Consolidation ahead for the logistics sector – opportunity knocks

Globalisation, strong economic growth, and the continued evolution of e-commerce have all resulted in an increased demand for logistics. Despite this, only a few operators have managed to achieve higher profits due to the fiercely competitive nature of the market.

With rising costs squeezing margins across many areas, operators are under pressure to achieve growth. With a reputation for long and unsociable hours, the industry struggles in attracting people with the right skills, resulting in driver shortages across the industry. Increased customer pressure demanding more services, combined with aggressive purchasing contracts driving costs down and the impending impact of Brexit, are all dampening operator confidence. For many operators, growth by merger or acquisition is therefore viewed as a way to expand their offering, increase efficiencies, gain new customers, and/or acquire new facilities.

NEW MARKET ENTRANTS

New market entrants are also driving a new layer of competition, as start-ups and technology giants are both targeting business opportunities in the segment in order to enhance existing customer propositions. Companies such as eBay and Amazon are developing dedicated delivery solutions, transportation capabilities, and in some instances air freight and warehousing offerings. New entrants, particularly those in the technology industry, are already well versed in using their expertise to drive out cost in delivering end-to-end solutions, reducing document handling and driving fleet optimisation with networks that are fit for purpose.

The ability to control the flow of goods versus the operations of storage and transit will offer operators greater control of future business. Car-sharing and other mobility solutions such as Lyft and Uber are also increasingly disrupting the traditional markets of large transportation companies. At peak sales times, such as Black Friday or over Christmas, retailers need to ensure their reputation is protected by having a reliable delivery mechanism. This may ultimately contribute to driving retailers to look for in-house solutions, or similar, or acquire an existing operator that fits the business model – all challenging the established world of logistics.

CHANGING NATURE OF THE SUPPLY CHAIN

Today's complex supply chain now demands a greater sophistication in offering from its logistics partners. Customers are increasingly demanding bespoke requirements, with operators emerging in different specialisms, from road freight forwarders to "last mile" parcel delivery and contract logistics, to those with offerings for the pharmaceutical and automotive sectors. Digital and autonomous technologies will allow for greater efficiencies in fleet operation from fuel, collision reduction, driving style, defensibility, and scheduling and utilisation, although adoption is dependent on awareness, cost, and regulation.

MERGER AND ACQUISITION BY NECESSITY

The fragmented nature of some of the key sub sectors and tough market dynamics are expected to continue to drive merger and acquisition activity, which has recently transformed existing business models. Traditionally, asset-light logistics service providers with relevant IT systems were popular acquisition targets for large logistics providers and freight forwarders. In the new world order, technology based companies are now increasingly looking to extend their reach and extract profits, leaving commodity operations for others. With increasing interest in mobility and technology combining in a world of digitisation, venture capitalists will soon start to look at the sector as an area for investment.

FIGURE 1 Examples of Recent Activity
Marsh Analysis

ACQUIRER	TARGET	POSSIBLE RATIONALE
DSV	UTI WORLDWIDE	REGIONAL FOOTPRINT BUSINESS SCALE
XPO	NORBERT DENTRESSANGLE	REGIONAL EXPANSION FORWARDING BUSINESS SCALE
TURNERS (SOHAM)	MACINTYRE TRANSPORT	EXPANSION OF CONTAINER BUSINESS
CULINA GROUP	GREAT BEAR DISTRIBUTION	NETWORK EXPANSION

In the new world order, technology based companies are now increasingly looking to extend their reach and extract profits, leaving commodity operations for others.

NEW WORLD ORDER BRINGS NEW RISKS

Consolidation will likely bring economies to some operators, but success will bring with it some challenges that will need to be managed accordingly. The well-known check list of employers' liability insurer history, environmental surveys for contaminated land, or products sold or supplied by discontinued operations are all well-trodden paths when integrating a new business.

Casting a spotlight on how the fleet integration is tracked, additional focus should be placed on allowing future pricing of the cost of risk to be evaluated. This can now be managed through the use of data analytics. While this solution is not new, its potential to reduce future motor fleet costs is so significant against the margins of the business that managing the data and costs are critical to an organisation that seeks to grow by acquisition.

Focus should be placed on allowing future pricing of the cost of risk to be evaluated.

PROFIT THROUGH GROWTH

It is usual to look at a motor fleet through a multi-year claims experience, normalised to the number of vehicle years, to produce an average claims cost per vehicle. Data is then trended against frequency and accident cost inflation to generate future premiums. As businesses are purchased, vehicles are added to the fleet and the claims experience will expand. If multiple purchases are made then the difficulty is increased: How is it determined if the claims growth is genuinely above or below trend – are the added fleets better or worse?

MAKING BIG DATA WORK

Post-acquisition, the realisation of cost savings, the integration of the business, and the search for additional synergies means that a range of data needs to be monitored. For a limited time at least, it is important that the in-house peer group comparison should not be lost. Keeping the data recording for the two businesses separate will allow for the easy identification of improvement or deterioration, while also allowing the two sets of operating systems to be compared. Several post-integration actions are therefore essential for efficiencies in the fleet operation.

Firstly, accident types in the two fleets can be analysed and compared with the types of telematics deployed and the safety assistance technologies adopted. This can be evaluated to determine their effectiveness in countering different types of losses and comparing whether risk management measures are working. Payback periods can then be calculated from known cost models. Varying data points collected within the data sets can also be analysed to determine what is of value and what is not.

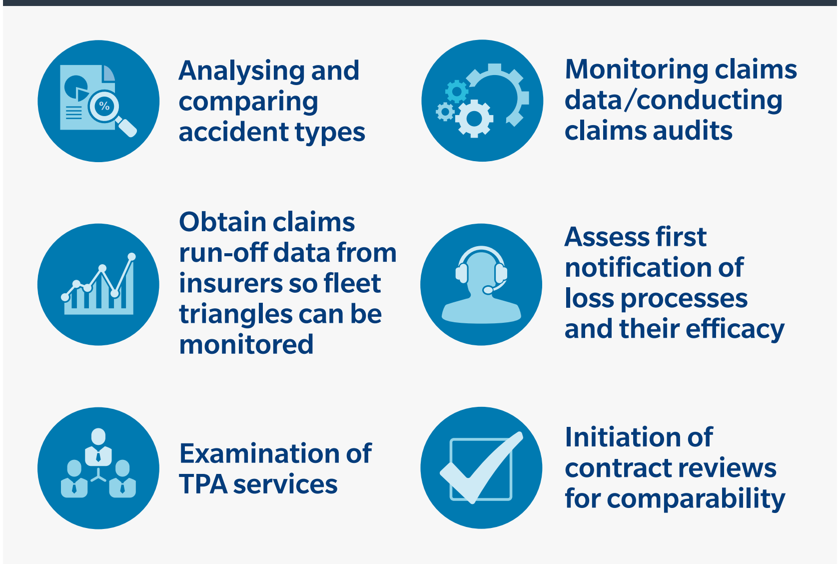
Claims data also needs to be closely monitored. By obtaining claims run-off data from insurers, fleet triangles can be monitored and the overall operational efficiency of the two insurers compared. Conducting claims audits on both fleets should also be part of an integration strategy to ensure the claims experiences are on a like-for-like basis and the number of zero value claims worked out of any frequency comparisons.

The third-party administrator (TPA) or insurer claims services will also need examination from a service and value perspective, comparisons of settlement values for similar claims being a worthwhile consideration to see who operates the most cash-effective system. Coupled to this, first notification of loss processes and their efficacy should be revisited, to ensure the integration of best practice is achieved. Finally, a contract review should be initiated to determine:

- Do both business trade on the same conditions?
- Do they have common customers? If so, do they have different negotiated conditions, loss profiles, and contract penalties?

There will come a time when vehicles will be integrated with the whole fleet and data separation will become meaningless. Even if the above process holds for 18 months in identifying best practice, understanding the value of technology and risk management investment, setting self-retentions and aggregates, and obtaining satisfactory market terms, the small effort in data tracking will be worthwhile. This unique opportunity to extract additional value from an acquisition should not be missed: Integration will always be a driver, and making the best choices will ensure success.

FIGURE 2
Post-Integration Actions



CONTACTS

For more information, contact the colleagues below or visit our website at: www.marsh.com

DARREN HOWLETT

UK & Ireland Transportation and Engineering Practice Leader
+44 (0)20 7357 2418
darren.howlett@marsh.com

DUNCAN READ

UK & Ireland Transportation Practice
+44 (0)20 7357 5921
duncan.read@marsh.com