "top three" mentions was upgrading of company IT capabilities, which was mentioned by 8 CEOs. Five top-three mentions were given to company globalization efforts, and four each were given to the development of provider alliances and broadening of company service offerings. Three cited specific company reactions to the economic slowdown. The only other developments receiving more than one top-three mention were merger/acquisition activity, and effective management of growth. It should be noted that in the 2000 survey the most frequently cited internal development was expansion of company E-commerce initiatives. Only one CEO mentioned that as one of the most significant developments that had occurred within their companies in this year's survey.

For the second year in a row, the responses related to the most significant industry developments during the past year were dominated by observations related to the industry's consolidation movement which was mentioned by 11 CEOs (10 last year). The widespread collapse of dot.com businesses and the continued globalization of many of the major industry

players each received six mentions by the CEOs. Despite the economic slowdown, only three CEOs mentioned that as one of the most significant industry developments of the past year.

*Major Changes Expected During the Next Three Years.* Those surveyed were also asked what were the major changes they expected to take place in the 3PL industry during the next three years. Again, the M/A movement dominated their thinking, as it had last year, with 6 CEOs predicting that the movement will continue to accelerate not only in the domestic marketplace, but also in the international arena. Four predicted large-scale globalization efforts among the major providers, and three other CEOs forecast continued growth of the 3PL market. Among the other major changes anticipated by the CEOs were better execution and performance by 3PL providers, an E-commerce rebound, the emergence of significant multi-client opportunities, greater reliance upon provider alliances, and the disappearance of all but a few international freight forwarders.

### **Estimated Revenue Growth Rates**

Finally, the CEOs were asked to estimate annual company and industry revenue growth rates for the next year and the next three years. Eighteen CEOs provided those estimates. Their responses are summarized in Tables 7 and 8, and are compared with the estimates provided in our three most recent surveys. As shown, despite the recent economic slowdown, the CEOs are quite bullish about the next three years, not only in terms of company growth, but industry growth as well. The average company revenue growth projection for the next year was 23%, with the projected three-year company revenue growth average being 26%. Those figures were 25% and 23% respectively in last year's survey. In terms of industry growth projections, the CEOs projected the industry's revenue growth rate to average 17% next year, and an annual growth rate of 17% over the next three-year period. The CEOs estimates for the one and three-year industry growth rates in last year's survey were 16% and 15% respectively.

The data contained in Tables 7 and 8 provide several insights into the evolution of the 3PL industry in the United States. First, the company projections provided by the CEOs for the one and three-year time frames reflect a strong belief that their companies will continue to generate strong revenue growth during the next several years. Second, while the company growth rates projected are still quite strong, they have become more modest over the past several year, undoubtedly reflecting both the increasing scale of these enterprises and their desire to manage growth rates. It should also be noted that the growth projections of individual company CEOs varied substantially. For example, the company revenue growth projections for next year ranged from 5% to 60%. Similarly, the company revenue growth projections for the next three-year period ranged from 12.5% to 100% per year.

### **Summary and Implications**

Our annual CEO surveys focus on a group of the largest 3PL providers in the world. While most of the companies have their roots in the U.S., they have increasingly become internationally focused with a steadily increasing portion of their operating revenues originating outside the U.S. At the same time, they are now confronted with competition in

the U.S. by a number of large foreign-based 3PL providers who have become significant players in that market. Mergers and acquisitions have eliminated a number of major U.S. providers while substantially increasing the size of the remaining independent companies.

According to CEO responses to this survey, the economic slowdown has affected the companies included in the survey, but not as dramatically as one might think. While the volume offered by some existing customers has fallen, and buyer values have recently placed even greater emphasis on cost cutting, industry revenues have continued to grow. And, as discussed later, they are projected to continue to grow impressively. It is interesting to note, that when the CEOs were asked to identify the three most important problems facing their companies' only one CEO mentioned the economy.

While the merger and acquisition movement continues to change the 3PL competitive landscape, 17 of the 20 CEOs included in this survey see that movement as a positive development that should facilitate the industry's movement toward globalization and broader service offerings. Seven of the companies made significant acquisitions during the past year, and nine of the CEOs see their companies as potential acquisition "targets." The CEOs clearly do not believe that the merger and acquisition movement is finished. When asked how many of the current "Top 20" U.S. providers are likely to survive as independent companies within the next five years, on average the CEOs said ten.

The service offerings of the large providers continue to broaden, and increasingly include support for purchasing activities and the financial aspects of the supply chain. While the collapse of the much of the B2C market has made many of the companies more cautious about their commitment to E-commerce, the CEOs still see major opportunities in the B2B market. When asked to project where revenue growth will originate over the next three years, the CEOs, on average, projected approximately one-half coming from new accounts, and the balance coming from selling more deeply into existing accounts. The percentage of revenues coming from outside the U.S. is projected to increase steadily.

The major industry dynamics identified by the CEOs were increased pressure to internationalize company service offerings, and increased CEO and CFO participation in the 3PL decision-making process. Not surprisingly, continued globalization was identified as the most significant market opportunity, followed by information systems integration opportunities. Continued downward pressure on pricing, and difficulties related to finding qualified talent were identified as the industry's most pressing problems.

Despite the economic slowdown of the past two years, the large 3PL companies included in this survey continue to grow impressively, and the CEOs project revenues to grow substantially during the next three years. The average company revenue growth projection for next year was 23%, with the projected three-year company revenue growth average being 26%. In terms of industry growth projections, the CEOs projected the industry's revenue growth rate to average 17% next year, and an annual growth rate of 17% over the next three-year period.

So what can we expect from this group of large 3PL providers over the next year? On average, the companies will increase in size as acquisitions reduce their number. The smaller companies in the group will face stronger competition for national and international accounts from the larger providers, who themselves might be expected to become increasingly customer selective. Their primary focus will continue to be on large accounts. The smaller providers might be expected to develop very targeted market strategies, and if those strategies do not appear to be defensible, their focus may shift to becoming attractive acquisition targets.

The industry will continue to struggle with human resource issues, particularly as the scope of its international operations expands. However, the layoffs and hiring freezes in the manufacturing, retailing, and consulting industries will expand the talent pool of logistics talent that might be tapped by the 3PL providers.

Mergers and acquisitions will continue to fundamentally change the structure of the industry, not only domestically, but also in the international arena. While these transactions will generate considerable enthusiasm in both the provider and user communities, they will also create a number of challenges for management. The integration of large-scale enterprises is never easy, as differences in goals, strategies, and policies must be resolved. The success of those integration efforts will go a long way toward determining the success of the companies involved in the near-term.

<p style="text-align: center;"><b>Exhibit 1</b> <b>Third Party Logistics Companies Included in the 2001 CEO Survey</b></p>
<p style="text-align: center;">Airborne Logistics Services APL Logistics</p>

Cardinal Logistics  
 Caterpillar Logistics Services, Inc.  
 C.H. Robinson Co.  
 DSC Logistics  
 Eagle Global Logistics  
 Exel Logistics  
 GEO Logistics  
 Menlo Logistics  
 Penske Logistics  
 Pittsburgh Logistics Systems  
 Ryder  
 Tibbett and Britten Group, North America  
 Schneider Logistics  
 TNT Logistics  
 Transplace.com  
 UPS Logistics Group  
 USF Logistics, Inc.  
 USCO Distribution Services, Inc.

**Table 1**  
**Annual Operating Revenues of 3PL Companies, 1997-2000**

	1997	1998	1999	2000
\$0-99	3	2		
\$100-\$199	1	4	2	2
\$200-\$299	5	3	5	4
\$300-\$399	2	1		1
\$400-499				1
\$500-\$599	1	2		1
\$600-\$699		2	2	
\$700-\$799		2	1	1
\$800-\$899		1		
\$900-\$999			1	1
More than \$1,000	3	4	3	6
Average Annual Revenue	\$545	\$610	\$1,052	\$1,180

**Table 2**  
**2001 Survey, Annual Sales Revenue of Clients**

Annual Sales Revenues (\$Millions)	Average % of Clients in That Category
Less than \$50	7%
\$51-\$100	3%
\$101-\$250	5%
\$251-\$500	7%
\$501-\$1,000	11%
\$1,001-\$5,000	17%
\$5,001-\$10,000	18%
More than \$10,000	32%

**Table 3**  
**Revenues of 3PL Companies Included in the Survey, by Geographical Region,**  
**As a Percentage of Total Corporate Revenues, 2001 and 2004**

Geographical Area	% of Operating Revenues Originating in that Area, 2001	% of Operating Revenues Originating in that Area, 2004
United States	67%	57%
Canada	7%	8%
Mexico	3%	5%
Other Latin American Countries	3%	3%
Western Europe	13%	14%
Eastern Europe	1%	3%
Asia	7%	10%

**Table 4**  
**CEO Perception of the Three Most Important Industry Dynamics,**  
**2001 Data and Comparisons with Three Previous Years**

Industry Dynamic	# of CEOs Ranking It #1, 2001	# of CEOs Ranking It #2, 2001	<b>Total Points 2001</b>	Total Points 2000	Total Points 1999
Increased pressures to internationalize	3	6	<b>23</b>	8	11
Increased CEO/CFO participation	5	2	<b>22</b>	7	15
Growing interest in outsourcing broader array of services	4	2	<b>19</b>	15	21
Continued downward pressure on pricing	5	1	<b>17</b>	20	26
Performance pressure from parent company	2	1	<b>8</b>	5	8
More sensible 3PL pricing	1	2	<b>7</b>	5	8
Increased customer desire for one-stop shopping		2	<b>7</b>	13	33
Emergence of Collaborative Inter-Enterprise Planning	1	1	<b>7</b>		
Growth of E-Commerce		1	<b>3</b>	11	17

<b>Table 5</b> <b>CEO Perception of the Three Most Significant Opportunities for 3PL Providers, 2001</b> <b>Data and Comparison with Previous Years</b>					
Opportunity	# of CEOs Rankings in Top 3, 2001	# of CEOs Ranking It #1,2001	<b>Total Points 2001</b>	Total Points 2000	Total Points 1999
Continued globalization	15	7	<b>35</b>	20	11
Further IT integration	11	6	<b>27</b>		
Cross-customer integration opportunities	5	1	<b>10</b>		
E-commerce opportunities	3	1	<b>7</b>	18	30

<b>Table 6</b> <b>The Most Important Problems Facing the 3PL Industry, 2001</b>			
Category	# of CEOs Ranking it #1	# of CEOs Ranking it #2	Total Weighted Points
Pricing pressures	3	4	18
Finding/keeping talent	3	3	16
Meeting customer expectations	2	2	14
Limited capital availability	1	3	9
Globalization problems	1	2	8
Competitive overselling	2	1	7
IT systems costs		1	6
Limited profitability			4

**Table 7**  
**CEO Estimates of Company Growth Rates, 2001,**  
**and Comparisons with Previous Years**

Projected growth rate	Company Next Year				Company Three-Year Growth Rate			
	1998	1999	2000	<b>2001</b>	1998	1999	2000	<b>2001</b>
0-20%	11	9	6	<b>8</b>	12	18	6	<b>12</b>
21-40%	10	9	5	<b>7</b>	9	1	5	<b>3</b>
41-60%	1	1	1	<b>2</b>	1		1	
61-80%	2							
81-100%								
100%+								<b>1</b>
Average %	25	26	25	<b>23</b>	23	24	23	<b>26</b>

**Table 8**  
**CEO Estimates of Three-Year Industry Growth Rates**

Projected growth rate	Industry Next Year				Industry Three-Year Growth Rate			
	1998	1999	2000	<b>2001</b>	1998	1999	2000	<b>2001</b>
0-20%	17	17	11	<b>14</b>	18	18	11	<b>13</b>
21-40%	4	2		<b>3</b>	3	1		<b>3</b>
41-60%								
Average %	19	17	16	<b>17</b>	18	16	15	<b>17</b>