



Consolidators International, Inc.

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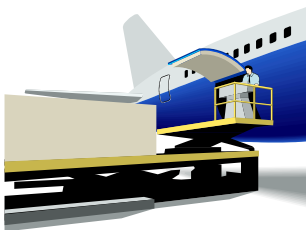
## 2000-2010—A Decade Of Change And Not Always For The Best:



he passing of a decade seems to bring predictors and prognosticators out of the woodwork. Predicting the next decade becomes a favorite indoor pastime while analyzing the past 10 years becomes almost an obsession with pundits and experts of all stripes. Air freight is no exception. Everyone from cargo execs to academic types weigh in with their thoughts about the past and estimates of the future.

As one who has been in the cargo trenches for almost 35 years, let me add some thoughts to what I believe are some of the most important changes and trends in our industry during the past ten years. They are:

The most important change, I believe, is a more realistic assessment of what freight can and cannot do. At the beginning of the decade, air cargo growth was seemingly unstoppable. During the nineties, air freight volume was increasing as high as a 10 per cent annual rate. Growth was aided greatly by the increasing acceptance of the Just-In-Time or J-I-T method of production. J-I-T was sweeping the industrial world after originating in the 1980s by Japanese car companies. The philosophy of J-I-T was simple and persuasive. Why tie up capital in inventory when transportation by air, with its speed and preciseness of delivery, can deliver both components and finished goods to the assembly line or retail store



almost at the last minute of production or distribution? Millions could be saved in over-all plant efficiency and inventory costs. Like so many seemingly logical strategies, there were flaws in the concept. Yes, J-I-T would work perfectly in a perfect world. But our world is not perfect. It is subject to man-made obstacles like terrorist attacks and increased security rules and regulations which slow the flow of traffic. It is subject to natural disasters like major earthquakes (see Haiti), tsunamis (see Indonesia) and swine flu epidemics which make adhering to flight schedules difficult if not impossible. Manufacturers found they were winning millions in lessened inventory costs while losing hundreds of millions in lost sales and good will with an over dependency on J-I-T. The end of the decade saw a more realistic appraisal of J-I-T; useful in certain situations, counter productive in others.

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Another important trend in the first decade of the 21st century was the realization by many producers and distributors that WHEN a shipment was delivered was just as important as the speed in which it arrived. Shippers increasingly were willing to sacrifice rapid, expensive delivery schedules if they were assured of a specific, if slower, time of arrival. Contributing to this trend away from international air was the faster sailing time of the new, larger container ships



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with their two week scheduled time to the U.S. west coast from Asian ports. Air freight's single greatest advantage; speed was minimized. On the domestic side, trucking firms were becoming far more sophisticated in technology allowing freight to be moved over the road from east or west coast ports to inland points in a matter of hours rather than days. The lessened use of air for domestic business has been highlighted by the enormous growth of FedEx Ground. Barely a company statistic ten years ago, FedEx Ground now contributes a rising share of company revenues today while the package express company's expensive overnight volume contracts.

Air freight will continue to play an important role in the world's transportation mix. It has its limitations, however, which were dramatically exposed during the recent recession. In short, volume nosedived. As the world's economy improves, as it seems to be happening, so will the fortunes of air freight rise. This is particularly true in those industries like electronics, apparel, pharmaceuticals, where speed to market still count.

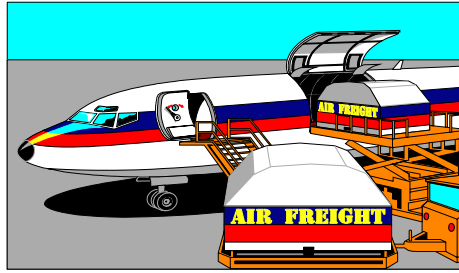


## Airlines Put Profits Before Service—What Else Is New?



ast year's Christmas season was a strange one for air freight. Throughout 2009, air freight was in the doldrums. Volume between Asia and the U.S. was down about 20 per cent. The decline in cargo activity between Europe and the U.S. was even greater. Airlines went into a crisis mode, slashing flights with abandon and substituting smaller aircraft for larger ones. About a month before Christmas, however, everything changed. Retailers in the U.S. suddenly realized with horror they had reduced inventory far too much, anticipating a disastrous selling season. Americans were hurting but they weren't suffering enough to abandon the shopping malls entirely. Christmas volume, while not breaking any records, was showing reasonably good gains after a genuinely disastrous previous year.

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Out went retailers' orders to their Asian suppliers. We need more merchandise and we need it in a hurry. Air was the only transport method to satisfy a quick replenishment of inventory. Orders began piling up in Asian factories for everything from shoes to toys. Where were the airlines during this upsurge in business? Nowhere. The carriers refused to expand their schedules, keeping equipment on the ground. Cargo aircraft remained parked in remote deserts. Freight began piling up on the tarmacs of Asian, and to a lesser extent, European airports. "You want to move freight?" asked the carriers to their forwarder customers. "Fine, but that will be \$6 per kilo. You don't like the price? Charter one of our airplanes and that will be \$500,000 ex-Shanghai to Los Angeles." Airlines put profits before service in the most brutal possible way. Forwarders, their most loyal and consistent customers, were told in effect, "drop dead."

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What about 2010? Factories around the world, and particularly in Asia, are starting to hum with activity. A resurgence of international economic growth is in the air. Will airlines resize their fleets to meet the growing need for traffic by air? The jury is still out. Airline executives are playing their cards close to the vest when discussing expansion in routes or fleet size, refusing to commit themselves. Yet, airlines are in a far stronger position today than the comparable period in 2009. The major carriers have stronger cash balances, have raised new funds on capital markets through sales and leasebacks and find that fuel costs are manageable. They should realize that with better service, profits will take care of themselves.



## Cats Meowed For Their Favorite Food—CII Responded:



at lovers know how finicky their little pets can be. Del Monte-Star Kist discovered that truth when the company's pet food division began to run low on its Star-Kist canned pet food line, a favorite among felines. A feline emergency was declared and CII responded. We had been working with Star-Kist in American Samoa for some time, helping to supply their canneries and fishing fleets. Star-Kist called Tony Feist, our VP in charge of CII's tuna division and asked, "could we help?"



Tony sprang into action and on very short notice, arranged a charter flight from American Samoa to Los Angeles to rush 200,000 lbs. of canned pet food to the U.S.

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**Tuna Support**  
Critical Logistics for the Tuna Industry



Working with Peter Lamy, our chief operating officer, CII contracted with Connie Kalitta's airline to charter a Boeing 747 to make the trans-Pacific flight. Peter accompanied the first leg of the flight from Los Angeles to Hawaii. Emergency supplies were loaded there because relief supplies still were needed due to the earthquake and tsunami that

had devastated the islands of Samoa and American Samoa last autumn. With hungry felines waiting impatiently for their favorite Star-Kist meal, no time was wasted in loading the 100 tons of cat food, with turn-around time in just a few hours. The big Boeing flew to Hawaii for refueling then continued on to Los Angeles. There, waiting trucks rushed the cat food to Star-Kist's distribution centers for delivery throughout the U.S. While arranging charters are not an every day occurrence at CII, our team led by Tony and Peter, did an outstanding job to help Star-Kist satisfy legions of cat lovers.



## Who Wants To Be Consolidated Out Of A Job?

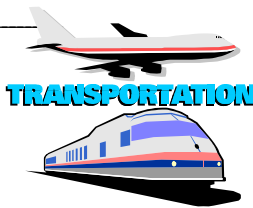
**W**ith the global cargo industry facing the worst contraction in volume in 80 years and with recovery taking but halting steps, a supposedly logical reaction to this state of affairs is consolidation—consolidating the weak into the strong. This is what is taught at all the business schools in the U.S. and elsewhere. The cry for transport consolidation is heard more among shipping lines and trucking firms than among the airlines, but carriers are not immune to the siren song of merger and acquisition.

While consolidations are a favorite theory in academia, how do they work in the real world? In practice, they almost never succeed. The simple truth is that

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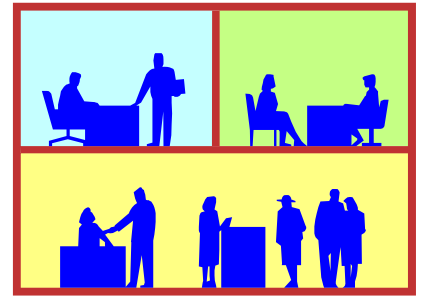
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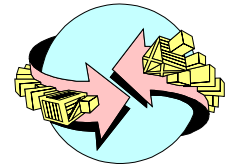


consolidations fail for any number of reasons. Consolidations almost never produce a better company and more times than not, a worse organization results. Not infrequently, a consolidated company slips into chaos. On the ocean side, when Maersk acquired P&O a few years ago, the surviving company (Maersk) spent so much time dealing with the amalgamation and sorting out of their separate computer systems, customers didn't receive satisfactory service for almost a year. On the air side, the horror stories coming out of the U.S. Air-America West merger still are being repeated two years after U.S. Air became the surviving carrier.

About 90 per cent of promises go unfulfilled in mergers and acquisitions. The synergies promised, with savings going right down to the bottom line, never occur. In fact, companies generally face greater expenses trying to make the consolidation work with resultant lower profitability. Customer service goes right down the tube as employees fight the bureaucratic wars to remain employees. Ironically, it often is a company consolidating into a bigger partner that provides a much higher level of service. Perhaps the greatest obstacle to a successful consolidation is the human factor. People simply don't like to consolidate themselves out of a job. Who wants to become redundant?



The transportation business needs more competition, not less. I don't mean competition in price, which harms all of us, but in service. Manufacturers now are competing in a worldwide arena. Transportation has become a vital part of this international competition. We have long since moved from those simple days when a product was made in Akron was sold in Chicago, a few hundred miles away. Today, that same product is sold in China. How and when that item is transported becomes a key factor in the success or failure of its saleability. As we move into the second month of the New Year, let's hope 2010 will be far more successful than the previous forgettable 12 months



## D.B. Schenker Shows Courage In Raising Rates:

**T**he big Swiss freight forwarder is showing courage in raising U.S. domestic rates and trans-border to Canada and Mexico. The increase takes effect March 1. I have long argued for compensatory rates for forwarders. Happily, at least one forwarder, Schenker, is moving in that direction. More should follow its example. For far too long, forwarders have been emphasizing lo-ball pricing which may generate sales but does nothing for the bottom line. Isn't making a profit the name of the game? Let's hope other forwarders, and not just the big international consolidators, get the

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*Sincerely,  
Julian A. Keeling*

message and raise their rates. We've been working for 1 and 2 per cent yields for too many years. Let our customers be made aware they must pay a fair price for the premium levels of service we offer.

