

A passion for solutions

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Basel, December 2010

The state of Logistics outsourcing and opportunities for 3PL providers



Supply Chain Management

Air Freight

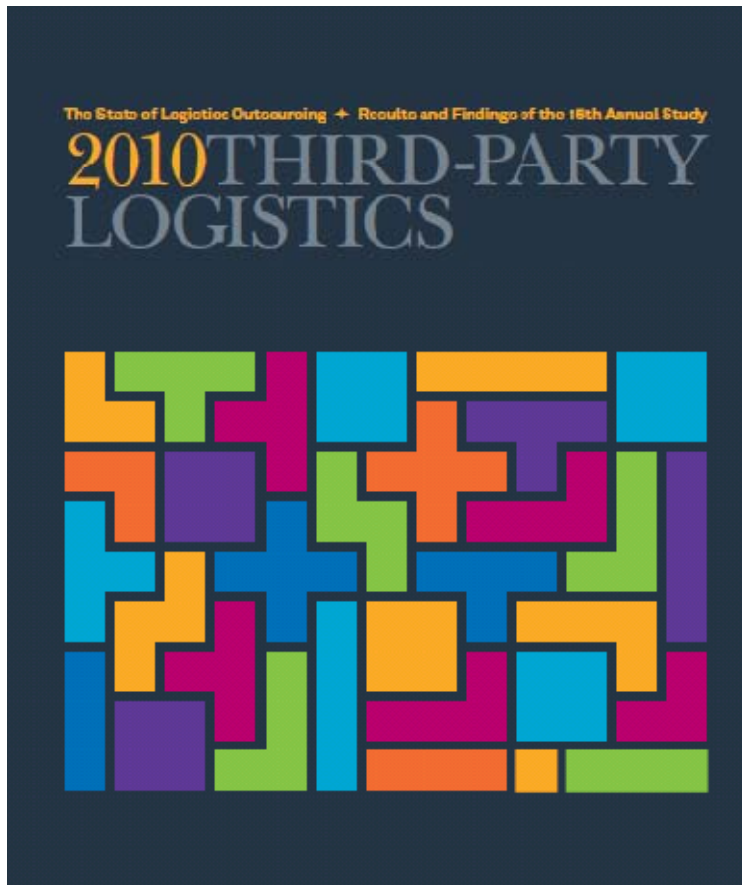
Ocean Freight

Logistics

Agenda

- 1 State of Logistics outsourcing**
- 2 Strategic assessment**
- 3 Opportunities for 3PL providers**
- 4 Panalpina's Strategy**

The 2010 15th annual 3PL study focuses attention on topics of current importance



3PL study 2010 quick facts

- 3PL **Customer** study and **Provider** study
 - Investigate customer needs and experiences
 - Validate customer perspectives from 3PL providers point of view
 - Identify areas for future improvement
- 2010 is the 15th yearly survey conducted in partnership of Panalpina and Capgemini
- More than 1100 Shippers and 750 3PL providers participated in the survey
- Topics of contemporary interest: Total Landed Cost (TLC), Life sciences, Fast-moving consumer goods
- Strategic assessment of future of 3PL-customer relationships

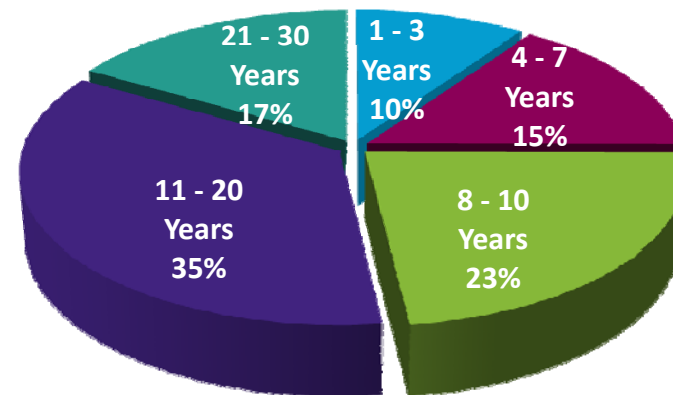
Shippers interest in integrated logistics services for supply chain optimization is still limited

Issues faced by 3PL users and providers

- **3PL users**
 - Logistics services to be outsourced
 - Management relationship strategies
 - Achieving desired objectives from use of 3PLs
- **3PL providers**
 - Portfolio of services: Integrated vs. standalone
 - Achieving IT capabilities
 - Domestic focus vs. global operations
 - Product and service innovation

% respondents by years using 3PL services

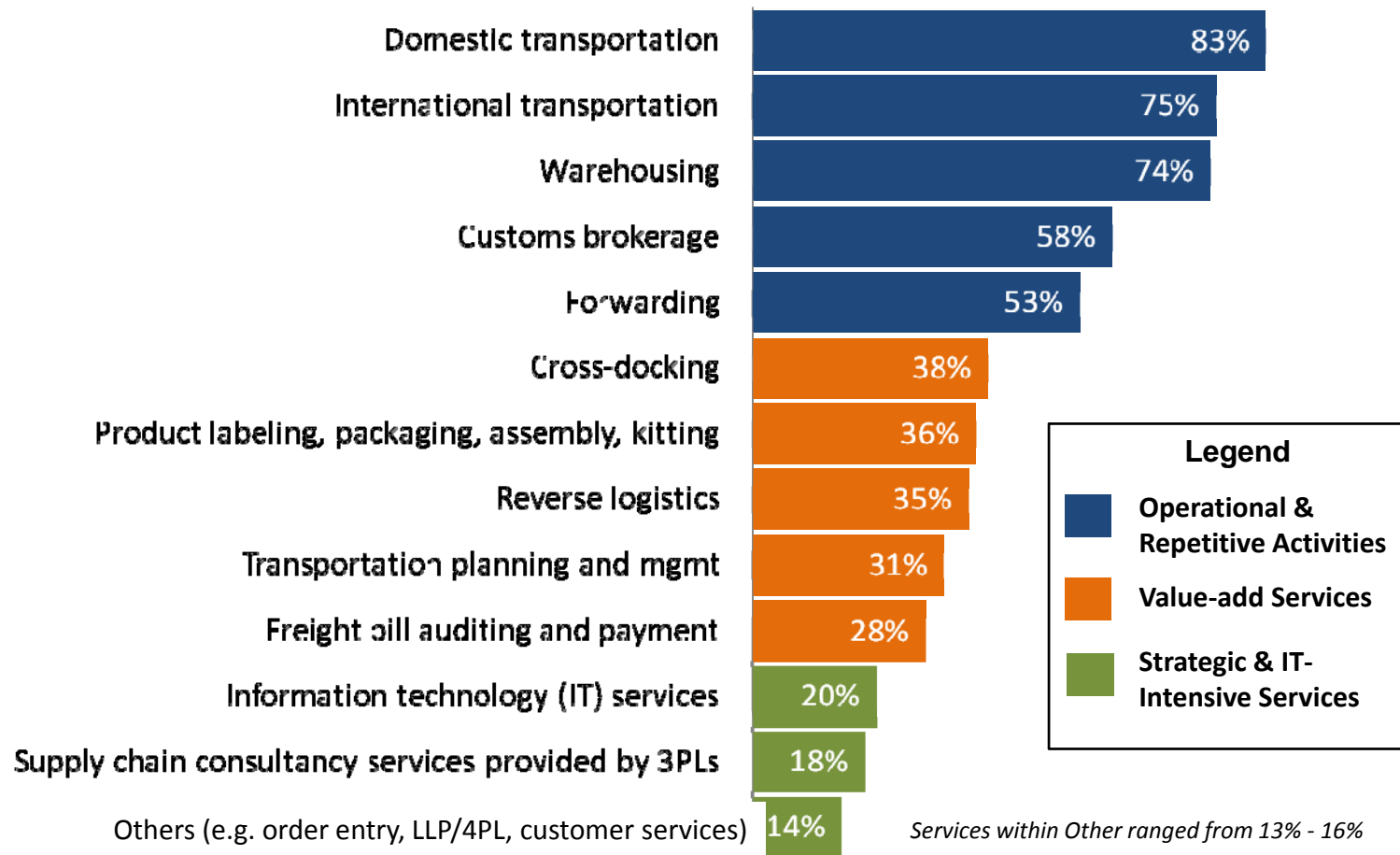
Average number of years = 13 years



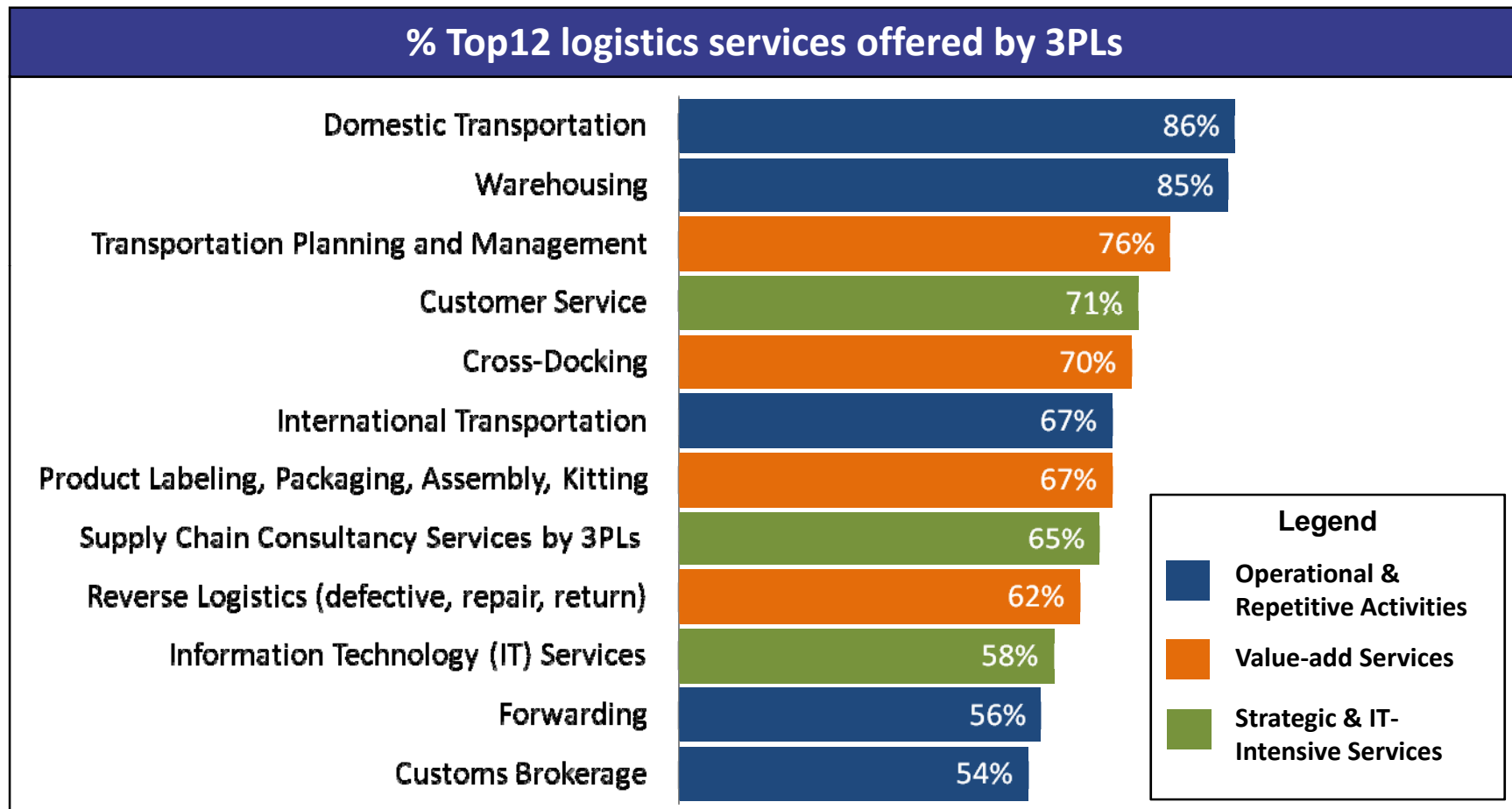
Despite the long-term experience using of 3PLs, shippers' demand for outsourcing integrated logistic services is still limited due to the lack of understanding of supply chain optimization potential.

Shippers continue to outsource a wide variety of logistics services

% respondents by logistics services that use a 3PL



3PLs provide a wide range of outsourced logistics services

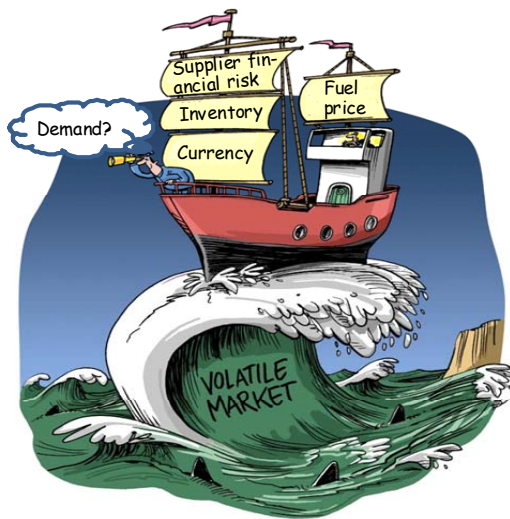


Most 3PLs offer a substantial number of services (avg. 12) despite shippers' relatively low demand for integrated logistic services and added-value solutions.

Changing use by shippers of 3PL services is evidenced in 2010 after the 2009 economic downturn

Industry challenges impacting 3PL use

- Logistics cost pressure
- Highly volatile freight prices
- Unpredictable demand challenge efficient supply chain management



Changing use of 3PL services in 2010

- 65% of the shippers increase the use of 3PL services
- 24% of the shippers return to insourcing of logistic activities
- 46% of the shippers are reducing/consolidating the number of 3PLs used
- Consolidation trend of 3PLs in use by shippers is perceived even stronger from 3PL perspective (73%) and is expected to continue in the next couple of years

Shippers report measurable benefits from use of 3PLs, with 89% of shippers seeing relationship as successful

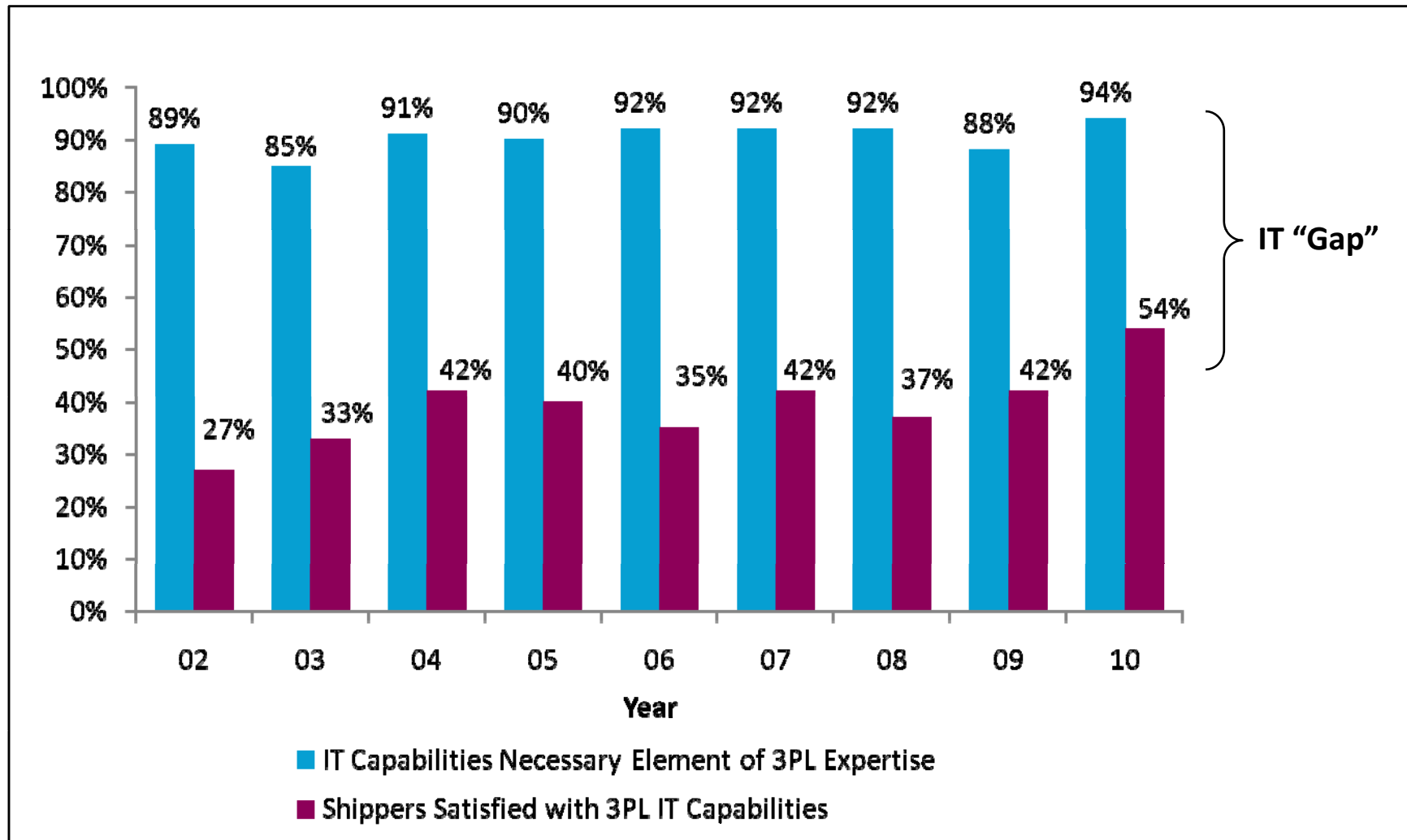
Results		All regions
Logistics Cost Reduction (%)		15%
Logistics Fixed Asset Reduction (%)		25%
Inventory Cost Reduction (%)		11%
Average Order Cycle Length	Changed From	17 days
	Changed To	12 days
Order Fill Rate	Changed From	73%
	Changed To	81%
Order Accuracy	Changed From	83%
	Changed To	89%

Success evidence
<p>Success Ratings</p> <ul style="list-style-type: none"> • 89% of Shippers • 97% of 3PLs
<p>Success Factors</p> <ul style="list-style-type: none"> • Openness, transparency and good communication • Agility and flexibility • Interest in “gainsharing” between 3PLs and shippers

Still some shippers choose not to use 3PLs for a variety of reasons

Reason	% in Agreement 2010
Logistics is a core competency at our firm	19%
Cost reductions would not be experienced	15%
Control over the outsourced function(s) would diminish	14%
Logistics too important to consider outsourcing	13%
Service level commitments would not be realized	11%
We have more logistics expertise than most 3PL providers	10%
Corporate philosophy excludes use of outsourced logistics providers	9%
Too difficult to integrate our IT systems with the 3PL's systems	8%
Global capabilities of 3PLs need improvement	6%
Issues relating to security of shipments	5%

The IT Gap continues, but shows some narrowing in recent years

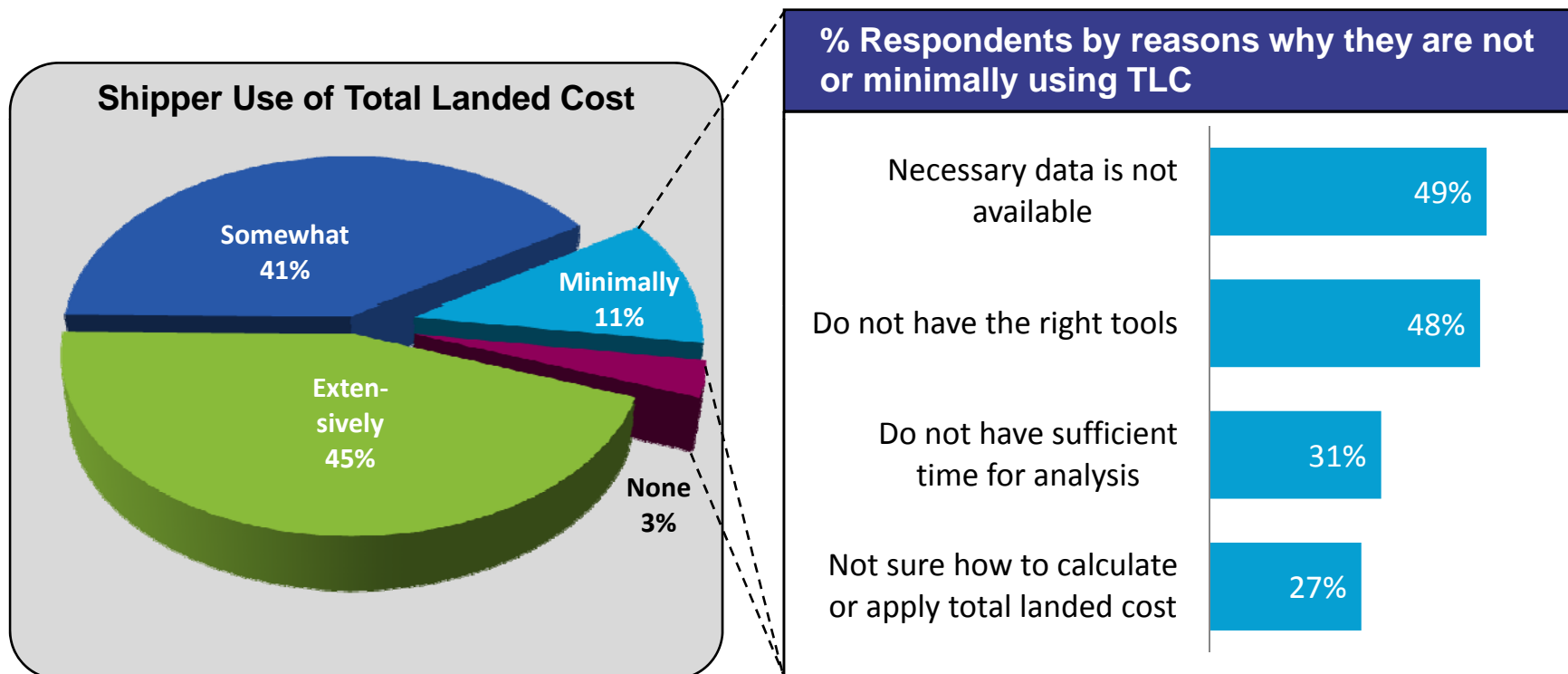


Strong interest in Total Landed Cost continually reported

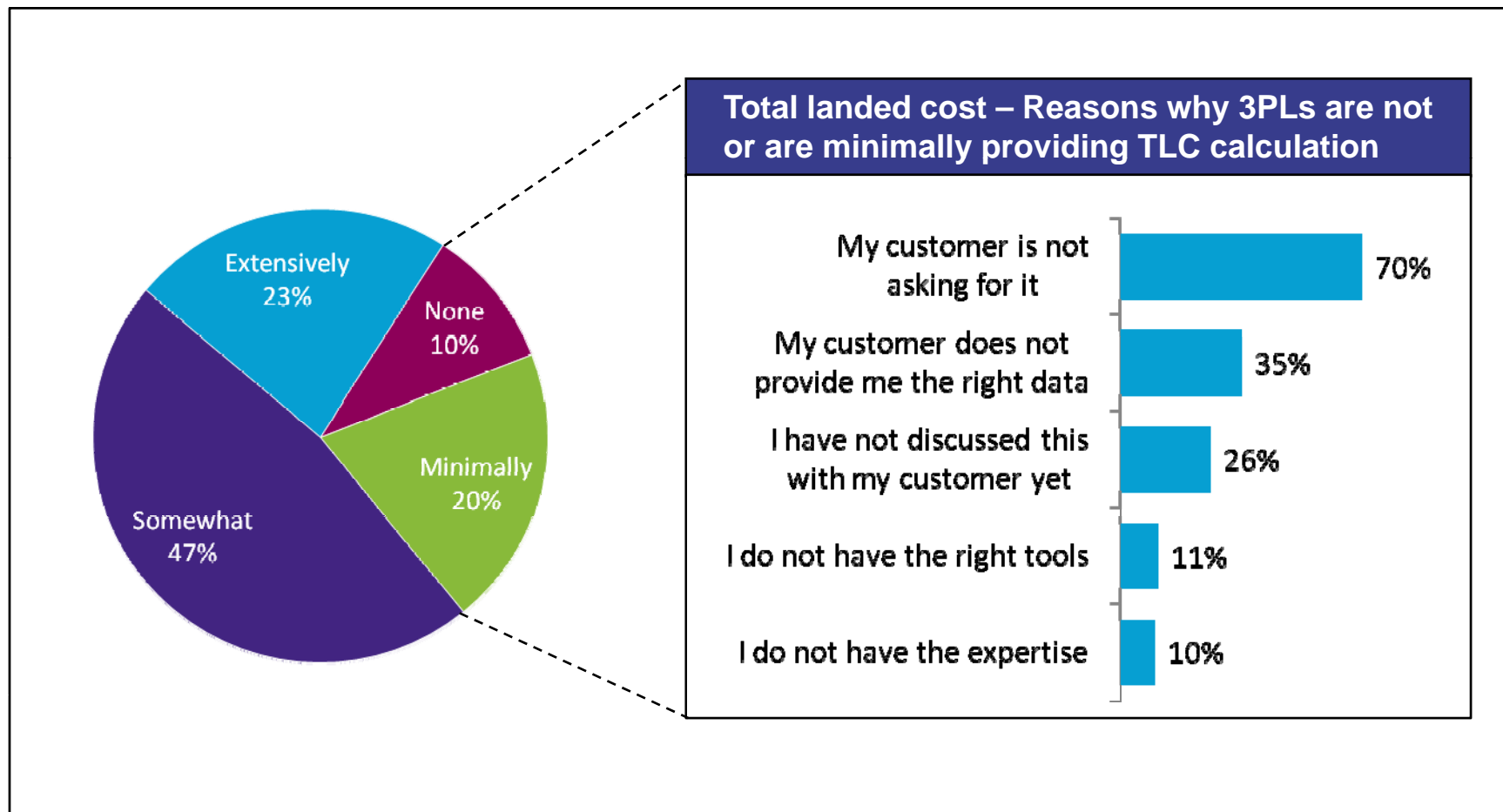
- Total landed cost: the sum of all costs associated with making and delivering products to the point where they produce revenue

Price Components	Country of Origin		
	China	Vietnam	EU
Net purchasing price for a specific volume of the product from 3 different suppliers	10,000	8,000	12,000
Total transportation cost to Switzerland – Ocean freight from China/Vietnam – Road freight within Europe	4,000	6,000	1,200
Customs according trade agreement	1,000	1,500	n.a.
VAT (Switzerland 7.6%) based on value of goods	1,140	1,178	1,003
Total Landed Cost	16,140	16,678	14,203

Nearly half of shipper respondents claim they make extensive use of total landed cost



3PLs cite lack of customer interest and inadequate customer data as reasons for not providing TLC capability



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Economic conditions over the past two years have proven the purported benefits of logistics outsourcing

3PL Benefits

Reduce operating costs – more scale, better processes and technology

Restructure supply chain networks

Increase flexibility and convert fixed cost to variable cost

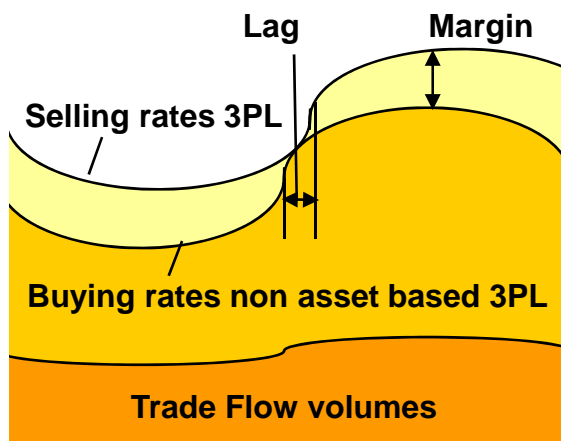
Reduce order to cash cycle time

Expand to new markets and help launch new products

2009 Retrospective: Something Has Clearly Worked Well

- 65% of shipper respondents have increased outsourcing
- Overall spending on 3PL's as a percent of total logistics expenditures is down potentially as a result of reduced cost
- Shipper satisfaction levels remained consistent
- Performance metrics documenting improvements in costs, cycle times and fill rates resulting from 3PL services
- 60% of shipper respondents report that their use of 3PL's has led to year-over-year incremental benefits

Shippers and 3PLs must cope with market dynamics to be successful in a volatile economy



- Volatility in trade flow volumes is leading to a heavily multiplied volatility in freight rates
- Due to time lag between buying and selling rates and different validity of contracts, non asset owning 3PLs bear high rate risks
- Margins are difficult to control and capacity difficult to secure in a high volatility market



- Everybody (Shipper, 3PL and carrier) is loosing in a high volatility environment
- Better models to share and minimize the risks must be found

Do 3PLs provide shippers with new and innovative ways to improve logistics effectiveness?

Both 3PLs and shippers may bear some responsibility for an “innovation gap”

Shippers

- **68% believe 3PLs provide value added innovation**
- Some shippers remain satisfied with core service delivery
- But clearly, many shippers expect more innovation
- Some shippers lack trust in the 3PLs for closer collaboration

3PLs

- **95% believe 3PLs provide value added innovation**
- Should have capability to deliver based on industry and cross-industry experience
- 58% indicate that shippers are hesitant to share requisite data

As in the IT Gap, shippers and 3PL's must be open and collaborate for innovation

Value added services provide a tangible, scalable means to sell innovative capabilities

E-Pedigree Tracking

- A drug pedigree is a statement of origin that identifies each prior sale, purchase, or trade of a drug
- Approximately 90% of shippers and 3PLs believe 3PLs can add significant value by linking all the parties that interact in the life sciences supply chain
- 3PLs may be well positioned to maintain and provide visibility to e-pedigree tracking data

Pharma Temperature Monitoring

- The requirement for temperature monitoring may expand to monitoring every package
- Enormous challenge to collect and verify temperature logger data for individual physician offices
- 3PLs could potentially provide full life cycle temperature visibility

Transportation Capacity Sharing

- Volatile fuel prices and an increasing concern regarding sustainability are prompting creative approaches to increasing transport efficiency
- Evidence of companies that compete at on the store shelf collaborating to reduce cost by sharing transportation capacity
- 3PLs have the capability to coordinate transportation capacity sharing

Total Landed Cost Information

- 64% of shipper respondents consider total landed cost reporting and analysis as a critical capability they would like to see in their 3PLs
- 3PLs are well positioned to collect and integrate cost data across logistics service providers
- Shippers would benefit from TLC cost reports and advisory services

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Get closer to navigate today's bumpy waters

Trends

Increased volatility of rates

Increased pressure on logistics costs

Increased unpredictability in market demand – a challenge for supply chain management

Increased outsourcing of logistics and more focus on entire supply chain

Reaction

Growth – look for profitable and sustainable business opportunities

Flexibility – be faster and smarter

Customer focus – get closer, create value, save costs

3PL Study highlights an overall increase in outsourcing of logistics services.

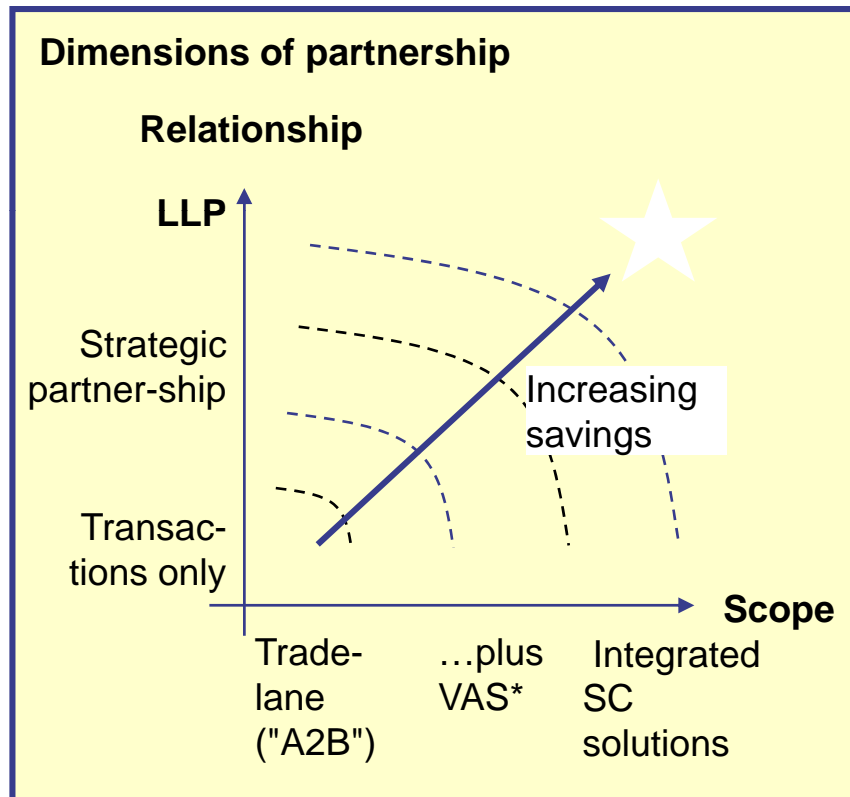
However shipper collaboration with 3PLs is not in line with 3PL expectation.

Shippers and 3PLs must collaborate more to create more value.

Find the right level of relationship

What is required to deepen the relationship?

- Shift from RFQs to strategic partnership approach
- Change of mind-set, Freight Forwarder to provide product availability (instead of transport only)
- Trust and sharing of information on both sides
- New contracting models: shared benefits, shared risks



* VAS = Value Added Services

What does it mean to increase scope?

- Transferring of more responsibilities to 3PL
- More integrated SC solutions
- Optimization of direct and indirect costs
- Better leverage of capabilities and resources of the 3PL
- Synchronize the SC – strategies of shipper and 3PL

End to end solutions are more beneficial to shippers and 3PLs than frequent transactional rate negotiations

- Shippers focus on single transaction based RFQs to save cost, leaving other optimization potential aside
- Shippers should expand outsourcing relationship form a pure Operational & Repetitive Activities (83% of shippers) to Strategic & IT-Intensive Services (20% of shippers)
- 3PL's should put the shipper in focus of their services, become involved in customer forecasting and logistics planning and increase in-depth industry expertise (Understand key needs of the shipper industry and speak their language)
- Together they should set targets for and measure benefits from use of 3PLs



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Panalpina is among global top four in Air and Ocean Freight ...

Corporate figures 2009

- Among global top five in air and ocean freight
- 500 own offices in 80 countries
- Approximately 14 000 employees
- CHF 5,958 million net forwarding revenue
- CHF 1,377 million gross profit
- CHF 80 million EBITDA
- Listed at SIX (Swiss Stock Exchange)

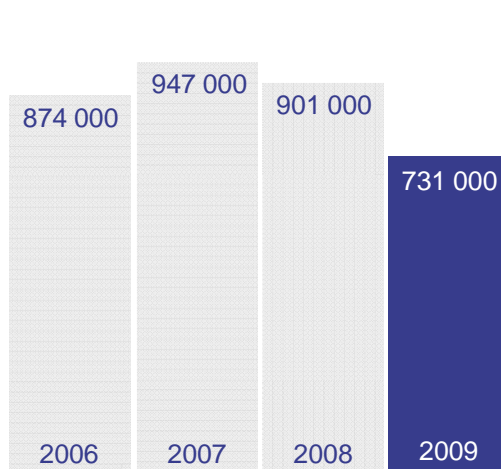


Monika Ribar, CEO

... by number of tons and TEUs transported

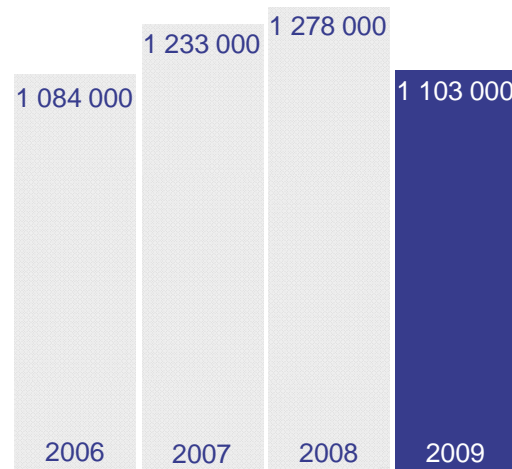
Air Freight

731 000 tons (2009)



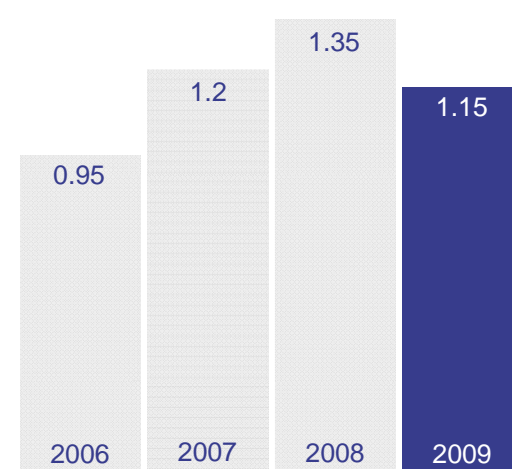
Ocean Freight

1 103 000 TEU (2009)



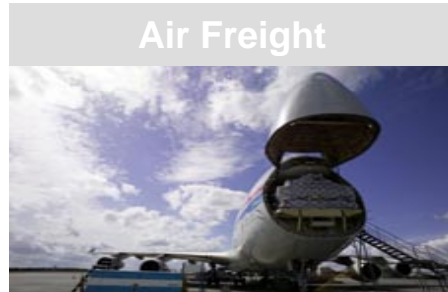
Non-containerized*

1.15 million tons (2009)



*non-containerized break bulk cargo from Oil & Gas and Special Project forwarding

Our relevant markets are Air Freight, Ocean Freight and Logistics



Total market size (2009)

~ CHF 77 bn

FLC penetration rate

~ 85%

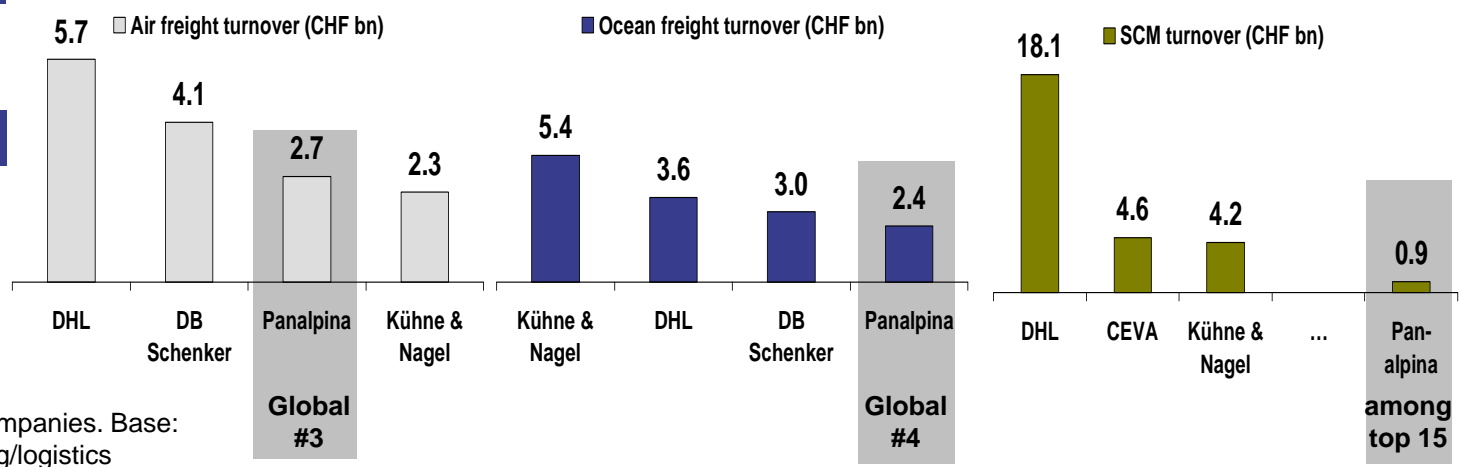
FLC market size (2009)

~ CHF 64bn

Market share Top 10 FLC*

~ 42%

Market position (2009)



* FLC = forwarding/logistics companies. Base: services provided by forwarding/logistics companies only

Global #3

Global #4

among top 15

Panalpina's leadership position in these markets creates a solid base for delivery of E2E Supply Chain Solutions



Air Freight

- Comprehensive network of own controlled services
- 24x7 hub and charter activities
- Rail – Air solutions
- Strategic partnership with leading airlines

Net forwarding revenue 2009
2,714 million CHF (45%)



Ocean Freight

- >340 dedicated consolidated container services
- NVOCC Pantainer Express Line
- Intermodal services
- Strategic partnership with leading carriers

Net forwarding revenue 2009
2,360 million CHF (40%)



Logistics

- Road and Rail Freight
- Lead Logistics Provider (LLP)
- Warehouse and Distribution

Net forwarding revenue 2009
884 million CHF (15%)

Panalpina's Vision is to become the Global Supply Chain Management company

Vision

Our business is Global Supply Chain Management

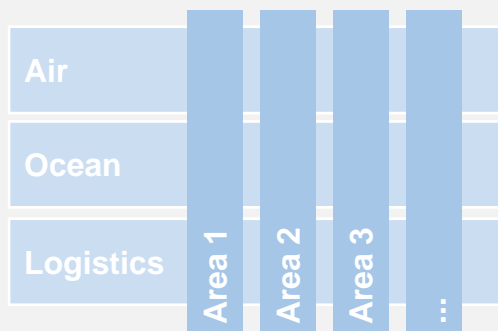
We deliver compelling solutions that provide value to all customers – every time

Mission: How to get there

- From providing superior Air and Ocean Freight... **to delivering world class logistics solutions**
- From excelling with Global Accounts... **to becoming preferred choice with all sizes of customers, small, medium and global**
- From creating legends in our industry... **to delivering constantly high quality, all the time**
- From being a successful Freight Forwarder on six continents... **to becoming the Global Supply Chain Management company**

Panalpina moves to a product-driven organization with a strong industry sales focus...

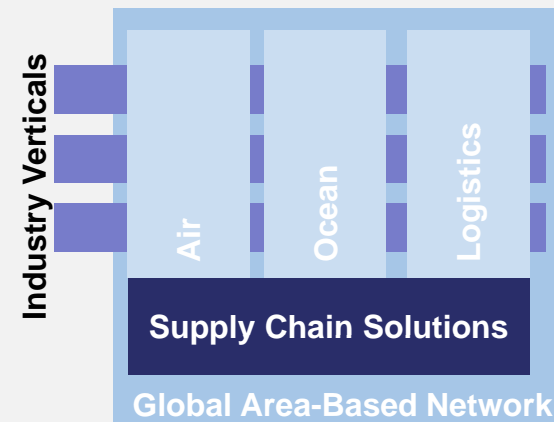
Geographically Integrated Businesses



Multi-Local Model

- Geographic management units
- Optimization within Areas

Product-driven, IV focused



Product-driven Model

- Collaboratively implemented by Corporate and Areas
- Product focus to leverage network
- Industry Vertical alignment to drive differentiated supply chain solutions

...Specialized in catering to the needs of key industry customers

Automotive



Inbound Prod.
Aftermarket
Specialty Vehicle
Transport

Healthcare



Pharmaceuticals
Life science
Medical devices

Chemicals



Bio & specialty
chemicals
Fine chemicals
Basic chemicals

Hi-tech



PCs
Electronic
devices
Semiconductors

Telecom



Devices
Networks
Operators
Accessories

Consumer & Retail



Retail
FMCG
Personal Care
Home goods

Fashion



Mid Fashion
High Fashion
Accessory

Industrial Manufacturing



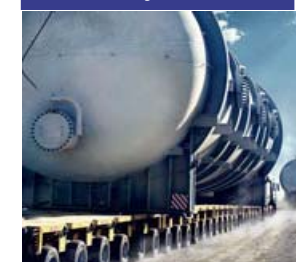
Machinery
Manufacturing
Ind. Automation
Construction
Equipment

Oil & Gas



Drilling operators
Oilfield service
Deepwater instal-
lation companies

Industrial Projects

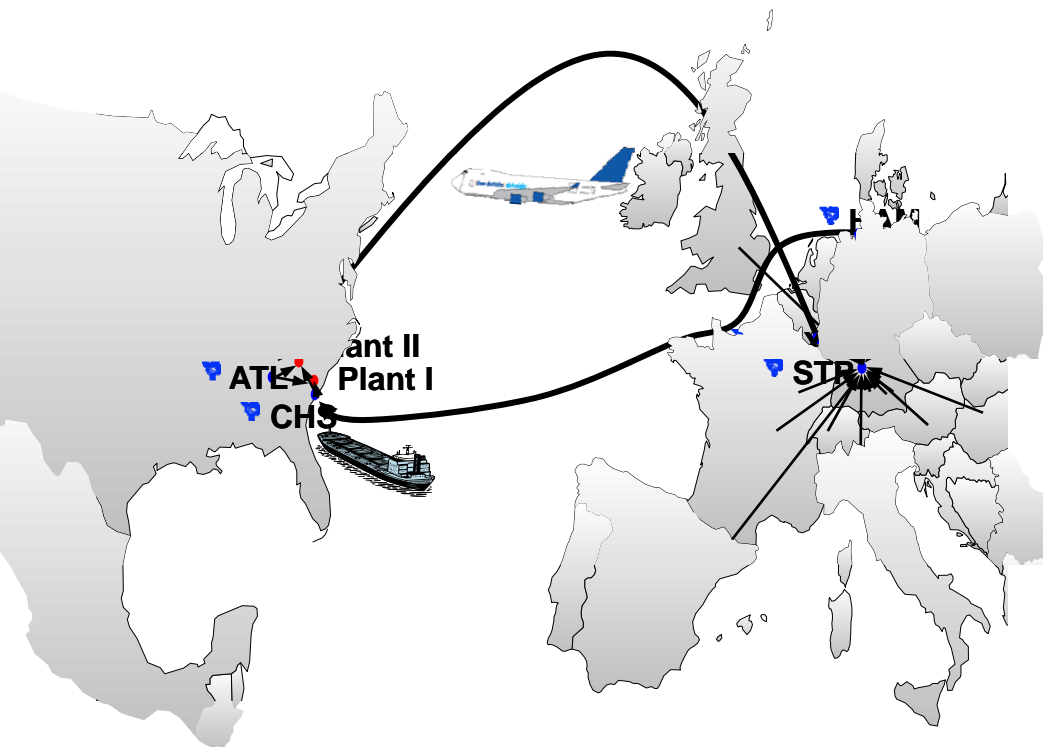


Project Transports
Cross trade
Heavy-Lift & Marine
Engineering

E2E Supply Chain Solutions bundle various products and services to optimize the customer's Supply Chain

Air		Ocean		Logistics	
Supply Chain Solutions			Brief Product Description		
1	Supply Chain Optimization	▶	Holistic Supply Chain Diagnostic		
2	Supply Chain Dashboard	▶	Constant Performance Evaluation		
3	Supply Chain Postponement	▶	Decoupling and Order Penetration Point		
4	Vendor Managed Inventory	▶	Managed Continuous Replenishment		
5	Lead Logistic Provider	▶	Orchestrating the tactical Supply Chain		
6	Direct to Market Concept	▶	Optimized and cost effective Material flow		
7	Inbound to Manufacture	▶	End 2 End Material flow Control		
8	Supplier Connectivity	▶	Order and compliance Management		

E2E Supply Chain Solution: Automotive client requested total landed cost transparency



Case description

Situation:


- Freight Europe to USA for automotive supplier
- >150 points of origins across Europe
- 22'000 shpt A/F and 8'000 shpt O/F per year
- 10'000 PO's per year
- Customer requested total cost transparency on line item level

Approach:

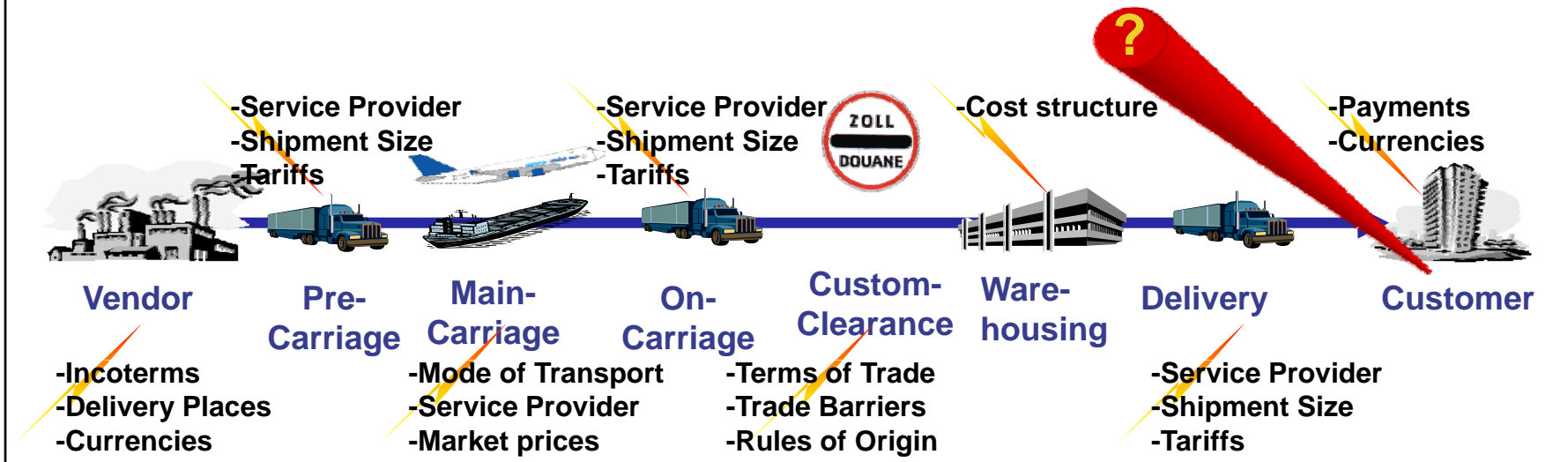
- Consolidation of freight for Air (LUX) and Ocean (HAM)
- PO management for customer
- Consolidation of client- and in-house data
- Activity Based Costing (ABC)
- Landed cost reporting (LCR)

Landed cost reporting allocates costs on part and piece

Why landed cost reporting

- Get full transparency of all costs associated making and delivering products
 - Cost Allocation on part and piece
- 
- Tool for cost management
 - Tool for Prognosis
 - Tool for management KPIs

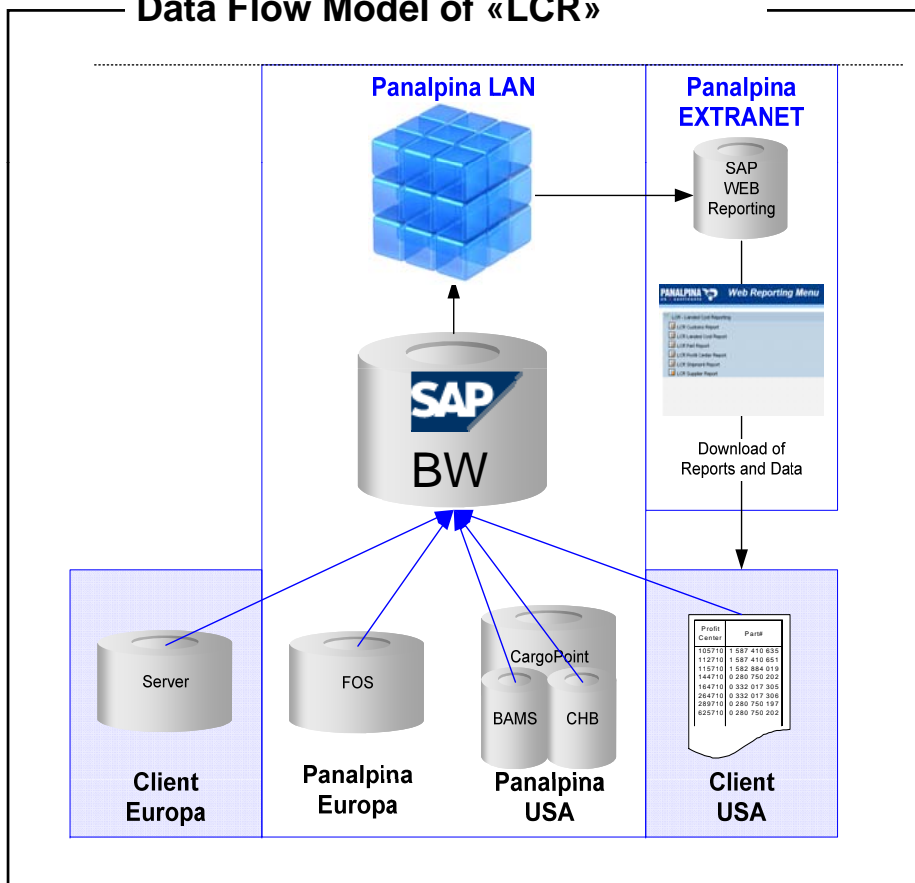
Process overview



- Factors of influence on landed cost

Landed cost reporting enables client to calculate cost more precisely and optimize total supply chain cost

Data Flow Model of «LCR»



Customer benefits

- Real Activity Based Costing within the customers Supply Chain
- Customers' Commercial data are enriched with true executed supply chain cost from A to Z, broken down on piece level over a selected time period, including Customs & Taxes
- Reduction of manual work at the customer (associating supply chain cost to parts)
- Prognosis tool for in- or decreasing supply chain cost based on factors such as fuel surcharge or security charges
- Enables client to calculate cost more precisely and optimize supply chain on full landed cost level

Thank You

Our business is Global Supply Chain Management

We deliver compelling solutions that provide value to all customers - every time

