An intriguing idea

TRANSPORTATION INDUSTRY PROGNOSTICATORS got an early holiday present in December when a rumor emerged from northwest Arkansas that Wal-Mart was considering an acquisition of APL Ltd. Although the rumor was quickly scotched as having “no basis in fact,” it managed to create a flurry of analysis.

Shipper-owned transportation carriers are not unknown. Weyerhaeuser owns Westwood (ocean shipping); US Steel used to own the EJ&E (rail); and Midwest Air was originally part of Kimberly Clark. Furthermore, the connection between APL and Wal-Mart was not immaterial. APL was a past recipient of Wal-Mart’s International Ocean Carrier of the Year and provides service for the retailer in 37 countries.

The industry consensus about the Wal-Mart move was that apparent benefits were twofold: assured capacity and favorable handling. In other words, owning a carrier would enable a retailer to improve its supply chain by reducing transit-time uncertainty, if not total time en route. This would drive reduced expense throughout the transportation, logistics and merchandising portion of the retailer’s operation. Some thought that such a change was increasingly attractive in the aftermath of the Sept. 11 terrorist attacks, the October 2002 International Longshore and Warehouse Union lockout and the recent West Coast congestion.

But Wal-Mart enjoys most of these benefits already. By virtue of its size, Wal-Mart has been assured favorable pricing and handling by most lines — often at the expense of other customers. As the old saying goes, “Why buy the cow when the milk is free?”

Some analysts have pointed out other troubling aspects of the prospective acquisition. In the trans-Pacific, even Wal-Mart’s huge volume would use less than half of APL’s capacity. And the other three major trade lanes (Asia-Europe, intra-Asia and trans-Atlantic) would be much smaller. It is questionable whether there is significant benefit to absorb all these other business segments, let alone the question of westbound from the U.S. (Most shipper-owned transportation is used in fairly balanced lanes or lanes where there is no cost-effective competition. Neither describes the trans-Pacific.)

Although Wal-Mart is a major shipper year-round, it has large concentrations of seasonal peaks. Because seasonal business commands the largest revenue — by virtue of peak-season surcharges and absence of discounting — Wal-Mart would consume a great deal of enterprise value on its own behalf. As the underlying carrier, Wal-Mart also would need to absorb the empty-repositioning expense associated with its imbalanced cargo flow. Today, that expense is spread across all accounts — and absorbed disproportionately by customers paying higher rates in the same trade lanes.

Industry experts also maintain that, for reasons of confidentiality and competition, other retailers would not want to rely on capacity provided by a competitor. This is certainly a valid concern; however, there are also many major importers that manufacture consumer goods, toys, footwear and electronics. For almost all of them, Wal-Mart is their largest customer and they could find themselves in a “Bentonville partnership” where they would be expected to use Wal-Mart’s carrier.

There are a couple of other interesting scenarios to consider. The first would be if Wal-Mart acquired a minus-cule hip line serving the U.S. Under current Federal Maritime Commission doctrine, Wal-Mart would then be considered a vessel operator, enabling it to sign slot charters with other ship operators. This might give Wal-Mart interesting capabilities (solely in the trades it was interested in) without committing to being a global vessel operator. (Such an option might also be available through a contract of affreightment.)

And what of Wal-Mart’s relationship with organized labor? Recently, another announcement was made. The AFL-CIO and more than a half dozen unions declared a campaign to pressure Wal-Mart to improve wages and benefits. Although the Teamsters is a participant, the ILWU (a union “dedicated to the idea that solidarity with other workers and other unions is the key to achieving economic security and a peaceful world”) was conspicuously absent.

This may be because Wal-Mart, as the largest importer, has a vested interest in preserving waterfront labor peace — regardless of cost. This could change significantly if Wal-Mart found itself a vessel operator. For example, the company might decide to use a non-union port in Mexico that offered a significant cost advantage in terminal throughput. It would also have the political influence that most (foreign-owned) lines lack to head off union retaliation elsewhere on the West Coast.

Wal-Mart’s influence will continue to keep us all focused on its intentions.

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