The Risks of 3PL Mergers & Acquisitions

It was announced that worldwide Mergers & Acquisitions (M&A) totaled $3.8 trillion dollars last year, comprising a record number of 49,448 deals.[1] Among recent M&A of note within the Third-Party Logistics (3PL) and related industries are the Ocean Carrier, CMA CGM's announcement of a 25% stake in the Netherlands-based 3PL CEVA Logistics (with a $460 million commitment), C.H. Robinson's acquisition of Canada's Milgram (for $50 million) and Australia's APC Logistics (for $225 million), the Blackstone Group's acquisition of industrial real estate company Gramercy Property Trust (for $7.6 billion) and Prologis' acquisition of logistics property owner DCT Industrial Trust (for $8.4 billion).[2]

3PL M&A activity is expected to remain strong in the coming months. XPO Logistics has earmarked up to $8 billion for acquisitions and are planning to nearly double its last-mile delivery network hubs, according to the company's CEO.[3]

M&A among 3PL's remain attractive for several reasons:

- Expansion of market share and access to new markets
- Expansion of product or service offerings, including e-commerce
- Increased economies of scale
- Higher than average growth and return on investment

Mergers &Acquisitions are not without pitfalls, however. Most surveys conclude that the majority of major M&A fail to meet the expectations of the acquiring company's Board of Directors, including growth, market share, profitability and shareholder value.[4] The 3PL Damco, which was acquired by the Ocean Carrier Maersk in 2005 with the acquisition of P&O Nedlloyd, has struggled to achieve profitability within the Maersk Group, having posted a $36 million loss in 2017.[5]

The reasons for M&A failures are many:

- Underestimation of costs
- Unrealized benefits
- Lack of proper integration
- Lack of proper transition planning

Due Diligence of critical functions prior to the deal can significantly reduce the inherent risks of M&A success. This includes the process of objectively investigating the companies involved in the M&A to assure appropriate information including value and risk are available to decision makers. It quantifies the risks and benefits of a deal, which is often driven by the emotions of the parties involved. It helps prevent overpayment of a company or a disastrous combination from proceeding. It can also bring to light unrecognized benefits and synergies and provide information for a successful post-deal integration strategy and plan, which is crucial for long term success of any deal.

Due Diligence is best performed by third-party specialists. Our firm, WCL Consulting, with specialized expertise in the 3PL and Industrial Real Estate industries, focuses on known critically important areas, potential pitfalls, and the best practices that can be achieved. Clients, which have included Investment firms, firms wishing to expand their services and markets through acquisition, or potential target companies desiring to identify their own areas of concern and increase value prior to being put on the market, achieve long term success by performing due diligence early in the process.

The due diligence should extend beyond the traditional legal and financial due diligence performed with all M&A and include the company's strategies, organization, operations, and technology. Example areas evaluated could include: Company Business Plans, Market Position & Strategy, Competition, Competitive Advantage, Customer Satisfaction, Suppliers/Partners, Organization, Employees, Succession Planning, Employee Satisfaction, Corporate Culture & Environment, Operations, Planning & Control, Resource Management, Efficiency, Productivity, Quality Assurance, Facilities, Equipment, Capacity & Utilization, and Information Technology.

Specialized and objective due diligence early in the M&A process can reduce the inherent risks of 3PL M&A and improve the probability of achieving a successful outcome for all the parties involved.

Sources: [1] Thomson Reuters 2018; [2] Companies, Reuters, Wall Street Journal (WSJ); [3] WSJ 8/17; 4 Refer to studies by Deloitte, A.T. Kearney, KPMG, etc.; [5] Maersk Group