

## The Heat Is On!

### *A recent merger in the courier industry spurs the rest to gear up for tough competition.*

MARCH 14, 1991 was a special day for the US multinational, Federal Express and the Malaysian Nationwide Express. It was on this day that both 'exchanged vows' in the Malaysian courier industry's first of its kind corporate merger.

While the merger came as no surprise to industry observers, it has created a stronger wave of competition in the already competitive express courier business in Malaysia. However, the fact remains: it is a healthy symbiotic relationship with both parties poised to reap handsomely from the burgeoning industry, regionally and world-wide; in short, a 'win-win' situation for both parties.

According to Eddy I H Chieng, managing director of Nationwide Express, Federal Express was not the only multinational that had interest in Nationwide Express. In fact, all the major multinational competitors (Emery, Airborne and United Parcel Service or UPS) have been watching the company closely because within a span of about six years (Nationwide Express began operations on March 1, 1985), it has not only survived the fierce competition prevalent in the industry but has also become one of the largest express courier companies in Malaysia.

After close to six years of working with Federal Express, the choice was obvious for Nationwide Express. 'It's a natural progression of any relationship; ours blossomed into a love relationship, and we decided to get married,' says Chieng. 'The integration has been a painless exercise. It only adds a bigger dimension to our business.'

Traditionally, a major problem for Federal Express outside the United States was how to attract customers away from its longer established competitors like UPS, DHL International and TNT Skypack. As a relatively new kid on the block (internationally), Federal Express was confronted with its competitors' established strongholds world-wide through a chain of joint venture airlines and courier companies.

Well, if you can't beat them, join them. Federal Express did just that. It has been steadily buying up local companies in Europe, Canada, Japan and the Caribbean. In Federal Express' recent joint-venture in Malaysia, Nationwide Express becomes a wholly-owned subsidiary of Ace-Atlantic Sdn Bhd, a Malaysian joint-venture company 70 per cent owned by Federal Express, and 30 per cent by Bakat Makmur Sdn Bhd, a bumiputera company.

Nationwide Express is one of Malaysia's largest express courier companies, while Federal Express, with its headquarters in Memphis, Tennessee, is one of the largest US air cargo companies in the world. The merger should provide Nationwide Express with opportunities to further expand its international business, while Federal Express concentrates on stepping up its presence in the Asia Pacific region, particularly in Southeast Asia.

Express courier services were first introduced to Malaysia in 1974, but express shipments moved primarily between Malaysia and destinations abroad. The market was dominated by multinational firms, mainly DHL

and TNT Skypak. Most of the domestic consignments were handled by the local postal services, trucking firms, taxis and buses.

Then in 1981, the multinational firms in Malaysia began servicing the domestic market, moving from documents and small parcels on an express basis. The express courier rates were a little high compared to other modes of transportation, but the response was nevertheless positive. The result: many small local express courier companies sprouted. It was a tough time competing alongside the other more established local companies and the multinationals (network – and technology – wise). Price undercutting was ubiquitous. Darwin's theory came into play. Some survived, others died.

When Nationwide Express started, the more generous competitors gave the company six months to survive. Those who considered themselves more realistic said that it would not last for more than three months, Chieng recalls. Against all odds, it prevailed. Currently, Nationwide Express dominates the domestic market, with a 38.7 per cent share. Its closest rival here is DHL with 14.3 per cent of the pie, followed by TNT Skypak with 7.2 per cent.

DHL presently leads the international express courier services in Malaysia with a sizeable 49.8 per cent share. The relatively new player in the Malaysian market, UPS, takes second place with 21.4 per cent. And Nationwide Express has only 5.5 per cent. It is, therefore, no secret that Nationwide Express intends to buck up in this area, and it now has the means to do so.

Chieng is hopeful. Says the affable managing director, 'Our new relationship with Federal Express will allow us to greatly improve service to the growing number of Malaysian customers who have international express transportation needs. Our access to Federal Express' computer control and tracking system, which is perhaps the most sophisticated in the world, will provide our international customers with state-of-the-art air transport service.'

With a fleet of 418 aircraft and 1,644 offices and facilities world-wide the Federal Express network itself is a definite boon to Nationwide Express, especially when its current objective is to expand its international courier business.

Federal Express brings to the merger yet another goodie. When it acquired Tiger International Inc, operator of an air freight service called Flying Tigers, in February 1989 for US\$880 million (approximately 2.38 billion rgt), it was immediately transformed into a mega-package carrier with the integration of Flying Tigers' network into its system on Aug 7, 1989.

Included in the acquisition were the Flying Tigers' routes and landing rights to 21 countries, a fleet of aircraft that included Boeing 747s, Boeing 727s and DC-8s, facilities throughout the world and Flying Tigers' expertise in international air freight. The rationale goes: when you don't have the necessary landing rights, and your company's future depends on them, you do the next best thing. You buy another company which has those rights and expand from there.

But the Flying Tigers acquisition is not without some minor 'setbacks' for Federal Express. There is, of course, the large assumption of outstanding debt belonging to Flying Tigers, as a result of the combined entities and a high financial gearing. Nevertheless, industry observers say the synergy will more than outweigh the 'setbacks'.

Nationwide Express can now enjoy the fruits of this acquisition. In addition to the vast international flight network, Nationwide Express will also have access to Federal Express' international computer and tracking

systems and training. With these 'assets', Nationwide Express plans to increase its international business in Malaysia to 20 per cent.

The anticipated growth of approximately 15 to 20 per cent for the express courier service industry as a whole in 1992 will witness a corresponding expansion in the operations of some of the big players in the country. Plans underway include increasing the fleet size of vehicles and branch networks, investing in sophisticated computer and tracking systems, and emphasising human resource training to ensure high quality customer service and staff commitment.

Just last year, DHL struck a deal with Japan Airlines and Lufthansa in an effort to put itself in a better position to secure more cargo space in the important Japanese and European markets. The DHL exercise, though not quite like that of Federal Express and Nationwide Express merger, will help consolidate DHL's dominant position in the highly competitive light documents market.

The Postal Services Department Malaysia, to be corporatised on Jan 1, 1992, is also not left out of the action. Boasting a network of 547 postal offices nation-wide, the Postal Services Department is confident that when actual privatisation takes place, it will be the springboard for reaping millions from the lucrative courier industry.

Says A Sabri Ismail, assistant director of marketing of the Postal Services Department, 'We're only three years old in the domestic courier market, and we're already doing quite well. And we're still in the public sector.' Since the inception of EMS Poslaju which later changed its name to Postal Courier, Sabri says growth has been 100 per cent. The postal courier service chalked up a sizeable 12 million rgt in revenue for 1990, and the projected revenue for 1991 is expected to hit about 18 million rgt.

'We can't cope with the demand,' laments Sabri, 'as there is a lack of trained manpower, and of course, technical facilities.' But the groundwork will definitely be laid to facilitate future growth. There are currently 100 postal courier outlets in the country, and Sabri tells **Malaysian Business** that plans are underway to increase the number to 200.

The Postal Service Department does not have a very well-developed international courier service. A huge portion of its international business is on an *ad hoc* basis, Sabri says. On plans for the near future, Sabri says that the Postal Services Department will concentrate on the domestic market alone. 'We will concentrate on what we do best – serving the domestic market with our wide network of offices.'

Another player in the domestic and international courier business is UPS Malaysia, a wholly-owned company of UPS. Malaysia became part of the UPS network when UPS acquired the Asian Courier System (ACS) network in October 1988. When ACS assumed the UPS name, it tied itself to the expanded 41-nation network of the US-based company.

Besides acquiring ACS, UPS also formed a company called UniStar Air Cargo in a joint venture last year with a Japanese service partner – Yamato Transport Company. And in its effort to gear itself up for the 1990s and the challenges of the 21<sup>st</sup> century, UPS is also on a spending spree world-wide – conservative, but no less timely.

Says Eddie Foo, UPS country manager, 'Prospects for the industry are good in light of increased foreign investments, the emphasis placed by Malaysian manufacturers on exports and the growing awareness of the importance and convenience of express door-to-door delivery.' In 1990, UPS invested more than 400,000 rgt on computers to enhance the processing of shipment information. UPS Malaysia recently

implemented the International Billing and Account Receivable System (IBARS). Considered one of the most advanced in the industry, IBARS allows for increased efficiency and accuracy in billing with the inclusion of full shipment details, including name of consignee, weight, etc in the invoice.

In view of the maturing market and increasing consumer finickiness, City-Link International, a wholly owned Malaysian courier service company, is stepping up its own efforts to maintain its market share, and perhaps increase it. To start the ball rolling, a major restructuring exercise has been set in motion. According to its general manager, Chris Tan, the exercise will, upon completion, centralise some of the administrative activities (for instance, purchasing and administration) and implement some common corporate policies.

The immediate benefit of the restructuring plan will, of course, be cost reduction and administrative efficiency. 'We need to streamline our activities to give the company a better foothold in a very competitive industry,' Tan adds.

City-Link also has link-ups with Sagawa Air Services Company, one of Japan's largest groups in the transportation business. As Tan puts it, the tie-up with Sagawa will furnish City-Link with opportunities to tap into the Japanese market where the volume of incoming consignments from Japan to Malaysia is big. That's not all. Recognising the importance of a good world-wide network, City-Link has made similar tie-ups with Tricor in the US and others in Asia, Europe and Africa.

As the express courier industry continues its momentum in profits, more and more people will be attracted to it. But many would not want to start from scratch. Buying into a company with the fundamentals basically taken care of is a much easier way of getting a share of the pie. Tan reveals that there are currently several interested parties courting City-Link. Among the more prominent ones are Arab-Malaysian Merchant Bank and MBf Holdings. Both could not be reached for comment.

There is no doubt that computers and information technology will remain the integral part of the express courier industry. Gadgets and devices like the microwand exhibits the importance of tracking and tracing a customer's consignment from the point of pick-up to the point of delivery. Speed will still be the thrust of the industry. While technology has made the industry what it is today, the greatest challenge for the industry right now would be how to make technology benefit the customer. Security and reliability should continue to be emphasised.

For now, just how the local market reacts to the Federal Express-Nationwide Express merger remains to be seen. But trends are pointing to the age-old philosophy of 'conquer and rule'. Merger mania has been on a rampage in the express courier industry. And with the current economic and political environments in the Asean region being conducive, merger mania might just strike again.