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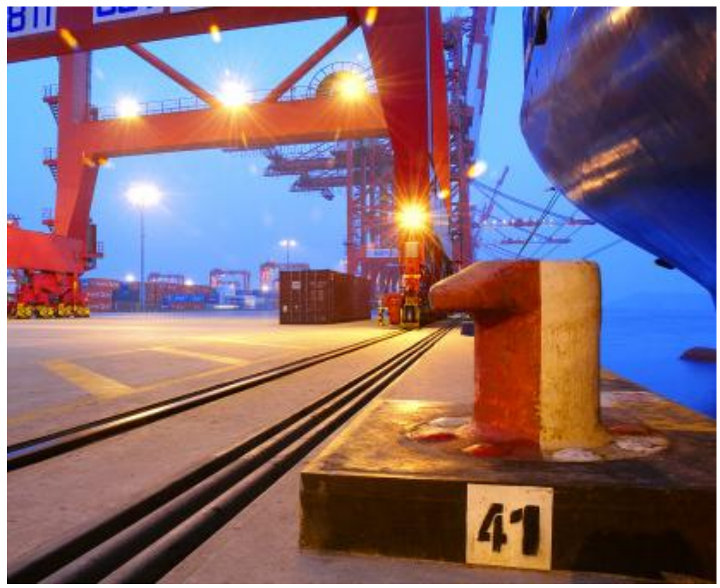

Trends in Global Transportation Management

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What's Happening — and What to Expect — in Ocean Trade Lanes, Air Freight, U.S. Domestic Transportation and More

Surely, few supply chain managers (and probably fewer economists) expect the United States' economy to come through the trough of the recession quickly and accelerate. Most expect the nation to follow more of a saw-tooth pattern of small ups and downs in our cycle of growth. But, rest assured that the shift in capacity and demand is being closely monitored and measured across all transportation modes and third-party logistics, or 3PL, services. Most likely, it will be noticed soonest by ocean carriers, but felt hardest by truckload (TL) carriers as volumes increase, as has historically been the case.

Here's a look at the current trends — and what to expect in the coming year — in ocean trade lanes, air freight, U.S. domestic transportation and more.

Ocean trade lanes. Ocean container carriers are seeing a glimmer of improvement, as their idled fleets and vessel layups seemed to reach a peak in May. Now, these appear to be slowing down, with some carriers bringing vessels back into service and redeploying capacity and larger ships in the East-West trade lanes. The recession has clearly taught the industry a lesson — one that highlights the need to diversify services and be a more end-to-end or single-source supply chain service provider.
Those providers that were wise enough to diversify their services fared much better during the economic storm by keeping their customers and being able to rely on revenue from other services. In many cases, they even grew their nonmaritime business and revenue bases. The expectation is to be back to single digits and see a steady improvement as they approach the fourth quarter of 2009 and into early 2010.

Air freight. In May, the International Air Transportation Association (IATA) reported that air international air cargo demand had dropped 21.7 percent between April 2008 and April 2009. Of the six key global regions measured and tracked by IATA, Latin American carriers were hit hardest.

U.S. domestic transportation. Across all surface modes (TL, less than truckload, intermodal and parcel) freight demand continues to leave the market at a quicker pace than capacity, putting pressure on carriers to decrease rates — and margins — to keep customers. As this happens, supply management professionals sensing an uncommon array of opportunities are frantically reopening contracts and locking in lower rates.

When the demand increases and levels off with capacity, more even-sided negotiation will return. In the meantime, the key lesson being learned that applies across all modes is that shippers and carriers need to collaborate on win-win strategies that allow both parties to agree on costs, service levels and profitability.

Supply chain outsourcing. With corporations looking to free up cash, improve their balance sheets and move toward a more variable-cost financial model, outsourcing warehouse and distribution operations is happening at an unprecedented pace. Whereas companies previously took a year to 18 months to navigate a decision-and-transition process, this is now happening in as little as three months.

Reducing inventory costs. To improve the balance sheet in these "cash-is-king" times, supply management professionals are working with suppliers, manufacturers and partners to push inventory back up the supply chain. They are asking suppliers to hold inventory longer, as well as make it available closer to their customers and local distribution centers (versus regional centers, which incur additional transportation and inventory carrying costs).

In an effort to free up cash, another model is gaining ground: the reduction of inventory, plus reduced order sizes, increased replenishment frequency and movement of as much freight as possible through a cross-dock operation versus a more traditional warehouse model.

Global transportation infrastructure. The precipitous drop in world cargo volumes across all sectors has not brought all bad news: Infrastructure projects are moving ahead as planned, and some should be completed as volumes begin to pick up again.

On the air freight side, major airports are ramping up to accommodate the next generation of air freighters — the double-deck Boeing 787F and the Airbus A-380, in particular. Both aircraft have capacities and cargo lift in excess of 150 tons.

On the ocean freight side, the slowdown in ports is allowing port and terminal operators to complete expansion and infrastructure projects. Most notable is the expansion of the Panama Canal to add a third set of lochs, which will double its capacity when it is completed in 2014. The US $5.5 billion project will increase the maximum vessel size from 4,400 TEU (20-foot equivalent unit) limit to 12,000 TEUs per ship.

What's on the Horizon

Certainly, the global recession has prompted supply management professionals and management executives to view their supply chains more strategically. Supply management teams are being called to implement changes faster than ever before, to outsource and to remove cost from their supply chains. Companies have witnessed firsthand how well-managed supply chains can help drive their organizations' topline, bottomline and cash positions.

With increased consumer confidence of late, consumption of current inventories will increase along with manufacturing and trade, driving demand for transportation and logistics services.

As this demand for service grows and transportation company asset capacity begins to feel the pinch, logistics service providers might once again have leverage in contract negotiations.

Although the rate of recovery from the current recession is best left to economists, it does appear that trade is beginning to pick up again. As such, supply management professionals must be sure to nurture their strategic carrier and service partner relationships to not only help them through the tough times, but also to ensure the market has capacity when their supply chain volumes increase in the future.

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