AEI: The sequel

IJS Global has same investors, executives that built and sold AEI to Deutsche Post.

By Chris Dupin

In this era of hype, "mundane products" is not the label many investors would attach to a company they have acquired. But it is the refreshingly candid way the investment company Brynwood Partners of Stamford, Conn. classifies a freight forwarding and logistics company it has purchased.

Mundane or not, Brynwood knows the business well — and likes it.

Brynwood's first acquisition, 20 years ago, was Air Express International Corp. Hendrik Hartong, cofounder and senior managing partner of Brynwood, acted as AEI's chief executive officer from 1985 to 1988. That investment worked out well. After operating AEI for nearly 15 years and garnering an excellent reputation, Brynwood sold it to Deutsche Post in 1999 for $1.14 billion, where it was eventually folded into Danzas/DHL.

Brynwood's latest venture in the forwarding and logistics business is IJS Global Inc., also based in Stamford. The company purchased a New York-based forwarder called Inter-Jet Systems Inc. in December 2004, and since then has been on a worldwide acquisition tear to increase its size and scope, adding nine additional companies to IJS through the beginning of this year.

IJS now has operations in the Far East, Middle East, Europe, and North and South America. It had sales of about $55 million in 2006 and 500 employees at the beginning of January. It expects sales to exceed $120 million in 2007.

Giorgio Laccona, chairman and CEO of IJS, said his goal is to build a mid-size forwarder and logistics company, one with sales of sales of $500 million to $700 million and a staff of 1,200 to 1,500 people by 2010 or 2011.

"At that revenue level we can remain customer-focused and control expansion, and have a have decent return," he said. "The idea is to bring it to that level, operate it and enjoy it." Even with sales of $1.5 billion, AEI was "quite manageable."

Just before joining IJS Laccona was chairman of the U.S. office of the Italy-based freight forwarder and shipping agency Savino Del Bene, but prior to that he had spent 24 years at AEI.

Giorgio Laccona
chairman and chief executive officer, IJS Global Inc.

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Like Laccona, other members of the IJS Global executive roster are AEI alumni. They include: John M. Gallahan, president and CEO for Asia Pacific and Americas; Sjoerd van Loon, CEO for Europe, Middle East and Africa; Mark Atzbi, chief financial officer; and Migdalia (Mickey) Diaz, vice president of global operations.

Brynwood is not a short-term investor looking to "flip" properties, said Laccona. The sale of AEI to Deutsche Post came about only because "the opportunity was so vast you had to present it to the shareholders," he added.

Laccona said working at IJS the past two years "has been like going back when we were doing the same things at AEI in the mid 1980s, when we were expanding." There has been less focus on internal politics than when AEI became part of Deutsche Post, and more interaction with customers, he said.

But "it is a little tougher today than it was in those days, because there is a lot more competition."

He sees his company becoming a midsize firm in a league with Meridian IQ and SEKO, but the company must compete with the giants of the industry, such as UPS, DHL, Panalpina, Schenker and Kuehne + Nagle.

"Personal relationships still play a big part in this business," he said. "But you still must have the product to offer the customer — air and water forwarding, warehousing and distribution. Today that means the compliances and security training that are required. You have to be able to go to a customer and say 'we are your answer for your logistics needs.' "

Today, IJS's mix of business is 65 percent ocean and 35 percent air freight. But the company hopes to bring the air share up to 50 percent.

Laccona noted large logistics companies have the advantage of brand recognition, and can "flood the market with advertising and low rates."

"Sometimes those rates don't make any sense and at some point will not sustain themselves," he said. "On a sales call to a small to medium-size company, this becomes difficult, because you need the time to present the true facts to the customer."

As a buyer of transportation, IJS is spending millions of dollars, while some of its competitors spend billions. But Laccona said the company has gotten good support from airlines that have provided IJS with the space it needs for expansion. He said about 80 percent of the company's freight spending is concentrated on about 10 airlines and five to six steamship lines.

Looking to the next year, Laccona believes that rates for both air and water transportation will be fairly stable.

He said makers of aircraft and automotive parts, electronics, general cargo, machinery and pharmaceuticals are major sectors served by his company. The firm may target certain vertical market segments, "but we have to be selective based on our capabilities in each country," he said.

Another change in the business over the past several years is the big increase in capacity from China and the Far East, he said.

New aircraft like the Boeing 747-400 and 777 can carry far more belly cargo than the 767 or 747-200 and 747-300, and carriers such as Korean Air, Northwest Airlines, UPS and Atlas/Polar have increased frequency to China. The Iraq war has increased capacity as charters flying back to the United States will generally stop in the Far East for backhaul cargo.

Faster transit times have made ocean shipping services more robust competitors with air cargo. But he said much of the credit for the ability to move freight by water instead of air must go to better management by the buying offices of shippers.

At IJS, 2006 was what Laccona calls "a

positioning year. We spent a lot of time creating the network, opening up the network — acquiring companies or doing it through growth where possible."

The company now has operations in eight U.S. locations and plans to add a station in Dallas in the coming year.

The Far East has been a big focus for IJS. It has acquired firms or opened offices in mainland China, Hong Kong, Taiwan, Singapore, Thailand, Sri Lanka and the Philippines.

In June, IJS opened an office in Dubai.

"The Middle East is an inbound market," Laccona explained. In the Middle East buyers generally determine how cargo will be shipped. Contracts are not awarded on a long-term basis, so a logistics company must regularly visit buyers to retain business.

IKS opened an office in Brazil in November, and plans to grow in South America over the next year.

In Europe, it has offices in Italy, Holland and Spain, and plans to expand its presence in Germany by adding offices in Frankfurt and Dusseldorf in the first quarter of 2007 to supplement an existing office in Bremen. "Our next target is Paris, either through an acquisition or opening an office ourselves," he said.

Also in Europe, the company announced the acquisition, effective Jan. 2, of Lupprian's Cargo Express, which has offices in London, Manchester and Glasgow. Formed in the early 1990s, he says Lupprian's is typical of the companies that IJS has looked to acquire — small firms that can benefit from being part of a larger network by offering to serve existing accounts on additional trade lanes.

The most important factor that IJS looks for when buying a company is that "they share our view, which is 'back to basics' — a focus on customer service. That way we feel we will keep our customers for a long time and not be subject to constant competitive bidding all the time. That doesn't mean we will not be competitive, but we also want to give the personal touch," he said. ■

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