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WHITEPAPER

Are Third-Party Trucking Firms Missing A Strategic & Profitable Market Opportunity?

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Are Third-Party Trucking Firms Missing A Strategic & Profitable Market Opportunity?

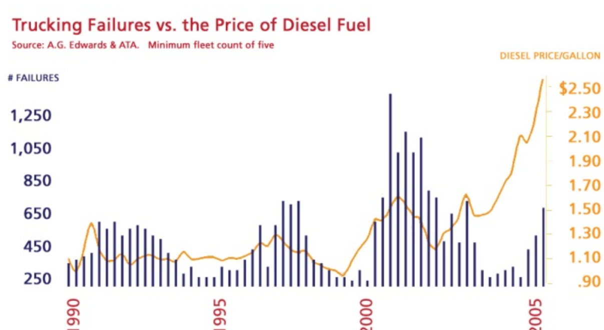
In response to higher transportation costs, companies that outsource logistics are shifting their entire supply chain strategies and looking for fewer 3PL relationships that deliver more value and improve supply chain visibility. Trucking companies have a unique opportunity to close the visibility gap and capture a lucrative market they are currently missing: third-party warehousing.

CURRENT STATE OF THIRD-PARTY TRUCKING

While rising fuel prices and productivity losses resulting from changes in the hours-of-service (HOS) rules receive most of the attention in the third-party trucking market, there are several other factors contributing to the downturn in the industry:

- Driver turnover. For truckload (TL) carriers with more than $30 million in revenues, driver turnover in the third quarter of 2007 was a staggering 127%. The rate for smaller carriers was 102%. Industry-wide, driver turnover has not dipped below 100% since the fourth quarter of 2002.

- Trucking company failures. Industry failures increase business risk for shippers. Third-party trucking failures have proven to be directly proportional to fuel cost:



- Capacity. Shorter length of hauls, a lack of quality drivers, and major roadway congestion constrict trucking firms' ability to increase capacity and therefore revenues.

- Demand. Even taking into account business failures, the demand for trucking was relatively weak in 2007, down in tonnage (- 1.3%) for the first time in years.

- Fleet maintenance costs. EPA mandates for low-sulfur fuels require increased fleet investments.

Even after passing along higher labor and fuel costs to shippers, financial results for many trucking companies are uncomfortably low. According to finance.google.com (Jan 2008), several trucking companies are reporting margins of less than 1% on operating revenues—not great news in light of a sluggish economic outlook.

OUTLOOK FOR THE OVERALL 3PL INDUSTRY

Outside of trucking, the outlook is good for the third-party logistics (3PL) industry overall. Supply chain consultancy ARC Advisory Group projects that the supply chain execution market will exceed $7.4 billion by 2011, a healthy increase from $4.6 billion in 2006.

The importance of logistics and the savings achieved from outsourcing are also positive signs. The 2007 State of Logistics Outsourcing Report found that nearly 90% of the 1,568 supply chain executives surveyed consider "logistics a strategic, competitive advantage for [their] company." The 82% that buy 3PL services "report cost savings that average 13% after outsourcing."

Over the next three to five years, 3PL users in North America plan to spend 55% of their total logistics budget on outsourced services, up from 47% in 2007. In Europe, executives expect to increase their expenditures on 3PL services from 65% to 71% in that same timeframe. The most commonly outsourced logistics services remain domestic transportation (83%), international transportation (79%) and warehousing (69%).

Of increasing importance to executives who select 3PL services is technology. Supply chain visibility (91%), web-enabled communication (88%), transportation management systems (TMS, 86%) and warehouse management systems (WMS, 85%) are the IT capabilities upon which they place the highest emphasis.

WANTED: MORE VISIBILITY AND VALUE FROM FEWER 3PLS

While the big picture is very positive, staying competitive as a 3PL provider is likely to require change for most trucking firms. As companies that outsource logistics take a more holistic approach, they are seeking fewer providers that offer more value-added services and greater visibility into their supply chain.

This trend has been widely documented by leading industry experts:

- *The role of logistics providers is changing in response to expanding requirements for integrated transportation and distribution capabilities. At the heart of this change is a drive to transform 3PLs into strategic partners that add value….Niche and small [3PL] contenders have to deepen their specialties to compete.*
  Karen Butner of IBM's Institute for Business Value

- *Forty-eight percent of companies are already moving to rationalize or reduce the number of 3PLs they use.*
  The 2007 State of Logistics Outsourcing Report

- *The third-party transportation companies that achieve 'hall of fame' profiles are those that provide global*

visibility of orders, drop-ship programs, and cross-docking at DCs (distribution centers).
2007 Supply Chain Playbook: 16th Annual Trends & Issues in Logistics and Supply Chain Management

- *Shippers will turn increasingly to transportation companies who control their own assets, offer a continuum of logistics services, and have a record of innovation and reliability.*
  John Bowe, President of the Americas for APL/APL Logistics, quoted in World Trade Magazine (Dec. 2007)

Trucking companies are in a unique position to take advantage of this game-altering industry shift. Here's why.

The most significant visibility, control and security gaps in the domestic supply chain exist at the handoffs between trucking companies and 3PL warehouses—gaps ironically created by the traditional trucking business model. Those changes in product control and data visibility are precisely what supply chain executives are focused on closing.

By incorporating warehousing into their service offerings—*and maintaining tangible and informational control across the 3PL Value Zone*—trucking companies meet the major strategic objectives of companies that outsource logistics:

- Reduce the number of 3PL vendors
- Eliminate the product visibility, control and security gaps in the supply chain
- Add more supply chain value.

Adding value to the supply chain is different than providing a service. While point A to point B transportation is a needed service, providing global product visibility, cross docking services, kitting, lot consolidation and product recall assistance are examples of value-adds. These services cut costs, improve supply chain efficiency and/or provide other value for which companies are willing to pay more. With greater opportunities to add value and differentiation, 3PL warehousing services typically generate better margins than trucking. Offering trucking *and* warehousing benefits not only the customer, but the 3PL provider as well.

From the customers' vantage point, logistics costs have increased 35% in the past five years and a staggering 63% over the last decade. As they focus on reducing logistics costs, better managing risk, and getting a tighter handle on information, they will increasingly choose 3PLs that can deliver services and value across their outsourced logistics environments.

EXPANDING BEYOND TRUCKING A "WIN-WIN"

This business model is already playing out in the market. Several trucking companies are winning and growing with this idea—particularly during the current crunch in the trucking market. Leading industry observers have noted the success of this model as well:

- *We have seen more 3PLs expand beyond their traditional set-ups to include more services as clients and shareholders have asked them to deliver more.*
  The 2007 State of Logistics Outsourcing Report

- *A lot of (small to mid-size tucking) companies [are] beginning to lease warehouses. One fleet manager hired a guy from a 3PL warehouse for sales and he just won his first couple contracts, leased a warehouse, and they are …entering that value-added services niche.*
  CSCMP's 18th Annual State of Logistics Report

To test these observations, Logimax Software surveyed 310 US third-party trucking firms. Of the 159 respondents, 32.7% stated that they already offer some warehousing services and an additional 6.3% either plan to or are considering it.

Of the 52 companies that have already jumped into warehousing, 92.3% (48) stated that the expansion was a "good business decision." Some of the comments from those respondents include:

- *"The market is calling for it. We saw the need to offer more services to our customers."*

- *"Warehousing now accounts for more than 50% of our business."*

- *"Warehousing provides additional revenue with minimal extra workload."*

- *"We no longer have to pay for storage. Instead we've turned those costs into revenues."*

Companies that outsource logistics look toward 3PLs as a strategic source of advice and innovation in identifying and solving logistics problems. The 3PL providers that can offer more complete supply chain services stand to attract more business and higher revenues.

THE CRITICAL VISIBILITY COMPONENT IN THE SUPPLY CHAIN

Visibility into a product's status and location is becoming increasingly important due to industry compliance requirements, government security regulations and/or a company's internal quality management objectives. 3PLs that can provide visibility—especially over the Internet — will be in greater demand than those who cannot.

Supply chain visibility can only be solved by technology. 3PLs that want to compete must invest in transportation

(TMS) and warehouse management (WMS) software systems that offer competitive functionality and web-based visibility. But good software is about more than visibility, it is also about capability. The warehousing services a 3PL can *efficiently and cost-competitively provide*, for example, are predominantly determined by the functionality of their WMS software. While good people, processes and customer service will always be important, a WMS can make small to mid-size firms as competitive—or more competitive—than multi-national 3PL providers.

A quality WMS not only tracks exactly where every item is located in a warehouse, it also tracks:

- Item Velocity: How fast a particular product moves through your warehouse
- Stackability: Where and how you can place a pallet or container in the warehouse
- Expiration: Which specific items must be picked first to avoid obsolescence/expiration
- Cube: How much space you have in your warehouse, where it is, and what you can put there
- Kitting: What products can be packaged together, how many finished units can be made, and what are acceptable substitute products
- Profitability: Which products/items and customers are profitable and which are not
- Accountability: Which employee did what, when, where, why and how efficiently

A WMS should also enable barcoding and EDI to eliminate expensive and inaccurate manual data, automatically invoice each customer based on their unique billing cycle and negotiated rates, and allow customers to have real-time visibility into their inventory and orders over the Web.

Without a powerful WMS solution, these benefits—and those sought by 3PL customers—are not cost-effectively attainable.

SUMMARY

Perhaps *Logistics Today* summed it up best: "3PL customers want one version of the truth." In seeking that "truth," 3PL customers will look for end-to-end supply chain visibility and more value from their logistics suppliers. The 3PLs that stand to benefit are those that fill visibility gaps and efficiently provide an array of services that add value to their customers' supply chains.

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To request a whitepaper on what it takes to get started—and be successful—in third-party warehousing, send an email request to success@e-logimax.com

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ICS (Information & Computing Services, Inc.) is the developer of Logimax, a leading brand of third-party warehouse management software with customers throughout North America.

Specifically developed for 3PL warehousing in 1995, Logimax provides complete functionality for inventory control, value-added services, third-party billing, Web visibility, cross-docking, yard management, EDI and cost/profit analysis.

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