

Connecting the 'missing link'

Kuehne & Nagel is strong in Europe and Asia; acquisition of USCO Logistics expands the company's US presence

BY WILLIAM ARMBRUSTER

Kuehne & Nagel International, seeking to develop a global presence in contract logistics, has closed a big gap in its coverage with the \$300 million acquisition of USCO Logistics. USCO, based in Hamden, Conn., is a major provider of warehousing and distribution services in the United States, Canada and Mexico.

The deal, which closed July 20, enables the Switzerland-based Kuehne & Nagel to offer its customers access to more than 15 million square feet of warehousing space controlled by USCO at 70 locations in North America. USCO customers, meanwhile, will be able to take advantage of Kuehne & Nagel's global forwarding and logistics network, with 530 offices in 90 countries.

"We see this as the next logical step in our growth," said Klaus Herms, Kuehne & Nagel's chief executive. "This company was the missing link."

Many customers are seeking multinational coverage by their third-party logistics providers. Kuehne & Nagel has long had a presence in the U.S. market, but those operations have been concentrated on air and ocean forwarding. Now, thanks to the USCO acquisition, Kuehne & Nagel will be able to offer supply-chain management services "from A to Z" on a global basis, Herms said.

The forwarder expanded its position in the Asian logistics market through an alliance forged late last year with SembCorp Logistics Ltd., a Singapore-based company with operations in India, China, Indonesia, Taiwan and Japan. SembCorp, primarily owned by the Singapore government, controls 10 million square feet of

warehousing space in Asia. SembCorp owns 20% of Kuehne & Nagel; K&N owns 5% of SembCorp, with an option to acquire another 15%.

Kuehne & Nagel is targeting logistics as a major growth opportunity. Contract logistics accounted for about 25% of Kuehne & Nagel's \$5 billion in revenue last year. Herms hopes the USCO purchase will help enable the forwarder to push that figure up to 50% within the next two to three years.

USCO customers, including Nor-

tel Networks, GlaxoSmithKline, AstraZeneca, Sun Microsystems, Wal-Mart, Target, Allergan and Noveon, were "universally very positive" about the potential for new services, said Robert Auray, president and chief executive of USCO Logistics. "They all wanted to know that the people they work with will continue to be in the picture. We did a good job of reinforcing that point," he said.

Herms said he heard similar enthusiasm for the deal during visits he made to USCO customers as Kuehne & Nagel was conducting its due diligence, "Most clients were very, very interested," he said. He said K&N's European customers also were interested.

Before acquiring USCO, Kuehne & Nagel looked at other U.S. companies as prospective partners but none offered the nationwide coverage and absence of duplicate services that USCO offered, Herms said. The fact that there was little overlap between Kuehne & Nagel and USCO could make the acquisition easier. Herms said Kuehne & Nagel has no plans to lay off USCO employees or close offices. "We need this know-how. We need people where they are," he said.

The two companies will give top priority to developing new business from existing customers rather than seeking new customers. A key customer for both is Nortel, the Canadian-based telecommunications giant. Larry Byrd, Nortel's senior manager for global logistics, said the deal provides his company with "a global provider that's under the same umbrella." Nortel uses USCO for warehousing and Kuehne & Nagel for both warehousing and forwarding. "It gives us continuity," he said.

USCO will market itself as USCO Logistics, a member of the Kuehne & Nagel Group. "Our intention is to have USCO run very independently for the next year-and-a-half or so. We want to make sure that customer relations stay as is," Herms said.

Kuehne & Nagel has no plans for future acquisitions in the U.S., although it may pick up a niche operator or regional company if a good opportunity presents itself, Herms said. The USCO purchase is Kuehne & Nagel's biggest acquisition in its 110-year history. ■



Klaus Herms



Robert Auray