A WNS PERSPECTIVE

RIDING THE WAVE: DEAL-MAKING CONTINUES IN THE SHIPPING INDUSTRY

Extending Your Enterprise

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The Shipping and Logistics (S&L) industry is witnessing oceans of change marked by robust Mergers and Acquisitions (M&As). In 2017, the industry recorded 71 M&As worth over USD 43.3 Billion – the second highest level of quarterly deal volume and value in the last three years.[1]

Maritime analyst firm Alphaline predicts robust M&A activity to continue in 2018, leaving just 14 main global shipping carriers, 50 percent of whom will ship 65 percent of the world's cargo.[2] M&As are largely aimed at improving cost efficiency and geographical reach of carriers through consolidation. They also try to address larger concerns around overcapacity and shrinking demand.

There are three areas in the industry in which M&A activities will have the maximum impact.

Wider Scale & Choice

Contrary to popular belief that consolidation will help three or four major operators monopolize the trade, shippers stand to benefit from larger scale and choice. This is because scale is not just defined by the size of the vessel, but the carrier's network as well. Carrier consolidation means more ports can be covered between the merging parties, offering shippers more choices for direct port coverage.

The combined network will also accelerate transit time and enable significant operational and cost savings. This will create new innovative opportunities for both carriers and shippers. Maersk Line's recent acquisition of Hamburg Sud, a German-based shipping line is a step in this direction.[3] The deal will benefit Maersk's customers in the form of faster transit time and port coverage in Latin America, while Hamburg Süd's customers will gain access to Maersk's vast global network.

1. https://www.pwc.com/us/en/industries/industrial-products/library/quarterly-deals-insights.html
2. https://fairplay.ihs.com/commerce/article/4278906/container-shipping-shakes-off-the-shocks
3. https://www.maerskline.com/news/2017/11/30/welcome-hamburg-sud

Automation & Analytics

As carriers and shippers consolidate forces, the focus will be on real-time monitoring of shipments, and automation of operational procedures. Shippers need real-time data on container variables such as location, temperature, air supply and the condition of cargos to track shipments, ensure safety, and take precautions / remedial actions when required.

The pressing need to adopt new technology amid widespread digital disruption in other areas of transportation (such as self-driving vehicles and drones) is a critical factor driving M&A activity in the S&L sector. The combined power of Internet of Things (IoT), Radio Frequency Identification (RFID) and Automatic Identification and Data Capture (AIDC) technology will enable shippers to monitor critical metrics throughout the shipping process.

Automatic, real-time updates on shipment status, estimated time of delivery and so on will enable the analysis of delivery routes, reasons for delayed delivery, real-time route recommendations and much more. This information may be delivered through RFID tags, Bluetooth sensors or hand-held IoT-enabled scanners deployed throughout the network.

Most merged entities in the S&L sector are also turning to business process management companies to automate and streamline documentation and reports, ensure compliance, increase efficiencies and reduce costs.[4]

4. http://www.wns.com/insights/articles/articledetail/53/shipping-and-logistics-companies-steer-toward-bpo-to-skillfully-navigate-the-upturn

Programmatic M&A as a Key Differentiator

There is little doubt that S&L companies view M&As as a predominant source of growth. However, in view of heightened M&A activities, it is important that these companies develop programmatic capabilities to approach these deals. This means S&L companies should be prepared to identify, evaluate and integrate attractive M&A targets who share similar business perspectives in order to drive the desired goals of both entities.

They should adopt a market-beating strategy which will enable all merged entities to go beyond their traditional markets, evolve new and innovative business models, and devise ways to manage uncertainty with a robust back-up plan.

The liquidation of South Korea's Hanjin Shipping, the 7th largest container carrier company in the world, has spurred industry players to collaborate and manage uncertainties in the best way possible.[5] For instance, xChange, an online marketplace launched by the Boston Consulting Group (BCG) helps in the exchange of idle shipping equipment between ocean carriers, container leasing companies, intermodal operators and other logistics providers.[6] This enables up to 30 percent reduction in the movement of empty containers and significantly reduced their carbon footprint.

Industry experts concur that M&A activity in the S&L sector is long overdue as surplus capacity, mounting losses and shrinking margins have been piling up for years. While uncertainties exist over intense consolidation signaling the end of competitive pricing and customized services that smaller carriers provided, overall, the M&A drive is expected to bring positive changes.

Reduced costs due to greater operational efficiencies, improved cargo monitoring and reliability, coupled with digitization, will be the new enablers of success. As companies experience the ebb and flow of unprecedented changes, the options open before them seems to be either to sink alone or swim with the big sharks.

5. http://www.supplychain247.com/article/the_hanjin_effect_the_end_of_shipping_as_we_know_it
6. https://www.container-xchange.com/public/index.html

About WNS

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