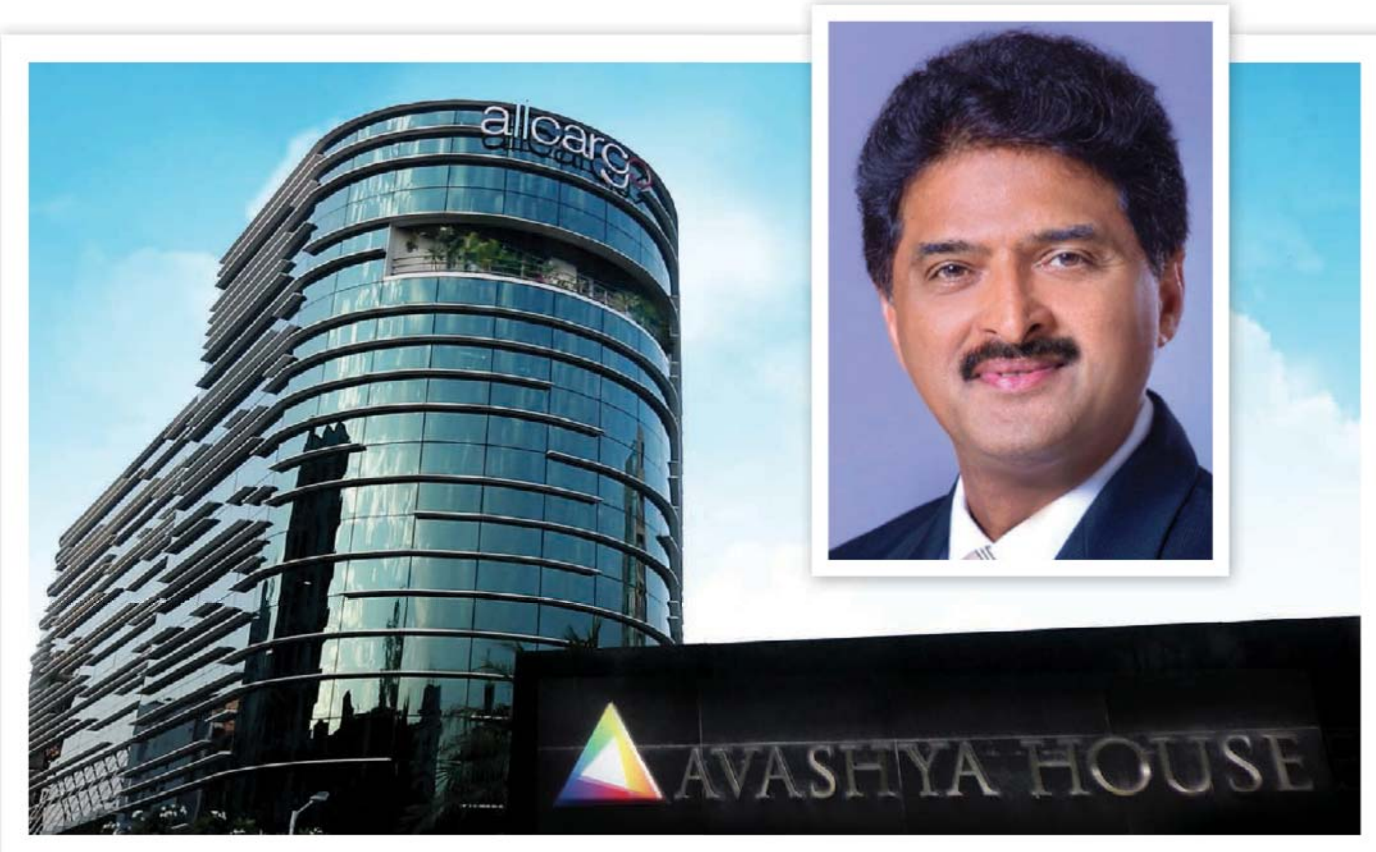
The LCL 'leapfrog'

An inside look at how Mumbai-based Allcargo Logistics became a dominant ocean freight consolidator.

BY ERIC JOHNSON



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The idea that the home of the world's biggest neutral non-vessel-operating common carrier is found in India is still surprising a decade after Mumbai-based Allcargo Logistics acquired ECU-Line, now ECU Worldwide.

The move truly shook up the NVO world, not just because the balance of power at one of the world's key container freight consolidators moved from Europe to India—a country not necessarily synonymous with containerized shipping—but also because Allcargo was a relatively unknown entity at the time.

But looking back, the move was based on years of strategic business development by Allcargo founder and Chairman Dr. Shashi Kiran Shetty and his team, and some opportunistic timing. Company officials laud his vision and risk-taking acumen as Allcargo shifted from being a regional niche player to becoming a global operator.

Allcargo, based in India's vibrant economic hub, established an exclusive agency agreement with ECU-Line as far back as 1995, a move that helped Allcargo transition away from the multi-agent model it had been using since the company's inception in 1993.

"With ECU-Line, it was exclusive," Shetty said in a wide-ranging interview with *American Shipper* at Allcargo's Mumbai headquarters. "And ECU had a good relationship with the top 30 global forwarders, so that business started pouring in. Before that, ECU never got boxes from India, and we never got much international business."

The relationship blossomed from there, with the two companies setting up joint ventures in Dubai and Singapore. By 2003, ECU-Line was growing quickly in Asia, and Allcargo was starting to supplement that growth with its own investment in ECU-Line, a 33 percent stake in the company.

In the background, however, were other developments that would reshape Allcargo's future, and that of the NVO consolidation market globally. India's capital market was booming in 2005, so Shetty took the opportunity to have his company valued. When a hedge fund valued Allcargo at \$200 million, the company sold 6 percent of itself to raise cash for future investment opportunities.

A year later, in 2006, Allcargo went public on the Bombay Stock Exchange, and sold another 12 percent stake. More importantly, that's the year it bought the remainder of ECU-Line, using proceeds from the capital markets. In 2013, Allcargo consolidated its position in the Americas by acquiring Miami-based Econocaribe, rounding out earlier acquisitions of its agency partners in China.

In the first half of 2016, Allcargo rebranded its 100 percent subsidiary ECU-Line business as ECU Worldwide, bringing together all the brands it has collected over the last decade under one umbrella. The main objective behind the rebranding was to change the perception of the company from being just a port-to-port operator to one that offers end-to-end services to virtually any location in the world, the company said.

"For us to start in India and set up offices around the world, it would have taken a couple generations," Shetty said. "It happened at an opportune time—a time when we were able to monetize the value of the company because the capital markets were active when we were going out for these acquisitions. Funding was available and the deal was available. It allowed us to leapfrog from India to the rest of the world."

But that's only the story of how Allcargo acquired ECU-Line, and became the world's largest LCL consolidator, not how Shetty and his NVO got to that point, and only part of where the company has gone since.

Lure Of Shipping. Shetty said it was a sense of adventure that brought him from his native Karnataka in southern India to Mumbai.

"I was 21 and I came to Mumbai [then Bombay] and wanted to make a career," he said. "I quickly found a position in the shipping industry, and within months, I fell in love and never thought to change it. The whole maritime business is very adventurous, full of challenges, and the growth is infinite. It's a global business, and 30 years ago, it was extremely fascinating."

Shetty was working for an agency that represented most of the global carriers calling India at the time, including Maersk, Nedlloyd, CMA, and CGM.

"They were all independent at that time," said Shetty, now 59. "It was a great experience, because you dealt with different nationalities and different types of services and ships, all across India."

Despite his attraction to shipping, he wasn't so enamored of being an employee.

"Within four years, I realized I had huge ambitions and the job no longer satisfied me," Shetty said. "An opportunity came up to start a transportation company handling cargo from the ships in the Port of Mumbai [essentially, drayage within the port bonded area]. That business grew very quickly."

Shetty recalled how crucial the service component of his company was.

"Ships used to wait for 30 days because the port used to be congested," he said. "If they missed their window, they'd go out and wait their turn again. I began to understand the pain of the shipowners more than the rest of the industry, and I communicated in the same language."

That ambitious streak popped up again after 10 years of building that first company, Trans India Freight Services.

"We're growing and getting market share, but I decided I needed to do more than transportation," he said. "I wanted to get back into the shipping business—my first love. I got the idea of doing consolidation, moving from the domain of shipping lines to intermediaries such as ourselves. At that time, nobody was doing export consolidation out of India. A few were doing import."

The initial hurdle in forming Allcargo was convincing Indian cargo owners to use his company's bill of lading. But the business flourished while an important macro-economic development was taking place in India. In the early 1990s, the country began reforming its economic policies, gradually opening the economy up to more global participation.

So Shetty began to expand his business beyond Mumbai. Within two years, the company had opened 18 offices across India and Shetty built a team he believed capable of taking Allcargo further. In 1995, the seminal agency partnership with Belgium-based ECU-Line was established.

By 2003, the year Allcargo bought its first 33 percent stake in ECU-Line, the company made another crucial decision that would prove fruitful: to invest in its first container freight station (CFS) in Mumbai. "That became a roaring success," Shetty said.

The Next Stage. The capital injection that Allcargo used to buy the remainder of ECU-Line was also used to build CFSs outside of Mumbai, in Chennai, Mundra (a fledging port complex in the western state of Gujarat) and another one in Mumbai's Jawaharlal Nehru Port.

"That gave us a strong foundation for business," he said. "We had three verticals [transport, NVO and CFS] with a good amount of cash flow into the company every year."

The original transportation company had become a destination for infrastructure investment—assets like cranes, stackers, and heavy-duty forklifts—that became critical in serving India's fast-growing oil, gas and energy sectors.

In 2009, Shetty and his team agreed the next move was to sell more shares to boost the company's capital reserves, since only 18 percent of shares were public.

"Our idea was to sell to multiple investors," he said. "But then came Blackstone [a large, New York-based multinational private equity group]. They were keen to invest in the company, but they wanted all 15 percent we were floating. It was more stable than going to the capital markets. And working with someone like Blackstone puts you in a different orbit."

Following the Blackstone deal, Allcargo began a restructuring of ECU.

"There were a lot of opportunities to improve margins, and move out of non-core business lines [Shetty mentioned a scrap collection and disposal business]," he said. "There were loss-making offices—some had to be shut down, some needed a makeover. Today, we literally have no offices making losses."

The focus since 2010 has been, as Shetty put it, on "leveraging the network that's been built globally."

That's included the Econocaribe and China acquisitions to foster better corporate integration.

"The decision to buy our partners was made because when you own the offices, you're thinking as one organization," he said. "It's difficult to drive corporate strategy when you're working with agencies, because they have their local interests. The acquisitions worked well because they were known quantities to us. And we've left the businesses and people mostly undisturbed."

Allcargo now operates the largest number of offices of any LCL consolidator in the world, and is the market leader by volume, Shetty said. Its presence stretches to 300 offices in 160 countries. At the top end of the consolidation market are competitors like Shipco Transport, Vanguard Logistics Services, and CaroTrans.

Media reports earlier this year suggested Allcargo aims to double revenue from the current $1 billion level to $2 billion over the next five years.

Shetty told *American Shipper* his objective is to grow organically. There's no doubt that growth projections are impacted by the larger health of the shipping industry. An NVO can only do so much when freight rates are at historically low levels.

Out Of Control Rates. "Our own freight rates depend on how the markets go and we have no control over that," he said. "I believe in sustainable business models, in long-term partnerships with customers and vendors, and obviously our people."

The NVO business still accounts for about 80 percent of the company's overall revenue, with 55 percent of volume tied to the Asia-Pacific region, 26 percent to Europe, and 18 percent to the Americas. Volume grew 8.7 percent to 4.6 million TEUs for the financial year ending March 31, 2016, according to the company's annual report.

The diversification of the business, Shetty said, has been a huge boon, as it has reduced Allcargo's reliance on pure NVO revenue.

"The rate variability really started 18 months ago," he said. "Margins are under a lot of pressure. The competency and capabilities within the company are there, so you look at other opportunities in the business. A bit of air freight, project cargo. These are the things that keeping us going, because the volatility is going to be there for a while."

To that end, Shetty said the company has been tightly focused on its technology development as "we have to be conscious of the cost of doing business." The NVO is in the midst of rolling out a new enterprise resource planning (ERP) system, a project that should be completed by mid-2017.

Allcargo, he added, is doing more and more via electronic data interchange (EDI), and the company had said the new ERP, nicknamed Topaz, will focus on responses to applications delivered by application programming interface (API), a system-to-system communication format that is entrenched outside of freight and is gaining momentum within the industry.

Digital Enhancements. Topaz will "allow for more effective interaction with customers, suppliers, and other third party systems via modern API technology," Shetty wrote in the company's annual report. "We see managing information as the core of our business and consider strong digital innovation and design knowledge and capability to be the most important strategic asset today and in the future."

The system is also designed to provide centralized pricing guidance to the company's global network of offices.

"We believe in simplicity in life—the new system is not a radical change. Rather we brought in new processes in terms of [customer relationship management], in terms of [human resource management], and finance and accounting. That got integrated on the back end. For the look and feel of the operating system, we didn't do too many changes. But we achieved what we wanted. We have one accounting system globally, one CRM system globally. We have data accuracy, and four data repositories, internal dashboards, and improved EDI capability," Shetty explained.

The technology developments are meant to better leverage the talents of Allcargo's personnel. The company stressed in its meeting with *American Shipper* that its employees are the backbone of its operations globally.

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Dr. Shashi Kiran Shetty, chairman, Allcargo

Shetty said freight forwarders are definitely showing interest in APIs as a means of connecting that might eventually replace EDI. Allcargo's customers are largely forwarders, but the ability of other parties in the shipping industry to keep pace with digital modernization initiatives will be as important.

"Some carriers are keeping pace digitally and the others will have no option but to adapt," Shetty said. "Consolidation will help this happen. Over time, we will have to pick and choose which ones have the capability to work with us [digitally]. But more than shipping lines, it's ports, terminals, and customs. Without their support, digitalization will struggle."

Shetty said that Allcargo, despite its size, is not necessarily in a position to enforce technology mandates on the industry.

"But we will do our bit to promote and collaborate," he said. "We will have those challenges, and we'll work on the market partner by partner. It's about cost-effective and speedy movement of information from one company to another, because digitalization will give you access to big data, which leads to analytics."

End-To-End Services. And that leads to another area Shetty believes Allcargo can prosper: supply chain management. The market in India is particularly ripe for such end-to-end services. Allcargo has a contract logistics division, and stated in its annual report designs on eventually becoming a top-three provider of such services in India. Service areas in which the company is targeting growth are inventory management, value-added warehousing, aftermarket, and reverse logistics.

"It's a different vertical, but it has a lot of growth possibilities," Shetty said, noting the growth could be especially strong as India goes to a single market, pending the implementation of a general sales tax (the country has a convoluted system of state-enforced value-added taxes currently).

Shetty also addressed the rising number of technology startups looking to either disintermediate the forwarding industry, by providing a marketplace for direct carrier rates, or to empower freight forwarders to quote for services more effectively. Both theoretically threaten Allcargo's consolidation business.

"Our industry is not so easy to transform," he said "There are cross-border issues, millions of stakeholders across the world. All of them have their own interests. For an external digital company, it won't be as easy as transforming a consumer. I don't think anything radical can happen over the next few years.

"But there's clearly a possibility of that happening. The worry is that this all leads to more competition, more margin pressures for everybody, which is also not a good thing. The industry needs to be healthy, because this is one of the biggest employment-generating industries in the world. Consumerization is dependent on efficient transportation, and if companies that provide those services don't make money, they don't invest. And that has a devastating effect on the way your run your business," he added.

Shetty said it's hard to figure how the online marketplaces will be able to wring much more inefficiency out of a market where freight rates are already so low.

"Inefficiency exists in certain pockets, in certain markets," he said. "But there's not a lot of inefficiency in the forwarding market overall. The pricing—like any commodity market—it's about demand and supply."

Shetty is confident, however, that Allcargo is set up to weather the current storm.

"It's a network business, so you have to make sure there's harmony," he said. "We have a centralized view of profits, but each office has to carry their own weight. It's a similar model as freight forwarders. The whole mindset in the organization is entrepreneurial and collaborative." ■