The State of Logistics Outsourcing

2008 THIRD-PARTY LOGISTICS

automotive industry findings

Automotive Industry Findings

These are tough times for the auto industry, particularly in the US. In addition to the economic challenges, these companies still face supply chain challenges such as forecasting and globalization. They are heavy users of 3PL services, including integrated services, and use more integrated providers than do overall users. They use a good number of 3PL IT services, and their satisfaction levels with 3PL IT is a bit higher. Their green efforts in the logistics area are focused on transportation efficiency. Ensuring a secure supply chain, with contingency planning and notification, is important to automotive respondents.

3PL Satisfaction

Automotive respondents, the second largest vertical sector participating in the survey, are more likely than respondents overall (92% vs. 85%) to use 3PLs. They devote a larger percentage of their total logistics expenditures on outsourcing (61% vs. 56% overall). This finding has been consistent for several years and likely reflects the significant role played by logistics in transporting large numbers of vehicles long distances.

Perhaps due to their heavy usage, automotive users hold high expectations. They assign a slightly lower rating for the success of their 3PL relationships, (82% call them somewhat or extremely successful, versus 86% overall). That reflects a significant decline over the past three years: in 2005, 92% of automotive 3PL users rated their outsourcing experience as successful or extremely successful.

However, most respondents (87%), including automotive, say logistics represents a strategic, competitive advantage for their companies. Automotive respondents are more likely to report clearly measured cost reductions and improvements in customer service levels. Given the current challenges facing automotive manufacturers, particularly in mature markets, it's not surprising that cost reduction is top of mind. Automotive users are also more likely (73% vs. 65%) to agree that 3PLs have had a positive impact on business process efficiencies.

As with the overall respondents, the biggest factors in the success of auto users' experiences with 3PLs are personal relationships on an operational level, and a carefully drafted and signed contract with detailed descriptions of services and performance tracking.

As shown in the accompanying table, the services automotive users most frequently outsource to 3PLs are similar to overall, but they are heavier users of cross-docking, customs clearance, and shipment consolidation.

The gap between respondents' expectations for their 3PLs' IT capabilities, and their 3PLs' performance in this area, continues from past surveys, but auto users are somewhat happier with 3PL IT than overall. They are more likely to agree that IT innovations made available by the 3PL have increased use of IT in internal processes and operations and that 3PLs provide them with visibility into key processes. Among 3PL-supplied technologies, as with overall respondents, automotive users are most interested in visibility tools, Web-enabled communications and warehouse/distribution center management. Again, these responses have been consistent in recent years. They are heavier users of yard management, transportation management planning and execution, and Internet-based transportation/logistics exchanges (auctioning).

CUSTOMERS CURRENTLY OUTSOURCE A WIDE VARIETY OF LOGISTICS SERVICES

Outsourced Logistics Service	Overall	Auto Respondents
Domestic Transportation	85%	89%
International Transportation	81	86
Warehousing	72	77
Customs Clearance and Brokerage	65	77
Forwarding	52	55
Shipment Consolidation	46	56
Reverse Logistics (defective, repair, return)	38	32
Cross-Docking	38	55
Transportation Management (shipment planning and execution with one or more carriers)	37	44
Product Labeling, Packaging, Assembly, Kitting	36	43
Freight Bill Auditing and Payment	30	28
Supply Chain Consultancy Provided by 3PLs	17	19
Order Entry, Processing and Fulfillment	15	11
Fleet Management	13	6
LLP/4PL Services	13	18
Customer Service	12	16

Of course, no relationship, or service provider, is perfect. Automotive users are more likely than overall respondents to report cost reductions not realized (44% vs.36% overall).

Integrated Systems and Services

While historically, 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 these on their customers' behalf. Automotive is the third heaviest user of integrated logistics systems and services among the verticals studied. Automotive companies use a larger number of integrated services providers than average (4.2 vs. 3.4 overall), perhaps reflecting their larger size, global nature, and heavier usage. Domestic road transportation, warehousing, and customs clearance and brokerage are the most commonly purchased integrated services. Auto users are more likely to purchase cross-docking, express services, supply chain planning services, air transportation and ocean logistics services in an integrated manner.

Automotive users experience similar benefits from integrated logistics systems and services as overall, except they are more likely to experience risk-sharing with their integrated service provider (33% vs. 23%) and capability to work on more complex solutions, suggesting a more sophisticated relationship. They also report better-than-overall experiences with logistics efficiency/lower costs, and quicker response.

An important theme is avoiding excessive dependency upon providers. While automotive companies are less likely (37.5% vs. 51% overall) to report providing their own integration of logistics services and less likely to be concerned with service quality from integrated providers, they are much more likely to express a desire not to be dependent on any external party (58% vs. 44%) and to feel it's more expensive to use an integrated logistics service provider.

Green Supply Chain

Just as the overall population, automotive respondents overwhelmingly agree that green supply chain is important and growing more so. Where they do differ is in the importance they place on the ways 3PLs can help them attain green goals. Number one for overall and auto is improving transportation efficiency, and thereby reducing carbon emissions, through effective shipment consolidation, routing and mode selection. But auto users place less importance on facilitating reverse logistics processes to recover otherwise wasted materials, and providing effective inventory management that reduces the need for small-sized expedited shipments.

About the Study

This executive summary presents findings relevant to the automotive 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.

Supply Chain Security

Like the overall respondents, theft of material goods tops security concerns, but auto users are a bit more concerned than others with vandalism of supply chain assets and terrorist attacks disrupting supply chain activities. They are much less concerned with tampering with material goods (19% vs. 32% overall).

Regarding the most effective means for a 3PL to enhance supply chain security, physical security is the most highly rated service for all users including automotive, but this group places more value on providing alternative routing for shipments in response to supply chain disruptions, and proactive reports and alerts when shipments deviate from planned routes or schedules. They are also more likely to be getting these services from their 3PLs. They value more, but are less likely than overall to receive, physical security for material goods and information security.

Auto users are generally happier than others with the security provided by their 3PLs without their help (25% vs. 18%). They are somewhat less likely than overall respondents to collaborate with their 3PLs on security.

Conclusion

Automotive users are enthusiastic consumers of 3PL services. Use of 3PL services helps them control costs, increase customer satisfaction, and enables them to leverage logistics as a competitive advantage over their competitors. The long-established, sophisticated state and global reach of the automotive supply chain is reflected in their heavier use of 3PL services, and their demand for more advanced services. As such, their expectations are often higher than users in other vertical markets.

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