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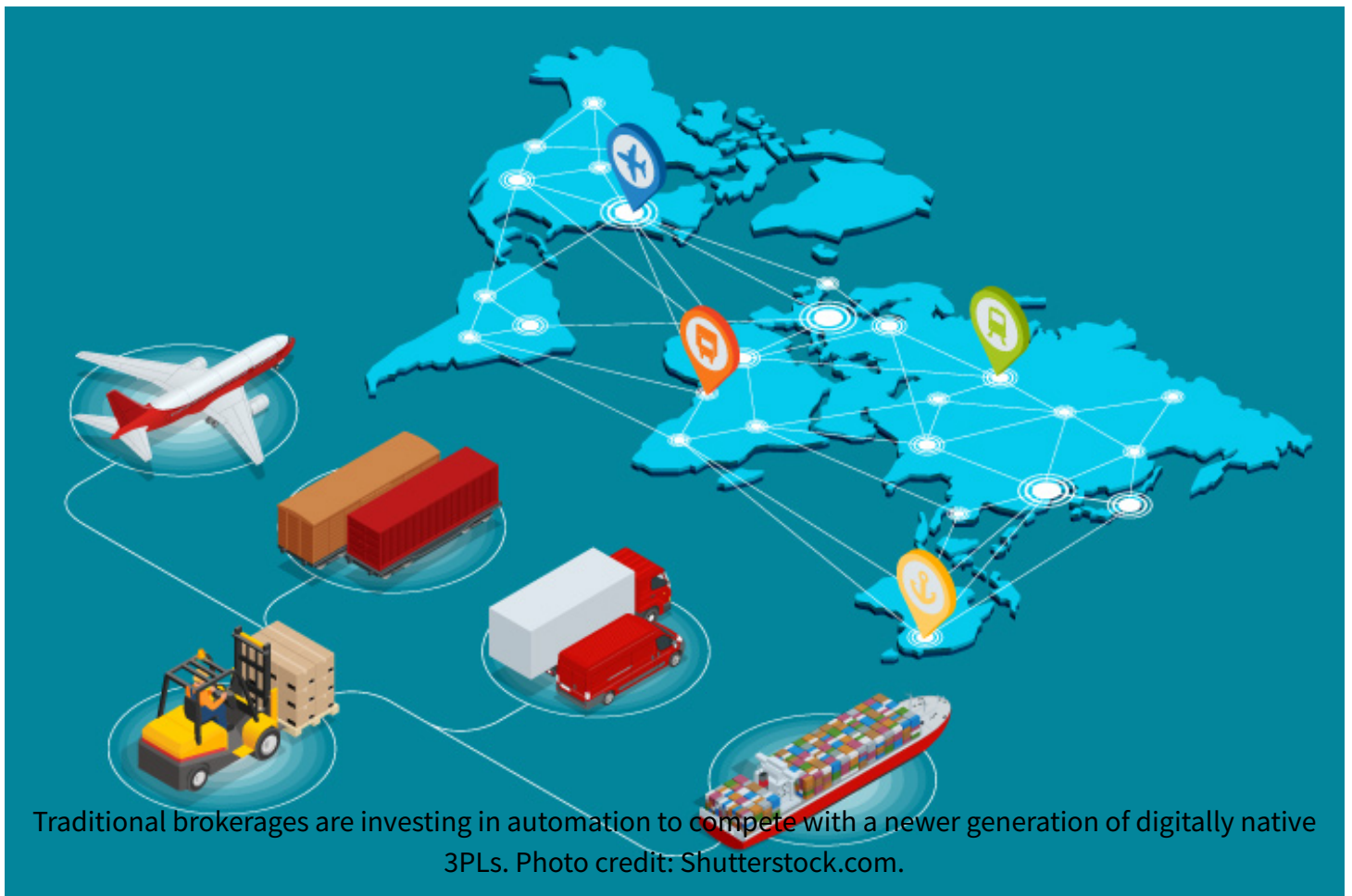
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3PLs riding high on shipper demand, new investment

William B. Cassidy, Senior Editor (/users/william-b-cassidy) | Nov 16, 2021 9:03AM EST

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Traditional brokerages are investing in automation to compete with a newer generation of digitally native 3PLs. Photo credit: Shutterstock.com.

When it comes to managing relationships with shipper customers, third-party logistics providers (3PLs) couldn't be in a better position. Across domestic and global supply chains, 3PLs have never been in such demand, and that's evident not just in increased volumes and revenue but in increased investment from private equity firms and a surge in logistics mergers and acquisitions.

Shippers strapped for capacity on land, sea, and air are turning to 3PLs and freight forwarders, and their interest has drawn the interest of investment firms such as The Jordan Company (TJC), which is acquiring Echo Global Logistics for \$1.3 billion. In addition to a need for physical capacity, technology needed to effectively manage supply chains and meet the expectations of not just shippers but shippers' customers is driving third-party logistics growth.

"We continue to focus on automated connectivity with shippers and carriers, developing algorithms across the business that will help us shape and, at times, automate decision-making and refining internal processes with technology," Echo CEO Doug Waggoner told Wall Street analysts during a July 28 conference call.

A relentless focus on those automated connections is transforming the logistics market, as traditional brokerages that have "gone digital" compete with a newer generation of "digitally native" brokerages. The challenge for both is to automate what can be automated while keeping the personal touch in areas where human interaction is still needed, such as collaborating with customers on detailed supply chain problems.

“I don’t believe in the long-run third-party intermediaries can exist in the way they currently do,” Frank McGuigan, CEO of Transplace, said during an interview at the JOC Inland Distribution Conference (/trucking-logistics/trucking-freight-brokers/transplace-ceo-predicts-%E2%80%98rapid%E2%80%99-logistics-consolidation_20211012.html) on Oct. 14. “What’s needed is a lot more transparency to the benefit of all parties, not just the intermediary, but all stakeholders. If that evolution is not happening, you’re going to be left behind.”

That evolution is changing the role of the 3PL from that of a transactional intermediary to that of a marketplace and enabler, a “platform,” as McGuigan put it. Although Transplace is one of the 10 largest US logistics companies by annual revenue, “the predominance of our business is not third-party logistics, we’re a platform.” As a platform, Transplace “manages a network,” rather than simply matching shippers with carriers, he said.

Transplace provides an example of how 3PLs have developed and where they might be heading in 2022 and beyond. The company was founded when six large asset-based carriers combined their logistics departments. The evolution of Transplace into a managed transportation network and platform in many ways tracks the evolution of the third-party logistics industry.

The goal of that network is “capacity aggregation” and management, said McGuigan. “Capacity aggregation has never been more important to shippers than it is today,” he said. “And I do think that shippers, now more than ever, understand the way their network works against capacity. They need to look at underperforming lanes and find ways to create capacity in those lanes.”

Recognizing the need for transparency in shipping networks is one thing; achieving that transparency is another. “A lot of companies with entrenched infrastructures are going to really have a hard time getting to that point where they can live with single-digit margins on that transparency,” said McGuigan.

They’re heading that way regardless “because shippers want all of that,” he said. “They want choice; they want transparency; they want to trust us to make it all happen. Shippers and companies like Transplace, with our technology and solutions, really need to collaborate better on how to manage network intricacies. And we have to provide them with a tangible shipper value proposition.”

Accelerated evolution

For many 3PLs, the way to do that is by building a more holistic value proposition for shippers, often by acquiring other companies to gain a broader portfolio and deeper reach into shipper supply chains. Shippers’ need for capacity aggregation is yielding combinations such as GlobalTranz and Worldwide Express. And Uber Freight is pursuing a \$2.25 billion acquisition of Transplace (/trucking-logistics/trucking-freight-brokers/uber-freight-buy-transplace-225-billion_20210722.html).

Some logistics operators are adding asset-based divisions. Chemicals transport specialist Quantix, formerly A&R Logistics, for example, is taking a blended asset and non-asset approach. “We’re in this chemical supply chain vertical to be the leader in this market,” president and CEO Chris Ball

said in an interview in September.

Quantix operates more than 2,300 dry bulk trucks, more than 2,000 liquid chemical trucks, a network of 33 facilities that include warehouses and rail distribution centers, an international intermodal network, and export packaging services that can handle more than 34,000 rail cars of resin per year. The company also offers in-plant logistics services at customer locations. But it still considers itself a 3PL.

“I’m a supply chain guy,” Ball said. “That’s part of the reason I was tapped for the CEO role” this June. “The technology we’ve implemented over the last two years has given us the ability to do this integrated approach” and focus on chemical shippers, he said. “When I got here, our 3PL division was handling freight of all kinds. I changed that. We’re here to handle chemicals and plastics, not groceries.”

There’s no question the disruption caused by the COVID-19 pandemic is accelerating the evolution of 3PLs as it changes the needs of shipper customers, Ball said.

“People are reconsidering their supply chains, partly because of changing vendor profiles,” he said. “As messed up as the world has become, supply chain has moved higher up the priority list. That’s created challenges, but also opportunities. It’s not static like it used to be.”

Those challenges — and opportunities — will persist into 2022, as tight capacity in both the truckload and less-than-truckload sectors pushes more shippers toward 3PLs and freight brokers and forwarders.

“There is no question that we’re in a time of unprecedented supply chain disruption across the globe that reaches virtually every mode of transportation,” Bob Biesterfeld, CEO of C.H. Robinson Worldwide, the largest US-based 3PL, told Wall Street analysts during an Oct. 26 conference call.

“None of us know exactly when the cycle is going to begin to turn or how long it will last, but with everything that we see today, we believe this cycle will in fact extend due to the global constraints around adding capacity in labor while demand remains strong,” Biesterfeld said.

“I certainly don’t believe that having 70 ships anchored in Los Angeles is by any stretch the new normal,” he said, “but I also don’t see us reverting to a market resembling 2019 anytime soon.”

Transplace’s McGuigan expects mergers and acquisitions will drive consolidation in the third-party logistics market, as shippers increasingly want to go to one large platform to access capacity. The future will belong to large digital platforms that will connect shippers to services and capacity across modes and markets, and probably to a few very big platforms, he said.

“I think it will be a few big platforms that do everything for everyone, because the platforms are not just aggregators of capacity, they’re also aggregators of capability,” McGuigan said.

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