

## One to the power of two

When two such prominent Saudi Arabian groups as SBG and Zahid join forces, it's worth taking note. Their newest venture is Wared Logistics and to say it has lofty ambitions doesn't even come close to how high they have set their sights.



Interview with Wared Logistics' ceo Marwan Alfiad, a former banker and finance man. Having previously worked with SBG and Zahid, it is not surprising to learn that he was the architect of this enterprise.



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### **Wared Logistics is a very recent entity in that it was only set up in 2009, how and why did it come into existence?**

Yes, it was formally set up in 2009, when the company came into existence under the realization of the growing needs for logistics services in Saudi Arabia. The parents of this company are Zahid Group and Construction Products Holding Company (CPC), who like most companies and manufacturers have up until recently run their own logistics requirements... Logistics outsourcing is coming of age.

### **But is CPC not part of SBG?**

Yes it is, although as a standalone manufacturing concern. Even though a significant degree of its activities currently cater to its parent's projects, there is a lot of focus going into further developing external activities.

### **Therefore, given that you have two such important parents, are they not also your two most important clients?**

They were initially, as Wared Logistics acquired two transport companies owned by each parent - Zahid Heanor and United Transport Company (UTC) - so we initially serviced their requirements to a large degree. Having said that, our express business is almost exclusively external clients, and our growth plans for the transport sector - both express and heavy transport - are primarily based on third party business.

### **How much were the two companies acquired for?**

Let me put it this way, Wared Logistics was initially capitalized at 120 million SAR (32 million USD) and we acquired the two transport companies with existing fleets. We were then recently recapitalized at 166 million SAR (44 million USD), which largely reflects the net asset value of the two acquired companies.

### **Did you face any problems with the acquisitions?**

Mergers and acquisitions are rarely easy. In fact, statistically, more fail than succeed. In our case, we had the backing of both original parents so it was less of an issue. The greatest obstacle, which is often the case, is to smooth over cultural differences - to 'speak the same language', so to speak. It took some work, but we're there now.

### **Will the shareholders be asked to further invest in the company?**

Naturally, the shareholders are on standby to invest further based on previously approved business plans. Having said that, we will also be open to the possibilities of leveraging at the right time. For example when we start building our large warehouses there's no point locking up capital for the entire funding required, so we will look to finance real estate.

### **But Wared is not a company built on loans, is it?**

Except for new rolling stock leases, not at all. That's one of our strengths. Nevertheless, there comes a point in financial structuring where it becomes counter-productive to be under-leveraged.

### **Is Wared a profitable company?**

The ongoing operations are, yes. And the operations under development are in the investment stages: in investing parlance they are in the lower part of the 'J' curve.

### **How do the two parents' backgrounds complement the business?**

They complement each other and the business in many ways. Zahid Tractor, which is part of the Zahid Group, is the official distributor for Caterpillar, and SBG has been one of the oldest and most important customers of Zahid's.

### **Could each parent not have done this venture alone?**

They could have done but it makes sense to partner because first of all, this is essentially a service industry so it needs a large number of clients, and to start with double the number of assured clients is a good thing. Second of all, it needs a large amount of investment in order to get going, so pooling resources has a number of advantages apart from raising capital. SBG has been one of the major builders of roads, highways and infrastructure in the Kingdom and the Zahid Group has been a major supplier of the equipment used for these projects.

### **How do you define logistics?**

It's a broad term and different people use it slightly differently. The historical term derives from managing the movement of goods for armies. Take for example the Roman army on the move hundreds or thousands of miles from home, two thousand years ago. The first thing they need to ensure is that they can feed their army on a daily basis without having a rebellion, or losing their soldiers. And then there is the issue of moving the tents, the equipment, and so on.

I think you get a notion of when you're moving tens of thousands of people there's a whole process that you need to manage for them to be effective. In the modern sense, global militaries, like the U.S. Army, have even more extensive requirements for logistics operations. But logistics applies to the civilian world as well, for it's basically managing and handling goods for industry, manufacturing and retail at one level or another. I, myself, tend to use the term logistics as a substitute for supply chain management and we have called ourselves Wared Logistics so as to emphasize this full spectrum of services.

### **Are you delivering that full spectrum of services?**

We are, at different stages. We are delivering a number of components of the spectrum. We offer forwarding shipping services, we do customs clearing, we do two components of transport: full truckloads (FTL) and less than full truckloads (LTL). We have launched warehouses in Syria, and we are positioning ourselves to launch warehousing operations in Riyadh, Jeddah and Egypt this year.



**“The plan is to become the leading, or at least one of the top three leading, logistics providers in the Middle East. I would say that that is achievable within five years or less.”**

**So for the moment you have only the transport portion complete. What has been holding you back?**

From an operational perspective and on a capitalization level we are ready, we just need to complete the technology pipeline (we call it a transparent pipe) and then we can finalize our plans on the ground. Inventory visibility in warehousing and distribution is a major feature for a client, just like when you courier a package and you track it all the way to delivery - although Wared is not involved in courier services.

**How much of a factor does technology play in logistics?**

In order to be effective and efficient, it's very much a technology-based service. You can't run a large organization with millions or even thousands of pieces of time-sensitive parcels or deliveries running around without having a very strong technological platform.

**From inception was Wared Logistics created to cater to the Saudi market?**

Saudi Arabia is definitely our largest market in terms of size of economy and geographic spread. However, our goal is to develop a strong indigenous brand and export it to the entire region, from the Gulf to the Atlantic. CPC is in the process of replicating its model in multiple countries in the region, and our plan involves establishing logistics operations wherever they go, but is not limited to their footprint.

**You started at the beginning of a protracted global depression. How has that affected Wared Logistics?**

Well, the concept and an agreement in principle with the shareholders were in place a little before 2008. However, it took some time to work out a business plan, the acquisitions' due diligence, etcetera. Had we not been in Saudi Arabia, the decision to proceed, and the rate at which we have proceeded, would likely have changed dramatically. But given that the Saudi market has been largely resilient and contrarian to much of the rest of the world, the underlying needs for this concept have not changed, and if anything, there is increasing growth.

**Are others then venturing to reap the harvest in Saudi too?**

Sure, there are other players coming into the market - we do not have an empty playing field, there is competition. But I would liken where we are in terms of the development or evolution of logistics in Saudi Arabia to the evolution of the grocery industry. A generation ago in Saudi Arabia you had only little *dukkans*, the so-called mom-and-pop shops, spread out over all the neighborhoods. Then we witnessed the supermarket concept coming into play, which took over and grew before evolving into the hypermarket concept. I'd say that logistically, Saudi Arabia is

now at a point where it is evolving from the mom-and-pop shop to the supermarket stage.

**Let me go back to my original question regarding the recession, as you are not just looking at Saudi Arabia, but rather to expand beyond. How achievable is that?**

Depends. The two markets we are expanding to right now are Syria and Egypt where Wared is based within CPC industrial parks. Syria is in growth mode. Now Egypt perhaps has had a slowdown in certain segments including its stock market, but it's the biggest consumer base in the Middle East, and the market is becoming more sophisticated and cognizant of this type of requirement. Also global players who wish to establish themselves in new markets, can do so with much more ease when there are existing logistics providers. That's because they won't need to worry about how to move their goods, storage, or distribution. They can partner up with a logistics provider and say, "these are our goods, this is our business plan and this is what we want to do." That's why a strong 3PL [third party logistics] provider tends to act as a partner with large providers of goods.

**What's a major difference between Wared and others in the market?**

There are a few players who have recently come into the market offering more than one service. But you do not easily find providers who offer the full range. I must add one caveat, which is that you do have full range global players like UPS, FedEx, and DHL, but the difference between them and us is that we are more of an asset-based company in this part of the world. That means we own our assets, whereas they tend to be asset light in this region. Then, there are also the regionally-based players like Agility and Aramex, but Wared aims to be the pre-eminent Saudi-based regional player.

**What's the customer's benefit in dealing with a company that is more asset-based?**

The benefit is that we can shape the extent and nature of our services to match customers' needs. Wared Logistics also has the capacity to invest in further assets which can be specifically tailored to their needs. Another way to look at it is this: the fact that we are heavily invested in assets gives us staying power and a competitive edge. The flipside of taking those investment risks that brokers avoid is that in bad times non asset-based players tend to retract, while we remain entrenched. We can therefore guarantee to stick by our customers through thick and thin. If you required the security of a long term logistics provider, would you go with asset-light or heavily invested?

**Once you are setting up in a new country, how do you go about penetrating the local market?**

We lower the risk profile of new market penetration initially by setting up shop in tandem with CPC operations. We get our feet wet this way, and progressively venture into the open market. In terms of marketing, we find that our best advertising element is people seeing our trucks and logo on the move.

**How easy is it to replicate the model. If you open a new centre is not only as good as the people within it, or is it the systems that make a centre?**

It's a combination. The essence is having a system, an information technology platform, knowing how to set up and follow processes. Sure, you have to go through a selection process in order to find the right people for new locations, but having a process means you depend more on your know-how than on newcomers' capabilities.

**Would I be right in assuming an end vision of Wared's is to position Saudi Arabia as a hub for the transport of global goods?**

The GCC is already a hub and Saudi Arabia is a transit point for goods traversing the GCC. We are also smack in the middle of Europe and the Far East so we have a global vantage. There are a number of factors that could aid Saudi Arabia in developing hubs similar to Jebel Ali in Dubai. The government is focused on this and they have identified Hail, in the centre of the Kingdom, as an economic city in which they'd like to establish a logistics hub. It has been designated as the Prince Abdulaziz bin Musaid Economic City. One of the things that will assist in making the PABMEC a proper logistics hub is the railroad network, which has begun to be implemented.

**But given it's in the centre of Saudi Arabia it's hardly a shipping hub. What might make it a major transportation hub?**

Prior to incorporation, Wared Logistics' shareholders actually bid on the privatization of Saudia Cargo. One of the elements we were looking at in order to grow Saudia Cargo was intermodal transport. That means combining modes of transport for the routing of goods in order to achieve, for example, the cost advantage of shipping with the speed of air cargo. Essentially, what we were looking at was to ship goods by sea from the Far East to the Gulf, then airlift them into Europe so as to derive an optimal combination of speed and price. By these sorts of methods Saudi Arabia could be a major hub for global transportation.

**What are you hoping to achieve within the next ten years?**

The plan is to become the leading logistics provider in the Middle East. If not that then at least one of the top two or three but we must be the leader in at least one dimension. I would

even go a step further and say that I believe that this is achievable within five years or less, as long as we have the right planning, the correct selection of people and the proper execution of plans and projects.

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