



With supply-chain systems streamlining all aspects of global trade, the world is becoming a tinier place.



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Back in the eighth grade, we were taught that the Earth is a huge ball covered with large oceans that separate one country from another.

Fuggedaboutit. With the rise of global trade, international shipping, and the increasing use of sophisticated supply-chain management systems to control it all, the world has become a much smaller and flatter place. Today, companies can build factories in virtually any country, create products made from parts and components that come from all over the planet, then efficiently ship them to consumers around the globe.

Since we live in a world of immediate online gratification, this is good. Whenever we need anything tangible, the old-fashioned business of logistics is there to deliver the goods. Take that digital music player you listen to while working out. It contains circuits from San Jose, flash memory from South Korea, and a screen from Taiwan, all of which were assembled in a Mexican factory. After a finished product is packaged, it is shipped around the world. "The rise of companies like Wal-Mart, Target, and Dell

is directly tied to their ability to shop the world for the best mix of price and quality," says Rosalyn Wilson, an independent transportation analyst and an affiliate of the Council of Supply Chain Management Professionals (CSCMP). "And the ability to ship products to customers everywhere."

In 2005 businesses around the globe spent \$1.1 trillion to bring raw materials to factories and finished goods to stores. All told, logistics—a term that covers transportation, the cost of inventory, and everything else involved in getting parts into factories and products out to consumers—accounted for 9.5% of the 2005 U.S. gross domestic product. That's down from 13.4% in 1984, says CSCMP's Wilson, and that's good. "Moving parts in and goods out has become much more efficient, thanks to the control and visibility from supply-chain management systems," she explains. "It smoothes out the inevitable bumps in world trade and makes creating complicated products any place in the world much easier."

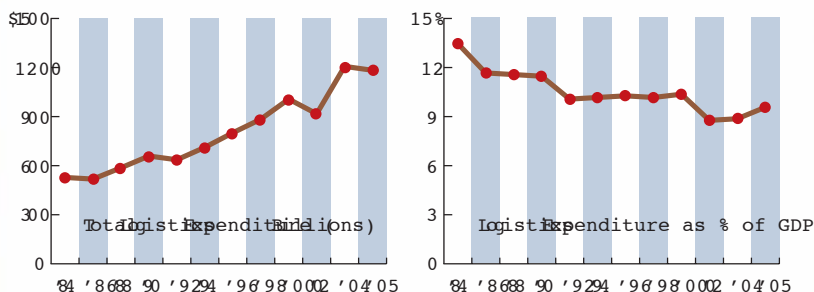
New Take on Geography

In a very real sense, the global transportation infrastructure has rendered geography irrelevant. "Today goods can come from anywhere and go anywhere," says Bill Zollars, president and CEO of YRC Worldwide. "We can ship just about anything between any two places at any speed and follow it on a real-time basis. The world really has become a smaller place." Based in Overland Park, Kan., YRC Worldwide has 70,000 employees, 1,000 facilities in 70 countries, and a focus on trade with China.

Whether it's bicycles from India, computers from Taiwan, or seafood from Vietnam, 70% of the world's trade now travels in shiny metal cargo containers delivered by ship. An average of 11 million containers arrive on American docks annually, stuffed full of goods worth about \$1.5 billion, says Wilson. By 2007, that figure is expected to rise to roughly 13 million containers a year.

The Value Proposition

As shipping increases, it becomes increasingly efficient.



Source: Seventeenth Annual State of Logistics Report, Council of Supply Chain Management Professionals



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With so many containers coming and going, each one is an opportunity for something to go wrong. "The vast majority of shipments go without a hitch," says Gary Osterbach, vice president of Ocean Import Services at BAX Global. "But cargo can arrive late to port and miss its ship, be mislabeled, or lack the proper customs paperwork for export. Our job is to get it to the right place quickly and inexpensively, and communicate with our customers on the shipment's status." Headquartered in Irvine, Calif., BAX Global is a \$2.9 billion worldwide supply chain and transportation company with 500 facilities in 133 countries.

Getting a delayed shipment back on track may involve booking passage with a competitor on the next outbound voyage or, in extreme emergencies, airfreighting the cargo to its destination. BAX Global's cargo-management system makes it all work. It not only watches over every box, crate, and container from start to finish, but also alerts employees and BAX Global customers when a shipment might be delayed. "Our job is to provide transport and intelligence," adds Osterbach.

Missing the Boat

One reason a shipment might miss a boat is China's antiquated ground-transport infrastructure, which Zollars of YRC Worldwide sees as a weak link in a supply chain that increasingly stretches into the Chinese mainland. "Getting reliable, dependable shipping in China is a serious issue," he says, "and a severe bottleneck that directly impacts the ability to get goods to the ports on time." To improve the situation, YRC Worldwide is working with local transportation companies to upgrade their technology, engineering, safety, and maintenance practices to Western levels. The goal is to raise the reliability of shipments throughout China and modernize trade with Asia. "It's a two- to three-year process, but worth it for our clients throughout the world," he says.

As a result of the rapid growth in Asian trade, many international port facilities are becoming overloaded,

and there's a looming worldwide shortage of shipping capacity to carry Asian goods across the Pacific. Both problems might be remedied by a new generation of super-cargo ships like China Shipping Container Line's *CSCL Asia*. Built in South Korea two years ago, the giant ship is capable of carrying 8,500 containers at a time—30% more than the previous generation of container ships. At 1,000 feet long, it's easily the largest cargo ship of its kind; it squeezes under the Haicang Bridge outside of the port city of Xiamen in southern China with only a few feet to spare.

More Security

The *CSCL Asia* is just the start, because soon there will be vessels that can carry 11,000 containers at a time. "These huge mega-ships will streamline our ability to move freight in and out," says BAX Global's Osterbach, "but they are so big they will need a new generation of ports to accommodate them." Ports throughout the world are racing to dredge deeper harbors, make docks longer, and install taller cranes to work with this class of ship. At the same time, the major ports in the U.S.—Los Angeles and Long Beach, Calif., and New York—are scrambling to install equipment to meet new homeland security regulations.

Port security is bound to become tougher in years to come, and the scale of the entire logistics business is certain to get bigger. The new generation of mega-ships will be so large and carry so many containers that even with docks operating around the clock, loading and unloading can take up to five days, compared to three days for current vessels. Bottom line: It will take years for the world's ports to catch up with these ships, but there's no doubt they will. And when they do, the world will become an even smaller place to do business.

—Brian Nadel

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