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## Corporate Consolidation: It's All About Value



**The United States Department of Defense (DoD) is preparing to centralize the management of much of its domestic freight transportation activities.**

**Contracting efforts are underway and the implementation of a three-phase program is scheduled for the beginning of 2007.**

by Jim Davidson

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**DOES THE ONGOING BUZZ** of corporate consolidation have you looking over your shoulder?

Consolidation is everywhere, affecting every aspect of supply chain management. The list is familiar. Livingston acquires PBB. Yellow buys Roadway. Exel purchases the Tibbett & Brittan Group then Deutsche Post buys Exel. Transforce, the ultimate Canadian industry predator, continues in what appears to be perpetual acquisition mode.

Merger and acquisition action can hit any organization, anywhere, any time. Even the Wheels Group, for the first time in our history, has become an active player in this kind of supply chain shuffle.

In recent weeks you may have heard our good news. In a bold move to create a stronger U.S. presence, increase coverage and leverage buying power, Wheels Group purchased Clipper Group, USA. Our acquisition was finalized and announced mid-June.

Our particular business merger is a relatively small transaction in light of the consolidation movement within our industry. Mergers and acquisitions activity ebbs and flows depending on the state of the economy and the confidence level of investors. In this context, our company's goal, as in any other business unification, is to grow business by increasing capacity and thereby enhancing our company's market capitalization. Ultimately, mergers and acquisitions are about creating value.

A large part of creating value is a company's ability to provide a good, acceptable return on investment. Given the health of our industry, robust economic conditions and low interest rates, logistics companies are providing greater economic returns for less risk than in previous times. Not only are we attractive to investors, we can be a rewarding catch.

As a result, our industry remains strong and continues to benefit from the influx of significant investment. consolidation amongst carriers remains as expedient and opportune as the transportation services we provide. The North American economy has been booming and logistics services are constantly in demand. While some anticipate a significant slowdown, continual annual growth in the 15 percent plus range is expected in our sector. Even with healthy returns, many companies like Wheels Group are setting out to achieve more than incremental growth. This is a primary impetus for mergers and acquisitions.

A successful company needs room to grow beyond what their current resources can generate. So to stay on the competitive edge companies require opportunities to create beneficial synergies, expand their geographical reach and to increase competencies.

To appreciate the benefits of corporate mergers and acquisitions, consider the interests of the major stakeholders in any company: shareholders anticipate an annual financial return, customers want more and better services for less money, employees need security, growth potential and career mobility. A well-executed merger delivers on all these wants and needs.

In the first place, they are a sure and fast way to increase share price and create higher dividends. Interestingly, there is a trend towards private companies going public as owners convert book value to actual cash. (Although, I can assure you this will not be happening with Wheels Group anytime soon.)

Secondly, this kind of activity expands a company's service capabilities and geographical reach, often creating economies of scale and leveraged buying power resulting in one-stop shopping and lower prices for the shipper.

As for the employees, mergers and acquisitions often provide them with a healthier, larger employer capable of providing greater opportunities for personal growth, upward mobility and more benefits - not the least of which is better, less expensive healthcare.

Having acknowledged the obvious benefits, successful mergers come from the hard work and dedication from all the parties involved. Once you start proceedings, you are in it for the long haul. This is not a spectator sport left to lawyers and accountants to wrangle. There's a lot of time, energy and money invested with the welfare of hundreds (in some cases thousands) of stakeholders at risk. Statistics show that more than 50 percent of mergers and acquisitions fail to meet their targeted results. This is an astonishing number given the amount of money, time and effort that is required to simply start negotiations. Failure often results from lack of due diligence and/or "culture clashes" when differing corporate cultures cannot (or will not) support each other's organizations. Not surprisingly, success is contingent upon solid and experienced leadership as a prerequisite for a business marriage.

The success of any merger or acquisition also reflects the overall competency of the organization initiating this type of maneuver.

The rewards of a well-executed merger are remarkable. Even as I reflect on the number of times I had to sign my name as part of completing the acquisition, I am excited about the future for our new blended business family. What comes immediately to mind is the concept of kaizen, a Japanese term for continuous and incremental improvement that reflects a business philosophy that our company lives by. We believe in change for the better, and are constantly adopting best practices and efficiencies that improve our productivity and performance. It's all about creating value.

I will share more about the specifics of our acquisition in my next article, with a focus on the process.