

MIDDLE MARKET

Growth

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J.B. PRITZKER & DAVID LEE
DEVELOPING A REFINED
PALLET



Photo by Matthew Gilson

FEATURES

Developing a Refined Pallet

Backed by Pritzker Group Private Capital, PECO Pallet has carved a niche for itself in the behind-the-scenes product distribution market. A stalwart player in the space, PECO is leveraging strong management, customer service and technological advantages to win accounts like Kraft and expand its market share. [➡ Read more.](#)

“I NEVER THOUGHT ANYBODY COULD BE PASSIONATE ABOUT PALLETS.” // J.B. PRITZKER, MANAGING PARTNER, PRITZKER GROUP PRIVATE CAPITAL



Private Equity's Secret Weapon

PE groups are increasingly sourcing deals through independent sponsors, drawn to their niche expertise, connections and the low risk of paying post-closing. [➡ Read more.](#)



J.B. PRITZKER & DAVID LEE
DEVELOPING A REFINED
PALLET

Pritzker Group Private Capital Helps PECO
Expand Its Role in the U.S. Supply Chain

BY DEBORAH L. COHEN



PECO PALLET //

Business:

Shipping pallet rental and repair

Headquarters:

Irvington, New York

Market Share:

12% of North America

Private Equity Investment:

Pritzker Group Private Capital

Customer Base:

Leading manufacturers of grocery products and consumer goods



Website:

www.pecopallet.com

The humble shipping pallet—nearly invisible to users of the merchandise it helps transport—could well be the unsung hero of consumer products distribution.

This simple platform, often made of wood or plastic, functions largely behind the scenes as it moves through myriad stops in the supply chain, from manufacturer to warehouse to retailer and back again. In most instances, it fades back into the endless cycle of shipping and receiving removed from customer view, known only to packers, stock boys and store clerks.

But the pallet is far from insignificant. Without it, everything from dry goods to perishables such as milk, meat and dairy could not easily be shipped, warehoused or arranged on store shelves.

**PALLET
PALOOZA //**

The depot is one of many points in a pallet's continuous journey.



“I never thought anybody could be passionate about pallets,” says J.B. Pritzker, the billionaire investor and philanthropist whose private equity firm purchased **PECO Pallet Inc.**, a small but promising North American supplier of wooden pallets, in March 2011. “But I have to say, three and a half years later, I am passionate about pallets.”

Pritzker and his brother, Tony, best known in the investment community for their interest in technology startups, are also stalwart supporters of middle-market companies like PECO.

The portfolio of their investment firm, Chicago-based **Pritzker Group Private Capital**, includes a host of other little-known industrial holdings such as **Technimark**, a producer of plastic packaging; **Signicast**, a maker of custom metal components for motorcycles and machines; and **Milestone AV Technologies**, a provider of projection screens and other AV equipment—none too sexy, but typically steady middle-market performers.

So it was no surprise the firm was drawn to PECO's quality product, high level of customer service and its potential to take additional share from larger rivals, namely **CHEP**, which controls the lion's share of the market, says Pritzker. The major impediment to PECO's growth was the lack of capital required to go after big consumer-goods accounts.



DAVID LEE //
PECO's CEO
is leading the
company into
new markets.

To win new business, pallet suppliers must be willing to put up large amounts of cash, mostly to purchase more pallets to cover the scope of a manufacturer's extensive distribution network, he says. Even winning a small food manufacturing account requires a significant outlay.

"The customers of their competitor didn't really love the competitor, so we said, 'Why aren't you doing business with PECO?'" Pritzker recalls. "We said, 'What a great opportunity. We can help grow the company.'"

DEEPER POCKETS, MORE PALLETS

Today, with the benefit of the Pritzker Group's deep pockets and long-term buy-and-hold approach to investments, PECO's share of the North American pallet rental and distribution market has nearly doubled to roughly 12 percent. Meanwhile, it has grown year-on-year revenue more than 25 percent in each of the past four years ended in 2014, according to CEO David Lee. The company has also carved out a significant niche in the food-service sector.



“WE GOT INTO THE BUSINESS OF REALLY UPGRADING THE ORGANIZATION, GOING BACK TO CUSTOMERS WITH A DIFFERENT VALUE PROPOSITION.”

David Lee
CEO, PECO Pallet

PECO employs nearly 200 workers through its North American network and oversees an additional 500 or so through more than 50 distribution depots and refurbishment facilities operated with third-party relationships. It has followed the expansion path of major retailers such as Costco, pushing north into Canada and south of the border into Mexico.

The 65-year-old British-born Lee, a former **GE Capital** executive, took the helm of PECO in 2005 when the company was functioning primarily as a discount operator for private-label suppliers to club stores. He was well-suited to undertake expansion, having earlier cut his teeth at the company’s much larger worldwide rival, CHEP. Lee helped to launch CHEP’s U.S. operations in 1990.

CHEP, which is owned by publicly traded Australian supply-chain logistics company **Brambles Limited**, declined through a spokesman to comment about competition in the United States.

“We spent a bit of time trying to sort things out,” Lee says. “We got into the business of really upgrading the organization, going back to customers with a different value proposition.”

PECO, founded in 1990, obtained early investment capital from **White Mountains Insurance Group**, **Walnut Group** and **MK Capital**. Under Lee’s direction it secured a debt facility from **Golub Capital**, allowing the business to shift from a low-price discount model toward the higher level of quality and service sought by branded accounts. After adding more leading manufacturers and distributors to its service network, PECO was beginning to attract the attention of private equity, eventually appearing on the Pritzkers’ radar.

“They were alarming and tortuous—but only in the nicest possible ways,” jokes Lee, recalling one impromptu visit with a worker at a Costco distribution facility during the Pritzker Group’s due diligence. “J.B. looked at me and he said, ‘You stay here, I’m going to go talk to him.’ He went over and talked to this guy for 10 or 15 minutes. He said,



PALLET PASSION //

Part of
PECO'S
culture of
quality.

‘The guy has assured me, your pallets are usually the best.’ That’s it, the deal was done.”

Both parties agree it’s been a good match.

Besides capital, the Pritzkers provide the clout required to cement big deals, including a national partnership with food manufacturing giant Kraft Foods.

“(J.B. Pritzker) called the CEO of Kraft and had a conversation with him,” Lee says. “J.B.’s contribution was to go in and say, ‘Hey, we stand behind this. We’re supporting this.’”

To be sure, Lee’s own enthusiasm for pallets is overwhelming. He has an encyclopedic knowledge of them—size, 48 by 40 inches; weight capacity, 2,800 pounds; number of average shipments, 700 million annual trips in North America alone; average time spent at a manufacturer, 30 days; and so on.

“The common denominator to all of this is your product on pallets,” he says. You’ve got it on pallets because pallets enable you to handle the product efficiently.”



**HIGH
STANDARDS //**
Quality comes
first during
pallet inspection.

NOT SO SIMPLE

Lee says PECO's business model may seem simple to outsiders, but it's actually fairly complicated. The company must ride herd on a logistics network of some 7,000 nodal points—warehouses, depots, distribution centers, manufacturers, etc.—throughout the country, ensuring its pallets get where they are supposed to on time, constantly inspecting and refurbishing them to ensure good condition.

The pallets remain in a secure loop—they move by truck from a depot to a manufacturer where they're loaded up with goods and shipped to a retailer. Once unloaded, they then cycle back through a depot. Before being reissued, they are cleaned, checked and repaired; the process, called pooling, allows the pallets to be used by multiple manufacturers.

“Everything is done electronically in real time—it's how we speak to our customers, how we speak to our vendors, how we negotiate and contract our carriers,” Lee says, adding that private equity dollars have allowed for significant technology improvements, including the ability for customers to better manage their operations online.

In the low-margin grocery business, tight control over the supply chain makes a big difference to a retailer's profit, says Paul Weitzel, a managing partner with retail consulting firm **Willard Bishop**.

"Grocery stores get deliveries from their warehouses every day and manufacturers are shipping to warehouses once a week," Weitzel says. "It's a moving business. The inventory turns are pretty quick, and when you're moving that much product fast, you need a system that's reliable. You've got to be as efficient as you can."

A broken or damaged pallet can result in spoiled product, or worse, an accident in the warehouse or store that could lead to personal injury, he says.

Maintaining high-quality pallets is especially important for a warehouse chain like Costco. Unlike most retailers, its pallets are stacked in the open on the same shelves where customers shop for merchandise, says John Thelan, senior vice president of depots and traffic for the Issaquah, Washington-based company.

"We have a safety issue, so the quality of our pallets is very important to us," says Thelan, who directly oversees 34 Costco depots and has been working with PECO since its inception. "It's a very secure relationship. They (PECO) keep a very tight channel and they get their pallets back in a timely fashion so they can rent them again."

That is the kind of endorsement that gives David Lee confidence PECO will continue to carve out share in the North American consumer supply chain market. He expects the company to grow strongly in 2015.

"We have a service that our customers hopefully will buy into, not for the next five years but for eternity," Lee says. "Pritzker Group has reminded me that they are what they call long-term capital, geared to grow the business. And that's perfect." //

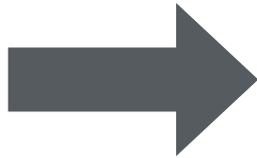
Deborah L. Cohen is editor-in-chief of Middle Market Growth.



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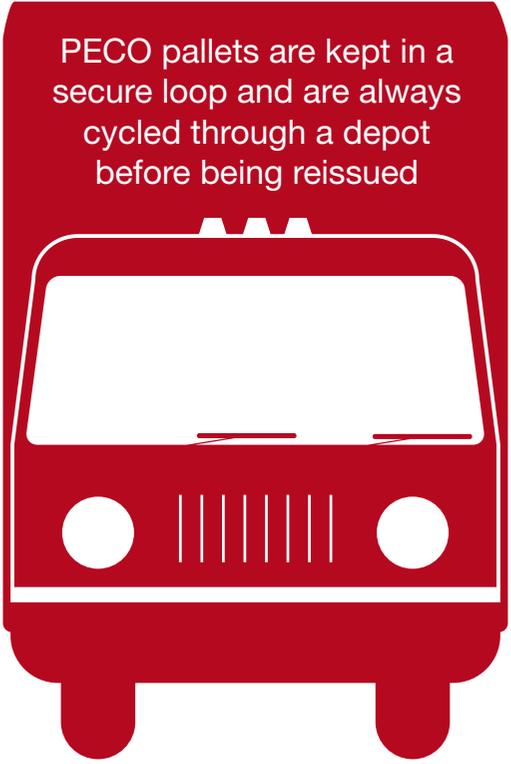
David Lee
CEO, PECO Pallet

HOW PECO PALLET POOLING WORKS //



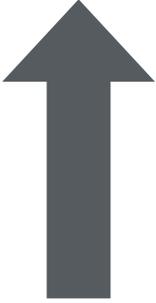
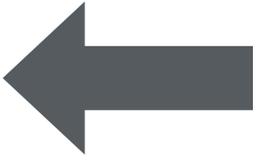
1
MANUFACTURER (RENTER)
Loads pallets with product

PALLET ISSUE
Pallets are shipped to renter upon order



2
DISTRIBUTOR (RETAILER)
Unloads goods and sorts empty pallets

PALLET TRANSFER
Loaded pallets are shipped to distributors



3
DEPOT
Inspects and cleans all pallets, then makes repairs as needed

PALLET RECOVERY
Empty pallets are returned to depot

