



Consolidators international, Inc.

MARCH
2007



Is That Smooth Machine Called UPS Sputtering?



What's going on in Atlanta? Is UPS, once considered the poster boy for the growth and solidity of American corporations, starting to sputter? One swallow doesn't make a summer and a few bumps in the road (to mix a metaphor) may not derail a company so powerful and rich in history as UPS (it celebrates its 100th anniversary this year), but the company's problems prove once again that nothing in American business is cast in stone.

From the recent revolving door for senior managers at UPS' corporate headquarters in Atlanta to a number of poorly conceived stratagems, to an anticipated decline in profitability for '07, there is a definite air of disarray at the one time smoothest running, most consistently profitable company in the transportation business.

Contrast the dithering at UPS over its order for the freighter version of the Airbus jumbo 380 with FedEx' recent decision about the same aircraft. While UPS was wringing its hands whether to go ahead with the order to acquire the mammoth airplane or cancel it, Fred Smith



didn't waste any time. He realized the 380 was not the right airplane for FedEx, cancelled the order with Airbus and cut his losses. The "consensus" method of management at UPS is failing by procrastinating. This critical decision, if not taken soon, could result in future losses running into the millions.

The decision by UPS to downsize drastically its supply chain management division also is an indication that management has lost sight of its primary mission—moving packages throughout the U.S. and around the world. The downsizing of this division was barely mentioned in the press, but the shrinkage in personnel (many hundreds lost their jobs) and closing of facilities was a major blow to UPS' ambitious plan to be more than a delivery service but a

Announcements

Inside This Issue:

The Machine Called UPS Sputtering? pg 1

Another Victory For US Carriers: pg 1

A Loser Joins A Loser Company: pg 2

Fate Points To Jet Blue: pg 2

EGL Left At The Altar: pg 2

Shareholders Aren't Succumbing pg 3

Visions Of Monopoly pg 3

The First Virtual Airline pg 3

complete supply chain management system for its customers. Of course, this decision throws a sharp light on all those supply chain organizations who have grown like weeds, and who boast they can save customers thousands and even millions of dollars in transportation costs. If UPS can't hack it with a supply chain operation having millions of dollars at its disposal and thousands of skilled, experienced people, how many of these smaller companies are doing nothing more than blowing smoke in the wind?

Score Another Victory For U.S. Carriers:



The U.S. legacy carriers are savoring another victory. Bowing to domestic political pressures and a general air of paranoia brought on by the threat of terrorism and the war in Iraq, the Department of Transportation has abandoned its efforts to ease foreign control of domestic airlines. This latest move by DOT also has delivered a setback to the potential open skies agreement between the U.S. and the European Union.

The primary obstacle to a loosening of restrictions was action by a group of House of Representatives' members. These representatives, all sitting on the House Sub Committee on Transportation & Aviation, sent a letter to DOT, saying in effect, these changes will occur only over our dead bodies. The airline currently most affected by the hardening of Congress' attitude toward foreign investments is Sir Richard Branson's brainchild; Virgin America. The DOT, undoubtedly influenced by the rigid

attitude of Congress, rejected Virgin America's claim to fly as a domestic carrier. Although Virgin America has until the end of March to appeal the decision, airline insiders believe DOT will not reverse its ruling. Virgin America has gambled on a positive decision by ordering new Airbus equipment, hiring a ground staff and taking a long term lease for its headquarters in a San Francisco suburb. If the decision stands, that gamble will come up snake eyes with \$53 million in start up funds out the window.



A Loser Joins A Losing Company:



Our industry well remembers that most venerable of forwarders, Panalpina, hit a very shaky period a couple of years ago. The American operation started to bleed red ink in the millions under its U.S. CEO, David Beatson. David was probably the worst chief executive in the forwarding business since the industry started 60 years ago. Under his command, Panalpina moved its U.S. headquarters from its traditional home in Miami to the San Francisco bedroom community of Foster City because Beatson wanted to live in California. In the process, he uprooted hundreds of loyal Panalpina employees. His choice of personnel and acquisitions also proved disastrous. Almost simultaneously, accounting irregularities were discovered in Panalpina's Swiss headquarters. Panalpina hardly was the tidy, efficient operation for which Swiss companies are supposedly so famous. Presiding over this corporate chaos was Bruno Sidler,



this "schoolboy in shorts" as I described him at the time. Sidler at least did the honorable thing by figuratively falling on his sword and resigning. I also predicted at the time that Sidler, phoenix-like, would rise from the ashes. And so he has, sort of, by becoming head of European operations for the troubled forwarder, EGL. Perhaps EGL thinks Sidler has buddies inside the Panalpina organization who can join him? Methinks that's wishful thinking. EGL does need help, however. Its European operation is in the pits. Since Sidler was ousted, Panalpina quickly set itself to repair the damage and get back on track. Today, the forwarder is profitable once again. While Panalpina is clawing itself back, EGL seems to be hitting a low point (see next item). Bad move, Bruno. You're a loser joining a losing company.

Fickle Finger Of Fate Points To Jet Blue:



Almost since its inception seven years ago, low cost carrier Jet Blue has been the darling of the media. It could do no wrong. Jet Blue went its own way and did not follow in the footsteps of the great majority of low cost carriers. It did not buy old, used and cheap aircraft, but went out an ordered brand new Airbus 310s. Instead of worn, patchy seats and no amenities, the airline installed quality leather seats with TVs on their backs and served all kinds of snacks. Wisely, the airline flew out of less congested airports like Long Beach and Oakland with their lower landing fees than LAX or SFO. Jet Blue's stock zoomed and Wall Street was confidently asserting that the airline was the most successful start-up carrier since deregulation of the airlines in 1978. But President Neeleman's pride and joy turned to ashes in just one day. That "day of infamy" occurred last month during an ice storm at JFK. It delayed Jet Blue flights of up to 10 hours while hapless passengers remained prisoners in their aircraft. The resultant negative, almost savage coverage in the national

print and TV media turned Jet Blue from an icon to a pariah in less than 24 hours. A chastened Jet Blue now is back to normal operations. But its troubles are not over. Even before that fateful day in February, Jet Blue was in trouble. The legacy carriers saw a fundamental threat in Jet Blue and have moved with rare aggression and speed to counter the upstart airline. Their success in countering Jet Blue, once thought of as airline with unlimited growth by Wall Street, demonstrates that when the legacy carriers' bottom lines are threatened, they will shake off their usual torpor and react quickly and decisively. Rates will be slashed; additional flights will be scheduled to match Jet Blue's schedules. Result: Jet Blue no longer is expanding its route structure. Indeed, since that fateful day in February, the airline has cut destinations and frequencies. The stock is down 75 per cent from its high. Jet Blue is drastically scaling back orders for new Airbus and Embraer aircraft. The fickle finger of fate has indeed pointed to Jet Blue. Today, it is just another airline fighting some very formidable opposition.

EGL Left At The Altar:



EGL CEO Jim Crane was counting his chickens before they hatched. He expected to receive \$36 per share for his stock from a group of private investors to make him a real millionaire instead of a paper one. But alas, it was not to be. Those greedy Wall Street bankers thought they could acquire EGL; take the company private, load it with debt, declare millions in dividends for themselves and then sell it off. They had second thoughts when EGL announced its latest quarterly results. They were dismal. The bankers realized that even the investing public wouldn't be suckered into buying the stock with such miserable results. They pulled out, leaving Jim holding the proverbial bag.

EGL is another sad case of one forwarder acquiring another, then living to rue the decision. In this case, Circle Air Freight was acquired by EGL. The acquisition gummed up the works for EGL and the forwarder has been suffering a severe case of indigestion since it took over Circle about four years ago. That match certainly was not made in forwarder's heaven. Customers have consistently complained about lack of service with many of EGL's competitors taking business away from the hapless forwarder. In order to keep sales up and satisfy Wall Street, EGL has been buying business with money losing, low margins.

The last quarter of 2006 showed the unhappy results and the Wall Street gun slingers headed for the hills. Unlike another publicly held competitor to which it often has been compared, Expeditors International, EGL never has been a favorite of Wall Street. Analysts favor Expeditors because the company delivers constant profits and remains focused on the primary job of a forwarder—moving freight on time, in good condition and with no hassles. Its president, Peter Rose, keeps his eye on the ball at all times. Jim, you could do worse than emulating Peter. Concentrate on running your business and forget the stock market. Now more than ever, EGL needs dynamic leadership to regain the respect of the forwarding community.



Qantas Shareholders Aren't Succumbing:

Perhaps the biggest scam in finance today is the buyout of public companies by private equity firms. Publications like the Wall Street Journal in America and The Australian in Australia have documented the unprecedented greed and avarice of these firms. Their modus operandi is simple. Buy companies strong on assets and with little or no debt. Hold onto them for a year or two while stripping the company of as many assets as possible. Re-float the companies now laden with debt, take a few million off the top as dividends, and then sell the companies to an unsuspecting public at premium prices. The refloated companies, more often than not, struggle to meet unrealistic projected earnings and sooner rather than later, the price of the stock moves into rapid decline.

Thank goodness, in at least one case this depressing scenario may not play out. It involves Qantas and the efforts by a predatory bunch of Australians, Canadians and Americans to take the airline private, convert it into a bare bones carrier to increase profits and unload it. The Australian government and many of Qantas' shareholders are saying, "wait a minute, not so fast." The legislators in Canberra are uniting in their efforts to quash the deal. Small shareholders, with a sense of pride in Australia's national flag carrier, are refusing to tender their stock. Even one of the local pension funds with 6 per cent of the outstanding shares, has gone on record to tell the potential buyers to get lost.

Can I suggest to Texas Pacific and other bidders for Qantas to pop over the Tasman Sea and have a chat with Helen Clark? She's New Zealand's prime minister. This freak of a woman sees great value in what you do. Only problem, you may be a little too late. Her buddy, Fyfe, "The Knife" has taken a leaf out of your book and already has eviscerated Air New Zealand. However, there may be a few scraps left. You can seek "value" with an outright sale to Singapore Airlines or better yet, to China Airlines.

Visions Of Monopoly Aren't Confined To The Airlines:

Although CII primarily is an air freight company, we handle ocean cargo from time to time. Also, my own career "down under" started in ocean transportation and the shipping industry always has fascinated me.

That is why I take such an interest in ocean shipping. Some of its more recent developments, however, have caused me real distress. Latest example; the potential purchase of one of the oldest names in shipping, Hapag Lloyd, to the industry's largest player, Maersk. Shipping is following the same depressing path as the oil companies. I predicted some years ago that the huge oil companies would merge into huger companies. They have not disappointed me. Result: oligopolies and higher prices at the pump! My predictions were right on the money. Now, the shipping business is in my crosshairs. Less competition and higher profits for the surviving companies. Maersk now controls up to one third of

the entire volume of ocean shipping. With the acquisition of Hapag Lloyd, this figure will rise to 40 per cent. With such a huge percentage of the shipping business, Maersk, as the surviving company, will be in a position to raise prices by manipulating (just as the oil companies do with refining) the number of vessels that will ply each sea lane.

In the good old days of Conference Line cartels, shippers did pay a little more but they got value for their money. They were guaranteed year-round service to take their products to market. Conference Line vessels even scheduled their service to unprofitable ports of call to maintain good relationships with their customers.

What do we have today? Capitalism at its worst. High rates and poor service. Competition has all but ceased on the great majority of shipping lanes. Too bad we can't build bridges across the oceans. At least truckers still believe in competition.

Air New Zealand; The First "Virtual" Airline:

Last month, I predicted Air New Zealand would become the first "virtual," i.e., non airline airline. I stated its two largest investments would become its web site and the paint on its aircraft. Unfortunately, my predictions are coming true.



Last month, CEO Fyfe, "The Knife," announced he could not reach agreement with the airline's 1700 ground staff in New Zealand. Absent any agreement, Fyfe announced he was moving forward to outsource the work to Spanish owned Swissport. Swissport would handle passenger check-ins and baggage. The only in-house service now under the Air NZ umbrella is cargo. Who knows how much longer cargo will remain within Air NZ? My advice to Sal is, "watch out." You and your cargo team in the U.S. may not be much longer for this world. You may be outsourced and no longer selling cargo. Make sure you cut a good deal with the G.S.A. who will take over your role in marketing and selling freight for the airline. If you don't, your severance pay will give you only a few months of breathing room to find a new job.

Sincerely,

Julian A. Keeling

