eLOGISTICS in BRIEF

WITH INTERESTING TRENDS & NEWS IN LOGISTICS & SUPPLY CHAIN

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In this issue

EDITORIAL

Butterfly did Disrupt Worldwide Supply Chain

by paul denneman

"The flapping of a single butterfly's wing today produces a tiny change in the state of the atmosphere. Over a period of time, what the atmosphere actually does diverges from what it would have done. So, in a month's time, a tornado that would have devastated the Indonesian coast doesn't happen. Or maybe one that wasn't going to happen, does." This was in 1989 the statement of Ian Stewart which started the chaos theory.

Although the chaos theory was of major interest in meteorology, today we can extend its reach to logistics and world economy. According to the theory a tiny butterfly can have caused Katrina - one of the biggest hurricanes in U.S. history – and disrupted oil and gas production in the Gulf of Mexico, to a quarter of the US total domestic oil and gas production. Although Top oil exporter Saudi Arabia said that it was ready to boost its oil output to 11 million barrels per day (bpd) to fill any supply shortages caused by Hurricane Katrina, the market reacted on this disaster with increasing oil prices again, and let the prices reach an all time high level.

In the past period the impact of increasing oil prices was already noticeable in f.e. the European continent. Major freight forwarder Frans Maas published it's half year figures, and stated that the increasing gasoline prices did have a negative impact on the results of the freight forwarding division. And this was before the Katrina. The increasing oil prices will have direct impact of the prices of gasoline, kerosene and petrol. Therefore it is only a matter of time that the huge increases will have it's impact on prices for transportation.

Although the price increases in a lot of cases can be passed on towards the final customer, the effect of the increasing oil price will have a world wide impact on the complete supply chain. In most cases negative, but on the other hand positive as well. The damages should be repaired, goods should be transported to the area and that will have a positive impact on certain economies.

And for those entrepreneurs who will not survive this new disappointment after the recession, they can always blame the tiny butterfly who caused this all.

Paul Denneman MSc
Editor eLOGISTICS Trendwatch & CEO Mutatis Mutandis

MERGERS & ACQUISITIONS

Exels Marriage with Deutsche Post: What Does it Mean?

by guy dunkerley & greg aimi, amr research

Deutsche Post's (DP) interest in acquiring Exel should come as no surprise, as rumours have swirled around Exel for months. On the face of it, consolidation in the European Logistics Service Provider (LSP) industry makes a lot of sense; no provider can claim full leadership across all forms of transport and in every geographic market. There is also an especially long list of providers with different specialties and regional dominance. However, as a bidding war looms, it is not clear if anyone will end up with the prize.

The Bottom Line: The company that ends up acquiring Exel will face a number of headaches along with opportunities. Foremost will be the integration of separate IT systems to ease the flow of information in customer companies.
What It Means: This acquisition is not about gaining trucks and sheds. The physical asset side of logistics is the low-margin part of the business that logistics firms would rather live without. In fact, nearly all European logistics services firms are trying to move to non-asset services, where the margins are much higher for the investment. These include among the following:

- Customized assembly/kitting services within warehousing operations
- Returns management
- Freight management
- Global trade management

All of these services, however, are data hungry and integration intensive activities, requiring resource and expertise to integrate with the client host systems. Two logistics providers with which we spoke saw the IT integration in areas like postponement, assembly, and kitting as the biggest hurdle in engaging in new contracts.

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WAREHOUSING & DISTRIBUTION

Top 10 3PL's Extend Their Global Reach

by thomas foster & richard armstrong

There will be winners and losers in the global 3PL race. The shakeout that is coming parallels what happened in the U.S. during the 1980s after transportation deregulation. Then, a small group of carriers grew rapidly by out-performing the competition. They won market share. Other primarily higher cost companies either went out of business, or retreated to small, defensible niches. In today's 3PL market, there will be a small group of big operators with global reach and international skills that will dominate worldwide logistics. They will have to grow fast enough to service the largest customers and to avoid being commoditized by those customers. At the other end of the market, there will also be niche players that will often end up working for the global 3PLs. There will be limited room for mid-sized generalists. Only time will tell who the winners and losers will be.

For now, we present in this eLog a comprehensive analysis of the 5 3PLs that are leading in the global race, and name the second five in the top 10. This selection has been made on turnover, current coverage, breadth of skills and parent company gravitas.

1. **Exel plc Berkshire, UK, London: EXL**
   - 3PL Revenue: 8.3bn Parent Revenue: 8.3bn
   - Coverage: Global (Service to over 95% of World GDP)
   - 3PL Assets: 74,000 employees; 300 warehouses; 5923 tractors, 7544 trailers
   - Information Systems: Very good;
     - TMS : i2, RedPrairie, G-Log;
     - WMS: Irista, Topex, Insight, RedPrairie
2. **Kuehne & Nagel International Schindellegi, Switzerland, SWX: KNIN**
   - 3PL Revenue: 6.9bn Parent Revenue: 6.9bn
   - Coverage: Global (Service to over 85% of World GDP)
   - 3PL Assets: 19,000 employees; 50 warehouses
   - Information Systems: Very good;
     - TMS: CIEL 4000, KN Road, i2;
     - WMS: EXCEED
3. **Schenker Assen, Germany; (U.S.) Freeport, NY**
   - 3PL Revenue: 6.4bn Parent Revenue: 19.5bn
   - Coverage: Europe, Asia, South America, Africa, North America
   - 3PL Assets: 36,000 employees; 405 warehouses
   - Information Systems: Good;
     - TMS : SWORD, Procars, ILS;
     - WMS : HTS, SAP, SoLiNET
4. **DHL Danzas Air & Ocean Basel, Switzerland, Deutsche Post World Net (U.S.) Newark,**
   - 3PL Revenue: 5.7bn Parent Revenue: 49.7bn
   - Coverage: Global (Service to 99% of World GDP)
   - 3PL Assets: 13,000 employees
   - Information Systems: Good;
     - TMS : LOGIS, proprietary;
     - WMS : ELIS
5. **5. P&O Nedlloyd Rotterdam, Netherlands Euronext: Nedlloyd (Royal P&O Nedlloyd N.V.);**
   - 3PL Revenue: 4.8bn Parent Revenue: 4.8bn
   - Coverage: Europe, Asia, United States
     3PL Assets: 10,000 employees; 166 Vessels, 1,000 containers, 2,000 trucks, 6,700 trailers
   - Information Systems: Good;
     - TMS : LOG-NET

6. **TPG/TNT** Hoofddorp, Netherlands, TPG NV / TNT Logistics North America Jacksonville, FL.
7. **Panalpina** Basel, Switzerland; (U.S.) Foster City, CA.
8. **UPS Supply Chain Solutions** Atlanta, GA, NYSE: UPS, (United Parcel Service)
9. **Nippon Express** Tokyo, Japan, Tokyo: / Nippon Express U.S.A., Inc. New York, NY
10. **C.H. Robinson Worldwide** Eden Prairie, MN; Nasdaq: CHRW

Notes from the EDITOR: The number 1 Exel has been bought by the parent of number 4 Deutsche Post. The number 5 on the list is incorporated within Maersk Logistics (24).

For the complete analyses and list visit:
http://www.glscs.com/archives/05.04.25_3pls.htm?adcode=90

eLOGISTICS & eFULFILLMENT

Complex Methods Do Not Always Give Better Forecasts

by paul mars

Since 1979 different forecasting methods are being tested on reliability and accuracy. This takes place in the so called Makridakis Competitions, or M-Competitions. The main conclusions of the latest M3 competition were published in the latest issue 'International Journal of Forecasting' van July/September 2005. The authors of the article introduced a new methodology that has not previously been used to evaluate economic forecasts: multiple comparisons. They used this technique to compare each method against the best and against the mean, and concluded that the accuracy of the various methods does differ significantly, and that some methods are significantly better than others.

The study confirms that there is no relationship between complexity and accuracy but also show that there is a significant relationship among the various measures of accuracy. Par example the more complex method like 'Artificial Neural Networks' does not give per default better results as a less complex method like 'Single Exponential Smoothing'. The challenge therefore is to determine the method with the best result for your specific need. However there is one method with an higher then average score in most situations. This is the so called Theta-method, a relatively young decomposition technique. In this method are seasonal patterns as well as long and short term trends extrapolated en combined to one forecast. Finally, the authors find that the M3 conclusion that a combination of methods is better than that of the methods being combined was not proven.

MERGERS & ACQUISITIONS

Exels Mariage with Deutsche Post: What Does it Mean?

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Exel and DP have their plate full already, aligning with recent acquisitions like Tibbet and Brittan (recently acquired by Exel). And this will become exponentially more difficult as they try to integrate with each other. They face the double challenge of integrating systems and processes within themselves as well as integrating with their customers' systems and processes. However, the public face of the companies post-merger is typically one of a single facade, peak behind the curtain. The IT infrastructure and business practices are seldom unitary or tidy. Warehousing, transportation, and accounting systems in different operating units and countries are usually not integrated internally, which makes the claim of timely track and trace across all services questionable.

Conclusion: Clients engaging with LSPs should already be pressing them closely on their IT integration abilities. Dealing with logistics service firms that are undergoing significant acquisitions means that IT should be an even greater area of concern—checking the claims of internal integration is vital if real-time reporting and tracing is part of your Request for Information (RFI). Successful extension of valuable services from highly aggregated companies may well be hinged more on the long-term success of the backroom IT staff, than of the synergies of physical assets and services.

WAREHOUSING & DISTRIBUTION

Container Shipping Companies Face New Opportunities & Threats

by transport intelligence

A new report has been released by IBM Business Consulting Services focused on the container shipping sector. The authors of the report conclude that the greatest long-term challenge in meeting and adapting to new market forces is the potential competition from package delivery providers such as UPS, TNT, FedEx and DHL.

According to the report, the forces for change come from the demand by customers for greater reliability at lower total cost. This combined with the high levels of growth which the market is currently experiencing is placing considerable strain on existing infrastructure, challenging companies to find new ways to remain competitive and responsive.

The report believes that the integrators have a major opportunity to extend their services into the shipping sector as they possess the type of business cultures, systems and processes needed to offer the product reliability and visibility presently demanded by shippers. The authors go on to state that the asset focused business culture which pervades the shipping industry could act as a hindrance to its future competitiveness.

The report predicts that over the next ten years shippers will seek more integrated providers above and beyond simple point-to-point transportation providers. These customers will demand a high level of visibility and reliability similar to that provided by packaged delivery producers. As a result, significant opportunity exists for shipping container companies and packaged delivery providers to redefine the industry. Unless existing shipping lines respond to meet customer demands, IBM believes that the express parcels integrators will redefine the structure of this industry.

To request a full version of the report ‘Setting a new course in the container shipping industry’, please e-mail:

+ Americas Deborah Obendorf drobend @ us.ibm.com
+ Asia Pacific Henrik Anker Olesen hao @ cn.ibm.com
+ Europe, Middle East and Africa Nils Ole Klejnstrup nok @ dk.ibm.com

GLOBAL TRADE & LOGISTICS

Agreement between EU and China in Textile War

China and the European Union reached at September 5, 2005 an agreement on the European import of textiles from china. Although the content of the agreement hasn’t been released yet sources reports that almost all the problems concerning the stocked items are resolved. Both parties are looking to get the bonded goods released.

GLOBAL TRADE & LOGISTICS

Maintenance of International Customs and Trade Instrument: a WCO Priority

Maintaining the Harmonized System Commodity Description and Coding System (Harmonized System) is a priority for the World Customs Organzation (WCO). This international product nomenclature developed and managed by the WCO is used as a basis for national Customs tariff and statistical nomenclatures by over 200 countries and Customs/economic unions world-wide, representing about 98% of global trade.

The multi-purpose nature of this global Customs and trade instrument has resulted in its recognition as an indispensable tool for international trade. Comprising 5,000 commodity groups, each identified by a six-digit code arranged in a legal and logical structure, the WCO maintains the Harmonized System by largely securing uniform interpretation and application of the nomenclature and periodical updates due to ongoing developments in technology and changes in trade patterns.

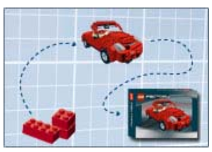
The Harmonized System significantly reduces the costs of international trade by contributing to the harmonization of Customs and trade procedures, and the non-documentary interchange of trade data in connection with these procedures. It is also extensively used by governments, international organizations and the private sector for many other purposes such as internal taxes, trade policies, monitoring of controlled goods, rules of origin, freight tariffs, transport statistics, price monitoring, quota controls, compilation of national accounts, and economic research and analysis.

SUPPLY CHAIN MANAGEMENT

Build Your Own Lego Masterpiece, Virtual Brick by Virtual Brick

by j.d. biersdorfer, new york times

Snapping Lego bricks together has been a childhood ritual for 50 years, but now Legos have found a way to click into the technological world - and back again. The Lego Group, based in Denmark, recently opened an online Lego Factory (legofactory.com), where Lego enthusiasts can design projects with free 3-D software and then order a kit to build the model. So basicly Lego switched to an engineer-to-order production situation for this type of products.



The company’s free Lego Digital Designer software, which lets users construct Lego projects on screen using an endless supply of pixilated parts, is available at the site to download to Windows and Mac systems. Using the software, Lego lovers can upload their masterpieces to the Lego Factory site, and can also inspect other people’s projects that have been posted online.

You can buy all the bricks and other parts needed to build your model right on the site. The parts arrive by mail in custom packaging, complete with a picture of the finished model and the creator’s name emblazoned on the box. Buying just enough bricks to build a specific project has another benefit: fewer orphan Legos crunching underfoot.

EMERGING MARKETS & OUTSOURCING

China could become world's largest exporter by 2010

OECD Policy Brief 2005

China could overtake the US and Germany to become the largest exporter in the world in the next five years. By then, Chinese goods and services could represent as much as 10% of global trade compared with 6% at present, according to the OECD.

In its first Economic Survey of China, the OECD says the current pace of economic growth – averaging more than 9% annually over the past two decades – shows no sign of slowing. But although economic dynamism has helped reduce the number of Chinese living in absolute poverty, income levels are still low and inequality is on the rise, not only between the cities and rural regions – average incomes in the countryside are only one third of those in the cities – but also within the more prosperous coastal provinces.
As a result of profound shifts in government policies, the private sector is now driving China's remarkable economic growth. Well over half of China's GDP is produced by privately-controlled enterprises. But more needs to be done to improve the business environment, the survey says. For instance, the amount of capital required to start a company is relatively high. Priorities in this area should be to revise company law, pass a new bankruptcy code and provide stronger protection for property rights.

The report argues that a more flexible exchange rate for the Chinese currency would reduce price volatility and provide a more stable macroeconomic environment. The July 2005 decision to revalue the Renminbi and move the exchange rate system away from a US dollar peg toward one where limited fluctuations are allowed around a central rate set by a basket of currencies, was a step in the right direction.

SUPPLY CHAIN SOFTWARE

Top '100' Supply Chain Solution Providers Listed

Based on submissions to the "100" from end users and solution providers, the judging committee for the "100" identified a list of the top supply and demand chain initiatives at small, midsize and large companies in a variety of industry sectors, highlighting the pain point(s) addressed by the initiatives (The Challenge), the technologies and services used to address those pain points (The Solution), the results of the initiatives (Return on Investment, or ROI), and plans for taking the project forward (Next Steps).

How best can readers use the 2005 Supply & Demand Chain Executive 100 as a resource for enabling their own company's supply and demand chain for competitive advantage? We suggest reviewing the information included in this article (please see the downloadable PDF below, or the text following this intro) to determine which solution providers can help enable those specific areas of the supply chain that are current priorities at your enterprise, as well as consulting the additional online information including the Global Enabled Supply and Demand Chain Directory of solution providers and our Best Practices Forum in order to assemble a list of appropriate enablers. The rest, of course, is up to you, but we hope you will find this year's "100" an educational place to start.

http://www.sdcexec.com/sdcexec100/images/_SDCEPDF.pdf

SUPPLY CHAIN TECHNOLOGY & RFID

Expected Technology-Related Spending on SCM up 30% from 2003

An AMR Research report shows that technology-related SCM spending in 2005 will reach $17.9 billion, up 30 percent over 2003 levels. Investments in third-party consulting and hardware are driving much of the increase (see chart). The study titled "The Supply Chain Management Report, 2005-2006"notes that the top five planned SCM investments are for supply chain visibility, demand planning and forecasting, supply chain analytics, RFID, and sales and operations planning (S&OP).

The growth in the market is coming despite the fact that 43 percent of the companies surveyed already have existing technologies for supply chain planning and 34 percent have already deployed supply chain execution solutions. Some of the new spending is earmarked for redeployment of existing supply chain applications, including demand forecasting and planning.

The heightened demand for supply chain analytics results from a growing need to measure, monitor and alert in order to synchronize demand. And that, in turn helps companies control costs and improve network management. RFID spending has received a boost from retailer and Department of Defence mandates. The investments in S&OP relate to a need to improve demand visibility. The biggest investors in S&OP solutions are companies involved in mergers that use the technology to synchronize operations, according to the researchers.

AMR Research notes that the spending increases reveal a major shift to more cross-application integration. Companies are now using SCM in combination with applications such as customer relationship management, ERP, and supplier relationship management. These integration activities have also prompted the need to redeploy existing SCM technologies, AMR says.

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