Consolidators international, Inc.

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News & Views

Should DHL Pull Out Of The U.S.?

Almost three years ago, with great fanfare, Deutsche Post acquired Airborne Express to form a partnership with another of its subsidiaries, DHL. How has this partnership fared during the past two and one half years? In one word; disastrous. Accumulated losses in the U.S. for the "new" DHL now total almost $1 billion. The company's ambitious goals to grab market share from FedEx and UPS has proven to be a bust. Both of these package express companies are moving more cargo than ever before. Inevitably, as losses mount, dissension also mounts in the corporate office which percolates down to middle management. Morale is sinking fast throughout the company. So, what's holding up DHL? Little more than corporate ego. No one likes to admit a mistake. But DHL's mistake is a beaut.

It is time for Deutsche Post to consider seriously pulling the plug on the DHL American operation before losses climb to even greater Olympian heights. If DHL were making a genuine contribution to the package business here; to foster competition among all the players, the company could retain an honorable place in our business. DHL has a first rate operation in just about every part of the world—except the U.S. For some reason, DHL never could establish a meaningful footprint here, even as an independent company before the acquisition. As a famous German military strategist once declared, "it is the wise general who knows when to cut his losses." Deutsche Post should follow this sage advice.

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Ribar Replaces Sidler As Head Of Panalpina:

The announcement that Monika Ribar is replacing Bruno Sidler as head of Panalpina is interesting for a number of reasons. Unlike most American CEOs who rarely take the blame for the mistakes of subordinates, Sidler is taking responsibility for a Panalpina employee losing $25 million in profits. Also, Sidler's decision to hire Dave Beatson and move Panalpina's North American operations from Miami to the San Francisco suburb of Foster City was an unmitigated disaster. Beatson almost wrecked the forwarder's North American operations, which was one of the largest and most successful division in the Swiss-based company. Panalpina's Board neither forgot nor forgave Sidler's role.

Also, it is of interest to note that a woman, Ribar, is replacing Sidler. Very few, if any females occupy the corner office at large, or even mid-sized freight forwarders. Monika is a 15-year veteran at Panalpina and from all accounts, quite capable. Perhaps our industry would be in better shape if more of our better half would occupy CEO positions. For many profitless forwarders, it could be only an improvement.

Announcements

Inside This Issue:

Asian Airlines Take First Place In Cargo:

hat Asia is the dominant factor in international air freight is hardly news. Now comes further proof that the Asian continent continues to dominate our industry. For the second consecutive year, Korean Air Cargo has been ranked the world's top commercial airline cargo operation. Korean Air achieved top ranking for the second straight year. Perhaps more significantly, three other Asian airlines filled out the top five cargo spots. Singapore Airlines ranked third; Cathay Pacific (which just placed its largest freighter order, ever with Boeing) was fourth and China Airlines placed fifth. Only Lufthansa, which had been in first place for many years, placed in the top five with a number two ranking.

Is Logistics Outsourcing Cooling?

Call me old fashioned, but I always have believed that outsourcing of logistics functions signified more sound and fury than genuine progress in our industry. Now, surveys indicate that customers are cooling their ardor for outsourcing of logistics functions, particularly technical ones. Outsourcing costs have risen; no surprise there. But the benefits of outsourcing are getting harder to find. Companies are reassessing their outsourcing benefits in light of their own financial results.

The old arguments that outsourced functions would result in 40 per cent savings was sheer hyperbole that never did materialize under actual conditions. Corporate management may be like sheep; they follow the herd instinct but eventually they wake up to reality and want to see cost benefits on their P&L statements.

Recent surveys indicate that the outsourcing bloom is off the rose. Less deals are being struck between customer and outsourcer. And of the deals that are being made, less money is involved. Contract duration of outsourcing contracts also have shrunk; from seven to less than five years. Since most outsourcing organizations now offer pretty much the same IT and other services, they are starting to commoditize their services. It is the same old story. Outsource providers have over-promised and under-served their customers. More and more logistics companies are starting to believe in the old fashioned idea that we can do a better and cheaper job ourselves.,

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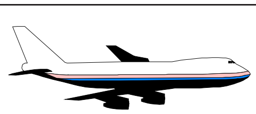


New Head Of CNS:

After thirty years on the job, Tony Calabrezze is retiring as head of CNS, the cargo marketing arm of IATA. He is being replaced by Jens Tubbesing, who joins CNS from freight forwarder ABX Logistics (USA). In his thirty years, Tony has witnessed almost unimaginable changes in the air freight business. Three decades ago, the typical air freight office consisted of a typewriter, telephone and tele-type machine. Today, airlines and forwarders routinely communicate through the computer and the Internet. The industry has grown enormously, particularly the international segment. Thirty years ago, China was in the midst of a political "great leap forward" and was an insignificant factor in world trade. Today, the world beats a path to its door.

We wish Tony a pleasant retirement and Jens a successful stint as head of CNS. His job will not be an easy one. Paralleling the enormous growth of air cargo also has generated enormous problems. "Profitless prosperity" is perhaps air cargo's most intractable dilemma. We are moving more cargo than ever before and making less money than perhaps at any time in air freight's history. Security also is a serious problem. How to reconcile fast moving freight and security of the shipment still has not been fully resolved. Jens must bring airlines and forwarders closer together, to convince both groups they will generate greater amounts of profitable business as partners rather than adversaries.

We look forward to Jens, as head of CNS, to help open clearer channels of communication between every segment of our industry.

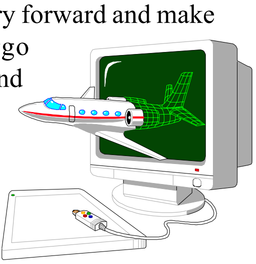
Techology "Advances" Hit A Speed Bump:

When assessing supposed technolgical progress, it often profits to keep a cool head and a skeptical mind. Two recent "advances" bear out this sage advice.

One is the new radio-frequency or RFID identification system which is being touted as an error free method of identifying cargo shipments. RFID sparked a great deal of publicity when Wal-Mart announced it would accept only RFID identified shipments from its vendors. Other retailers rushed to join the bandwagon. Unfortunately, Wal-Mart and its copiers did not look before they leaped. It seems the much vaunted RFID is plagued by fraud and security problems. Viruses are spreading across RFID networks, demonstrating how hackers could compromise the security of these systems. To counter these viruses and guarantee security cost money—and lots of it. Shippers are starting to question of the benefits of RFID versus the costs. The benefits simply don't add up.

Another supposed technological advance, electronic processing of freight, is running out of steam. This initiative by IATA to remove all paper documents from air freight processes, is facing a mid-life crisis. The scheme, announced with great fanfare by IATA only a year ago and to be activated next year after extensive testing by a number of airlines, is quietly being placed on the back shelf. IATA's enthusiasm for the project has been cooled by the complexity of the project and the unenthusiastic response by international forwarding community—a group whose support and assistance is vital. Chalk up one more victory for the old fashioned airway bill.

No industry can stand still. Air freight requires both operational and technological progress. Let's make sure, however, that new methods genuinely move our industry forward and make delivery of cargo more efficient and less costly.



One Swallow Doesn't Make A Summer, But—

As more new airlines join established carriers in serving the Chinese market (there are incredibly 90 airlines now delivering cargo and mail in China), the first faint whiff of a reversal trend has emerged within the past few months. Martinair Cargo, one of the first, and shrewdest, all-freighter airlines in the China market, has sniffed the wind and has cut one of its weekly flights into China. The airlines are finding that for the first time since China became such a dominant force in international trade, capacity is growing faster than growth in shipments. It is not a major trend; most airlines still report strong volume out of China, particularly to other destinations in Asia. But the slowdown in the U.S. economy due to higher interest rates and fuel costs, plus the continuing sluggish European economy, is starting to have an effect.

The Chinese juggernaut eventually must slow down. Economic growth rates of 10 and 12 per cent cannot continue indefinitely. The question then becomes; who will take China's place as engines of economic growth? My bet is on two places; the remainder of Southeast Asia with emphasis on India, and eastern Europe. One of the principal reasons for China's export surge was its famously low costs. The average cost per hour for the Chinese worker was $5.50 including dormitory and food charges. Talk about a minimum wage! No Asian country could compete with that. But China's wage costs are starting to rise; in some regions of the nation quite dramatically. The government in attempting to quell unrest among its hundreds of millions of workers, is starting to grant pay rises. In other east Asian nations like Malaysia, Thailand and the subcontinent of India, wages are stable. Example; Symbol Technology, the largest world maker of bar code devices, considered moving its components plant from Penang in Malaysia to a new factory in China. With Chinese wage costs rising, the company scuttled its plan.

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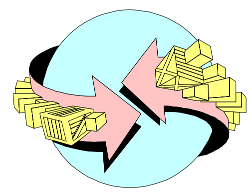
Eastern Europe, which had been under communist rule since the end of World War II, and became free in a domino effect after the fall of the Berlin Wall, is another prime prospect for growth. Nations like Poland, Hungary, Slovakia are becoming more enthusiastic about capitalism than the traditional capitalist nations of western Europe. Economy growth, though admittedly springing from a much lower base, is far higher than in the nations we consider the leaders in Europe.



When Will U.S. Airlines Start Ordering New Planes:

The Farnborough Air Show, held in Farnborough, England, and the biggest aviation get-together of them all, recently ended its weeklong run. The show echoed with announcements both by Boeing and Airbus for new aircraft orders. All of the equipment purchasers came from Asia, the Middle East and to a lesser extent, Europe. The world's single biggest aviation market noticeably was silent; airlines of the United States. A sub-current of talk among those in attendance was, "when will U.S. airlines start ordering airplanes?"

Five years ago, after 9/11, when the U.S carriers were thrust into record losses and bankruptcies among the largest like United, Delta, Northwest and U.S. Air, the question was strictly academic. Today, the U.S. airline picture is much brighter. United and U.S. Air have emerged from bankruptcy. Healthier carriers like American, Continental and Southwest are reporting solid profits despite sky high fuel costs. The U.S. fleet is getting older.

With the exception of a few Boeing "Dreamliner" orders from Continental, no new aircraft orders have been placed by U.S. carriers since the traumatic effects of 9/11.

Sooner or later, American carriers will have to join their Asian, Middle East and European competitors in ordering new equipment. I believe the answer will be sooner. U.S. carriers will not stand idly by while foreign airliners fly into the U.S. with brand new, fuel efficient and passenger preference equipment. I predict that before the year is out, a number of U.S. airlines will be placing aircraft orders. If I were a betting man, my wager would be on American Airlines as the first U.S. carrier to plunk its money down on a deposit for new equipment. The airline now is profitable, has a huge cash flow and perhaps psychologically important, American considers itself the leader in U.S. civil aviation. The legacy of C.R. Smith and Bob Crandall still remains.

Sincerely,

Julian A. Keeling