LOGISTICS STRATEGIES

ICC LOGISTICS SERVICES, INC.

January-March 2010
Vol.3 Issue 1

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LOGISTICS STRATEGIES QUARTERLY REVIEW

Dear Friend:

As we come to the end of the first quarter of 2010, a lot has happened in the area of transportation and logistics that can have a profound impact on a company's bottom line. Depending on how a company reacts to the information, this can be positive or negative. With that in mind, we have created this special supplement entitled "Logistics Strategies Quarterly Review".

We want our readers to be thoroughly informed so they have all of the tools necessary to make the right decisions to positively impact their business' bottom line. Information is power and it is our goal to make sure all of our readers are informed consumers.

Please take the time to read this special supplement in its entirety. And after you do, we would love to hear from you to get your opinions, insights and questions on any of the stories contained herein. After all it is for you, our readers that we create our newsletter and we always want to make sure it benefits you. Please send your thoughts to tnuzio@icclogistics.com or reply to this email.

Please take a moment to check out ICC's Blog @ http://www.logisticsstrategies.com to check out previous articles.

SO WHOSE FAULT IS IT ANYWAY!!:

From the "you've got to be kidding me file" comes the story of Mr. Gianluigi Aponte, CEO of Mediterranean Shipping Company. At a recent speech he gave to the Financial Times, Mr. Aponte claimed that the recent financial woes of the ocean carriers, "the deepest crisis in history" as he put it, was caused solely by the shippers who exploited overcapacity in the industry to drive down ocean freight rates.

I hate to break the news to Mr. Aponte but the steamship lines could have said no to the shippers' rate reduction requests if the rates were below the ocean carriers' out of pocket costs. The issue of overcapacity and under capacity and resulting lower and higher freight costs has been a fact of life for the past 30 years since economic deregulation of the transportation industry. The pendulum swings from the shipper's advantage to the carrier's advantage and back again.

It makes no sense to blame the shippers for the company's poor financial condition because without the shippers Mr. Aponte and other ocean carriers would not have a business. You can always point the finger at someone else for a company's financial failure; however there are many successful and profitable transportation businesses that know where to draw the line when it comes to reducing prices. Many savvy transportation companies welcome the loss of unprofitable business which they are more than happy to have their competition handle. After all, if a carrier is going to have financial trouble, it's better to be your competitor's problem and not yours.

On the other side of the coin, Steve Fishman, CEO of Big Lots claims that "the shipping companies have decided they haven't made the kind of money they want to make over the past year whether they have contracts with you or they don't have contracts with you". Meaning, you guessed it the ocean freight rates are going up and going up quite significantly. So apparently Mr. Aponte and many of the other ocean carriers are now seeing the pendulum swinging in their direction with higher freight rates to offset their prior losses. It was just a matter of time!

SURPRISE, SURPRISE:

A recent report in "Trans Digest" the monthly publication of the Transportation and Logistics Council, indicates that cargo theft increased in 2009 compared with 2008 levels. We cannot believe that anyone is surprised by this fact considering the very poor worldwide economy.

The increase in thefts in 2009 over the prior year was a significant 12% according to FreightWatch International. There were a total of 859 major thefts of full truckloads of freight as well as truck hijackings. Of course, electronics led the list of stolen products because of their value and ease of sale. Electronics thefts accounted for 23% of total losses, which was followed by thefts of food and drink shipments which we also believe is a direct result of the current economy. While pharmaceutical thefts made up only 5 percent of 2009 cargo theft incidents, the commodity made up the largest loss per theft by value with an average of $4 million per incident. One incident of theft alone accounted for over $37 million in losses. As President Clinton once told us, it's the economy, stupid!

BUY NORTH AMERICAN SENTIMENT IN THE AIR:

After this recent or current -- depending on how you see it, "Great Recession", there is an awful lot of optimism that the term "Outsourcing" a/k/a "China" may very well become "Near-Sourcing" in the very near future.

Yes, after all of the horrible financial reports from manufacturers, retailers, distributors and the transportation carriers in all modes, the industry is facing increased volatilities that will result in higher freight rates now and into the foreseeable future. Higher costs for fuel and a re-thinking of how far a company's supply chain should be stretched are just some of the issues facing American businesses. Are we finally coming to our senses here in America?

Adding to this is a force that no company will be able to stop, and that is the effect of a company's carbon footprint and its ability to compete for business in the future. Stay awake American businesses, if you do not currently have a "green initiative" within your organization you will be forced to have one real soon. The most successful companies have always measured the bottom line in any business decision they have made. What that means is that they look at every piece of the transaction to make sure it makes sense both operationally and financially. This analysis should also include other factors of great importance such as its impact on total "customer satisfaction". WOW, now that's an interesting term!

What is the value of having a product the customer is clamoring for; a product that is supposed to be environmentally sound; and one that should meet and hopefully exceed all safety standards, if after delivery the ultimate customer is totally dissatisfied? You need go no further than the recent Consumer Product Safety recalls of baby cribs to see the devastating impact product inferiority has. Can you say Toyota? We are not suggesting that products made overseas are inferior to products made in North America, but what we are saying is that perhaps its time to revaluate our international supply chains to see if they still make sense. Did we decide to outsource manufacturing thousands of miles from home to reduce costs but perhaps forgot to ensure our customer's needs were totally met? There is no doubt that some American businesses may have taken their eye off the ball when it comes to evaluating their entire supply chain. Perhaps it is time to re-evaluate our supply chain to determine what the best possible option is. And that option may be to reign in our supply chains to be closer to home. Sometimes it just makes sense to buck the trend.

UPS PILOTS TO BE FURLOUGHED:

This may be a real sign that we are not completely out of the current recession. UPS, the company known for precision costing models, recently has made a decision to furlough 300 pilots or 11 percent of its 2800 member force. Is UPS seeing something we don't see? On another front UPS is in talks with the Independent Pilots Association to gain cost concessions, that if received, would remove the need for at least some of the layoffs.

The company has been involved in a very aggressive cost cutting program looking to cut over $131 Million in operating costs. UPS' executives anticipate a very gradual recovery in the economy and a continued need for belt tightening according to UPS Airlines President, Bob Lekites.

UPS, over the past two years, has taken many steps to eliminate $1.4 Billion in costs. This includes the elimination of over 1800 management and administrative jobs to streamline their domestic US small package business. Having said this, keep your eye on UPS' profits as we believe you will see some significant profit gains in their upcoming financial report. UPS' nemesis, FedEx just reported Fiscal 3rd quarter profits were up 146% to a whopping $239 Million. By some estimates UPS and FedEx lost over 1 million packages a day just due to the recession. With that being the case the only way they can gain new business is to take it away from their competition. Another way they can improve their bottom line is through General Rate Increases which both carriers took in January, 2010. Based on the considerable profit earned by FedEx we can expect that UPS will improve their profits substantially as well.

The Bottom Line: Parcel shippers should be seeking parcel negotiation consultants who can assist them with reducing their overall parcel shipping costs - a task that is best left to the experts!

GROCERY GIANT KROGER RECEIVES PRODUCTIVITY AWARD:

It was eight years ago that the Kroger Company created its new design for grocery distribution, and today it is fully operational. It uses multiple system suppliers but yet the results are staggering. In the "old days" Kroger would move pallets with traditional fork lifts then store the pallets in racks. When it came to creating mixed pallets of a variety of food items, they did it the old fashioned way, they used manual labor.

The new system however allows Kroger to put away full pallets, then break them down and rebuild them into delivery ready store pallets according to how the product will be displayed on the store shelves. Under this new system, Kroger now processes approximately 110,000 cases per day with a capacity of 160,000 cases daily. Kroger measures their success in a number of ways in addition to cost savings, including the accuracy of orders, the reduction in product damage, better utilization of cube in their delivery trucks and trailers but most importantly, their customers get what they want, when they want it at the price they want to pay.

The message here is that all companies whether large or small should be looking at ways to improve their processes. As one of our Supply Chain Consultant friends recently put it, "many companies do not even know they have a problem until we show it to them".

So why not call in a supply chain or transportation consultant. Have them take a look around with a no cost-no obligation analysis to see what can be done to enhance your business. And remember, it's not always about lower costs.

ARE THE BIG GUYS TRYING TO TWIST YOUR ARM?

There is certainly something to be said about consolidating the number of freight carriers a company utilizes. This is becoming more and more evident each day as companies attempt to reduce their overall transportation costs by putting all their freight on one carrier's trucks. This is especially true when it comes to a shipper's small parcel as well as their LTL business. In this case the shipper really only has two choices, UPS or FedEx.

While conceptually we have no problem with "single sourcing", we strongly recommend that the shipper perform its own due diligence to make sure the rates the shipper obtains for single sourcing its business is the best rate level for each service had it been priced separately. You never want to rob Peter to pay Paul. If the shipper cannot make that assessment it should go back to the drawing board and thoroughly research all of the competition. Shippers should not be lulled into a false sense of security that just because they consolidated all of their shipping activity with one of the major transportation companies that they in fact have the best deal either operationally or financially.

We would also like to point out that shippers should not give up any of their rights when they single source their business. We are talking specifically about refunds for Guaranteed Service Failures. As we all know UPS and FedEx guarantee many of their services and will pay refunds for these service failures ONLY if they are claimed by the shipper or the shipper's representative. Why then do shippers cave in when signing these agreements and agree to waive their rights to file for these refunds?

It is true that both carriers have a 98% on time record, however, what company can afford to give up 2% of their parcel carrier spend by agreeing to waive their right to filing for refunds? On another note, we have heard reports recently that some sales representatives of these carriers are refusing to work with independent consultants who are contracted by the shippers to help improve their parcel spend. This is absolutely not the case. In addition some representatives of these carriers are telling shippers that certain services and fees are not able to be discounted. Again, this may not be true. Everyone already knows that UPS and FedEx are two of the largest and most successful transportation companies in the nation. They did not get there because they are ripping off the shipping public. What we are saying however is "Caveat Emptor" which means "Let the buyer beware". Every shipper has the right to retain business consultants to work as intermediaries on the shipper's behalf and they should never be intimidated by the carriers not to use such consultants.