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Physician, heal thyself

Just six months ago, the boom in global trade was driving freight rates to new highs and container lines were reaping the profits.

The volumes of traffic are still there today, but freight rates have collapsed.

Sensing that capacity would increase at a greater pace than trade growth this year, forwarders demanded major rate cuts. A top-three line succumbed (rumours vary on who blinked first) and the rest fell into line.

Despite all the new capacity coming onstream, utilisation rates remain above 95% on the major Asia-Europe trades. The lines capitulated far too easily, and are now seeking to get rates back up.

CMA CGM's Jacques Saadé says they have had some success in this, and the lines are returning to modest profitability on the major routes. But he predicts that medium-sized operators could go to the wall as the majors move to protect market share.

If the lines can survive the current downturn, profits will increase again in 2008 when demand catches up with supply.

Long-term recovery could be in jeopardy if the lines start to order massive 10,000-plus teu vessels for delivery after 2010. Saadé has appealed to his counterparts to resist temptation.

But with CMA CGM increasing its fleet capacity by 20% this year alone, his rivals maybe sceptical.

No easy route to France

The opening of France's domestic rail freight market, albeit glacial, is welcome.

Despite the huge potential France presents, private operators – a few pioneers apart – aren't expected to be knocking down the door to get in.

EWS's French subsidiary Euro Cargo Rail has battled for more than a year so far to get its class 66 approved, even though the locomotive is a recognised model across Europe.

The process of getting a safety certificate was just as painful. Then it had to prove its staff were French, and spoke the language.

France has not been the only EU member state to drag its feet on liberalisation, and an upcoming EC report may reveal to just what extent others have been lacking in the competitive spirit department.

But applying to run services in another country is time-consuming and costly. Certification can cost up to €5m.

Guidance from the European Railway Agency on what constitutes an appropriate timescale and price tag would be helpful.

on holiday

| | | | |
|--------------|-----------------------|----|-------------------------|
| April | | | |
| 13 | Denmark | 2 | Russia, Singapore |
| 14 | India, Singapore, US | 3 | China, Russia, Slovenia |
| 14-17 | Easter | 4 | China, Japan, Poland |
| 21-24 | Cyprus, Greece | 5 | Japan, Latvia |
| 23 | Turkey | | Hong Kong, Japan, |
| 25 | Italy, Portugal | 7 | Korea |
| 27 | Slovenia | 8 | Lithuania |
| 29 | Japan | | Czech Rep, France, |
| 30 | Netherlands | 9 | Slovakia |
| May | | 12 | Russia |
| 1 | EU, China, Hong Kong, | 13 | Denmark |
| | | | Singapore |

Delivery chain needs metrics and maturity

Good relationships are based on trust and mutual understanding, which require honesty and openness. It is no wonder divorce is so popular. There is a disconnection between what goes on in the real world and what goes on in people's minds. It is the old problem of reality against expectation. The result is loss of faith and subsequent ill-feeling between the two parties.

Business relationships often mirror the personal. In both, the financial impact can be huge. Businesses say they want good, strong relationships, but seem to go out of their way to hinder them. The result can be seen at quarterly review meetings between 3PL and customer (for example, a manufacturer of high-value goods), when the 3PL lays its performance figures on the table and the customer objects.

The big issue, and the cause of friction between 3PL and customer, is the difference between the service level being reported and the actual service that is experienced. In many instances, the 3PL will report a 98% success rate, apparently unaware of customer complaints about late or incorrect deliveries.

These kind of conversations are all too typical.

Example 1:

3PL: "Your freight has arrived at our import gateway."

Customer: "Are you sure?"

3PL: "I have the paperwork sitting in front of me!"

Example 2:

3PL: "We received three shipments for you."

Customer: "I don't know if these are complete."

Service level agreements (SLAs) are left in tatters, for reality on the ground can tell a very different story from what the 3PL in the office is saying. Where metrics are in place and based on physically driven reporting, measurements are triggered by the physical event – not by a logical, or office-based, conclusion. Freight can be received and processed at a piece level and events

David Warrilow on how effective performance measurements can improve 3PL relationships

computer-generated, making reporting of them clear, unambiguous and honest.

Typically, after three years of wrangling, a disenchanted customer may walk away and try another 3PL, which, like the first, will promise great performance to win business – but fail to deliver unless it has metrics in place.

There is a huge need for maturity in the delivery chain process, but this will not happen without reliable performance metrics. The 3PL must be able to show that the performance figures it is using are reliable and objective. It must end the practice of assuming that freight is at a specific location on a specific day and time just because a piece of paper – a result of someone's "logic" – says so.

Both parties can work together to monitor and improve the process to the advantage of all concerned. When the process has been improved and the maturity model locked in place, the result is not only figures that match up but shorter delivery times and lower costs.

Accurate service measures, reduced costs and improved customer satisfaction all result from better process monitoring. The best monitoring – and agreed key performance indicators (KPIs) – come from genuine event recording using unambiguous time stamps.

The fault is not all with the 3PL. Maturity comes from shippers better committing to 3PLs and consequently reducing their number of 3PL partners. In turn, 3PLs should invest in the processes and technology that will enable them to improve service levels and keep the customer onside.

Shippers may have their faults, but also legitimate concerns. In a survey (*Outsourcing*

Logistics Report, Eyefortransport, December 2005), 51% of shipper respondents said they had problems monitoring and evaluating 3PL performance. Clash of culture between shipper and 3PL firms was also an area of concern. In addition, "latent information asymmetry", or information divergence, was seen as a threat to business.

The threat to business is as crucial as any, owing to the current (and likely future) status of global logistics, which is that globalisation has elevated the importance of the supply/delivery chain and the importance of the 3PL. Within this picture, air is taking over from ocean for many high-value goods, freight is being consolidated for the longest leg, cross-dock in the import gateway must be achieved in minimum time, and outbound shipments must be consolidated wherever possible.

Process maturity – and hence better 3PL relationships – will not happen without reliable performance metrics. Good metrics are fundamental to a relationship's success and how an event is measured is as important as what is measured. Processes can only be improved if they can be measured and quantified, leading to sound service levels that can be the basis for a long-term relationship.

The ingredients for a successful relationship are:

- SLAs are central to the relationship
- KPIs are accurate and unbiased
- Quarterly reviews are positive
- Partners ask "What can I do to help you?"
- Performance metrics are the only way to get you there.

David Warrilow is MD of Audax (www.audax-software.com).

This is a summary of his speech at the Outsourcing Logistics Europe conference in Amsterdam

in the diary

18-19 April
2nd China Logistics Summit
Shanghai Hilton
■ www.eyefortransport.com/china06/

25-26 April
3rd Trans Asia 2006
Shangri-La Hotel Dalian, China
■ www.transportevents.com

27-28 April
Commercial Vehicle Show
NEC, Birmingham
■ www.cvshow.com

27-29 April
Caspian & Black Sea Transport
Istanbul Hilton
■ www.bemiltd.com

15-17 May
Caspian Air Cargo Summit
Hyatt Regency Hotel,
Baku, Azerbaijan
■ www.euroavia.com/

17-19 May
Europe Laboratory for Supply Chain Innovation
Brussels Marriott Hotel
■ www.cscmp.org

16-18 May
RORO 2006
Flanders Expo, Ghent
■ www.roroex.com

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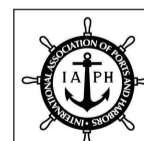
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