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Global 3PLs to double down on technology

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The movement of carriers into services ancillary to port operations is another use for capital. Photo credit: Shutterstock.com

Global third-party logistics providers (3PLs) these days might feel like they're in a vise grip. On one side, logistics software providers, both established and upstart, are trying to arm shippers with systems that render 3PLs less important. On the other side, some ocean carriers are aiming to recapture the supply chain management ground they ceded to 3PLs over the last decade.

If anyone is used to the hustle, it's logistics service providers (LSPs) experienced in low-margin markets, but the burden to remain relevant is more pronounced than ever. Although much of the focus in 2018 centered on the impact digital freight forwarders worldwide might have on legacy companies, that simplifies the challenges 3PLs face, especially those with extensive forwarding operations.

Margin-based buying and selling of capacity probably isn't a sustainable model in an environment where shippers have detailed insight into freight rates.

Relying on shippers to use obsolete or user-unfriendly systems when easy-to-deploy, affordable, and browser-accessible freight management tools abound likewise isn't a sound strategy. And, with large global shippers generally preferring to deal directly with carriers as much as possible, the movement of carriers into services ancillary to port-to-port operations is another cause for concern.

Carriers change strategy

Maersk Group's September decision to hive off the origin services from its 3PL sister company Damco and incorporate those services into its liner carrier business is emblematic of this last dynamic. CMA CGM's increasingly close ties to CEVA Logistics, including a 25 percent investment stake, is another.

Those carriers, and potentially others, might have seen it as a mistake to forfeit the lucrative supply chain management turf and the deeper customer relationships that come with those services.

Meanwhile, nearly two decades of maturity in the shipment management software market have led to systems such as GT Nexus, CargoSmart, Descartes, BluJay Solutions, and Amber Road becoming entrenched with shippers wanting to reduce their dependence on 3PLs to provide procurement, planning, execution, and visibility functions. Newer competitors to those established providers, most of which have emerged amid a wave of venture capital funding over the past five years, create another challenge with which 3PLs will need to deal.

Putting money to work

All of these forces are set to compel 3PLs to double down on investment in two key areas: global supply chain visibility and execution and technology at large. Those two are inextricably linked, and 3PLs focusing on those areas inevitably will move further away from a pure margin-taking model.

"As a forwarder, say your top-line number is \$100; that's sales," Fauad Shariff, CEO at freight forwarding marketplace CoLoadX, said at the JOC Logistics Technology Conference in October. "Your cost of goods sold is \$80. That gives you a \$20 gross profit. The next \$15 to \$17 go in fixed costs. Your EBIT [earnings before interest and taxes] is \$3 to \$5. Every [forwarder] beats their brains out for the \$80 and \$20, and that's never going to change because you don't control the ships. If you focus on that \$15 to \$17, that's where innovation begins."

Shariff urged forwarders to think of their businesses as valued-added resellers, not brokerages. "Price is the road to commoditization," he cautioned. "The nature of the business is changing, with customer service, with attention to the complexity of the transaction, and a fundamental understanding of what freight forwarder value is. And it's not a low price."

In essence, top 3PLs are having to redefine themselves as technology-based 4PLs, orchestrating their customers' supply chains in a way that captures the best attributes of shipment management software providers and traditional LSPs.

"We have challenged ourselves internally to say, 'Do we have the best platform?'" Jon Slangerup, chair and CEO of American Global Logistics (AGL) and a former executive with FedEx, said at the Logistics Technology Conference in Las Vegas. "Is it what our customers need to scale and grow? The answer was no. We've invested tens of millions of dollars in the past year-and-a-half to make sure the platform could handle bolt-on technologies. We will be able to offer a robust array; that's what our customers count on. If we don't, we lose the race, and we're no longer relevant."

Many companies like AGL struggle with the same issues, Slangerup said. "The bigger they are, the bigger the struggle, because those legacy platforms are hard to change," he said.

Growing demands

This is an area where top 3PLs have long invested — in tools to help their customers procure, manage, and track their freight. But the demands from the end-consumer have ratcheted up the demands on those customers. Wild growth in e-commerce sales is driving business-to-consumer and business-to-business expectations around fast and cheap delivery, and that eventually rebounds on 3PLs to help shippers keep pace.

This puts the onus on 3PLs to help shippers make quicker decisions on pricing, routing, and modal choice, all in the name of keeping inventory levels manageable while still fulfilling customer demand.

In that world, an intermediary business built simply around securing capacity at a margin is valuable to shippers only in times of distress. It's not a way to build strategic value.

The other manner in which 3PLs are expanding their reach and interaction with customers is through dynamic pricing. Twill Logistics (Maersk's digital forwarding channel), DB Schenker, DHL Global Forwarding, and Agility have introduced such tools in the last two years. Among the 12 largest container lines, only Maersk Line and Hapag-Lloyd, through its QuickQuotes tool, have such capability.

Any 3PL, however, can expose its rates dynamically through marketplaces such as Freightos or Simpliship or by using software from the likes of Kontainers, which builds front-end tools to allow forwarders and carriers to quote instantly.

"Pricing information is something you keep close to your heart, like in any industry," said Toby Edwards, CEO of Shipa Freight, Agility's instant quoting platform. "The worry is, we're going to let anyone go in and see our pricing? That's our bread and butter. But they can get it anyway. Someone calls and you're not going to hide it from them. We're entering a new, transparent world."

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