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Yang Kee Logistics: Overcoming Constraints by Moving Together

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Overcoming Constraints by Moving Together[1]

Yang Kee Logistics is one of Singapore's largest home-grown, privately held third-party logistics service provider (3PL) covering the end-to-end supply chain. It started out as a small trucking company in 1990 and vertically integrated warehousing operations by 1993, before expanding to haulage for the oil and gas market in 1998. It went into international freight forwarding in 2001 and first ventured overseas in 2003, to Malaysia, providing cross-border logistics. After building up core operations throughout the 2000s and deepening into specialisations such as dangerous goods storage and container depot management, a new growth area had to be found as its capabilities in contract logistics peaked.

Internationalisation begun in earnest from the late 2000s, seen as a strategy to combat domestic market saturation.

As a group of companies, Yang Kee currently employs 1,159 people across 11 countries covering Asia, Oceania and the USA, including 485 jobs in Singapore. Its sustained scaling up in recent years had not gone unnoticed by the industry. It was awarded Most Enterprising 3PL SME of the Year at the 2015 Supply Chain Asia Awards and the SME100 Award 2016 for Fast Moving Companies. More recently, its heavy goods vehicle fleet was recognised for performing safely by the Singapore Road Safety Council at the 2019 Singapore Road Safety Awards.

Feature No. 2 of the case study series looks at how a Singapore SME breakthrough competitive market conditions in an industry subjected to rapid technological changes and dominated by mega-multinationals, by internationalising and digital transformation to become a global group of companies.

[1] This case study is written by Tommy Kevin Lee and Yvonne Chiang. It is a publication of the Research & Publishing Department, Strategy & Development Division. This case study does not reflect the views of the sponsoring organisation nor is it intended to suggest correct or incorrect handling of the situation depicted. The case study is not intended to be a primary source of data. The company featured has consented to the publication of the study. References and sources are duly cited in footnotes.

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The Domestic Logistics Market

Singapore enjoys good geographical location and supply chain networks with the world. As a cosmopolitan city with an open economy[2] and the world's third highest trade-to-GDP ratio[3] at 326%, trade and connectivity are crucial to the economy. A major logistics hub ranked 2nd in Asia and 7th overall by the World Bank[4], there is strong demand for supply chain integrators operating out of the country. Contract logistics, freight forwarding and land transportation are key sub-sectors. The domestic logistics sector is valued at $7.57 billion[5], constitutes 1.94% of GDP[6] and employs approximately 205,500 people (5% of the residential workforce)[7].

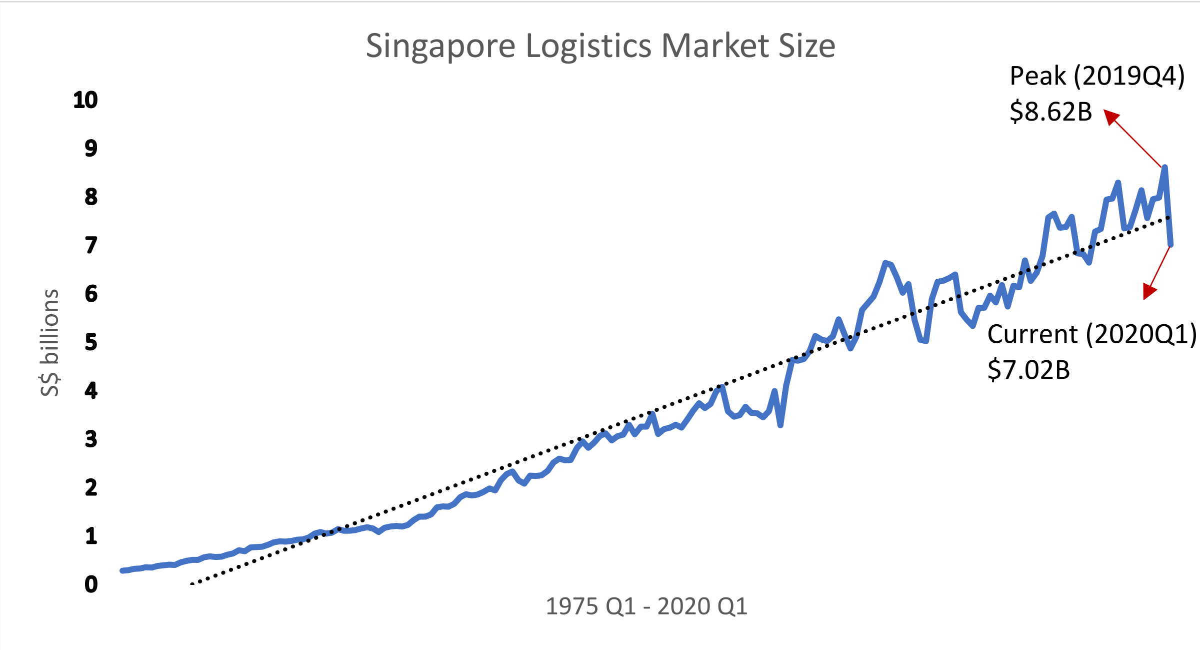

Figure 1: Value of Singapore's Logistics Sector[8]

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[2] Trade openness measured as the sum of a country's exports and imports as a share of the country's GDP in percentage. Source: **Our World in Data project**, Oxford Martin School, University of Oxford.
[3] After Luxembourg and Hong Kong. Based on 2018 data. https://www.macrotrends.net/countries/ranking/trade-gdp-ratio
[4] Latest ranking as at 2018. **The World Bank Logistics Performance Index** https://lpi.worldbank.org/international/global
[5] Calculated from 5-year quarterly averages from 2015Q2 to 2020Q1 (latest quarter at the time of writing). Raw data from **Singapore Department of Statistics** (Singstat): M015161 - Gross Domestic Product At Current Prices, By Industry. Note that Singstat categorizes the logistics sector as "Transportation and Storage". https://www.tablebuilder.singstat.gov.sg/publicfacing/createDataTable.action?refId=16059
[6] Ibid; per 2020Q1 data. Calculated as percentage of the "Transportation and Storage" sector against the total of "GDP at Current Market Prices", which consists of "Goods Producing Industries", "Services Producing Industries", "Ownership of Dwellings", "Gross Value Added at Basic Prices", and "Add: Taxes on Products" [sub-sectors not listed here].
[7] As at 2019. Calculated as percentage of employed residents aged 15 years and over in the "Transportation and Storage" sector against the total in "All Industries" which consists of "Manufacturing", "Construction", "Services" and "Other Industries" [sub-sectors not listed here]. Raw data from **Singapore Department of Statistics** (Singstat): M182131 - Employed Residents Aged 15 Years And Over By Industry And Age Group. https://www.tablebuilder.singstat.gov.sg/publicfacing/createDataTable.action?refId=14554
[8] Visualisation generated by the author using raw data from "Transportation and Storage", **Singapore Department of Statistics** (Singstat): M015161 - Gross Domestic Product At Current Prices, By Industry. Note that market size value reached its peak in 2019Q4 before the steep drop in 2020Q1 (latest figures), which could be attributable to the current COVID-19 pandemic situation.

With leading multinationals setting up their regional HQ and many more having a presence in Singapore, the logistics sector represents a microcosm reflecting the "classical" concerns of doing business in the city-state, namely, international competition at home and abroad, a small domestic market, high costs stemming from land scarcity and limited local labour pool, and the current digital disruption to "traditional" industries. It is imperative for local SMEs to craft out a niche to thrive in the value chain in order to compete effectively, both locally and globally.

Internationalisation – An Inorganic Approach

<u>Recognising Constraints</u>

Since taking over the reins at Yang Kee from his father, Ken Koh considers the Singapore market too small. The constraints afforded by geography and the limitations of local demand place an inherent threshold on the growth prospects of a logistics provider. It is therefore imperative to internationalise in order to compete effectively not only across markets globally, but also on home turf.

As a logistics firm, it has 3 strategic options in operating across borders: (i) as a direct operator overseas, (ii) through the acquisition of foreign subsidiaries, and (iii) to partner with local affiliates.

Other than partnering with affiliates in the global logistics network, over the years, Yang Kee has built up direct operations in 11 countries, managing warehouses and land transportation in these markets along with freight forwarding. In recent years, the company deepened their internationalisation footprints through the acquisitions of SST International in the United States (2017), Axima Pty Ltd in Australia (2017) and Filway Group Ltd in New Zealand (2018). The 3 subsidiaries abroad is a significant milestone, transforming Yang Kee from a Singapore SME into a worldwide group of companies.

> *"We knew that we must move out of Singapore but didn't really know how to do it in the beginning. Mistakes were made, we lost money in Malaysia, Indonesia, and Thailand many times! We learn along the way and continue on, exploring new markets even, rather than calling it quits."*
> *--- Ken Koh, Group CEO.*

<u>Seeking Commonalities and the 'Right Fit' Across Borders</u>

When asked about the principles of selecting mergers and acquisitions (M&A), Ken explains that it comes down to common grounds. In Australia and New Zealand, as the two countries have a common institutional heritage with Singapore stemming from the legacy of the British Commonwealth, Yang Kee found familiarity in the legal framework for executing M&A and ample professional talents to run a strong organisation on the ground despite being somewhat geographically distant from the parent company. The existing management and staff of the subsidiaries were largely retained, though integrated with Yang Kee in Singapore. Commonalities include a shared working language in English, an acceptance of foreign ownership, ease of doing business, and a free trade and pro-internationalisation policy in the 3 countries.

It is not about just about establishing an international presence in Australia and New Zealand based on common market grounds that matters. The selection process for Yang Kee to acquire the ‘right’ company on the basis of strategic and organisational fit is equally important. Apart from financial soundness and adopting the appropriate business angle, *People* and *Trust* are criteria in evaluating whether a firm is compatible with Yang Kee for M&A.

> *“We have to feel good about the people in the company that we are buying over, and vice-versa. There must be trust of each other on both sides. If you don’t trust the people, it doesn’t make sense how attractive the price or the business is, we won’t do the M&A.” --- Ken Koh*

<u>Reinforcing Synergies and Integration through Trust</u>

Trust is pre-requisite for the successful integration of the acquired firm with the parent firm and its other subsidiaries. Mutual understanding of each other’s work culture and style sets the foundation for bringing about greater synergies and economies of scale across the organisations, aiding technological and operational integration. This augurs well for future growth.

Building a good, trusting business relationship is an important ingredient in Yang Kee’s business. Once trust is established, it provides a solid foundation for both sides to build upon and develop. On this basis, trust and understanding facilitate the adoption of best practices rather than resistance to changes. This is illustrated by Yang Kee’s display of confidence in relying on Axima’s strong expertise for its freight forwarding business. Yang Kee changed its way of doing this business segment, distilling best practices from its subsidiaries. These best practices were similarly brought over and adopted by Filway Group Ltd. *“Ultimately, you don’t buy over a company, you buy over the business,”* noted Ken Koh.

From a strategic perspective, taking into account that sourcing for the right fit can be a rather rare occurrence, acquisitions allowed the parent 3PL to tap into its subsidiaries' network and customer base in new markets. This gave rise to greater synergies from the network integration of shared international freight volumes and contract logistics for the larger group of companies, strengthened its overseas market position, increased scale, and cross-selling of opportunities.

Thus, the right integration with international subsidiaries accelerated internationalisation and the scaling up of Yang Kee's position as a 3PL at a faster pace than organic growth.

> *"Even with the M&A we are still a small company. M&A costs can rack up. The defrayment had been beneficial to both parties. Both subsidiaries have been instrumental in bringing food imports into Singapore in the on-going COVID-19 pandemic situation, building our food resilience." --- Ken Koh*

Yang Kee made extensive use of Enterprise Singapore's (ESG) schemes in part to defray the M&A costs associated with its acquisitions. ESG[9] co-funded a portion of the due diligence, feasibility studies and other professional services for the transactions[10], as well as linking the company with the authorities in these countries. Ken shared that the strategic deployment of resources is on its global operations, rather than at home. Presently, 20% of group revenue originates from Singapore, 70% from Australia and New Zealand, and 10% from the rest of the world.

Growth through Digitalisation and Innovation

The rise of e-commerce, expanding Asian trade, and emerging business and manufacturing trends are bringing about major shifts in the supply chain and logistics sector. This is accelerated by the onslaught of technological advancements, data-driven operations and decision-making, and start-ups disrupting existing business models. Incumbent major players are 'logistics service providers or carriers who have grown through acquisitions, and currently rely on a patchwork of legacy systems'[11]. In a 2016 PwC survey[12], '28% of transport and logistics companies rated themselves as advanced on digitalisation, a far lower rate than some

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[9] In 2016-2017, when it was International Enterprise Singapore. **IE Singapore Media Release No. 010/17**.
[10] https://www.yangkee.com/news/article?id=4
[11] **Tipping, Andrew & Kauschke, Peter. 2016**. Shifting patterns: The future of the logistics industry. *PwC's future in sight series*. PwC Netherlands & PwC Germany.
[12] **Geissbauer, Reinhard; Vedso, Jesper; Schrauf, Stefan. 2016**. Industry 4.0: Building the digital enterprise. PwC: 2016 Global Industry 4.0 Survey, as quoted in Tipping & Kauschke 2016:7.

of its industry customers, such as in automotive (41%) and electronics (45%)'. Coping with the digital transition is critical for immediate survival, and critical for scalability.

The logistics industry consists of multiple supply chain intermediaries, such as freight forwarders, port operators, hauliers and depot operators. The physical fulfilment of containerised shipments is highly dependent on the seamless coordination between these intermediaries operating out of separate information silos. Job orders are often manually created by customer service officers and traffic controllers have to access multiple platforms to complete job orders. Some hauliers track their job orders manually, while others use standalone proprietary platforms. The lack of an integrated platform results in the use of email and phone calls as the main mode of information exchange. The absence of timely information results in either idling resources or non-productive operations.

The advent of Industry 4.0 saw smart technologies facilitating operations, replacing previously paper and email-based workflows. The lack of a complete ecosystem also presents technological opportunities. Building up digital finesse is not new to Yang Kee. When Ken Koh joined the company in the early 2000s, operations were very much manual both on the ground and in the office. Back then, it took time for the older generation of drivers and warehouse crew to be accustomed to technological transition, when the mobile phone replaced pagers and call-backs of the past.

Today, Yang Kee is in a better position to ride the digital wave. With the support of Enterprise Singapore and industry peers, Yang Kee championed the Logistics Integrated Transport Ecosystem (LITE), a cloud-based platform costing $1.8 million that links the intermediaries to real-time information and to one another. It partnered with Haulio to integrate the latter's Haulio Connectivity System (HCS) app to 'allow hauliers to view drivers and trips, whilst customers can track job progress and fulfilment[13]'. By integrating previously separate systems for six core functions into one – jobs pooling, freight forwarding, mobile device application, transportation, port, and depot operations – via Application Programming Interface (API), productivity is increased for enhanced data standardisation, efficiency and collaboration. The common IT platform is currently undergoing user acceptance testing and scheduled to go live later this year (*see Figure 2*).

[13] https://sbr.com.sg/transport-logistics/news/haulios-grab-app-haulage-companies-launches-in-singapore
https://www.haulio.io/blog/2019/02/digitalization-of-the-haulage-industry-2/

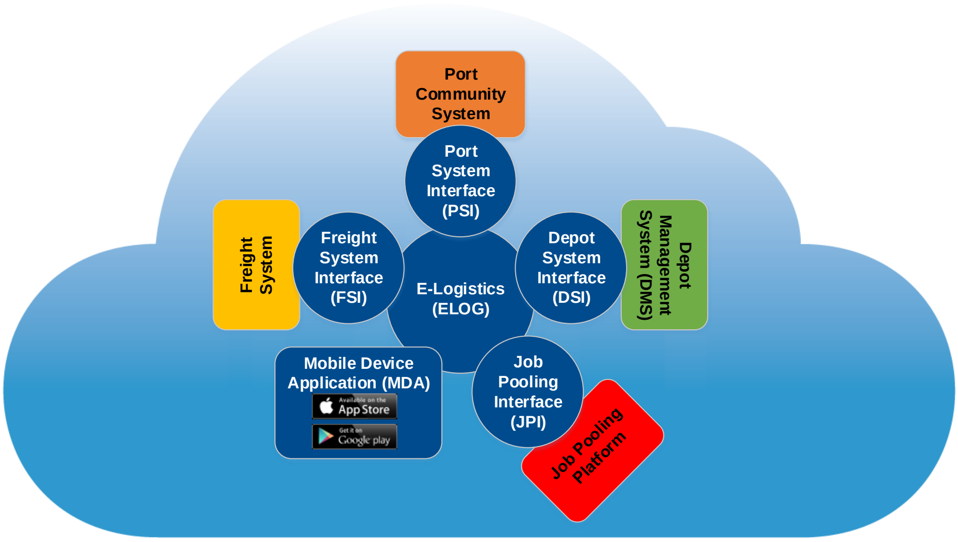

Figure 2 Logistics Integrated Transport Ecosystem (LITE)[14]

Other than undergoing further digital transformation to its Enterprise Resource Planning (ERP) and Freight Management Systems, Yang Kee has heavily invested in the smart warehouse equipment, ranging from mobile scanning handheld devices for inventory checking to smart-tech enabled machinery to reduce the manpower needed to load and unload goods. In addition, Yang Kee is one of the pioneer adopters of the country's first cashless purchasing card for the logistics sector, under an initiative by DBS to roll out the payment mode 'at container depots, removing the hassle of the current manual, cash-based process, which the bank estimated that each driver can save around 30 minutes per day on payment matters if the card is made available across all container depots in Singapore[15]'. Drivers' and cashiers' exposure to bacteria and viruses are reduced with the use of the contactless P-card, 'providing added health and safety assurance especially during the ongoing COVID-19 pandemic[16]'.

Domestically, it continues to pursue concentric growth both inorganically with the acquisition of Container Connections Pte Ltd, a container deport operator, and organically, having completed its largest logistics real estate property development to date, with the opening of the $150 million Yang Kee Integrated Logistics Hub at Tuas South Link. The flagship development is in the vicinity of the future Tuas mega port and several heavy industries clusters where there will be expected demand for its services. The development gives Yang Kee continued pipeline of domestic business operations as the owner-operator. It continues to

[14] Diagram courtesy of Yang Kee Logistics. Used with permission.
[15] **Williams, Ann. 2020**. DBS launches cashless purchasing card for logistics companies. Singapore: The Straits Times: 8 May. https://www.straitstimes.com/business/banking/dbs-launches-cashless-purchasing-card-for-logistics-companies-0
[16] https://www.dbs.com/newsroom/DBS_primes_Singapores_logistics_sector_for_post_Covid_19_recovery_pushes_digital_transformation_forward_with_launch_of_industrys_first_purchasing_card

expand its presence in key global markets, providing network integration and cross selling opportunities to their Asian customers. Its latest development at a new land plot in the vicinity of its Tuas South development will see the world's first framed multi-storey automated container depot, to be constructed using large frame structure. This will improve cost-effectiveness compared to conventional building, without sacrificing structural integrity and safety. The depot's 6 automated cranes will be operated remotely by 2 operators, which will further drive operational cost-efficiency.

It is inevitable that the lower value, more manual jobs is gradually being phased out and higher-value jobs requiring more advanced technological competency being created. Given the lack of logistics specialists in the country, the use of advance technological solutions helps to attract skilled talent to the company, in an industry traditionally perceived as blue-collar among Singapore's educated workforce. It is foreseeable that the future of logistics as shaped by emerging technologies will involve, amongst other advancements, 3D printing, robotics, autonomous vehicles transportation, drone delivery, the internet-of-things, and analytics and machine learning for logistical optimisation. Firms at the forefront of this technological revolution could very well be deemed as technology companies, made up of highly skilled specialists.

Overcoming Impediments – Becoming a 'Global SME'

While companies can make use of training grants in an industry where smaller enterprises may find it costly to initiate technological upgrades and older workers may find it challenging to acquire new proficiencies, getting the support of staff and customers to move at the same technological pace as management's vision is a monumental task for what seemed to be radical shifts to the status quo. In 2012, a rebranding exercise was undertaken to drive Yang Kee towards a new phase of growth, after it was found that employees were unaware of management's expectations regarding the new business model and customer service had to be standardised across divisions. It was clear that the corporate communication process has to take into account the varied staff profile.

It was decided that Yang Kee should create a family atmosphere in order to get all stakeholders emotionally invested in the growth process. A new company motto "We Move Together" was crafted, accompanied by 8 core values. Brand ambassadors who embodied these values were featured in internal branding posters around the workplace. The company organised training not only for technical competencies but thematic workshops for aspiring leaders. It was conscious of creating an employee-friendly environment, such as staff canteen, childcare, and on-site gym, which is a value-add for the industrial locales of Jurong and Tuas which are generally lacking in amenities. The results of both the internal & external branding campaigns were phenomenal. Staff turnover rates decreased by 38% in the first full year of implementation and productivity increased by 5%, with significant increases in innovation & efficiency.

The case of Yang Kee Logistics highlighted practical ways of responding to economic forces. By seeking growth through the use of emerging fields to create new economic spaces within a crowded industry, it is moving beyond physical goods transportation and storage, with the potential to become a technology company. From the initial 2 trucks purchased by Mr Koh Yang Kee, the founder, to a "global SME" under Ken's leadership, Yang Kee overcame the traditional pain points of the logistics industry in land, labour, rapid technological change and open competition by building capacity throughout the value chain. It took multiple attempts at internationalisation before gaining a foothold. It got to the fore of the technological curve with digitalisation and innovation, and recognised that this is only possible by moving together.

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