focus

Mainfreight:
Special People, Special Company

"Sirs, We, the undersigned, being the employees of New Zealand Freighters, located at Southdown Lane Terminal, wish to hereby register our shock and our extreme displeasure that the company should have seen fit to terminate the employment of Bruce Plested".

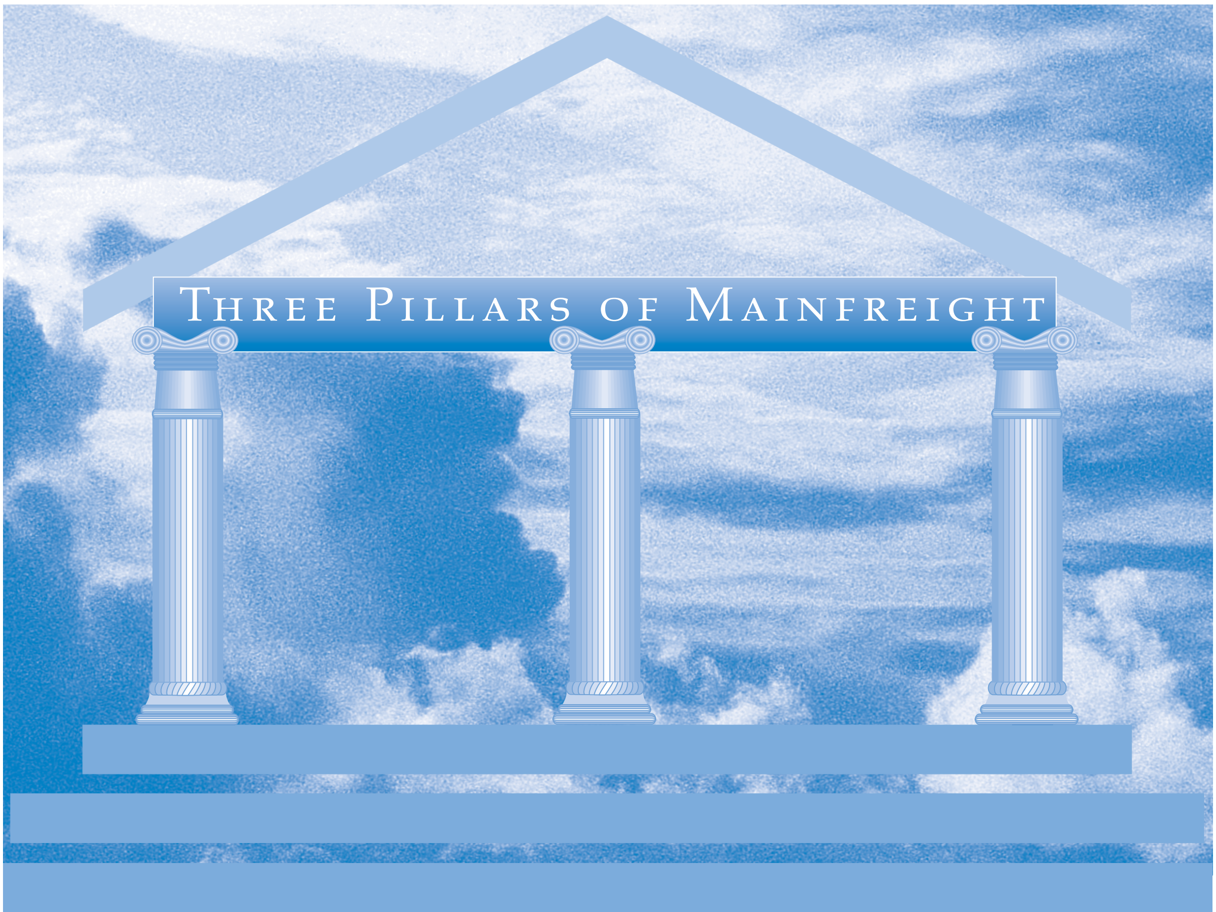
It was December 1977, and Bruce had been sacked by his bosses at New Zealand Freighters after allegedly swinging a portable heater by its cord into an expensive Italian PABX machine (a telephone switching system) after a disagreement with his superiors about the size of his phone bill!

It wasn't long before Bruce seeded the idea of setting up his own company with friends, Howard Smith and Carl Howard-Smith. On 6 March 1978, the new business was incorporated. The preferred name, 'Mainline Freighters', was rejected by people in Wellington, so Bruce combined the two and 'Mainfreight' was born.

The business model was initially a no-frills, low cost service using the government-owned Coastal Trader weekly run between Auckland, Christchurch and Dunedin, and a Bedford truck. Former New Zealand Freighters colleague Neil Graham joined them soon after and was instrumental in the growth of the business as joint-Managing Director.

The Mainfreight Way

Roll forward 42 years and Bruce's stamp on Mainfreight is ever-present. His extended tenure as board Chair is currently the second longest (behind Dr David Kerr at Ryman Healthcare) of an NZX50 company at 19 years (far longer than recommended "governance" best practice). Mainfreight is different. It takes care of its own, it does the right thing and isn't afraid to challenge the establishment. It's a principle-based business that has a stronger cultural identity than almost any other sizeable employer in New Zealand.



CULTURE

- Under-promise, over deliver
- Keep reinventing with time and growth
- Education is optional, learning is compulsory
- Let the individuals decide
- Keep it simple
- Tear down the walls of bureaucracy, hierarchy and superiority
- Avoid mediocrity - maintain standards and beat them
- Look after our assets
- Immaculate image and presentation
- Promote from within
- Integrity - how it affects other people
- No job descriptions

FAMILY

- Eat together - use mealtimes as a discussion time
- Listen to each other
- Share the profits and the successes
- Openly discuss problems and openly solve them
- Don't beat up your brothers and sisters
- Have respect - seek it from others and show it by actions

PHILOSOPHY

- One hundred year company
- Profit comes from hard work, not talk
- We are driven by margin, not revenue
- Train successors, so that you may advance
- An enduring company is built by many good people, not a few
- We are here to make a positive difference, as well as a dollar
- We "care" for our customers, environment and community
- Total quality management base
- Ready, Fire, Aim

CULTURE, FAMILY, PHILOSOPHY, THE MAINFREIGHT WAY

The average tenure of Mainfreight's 26 strong global leadership team is 20 years.

Don Braid, 2012 Annual report

Key aspects to the Mainfreight Way and the blue-blood that runs through the organisation's 282 facilities across 26 countries include: taking a long term view, setting and maintaining high standards, letting everyone make decisions and encouraging initiative, paying creditors on time, always eating together, open plan offices, promoting from within, and avoiding bureaucracy, hierarchy and superiority. This approach is epitomised when phoning the CEO's wonderful personal assistant Nikki, only for CEO, Don Braid, to pick up her phone in her absence, answering with "Nikki's phone". Mainfreight really is different.

Management experience

Don Braid, once voted New Zealand's best dressed businessman, joined the company in 1994 as part of the acquisition of Daily Freightways, where he was General Manager. He took over as Managing Director from Bruce in 2001 and has led the company ever since. His current leadership team exemplifies the philosophy of recruiting from within. The average tenure of Mainfreight's 26 strong global leadership team is 20 years.

Global footprint; acquisitions didn't always add-up

For its first 12 years Mainfreight's sole focus was in New Zealand. In 1989 it ventured offshore for the first time, opening up operations in Australia as 'Mainline Distribution', primarily to assist New Zealand companies with warehousing and transport similar to what they were doing in New Zealand. The Mainfreight name was already registered in Australia at the time and it was only able to acquire it in 1993. The first branch was in Sydney. A Melbourne branch followed in 1990 and Brisbane in 1991. By 1995 Australia represented 5% of total revenue but remained a small part of the company until 2000, when it acquired K&S Express for A$9m. Like several larger acquisitions that Mainfreight subsequently made, K&S Express didn't quite work out as envisioned. Losses mounted as Mainfreight firstly worked out what it had bought, then restructured the new business. It took four years for it to finally break-even. Persistence paid off and Mainfreight's Australian operations have since been increasingly profitable.

...over 75% of Mainfreight's revenue stems from its international operations...

Other Mainfreight beachhead deals in both the United States (Target Logistics in 2007) and Europe (Wim Bosman in 2011) followed a similar pattern. Financial performance suffered following both deals but they provided new and sizeable footprints that would have taken many years and significant investment to create organically. Europe, in particular, has seen a remarkable turnaround. Today, over 75% of Mainfreight's revenue stems from its international operations including a growing presence in Asia.

Mainfreight's unique approach makes it difficult to integrate external businesses into its fold. However, give it enough time and its perseverance, industry know-how and general operational superiority come to the fore. With Mainfreight's New Zealand business maturing, its future growth will increasingly be delivered by its initially problematic international operations, without the need for further acquisitions.

A quality-focussed business model

The easiest way to get offside with Bruce or Don is to call Mainfreight a 'trucking' company. It's far more than this. In its own language it "offers a full supply chain solution from managed warehousing to international and domestic freight forwarding". The company specialises in less-than-truckload (called LTL in the industry) freight, which typically means it consolidates palletised freight across its domestic and global network. LTL freight can generate higher margins than full-truckload (FTL) freight given smaller consignment sizes and increased complexity. However, the key to generating high margins is ensuring network intensity (or network utilisation) is optimised.

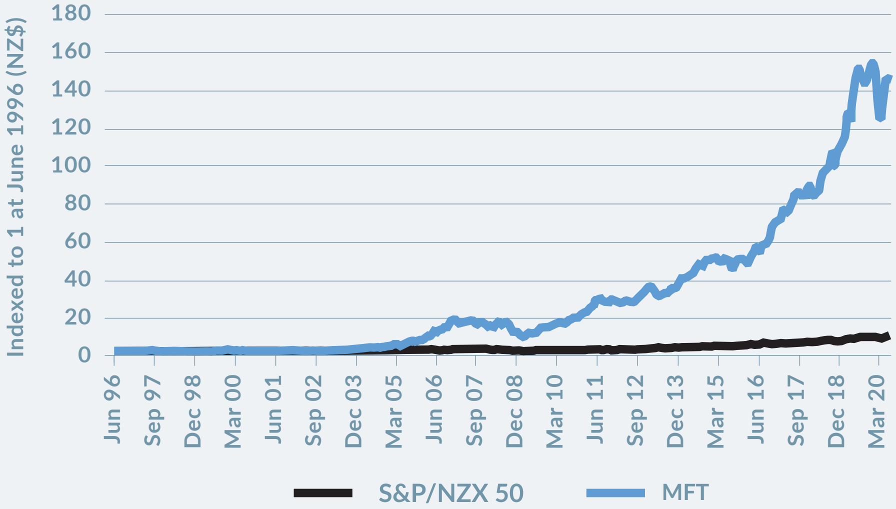
In contrast to its origins Mainfreight differentiates itself in a fragmented market by focusing on quality. A key KPI (key performance indicator) for every branch is delivery in-full on-time (or DIFOT). It works hard to maintain high service standards that customers are happy to pay for and ultimately rely on.

Mainfreight operates three core products — transport, warehousing, and air & ocean (or international freight). These are complementary and therefore the company is focussed on cross-selling its product suite across its customer base, which creates more entrenched relationships.

Value creation leader on the NZX

Mainfreight listed on the NZX on 14 June 1996, at 96c per share. Since then, and after adjusting for a 1 for 10 bonus issue in 2002, its share price has climbed by an average annual compounded rate of +17% before accounting for the added benefit of dividends. It has the second highest (marginally behind Ryman Healthcare) total shareholder return of any stock on the NZX since initial public offering (IPO) that has been listed since 2000. For every NZ$1 invested in its IPO, investors would now have a whopping NZ$149 compared to a little under NZ$10 if they'd put the same NZ$1 into the market index.

TOTAL SHAREHOLDER RETURN INCLUDING IMPUTATION SINCE JUNE 1996



Source: Forsyth Barr Analysis

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Important Information

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