Exclusive Interview: Evan Armstrong's Outlook on 3PL Marketplace for Supply Chain Managers

This interview comes in advance of our annual magazine feature in July/August on "Top 50 Global & Domestic 3PLs."

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By Patrick Burnson, Executive Editor · May 28, 2020

San Francisco – As noted in an earlier post, Armstrong & Associates has announced the release of its latest report, "Increasingly Strategic: Trends in 3PL/Customer Relationships."

Here, Evan Armstrong, president of the consultancy, Armstrong & Associates, shares his views on the current state of the Third-Party Logistics as part of Supply Chain Management's feature in our July/August edition on "Top 50 Global & Domestics 3PLs."

Supply Chain Management Review (SCMR): What were the main surprises to surface in your research this year?

Evan Armstrong: We are actually surprised by the limited impact COVID-19 has had on 3PL operations staffing. It seems to have disrupted China from a staffing perspective much more than we are seeing in the U.S.; most of the operational disruption we've seen has been in trying to fulfill huge numbers of B2C e-commerce orders, supplying stores with food & grocery items, or in finding airfreight capacity for imports of high-tech goods and PPE and other healthcare related products.

SCMR: Were any particular 3PLS hurt by the trade tensions between the U.S. and China in 2019?

Armstrong: The U.S. economy is tightly interconnected with China and so are its supply chains. The import tariffs have been a continued drag on international trade, the growth of 3PLs and other U.S. businesses, and the overall U.S. economy. The only bright spot for 3PLs has been on the import compliance side of International Transportation Management (ITM) operations where there has been increased demand for expertise. It's hard to believe the tariffs are still in place given our current economic situation with COVID-19. They should be removed until we see positive economic growth.

SCMR: While it's probably too early to tell, what impact with COVID-19 have on global and domestic 3PLs?

Armstrong: Domestically, Q1 was okay for 3PLs after a soft 2019 which saw overall U.S. gross revenues decline slightly. The first quarter saw some extra demand and resultant revenue increases within the Food & Grocery, Consumer, Internet Retailing, and Technological vertical industries as products were hoarded by consumers and computers and office equipment were purchased to adhere to stay-at-home rules. Q2 has seen about a 15% drop in Domestic Transportation Management (DTM) 3PL Segment gross revenues as volumes have dropped off across all modes, especially with customers in Automotive, Industrial, Building/Construction, and Elements/Raw Materials vertical industries. Refer and Dry Van Truckload are faring better than construction dependent Flatbed. On the International Transportation Management side ocean and air volumes are off, while air capacity remains tight due to the lack of commercial airline belly space. Dedicated Contract Carriage (DCC) 3PL segment volumes are off as well, but the impact is lessened due to the longer-term nature of its shipper agreements. Value-Added Warehousing & Distribution (VAWD) has seen significant growth in B2C e-commerce fulfillment activity, while B2B business has waned. Like DCC, VAWD 3PLs also benefit from being in longer-term business contracts (the average term is three years).

SCMR: Anything else?

Armstrong: Additionally, most entered 2020 with full warehouses, so storage fees are still being paid while in-and-out activity and value-adds have declined. Q3 and Q4 should see incremental increases as the economy opens up in spits and spurts and we expect overall 3PL gross revenues to work back to a lesser year-over-year decline of 2 to 5 percent for the year.

SCMR: What about the global picture?

Armstrong: Internationally declines have been very region and country specific based upon the operational impacts of COVID-19. China suffered extensively in Q1, Europe has been impacted dramatically in the South, and Southeast Asia has seen the greatest impacts in Singapore and Indonesia.

SCMR: Have you seen any major shifts in modal decisions by global 3PLs? More ocean, less air, for example?

Armstrong: The focus is still on meeting product demand using the most economical mode, but strong spikes in consumer B2C business and healthcare related spending drove procurement toward airfreight. We will see a shift to other modes as demand declines and stabilizes in the remainder of Q2. From there we can see more normal transportation procurement patterns as the economy continues to open up and expand.

SCMR: For domestic players, is there a trend for more cross-border and on-shoring concentration?

Armstrong: From a manufacturing and supply chain perspective it is hard decouple from China depending upon the level of regional supplier integration and a company's local market customer base. Where manufacturing can be nearshored, it tends to happen in the northern border states of Mexico. So, yes cross-border Mexico activity is very important and should be part of every DTM 3PL's strategy. On-shoring is happening to a lesser extent, but it is important for manufacturers to partner with one or more solid 3PLs as part of a wholistic supply chain strategy when shifting operations.

SCMR: To what extent has digitization made an impact?

Armstrong: Digitalization has had the largest impact on DTM/Freight Brokerage with the biggest impacts coming from what I've dubbed as Capacity Management Systems from systems providers such as Parade. These systems integrate with Transportation Management Systems (TMS) to automate digital freight matching for freight brokers using A.I. and machine learning and can result in significant service improvements and cost savings. This type if digital freight matching capability is also core to digital freight brokerage 3PLs such as Convoy, Transfix, and Uber Freight. Another area of digitization has been on the shipment visibility system side with applications such as project44 and MacroPoint which also plug into existing TMS for improved shipment visibility. Real-time is truly becoming real.

SCMR: Should we expect to see more AI, Robotics, and Block Chain?

Armstrong: Yes, yes and yes for A.I. and Robotics. Block Chain is still a problem child with very little industry adaptation. A.I. is being deployed across the 3PL segments but has had the largest impact on DTM where it is truly disrupting traditional freight brokerage models. Autonomous robots by manufacturers as Fetch and Locus are supporting warehouse workers in picking and putaway. It seems like they are dropping in price every day and have a short, less than one-year ROIs. Deploying new technologies such as these to improve operations for customers is key to any 3PL's growth strategy.

SCMR: How about the M&A landscape? Any big deals on the horizon?

Armstrong: M&A activity has slowed to a virtual halt with the pandemic, but we are starting to see a nice window for primarily strategic-driven buy-side acquisition activity for those 3PLs who have strong balance sheets and realize the potential risk/return benefits. There is a lot of money on the sidelines and valuations have been declining since 2018. It is very hard to crack the Top 50 global 3PL list without making acquisitions, so they need to be part of every major 3PL's strategy.

SCMR: What about human resources? Are 3PLs finding the skilled workforce they need for growth?

Armstrong: There is still strong demand for experienced executive management, salespeople, and managers at 3PLs. But layoffs at lower levels in DTM due to the pandemic have loosened up some of the freight broker and customer service positions for now. In ITM, VAWD and DCC warehouse workers and truck drivers are still in demand.

SCMR: Which particular 3PLs are heavily reliant on Cold Chain? Will this continue to be a vibrant sector?

Armstrong: Cold chain service demand tends to be less cyclical because much of it is tied to basic consumer staples and to a lesser extent healthcare. Providers in this area are weathering the storm well and should have an okay year.

SCMR: When will the barriers-to-entry finally come down to permit new players to enter the "Top 50" marketplace?

Armstrong: To break into the Top 50 requires a well thought out strategy to drive organic business growth as well as inorganic growth through M&A. It is important to know your strengths in terms of value proposition, service offering, customer satisfaction, vertical industry expertise, and execute an operational model that builds upon your strengths and fills gaps to overcome weaknesses. Organizational alignment to focus on customer needs and optimizing service performance is critical to grow organically. If you are a customer of a 3PL and it isn't consistently communicating its value to you in terms of performance or cost savings, then it may be time to look for other options. As they say, every 3PL's best customer is another 3PL's best prospect.

About the Author

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Patrick Burnson is executive editor for *Logistics Management* and *Supply Chain Management Review* magazines and web sites. Patrick is a widely-published writer and editor who has spent most of his career covering international trade, global logistics, and supply chain management. He lives and works in San Francisco, providing readers with a Pacific Rim perspective on industry trends and forecasts. You can reach him directly at pburnson@peerlessmedia.com.

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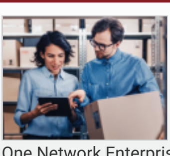

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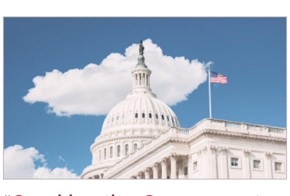

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