

WERC Sheet®



Top Trends for 2005

To find out what's ahead in the new year, we asked members of WERC's Board of Directors to give us their thoughts on top trends for 2005, and the implications these trends have for warehousing/distribution professionals. Participants include:

- **Susan M. Rider**, consultant, Rider & Associates, Upton, Ky., and president of WERC
- **Leslie K. Ajlouny**, vice president business development, Evans Distribution Systems, Melvindale, Mich., and vice president of WERC
- **Paul J. Marshall**, director, inbound logistics, Limited Brands Logistics Services, Reynoldsburg, Oh., and secretary/treasurer of WERC
- **William T. Gates**, CEO, Standard Corporation, A UTi Worldwide Company, Columbia S.C., and WERC's immediate past president
- **Richard H. Sharpe**, president & CEO, Competitive Logistics LLC, Atlanta, GA and WERC's director of technology

According to our sources, the future is bright—but challenging. Here's what they think you can expect in 2005 and beyond.

Focus on customers

"I believe that 'customer-focused logistics' is the next frontier in supply chain perspectives," observes Richard Sharpe. This emphasis is likely to be seen as the economy strengthens and companies shift their focus from cost reduction to customer value. "Some organizations are beginning to adopt strategies whose primary business driver is to directly impact customer value," he says.

He also points out that as organizations adopt a customer-focused perspective, everyone in the company—including the warehouse professional—will have to identify ways in which they can positively affect the financial health of their customer through their job activity.

Leslie Ajlouny also sees customer service requirements as an important trend. "Customers expect a wider range of services from fewer partners and have higher expectations for quality service," she notes. "As service offerings expand and expectations rise, metrics are becoming a more important part of the relationship as a way to measure and demonstrate true value."

Globalization

Globalization promises to be a strong continuing trend. Bill Gates cites a study that noted that approximately 20 percent of the world's Gross Domestic Product (GDP) crossed international boundaries 10 years ago and that, "within the next 20 years, nearly 80 percent of the world's GDP would cross international boundaries."

Globalization has evolved for a number of reasons, Gates observes, including the basic economics of free trade and capitalism plus the growing wealth of massive population centers

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around the world. Finally, he says, and “perhaps most importantly is the logistics infrastructure that has enabled globalization from a material flow standpoint.”

Global outsourcing. According to Richard Sharpe, global outsourcing is another top trend for 2005. “The primary trend influencing the move toward global outsourcing is the magnitude of the low-cost labor pool in emerging countries. This has been a growing strategy for organizations to improve shareholder value.”

Unfortunately, he observes, the supply chain implications of this outsourcing have not always been clearly thought through. With the move toward global outsourcing, “warehousing and distribution strategies will have to be re-evaluated based on the volumes of product entering through U.S. ports.”

Southern California port delays. Paul Marshall cites these port delays as a significant trend to watch. “Rail and port infrastructure will not allow the current level of volume to flow at expected and past performance levels, given the labor and hours of operation situation.”

Earlier in 2004, he says, the lack of rail capacity created a backlog of containers in

port terminals. Also aggravating the situation is the railroad’s instituted allocation of space on trains to their customers in an effort to maintain service levels.

“Containers that were at one time put directly on truck chassis are now being stacked on the ground in the ocean port terminal yards,” he points out. Handling these containers requires additional labor, complicating the already existing labor shortages at the ports.

“Compounding the situation is the fact that, until recently, terminal gate operations only worked daytime hours, creating congestion and a lack of consistent flow departing terminals,” according to Marshall. These port delays have extended transit times by days and, in some cases, more than a week.

Effects on the industry. To avoid the congestion, some shippers are using other ports or taking other options, such as trans-loading freight and trucking it to other destinations. “This has a major effect on shippers since it adds time and increased costs to the process and takes additional resources to plan freight movements appropriately,” Marshall says.

Gates adds, “We have seen severe congestion in and around our port cities in the U.S., while at the same time we see overcapacity in many of our regional distribution hubs.” He predicts that the future will see more logistics infrastructure being laid to facilitate global trade, with the focus on speed and agility.

“This is no simple feat given our extended supply chains,” he says. “DC managers will have to step outside of the traditional silo and take an active role in developing processes that will enable speed and fully utilize the agility that is inherent in modern DCs.”

Transportation capacity issues

While congestion at Southern California ports is being addressed in several ways, it’s likely to be some time before vessel turnaround time is improved. At the same time, the US trucking industry is in a position where demand for trucks exceeds supply. “This, along with new

EPA and DOT regulations, has created a capacity shortfall at times and increased costs,” Marshall observes.

The driver shortage is a serious concern in the trucking industry, he says. “Many carriers are reporting underutilization of equipment because of lack of drivers.” In addition, carriers are “reporting extremely high levels of ‘turn-down’ rates on given days because they simply do not have the capacity to fulfill the needs of shippers.”

While carriers are increasing pay for single and team drivers in order to attract more drivers, transportation capacity remains a problem. “The imbalance between supply and demand for domestic trucking has created shipping delays and increased costs for shippers,” Marshall points out. Increased fuel costs are exacerbating the situation.

“As demand continues to surge, shippers are evaluating transit time commitments and creating contingency plans for time-sensitive loads,” he says. “Shippers are paying more, experiencing increased service delays, and using more internal resources to plan freight moves appropriately.” This trend is not likely to change in the short term.

Operations

Top operational trends for 2005 are RFID, productivity and throughput, according to Susan Rider.

RFID. “RFID replaced Y2K and in some ways is very similar,” she observes. Both received extensive coverage in the media and at industry conferences and meetings. In all likelihood, RFID will not be the non-event that Y2K turned out to be—but it may not gain significant traction for awhile.

“Everyone is talking RFID but unfortunately, when you look at the practicality of it all, the technology is just not there yet,” Rider observes. “There are a lot of pilots going on with issues in read rates and readability of product with foil, liquid or tin, but we are learning from each pilot.”

Before RFID is accepted in the total industry, she says, the price of tags and readers will need to come down. She



WERCSheet® (USPS # 014998) is published monthly, except the combined Jul/Aug issue, by the Warehousing Education and Research Council, 1100 Jorie Blvd., Ste. 170, Oak Brook, IL 60523-4413. Phone: (630) 990-0001 Fax: (630) 990-0256 E-mail: wercoffice@werc.org Website: www.werc.org Annual membership dues are \$240, including \$80.00 for an annual subscription to WERC Sheet. Periodicals postage rates paid at Oak Brook, IL. (Vol. 28, No. 1)

POSTMASTER: Send address changes to WERC Sheet®, 1100 Jorie Blvd., Ste., 170, Oak Brook, IL 60523-4413. WERC assumes no responsibility for unsolicited manuscripts or other materials submitted for review.

Editor: Jennifer Hill

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Working together for results

Customer-focused logistics demand integrated solutions. Warehousing, distribution, and logistics professionals are likely to increasingly find themselves working closely with others across the company to meet their clients' needs. Just ask Mark Cleveland, senior operations manager-fulfillment services, for Allstate Insurance Company, Northbrook, IL. He is also WERC's director of membership.

"As a value-add services fulfillment center of excellence, our emphasis has become ownership of the user experience, where the user is defined as any entity engaging the operation's services. We continue to emphasize competitive strategies to remain the provider of choice for our constituents using benchmarking and technology and process redesign to provide 'world class' service levels and cost effective delivery," Cleveland says.

"Formerly distinct processes and operations are now expected to perform at a higher level of transparency in the execution behind the demand for service. Our future holds a continuing redefinition of what a seamless, integrated offering of services entails. As a result, we include systems, technology, process, accounting, multiple vendor representatives, sales and marketing, and our ordering customer increasingly in our process design as we grow to serve a broader base of distinct business entities. Our area of responsibility begins with the efficient and accurate web-based experience of the ordering location and ends with the evaluation of the effectiveness of the marketing strategy."

predicts that we are two to three years away from a vast adoption. "However, if you are a vendor or a supplier and you don't have a 'strategic RFID team' that is studying and experimenting then you are missing the boat."

Rider suggests that consumer products manufacturers start an RFID pilot if they haven't already, and that 3PL providers and material handling equipment and software vendors "figure out how you integrate RFID with your product or service offering."

Productivity and throughput. According to Rider, these two issues are not new but are always "hot." "It only makes sense to continually find better ways—with new technology or equipment—to get better productivity. Why? Increased productivity adds immediate dollars to the bottom line."

Increasing throughput can also maximize results. "If you can double the throughput in one facility you may be able to postpone the investment in capital of a new building, thus adding huge dollars to your company's bottom line," Rider observes. Throughput breakthroughs may be the result of a decision to outsource, which "may be more economical and a better solution."

VAS will require training, new skills

Push to pull economy. The shift from a push to a pull economy has successfully lowered the inventory-to-sales ratio, Gates points out. The just-in-time delivery systems and other "lean" initiatives that started in the automotive industry, then took hold in the consumer goods and apparel industries are now the foundation for most supply chains, he says.

As a result of the pull approach, "we will continue to see more SKUs and smaller, more frequent order patterns. We'll have more value-added activities taking place in our logistics centers, focusing on speed and flow of inventory."

Value-added services. Richard Sharpe agrees with Gates that warehousing operations will extend into offering value-added services beyond the typical services. "The trend toward mass customization and increased customer requirements has caused organizations to identify innovative ways of using value-added services in the warehouse to reduce system-wide inventory and lower costs." He predicts that the complexity of these services will only increase over time.

"The move to using more value-added services will increase the importance and the roles of the warehousing functions," he says. "This will require additional

training and skills for the warehouse professional so they can perform the required functions."

DC managers will need a new skill set, Gates says, including "an analytical and process focus to spot and stay ahead of trends. He notes that this skill set is in addition to, not in place of, the basic 'blocking and tackling' skills needed in the past."

Shrinking workforce. The expansion of value-added skills will occur at the same time that the workforce in the U.S. is shrinking. "The shrinking workforce means that employers will do everything they can do to be the employer of choice in their mission-critical functions," Gates observes. "These companies will achieve competitive advantage by not stretching limited resources too thin or diverting too far from their core strengths."

The shrinking labor force, he says, will continue to fuel outsourcing in the foreseeable future and more importantly, it underscores the importance of people in our profession. "Given that driving lift trucks and loading containers is not a career job for most people, the ultimate winners in our business, whether 3PLs or private warehouses, will be those with the best HR programs," says Gates.

2005: The future is bright

Although these trends pose challenges to the industry, in the end Bill Gates doesn't see them as positive or negative. "They exist and we as an industry need to adapt or try to change the rules by creating the next innovation," he says.

For warehousing, logistics, and supply chain professionals, the new year looks to be a good one. "Finally, companies are recognizing the importance of good, knowledgeable supply chain people," Rider observes. "This is the year of logistics/supply chain/distribution or just plain old warehousing. Whatever you call it, we're squarely in "an era of competitive logistics," she says. Richard Sharpe agrees: "It's a great time to be in the industry." ❖