



Rome Transportation Inc

Rome Logistics Group of Companies

100 Campbell Avenue, Unit 2

Kitchener, Ontario

Canada N2H4X8

Rome Transportation Inc – White Paper Series

Asset Based Carrier or 3PL?

Collaboratively Written by the Rome Management Team

Asset Based Carrier or 3PL?

When entering the world of freight at any level, those who are new to the realm will be confronted by hundreds of thousands of options and services which can become very intimidating and over-whelming. This piece is designed to make that first entry-level experience easier for those who are unsure about how and who is the right choice to handle their logistics and supply chain needs. One of the first and most complex questions one might run into is the age-old debate – asset-based carrier, or 3PL? We are going to dive right into that discourse but first, it is vital to address and develop an understanding of the two main logistics service providers available to you in the market.

Let us begin with Asset-Based providers; these are those who own and operate the tangible assets being used to service logistics needs. These providers generally own warehouses, support equipment such as forklifts, but most importantly the transportation assets most commonly noted as over-the-road equipment such as transport trucks. When using these types of providers their services and capabilities are generally constrained by their own individual service capacities.

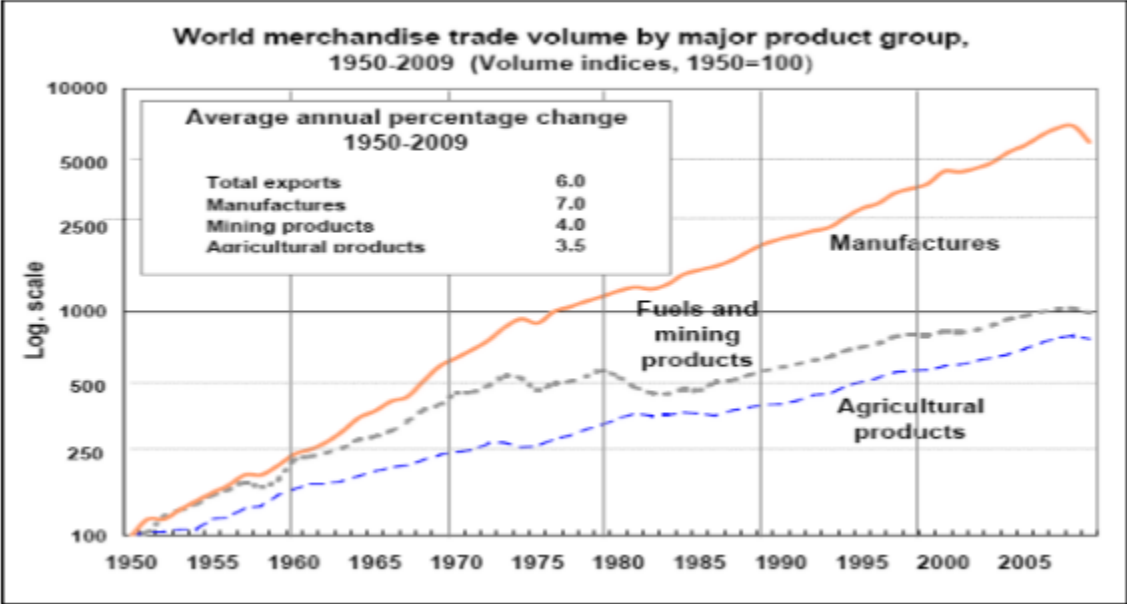
On the other hand, Third Party Logistics providers (3PLs) are those providers who perform a variety of logistics services, but do not necessarily own the physical assets being used throughout the service process. Such providers are intermediaries who act on behalf of their clients to provide and manage their clients' logistics requirements. These services can include a diverse and complex range of services including but not limited to transportation services, warehousing, and customs brokerage. 3PL providers are hired for their expertise, the extent of their capacities, and their proficiency in increasing efficiency and efficacy in the supply chain process. It is also equally as important to note this expertise and efficiency, comes a reduction in overall costs.

While there is a general assumption in the world of freight that because a company owns the physical asset, they will provide a better logistics service – as they own the assets, they will be easier to work with, offer better service, or be more reliable. On the surface, this perspective sounds legitimate, but the reality is that in numerous cases this line of reasoning simply does not hold true. The main strength of these companies is that they own their own assets but, as we will address shortly, this also acts in many cases, as their biggest weakness. As the logistics and supply chain industry grows and changes, many businesses and executives are beginning to realize and

capitalize on the benefits that a 3PL can provide instead of an asset-based carrier. Expertise, economies of scale, flexibility, economic advantage and the ability to prioritize the customer first are only a few of many reasons why although 3PLs do not necessarily own tangible asset, they do provide tangible results to companies of all scales and sizes. Beginning with expertise, and closing with the important of client satisfaction prioritization, I will go into a bit more depth on the benefits of choosing a 3PL.

Expertise

The growth in cross-border trade has been exponential over the past half-century, averaging around 6% per year. While this percentage increases, so too does the difficulty for companies to limit their businesses to local markets, after all doing so would only limit opportunity and growth. To expand into global markets, however, requires a certain level of expertise – arguably the most important piece that a 3PL can bring to the table.



Source: World Trade Organization

Expertise then becomes the product that 3PLs sell to their clients. As the market changes and the industry shifts, many of these providers who began as freight brokers have developed into more of a logistics consultant role. This change has allowed these companies to build on their previously offered services, and extend their portfolios to cover wider ranges of the freight world – from truckload freight to several supply chain services including warehousing, customs brokerage, on top of their original trucks coverage. A 3PL can both guide and manage the entire logistics process from beginning to end, allowing companies to expand and operate in diverse countries such as Mexico or China, where they otherwise may not have been able. If you're having trouble believing that this level of expertise is an asset in and of itself, ask yourself if you would want to attempt to ship to Mexico without any form of guidance if you had never done it before. In general, the answer tends to be no, and this is where a 3PL shines. A 3PL offers the full package and focuses on all aspects of the supply chain, rather than focusing on the benefits on a single "asset".

Economies of Scale

Shifting away from global trade and macro-level supply chain, it is important to acknowledge the small and medium sized companies as well that play an active and significant role in the logistics process. One of the core challenges that small-medium sized companies face is that they cannot achieve the volumes they need to in order to receive the same discounts as their large competitors. In many cases, these smaller businesses cannot achieve economies of scale in terms of their logistics requirements; this is absolutely true when we look at less-than-truckload (LTL) and hundred-weight (CWT) shipments.

These smaller scale companies can benefit from a 3PL because 3PLs have additional expertise as well what we call "buying power", which enables them to achieve pricing that is far below what a smaller business can often achieve. This is a result of the consolidation of many businesses' freight, to achieve strong buying power within the market. By using a third part logistics provider, smaller businesses can now attain pricing that is more in line with that which their competitors receive as well. Simply put, this benefit cannot be offered by a company that is focused on operating physical equipment – such as an asset-based carrier.

Flexibility, Options, Coincidence of Wants

Another key service that a 3PL offers that you are unlikely to receive elsewhere is the ability to connect the right carriers, with the right customer. When dealing with asset-based carriers, it is unlikely that your carrier will consistently have the capacity, the driver, the truck, the equipment, the hours, etc. to get to where your freight is. This issue of location and timing can often lead to situation where the truck will need to go to an undesired area, or have to drive a significant distance just to pick-up the freight, or even both. These situations create added cost to both the customer and the asset-based carrier in the form of both time and money.

Conversely, 3PLs are never restricted to a handful of asset-based carriers, instead, they have constant access to the services of tens of thousands of these carriers, all looking for freight. A massive industry network like this one allows your 3PL to essentially play “matchmaker”, working to match the right carrier to the right freight. To put this into perspective, we can look to an example on a common but difficult lane that several customers struggle to find the coverage for themselves. Let us say you have freight in Winnipeg, Manitoba and you need to get it to Kentucky – naturally you will try to find an asset-based carrier that has a truck sitting in Winnipeg, MB needing to get home to Kentucky. Even for one standard skid, this move will quickly cost you anywhere from \$800.00 to well-over \$2,000.00 for a direct 1200-mile move. However, if you were to hire a 3PL, very quickly your options become more abundant. Your 3PL can find you a truck to do just that, or, using their vast network of industry contacts, can utilize two hot lanes to move the freight out to Toronto, before cross-docking and moving the freight south, to Kentucky. While only a few loads move directly from MB to KY, therefore limiting your carrier options on this lane, hundreds of carriers are constantly running from Winnipeg to the GTA, and the GTA to the USA. With the right contacts and the right expertise, a 3PL will take your complicated, 1200-mile move and turn it into a quick and easy solution that will cost you a fraction of the price.

To take this that much further, if you struggled to find one carrier to do this load for you, imagine how difficult and frustrating it will be to find a second carrier in the event of a cancellation or a breakdown. An asset-based carrier will have a difficult time finding you a recovery plan, while a 3PL has hundreds of other carriers at their disposal, ready to recover the freight. In addition, just as an asset-based carrier’s capacity and lane volumes will change, so do yours. 3PLs can offer a

greater flexibility in terms of changing and adapting business needs, compared to an asset-based carrier.

Economic Recovery

At the end of 2007, the world was faced with the worst recession of a generation. That recess resulted in a massive decrease in production and economic activity which caused significant changes in the transportation industry. As the economy plunged into the recession, economic Darwinism came into effect in several markets, including transportation. Supply outweighed demand, and several companies were forced to react by pricing their rates to cover overhead in attempt to stay afloat and weather the recession. This period resulted in huge amounts of company exits within the industry as bankruptcies rose and asset-based carriers were forced to “close-up shop”. The economy recovered, resulting in increased demand and a reduced supply, causing a tightening within the transportation market. Looking at the figures below, we see this trend:

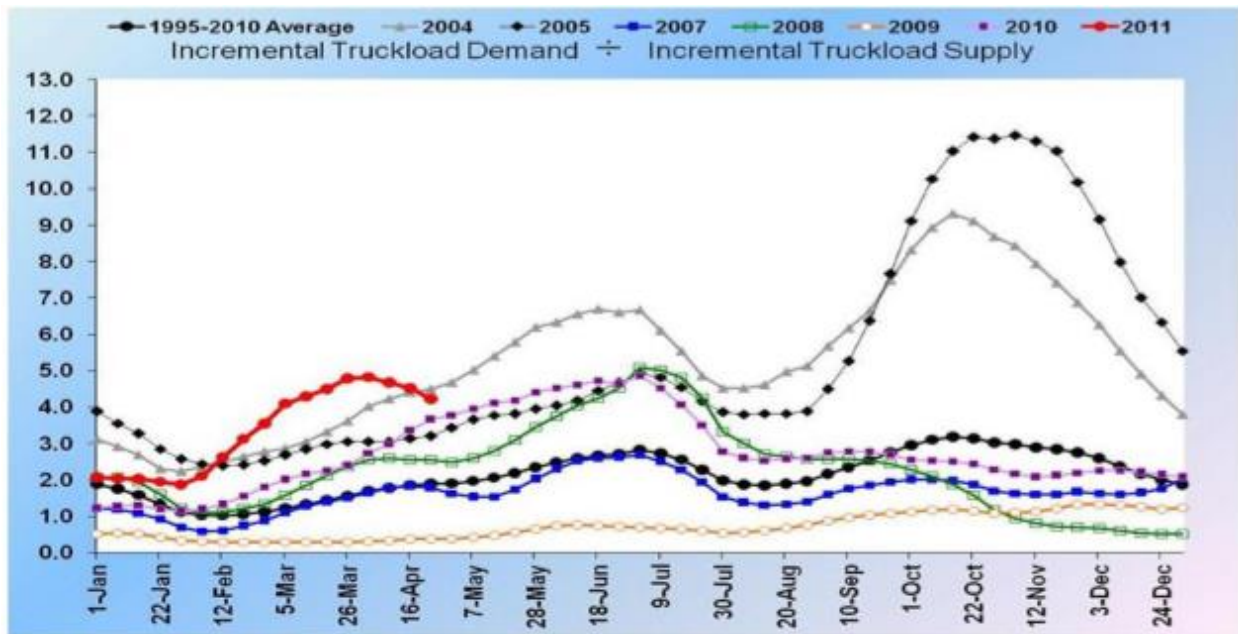


Figure A: Dry Van Index, Morgan Stanley

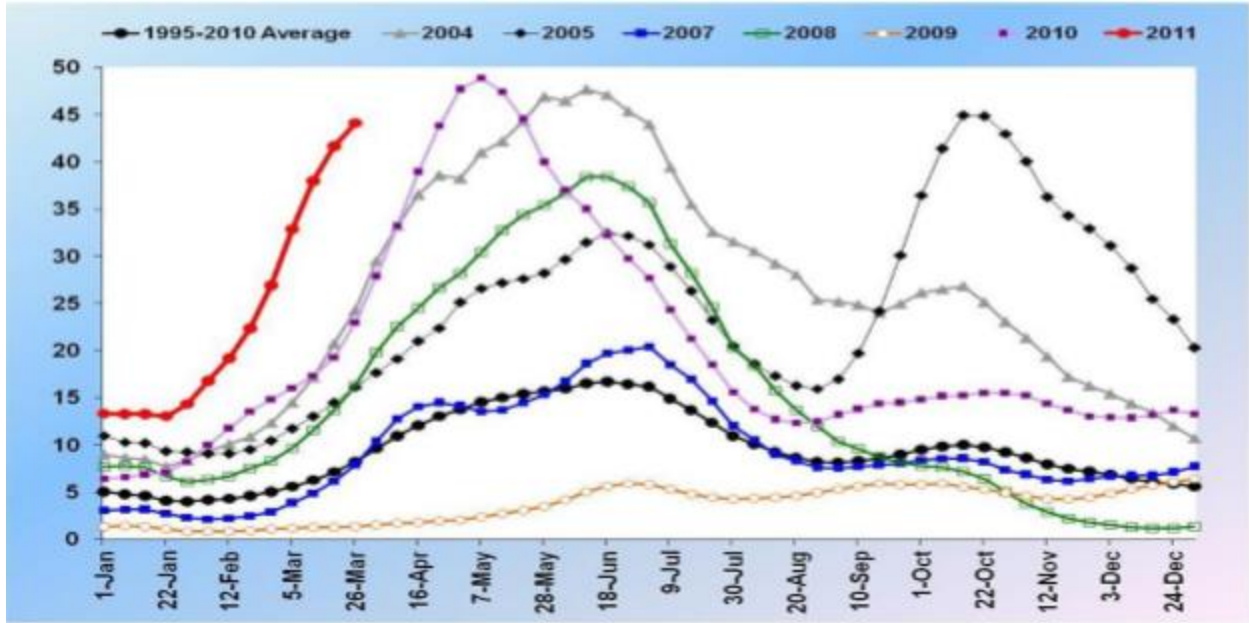


Figure B: Flatbed Index, Morgan Stanley

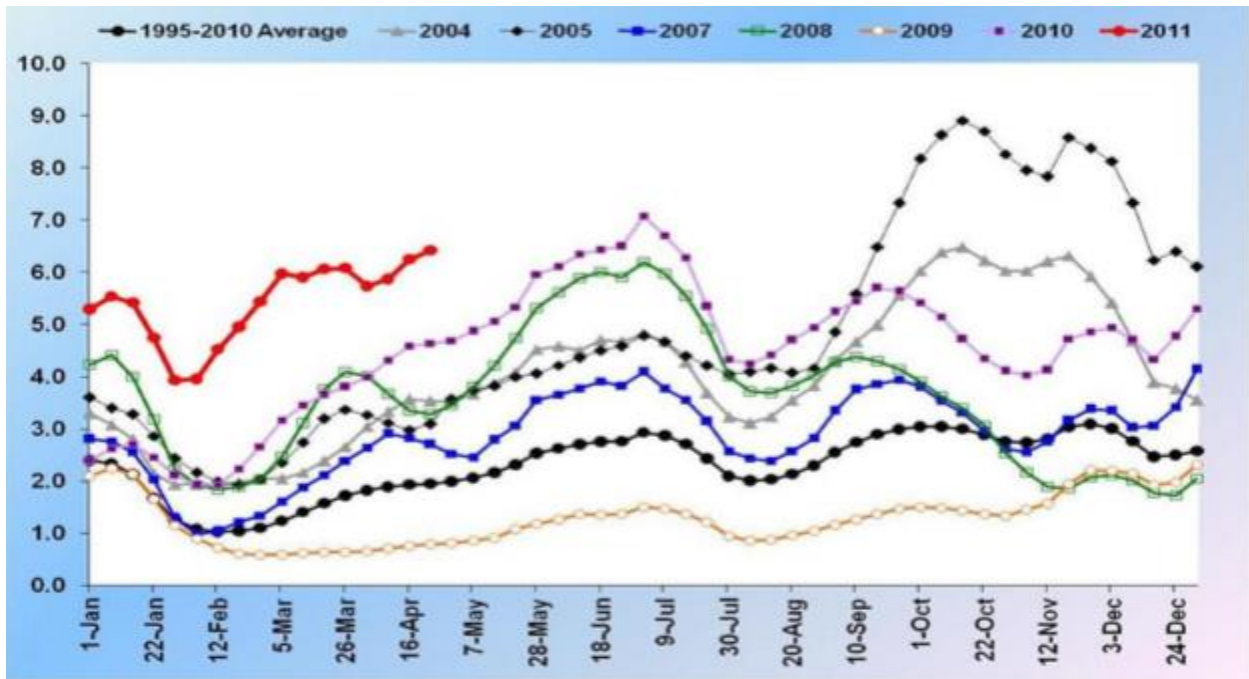


Figure C: Refrigerated Index, Morgan Stanley

The tightening within the markets of all major equipment types of transportation, combined with the rise in input costs (most notably fuel), results in higher costs and excess demands that the

market simply cannot satisfy. Without a large transportation network, companies will not only face the prospect of higher costs but will also find it increasingly difficult to secure services to transport their goods in a timely manner. In this respect, many 3PLs are well equipped to help companies respond to these shifting markets as the global economy emerges from a recession. Recent assessments of the transportation industry suggest a similar sort of “recession” is already at play and has been in the works since October of 2018. The year 2019 saw some of the largest carrier company closures, the first six months of 2019 alone doubling the number of closures in 2018 in its entirety. One of the largest problems for asset-based carriers on the cusp of a recession lies in the simple reality that as your pricing comes down, if your costs do not come down with them, you will become unprofitable. As pricing power rises and spot rates come down, but costs for driver pay, expansion, equipment stay where they are, asset-based carriers will struggle.

Customer Focus

Shifting away from recessions and economic threats, comparing 3PLs to asset-based carriers on the basis of customer focus is a significantly more pleasant and straight-forward concept. The reality of this comparison is that 3PLs tend to excel in the regard for several reasons. The lack of flexibility of the asset-based providers’ businesses often results in conflicting interests between the customer and provider. What is good for one party is not often beneficial to the other party. As discussed before, these providers generally seek freight on certain lanes and areas. If the customer has freight shipping outside of these regular areas, the customer has the option to pay a premium or let the freight sit idle until a truck becomes available or the provider can find freight to bring the truck into the area the freight is in. This issue comes from these asset-based companies having high fixed and variable costs; if your logistics requirements do not fit well into the providers’ other business and cost structure, the carrier will have to charge a premium cost, or reduce their service to meet their own business requirements.

On the other hand, the high degree of flexibility that a 3PL possesses allows them to be highly customer driven firms. 3PLs are not subject to the constraints of asset-based providers, allowing them to be able to focus on meeting their customers’ needs instead of being forced to meet their own. They will source the right trucks and drivers in the right places, and an added

benefit is that 3PL tend to have highly developed customer service and operations staff that have previously worked for asset-based providers.

Conclusion

Knowing whether to choose an asset-based provider or a third-party logistics provider to gauge and drive your supply chain comes from simply evaluating your businesses' needs and expectations. As we have seen from multiple facets of the industry, 3PLs – though they do not necessarily own and use their own assets, are not to be regarded as less beneficial or reliable to your company's supply chain. There are numerous benefits a 3PL brings to the table that an asset-based carrier does not, from flexibility, expertise, contacts and networks, to bountiful economic benefits. While asset-based carriers are the traditional thought, it is imperative that with changing times and industries comes changing your approach. Companies should evaluate their business needs and find a transportation and logistics solution that best meets their needs – and sometimes that can be an asset-based provider, but it is vital that companies do not underestimate the value a 3PL can bring when considering a service provider.

Choosing between a 3PL and an asset-based carrier can be a difficult decision. When deciding which is best for you and your visit, it is important to remember that 3PL's most marketable asset is their expertise. Having a 3PL that you can count on opens up your time to focus on your businesses other aspects and goals!
