A Conversation with Gary Smith
Vice President of Global Logistics, IBM’s Integrated Supply Chain Division
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A Conversation with Gary Smith
This interview is the first of a series on supply chain leadership at IBM. This interview focuses primarily on IBM’s experience in transforming its logistics operations and offers insights into the performance benefits obtained as a result of its strategic focus on logistics.

A Conversation with Renate Jalbert
With global trade and security requirements growing correspondingly, Canadians and Americans have been compelled to review their supply chain strategies in North America and abroad. This interview is an abridged and edited version of an interview with Ms. Renate Jalbert focusing on questions suggested by members of LQ’s Advisory Board.

Moving Freight Across America
This article marks the inauguration of a new transportation column focused on trucking industry trends in the United States that influence business across North America.

Key IT Issues Decoded for Supply Chain Professionals
During the past year, several co-authors and I have published a series of articles in the supply chain-related IT space for LQ in the column “Technology Toolbox.” We intend to dovetail on those pieces and give more detail on the key IT issues that supply chain professionals should be aware of in language that we hope is easy to understand.

Information technology: A Catalyst for Business Process Innovation in the Logistic Services Industry
Fueled by corporations that look at outsourcing as a way to reduce costs and gain a competitive advantage, the logistics services industry continues to grow and thrive. However, logistics service providers (LSPs) continue to struggle in this ever-changing industry dominated by acquisitions and low-margin environments. To survive in these harsh business surroundings, LSPs are developing different success strategies and business models for tomorrow. Here’s an overview of how IT is vital in the evolution from today’s business models to future ones.

The NASSTRAC Transportation Corner
– North American Bill of Lading
At its May 2006 meeting, the National Classification Committee (NCC) of the U.S. National Motor Freight Traffic Association, publisher of the National Motor Freight Classification (NMFC), adopted a measure of considerable interest to shippers and carriers operating across the northern and southern borders of the United States. Effective July 22, 2006, the NMFC includes a bill of lading specifically for cross-border shipments. This document is called the North American Uniform Through Bill of Lading or NABOL.

International Deal makers: The Art of the Deal
A large body of literature has emerged in recent years to help executives in their negotiations to navigate possible differences in corporate protocol. Equally treacherous deal making, that’s often overlooked in this body of literature, is the process involved in negotiations. Irrespective of whether you’re a shipper growing your practice in a global context, or an executive at an expanding 3PL, this article offers advice on how to anticipate and mitigate possible hurdles on the road to yes.

Information Technology and the Supply Chain Management Professional
Not long ago, logistics and supply chain management positions tended to have a low profile on the corporate map. In today’s global trade environment, these disciplines have been recognized as critical to the success of nearly every business. This article offers insights on what it means to be a supply chain professional in this changing environment. It is based on interviews with supply chain organizations and experience with IBM.
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LQ Introduces an American Trucking Associations Transportation Column - Dedicated to Transportation Trends and Issues

LQ is pleased to announce the inauguration of a new transportation column focused on the trucking industry trends in the United States that influence businesses across North America.

Beginning with this edition, LQ will publish a column from the American Trucking Associations aimed at providing LQ's 30,000 readers with insights into industry-wide trends that make the business of trucking a challenge.

The American Trucking Associations, Inc. (ATA) is the national trade and safety organization of the United States trucking industry. Through a federation of 50 affiliated state trucking associations, conferences and other organizations, ATA represents more than 37,000 members covering every type of motor carrier in the United States. Established in 1933, ATA serves as the “voice” of the U.S. trucking industry, which numbers more than 570,000 for-hire, private fleets and owner-operators. Across all industries, nearly nine million people, or one in every 15 civilian workers, are employed in trucking or trucking-related jobs.

ATA represents the full range of member and trucking industry interests in Washington, D.C., through aggressive advocacy before the Administration, Congress, the Courts and regulatory agencies. The American Trucking Associations is the only national organization dedicated solely to serving every facet of the trucking industry’s needs. ATA is a driving force in effecting change and vigorously promoting the trucking industry interests.

Con-way Names Tom Nightingale Vice President, Communications and Chief Marketing Officer

Thomas Nightingale has recently joined Con-way as Vice President of Communications and Chief Marketing Officer.
and full truckload freight services, expedite, brokerage, contract logistics, warehousing, supply chain management and trailer manufacturing. The company and its subsidiaries operate across North America and in 20 countries.

**LQ is pleased to announce that John Langley has accepted LQ’s invitation to join its Advisory Board.**

John Langley Jr., Ph.D., M.B.A. Dr. Langley is Professor of Supply Chain Management and Director of Supply Chain Executive programs at the Georgia Institute of Technology in Atlanta, Georgia. Dr. Langley is a former President of the Council of Logistics Management, and a recipient of the Council’s Distinguished Service Award. In 2004 he was honored as one of the profession’s top five logistics executives at the Richmond Events Logistics and Supply Chain Forum. He received his Ph.D. degree in Business Logistics from Penn State University. Dr. Langley has co-authored several books, including *The Management of Business Logistics*, a 7th edition textbook published in 2003. He also serves on the Boards of Directors of UTi Worldwide, Inc., Averitt Express, Inc., and Forward Air Corporation. He is also lead author of the annual study on the 3PL industry, the most recent of which is titled “2004 Ninth Annual Study of 3PL Service Providers: Views from the Customers”.

**Appointment of Robert Masson, Vice President, Marketing and Development, Montreal Port Authority**

Dominic J. Taddeo, President and Chief Executive Officer of the Montreal Port Authority (MPA), recently announced the appointment of Robert Masson to the position of Vice-President, Marketing and Development. Mr. Masson’s started in his new position on September 6, 2006.

Before his appointment, he was the President and Chief Executive Officer of the Trois-Rivières Port Authority.

As Vice-President, Marketing and Development of the MPA, Mr. Masson is responsible for commercial business development and customer relations with the Port of Montreal’s national and international clientele.

A native of Trois-Rivières, Robert Masson graduated with a Bachelor of Business Administration degree from the Université du Québec à Trois-Rivières. Over the years, Robert Masson has been actively involved in the transportation industry as a member of several committees and working groups. He was Chairman of the Board of the Association of Canadian Port Authorities (ACPA) in 2003 and is still on the Board of Directors of the St. Lawrence Economic Development Council (Sodes). He also is the representative of Canadian ports on the St. Lawrence River on the Quebec marine industry forum (Forum de concertation de l’industrie maritime) of the Ministère des Transports du Québec.

**Space Logistics** focuses on new technology and procedures to enhance the ability of humans and robots to explore our solar system. Last year nine researchers traveled to the Canadian Artic to investigate how a research station on Devon Island could be used to simulate Lunar or Martian base research. Using logistics strategies they looked at interplanetary supply chain issues, automated technologies such as radio frequency identification (RFID) and movement of surface vehicles, people and supplies from base to various exploration sites. The result was the development of an innovative four-step approach to the logistics of space.

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DAVID J. CLOSS, Ph.D., LQ Executive Editor: Dr. Closs is the John H. McConnell Chaired Professor of the Eli Broad College of Business, Department of Marketing and Supply Chain management, Michigan State University. He has consulted with more than 100 of the world’s Fortune 500 corporations regarding logistics strategies and systems. He is an active member of the Council of the Supply Chain Management Professionals.

JOHN M. CUTLER JR. is General Counsel of NASSTRAC and the Health & Personal Care Logistics Conference, and a frequent speaker on legal issues affecting transportation and logistics. He is the author of Rules of the Game: Legal and Regulatory Issues Facing the Supply Chain Manager, published in 2006 by CSCMP, and other publications. Mr. Cutler, who has 30 years experience in transportation law, is a principal with the Washington, DC law firm McCarthy, Sweeney & Harkaway, PC.

JIM DAVIDSON, President, iWheels Dedicated Logistics, began his career in logistics at The Ford Motor Company in 1963 working in all aspects of logistics for 17 years. Mr. Davidson joined TNT in 1983 and held various management roles, including roles in operations, staff, administration and general management for a number of different divisions. He also served as the TNT board member representing North America at their European-based board meetings. He has served on the executive of the Canadian General Motors Supplier council as well as Executive Vice President of the ATA council of Logistics located in Alexandria, VA.

TILL DENGEL is Solution Manager for Logistic Service Providers, SAP AG. As the Solution Manager for Logistic Service Providers, Till Dengel is responsible for the solution strategy and business planning for the sub-segments 3PL/4PL, Trucking, Container Liner Shipping and Terminals, on a global scale. Mr. Dengel started his SAP career in 2000 within the global SAP consulting branch, where he worked as a senior consultant in numerous projects within logistics in the pharmaceutical and chemical industry. As a senior consultant he designed and implemented business processes within his clients’ sales, transportation and freight costing divisions. A major part of his career was spent in a customer development project supporting the development of a freight purchasing internet platform. Prior to working with SAP, Mr. Dengel worked in different DHL organizations for five years. Apart from his professional career, he lectures on Supply Chain Management & Logistics topics at the University of Applied Science in Mannheim, Germany. Mr. Dengel holds a B.A. degree in Business Administration from the University of cooperative education, located in Mannheim, Germany.

BILL GRAVES is President and CEO of American Trucking Associations (ATA), the national trade and safety organization of the United States trucking industry. Through its 50 affiliated state trucking associations, conferences and other organizations, it represents motor carriers before all branches of the government. In January 2003, Mr. Graves completed 22 years of public service in the state of Kansas highlighted by two terms as Governor of Kansas. He was reelected to his second term with the largest percentage of votes in Kansas’s history making him the state’s longest serving Republican governor. Prior to his election as governor, he served two terms as Kansas Secretary of State. In 1991 the International Corporation of Administrators recognized the office of the secretary of state, under his leadership, for its outstanding service to the businesses it served. Governor Graves has been involved in the trucking industry his entire life. For almost 70 years, members of his family have operated trucking companies offering a diversity of services.

RENATE JALBERT is the Managing Director, Customs Regulatory Affairs of FedEx Express Canada. Ms. Jalbert is FedEx Canada’s premiere authority in customs regulatory affairs, bringing to the role several years experience in leading FedEx customs strategy development in Canada as well as Europe, the Middle East and Africa. During her career, she has had responsibility for the carrier and warehouse customs compliance and customs brokerage operations for FedEx, and represents the company on national policy committees. As a recognized expert in the increasingly complex field of customs and cross border security, Ms. Jalbert is an opinion leader, speaker and media interviewee on the subject of trade regulations and the impact to Canadian business. She is an active contributor in industry forums and holds memberships in organizations including the International Air Transportation Association (IATA), Canadian Society of Customs Brokers, Importers & Exporters Association, Association of International Customs & Border Agencies, Customs Trade Consultative Committee and the American Trucking Association.

CHRISTOPHER D. NOREK, Ph.D. is a founding Senior Partner with Chain Connectors, Inc., an Atlanta-based supply chain consulting firm specializing in strategy, technology, transportation operations, returns management and supply chain training. He has been in the supply chain/logistics field for over 15
years both in industry with Accenture, Apple Computer, Kimberly-Clark, and CSC as well as a professor at both the University of Tennessee and Auburn University. Dr. Norek has consulted for firms including SAP, IKEA, Lowe’s, amazon.com, Cingular Wireless, Accenture, The Sports Authority, Party City, and Aramark Uniform Services. He has been active in publishing for journals in the field and speaking for many organizations and university executive education programs including the Council of Supply Chain Management Professionals (CSCMP—formerly CLM), NASSTRAC, Georgia Institute of Technology, University of Tennessee, University of North Florida and University of Louisville. He holds logistics degrees from Penn State, Tennessee, and Ohio State.

GARY SMITH is Vice President of Global Logistics for IBM’s Integrated Supply Chain division. Prior to joining IBM, Mr. Smith worked at both PepsiCo Food Systems (a 2,000-employee division that supplied 15,000 Pizza Hut, Taco Bell and KFC restaurants across North America) and Chicago-based truck and engine manufacturer Navistar International Corp. He earned an MBA from the University of Detroit and a bachelor’s degree (magna cum laude) in economics from Boston College, which included a year studying in Paris, France, at the Institute of European Studies and the Sorbonne.

AL ZORNER, Senior Partner, Chain Connectors, Inc., has over 30 years experience in both supply chain and information technology roles. Included in Mr. Zorner’s background are major supply chain and technology roles with the chemical giant, Union Carbide, Director of Technology/CIO at Foxwoods Resort Casino (the largest casino in the Western world), and Technical Executive/CTO for the IBM Interactive Media Group that became the incubator and the premier e-business center within the IBM umbrella. He is a seasoned professional with experience in the various methodologies of management science as well as the application of software solutions to provide a competitive edge and/or operational efficiencies within the supply chain. Mr. Zorner earned his Bachelor degree in Engineering and Masters in Management Science Engineering from Stevens Institute of Technology.
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Here are some of the comments from participants who have attended LQ’s symposiums.

Thanks for having me participate. I really enjoyed it.
Rick Blasgen, President and CEO, The Council of Supply Chain Management Professionals (CSCMP)

I definitely found value in this event.
Greg Cunningham, Director of Supply Chain Optimization, Maple Leaf Frozen Bakery

LQ’s Symposium was great and well organized.
Sue Gadsby, C.P.P. C.P.M., Director, Procurement, Apotex Inc.

Thank you for a wonderful and insightful day. I enjoyed the executive exchange.
Joseph Gallick, Senior Vice President of Sales, Penske Logistics

Fred, it was a real pleasure participating in the symposium. You had all of the right elements: interesting topics, good speakers, excellent attendees, and nice venue... In sum, it was a great success, and a very worthwhile day for all involved. I look forward to the next one.
Thomas Goldsby, Ph.D., University of Kentucky

I greatly enjoyed the idea of the table discussions. It was way more interesting than conventional formats.
Claude Germain, Executive Vice President and COO, Schenker of Canada Limited

Thank you for including me on your speakers’ platform at this year’s executive conference. I was impressed with the quality of the forum and the insightful audience.
Alan Gershenhorn, President, UPS Supply Chain Solutions, Asia Pacific, Europe, Middle East, Africa

You folks did a great job organizing and presenting this event. I enjoyed the interaction at the tables, and the quality of the speaker content.
Bruce Danielson, Executive Communications Manager, UPS

The forum was well thought out and the format was very conducive to a quality exchange of perspectives. The topics for discussion and debate were very pertinent to today’s market environment. I look forward to the next session.
David Griffth, Vice President of Global SCM, BAX Global

The LQ Symposium was a fantastic opportunity to connect and re-connect with many individuals, and a tremendous opportunity to network and share ideas on a number of different topics throughout the course of the day.
Joe Grubic, Global Supply Chain, Nortel Networks

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• Limited seating to ensure a friendly and personalize exchange of ideas
A Conversation with Gary Smith

Vice President of Global Logistics, IBM’s Integrated Supply Chain Division

This interview is the first of a series on supply chain leadership at IBM. This interview focuses primarily on IBM’s experience in transforming its logistics operations and offers insights into the performance benefits obtained as a result of its strategic focus on logistics.

GARY SMITH: Let me begin by providing the context for the heightened value IBM places on the supply chain. When we started this organization in 1995 IBM was restructuring and adapting business problems due to the problems that we had endured in the ’90s. At the time IBM had 30 different supply chains and wasn’t leveraging its size and scale, which led to several significant quarterly losses.

The first part of IBM’s corporate restructuring plan involved centralizing all of its procurement dollars. In 1993, we put our arms around all of our procurement dollars worldwide and centralized the procurement function. It was also clear that IBM would need to restructure its manufacturing operations and its distribution operations because we couldn’t afford to have duplicate sites around the world making the same product.

At that point, Lou Gerstner, who was Chairman of the Board of IBM Corporation and his team decided they needed a much greater focus on the area of logistics because even though we closed down some of the company’s sources of supply, our products still needed to continue to be reliably delivered to our markets. If you don’t have an efficient logistics organization in place, you will lose many of the business advantages that you have achieved with these steps toward centralization. In hindsight, it was a pretty smart move on the part of Lou Gerstner and his team. That was the genesis of our supply chain organization.

At that point, IBM was not a single supply chain. It had many supply chains with different brands, in different countries. Immediately after the step toward procurement centralization, we also centralized logistics. In 2000, we began to create what I call a true-line supply chain. From the outset, an important distinction in the way IBM designed its supply chain was the accountability. Not many companies have Chief Supply Chain Officers or executives solely focused on the supply chain. Bob Moffat was appointed IBM’s senior vice president, integrated supply chain or essentially its CSO in 2005, with a direct link to the chairman and a seat at the board of directors. As a line-accountable organization we had pure accountability, which excited many of my colleagues and myself.

Based on this approach, we created a supply chain strategy and implemented it. We were held accountable for the per-
formance associated with all of our business strategies. In retrospect, this turned out to be an excellent approach. As we go into more of the details, I will elaborate on some of the benefits we have been able to accrue for our customers and shareholders as a result of this strategy.

**LQ:** At the genesis of your supply chain organization, you established a number of baselines to measure your performance against to quantify this performance. Can you elaborate on the value of these baselines?

**GARY SMITH:** The culture of the IBM Corporation tends to be engineering oriented so metric measurement and performance are truly at the core of what we do. Every time we revise a process, we look for the best way to benchmark our starting point, and how to judge our performance. This performance can be categorized into three areas: What benefit do we have in terms of the cost line, hopefully, a cost reduction. What benefit do we have in terms of additional cash for the company? And, perhaps more importantly, how does this change enhance customer service? These three areas are at the forefront of what we do every day.

**LQ:** What were the key elements that prompted IBM to transform its supply chain?

**GARY SMITH:** Another underlying trend for IBM's supply chain transformation was globalization. We were compelled to take a global perspective early in IBM's supply chain evolution and transformation. I call it, "great wisdom," because on a global basis we looked at how we behaved, our skill sets and the processes we used.

**LQ:** In this context, where IBM took a leadership position and precursor steps to transform its supply chain, can you tell us on a personal note what you view as the most crucial elements of leadership?

**GARY SMITH:** While there are a lot of aspects to leadership, the elements that I value the most are integrity and trust. When you are in a fast-paced and complex environment, these qualities are essential. If they aren't at the core of your relationships, you are building your future on an unsound base.

Also, I highly value the global skill set that exist at IBM. We have many very bright, capable people worldwide, and we need to harness their talent, their enthusiasm and be sensitive to different cultural contexts, to apply this expertise. As a U.S.-based company, we know we do not have a corner on the intelligence market. We have found some of our greatest innovators and some of our greatest skills to be all over the world and in other parts of the IBM Corporation, which is why we are currently undertaking a transformation that will take IBM from a multinational company to a globally integrated company.

If you have the trust of the people you work with and you value their skills and capabilities, you are building whatever you're doing on a very solid base. Those are two elements that I hold very dear. As I look back at our path here at IBM, I go back to the fact that at every turn those principles have served us well.

**LQ:** Is there an element that you would single out that distinguishes your leadership from that of other leaders?

**GARY SMITH:** I think that you must have a good balance between working and playing hard. If you have fun in what you do, you're probably generating a team spirit, whereby everybody feels that they have a role to play, and everybody is valued in their role and they feel their contribution is part of the company's overall success. These are some of key attributes that I think have made us successful.

**LQ:** Thank you for setting the context for IBM's transformation. The first question from LQ's Board is from David Closs. As IBM Global Logistics evolves to more of a Logistics Orchestrator (Integrating across multiple divisions of IBM as well as with other firms), how do you balance the internal demands with those of external customers?

**GARY SMITH:** It's a good question and it's one that that every company in the outsourcing business struggles with. I believe we have the ability to balance internal IBM needs with those of other companies. The reason we can accomplish this can be traced back to when we started this organization. At the time we began to recast and develop the supply chain at IBM we lacked credibility. Every IBM division had its own supply chain. If you think of our portfolio of software to PCs, to hot storage to high-end servers to the medium servers, spare parts, reverse logistics, all of these divisions were completely independently run. We were able create a central view and put our arms around the entire organization.

The key thing that served us well in this process is that we took the time to understand the customers' requirements and the attributes of their business. While each of our businesses was under the auspices of the IBM umbrella, each one was unique. In creating this centralized approach we looked for things that were common and things that were not. We understood the strategic elements of this approach and knew that some aspects of what we did would be more important to some divisions than others. We were able to balance those elements and centralize operations to implement a global strategy in a very complex environment with customers constantly changing their needs.

As we've been very successful in this environment, the next logical step was to go to outside companies and offer the supply chain services IBM has honed.

**LQ:** Can you elaborate on this process? For example, did you find more commonalities than you had forecast?

**GARY SMITH:** We found everybody had unique requirements, but they didn't have well understood processes, in my view. We took a process view of these different divisions, and we found there were very common elements. Whether it was importing or exporting processes, or whether it was product movement visibility, whatever the process was, we consistently found a fair amount of commonality.

Whenever we found elements that were not common or, if we required more information, we sat down with the customer and discussed the circumstances. In these instances,
we often took the “best of breed” approach. After reviewing the divisional processes, we would apply a solution that existed in one division and translate it to the other. So they didn’t have to go through, if you will, their own transformation; we brought it to them and said: “these guys have been doing it this way for a long time and we can see the benefit it has given them. Let’s try it here.” This approach enabled us to respond quickly with a solution and often get some new and, in many cases, unexpected benefits.

LQ: That’s a beautiful value proposition. Can you tell us more about how IBM’s journey to supply chain excellence created innovative solutions?

GARY SMITH: An important element to consider is the breadth of our business and history. If you consider our PC business, which is essentially both a a consumer product and a business-to-business operation and then you think about our high-end server business, or our server business in general, you can take some of the attributes of one type of IBM business and create tremendous value for the high-end or server business.

For example, if you can take some of the attributes of a PC business, which is very low cost, and uses a highly streamlined supply chain and apply that to our server environment, there is tremendous opportunity and competitive advantage.

If you are only in the server business or the storage business, and you don’t have the overview of how much different and more competitive it is in the lower end products, you could be blind to these supply chain opportunities. Based on this perspective, we were able translate some of the process changes that we implemented in the very aggressive and complex environment of IBM’s PC and lower-end businesses to the higher end of our business. I think we generated some important value in that way.

DAVE LOWRY: It gets tricky with the higher end businesses because there are a lot more configurations available with the high-end servers. I think one of our higher-end processors, the System z9 mainframe, has as many configurations as a Boeing jet. We have to think about that, and we have to think about PCs where you don’t have as many options. The scale and the complexity are tremendous, and on a global level it adds even more complications to the process.

LQ: Let’s go to Dave Closs’ next question. How would you describe the core competencies of IBM Global Logistics?

GARY SMITH: Clearly, the skill of our people and optimizing those skills on a global basis is vital. It’s also taking a process view of business. When we created the supply chain within the IBM Corporation, because it was a line supply chain, we did not abandon our responsibility for functional excellence. With Global Logistics, for example, we were expected to be world class in our insights, our strategy, our direction and our processes. This same standard of excellence applied to procurement, fulfillment, and manufacturing. A key element and a primary strength built into IBM’s supply chain is that in addi-

GARY SMITH: Absolutely. It became acceptable and celebrated that if you could sub-optimize what you do and had a far greater benefit to the overall IBM supply chain, that was something we rewarded. It sounds counterintuitive. After all, you are taking many years of history of optimizing your silo and applying a completely different set of rules.

For example, if we move IBM’s manufacturing to an emerging market will look at my overall cost in the supply chain. As I move manufacturing from a mature market to an emerging market, it’s clearly going increase logistics costs, partly because of demand/supply in terms of air transportation, and the sheer length and distance as well as the infrastructure required. Overall, this was the right decision for IBM because it brought us closer to our sources and our component suppliers and it introduced IBM to new skills and ideas, which led to new innovations. Some of my costs increased, but the overall IBM benefit was greater than these increases, and that was held up to be a good thing to do for the IBM shareholder and the IBM customer.

This interview is the first of a series on supply chain leadership with IBM. LQ’s next article, which will be published in a digital newsletter format, will focus on David Closs’ question regarding how IBM Global Logistics determines which activities it does internally and which it chooses to outsource, as well as other questions from LQ’s Board members.
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A Conversation with Renate Jalbert

Managing Director,
Customs Regulatory Affairs,
FedEx Express Canada

With global trade and security requirements growing correspondingly, Canadians and Americans have been compelled to review their supply chain strategies in North America and abroad. This interview is an abridged and edited version of an interview with Ms. Renate Jalbert focusing on questions suggested by members of LQ’s Advisory Board.

Companies often have resource constraints that make it challenging to address the incremental emphasis that is being placed on security and compliance. Companies will outsource some of these activities, and there are consultants and 3PLs that offer these types of consulting services. More companies are looking for dynamic resources that they can manage directly, but only for a finite period of time as processes are defined and deployed. What ‘dynamic resource’ offerings are the 3PL industry building to meet this call for short-term resources?

FedEx has entered into an agreement with the Export Development Corporation (EDC) that will help companies and contribute to the support of dynamic resource requirements in the supply chain. EDC provides loans and a list of authorized service providers for companies interested in being compliant with C-TPAT and PIP. These loans are for capital improvement to facilities; for example, fencing, secure access mechanisms and to assist in the funding of consultancy services that assess supply chain security gaps. This program is based on the fact that EDC understands the critical importance of C-TPAT and PIP to ensure the successful growth of Canadian business engaged in international trade. In order to be C-TPAT compliant, U.S. Customs and Border Protection must conduct a verification visit to a Canadian exporter to ensure their facilities, their personnel and their manufacturing processes are secure as required under the regulations of this program.

The rationale for EDC’s funding program is that some companies have gaps in their supply chain that have been identified under new requirements, and they have been unable to obtain funding from traditional Canadian banks to close those gaps. As a result, as part of their exporter development program, EDC is implementing this program to provide funding.

Presently, there are three service providers who are authorized to verify supply chain security under the auspices of this EDC program. FedEx, which is one of them, conducts extensive customer forums on supply chain security. Often, the participants in our conferences ask us how they should proceed in order to comply with new customs requirements. The EDC program can now cover some of the consulting fees needed to perform a verification and validation of a client’s location. In summary, EDC can approve funding to help facilitate certification under this program, which ultimately helps to facilitate trade.

Is the EDC program unique in helping to facilitate trade and assist shippers?

The Americans may wish to look at this idea. I think it is a wonderful idea to move forward to provide support to Canadian exporters to be certified.

However, even with this dynamic resource offering, you should be aware that once you are committed to these programs as a company, you are committed for the long term. So the resources to identify your gaps may be dynamic, but as an importer/exporter, you must maintain compliance with those programs. You can contract out the gap analysis, the applica-
tion process and supporting certification documentation, but as an importer/exporter you must remain committed to maintaining and ensuring that this higher supply chain security philosophy is embedded in your organization.

When FedEx completed the certification process, we joined the CBSA to create a video about the PIP program. The goal was to get the message to our front-line employees and show them exactly what FedEx and CBSA responsibilities were under the program, what we expected from our employees, how they were expected to work with the port-level PIP liaison and, most importantly, how they could report unusual or suspicious activity. Security is everyone’s business. It is not simply a customs matter – security must be integrated within your supply chain. FedEx has been a member of Partners in Protection since 2001.

Please elaborate on the scope of this process.

PIP and C-TPAT are supply chain security initiatives. The first step in the process is to understand your complete supply chain: Who are your trade partners, vendors, transportation providers; these are all key questions to ask. The C-TPAT/PIP consultant will review and document the process. Are your facilities secured? Do you have access controls? Are your company windows locked? How do you secure your employees? Do you conduct criminal record background checks? Do you challenge employees or visitors who may not be authorized to enter a warehouse? How do you ensure that nothing can be introduced into a container or trailer that has not been authorized at your facility? Can your company’s manufacturing line be interrupted at some point to introduce some illegal goods? Can you verify your vendors’ security practices?

Is this an affordable option for mid-size companies?

Absolutely. You can apply online without cost, to both governments for C-TPAT and PIP certification. You can fill out the security questionnaire yourself. The challenge is, do you have someone available to do that assessment for your security questionnaire? Do you have someone to identify what those gaps are? And how should you remedy those gaps?

Many companies have sufficient security measures in place, but they may be reluctant to deal directly with Homeland Security or CBSA. CBSA and CBP have client representatives available to assist companies and they are very helpful. After all, their goal is to have as many partners certified in the program as possible.

However, it is not a question of whether security is affordable or not; you simply cannot expect to compete into today’s global environment without investing in supply chain security.

It all relates to a perspective on compliance, whether this involves a package or a person. As a company engaged in transborder or international trade, you must have knowledge. For example, you know that if you are going to fly to Paris, France or drive across the border at Buffalo and come to Canada, you will need to know what is required for those trips. You wouldn’t think of going to Europe or Asia without knowing that you need a passport, or perhaps a visa if you are visiting Australia, for example. When a visitor comes to Canada, they have the same expectations, and similarly for a package; you require specific information in order to use FAST or ACI. Consider FAST as the NEXUS card for your shipment and ACI a passport and visa.

If you don’t have knowledge of what and when information is required to move your goods across the border, your shipments or truck will be delayed. Regardless of what clearance or reporting option you are using, the “passport” must be valid.

What about the status of the known versus the unknown importer?

Even if you have been shipping for a hundred years, if you are not part of the FAST program your profile in custom’s system will reflect this and each transaction crossing the border will be dealt with on a transactional level instead of using the designation afforded to members of C-TPAT and FAST.

Many duties have been eliminated in the telecommunications industry as a result of the Information Technology Agreement (ITA). This agreement is unconditional and based solely on the harmonized classification. The intent is to reduce the duty in this industry, but United States’ importers still collect a Merchandise Processing Fee (MPF). The MPF is removed for other duty reduction programs, such as NAFTA. (For example, if claimed under NAFTA, then it’s duty-free and MPF free.) What activity is either underway or can be undertaken to have all U.S. import duty free programs eliminate the MPF?

This was factored into the NAFTA Agreement. NAFTA’s goal was to eliminate trade barriers and reduce duties and facilitate the movement of goods. NAFTA did not achieve all of these things, but it eliminated the Merchandise Processing Fee for goods that qualify under the NAFTA program. So it has reduced the cost of those goods.

Additional reductions or elimination of the MPF requires pressure from industry to identify MPF as non-tariff trade barrier. There may be opportunity to further impact the MPF under the harmonization plans of the Security and Prosperity Partnership.

Canada does not have similar fee, but it has the Goods and Services Tax (GST). The MPF is an administrative fee to cover customs expenses.
This article marks the inauguration of a new transportation column focused on trucking industry trends in the United States that influence business across North America.

**IN LITTLE MORE THAN** a decade, the demand for truck services will increase by more than 30 percent, which means the trucking industry will transport nearly 3.3 billion more tons of freight than it carries today. To accommodate this higher demand, the number of Class 8 trucks will increase by 32 percent, putting almost 1 million more trucks on the road, or 75,000 new trucks each year. To put this in perspective, that’s nearly 1 billion tons greater than the total volume of freight railroads will carry 10 years from now.

But several forces continue to put pressure on trucking’s ability to efficiently move freight and keep America’s economy rolling. Today, growing congestion and the potential proliferation of tolls threaten our ability to move freight productively, efficiently and safely.

Regrettably, some state and federal decision-makers lack sufficient appreciation for how critical trucking and the highway system are to the health and well-being of America’s national economy.

Stakeholders are at a crossroads regarding how to fund the future system. Since its inception, the interstate has been paid for by fuel taxes. Trucking pays nearly $15 billion, or 43 percent, in highway user fee revenues annually toward the $35 billion Federal Highway Trust Fund. Congress recently authorized $286 billion in spending on surface transportation programs through 2009. The current fuel tax system worked effectively for many years. Now, however, questions have been raised over whether the fuel tax system can remain an effective and viable means of funding highway infrastructure in the future.

Since 1980, the United States’ economy and travel on the nation’s highways has nearly doubled. The nation’s population has risen 27 percent; truck registrations have increased by 61 percent, truck vehicle-miles traveled have risen by 102 percent and passenger vehicle-miles traveled have gone up by 87 percent. Yet the highway system has only been expanded by about 3 percent over the same period.

Such staggering growth has resulted in growing stress on highway capacity and unprecedented levels of congestion across the United States. In many parts of the country, highways that once could be counted on to carry people and goods quickly and efficiently are choked with traffic—burning time and energy.

At the same time, tolls are costing our industry billions each year. States continue to impose ever-higher tolls, looking to the trucking industry to pay the bills. This inefficient and inequitable method of funding double taxes motor carriers and diverts a substantial volume of traffic to other roads.

Few feel the effects of tolls and congestion more directly than trucking. And over the next quarter century, these problems will only grow worse. Limited road capacity expansions that have been made over the past two decades have focused primarily on accommodating the development of new residential subdivisions, and not on accommodating the efficient movement of traffic along primary highways such as interstates.

Increased congestion hits trucking at a time when the economy is relying on trucks to haul more goods and the number of drivers is not increasing at the same rate as driver demand. Trucking is projected to haul 14 billion tons of freight by 2016, compared with 10.7 billion tons in 2005. Yet most state transportation plans do not anticipate breaking with the current trend of limiting highway capacity expansion, which has caused the current congestion problems.

If the industry doesn’t become more productive, if we can’t substantially reduce our empty miles or wait times at loading docks, and if we don’t have more rational size-and-weight regulations, the number of trucks on the road and the number of miles trucks drive will double in the next two decades. Congestion that we experience today will pale in comparison to what we will have 25 years from now.

America’s highway system has grown to become our most important nationwide infrastructure enterprise. For that to continue, public and private sector stakeholders must restore and maintain a well-developed national highway system. Improved highway infrastructure through financing techniques that do not disadvantage truckers and consumers will allow trucking to continue to move ever-increasing amounts of freight more efficiently, profitably, safely and on time.

There is a solution. Congress can act to ensure that federal revenues generated from fees imposed on highway users are invested more effectively. Approximately one-quarter of federal highway user revenue is diverted to non-highway projects, such as bicycle paths, museum restoration and other purposes. It is clear that many of these projects have limited impact on the safety or efficiency of the transportation system, and resources could be more effectively invested in critical, yet neglected highway projects.

The trucking industry believes the federal government must take a lead role in identifying systemic problems and working with individual states to fix them. Limited dollars currently are spread way too thin on projects that may not be critical.

Fixing our highways, easing congestion and enabling the trucking industry to move freight more efficiently is an important project. The trucking industry is ready to stand with our road-building partners and our government to move the American economy forward on a well-built highway system.
Key **IT Issues** Decoded for Supply Chain Professionals

During the past year, several co-authors and I have published a series of articles in the supply chain-related IT space for LQ in the column “Technology Toolbox.” We intend to dovetail on those pieces and give more detail on the key IT issues that supply chain professionals should be aware of in language that we hope is easy to understand.

**By Chris Norek and Al Zorner**

**THIS PIECE IS INTENDED** for any supply chain manager who:

1) Might be asked to lead or participate on a team to select a supply chain software solution OR
2) Might be asked to be a business expert on a corporate IT strategy team

The IT space changes rapidly and therefore, we intend to give you some perspective on the biggest trends/issues in IT that impact or are impacted by supply chain management. In today’s competitive landscape, collecting data is not enough; the better company transforms that data into useful information and uses it in innovative ways. All of us have experienced the common pitfall of collecting vast amounts of data and then suffering from information overload.

We will cover the following issues/trends in the IT space that affect supply chain management:

1) Before You Select an IT Solution—Check Business Processes for Repair
2) An Aid to Supply Chain Collaboration: Service-Oriented Architecture (SOA)
3) Investing in Supply Chain Software: Own versus Rent
4) Working with the IT department to ensure software selection and implementation is a success

Agility is the “buzz” among leading companies. It requires having access to timely information. In the supply chain – demand becomes not just a monthly forecast but daily and hourly information and it references the importance of the customer and the importance of orders to the relationship with that customer.

Your customers demand customization, choices, and on-time, accurate orders – today. The right IT solution mix can provide the agility and flexibility needed to meet these demands to compete effectively. For example, when store operations are linked to manufacturing, labor and distribution, purchases can act as the trigger for inventory replenishment through the chain to the supplier. This creates a more efficient, agile, customer-driven system in comparison to the traditional ‘push’ model.

Since no two supply chains are alike, you can only achieve your true potential when you have the tools to adapt operations easily, quickly and cost-effectively to new requirements and opportunities. Adaptable supply chain solutions make this possible via an IT architecture that flexes with each customer’s changing needs. This IT self-sufficiency enables rapid growth and the ability to implement cutting-edge processes and business models that the customer might not have considered with other, more traditional systems.

An effective IT solution with highly configurable workflows allows you to make process changes as quickly as they present themselves. An IT solution directly linked to your partners, suppliers and customers can more quickly react to constraints and/or hiccups in the material flows of goods.

**Before You Select an IT Solution—Check Business Processes for Repair**

Your IT solution should support the company strategy and desired processes rather than operations having to change to accommodate specific IT requirements. Instead of finding the right tools for improving specific competitive gaps, businesses have often made huge investments intended to address all processes and have often failed to address the
original problem. Frequently, selected IT products/functional-
ity have forced companies to revamp their processes/opera-
tions to accommodate the software rather than supporting 
your processes. In addition, be sure to validate that the rela-
tionship between your processes and the IT solution is in 
line.

You must identify which part(s) of your business process 
is (are) not competitive, understand which customer need 
s(s) is (are) not being met, establish improvement goals, and 
rapidly implement necessary improvements. Without a stan-
dard way to measure process performance and the without 
a common means to describe your processes, your IT solu-
tion is typically difficult to select and usually expensive as a 
result.

We suggest capturing the “as-is” state of each supply chain 
process or operation and derive the desired “to-be” future 
state. Quantify the operational performance of similar com-
panies and establish internal targets based on “best-in-
class” results. Then characterize the management policies, 
practices and software solutions that result in “best-in-class” 
performance. A difficulty in this stage is that it requires “out 
of the box” thinking. Personnel currently handling the 
processes often find it hard to think beyond the small issues 
that trip them up; instead, they should consider a more effi-
cient process that might be a significant improvement rather 
than a set of tweaks.

To be successful in your search for the best supply chain IT 
solution, you need to get the foundations right including the 
right business process model and management practices, 
identifying/hiring skilled people and a strategically designed 
technical platform. Once you have the processes improved 
and aligned, you can then look at technology opportunities 
in the supply chain space.

An Aid to Supply Chain Collaboration: 
Service-Oriented Architecture (SOA)
Performance improvements in technology components over 
the years have enabled a series of architectural shifts from 
centralized mainframes (60’s); to client-server (70’s); to per-
personal computers (80’s) and the Internet (90’s). Each change 
has created a more flexible deployment of resources. In fact, 
we believe we are on the cusp of another major shift in the IT 
space—shifting toward a true distributed service-oriented 
architecture (SOA) delivering more flexibility and fluidity 
through rapid deployment of innovative new components. 
To attain truer collaboration in integrating with partners, 
seamless integration with partners should be sought.

In selecting a software solution, functionality isn’t the only 
consideration. The ability for your system and partner sys-
tems to integrate with the new solution is almost as impor-
tant. In the past, integration often required significant hard 
coding to allow data transfer between applications. A con-
cept designed to ease integration issues, service-oriented 
arhitecture (SOA), is gaining popularity and acceptance. 
SOA allows “plug and play” of various applications into a cen-
tral “backbone” without the traditional issues of significant 
hard coding to enable data transfer between applications. 
SOA is a form of distributed architecture with emphasis on 
“loose coupling” and business semantics for interfaces.

Deploying a company-wide SOA is not just about develop-
ing and implementing components and services – it’s about 
changing the DNA and culture of your IT organization and it 
is certainly not a six-month effort. The focus should be on 
a core set of reusable frameworks, components, and services 
that each business group can leverage. As with any initiative, 
it all comes down to delivering on your promises – defining 
and meeting realistic interim goals.

In selecting a supply chain software solution or solutions, 
having a SOA will enable your integration to be much easier 
and faster. It will allow you to select more on the functional-
ity and less on integration compatibility of a particular solu-
tion. You can either build your own SOA or use one through 
a ERP/supply chain software provider to enable more true 
and seamless integration both internally and with supply 
chain partners.

Investing in Supply Chain Software: 
Own versus Rent
Traditionally, software companies wanted customers to pur-
chase licenses in order to use their solutions. However, this 
sales strategy shut out smaller companies with low IT budgets 
because the purchase prices were often too great. In addition, 
some larger companies have become more interested in out-
sourcing some or all aspects of their IT needs to save money 
and hopefully increase IT efficiency by have outside “experts” 
focus on IT for them. Therefore, even large companies might 
not want to make the investment in a full software license. Now, 
the Application Service Provider (ASP) or ASP model holds a 
solution to the license fee dilemma for both of these issues.
To best understand the differences between the software providers and application service providers (ASP) we must define each role. Application service providers possess all hardware and software on their secured site with access over the internet. Software providers place all hardware and software on your site with access granted through the terms of a software license. However, software companies have now bridged the gap to offer ASP versions of their software where the user pays by use (e.g. transaction) which is like renting the software versus the license purchase in which case the user owns access to the solution.

Software providers understand software programming and the management of critical information. They are in constant state of development and have the ability to manage and organize extensive amounts of data from a variety of sources. The one-time license fee incorporates the terms and conditions for the use of their packaged software. The implementation cost typically includes installation of hardware and software on-site. The software is versioned so additional costs are applicable when new versions are released or through a monthly maintenance fee.

A true ASP deploys, hosts and manages access to a packaged application to multiple clients from a centrally managed facility. The applications are delivered over networks on a subscription basis. This delivery model speeds implementation, minimizes expenses, eliminates capital investment, reduces risks incurred across the application life cycle, provides single point of contact and overcomes the chronic shortage of qualified technical personnel available in-house. The cost to implement selected software with the ASP involves three areas: setup, maintenance and usage. The ASP is accountable for updating to current technology, disaster recovery systems, security, and backups.

Now, ASP offerings of supply chain software can speed up the implementation process because the transactions are often handled outside a user’s system. Reliability, application availability, software updates, security, disaster recovery and backups are your responsibility.

Typically, the following issues will determine whether a license purchase or ASP arrangement might be best for you:

- Number of transactions
  - For instance, if you are considering a transportation management solution (TMS) and you have only a few thousand shipments per month, it might make sense to use the ASP offering rather than purchase the license
- Stability of current system environment
  - If you plan to change your total IT framework in the near future, you might want to only use software for a predetermined period of time (ASP offering)
- Financial accounting practices
  - If you might want to capitalize the software cost, a license purchase rather than using the ASP (an operating expense) might be better for you

Working With the IT Department to Ensure Software Selection and Implementation Is Successful

In today’s world most IT organizations remain as two distinct software support groups: one serving administrative functions (IT, Finance and HR) and the other serving business operations (e.g. manufacturing, customer service, order entry and distribution). Every user of IT services expects to get their changes implemented immediately and, as a result, their request ends up at the bottom of an endless list of projects. Remember my suggestion in an earlier Technology Toolbox column to make friends with a “Technie” to have your requests completed faster.

We foresee the administrative support functions served almost exclusively by purchased software packages based on the functionality offered. This typically limits any change requests to what is already built into the software, but is not yet activated. These applications do not differentiate the enterprise in the marketplace and the need to customize them should be very limited. Although some applications accept feeds from or deliver to other systems, these feeds are typically non-real-time, batch transactions — the most simplistic and resource-light type of interface.

Another IT organization, Operations (i.e. hardware, operating systems, desktops, networks, etc.), is the component that you “see” every day as they go about their work; their effectiveness can be measured constantly. They also account for a major portion of the total IT budget. They are structured along the lines of what is needed to support the infrastructure IT.

A goal within any company is a better mutual understanding of the business team and the IT team. Too often, misunderstandings between these two groups cost time and money in resolving. There should be a deep understanding of the business by the entire technology team and a close knit relationship between the business strategy and the IT direction as well as a deep understanding of the IT strategy and operations by the business folks.

Conclusion

For supply chain decision makers, the world of information technology can seem daunting and confusing. However, by leveraging IT correctly, your supply chain operation can be enabled to run more efficiently at a lower cost. This article was intended to give you the ammunition to make better decisions in relation to IT investments without having to become entrenched in IT research.

We all know that new hardware, applications, networks, protocols and programming languages don’t give us a lasting business advantage over our competitors. Whatever we buy, they can buy. Whatever we build, they can build too — this isn’t news, is it?

You’ve never been able to get a sustainable competitive advantage directly from IT. Yes, technology can cut costs. But real competitive advantage, just from technology? It never lasts, and barely exists.

You can, however, get real business advantage with technology. You just don’t get it from products, services and information. You get it from processes, skills and execution — the same things that let any business differentiate itself. When IT is used most effectively, (i.e. when it’s really focused on the business it serves) it reinforces and amplifies that differentiation. It maximizes the advantages you get from your business model. It improves processes, leverages skills and streamlines execution in ways that help your business deliver on its unique strengths.
Information technology: A Catalyst for Business Process Innovation in the Logistic Services Industry

Fueled by corporations that look at outsourcing as a way to reduce costs and gain a competitive advantage, the logistics services industry continues to grow and thrive. However, logistics service providers (LSPs) continue to struggle in this ever-changing industry dominated by acquisitions and low-margin environments. To survive in these harsh business surroundings, LSPs are developing different success strategies, ranging from a focused approach on core competencies to an expansion approach whereby companies move into completely new segments. As a result, three distinct business models seem to be evolving.

By Till Dengel

Future LSP business models

• **Yield innovators** include companies that arise from the rail, trucking and container shipping segments. They are typically asset-intensive, provide a standardized service in a certain area or region and face fierce competition as their services can often be considered commodities. The primary goal for the yield innovator model is to utilize assets through asset optimization, process excellence, cost control and standardization, as well as drive costs down and maximize output by streamlining processes.

• **Portfolio innovators** include companies whose primary goal is to quickly move into profitable areas, exploit them and, once they become a commodity, move on to the next area of growth. These companies try to insource complex core processes that their customers would typically source, including fulfillment handling (e.g., order taking; billing), light assembly and possibly more tactical processes such as demand planning and forecasting.

• **Orchestration innovators** provide clients with a one-stop-shop by taking over an entire supply chain. Customers looking to completely outsource their logistics will rely on orchestration innovators to subcontract all operational tasks to third- and fourth-party logistics providers. By focusing on streamlining overall process management and increasing visibility, companies using this model can ensure customer satisfaction and smooth execution of supply chain activities.

The impact of technology

As companies aggregate vast amounts of data, connectivity and visibility become essential factors in making sound business decisions. Moreover, an integrated IT solution is paramount for companies that wish to streamline operations, achieve financial and strategic objectives and meet customer expectations. But which technology mix is best-suited for your company’s business model? Answering that question requires taking a closer look at today’s IT environments.

Currently, most IT systems are monolithic—hard-wired and often times reliant on humans as the interface to connect complex landscapes. At the same time, core operational processes rely on this infrastructure and there is no way to simply switch one landscape off and turn on a new one. The transition needs to be performed in small, digestible steps by leveraging existing investments and using a common language to connect legacy and future systems.

New opportunities including services-oriented architecture, support this paradigm by using principles, such as web services, and combine it with the necessary business semantics and process logic needed to enable customized business processes. A service oriented application and integrated business processes platform can drive innovation and enable business change by running services developed by in house IT departments or outside vendors. The objects and services are used to compose end-to-end business processes called composite applications. This approach has many generic advantages, including cost containment by reusing services and lower cost of change through business process.

The LSP industry and, in particular each future business model mentioned earlier, can greatly benefit from such business process innovation. Yield innovators achieve lower costs by optimizing operations and increasing automation with standardized IT platforms. Portfolio innovators rely on flexible IT infrastructures that can be easily tailored to quickly changing customer needs. Finally, orchestration innovators see connectivity as core since it allows for increased visibility into processes, lower costs and smooth execution to ensure customer satisfaction.

Conclusion

Information technology is a major cornerstone in the evolution from today’s business models to future models. Each model requires a different view on IT and will derive a different strategy. Since no single model will exist on its own, it will become even more important that one IT platform can support various business models.
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The NASSTRAC Transportation Corner—North American Bill of Lading

At its May 2006 meeting, the National Classification Committee (NCC) of the U.S. National Motor Freight Traffic Association, publisher of the National Motor Freight Classification (NMFC), adopted a measure of considerable interest to shippers and carriers operating across the northern and southern borders of the United States. Effective July 22, 2006, the NMFC includes a bill of lading specifically for for cross-border shipments. This document is called the North American Uniform Through Bill of Lading or NABOL.

By Chris Norek and John Cutler

NABOL Challenge for Shippers: Cargo Loss and Damage Claims

The NABOL is not actually new. It was developed over several years of negotiations between representatives of shippers and motor carriers. Since the NABOL represents a compromise with the trucking industry, it contains features that may raise concerns for shippers. The principal area of controversy concerns cargo loss and damage and the need to address the different liability levels under the laws of the United States, Canada, and Mexico. The NABOL provides that, absent a separate written agreement to the contrary, the controlling liability will be that of the “first country in which the first Performing Carrier takes physical possession of all or any part of the Goods.”

As a result, if part or all of a shipment comes into the first carrier’s possession in:

• The U.S.—carrier cargo liability will be based on actual value unless otherwise agreed in writing, subject to the proviso that carrier limitations of liability in classifications, tariffs or contracts may also apply.

• Canada—the standard liability is based on “4.41 CDN $ per kilogram computed on the Total Weight of the Goods, Pallets/Dunnage.”

• Mexico—the standard limit is “the equivalent of fifteen (15) times the minimum daily wage then in effect in the Federal District of Mexico, per metric ton or the proportional part thereof.”

Important note: This arrangement appears to be controlling for the shipment as a whole even if most of the goods in a shipment are added later in another country, and even if most of the distance traveled is in another country or if the loss or damage plainly takes place in another country.

Rationale

The argument for this arrangement is that universal application of the most generous liability regime would unduly favor shippers, while universal application of the least generous regime would unduly favor carriers. Thus making the controlling regime depend on where goods are first shipped is more objective. However, if a U.S. shipper’s freight is predominantly inbound from Canada or (especially) Mexico, there may be adverse impacts from use of the NABOL.

Even shippers whose freight is predominantly outbound to Canada or Mexico need to be careful about limitations of carrier liability in classifications and tariffs. The NABOL was designed to put shippers on notice of these limitations. However, it could also complicate attempts by shippers to recover claims. The NABOL has now been made a part of the NMFC in order to increase awareness and utilization. Notably, the NABOL explicitly provides that it is the contract of carriage between the parties, unless the parties agree otherwise. Certain NMFC items now require use of the Uniform Straight Bill of Lading or the NABOL for shipments transported subject to the NMFC. Many shippers pay too little attention to bills of lading, even though courts may treat them as contracts of carriage.

NASSTRAC objected to aspects of the NABOL dealing with cargo liability limitations, both on substantive grounds and because of the belief that these issues should not be decided by carriers acting collectively with antitrust...
The Carmack Amendment provides “No discussion, consideration or approval as to rules to limit liability under this subsection may be undertaken” by carriers acting collectively under the Interstate Commerce Act. The NASSTRAC objections were rejected by the NCC.

The NABOL also specifies notice deadlines of which shippers should be aware. For example, notice of visible damage is to be provided within one working day after delivery, and notice of delay is to be given one working day after the date scheduled for delivery. In addition, notice of concealed damage is due within one working day after expiration of a 15-day period following delivery.

In addition, the fine print that accompanies the NABOL is not identical to the fine print accompanying the Uniform Straight Bill of Lading that also appears in the NMFC. Some of the additional terms are needed to address cross-border issues, but there is also important language affecting aspects of the shipper-carrier relationship that are not related to international shipments.

All shippers should therefore familiarize themselves with the NABOL, which has more features than can be covered in detail in a short article like this one. Shippers who would like different liability provisions can and should protect themselves through appropriate contracts with motor carriers and brokers.
Who’s Who in Logistics?

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NOW THAT THE DUST HAS SETTLED and the ink is dry on the contract, I’m sure you’d like to read the gory details of how Wheels Group acquired the Chicago-based Clipper Group. After all, corporate acquisitions can be bloody affairs with plenty of pain and carnage, particularly for unsuspecting employees. This isn’t one of those times. The negotiations went very well and everybody won. In fact, this happens to be a very positive story about the benefits of vision, hard work and perseverance.

Our company was created nearly twenty years ago from a then visionary idea that logistics was more than just procurement of transportation services and it needed to be a top-level strategic consideration. We’ve built our company on that belief, while constantly containing and reducing costs and improving corporate service and performance. As a result, we became expert problem-solvers, a go-to company with no debt. We improved our own business practices by making our customers’ businesses run more effectively. We were often of interest to others as a potential acquisition, but we had no ambitions ourselves to acquire another company. That is, until recently.

So what changed? An opportunity arose that we couldn’t refuse, which represented significant value to our customers, employees and shareholders.

When we first entered into acquisition mode several months ago it was primarily with our customers in mind. Our objectives were to acquire a stronger U.S. presence, increase coverage and buying power, and further enhance our capabilities as a North American logistics provider. We were very fortunate to acquire a viable but underutilized U.S. subsidiary that specialized in temperature-controlled intermodal and highway logistics.

Unlike most executives, who may never know firsthand the challenges of a corporate merger, this wasn’t my first encounter with business consolidation. During my forty some years in transportation and logistics, I’ve been involved in four acquisitions, two intercompany mergers and two start-ups, all at the executive level. From gun-toting Teamsters to back room bankers ready to squash the deal, I’ve seen it all. While every merger is unique there’s one common challenge – the bargaining process. In my experience, the hardest part of doing any deal is actually doing the deal. Everything rides on your ability to negotiate. The more skilled you are as a negotiator, the more successful you will be at achieving winning results.

Plenty of business consultants will offer advice by emphasizing other concerns. Pick an appropriate target. Don’t overpay. Have a clear vision of integration. Manage change. Provide highly visible, strong leadership. Don’t lose sight of your customer. These are significant aspects of corporate mergers. However, if the buyer lacks the ability to hammer
out a comprehensive deal that ends with their money in the seller's bank account, then they have failed on all counts.

The paramount key to negotiating is establishing trust between the buyer and seller.

Simply put, trust is the ability to have confident reliance on the integrity of everyone involved in the deal. It means knowing that financing is in place and won’t disappear, and that you can take people as saying what they mean and meaning what they say. That you can take them at face value and not be constantly looking over your shoulder. It means what they say. That you can be in for a big surprise: namely, the paramount key to negotiating is establishing trust between the buyer and seller.

What makes trust so important is its impact on the bottom line. Without trust, people as saying what they mean and meaning what they say. That you can take them at face value and not be constantly looking over your shoulder. It means confi dent reliance on the integrity of everyone involved in the deal. It means what they say. That you can be in for a big surprise: namely, the paramount key to negotiating is establishing trust between the buyer and seller.

The process of consolidation through negotiation is all about satisfying the interests and rallying the efforts of everyone “at the table”. Not an easy task when you consider the number of people involved in a corporate merger. It’s not just the buyer and the seller. It’s all the other interests that are present and must be accounted for.

The first group of people you need to satisfy are your lenders, many of whom you won’t even lay eyes on. It’s as if you’re in an automobile showroom attempting to buy a car from a salesman who constantly needs to consult with his manager. As the car purchaser, you never get to see the manager. Risk approval is one-way communication. The decision makers at the bank hate uncertainty and loathe the risk. They tend to remain hidden in the background, often mumbling, preferring to communicate through their lawyers. Accept it. You’re in the land of OZ and you never, ever get to see the wizard.

Whatever you do, make sure all the financial details are worked out in advance and be confident of your financial backing before you reach your closing date. Otherwise you can be in for a big surprise: namely, bankers refusing to lend the money necessary to complete a deal.

At the bargaining table getting consensus can be extremely frustrating when you have to talk through a team of lawyers and accountants on both sides. Everyone has their own agenda and crowded discussions make it easy to lose sight of your objectives and fall prey to clouded vision. But wait. It gets better.

While the process for merging corporate entities has remained basically the same over the years, e-mail and instant text messaging have dramatically changed the way buyer and seller communicate with each other.

Gone are the days of buyer and seller staring at each other across a table. While the occasion will arise for at least one sitting at the table, conversation isn’t what it used to be now that questions can be asked and answered via personal communication devices. I can remember a time when you kept an eye on what you knew to be a gun in your adversary’s breast pocket. Now intimidation comes from another source as eyes are not-so-discreetly drawn to Blackberrys and cell phones. Everyone is either reading or writing their latest text messages, or the rising lawyers’ fees based on round-the-clock activity. If you were on the master contact list, you were hooked. E-mails kept arriving well after midnight.

The point of the negotiations is to use every opportunity, every life experience to improve the game and increase the chances of winning.”

With the addition of keeping tabs on all of the lawyers’ fees, particularly the lawyers representing your bank.

As I mentioned earlier, bankers often speak through their lawyers, even after the deal is done. Sometimes the exchanges are extraneous and needs to be curtailed.

It is also important to note that often the lenders, lawyers, and consultants have differing agendas during these transactions and theirs could pertain to a significantly shorter-term view than that of the buyer.

My final observation is two-fold. First, there’s nothing like the sigh of relief and sense of accomplishment that comes from a well-executed, artfully-negotiated corporate merger. Second, by looking at the bigger picture it’s easy to conclude that life is a negotiation. Whether it’s staying on a diet, navigating through traffic or acquiring a company, we are constantly bargaining for results. The point of the negotiations is to use every opportunity, every life experience to improve the game and increase the chances of winning.
Information Technology and the Supply Chain Management Professional

Not long ago, logistics and supply chain management positions tended to have a low profile on the corporate map. In today’s global trade environment, these disciplines have been recognized as critical to success of nearly every business. This article offers insights on what it means to be a supply chain professional in this changing environment. It is based on interviews with supply chain organizations and experience with IBM.

By David J. Closs

A RECENT ARTICLE in Supply Chain Management Review ("The Emerging Supply Chain Management Profession", January/February 2006) which I co-authored, proposed criteria for defining a supply chain management professional (SCMP). This framework was developed based on experience within IBM, interviews with other major supply chain operating and manufacturing organizations, and discussion among the research team members. The result was a suggestion that a true SCM professional must demonstrate skills and capabilities in the following five areas: 1) Functional; 2) Technical; 3) Leadership; 4) Global management; and 5) Experience and credibility.

In terms of functional skills, a SCM professional should have established subject-matter expertise and relevant skills in several of the major supply chain functions including procurement, demand/supply planning, manufacturing, global logistics, and customer fulfillment. The individual will have worked at the operational level in multiple functions to fully understand the day-to-day processes, challenges, and issues. This functional experience should include a combination of hands-on operations and managerial experience.

Given the increasing dependence of the supply chain on technology, a true SCM professional must have experience in applying information technology (IT) effectively. This does not suggest that a SCM professional must be experienced in technology development. He or she should, however, have dealt with the challenges of technology selection, implementation, and application. A well-developed understanding of the relationship between supply chain processes and execution management solutions is part of this skill set as well.

A SCM professional must also demonstrate a broad range of leadership capabilities. He or she must be able to lead projects involving customers, partners, and/or competitors while effectively interacting with both internal and external executives. A SCM professional must also demonstrate leadership and experience in complex, matrixed business environments. This experience will ensure that supply chain initiatives and resources are managed and integrated effectively. Other broad leadership skills relate to communication, negotiation, problem solving, team leadership, and project management.

In today’s boundary-spanning supply chain environment, a SCM professional must also have global planning and operations experience. This experience provides the insight into the global supply chain environment and its challenges. Ideally, professionals will have had one or two experiences working outside their home country or at least extensive involvement in and responsibility for global planning and operations.

Finally, a SCM professional must possess sufficient knowledge, breadth, and experience to evaluate the competitive environment, to conceptualize strategy, to assess and organize solutions, and to implement change both in the organization and with supply chain partners. This capability is achieved by developing experience and credibility within the enterprise as well as developing external credibility. External credibility can be achieved through participation in industry conferences, receipt of awards or patents, and publication in business or professional journals.

While the discussions within the interviews and among the research team members achieved significant agreement, there were two areas where different perspectives surfaced. The first was whether a supply chain professional needs to have spent time in an international assignment. Some of the team believed that international experience was adequate while others felt that the individual actually had to be domiciled internationally. The second area of dis-
agreement concerned the technology experience required. To be qualified as a supply chain professional, some members of the research team felt working with supply chain technology was adequate while others felt that in-depth experience was necessary.

I would like to focus these comments on the second issue. A review of the literature indicates that some researchers suggest that being a SCM professional does not require significant technical skills. Others regard technology or technical skills as fundamental for developing cross-functional, cross-company managerial skills. There are even some experts who placed strong emphasis on IT skills and expertise and make it an absolute requirement. I believe that the position suggesting that supply chain professionals don’t require substantial IT skills is becoming less tenable. As supply chain management and IT become more tied, advancement to the senior professional ranks will increasingly require a solid foundation in both. The rationalization of this statement is threefold.

First, supply chain IT has become a critical element in establishing strategic integration and achieving competitive advantage. Development of an integrated supply chain strategy with appropriate consideration of procurement, production, and logistics requires a comprehensive assessment of the situation to collect the appropriate data and then credible analyses of strategy alternatives. The specific decisions include sourcing materials, distribution channel design, and establishing alliances. The data includes understanding current and future customer requirements, current and potential suppliers, possible flows and processes between production and distribution facilities, and the cost elements related to alternate strategies. Such thorough and integrated analyses require effective use of comprehensive planning tools such as supply chain design tools and advanced planning and scheduling applications. Historically, such planning and assessment would only be completed on an annual or bi-annual basis since the environment did not change that quickly. However, today’s rapidly changing supply chain environment (demand, supply, cost, risk, and performance) requires more frequent, comprehensive, and accurate evaluation and analysis. More frequent and comprehensive analyses of supply chain alternatives require that supply chain managers have a deeper understanding of the decision tools, the data implications, and their limitations. Since these tools are becoming important for real-time identification and evaluation of supply chain alternatives, it is important that supply chain professionals have spent some time in analysis design, application, and results evaluation. Such knowledge and expertise is critical to allow for appropriate interpretation and applications of results. In order to avoid misinterpretation and erroneous conclusions, it is important that the supply chain professional has significant understanding of the planning decision tools.

Second, supply chain IT is becoming a critical element for customer and supplier integration. Customers and major suppliers are increasingly requiring more IT interfaces and enablers to support supply chain operations. The need for real-time collaborative exchange of requirements, EDI transfers, RFID, transport consolidation, and integrated supply chain performance reporting increases the need for supply chain professionals to understand the capabilities, requirements, and nuances of these technologies. Since these capabilities are becoming critical elements of firm customer service and relationship management requirements, it is important that supply chain professionals be able to understand the subtle trade-offs associated with these technologies and the means to incorporate them into a competitive service offering. When inclusion of a technical element is critical for a customer service offering, supply chain professionals must be able to effectively evaluate the trade-offs and risks.

Third, increasingly extended and global supply chains have driven the need for global coordination and tracking. Global coordination requires integrated planning systems that can coordinate requirements, schedules, and inventory availability in a 24 by 7 environment around the world. This capability requires the understanding of planning calendars and discipline, data integrity, and the application of information based decision logic. Another consideration for global operations is access to and coordination of shipment tracking information to facilitate requirements planning and customer service monitoring. While there are an increasing number of systems that facilitate information exchange and provide tracking information, a major issue is the ability to analyze and synthesize the detailed information to determine the exceptions that must be handled by a supply chain professional. It is important that the individual developing these decision rules and logic understand both the operating environment and the technology.

While one might argue that not every supply chain professional needs to have a deep understanding of all or even any of these technologies, I believe that lack of depth in at least one of them will limit one’s ability to further advance in the supply chain profession. While in the past, the project managers for some of these critical technologies were often from IT, project management today is typically from the business or commercial side meaning the supply chain manager. This means that in order to obtain the project management experience that is critical for the supply chain professional, one has to have the knowledge and experience to apply and manage the technology for planning or interfacing with suppliers and customers. When I advise students today, I encourage them to make sure they “get their hands dirty” in technology application as I believe that will be a key differentiator in developing and advancing the supply chain management professional for the future.

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