Published on *JOC.com* (http://www.joc.com)

William B. Cassidy, Senior Editor | Dec 03, 2014 3:45PM EST

The proposed acquisition of truck brokerage Freightquote.com is much more than attempt by C.H. Robinson to gain more business or e-commerce sales; the $365 million deal underscores and perhaps accelerates a major change in the U.S. less-than-truckload market.

C.H. Robinson and Freightquote combined have annual LTL revenue of approximately $1.7 billion, which would make the company the ninth-largest LTL operator ranked by revenue, Satish Jindel, president of transportation consulting firm SJ Consulting Group, said.

That $1.7 billion in revenue comes without directly owning a truck or hiring a driver. The non-asset logistics companies' operating margins are better "than those of all the LTL carriers they use," Jindel said in an interview the day after the acquisition was announced.

If a combined C.H. Robinson and Freightquote were added to the list of the 25 largest U.S. LTL carriers published by JOC.com and SJ Consulting Group, based on 2013 LTL revenue, they would rank between $1.72 billion ABF Freight System and $1.3 billion R+L Carriers.

The size and scope of the LTL freight brokerage that would be created by the acquisition should serve as a wake-up to carriers, he said. "Mr. Carrier, you've got a headlight staring you in the face," Jindel said. "You're going to need to find a way to respond to that."

SJ Consulting, he said, is preparing a report on the effect of the rapid growth of brokerage on the LTL sector and other markets that should be available shortly. The time is ripe, as third-party logistics providers are aiming for even more LTL business.

According to research firm CarrierDirect, there are seven 3PLs that represent about $3 billion in annual LTL revenue. "I think what we're seeing is the evolution of a select group of LTL resellers that do control a significant portion of that spend," said Joel Clum, CarrierDirect president. Those companies are C.H. Robinson, Worldwide Express, Echo Global Logistics, Freightquote, GlobalTranz and Blue Grace Logistics, Clum said.

"Increasingly, we see the big seven, and then a second tier of companies, and then everyone else," he said.

That second tier includes Coyote Logistics, a 3PL that expects to hit $2 billion in revenue this year after acquiring Access America Transport in March. Coyote recently hired Tommy Barnes, former president of Con-way Multimodal, to build its growing LTL business.

Brad Jacobs, CEO of XPO Logistics, which is expanding toward a $3 billion twelve-month trailing revenue run rate through multiple acquisitions and "cold starts" and internal growth, sees LTL as a “massive opportunity.” So far, the company “is just scratching the surface.”

The relationship between 3PLs and LTLs has long been, at best, delicate. Carriers often complain of brokers who simply resell their services at rates that provide little if any margin for the trucking company. Few were truly partners with the supplier, LTL executives said.

As LTL capacity tightened in the economic recovery, more trucking companies effectively “fired” those rate-reselling brokers and proffered freight to 3PLs that brought better business.

But the number of 3PLs expanding their stake in the LTL market continues to grow.

“With the sheer number of 3PLs that are out there, I think it will be interesting to see how the true 3PL providers distinguish themselves from the rate resellers or rate shoppers,” James Welch, CEO of YRC Worldwide, the second-largest LTL operator, said in an interview last year.

He identified the rise of the 3PL in LTL trucking as the biggest change in a decade.

In 2009, perhaps 30 percent of the logistics firms surveyed quarterly by the Transportation Intermediaries Association handled LTL freight, Matson Logistics vice president of highway services and TIA committee chairman Mark Christos told JOC.com earlier this year.**=**

“Today it’s a much stronger percentage,” perhaps as high as 60 percent, he said. “The general trend is that 3PLs are expanding their service capabilities to their customers.” “LTL 3PLs continue to grow and in some cases are representing a form of competition, not just being a customer,” Thomas S. Albrecht, transportation analyst for BB&T Capital Markets, said in a Dec. 3 note to investors.

“Freightquote is already a top-five 3PL provider of LTL services and its combination with CHRW should result in substantial scale in LTL,” he added.

3PLs today control about 25 percent of shipper LTL “spend,” according to SJ Consulting Group. That percentage is surely growing, and asset-based LTL carriers, as Jindel pointed out, must respond to the shifting market.

“They need to better understand the cost model,” Jindel said. “You won’t get the same profit margin with a 3PL as you will will a large shipper at the same discount. You don’t get the density.”

And density — whether measured by lane or by trailer — is critical to building better LTL profit margins, and sustainable profits. One carrier’s difficulty may be another’s opportunity. Some companies are looking for ways to profit from expanded use of 3PLs by reaching more shippers or cutting other costs. SHIFT Freight is a California-based LTL carrier that designed its business model around 3PLs, using logistics partners in lieu of a sales force. The company also eschews the typical brick-and-mortar terminal and tractor-trailer model and uses owner-operators and carrier subcontractors to move freight from the West Coast to customers in the East.

Using that “layered” approach to LTL, “you can get very strategic about the freight you bring on and use technology to drive freight (density) in lanes,” said CarrierDirect’s Clum. That’s a sign tomorrow’s LTL business — and the players moving LTL freight — may look very different from the traditional LTL model shippers have known for decades.

Traditional LTL carriers “are almost in the situation of brick-and-mortar retailers,” Jindel said. “If those retailers don’t want to deal with online business, and turn that over to somebody else, what will happen to their margins? They are going to keep shrinking.”

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