Surviving The Impact of Covid-19: An unexpected catalyst for logistics but competition heating up

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WHEN Tan Sri Tony Fernandes dons a T-shirt and rides a kapcai with a big red box, you know that there is growing potential in the last-mile delivery business.

Covid-19 has brought some industries to their knees, but for the logistics industry, the pandemic was an unexpected catalyst as home-bound consumers ratcheted up orders online to the point that some players found it difficult to fulfil demand.

New players have emerged to fill the gap brought by the burgeoning demand, including Fernandes' AirAsia Group Bhd, which sees last-mile delivery services as a new venture that could help keep it afloat at a time when airlines have been decimated by the global lockdown.

For traditional logistics companies, the emphasis has been on further strengthening their digital infrastructure and presence to capitalise on the heightened demand for delivery services. This included embarking on an asset-light strategy — for instance, hiring Malaysians with valid driving licences as their delivery partners.

One of the biggest players, Pos Malaysia Bhd, launched an entrepreneurship programme for its delivery staff to become a delivery partner, which allows the staff to earn a higher income and the postal player to keep its fixed costs low.

As demand for its services have grown, the group's turnaround plan has been brought forward by a year to the financial year ending Dec 31, 2021. On a quarter-on-quarter basis, its net loss has been narrowing as revenue increased. In the third quarter ended Sept 30, 2020, Pos Malaysia's net loss was cut dramatically to RM7.43 million, from RM19 million in the preceding quarter and RM49.2 million in the first quarter.

The group's revenue has been increasing as well on a q-o-q basis, to RM623.03 million in 3QFY2020, from RM558.53 million in 1QFY2020.

In an interview with The Edge in September, Pos Malaysia CEO Syed Md Najib Syed Md Noor said, "A lot of our forecasts and plans had been expedited because of the Movement Control Order. It would be fair for me to say that our plan has been fast-forwarded by about a year owing to the increase in demand for SendParcel's services during the MCO period.

"Originally, we forecast to break even by the end of FY2021. But now, [we think] we can hit break-even point by the third quarter and be profitable by the fourth quarter. If the trend of increased demand for e-commerce continues, we are hopeful of reaching this target."

In fact, Pos Malaysia, which provides postal, logistics and aviation services, reported a small operating profit of RM160,000 in 3QFY2020, compared with a loss of RM2 million in the preceding quarter.

However, the increased demand for last-mile delivery services has also resulted in more companies — AirAsia being but one such example — jumping in to offer such services, leading to depressed rates.

Revenues may be growing in tandem with higher demand, but profitability has slipped. In view of the high number of courier service licences issued — 109 as at October — the Malaysian Communications and Multimedia Commission (MCMC) decided to freeze issuance of new licences for two years starting Sept 14.

This freeze has been welcomed by most players, who blame cut-throat rates for the closure of a number of smaller companies, when larger, more established entities are also finding it hard to make a profit. Take GD Express Carrier Bhd. In the financial year ended June 30, 2020, GDEX recorded a 42% fall in net profit to RM18.84 million, despite registering a 15.7% increase in revenue to RM363.22 million.

But perhaps GDEX has learnt to adjust as it posted an improved net profit of RM7.2 million in its first quarter ended Sept 30, compared with RM4.76 million in the same period last year, as demand for last-mile delivery continued at an elevated level. Revenue for the quarter jumped 30.8% year on year to RM108.6 million.

The industry had been one of the most active in terms of attracting investments and new players, even prior to the Covid-19 pandemic. It is worth noting that in 2019, the number of courier hubs swelled to 324 nationwide from a mere 21 in 2016.

Likewise, for delivery branches, which leapt to 1,169 by 2019, from 323 in 2016 and 2017.

The number of gateway infrastructure — a point at which freight moving from one area to another is interchanged between transport lines, usually at an airport — had also risen multifold to 298 in 2019, from 12 in 2016 and 10 in 2017.

Companies whose core business is not in last-mile delivery services have also set up or partnered with courier service providers to form new ventures. Prior to AirAsia, Bison Consolidated Bhd had established a web-based parcel service consolidator called Pgeon in February 2017.

But looking beyond Malaysia is crucial, given the nature of e-commerce and logistics and the progress made by the country's regional competitors, which are already in various Asian countries to benefit from the growth of cross-border commerce.

The growth of the digital economy in Southeast Asia means that commerce and trade will continue to grow in the future, and that requires more cross-border logistics services that are seamless for merchants and consumers in all markets.

Thus far, only GDEX is looking outwards to expand. After investing in Singapore, Indonesia and Vietnam, it is eyeing Thailand and the Philippines as potential new markets.

Singapore-based Ninja Van is already available in six countries across Southeast Asia, while Indonesia's J&T Express has established operations in Malaysia, Thailand, Vietnam, the Philippines, Singapore, Cambodia and China.

Meanwhile, Lalamove has a presence in Malaysia, Indonesia, Singapore, Thailand, Vietnam, Taiwan, Brazil and Mexico, besides its home base in Hong Kong.

GDEX can be Malaysia's flag bearer for cross-border complete door-to-door logistics provision, but will other local logistics players follow in its footsteps and venture outside to remain relevant and competitive in the industry?