



# Scouting the path to 3PL Merger & Acquisition success

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**Using an Innovative Due Diligence Approach to Avoid  
Potential Pitfalls**

## Merger & Acquisition Growth

Worldwide announced Mergers & Acquisitions (M&A's) amounted to over \$2.7 trillion dollars last year, up 38% from the previous year.<sup>1</sup> A significant portion of these (over \$9 billion), occurred among the world's leading 3PL's.<sup>2</sup> M&A's among 3PL's remain attractive for several reasons, including:

- Competitor expansion of market share and access to new markets
- Expansion of product offerings
- Increased economies of scale
- Higher than average growth and return on investment

High profile 3PL's which have merged or been acquired in recent years include:

- Exel (by Deutsche Post)
- P&O Nedlloyd (by Maersk Logistics)
- BAX Global (by Schenker AG)
- GeoLogistics (by PWC Logistics)
- CCW Group (by Schenker AG)
- FMI Inc. (by American Capital Strategies/KRG Capital Partners)
- Hay's Logistics (by Platinum Equity)

The majority of 3PL M&A's are performed among competitors or companies operating in the logistics industry. However, an increasing amount is also performed by private investment firms as well.

This 3PL M&A trend is not expected to change, as the conditions that make 3PL's attractive targets continue. TNT NV, one of the world's largest 3PL's, announced late last year of its intention to sell portions of its logistics subsidiary in order to strengthen its global delivery business and better compete with FedEx, UPS and DHL. China's \$12 billion 3PL Sector, with annual growth rates of over 25%, is expected experience many M&A's in the coming years as a result of China's WTO accession and their subsequent allowance of 100% foreign ownership in their 3PL's as of December 2005.<sup>3</sup>

### Potential Pitfalls

M&A's are not without pitfalls however. Most surveys conclude that the majority of major M&A's fail to meet the expectations of the acquiring company's Board of Directors, including growth, market share, and shareholder value.<sup>4</sup> The reasons for these failures are many, including:

- underestimation of costs
- unrealized benefits
- lack of proper integration
- lack of proper transition planning

### M&A Due Diligence

The risks inherent in M&A's can be significantly reduced with a proper due diligence effort. Due diligence is the process of investigating companies involved in M&A's to



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assure appropriate information, including value and risk, is available to decision makers. This is usually performed very early in the process, prior to deal negotiation, but may continue throughout the negotiating period as well as after the acquisition (e.g., to investigate subsequent causes of concern and assist in their resolution).

Proper Due Diligence helps quantify the risks and benefits of a particular deal, which is often driven by the emotions of some of the parties involved. It helps prevent the overpayment for a company or a disastrous combination from proceeding, which could result in wasted time and money and a negative impact on the workforces involved. On the contrary, it can also bring to light unrecognized benefits and synergies. It also provides information for the formation of a successful post-deal integration strategy and plan, which is crucial for long term success of any deal.

WCL Consulting works with 3PL's and Investment Firms to perform due diligence investigations in order to identify potential synergies, potential problems and hidden costs and to assist the parties to arrive at an appropriate purchase price, determine compatibility, and plan for a smooth transition and the achievement of M&A objectives.

Due diligence is usually performed by a group of specialized Teams, including Accounting Firms, Law Firms, specialized Consulting Firms, as well as the companies themselves.

It usually begins with an agreement (e.g., letter of intent) to share relevant information on a confidential basis for a limited period of time (e.g., several months). The Due Diligence teams collect and review relevant documents,

interview personnel, observe practice, inspect equipment, products and facilities and perform discreet information searches from both public and private sources in order to provide a complete picture. Quite often the process uncovers areas of concern, known or unknown to company management, which will need to be addressed. Sometimes these are significant enough (e.g., hidden costs and liabilities) to affect the purchase price or break the deal altogether. Due Diligence is usually paid for by the acquiring company and is usually worth many times the potential costs saved down the road.

Among the areas reviewed by due diligence specialists are:

- Corporate Background
- Financial Status, Controls and Forecasts
- Products and Services
- Strategic Partners and Suppliers
- Property, Facilities and Equipment
- Intellectual Property
- Marketing
- Technology
- Management Culture
- Employees
- Insurance
- Regulatory Compliance
- Legal Obligations and Proceedings

## Specialized Due Diligence

WCL specializes in due diligence of 3PL Operations, Marketing, Information Technology, Facilities, Human Resources and Organizational matters. Having many years experience in the industry, their Consultants have come to know the important areas, potential pitfalls and best practices that can be achieved. They verify company claims and representations and look beyond financial



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statements and projections to assess company capabilities and potential.

WCL Consulting tailors its systematic 3PL due diligence process to the needs of the client and the unique circumstances of each proposed deal and may include an analysis of company:

- Mission and Business Strategy
- Organizational strengths, weakness, opportunities and threats (SWOT)
- Marketing Position and Marketing Plans
- Company Capabilities and Capacity
- Technology
- Organizational Culture
- Key Personnel and Succession Plans

WCL supplements financial and legal due diligence by assessing company operational performance against industry and cross-industry best practices, mapping processes, defining organizational

responsibilities, identifying opportunities for improvement, developing recommendations, and assisting in the formation of transition plans and risk mitigation strategies.

In a recent 3PL project, WCL identified significant issues related to facility capacity which negatively impacted the target company's growth and profitability projections. This led to adjustments to projected earnings calculations and a subsequent adjustment in the tender offer to a more realistic value. In another project, WCL identified Information System deficiencies requiring significant future investment requirements, again affecting purchase price, and the formulation of an appropriate mitigation plan.

Utilizing specialized consulting firms with relevant industry expertise early in the M&A due diligence process can reduce the inherent risks of 3PL M&A's and improve the probability of

achieving a successful outcome for all the parties involved.

**WCL Consulting** is a management consulting firm providing due diligence, logistics, supply chain management and warehousing and distribution advisory services to investors, major manufacturers, importers, distributors, third-party logistics providers, industrial real estate companies and the public sector.

More information can be found at [www.wclconsulting.com](http://www.wclconsulting.com) or by calling 562-435-2600.

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References:

- <sup>1</sup> Thomson Financial
- <sup>2</sup> Armstrong Associates, Inc
- <sup>3</sup> Latitude Capital Group
- <sup>4</sup> Refer to studies by Deloitte & Touche, A.T. Kearney, Arthur Andersen, Watson Wyatt, etc.



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