The State of Logistics Outsourcing

2008 THIRD-PARTY LOGISTICS

high tech industry findings

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High Tech Industry Findings

Success in the high tech industry requires a sophisticated, global approach to supply chain, to cope with high product velocity, short product lifecycles and thin margins. Perhaps that's why these respondents outsource a larger percentage of their logistics expenditures (65% vs. 56%) compared with overall respondents. They consume a wide range of 3PL services – including integrated logistics services – at a higher rate. They're more impacted by shortcomings in 3PL IT, and they highly value – and receive – more 3PL security services.

3PL Satisfaction

The pressure to develop and introduce products so quickly means high tech users outsource all queried services at a higher rate than the overall population (see accompanying chart). International transportation (94%) outscores domestic transportation (90%) as the most-used service – for overall users it's the opposite. High tech respondents are much heavier users of reverse logistics, freight bill auditing and payment, international transportation, warehousing and shipment consolidation than the overall population.

The gap between respondents' expectations for their 3PL's IT capabilities, and their 3PL's performance in this area, continues from past surveys. It's particularly pronounced for high tech users, with 93% calling IT capabilities a necessary element of overall 3PL expertise, but just 29% reporting satisfaction with their 3PL's IT capabilities (vs. 91% and 38% for overall). As with overall users, warehouse/distribution center management, Web-enabled communication and visibility tools are the most-used technologies. These users are more likely to report their 3PLs being able to provide them with visibility tools into their key processes and are much heavier users of bar code generation and scanning (62% vs. 50%).

High tech users rate their success with 3PLs similarly to the overall respondent base; 85% call these relationships somewhat or extremely successful and 92% say logistics represents a strategic, competitive advantage for their companies. As with the overall population, personal relationships on an operational level and a carefully drafted and signed contract with detailed descriptions of services and performance are leading factors to success.

As with other respondents, high tech and electronics users' relationships with 3PL providers are not problem-free. These users are much more likely to report problems with post-merger integration of acquired companies (29.5% vs. 13%), and to cite errors caused by manual steps within business processes as well as unsatisfactory transition during the implementation phase of the relationship.

Integrated Systems and Services

While historically, the needed integration of systems and services was accomplished by companies themselves as they purchased individual logistics services, today, the 3PL sector is capable of integrating systems and services on their customers' behalf. High tech users are the second heaviest users of integrated logistics systems and services among responding groups, and are more likely to prefer integrated to individually provided logistics services (84% vs. 75%). They report extended global reach (network) and a reduction in the use of Logistics Service Providers at a much higher rate.

CUSTOMERS CURRENTLY OUTSOURCE A WIDE VARIETY OF LOGISTICS SERVICES

Outsourced Logistics Service	Overall	High Tech Respondents
Domestic Transportation	85%	90%
International Transportation	81	94
Warehousing	72	83
Customs Clearance and Brokerage	65	72
Forwarding	52	64
Shipment Consolidation	46	56
Reverse Logistics (defective, repair, return)	38	54
Cross-Docking	38	44
Transportation Management (shipment planning and execution with one or more carriers)	37	42
Product Labeling, Packaging, Assembly, Kitting	36	44
Freight Bill Auditing and Payment	30	44
Supply Chain Consultancy Provided by 3PLs	17	18
Order Entry, Processing and Fulfillment	15	22
Fleet Management	13	16
LLP/4PL Services	13	15
Customer Service	12	18

Not surprisingly, then, high tech users consume many integrated services at a higher rate than the overall group. Highly used services include air transportation (15 percentage points higher than overall), warehousing (+12.5%), customs clearance and brokerage and shipment consolidation (each +12 points higher), express (+11) and cross-docking and value-added services (e.g., packaging, kitting, labeling) (each +10).

An important theme springing from research into integrated logistics systems and services is avoiding excessive dependency on providers. High tech users are more likely to report that they have developed a greater dependency than if they purchased services on an individual basis (74% vs. 68% overall). Non-users' reasons for preferring individually provided services differ from overall respondents; top reasons cited are greater overall flexibility, a preference to stay independent, and concerns with service quality available from integrated service providers.

Green Supply Chain

As with the overall population, high tech respondents overwhelmingly agree that green supply chain is important and growing more so. They see the most important ways 3PLs can help with green as improving transportation efficiency, and thereby reducing carbon emissions, through effective shipment consolidation, routing and mode selection; reducing use of non-recyclable packaging materials and managing energy efficient distribution centers. They value the latter two more highly than overall respondents (+10 to +11 percentage points higher), as well as 3PLs providing consultative advice with regards to implementing a green supply chain, and facilitating reverse logistics processes to recover otherwise wasted materials.

Supply Chain Security

With many high street-value goods, high tech companies place a strong emphasis on security. They are somewhat more likely to rate the current level of security provided by their 3PLs as secure or very secure (80% vs. 76%). They collaborate to a large extent with their 3PLs on security more often than the overall population, and currently receive more supply chain security services than other respondents. For example, physical security tops all users' rankings for the most effective means for their 3PLs to maintain or enhance supply chain security, but high tech users rate this as more important (66% vs. 57% overall) and are more likely to receive this service currently (62% vs. 49%). Similar results apply to the 3PL possessing a security-related certification such as AEO or C-TPAT and scanning shipments at key points to facilitate in-transit visibility.

About the Study

This report presents findings relevant to the high tech industry from the 13th Annual Third-Party Logistics Study, which tracks the opinions and experiences of users of third-party logistics (3PL) services across the globe. Research for the 2008 study was led by study founder C. John Langley Jr., Ph.D., of the Georgia Institute of Technology and a team of logistics thought leaders from Capgemini, Oracle and DHL. Once exclusively a survey, the 3PL study now includes three streams of research: a web-based survey, focus interviews with industry experts, and a facilitated Capgemini Accelerated Solutions Environment® (ASE) workshop. They summarize user and non-user experiences with 3PL providers worldwide, with three special topics, integrated service offerings, green supply chain, and supply chain security, given special attention in this year's study. High tech accounted for the largest percentage of respondents.

Understandably, theft of material goods -- the number one issue for overall users -- is an even larger concern for high tech users (83% vs. 74%). Theft of intellectual capital is also a top issue.

Conclusion

The complexity, velocity and global reach of the high tech and electronics supply chain have naturally drawn these users to outsource key logistics functions at a higher rate than other vertical markets, and to use an integrated service provider more often. This heavier reliance means they're more strongly affected by the perceived gap between expectations for 3PLs' IT capabilities and what they actually deliver. But their satisfaction with 3PLs remains high. Due to the high value of many of their goods, high tech 3PL users also highly value, and are more likely to be receiving, supply chain security measures from their providers.

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