

No surprise that potential investors see upside in Australian fuel distribution assets

Sydney, 8 January 2014 - Logistics management software company ORTEC is not surprised that private equity companies such as TPG are keen to acquire Shell's (and others') fuel distribution assets in Australia.

According to Alan Thomas, Joint Managing Director of ORTEC Australia-New Zealand, "Australian management practices lag well behind best practices used overseas and consequently there is significant scope for improving returns." In many companies, fuel distribution operations report to the company's marketing division. With management focusing more on traditional marketing activities such as branding and promotions, the consequence is that little attention is spent on logistics, the area that represents the majority of the assets and costs for fuel distribution.

As a result, new distribution planning practices such as "vendor managed inventory (VMI)", common in the US and Europe, are rarely used in the Australian industry.

Traditionally, retail outlets (such as in Australia) typically check the level of stocks in their tanks and then send electronic replenishment orders to the distributor. The distributor (or an outsourced carrier) then decides how best to combine these orders into truck loads, schedule drivers and vehicles, and route the trucks over the road network.

VMI, in comparison, sees the distributor take responsibility for ensuring that there is always sufficient fuel available in the tanks at the fuel station. It requires sophisticated planning systems which can forecast consumption and optimize replenishment orders and tanker deliveries. The results are usually superior customer service at lower cost, with less working capital tied up in tanks. Productivity can be further improved by introducing multi-compartments and tank metering onto fuel tankers, allowing distributors to move away from the "single drop" mentality. For example, RKA Petroleum, a leading distributor on the US East coast, abandoned traditional logistics planning and implemented VMI almost ten years ago. As a result RKA improved driver and truck productivity by over 50% and reduced the miles driven by its tanker fleet by 27%. "If private equity can apply similar principles to the Australian fuels distribution sector, they stand to make a tidy profit," says Alan Thomas.

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About ORTEC ORTEC is one of the largest providers of advanced planning and optimization software solutions and consulting services. ORTEC systems optimize fleet routing and despatch, vehicle and pallet loading, workforce scheduling, delivery forecasting and network planning. ORTEC has over 1,650 customers worldwide and employs over 650 employees and offices in Europe, North America, Australia, New Zealand and Asia. For more information, visit www.ortec.com

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