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Growing Satisfaction with the IT Skills of Third-Party Logistics Providers

New study by Capgemini, Georgia Institute of Technology, DHL and SAP reveals that for the first time since 2003 the gap between IT expectations and user experience is narrowing

London, 22 October 2007 – The number of users satisfied with the IT capabilities of third-party logistics providers (3PLs) is up 7% after 4 years of decline according to a new survey. The study, ‘2007 Third-Party Logistics’, is the twelfth in a series of studies on the state of logistics outsourcing and the first to show a rising level of satisfaction.

‘2007 Third-Party Logistics’ a web-based survey of 1,568 logistics executives from 61 countries shows that the gap is now shrinking between IT expectation and IT performance. Satisfaction hit an all-time low of 35% in 2006; this has now increased to 42% in 2007, while the expectation percentage remained the same at 92%; resulting in a shrinking of the IT expectation/performance gap. However, 3PL providers should not become complacent; IT performance and insufficient IT capability continues to be one of the top three performance issues recorded.

As in 2006, visibility tools (91%) and web-enabled communications (88%) are the top two technologies that 3PL users would like to add to their current capabilities, yet there has been a limited increase in usage. RFID remains the technology with the highest future expectations and this year’s survey recorded a marginal increase from 12% (2006) to 14% (2007) in the use of 3PL-provided RFID technology. However, this percentage is far lower than the 56% of 3PL users which expect more from this technology in coming years.

“IT skills are key to the success of third-party logistics providers, yet there is a significant gap between the services required and those provided. To maintain a competitive edge, 3PL providers must take action,” said Erik Van Dort, Global Distribution Leader at Capgemini. *“Many 3PL providers recognise the value of standardised IT processes and the impact on adoption rates. However, it is difficult to improve performance without a formal agreement. IT is still the least favourable option for inclusion in a contract, despite effective*



contracting practices being named as one of the most important factor for success with 3PLs, second only to ‘personal relationships at an operational level’.”

Additional trends in the outsourcing of third-party logistics identified in the study include collaboration; developments in emerging markets; and industry-specific trends. Key findings include:

Disconnect between the desire and the ability to work collaboratively

The model most often followed for collaborative practices does not usually work. To be effective, collaboration must go beyond vague expressions of partnership and aligned interests. The collaboration process should not only involve 3PLs and their customers, but the customers’ trading partners, suppliers and other key stakeholders – a dialogue that should be facilitated by 3PLs. Beyond relationships, strong processes and use of technology are essential for continued success, most evident in business processes such as inventory management.

China remains a top expansion destination but proximity increasingly influences choice

Preferred outsourcing destinations increasingly reflect locality; for example, European respondents are much more interested in expanding in Eastern Europe. Overall, satisfaction with the performance of 3PL providers in emerging markets is lower than customer satisfaction measured across all markets. Interestingly IT is rated as more important in emerging markets than in mature markets. However, there are clear differences between the two biggest emerging markets India and China. In India, the biggest challenge is the poor infrastructure with 33% experiencing issues; this is followed by the inability to deliver against promises (23%). In China, the latter is considered the biggest problem (25%), followed by legislation (22%). Moreover India is not following the classic Asian strategy for growth. Unlike China, a global exporter of manufactured goods, India dominates in global process outsourcing while manufacturing is more oriented towards the domestic market. This is clearly reflected in the rankings: China is currently the third-largest export country and is set to overtake the US soon, closing in fast on the number one country (Germany); whereas India is ranked 28th. The study also shows that China is increasingly being seen as a new sales territory.

Outsourcing logistics market is growing but there has been little change in industry trends and processes

The study shows little change in the logistics activities outsourced; the most frequently outsourced services include domestic and international transportation (83% and 79%, respectively), warehousing (69%), customs clearance and brokerage (67%), and forwarding (51%). While customer-related and strategic roles continue to be the least frequently outsourced. Selection processes also remain largely the same; as in 2006 the two most prevalent 3PL selection factors were the price of 3PL services (87%) and quality of tactical, operational logistics services (87%).

“Though the overall picture is similar to last year, it has become clear that collaboration between customers and 3PL providers is a key driver for success,” said Sven Hoemmken, Global Head of Marketing Services,



DHL Global Customer Solutions. *“It is critical for all parties to take a more active role in 3PL relationships, but customers evidently want 3PL providers to carry more of the risks. Ultimately it is their responsibility to keep supply chain management simple and priced right for the customer.”*

Yet as John Langley from Georgia Institute of Technology explains, *“The greatest shared challenge is that of forming and growing successful collaborative relationships between users and providers of logistics services. Without making sure that individual organisational objectives are aligned with what it takes for a successful relationship, and then what it takes for a successful supply chain, the result is not likely to be very pretty.”*

“The global increase in outsourcing leads to an increased need for 3PLs to utilize IT in moving products and services around the globe,” said Rod Strata, industry principal, travel and transportation, SAP America. *“These logistics providers have an opportunity in that their customers look to them as advisors in enabling end-to-end business process visibility, particularly in countries in which the customers have limited experience. We can expect an increased demand for innovative technology solutions that will help 3PLs to meet their customers’ needs.”*

About the Study

A total of 1,568 logistics executives from 61 countries participated in the web-based survey. The majority were located in four major geographies of interest: North America, Europe, Asia Pacific and Latin America. The findings were then supplemented with the results from in-depth discussions with participants in three workshops on three continents. Survey recipients were asked to think of a 3PL as a company that provides multiple logistics services for its clients and customers; 82% of recipients were classified as users of 3PL services.

About Capgemini

Capgemini, one of the world’s foremost providers of Consulting, Technology and Outsourcing services, enables its clients to transform and perform through technologies. Capgemini provides its clients with insights and capabilities that boost their freedom to achieve superior results through a unique way of working, which it calls the Collaborative Business Experience. Capgemini reported 2006 global revenues of EUR 7.7 billion and employs more than 80,000 people worldwide. More information is available at www.capgemini.com

About the Georgia Institute of Technology

The Georgia Institute of Technology, located in Atlanta, is a leader in logistics and supply chain and logistics education. Through its School of Industrial and Systems Engineering (ISyE) and the Supply Chain and Logistics Institute (SCLI), Georgia Tech is committed to serving logistics educational needs through its degree programs and its comprehensive professional education program. Georgia Tech also conducts a fully accredited Executive Masters in International Logistics (EMIL) program, a Supply Chain Executive Forum, and a Leaders in Logistics Research Program. Global involvement is facilitated through TheLogistics Institute Asia-Pacific, a program in partnership with the National University of Singapore. For more information, please visit www.isye.gatech.edu and www.scl.gatech.edu, as well as www.scl.gatech.edu/scef for information about the Supply Chain Executive Forum at Georgia Tech.

About C. John Langley, Jr, PhD

Dr. C. John Langley Jr. is The Logistics Institute Professor of Supply Chain Management and a member of the faculty of the School of Industrial and Systems Engineering at the Georgia Institute of Technology. He serves as Director of Supply Chain Executive Programs at Georgia Tech and as Executive Director of the Supply Chain Executive Forum. Dr. Langley is a former President of the Council of Logistics Management and a recipient of the Council’s Distinguished Service Award. The Richmond Events Logistics and Supply Chain Forum named him one of the “Outstanding Logistics Professionals” in 2004. Dr. Langley received the Ph.D. degree in



Logistics from Penn State University, and he is a noted author and frequent presenter at professional meetings and forums. He is a co-author of Supply Chain Management: A Logistics Perspective (8th edition forthcoming in 2007), as well as a number of other textbooks. In addition to his university duties, Dr. Langley consults with both logistics user and provider firms, and serves on the Boards of Directors of several major corporations.

About SAP

SAP is the world's leading provider of business software*. More than 41,200 customers in more than 120 countries run SAP® applications—from distinct solutions addressing the needs of small and midsize enterprises to suite offerings for global organizations. Powered by the SAP NetWeaver® platform to drive innovation and enable business change, SAP software helps enterprises of all sizes around the world improve customer relationships, enhance partner collaboration and create efficiencies across their supply chains and business operations. SAP solution portfolios support the unique business processes of more than 25 industries, including high tech, retail, financial services, healthcare and the public sector. With subsidiaries in more than 50 countries, the company is listed on several exchanges, including the Frankfurt stock exchange and NYSE under the symbol "SAP." (Additional information at <<http://www.sap.com>>)

(*) SAP defines business software as comprising enterprise resource planning and related applications such as supply chain management, customer relationship management, product life-cycle management and supplier relationship management.

About DHL

DHL is the global market leader of the international express and logistics industry, specialising in providing innovative and customised solutions from a single source.

DHL offers expertise in express, air and ocean freight, overland transport, contract logistic solutions as well as international mail services, combined with worldwide coverage and an in-depth understanding of local markets. DHL's international network links more than 220 countries and territories worldwide. More than 300,000 employees are dedicated to providing fast and reliable services that exceed customers' expectations.

DHL is a Deutsche Post World Net brand. The group generated revenues of 60bn euros in 2006.