

# A Roundtable Discussion

## LOGISTICS: Meeting Supply Chain Challenges



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**C.H. ROBINSON**

While hiring in the transportation and warehousing sector soared in October, surging ecommerce sales are nevertheless expected to test logistics firms' capacity this holiday season, according to a recent news report.

Crain's Custom Media checked with executives of four third-party logistics firms, each with a presence in Chicago, for their thoughts about this fast-growing industry, including the challenges and opportunities that lie ahead.

**BOBBY HARRIS** is founder and CEO of BlueGrace Logistics, which in 2012 was named the 20th fastest-growing company in the U.S. by Inc. 500. In 2014, he won an Ernst and Young Entrepreneur of the Year award.

**VAUGHN MOORE** is president and CEO of AIT Worldwide Logistics, a transportation and logistics company employing nearly 1,000 professionals in more than 55 offices around the world. A 25-year industry veteran, his background includes sales, public speaking, recruitment and management experience.

**ROBERT NATHAN** is the CEO of LoadDelivered, a Chicago-based company he co-founded in 2008. In 2013, he co-founded Logistical Labs, an inbound logistics IT provider that delivers insights and solutions through data analytics and machine learning technology.

**PAT NOLAN** is vice president of operations for C.H. Robinson's North American surface transportation division. He joined the company as the director of the Chicago office, where he designed and built it into the company's largest operating center worldwide.

#### What do you wish consumers knew about the logistics industry?

**Robert Nathan:** I wish consumers knew about the exciting technological developments happening right now in our industry. We have a reputation for being archaic but in reality, while we may not have figured out how to teleport objects from a manufacturer to your home yet, we're developing sophisticated fulfillment technology that helps support today's global economy. Consumer demands are changing by the minute with the rise of ecommerce and the ubiquitous dissemination of mobile technology. Instead of maintaining the status quo, the logistics industry has risen to meet the new demands of consumer behavior such as executing on shorter delivery expectations and hassle-free returns. Perhaps even more importantly, I'd like consumers to understand how essential logistics is to their daily lives. The logistics industry is the backbone of the U.S. economy. At

this moment, more than 70 percent of goods moved in the country are delivered by trucks, and 10.5 million tons of freight are carried by trucks per year. Consumers live as they know it would cease without logistics.

**Pat Nolan:** We make two-day shipping possible. We work with companies throughout the supply chain to enable them to coordinate the movement of raw materials, refined products, packaging, warehouse storage and then the actual last-mile delivery to consumers' front door steps. We're also responsible for helping put holiday goods on store shelves. There are incredibly complex processes to get Thanksgiving turkeys into grocery stores, holiday décor into stores and a variety of New Year's Eve noisemakers onto shelves. Most people overlook the fact that shelves are full and with great variety. These products don't just appear.

**Bobby Harris:** Many people are unaware of how this industry touches so many facets of their lives. Having said that, there are many factors that can affect the logistics marketplace on any given day, often simultaneously. These include weather, government regulations, the unemployment rate and the subsequent labor shortage. These issues are driving change within the industry and why rapid technology advancements are critical.

**Vaughn Moore:** What most people probably don't know is how rewarding it is to work in this industry. Every day is unique because you never know what challenges you'll be facing to solve a problem for a customer. Sometimes we're shipping goods from point A to point B and it's very direct, but more often the job involves piecing together a puzzle with a wide variety of choices. Organizing a well-planned supply chain solution that meets your customer's needs in the best way possible is very fulfilling on a professional level; it's certainly a prime reason why many people choose to stick with logistics as a career. It's also worth mentioning that this industry is a leading indicator when it comes to the fiscal health of the nation and the world. We get a sense for how things will go for the economy well before it begins to affect other businesses.

#### What impact has the rise of ecommerce had on the third-party logistics industry?

**BH:** Changes in ecommerce have forced shippers to rethink the speed and price at which they go to market. The stakes have never been higher for third-party logistics providers. Shorter lead times, tighter production schedules, and precise demand planning models leave little room for error. Having said that, the need for someone to aggregate the extremely fragmented market and provide a uniform experience to the end user is more important than ever. Logistics companies must

do more with less, and the only way to do that is to make the right investments in both people and technology.

**RN:** To keep up with the new norm, shippers are adding new requirements that are dramatically impacting transit, such as shorter lead times, smaller delivery windows and higher fines. Third-party logistics companies have been forced to revamp operations to keep up, hence the exponential growth of last-mile delivery solutions. Our focus has shifted to automated, end-to-end fulfillment, so we can scale with our CPG, retail and foodservice partners.

**VM:** Delivery-to-door was a major shift from delivery-to-shelf and now we're in the midst of another shift where increasingly more freight is moving outside the normal distribution center and warehouse model to quickly get products into consumers' homes more efficiently. Logistics firms need to leverage strong, trustworthy operational networks, intellectual capital and strategic vision to help re-organize their customers' supply chains accordingly.

**PN:** The consumer shift to ecommerce has highlighted the importance of a logistics company's expertise. Things move quickly with ecommerce and need to be monitored more closely than ever to deliver the best experience to consumers. For example, we have experts in everything from customs and trade to home delivery services of large format goods and reverse, or return, logistics, and everything in between.

#### ***In what industries or regions do you see demand spiking for logistics services?***

**PN:** We expect to see a spike in demand in the retail sector, specifically around consolidation and last-mile services. Online shopping allows consumers to purchase anything they need at any time of day with a guarantee for it to be delivered in only a few business days or even hours. For retailers to deliver that level of service to their customers requires meticulous logistics and supply chain planning behind the scenes. We've created dedicated teams of experts in these industries to help customers navigate even the most complex supply chain challenge.

**BH:** Companies tied to construction, both commercial and residential, are booming. As consumer sentiment has improved, spending has increased, and there's been a domino effect on consumer-packaged goods and automobiles. All of this has an impact on the overall transportation market and where supply and demand is spiking.

**RN:** People are hyper-focused on wellness, and the desire for fresh, health-conscious food has skyrocketed. A lot of these items are temperature-sensitive, so we've seen a parallel shift in demand for temperature-controlled shipping. Cold storage presents a big challenge for logistics services, and in response to high demand for fresh, preservative-free products—frequently with shorter shelf lives—shippers with temperature-controlled supply chains have had to react in ways that challenge traditional distribution models.

**VM:** We also see excellent opportunities in the world of cold-chain logistics, especially when it comes to commercial supply chain services. It's a segment of our business we recently expanded via acquisition with the intent to add new services and broaden our geographic reach. The business of shipping food promotes stability for logistics companies because it's a business that rarely fluctuates regardless of the economy. We also anticipate high demand for logistics services in the United Kingdom next year when Brexit takes effect and those countries are no longer in the European Union. Logistics firms with customers shipping to and from the UK will want to have expert resources at the local level to manage what we expect will be a challenging situation, especially with British customs.

#### ***How is technology changing and influencing the logistics industry?***

**PN:** Digital freight matching is streamlining the booking process for drivers and connecting customers more quickly to someone who can move their goods. It's also allowing our people to develop strategic logistics plans for customers or carriers that better solve their logistics needs. We've been expanding our technology platform to help both drivers and shippers be more efficient through things like automated shipment updates and automated payments. Machine learning and the Internet of Things are also changing the industry as we gather more data from the digitization of the industry.

**VM:** Accurate on-demand information continues to be the most important thing in our industry. Our customers tell us they want to be in the know every step of the way. The ultimate goal is to provide a fully transparent “glass pipeline” that instantly reveals the location and status of a customer's shipments at any given time. Logistics firms must continually invest in technologies like blockchain as well as people who can deliver that seamless experience.

**RN:** Truck manufacturers are beginning to prototype electric trucks and even driverless trucks. Blockchain will be arguably the biggest thing to happen to

trucking in the last century—it will change the way companies interact with each other, how information is stored and shared, and so much more.

**BH:** Visibility has never been more important and has leveled the playing field for shippers of all sizes. It's an exciting time to be in logistics, which is clear when you look at the huge investments that are being made in the space, specifically within Silicon Valley.

#### ***What emerging trends in logistics should customers be aware of?***

**RN:** Blockchain is going to revolutionize every aspect of the global economy, including logistics. Many of us are still trying to figure out what it even is and how it's going to affect our industry, but it was the same way with the internet 30 years ago. Speculation is mounting, tangible uses are still murky, but everyone understands that something big is on the horizon. We know for sure that it will change the way digital information is verified, stored and shared. It'll take a long time for blockchain to come to fruition, but I think that smart customers will keep close tabs on it to try to get ahead of the learning curve.

**VM:** The driver shortage in the United States is an ongoing trend to the point where the dwindling pool of professional drivers might be the new normal. In terms of technology, we expect blockchain, machine learning and even the “Uber-ization” of freight to become more prevalent. Machine learning will use data-driven analytics to optimize routing for ground distribution while taking numerous variables into account, including traffic patterns and weather forecasts.

**BH:** Other big trends right now are the digitization of freight, supply chain management based on predictive analytics, risk management via big data trend analysis, 3D printing, final-mile execution, drone deliveries and autonomous vehicles. Many of these trends are in their infancy, but huge investments are being made to push these facets of the business forward and change the overall face of the market. Where we stand in 2018 will be vastly different than where we will be in two, five, even 10 years down the line.

#### ***What can logistics companies do for their customers to help mitigate the effects of forthcoming U.S. tariffs on Chinese goods?***

**VM:** We've anticipated the need to ship not just from China, but from other countries in southeast Asia. Customers are also weighing the benefits of where their final products are assembled. Over the past five years, our network has expanded to include company-owned offices in Canada, Mexico and Vietnam. It's essential to have strong compliance and customs brokerage teams who can provide customers not only with highly efficient service, but also with thoughtful advice. Consulting can range from something as simple as setting up direct ACH with U.S. Customs to a more nuanced Section 321 solution. Customers should expect their logistics partner to be proactively thinking about the best ways to maximize fluidity in the supply chain. I'll add that shippers should remain vigilant. It's important to formulate a back-up plan for sourcing parts and finished goods because the U.S. could impose new import tariffs on countries other than China.

**BH:** Some ways logistics companies can help offset the possible effects of the tariffs on Chinese goods include modal optimization; negotiating stable, long-term pricing contracts; and identifying trends in the existing business where inefficient processes can be altered and costs can be reduced. Prior to these regulatory changes, the commoditization of many products drove shippers to choose an offshoring model that enabled them to capitalize on low-cost manufacturing and labor costs. Now companies must make tough decisions and weigh the advantages of lower offshoring production costs versus being closer to their customers. The benefits of offshoring won't be erased once these changes go into effect, but it will become increasingly important for clients, large and small, to work collaboratively with their supply chain partners to come up with unique and innovative ways to contain costs.

**PN:** It's still too soon to know how the latest tariff and trade talks will impact domestic shipping. Some shippers are thinking about changing suppliers from China to countries where tariffs won't apply, but this is not an option for everyone. It takes time to find new suppliers who can meet product specifications and provide the volumes a shipper might need, and some materials can only be sourced from China. A few best practices we recommend in this environment are to take advantage of duty drawback programs, utilize foreign trade zones or bonded warehouses, and file for exclusion requests. Each of these has their own benefits and drawbacks. Consult a customs expert to determine what would resonate best with your business.

**RN:** The unfortunate truth is that the cost burden is likely going to fall on customers. The difference between manufacturing in or purchasing from China and paying the tariffs and manufacturing in the U.S. and paying more for production across the board is going to be minimal. The tariff will cause manufacturers to lose money regardless of what they do, so the money will just be made up in increased prices.