2015 Third-Party Logistics Study

CRM & Cloud Solutions

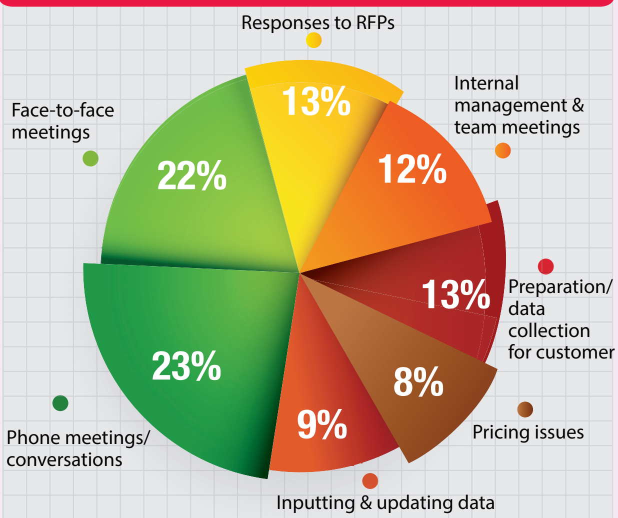
CRM Benefits for 3PLs

- Increased productivity
- Systematic way to track business activity
- Measurability of marketing and sales activity
- Individual customer service
- Automated information updates
- Ensured safety of shipments

Cloud Benefits for 3PLs

- ✓ Reduction of the total cost of services (including cost for installations, upgrades, maintenance fees, etc.)
- ✓ Pay-per-use model offers more agility, flexibility and elasticity of business, as well quick and cost-effective reaction to less-predictable events
- ✓ Customized, personalized logistics services becomes affordable for end customer

What do 3PL sales executives do with their available time?



Potential Benefits of CRM (1 least helpful, 5 most helpful)	3PL Users	3PL Providers
Availability of real-time information relating to customer shipments (e.g., tracking, etc.)	4.2	4.0
Easy access to cost and shipment pricing information	3.9	3.6
Increased ability of 3PL sales executives to respond to customer requests	3.7	3.4
Greater visibility of global operations	3.7	4.0
More professional and productive sales calls and customer presentations by 3PL sales executives	3.0	3.7

Mexico Rising as Manufacturing and Logistics Hub

With more free-trade agreements than any other country, a growing manufacturing base and a strategic geographic location, Mexico is emerging as an economic powerhouse. A number of companies are moving manufacturing to the country, which creates strong growth opportunities for 3PLs on both freight movement and ancillary services.

Mexico is the 14th largest economy in the world and the second largest economy in Latin America, as shown in Figure 27. American trade with Mexico has grown by nearly 30% since 2010 to $507 billion annually, according to the Office of the United States Trade Representative, and Goldman Sachs reports that Mexico is on-track to become the fifth largest global economy by 2050.

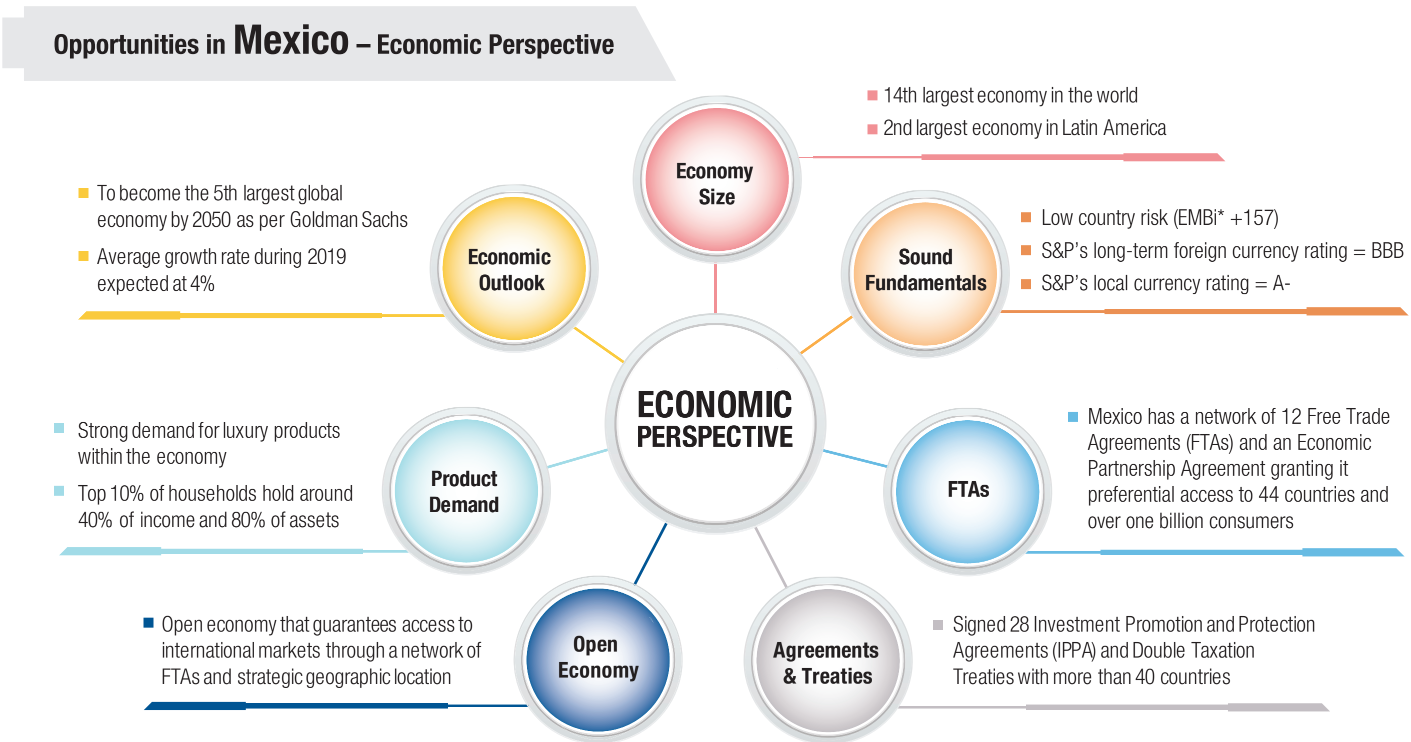
Mexico's 12 Free Trade Agreements along with an Economic Partnership Agreement that grants it preferential access to 44 countries and over one billion consumers guarantees access to international markets. The country has also signed 28 Investment Promotion and Protection Agreements and Double Taxation Treaties with more than 40 countries, presenting additional incentives for companies to move operations there.

From a business perspective, Mexico is renowned as a low-cost manufacturing and export destination. It provides a near-shore option for the North American market, and study respondents said businesses are primarily moving operations to Mexico from the U.S. (55%) and China (36%), shown in Figure 28.

Figure 29 highlights respondents' reasons for shifting operations to Mexico, with the most important reasons being lower cost wages and moving operations closer to the point of consumption. Mexico also offers lower overall operating costs as well as tariff and tax incentives. The strong correlation between the peso and the U.S. dollar is creating additional opportunities in Mexico.

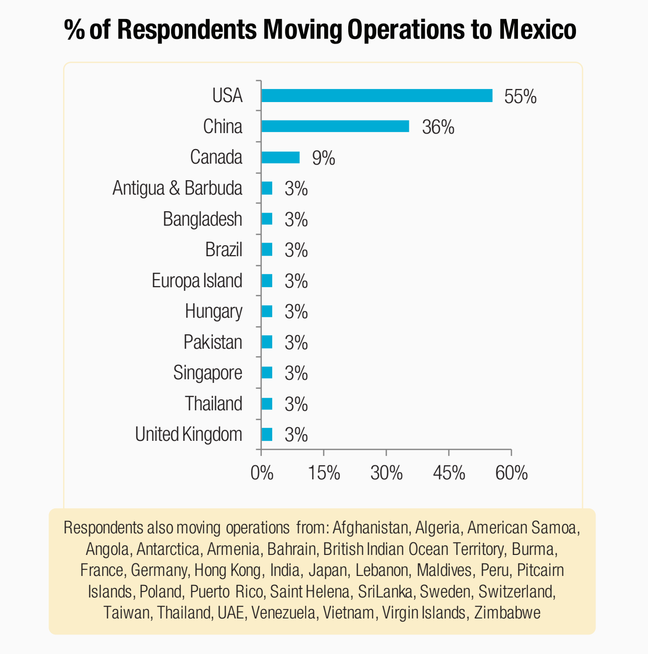
Figure 30 shows that just under half of study respondents—40%—said they have already moved some of their operations to Mexico. Workshop participants said concerns over contaminated products being imported from China, which in recent years have caused recalls on goods ranging from pet food to toys, could drive even more people to Mexico.

Figure 27: An Open Economy Backed by Sound Fundamentals and Alliances Offers Lucrative Opportunities Within Mexico



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

Figure 28: Percentage of Respondents Moving Operations to Mexico



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

Figure 29: Primary Reasons Businesses are Moving to Mexico

1 is the most important reason, 10 is least important

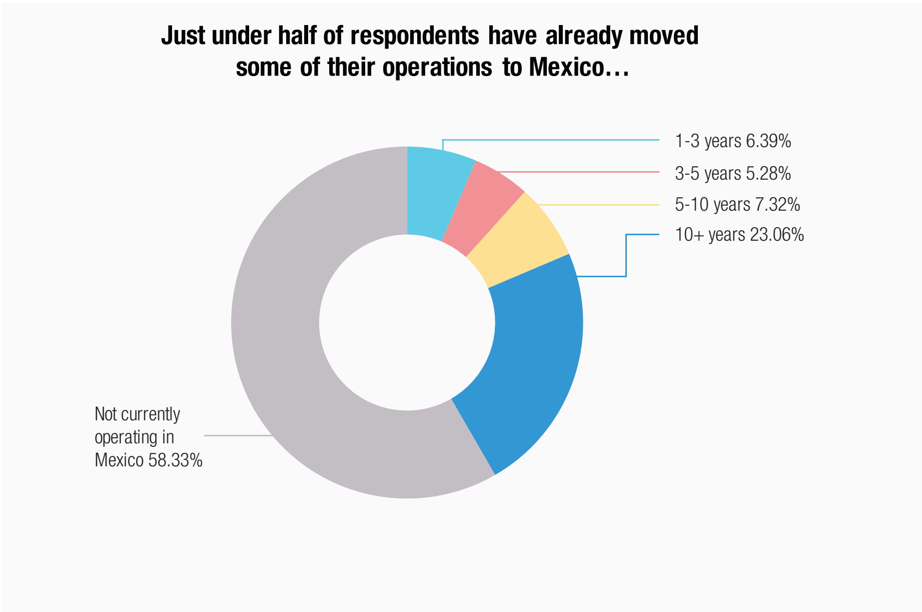
Why has your business shifted operations to Mexico from other regions of the world?	Avg Rank (1-10)
Lower Cost Wages	3
Closer to Point of Product Consumption	3
Risk Management	5
Tariff/Tax Incentives	5
Lower Overall Operating Costs	5
Competitive Advantage	5
Exchange Rate	6
Closer to Supply Sources	7
Reduced Freight Transport Time	7

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

Respondents in the U.S. and China are the largest percentage of those that are moving operations to Mexico. Just over 80% of Mexican exports ship to the United States, demonstrating that Mexico is providing a near-shoring alternative option for the North American market. Moving production closer to the point of consumption of goods shortens the supply chain, which minimizes potential disruptions and cuts costs. It also enables companies to carry less inventories.

Labor costs are also creating an advantage for Mexico, particularly as wages in China have started increasing. Mexico's labor costs are comparable with other nations, and it has higher productivity, which enables low-cost manufacturing. What's more, free-trade transit zones, local consolidation points on both inbound and outbound loads and localized customs clearance lead to optimized time, transportation costs and administration efficiency.

Figure 30: Respondents Currently Operating in Mexico



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

Manufacturing Within Mexico

The majority of Mexico's exports—80%—are in manufacturing. Mexico exports more than the rest of Latin America and is the 15th largest exporter in the world. Figure 32 shows the top three manufacturing industries included food, transportation equipment and chemicals.

In 2013, computer and electronics manufacturing saw the highest year-over-year production growth—14.3%—as a result of a surge in exports. It was followed by a 5% growth in food and a 1.2% increase in beverages and tobacco, shown in Figure 33.

While there is growth in exports, the amount of goods produced for domestic consumption, particularly in the food and beverage sector, is also increasing. As employment rates within Mexico rise, consumers have more disposable income and purchase more.

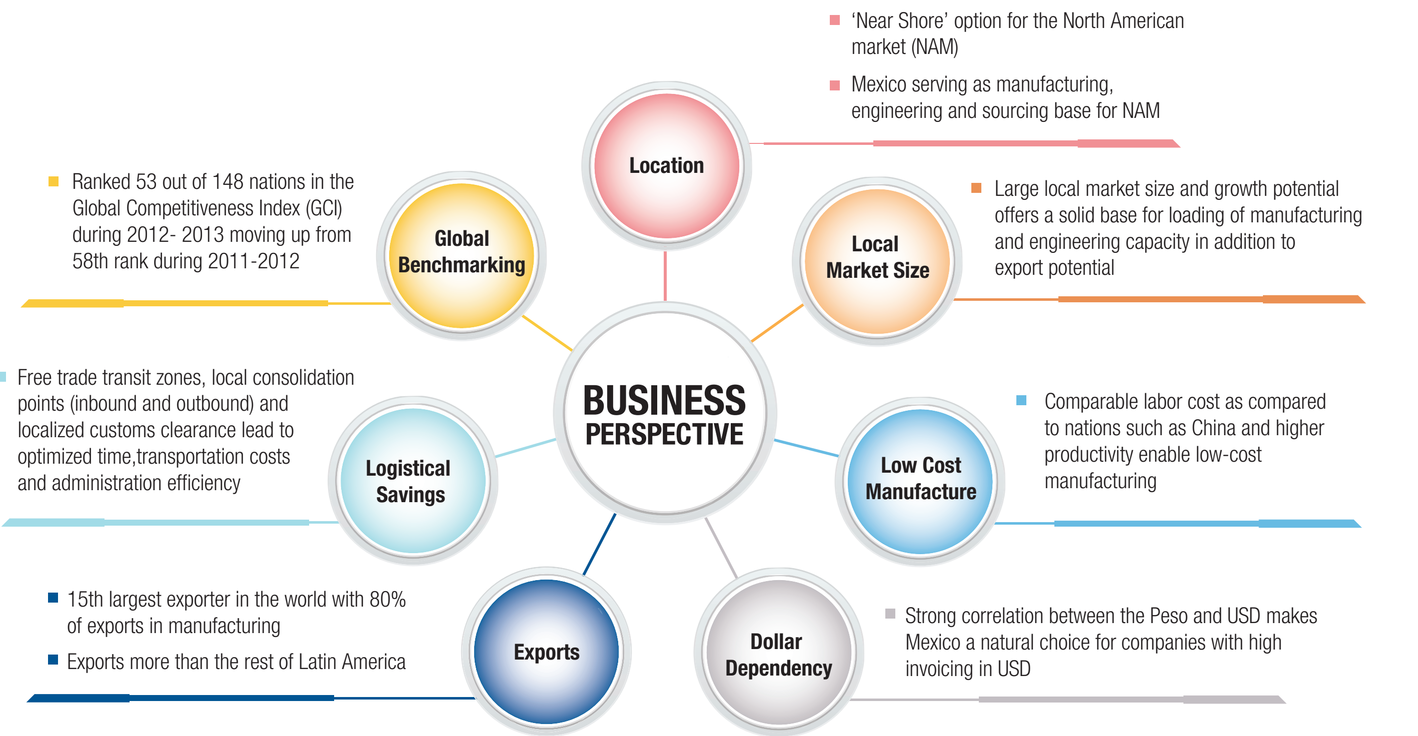
Opportunities for 3PLs

The growth of logistics services plays a crucial role in rendering Mexico's businesses cost competitive as compared with similar ventures globally. For years shippers have been reporting significant logistics cost reductions from moving operations to Mexico. As early as 2012, shippers reported an average logistics cost reduction of 21% compared with other parts of the world. They also saw inventory cost reductions of 12% compared to 9% globally and order fill rates move to 77% from 68%.

Remaining Challenges

Although respondents have seen a benefit from lower costs, of those that have moved operations to Mexico, the majority said they have yet to see large revenue growth from the growing Mexican economy, proving that both opportunities and challenges remain. Respondents said they are most concerned with security, crime and corruption along with workforce readiness and infrastructure (Figure 34).

Figure 31: Mexico is Renowned as a Low-Cost Manufacturing and Export Destination



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