

Shareholder Innovation

- Changing ownership
- Changing value propositions

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Exploding the myth of private equity

- It is not 'barbarians at the gate'
- Goal is to build a world class business
- Time is important but does not get in the way of quality – people, service, systems, processes, earnings
- It is not necessarily 'foreign money' it is most likely your / my super funds at work
- Private equity generally has experience and understanding of the businesses/industries it invests in – it is not a novice with cash
- They will pay fair value based on a number of criteria, the market ultimately dictates the price

The Value Partnerships

Shareholder / Vendor / Management / Suppliers / Customers

- PE looks to create value along the chain
- Vendor and management preferably having skin in the game
- Suppliers selling across a greater mass driving efficiency and providing comfort re payment
- Customers having the comfort of financial stability, experienced management teams with broad outlook and ability to invest in solutions

Industry consolidation

- We have seen this in other industries – finance, retail , automotive – this is not a new phenomena and in the past 5 years the global logistics landscape has been changed dramatically by consolidation- Australia is not immune to this – Toll have led the way
- In Australia it is driven by fragmentation across industry sectors ,the ageing demographic of private family owners, the challenges of survival (COR,fuel,cashflow) and the increasing demands of customers and there end customers
- Fundamental consolidation drives change generally for the positive , it helps create active competition amongst those generating the scale to compete and encourages the advent of new solutions
- There is still room for smaller niche players but the Australian transport landscape is quite unique due to its geographic challenges and this will mean a competitive landscape emerges unlike most we have seen in Europe or the US
- The ACCC has fostered and has been active in helping drive consolidation , perhaps at times without understanding the detail of what its decisions impact

Customers will win !

- Industry changes in the past 20 years have shown us that ultimately consumers win
- Industry consolidation has contributed to this , today we have more choice than ever before and even when large industries consolidate it drives customer innovation or creates niches for new players to emerge – the home mortgage and mobile phone market are good examples of this
- The transport industry consolidation we are in the midst of now should drive the same benefits and the consumer looking for freshness and choice will drive supply chain innovation which will focus the attention of industry players on rising to those challenges. Ultimately we will see new solutions , partnerships we have not even contemplated and a more efficient supply chain
- But there will be casualties along the way and how we foster a positive consolidation environment will be a test for all involved
- A more innovative and professional supply chain industry will help lift the image and thus attract new people with new skills helping drive new ideas
- JIT, pick to zero , call it by its varied names, what it means is that product movement will continue to be rapid , smaller orders more frequent , less buffer stock , more reactionary manufacturing , all due to consumer demand. The demands on us as an industry are only going to get harder not easier.

Industry challenges

- Drivers – without them we don't have a business – when did you hear your son or daughter say they wanted to be a truck driver? We have to make it an attractive occupation or we will have to seek foreign labor to fill the gaps
- Retail services – related to the above point. DC waiting time and the increasing JIT demands place pressure on the driver community with the advent of drivers choosing employers who do not have DC work
- Trained staff – generally getting good staff in the transport industry in any role is difficult. The industry attractiveness is negative to neutral and employers along with tertiary institutions, industry bodies, unions etc must work collaboratively to improve this
- ROA – returns generally are not acceptable when you consider the asset intensity, investment and compliance costs that the business has. This can be improved by greater efficiencies but also by correctly pricing work with a committed service criteria and backing that up with investment in people, systems and process
- Imbalance of trade – with the growing dominance of Melbourne as a manufacturing centre we are seeing a growing imbalance of loads between states. This causes extra costs and inefficiency for all concerned. How we look to rebalance this is a major issue with seasonality swings at times helping but there is no short term fix and increased volume swings will see the cost to serve matrix change driving new partnerships

An Asian perspective

- Australia is a leader with many of our brightest and best plying there trade in Asia
- As manufacturing continues to move offshore it provides new challenges to us and new opportunities – MEL a manufacturing centre , SYD one big warehouse !
- Asia will innovate ahead of us – unique challenges in supply chain , great opportunities (Indian perishable market) we can assist and have a duty to do so , we can also learn
- Our focus must be North to North West not West or East , due to volumes we risk being a feeder state not a primary port at least for consumer goods
- Imbalance of trade will continue to be an issue, as Asian markets develop better quality , particularly on primary production our export volume could wane – we have few alternatives to correct this
- China is ahead of us in infrastructure investment and planning this drives efficiency creating lower costs and better supply chain reliability, we need more infrastructure investment , better roads, better rail , incentives and tax breaks, our Asian counterparts are doing it and we risk being left behind

Summary

- We are in a very exciting period for the Australian transport industry
- The next 3-5 years will see a dramatic change in industry ownership, compliance , new solutions and partnerships
- Working collaboratively as a supply chain industry will help support how we react and adapt to these changes
- Perhaps the biggest innovation that can be delivered is finding a new way to collaborate that delivers value for everyone and recognizes that like the supply chain we are all links to a common goal – continuous improvement