

Warehousing in North America – 2007

A Summary of Market Size, Major 3PLs, Benchmarking Prices and Practices

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Introduction

This summary includes estimates of the North American commercial warehousing market. We estimate this market to be \$32.8 billion in net revenue with an after-tax profitability margin of 3.9%. The growth rate for 2006 was 9.7%. We also estimate the number of warehousemen at 900, with 957 million square feet of storage space.

About 66% of the North American market is now in contract warehousing. 54% of the contracts are for three years; 22% are for five years. The modal operating margin is 10-14.9%. This margin occurs in 34% of the cases, while the modal expected margin is 15-19.9%. Operating margins vary by verticals serviced and company expectations. Higher margins are obtained for the chemicals, telecommunications, apparel and high-tech verticals. Low margins dominate for food/beverage and hardgoods.

Our statistical analysis indicates that open book relationships lower margins. Ownership increases margins. When the customer is obligated for the facility, margins increase. When the customer owns or leases the facility, margins are depressed.

For public warehousing, the average handling charge per pallet is \$6.43 with the modal category \$4.00 - \$4.99. For cartons over 15 pounds each, the mean price is 48¢.

Significant differences are reported between value-added services in contract and public warehousing. Contract services tend to be more specialized and labor intensive.

The Largest

In Table 1 we list the 25 largest commercial warehousemen. DHL Contract Logistics (Exel) is the largest in terms of space and revenue. With its purchase of Exel, DHL's contract logistics division does \$3.4 billion per year in North America. UPS and Caterpillar are also in the billion dollar club.

Our list includes smaller, cross-dock warehouses. These warehouses are primarily involved in through-movement of goods from one transportation vehicle to another. Storage of product tends to be minimal. In an era when we have a strong emphasis on minimizing inventory and its costs, the cross-dock is sometimes referred to as the perfect warehouse. Companies like BAX, EGL, Inc. and Expeditors are primarily cross-dock operators.

Detailed information on the companies listed in Table 1 is provided in *Who's Who In Logistics*.

**Table 1. Largest Commercial Warehousemen in North America
(Ranked by millions of square feet)**

Rank	Company	Number of Warehouses	Total NA 2006 Warehouse Space (m sq. ft.)	2006 Gross Revenue (\$ millions)
1	DHL/Exel	573	143.0	8200
2	Landstar	110	72.0	683
3	Total Logistics Control	83	37.0	356
4	UPS SCS	1238	35.0	7706
5	Caterpillar Logistics	105	27.0	2400
6	UTi Worldwide	210	26.0	3561
7	GENCO	85	24.8	514
8	APL Logistics	162	24.5	1310
9	AmeriCold Logistics	102	23.0	850
10	Ozburn-Hessey	92	21.4	660
11	Kenco	95	21.0	300
12	MBX Logistics	51	20.0	60
13	BAX Global	58	19.0	2899
14	Jacobson	95	18.5	375
15	Ryder System	184	18.3	2597
16	CEVA	76	17.9	1100
17	Nippon Express USA	150	15.0	4000
18	Eagle Global Logistics	87	15.0	3200
19	Warehouse Specialists	47	15.0	93
20	DSC Logistics	35	15.0	200
21	NFI Industries	70	14.5	718
22	Kuehne & Nagel NA	60	14.0	2812
23	Menlo Worldwide	84	13.0	1356
24	Penske Logistics	135	10.5	3050
25	Nissin Int'l Transport USA	75	10.0	250
Totals		4,062	670.4	\$4925

Pricing and Billing Practices

The results displayed in Table 2 reflect the wide variance in pricing practices of warehousing 3PLs. In general, rent and lease payments are fixed. So are taxes, depreciation, insurance and racks. Part of the time, such as multi-client locations, flex space and unit pricing, these traditional fixed costs are treated variably.

Table 2. Pricing and Billing Practices for Warehousing 3PLs

What percentage of your contracts are:		Range
Cost-plus	35%	15% -100%
Open book	37%	5% -100%
Closed book	63%	10% -100%
How many contracts do you have?	108	7 - 400
Do you bill variable costs as:		
Unit costs per pallet or case?	45%	
A lump sum amount per week, month or other time period?	10%	
Sometimes unit costs, sometimes lump sum?	45%	
What percentage of your contract operations are in:		
Your building (owned or leased)?	68%	15% - 100%
Customer's building (owned or leased)?	32%	1% - 85%
What are your target operating margins (EBITDAs)		
Your building?	16%	5% - 30%
Customer's building?	14%	5% - 25%

Employee costs are sometimes treated as fixed for managers and administrators. Forklifts, other equipment and insurance can go either way. When we asked about billing of fixed and variable costs, we get answers that at first look confusing. However, the questions are discreet and the answers indicate the respondents do it both ways depending on client wishes and how the negotiations come out.

Regional Variations in Public Warehouses

Our overall average for public warehouses sizes is 315,000 square feet. Individual regions vary from 265,000 to 375,000 square feet

The average number of customers is 19. While the West closely matches the overall average, it also has more warehouses with more than 50 customers. Not surprisingly, there is a cluster of these facilities in the LA Basin. There is less variation in other regions.

Pallet charges are fairly uniform across regions. However, carton handling and floor storage rates are higher in the West. The higher averages are caused by inclusion of a compliment of high-value product and piece picking operations. When these locations are excluded, West carton and floor storage values are more in line with other regions.

Table 3. Regional Averages

Basics						
Region	Size	Avg. # of Customers	Pallet Handling Charge	Carton < 15# Handling Charge	Carton > 15# Handling Charge	Rate Per Hr.
Central	355,000	26	\$6.30	\$.32	\$.48	\$28.62
Midwest	375,000	23	\$6.78	\$.31	\$.49	\$29.27
Northeast	334,000	11	\$5.63	\$.25	\$.55	\$30.35
Southeast	265,000	15	\$5.61	\$.21	\$.33	\$28.06
West	286,000	20	\$6.35	\$.65	\$.77	\$29.88

ABOUT ARMSTRONG & ASSOCIATES, INC.

Armstrong & Associates, Inc. is a supply chain management consulting firm specializing in market research, mergers and acquisitions and outsourcing. Armstrong & Associates publishes *Who's Who In Logistics? Armstrong's Guide to Global Supply Chain Management* and *Who's Who in Latin American Logistics and Supply Chain Management*. Recent research papers include *Concentration U.S. and Global Third-Party Logistics Financial and Acquisition Results for 2006*, *Warehousing in North America* and *Trends in 3PL Customer Relationships*. In addition, Armstrong & Associates maintains databases of warehousemen, freight forwarders and third-party logistics providers and distributors.

The entire report, "Warehousing in North America – 2007," is available from Armstrong & Associates. The price for IWLA members is \$995.