Cottoning to 3PL business

Memphis-based Dunavant undergoes a radical transformation.

By Chris Dupin

Dunavant is one of the storied names of the cotton business, but a few years ago the Memphis-based company made a bold decision to exit the cotton trading business to concentrate on logistics.

To get a sense of the magnitude of that decision, a little history is needed:

In the late 1800s, former Civil War Col. William Pemberton Dunavant helped establish a railroad that moved cotton in Mississippi with Gen. Nathan Bedford Forrest.

His son, William Buchanan Dunavant Sr., started trading cotton with T.J. White & Co. in 1928 and was joined by his son, William B. Dunavant Jr., at the firm in 1952. The company was renamed W.B. Dunavant & Co. in 1960 after T.J. White retired.

Upon the death of his father in 1961, William B. Dunavant Jr. became chief executive officer at the age of 28, building the company into the largest cotton trading company in the world.

An article in the *International Directory of Company Histories* said "not only did Dunavant possess an innate feel for the market, he proved to be a true innovator and visionary." It credits him with "pioneering the concept of forward contracting in cotton, whereby and entire crop was bought at a set price before it was planted" and making the first sale to mainland China in November 1972, just months after President Nixon's visit.

Proud Heritage. His son, William B. Dunavant III, joined the company in 1982, becoming CEO in 2005, and still runs the company today.

"We are very proud of our cotton heritage and what my father and my grandfather built up," said Dunavant, noting that revenues reached more than $1.5 billion.

"We focused solely on cotton and did not trade other commodities," he said. "The principal business was to buy and sell raw cotton from a farmer and ship it overseas or domestically to a textile mill."

As merchandisers, the company discovered the price of cotton, hedged risk, sorted it by quality and delivered it to the mill. The company was vertically integrated, with its own warehouses for storing cotton, gins to remove seeds, and mills for crushing cotton seeds for their oil and meal.

It arranged transportation, and lots of it.

"We provided all of the logistics for moving 5 to 6 million bales of cotton globally every single year," Dunavant said. "That included everything in the supply chain — from warehousing to moving it by truck, rail, ocean, and intermodal — to a containerized delivery somewhere around the world."

The company's intermodal spend was about $250 million, and it moved 125,000 TEUs throughout the globe, from every cotton-producing country to every importing country.

In the 1970s, he said the company was having trouble getting truckers to meet appointments and make on-time deliveries. So Dunavant decided in 1972 to go into the truck brokerage business, arranging its own freight on a non-asset basis "to get better control of our supply chain — particularly with the domestic mills in the United States which were looking for just-in-time service."

Then "we had to get into the warehousing business because warehouses were not performing and delivering our commodity, cotton, to us, on a timely manner," he said.

As the company developed its logistics business, it also wrote many proprietary software programs to assist with its supply chain, and Dunavant said the most important was the company's document packaging system (DPS).

"We were shipping cotton all over the world," he said. "You had an invoice and a packing list that included all the quality parameters of each individual bale of cotton, a letter of credit, a phytosanitary certificate.

"We wrote a system to aggregate all of that electronically into one package where we could move it and negotiate from one system as opposed to having to run around and aggregate a bunch of documents," he explained. "It cut out a lot of time and effort to what we were doing."

But in the late 1990s and 2000s, the cotton industry was undergoing a profound change.

For one thing, domestic consumption plummeted as textile production moved overseas — from 13.3 million bales of cotton in 1997 to 4 million bales in 2007.

The company switched more into the

export business, and also sourced cotton from around the world, namely from Australia, India, Uzbekistan, Africa, and South America in addition to the United States.

"We truly were global — negotiating letters of credit and creating and solving supply chain issues all over the world, and we had a great team that did it," Dunavant said.

Five years ago, the company hired Richard McDuffie, a logistics expert who held management stints at AutoZone, Williams-Sonoma, Cardinal Logistics, Ryder and J.B. Hunt.

"We wanted him to come in and make sure we were managing our business and our spend in logistics all the way out to the fourth decimal point," Dunavant said. "If you squeeze 50 cents a bale on 6 million bales, it's a lot of dollars at the end of the day."

Even though it was shipping cotton worldwide at different times, he said the company was only using its employees part-time, or about 80 percent of the time. So the company "started moving freight for other people and it worked very well for us."

Difficult Decision. Dunavant said in 2000, as money became cheap, speculation increased globally, especially in commodities.

"The risk level in cotton was really quite incredible," he said.

So in 2008-2009, the firm made what he said was a difficult decision, and sold its cotton trading operation to the Allenberg Cotton, part of Louis Dreyfus Commodities.

"They were No. 1 in some places in the world, and we were No. 1 in some places in the world," Dunavant said.

When the company exited the trading business it decided to focus on its logistics operations.

"Handling freight is not like trading futures where there is enormous risk, so our risk profile has changed," he said

"We had logistics relationships and infrastructure all over the world. I felt there was a wide need to help small and medium- size shippers as they go international."

He added: "We feel like our biggest customer was Dunavant for years and years, and we did a very good job for Dunavant and we feel we can do a very good job for our other customers."

With Dreyfus deciding to handle the logistics of the cotton trades, Dunavant's handling of this freight fell sharply.

Dunavant referred to the company today as a small to mid-market 3PL, but said it is building volume every day, "moving at a pretty good clip."

"We are quite excited about this. We have been doing this over two years and I would say that we are in another commodity business," Dunavant said. "The commodity is freight, logistics and movement. It is a high-volume business, fairly low margin, and you have to do it right for your customer."

The company retained its truck brokerage operation, and logistics software. It also has a capital management and private equity business.

Dunavant's logistics business today consists of four groups:

- Global – The company is a licensed freight forwarder, non-vessel-operating common carrier, and customs broker and is in the process of getting its air forwarder license. It also has extensive experience negotiating letters of credit. "We can give people solutions in literally any country in the world. It's no different from what we did in cotton, what we are doing today for other people," Dunavant said.
- Warehousing – While the company divested itself of 7 million square feet of owned and leased warehouse space when it got out of the cotton trading business, it retains warehouses in Memphis and middle Tennessee, and does pick-and-pack work.
- Solutions – This group provides supply chain consulting to small, midsized and large companies. Dunavant said this involves teaching clients the processing and costing models it developed when it was in the cotton industry and adapting it to their businesses.
- Freight – The company has both non-asset and asset-light freight operations. The non-asset business is its truck brokerage operation. The company said it has access to more than 4,000 trucking companies throughout the country and moves all types of freight across all transport modes. The asset-light business is involved in intermodal drayage, where the company uses owner-operator drivers.

William B. Dunavant III
CEO, Dunavant Enterprises

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3PLs born from shippers

Evan Armstrong, president of consulting firm Armstrong & Associates, said it is fairly unusual for 3PLs to grow out of shipper operations, but not unprecedented.

He noted Dunavant was different in that it was growing out of a trading company and trading companies do a lot of logistics work as part of their primary business.

Examples of manufacturers that have created 3PL subsidiaries include:

- Caterpillar Logistics, which Armstrong said has top line revenue of about $3.5 billion and runs 119 distribution facilities with 28 million square feet of space. He said about half of what Caterpillar Logistics does is for the parent company.
- Uniroyal's USCO subsidiary, which was later acquired by Kuehne+Nagel in 2001 for roughly $300 million.
- Fidelitone, based in Wauconda, Ill., transitioned in the 1970s from making phonograph needles to parts distribution and then to a 3PL business as the music industry changed. Today, Armstrong said Fidelitone has top line revenue of more than $320 million, 500 employees, and 28 warehouses with as much as 1 million square feet of space.
- Technicolor Transportation Management Services, a unit of the Paris-based entertainment technology company, has revenue of about $450 million, Armstrong said. The company handles more than 15 million shipments annually, for example distributing DVDs and games to retailers.
- Celestica, the contract electronics manufacturer, has also developed a sizeable 3PL operation.
- ATC Logistics and Electronics began life as a company that remanufactured automobile and light truck transmissions and grew its 3PL subsidiary to the point where it was purchased in 2010 by GENCO for $512.6 million.

Drayage Business. The company entered the drayage business at the end of 2010, acquiring a majority interest in Houston-based Trans Gulf Transportation and partnering with its president Billy Keys. Trans Gulf had terminals located near both the Port of Houston and rail terminals, and has expanded to the Dallas area.

A few months later, it acquired Sea Lane Express which offers drayage services at East Coast ports, including Norfolk; Wilmington, N.C.; Charleston; and Savannah, and inland cities such as Atlanta, Charlotte, and Nashville.

Dunavant now has about 350 owner-operator drivers in the drayage business and plans to expand its drayage footprint by gradually adding other ports and inland cities in the Southeast.

Control over drayage will also help the company offer shippers better visibility to their cargo.

"We are putting tablets inside all our intermodal drayage trucks," Dunavant said. "We want people to be able to invoice before our trucks are out of the port."

McDuffie said ports in the Southeast should benefit from the opening of the Panama Canal. "I don't expect it to be a hockey stick, but I think it will allow them to grow at a good steady pace," he said.


McDuffie

The company also believes the region may benefit from increased trade with Central America as labor costs rise in Asia and fuel pushes up the cost of transportation.

In addition, the company is interested in investing in the chassis business. Dunavant believes it will probably use a mixture of chassis supplied by liner carriers and their pools, shippers, as well as its own equipment.

"As a 4PL we want to keep all our options open," Dunavant said. However, he believes an owned pool will be a safety asset that attracts both drivers and shippers.

Dunavant is not willing to discuss the current size of his business, but said clients range from the Fortune 100 to midsized businesses. They are in a diverse group of industries too, covering retail, chemical, food, industrial products, and automotive. And, the company has some cotton shippers as well as customers of other commodities such as rice, grain and lumber.

When the company was a cotton trader it worked with many agents overseas and also had its own offices. It closed many of those offices, but retained its partnerships with agents.

"We kept all those relationships, so from an overhead standpoint it's good. From a 'pick the phone up and call anyone in the world' standpoint, it's good," Dunavant said. Likewise, the company has maintained its relationships with trucking companies, ocean carriers, and government agencies worldwide.

The company also added software and kept the best people in logistics from the former cotton business and has continued to add personnel.

Dunavant's background in commodities could be useful if products designed to hedge freight take hold. The company has looked at opportunities to hedge fuel for shippers in the past and had discussions with the Shanghai Shipping Exchange about its container freight index, Dunavant said.

"There is a lot of volatility in ocean freight rates and there continues to be. I think that with the background of Dunavant in the past trading and understanding futures and options that we are going to keep a close eye on it," he said. "Futures and options in freight are no different than in any other market. It has a utility for the people who need it and it creates a speculative opportunity for those people that like to gamble." ■