

# CANADA'S SUPPLY CHAIN LINK

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## Outside the Box

### Self-fulfilling prophecy?

It's budgeting time across the country, and as we all wrestle with the unknowns of next year's economic conditions it's tough to remain positive.

Suddenly, news of the US financial crisis and the concomitant Canadian stock market freefall have everyone running scared. Reports in the mainstream media are dire: nobody is buying anything, housing prices are falling, it's all gloom and doom.

It's unfortunate that the media hype over this may create a self-fulfilling prophecy. Other than the decline of the stock market, not much has materially changed over the past month. Yes, there are definite signs that the economy is not booming—auto plant closures in Ontario being one of the most significant—but these were a reality before the meltdown.

With the incessant barrage of negative reports coming at us from all quarters, it's virtually impossible to maintain a positive outlook. When you are told every 15 minutes how terrible the situation is, it's hard to separate the bad news from the BS.

But a positive outlook is precisely what is needed in the face of straitened economic conditions. Try some of these facts on for size: We have the most stable banking system in the world. The dollar is dropping, which will stimulate our exports. Oil prices are falling, which will make everything that moves less expensive.

The Canadian economy will weather the storm. Our businesses may take a hit in the short term, but they will recover.

I'm not naïve enough to believe that the power of positive thinking can stop a recession, but I think the great economist Milton Keynes was right in his belief that negativity could precipitate a downturn. The sooner we stop looking up to see if the sky is falling and start looking up to see the silver lining in the clouds, the sooner we can take advantage of the positives and get our businesses back on track.



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## Strategy in Practice

### **Transportation management in small business**

Small businesses—defined here as those with less than US\$50 million in revenue—tend to spend too much on transportation. Research from the Aberdeen Group comparing small businesses to best-in-class enterprises reveals ways in which the little guys may be able to reduce costs and improve their delivery stats.

Based on results in three key areas—on-time delivery, change in on-time delivery and percentage of domestic shipments expedited—the Aberdeen study found that small businesses expedite shipments twice as often as the industry average and seven times more often than their best-in-class counterparts. As a result of this behaviour, small enterprises are spending on average 10 percent of revenue on transportation.

The reliance on expediting shipments arises from two pressures, the study found: poor supply chain visibility and disruptions caused by supply and demand variability.

Small businesses know they need to reduce their transportation costs. The top three strategic actions they identified are reducing outbound and inbound freight costs and collaborating to create more efficient transportation processes.

In order to achieve these objectives small businesses need certain capabilities. They need visibility of outbound freight schedules, they need to be able to receive electronic status messages and they need to be able to electronically tender to carriers.

The research resulted in three key recommendations for small businesses.

First, realize the central importance of transportation to the whole supply chain. The small businesses surveyed tended to treat inbound transportation as their suppliers' problem twice as often as the best-in-class companies. The report counsels these enterprises to take a stake in all transportation as a means to increase efficiency, lower costs and allow for data-driven decisions.

Second, take a look at capabilities and the available technological solutions. Companies that are using technology to manage transportation processes perform significantly better. While there is no

single best solution, the report suggests that small enterprises can benefit from managed service providers and/or outsourcing all transportation functions.

Third, there must be management buy-in along with a focus on processes that create potential cost savings.

Aberdeen polled more than 200 respondents in July to compile the survey results.



## You Should Know

### **Canada-EU free trade pact to go ahead**

Canada and the European Union have agreed to work toward a historic comprehensive economic agreement.

Prime minister Stephen Harper, French president Nicolas Sarkozy and European Commission president José Manuel Barroso agreed to this initiative during the annual Canada-EU Summit in Quebec City two weeks ago.

"In the current global economic climate, we agreed that closer economic co-operation with key partners is becoming more important than ever," Harper said. "A recently completed Canada-EU joint study indicates that liberalized trade in goods and services has the potential to boost Canada's economy by \$12 billion within seven years following the implementation of the agreement."

Negotiations on a formal economic partnership are set to begin in 2009.

### **Cargojet adds freighter**

Cargojet Income Fund has added a second Boeing 767-200 Extended Range Freighter to its fleet.

The B767-200ER aircraft has a maximum structural payload of 100,000lb—67 percent more than the current B727-200 Advanced Freighter—and will allow further expansion with a maximum range of 5,000 nautical miles. The B757-200ER is capable of uplifting a maximum cargo payload of 80,500lb, which is 33 percent more payload than the current B727-200AF.

### **US Navy returns to sail**

The US Navy's Military Sealift Command (MSC) has chartered a kite-assisted, fuel-saving cargo ship to carry military equipment.

*MV Beluga SkySails* sailed earlier this month from Europe to the US with military cargo aboard.

The 400-foot vessel is the world's first cargo ship to use a sky sail—a giant, computer-controlled kite that can rise 100 metres into the air. The ship uses wind power for some propulsion during long ocean transits. This is the first time MSC has chartered such a ship.

The ship's operating company estimates that the sky sail can reduce fuel costs by 20 to 30 percent, or roughly US \$1,600 per day.

### **Air traffic decline continues**

The International Air Transport Association (IATA) released international traffic data for August that confirmed a continuing downturn. International freight traffic saw its third consecutive month of

contraction with a 2.7 percent decline following drops of 1.9 percent in July and 0.8 percent in June.

"The contrast between the first half of the year and the last two months is stark," said Giovanni Bisignani, IATA's director general and CEO. "The slowdown has been so sudden that airlines can't adjust capacity quickly enough. While the drop in the oil price is welcome relief on the cost side, fuel remains 30 percent higher than a year ago. And with traffic growth continuing to decline, the industry is still heading for a US\$5.2 billion loss this year."

Airfreight has declined for the past three months, led by Asia Pacific carriers that posted a 6.5 percent decline in July and a 6.8 percent decline in August. "Airlines carry 35 percent by value of the goods traded internationally. The three-month decline—led by weakness in Asia-Pacific markets—is a clear indication that global trade is slowing down. This shows that the impact of the financial crisis is broad geographically and will worsen before it gets better," said Bisignani.

### **Microsoft Suing DHL over lost Xbox consoles**

Microsoft Corp is suing DHL Express for the loss of 21,600 Xbox gaming consoles in a train derailment that occurred on October 13 in Texas.

According to court documents, Microsoft is seeking over US\$2 million in damages from DHL. Microsoft claims the carrier has refused to compensate it for the loss.

The Xboxes were bound for Hong Kong in two containers.



## **Think Tank**

### **Fuel and the economy the top concerns of truckers**

The escalating prices of fuel and the economic downturn are the two concerns most keeping US-based truckers up at night this year. This is according to research released this month by the American Transportation Research Institute (ATRI).

The rest of ATRI's top 10 list, in order of importance, is: the driver shortage, government regulation, hours of service, congestion, tolls/highway funding, environmental issues, tort reform and onboard truck technology.

The institute doesn't simply rank the issues, it also asks respondents to offer proposed strategies for dealing with each of them.

For the fuel cost issue, 68 percent those surveyed said the best approach would be to increase domestic oil production by expanding drilling and refinery capacity. Respondents also advocated support for fuel conservation initiatives and alternative energy technologies.

On the economy, 45 percent of respondents proposed supporting federal and state electoral candidates who understand the importance of the trucking industry to the economy. Another large group of respondents supported the idea of advocating for controlling employer healthcare costs. There was also support for the full implementation of free trade agreements such as NAFTA .

For 25 percent of respondents, the best way to deal with the shortage of truck drivers is to identify the key factors in satisfaction and retention. Another 25 percent think that redesigning new driver

training programs is the answer. The final retention strategy recommended is to attract drivers from non-traditional labour pools.

Although they did not make the top three this year, government regulations clearly are an irritant for many in the trucking business. Almost half (49) percent of respondents advocated opposing government initiatives (such as new emission standards) that increase the cost of equipment. Further, 25 percent suggested streamlining and standardizing security-related compliance mandates.



About Canada's Supply Chain Link:

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