



Consolidators international, Inc.

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Americans Starting To React Against Shoddy Made Chinese Goods:



Final retail sales figures are in for 2007 and as expected, the Christmas season was a disappointment for store chains large and small, budget and luxury. For the first time in a generation, retail sales were flat for that all-important Christmas selling season.

I don't believe the weakening economy, with its sub-prime mortgage crisis, was the only reason for shoppers to avoid the stores in droves late last year. There were other factors at work including a belief that commercialism had gone too far. Many believed a spiritual celebration at Christmastide was more in keeping with the spirit of the Holiday. Another major factor unquestionably was a reaction by American consumers against the shoddy goods made in China. Almost every retail store in the U.S. was filled to the brim with Chinese-made junk. All the scares, from food products for human and animal consumption to dangerous toys, impacted

upon consumer confidence, or more appropriately the lack of it, which the American buyer increasingly feels for Chinese-produced goods. Big business still has the mindset that good business means having their products made under contract in China. Boardrooms across America have ignored the underlying premise that the man in the street now sees global trade not as a panacea but as a threat. Globalization has decimated the industrial might of America. Closing factories and then being told a newly opened Wal-Mart in their town is offering jobs at 50% less than what they were earning with no benefits, is an insult to all hard-working Americans. I believe the average American has "voted" with his wallet and has killed two birds with one stone. He (and she) had too much consumerism and he didn't want to buy a poorly made product—probably made in China.

If I were Mattel or Gap, or even Wal-Mart

Announcements

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with its huge dependence on Chinese-made goods, I would do some serious thinking. The answer lies in being good listeners and good American companies. Show greater patriotism and bring manufacturing jobs back to America. Otherwise, you will slide into oblivion and like the IBM laptop, you will be bought by a Chinese company!

Is China A Huge Market For American-Made Products?



China has become the "factory to the world." Aren't all those workers churning out products for world consumption also consumers? Isn't there a huge Chinese domestic market for American products? U.S. Boardrooms now believe in China's supposedly massive consumption as their holy grail. But American businessmen are hardly the first people to think of China as a huge market for their goods. The belief goes back hundreds of years to the days of Marco Polo. The sheer number of people living in China—approximately one quarter of the earth's population in a

single country—has held men and women in trade in awe since Marco Polo came back from China 500 years ago filled with luxuries of the Orient.

With the transformation of China from a backward, overwhelmingly rural nation to a modern, economic juggernaut, many creative minds in the U.S. (and elsewhere) are mulling how to separate the billion-plus Chinese from some of their yuans. Marketing people come armed with statistics. A Chinese baby is born almost every 10 seconds. You need only 1 to 2 per cent of the population interested in your product to produce huge sales. Let

me be a wet blanket, however. Those rushing to prepare for a deluge of Chinese buying of U.S.-made products neglect to factor in several relevant points. While a middle class has formed in China, the vast percentage of the population still remains rural and gripped in poverty. China is not a free market economy and foreign-made goods are not welcome, particularly with the government attempting both to encourage and actually subsidize domestic manufacture of goods. China is not a utopia for American business. It's a tough fight to carve out a market there even with 1.2 billion potential customers.



Will Regulatory Agencies Kill Off CNS?



ate last year, CNS conducted an ambitious public relations road show to all the major U.S. gateway cities. Its purpose: to show that it was an inclusive and not an exclusive club. Although invited, I did not attend. Reason: the meetings would not tolerate any discussions centering around the U.S. Justice Department and the E.U. investigations of collusion amongst member airlines and major forwarders over fuel and security surcharges. Readers of our Newsletter will remember that I criticized vigorously CNS attempting to cover up the issue. I also voiced my concerns in the trade and business press, which received widespread coverage.

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CNS has promoted Cargo 2000 ever since its inception. While it is the hobby horse of some airlines and a few large forwarders, Cargo 2000 has become one big yawn. Cargo 2000, when formed in the nineteen eighties, was all about making changes and improving standards by the year 2000. It is now 2008 and what has occurred in the past eight years? Nothing. Yes, there has been a great many meetings and conferences taking place around the world with the result being little more than hot air emanating from these meeting rooms. Whatever improvements have been made were developed by forwarders themselves with no help from Cargo 2000 or CNS. If CNS were truly a grass-roots organization, its supporting of Cargo 2000 would have led to a meaningful organization, with a greater and more positive impact on the entire air freight industry.

By and large, the advisory board is made up of a gaggle of worthless, backslapping yes men. Example; UPS refuses to join CASS, the industry's payment system, but who sits on the CNS Board? None other than Charles D. Cocci, a middle management UPS employee. "Chuck" has followed the industry line for twenty years and has been rewarded with a seat on the Advisory Board. As a committed industry executive, shake up UPS, Chuck, and exert pressure on your company to join CASS! CNS is running scared. The very mention of the Sherman Anti-Trust Act has airline and forwarder chiefs ducking for cover. One of the forwarders mentioned in the investigation, Expeditors International, recently announced it was setting aside \$4 million to cover legal costs. If there is any organization that should stand up and be counted to protect its members, it is CNS. Its inept performance in this critical matter suggests to me it is running on borrowed time. Will CNS die or will it be killed off? If it were run by men of true principle, it would go down fighting, not cowering and hiding inside a bunker in Garden City.

Small Now Is Beautiful At UTi Worldwide:

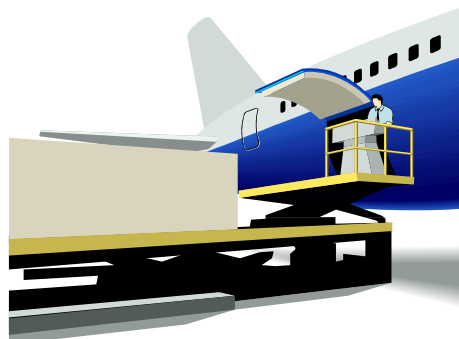


I don't usually comment on individual freight forwarders, but I will make one exception. The exception is UTi Worldwide, one of the fastest growing consolidators during the past decade but whose arrogance and greed has brought it crashing to earth. UTi, headed air freight swashbuckler Roger MacFarlane, who never found a logistics company he didn't like to purchase, has spent hundreds of millions of dollars during the past decade building UTi into one of the world's largest logistic companies. MacFarlane didn't grow a company the old-fashioned way by internal expansion, but chose the acquisition route. Since 1999, UTi has acquired no less than 40 companies in a variety of logistics' businesses ranging from 3PLs to warehousing. It would take a Jack Welch, the retired genius behind GE's growth, to meld all those separate entities together. Unfortunately, MacFarlane is no Welch. Divisions operated without any idea of what the others were doing.

UTi made another cardinal mistake. The forwarder relied on a few very large accounts, rather than spreading business among a number of smaller customers. UTi's largest account by far was Wal-Mart. This month, it is losing Wal-Mart, a staggering blow to the company. Faced with rising costs, a faltering economy and the loss of Wal-Mart, UTi is undertaking massive restructuring and downsizing. It will shed a number of companies it so hastily purchased, will cancel unprofitable contracts (UTi bought into many accounts it knew perfectly well could not

yield a profit), shake up its management and lay off almost 1,500 employees. It also is warning of profit shortfalls and will restate earnings for three years; from 2004 to 2006.

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UTi now is a much smaller company, but has it learned its lesson? The lesson that too rapid, disorganized growth and overdependence upon a few major accounts, can lead to disaster. A final irony; UTi, which purchased businesses almost on a helter-skelter basis, now is an acquisition candidate itself.

10 + 2; Why These Numbers Are Important:

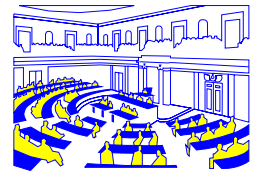


Among the thicket of government regulations lies a proposed rule that is expected to take effect later this year. It is called the 10 + 2 rule. This proposed new regulation will be of critical importance to everyone involved in international trade. Yet, few in our industry are aware of it. It is no exaggeration to state this numbered new rule will herald a new era in our industry. Once in force, it will require the importer and his freight forwarder to submit a security filing on every incoming shipment including such information as the country of origin, the seller, manufacturer and the port where the container was loaded. Ten pieces of data will have to be submitted; thus the number 10.

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As currently mandated, the new rule will apply only to ocean cargo. But surely as night follows day, air freight will be next in line to conform with this new customs regulation. What will make the new 10 + 2 rule onerous is that all this information

must be transmitted to U.S. Customs 24 hours before shipment of goods. The new ruling will require millions of dollars in additional expenses; from reprogramming computers to higher labor costs. There will be hardships in implementing the new 10 + 2 rule, particularly among smaller forwarders. Hopefully, however, it will silence voices in Congress and elsewhere who are demanding 100 per cent scanning of all containers in foreign ports bound for the U.S. This is an impossible requirement. Sooner or later, and probably sooner, air freight will come under the statutes of this new customs regulation.



With E-Ticketing For Passengers, Why Not For Freight?



Widespread adoption of e-ticketing for airline passengers has saved the carriers hundreds of millions of dollars in transaction costs. While passengers now can make their own reservations on the Internet and even print out their boarding passes, air cargo remains choked in paper in a digital world. Despite in many ways serving as the backbone of the fast-moving, time sensitive global economy, air freight remains one of the most conservative segments of the transportation business as it relates to the processing of shipments. We're still using as much paper as we did fifty years ago when forwarders worked with typewriters and teletype machines.

Converting to e-freight won't be easy. Business, technical and legal frameworks must be established for e-freight

genuinely to work. Information must be exchanged electronically in a seamless, error-free manner between shippers, forwarders, airlines and governments. Our industry needs all the help we can get, however. High oil prices, cumbersome processing requirements and a slowing world economy are combining to handicap our competitiveness with ocean shipping. It is no secret that seaborne commerce is demonstrating greater growth than air. IATA and other trade groups claim that substituting electronics instead of paper will add up to big savings. Those savings should help in reducing costs to better compete against the shipping lines. Savings would be about \$1 billion annually, says IATA.

E-freight is a system whose time has come. Developing electronic systems and procedures should become a priority for our industry.



DHL can't seem to escape press notice, particularly when the news is bad. Latest negative item to hit the world press is the enforced resignation of Klaus Zumwinkel, Deutsche Post's CEO. Deutsche Post, of course, is the parent company of DHL, acquiring it some years ago. It seems that Zumwinkel, after serving as CEO for almost twenty years, was forced out by the company's Board of Directors because he had become embroiled in a German tax scandal. German authorities claim Klaus owed almost \$1.5 million in back taxes. Zumwinkel was a leader in DHL's expansion into the U.S. package express market and also purchase of Airborne Express. It will be interesting to see how Klaus' successor, Frank Appel, will handle the DHL-American situation.



Delta and Northwest; United or American and Continental? We keep reading in the financial pages that some airlines are in a hurry to merge because they think they have a better chance of winning anti-trust approval while a Republican still is in the White House. It is an interesting theory

Still Time For Mergers?

Sincerely,

Julian A. Keeling

and it strongly suggests the airline executives expect a Democratic victory in November! Are you listening, Hillary and Barack?

