M&A Activity in the Global Logistics Industry - Part 1

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INTRODUCTION

The global transportation and logistics industry continues to be shaped by mergers and acquisition activity as companies seek to adapt to rapidly changing market conditions. In a series of papers, we will take a short retrospective look at M&A in the industry, charting its transformation over the past two decades before examining the impact which current industry trends, such as e-retailing, are having. In our second paper we will then examine other trends forcing the pace of consolidation, such as the role of private equity and digital freight markets, before, in our third paper, looking at the strategies of some of the largest, most active players in the market.

THE M&A ENVIRONMENT – A SHORT HISTORY

The structure of the present day logistics and transportation industry can be traced back to a flurry of mergers and acquisition activity in the 1990s and 2000s which led to the creation of a number of giant diversified transport-based groups. Deutsche Post DHL and TNT (itself subsequently acquired by FedEx) were at the forefront of this trend, aggressively building logistics enterprises diverse in both the geographies they covered and services they offered.

The acquisition frenzy of this period was a result of the implementation of certain elements of supply chain theory. At this time there was a sea-change in the way in which retailers and manufacturers viewed inventory. Just-in-Time manufacturing became the industry mantra, resulting in smaller, more frequent movements of goods. Companies started to focus on the physical centralisation of stock, a goal facilitated by the growth of trade blocs such as the EU and NAFTA.

As a result of these changes to manufacturing strategy, transport became critical to supply chains and the lowly freight company became a major partner in ensuring that goods reached the intended recipient on time and in good condition. This requirement resulted in much higher standards across the industry and gave previously commoditized road freight operators the opportunity to develop their value proposition.

The market now demanded high value, technologically advanced out-sourced logistics services and the perception of the sector was transformed from being a low margin jumble of transport and warehousing services, to that of a dynamic, value-adding driver of the global economy. This momentum was consolidated by the globalisation of the world's economy; the liberalisation of the world's postal markets and the rise of e-commerce. Activity was also facilitated by the availability of cheap, readily available cash much of it sourced from private equity.

Since the first major acquisition which kicked off the period of frenetic consolidation (that of TNT Express by the Dutch Post Office in 1996), there have been a variety of subsequent trends which have influenced the strategies of the market leading companies:

- 'One-stop shopping' and geographical expansion

At that time (the mid-1990s), the ability to offer global 'one stop shopping' (transport, distribution, freight forwarding and even express parcels services) became the goal of many major logistics companies in an attempt to increase their share of the business of blue-chip customers. This ambition was displayed most obviously by TNT Post Group (as it was called at the time) which pursued a 'matrix' or 'tick box' development strategy. It sought to provide mail, express, logistics and forwarding services in multiple geographies and would buy companies to fill in any white spots in the matrix. In the end, this led to TNT, and many companies like it, over stretching itself due, not least, to the management resources required for such a strategy in terms of acquisition integration. Also, many logistics companies over-estimated the willingness of shippers to give them all their volumes partly due to risk, but also due to the understanding that even with acquisitions no logistics partner could offer industry-leading levels of service in every function, in every geography. This led to (and is still the case today) functional business-silos, operating separately with very little integration, albeit operating under the same brand.

- Out-sourcing and value add

At the same time, the management concept of 'out-sourcing' was taking root. Logistics companies were able to take advantage of manufacturers' and retailers' desire to focus on their core competences and spin off the management of their distribution activities. Through deeper engagement with their clients, logistics companies had the opportunity to offer more value-adding, higher margin services (such as postponed manufacturing, call centres, inventory ownership etc). Many logistic companies added these functions to their existing portfolios through acquisition of niche, specialist players.

- The 'dotcom bubble'

At around the turn of the century, the internet or 'dotcom' boom was occurring. This added a certain level of hysteria to the acquisition market. Logistics companies were quick to position themselves as the providers of the infrastructure enabling 'clicks and mortar' e-retailers to fulfil customer orders, both in terms of warehousing, distribution and last mile transport. Inflated expectations arose and this translated into much higher prices which acquisitive companies had to pay for even very ordinary companies.

Despite the fact that it would be another decade before dotcom expectations were realised, the pressure on companies' management to expand through acquisition was remorseless. However, it was at this point that the market crashed as the dotcom bubble burst. The resulting recession of the early 2000s quickly led to a reverse in strategy as bullish volume forecasts proved to be unachievable and companies struggled to pay back the loans they had taken to make their acquisitions.

Although it would be too simplistic to conclude that at this point the investment community fell totally out of love with 'contract logistics' or 'solutions' as it is also called, this reversal for the sector coincided with the rise of the international freight forwarder.

- Globalization and the rise of China

Up to this point, freight forwarding had been widely viewed as a non-value-adding 'necessary evil' for moving goods across borders and booking space on ships or aircraft. Business practices had changed very little for many decades. However, as globalisation gathered pace it became obvious that the freight forwarder, with links throughout the world (and especially in developing markets such as China), would become a critical element of supply chains. Global trade boomed following China's accession to the WTO in 2001 and this spurred a race to build owned networks of forwarding operations. Deutsche Post acquired Danzas (and subsequently Exel which included MSAS); UPS bought Fritz and Menlo Worldwide Forwarding; Schenker (itself now part of Deutsche Bahn) bought Bax Global to name just a few.

The pace of globalisation translated into big annual increases in international air and sea freight volumes. Forwarders' counter cyclical business models (which allowed them to make better profit margins in a downturn, and better revenues in an upturn) was applauded. Their 'asset-light' nature, based on managing rather than owning transport assets, provided high returns on capital expenditure. Suddenly forwarding was no longer the poor relation of the logistics world, playing second fiddle to more sophisticated, value-adding logistics.

- Forwarding, post 'Great Recession'

However, since the so-called 'Great Recession' of 2008/9 the stellar growth trajectory of forwarding has diminished. Wage inflation in China has made goods produced in Asia less competitive and prompted some manufacturers to adopt near-sourcing strategies (sourcing goods from suppliers based closer to the major consumer markets of the West). Natural disasters have shown the fragility of extended supply chains, and risk is now being increasingly taken into account when looking at sourcing strategies. On top of this, the growth of Asia as a consumer market will lead to greater levels of regionalisation (as opposed to globalisation) with the fastest growing sector being intra-Asia movements of goods. This will lead to the dilution of forwarders' yields.

- Consolidation to continue

What is clear, is that after a turbulent period of transformation, there is no sign that change in the logistics industry is slowing down. A powerful mix of demand and supply side factors means that further re-structuring is inevitable. The shift of the economic balance of power towards Asia; increasing supply chain risk; trade wars; digitalization; the impact of e-commerce; near-shoring/re-shoring and the impact of Coronavirus are just some of the issues which logistics providers will need to contend with. Whilst many logistics companies will benefit, others will struggle in an increasingly unfamiliar environment. Consequently, it is likely that the consolidation of the industry will continue for many years to come.

The results of this are already being seen. Whereas in the past there seems to have been room for many mid-sized 'generalist' players, the past twenty years have shown that this is no longer the case. The struggle in the industry has become existential. Either a company has to be very good in a particular niche to survive (either a sector or geography specialist) or it has to have the scale to dominate the market. Those which are lacking in management strength, technology and capital resources will be quickly subsumed within an increasingly small number of market giants. Most recently this has been shown by the acquisition of Panalpina by DSV, a deal which is dealt with in a subsequent paper in this series.

PRESENT M&A MARKET TRENDS

THE IMPACT OF E-RETAILING

Whilst already growing at a rapid pace, the e-retailing logistics sector received a very strong boost in 2020 from the Covid crisis, as people increasingly undertook their shopping from home. This placed enormous pressure on many logistics and transportation providers, not only from the increased amounts of volumes but also from the changing characteristics of the business:

- Logistics operations need to deal with smaller, but more frequent deliveries
- Increased levels of automation are required in warehouses
- Increased visibility of shipments are required to provide end-recipients with details of delivery times
- There are increased levels of returns
- Cross border e-commerce volumes are growing
- Driver and truck assets need to be better utilised
- Better supply chain orchestration is required.

One of the results has been the increasing acquisition of companies which have been able to provide logistics companies with these specialist services.

- In December 2020, FedEx agreed to acquire Chicago-based ShopRunner, an e-commerce platform that connects brands and merchants with online shoppers. ShopRunner's consumer experiences and omnichannel enablement capabilities are anticipated to help unlock potential for FedEx as it continues to use data and technology to improve end-to-end commerce experience.
- In October 2020, DSV Panalpina acquired Prime Cargo, an international forwarding company with a high degree of specialization in e-commerce and fashion retail. "Prime Cargo… fits perfectly into the strategic portfolio of our Danish DSV divisions. In e-commerce we will offer state-of-the-art competitive automated warehousing services with ambitious growth opportunities," said Marcel Blomjous, Managing Director, DSV Solutions, Denmark.
- In 2019 Kerry Logistics formed a joint venture with E-Services Group, an international e-commerce company in Asia, to strengthen global e-commerce fulfilment capabilities, especially in the Greater China region.
- In 2018 SEKO Logistics acquired a majority shareholding in its strategic partner, Omni-Channel Logistics, to grow its cross border e-commerce and technology solutions for retailers, pure-play retailers, marketplaces and platforms in Hong Kong, the US, UK, South East Asia, as well as Australia and New Zealand.
- Also in 2018, Ryder System announced it was strengthening its omni-channel fulfilment capabilities through the acquisition of all outstanding equity of MXD Group, an e-commerce fulfilment provider with a US network of facilities, including last mile capabilities. With this acquisition— at a price of approximately $120m—Ryder is now reportedly the second largest last mile delivery provider of big and bulky goods.

Larger deals have been made in China by the giant e-retailing companies there in order to build delivery infrastructure. In 2020, the exceptional market growth led Alibaba to strengthen its operations by increasing its control over national parcels delivery company, YTO Express. The transaction was valued at 6.6bn yuan ($966m), suggesting the worth of YTO Express as being in the region of $9.6bn and increasing Alibaba's holding to around a 30%.

Alibaba operations are heavily dependent on both national and regional providers such as YTO Express which are co-ordinated by Alibaba's own logistics purchasing and planning organisation, Cainiao. The move is also being seen as a response to the expansion of rival internet retailer JD.com which had earlier in 2020 invested $432m in another express company, Kuayue-Express Group.

Outside of China, other developing countries have seen very strong growth in the e-retailing sector. This has proved attractive to large European, Asian or North American logistics providers looking to extend their reach into markets with high potential.

DIGITAL FREIGHT CONSOLIDATION

For many years, the road freight industry around the world have been considered ripe for disruption through the digitalization of markets. Providing more visibility of capacity and demand will provide shippers with the benefit of better prices and carriers with increased utilization of assets. However, developing digital markets is no simple undertaking and requires not only the requisite technology but also considerable resources and marketing reach to build the necessary communities of carriers and shippers. Many innovative start ups have fallen by the wayside, unable to build the necessary network scales. Others which are better resourced are starting to dominate the market by buying competitors.

Case Study: DPD expands into Brazil's e-retail logistics market

In 2017, DPD Group, a subsidiary of French La Poste, acquired 60% of Jadlog, one of Brazil's main logistics operators in e-commerce. The company has since pursued its development in Brazil and now holds 98% of Jadlog's capital. Over the previous 4 years and with GeoPost/DPDgroup as a majority shareholder, Jadlog has increased the volume of its deliveries by six times. At the national level, Jadlog operates through more than 500 franchisees supported by 17 branches spread across the country and serving more than 40,000 shipping customers.

In the e-commerce segment, Jadlog is committed to increasingly offer facilities to retailers and delivery options to end consumers, through major investments. In 2019, more than 1m orders were delivered through the Pickup network composed of more than 3,000 points spread throughout Brazil, and this number is expected to double in 2021. The Jadlog network is also connected to the international network of DPD giving Brazilian customers access to the global market.

In Europe one such example is Berlin-based Sennder, most recently (September 2020) acquiring rival Uber's regional freight operation. Although the terms were not disclosed, Sennder described it as an "all-stock transaction" with Uber becoming a minority shareholder in the German company. Bloomberg news agency is quoting an unnamed source that the deal valued Uber Freight in Europe at "€900m/$1.1bn" although this is unconfirmed.

At the time, Sennder's CEO, David Nothacker, commented to Ti that "with the acquisition of Uber Freight's European business, we will grow into a business with offices in 7 countries and a team of more than 500 people moving 50,000 loads across Europe a month". That would suggest a considerable jump in the size of Sennder's business, as well as a move to having a more balanced geographical presence across Europe. It appears that Sennder has also established some sort of relationship with Uber, possibly to extend its own reach in North America. Sennder has assembled a network of capabilities outside Germany over the past couple of years through the purchase of French company Everoad, and a joint venture with Poste Italiane. These, and the Uber deal, point to the need for such types of businesses to gain volume in order to deliver operational viability as well as credibility in the eyes of key customers. This is a prerequisite if they are to challenge incumbents like DB Schenker or Kuehne + Nagel.

Whilst digital players may be consolidating, traditional forwarders are also using acquisition strategy to enhance their own services. For example, US forwarder Expeditors acquired Fleet Logistics' Digital Platform in order to support its own online LTL shipping platform, Koho (gokoho.com) and align with its strategy and focus on Digital Solutions.

"This investment supports Expeditors' online shipping platform Koho, which helps small shippers quote, book, manage and track their LTL shipments online. Through our Koho pilot, working closely with Fleet, we were able to demonstrate our ability to meet an unmet need. Koho is the first idea to successfully navigate all stages of our innovation framework – from seed through to scale – and represents the culmination of our efforts to create our innovation team and framework," said Benjamin Clark, Chief Strategy Officer at the time.

Other acquisitions and investments in the digital market include:

- Amazon invested in a new UK digital forwarder, Beacon, set up by two former Uber executives. Other investors included Uber and Google as well as venture capital funds, with the company raising $15m.
- Maersk invested AUD2.8m in seed funding into Australian road freight platform Ofload. Ofload (formerly called Loadsmile) was founded in February 2020 and is currently used by approximately 800 carriers with a fleet of 15,000 trucks throughout Australia. Ofload connects small and medium-sized carriers with shippers and claims to enable shipments to be delivered more quickly and affordably by utilising what would have been empty space.
- Digital freight platform, Kontainers, was bought by technology company Descartes in June 2020 for $12m. Kontainers' digital freight execution will be integrated with Descartes' rate management and forwarder enterprise systems.
- In 2017 DB Schenker took a $25m stake in online freight booking platform uShip Inc. as part of a

series D round, having signed an exclusive service agreement with the company during 2016.

- CH Robinson acquired Freightquote.com in 2015 for $365m, buying a digital freight broker with a gross revenues of $623m and EBITDA of $34m. It particularly allowed CH Robinson to target smaller customers.

In our next paper on M&A we look at the role of Private Equity and Shipping Lines and what happens when acquisitions ‘go bad’.

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Expertise includes:

- Analysis of corporate strategies of leading express, freight forwarding and logistics companies.
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- Micro-economic analysis of key logistics segments: express, freight forwarding, road freight, contract logistics, warehousing, air cargo, shipping and e-commerce logistics.
- Analysis of supply chain strategies employed in industry vertical sectors: pharmaceutical, fashion, high tech, oil and gas, consumer, chemical, cold chain, automotive and retail.
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