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Asset Based Carrier or 3PL?

When first starting to ship large and small quantities of freight, there are many options and services available out there which can be confusing at first to new entrants. This write-up is aimed at those who are unsure about how and who they should employ to handle their logistics needs. First, we need to address the key difference between the two main logistics service providers available in the market.

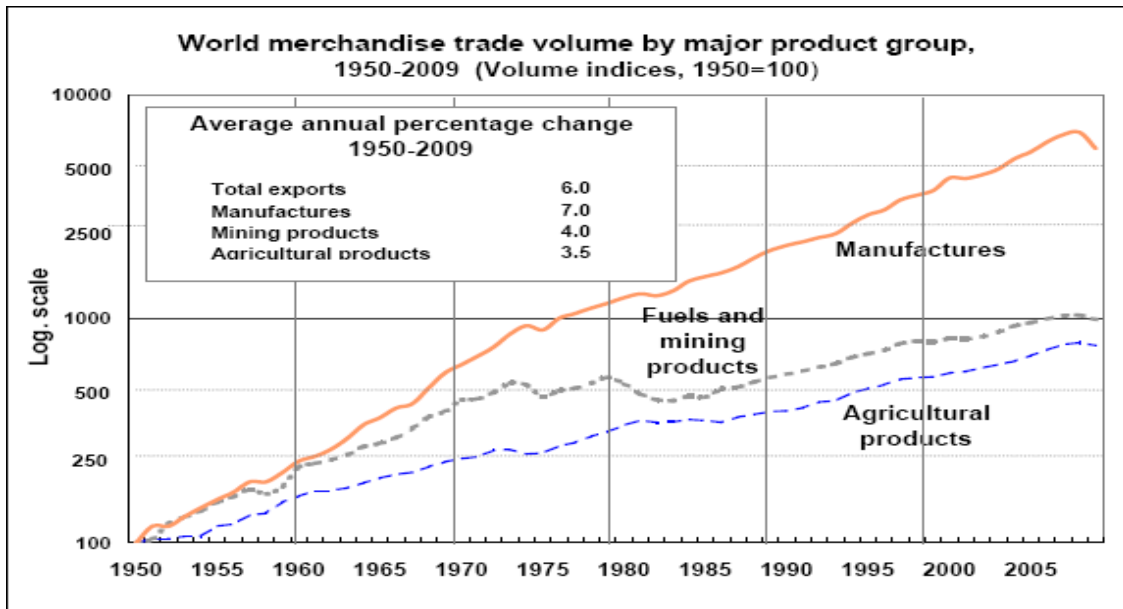
Asset based providers are those that own and operate the physical assets being used to service logistics needs. These providers generally own warehouses, support equipment such as forklifts, and most importantly the transportation assets which are most commonly over the road equipment such as transport trucks. When using these types of providers, their service capabilities are generally constrained by their own individual service capacities.

Third party logistics providers (3PLs) are those providers who perform a variety of logistics services, but they don't necessarily own the physical assets being used in the service process. These providers are intermediaries who act on behalf of customers to provide and manage their customers' logistics requirements. These intermediate services can include a diverse range of services including customs brokerage, transportation services, and warehousing. These providers are essentially hired for their expertise and ability to increase efficiency in the hopes of improving supply chain processes, thus reducing overall costs.

Many people tend to assume that because a company owns the physical asset, they will be a better logistics service provider. The reasoning is that because they own the assets, the provider will be easier to work with, offer better service, and are more reliable. Although at first glance this sounds correct, in numerous cases this line of reasoning doesn't hold. The main strength of these companies is that they own their own assets, which in turn is also their biggest weakness which we will address in the following study. As a result, many companies are starting to realize and capitalize on the benefits that a 3PL can offer compared to an asset based provider due to expertise, economies of scale, flexibility, economic advantage, and the ability to focus on the customer over all other aspects. Although 3PLs don't necessarily own the physical assets, they do provide tangible benefits to companies of all sizes.

Expertise:

The growth in cross-border trade has grown exponentially over the past half century averaging 6% per year. As a result, it's becoming increasingly difficult for companies to limit their businesses to local markets. Doing so would limit opportunity and growth. To ship to these markets however, requires a certain level of expertise and knowledge which is where a 3PL fits into the equation.



Source: World Trade Organization

Because 3PLs are selling expertise, many of these providers over the years have developed from freight brokers into more of a logistics consultant role offering numerous services along a supply chain including warehousing, customs brokerage, and of course trucks. They can guide you through and manage the entire logistics process from start to finish. This allows companies to operate in diverse countries such as Mexico and China which they wouldn't otherwise be able to. After all, would you want to attempt to ship to Mexico on your own if you've never done it before? A 3PL offers the full package and focuses on all aspects of the supply chain, rather than focusing on the benefits of some 'asset.'

Economies of Scale:

One of the main challenges that many small to medium-sized businesses face is that they cannot achieve sufficient volumes to receive the same discounts as their larger competitors. In many cases, these smaller businesses cannot achieve economies of scale in terms of their logistics requirements; this is especially true with regards to less than truckload (LTL) and hundred weight (CWT) shipments.

Many 3PLs have sufficient expertise and buying power so that they can achieve pricing which is far below what a smaller business can achieve. This is done through the consolidation of many businesses' freight to achieve strong buying power within the market. By doing this, smaller businesses can now attain pricing which is in line with what their larger competitors receive. This benefit cannot be offered by a company focused on operating physical equipment.

Flexibility and Coincidence of Wants:

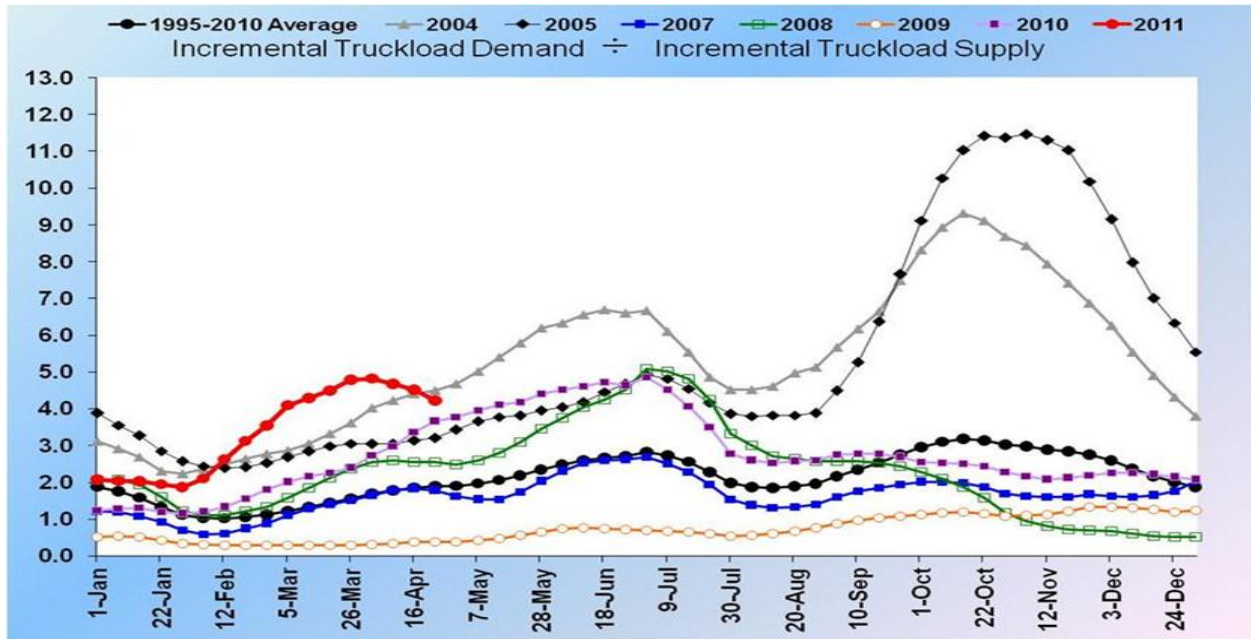
One of the strongest services a 3PL offers is that they connect the right carriers with the right customer. With an asset based carrier, it's unlikely that they will always want to go or be where the customer's freight is. This means that in many situations the truck will have to go to an undesired area, have to drive a significant distance to pick-up the freight, or both. This creates a cost to both the customer and trucking company in terms of time and/or money.

Conversely, 3PLs are not restricted to a handful of asset based carriers. Many 3PLs have access to the services of tens of thousands of carriers. A large network like this allows the 3PL to essentially play “matchmaker” in the transportation industry: the right carrier with the right customer. If for example, you had freight in Dallas TX heading to Winnipeg MB; a 3PL with an extensive network could find a carrier who is not only in Dallas, but also wants to return home near Winnipeg. If that truck cancels or breaks down, the 3PL can replace that truck much more quickly and effectively. What this results in is reduced costs and increased benefits for both the customer and trucking company. Companies change and so do their transportation needs. 3PLs can offer a greater flexibility in terms of changing business needs compared to an asset based carrier

Economic Recovery:

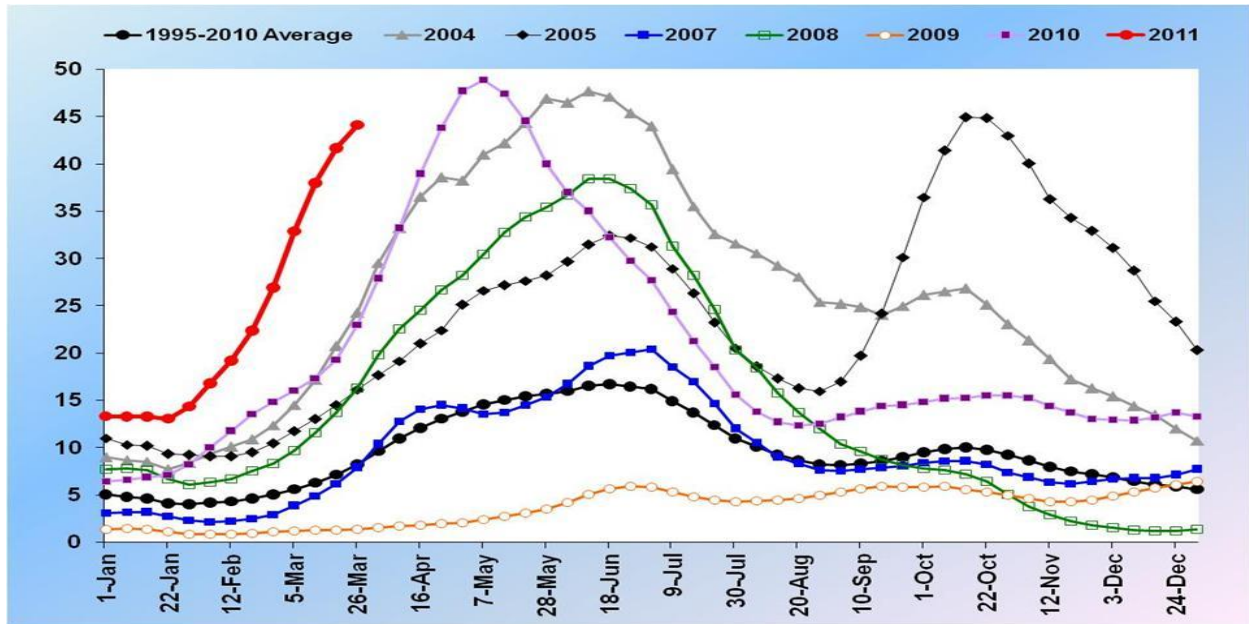
The world recently faced the worst recession in a generation. This recession resulted in a massive decrease in production and economic activity which has caused significant changes in the transportation industry. When the economy plunged into recession, economic Darwinism came into play in many markets including transportation. Supply outweighed demand and many companies to stay afloat priced their rates to cover overhead to weather the recession. This resulted in many exits within the industry as bankruptcies rose and companies closed up shop. The economy is recovering which is resulting in increased demand facing a reduced supply causing a tightening within the transportation market as shown here:

Dry Van Index



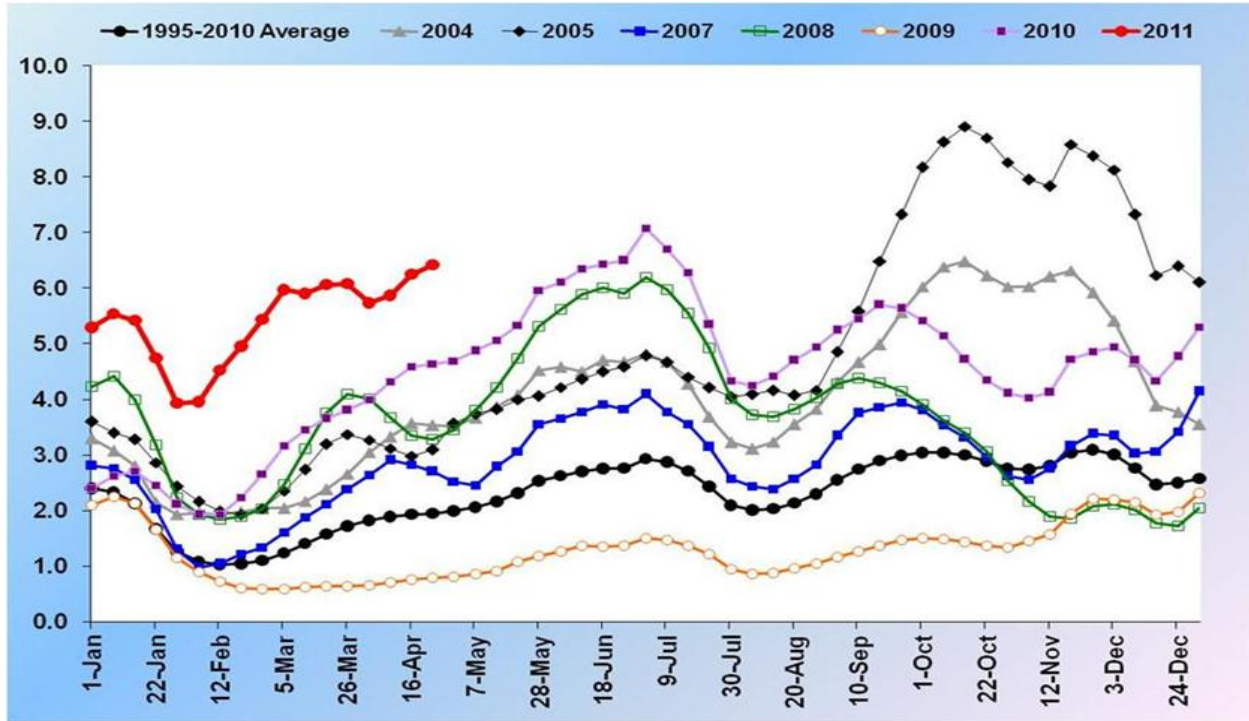
Source: Morgan Stanley

Flatbed Index



Source: Morgan Stanley

Refrigerated Index



Source: Morgan Stanley

The tightening within the markets of all major equipment types of transportation combined with the rise in input costs (most notably fuel), results in higher costs and excess demand that the market simply can't satisfy. Without a large transportation network, companies will not only face the prospect of higher costs, but they will also find it increasingly difficult to secure services to transport their goods in a timely manner. In this respect, many 3PLs are well equipped to help companies respond to these shifting markets as the global economy emerges from recession.

Customer Focus:

When comparing 3PLs to asset based providers in terms of customer focus, the 3PL generally excels in this regard. The lack of flexibility of the asset based providers' businesses often results in conflicting interests between the customer and provider. What is good for one party isn't often beneficial to the other party. As discussed before, these providers generally seek freight on certain lanes and areas. If the customer has freight shipping outside of these regular areas, the customer generally has to pay a premium or the freight may sit idle for a period of time until the provider can find freight bringing the truck into the area the freight is located. The reason being is that these companies have high fixed and variable costs; if your logistics requirements don't fit well with the providers business and cost structure, they will have to charge a premium or reduce service to meet their business requirements.

Conversely, the high degree of flexibility that 3PLs possess allows them to be highly customer driven firms. Because they are not subject to the constraints of asset based providers, they can focus on meeting the customers' needs. They will source the right people in the right place in order to meet the customers' requirements, not their own. These companies generally have highly developed customer service and operations staffs that have in many cases, previously worked for asset based providers.

Conclusion:

Because 3PLs don't necessarily own the assets being used, it doesn't make them any less reliable or beneficial to a company's supply chain. As we've seen, there are numerous benefits that a 3PL can offer to help businesses succeed. The concluding remark is that companies should evaluate their needs and find a transportation solution that best meets their needs, but don't underestimate the value a 3PL can bring when considering a service provider.