New era set to propel growth

Imperial Logistics has exciting plans for future growth as a separately listed company with new strategies for expansion

- Imperial Holdings – a business that over the past 70 years has evolved into a multinational group occupying market-leading positions in logistics and the motor sectors – announced earlier this year that its motor business, Motus, was unbundling.

Its listed entity, Imperial Holdings, was renamed Imperial Logistics and embarked on a new era as a separately listed company. This is the culmination of more than four years of a multi-faceted restructuring and strategic renewal process.

According to Imperial Logistics CEO designate Mohammed Akoojee, the move will allow each business to operate in a more focused and efficient manner and will allow Imperial Logistics to pursue independent strategic initiatives with a specific asset focus and a flexible capital allocation to support its strategy on a long-term sustainable basis.

Under the Imperial Holdings listing the company traded at a discount to its global peer groups. From an investment perspective it now provides a more compelling investment proposition, he says.

An integrated outsourced logistics service provider, Imperial Logistics is ranked in the top 25 Third Party Logistics (3PL) providers globally and is the leading 3PL and 4PL logistics provider in SA. It has attractive growth platforms in Africa and Europe with a presence in 38 countries over five continents and around 30,000 employees.

The business offers specialised capabilities and customised solutions in transportation management, warehousing and distribution management, value-add logistics solutions, supply chain management solutions and route-to-market solutions to both local and multinational clients, mainly in SA, Sub-Saharan Africa, Europe and the UK.

In SA, Imperial Logistics achieves more than double the revenue of its nearest competitor. The company makes in the region of 2.5-million consumer packaged goods (CPG) deliveries annually to more than 50,000 points throughout the country.

It delivers about R60bn worth of product to retail outlets, delivers 3-billion litres of fuel and moves 16-million tons of packaging. It owns Sub-Sahara’s largest cold storage warehouse with over 37,000 pallet locations.

In Africa the company is focused on the resilient and growing healthcare and CPG industries, where it offers innovative route-to-market solutions, providing a unique platform for multinational fast moving consumer goods (FMCG) and pharmaceutical brand owners to access high-growth consumer markets on the continent.

It provides point-of-care and retailer level deliveries to more than 600 delivery points in Kenya, 700 in Ghana and more than 52,000 across Nigeria. In addition, it delivers more than 43-million patient packs of medicine across Africa each month.

Its international division, meanwhile, has a well-established contracts logistics platform in Germany with specialised capabilities in automotive and chemicals. Its inland shipping division moves 60-million tons of goods a year. In Europe the company operates 20 automotive warehouses which deliver value-add logistics for the annual production of about 2.3-million cars, and operates one of the largest automotive spare parts warehouses in the world. It is also a significant player in the chemical industry with around 60 tankers, 17 gas tankers and 23 specialised warehouses.

It is Western Europe’s largest provider of express palletised distribution services – handling 10-million pallets a year – and is the market leader in inland waterways, with 600 inland vessels and barges.

The business’ operating model is divided into two major regions: Logistics Africa which includes SA and the African Regions, and International, consisting mainly of Europe and the UK. The company is now managed on an integrated
basis, with standardised financial measures and a single brand identity.

**Vision and strategy**

Akoojee’s vision for Imperial Logistics is for it to become an internationally acclaimed Tier One provider of outsourced, integrated, value-add logistics, supply chain management and route-to-market solutions which are customised to ensure the relevance and competitiveness of its clients in the industries and geographies in which it operates.

Sustainable revenue, he says, will be grown through focused organic growth in each region, complemented by strategic acquisitions within defined parameters. Targeted returns will be achieved through profitable partnerships with clients in selected industries, generating targeted risk-adjusted returns on invested capital. Competitiveness will be improved by investing in its people, processes, digitisation and innovation, as well as leveraging operational excellence across the divisions.

The company has formulated five corporate strategies to turn its vision into reality. Client-centricity aims to deliver truly client-centric solutions, build credibility among global clients, and prove its industry expertise in selected markets.

Asset rightness will maximise agility by balancing the business’s asset intensity: ensuring the right partners for greater flexibility, capacity and efficient scale; and aligning asset investments with secured revenue. Flawless execution aims to deliver superior value-added service excellence; boost client confidence to cultivate long-term loyalty; and foster collaborative interdependence with clients.

Local relevance will ensure the business maximises value for clients across different markets; that it understands the unique complexities and requirements; and leverages local ownership and partnerships.

Finally, international freight management will ensure the business offers fully integrated solutions from source to consumption; develops the capability to capture additional revenue; and will allow the business to expand into select geographies and industries.

“Once we have delivered on these strategies and have met the business’ key financial objectives over the next three to five years, we should see a value unlock and a rerating of Imperial Logistics versus our peer group,” says Akoojee. “If both entities deliver, there is little doubt that shareholders will look back and say we were right to unbundle, and that this strategy has created value.”

**Driving growth**

Imperial Logistics has ambitious plans to drive substantial growth in each of the regions in which it operates. In SA it intends to retain and expand contracts with existing clients through customisation, innovation and service excellence; win new contracts and use its scale, size and service offering to take advantage of the outsourcing trend in SA; enhance its BBBEE credentials through a major black ownership transaction and accelerate employment equity as well as enterprise and supplier development to underpin its market leadership and in order to compete more effectively in the energy and mining sectors.

Akoojee says the company also intends to exit unviable contracts and operations, while continuing to consolidate and rationalise its assets and operations.

In Africa the company plans to leverage its innovative ability to provide brand owners with access to fragmented markets through integrated solutions, unrivalled scale and multi-regional distribution.

Its managed solutions offering will be expanded, in the process leveraging its SA operation’s capacities to secure a sustainable competitive advantage in an underdeveloped 3PL market. In a bid to become the single strategic partner to multinational clients, the company will be applying its proprietary market aggregation model.

“Imperial Logistics is already well positioned in the pharmaceutical industry in West and East Africa,” says Akoojee. “We will consider expanding our pharmaceutical footprint into Francophone Africa and North Africa while expanding our CPG business in the SADC region into East and West Africa. Diversification and expansion into defensive industries in the consumer and pharmaceutical sectors is a major risk mitigation factor for our African Regions business.”

Its international division, meanwhile, will be leveraging its specialised capabilities in order to strengthen client relationships in specific market sectors, underpinned by a differentiated approach to digitisation and innovation. The company will be looking for opportunities to expand its specialist capabilities into developing markets, mainly in Europe and Asia, while focusing on improved returns through business and contract rationalisation, capability alignment and reduced asset intensity.

A number of company-wide initiatives have also been implemented to drive growth. These include driving growth in predetermined priority industries by combining the business’s capabilities; client relationships and competitive advantages; developing international freight management capability to extend the company’s integrated solutions offering and geographic reach; implementation of a common framework for managing human capital aligned to international best practice; and adopting a pragmatic approach to digitisation and innovation to support operational excellence and client-led innovation.

“The business’s digital vision is to create a culture where digitalisation enables people, clients and partners to innovate and continuously improve to achieve competitiveness and differentiation,” says Akoojee.

The elements of the Imperial Logistics brand that will attract high performing employees, he says, are the facts that the company is aiming to be performance-driven, and offer a decisive and inclusive culture.

Akoojee plans for the company to move from a top 25 global player into a more significant Tier One player offering integrated solutions for its client base. This will be achieved, he says, through a combination of organic growth as well as mergers and acquisitions opportunities. “Currently our strength is in Africa and Europe.
special report imperial logistics

My strategy is to leverage and grow our footprint in Africa, expand our capabilities in Europe and develop an international freight management capability."

An asset-right business model to support enhanced returns
An improved asset composition and risk-adjusted targeted return on invested capital will enhance prospects for sustainable revenue growth, cash flow, returns and profitability, says Akoojee.

"In addition to providing enhanced financial flexibility, Imperial Logistics’ self-sufficient capital structure will provide headroom for acquisitions as well as direct access to equity and debt capital markets. Our ability to generate cash provides us with the liquidity to fund working capital, replacement capex and investment in growth while maintaining a dividend pay-out in line with guidance of 45% of headline earnings per share," he says.

The company will be selective regarding any mergers or acquisitions, he says, focusing on existing geographies and industries either to penetrate or protect existing markets; expand capabilities; or to further develop its international freight management capabilities.

History of the business
While Imperial Holdings was established as a single car dealership in downtown Johannesburg in 1948, the logistics side of the business was only established in 1975 when Imperial Truck Hire and Imperial Distribution were formed.

During the 1990s the company acquired various trucking, transport and broking companies. In the 2000s it expanded into distribution, asset-light transportation and supply chain integration.

In the past six years it has focused on securing specialised capabilities in selected industries and regions to enhance its service offering, including entering the healthcare and consumer industry as a distributor in Africa.

The company optimised its portfolio by consolidating its capabilities and exited strategically misaligned and non-scalable businesses while integrating its operations in Africa and internationally.

These strategies paid off with its increasingly diversified operations growing revenue, reducing its asset intensity and providing increased opportunities for organic growth.

At its helm the company has a strong and committed leadership team. CEO Marius Swanepoel has been with Imperial for the past 28 years, and as CEO, he has built and consolidated the Imperial Logistics business. He will be succeeded by Akoojee, a chartered accountant by profession, in 2019 when Swanepoel retires.

Akoojee joined the company nine years ago after career stints with Nedbank Securities and Investec, the former as an analyst and the latter as a corporate financier. He joined Imperial Holdings in 2009 to head the mergers & acquisitions division and became an executive director at the age of 34. Realising that he lacked operational experience, he became CEO of the African Regions business in order to gain this experience.

After 18 months in the role, he was recalled back to Imperial Holdings as group CFO to implement the unbundling, and was subsequently appointed CEO designate of Imperial Logistics when Swanepoel announced his imminent retirement.

In a rapidly globalising world, the logistics industry plays an increasingly important role, acting as a bridge between manufacturers and consumers, and directing the flow of goods and services.

The industry is expected to experience robust growth in the years ahead driven primarily by infrastructure investments and demographically driven economic development in emerging markets; growing urbanisation; increased consumption of FMCG; the emergence of new distribution channels, including e-commerce; and the re-design of complex supply chains to reduce time to market.

Logistics costs globally, says Akoojee, are projected to grow at a compound annual growth rate (CAGR) of 6.7% between 2017 and 2022, fuelled by emerging markets such as India, China and Africa.

"These costs are affected by the quality of physical infrastructure, the sophistication of communication systems, the adoption of technology and the presence of bureaucratic hurdles," he says.

"As a result, logistics costs as a percentage of gross domestic product (GDP) tend to be lower in advanced economies compared with emerging markets."

Rapid urbanisation in Africa coupled with a young and growing population and technology-driven change will drive increasing and fast growth in consumer demand and business supply chains, which in turn will offer growth potential for large scale industrial and service companies, including logistics companies such as Imperial Logistics.

European markets, says Akoojee, have a high potential for outsourced logistics services due to their current low penetration. Imperial Logistics, he says, is well positioned to pursue an active mergers and acquisitions strategy to tap into the growth story and build economies of scale.

The Logistics Performance Index, compiled by the World Bank, ranked SA 20th out of 160 countries in 2016. SA is also only one of two countries in the top 30 that are not classified as high-income countries. "SA’s logistics industry plays a pivotal role in the African region due to its role as a regional transportation hub and its superior freight network, compared to neighbouring countries," says Akoojee.

"Not only will the advent of e-commerce change the way consumers shop and receive products, it will also change and potentially disrupt the logistics industry," says Akoojee.

“We believe we’re well placed to be an enabler for many brands in this space, both in Africa and Europe, and to be at the forefront of the disruption that will impact the industry. It’s an exciting time for the logistics industry. Major industry shifts create new opportunities."

Innovation, he says, will be key to the business’s long-term sustainability in order to reduce the cost to market and to continually adapt processes.

“I am confident that Imperial Logistics is well positioned to deliver sustainable revenue growth, enhanced profitability and returns as we enter a new era as a separately listed business,” he says.

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