



**WE'VE MATURED ...
NOW WHAT DO WE DO?**

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**Jim Eckler
Eckler Associates**

Topics

1. The logistics industry needs more innovation.
2. Industry has matured. Growth has slowed.
3. Industry life cycles occur – it's reinvention time.
4. We need 'real' innovation
5. There are structural barriers to innovation
6. Examples of real innovation
7. A prescription for change

To compete today, we need to deliver differentiated value ...

Business conditions have intensified more than expected

- ▣ It's a much more complex world
 - Uncertainty is greater
 - Many unknown 'unknowns'
 - Managing risks is no longer enough
 - We need resilience and coping skills
- ▣ Resources are limited with six billion people to serve
- ▣ Global competitors are everywhere ... many accepting very low wages

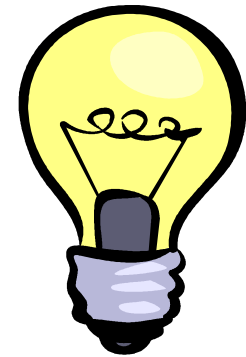
But competition is everywhere

... and differentiation is a must

The new competitive battleground is Innovation ...

Innovation is a change in a process for doing something that adds value ...

- ▣ Begins with a creative idea ... finishes with implementation
- ▣ Outcomes
 - Radical or Incremental
 - Positive or Negative
- ▣ Success will require Risk



We have many names for innovation ...

- Continuous Improvement
- Quality Management
- Business Transformation
- Lean Process Improvement
- Six Sigma
- Software Implementation
- Capital Investment



We spend a huge amount of time trying to innovate ... but are we achieving an ROI?

Over the past 30 years, logisticians have introduced many valuable innovations

□ Services

- Intermodal carriage
- Cross dock services
- Logistics outsourcing

□ Information

- WMS
- TMS
- EDI
- Bar Code
- RFID
- Portals

□ Relationships

- Dedicated contract carriage
- LLP/4PL

□ Structure

- Supply Chain Management
- Collaboration



SCM is one of the most fertile areas of a business to pursue innovation.

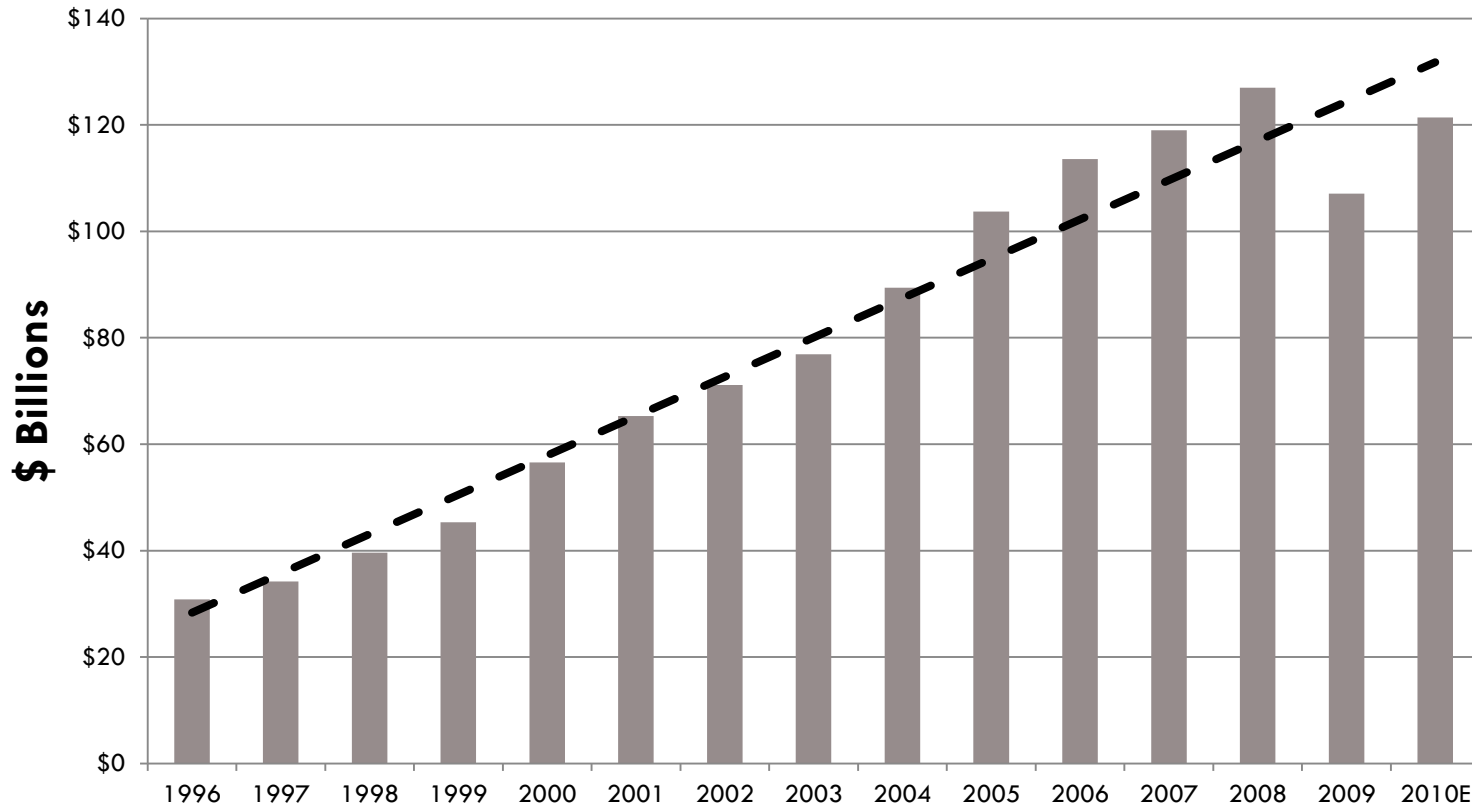
To innovate more, businesses have chosen to outsource logistics functions

- 3PLs have become an important dimension of today's corporate performance
- As such, 3PLs have a very important innovation mandate within client organizations

**But what is the state of the 3PL market?
... and of innovation at 3PLs?**

Published data implies a very positive outlook for the 3PL industry ...

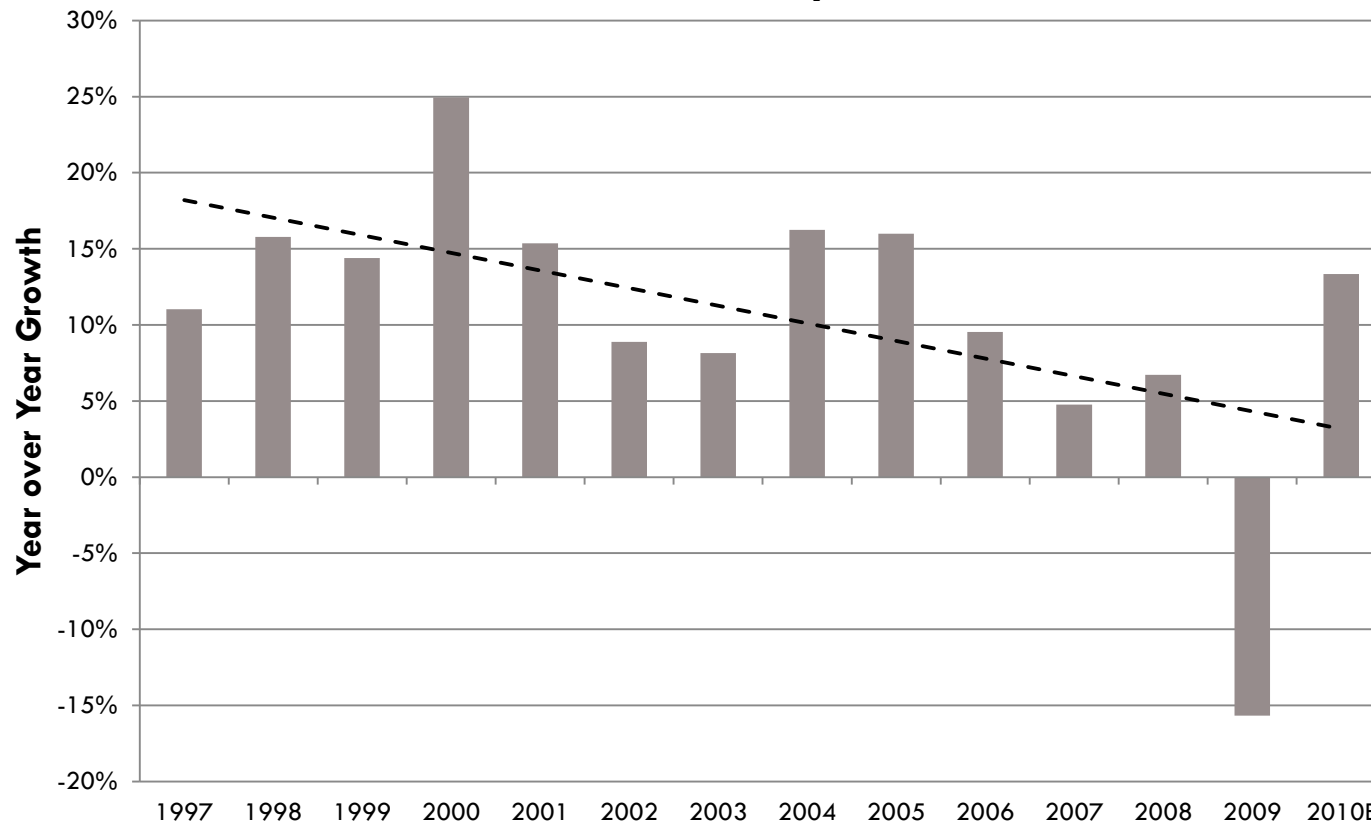
North American 3PL Industry Revenue



Source: Armstrong & Associates

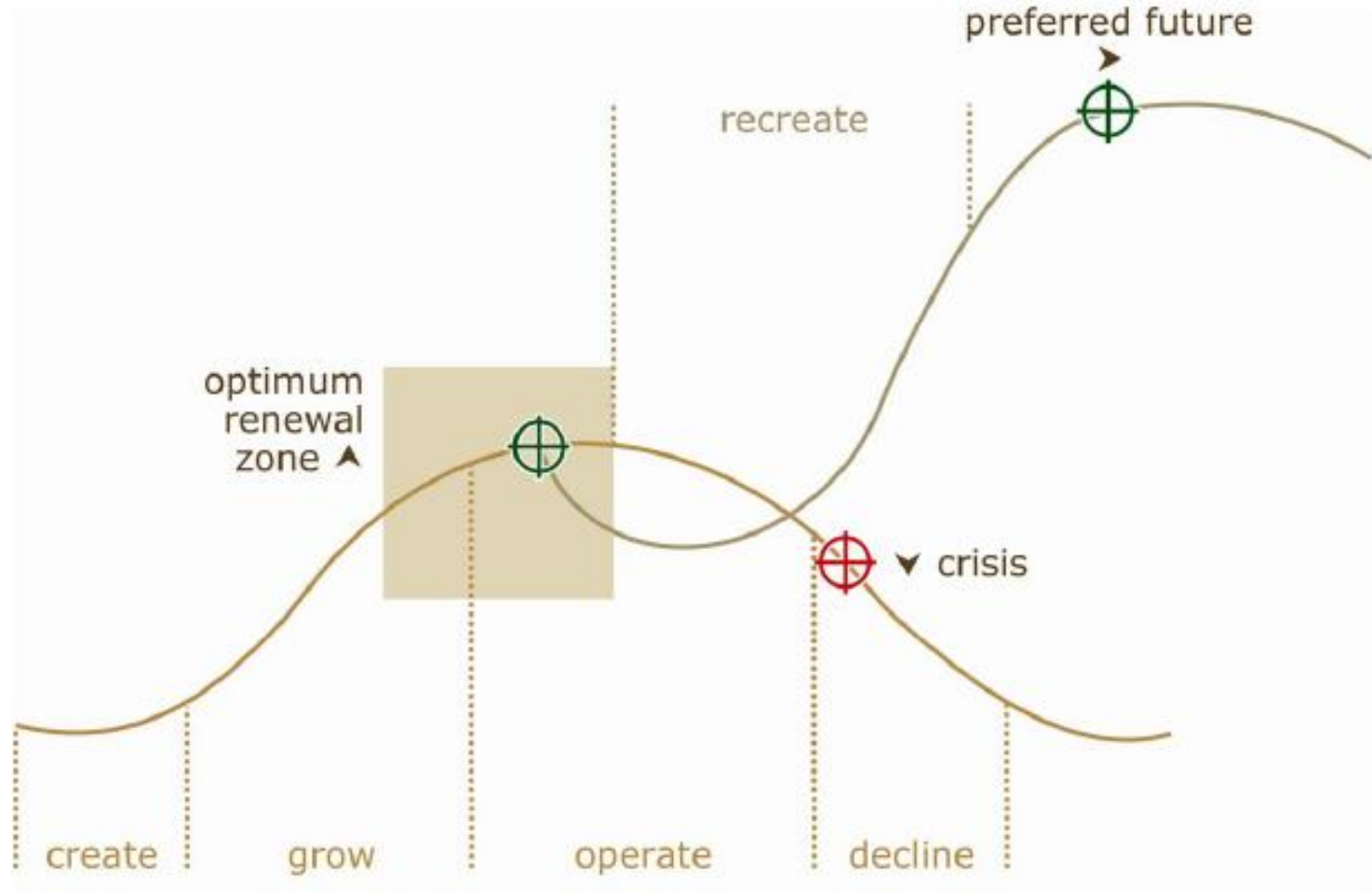
In actual fact, declining growth in the 3PL industry is a big concern ...

North American 3PL Industry Growth Trend



Source: Eckler Associates & Armstrong & Associates

We have matured ... we must now reinvent our business



Reinvention must be fundamental ...

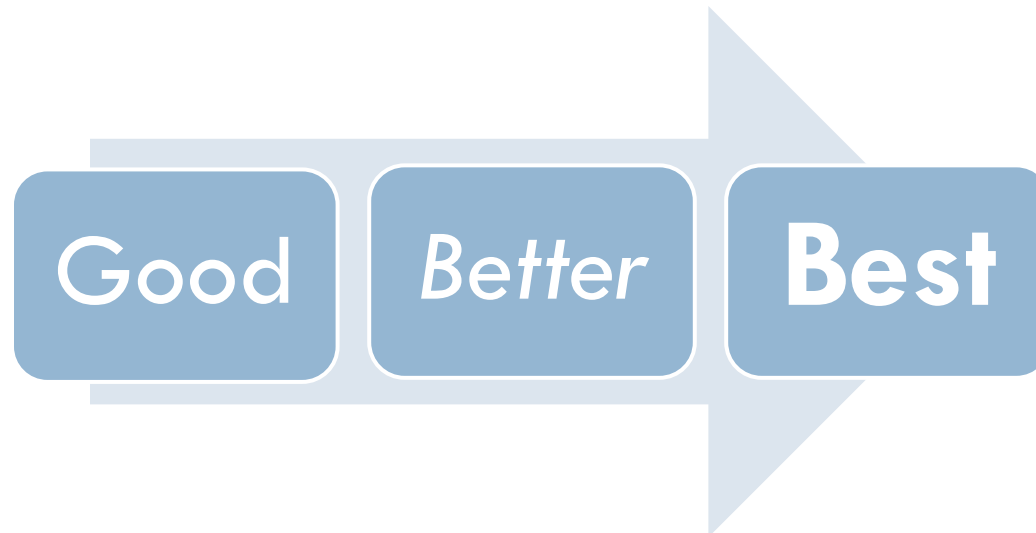
- A change in the business model
- A significant new product/service introduction
- A transformational cost reduction that dramatically improves the price point

Requiring Innovation

**But where is the Innovation?
... and where is the Real Innovation?**

'Real' innovation is different ...

- While many 3PLs have adopted supply chain innovations, these are not sustainable for the 3PL
- Real Innovations are unique to LSPs and which would be unavailable to their clients
- Real Innovations will create differentiated value



Structural barriers constrain innovation initiatives at 3PLs ...

- ❑ Conflicted motivation
- ❑ Low margins limit risk-taking
- ❑ Contract complacency



Too many outsourced relationships have ignored the Innovation mandate ...

- ❑ Transaction/activity based focus
- ❑ Cost driven
- ❑ Procurement driven
- ❑ Functional specifications



To succeed, 3PLs must become Innovation Drivers.

Recently, some 3PLs have pursued some valuable innovations ...

- Vested Outsourcing
- Supply Chain Management process outsourcing
- Supply Chain financing

- ... Others?

Much, much more is needed.



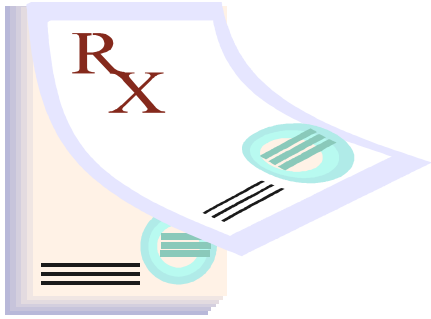
The business lifecycle calls for reinvention and change ...

“Companies that resist change will find that they are standing on ground that is crumbling beneath their feet.”

Joseph Schumpeter, 1942



A prescription for change ...



1. Avoid transactional contracts - Focus on strategic outcomes
2. Ensure that outsourcing is not a procurement exercise
3. Source and leverage external skills
4. Structure compensation to leverage risk and reward
5. Elevate the Innovation agenda
6. Stay open to change.



“The future success and growth of outsourced logistics services will be directly linked to the innovation that we initiate.”