

THE CONSOLIDATION CONTINUES



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THERE HAS BEEN UNPRECEDENTED GROWTH IN MERGERS AND ACQUISITIONS WITHIN THE LOGISTICS AND SUPPLY CHAIN INDUSTRY SINCE 2015. THE IMPACT OF THIS IS POTENTIALLY GOING TO CHANGE THE INDUSTRY IN FAR-REACHING WAYS IF IT CONTINUES

Globally, in our offices in the Middle East and Asia in particular, we have noticed a growing demand for corporate advisory services in the Mergers and Acquisitions practice. There has been a marked increase in the number of qualified client approaches since Q3 last year, and this demand has continued into 2016. The Middle East and Asia remain the most active, with customers wishing to expand their business footprints or add strategic niche operations to meet new challenges and ensure their competitiveness.

According to Supply Chain Quarterly's annual survey (Quarter 3, 2015), CEO would predict every year that there will be an emphasis on acquisitions. However, counter

to this survey prediction, relatively few large-scale acquisitions occurred in the logistics industry between 2008 and 2014. The Supply Chain Quarter's staff found this puzzling, so in their 2014 survey they asked CEO why merger and acquisition activity continued to lag behind expectations.

Some said this was because acquisitions were overpriced, some mentioned post-acquisition integration problems, others stated they had achieved the desired scale through previous acquisitions and organic growth. In early 2014, however, this began to change on an unprecedented scale. There was a new wave of large-scale mergers and acquisitions in the logistics industry. Incredibly, between 2014 and

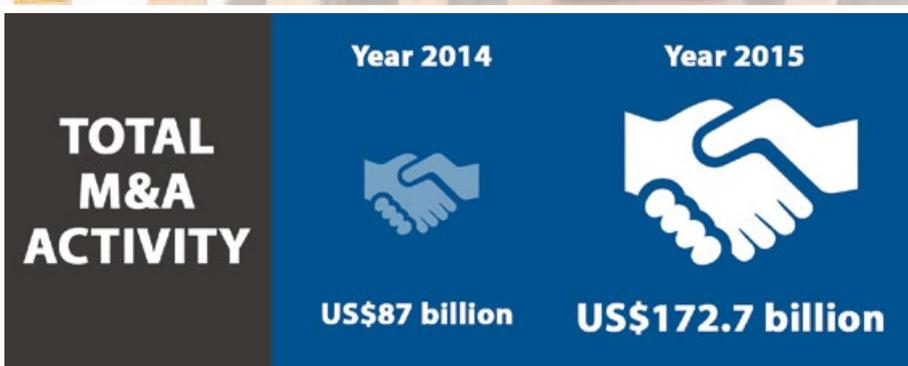
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September 2015, US\$20 billion was spent on acquisitions in the industry. This buying frenzy is continuing to this day.

The trigger for these acquisitions clustered around four categories: consumer demand pressures, globalisation, financial considerations, and economic conditions. Consumer demands have increased considerably with the advent of e-commerce, which has enabling consumers to reach further geographic markets and for businesses to find seamless solutions to provide them with their purchases.

Companies have had to manage multi-channel retailing and consumer relationships in a more sophisticated, complex method that is heavily integrated with logistics services and technology. Barriers are starting to break down, not just in terms of geography, but in regards to information-sharing and traditional industry roles. Businesses are starting to trust 3PL more with their sensitive company information, and this has allowed these providers to integrate and manage their services better.





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Thanks to the emergence of e-retailing with the phenomena exemplified by Amazon and its Asian counterpart, Alibaba, 3PL are under more pressure than ever to provide customers with a broad range of services within an expanding geographical footprint.

Acquisitions provide an efficient way of achieving this. Often in countries like India and China, where there are some restrictions on foreigners doing business, it is easier to achieve a footprint through acquisition rather than with a direct investment

We are also finally experiencing an emergence from the Global Financial Crisis. Despite the economic slowdown in China, conflicts throughout the Middle East, Ukraine, Africa and other indicators of market volatility, there seems to be an overall feeling of cautious confidence.

However, Penske and Capgemini Consulting's annual State of Logistics Outsourcing Study of September 2015 suggests that this sudden trend could be attributed to what they call 'defensive acquisitions'. According to this theory, one player makes a move and a domino-effect occurs. If one 3PL starts to expand by acquisition, the others think, from a defensive point of view, that they also need to follow suit in order to stay competitive.

Regardless of the reasons, it seems that consolidation is going to remain a dominant theme in the logistics and supply chain sector,

and it is set to continue. In their predictions for global logistics in 2016, Gartner says it expects that by 2020 the top ten global 3PL will control 80% of the world's logistics volume. They expect logistics service providers will evolve to meet the fast-paced, specialist demands of different market segments. They will evolve into a relatively small number of these huge global 3PL that in turn will be serviced by small niche players that will work for them on a contract basis.

A report by PWC appears to support this theory. In its study, PWC found total M&A activity in 2015 nearly doubled from the previous year, with an increase from US\$87 billion to US\$172.7 billion. PWC also found that the number of what they call 'mega-deals' (which PWC defines as being of US\$1 billion or more) globally grew considerably in 2015 to 28 deals - up from 17 deals the previous year. This growth constituted an increase in the average deal value to US\$771 million, up from US\$376.7 million in 2014.

It is predicted that the result of this industry consolidation will be that the balance of power will shift from shippers to 3PL, which according to Supply Chain Digest (Supply Chain Graphic of the Week: 3PL Industry Consolidation Continues at a Rapid Pace, Supply Chain Digest, 11 February 2016) may lead to a major inflection point in the supply chain.

It is a compelling argument indeed. 3PL have tried for years to provide more sophisticated services to their customers. Since the GFC, the role of logistics has really stepped up to become a critical business function.

Logistics service providers are becoming less interested in competing by way of lower prices and more interested in competing by way of offering. They are setting up long-term relationships based on infrastructure investment and industry knowledge. In this way, the logistics function is continuing to take prominence as a critical business success driver, rather than the backroom appendage.

Consumers will continue demanding a faster, more efficient logistics service, and this will be the deciding factor that will either make or break a business - so their reliance on 3PL will only increase.

A recent survey of senior Australian supply chain and logistics execs confirms the majority see exciting times ahead for the industry and that the acquisition activity will continue, for some time to come.

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