
INDUSTRY CONSOLIDATION TRENDS

Consolidation through mergers and acquisitions is a major trend in many industries. A central goal of most mergers has been to improve investment returns through cost cutting, productivity gains, and economies of scale (Mulligan, 1999). In this appendix, we offer summaries of consolidation trends for several key industries in which the DoD purchases goods and services, as well as figures summarizing where consolidation is and is not occurring.

THIRD-PARTY LOGISTICS

As major shippers such as Nike are pushing their vendors into expanding their menu of services, rather than turning to an unfamiliar supplier, large logistics services firms are buying small firms and/or merging with other firms to expand the scope of their services and geographical presence. For example, Ryder Integrated Logistics, Inc. is expanding through acquisitions and alliances. It recently bought the Brazilian freight forwarder Translor. In addition, APL Ltd. has used acquisitions to help it gradually extend its geographic range while adding capabilities such as intermodal transportation, contract logistics, information systems, and freight consolidation to become a worldwide logistics supplier (Bowman, 1998). Also, in the last few years, FDX, the parent of express package carrier FedEx, purchased Caliber Logistics, a third-party logistics services provider, and RPS, a ground package delivery service, to expand the scope of the services it can provide.

FACILITY MANAGEMENT

All five of the top commercial real estate services firms that provide facility management services have been through a level of consolidation in recent years. For example, Compass was bought by LaSalle Partners, which subsequently merged with Jones Lang Wooten, a European facility management services provider, to become Jones Lang LaSalle, a much larger company with more products and services. CB Commercial bought Koll to become CB Koll; then CB Koll purchased the European firm, Richard Ellis, to become CB Richard Ellis, a major competitor of Jones Lang LaSalle.

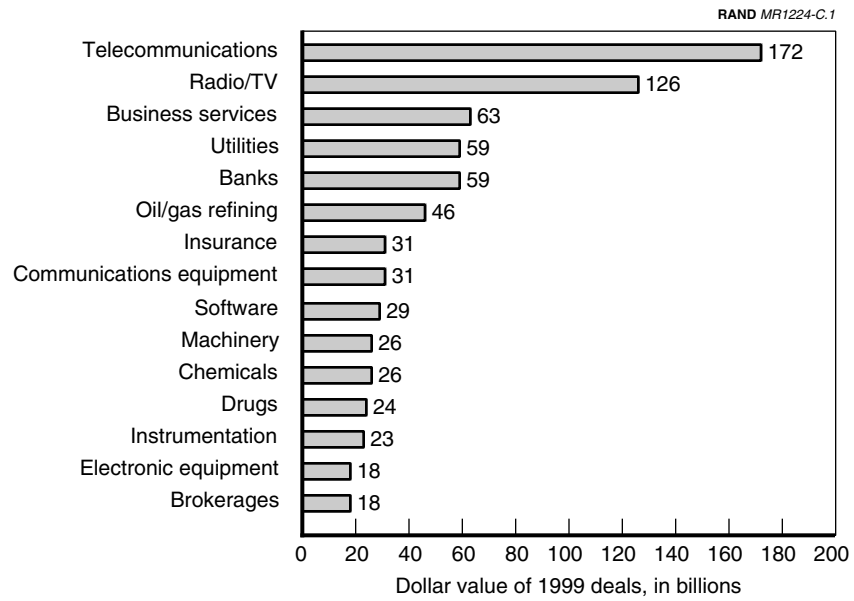
AUTOMOTIVE

Automotive parts suppliers have consolidated from 30,000 in 1988 to 8000 in 1999 and are projected to consolidate further to 2000 by 2008 (Kiplinger, August 1999). The biggest automotive-component suppliers are likely to expand at rates of 20 percent to 30 percent a year over the next five years, largely reflecting acquisitions (Simison, 1999).¹ Further, “[i]nvestment bankers and venture capitalists are buying car dealerships to consolidate them into publicly held retail chains like Wal-Mart, with all its efficiencies and cookie-cutter customer service programs” (Stern, 1995).

OTHER INDUSTRIES

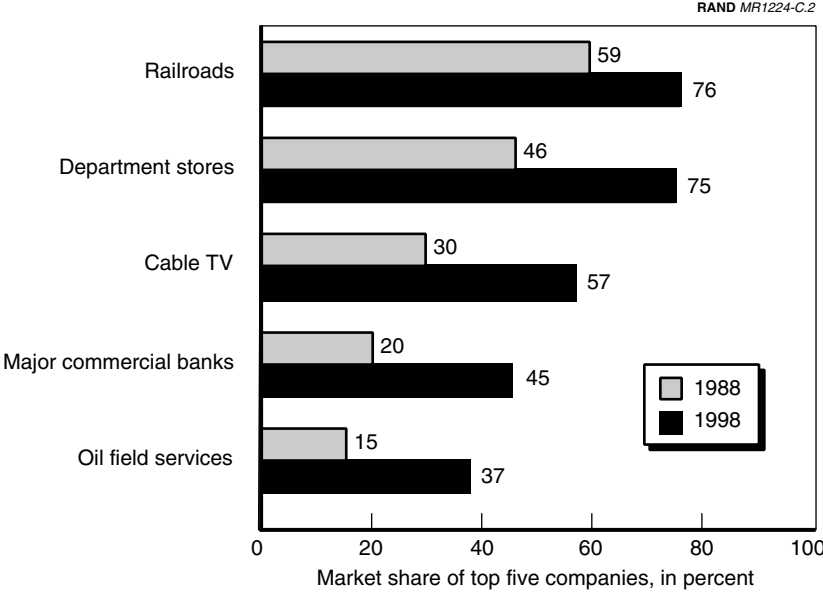
Figures C.1–C.3 illustrate these trends in the broader marketplace. Figure C.1 shows the U.S. industries with the largest dollar value of announced merger deals in 1999 (through August 12). Figure C.2 demonstrates the changing market share of the top five companies in five major industries from 1988 to 1998. Figure C.3 gives the market-share changes from 1988 to 1998 for some key U.S. industries in which market share of the top five companies has stayed fairly flat or has declined.

¹The intent of acquisitions among automotive suppliers was to grow so that they could make viable investments in information systems and in research and development to meet the needs of the large auto manufacturers. See Flannigan (1999).



SOURCE: Thomas Financial Securities Data (Mulligan, 1999).

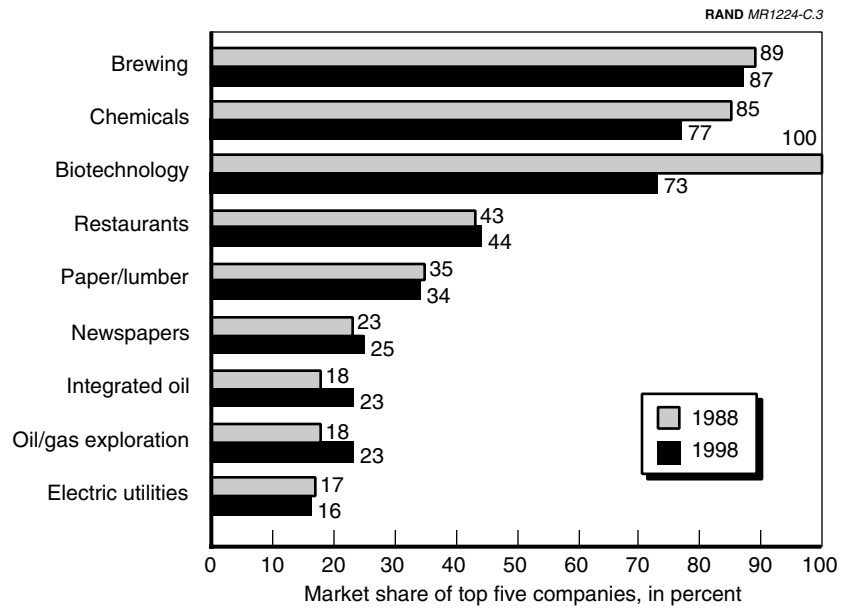
Figure C.1—Industries Experiencing Heavy Merger Activity



SOURCE: Mulligan (1999).

NOTE: Market share data reflect North American market except in case of oil field services, which is global.

Figure C.2—Industries with Growing Concentration



SOURCE: Donaldson, Lufkin & Jenrette in Mulligan (1999).

Figure C.3—Industries in Which Concentration Is Not Surging