Logistics Industry Consolidation Continues Into 2016

Written by Kimble Winter
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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 Mergers and Acquisitions practice,” said Darryl Judd, who leads Logistics Executive Group’s Corporate Advisory Services. “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” he added.

According to Supply Chain Quarterly’s annual survey, CEO’s would predict every year that there would 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
The trigger for these acquisitions clustered around four categories: consumer demand pressures, globalization, financial considerations and economic conditions. Consumer demands have increased considerably with the advent of e-commerce which has enabled consumers to reach further geographic markets and for business 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 breakdown, not just in terms of geography but in regards to information sharing and traditional industry roles. Businesses are starting to trust 3PL’s more with sensitive company information and this has allowed these providers to integrate and manage their services better.

Thanks to the emergence of e-retailing with the phenomena exemplified by Amazon and its Asian counterpart, Alibaba, 3PLs 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, various wars in parts of the world like Syria 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 suggest that this sudden trend could be attributed to what they call “defensive acquisitions.” According to this theory, one player makes a move at 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 these various reasons, it seems that consolidation is going to remain a dominant theme in the logistics and supply chain sector that is set to continue. In their predictions for global logistics 2016, Gartner says they expect that by 2020 the top ten, global 3PLs 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 3PLs who will be serviced by small niche players who will work for them

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

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A report by PWC seems to support this theory. In their 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 “megadeals” globally (which PWC defines as being of US$1 billion or more) grew considerably in 2015 to 28 deals which are up from 17 deals the previous year. This growth constituted an increased the average deal value to US$771 million up from US$376.7 million in 2014.

It is predict that the result of this industry consolidation is that the balance of power will shift from shippers to 3PLs, which according to Supply Chain Digest² may lead to a major infection point in the supply chain. “It is a compelling argument” continued Darryl Judd. “3PLs have tried for years to provide more sophisticated services for 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 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’s will only increase” concluded Darryl Judd.

No doubt there are exciting times ahead for the industry and the acquisition phase will continue for some time to come.

¹Supply Chain Quarterly – Quarter 3 2015
²“Supply Chain Graphic of the Week: 3PL Industry Consolidation Continues at a Rapid Pace” Supply Chain Digest Feb 11, 2016

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The founder of the company, Kimble is an acknowledged specialist in Executive Recruitment across Logistics and Supply Chain sectors. A dynamic and engaging senior executive with 35 years leadership experience spanning Corporate Advisory, Executive Coaching, Public Speaking, Search & Recruitment across the Supply Chain, Logistics, FMCG, Retail, Resources, Industrial, Disaster Relief and Humanitarian sectors. Kimble has built an international reputation as the founder (1999) of Logistics Executive Group which delivers whole of lifecycle business services including Search & Executive Recruitment, Corporate Advisory, Online Education and Executive Coaching / Mentoring.

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