



## Logistics Association of Australia Ltd

### EMERGING TRENDS IN US LOGISTICS

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*In the first of 3 articles Silvia Estrada-Flores, winner of the 2008 Logistics Development Award sponsored by CHEP Asia-Pacific, provides insight into the emerging trends in US Logistics. This article gives an analysis and close reflection of the realities faced by the US Supply Chain Sector 2007-2008 and the expected impact of these trends on the Australian logistics sector. It is based on a presentation by Rosalyn Wilson in the Council of Supply Chain Management Professionals (CSCMP) conference in Denver in 2008.*

The 19<sup>th</sup> Annual State of Logistics Report was presented by Rosalyn Wilson in the Council of Supply Chain Management Professionals (CSCMP) conference in Denver in 2008. The report, which was aptly titled "Surviving the Slump", was updated in November 2008 following on the comments made by the industry attending the CSCMP forums. My comments relate to this updated version. Rosalyn is an independent consultant with over 30 years of experience in the transportation field. She has been the author or co-author of the CSCMP sponsored State of Logistics Report® since 1999 and she also co-authored the "Securing Global Transportation Networks" book. Therefore, her analysis is a close reflection of the realities faced by the US supply chain sector in 2007-08.

Some highlights of this report were (Wilson, 2008):

- Over the course of 2007 total logistics costs reached \$1.4 trillion, up 7% from 2006 costs and representing 10.1% of GDP, representing a reduction in transport efficiency. This is against a backdrop of a 2.2% growth of the US economy, the weakest performance in the last five years.
- Inventory carrying costs outpaced transportation costs, rising 9% in 2007.

- In the first three quarters of 2008, 2,690 trucking firms left the market, as compared to 2,000 in all 2007. This represents a loss of 172,000 trucks or 6.5% of the US capacity.
- In contrast, third party logistics are flourishing, with revenues up 7.2% in 2007. 3PLs will play an even more critical role in the future and this is expected to be a long-term phenomenon, not just a crisis-driven event.
- The operating costs of the trucking industry increased by 6 % in 2007, mostly due to fuel costs.
- The cost of rail transportation rose 7.4% as the rails posted their second-best year on record. The robustness of the rail industry is also reflected on the rising freight revenues per ton-mile, which was up in 2007 to 2.99 cents, from 2.84 cents a year ago.
- Maritime and domestic water transport had a slight increase in costs (3.4%). However, US East Coast ports benefited from increased US exports.
- Air freight revenue increased by US\$3 billion during 2007, mostly due to gains in international cargo.

From these trends, two aspects are of particular concern to the US logistics industry:

- (a) For the first time since the State of Logistics report was published (1989), the wholesale inventory levels have outgrown the retail inventories. This trend may be due to the transformation of inventory practices at retail, as managers reduce the levels of stock carried by leveraging size and scale and better aligning production with demand (O'Reilly, 2008). However, falling turnover rates are also due to (i) longer order lead times developing from offshore sourcing; and (b) falling sales.
- (b) Currently, the US trucking sector is focusing on survival through measures such as decreasing the fleet through selling excess equipment and delaying equipment purchases. Additionally, many companies are leaving the market altogether. Adding the concerns that were often heard in pre-crisis days (e.g. driver shortages, aging infrastructure, and congestion), the capacity to serve customers when the economic downturn is over will be compromised.

I expect an impact of these trends on the Australian logistics sector, on the basis of two factors:

- During 2006-07, the US was one of Australia's major trading partners in terms of import value. In this period, imports from the US amounted to \$28.9 billion (or 3.4 million tonnes) and exports to \$11.5 billion (or 4.3 million tonnes)<sup>1</sup>.
- From 2001 to mid-2008, Australian road and freight rates increased by 9% and 5% respectively, mostly due to increases in diesel prices. These increases partially reversed cost reductions achieved through improved productivity such as the introduction of B-double road freight vehicles, efficient engine technology and others<sup>2</sup>.
- In 2007, the total costs of logistics in Australia were estimated as being 9% of GDP (Little, 2007), just below the 10% costs estimated in the USA in the same period<sup>3</sup>.

However, there are some significant differences between the US and the Australian situation:

- The rate of increase in Australian business inventories between March 2007 to March 2008 was about half of the rate registered in the US in the same period (Logistics Bureau, 2008).
- The trend of wholesale inventory levels outgrowing retail inventories has been the norm rather than the exception in Australia (Figure 1). Australia has always faced longer order lead times from offshore sourcing and excess stock is still a common occurrence at wholesale level, often due to a lack of visibility caused by lack of communication among supply chain partners (Christopher and Gattorna, 2005) or to a lack of infrastructure. An example of the latter is the case of import/export of manufactured goods, where port congestion can lead to increased inventory holdings (SAHA, 2008).
- The impact of fuel costs is different in Australia than in the US because of the different taxation systems on fuel. The State and Federal tax component in the US represents about AUD\$0.13 per litre of fuel, while in Australia, State and Commonwealth taxes are about AUD\$0.50 per litre. Therefore, although Australia has a higher fuel price per litre, this price is somewhat more insulated from changes in world oil prices than in the US<sup>4</sup>.

Global diesel prices have shown a downward trend since July 2008 (Figure 2), due to declining demand caused by the global economic recession. These events place fuel

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<sup>1</sup> BITRE, 2008. Australian Transport Statistics June 2008. Available at: [http://www.bitre.gov.au/publications/40/Files/ATS\\_2008.pdf](http://www.bitre.gov.au/publications/40/Files/ATS_2008.pdf)

<sup>2</sup> BITRE, 2008. Freight rates in Australia. Information sheet 28. Available at: [http://www.bitre.gov.au/publications/85/Files/BITRE\\_IS28.pdf](http://www.bitre.gov.au/publications/85/Files/BITRE_IS28.pdf).

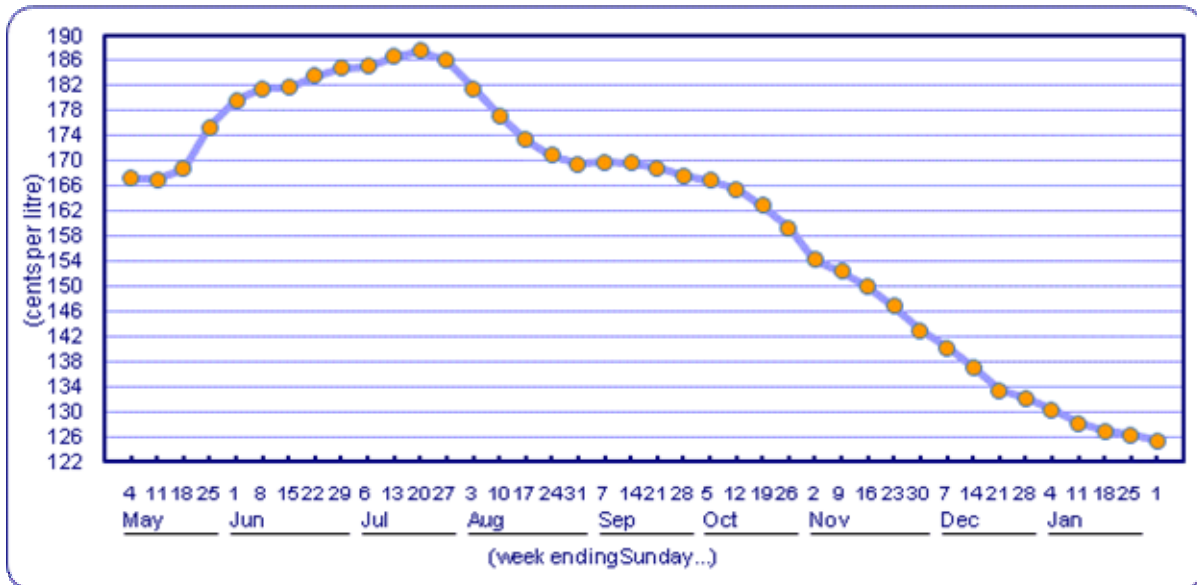
<sup>3</sup> Little, P. (2007), "Toll Holdings Ltd: Next 50 Years.", as cited in: Logistics Bureau, 2008. Supply Chain Report: 2008, Logistics Association of Australia, 15 p.

<sup>4</sup> BITRE, 2008. How do fuel use and emissions respond to price changes? Available at [http://www.bitre.gov.au/publications/69/Files/bitre\\_briefing\\_1.pdf](http://www.bitre.gov.au/publications/69/Files/bitre_briefing_1.pdf)

costs momentarily in the back seat. The more pressing concerns for the Australian logistics sector are (a) the continuation of their business relationships with clients that are struggling to maintain liquidity; and (b) how the transport sector (particularly the trucking industry) can overcome their current financial hurdles without decreasing their fleet dramatically. We should remember that strategic planning is not only useful to weather difficult financial situations. Strategic decisions made today will ensure that the logistics sector can take advantage of the upturn, keeping Australia and the rest of the world...moving.



**Figure 1. Wholesale and retail inventories (book value) during the period 1987-2008. Source: ABS, 2008.**



**Figure 2. Retail Diesel Fuel Price (cents per litre, inclusive of GST). Average Weekly Prices for the 40 Weeks to Sunday, 1 February 2009. Source: Australian Institute of Petroleum website (<http://www.aip.com.au/pricing/retail/diesel/index.htm>)**

**Further reading:**

Christopher, M. and Gattorna, J. (2005), "Supply chain cost management and value-based pricing.", *Industrial Marketing Management.*, Vol. 34, pp. 115-121.

Logistics Bureau (Ed.) *Supply Chain Report: 2008.*, Logistics Association of Australia, p. 15.

O'Reilly, J. (2008), "Weathering the Storm: the 19th Annual State of Logistics Report". Available at: <http://www.inboundlogistics.com/articles/trends/trends0708.shtml>

SAHA (2008), "Innovation in the NSW Freight Logistics Industry.", NSW Department of State and Regional Development. p. 195.

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