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Swimming with the sharks
By David Biederman
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Progistix-Solutions Inc. knows its place among global third-party logistics providers. The Toronto-based subsidiary of Canada Post is Canada's largest domestically owned 3PL, but with about $100 million in annual revenue it is in the market's middle tier. "To stay competitive, we stay niche-focused," said Jim Eckler, president and chief executive. "We are not all things to all people."

Within that niche strategy, the company focuses on high-tech companies such as Bell Canada, Xerox, Siemens and Pitney Bowes that make complex products requiring fast order-cycle times. If a Xerox machine breaks down in Vancouver, Progistix can pick the right part from more than 5,000 SKUs and deliver it within a couple of hours.

The company expanded into the retail niche cautiously. Its biggest retail client, Amazon.ca, the Canadian arm of online giant Amazon.com, shares many of the characteristics of its technology clients in terms of speed and complexity. Retail logistics is handled through a subsidiary, Assured Logistics Inc.

Delivering critical parts as fast as pizzas requires complex information technology systems. A key challenge for Progistix and other mid-market 3PLs is to offer the same IT capabilities as large global competitors but with far less scale to absorb costs. "We have to be very judicious in how we apply our investment dollars," Eckler said.

It's a refrain heard throughout the mid-tier 3PL market. "To compete with companies like UPS and Exel we have to make big investments in cutting-edge systems comparable to what customers would get from any other player," said Bob Spieth, executive vice president of operations for Brentwood, Tenn.-based Ozburn-Hessey Logistics.

The 3PL market is booming. It topped $100 billion in 2005, up 16 percent over 2004, according to consultants Armstrong & Associates. But with consolidations and cost pressures mounting, mid-market 3PLs more than ever need to expand their reach and differentiate themselves. Those pressures are most keenly felt on the IT side. According to the 2005 Third Party Logistics Study, compiled by DHL, SAP, Capgemeni and the Georgia Institute of Technology, IT implementation ranked behind only cost pressures and improving supply-chain management as a problem for 3PL organizations.

Progistix took a big risk in 1996 when it was among the first North American 3PLs to adopt SAP technology. The project was an education for both sides - consultants handling the implementation lacked "fine-tuned" skill sets, and the technology was far more cumbersome - but the gambit appears to have paid off.

"Progistix has deep local infrastructure, and outstanding business process design skills," said Dave Manara, vice president of operations at Pitney Bowes Canada. "They took the time to understand our business and provide us the room to grow to meet aggressive expansion plans."

Despite the company's success, Eckler is realistic about the mid-tier market and the risk of being swallowed up by larger competitors. "That could be our future, but at this point we are continuing to provide great support to our partners," he said.

As 3PLs have evolved from basic to specialized service providers, they have to carve out niches and find other ways to differentiate themselves, said Rodney Strata, industry principal for transportation and logistics at SAP, the world's largest business software company.

The challenges for mid-tier companies are the same as for the top-tier companies - reduce operating costs, integrate processes and increase visibility to meet customers' strategic objectives. To do that on a shoestring budget, they must understand their strengths and weaknesses; prioritize target markets and be aware of customers' needs. "That's what will determine how 3PLs distinguish themselves in terms of the complexity and scope of services," Strata said.

Evan Armstrong, president of Armstrong & Associates, defines the mid-tier 3PL market as providers with $20 million to $300 million in annual gross revenue. A more defining feature is geographic focus; mid-tier 3PLs primarily serve North American markets. That's not to say they don't play a role in global commerce; they often manage consolidated export centers and operate port locations and facilities for domestic distribution of imported goods. Providers at the low end of the revenue scale tend to focus on a single region; those at the high end generally operate in multiple regions or nationally.

Regionally focused industries such as food, beverage and grocery are strong users of mid-tier 3PLs, Armstrong said. However, the client base can be as broad as that of global providers and often includes chemical, retail and other users with highly specialized logistics needs.

Scale is an obvious differentiator between mid-tier and global providers, but that doesn't mean bigger is better. While the easiest thing for shippers to do is to turn everything over to the biggest global provider, that may not be the most optimal solution. If a shipper has defined needs in specific regions, or needs only a few distribution sites, the best value proposition might be to allocate specific activities to regional providers.

Mid-tier 3PLs have lower administrative and capital cost structures, making them highly competitive on pricing. "They don't have to pay for aircraft, offices in Europe or acquisitions that are still being rolled up," Armstrong said. "Shippers can often get better pricing and service and more flexibility by using groups of mid-market providers."

Leslie Ajlouny, vice president of business development at **Evans Distribution** Systems, a Melvindale, Mich.-based provider of warehousing and logistics services, said there is a perception that regional providers offer more flexible, attentive service than global 3PLs. With high fuel costs and West Coast port congestion leading many shippers to East Coast ports, Evans is gaining business by helping clients reconfigure their distribution plans. "There is an expectation of more customization," she said. "Regional DCs allow for more tailored services."

Pennsylvania-based Arnold Logistics sees itself as a "super-regional" 3PL, said Brian Kautz, the company's chief information officer. Arnold operates 24 facilities with a combined 6.4 million square feet of space in Dallas; Chicago; Champaign, Ill.; and Harrisburg, Pa., and has a strong presence in three regional markets: the Northeast, Texas and the Midwest. "A super-regional is not a global player like Exel but it is not a mom-and-pop either," Kautz said.

Mid-tier players such as Arnold bring speed and flexibility to clients that the big guys can't match, Kautz said. Arnold recently got an automated, 400,000-square-foot facility running in less than a month for a client that had been operating in another facility for 10 years. "Our project management teams swooped in immediately," he said. "Less overhead sometimes means less bureaucracy."

The company competes on technology by using a proprietary warehouse management system that it designed. The system can be configured according to changing industry needs and can interface with almost every client back-end and third-party system, including specialized interfaces for reverse logistics, rapid sorting and Web-based retail operations.

Moran Industries Inc., a Watsontown, Pa.-based 3PL, had been using a proprietary warehouse management system but sensed a trend in the market: Reluctant to make significant IT investments themselves, customers were looking to 3PLs for the latest capabilities. That's quite a challenge. Moran, founded in 1975, is a small, family-run company with 1.8 million square feet of space in four Central Pennsylvania locations and a diverse client base that includes automotive, consumer packaged goods, pharmaceutical and chemical companies. Some are small businesses, while others are among the Fortune 500.

Although Moran primarily distributes goods in the Northeast, the company realized it had to offer what the global guys were offering: world-class technology. "We don't have a problem going head-to-head with the Exels of the world," said Michael Gilger, Moran's project manager. "We expect to stay competitive by utilizing our technology and keeping abreast of changes in the industry."

Moran last June signed a contract to implement SSA Global's Exceed 4000 warehouse management system. The system gives Moran the flexibility to configure its warehouses to handle its diverse customer base and multiple product lines, and to offer value-added services such as multimodal; receiving; labeling; packaging; customized pick operations and specialized processes such as cold chain maintenance and pharmaceutical tracking.

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