



Logistics Association of Australia Ltd

INDUSTRY CONSOLIDATION IN THE UNITED STATES

The Logistics Development Award is sponsored by CHEP Australia

INTRODUCTION

In September/October 2002 I had the privilege of attending the Council of Logistics Management Conference. The Conference was held in San Francisco, California. The theme was 'The Rules are Changing'. In addition, I undertook a number of site visits in California (Los Angeles, Oakland and Fairfield). My objective throughout the conference and site visits was to build upon the theme of my LDA paper. I also intend to visit Auckland, New Zealand in early 2003 to pursue the same objective. The articles I will present to the LAA membership over the coming months will summarise my research results. These articles will address:

- Industry consolidation in the United States
- Insights on West Coast logistics
- Update of ownership rationalisation in Australia
- Insights from a 3PL case study
- Insights from a 4PL case study
- Trends and opportunities in New Zealand.

INDUSTRY CONSOLIDATION IN THE UNITED STATES

Breaking News

On 31 October 2002, Mayne Logistics announced that the purchaser of its Loomis business in North America was DHL Worldwide Express. A fortnight later Deutsche Post, the parent of DHL, announced that its freight forwarding business, The Danzas Group, is to be integrated with DHL to create DHL Danzas Air & Ocean, the world's largest logistics group. Why? To become by 2005 the No1 logistics provider in the world, with a single brand, a single administrative centre and a single management team, thus creating a global logistics one-stop shop.

Introduction

The thesis of my LDA paper was that ownership rationalisation of the logistics industry in Australia is underway and that it is being driven by:

- government activism
- corporate acquisition and merger activity
- private and public sector outsourcing to logistic providers
- corporate collapse

The first presentation I attended at the CLM Conference on Monday 31 September 2002 indicated that ownership rationalisation in the logistics industry is not unique to Australia. The industry in the United States is also undergoing unprecedented consolidation.

The Evidence

Despite its size, the US logistics industry is extremely fragmented. There are over 500,000 registered trucking businesses; the air and sea transport sector is close to 60% controlled by small businesses; and the US\$24 bil value-added warehousing sector is 73% controlled by small businesses. The exception is the US\$46 bil parcel freight sector with no small businesses.

The industry is ripe for consolidation and this has commenced. For example, UPS has made 25 acquisitions in the past 3 years including Fritz, Mail 2000, Mail Boxes Etc and Iship. FedEx has notably acquired Caribbean Air and the Tower Group. Deutsche Post has added Danzas, ASG and AEI. Consolidation is occurring both across modes and across geographies.

Drivers

The speakers at this first presentation were Benjamin Gordon, the Managing Director of BG Strategic Advisors and Daniel J. Hemme a Senior Analyst for Prudential Financial. Both contend that whilst consolidation is an industry-wide trend, it is a consequence of a number of drivers. The drivers they identify are:

Acquisitions – Deep-pocketed acquirers, both domestic and international, are seeking to build logistics powerhouses and fill strategic gaps. UPS has annual cash flows of US\$2 bil. It gained the number four revenue earner in the air and sea transport sector when it acquired Fritz. When Deutsche Post acquired Danzas and AEI it took the number one and two revenue earners in the air and sea transport sector.

Outsourcing – There are two aspects to outsourcing. Businesses are seeking to reduce costs by reducing the number of logistics providers they deal with through appointing a lead logistics provider. Businesses are seeking the one-stop shop solution. These can be 3PL or 4PL providers. Secondly, businesses are seeking tailored supply chain solutions to meet their customer needs and these are best delivered by logistic providers with:

- advanced planning and optimisation skills
- integrated business process information systems
- extensive service and execution networks

This puts the proposed DHL Danzas Air & Ocean business into perspective!

The outsourcing market in the US is currently worth US\$50 - 60 bil. Yet, this remains only a small proportion of the overall logistics market as so much is still

performed in-house. From the following table of Fortune 500 business (Source: Armstrong & Associates), it is evident that many more outsourcing opportunities remain.

| Serial | Fortune Ranking | % of Businesses Using Outsourcing |
|--------|-----------------|-----------------------------------|
| 1 | 1 – 100 | 73% |
| 2 | 101 – 200 | 53% |
| 3 | 201 – 300 | 47% |
| 4 | 301 – 400 | 33% |
| 5 | 401 – 500 | 24% |

Table: Percentage of Fortune 500 Businesses Using Outsourcing (*source: Armstrong & Associates*)

A natural corollary to businesses seeking to outsource, is that smart logistics businesses will seek growth through the aggressive pursuit of outsourcing opportunities.

Technology – Technology has enabled significant gains in:

- productivity
- service performance/consistency
- customer interface efficiency
- international transaction processing
- planning, network engineering and design

The result, so clearly stated by Ben Gordon, is that technology has lowered the threshold size of customers that big logistics businesses can serve. As a consequence, the smaller logistics businesses are losing market share. Technology further facilitates the aggressive pursuit of outsourcing opportunities.

The cost of technology also restricts smaller logistics businesses. In 2001, UPS spent US\$1 bil on R&D. There are not too many logistics businesses that can match this. There remain many more areas where technology can be applied to improve supply chain management. Dan Hemme identified the following:

- automated sorting and routing
- CRM/self-serve transactional models
- transport network planning, optimisation/synchronisation
- Activity Based Costing
- EFT

Still Early Days

Both Ben Gordon and Dan Hemme concluded that despite the consolidation that has occurred to date, it is still early days. The US logistics industry, to quote Ben Gordon, is still “a bit like Germany in 1789: made up of 1789 principalities”. A great deal more consolidation is likely.

Insights for Us in Australia

International Acquirers – The ownership of Australia's logistics industry remains very Australian – Toll Holdings, Linfox, Patrick, Brambles etc. Expect this to change. FedEx, UPS, and DHL all have a presence in Australia. As evidenced from the US experience, the big global players will seek to grow market size/network coverage. When they do, they will aim to acquire the biggest and best Australian logistics businesses.

Technology – I did not identify technology as a driver of ownership rationalisation in Australia. This is because when I wrote my paper, the media had not given technology a profile in the logistics industry. This indicates to me that we may be behind the US in publicising our application of technology to the logistics industry. Technology constraints also put a break on outsourcing opportunities.

Outsourcing Opportunity – As in the US, a lot of the logistics business in Australia is performed in-house. In their annual report, Toll Holdings estimated "more than 50% of the logistics market remains in-house". This represents a significant growth opportunity for the smart logistics businesses that aggressively pursue outsourcing opportunities.

The Future – A great deal more ownership rationalisation is likely in Australia.

Allan A. Murray
Specialising_in_Logistics@bigpond.com