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"This year is probably the most challenging year that I can remember to be in the supply chain. We have experienced wildly fluctuating demand, and it is difficult to do good forecasting where the market is so consumer driven"
- **Gregory Smith, Volkswagen**



"There is no collaboration across the entire network and that is something that we definitely need to look into. However, I think that Mexico would be a good place to start on a smaller scale than looking at the entire US since you have limited your railroad and limited your ports"
- **Jim Terry, DaimlerChrysler**



"We have to change the way that we do things today in order to make our customers more productive. It is not about rates; it is about what the costs drivers are and how we can help them be more efficient"
- **Bill Garrett, UPS Logistics**



"In a lot of cases, our customers see distribution and logistics as a core competence and a competitive advantage. I think you are going to have a difficult time convincing these companies that turning it over to a third party will be in their best interest"
- **Tom Swennes, ICL Systems**



"Logistics as a competitive advantage has come a long way, but I would say that we still have a long way to go... We need a new, more meaningful relationship between manufacturers and carriers"
- **Chris Connor, WWL**



Carmakers face up to finished vehicle challenges



One of the main questions facing North American vehicle manufacturers is how best to achieve order-to-delivery goals.

Jim Terry, senior manager, vehicle logistics at DaimlerChrysler, said: "Quality is number one. Second is speed of communication, which speaks to improving technology and information flow back to the OEM. Third is speed of delivery to market. Fourth is costs; prices are rising - gas is outrageous."

Gregory Smith, executive director, distribution and logistics at Volkswagen of America, said that 2004 has been particularly challenging. "One reason is the change from building out a 2004 model where we shipped almost nothing from our ports to a ten-fold demand increase in wholesale now," he said.

"The bar has been raised for customer expectations. Customers want quality, but they also want a deal. A couple of years ago we established a system in which the dealer can go online in order to find their vehicle location. The challenge is in giving the dealer the estimated time of arrival. We are right about 85% of the time, which is not enough. The inaccuracies are due to a breakdown in the production system or in the truck or rail

system. Truck carriers keep their commitments about 60% of the time and rail carriers keep it 0% of the time.

"In the cost area, we have to do everything we can. We have optimized the supply chain in many little islands: carrier rates, port processes and so on. We need to look at the whole supply chain and at ways to do handoffs better. It will take more collaboration in order to give carriers a lot more advanced information.

"Right now, we are taking at least one month's worth of supply out of our pipeline. We are going to try to get our dealers to live with 35-40 days' supply of cars on the ground. We do not want to have any cars in our ports."

VIN win situation

An area of potential collaboration among vehicle manufacturers is exports from Mexico to the US and Canada. Terry said that currently DaimlerChrysler is short of ships, which delays the time for transporting from Mexico and up the east coast. "However, that represents no more delay than what they experience from rail at this time," he said.

DaimlerChrysler is fighting to procure railcars, particularly bi-level ones. Terry said that what would help on the rail side is

pricing per vehicle. "We should get away from railcar pricing where everyone buys one railcar and that is what we pay. With a per-VIN system, we could start mixing. The railroad would charge each OEM its own rate, so there would be no collaboration. However, I could certainly use Volkswagen to fill my ram trucks on a railcar and increase the density of that railcar."

Volkswagen also uses vessels to ship from Mexico north along the US east coast. "Rail is not too bad. The biggest issue in Mexico is that the Port of Veracruz is hugely congested," said Smith. Bill Kerrigan, director of consulting firm KGI asked whether since there is little terminal space for vehicles at Veracruz, there may be collaboration among the OEMs to build covered parking decks, which would also provide weather protection.

Bob Barnard, manager of international and domestic vehicle logistics at Mercedes-Benz, said that with its next major product launch, volumes would increase substantially. "About 60-70% of our volume is imports. To that end, one of our biggest challenges is developing port property. Water property is not in abundance, especially with docks that can handle ships with 38ft or more draft. Also at issue is getting

competitive rail into those ports. "Vessel lines are scrambling to grab space and since Mercedes-Benz owns its entire vehicle processing centers, we need to find a solution to work with carriers, and other parties."

Paul Carlton, president, Mitsui OSK Bulk Shipping (USA) said: "When it comes to the land issue at ports, it is really an import, not an export issue. Manufacturers use the most land in the northeast, Florida and California. Due to container pressures, cars have fallen out of favor in the north-east, and more are being railed up from South Atlantic ports."

Parking in North America
Parking decks, already in use in Europe, may become more widely used in North America. Barnard said that, historically,

land has been much cheaper than parking deck construction. "With parking decks, you need columns to support the structure and, unfortunately, they become bumper magnets. We may have to look at cost savings for 20 years hence, and parking decks will probably play some role."

How viable is the land bridge option for vehicle manufacturers? Vessels have to return to the Far East, so they have to go that way anyway. Barnard said: "We are looking at using land bridge at the end of this month and next month, primarily due to the labor shortage on the west coast. Vessels are sitting for three to five days at the dock with no dockworkers to unload them. We need to follow our timelines, so vehicles will probably have to go on land bridge. Railroads are not

competitive and probably never will be, not through any fault of theirs. Land bridge from Europe does not seem to be a long-term option for the US. For us, reliability is essential."

The globalization of the supply chain is important to Ricky Coley, manager, North American vehicle logistics for Ford. "We are integrating our affiliated groups, such as the PAG, into the North American supply chain and making sure that that we recognize the synergies. The first stage was the port rationalization process. With PAG, Volvo was using one port, Jaguar another, and so on, which was inefficient. The second stage involves processing fees, land availability, efficient port processing operations and multiple production lines versus single ones," he said.

CAR CARRIER CAPACITY SHORTAGE WILL CONTINUE

Christopher Connor, president of the Americas region at Wallenius Wilhelmsen, said that there is still not enough supply in the global ocean car carrier fleet, despite a sharp increase of more than 30% since 1997.

"The Asia-Europe trade exploded in 2004 and we expect it to continue to grow rapidly over the next two years. Overall, we expect a steady increase in demand on average of 6% growth over the next couple of years.

"The carrier base is challenged due to the fragmentation of

production. We are sourcing cars from many more markets, including Korea, Brazil, Argentina and Australia. In addition, cars are 10% bigger on average in the past decade. Our solution has been in part to convert some container vessels, improving capitalization in the short term."

Paul Carlton president, Mitsui OSK Bulk Shipping (USA) agreed that there is a tight tonnage situation. He noted that US imports have grown from 4.1 million units in 1995 to 6.5 million this year. "The industry

will add car capacity of 750,000 units over the next several years," he said. "What is hurting the carrier side is the strong utilization of these vessels. We are seeing an explosion in demand in countries such as Brazil, South Africa, Argentina, Turkey and Mexico. All demand the same level of service and quality, which places a lot of pressure on the carriers. We must look at everything on a global basis when it comes to supplying tonnage to the car market. Vessels will move to where there is a better paying market."

3PLS PROMINENT IN AUTO SECTOR, BUT SERVICE DISAPPOINTS

A study on third-party logistics recently released by Capgemini, the Georgia Institute of Technology and FedEx showed that the automotive industry is slightly above other industries in its use of 3PL providers, with almost 81% of respondents indicating that they use 3PLs.

Gary Allen, North American distribution leader at Capgemini, said that the automotive industry's

use of 3PLs for inbound transportation is much higher than for other industries. In a reflection of growing trends in information technology, the use of 3PLs for RFID technology came out much higher for automotive than it did for any other industry, with 23% using them now and 43% planning to use them in the future, according to Allen.

Dr John Langley, professor of

supply chain management at the Georgia Institute of Technology, said that most respondents view 3PLs as tactical service providers as opposed to supply chain integrators or logistics strategists, although the latter two categories are increasing over time. On the negative side, about 49% of respondents said that 3PLs did not meet their service level or cost reduction expectations.

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"The railroads need to look at capitalization, but as manufacturers, we do not help ourselves when our forecasts are optimistic... We need to get our forecasts accurate, stand behind them and hold the railroads to account"
- **Bob Barnard, Mercedes-Benz**



"Our industry needs a distribution system that responds to the market. We have to work through capacity issues collectively as an industry and we can only solve them as an industry in most cases"
- **Ricky Coley, Ford**



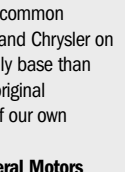
"They key thing about a 4PL is that it is a very attractive, economical little term; it does seem to give a bigger indication that the market is demanding more capabilities, but it is not well-defined... I think that the market currently wants 3.3PLs or maybe 3.21PLs"
- **James Moore, Ryder**



"We do not allow room to turn over our whole logistics function to outside companies; that would be like turning over our production floor to an outside company. However, our logistics partners are very important to us. We give each one a business segment, each of which is a big piece of our whole production system"
- **Glenn Uminger, Toyota**



"There is more in common among Ford, GM and Chrysler on our inbound supply base than there is with the original equipment side of our own business"
- **Ron West, General Motors**



Autologistics Global 2004 conference coverage by Anthony Coia and Dale Buss