Conference exclusive: PwC's perspectives on the future of the logistics industry

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How different will the structure of the logistics service provider of the future be from players of today? What will be the competitive forces shaping the sector and how will LSPs respond to them? A recent survey from PwC on mergers and acquisitions (M&A) makes some tentative suggestions on the nature of change over the near-term, although these are in great part negative pointers.

Certainly the present level of M&A is very low. PwC estimates that the number of acquisition deals in the global logistics sector fell by 45% in the second quarter of 2009 on a year-on-year basis, with 31 deals representing a total value of $4.5bn. This contrasts with 2008, which saw 189 deals with a total value of $96bn. From a sector perspective, there is continuing activity in the aviation sector, notably the purchase of a minority stake in Alitalia by Air France-KLM. European mail also continues to show some potential.

The nature of these deals has also changed. The BRIC nations have increased their proportion M&A activity, accounting for 20% of acquisitions and 26% of purchases, up from 15% and 18% respectively. Asia and Asia-Pacific also accounted for 39% of the larger deals over $50m, representing a third of the total value of M&A in the period.

This is not surprising in the present economic climate where growth is primarily being generated by increases in domestic demand in emerging countries. The question for the future remains whether and how this will be sustained.

The American economy was a different matter. The number of transactions in the US almost came to standstill, with only one deal being completed over the quarter. PwC also points out that the effect of the near-collapse in the automotive sector in the US is likely to have a continuing depressive effect on transport and logistics. A smaller automotive sector will result in a lower proportion of business being automotive based. PwC make the assertion that "the likely decline in automotive revenue may be mitigated by increased outsourcing". Many don't regards logistics as a core automotive competency – so a greater percentage of remaining automotive logistics may end up outsourced to third-party logistics providers.

The collapse of the North American M&A markets in T&L started in the third quarter of 2008. Europe showed a similar trend around half a year later, but transaction volume continued in many emerging markets. "The BRIC nations continue to show promise and growth. We anticipate that Russia and China – particularly China – will continue to drive activity in the sector in terms of deal volume and deal value," said Dr. Peter Kauschke, responsible for business development and marketing in PwC's global transportation & logistics practice.

There are other short-term trends. For example, the dysfunction in the financial markets has influenced the manner in which investments are made. PwC observed a shift towards purchasing minority stakes, with 39% of deals being minority investments as opposed to 30% over 2008. This trend is likely to reverse, once finance markets return to greater liquidity. Most logistics companies making strategic investments look for a majority interest. Companies are generally looking to round out an existing transport network, break into new markets, or gain access to new product lines -- and these goals are accomplished more easily with a majority stake.

Another trend is the increased profile of privatisation. In developing markets there is a demand for investment to fund the growth of infrastructure. For example the privatisation of part of the Brazilian road network drove a wave of acquisitions through-out 2008, although this activity has reduced in 2009.

The PwC report foresees that privatisation activity will increase in developed markets as the attractiveness of selling-off existing infrastructure grows. At present ports remain important destinations for M&A activity, however PwC believes an increase in interest in road investment is likely. They cite an American Society of Civil Engineers report which outlined the need for a further $550m of investment in the road network above that already committed, implying that this money is likely to be accessed through privatisation schemes. The appetite for such deals already exists, with US state pension funds making overtures to existing infrastructure operators and owners. Airports are unlikely to be the target for this type of activity, though, due to regulatory barriers.

In the current environment, other issues such as capacity management, cost control and cash management have displaced M&A as the primary topics for discussion in the boardroom. T&L operators are facing enormous challenges as they navigate through the current economic environment. Taking quick and determined action is crucial for every company to address the threats of the crisis.

At the same time, business leaders should not ignore the long-term trends in their markets and must ensure a sustainable positioning of their organisations. PricewaterhouseCoopers' "Transportation & Logistics 2030" is a series of publications that will address key questions on the long-term development of the industry. In the forthcoming first issue PwC interrogates how supply chains may evolve in an energy-constrained, low-carbon world, and what this could mean for T&L companies. The report discusses some future projections around energy and emissions, consumer behaviour, transport modes and the design of supply chains, based on a Delphi survey among a truly global panel of experts from 20 countries.

The new report from PwC makes clear that T&L companies, as the backbone of global supply chains, must take a keen look at strategies for reducing energy consumption and emissions. The panel's assessments suggest that oil prices will increase and so will the use of alternative fuels, however neither are likely to revolutionise T&L. The need to track, document, and allocate costs for emissions, however, just may provide the impetus for radical change. Supply chain design, including the location of production sites, will need to take transport, energy and emission costs into account. There will be no reverse of globalisation. Nonetheless, production capacities will increasingly be moved in the direction of sales markets and the associated supply networks established at a regional level.

The future holds ready a number of major challenges for leaders in the T&L industry. While short-term trends are certainly important for the industry, executives need to be sure they do not distract their attention from critical longer term issues.

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