Logistics Association of Australia Ltd

OWNERSHIP RATIONALIZATION

THE MOST SIGNIFICANT LOGISTICS TREND AFFECTING BUSINESS IN AUSTRALIA

THE FOLLOWING PAPER WAS WRITTEN AS AN ENTRY FOR THE LAA LOGISTICS DEVELOPMENT AWARD (2002). THE TOPIC OF THE PAPER WAS STIPULATED AS PART OF THE ENTRY REQUIREMENTS I.E. WHAT IS THE MOST SIGNIFICANT LOGISTIC TREND AFFECTING BUSINESS IN AUSTRALIA? THE AUTHOR WROTE THE PAPER IN MAY AND JUNE 2002. RESEARCH WAS CONFINED TO BUSINESS PUBLICATIONS FROM THAT TWO MONTH PERIOD.

'Businesses like 'Mayne' might be too small to be able to invest in the required systems. There will be considerable rationalization ahead in the industry'. [1]

INTRODUCTION

1. A developing trend in key Australian industries is the emergence of a small number of major players with a host of smaller players that compete aggressively with them. Our grocery industry has come down to two mega players, 'Woolworths' and 'Coles'. But with a host of smaller players and indeed, challengers like the German 'Aldi' group. This is a consequence of our small population as well as globalization.

2. In today's logistics industry there are many niche players – still focused upon a few industry segments – and there are several integrated players that service many industry segments. None are, as yet, mega players however, the ownership rationalization that has produced a small number of major players in other key industries, is underway in the Australian logistics industry.

3. This ownership rationalization is being driven by government activism; corporate acquisition and merger activity; private and public sector

[1] Attributed to Paul Little, Managing Director of 'Toll Holdings', following the 'Mayne Group' announcement of its intention to divest its logistics business. *The Australian* 'Business' 3 June 2002.

outsourcing to logistic providers, and even corporate collapse. Ownership rationalization is the most significant logistic trend affecting business in Australia.

AIM

4. The aim of this brief is to demonstrate that ownership rationalization is underway in the Australian logistics industry and to argue that this is the most significant logistic trend affecting business in Australia.

DEFINITIONS

5. **Transport Modes.** There are four transport modes of significance – road, rail, sea and air.

6. **Industry Segments.** Logistics industry segments are typically identified as:

a. international air / sea freight and brokerage,
b. removals / business relocations,
c. interstate road transport,
d. shipping and stevedoring,
e. rail freight,
f. air freight,
g. refrigerated transport,
h. sensitive freight,
i. cash, and
j. courier / documents.

7. **Integrated Logistics Player.** An integrated logistics player services many industry segments by providing a range of transport modes, transfer between modes, warehousing capacity and track and trace capability. Integrated logistic players will have a strong focus upon developing partnering arrangements.

8. **Niche Logistics Player.** A niche logistics player will focus on a few industry segments providing one or two transport modes with track and trace capability and limited warehousing capacity. Niche logistics players tend to be more transactional in focus.

THE AUSTRALIAN LOGISTICS INDUSTRY

9. The Australian logistics industry has been long dominated by road transport. At present the percentage of freight transported (by value) on

each mode[2] is:

a. Road – 80%.[3]
b. Rail – 13.5%.
c. Sea – 2.8%.
d. Air – 2.5%.

10. There are four players delivering integrated logistics to Australian business:

a. 'Linfox'[4],
b. 'TNT Group'[5],
c. 'Mayne Logistics', and
d. 'Toll Holdings'.

11. A number of players are moving towards delivering integrated logistics. These include 'Australia Post'[6], 'Star Track Express' and 'Patrick Corp'. The strategy of the former two is to grow market share. They have big advertising campaigns and budgets. 'Patrick Corp', under the sharp management of CEO Chris Corrigan[7], is more acquisitive.[8]

12. An indicative listing of niche players, by segment, is as follows:

Serial	Segment	Niche Player
1	International Air / Sea Freight and Brokerage	'Maersk Logistics', 'Schenker', 'UPS', 'Hellas Europe', 'Hellmann International Forwarders', 'P&O Nedlloyd'
2	Removals / Business Relocations	'Grace', 'Mover Shakers', 'Nuss', 'Allied Pickfords', 'J. Wilson', 'John Ryan', 'Kent'
3	Interstate Road Transport	'F.C.L.', 'Lindsay Bros', 'Car Movers', 'Johnston's Transport'
4	Shipping and Stevedoring	'Brambles Shipping', 'P&O Ports', 'ANL Container Line'

[2] *The Australian* 'Freight & Cartage' 24 May 2002.
[3] 5,000 trucks transport 350 mil tonnes of interstate freight annually. A further 1.05 bil tonnes of short haul freight is transported by road each year.
[4] An integrated trucking and warehouse business with interests in regional airports.
[5] Includes global express, logistics and mail businesses, 'McPhee Transport' and 'Riteways'.
[6] In June 2002, 'Australia Post' introduced 'MessengerPOST Couriers' a new courier service business.
[7] *The Weekend Australian* 'Stockwatch' 25-26 May 2002.
[8] 'Patrick Corp' has recently added 'TDG Logistics', the 'National Rail Corp / NSW Freightcorp' joint venture and 50% of 'Virgin Blue' airlines to its stevedoring business.

5	Rail Freight	'Australian Southern Railroad'[9], 'Freight Australia'[10]
6	Air Freight	'Australian Airfreight Express'[11]
7	Refrigerated Transport	'P&O Cold Logistics', 'Cooltrans',
8	Sensitive Freight	'Computertrans', 'Cope'
9	Cash	'Chubb', 'Brinks'
10	Courier / Documents	'Allied Express', 'Ausdoc'[12], 'Fleet Flyers', 'DHL International', 'Recall'[13]

13. The drivers for ownership rationalization within the Australian logistics industry are:

a. **Government Activism.** Governments have been active on three fronts – asset sales, deregulation (especially coastal shipping) and encouraging private investment in road and rail projects.

b. **Acquisition and Mergers.** In June 2002, 'Mayne Group' announced its intention to divest 'Mayne Logistics'. 'Ausdoc' was placed on the market in January 2002. 'Brambles' has flagged its intention to divest logistics assets including its marine business.[14]

c. **Outsourcing.** Defence is nearing the end of a three year process to outsource its national distribution function. Many Australian businesses retain large internal logistics operations. These will be targeted for outsourcing eventually.

d. **Corporate Collapse.** The collapse of 'Ansett' eliminated one air freight player.

OWNERSHIP RATIONALIZATION IS UNDERWAY

14. **Asset Sales**. The recent sale of 'National Rail Corp / NSW Freightcorp'[15] virtually completes the exit of governments from rail freight. This has prompted greater cooperation between rail freight players and

[9] Owned by 'Wesfarmers' and 'Genese&Wyoming'.
[10] Owned by 'Rail America' and has a 45 year lease on 4,000 km of lines in Victoria.
[11] A 'Qantas' / 'Australia Post' joint venture.
[12] 'Ausdoc' comprises in Australia – 'DX Express', 'Go Mail' and an information management and storage business.
[13] A 'Brambles' business.
[14] *The Australian* 'Money' 15 May 2002.
[15] Acquired by a joint venture between 'Toll Holdings' and 'Patrick Corp'.

thrown down a competitive challenge to road transport players. [16] Further assets in the form of airports and seaports are earmarked for sale by the government.

15. **Deregulation.** The government changed the cabotage rules, which once gave Australian vessels and crew almost exclusive rights to work on coastal routes. Now foreign ships are allowed to do regular coastal runs.[17]

16. **Encouraging Private Investment.** Governments are actively encouraging private investment in road and rail projects, for example the Darwin to Alice Springs rail link. A BIS Shrapnel study predicts railway construction in Australia will increase strongly over the next five years[18], further challenging interstate road transport players.

17. **Acquisition and Mergers.** 'Toll Holdings' will be very keen to look over the 'Mayne Logistics' business as will 'Linfox'.[19] 'Toll holdings' emerged as a successful bidder for a major part of 'Ausdoc'.[20]

18. **Outsourcing.** The Defence distribution contract is a substantial outsourcing opportunity for the logistics industry. 'Toll Holdings' and 'Linfox' are front-runners. A number of other large outsourcing opportunities may well emerge. For example, 'Boral', 'Caltex' and 'Goodman Fielder' all run large internal logistics operations.

19. **Corporate Collapse.** The collapse of 'Ansett' may prove to be a gain for 'Patrick Corp' who are discussing a joint entry to the airfreight market with 'Virgin Blue' to exploit the carrying capacity of their Boeing 737s. [21]

THE MOST SIGNIFICANT LOGISTIC TREND AFFECTING BUSINESS IN AUSTRALIA

20. Ownership rationalization is underway in the Australian logistics industry. Who will emerge as the major players still remains a question. But as can be concluded from the above discussion, the range of contenders is narrowing. The significance of this ownership rationalization is that it offers the logistics industry in Australia numerous opportunities and these

[16] 'Australian Southern Railroad' and 'Freight Australia' recently announced a plan to jointly open the Mt Gambier-Heyward line to break the road freight monopoly delivering timber and agricultural products from SE South Australia to Portland in Victoria. *The Australian* 'Transport' 3 June 2002.
[17] *The Australian* 'Freight & Cargo' 24 May 2002.
[18] BIS Shrapnel Report 'Engineering Construction in Australia 2001-2016'.
[19] *The Australian* 'Business' 3 June 2002.
[20] 'DX Express' and 'Go Mail' *The Australian* 'Business' 19 June 2002.
[21] *The Australian* 'Freight & Cargo' 24 May 2002.

opportunities will affect business in Australia.

21. **Opportunities.** Ownership rationalization offers the logistics industry in Australia the following opportunities:

a. **Size.** To have a number of major integrated players with nationally integrated logistic networks encompassing all transport modes and servicing many industry segments. These major players will offer national supply chain management ability to business in Australia. They will become the logistic partners of choice for businesses with Australia-wide interests that are seeking logistic partnering arrangements. A solid base in Australia will also allow for network expansion to New Zealand and Asia[22].

b. **Mode Diversity.** To 'end the domination of roads in thinking about transport'.[23] With the end of government ownership, rail freight is experiencing a revolution. 'Freight Australia' has been aggressive in winning freight to rail[24]. 'Toll Holdings' and 'Patrick Corp' aim to inject millions of dollars into further improving the rail system to take freight business away from interstate road transport. The Darwin to Alice Springs rail link will cut the number of road-trains driving the route. For each million tonnes of freight rail attracts from road in a year, there will be 60,000 fewer truck trips.[25]

c. **Mode Competitiveness.** To offer competitive choices for mode and route. Privatization has the potential to boost rail freight competitiveness by 20-30 % in the next three years.[26] The vision of 'Toll Holdings' and 'Patrick Corp' is for rail to dominate long distance freight and for road to be responsible only for the last part of the journey from the railhead. The builders of the Darwin-Alice Springs rail link aim to offer an alternative to shipping for goods arriving from Asia. Deregulation of coastal shipping aims to reduce shipping costs. Keeping the major integrated players honest will be the smaller niche players who will compete aggressively in their chosen segment.

d. **Investment.** To have players with sufficient free capital to

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[22] Paul Little, Managing Director of 'Toll Holdings' in *The Australian* 'Business' 20 June 2002.
[23] Deputy Prime Minister John Anderson in *The Australian* 'The Nation' 22 May 2002.
[24] 'Freight Australia' recently signed a five-year contract that will see the bulk of Australia's rice harvest moved by rail. *The Australian* 'Business' 20 June 2002
[25] BIS Shrapnel Report 'Freight in Australia 2001-2006'.
[26] *The Australian* 'Freight & Cargo' 24 May 2002.

undertake over a long time frame the substantial investment necessary to implement and maintain the required systems. There are still enormous rewards to be gained from the application of technology to the supply chain. Business in Australia expects online track and trace ability across modes. They will soon expect equally sophisticated management information about their supply chain costs.

22. **Affect.** The opportunities created by ownership rationalization in the logistic industry will affect business in Australia as follows:

a. **Competitiveness.** Business should be able to reduce their supply chain costs – reducing the cost to their customers of Australia's 'tyranny of distance'. Businesses should be able to use their supply chains to increase their reach and capabilities in comparison to competitors.

b. **Choice.** Business will have the choice between integrated logistic players or niche players and they should have a choice of players of each type. They can choose to retain ownership of their supply chain, to enter into partnering arrangements or remain transactional. They should be able to choose one mode or route over another for, example, from South East Asia they should be able to choose from a combination of road, rail, or shipping options. These choices will create the challenges for both niche and integrated players to be creative and competitive.

c. **Service.** There will be a range of service types on offer. Businesses should be able to choose a player that can handle all their needs. If a partnering arrangement is chosen, business should have complete door-to-door services with freight transferring seamlessly between modes. They should have access to a national network of offices but a single relationship manager within their logistic partner. There should be dedicated employees to manage their supply chain flows from multiple vendors and to multiple customers. The relationship should embrace a broader view of the supply chain, for example, by creating supply chain and customer service strategies that use the supply chain to deliver superior service to customers.

d. **Management Information.** Business should have comprehensive visibility of shipments and stockholdings. They should have sophisticated management information about their supply chain costs in order to quickly identify and deploy new supply chain capabilities. They should be able to manage complexity in real time and collaborate in an informed manner with customers and suppliers regarding their supply chain.

CONCLUSION

23. Ownership rationalization is underway in the Australian logistics industry. Who will emerge as the major players still remains a question. This ownership rationalization is being driven by government activism; corporate acquisition and merger activity; private and public sector outsourcing to logistic providers, and even corporate collapse.

24. Ownership rationalization is the most significant logistic trend affecting business in Australia. The significance of this ownership rationalization is that it offers the logistics industry in Australia numerous opportunities - size, mode diversity, mode competitiveness and investment. These opportunities will affect business in Australia by offering competitiveness, choice, service, and management information.