

Customer & Market Due Diligence Of Logistics Staffing Company: Establish Warehouse Labor Market and Growth Outlook

The Challenge: One of our longtime PE clients was looking to acquire a family-owned light industrial staffing business serving the logistics end-market among others. Attracted by the target's blue chip customer base and track record of growth with existing customers, our client wanted to better understand the outsourced labor outlook in light of labor disruptions and increasing E-commerce demand during COVID. As such, Gotham was asked to conduct a 3-week customer & market due diligence in order to establish: (1) the outsourced warehouse labor market size and growth outlook; and (2) the target's competitive positioning and reputation in the outsourced warehouse labor market.

Warehouse And Big & Bulky Delivery Labor Assessment: To address these two due diligence objectives, Gotham undertook a multi-pronged, data driven approach, including:

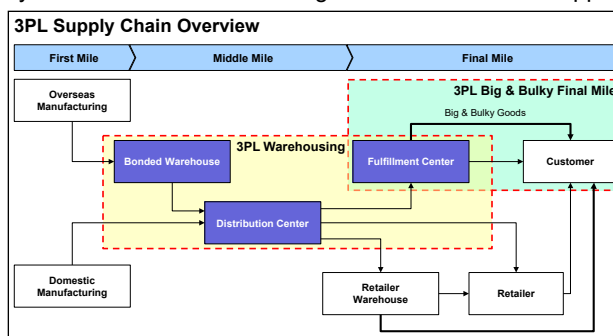
- Conducting 65 interviews with and 91 online surveys of light industrial staffing decision makers to establish: outsourced labor needs after COVID, contracting process and purchasing criteria, and the target's reputation and competitive positioning
- Assessing the 3PL warehousing and transportation market by leveraging government and industry data and secondary research to: pin down market structure, size, and growth trends; and establish labor requirements and level of outsourcing by position
- Developing a light industrial market sizing model based on government and industry data
- Mapping and analyzing the target's customer data to provide insights into the target's revenue by service, customer, end-market, state, and type
- Building a detailed database of industrial staffing agencies and profiling large and midsize players.

3PL Warehouse Market Grew 25% During COVID Driven By E-commerce Expansion

The growth of E-commerce has increased the demand for distributed warehousing to quickly deliver products nationwide – E-commerce sales skyrocketed during COVID, growing 83% between 2019 and 2022. As E-commerce fulfillment centers require 2-3x more space and 3x more labor than retail warehouses, retailers are not able to build a nationwide network of warehouses to keep up with Amazon delivery speed cost effectively – increasingly, retailers have chosen to outsource their warehousing to 3PL companies. By serving multiple customers out of a warehouse, 3PL warehousing companies can justify a large national network of warehouses and offer faster and lower cost delivery to consumers. As 3PL warehousing companies scale up, they are leveraging temporary staffing agencies to meet a portion of their labor needs. Typically, a 3PL warehouse will outsource ~25% of its labor allowing it to flex up and down with changes in demand. Gotham's interviews also revealed that 3PL warehouse companies often recruit full-time employees by offering permanent roles to qualified temp labor, effectively outsourcing recruitment to staffing agencies in a difficult labor market.

Outsourced Big & Bulky Delivery Market Is Growing, Driven By Scale Efficiency Of 3PL Transportation Companies

Gotham's robust analysis of the target's sales data revealed that many of its customers were using outsourced labor to support Big & Bulky deliveries comprising large items that are too big and heavy for parcel carriers (e.g., TVs, appliances, furniture, exercise equipment) and are delivered using multi-person crews. Historically, Big & Bulky delivery was provided by retailers with their own crews or using local independent providers. With E-commerce sales growing for Big & Bulky items, large 3PL transportation companies are entering this segment to provide a sophisticated, nationwide solution by creating an attractive outsourcing option for retailers who want to focus on their core business while leveraging 3PLs' high-density, lower-cost delivery networks. Given this attractive option for retailers, the 3PL Big & Bulky delivery segment is expected to continue growing at 10% CAGR. 3PL companies are outsourcing delivery helper roles to staffing agencies as their core competency is hiring drivers. These delivery helper roles are crucial to customer satisfaction as Big & Bulky items often require assembly or installation. Currently, 55% of the market comprises this white glove assembly service, creating opportunities for the target to provide more delivery helper labor to 3PL companies. However, Gotham also found that only 6% of the delivery helper roles are potentially addressable by staffing agencies because much (88%) of the Big & Bulky delivery market follows an asset-light model, utilizing independent driver contractors who bring their own labor.



Target Is A Well-Positioned National Player In The Stable Light Industrial Staffing Market

Gotham's analysis found that the target is well positioned within the light industrial staffing market to capitalize on post-COVID Big & Bulky growth as well as growth within its primary end-markets. The light industrial staffing market, which consists of unskilled helper type labor, experienced significant growth throughout COVID driven by the turbulent labor market, but moving forward, the market is expected to have a stable outsourcing level and grow at 3.9% CAGR. The light industrial staffing market is ~9% of the \$186B US staffing industry, with warehouse labor accounting for 95% of light industrial staffing. The target continues to experience high growth within its primary end-markets and Gotham established that the target performs well on key performance criteria, including turnaround time/fill rate, communication, and local account management, and is rated either higher or in line with competitors.

The Outcome: Gotham's in-depth analysis of the 3PL warehousing, Big & Bulky delivery, and light industrial staffing markets, as well as our interviews and surveys providing customer feedback on the target, allowed our client to gain clarity on the target's competitive positioning and growth outlook and confidently proceed with the transaction.