

2015 THIRD-PARTY LOGISTICS STUDY

The State of Logistics Outsourcing

Results and Findings of the 19th Annual Study



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Supporting Organizations:



Executive Summary

Current State of the 3PL Market

In the 2015 19th Annual Third Party Logistics Study, survey results showed the continuing, positive overall nature of shipper-3PL relationships. Both parties view themselves as being successful, and shippers are seeing positive results again this year: an average logistics cost reduction of 9% an average inventory cost reduction of 5% and an average fixed logistics cost reduction of 15%.

In addition to seeing cost reductions, shippers said they've seen average improvements in their order fill rate and order accuracy. The 2015 3PL Study showed that 73% of those who use logistics services and 77% of 3PL providers are satisfied that they have received open, transparent and effective communication from their partners. A distinct majority—92%—of shippers report that their relationships with 3PLs generally have been successful. Among 3PLs, 98% say their relationships with shippers have been successful.

While there are more positive business environments in certain geographies, industry verticals and niche types of services, the global logistics industry is one that does have its challenges.

Similar to last year, several ongoing factors are impacting progress toward the advanced end of the maturity model for shipper-3PL relationships. The generally less-than-exciting levels of global economic activity are driving highly variable and sometimes sluggish or neutral demand for outsourced logistics services. Shippers report an average of 36% of their total logistics expenditures are related to outsourcing compared to an average of 44% reported last year.

Again with this year's study, the most frequently outsourced activities tend to be those that are more transactional, operational and repetitive. Activities that are strategic, IT-intensive and customer facing tend to be outsourced to a lesser extent.

However, there is some indication that those activities, particularly the provision of capable IT services, can be a key element in the value proposition in shipper-3PL relationships. The results from this year's study again confirm that the IT gap continues to narrow to some extent.



The New Landscape of Omni-Channel Retailing

Today's consumers are looking for always-on, always-open shopping opportunities, and retailers are investing in technology, supply chain resources and fulfillment strategies that will provide a seamless experience across all retail sales channels. While retailers understand the importance of the omni-channel network, this year's survey shows that omni-channel supply chains are still maturing. Nearly one-third of the respondents participating in the study said they are not prepared to handle omni-channel retailing and only 2% of respondents rated themselves as high performing in the omni-channel space.

About half of respondents said they are not testing new fulfillment strategies. However, several are either already investing in or considering home delivery from local stores (16%), Sunday delivery (15%), customer delivery in which an in-store shopper delivers goods (12%) and locker pickup (11%).

Since retailers are increasingly dependent on technology for real-time visibility into operations, they are gradually moving all of their platform-based solutions to the cloud. They are also using integrated technologies to improve the omni-channel network. Respondents are investing in warehouse management systems (58%), enterprise resource planning software (54%), transportation management systems (54%), supply chain visibility (43%), warehouse management system add-ons (33%) and RFID (21%). Respondents also said they are investing in technologies that allow them to personalize and customize the shopping experience, such as mobile apps (33%).

By obtaining and transmitting information more efficiently and in new ways, retailers are able to better meet customers' needs and offer more fulfillment options, further improving their customer service, which is a priority. About one-third of respondents—32%—listed customer service as the top reason they are investing in omni-channel fulfillment; 23% cited service levels; 11% listed freight costs.



Strategic Workforce Management Throughout the Supply Chain

Strategic workforce management will be particularly important for the 3PL industry as it is expected to face a shortage of talent. Nearly 50% of respondents said they are already having difficulty in finding or attracting talent, and the average hiring growth rate within the supply chain industry is expected to be higher than the average growth rate across other occupations. Estimates show that 60 million people will exit the industry by 2015, but there are only 40 million people to fill the gap.

Existing positions within the supply chain industry are changing rapidly. By 2015, three out of four jobs within the industry are expected to change. Furthermore, the dynamics of supply chain professionals are changing. In the future, only having hard skills in operations management will not be sufficient. Instead, there will be a mix of both soft and hard skills involving leadership qualities and cross-functional competencies that will shape the industry.

Logistics providers face competition for employees. Not only do they compete with other 3PLs, they also compete with manufacturers, retailers and consulting firms. Many managers in leadership roles leave large 3PLs for better opportunities in other industries.

Without strategic workforce planning, companies may struggle to grow. The return on investment from strategic workforce management is substantial, contributing to a boost in morale, increased productivity, increased discretionary effort, lower turnover and higher customer satisfaction.

One study found that a one standard deviation increase in investment in aligning and integrating human resources practices is associated with a 7.5% decrease in employee turnover and, on a per employee basis, \$27,044 more in sales, \$18,641 more in market value and \$3,814 more in profit.



Customer Relationship Management and Use of Mobile and Cloud Technologies in 3PL Sales Processes

Third-party logistics providers are continuously looking for ways to improve their sales processes and profit margins, and many are turning to contemporary technologies to assist with this challenging assignment.

The use of Customer Relationship Management (CRM) and mobile-cloud technologies can significantly enhance and streamline the productive activities of 3PL sales executives. Although there are more generic sales-related CRM technologies, 75% of shippers and 77% of providers agree the 3PL sector could benefit significantly from the availability of industry-tailored CRM capabilities compared with what is currently available.

There are a number of ways in which the use of CRM and mobile technologies can create value for the 3PLs and their customers. Overall, the principal benefits of using these technologies are they streamline global workflows and processes, provide executive-level visibility to commercial leaders, and identify inefficiencies and bottlenecks in commercial operations. There are a number of ways customers of these 3PLs can benefit directly from the types of information available, particularly real-time information regarding topics such as shipment visibility, etc.

The use of CRM and mobile technologies can also provide an advantage for 3PLs. This year's survey revealed that 40% of shippers indicated that their bid processes place emphasis on 3PLs utilizing capable CRM technologies.

Although there are a number of opportunities related to the use of CRM and mobile technologies in the 3PL sales process, getting more experienced, productive sales executives to welcome these new technologies is sometimes easier said than done.

Mexico Rising as Manufacturing and Logistics Hub

The manufacturing industry in Mexico is improving, which is creating opportunities for 3PLs as logistics services play a crucial role in rendering Mexico's businesses cost competitive as compared with similar ventures globally. Mexico has more free-trade agreements than any other country, a strategic geographic location, and is renowned as a low-cost manufacturing and export destination.

Just under half of study respondents—40%—said they have already moved some of their operations to Mexico, citing reduced freight transport time and closer proximity to sources as the most important factors driving the change. Study respondents said their businesses are primarily moving operations to Mexico from the U.S. (55%), China (36%) and Canada (9%).

However, a lack of quality infrastructure and certain regulatory aspects continue to challenge Mexico.



Strategic Assessment

Evolution of the 3PL Business Model: New Competition

Customers are demanding more responsiveness from companies, and companies are investing in alternative solutions to meet these needs while expanding and differentiating their services. These investments are typically significant, and companies are looking for additional ways to leverage the money they are spending to increase revenue streams. In some cases, companies are offering these services to new customers or competitors and may create a solution that can be spun off or provided as a service to others in a similar or even the same industry.

As customers continue to demand more from retailers and ultimately from 3PLs, it is likely that investments on both ends of the supply chain will be either shared across companies or developed into alternative service offerings for a wider customer base to improve the return on investment. If companies continue to creatively invest in omni-channel/fulfillment solutions and embark on new partnerships, these new solutions have the potential to alter the way existing 3PLs do business.



Supply Chain Risk Management

The risks associated with supply chains are evolving from a back-office concern to a prominent position on the boardroom agenda at an increasing number of organizations. Recognizing the importance of risk management is significantly enhancing the effective management of supply chains worldwide, and the development of processes, metrics and tools for supply chain risk management has become one of the highest priorities for supply chain executives at many organizations today.

Third-party logistics providers are showing a growing level of commitment to including risk management services among those they promote and provide clients. Given the current interest in risk management and the emphasis most 3PLs are placing on developing new products and services to create value for their customers, this appears to be a prime area for collaboration between 3PLs and their customers.

The Intensifying Truck Driver Shortage

New supply chain models and mobile devices are making just-in-time ordering and fulfillment all the more possible, but professional truck drivers remain one of the most critical links within the supply chain. As the economic rebound continues, freight demand is increasing as are concerns over who will deliver it. The impending truck driver shortage in the United States has been an ongoing topic of conversation and academic concern for many in the supply chain for years, and the driver shortage is continuing to intensify.

If freight demand grows as it is projected, the driver shortage could balloon to nearly 240,000 drivers by 2022. The impact the truck driver shortage will have on the supply chain is significant. Many manufacturers, distributors and other intermediaries operating private truck fleets are outsourcing their trucking to 3PL providers as a solution, but this may be just kicking the can down the road. It is likely companies will also begin making upstream adjustments, such as shifting distribution patterns, relying on intermodal transportation and shipping larger quantities at one time. Regardless, professional drivers remain vitally important to provide the last-mile delivery of goods.



Working Corporate Social Responsibility Into the Supply Chain

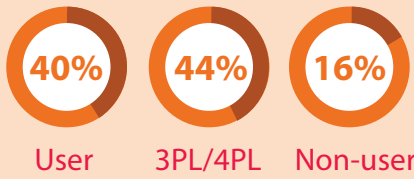
Corporate social responsibility (CSR), which comprises all facets of how companies should do business in a sustainable manner, is growing in importance. A growing number of companies are concerned not just with natural resources, but also human rights, labor practices, environmental impact, business ethics and corporate governance. The new world of CSR utilizes a proactive approach and includes a stronger emphasis on issue resolution, risk reduction and nimble reaction to problems, accompanied by innovation (e.g., green materials, carbon footprint optimization), capacity building, stakeholder engagement (internal and external), crisis management and media relations.

This has significant implications for businesses' supply chains, including logistics and distribution operations, and there is increasing demand for better checks and balances on sourcing and manufacturing. CSR plays a role along the supply chain, all the way from material sourcing to production and global transportation. As companies increasingly embrace CSR, they are changing how they address talent management and the individuals who oversee sustainability.

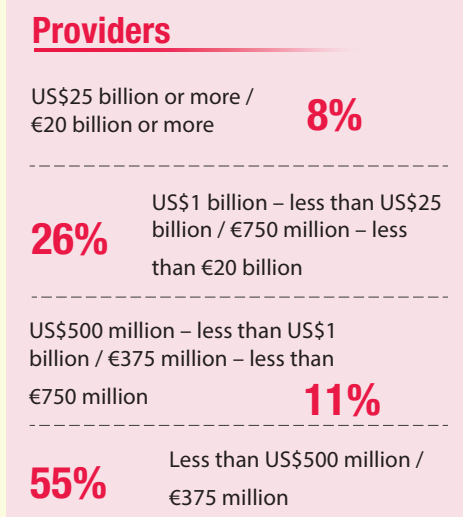
2015 Third-Party Logistics Study

About the Study Respondents...

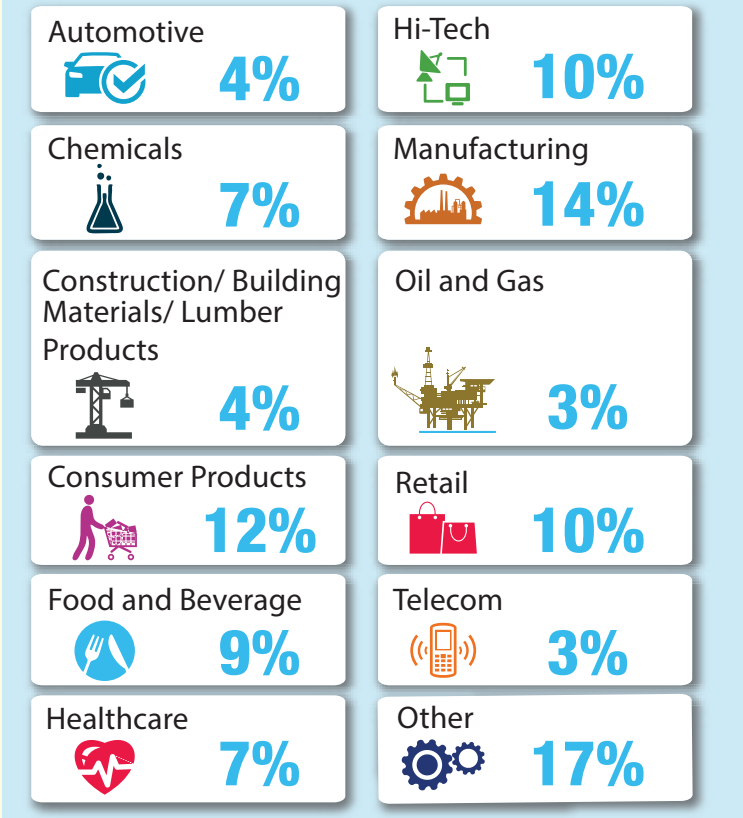
100 respondents



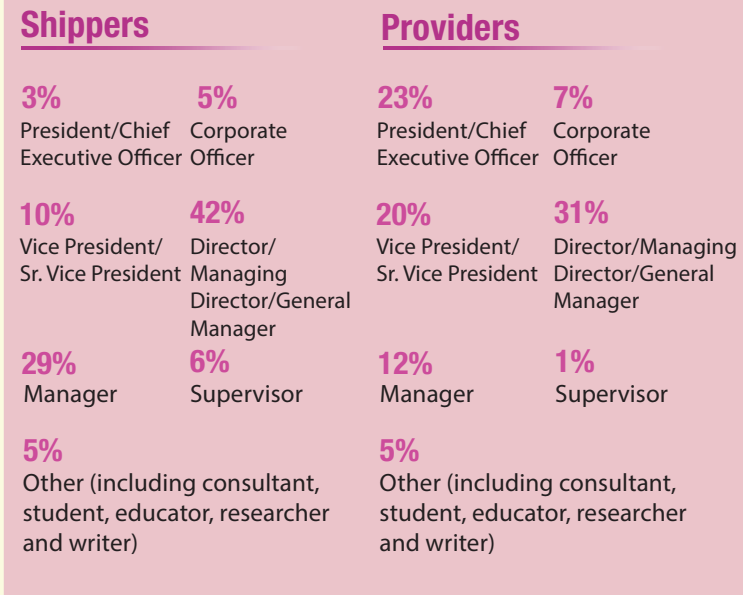
Organization anticipates sales for 2014



Industry representation



Title within company



2015 Third-Party Logistics Study Current State....

Financial aspects of users' logistics and 3PL expenditures

- Total logistics expenditures as a % of sales revenue **7%**
- % of total logistics expenditures directed to outsourcing **36%**
- % of transportation spend managed by third parties **51%**
- % of warehouse operations spend managed by third parties **36%**

Benefits from use of 3PL services

Logistics cost reduction **9%**



Inventory cost reduction **5%**



Logistics fixed-asset reduction **15%**



Order fill rate from **60% to 66%**



Order accuracy from **61% to 66%**



What tools a 3PL needs to be successful (top 6 from user vs top 6 from provider)

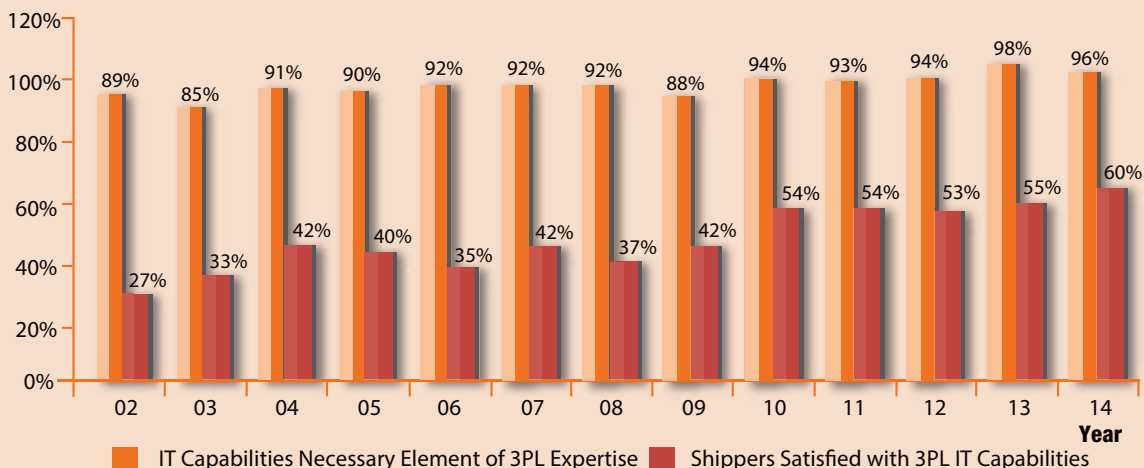
Shippers

1. Transportation management (execution)
2. EDI
3. Transportation management (planning)
4. Warehouse/DC management
5. Visibility (order, shipment, inventory, etc.)
6. Web portals for booking, order tracking, inventory, etc.

Provider

1. EDI
2. Transportation management (execution)
3. Customer order management
4. Transportation management (planning)
5. Visibility (order, shipment, inventory, etc.)
6. Web portals for booking, order tracking, inventory, etc.

IT gap narrows



Current State of the 3PL Market

Changes and Innovation Lie Ahead but Much of the Industry Operates at a Slow Heavy Pace



The current status of the global 3PL industry continues to be affected by a number of factors. Principal among these are the levels of economic activity in regions and countries of the world and the volatility or lack thereof. Also, the supply of asset-based capacities of various types, along with the underlying demand for services related to the use of those assets, has significant impacts on the pricing and availability of capacity to meet the needs of customers.

Although there are other factors of concern, there are a growing number of examples of modal substitution, typified by shippers who have shifted freight movements from air to ocean. Aside from more positive business environments in certain geographies, industry verticals and niche types of services, the global logistics industry is one that is currently not without its challenges.

Results of this year's *Annual 3PL Study* again document the evolving logistics marketplace in which 3PLs have continued to enhance their ability to drive innovation and create value for their customers and clients. At the same time, those same shipper customers have continued in many ways to become more proficient buyers and managers of 3PL services.

Although 3PL providers generally will provide a more positive evaluation of themselves than will their customers, the 2015 study again confirms that both 3PLs and customers view their relationships as successful.

The results and findings of the 2015 19th *Annual Third Party Logistics Study* provide current perspectives on the nature of these relationships, why they are generally successful and some of the ways in which they could be improved. Aside from these generally positive perspectives, discussions at some of the research workshops this year suggested that management structures in many shipper organizations have not yet been transformed to reflect how core the supply chain is to the business. One participant indicated that many legacy supply chains exhibit poor leadership and little inertia for change. While there were many compliments relating to 3PL providers, the discussions suggested that the providers could benefit from becoming more innovative and moving away from legacy operations and systems.

Again this year, the generally less-than-exciting levels of global economic activity and the associated impacts on the demand and supply of logistics and 3PL services have affected

the progress toward the advanced end of the maturity model for shipper-3PL relationships. The details discussed in this section provide further perspectives on where progress is being made and where it may be constrained.

While some of these findings are consistent with recent *Annual 3PL Studies*, readers are cautioned when comparing results from this year with those in past reports as a result of significant changes in this year's respondent base. Please see the *About the Study* section of this report for more information on the research process and the study respondents.

3PL Usage Reflects Global Trends

Global markets continue to be impacted by volatility and low-growth in many economies throughout the world, thus driving highly variable and sometimes sluggish or neutral demand for outsourced logistics services. [Figure 1](#) provides global 3PL revenues by region for 2012 and 2013 from Armstrong & Associates, along with a summary of percentage changes in these revenues reported for 2012-2013 and the two previous years, and it includes compounded annual growth rates (CAGR) by region for 2006 to 2013.

Figure 1: Global 3PL Revenues Rise Only Modestly for 2012-2013

Region	2012 Global 3PL Revenues (US\$Billions)	2013 Global 3PL Revenues (US\$Billions)	Percent Change 2012 to 2013	Percent Change 2011 to 2012 ^a	Percent Change 2010 to 2011 ^b	CAGR 2006-2013
North America	\$ 171.2	\$ 176.2	+ 2.9%	+ 6.7%	+ 7.2%	+ 4.0%
Europe	158.0	158.1	+0.01%	- 2.6%	- 2.8%	- 0.6%
Asia-Pacific	242.7	255.6	+ 5.3%	+ 23.6%	+ 21.2%	+ 10.9%
South America	43.6	44.9	+ 3.0%	+ 12.4%	+ 43.6%	+ 10.4%
Other Regions	69.6	69.0	- 0.01%	+ 6.4%	+ 54.0%	
Total	\$ 685.1	\$ 703.8	+ 2.7%	+ 9.9%	+ 13.7%	

Source: a) 2014 18th Annual 3PL Study and © 2013 Armstrong & Associates, Inc.
b) 2013 17th Annual 3PL Study and © 2012 Armstrong & Associates, Inc.

While the CAGR figures for Asia-Pacific and South America are both slightly above 10%, results for North America are 4% and those for Europe are slightly in the negative. Looking at the percentage changes in global 3PL revenues by region from 2012 to 2013, and particularly in comparison with the percentage changes reported in the two previous years, it is clear that growth rates are moderating significantly over time. Overall, it appears that the “cooling off” of many global economies may be responsible for the somewhat slower or limited growth in 3PL revenues throughout the regions of the world.

Shipper Spending Patterns on Logistics and 3PL Services

According to this year’s study results, shippers report an average of 36% of their total logistics expenditures are related to outsourcing. This compares with an average of 44% reported last year and 42% reported in the previous year. Total logistics expenditures include transportation, distribution, warehousing and value-added services. Considering Armstrong & Associates’ estimated and projected global 3PL revenues cited in Figure 1, these percentages support the notion that the slowing global economic conditions have had a negative impact on aggregate shipper spending on 3PL services as a percentage of total logistics expenditures.

Increased Outsourcing Continues to Outpace Insourcing

Two consistent observations over the past several years of *Annual 3PL Studies* are that some customers will report having increased their use of outsourced logistics services and others will indicate a return to insourcing some or all of these same services. (Movements to either increased or decreased use of outsourcing may be measured in terms of funds expended on outsourced logistics services, percentage

Figure 2: 3PL Services Deliver Measurable Benefits

Results		2013 Study	2014 Study	2015 Study
Logistics Cost Reduction		15%	11%	9%
Inventory Cost Reduction		8%	6%	5%
Logistics Fixed Asset Reduction		26%	23%	15%
Order Fill Rate	Changed From	58%	66%	60%
	Changed To	65%	68%	66%
Order Accuracy	Changed From	67%	68%	61%
	Changed To	72%	69%	66%

Source: 2015 19th Annual Third-Party Logistics Study.

of overall logistics spending represented by outsourcing or number of activities outsourced.)

- **Outsourcing:** 67% of shippers indicate they are increasing their use of outsourced logistics services this year, which compares with 72% reported last year. In comparison, 86% of 3PL providers agreed that their customers showed an increase this year in their use of outsourced logistics services. These figures are consistent with the slower growth of overall revenues in the global logistics marketplace, as discussed above.
- **Insourcing:** Generally, returning to insourcing remains less prevalent, as 26% of shippers report they are returning to insourcing at least some of their logistics activities. In comparison, 37% of 3PL providers agree that some of their customers are returning to insourcing.

- **Reducing or Consolidating 3PLs:** The ongoing trend toward strategic sourcing by many shippers is evident in the number who report that they are reducing or consolidating the number of 3PLs they use—an average of 53%. This is consistent with previous years’ findings and provides continuing evidence that more than half of shippers place a priority on tightening up their rosters of 3PLs.

One observation that has been consistent for the past several years is that the percentage of shippers reporting they increased their use of outsourced logistics services has outstripped by 3:1 the percentage of shippers indicating they have returned to insourcing many of their logistics activities.

Shipper Experiences with 3PLs: Measures of Success

Once again, a distinct majority (92%) of shippers report that their relationships with 3PLs generally have been successful. Interestingly, but predictably, an even higher percentage of 3PLs (98%) say their relationships with shippers have generally been successful. [Figure 2](#) summarizes the tangible benefits shippers report from their use of 3PL services, including three example types of cost reduction, and also average improvements in order fill rate and order accuracy. The average logistics cost reduction reported by shippers was 9%, the average inventory cost reduction was 5%, and the average fixed logistics cost reduction was 15%. This is the second consecutive year in which each of these percentage figures was down modestly from those reported in the previous year's study.

Again, this is not unexpected, because both shippers and 3PLs have been working earnestly to attain these efficiencies. It now appears that

the magnitude of annual savings of these types has begun to taper off somewhat. This idea is supported by the results of a discussion held during the London workshop around the assertion that many big customers already have taken significant cost out of their supply chains.

3PL Services Deliver Measurable Benefits

Also highlighted in [Figure 2](#) are the changes in order fill rate and order accuracy that shippers attribute to their use of 3PL services. These percentages have remained somewhat stable over the past several years' studies, and they also validate continuing improvements that result from the use of 3PL services. This year, 70% of shipper respondents report their use of 3PLs has led to year-over-year incremental benefits, while 98% of 3PLs say their customers' use of 3PL services has led to year-over-year benefits. The 70% figure is up from a reported 55% last year and 56% the year before.

Shifting Expectations in Shipper-3PL Relationships

In the six years that this study has included both shippers and 3PL providers in the survey process, researchers have observed that in most instances 3PLs rate their capabilities higher than do shippers. Conversely 3PLs tend to have a lesser perception of problems in relationships, etc. Although there are likely a number of reasons for this disparity, the study is always seeking to better understand how well aligned shippers and providers are on matters of importance to the overall relationship.

One attribute that shows a degree of alignment is that of openness, transparency and effective communication in 3PL-customer relationships. The *2015 3PL Study* showed that 73% of shippers and 77% of 3PLs are satisfied that they have received open, transparent and effective communication from their partners.



Figure 3: Shippers Continue to Outsource a Wide Variety of Logistics Services

Outsourced Logistics Services	Percentages of Users	Outsourced Logistics Services	Percentages of Users
Domestic transportation	80%	Order management and fulfillment	18
International transportation	70	Inventory management	18
Warehousing	67	Supply chain consultancy services provided by 3PLs	15
Customs brokerage	53	Service parts logistics	14
Freight forwarding	51	Information technology (IT) services	14
Reverse logistics (defective, repair, return)	36	Fleet management	13
Freight bill auditing and payment	33	LLP (Lead Logistics Provider) / 4PL services	11
Product labeling, packaging, assembly, kitting	30	Customer service	5
Cross-docking	30	Sustainability/green supply chain-related services	3
Transportation management and planning	25		

Source: 2015 19th Annual Third-Party Logistics Study.

An area in which a difference exists between shipper and 3PL provider customer ratings is that of agility and flexibility to accommodate current and future business needs and challenges. This year 99% of 3PLs feel their customers expect these qualities from them, while 75% of shipper respondents agree that their 3PLs are sufficiently agile and flexible. This continuing gap suggests a further need for improvement.

An interesting comment made during the London workshop was that companies with the most responsive supply chains were either new companies, or ones that were vertically integrated and had recently redesigned or significantly transformed their existing supply chains. Also, a discussion thread in the workshop held in San Francisco focused on the extent to which “big box” stores and their supply chain practices were “changing the customer landscape.” Specifically, 3PLs serving these types of accounts need to be very diligent about understanding, complying with and meeting stated customer expectations, while also being sufficiently agile and flexible to execute as flawlessly as possible.

For the past several years, this report has addressed issues relating to the use of “gainsharing” and “collaboration” in shipper-3PL relationships. We consider both of these concepts legitimate and useful elements of well-structured shipper-3PL relationships:

- **“Gainsharing” between 3PLs and shippers:** This year, 41% of shippers report they have engaged in gainsharing arrangements with their 3PLs, while 58% of 3PL provider respondents indicate they have engaged in gainsharing with customers. As stated in last year’s report, our opinion is that while the use of gainsharing is a valuable element of many shipper-3PL relationships, there are other relationships where some variation of a more traditional “fee for service” model is preferred. Although this has not been formalized into a research question, our hypothesis is that the use or non-use of gainsharing would be related to whether customers prefer more tactical/operational relationships with their 3PLs or relationships that are more strategic in nature.

- **Interest in collaborating with other companies, even competitors, to achieve logistics cost and service improvements:** 39% of this year’s shippers agree that they are collaborating with other companies to achieve logistics cost and service improvements. This percentage is down from 48% reported last year, while the percentage of 3PL providers in agreement is a reported 72%. As with gainsharing, it is likely that this approach is more suitable in certain types of shipper-3PL relationships than in others. Also noted in the workshops held this year: There continues to be a reticence on the part of both shippers and providers to share relevant information that is central to the process of taking the greatest advantage of their relationships and the opportunity to collaborate effectively.

What Shippers Outsource and What 3PLs Offer

Figure 3 shows the percentages of shippers outsourcing specific logistics activities. While there are similarities with some of the results reported in recent years, this year’s data also includes a number of instances that suggest

modest declines in the percentages of shippers indicating they outsource certain activities and processes. Also, one perspective that received attention in this year's workshops was that there is continuing evidence that, in many instances, shippers will choose not to outsource operations where they feel they can serve their customers better.

Again with this year's study, the most frequently outsourced activities tend to be those that are more transactional, operational and repetitive. These include domestic and international transportation (80% and 70%, respectively), warehousing (67%), customs brokerage (53%) and freight forwarding (51%). With the exception of domestic transportation, these percentages are several points lower than those reported in the previous study.

The less frequently outsourced activities indicated in Figure 3 continue to be those that are more strategic, customer facing and IT intensive. Examples include: order management and fulfillment, inventory management, supply chain consultancy services, IT services, LLP/4PL services and customer service. Generally, these

percentages also are lower than those reported in the previous study.

Among the many topics of interest during workshops was that there appears to be an evolution of demand for and increasing acceptance of the concept of 4PL services (broadly defined). Although there are a growing number of companies (or divisions of companies) that are viewed as commercial providers of 4PL services, the types of services that would be offered by a 4PL are also the same types of services that should be evident in any well-run customer supply chain organization.

Although it is not fair to draw conclusions based on one year's supply of new survey results, the analysis looks carefully at the reasons why shippers generally reported lesser percentages in terms of utilizing many of the logistics services and processes than they did in the previous year's study. Among the reasons that may bear some relevance are: impacts of lagging global economies; decisions made by providers of logistics services that have impacts on pricing and availability of those services; responses to shippers feeling pressure to reduce

costs wherever and whenever possible; and changing purchasing patterns among shippers. Also, the composition of this year's survey respondents may also have some impact on the results included in Figure 3.

3PL's IT Capabilities: What are the Front-Running Types of Information Technologies?

It has been clear for some time that the provision of capable IT services has been a key element of the value proposition in shipper-3PL relationships. As shown in Figure 4, shippers indicate a greater need for activities such as transportation management, warehouse/distribution center management, EDI, visibility, etc., which are mostly execution and transaction oriented. In fact, there is a relatively discernable relationship between the propensity of shippers to utilize specific IT-based services and the types of logistics services that are outsourced to 3PLs (as summarized in Figure 3). Looking at the IT-based services in Figure 4 that are of a somewhat lesser priority at present, it is apparent that these are generally related



Figure 4: Shippers Still Focus Attention on Execution-Oriented 3PL IT Capabilities

Region	Percentages Reported By					
	3PL Users			3PLs		
	2013	2014	2015	2013	2014	2015
Transportation Management (Execution)	72%	75%	73%	84%	81%	86%
Warehouse/Distribution Center Management	64	74	65	78	71	76
Electronic Data Interchange	68	78	65	79	76	80
Transportation Management (Planning)	67	69	64	80	77	79
Visibility (Order, Shipment, Inventory, etc.)	60	76	63	75	78	76
Web Portals for Booking, Order Tracking, Inventory, etc	59	62	50	72	75	76
Bar Coding	50	50	47	60	53	55
Transportation Sourcing	45	45	48	58	52	59
Customer Order Management	41	42	41	64	66	79
Global Trade Management Tool	43	51	36	42	38	31
Advanced Analytics and Data Mining Tools	26	34	30	39	42	45
Supply Chain Event Management	26	38	30	49	53	50
Network Modeling and Optimization	30	35	29	44	55	51
Supply Chain Planning	30	36	26	59	59	53
Collaboration Tools (SharePoint, Lotus Notes, etc.)	32	43	25	41	46	46
CRM (Customer Relationship Management)	-	-	23	-	-	59
Yard Management	17	30	21	28	35	37
RFID	24	22	18	36	26	28
Cloud-Based Information Technologies	-	-	12	-	-	38
Mobile Technologies for Sales Support	-	-	11	-	-	36

Source: 2015 19th Annual Third-Party Logistics Study.

to processes that are more strategic and customer facing.

For 13 years this study has tracked measurable differences between shippers' opinions as to whether they would agree that information technologies are a necessary element of 3PL expertise and whether they are satisfied with their 3PLs' IT capabilities. We have referred to this as the "IT Gap." While Figure 5 reveals that over the long term this gap has narrowed significantly, recent years' data suggests there may be continued convergence occurring between shipper ratings of the necessity of capable IT-based services from 3PLs and their

current satisfaction with those services. As indicated, 96% of this year's user respondents agreed that IT capabilities are a necessary element of 3PL expertise and 60% agreed they were satisfied with 3PL IT capabilities.

Although last year's report suggested that the "(IT) gap appears to have largely stabilized," this year's study continues to look for reasons that may explain why this gap continues to narrow. As explained later in this report, a special topic within this year's study is CRM (Customer Relationship Management) and the use of mobile and cloud technologies by 3PLs.

Key Takeaways

Key findings about the Current State of the Market for the 2015 19th Annual 3PL Study include:

- The continuing uncertainty and volatility of global economic conditions has impacted global markets for 3PL services and related industry revenues. Armstrong & Associates reported aggregate global revenues for the 3PL sector grew by 13.7% from 2010 to 2011, 9.9% from 2011 to 2012 and only by 2.7% from 2012 to 2013.
- Shippers report an average of 36% of their total logistics expenditures are related to

outsourcing compared with an average of 44% reported last year. These figures help to explain how the slowing global economic conditions have impacted aggregate shipper spending on 3PL services as a percentage of total logistics expenditures.

- This year's *Annual 3PL Study* reports that 67% of the shippers surveyed are increasing their use of outsourced logistics services. Only 26% report a return to insourcing many of their logistics activities. This ratio of approximately 3:1 (67% increased outsourcing divided by the 26% that returned to insourcing) has been apparent for the past several years. Also, 53% of shipper respondents indicate they are reducing or consolidating the number of 3PLs they use.
- Shippers report an average logistics cost reduction of 9%, an average inventory cost reduction of 5% and an average fixed logistics cost reduction of 15%. These figures are down modestly from those reported in last year's study, but confirm the reasons why 92% of

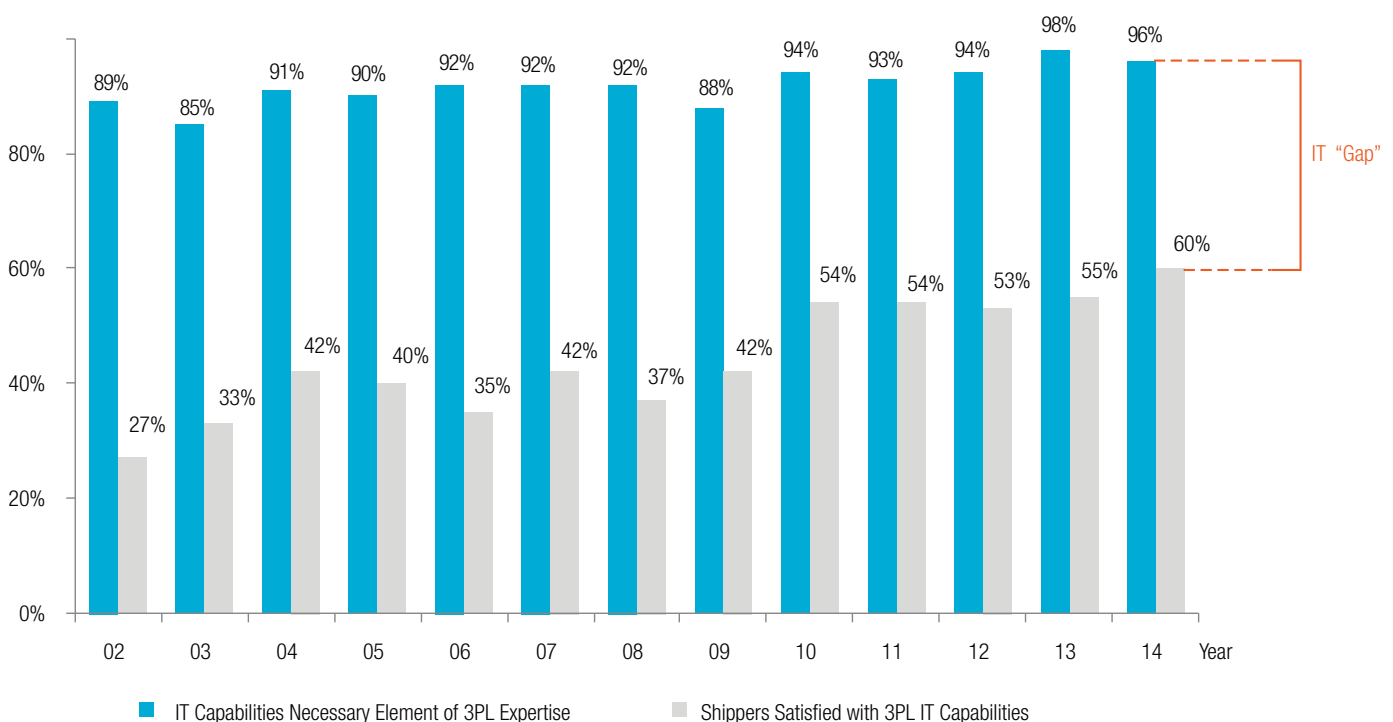
shippers report that their relationships with 3PLs generally have been successful.

- In the survey, 73% of shippers and 77% of 3PL providers indicate they are satisfied with the openness, transparency and good communication in their relationships, and 75% of shipper respondents judge their 3PLs as sufficiently agile and flexible to meet future business challenges.
- Involvement in "gainsharing" arrangements with their 3PLs was reported by 41% of shippers, and 39% indicated involvement in collaboration with other companies, even competitors, to achieve logistics cost and service improvements. Variances in these results over the years suggest that, rather than reflecting levels of maturity, these approaches simply fit better with some shipper-3PL relationships than they do for others.
- Consistent with past studies, transactional, operational and repetitive activities tend to be the most frequently outsourced, while

those that are strategic, IT-intensive and customer facing tend to be outsourced to a lesser extent. Also, for many of the logistics activities and processes of interest to this study, this year's percentage of shippers indicating they outsource those activities decreased by a few points.

- For the past 13 years, this study has been tracking the "IT Gap," which is defined as the difference between the percentage of shippers indicating that IT capabilities are a necessary element of 3PL expertise (96% in the current study) and the percentage of the same shippers who agree that they are satisfied with 3PL IT capabilities (60%). The results from this year's study again confirm that the IT Gap continues to narrow to some extent, and so future research will place a priority on providing further explanations and rationale for any apparent convergence.

Figure 5: The "IT Gap" Exhibits Continuing Convergence



The New Landscape of Omni-Channel Retailing



Today's retail landscape is evolving rapidly, adjusting to changes in consumer demand as well as technological innovations. Now more than ever consumers expect an always-on, always-open shopping experience, and they are looking for seamless interaction across retail sales channels. To meet those expectations, retailers need to have a robust fulfillment strategy and a highly detailed, integrated approach.

And there are more consumers than ever as changing economics are affecting the face of retailing. Within the United States, household net worth has been improving, increasing 13.4% in 2013 after a 9.5% rise in 2012. Globally, the middle class is growing and is on track to more than double in size to 4.9 billion by 2030 from 2 billion today.

The growth of the middle class means consumers have more discretionary income. To capture these new and growing spenders, retailers are gradually transitioning their offerings to match the expectations of what, when and where customers want to shop. To succeed in this changing landscape, retailers are enhancing the consumer-facing side of their operations, requiring a redesign of their supply chain and testing new fulfillment options to keep up with rapidly evolving consumer expectations.

The customer-facing operations of retailers are emphasizing consumer engagement and turning to tailored marketing and promotions, such as customized messages pushed to shoppers' mobile devices based on their location and product suggestions influenced by their previous shopping history. As a result, retailers are trying to be more dynamic

than their competition and creating a unique customer experience.

But respondents said they have found customers' expectations differ based on their geography. What meets customers' needs in one area may not in another, so the ability to differentiate offerings by geographic location can improve customer service while also requiring greater flexibility across global operations.

So while retailers' sales and marketing departments are promoting the tailored, customized content, the fulfillment and logistics divisions have to ensure a seamless experience for the customer. As consumers become more exposed to improved offerings from retailers, they begin to expect more in terms of when and how they can get their products delivered. And while several companies are blazing a trail with new fulfillment models, others are trying to determine a customer expectation versus a customer requirement.

To succeed in this changing landscape, retailers are enhancing the consumer-facing side of their operations, redesigning their supply chain, testing new fulfillment options and focusing on a specialized model with a specific purpose in mind.

Changes to the Supply Chain

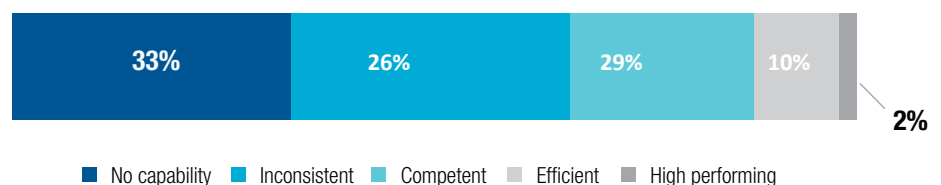
Enabling the growth of the omni-channel network is a priority for retailers, and they are testing a wide range of cross-channel fulfillment options. However, nearly one-third of the retailers participating in the study said they are not prepared to handle omni-channel retailing. Figure 6 shows that only 2% of respondents rated themselves as high performing in the omni-channel space, while 10% ranked themselves as efficient. The highest percentage—33%—said they had no capability and 26% said they are inconsistent.

For many companies, the issue is their existing infrastructure simply cannot support a true omni-channel. Previously, retailers created dedicated e-commerce distribution centers that were designed to pick, pack and ship partial shipments. The rest of their distribution centers were for full shipments, and, in the past, companies rarely shipped directly to consumers from the store.

Today, retailers are trying to better utilize space and creating more in-store integration with online channels, using bricks-and-mortar stores as fulfillment centers for internet shopping sites and to facilitate Web order pickup in which the

Figure 6: Omni-Channel Supply Chains Remain Immature

How prepared do you think your organization is to handle omni-channel retailing?



Source: 2015 19th Annual Third-Party Logistics Study.

customer shops online then picks the package up at the store. Office Depot, for example, has introduced an updated Web order, in-store pickup program called “Buy Online Pick Up in an Hour” whereby online orders at OfficeDepot.com are ready for pickup in about 60 minutes. Ship-to-store options have the potential to reduce the retailer’s transportation costs and possibly spur additional in-store sales made when shoppers pickup an online purchase.

Yet in spite of the benefits, respondents said most companies don’t have the space to run a pick-and-pack operation from the store. They said to get to a true omni-channel, they would have to dismantle their current network, which would be costly.

Companies have to determine how much of their current infrastructure they are willing to take apart to build new delivery channels. Many are taking a “wait and see” approach to determine which customer requirements stick and which are a fad. Consumer goods companies are also questioning whether or not it makes sense for them to create their own fulfillment solutions or if they should partner with another type of service provider who can handle the services for them. This may create additional opportunities for 3PLs going forward.

Varied Fulfillment Options

While respondents are still developing their omni-channel supply chains, they are attempting to provide flexible fulfillment options and testing new approaches, including in-vehicle pickup, warehouse pickup and buy-online-and-pick-up-in-an-hour options. Figure 7 shows that among respondents, 36% currently offer order-online-and-pickup-at-the-warehouse, 29% allow consumers order in store for home delivery, 22% allow mobile orders to be picked up at the warehouse and 20% offer warehouse pickup of orders placed in the store.

Nearly half of respondents, as shown in Figure 8, said they are not testing new fulfillment strategies, but 16% are either utilizing or considering home delivery from local stores, 15% either do or plan to offer Sunday delivery, 12% are either using or investigating customer delivery in which an in-store shopper delivers goods, and 11% are using or interested in locker pickup. A smaller number—4%—are considering drone delivery and bike/messenger delivery.

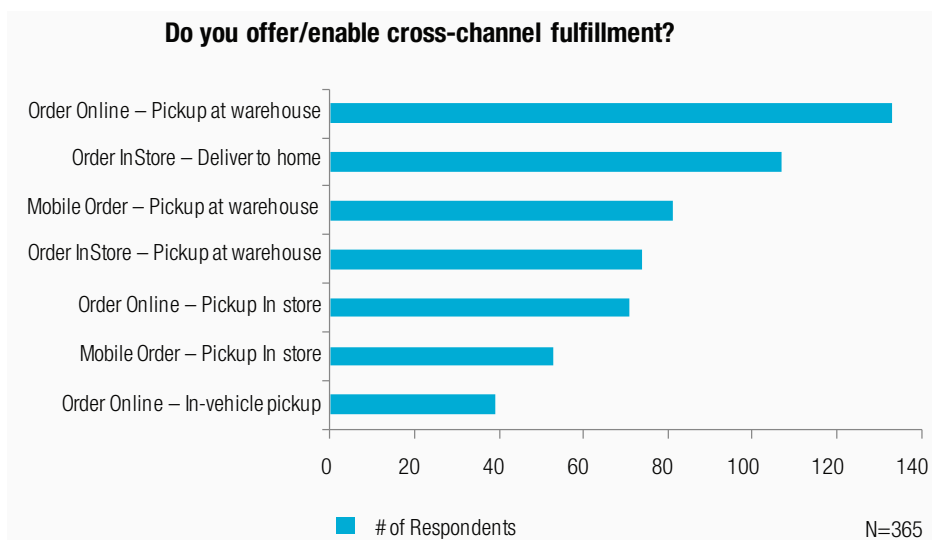
Wal-Mart is among those looking to tap into shoppers who are already in the store to deliver products to customers who ordered online. In-store shoppers would inform the retailer of their destination and volunteer to deliver

packages to shoppers nearby in exchange for a discount on their bill.

Amazon has made headlines by testing drones for faster delivery of goods. The drones can carry packages weighing about five pounds to locations within a one-mile radius of an Amazon fulfillment center. The online retailer has also installed delivery lockers in grocery, convenience and drugstore outlets at several locations in the U.S. and the United Kingdom. The lockers hold packages weighing less than 10 pounds and customers can pick up their deliveries at their convenience, eliminating the chance of missing a delivery or theft from their doorsteps. In the Los Angeles and New York metropolitan areas, Amazon is collaborating with the U.S. Postal Service to provide Sunday package delivery.

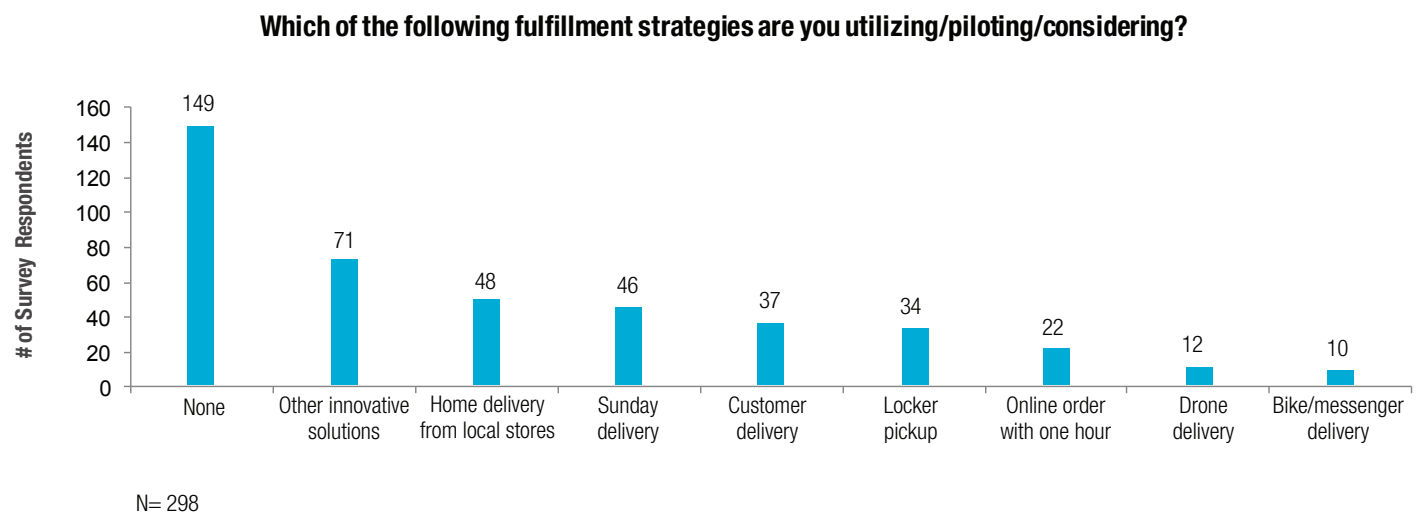
Yet with new opportunities come new challenges. Retailers have the opportunity to provide customers with more options than ever before, but they also have to ensure flawless execution. To support the rollout of the omni-channel consumer experience, retailers are investing in new technologies, allowing them to make decisions based on real-time information from stores.

Figure 7: Respondents Offer a Variety of Cross-Channel Fulfillment Options



Source: 2015 19th Annual Third-Party Logistics Study.

Figure 8: Shippers are Testing and Using a Variety of Fulfillment Options



Source: 2015 19th Annual Third-Party Logistics Study.

The Role of Information Within the Supply Chain

With timely information, retailers are focusing on the retail shelf and working to speed deliveries to the store to keep product in supply. Now planning cycles can take place hourly or more frequently, and the total supply chain response time takes place in hours or days—a transition from the old supply chain model in which retailers focused on replenishing the distribution center with fulfillment at the retail level taking days or weeks.

Technology in retail enables the retailers to analyze consumer data, track products and reduce operational cost while also serving as a tool for product promotions through various digital platforms. Retailers said they are trying to figure out how to create increased visibility and transparency to profitably manage inventory and delivery.

The visibility and accuracy of inventory data is crucial. Figure 9 shows that to better manage inventory and product delivery, respondents are investing in such technology, including warehouse management systems (58%), enterprise resource planning software (54%),

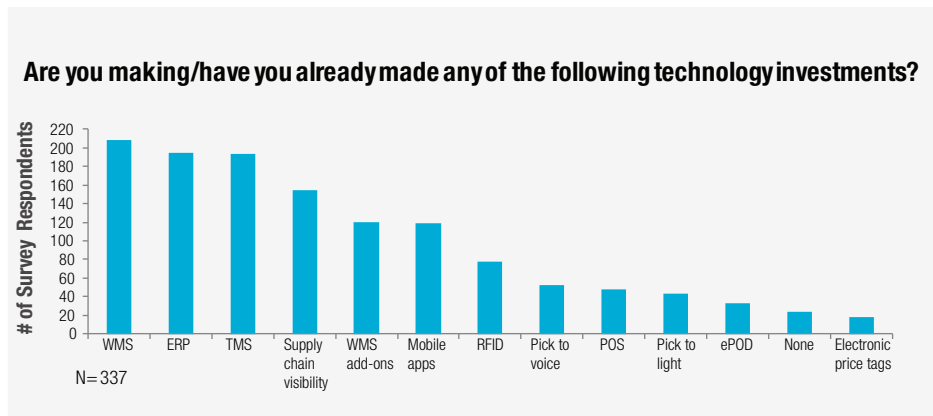
transportation management systems (54%), supply chain visibility (43%) and warehouse management system add-ons, which include labor management, analytics, slotting organization, etc. (33%).

About one-fifth of respondents—21%—have also invested in RFID technology, which can save shoppers time and also reduce inventory levels as a result of real-time information about the movement of goods. Products with RFID tags need not be scanned separately, resulting in shorter checkout lines and less time spent at the cash register. For retailers, RFID captures and stores information over time enabling them

to trace the product’s origin and differentiate products from their competitors.

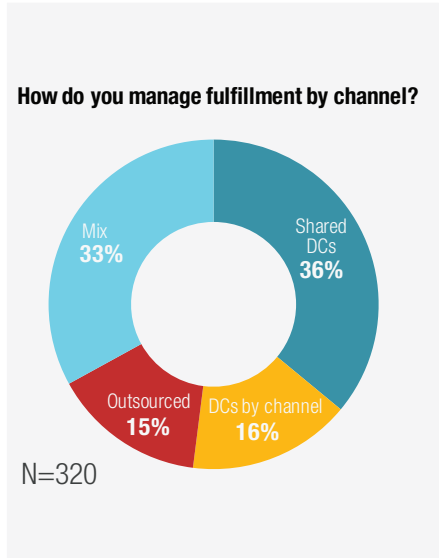
Respondents said the physical and digital information necessary to successfully manage omni-channel offerings has been met with varied success. Warehouses operate in an integrated fashion, yet many require manual movements of digital inventory and information across systems or tools. Figure 10 demonstrates that when it comes to managing fulfillment by channel, 36% of respondents said they utilize shared distribution centers, 16% have distribution centers by channel, 15% outsource and 33% use a mix.

Figure 9: Companies are Adapting with Integrated Technologies



Source: 2015 19th Annual Third-Party Logistics Study.

Figure 10: Respondents Use a Mix of Solutions to Manage Fulfillment



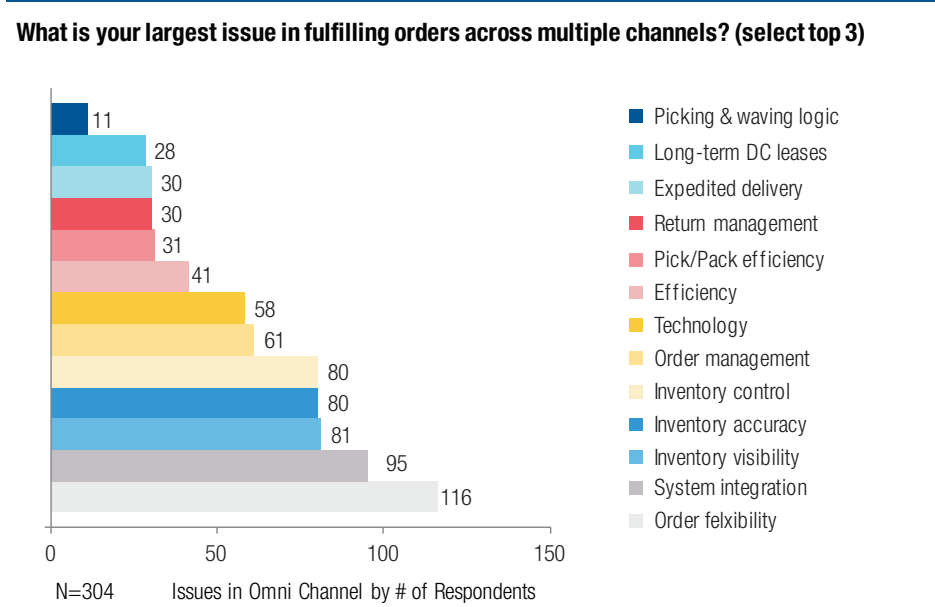
Source: 2015 19th Annual Third-Party Logistics Study.

However, fulfilling orders across multiple channels can create issues. Respondents were most concerned with order flexibility (last-minute changes to either the quantity, shipping address or shipping speed), system integration and inventory visibility, accuracy and control (Figure 11).

As online shopping continues to grow, shippers are left trying to figure out how to merge information to consolidate shipments and increase efficiency. During the London workshop, a respondent shared the story of one DHL truck showing up at a business to deliver business-to-business orders while another arrived to deliver packages to employees from their personal orders. Technology that creates additional visibility is a likely solution.

The rise of new technologies is affecting retailers' perspectives. Digital promotions, mobile promotions and digital wallets are impacting retailers the most. These technologies give retailers greater insight, and therefore the ability to customize solutions. For example, digital wallets combine the functionality of mobile payments with digital couponing, and digital storage of various cards and loyalty

Figure 11: Fulfilling Orders Across Multiple Channels Creates Certain Issues



membership programs into one solution, enabling retailers to acquire more information about their actual and potential customers compared to traditional payment methods.

Because retailers are increasingly dependent on technology for real-time visibility into operations to track products when they leave the manufacturing facility, throughout the supply chain and until they arrive at the final point of sale, retailers are gradually moving all of their platform-based solutions to the cloud. This enables retailers to process large amounts of customer data faster, better match customers' demands with a sales season and provide personalized solutions, not only in what customers buy and how they buy it, but also in how they receive it.

By obtaining and transmitting information more efficiently and in new ways, retailers and shippers are able to offer more fulfillment options, giving customers the option of picking products up in the store or the warehouse or having them delivered to their store. These technologies, along with others, enable the concept of mass customization, which has been

of growing interest to both manufacturers and retailers.

Personalized Products and Experiences

Retailers are focusing more on consumer engagement in response to customers' targeted, time-efficient, needs-based trips while also seeking to develop more profitable, complex solutions offering real value to shoppers.

Custom solutions are becoming prevalent in a wide variety of retail operations. For example, retailers are now offering home décor product selection and installation services ordered in a single touch. In apparel, shoe manufacturer New Balance allows customers to create custom shoes either online or in its flagship Manhattan store. Once the shopper designs his or her shoe, it is manufactured at a U.S. facility within six to 10 business days and shipped to the customer.

With mobile technologies, retailers can send a mobile coupon for a product that complements other items on the customer's shopping list or inform customers about special offers based on

their location in the store. Mobile technologies also allow in-store promotions through interactive touch screens that customers with smartphones can connect to and search for particular products. Over one-third of respondents—33%—said they have invested in mobile apps.

Opportunities and Challenges

Customer service continues to be the driving force behind shippers' omni-channel efforts. As seen in Figure 13, about one-third of respondents—32%—listed customer service as the top reason they are investing in

omni-channel fulfillment; 23% cited service levels; 11% listed freight costs.

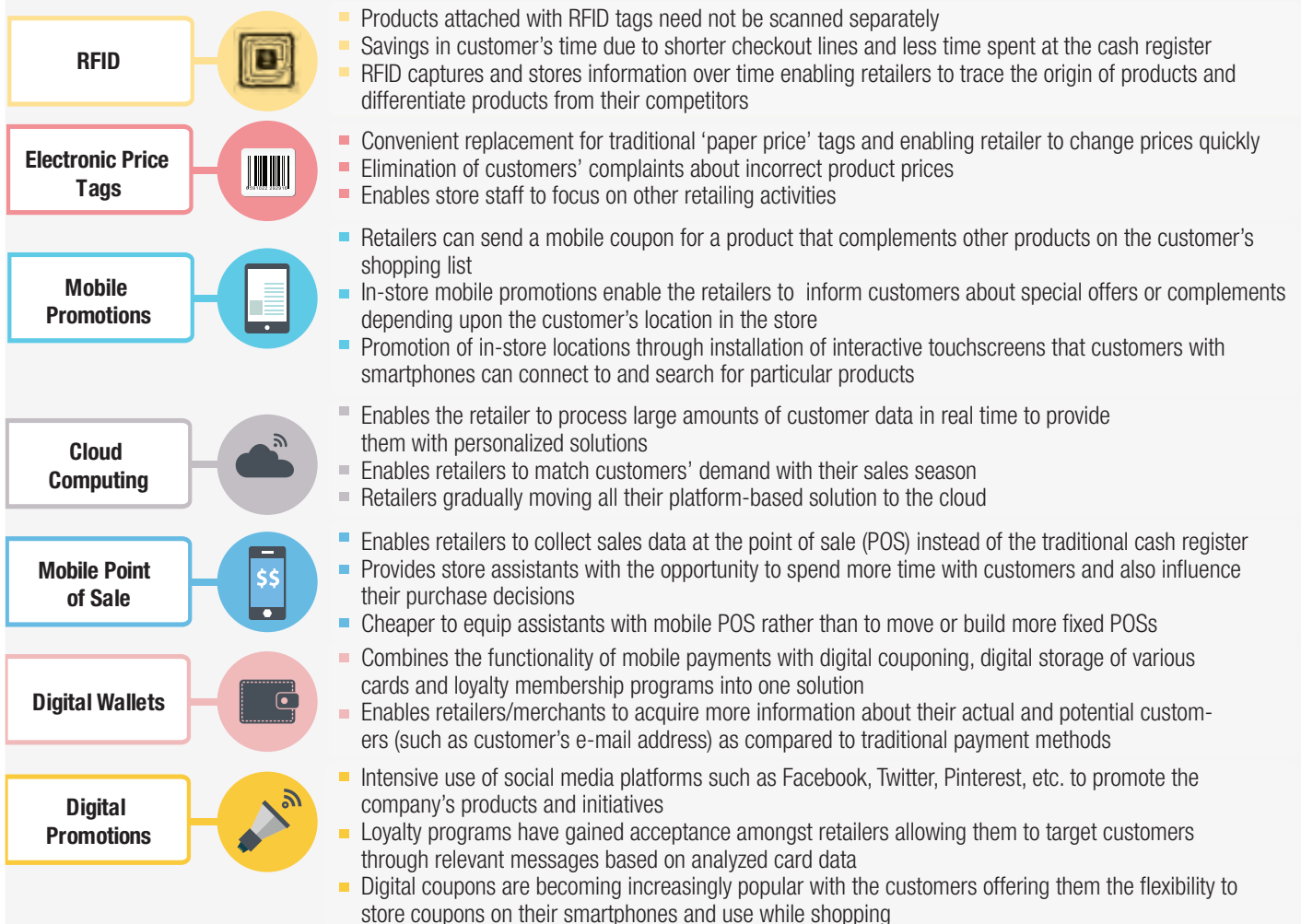
While technology is making it easier for retailers to allow consumers to buy when and where they want and choose how the order is fulfilled, the number of order channels multiplied by the number of delivery options creates a complex operating environment for shippers and logistics providers.

Moreover, shoppers expect ease in returns, and data shows that the most profitable online customers purposely order multiple items and

return 60% to 80% of what they order. This creates additional challenges surrounding logistics and inventory as distribution centers may restock an item then get a flood of returns resulting in overstocks. An even greater challenge can come when online shoppers return an item to a store, which then has to be returned to a distribution center. Respondents admitted that returns are often an afterthought, and this is an area where retailers and shippers will need to focus on in the future.

Figure 12: Technology Enables Retailers to Analyze Consumer Data, Track Products and Reduce Costs

Technology in retail enables the retailers to analyze consumer data analysis, track products and reduce operational cost... while at the same time serving as a tool for product promotions through various digital platforms



Omni-Channel's Potential Dividends

Many retailers are already making investments within the omni-channel space, but the question remains: Are customers willing to pay or will this become a cost of doing business? Is there a point when it becomes too expensive, too risky and of little value for retailers to build their own capability? For retailers and shippers, there has to be some type of revenue to justify the service. It may be that omni-channel fulfillment becomes the final straw that forces companies to merge operations versus maintaining competing supply chains, especially for last-mile fulfillment.



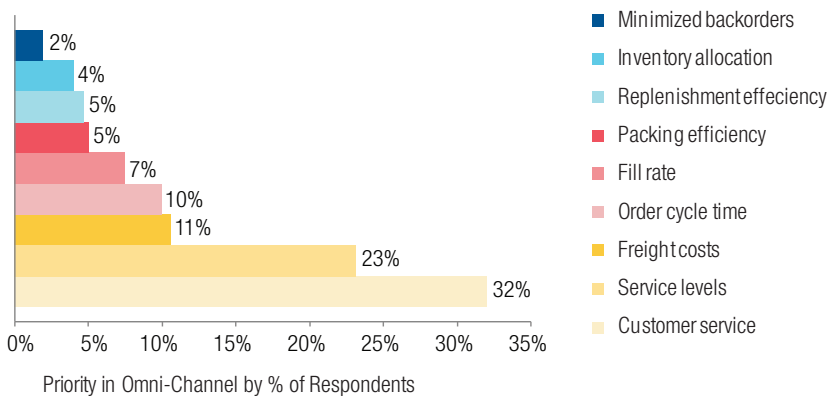
Omni-Channel Key Takeaways

- Retailers are working to provide consumers with an always-on, always-open shopping opportunity. Shoppers are looking for a seamless experience across their retail sales channels. Thus retailers need to have a robust fulfillment strategy and a detailed, integrated approach to meet consumers' needs.
- Customer service continues to be the driving force behind omni-channel efforts. About one-third of respondents—32%—listed customer service as the top reason they are investing in omni-channel fulfillment; 23% cited service levels; 11% listed freight costs.
- Companies are investing in technology that gives them greater customer insights and enhances shoppers' experiences, with 33% of respondents saying they've invested in mobile apps and 21% saying they've invested in RFID.

- The visibility and accuracy of inventory data is crucial, yet the physical and digital information necessary to successfully manage omni-channel offerings are met with varied success. Warehouses operate in an integrated fashion, yet many require manual movements of digital inventory and information across systems or tools. When it comes to managing fulfillment by channel, 36% of respondents said they utilize shared distribution centers, 17% have distribution centers by channel, 15% outsource and 33% use a mix.
- The survey data shows that omni-channel supply chains are still maturing and retailers are attempting to provide flexible fulfillment to customers. Nearly half of respondents said they are not testing new fulfillment strategies, but 16% are either utilizing or considering home delivery from local stores, 15% do or plan to offer Sunday delivery, 12% are either using or investigating customer delivery in which an in-store shopper delivers goods, and 11% are using or interested in locker pickup. A smaller number—4%—are considering drone delivery and are either utilizing or testing bike/messenger delivery.

Figure 13: Priorities in Omni-Channel Fulfillment

What is your priority in omni-channel fulfillment?



- Companies see the advantage of integrated technologies and are adapting as necessary. Respondents are investing in such technology, including warehouse management systems (58%), enterprise resource planning software (54%), transportation management systems (54%), supply chain visibility (43%) and warehouse management system add-ons (33%).

Source: 2015 19th Annual Third-Party Logistics Study.

2015 Third-Party Logistics Study Omni Channel – Creating a Seamless Customer Experience

What is driving this trend?

Retailers are venturing into new markets and store formats while integrating their in-store and digital offerings to cater to the demand of several consumer groups

Where to sell?

How to sell?

How to operate?



Focus towards consumer engagement and cost efficiencies is driving...

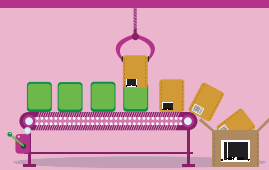
- Personalized products
- Reduction in store size
- Focus on consumer engagement
- Greater utilization of store space



Customer service continues to be the driving force behind shippers' omni-channel efforts



Immaturity of supply chains for omni-channel operations



Shift from the traditional supply chain model to a modern, more agile model

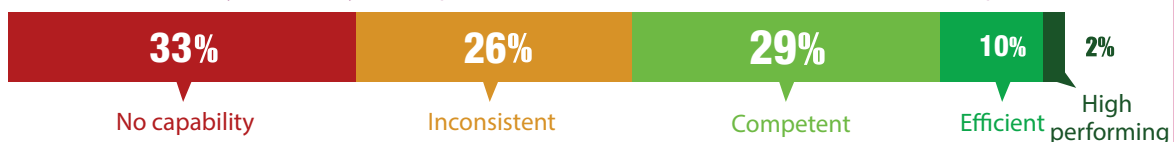
Traditional model	Modern model
Total response time from order to retailer DC in weeks or days	Total supply chain response time from demand estimation to shelf delivery in days or hours
Quality defect per million at the plant	Quality defects per million at the retail shelf
Forecast accuracy in replenishing the retail DC	Zero stock outs on the shelf
New product design, manufacture and delivery	Speed to deliver innovation to the shelf

Some info in the above chart from: The Consumer Driven Supply Chain: IBM

Largest issue in fulfilling orders across channels



How prepared do you think your organization is to handle omni-channel retailing?



Will shippers focus on developing their own innovative solutions or will they turn to 3PLs to help them determine how to fulfill customer demands?

Strategic Workforce Management Throughout the Supply Chain



Strategic workforce management—the system and processes by which leaders ensure they have the right talent in the right place and time—is relevant to everyone involved in the supply chain, be it an hourly employee or the company CEO. [Figure 14](#) shows that companies that practice strategic talent management have 40% lower voluntary turnover among their high performers and generate 26% greater revenue per employee compared to their peers.

In most organizations, total human capital costs account for as much as 70% of operating expenses. To maximize the investment, key human resources leaders need to be close partners with the CEO to understand the strategy and direction of the company. About 60% of respondents, as shown in [Figure 15](#), said having the right people and leadership in place is a primary driver of the organization's success in the next five years and roughly the same amount said success relies on having the right strategy and roadmap. Yet, less than one-third of companies said they are effective at building the next generation of leadership capabilities.

While the transactional nature of the logistics industry can limit the ability of individuals to think about strategic workforce planning, companies said that without people

development, they struggle to grow. [Figure 15](#) shows that organizations value operational execution, the ability to drive growth, and people management and development.

When a company aligns its talent strategy to its business strategy, it is more likely to achieve its strategic objectives, perform better in the market and retain high-performing individuals. However, a business strategy simply details where the company wants to go. Getting there takes people. To align the two, management can ask themselves the following:

- What are the top three to five organizational goals in the next five years?
- What specific objectives will help to support those goals?
- What are the talent implications of each objective?
- What key roles/skills are required for each talent implication?
- What external business issues, such as trends, economic realities and industry context, are shaping the business strategy?
- Can the needs be qualified?

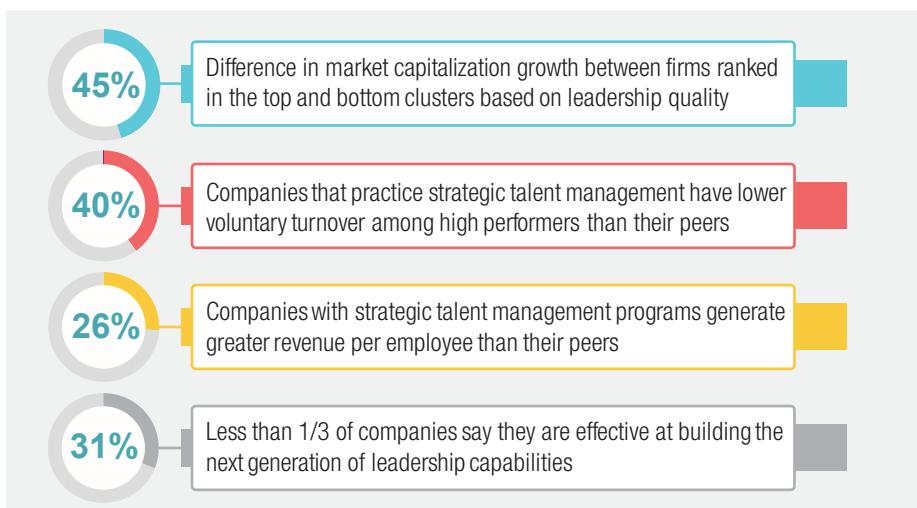
Yet, aligning business strategy with the talent strategy does not mean the talent strategy simply imitates business strategy. For example, if the business strategy is to drive innovation, HR does not innovate. Instead, HR provides the talent that will drive innovation. The talent strategy is designed to make the business strategy successful.

Demand for Supply Chain Talent

Aligning talent to business objectives helps a business get the proper talent focused on the right initiatives to drive the organization's strategy and accelerate business outcomes. This is especially crucial in the supply chain, where estimated demand for supply chain professionals is expected to exceed supply by six to one.

[Figure 16](#) reveals that 44% of respondents said they are already having difficulty in finding or attracting talent. The average hiring growth rate within the supply chain industry is expected to be higher than the average growth rate across other occupations. Estimates show 60 million people will exit the industry by 2015, but there are only 40 million people to fill the gap.

Figure 14: The Benefits of Strategic Workforce Management



Source: 2015 19th Annual Third-Party Logistics Study.

Figure 15: Organizations' Primary Drivers of Success in Five Years

Source: 2015 19th Annual Third-Party Logistics Study.

Not only does demand for supply chain experts have the potential to grow exponentially (as shown in [Figure 17](#)) with demand being greater than the supply across all supply chain roles, positions within the industry are changing. As a result of the dynamic nature of the supply chain industry, three out of four jobs are expected to change by 2015 alone, and there is a potential shortage of new talent resulting from the constant evolution of supply chain processes. As noted in [Figure 18](#), respondents said changes to the business model along with difficulty in finding and/or attracting talent are among their top pressures.

The 3PL industry's perception of and competition for supply chain talent has worsened the demand-supply talent gap. As seen in [Figure 19](#), the majority of survey respondents feel that closing the gap between supply and demand is one of their largest challenges affecting 28% of respondents to a great extent and 58% of respondents to some extent.

3PLs compete for talent with other 3PLs, manufacturers, retailers and consulting firms.

Many managers and others in leadership roles leave large 3PLs for better opportunities in other industries, and the 3PL industry is struggling to contain a high management attrition rate. To overcome challenges and industry perceptions, 3PLs may need to continue to develop their staff and invest in workforce management at all levels. In [Figure 20](#), 47% of respondents said a top issue in the organization is developing leaders, 28% said they struggle with effectively managing succession and 20% say they need to improve supervision and coaching.

Going forward, top employees are going to need a mix of both soft and hard skills involving leadership qualities and cross-functional competencies. Of concern to those within the industry is that the leadership of today may not have the skills or capabilities that will be necessary in future leadership roles. Employers will need to develop the skills of senior management to ensure they are equipped with the right skills and mindset to make the right hiring decisions. This will require a well thought out strategic talent management plan.

Vertical and Horizontal Management Links

Strategic talent management consists of two key elements—a vertical link to strategy and a horizontal link across all talent management practices. The vertical link—also known as strategic alignment—is the connection between business needs and individual performance. The horizontal link—known as integrated talent management—reflects how all the talent management practices are integrated into a coherent system and leveled at the same goals. By optimizing both these vertical and horizontal links between talent and strategy, an organization builds a talent machine that fuels strategy execution and achieves business results.

Ultimately business strategies determine which roles provide a competitive advantage, the type of talent required, and the skills to be cultivated and rewarded. The company's talent management practices must develop people with the skills, knowledge and motivation to implement the business strategy. [Figure 21](#) shows what the best leaders do differently.

Talent Leaders and People Leaders

Every organization has both people leaders and talent leaders and both fulfill distinct roles. People leaders are more adept at coaching and developing others and serve as a role model of the company's values and culture. Great talent leaders use talent as a strategic lever, make good decisions around people and have a proactive plan for how and when to move talent to drive business outcomes.

Return on Investment

The return on investment from strategic workforce management is substantial. It contributes to a boost in morale, increased productivity, increased discretionary effort, lower turnover and higher customer satisfaction. A recent study found that a one standard deviation increase in investment in aligning and integrating HR practices is associated with a 7.5% decrease in employee turnover and, on a per employee basis, \$27,044 more in sales, \$18,641 more in market value and \$3,814 more in profit.

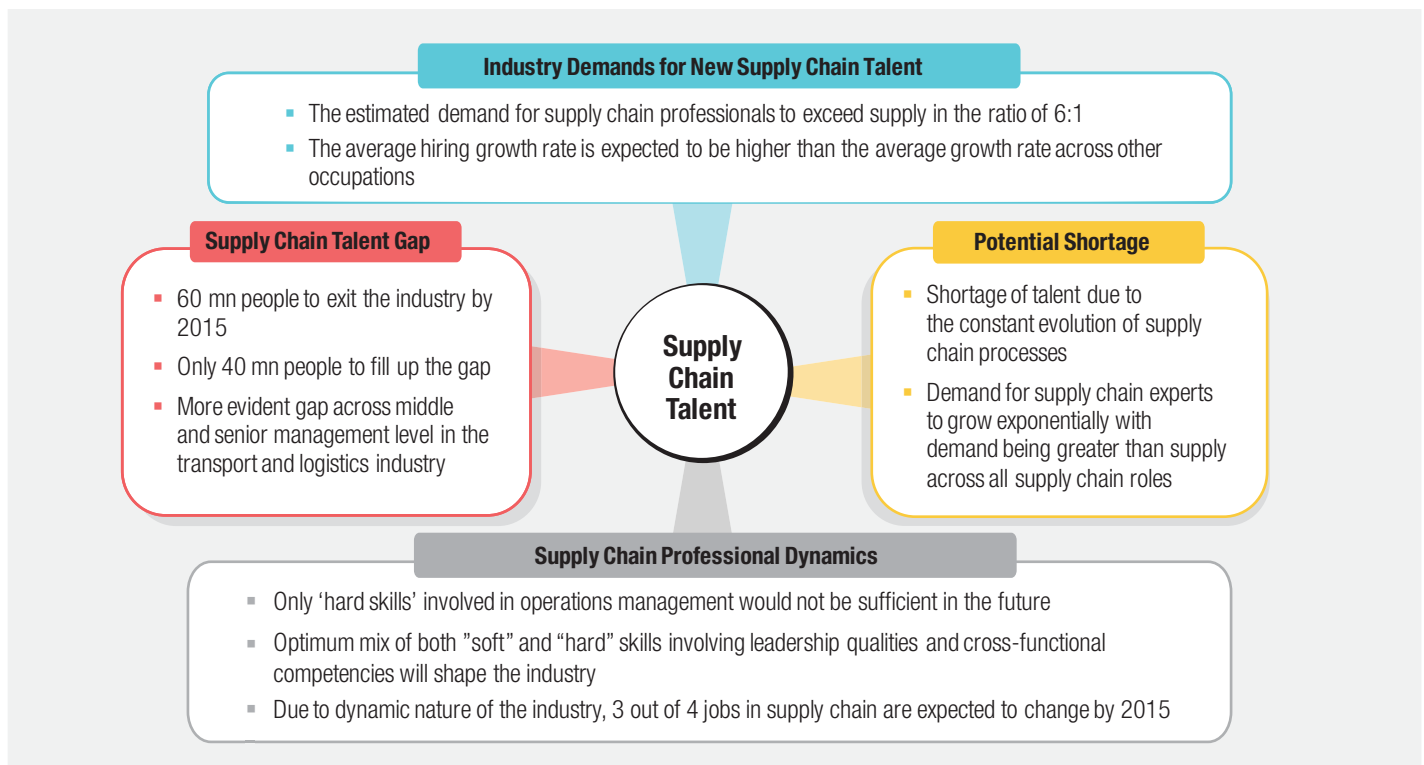
Figure 16: Capabilities Organizations Value in a Functional or Business Leader



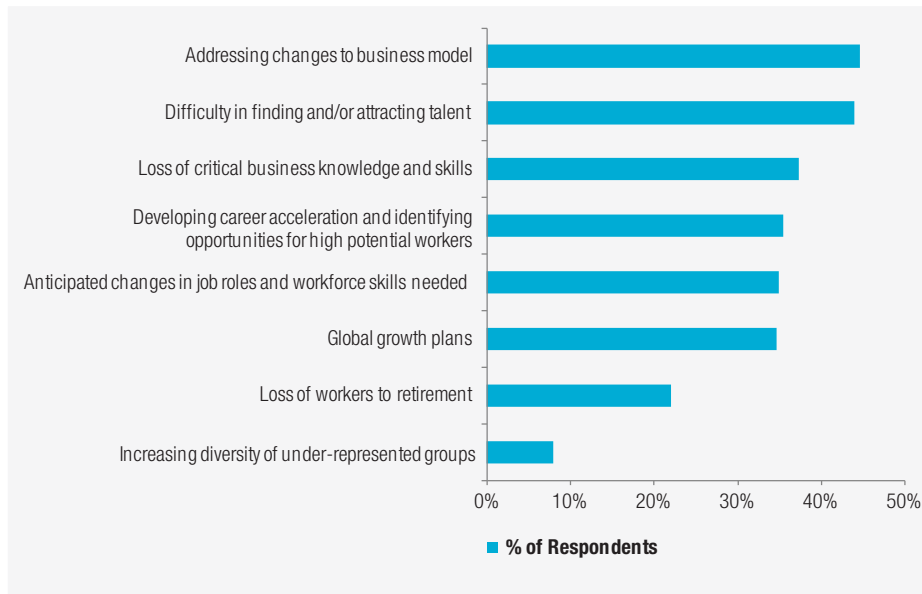
However, to see the benefits, a company must have a sound business strategy. In addition, its talent strategy must be designed to support the business strategy and be integrated across all human resource practices. The joint strategy works best when the approach includes thought leaders experienced with strategic alignment who have insight on the industry as well as talent practices. It is also crucial to have an open, facilitated dialogue among top business and HR leaders.

Source: 2015 19th Annual Third-Party Logistics Study.

Figure 17: Industry Demands for New Supply Chain Talent



Source: 2015 19th Annual Third-Party Logistics Study.

Figure 18: Top Pressures Driving Workforce Planning

Source: 2015 19th Annual Third-Party Logistics Study.

Figure 19: Challenges in Effectively Implementing Workforce Planning

Challenges	Not at all	To some extent	To a great extent
Focus too much on short-term needs	16%	46%	38%
Closing the gap between talent supply and demand	14	58	28
No clear vision of future workforce demands	28	52	19
Keeping the process simple and easy to use	22	59	19
Limited or no integration of data needed	32	51	18
Value proposition is not realized	31	52	17
Lack of skills for workforce planning	27	58	15
Integrating with other planning processes	31	56	13
Difficulty prioritizing solutions to close gaps and mitigate risks	27	60	13
Lack of budget for workforce planning	31	57	12
Monitoring progress and updating strategies	29	59	11

Source: 2015 19th Annual Third-Party Logistics Study.

Strategic Workforce Management Key Takeaways

- Companies that focus on strategic talent management have stronger performance than their peers, with 40% lower voluntary turnover among their high performers and 26% greater revenue per employee.
- Strategic workforce management will be particularly important for the 3PL industry, which is expected to face a shortage of talent. Nearly 50% of respondents said they are already having difficulty in finding or attracting talent. The average hiring growth rate within the supply chain industry is expected to be higher than the average growth rate across other occupations. Estimates show that 60 million people will exit the industry by 2015, but there are only 40 million people to fill the gap.
- Existing positions within the supply chain industry are changing rapidly. By 2015, three out of four jobs in supply chain are expected to change.
- The dynamics of supply chain professionals are changing. In the future, only having hard skills in operations management will not be sufficient. Instead, there will be a mix of both soft and hard skills involving leadership qualities and cross-functional competencies that will shape the industry.
- About 60% of respondents said having the right people and leadership in place is a primary driver of the organization's success in the next five years. Roughly the same amount said success relies on having the right strategy and roadmap. Yet, less than one-third of companies said they are effective at building the next generation of leadership capabilities.