



Kuehne & Nagel in the Asia-Pacific

It was December 1998 and Thomas Dolder, Regional Manager of Business and Development at Kuehne & Nagel (Asia Pacific) Management Ltd., pondered the future of this multinational, as he gazed out of the window of his 25th floor office overlooking Hong Kong's Victoria Harbour, one of the world's busiest ports. Few places seemed more appropriate to consider the future of Kuehne & Nagel's Asia-Pacific operation, and build upon the company's 110-year-old reputation established in freight forwarding. Freight forwarding was a rapidly changing and dynamic industry. Globalisation of world markets, rapid advancements in information technologies, changing demand and supply for products and services and the emergence of new markets in developing nations all had huge implications for the industry. Users of freight forwarding were increasingly seeking to shorten product cycles and minimise inventory while ensuring their products were distributed to the appropriate markets as they attempted to achieve tighter supply chain management. With growth forecast for the Asia-Pacific region, and given the nature of Kuehne & Nagel's current capabilities, Dolder was to report to the Company's regional and national line management on a future strategy for Kuehne and Nagel's Asia-Pacific operations.

The Freight Forwarding Industry

Freight forwarding (FF) was an integral link in the movement of goods from suppliers to buyers. From its early-unsophisticated origins, FF in the 1990s had transformed into an extremely competitive and complex multi-billion dollar industry.

Origins of Freight Forwarding

The basic concept of freight forwarding evolved in Venice, Europe in the thirteenth century.¹ A middleman or "Frachter" was a combination carrier and forwarding agent who transported a merchant and accompanying goods to a destination of sale.

¹ Murr, A., (1979), *Export/Import Traffic Management and Forwarding*, (Reprint), Centreville, MD: Cornell Maritime Press, Inc., p. 1.

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Modern Freight Forwarding

From these historical origins, modern FF emerged. The need to match supply and demand, which was associated with the growth of commerce and industry in general, was undertaken by intermediaries or forwarders.² Operating under different names in different countries (freight forwarder, Spediteur and commissionnaire de transport) the functions carried out were basically similar in most parts of the world: moving goods across wide continental land masses or oceans and transporting goods while in fact owning no means of transportation.³

An FF was the intermediary between a consignor or consignee of goods and the transport carriers, wharfingers⁴, customs authorities, and other parties in customs brokerage, shipbrokerage, and export carloading.⁵ As well as charging for these services, FF companies could also make money by consolidating separate clients' cargoes and exerting buying power over carrier companies.⁶

A related business was customs clearance (CC). While both FF and CC were often carried out as part of the same commercial operation, the activities were clearly distinct from one another. The importing side of forwarding involved the inward customs clearance of shipments. Here, the FF often acted as receiving agent in respect of the goods. Common to all such shipments was that they had to be cleared through customs, either at the port of arrival or else at some authorised inward clearance centre.⁷ In general, CC (allowing for differences from country to country) meant that an FF or a customs broker paid the duty up front and the importer would then reimburse the FF or customs broker with accrued interest payable. It was because of this activity that forwarders were sometimes likened to "financial institutions".

The demise of CC in Europe came about with the Single European Act of 1 January, 1993. This created a near trade-barrier-free market throughout the European Union (EU) and meant that all customs duties and much of the paper work associated with transporting goods across borders within the EU basically disappeared. Where previously CC sometimes accounted for up to 60 per cent of a FF company's business, it was reduced considerably. The days of an FF earning significant profits from CC in Europe were over.

Freight Forwarding: Worldwide Trends in the 1990s

The global integration of world markets (helped by the advent of the World Trade Organisation, the Single European market in 1993, the proposed launch of the "Euro" in 1999 as a single European currency, the North American Free Trade Agreement, the Association of Southeast Asian Nations Free Trade Agreement and other free trade agreements), rapid advancements in information technologies, changing demand and supply for products and services and the emergence of new markets all had ramifications for the global flow of goods and transportation networks.

² Hill, D. J., (1972), *Freight Forwarders*, London: Stevens & Sons, p. 3.

³ *ibid.* p. 4.

⁴ A wharfinger was the person in charge of a wharf. See URL: <http://www.ozdocs.net.au/w.htm>, January 1999.

⁵ Hill, D. J., (1972), *Freight Forwarders*, London: Stevens & Sons, p. 4.

⁶ Cargo consolidation referred to the combination of goods from different suppliers (and buyers) into one container, usually a TEU or Twenty-Foot Equivalent Unit (based on a standardised container size of 20ft. x 8ft. x 8ft.). At least two benefits arose from this practice: freight forwarders were able to pool different combinations of products into one container, making the best use of container space and smoothing seasonal variations in the demand and supply of products, and suppliers gained flexibility to send smaller or larger consignments of goods according to market requirements.

⁷ Hill, D. J., (1972), *Freight Forwarders*, London: Stevens & Sons, p. 259.

The Distribution Market for Physical Goods

The physical distribution of goods was influenced by the demand and supply of consumer products. Companies sought to shorten product cycles while ensuring their goods continued to move to markets in ways that were timely, reliable and efficient.⁸ For many, controlling the flow and inventory of products was an important business objective. While for some, the rapid movement of goods directly to the shop shelf or manufacturing facility was paramount, for others, the retention of parts at a distribution centre was the key.⁹ This meant that FF customers placed greater emphasis on managing supply chains and detailed product flow information to secure and sustain competitive advantage.

Firms began to seek transportation and distribution suppliers with worldwide capabilities and who possessed broad and high-level service capabilities supported by trained and dedicated professionals, and with superior information technology (IT) and information systems (IS) capabilities.¹⁰

Supply Chain Management

Supply chain management (SCM) was analogous to the control and co-ordination of a firm's primary activities along product value chains. It was considered one way in which companies could shorten product cycles, minimise inventory and squeeze out inefficiencies along the value chain while ensuring products were delivered to buyers in a timely and efficient manner. Moreover, it had become associated with ensuring optimised co-ordination of both backward and forward vertical linkages of a firm's value chain with those of its suppliers and buyers. As such, SCM had become a vital element of product competitive advantage. For an individual firm, SCM might encompass all-sourced components and services flowing into production processes, as well as all outbound logistics, together with monitoring products right up to final purchase by consumers in independent retail outlets. For others it might cover just upstream, inbound logistics, or concentrate mostly on downstream activities to the point of purchase. For fully vertically integrated organisations, where the entire materials and service flow was owned by a single company, the value in (global) SCM was in obtaining tight co-ordination between the various value adding activities of the firm. For less vertically integrated firms, the value came not just from better internal firm processing, but from more efficient co-ordination with suppliers and buyers.

For many types of firms, total SCM meant not simply improved efficiencies through better co-ordination of activities, but the ability to pin-point bottlenecks and problems along the supply chain through enhanced visibility of upstream and downstream processes. Given greater supply chain transparency, costly difficulties could be dealt with sooner and their adverse impact minimised. Moreover, information flowing back up the supply chain from buyers could also alert management to changing customer preferences and assist in the identification of market opportunities.

In spite of these benefits, early SCM was domestically-oriented due to the high levels of IT required and was confined to the more developed economies of North America, Europe, Japan and Australia, where adequate IT systems and support infrastructure were available. SCM activities were conducted in-house by individual companies or through consulting firms. Although internationally oriented services were possible between more advanced industrial

⁸ "Corporate Profile", *AEI Quality Worldwide Logistics*, URL: <http://www.aeilogistics.com/>, December 1998.

⁹ "Products and Services", *Fritz Companies Inc.*, URL: <http://www.fritz.com/>, December 1998.

¹⁰ *ibid.*

countries, many SCM providers had only a superficial global reach and the capabilities offered were often not technologically supported to a high standard.

By the late 1990s, world merchandise trade had been growing at the rate of 12 per cent per annum, faster than world GNP.¹¹ More goods crossed international borders and the production and delivery of products and services to customers increasingly required co-ordinated efforts at a global level. For global companies or multinationals (MNCs), the ability to develop and manage global supply chains was becoming increasingly critical to success. This meant focusing on the total costs of the (global) supply chain. Product proliferation (in order to meet geographically discrete market preferences of multiple cultures, tastes and languages or local government regulations), logistics inefficiencies (due to increased supply chain and sales channel complexities) and poor information transmission and information distortion (the result of cultural and language differences and different business practices and etiquette in different countries) further fuelled the need for global SCM.¹²

Given these developments, some MNCs (particularly the highly vertically integrated corporations of considerable size) began to develop their own in-house SCM capabilities. For less integrated and smaller firms, SCM-related set-up costs were daunting and demand for out-sourced SCM activities was growing. However, the supply of global SCM services was relatively underdeveloped. In consequence, some companies with international business dealings began to look to their FF firms and carriers for assistance. Few FF firms had significant ability in the area of SCM, but many were finding it increasingly necessary to offer some kind of SCM component together with their traditional activities in order to win and keep traditional FF business.

With growing demand for SCM, an industry of specialist SCM firms was beginning to emerge in the 1990s that offered logistics management advice and consulting. Under the umbrella of “logistics services” [see **Exhibit 1**], a host of services were provided, ranging from “basic” services (local, national and international distribution and transportation services) and “service” packages (warehousing distribution, tracking and tracing), to “integrated” services (materials flow management, logistics consulting and IT services provision). Profit potential associated with the provision of SCM services was thought to be high, and even higher returns were predicted as more complex services were demanded [see **Exhibit 2**].

Competition

Increased competition in the FF industry was attributed to two factors.

An increase in players entering the physical goods’ distribution market. The rapid evolution and increasing need for SCM logistics capabilities meant that competitors from outside the traditional FF industry business could also enter the industry and make a play for market share. Competition increased on several fronts with the emergence of alliances and networks among smaller local operators, together with the entry of integrators (such as Federal Express, DHL and UPS) third-party outsourcing agents, IT-services providers, consultants and other FF providers, all offering SCM logistics capabilities with FF-type services sometimes attached.

A “credibility crisis” within the FF industry. Some FF providers had promised too much and delivered too little, claiming to offer fully integrated SCM services globally, but delivering

¹¹ Kuehne & Nagel (Asia Pacific) Management Ltd. Internal Document, *KNAP Logistics Strategy: Discussion Paper*, July 1998, p. 3.

¹² Adapted from Kopczak, L. R., & Lee, H. L., (1996), “Global Supply Chain Management: Strategies for the Asia-Pacific Region”, *Asian Journal of Business and Information Systems*, Vol. 1, No. 2, pp. 139-150.

superficial services constrained by a real lack of integrated IS across international borders and within many non-OECD¹³ countries.¹⁴ Consequently, customers had come to distrust FF providers and were turning to substitute businesses such as specialist logistics providers or express courier firms to obtain the services they wanted. FF providers therefore had to work even harder for business in the physical goods distribution market.

Freight Forwarding: The Asia-Pacific Trends in the 1990s

The Freight Forwarding Industry: The Asia-Pacific Region

In Hong Kong and the Asia-Pacific, FF was well established, although the impetus for changes in the industry still largely emanated from continental Europe, where the industry was most highly developed. Unique characteristics, such as the vast geographic expanse of the Asia-Pacific region, diversity in countries, cultures and language, and different levels of economic and political development, presented several opportunities and a myriad of challenges to the FF industry.

Hong Kong was one of the largest and most efficient trade and transportation hubs in the world. Sophisticated transportation networks, numerous supporting services (such as banks, insurance companies, FFs and terminals), an efficient telecommunications infrastructure, well-established legal and financial systems and an innovative electronic commerce infrastructure all contributed to making Hong Kong a major trade and transportation hub in Southeast Asia.

In the 1990s, the Hong Kong container port was one of the busiest in the world, and had been accorded the status of “world’s busiest port” consistently since 1992. In 1997, more than 14 million TEU’s¹⁵ of cargo were handled.¹⁶ In airfreight, Hong Kong’s former international airport, located at Kai Tak in Kowloon, was the busiest airport in the world in terms of international air cargo, and third busiest, in terms of international passenger traffic. Airfreight capacity of 1.5 million tonnes was expanded to three million tonnes with the opening of a new airport, Chek Lap Kok, in 1998.¹⁷

The Physical Goods Distribution Market: The Asia-Pacific Region

Despite the prolonged “Asian crisis”¹⁸, the huge size of the Asia-Pacific both in terms of population and geographical distance, long-term upward economic growth potential and the relatively underdeveloped nature of physical goods distribution industries were viewed as providing major growth opportunities for FF providers. In line with global trends, increased customer sophistication and greater emphasis on SCM and IT/IS-related business solutions in the

¹³ The OECD, or the Organization for Economic Cooperation and Development, provided member governments a forum in which to discuss and develop economic and social policy pertaining to member nations.

¹⁴ AT Kearney, (1995), *A Shipper’s Approach to Contract Logistics*, No. 44, Chicago, ILL: AT Kearney Inc., pp. 4-5.

¹⁵ TEU refers to Twenty-Foot Equivalent Units as a measurement of cargo (based on a standardised container size of 20ft. x 8ft. x 8ft.).

¹⁶ “Table 8.6: Containers Carried by Ocean-going Vessels and River Trade Cargo Vessels”, *Hong Kong Annual Digest of Statistics, 1998 Edition*, Census and Statistics Department, Hong Kong Special Administrative Region, People’s Republic of China, p. 149.

¹⁷ Damsgaard, J., & Farhoomand, A. F., (1998), *CargoNet Transportation Community Network Limited*, Centre for Asian Business Cases, The University of Hong Kong.

¹⁸ The signs of an “Asian crisis” began to appear in early 1997, in Korea and Thailand, with the collapse of several large companies in the manufacturing and property development sectors. The over-development of the Thai property market and unscrupulous practices of Thai financial institutions heightened problems for the financial sector, leading to speculative attacks on the Thai baht and devaluation of the currency. The situation was further exacerbated as the ripples of the Thai currency crisis were felt throughout Asia, hence the term “Tom Yam Effect”.

physical goods distribution market were equally applicable to the region. Differences within the Asia-Pacific region however, were quite considerable.

Four categories of countries shared similar characteristics in terms of the distribution of products: “Wealthy Democracies”, “Trading Tigers”, “Burgeoning Industrialists” and “Future Powerhouses” [see **Exhibit 3**].¹⁹ In the “Wealthy Democracies” of Japan, Australia and New Zealand, customs processes were mature, duty levels low, and logistics infrastructures relatively advanced and mature. Similarly, the “Trading Tigers” of Singapore and Hong Kong were characterised by free customs processes, zero duty levels and mature logistics infrastructures. By contrast, the “Burgeoning Industrialist” nations of Taiwan, Korea, Malaysia, Thailand and the Philippines had complex customs processes, medium duty levels and dynamic, immature logistics infrastructures. Similarly, the “Future Powerhouses” of China, India and Indonesia had “informal” customs processes, high duty levels and relatively backward, emerging logistics infrastructures.²⁰

These vast differences between countries in the region made it inherently difficult for FF providers and other competitors to develop integrated SCM logistics capabilities. Yet developing such capabilities was absolutely critical to the advancement of door-to-door distribution services throughout the Asia-Pacific, as profit margins across the FF industry were in decline. Where previously profit margins of between 2 to 5 per cent were attainable, in many instances margins had declined to –2 to 2 per cent.²¹ For many FF companies, this meant generating very substantial volumes of FF business in order to achieve only modest returns. By contrast, the provision of SCM value-added services appeared to yield higher profit margins than those in “traditional” FF business. While FF profit margins had decreased to less than two per cent, margins of 10 per cent or more were reportedly attainable from the provision of SCM logistics services.²² Of the MNC FF providers operating in Hong Kong, by the late 1990s, almost all had embarked on programmes offering, ostensibly at least, some form SCM logistic capabilities, although to varying degrees. This was mostly geared to the retention of traditional FF business.

Competition: The Asia-Pacific Region

In the Asia-Pacific, FF was well represented by local and international companies alike. In Hong Kong alone, there were some 700 FF providers, mostly relatively small operations, and approximately 20 MNC FF firms [see **Exhibits 4** and **5**]. In line with global trends, competition across the region had increased to include local FF providers, integrators, third-party out-sourcing agents, IT service providers, consultants and other FF competitors.

Local FF providers were generally small stand-alone operations (with fewer than 50 employees). They had very little or no IT and SCM capabilities, and concentrated on the lower end of the physical goods distribution market, but nonetheless sought MNC business. Competitive pricing and networking to form alliances with other, often larger, FF companies that possessed some minimal IT/IS and SCM capabilities was often the only way such businesses could survive in the industry.

¹⁹ Bovet, D., (1997), “Mastering Asia-Pacific Supply Chains”, *Mercer Management Journal*, Vol. 8, URL: <http://www.mercermc.com/publications/pubsonline.html>, December 1998.

²⁰ *ibid.*

²¹ Results of research conducted by AT Kearney and included in Kuehne & Nagel (Asia Pacific) Management Ltd., Internal Document, *KNAP Logistics Strategy: Discussion Paper*, July 1998, p. 10.

²² *ibid.*

Integrators were specialists in the express carriage of documents, small parcels and other time-definite products and services, such as Federal Express, DHL and UPS. They typically had pre-existing pan-Asia-Pacific coverage supported by their own transportation fleets. Considerable IT investments meant that opportunities arose to embark on the door-to-door physical distribution of goods, effectively cutting into traditional FF markets.

Third-party out-sourcing agents arose from the fact that several industries, including the fast-moving consumer goods (FMCGs) industry, the chemical industry, automotive, aviation and ship spare parts industries, and the computer and pharmaceuticals industries had out-sourced their SCM logistics functions in the late 1980s and early 1990s.²³ This presented opportunities for third-party professional services providers in the marketplace.

IT-service providers already offered complex services. However, opportunities to integrate downstream by purchasing forwarding or distribution businesses in order to offer comprehensive SCM capabilities to customers (such as the merger between General Electric, a manufacturer of FMCGs, and the Penske Group, a FF business), meant they could vie for market share in the FF industry.²⁴

Consultants specialising in SCM appeared more prevalent in the market, and, often with IT-service providers, acquired FF companies (such as the alliance between EDS (Electronic Data Systems), a leader in the global information industry, and AT Kearney, a management consulting firm together with a medium-sized FF company) in order to provide comprehensive SCM capabilities to customers.²⁵

Other FF competitors responded to increased competition by developing and offering multi-service solutions fitted with information systems to enhance core FF deliverables through a “one-stop-shop” concept.

Kuehne & Nagel Company – The Background

Kuehne & Nagel (the KN Group) was one of the world’s leading transport and logistics companies. It was founded in 1889 as a forwarding and commissioning business, in Bremen, Germany.²⁶ In the early years, the Company concentrated on cotton and consolidated traffic that enabled the young KN firm to build a name for itself quickly in the transport industry in Germany. KN soon extended its activities to importing and exporting cotton, grain, timber, feed stuffs, sugar and consolidated traffic.²⁷

The devastation of World Wars I and II meant that post-war survival in the transport industry necessitated the building of modern warehousing and handling facilities in addition to transportation systems. Following the post-war reconstruction of Germany and Europe, consolidated traffic was expanded in the European region into what became the starting point of modern EuroLogistics, now recognised as one of the most important products in the transport market.²⁸ World traffic systems underwent major changes, and rapidly transformed transportation

²³ *Transcript 1*, Interview with Thomas Dolder, Regional Manager, Business and Development, Kuehne & Nagel (Asia Pacific) Management Ltd., 25 November, 1998, p. 16.

²⁴ Kuehne & Nagel (Asia Pacific) Management Ltd. Internal Document, *KNAP Logistics Strategy: Discussion Paper*, July 1998, p. 15.
²⁵ *ibid.*

²⁶ “100 Eventful Years”, *Kuehne & Nagel: A Jubilee Documentation*, p. 3.

²⁷ *ibid.* p. 4.

²⁸ *ibid.* p. 15. EuroLogistics was the name given to the Europe-wide distribution system. KN EuroLogistics was first offered in 1987.

networks. In this environment, on-the-spot presence became increasingly important, and as the years passed, airfreight business grew in importance also.

KN recognised that future opportunities lay in a “United Europe” and expanded into Frankfurt in 1949, followed by the establishment of a sister company in 1959, in Switzerland. Rapid and constant expansion in Europe necessitated a corresponding expansion of KN’s worldwide network, and offices were opened in Baghdad in 1956, and in Vancouver, Montreal, and Toronto in 1957. Establishing subsidiaries also meant prevailing against the toughest competition (from Austrian and American companies). In 1967, the Company took the first step towards building up the airfreight sector by setting up its own Far East operation. In 1968, sister companies were also established in France and Britain.²⁹

KN set new standards in the industry when, in 1968, it became the first German forwarder to acquire an Electronic Data Processing (EDP) system. Increasing shareholdings in the larger forwarding companies in Europe and setting up industrial plants worldwide led to KN becoming a leading forwarder in project forwarding.³⁰ By 1993, capital developments included a DM400 million investment in a pan-European transport, warehousing and distribution system.³¹

Organisation and Management

In 1998, CEO, K. M. Kuehne (the grandson of co-founder, August Kuehne) had holdings of 51.56 per cent. VIAG Bayernwerk Beheer B. V. was the other major shareholder, with holdings of 30.34 per cent. Public Shareholders accounted for the remaining 18.10 per cent [see **Exhibits 6** and **7**]. Group management consisted of Kuehne; Holding Executives, who were responsible for functional activities such as corporate planning and development, logistics, overland, airfreight, sales and marketing, product development, information technology and quality management, and Line Executives, who oversaw the national management and branch offices of KN’s regional operations.

Regional operations comprised Germany and Africa, Western Europe (excluding Germany) and the Middle East, Eastern Europe, the Western Hemisphere (including North, Central and South America), and the Asia-Pacific [see **Exhibit 8**]. Within each region, core business activities were distinguished on a divisional or functional basis that included ocean freight, airfreight, overland, rail, logistics and specialist services.

In 1998, KN had 13,000 employees working at 480 offices in 82 countries worldwide.³² In the vast Asia-Pacific region, KN employed 1,767 people in 51 offices and was represented in 17 countries.

Core Business Activities

KN’s main activities in the latter part of the 1990s included ocean-freight, project forwarding, airfreight, road, rail, and logistics, together with a range of specialist services. Ocean freight activities covered import and export, consolidated container shipments, full container shipments (FCL), Blue Anchor Line services, conventional cargo, combined sea-air services and inter-modal transport [see **Glossary**].³³ Project forwarding activities covered the delivery of shipments to port

²⁹ *ibid.* pp. 15-16.

³⁰ Project forwarding entailed bringing together factory components for large project developments, such as power stations, factories, and refineries, from all corners of the globe, and getting them safely across swamps, deserts or jungles to the construction site.

³¹ US\$1=DM1.726

³² “Introduction”, *About Us*, URL: http://www.kuehne-nagel.com/2_1.htm, December 1998.

³³ “Ocean Freight”, *Main Activities*, URL: http://www.kuehne-nagel.com/2_1.htm, December 1998.

by rail, road or inland waterway, export packing, port handling, storage and FOB deliveries, in addition to a host of other services [see **Glossary**].³⁴ Airfreight services included maintaining a worldwide network, providing high-frequency services to key destinations, combined sea-air services, and the provision of aircraft and ship spare parts and charter services.³⁵ Road and rail activities provided extensive coverage over land, such as daily departures from and to all major destinations in Central Europe, supported by KN's EDP capabilities.³⁶ Logistic centres of competence were developed across four key sectors: consumer electronics and high-tech products; the automotive industry; chemical and industrial goods and consumer durables, and a range of logistics services.³⁷

In addition to these specialist services, KN also engaged in niche sectors such as paper and timber transport, customs clearance, trade fair services and home removals. The range of products offered by KN also extended to port services, seaworthy packing, a travel agency chain, insurance and ship brokerage.

KN also supplied some IT solutions to customers in continental Europe and made extensive use of modern information and communications technology, which led to developing SCM capabilities for potential export to other regions serviced by KN.³⁸ IT applications included the KNIE corporate network that ensured data exchange between all operational applications as well as to customers. KNLogin was a customer application installed on the customer's premises, and which supplied logistics information created by entering data into the "purchase order control system" and operational forwarding applications for airfreight, ocean freight and road transportation, as well as special IT-products such as ASCOT, an Aircraft Spareparts Control and Tracking System. In addition, electronic data interchange (EDI) services were continually upgraded and offered electronic links between KN and customer sites.³⁹

Financial Performance

Years of sustained increases in consolidated earnings enabled the Company to maintain a strong position in all regions and across all core business activities.

KN Group Operations

Key financial results for 1997 indicated a strong overall position for the KN Group [see **Exhibit 9**]. KN's turnover of SFr. 6,243 million⁴⁰ in 1997, calculated at average yearly rates, increased by 20.8 per cent from 1996.⁴¹ There was favourable growth in net turnover (after customs duty and taxes) from SFr. 3,938 million in 1996 to SFr. 4,779 million in 1997 equating to a 21.4 per cent increase.⁴² In the forwarding industry, however, turnover provided only a limited indication of the way KN business was progressing. In 1997, gross profit reached SFr. 1,168 million, (up from SFr. 995 million in 1996) an increase of 17.4 per cent.⁴³

³⁴ "Project forwarding", *Main Activities*, URL: http://www.kuehne-nagel.com/2_1.htm, December 1998.

³⁵ "Airfreight", *Main Activities*, URL: http://www.kuehne-nagel.com/2_1.htm, December 1998.

³⁶ "Road" and "Rail", *Main Activities*, URL: http://www.kuehne-nagel.com/2_1.htm, December 1998.

³⁷ "Logistics", *Main Activities*, URL: http://www.kuehne-nagel.com/2_1.htm, December 1998.

³⁸ "Information Technology", *About Us*, URL: http://www.kuehne-nagel.com/2_1.htm, December 1998.

³⁹ *ibid.*

⁴⁰ US\$1=SFr.1.413

⁴¹ *Kuehne & Nagel Annual Report 1997*, p. 8.

⁴² *ibid.* p. 8.

⁴³ *ibid.* p. 9.

At the regional level, all entities recorded increased turnovers over the previous year, i.e., Germany by 12.4 per cent; the rest of Europe by 23.5 per cent; North, Central and South America by 22.3 per cent; the Asia-Pacific by 37.6 per cent, and the Middle East and Africa by 41.4 percent.⁴⁴ In terms of gross profit, Germany made the largest contribution of 35.5 per cent, followed by the rest of Europe 33.4 per cent, North Central and South America 19.2 per cent and the Asia-Pacific 10.7 per cent respectively [**Exhibit 10**].⁴⁵

At the divisional level, all activities except for “other services” reported turnover growth in excess of 20 per cent; ocean freight 20 per cent, airfreight 24.9 per cent, overland/rail/logistics 20.8 per cent and special services 23.2 per cent.⁴⁶ Overland/rail/logistics provided the largest share of gross profit with 41.1 per cent, while the ocean- and air-freight divisions were the other two main business segments, contributing 26.2 and 22.2 per cent of profits respectively [**Exhibit 11**].⁴⁷

The strengthened financial position of the Company was evident in an increased debt to equity ratio (from 24.3 per cent in 1996 to 24.9 percent in 1997), which came close to the 25 per cent target set by management.⁴⁸ Return on equity improved from 23.9 per cent in 1996 to 24.2 per cent in 1997, and cash (including marketable securities) of SFr. 386 million increased by a nominal 10.9 per cent. KN Group was also in a strong liquid position. The self-financing ratio improved from 237.2 per cent in 1996 to 281.3 per cent in 1997 and the balance sheet total of SFr. 1,545 million increased by 10.5 per cent in 1997.⁴⁹

Kuehne and Nagel (Asia Pacific) Management Ltd

KN had been represented in the Asia-Pacific region from the late 1960's when the Company took steps towards setting up its own Far East operation by building up the airfreight sector.⁵⁰ In the early days, KN's Asia-Pacific operations concentrated on the export of machinery from Europe to the Far East, and the import of materials from the Far East to Europe on behalf of retailers.⁵¹ KN (Asia Pacific) Management Ltd. was responsible for the Asia-Pacific region and was represented in 17 countries (with sub-continent coverage across Southeast Asia, China, Japan, Australia and Oceania).⁵²

In the late 1990s, approximately 60 per cent of KN Group's business was derived from Europe (in terms of import and export). The remainder was procured from trans-Pacific trade with the Americas (39 per cent) and a nominal percentage attributed to intra-Asia business (one per cent).⁵³ KN's Asia-Pacific operation was limited to sea and airfreight distribution only – effectively just port-to-port capability.⁵⁴ Port-to-interior services were generally highly limited. Such SCM capabilities as KN had in its Asia-Pacific operation were first developed only in the early 1990s and were limited by the nature of the physical FF services offered. Pan-Asia-Pacific provision of SCM logistics services was, on the whole, somewhat superficial. KN had entered into a global

⁴⁴ *ibid.*

⁴⁵ *ibid.*

⁴⁶ *ibid.* p. 8.

⁴⁷ *ibid.* p. 9.

⁴⁸ *ibid.* p. 12.

⁴⁹ *ibid.*

⁵⁰ “100 Eventful Years”, *Kuehne & Nagel: A Jubilee Documentation*, p. 4.

⁵¹ *Transcript 1*, Interview with Thomas Dolder, Regional Manager, Business and Development, Kuehne & Nagel (Asia Pacific) Management Ltd., 25 November, 1998, p. 6.

⁵² *ibid.*

⁵³ *ibid.*

⁵⁴ *ibid.*

strategic alliance with DHL, however, whereby both companies would offer services to complement their respective missing capabilities.

In the Asia-Pacific, it was anticipated that growth for SCM logistics services would increase as more and more MNCs entered and emerged in the region and sought to use companies capable of providing “one-stop-shop” SCM logistics services that met their requirements for a pan-regional solution.

To date, KN (Asia Pacific) Management Ltd. operations served port-to-port facilities between countries, however this arrangement was not sufficiently comprehensive to give complete geographical coverage within the region. Moreover, the limited nature of KN’s services beyond ports was inadequate to meet growing demand from MNCs for full FF services. Many MNCs had identified Asia-Pacific as a lucrative future region in which to conduct their business, particularly as many anticipated post-Asian economic crisis reforms. Moreover, the increasing number of successful indigenous Asia-Pacific MNCs meant that the demand for SCM services was likely to increase also.

At the regional level, turnover for the Asia-Pacific experienced high levels of growth from 2.9 per cent in 1996 to 37.6 per cent in 1997.⁵⁵ The contribution of KN’s Asia-Pacific operations to gross profit increased also, from 9.5 per cent in 1996 to 10.7 per cent in 1997. On a Divisional basis, specialist services of ocean freight and airfreight generated the majority of Asia-Pacific business and experienced increases also.⁵⁶ Overland, rail and logistics, as a proportion of turnover, increased from SFr. 1,227 million in 1996 to SFr. 1,481 million in 1997, continuing an upward trend.⁵⁷

Future Strategic Directions

The future strategic direction of KN’s Asia-Pacific operation presented several problems and opportunities to Dolder. How these were analysed and presented to KN’s senior management could potentially influence the future of this MNC, not only in the Asia-Pacific but worldwide:

- What were the key issues?
- What was a feasible overall strategy for KN’s Asia-Pacific operation?
- What were the value chain and core competence implications?
- How should the strategy be implemented?

⁵⁵ *Kuehne & Nagel Annual Report 1997*, p. 10.

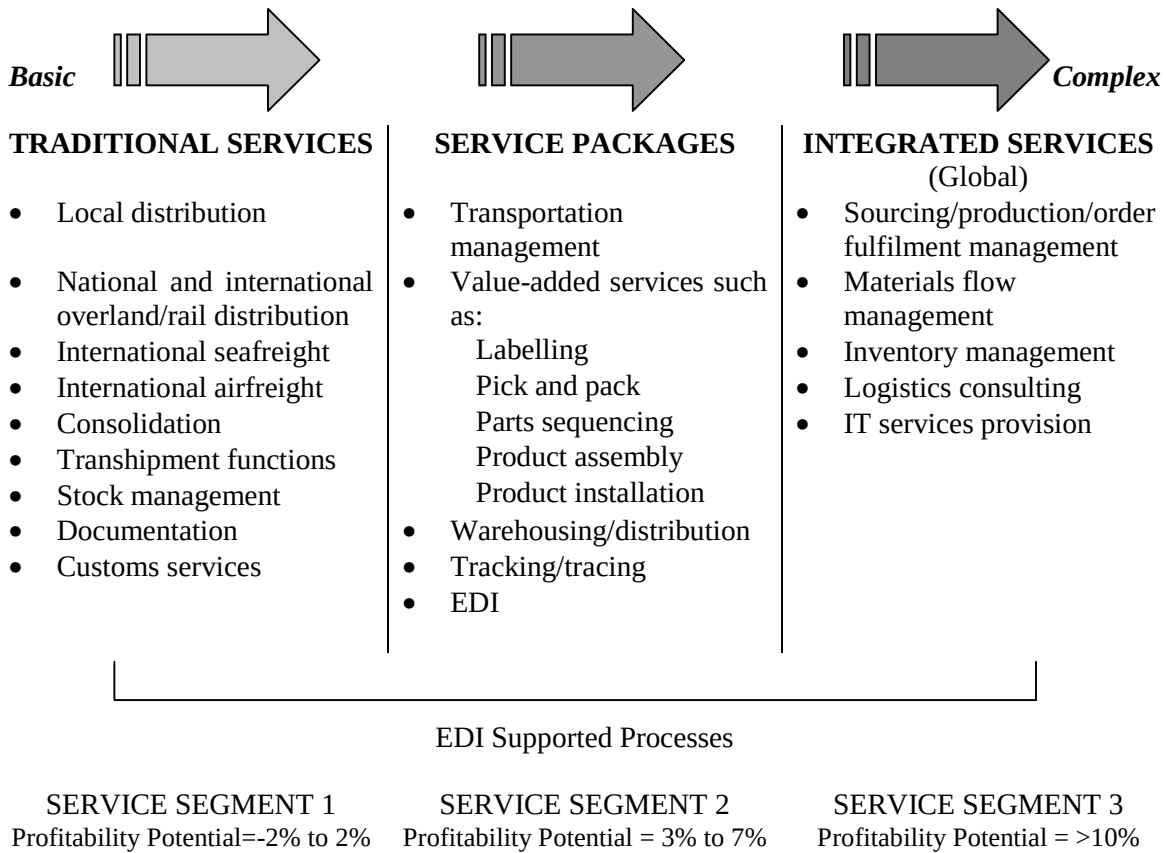
⁵⁶ *ibid.*

⁵⁷ *ibid.*

GLOSSARY

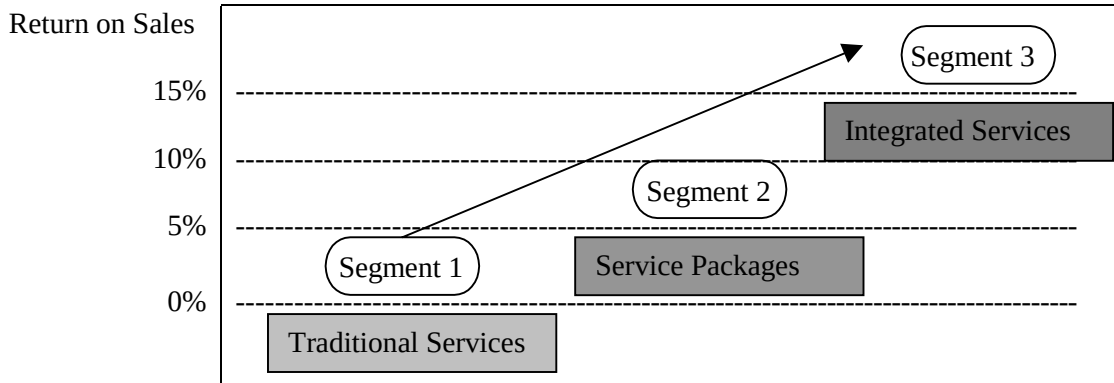
FCL	Where the load carried in a container equals one of the two operating maxima - in a weight or volume. The load in a container if the shipper was assured of a separate container exclusively for his cargo. A shipper packed container. See URL: http://www.ozdocs.net.au/w.htm , January 1999.
Free on Board (FOB)	Goods are delivered on board the vessel free of extra charge to the purchaser. See URL: http://www.ozdocs.net.au/w.htm , January 1999.
KNIE	Kuehne & Nagel Information Exchange
KN LOGIN	A shipment and order control and tracking system
KN ASCOT	A spare parts control system for the aviation and marine industry

EXHIBIT 1
THE SPECTRUM OF LOGISTICS SERVICES



Source: Adapted from a Kuehne & Nagel (Asia Pacific) Management Ltd. Internal Document, *KNAP Logistics Strategy: Discussion Paper*, July 1998, p. 10.

EXHIBIT 2
FREIGHT FORWARDING SUPPLY CHAIN MANAGEMENT PROFITABILITY POTENTIAL



Source: Adapted from Kuehne & Nagel Internal Document, *Kuehne & Nagel Integrated System Logistics (ISYS), Business Plan 1998-2007*, April 1997, p. 1.

EXHIBIT 3
DISTRIBUTION PRACTICES IN ASIA-PACIFIC

	Wealthy Democracies	Trading Tigers	Burgeoning Industrialists	Future Powerhouses
Countries	Japan Australia New Zealand	Singapore Hong Kong	Taiwan Korea Malaysia Thailand Philippines	China India Indonesia
Custom Process	Mature	Free	Complex	Informal
Duty Levels	Low	Zero	Medium	High
Logistics Infrastructure	Mature	Mature	Dynamic	Emerging

Source: Bovet, D., (1997), "Mastering Asia-Pacific Supply Chains", *Mercer Management Journal*, Vol. 8, URL: <http://www.mercermc.com/publications/pubsonline.html>, December 1998.

EXHIBIT 4
MAIN COMPETITORS AND CORE BUSINESS ACTIVITIES IN ASIA-PACIFIC

Category Company	Forwarding	Logistics Provider	Customs Broker	W/housing	Distribution	Sea C/solidator	Air C/solidator	Integrator	Other
Kuehne & Nagel	✓	✓	✓	✓		✓	✓		
Air Express Intl.	✓	✓	✓	✓	✓	✓	✓		
BAX Global	✓							✓	
Danzas Holding	✓								
Expeditors	✓	✓	✓		✓	✓	✓		
Fritz	✓			✓		✓	✓		
Hellmann	✓			✓		✓	✓		
Lep*	✓	✓	✓			✓	✓		
Geo-Logistics*	✓	✓	✓	✓	✓	✓	✓		
Panalpina	✓			✓		✓	✓		
Schenker Intl.	✓	✓	✓	✓	✓	✓	✓		✓
Thyssen AG									✓
U-Freight								✓	
DHL								✓	
Federal Express								✓	
TNT								✓	
UPS								✓	

Note: Lep and Geo-Logistics merged in 1998.

Source: Various Web sites [see **Exhibit 3**]

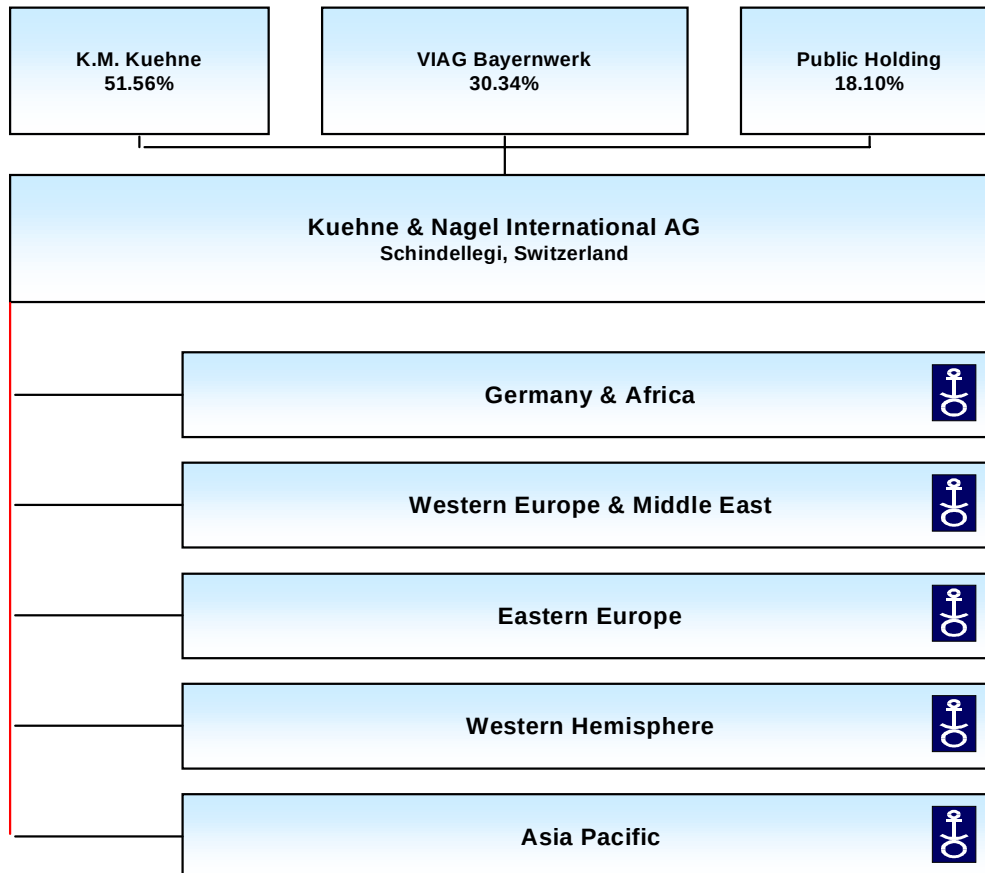
EXHIBIT 5
USEFUL WEB SITES – FREIGHT FORWARDING INDUSTRY

Company	Web site
Kuehne & Nagel	www.kuehne-nagel.com
Air Express International Corporation	www.aeilogistics.com
BAX Global Inc.	www.baxworld.com
Danzas Holdings Ltd.	www.danzas.com
Expeditors International of Washington, Inc.	www.expd.com
Fritz Companies, Inc.	www.fritz.com
Hellmann International Forwarders, Inc.	www.hellmann.com
Lep International*	www.lep.com
Geo-Logistics*	www.geo-logistics.com
Panalpina World Transport (Holding) Ltd.	www.panalpina.com
Schenker International	www.schenker-international.de
Thyssen AG	www.thyssen.com/index_e.html
U-Freight Group	www.ufreight.com
DHL Worldwide Express B.V.	www.dhl.com
Federal Express Corporation	www.fedex.com
TNT Holdings B. V.	www.tntew.com
United parcel Service of America, Inc.	www.ups.com

Note: Lep and Geo-Logistics merged in 1998.

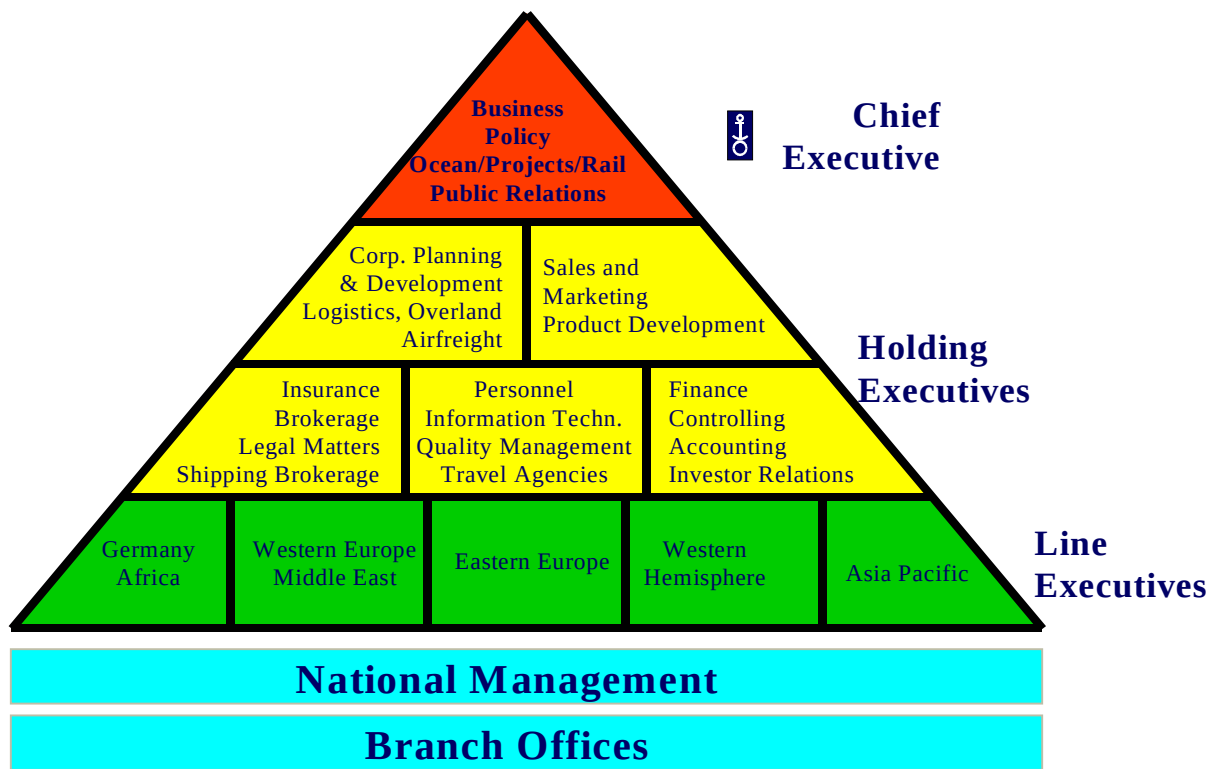
Source: Various Web sites, December 1998.

EXHIBIT 6
KUEHNE & NAGEL GROUP CORPORATE STRUCTURE



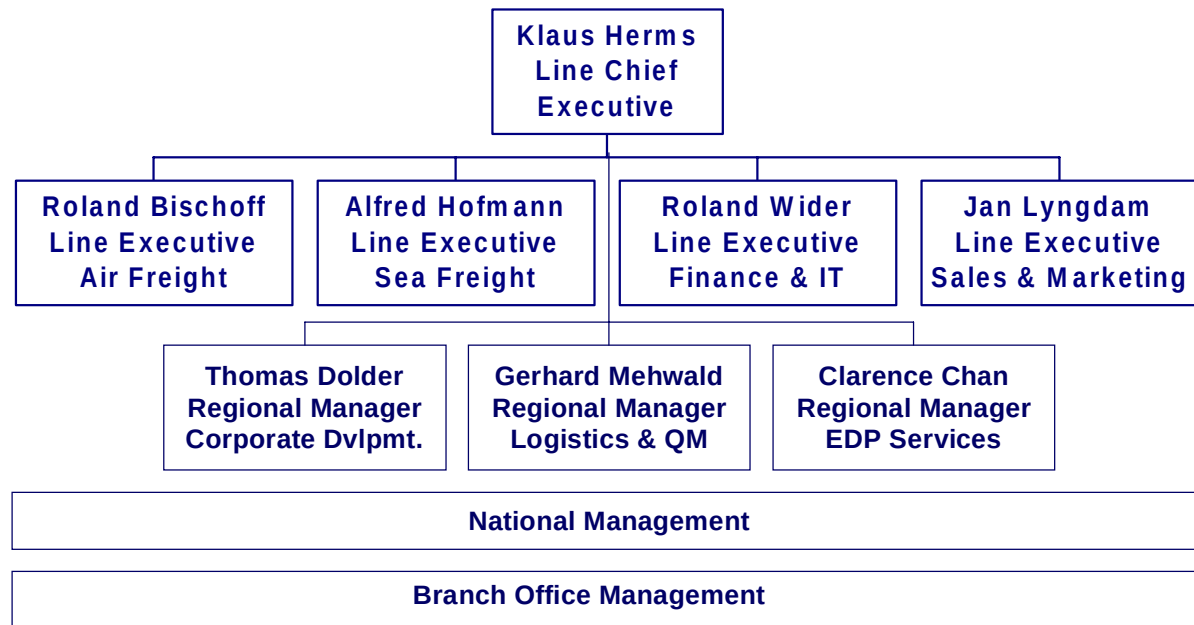
Source: *Dynamic logistics evolution based on 108 years of tradition, Kuehne & Nagel Asia Pacific, January 1999.*

EXHIBIT 7
KUEHNE & NAGEL GROUP MANAGEMENT STRUCTURE



Source: *Dynamic logistics evolution based on 108 years of tradition, Kuehne & Nagel Asia Pacific, January 1999.*

**EXHIBIT 8
ASIA-PACIFIC REGIONAL MANAGEMENT STRUCTURE**



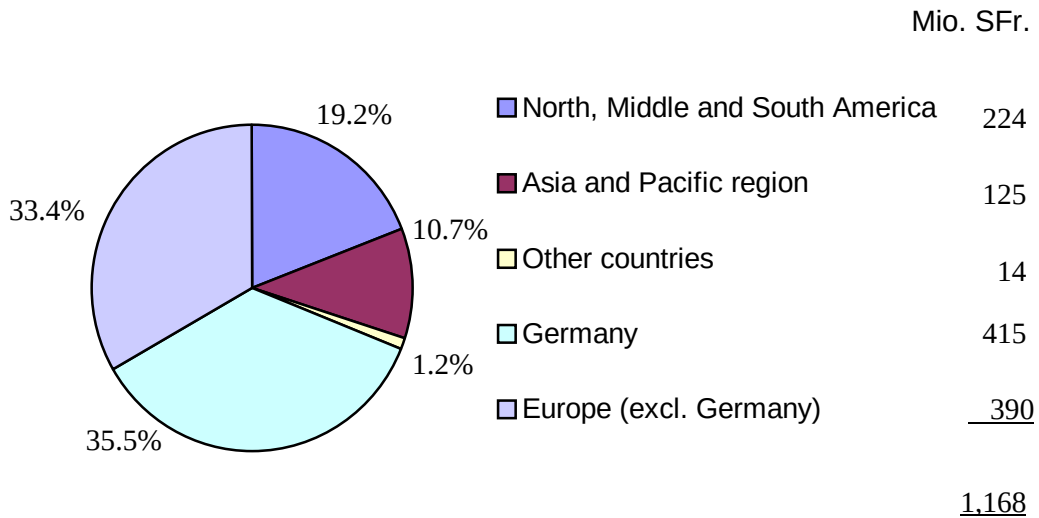
Source: *Dynamic logistics evolution based on 108 years of tradition, Kuehne & Nagel Asia Pacific, January 1999.*

EXHIBIT 9
KUEHNE & NAGEL GROUP KEY DATA

(Million SFr.)	1996	1997
Turnover	5,168	6,243
Gross Profit	995	1,168
% of Turnover	19.3	18.7
Operating Profit (EBIT)	104.4	128.8
% of Gross Profit	10.5	11.0
Ordinary Profit (= Profit before Tax)	107.8	125.6
% of Gross Profit	10.8	10.8
Net Income for the Year (KN Share)	66.5	76.9
% of Gross Profit	6.7	6.6
Depreciation	54.5	57.5
% of Gross Profit	5.5	4.9
Operational Cash Flow	130.7	134.7
% of Gross Profit	13.1	11.5
Capital Expenditure	120.4	73.2
% of Cash flow	92.1	54.3
Balance Sheet		
Total Assets	1,398	1,545
Non-Current Assets	413	405
Equity	339	385
% of Total Assets	24.2	24.9
Employees		
Total number at year end	11,776	12,323
Manpower Expense	584	676
% of Gross Profit	58.7	57.9
Gross Profit in SFr. per employee	84,400	94,800
Manpower Expense in SFr. per employee	49,600	54,900

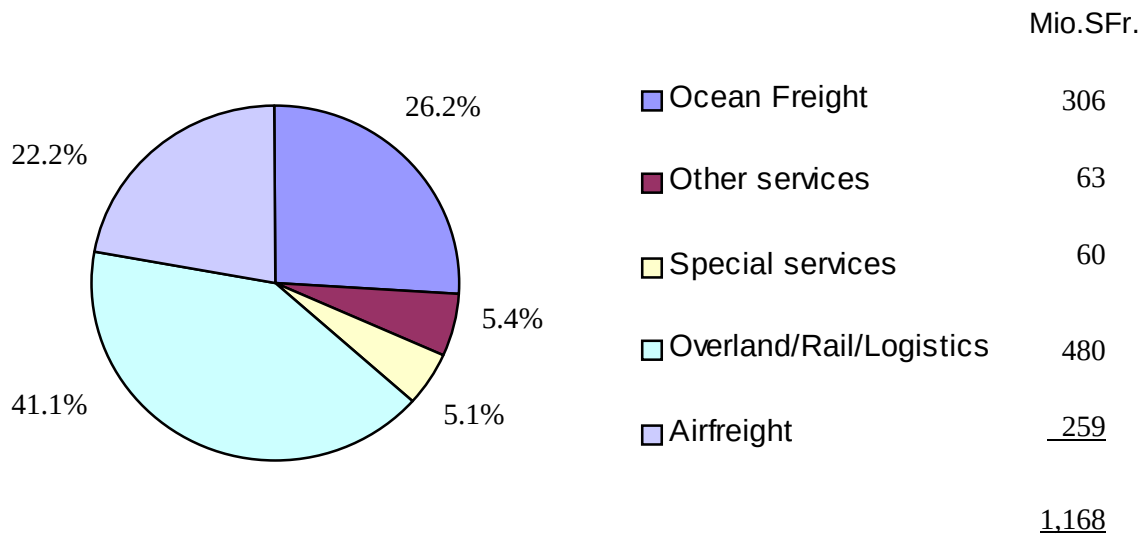
Source: Kuehne & Nagel Annual Report 1997, p. 2.

**EXHIBIT 10
KUEHNE & NAGEL GROUP REGIONAL RESULTS 1997**



Source: Kuehne & Nagel Annual Report 1997, p. 10.

**EXHIBIT 11
KUEHNE & NAGEL GROUP DIVISIONAL RESULTS 1997**



Source: *Kuehne & Nagel Annual Report 1997, p. 10.*