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3PL/Logistics news: Transplace off to strong start under new ownership

By Jeff Berman, Group News Editor — Logistics Management, April 6, 2010

Last December, Transplace, a non asset-based, third-party logistics (3PL) provider of transportation management, truck brokerage, and technology-related logistics services was acquired by an affiliate of CI Capital Partners, a New York-based private equity firm. At the time of the deal, Transplace CEO Tom Sanderson told LM that the company had long been interested in finding a good private equity partner that will help move its business forward at a faster pace. Widely viewed as a top ten capacity freight broker and leading 3PL, coupled with its ability to work with shippers to manage complex logistics and shipping needs through its proprietary Web-based technology platform, it made sense for Transplace to be attractive to a prospective buyer. In this in-depth, exclusive Q&A with *LM* Group News Editor Jeff Berman, Sanderson explains how things are going since the new ownership took over.

LM: It has been a little more than three months since the deal closed. What are the most notable differences for Transplace as a company since then with a new owner?
Sanderson: It really has been a great experience as we have gotten going. Maybe one of the biggest changes is the composition of the board of directors. In the past, our board consisted of the truckload carriers of Transplace who were competitors of each other so that is kind of an interesting board dynamic [*Editor's Note: Transplace was established in 2000 as a collaboration among six transportation carriers-J.B. Hunt Transport Services, Covenant Transport, Swift Transportation Co., M.S. Carriers Inc. (which subsequently merged with Swift), U.S. Xpress Enterprises, and Werner Enterprises.*] We have three representatives from CI Capital on our board now and two outstanding outside board members: Tom Escott, former president of Schneider Logistics, and Jim Down, who used to head up Mercer Management Consulting. That is a big change. The board members were just down here in Frisco, Texas, mapping out a strategy for internal growth opportunities and really looking at acquisition opportunities. We have never before been in a position to go out and look at buying businesses. We started our Mexico operation from scratch and it is growing like gangbusters. We started our NVOCC business from scratch and that is off to a good start. But now we are in a position to look at how can we supplement organic growth by picking up a couple of acquisitions...and finding the right potential companies to buy.

LM: That speaks to our December interview when you mentioned how CI's ownership can move your business more quickly. It looks like that is already happening.
Sanderson: It has. We are off to a very good start. I don't know if it has anything to do with the acquisition or not, but we had a great quarter as well for picking up new talent. And we did that through all of 2009, too, which was our best year ever for revenue and profits, and we recruited a lot of good people, and that has really continued. It has to be reassuring to a candidate thinking about joining Transplace that we are a company with good financial backing, with a lot of growth opportunity within the business.

LM: In terms of acquisitions, how are things looking on that front in terms of target companies? Is it a good time to be a buyer?
Sanderson: I think the answer to both questions is yes. There are good targets out there. We are fairly specific in what we are looking for. We would like to buy an ocean and air forwarding business that will help us grow scale in that sense. And we would also like to buy a 3PL business that is focused on contract transportation management. We are not really interested in a transactional brokerage business; a lot of companies look to buy

those, but that is not exactly what we want. We want somebody who has more long-term, contractual, non asset-based transportation management. That narrows it down a little bit, but we are a great fit for that, and we have tremendous technology and think there is an opportunity to pick something up in an industry we don't serve heavily today or perhaps a geographic area we don't serve heavily today like Canada, as opposed to Europe or Asia, where we are not looking to go to. We have a specific focus, and there are good targets. I think it is still a good time to buy. Certainly, I would say Transplace was the exception, in terms of the year we had in 2009 at a time when earnings are down for many firms. But, to me, that is a great time to buy.

LM: What are the biggest goals with future acquisitions?
Sanderson: We are looking to build up scale of our core business. Take the chemical industry as an example. We don't do a lot in that space. Chemical shippers may look at us and notice we don't have much experience in their industry, so making an acquisition in an industry vertical would make a lot of sense.

LM: Has the market's perception of Transplace changed at all since the ownership changed? Are you gaining market share?
Sanderson: From our customer's perspective, in one sense it is not much of a difference. We had sound financial backing before with companies like J.B. Hunt in the ownership position, and we have the same with CI Capital. To some prospects, there was a perception maybe that we favored [our previous] owner carriers over other trucking companies, and we went to great lengths to prove to people that was not the case. We were able to deal with that objection in the past, and it is not even a factor now. A lot of contract logistics management companies are part of asset-based companies if you take Penske Logistics or Schneider Logistics. We are one of the biggest non asset-based 3PLs and now it emphasizes the independence we have to a greater extent in trying to funnel any freight from any particular asset-based company.

LM: When looking at market conditions on the trucking side, there are some encouraging signs with recent growth for things like the Cass Freight Index and the American Trucking Associations' monthly tonnage indices in terms of year-over-year and sequential gains. Even though the year-over-year gains are based on pretty easy comparisons, it still looks like growth is occurring, as well as retail sales numbers, and other indicators. What type of impact are these things having on your businesses?
Sanderson: There is a little bit of an uptick on the freight side. What that means is there is more volume available for our brokerage business, because in the depth of the recession asset-based carriers don't turn down much freight. That kind of starves the brokerage to some extent, so there is a little more freight available. But at the same time, I would say we are just starting to see-in the spot market in particular-a little bit of capacity tightening up. So while there is a little bit more freight out there, which is good, spot market capacity has tightened up a little bit, which makes it harder to achieve the margins. And manufacturers and retailers are not looking to take on any kind of price increase for transportation yet. It is still a challenging environment, I think. While it is good to have the freight, the capacity side and the pricing side get a little bit more challenging right now.

LM: In terms of capacity, many carriers still have a lot of equipment on the sidelines. Meanwhile, smaller carriers are dealing with issues like credit availability and financing, which drives down the number of available trucks. As a company that works with so many carrier partners, are you feeling that at all or is it just a matter of moving onto the next carrier with available assets?
Sanderson: I would say that for contractual pricing relationships-where we are managing 100 percent of our customer's freight, and we enter into one- or two- year commitments with the trucking companies for pricing, service, and capacity-in that market the carriers are still pretty aggressively bidding to win that freight. And I think the psychology is if they win that freight for the next 12-to-18 months then they are likely to take some of those trucks off the bench and put them back into service and be more aggressive in that arena. And maybe the carriers are...trying to hold out a little bit and charge their customers more in spot market pricing, because you are not going to make any fundamental decisions to put assets back on the road for spot market pricing. In the contract pricing arena, we are seeing there is still plenty of capacity available in the spot market and it is a little bit tight right now. But it is not anything like it was in 2004 and 2005, though.