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**SWP 8/95 THE EVOLUTION OF A DISTRIBUTION BRAND:
THE CASE OF EXEL LOGISTICS**

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This paper builds on case work done with a major logistics operator - Exel Logistics - a company that has grown very quickly from launch in 1989 to become a leading force in both domestic and overseas contract distribution. Beginning with the evolution of the company, the paper moves on to examine problems faced by the parent company (NFC) and Exel Logistics' subsequent launch as an umbrella brand for all its distribution activity. Exel Logistics' strategies for international growth are outlined and questions posed as to its future direction.

It is impossible to address the development of a single company in isolation therefore a second Working Paper, currently in review (The Changing Marketplace for Distribution: Implications for Exel Logistics), places the problems faced by NFC and Exel Logistics in context. It will examine how the UK, and to some extent the European and international marketplace for logistics and distribution has, and is continuing to change, over the same period of time. This allows for a broader examination of Exel Logistics' strategic direction in the light of a discussion of current trends within the industry.

Exel Logistics has grown to be a market leader in distribution and supply chain services in less than 5 years. It is the major operating division of National Freight Corporation (NFC) Plc, a FTSE 100 company listed on the London and American stock exchanges. With a turnover of almost £600 million in 1992, Exel Logistics operates 3,700 vehicles, 1.6 million sq meters of warehousing and almost a million cu meters of cold storage capacity. Its companies employ over 14,600 staff and operate over 220 distribution centres across the UK, mainland Europe and North America. Independent research carried out in 1991 confirmed Exel Logistics as UK market leader for contract distribution services, a goal reached well within the 3 year target set at launch in 1989. The company describes itself as "a successful business that has grown out of a previously unsuccessful state owned parent company".

BACKGROUND AND BUYOUT

The National Freight Corporation (NFC), Exel Logistics' parent company, has its origins in post-war Labour Government policies aimed at nationalising transport in the UK and in 1979 the Conservative Government began its privatisation programme with NFC. The sale was scheduled for 1981 with an anticipated capital price of £50-55 million, but due to the recession, postponement was advised. However, an alternative plan was put forward by the management and employees, who under the direction of Sir Peter Thompson and with the backing of multinational investors secured an employee buyout. NFC was sold into private ownership for £53.5 million in February 1982 - it was the UK's first and some would say, its most successful privatisation.

More than 10,000 employees, directors, pensioners and their families came up with the capital for 82.5% of the ordinary shares. Privatisation gave management the freedom to decide the company's future strategy, in addition employee motivation and commitment was undoubtedly a key factor in its subsequent turnaround and also an important selling point, as customers believed they received better service when the employees owned the company.

Prior to 1982, NFC's financial performance was poor, but after the buyout it quickly became very successful, partly because as it was the old road part of British Rail, it had property to sell or redevelop (stations and land close to the railways). The charismatic leadership of Sir Peter Thompson was another important advantage. He created the possibility and then reality of broad employee ownership and went on to instil a unique employee participative company culture which has been integral in the success of the company. Post 1982, NFC experienced rapid growth and in preparation for its flotation on the Stock Exchange in 1989 was restructured into 4 divisions; Distribution, Transport, Home Services and Property and Travel. This followed a decision to refocus the previously separate distribution functions based on a stronger single brand image worldwide.

The enlarged NFC Distribution Division was put under the control of a new MD Robbie Burns, who, along with Sales and Marketing Director, Martyn Pellew, were faced with the difficult task of reorganising, pruning and bringing marketing input to an assortment of companies acquired after this restructuring. The original portfolio of companies that comprised the NFC Distribution group consisted of a mixed bag of 7 brands selling a similar service to broadly similar market sectors (see below). In addition there were those companies transferred from the Special Services Group on January 1st (1989) and one overseas acquisition, Dauphin (N. America). Some of these companies were growing, some were in trouble and many had overlapping products, services and markets.

THE COMPANIES

- 1. SPD** - Unilever's SPD, originally Speedy, Prompt Delivery, rechristened Solutions for Physical Distribution, was bought by NFC in January 1985 but it had very little awareness in the marketplace. Due to surplus capacity, very high costs and the need to increase earnings and/or reduce overheads, SPD had already begun to undertake third party work. Therefore, NFC had bought SPD plus contracts with other client companies who had "contracted in". It was a network operation selling ambient distribution to grocery manufacturers and offered multi-location, multi-client distribution and warehousing, in effect shared distribution - at a time when the UK trend was moving towards

dedicated distribution services. The company was financially haemorrhaging and badly needed "a good dose of marketing".

2. **Carrycare** - part of SPD concerned with non-grocery product manufacturers, such as TV's and china items.
3. **NFC Contract Distribution.** - This was previously the warehouse/storage contract arm of a sister NFC company, BRS, now moving from transportation into contract distribution and warehouse provision. With clients such as Sainsburys and Mars it was growing rapidly. Its target market was grocery clients, both manufacturers and retailers and the company offered a dedicated contract based service, ie one client, one warehouse.
4. **BDS(Bar Distribution Services** formed in 1983). This was a joint venture formed solely for distribution to Whitbread trade outlets.
5. **Chillflow** - launched in 1988 this was a special operation dedicated to Van den Berghs and Jurgens, market leader in manufacturing margarines, fats and edible oils.
6. **GDL** - In 1986 GDS and ADL were acquired, they amalgamated and became GDL. This confectionery manufacturers distribution operation was sinking but not as fast as SPD. It was a network of multi-client warehouse locations, selling its service to confectionery manufacturers like Terry's and Bassetts.
7. **Alpine Refrigerated Distribution** - This consisted of Little `Alpine, the in-house distribution operation for Findus and Lyons Maid plus the Bird's Eye/Walls operation, also bought out from Unilever. They merged to form Alpine - NFC's temperature controlled distribution brand. Alpine sold frozen and chilled distribution via a network operation to grocery manufacturers. The company was in trouble. Temperature controlled distribution was also feeling the effect of the changing patterns of retailers distribution requirements. It was operating at over capacity and was looking for risk free contract business. Cold stores, being a fixed resource are very expensive to run and therefore to fill capacity they would have to consider both dedicated and non- contract business.

At this point, these businesses had annual sales of £160 million, with only NFC Contract Distribution making money. There was some degree of overlap in target markets with one or

more of the others, for example, in distribution for confectionery manufacturers NFC Contract Distribution and GDL would compete and when Mars launched its ice cream range, so would NFC Contract Distribution and Alpine. This intra-competition was one result of the change in company culture after the buyout. Different parts of the organisation were competing head to head in the marketplace for business. This was encouraged by management who felt that as all their companies needed to make a profit, there was a better chance of winning a contract if they could put in perhaps 3 quotes by different "brands" to prospective clients. However, since all competing brands within NFC had broadly the same cost structure and overheads eg personnel, pension, wage rates, they were basically unable to differentiate on price or quality. BRS, Exel Logistics and Lynx being positioned on top of each other in the marketplace were unable to outdo each other because of these constraints. This was potentially confusing for clients and has been an issue that has proved difficult to resolve. They still compete today to some extent.

After January 1989 the Distribution Division also acquired the following companies from the now dissolved NFC Special Services Group:-

Fashionflow - a dedicated contract distribution service on boxed garments for Marks and Spencer.

Masterspeed - again for Marks and Spencer, delivering furniture products direct to consumers homes.

NCCS - **National Carriers Contract Services**. The original parcels business had been separately relaunched with another NFC subsidiary, Roadline as LYNX - the rest of the business came to the Distribution Division. Customers were mainly industrial manufacturers and variety product retailers, such as Woolworths.

Newsflow - undertook newspaper distribution mainly for the Mirror Group. DMS (the UK's largest independent book distributors) was acquired in May 1990 and reflected increasing diversification into other aspects of media distribution.

Tempco Union - this was a joint venture with Union International (1984). A cold storage business, again with too much cold store capacity, they would be competing with Alpine in frozen distribution.

Dauphin Distribution Services (USA) - Bought in 1987, this was NFC's first overseas distribution acquisition. Serving mainly grocery manufacturers it was left to stand alone as it was running profitably.

It was initially hoped that improved marketing would solve the problems of the loss making operations but it soon became apparent that SPD for example, had very little chance of becoming successful as it stood - few companies were buying what they had on offer and the base operational costs were high. NFC saw the future in contract distribution and therefore wanted to bias its product offering towards the successful NFC Contract Distribution element of the product portfolio. Detailed analysis begun on the markets, customers and positioning of each of the different brand offerings. In addition the business wanted to develop abroad, both in the USA and mainland Europe. NFC's aim was to launch "a new company" on the back of the high profile February 1989 Stock Exchange flotation.

THE NAMING ISSUE

When Martyn Pellew, the Marketing Director, joined NFC in August 1987 (5 years after the buyout and pre-floatation) very little in terms of established marketing existed and the brands had been operating as separate elements for some time. He had now acquired 13 "brands" and differentiation was essential. They still overlapped at various levels and the detailed work of analysing the marketing problems took place from August to December 1987. It was initially felt that the obvious solution was to bring the companies together under the NFC name and then work on targeted sector marketing. But NFC was to be withdrawn by the parent company as a trading name and so they faced a difficult decision. They could not relaunch with the NFC name and none of the existing brands were well enough known to stand alone, plus there was the internal problem of making a "winner" from the existing portfolio and the others feeling that they had "lost" - management also felt that the raw material for a successful new brand was not there. They had to have a new name. The vision was to use the power of the truck fleet - united under one brand name to gain market leadership, increase visibility and therefore brand recognition, but this had to be built from scratch. In December 1987 work began with a market research agency to compile facts, figures and statistics in preparation for launching under a new name.

The research was done in phases:-

Phase one:- The first phase was aimed at confirming that the status quo was unacceptable and that a new brand needed to be established, based on an understanding of customer needs. Distribution customers were asked exactly what they wanted to buy plus their opinions about what was already on offer from competitors. The main finding was that demand was for a quick, fast, accurate, reliable, national service. It also confirmed that customers seldom bought geographically or by product but rather by sector, and thus that there were three ways that the problem of marketing could be approached:

- i. Geographically, like BRS, BRS Western, BRS Southern. This was discounted because it was felt that buyers now wanted national solutions to their distribution needs, they no longer wanted to buy, for example, just Scottish distribution.
- ii. Divide the market by product/service - shared distribution; contract hire; network distribution etc. This too was discounted as it was found that customers tended not to differentiate - they wanted to buy distribution as a total solution - or "one stop shopping".
- iii. Marketing by sector - defined as a group of buyers who act in a similar fashion and have similar distribution needs, in simplest terms sectors are split into retailers and manufacturers and then into food and non-food.

Phase Two:- This took the form of brainstorming on the findings, using possible brand words to convey meaning. Around 200 possibilities were put into five categories and eliminated until approx six in each category remained, eg one category was initials, another speed words etc. Eventually most popular words were EXACT, BEST, ACCURATE, DIRECT AND QUALITY. At this stage they were always used with the description word distribution, logistics was not yet in the picture.

Phase three:- The words in the five categories were market tested in order to establish which received the most positive response. It was felt to be important to stress "exact and quality". They decided to go on Exel and then changed this to Exel Distribution, Sir Peter Thompson suggested Logistics - this was the real gamble as the term was not widely used in the UK at the time. The name was tested in six countries, Spain, France, Holland, Germany, UK and USA and the positive overall response allowed the company to be launched as Exel Logistics.

Phase four:- The new name had to be registered and decisions taken on graphic treatments, colours and logo. There were problems with engineers over vehicle colours as dark colours led to insulation problems on temperature regulated vehicles. Eventually it was decided that the livery would be blue letters on a metallic silver background, emphasising a high technology and quality image while still meeting insulation requirements.

Exel Logistics had arrived. Launched in May 1989, it was to be an umbrella brand for all NFC's distribution, warehousing and transport interests and would emphasise the importance of the strategic management of the whole supply chain, including:-

- the transfer of information between interdependent but separate parties within it,
- the flow and storage of raw materials, parts and finished inventory,

- transfer to and from manufacturing plants,
- finished goods storage,
- delivery to customers, including home delivery if required.

Contracts with customers would include all or part of the above, from the provision of warehousing - even design and building - through all operational aspects, to final delivery.

ADVERTISING

The name would be used by each operating company in its targeted market sector and would draw together a wide spectrum of international distribution and warehousing activities - the aim being to become market leader and a global player. It achieved immediate, spontaneous awareness of approx 10% in just 6 weeks. By bringing the businesses together under a single brand Exel Logistics aimed to satisfy a growing world wide demand among retailers and manufacturers for an integrated approach to their supply chain needs - regionally, nationally and internationally. Brand communication emphasised industrial sectors or market areas. This was reinforced by extensive (targeted) advertising which pushed the high technology element of the company. Three months after the launch, spontaneous awareness had risen to almost 30% and prompted awareness to over 90%. It was quickly becoming recognised as a high technology logistics company.

It was important to launch as a single brand. Although it was a new name, Exel Logistics had a healthy parent company and a high profile client base. A week before the launch, prospective clients were sent an unidentified poster of a silver truck, in a silver tube, with no sender's name or address - a week later they were sent a full explanation along with adverts and details of the new company.

Marketing a service brand is all about image and perception and Martyn Pellew believes that "perception is reality". Exel Logistics' adverts have been very important in getting their image across to customers. The first one "Born to Lead" showed the silver truck, a high technology image with foreign flags (even though they only had one overseas acquisition at the time) and built on the credibility of NFC. Follow up adverts under a "Computer man" theme pushed the company as being at the leading edge of logistics and technology. Within a year the company became concerned that the earlier adverts were too impersonal and issued an advertisement with a person in to indicate warmth and service. In 1991 Exel Logistics advised the Russian Government on food distribution, this was good PR and they issued new adverts to draw attention to it. They were now building on internationalisation which was becoming a reality following acquisitions in Spain, Germany, Holland and France as well as the USA.

COMPETITION AND POSITIONING

Distribution is a low margin business and companies have to aim high on quality and therefore price, to be able to carry the overheads, thus to be successful they have to be at the premium end. By 1992 Exel Logistics had over 200 depot locations, its nearest competitors by size are the contract distribution element of TDG (a group like NFC) and Tibbett and Brittain. However, the main marketplace competitor in image and awareness is TNT, who are perceived to be leaders across all market sectors. They are highly visible and the largest competitor in non-food distribution, eg newspapers and automotive parts. Being a parcels operator as well as in distribution, TNT can compete as one brand against NFC's three brands, Exel Logistics, Lynx and BRS combined. Exel Logistics chose to position themselves against TNT on all levels, eg in being more willing to talk to the press and even in creating subsidiaries. TNT were identified as having 67 different companies, proliferating brands at a rapid rate - many of them possibly lacking credibility. Exel Logistics' policy is to consider creating separately targeted teams only if all clients in the sector bring over, say £25 million worth of business in one year or if revenue from any one customer exceeds for example, £10 million. They would then create a dedicated company with a whole business team, such as Exel Logistics - Storeflow for the Storehouse contract gained in 1988.

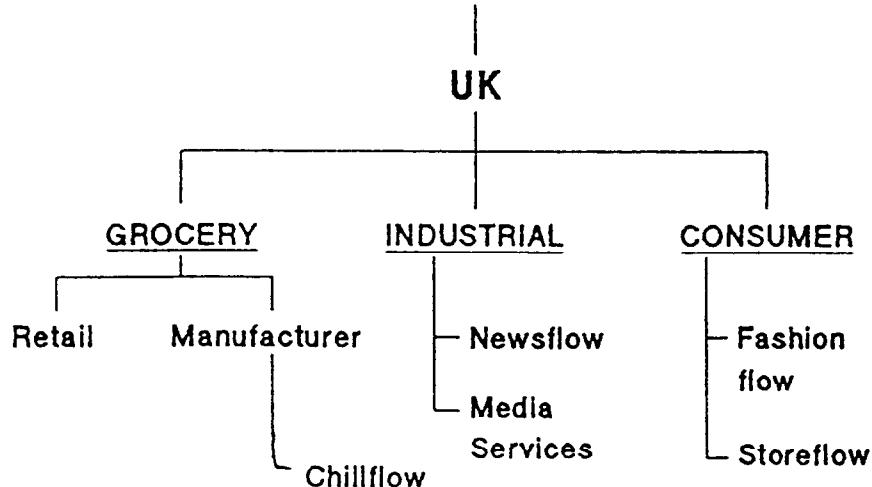
STRUCTURE OF EXEL LOGISTICS (UK)

When Exel Logistics was launched, the constituent companies were being asked to change into something that did not exist, thus there was a certain amount of internal resistance. They had to work on establishing group and team identities within the company and operationalised a three-way organisational split:-

- i. **Exel Logistics Grocery and Leisure** - SPD and Carrycare merged and then closed, as did GDL, so this team was built mainly from NFC Contract Distribution, BDS and Chillflow. The business focus was on serving the grocery, catering and drinks market sectors and the customers were mainly food and drink producers and retailers.
- ii. **Exel Logistics Consumer and Industrial** - this comprised of NCCS and other non-food elements, including Newsflow and Fashionflow. Customers ranged from consumer product retailers and manufacturers to a cross section of industrial product manufacturers and distributors such as Vauxhall, BMW, Woolworths and Argos.
- iii. **Exel Logistics Temperature Controlled Services** - this alliance of Tempco Union and Alpine Refrigerated Deliveries covered all chilled and frozen distribution. Operating as **Exel Logistics TCS** this division worked closely with (and generated specialist business from) the food and grocery divisions within the company. It soon became market leader in the distribution of chilled and frozen food with a fleet of 500 vehicles, 27 depots and 2300 staff. With the expansion of the UK chill food market they turned a number of existing cold storage facilities into chilled distribution

centres for short life products. This improved the financial performance of TCS and the division was back in profit by 1991.

These 3 business groups were in force until mid-1992 when, after further growth, they were reorganised and split into four management teams, the main change occurring with the amalgamating of Grocery and Leisure into **Exel Logistics Grocery**. With total revenue exceeding £300 million pa, retail and manufacturer grocery distribution was split between two internal management teams but with one external sales and marketing team. This new business unit now controlled all food distribution; retailer, manufacturer, ambient and temperature controlled, including **Exel Logistics Chillflow** (dedicated to one client) and was felt to be consistent with marketplace requirements.



Exel Logistics Industrial now encompassed Exel Logistics Newsflow (distributing 70% of UK nationals, Guardian, Mirror, Daily Mail and regionals) and DMS (rebranded Exel Logistics Media Services in 1992) with a £54 million turnover. DMS built on the base of newspaper distribution and worked towards market leadership in all print media distribution. To some extent **Exel Logistics Industrial** is a catch all, with a wide series of subsectors and targeted marketing, directed at ensuring that potential customers in those subsectors, such as electronics or automotive, are aware of Exel Logistics' presence.

Exel Logistics Consumer, the non-food retail division includes Fashionflow and Storeflow having contracts with DIY and department stores including Comet, Woolworths, Superdrug, Boots, BHS, Habitat, Marks and Spencer and Mothercare.



The marketing for the company however, continued as if there were still just three main sectors; Grocery, Industrial and Consumer, with all new business development effort contained within three sales teams.

STRATEGIC DIRECTIONS FOR EXEL LOGISTICS

By 1990 NFC/Exel Logistics had reached a point where the options were either to seek greater penetration in the home market via new market segments or look to expand overseas.

In the home market they could either:-

- a) seek to develop new market sectors. As Exel Logistics' new businesses were previously predominantly food and retailer based, they could try to open up new sectors where they were not strong eg petrochemicals or pharmaceuticals or
- b) develop new services within the food sector. Their existing strength lay with ambient and frozen food distribution (a static market) whilst the chill food sector was growing.

This second option seemed to provide a potential opportunity. More and more outlets were selling fresh dairy produce, yoghurts and short life products. By effectively altering the temperature control systems in existing cold stores, Exel Logistics could easily facilitate a move into this sector.

BACKGROUND TO THE FROZEN FOOD MARKET

The easiest distribution area for market sector monitoring is the frozen market because cold storage capacity is registered (Lloyd's Register) and can be easily measured. Three years ago extra marketplace capacity was added as Tesco and Asda built their own distribution composites (multi-temperature warehouses) which included chilled and frozen storage. They were thereby removing products which had previously been in other peoples storage capacity and putting them into their own, thus adding to available capacity even though the frozen food market had stopped growing. In addition, cold stores had been built or added to the market specifically to meet demand for EC intervention stocks. This boom time for the industry had increased capacity from 160 to 200 million cu ft, but after 1986 changes in the Government's Common Agricultural Policy meant that intervention stocks were being withdrawn from the beef and butter mountains and overall market demand for storage fell to around 180 million cu ft. These two factors had increased total frozen storage capacity to 220 million. With demand down by 10% and capacity up by 10% - the result was severe over-capacity in the market and fierce price competition. This was tackled by cold storage providers reducing storage rates to attract new business and seeking alternative types of contract, making it a very competitive sector.

In the past NFC companies like Tempco Union and Alpine had profited by freezing and storing intervention stocks but because of external marketplace changes they had to suddenly shift and become more involved in stock movement - distribution rather than storage. Other major operators tried to stabilise the market by selling off their older, less efficient cold stores and moving over to the chill sector. This is an example of external market factors created by Government (EC) legislative change and European policy changing a marketplace. However, with an expanding chilled food market, there were opportunities to build market share even though competitors already existed, eg Unigate (UCD) and Express Dairies/Coldstream were manufacturer driven distribution systems and others like Northern Food Transport (NFT) were already strong in this sector. Five years ago companies like Christian Salvesen, Tempco Union and Alpine dealt with predominantly frozen produce and wanted to move into this high value-added area (with chilled produce being perishable, time becomes a saleable commodity). Exel Logistics wanted a share of this growing market.

But, after examining the options, they returned to their initial vision, of being a truly international company, the problem was - how to get there!

THE MOVE TO NORTH AMERICA

By the late 1980's NFC, recognising that they were still very dependent on domestic UK earnings, began to actively encourage all its companies to seek new business overseas. It was decided to expand via Exel Logistics in the USA first, partly because of the size and type of market but also as their only overseas acquisition so far was American (Dauphin). Expansion in the USA was a key element in the strategy to develop the brand internationally. The aim was to become the USA market leader in warehousing and logistics via services to global clients. In 1990, 25% of NFC's profits were generated in the USA alone - the new target was to achieve a 40%-50% contribution from the USA and Europe by 1995.

The market for the storage and distribution of goods in the USA was in essence very different from the UK market and took two forms:-

- a) short term provision of public warehousing on 30 day terms with no contracts, in effect a shared-user system.
- b) less common was contract warehousing, a dedicated system with 1 to 5 year contracts.

The existing shared-user acquisition, Dauphin, was profitable and offered a convenient, high-margin service. This was opposite to that offered in the UK, where shared transport/storage was often a low-margin service. Dedicated warehousing in the States was not widespread and was perceived as low-margin for low risk. This cultural difference is

important - it was wrong to assume that the UK system would be interchangeable, the strategy needed to be different and adapted to local conditions.

Within the distribution industry, contract work provides greater security (linking customers into long-term contracts) and in the UK, Exel Logistics and NFC had formed disciplines of tight financial management and risk control, developing real strengths in this area. By moving to the States they sought to enhance the level of dedicated work but at the same time they continued to offer what the American market traditionally wanted - shared usage with 5 or 6 manufacturer's loads being delivered into individual wholesaler's or retailer's stores or regional distribution centres with the ability to buy transport in from local full truck load (FTL) movers on overnight long distance runs.

Dauphin Distribution Services was one of the largest warehousing and distribution businesses serving the food and grocery trades in the Mid-Atlantic region (clients included Procter and Gamble). The company had 3 million sq ft of warehousing at 12 locations with 600 employees. This family owned company was seen as a natural partner for the employee owned NFC. Its successful acquisition encouraged further expansion and thus there evolved a multi-phased strategy for a conscious move to develop in the States. Dauphin gave Exel Logistics a foothold in the US marketplace by delivering a range of consumer and manufacturers products into one of the largest population centres (about 80 million people on the N.E. Seaboard). Based 150 miles inland from New York, with relatively cheap labour and land costs, Dauphin's complex of large scale warehouses were only an overnight trip from this highly populated area. They offered a consolidation service to manufacturers, with goods being stored, picked and moved directly to New York. Manufacturers were able to buy transport movements at FTL prices even though they may not have had a full load to be dropped at each delivery destination, again effectively shared distribution - exactly what the UK market was moving away from.

With the decision to expand geographically, Exel Logistics did not ideally want to be acquisition led, but to gain the benefits of consolidation it was felt that this was the most likely strategy to succeed and generate critical operating mass in a number of other regions. Thus, it was first necessary to decide which other major population centres it was essential to be in and then determine which companies with at least 1 million sq ft of warehousing (preferably more) with several large clients, were potential acquisitions. It was not always easy to get a match between, what was available to acquire and what suited both the company culture and local market conditions.

In 1989 **Distribution Centres Inc (DCI)** based in Columbus, Ohio was bought. This second acquisition was closer to the UK formula of a dedicated contract business. It was an

entrepreneur led company with similar values to its new parent, distributing medical and office supplies, pharmaceuticals and consumer products practically nationwide. There were 18 locations (some on the west coast and in the south) 5 million sq ft of warehousing and 700 staff. DCI gave Exel Logistics the opportunity to expand its dedicated business in the North American market and brought important key customers such as Du Pont, Lever and again Procter and Gamble. This acquisition was a well run company and provided an excellent complement to the operations of Dauphin.

Pursuing its geographical strategy Exel Logistics concentrated on 5 main centres; the N. East; the Mid-West and Chicago; the S. East and Atlanta; the South (Texas and Dallas) and the West Coast (San Francisco and Los Angeles). With 5 primary regional targets and perhaps 12 sub-targets (Denver, St. Louis and Kansas etc) it was becoming very clear where they needed to be and what they wanted to buy. With dominance in the grocery/consumer manufacturing sectors, they could now either begin to look at new sectors or diversify within logistics services and investigate what other products/services could be beneficial complements, such as, warehousing, road transport or trucking. The next acquisition followed this line of thinking - a move into transport with **Minute Man Delivery Systems** (1990). This Boston based company undertook dedicated distribution across the USA, but mainly in the N.East and was 90% contract backed. It had a turnover of \$30 million and bought a different industrial client base with Toyota, Nissan and Chrysler. This move allowed Exel Logistics into new areas with automotive and business service clients (Minute Man also provided a dedicated paper moving service for, among others, several N. East local banks) even so, Minute Man was a low margin company.

In 1991 the fourth American acquisition was **Universal Terminal Warehouse Company (UTW)** a Texas based local warehouse operation, mainly shared-use, in Dallas, Houston and San Antonio. With 5 warehouses, 670,000 sq ft of storage capacity and 150 staff, it distributed grocery, paper and health products as well as industrial and chemical products. It brought additional major client names to the international customer base like Philip Morris, Nestle and Colgate. This acquisition continued the strategic plan to develop from its already well established and profitable base in the North East across the USA through the Southern States into the West.

In 1992 there were 2 more acquisitions. **J H Coffman and Son Inc** was a distribution and warehousing company based in Los Angeles. It was acquired to extend coverage to the west coast, the mid-west and Chicago. It had over 40 years experience in the healthcare, grocery and consumer product market with 375,000 sq ft of warehousing and 40 staff.

In July Trammell Crow Distribution Corporation (TCDC) based in Dallas was bought. This contract warehousing business had 6 million sq ft of warehousing, 44 distribution centres, 600 employees and a turnover of £27.6 million. As well as warehousing, the company was also involved in value-added services, including the management of interstate transportation and packaging operations. With business divided between consumer and industrial sectors, it gave access to the petrochemical sector, with clients like Exxon and Shell. James Watson, Chairman NFC commented;

"This is a further important step in becoming the acknowledged leader in the provision of logistics services in N. America. It virtually completes our acquisition programme in the USA and sets the stage for a period of strong organic growth".[1]

These acquisitions may have been driven by geography but they also allowed Exel Logistics to enter into new market sectors. They now had a presence in 4 out of the 5 main regions, missing out in Atlanta (S.East) - where as no acquisition target matched the criteria, they set up a green-field operation by building warehousing for a core client (Reckitt and Coleman) with extra capacity for use by others on a new contract basis.

Apart from Dauphin, all other acquisitions, DCI, Minute Man, UTW, Coffman, TCDC, fell within a 3 year period. Exel Logistics' N.American headquarters was initially in Chicago, but now regional offices exist in Harrisburg, Atlanta and Dallas and the headquarters has moved to Columbus, Ohio. In 1991 the resultant organisation from the US acquisitions were divided into 3 operational units:-

EXEL LOGISTICS - Grocery Services Inc. (was Dauphin)

With its main focus on warehouse management for grocery, health and beauty products, it operates from 3 complexes in Pennsylvania with a total storage capacity 460,000 sq mt. Major customers include US top brand suppliers: General Mills, Nabisco, Procter and Gamble.

EXEL LOGISTICS - Dedicated Distribution (was Distribution Centres Inc)

Also warehouse management based in Columbus Ohio, with 18 locations on south, west and east coasts of the USA. Dealing mainly with non-food products and multinational customers eg Lever Bros, Du Pont, Sharp Electronics.

EXEL LOGISTICS - Dedicated Delivery Systems (was Minute Man)

Provides a portfolio of products and services based on the physical transport side of the business, such as traffic management, vehicle supply and out of hours delivery. There are 500 vehicles serving 43 states and customers include Nissan and Chrysler.

These acquisitions have created an organisation which is probably the leading logistics business in the USA with a turnover in excess of £100 million, 18.5 million sq ft of storage, over 3000 employees and 600 vehicles. It provides a range of services to many market sectors, with customers including several Fortune 500 companies. The process has been strategically logical, evolving through acquisitions on a geographical basis, sometimes available companies were fitted into the strategy rather than being strategy led, eg Minute Man was made to fit because it was available for sale; although it broadened their product offer, it was not ideal at that stage of their strategic development. By the end of 1992 Exel Logistics' strategic acquisition programme in the USA was virtually complete with a presence in over 30 states. They now offer warehousing and/or transport in each of their 5 major target regions. In addition, by following contacts with important existing USA clients, Exel Logistics have now also developed initial small operations in Mexico and Canada.

In 1992 Exel Logistics - North America restructured and rebranded the original businesses acquired over the previous 3 years into 5 targeted market sectors each with individual business teams:-

Retail, Consumer products, Health care, Industrial, Business Services.

The bringing together of all these acquisitions in such a short period of time has been greatly assisted by the use of "Exelization". This is the process of rebranding each unit behind the brand identity of Exel Logistics and the promotion of the company's core values ie the principle working methodology that stands behind all Exel Logistics' operations and employees. Exelization represents for these small US companies, a move from local family run businesses into an international company culture.

(This process has been continued for European acquisitions and a more detailed discussion of the advantages and disadvantages can be found in Teaching Notes currently being prepared for the two cases in ECCH).

A new strategy utilising the now solid USA client base is for the company to follow those clients abroad using established links; eg Procter and Gamble to Mexico; Kelloggs into Canada and again they will use this as a base to expand. Also the Bermuda Drug Company (a retailer) has asked Exel Logistics to move into Bermuda.

STRATEGY IN MAINLAND EUROPE.

To meet increasing demand and customers changing needs from the creation of the 1993 Single European Market (SEM), many distribution contractors felt they had to expand geographically and broaden their range of services along with, or preferably before, their customers. Operators targeted their efforts at market sectors they were best equipped to serve, which for Exel Logistics offered the prospect of exporting to the Continent the concept of dedicated distribution which they had developed so successfully in the UK retail

sector. And there did appear to be a market opportunity. Whilst the UK grocery market was already contracting out 70% of its distribution needs, in Germany and France the figure was only 15% [2].

Achieving UK market leadership by 1991 left Exel Logistics facing several strategic options. Following successful moves in the USA, it was decided that the strategy would be parallel development in mainland Europe, concentrating on the food/grocery sector. This was mainly because other industrial sectors where they lacked strength were already international markets dominated by major international players eg Shell, BASF, Ford. The food sector however, was determined more by local tastes, local retailing and local markets. Food distribution entails the movement of large, physically bulky products with relatively low value when compared to say cars or computers and tends to have been operated on a local, national basis rather than global or international. Food logistics was seen as "the art of the possible" for Exel Logistics.

The arrival of the SEM acted as a stimulus for expansion and the company's first step was to follow existing UK customers into new markets. They decided on a priority sequence of countries by looking at the geography, the economic stage of development, market prospects and where existing clients wanted to develop their business. The first opportunity arose with Marks and Spencer when Exel Logistics built a distribution centre for them at Evrey near Paris to serve their stores in France. This strategy was not enough on its own, but it did allow them to establish initial credibility in the country - a "*footprint in the sand*". Although this was initially a low risk way to develop a pan-European operation, it soon became necessary to decide whether being credible to existing clients in new countries was enough (reactive expansion) or should they also begin to look both at other domestic companies wanting to expand overseas and at acquiring existing distribution businesses in new countries (proactive expansion).

The initial strategy was for a country sequence, with Exel Logistics bringing its strengths to new markets. These strengths were in food/grocery and retail logistics for large companies like Tesco's and Sainsburys in the UK. Again, the route of growth by acquisition in specific geographical areas was chosen and in 1991 the brand was launched first in Spain, then Germany, France and Holland, aiming to be number one in food manufacturing and retail distribution in Europe by 1995. They proceeded with the rapid acquisition of businesses, seeking small to medium sized but strategically important grocery distribution and warehousing companies. These were often family owned and required minimum investment on existing infrastructure since they were serving the needs of existing clients, although in new markets.

Without a fully international capability, it made sense for Exel Logistics to go into mainland Europe selling national distribution to producers and market sectors that were purely national operators. It was the intention over time to string together a series of national food based networks that would ultimately form an international network as the European food market developed. There were already signs that it was changing as both manufacturers and retailers were crossing borders. Therefore Exel Logistics needed to become proactive and acquire businesses that would create this network in each country in sequence. (Each country would be run as a separate entity until it reached a certain size, later becoming more sector oriented as in the States).

Overall, Exel Logistics' policy has been to build on their successful development of dedicated distribution in the UK and to export it into mainland Europe, training where possible, local management.

ACQUISITION CRITERIA

The following criteria were adopted when looking for companies to acquire in the priority markets:-

- The company must be operating in one of Exel Logistics' existing market sectors.
- Management must be capable of adopting Exel Logistics' ideas for further development.
- They must be operating profitably.
- They had to have a strong client list, but with no one client being more than 25% of the revenue.
- The company's management must wish to remain post-acquisition.
- Ideally the company's clients should already have warehousing and/or distribution contracts.

The only post-acquisition requirements were for regular monthly financial reporting, quarterly reviews of progress with the parent company management and agreement of the annual budget. Companies operate with a large degree of autonomy with day to day management remaining with their existing teams, at least initially.

It is important in local acquisitions to buy local management. In the States, DCI management was very good but some original senior people have now been replaced. Local company acquisition gives Exel Logistics credibility in each market/country and the following advantages:-

- continuity of supply - easier to win new clients
- acquisition of people with local market knowledge
- an existing client portfolio

- established the Exel Logistics' brand throughout Europe

So the strategy was to -

- get into the correct geographical areas
- get into new sectors
- get into offering new/different services.

Acquisitions were driven by geography but a by-product was being able to get into new product areas.

SPAIN

The first acquisition was **Sadema** (1990) - Spain's third largest transport and distribution company. Turnover was £6.3 million, supplying chilled and ambient warehousing and distribution for leading Spanish food manufacturers from 15 locations. The business was owned by 4 manufacturers - in effect clients with long term contracts who had combined their operations. Sadema had national coverage, including the Balearic and Canary islands with 13 owned and 2 franchised operations. With large distances between population centres, Spain has few major international distribution operators, meaning in effect less competition than in France or Germany. Exel Logistics saw easy market entry, in a growth area, with low risk. The major competitor, a Unilever subsidiary called SAD, had recently been bought by Swiss owned Danzas. Unilever were actively pursuing a policy of outsourcing and seemed to be choosing a different third party operator in each country - Exel Logistics had previously acquired some of their distribution interests in the UK with SDP and Alpine. In Germany, Unilever had sold its frozen food business to Salvesen, another UK competitor.

Exel Logistics had to decide what service to offer in the Spanish market. They wanted dedicated business using their existing expertise in warehouse management to gain secure profits, but as in the USA there was some reluctance in the market to buy this service and Spain's physical size really required a network solution. However, since 1990 they have had some success in signing dedicated business with; Marks and Spencer expanding into Spain; Digsa, a Spanish grocery retailer and Olympus. It was still difficult to get across the British concept of this method of distribution, which is about offering nationwide delivery with economies of scale. Sadema was rebranded **Exel Logistics - Iberica** with its own corporate identity and image and is now one of Spain's top three logistic companies.

GERMANY

The first German acquisition was **Hellweg Tiefkuhl** (rebranded **Exel Logistics Deutschland**) in June 1991. A frozen product distribution company with trans-shipment operations, it had the ability to service all of Germany, including the old East, from a single cold storage centre near Dortmund in, at most 48 hours. It was almost a parcels style operation for frozen

foods, a potential high added-value service. It fell within the buying criteria, a small family owned, low-risk food business, operating profitably.

In Autumn 1991, Exel Logistics bought from the liquidators a food products and catering distribution company called Restaurant Services. Rebranded **Exel Logistics - Restaurant Services** it was to seek new business and operate contracts aimed at developing deliveries to the restaurant and catering market. However, difficult trading and recent adverse economic conditions have recently slowed business growth in Germany. The latest acquisition in January 1993 is a company called **Macke and Son**, another small family business, providing ambient food distribution for two clients within the grocery market. With net assets of £2.1 million the company will operate from 59000 sq mt site with 130 staff and 64 vehicles. It has been rebranded **Exel Logistics Cloppenburg** from January 1st 1993.

FRANCE

October 1991 saw Exel Logistics' first acquisition in France, **BOS Finances**. This chilled and frozen distribution family business was a market leader in the chilled sector. It operated in the north-west region under regional company names, STM, STB and Frimotrans and covered about one third of the country. Concentrating on chilled distribution for meat, cheese and fish produce, it offered a service based on speed and quality providing fast overnight transport. Clients included Carrefour and Intermarche. The network of 13 temperature controlled locations gave Exel Logistics a sound geographical base, considering they already had the Fashionflow operation for Marks and Spencer near Paris. The new group continued to operate under the management of the Boucher family at the head quarters in Brittany, under the **Exel Logistics - France** brand name. The turnover was £17 million with 500 staff, 200 vehicles and 14,000 cu mts of warehouse capacity.

In 1992 **Sodiaal**, a temperature controlled warehousing and distribution company was acquired (also a producer of regional cheeses). Based in the central French region of Clermont Ferrand it bought 24 staff, 50,000 sq ft of warehousing and 10 vehicles to the company.

HOLLAND

In October 1991 Exel Logistics bought **Food Express Intl BV**, Holland's largest independent food warehousing and distribution company, serving the Benelux countries. With a turnover of £7.3 million, 50 vehicles and 150 staff, it operated transport by owner drivers on a sub-contract basis. This was an ambient and chilled food distribution operation for grocery products operating from two centres covering all of Holland, with Unilever as a major client. Rebranded as **Exel Logistics - Nederland** it was an important entry point into

Benelux. In 1992 Exel Logistics in Holland gained new contracts with Apple Computers and Texas Instruments, a move away from the food sector.

By the end of 1991 Exel Logistics had a capability over a large area of mainland Europe, with access to local markets and local expertise. They had therefore achieved their initial goal of entering priority geographical markets and had to decide on their next step. They could continue to build a presence in new countries like Austria and Portugal, proceed with further acquisitions in existing countries or slow down. Robbie Burns and Martyn Pellew advocated a period of consolidation. They decided to concentrate on their existing acquisitions, build on their initial presence, grow their businesses organically and get and develop the right people.

Nothing new was bought until November 1992 when they acquired two more French regional distribution businesses, **Transports Pujos** and **Transports Martin**, in Toulouse and Nice. Like BOS both were family owned and provided specialist transport for long and short life chilled products for manufacturers, retailers and restaurants. When linked with BOS they gave 5 regional companies but not quite national coverage for frozen and chilled foods.

Exel Logistics' strategy at the end of 1992 was still not complete, they did not have credibility in all countries over all grocery product temperature ranges, the existing businesses offered:-

Spain - ambient and chilled

Germany - frozen and chilled only

France - mainly chilled, some frozen

Holland - mainly ambient.

Without networks at all temperature ranges, it would be impossible to link food networks between countries to become a true pan-European distributor. Even with this strategic gap, organic growth was beginning, new work was gained in both Spain and Holland. Where there was organic development, it tended to be in warehouse contracts rather than transportation which was often sub-contracted out to owner drivers.

Exel Logistics have found that in mainland Europe most of the networked systems were not food oriented - but biased more towards industrial group haulage. The main pattern of movements were in a wide range of products without the hygiene, sanitation or temperature controlled requirements of food. The food sector required technical expertise and was sensitive to legislative and temperature requirements. As for retailing, in the UK trends were dictated by what was happening in the move from high street to out of town shopping,

leading to huge changes in supply chain management. By experiencing and learning from both, Exel Logistics had developed strengths that they wanted to export overseas, but above all they have built on the need for flexibility.

NFC's target of reaching 50% of its revenue from overseas business by 1995, appears to be on course. These overseas earnings are derived from all its divisions, not just Distribution. But with Exel Logistics earning approx 40% of its income from overseas (1992) whilst at the same time providing 47% of NFC profits, this represents almost 20% of overseas revenue for its parent company from Exel Logistics alone.

CURRENT POSITION

As a supplier of distribution and logistics services, within a changing industry, the open employee participative culture within Exel Logistics encourages the implementation of new ideas and innovation. Over 90% of the employees own shares in the company and thus have a personal interest in its success. They have pioneered ways of handling complex logistic and distribution tasks for major companies like Argos, Marks and Spencer, Tesco and Whitbread and give individual attention to large customers eg Exel Logistics - Storeflow took over the Storehouse warehousing operation. All Storehouses 900 staff at 3 locations were switched to the new company on Exel Logistics' terms of employment. Close co-operation with existing staff has led to easier transitions and acceptance of the new company culture leads to high levels of loyalty and commitment - something Martyn Pellew sees as essential for growth.

"The employees are encouraged by a company culture that enables individuals to contribute new ideas and help to implement them".

Growth in the UK has continued and in 1991 the company received awards for implementing successful environmental policies from the Worshipful Company of Marketeers and trade magazine Motor Transport. The company's commitment to quality of customer service has been recognised through the application of the "Quest for Excellence" quality campaign, culminating in 1992, with 12 sites being awarded the international quality standard ISO 9002.

Exel Logistics has become one of the major supply chain service providers in the UK, USA and mainland Europe with a turnover in 1993 of £717 million and over 220 depots worldwide. Growth by acquisition alone will not be enough to ensure success, either in Europe or the USA. With an initial and fast growing presence in Spain, France, Holland and Germany, the company is now faced with yet more choices if it is to become a truly international or even global brand.

And it appears that Exel Logistics does intend to pursue globalisation, possibly via their larger clients own expansion - Robbie Burns MD:-

"By the end of the decade I expect us to be roughly three times our present size.

We'll be market leaders in Western Europe and have a presence in Australasia, the Far East and Eastern Europe".[3]

CONCLUSIONS

Exel Logistics have had to come to terms very quickly with the major changes affecting the distribution industry (both in the UK and Europe) as well as grow their brand and market their service in a changing marketplace, during a recession and in many different cultures. All things considered they have performed and evolved very successfully and in adopting a specific strategic approach they quickly dominated the domestic market and achieved expansion both in N. America and Europe. In a relatively short period of time they have gone a long way towards becoming a successful international logistics operator, but they still have many questions to address, for example:-

- do they continue to buy more and/or bigger acquisitions,
- strive to complete a linked network of food businesses in Europe,
- go for organic growth,
- follow existing customers into new countries,
- should they become more proactive,
- move into non-food sectors,
- expand on a greenfield bases,
- concentrate on the home market and/or the USA,
- offer shared user services.

Following a strategic review late in 1993, NFC announced that Exel Logistics was to merge with its sister company BRS. This move, accompanied by a rights issue was aimed at giving NFC the flexibility to continue its tradition of "bolt on" acquisitions - possibly with more European expansion in mind. It is unclear whether this is a move to further the company's global aspirations, if it is, they must now decide what strategies to pursue to achieve this aim.

See also *CONCLUSIONS in the second Working Paper referred to earlier "The Changing Marketplace for Distribution: Implications for Exel Logistics"*.

NOTE:

There are two case studies resulting from the work done with Exel Logistics.

Case A - The Marketing of a Distribution Brand.

This looks at the position NFC found themselves in at the time of the company's flotation on the Stock Exchange. In particular the problems facing the new MD and Marketing Director in pulling together so many diverse brands from their existing portfolio.

Case B - Internationalising a Distribution Brand.

With the launch of the umbrella brand, Exel Logistics, this case outlines the growth of the company, mainly by acquisition in North America and Europe, and looks at the strategic options open to them if they are to pursue their aim of becoming a global company.

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