

Reshuffling the Deck

Smaller shippers demand more sophisticated services, spurring mergers among smaller logistics providers

The deal wasn't exactly a headline grabber, but it was a surprise nonetheless.

The mid-March acquisition of Minneapolis-based freight forwarder Interlog by ZIM Integrated Shipping Services subsidiary ZLN shows that logistics industry consolidation continues, just not on the large scale seen in recent years.

What makes ZIM's purchase unusual is that it is the first significant steamship line entry into the U.S. freight forwarding market, said Ben Gordon, managing director at BG Strategic Advisors. BG was the financial advisor to Interlog in the transaction, the financial terms of which were not disclosed.

Parent company ZIM, of Lausanne, Switzerland, is a multibillion dollar, top 20 global steamship company with a fleet of 100 vessels that carried more than 2 million TEUs to 180 ports of call last year. The sale of Transoceanic and GeoLogistics to PWC (now Agility), of BAX Global to Deutsche Bahn's Schenker unit, and of USCO Logistics to Kuehne + Nagel all represented the growing interest of foreign logistics providers in U.S. transportation businesses.

The acquisition indicates that, despite the shift from multibillion dollar mergers of global public companies toward somewhat smaller, more obscure deals involving private equity, logistics industry consolidation keeps chugging forward.

"We are witnessing, in my view, a massive reshuffling of the deck," Gordon said. Ten years ago, the top 50 U.S. logistics providers controlled 20 percent of the market by sales, he said. Today, the top 50 control half of the \$120 billion domestic market. Ten years from now, he said, the top 50 will account for 80 percent of U.S. logistics revenue.

The relentless push into new markets, or into older, less fully exploited markets, drives many deals. "We see a growing

need from small and midsize shippers for sophisticated global logistics solutions," said Antony Walford, managing director at ZLN. "Interlog has developed unique solutions to the small and midsized market segment."

The deal opens Interlog markets in North America, Asia, eastern Europe and the Middle East to ZLN. James Taylor, Interlog CEO, said he's long wanted to grow his small and midsize company-oriented freight forwarding and logistics services to a global network. "By combining (to be) part of the ZLN family, we are instantly there."

Gordon said consolidation is also driven by shipping customers' continued

quest to reduce the number of their logistics providers, as well as by technology advances that let providers sink their service hooks deeper into shippers' logistics organizations. It's also pushed by waves of new capital, currently accumulated in huge private equity firms, that have identified logistics as a source of above-average profits.

The consolidation trend shows no signs of slowing, Gordon said, though asset-light and nonasset-based companies tend to fare better in the bidding wars between competitive investors. Questions about the health of the freight environment and the overall economy haven't reached acquisitive investors — yet.

"So far, it has continued to be a boom time for asset-light logistics companies," Gordon said. "However, the softness in the freight environment continues to cast a cloud over the future."

BY WILLIAM HOFFMAN

SCI, two others form logistics partnership

SCI Logistics of Toronto forged an agreement with two other Canadian companies to work as a single group providing logistics for businesses operating north of the border.

AMG Logistics and First Team Transport will bring more than 30 years' experience serving Rogers Communications, Xerox and Trane under their arrangement with SCI.

AMG founder and chairman Garry Smith will become a shareholder and member of SCI's board of directors, though other financial and personnel arrangements of the deal were undisclosed.

AMG and First Team will join SCI subsidiaries Progistix-Solutions and Assured Logistics under the SCI umbrella, serving shipping customers that have included Bell Canada, Pitney Bowes and Siemens.

"Integrating the quality-focused culture at AMG with the breadth and scale of the Progistix and Assured businesses creates a powerful logistics services organization which will serve companies across Canada," Smith said.

Seko expands in India

Freight forwarder Seko is expanding its operations in India, with new offices in Mumbai, Ludhiana, Jaipur and Coimbatore, and later this year a facility in Chennai.

"India's economy is growing at a rate of 8 percent," said William Wascher, president and CEO of Seko, "and this figure is projected to increase to 10 percent in the near future." Sixty percent of business process outsourcing activities of the United States and the United Kingdom are performed in India, the company said.

"The country has the largest population of consumers in the world, which is significant because these customers are attracting an increasing quantity of consumer goods into the country that impacts not only the amount of international trade but global logistics requirements," Wascher said. Some analysts believe India could eventually rival China for foreign sourcing and exporting.

Seko-India serves Southeast Asia, Europe and the United States, primarily for textiles and fashion exports from India to the West and electronics and consumer goods imports from China and Southeast Asia.