

GLOBAL LOGISTICS & SUPPLY CHAIN STRATEGIES

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John Fitzgerald of SEKO

Global Moneymaking Opportunities Abound for Mid-Sized 3PLs



Moving away from point-to-point transportation to IT-based supply chain solutions is the path to success for evolving third-party logistics providers.

As manufacturers and retailers expand their supply chains globally, they are depending more and more on 3PLs to manage their far-reaching logistics. Not long ago, the list of 3PLs with truly global reach was quite short, but that is no longer the case. Mid-sized logistics companies that have their roots in freight forwarding and domestic transportation have evolved into full-blown global providers with capabilities far beyond their traditional focus.

SEKO Worldwide is one such 3PL. Founded in 1976, SEKO began as a domestically oriented airfreight forwarder. After going through several owners, SEKO has developed into a global provider of many supply chain services with 58 offices in North America and offices in over 40 countries worldwide. *GLESCS* spoke with John Fitzgerald, SEKO Worldwide's global vice president of sales and marketing, about the evolution of the mid-sized 3PL segment and the strategies that have allowed his company to grow faster than the giant global 3PLs.

Q: Five years ago, SEKO Worldwide adopted a unique business structure where your worldwide network is composed of privately owned operations. While this structure has certainly allowed SEKO to expand rapidly around the world, what are the advantages to the customer?

Fitzgerald: Our motto is global reach, local control, so our model is based

on strategic partnerships and equity ownership by the local offices. Our customers see that all the people they are doing business with have skin in the game. The local offices own the business, and they own SEKO on a global basis.

Our customers benefit because they receive local control and local expertise while functioning within the operational guidelines and financial support of the SEKO global network. Our integrated IT platform allows connectivity throughout the market, which allows efficient communication and cooperation. Few competitors have worldwide offices operating under the same platform. Ours is tailored to meet the needs of customers with global scope. Within the operating system, exports generated in one area of the world become the imports in another area.

Our focus is definitely international, and we will continue to open more offices around where our customers tell us that they need support. We have logistics firms around the world that like our model and are approaching us as well. There is a lot of interest, and we will continue to grow. In the U.S., we are already in 47 cities, and we will be opening in a few more key markets. Our major growth right now is outside the U.S.

Q: Does SEKO still earn the majority of its revenue as an airfreight forwarder? What

makes a logistics company a global 3PL rather than just a very successful forwarder?

Fitzgerald: Over the past five years, we shifted away from a standard U.S.-based freight forwarder to become a true global 3PL. Our international growth is a direct result of this strategy. We have transformed our business so only 25 percent of what we do is standard airfreight forwarding. In 1976 when we started, that was all of the business. Now our business is based on value-added services beyond freight forwarding. It is all tied into technology.

Our IT enhancements have allowed us to grow beyond the boundaries of freight forwarding. For example, we provide our customers capabilities such as warehousing, inventory management, purchase order management and other services enabled by our expanded IT system.

A number of our client's call centers are even using our technology to help their customer service people handle warranty exchanges. This capability is tied into the actual booking, tender and movement of the cargo all the way through proof of delivery. It is our technology solution that enables the supply chain and transportation to take place. We do not care what mode is used. We use whatever is the right solution to meet the customer's service requirement. Our business now all has to do with technology.

Q: There has been a huge consolidation among global 3PLs in recent years, especially among the largest companies. How does this trend impact companies like SEKO that have to compete with the really big players?

Fitzgerald: The merger and acquisition trend in the 3PL industry has created challenges for customers and employees at the companies being consolidated and going through the integration process. Such consolidations tend to adversely impact service levels, employee turnover, operations, IT integration and so on. So at SEKO, we see 3PL industry consolidation as a way to find new employees and gain customers who feel lost in the midst of the transitions. Their dissatisfaction is an opportunity for us. In fact, industry consolidation is a net positive for us.

Q: Do you see more consolidation coming among the global 3PLs? Is this a positive trend?

Fitzgerald: The nature of venture capital and private equity is to look for acquisitions that can provide moneymaking opportunities. It is not usually about the customer. A lot of the deals are like a game of Monopoly with money men playing with companies, customers and people's lives. It is not all positive, but it is inevitable.

Q: Logistics outsourcing is a fairly mature business. Is the growth trend flattening out worldwide, or do you still see significant growth opportunities?

Fitzgerald: We still see plenty of opportunity as long as value is being added. Many smaller corporations are looking at 3PLs like SEKO to develop customized supply chain programs. We find great potential to provide value in higher-value product industries such as medical technology, pharmaceuticals and aerospace. Much of the growth opportunity is IT driven. Companies do not have the funding, the people or the resources to implement the supply chain systems they need, so they look to 3PLs to meet their needs.

I was visiting a customer yesterday. They told me their company could not invest in any logistics IT for two to three years because the company was switching over to a new, big ERP system. Their IT people did not have the time to even think

about logistics systems. We hear that a lot. There is an opportunity for 3PLs to come into these companies with turnkey solutions that provide the IT capability and processes. This need for better IT support is driving a lot of outsourcing business to us.

Q: What services, markets and industries are providing SEKO with its greatest growth right now?

Fitzgerald: Our greatest growth area is medical technology, aerospace and last mile delivery programs, and most of the services are not strictly about airfreight. We have moved away from the traditional airfreight forwarding model and moved into entirely new directions that involve broad supply chain issues, not just point-to-point transportation.

We are seeing similar growth in pharmaceuticals and trade shows, and we are multiplying this growth by penetrating these markets on a global scale. Residential home delivery has grown in direct proportion to internet sales that are rapidly expanding all over the world. In the U.S., home delivery is our fastest vertical. Our international business has been growing tremendously for us because the low-valued dollar has allowed exports to take off. In fact, we are growing much faster internationally than we are domestically.

Q: For several years, freight capacity by both air and ocean into the U.S. has been tight while rates and surcharges have been climbing. Have you seen any shift in this trend in light of the much heralded global economic slowdown?

Fitzgerald: The global economy has not slowed down for us. Quite the opposite. With the dollar down, there is plenty of export business moving out of the U.S. So far, there has been no significant reduction in capacity. However, we are still running charters out of Hong Kong to the U.S. to ensure that we have capacity for Chinese exports to the U.S. and Europe. In terms of ocean, there has been a shift to move capacity from the U.S. market to the Asia-to-Europe markets, and we are very much involved in that business.

We haven't seen much change in rates so far, but we are not really in the point-to-point transportation business anymore. Our goal is to help the customer drive down their total supply chain costs. Trans-

portation margins are always going to be market competitive, so there is no significant profit opportunity for the 3PL. Customers still want their supply chains to be lean and mean, so our focus is on such things as inventory carrying costs and obsolescence—not just point-to-point rates.

Q: What parts of the world are growing the fastest for your business? Is the story still all about outsourcing and imports from China, or are there other markets that demand attention from the shipping public?

Fitzgerald: China is still the world's manufacturing center, and it probably will be the key market for some time to come. What is changing is that China logistics is no longer about movements to the U.S. and Europe, but also to other parts of the world. We also are seeing big growth in business in India, Central Europe, the Middle East and even Ireland. Growth is happening around the world for us.

Q: Many global carriers, especially among the airlines and the all-cargo airlines in particular, have been in financial trouble for years. Are you at all concerned about the availability of lift if the economy slows down and basic costs such as fuel continue to climb? How about the ocean carrier industry?

Fitzgerald: We all have to be concerned about the health of the air carrier industry. Fuel is going up. Capacity and carrier health is always a concern. Customers are not happy to pay fuel surcharges, but they understand that it is part of the business.

Q: To what degree have security initiatives such as the 24-hour rule, C-TPAT, etc., placed a burden on international cargo?

Fitzgerald: Security measures have not really created a problem for our industry, but they have caused us to bring about major changes. We sincerely believe that effective security will ultimately make carriers, forwarders and 3PLs more efficient. The providers that find security to be a burden will not be competitive over the next few years.

