# A Conversation with Jim Eckler,

## *President,* Eckler Associates and *former President and CEO,* SCI Group Inc.

Interviewed by Melissa Gracey, President, DTA Services, and *LQ* Board Member

### *Reinvention in Business Executive Exchange*

**LQ:** Jim, you've been in the industry for quite a long time. I hear there are some changes for you. Could you tell me about them?

**Jim Eckler:** It's been just about 15 years that I've been CEO of SCI Group. We've had a great track record and a great run. But it's also time for me to pass the torch and to move on. So I'm shortly going to be moving from being CEO to being non-executive vice chair. I'm looking forward to seeing some fresh blood, but at the same time for me, I'm going to be looking back at my years as CEO of a logistics company and start to move into an advisory role for other firms in the area of logistics and outsourcing — which also gives me an opportunity to take a look at the industry and perhaps comment on it.

**LQ:** We've been talking a lot about innovation. What is the state of the logistics industry today?

**Jim Eckler:** To begin with, I'm concerned about the logistics services industry. If I take a close look at the published industry data in detail, I see a year-over-year decline in the annual growth rate for the industry, which says that the 3PL industry has reached a mature state. In the life cycle of an industry, when maturity occurs, you have to reinvent it. Otherwise the business will die. Without reinvention, this is a real possibility. We have to take a look at why that's happening. I think that one of the big issues for the industry is insufficient innovation in the industry.

**LQ:** What's the state of innovation in the logistics services today?

**Jim Eckler:** Unfortunately, it's not nearly as good as it could be or should be. There's a big gap here. There are some challenges. If I take a look at true innovation in the logistics industry, there haven't been a lot of fundamental innovations that the 3PL organizations have created themselves. While there have been many innovations in the supply chain field and new IT, new capital equipment, continuous improvements in quality initiatives — these are initiatives and innovations that the clients could create as well as the 3PL. So you have to look at what the true value-add that the 3PL will bring — what's its unique differentiator? I'm not seeing enough of that. It is concerning. There have been a few innovations, but not anywhere near where it should be. When a company chooses to outsource its logistics activities to a 3PL, what in fact they're doing is asking that 3PL to take up the mandate of innovation on behalf of the client organization. If that's the case, then they need to really be pushing and developing a lot of new and innovative things that the organization itself couldn't have done on its own.

**LQ:** What, in your view, is restricting the innovation in these 3PLs?

**Jim Eckler:** There are some real structural constraints to that innovation, and that's concerning. One of the biggest structural constraints is the conflicted motivation that exists in a typical logistics service relationship with its client. A logistics provider, if on its own, goes out and introduces an innovation that's going to improve productivity. If they're successful with it, guess what's going to happen? Their revenue is going to go down. As their revenues go down, their margins go down. Shareholders of these logistics companies don't want to see that. So the motivation of a logistics company to actually innovate, and thus reduce its revenue and reduce its margins, is not there. These are called perverse incentives and we need to find a way to overcome that.

Another constraint that we've seen is the fact that most of these contracts are long-term. Sometimes the complacency factor sets in. It certainly shouldn't, but it does.

There's a third issue that comes in as well. It's the lack of willingness to take risks. The logistics industry is not a high-margin business — it's very low margin, and the industry stats prove that. In a low-margin business, there's not a lot of latitude to take risks because it means that you're perhaps going to fail sometimes. You need to have that ability to take risks. Most companies have not been very innovative because of an aversion to risks. We need to find a way to change that.

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