



Logistics Association of Australia Ltd

CHALLENGES AND OPPORTUNITIES IN NEW ZEALAND

The Logistics Development Award is sponsored by CHEP Australia

BREAKING NEWS

In early May 2003, DHL Express (a Deutsche Post business) commenced a national advertising campaign to inform Australian business of a new service it was operating to New Zealand. Promoting itself as experts in the Trans-Tasman route, DHL Express promised customs cleared package delivery to Auckland by 9am. It will achieve this through employing its own dedicated air freighter flying across the Tasman. The hook used in the DHL Express advertising campaign read... "We take New Zealand seriously... (someone has to)." If this hook is correct, it indicates Australia's logistics businesses have been remiss. Furthermore, how many other opportunities have been lost?

INTRODUCTION

This is my final LDA article. I will conclude the rationalization theme by exploring opportunities for cross-Tasman rationalization of logistics businesses and networks. My research is based upon recent print media information, as well as an informative interview with Jon Herbert. Jon has held senior logistics positions in both Australia and New Zealand. In Auckland, Jon was the General Manager – Supply Chain for Progressive (subsequently taken over by Foodland). There are two important backdrops to this article – we have recently marked 25 years of Closer Economic Relations (CER) between Australia and New Zealand, and Qantas is in the middle of a contentious acquisition of a large stake in Air New Zealand.

Taking New Zealand Seriously

The effect of the Closer Economic Relations agreement between Australia and New Zealand is, as far as possible, to treat the two sovereign states as one economic entity. Statistically, New Zealand is small. It has a population of less than 4 million, seventy percent of whom live within three hours of Auckland. The air/sea gap between the North and South Islands is expensive to cross, further isolating the sparsely populated South Island. The New Zealand Government is expecting the economy to grow by between 1.5 and 2 percent in the year to March 2004. This is down on the previous year's growth of 4.4 percent.

There are a number of relatively large indigenous players (see table below) and a multitude of regional or local players in the New Zealand logistics industry. However, as yet, there is not a truly integrated national player. Many of the regional players offer a range of capabilities dependent upon the needs of their market. An interesting aspect of the New Zealand industry is the public listing of key logistics infrastructure. As well as the rail network being listed through Tranz Rail, the New Zealand Stock Exchange listings include Auckland International Airport, Ports of Auckland, Port of Tauranga and South Port New Zealand.

There are Australian logistics businesses currently operating in New Zealand. Most notable is Linfox which employs 500 people on both Islands. Linfox sells its offering as a cross-Tasman integrated supply chain solution, but it is primarily a freighter for local customers with an ability to offer multinational clients linkages to its business streams in Australia. K&S Corp provides large volume transport services. Its customers include one of New Zealand's largest logging companies, Fletcher Challenge. Toll Holdings has a presence (primarily through its Ports & Resources Division) operating in Auckland, Hastings and Christchurch.

Challenges and Opportunities

The primary challenge to Australian logistics business growth in New Zealand is the currently entrenched international logistics businesses.

P&O Cold Logistics is typical of the entrenched international businesses. P&O Cold Logistics offers 508,500 m3 of warehousing across five sites. Like many of the international businesses, the New Zealand operations are already integrated with the Australian operations. Both report to the Director Australasian Operations. The Dutch Post Office (through TNT) also fits into this category.

Serial	Business	Ownership	Description
1	Mainfreight	Publicly Listed	A supply chain manager and short haul freighter that also operates in Australia
2	Owens Group	Publicly Listed	A supply chain manager and long haul freighter that also operates a hire pool and has minor operations in Australia
3	Tranz Rail Holdings	Publicly Listed	The previously government-owned freight and passenger rail businesses with a road transport and distribution services group (operating as TranzLink) and inter-island ferries.
4	Freightways Express	Publicly Listed	A small express courier business.

Deutsche Post (through DHL) has seized upon an opportunity with its Trans-Tasman offering. It is no secret that Deutsche Post aims to be an internationally integrated logistics provider. The parcel volumes attracted to its 9am delivery service will probably be used to build up their domestic courier routes within New Zealand. The American business UPS also fits into this category.

Acquisition is a key opportunity for New Zealand to be included into Australia's process of industry rationalization. One challenge is that key targets have already

been scooped up by other international players. For example, the British company XL acquired the New Zealand business TLC. A second challenge (as currently experienced by Qantas) is the New Zealand public's animosity towards acquisitive Australian companies.

There has been recent activity along these lines. Toll Holdings has been looking closely at TranzLink. As with most of the Toll acquisitions this would be a good strategic fit adding road transport and international freight forwarding services to the current Toll offering in New Zealand. However, both Mainfreight and Owens Group have also expressed an interest.

Outside of the larger players, there would only be a couple of the regional and local players which could be acquired. The remainder would be difficult as they are generally second or third generation, tightly-held family businesses with entrenched customer bases.

Finally, either Mainfreight or Owens Group could be acquired. This would not be beyond either Toll Holdings or Patrick Corporation (which are currently very underrepresented in New Zealand).

An alternative path to rationalization, that grows Australian logistics businesses and integrates the New Zealand market into the Australian logistics network, is being successfully implemented by K&S Corp.

K&S offers large volume customers in Australia and New Zealand end-to-end trans-Tasman services. This is done by integrating vessels owned by conference lines with its fleet of B-Doubles, prime movers and trailers at each end. It is attracting the attention of a number of large volume customers who have not previously considered New Zealand as part of the Australian market.

This is the model Linfox appears to have adopted, but not so specifically targeted.

A more speculative path to rationalization relates to the New Zealand rail system. Whilst there is a single owner of the lines for the operation of freight, those lines do not offer a truly competitive option to road, in terms of either cost or service. Tranz Rail is currently remaking itself as a purely long haul freight train operator to improve this offering, but it will retain many of its lucrative road to rail contracts.

Tranz Rail is presently in financial difficulty and could be considered a speculative acquisition target, particularly by an Australian logistics business with interests in railways.

(Editor's Note: This article was received prior to the announcement of the takeover bid for Tranz Rail by Freight Australia)

Specialising in Logistics now produces a monthly update of logistics industry ownership-related issues. I will gladly electronically forward to any interested readers.

Allan A. Murray <murson@bigpond.net.au>

In the new financial year, Specialising in Logistics will come under the ownership of Murson Holdings. From this time, the logistics consulting business will be known as Murson Specialising in Logistics. The new email address is murson@bigpond.net.au