

Evaluating Logistic Company Risks



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Introduction

“The involvement of logistics in port and terminal thinking has evolved into a complex business that involves cooperative partnerships and collaborations”



Industry drivers

- *Global integration*
- *Outsourcing*
- *Mergers & Acquisitions*
- *Change in buying habits*
- *IT developments*
- *Environmental sensitivities*



Industry drivers - Global integration

“Global integration, deregulation and privatisation have led to the expansion of worldwide trade leading to container traffic exceeding all other waterborne trade.”



Industry drivers - Outsourcing

“As cargo producing companies increasingly focus on core activities the percentage of outsourced logistics activity continues to grow.”



Outsourcing – Activity

- *Outward Transportation* 89%
- *Inbound Transportation* 82%
- *Customs brokerage/clearance* 82%
- *Warehousing* 70%
- *Cross docking/consolidation* 49%
- *Freight Forwarding* 40%

- Source: 9th Annual 3PL study – Capgemini/Georgia Inst of Technology/
FedEx



Outsourcing - Activity

- *Logistics procurement* 33%
- *Reverse Logistics* 32%
- *Product returns & repair* 30%
- *Labeling & marking* 29%
- *Inventory Management* 27%
- *Carrier Selection* 25%

- Source: 9th Annual 3PL study – Capgemini/Georgia Inst of Technology/
FedEx



Industry drivers - M&A the motivators

- *Entry to new markets*
- *Geographical positioning*
- *Expanding skills & capabilities*
- *Reinforcement of presence*
- *Accelerate growth*



Industry drivers - M&A the motivators

“Ports are not immune from the M&A process as private sector involvement in port management and terminal operations has been growing significantly over recent years”



Industry drivers — Change in buying habits

“The increase of on-line shopping has resulted in commensurate advances in distribution services and systems.

More particularly ‘Reverse Logistics’ was created out of the frequency of product returns and environmental legislation governing the disposal of old and unwanted goods”



Industry drivers – IT Developments

“Bespoke IT systems have added significantly to transport industry developments. The expense of which can be a costly distraction from core functions so adding to the justification for outsourcing”



Industry drivers – Environment

“Increasing regulation will increasingly govern the way in which we dispose of unwanted goods, a responsibility that logistic service companies will use to their advantage.”



The industry response - Forwarding

“ The need to acquire and align specialist local and global skills and services to meet the exacting requirements of major buyers has had significant impact on the traditional transport and forwarding industry”.



The industry response - Shipping

“Gone are the days when container shipping lines chose not to compete with freight forwarders, now that the controller of cargo movement is the service provider”



The industry response – Warehouse & Distribution

“The threat posed by others offering a single service provider option forced the traditional national warehouse and distribution company into global expansion”.



The industry response –

Port Industry

“Significant privatisation and consolidation over the last ten years has seen port management, if not ownership, transform itself from a national to an international business”.



The Risks

“The risks associated with the transportation & warehousing of cargo have not changed but the obligations on the service provider have.”



The Risks

“The widespread use of individual contracts arise because there is no international convention or recognised conditions to unify the long-term contractual requirements of a customer due to the transactional nature of the transport industry”.



The Risks

The increase in long terms contracts are necessary to reward the service provider for the investment necessary to meet the needs of the principal which introduce further risk considerations of:

- The system employed*
- Exception reporting*
- Facility capability*



Contract types

- *Friendly agreements*
- *Limited liability*
- *Extended liability*
- *Full value – operators fault*
- *Full value – regardless of fault*



Risk assessment

“Any increase in service provision under broad contractual terms demands a review of the key areas of Management, Operation and Facilities and facility management ”



Conclusion

“Apart from location and competitiveness port users now consider the logistics character of a port – its capacity to offer broader range of services”.



Any Questions

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