

Logistics Outsourcing to Grow by 33%

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Analytiqa - Thursday, 08 March 2007: Analytiqa's latest research, "Western European Logistics 2007" reveals that spending on logistics services across the Automotive, Consumer, Pharmaceutical, Retail and Technology industries is set to increase by EUR 30 billion over the next five years as the size of outsourced logistics market grows by 33%.

However, Analytiqa's research warns third party logistics providers (3PLs) that opportunities must be earned as they will no longer be able to simply rely on greater outsourcing penetration and sustained margins to recognise growth.

Country and sector specific opportunities drive market growth

As supply chains extend across Europe and around the globe, so managing those chains requires greater focus. Where a manufacturer or retailer once considered itself to have competency in managing the flow of goods within a country so today, managing the same flow across several countries, often under pressure from just-in-time processes, becomes that much more demanding.

Analytiqa forecasts significant growth in logistics spend in Western Europe over the next five years. For 3PLs to gain an increasing share of this market they must become more closely aligned to their customers and demonstrate greater understanding of the differences in both national cultures and regional market characteristics.

Logistics markets vary by just about every measure available – size, growth, supply chain complexity, outsourcing culture and sophistication. What works in the UK may not work for customers at present in Spain, whilst opportunities for 3PLs in Pharmaceutical markets are very different from those in the Automotive sector.

Growth brings higher service expectations

Nowhere is this more apparent than in Western European Retail markets, where logistics spend is set to grow by EUR15.7 billion over the next five years. Not all of this will go to 3PLs, however, as a number of retailers are bringing logistics services back in-house.

For 3PLs, growth in retail markets will be driven by both consumer demand and supply chain trends. Whilst outsourcing rates in southern European markets will continue to flourish, across the more mature northern European markets growth will come from booming online shopping trends and environmental legislation requiring the recycling of electrical products.

Within the Automotive sector, logistics outsourcing rates will continue to climb as manufacturers seek to reduce costs and increase efficiency in supply chains that extend further across Europe. By 2011, Analytiqa forecasts that logistics providers will command more than 57% of the sector's supply chain requirements. These trends, together with tighter environmental legislation, will provide opportunities for 3PLs to win business and add value to their customers. The End-of-Life Vehicles Directive (ELV) sets rising targets for re-use, recycling and recovery across the industry.

In Consumer markets, 3PLs will look to capitalise on lengthening supply chains in Europe, as the centre of gravity for both manufacturing and European Distribution Centres moves Eastwards. Environmental legislation, and in particular the Waste Electrical and Electronic Equipment directive (WEEE) will provide innovative 3PLs, that develop (or have already developed) recycling and / or reverse logistics capabilities, an opportunity to win business and become further integrated into the operations of their customers.

Analytiqa reports that more so than most, the Technology sector has become adept at removing unnecessary stock-holdings and inventory from their supply chains. This is largely driven by the implementation of sophisticated supply chain

technologies and processes. There is wider acceptance of just-in-time, build-to-order and lean processes to remove as much perceived 'inefficiency' from supply chains as possible. Between 2006- 2011, Analytiqa forecasts that 3PLs will extend their share to manage 58% of supply chain activity in the sector.

Whilst the Pharmaceutical industry manages one of the most complex and regulated supply chains, the outsourcing of logistics services to third parties is under-developed in Europe. There exists significant potential for expansion and service innovation in the sector, particularly in the use of RFID technology and temperature sensitive services, which will provide opportunities for 3PLs to recognise growth and market share. Analytiqa forecasts that expenditure on outsourced logistics services in the pharmaceutical sector will exceed EUR 2 billion by 2011.

UK is sophisticated, Germany is the largest, France the most challenging?

Analytiqa expects that the UK will maintain its position as the most developed market for logistics in Europe (although not the largest market in overall terms). The German market will benefit from the migration of manufacturing activities eastwards across the continent, proving an increasingly attractive proposition for EDCs (European Distribution Centres) and transport hubs.

The French contract logistics market has proved particularly difficult in recent years. Price competition, a struggling economy and the 35-hour working week have all contributed to customers postponing decisions on outsourcing their logistics services. 3PLs have hit back by either withdrawing from the French market, or cutting their losses on unprofitable contracts.

Analytiqa forecasts that over the next five years, 'less mature' logistics markets are set to embrace outsourcing of their logistics services to a greater extent. Markets in Southern Europe are set for significant development of more integrated logistics solutions – combining warehousing and distribution for example, rather than the more basic levels of service provision that currently exist.

Mark O'Bornick, Research Director, Analytiqa commented:

"For many logistics markets, 2006 was a year of caution as both 3PLs and their customers reflected on, and came to terms with consolidation amongst Europe's leading service providers. What this means to them in terms of resources, resulting capability and meeting service requirements remains the challenge facing them in 2007 and even 2008.

Looking ahead, whilst such consolidation is set to continue, underlying sector growth will drive revenues in logistics markets across Europe, though rates will be unique to both country and sector specific conditions. European logistics markets rarely provide a 'one size fits all' solution. In more mature markets, increases in outsourcing rates cannot be relied upon to deliver growth and pressures to reduce logistics costs and margins will also impact upon contract logistics markets.

There remains, however, significant potential for 3PLs to capture market share and achieve growth as supply chains extend across Europe and Green logistics begins to play an increasingly visible role in the supply chain. Impending legislation, from waste separation, to WEEE and ELV will lead to an increase in volumes in reverse logistics and recycling solutions.

Opportunities to take on co-manufacturing activities (albeit in specific ways) and play a greater role in inventory management, asset control solutions and returnable packaging will also feature more prominently amongst the strategies of Europe's logistics providers."

Notes for Editors:

In its latest research, Western European Logistics, Analytiqa forecasts impressive growth for outsourced logistics expenditure across five key sectors.

- Spending on logistics set to increase by EUR 30 billion over five years
- Significant development in Southern European markets

- Green logistics and environmental legislation offers growth opportunities for innovation and partnerships

380+ data tables provide a detailed, comprehensive analysis of the 'health' of the Western European logistics industry and forecasts its future development.

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About Analytiqa:

Analytiqa is a leading business information company providing published reports and databases, custom research and consulting for multi-national clients across a number of industry sectors from Logistics and Distribution through to FMCG and Professional Services.

As a business information provider, Analytiqa is positioned between the logistics providers and their customers to provide the supply chain sector with commercially relevant business intelligence. Analytiqa works closely with logistics providers to source new customers and to better help them understand their existing clients.

Similarly, retailers and manufacturers use Analytiqa's supply chain profiles, databases and research services to analyse the operational and service capabilities of service providers and to benchmark the services they receive against those of their own competitors.

Analytiqa works closely with its clients, building partner relationships based on trust and the delivery of high quality and commercially relevant research. Analytiqa's services correspond to client's demanding requirements, assisting with their business development and profitability objectives.

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Analytiqa
Gate House, Fretherne Road,
Welwyn Garden City, UK, AL8 6NS
Tel: +44 (0)1707 37 22 11
Email: info@analytiqa.com

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