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READY?

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CHANGE IS ON THE WAY- ARE YOU READY?

Welcome to our February, 2008 issue of Logistics Strategies. We did not publish in December or January due to strains on our resources to assist our nationwide clients to "close out" 2007 and assist them in establishing strategic plans for the new year. Now that those assignments have been successfully accomplished, it's time for us to get back on track.

As we all know, when you enter a new year it is customary to look back at the previous year to review the challenges your company faced within its operations. It is also customary to look ahead to the new year to establish various goals to determine how your company will overcome those challenges so that you do not experience them again in the current year.

While looking back may be a good idea we believe shippers, carriers of all types and logistics service providers face strong economic challenges that we have not seen in a while. All companies' focus this year MUST be on the future if they are to have one. What's past is past and now its time to get on with serious implementation planning for the new year. This process may never be more critical than it is this year as we enter 2008. Why is that you say? Well, as we heard throughout the first Clinton campaign, "it's the economy, stupid!"

There is no question that the nationwide retailers are still licking their wounds after a very weak holiday shopping season, (although you could not tell that from the volume of traffic at the local malls). But who are we to challenge their numbers. The holiday shopping season is a traditional benchmark of how the economy is doing and the results usually speaks volumes. Well this year it's not just the retail sector that is struggling, it's businesses world wide. The interesting thing is that the entire transportation industry, both domestic and international carriers, saw this coming long before John Q. Public did.

If we take a look back to the second half of 2006 we would find that the demand on transportation industry resources was so great that many carriers were demanding, and receiving premium prices for moving freight. What choice did the shippers have? This year's second half, and especially the fourth quarter, was a completely different story with many shippers going to the bargaining table with

their carriers to request additional incentives on their freight expenses based purely on the over capacity situation in the industry. In fact, we know many shippers that were able to obtain concessions from their carriers on Fuel Surcharges at the same time fuel costs were at their highest levels.

Now let's move to the national scene where even the President has stated that he has concerns about the economy. When was the last time you saw both the current Republican "lame duck" administration and the Democratic Party controlled Congress on the same page working together on an economic stimulus package to help boost the U.S. economy? Within the last few weeks, the Federal Reserve Board has lowered key interest rates twice, first by .75% and again a week later by .50% to encourage more domestic spending. I guess the government now knows what many US businesses have known for a while now. Sooner or later they do get it!

Where does all this negative economic news lead us? Well for one thing we have to avoid panicking that the world is coming to an end. The reality is that the economy is cyclical and regardless of who is in the White House, or which party controls Congress, the economy moves up and down.

We do believe however that the current economic downturn will result in some bankruptcies and consolidations especially in the motor carrier sector with under-performing carriers being swooped up by more efficient players in the market. And let's not kid ourselves, it's not just the small carriers that will be affected by this turn of events, and we may see some "Big Boys" taking it on the chin. May we also point out financial troubles are not limited to the trucking industry as can be witnessed by the truly negative financial press of DHL. This does not mean that the larger parcel carriers are free and clear to operate as usual, as they will experience downturn in business as well. How well will they react to it remains to be seen.

The loss of any transportation service provider will have an initial negative effect on some shippers, especially those that are blindsided by all of this but after a while the playing field levels out and all is well again. The real question here is...do shippers have a "Plan B"? Likewise, do the surviving transportation service providers have a plan? We guess only time will tell.

Another sign of the times is in the US-Canadian motor carrier marketplace. Carriers on both sides of the border are entering into strategic partnerships and acquisitions to help them stay afloat despite the weakened volumes of traffic moving cross border. Now this is an innovative approach!

On the international front, Maersk Lines, the world's largest container line is cutting between 8 and 12 percent of their work force and decentralizing their management into smaller regional teams in an effort to improve profitability. Maersk Lines program called "Streamline Project" has the following goals attached to it:

1. Filling their vessels with profitable cargo. (Editor's Note, what a novel idea!)
2. Providing the most reliable product for its customers.

3. Providing a faster, more responsive service closer to customers.

4. Reducing the lines complexity and costs.

While all this negative financial news may seem like gloom and doom, there really is a bright side to this market. The bright side is that shippers and carriers have a great opportunity to work even closer with each other to develop stronger long-term partnerships. As always, there are needs on both sides of the fence and each side has the ability to meet those needs. The smart shippers and smart carriers ALWAYS use these opportunities to bolster their relationship which ultimately results in cost savings and profit improvement for all partners. The only remaining question is how committed are the partners to making this a reality?

Our advice to shippers and all transportation and logistics service providers! Reach out for your business partners, not to gain a further competitive edge, but to explore opportunities for joint cost cutting initiatives that will benefit both sides now and well into the future.

SUPPLY CHAIN MANAGEMENT LOGISTICS -- A NOVEL APPROACH

Last November, ICC Logistics' president and CEO, Tony Nuzio had the distinct pleasure of speaking before the Long Island Chapter of the Institute of Industrial Engineers. The title of Tony's presentation was Supply Chain Management/Logistics - A Novel Approach. Here are some excerpts from Tony's presentation.

Supply Chain Management is one of the most controllable elements affecting a company's bottom line financial performance. Companies must continue to evaluate Best Practices to maximize results. The old term "Traffic" is now called Logistics, but it is essentially moving goods from one point to another. The new strategy is to change from thinking about individual logistics functions and think about integration. This entails integrating the following business functions: Customer Relations Management, Demand Management, Order Fulfillment, Manufacturing Flow Management, Supplier Relations, Product Development, Returns Management, Outsourcing Partnerships, and Performance Measures.

Supply Chain Management (SCM) involves Sourcing, Procurement, Conversion and Logistics Management. Coordinate and channel your business partners such as the suppliers, intermediaries, third parties and customers. Sourcing now becomes a global, ever-changing challenge. Procurement is not something that many companies plan well; they react. However, if there is no planning, then there is no management. If companies cannot measure their procurement costs, there is no way to control those costs. A good example: Buttons for wearing apparel are sourced globally and orders are always awarded to the lowest bidder. The providers and source countries changed so frequently that the button company could not predict the freight costs from the source to the customer. Therefore, they couldn't set a profitable price.

This is an example of how companies can make supply chain decisions with little or no experience in logistics management activities. Business decisions are made without considering logistics initiatives or issues.

These are typical logistics strategies to consider. (1) What does the customer require? (2) How do you validate the customer's requirements and create procedures to apply them? (3) How do you measure customer satisfaction to ensure that the procedures are working for the customer? (4) Who are the current logistics service providers and why were they selected? (5) How does the company qualify suppliers?

There are several ways to transition to the growth mentality. You must think like the customer. Besides price, what are 5 reasons why customers buy from you? How is your Supply Chain organized to support those reasons? Develop an "outside in" perspective and look at your company from the customer's viewpoint. Take a non-biased approach to looking at how you create value. Look beyond costs and examine growth potential. What could/should you offer your customers? Stretch the internal resources to drive future growth.

There are several future transportation trends to consider: cost and capacity trends, "green" business decisions, and global trade. Currently, there are rising fuel costs, rising security insurance costs, reduced capacity and cube based pricing. At first glance, the company with the lowest freight rate may be the top choice vendor, but what is the impact if they have lower liability coverage? Many companies are paying more attention to sustainability and "going green". WalMart suppliers are good at this, they reduce carbon footprint (less cardboard) and minimize feeding the waste stream with protective packaging materials. Improve your understanding of Global Trade issues. Deploy web-based systems to improve information sharing, which permits suppliers and customers to collaborate. Harmonize information systems and business processes. Tear down organizational silos for better business operations (eliminate the corporate vs. local control friction). Exploit free trade agreements to reduce import duties.

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