



## Logistics Association of Australia Ltd

# UPDATE ON OWNERSHIP RATIONALIZATION IN AUSTRALIA

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### **BREAKING NEWS**

On 4 February 2003, at its Annual General Meeting, Patrick Corporation CEO Chris Corrigan announced his intention to further grow Patrick through the addition of a fourth operating division. Patrick Corporation emerged from 2002 as an integrated logistics provider by adding airline and rail operations to its existing niche operations on and around the waterfront.

Corrigan did not elaborate on the focus of the new division; however, the announcement of Patrick Corporation's intention to retain its 50 % stake in Virgin Airlines when it floats could give a clue. Virgin's planned fleet of 40 Boeing 737 can each carry over two tonnes of freight. As it expands its network, a national airfreight operation becomes viable in a market underserved since the collapse of Ansett Airlines.

### **INTRODUCTION**

In this article my aim is to provide an update on the ownership rationalization that has occurred in the logistics industry in Australia since mid-2002. I will also highlight the value to LAA members of an understanding of this current wave of ownership rationalization.

### **The Dominant Driver**

Of the numerous drivers of ownership rationalization identified in my LDA paper, the dominant driver to emerge since mid-2002 has been acquisition and merger activity. Of the four players delivering integrated logistics to Australian business in mid-2002, Mayne Logistics has been acquired and TNT has been relegated to a medium-sized player because it has not acquired. Mayne's Australian logistics operations were acquired by Linfox and Toll Holdings. Patrick Corporation has joined the list as a result of the acquisition of rail and airline operations.

For Linfox, the acquisition of Mayne's contract logistics and Armaguard businesses was pivotal to its future direction. After a failed foray into airline ownership and a decade of greater interest in commercial property, Linfox has returned to its roots and elected to compete with Toll Holdings and Patrick Corporation as an integrated logistics provider rather than be relegated to a medium-sized player.

Toll Holdings' acquisition of the Mayne Logistics' express business is a continuation of its growth through acquisition. Since mid-2002 it has acquired major equity in Southern Distribution Centre Ltd; the DX Group network and courier business from Ausdoc; and the Australian cargo operations of Brambles Shipping. Toll's Managing Director, Paul Little, has publicly stated that Toll will now pause to consolidate the recent purchases with the qualification that ... "there's always an opportunity to enhance something that you've already got and to perhaps go into geographical locations that you don't currently exist in."

## **Outsourcing**

Outsourcing is widely regarded as the most likely path to growth for logistics players in Australia. In October 2002, Defence announced the preferred tenderer to deliver national maintenance and distribution functions was a joint venture between Toll Holdings and Tenix Defence. The contract is valued at \$1bil over ten years. However, outsourcing has been disappointing as a driver of ownership rationalization, for the following reasons:

- there has not been an evident rush to outsource logistics functions at large Australian businesses (the complexity and the business risks can be daunting for medium to large-sized businesses); and
- hard-won logistics contracts come up for renegotiation too frequently.

A notable exception to this disappointment has been Australia Post. I identified Australia Post as a player moving towards delivering integrated logistics in my LDA paper. Australia Post has since come to the attention of Australia's business media for its recent success in winning niche outsourcing work, namely grocery fulfilment. In October 2002, Australia Post signed a five-year agreement with Coles Myer's ecommerce grocery business, Coles Online, to manage its entire customer order fulfilment process. Already Australia Post provides back-end fulfilment services to non-grocery businesses such as Telstra and Microsoft.

Australia Post has also been active in the banking industry and is believed to be about to take over national mail and courier operations for one of the big four banks, rolling a myriad of local and regional arrangements with numerous providers into a national agreement with a single provider.

## **Government Activism**

Private investment in rail offers the greatest potential for logistics players to provide the most efficient freight networks to Australian business. Deregulation brought in a rush of hopefuls. Since then, through the combined effect of competition and more recently the drought, Junee-based Austrac has closed, Northern Rivers Railroad has sold its freight arm to Queensland Rail and Great Northern Railways in Victoria has been brought to its knees. The big four to emerge are:

Queensland Rail	(p.a. revenue \$2.5 bil)
Pacific National	(p.a. revenue \$1bil)
Aust Railroad Group	(p.a. revenue \$350 mil)
Freight Australia	(p.a. revenue \$207 mil)

As a government-owned entity, Queensland Rail remains a target for acquisition, but a very big acquisition. Freight Australia, feeling like a David compared to the Goliath that Pacific National represents, has launched a fight for survival on three fronts. Firstly, it has enlisted the support of former Deputy Prime Minister Tim Fischer to lobby the Victorian Government to invest in upgrading rail infrastructure thus enabling heavier loads to be carried. Secondly, it is resisting attempts by other freight operators, in particular GrainCorp, to have open access to Victoria's rail network. Finally, it is seeking to off-set the size advantage of Pacific National through striking freight deals with medium-sized competitors to Toll Holdings and Patrick Corporation.

The foray by Australia Post into logistics services has brought about the expected response from players in the courier segment to further deregulate. They argue that the immense cash flow generated by Australia Post's regulated monopoly on standard letters and small parcels is enabling it to snap up rival logistics players. Accordingly, Australia Post is now sufficiently robust to stand up to more competition in standard letters and small parcels. Time will tell whether the Government will be attracted to the proposition. A word of warning to the Australian courier businesses, deregulation would be attractive to the expansion oriented large international players – Fedex, UPS, Danzas and Deutsche Post.

### **Value to LAA Members**

I believe there is value to LAA members to have an understanding of this wave of ownership rationalization, for the following reasons:

- Individual Career Decisions – Does my job have a future?
- Business Operational Decisions – Who has capabilities and capacities to provide services? What are the strengths of my competitors?
- Business Strategic Decisions – By far the most important. As we move closer to a market dominated by a few mega-players, small and medium-sized players need to decide whether to:
  - Sell – Merge with a larger competitor.

- Bulk up – Develop a differentiated value proposition, raise capital and grow through acquisition and organic growth.
- Consolidate – Team up with a respected peer or competitor. For example under the umbrella of a 4th Party provider.
- Harvest – Remain with existing business recognizing the harvest will be smaller in the future.

Allan A. Murray  
Specialising\_in\_Logistics@bigpond.com