

Growing Demand for Third-Party Logistics Is Transforming Japan's Logistics Industry

A growing number of Japanese companies are outsourcing logistics as the job of managing their global supply chains becomes increasingly complex and crucial for their international competitiveness. These companies demand efficient, low-cost and globally integrated logistics services, and the fastest-growing segment of the industry is trying to meet their demand for outsourcing by providing third-party logistics (3PL). The Japanese government is supplying policy support for the industry's efforts to offer more sophisticated and finely tuned logistics services in response to the outsourcing logistics trend, which is certain to revolutionize business.

Logistics Revolution in the Making

The 3PL business, which first emerged in the U.S. in the 1990's, has been growing rapidly, driven by deregulation in the logistics industry, fiercer competition among service suppliers and the trend among shippers to outsource logistics for higher cost efficiency. Meanwhile in Japan, the term 3PL* entered the industry

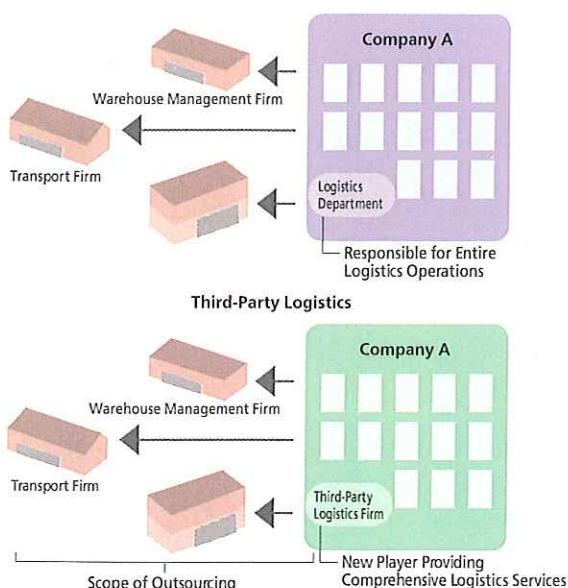
lexicon around 1997, when then Ministry of International Trade and Industry (now the Ministry of Economy, Trade and Industry) defined the term in its logistics industry policy outline**.

Traditionally, Japanese companies had a logistics department, which was responsible for building and managing their logistics networks. The logistics department contracted out the physical movement and storage of goods to transport and warehouse management companies "1PL" (Fig.1).

However, after the collapse of the bubble economy, Japanese companies found it necessary to focus their resources on their core businesses in order to maintain staying power, rather than spreading them over a wide range of operations. Under this strategy, many companies have sold their logistics-related assets, such as warehouses and started outsourcing logistics. The current situation in Japan has many parallels with the situation in the U.S. in the 1990's, with the business environment becoming favorable for 3PL. Japan's third-party market will increase from about 1 trillion yen in 2003 to 1.8 trillion yen in 2013, according to Yano Research Institute Ltd., which conducted research in the market in 2003 (Graph 1).

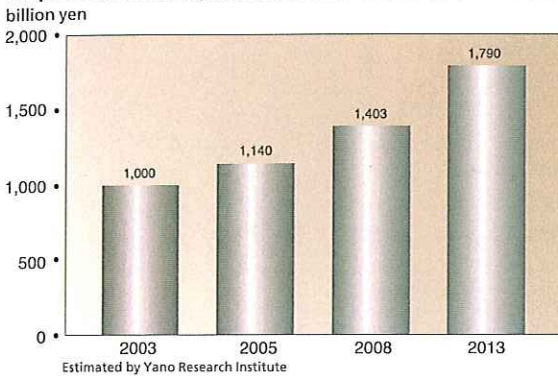
The government has been providing policy support to the structural reforms of the logistics market and industry with a new logistics industry policy outline, which was developed in 2001. The outline's priority is to promote the development of sophisticated and entirely efficient distribution systems for enhancing Japan's international competitiveness. The outline stresses the im-

Fig.1: Traditional Outsourcing



* METI define 3PL as The business of proposing logistics reforms to shippers and providing them with comprehensive logistics services under contracts.
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Graph 1: Growth of Japanese 3PL Market in the Past and Future



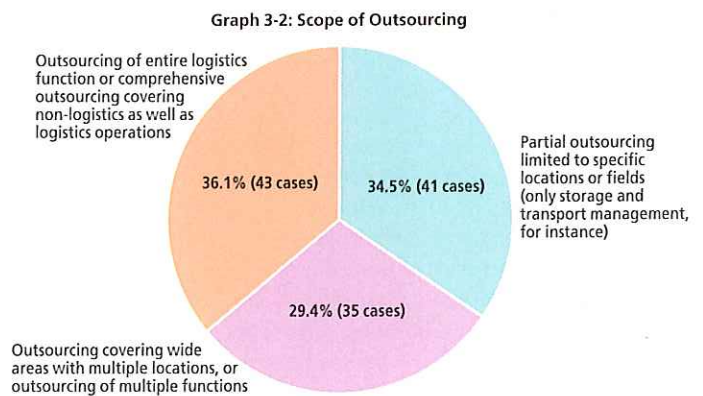
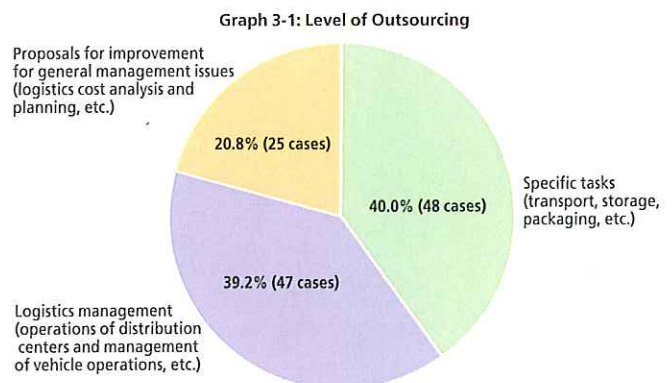
portance of improving the environment for shortening lead times, boosting just-in-time reliability of services and cutting total costs so that sophisticated and totally cost effective distribution systems can be developed for the benefits of both shippers and logistics service providers.

The policy outline contains specific steps, which promise to promote the efforts toward shared, IT-driven and standardized logistics through active use of new technologies and systems such as electronic data interchange (EDI), the intelligent transport system (ITS) and the geographic information system (GIS). Other proposed measures include: reinforcing the climate for logistics firms to provide services that include developing proposals to improve their customers' logistics, and further promoting deregulation of the industry by decreasing the regulations on new entries and fares, while still ensuring that the current regulatory reforms produce desired results.

The second review of the new logistics industry policy outline, conducted in 2003, emphasized the need to consider measures to support 3PL businesses as a policy priority. The Ministry of Land, Infrastructure and Transport, therefore, launched a 3PL training program to stimulate the entry by small and medium-sized logistics suppliers into the sector. Shippers also welcome the emergence and growth of the 3PL business, which they believe will lead to higher efficiency in logistics. A nice tailwind is blowing for 3PL suppliers (Graph 2, 3).

Shigehiro Kan, the president of Funai Logistics Co., Ltd., a non-asset 3PL firm established in 2000, describes the situation in Japan. "People in the Japanese logistics industry began to talk about 3PL around 1997, but it didn't become a major trend immediately. 3PL started attracting serious attention around 2003," says Kan. "In fact, some companies actually started offering 3PL services. As a consultant at Funai Consulting Co., I have been helping logistics companies increase their sales while supporting shippers' efforts to lower logistics costs. Our strength lies in our

Graph 3: 3PL Situation in Japan Business Survey (123 companies)



Source: the Ministry of Land, Infrastructure and Transport



Shigehiro Kan, the president of Funai Logistics

ability to provide consulting, systems, operations and financing in integrated services based on deep understanding of the positions of both logistics suppliers and their customers. Demand for 3PL is certain to grow in Japan as well."

Since it started offering 3PL services in 2002, Funai Logistics has seen its sales balloon from 200 million yen to 3 billion yen.

"Initially, we thought our target customers were small and medium-sized companies. But we have found that demand for 3PL is greater among large companies. Big shippers have stronger interest in improving their logistics operations. An increasing number of these companies are willing to change their logistics systems drastically. Consequently, our new approaches are finding greater acceptance in Japan," Kan claims. "Shippers' top priority in reforming their logistics is cutting costs. But not many Japanese companies have accurate data about their logistics costs because there are no clear, established rules or formula for calculating

Graph 2: Abilities and resources 3PL firms are required or expected to possess (87 companies)

