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## Finished Vehicle Logistics America North

11-13 May 2010  
Renaissance Long Beach Hotel, California

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## North America could see logistics capacity crunch

LONG BEACH, CA 13 May 2010 The inaugural Finished Vehicle Logistics North America conference held in California saw decision-makers from major carmakers and logistics providers discussing a sector on the cusp of renewed growth following the sharpest decline in recent memory.

Yet while logistics providers are indeed bringing their assets and drivers back into the market, there was acute concern expressed on all sides as to whether capacity would return at the right levels or with the necessary service and quality to meet the potential rise in demand over the next 12-18 months.

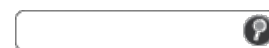
Light vehicle sales for many carmakers are currently around 30% higher this year compared to 2009, and the US market is forecast to finish the year around 11.5m-12m units (compared to 10.4m in 2009). So carmakers are once again calling for truck, rail and port capacity to move vehicles.

Dennis Manns, vice president of logistics for American Honda, said he was worried that as the market in North America heated up, car hauliers would struggle to find the right drivers and ensure the necessary focus on damage prevention. "It is a concern that we have as sales grow again; can carriers just slap trucks and drivers right back into the market?"

Randy Beggs, from Jack Cooper Transport, said that in response to the market increases his company was already taking trucks out of storage and re-hiring drivers. He assured Manns that those drivers would not be rushed back without proper training.

"Our policy is that any driver who has been out of work for more than 30 days must follow a three-day training programme, which focuses specifically on damage prevention and awareness," he said.

However, other carriers agreed that Manns had reason for concern, as the much battered road haulier market struggles to recapitalise and to find quality drivers again, many of whom have now left the industry for higher paying driving jobs in other sectors. Dave Larsen, from United Road, warned that it was easier to put trucks in storage and lay off drivers than it was to bring either back. "Those drivers have now found jobs doing other things.



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Ten years ago, car haul drivers were paid a premium, but that is not so much the case anymore," he said.

Beggs added that, because Jack Cooper uses the Teamsters union, it draws from a pool of more experienced drivers with a low turnover rate. But he also admitted that even among the unionised hauliers, finding drivers was becoming more of a problem.



**Dennis Manns,**  
VP, Logistics,  
American Honda



**Michael Nelson,**  
National Manager,  
Highway Transportation  
Toyota



**Walter Lowe,**  
Manager, North American  
Vehicle Logistics,  
Ford



**Nathan Porter,**  
Manager, GMNA  
General Motors



**Scott Goodwin,**  
National Manager,  
Vehicle Logistics,  
Glovis America



*Some of the major carmakers present at the conference*



### Looming capacity issues for road transport

Other carriers and carmakers at the event shared Manns' concerns over capacity levels in future, including Ford's Walter Lowe, manager of North American vehicle logistics, who expressed particular concern on the trucking side. "It is a bit of a mystery how we had sufficient capacity at 17m units a year, but we are struggling at 11m units," he said.

Carriers agreed with him. "We are going to have a capacity constraint," said Michael Wysocki, CEO of United Road. "We are struggling at 11m units, and if we get up to 12m-13m, there simply is not the capacity. We will have to innovate."

Talking to *Finished Vehicle Logistics* on the sidelines of the event, Scott Goodwin, national manager of vehicle logistics for Glovis America, the logistics arm of the Hyundai-Kia Group, said that even those carriers that were willing to invest were running into problems getting financing for expensive capital outlays. He also pointed out that, prior to the recession, carrier fleets were on average nearly ten years old, and that many would need to be renewed as the industry returned to growth.

"With only two car carrier manufacturers left in North America - Delevan and Cottrell - down from what used to be 13, they will not have the capacity to produce 6,000 new carriers in a year if that is what is needed," Goodwin said.

Greg May, President of Jack Cooper Transport, presented another side to the potential capacity shortage. He pointed out that with the Highway Bill up for re-authorisation in the US Congress, and investment needs of around \$500 billion to address the country's ageing infrastructure, the highway trust fund contains only about \$200 billion.

Meanwhile, the trend to lower fuel consumption and to electric vehicles would both reduce fuel tax revenue, the traditional way to fund highway investment. That would mean finding new tax revenue, as a lack of investment would lead to further congestion and bottlenecks.



**Greg May, President of  
Jack Cooper Transport**

Other calls to Congress are coming from the ACC (the Automobile Carriers Conference, the trade association for road carriers). Executive Director Farrell said they were seeking to amend 1985 regulations to add 5ft (to the current 75ft) for overall vehicle length, and to have a 10% over-weight tolerance. He claimed this would reduce the number of movements by some 100,000 per annum, worth about 4.8 million tons of fuel.

There was a lively debate at a conference break-out session on the flexibility needed from the design of new car carriers in today's market. Toyota's Mike Nelson observed that "we tend to get a standard (of vehicle carrier) and stay with it for 15 years. That's not going to work when we don't know what cars we will produce in the future." But in response to a plea from the carrier-makers to have some guidance on carrier design, he added: "Don't look to us (the OEMs) for the answer. We don't know. We aren't the experts."

Delevan, which is owned by French company Lohr, revealed that all its design work was done in France, which should be an advantage since European finished vehicle logistics is dominated by small cars. But he noted ruefully: "In America demand for size of cars moves strongly with the price of gas. We're trying to evolve, but we having to hit a moving target."

Nevertheless, that flexibility will have to be built in somehow. "If the European trucks are so flexible, why aren't they here," asked Ford's Walter Lowe.

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In a largely frustrating discussion, the only clear message was an urging from the OEMs to carriers to join the ACC. After all, said Lowe, the railroads and the OEMs have both joined together in their industry forums to seek common efficiencies.

#### Intermodal capacity is better

The capacity situation was somewhat different for intermodal capacity, conference delegate heard. Kenny Rocker from Union Pacific Railroad (UP) said that he was confident the railways would have sufficient capacity to handle the potential volume increases.



*(centre) Kenny Rocker, Union Pacific Railroad*

For ocean providers, WWL's Jerry Mahoney, director of business development for the Americas, said that, despite the global car carrier industry putting 25% of its ships in storage and scrapping 106 vessels (out of a pre-recession global fleet of 640), the world ro-ro fleet would have sufficient capacity. Fifty-six new vessels came into service in 2009, while another 150 were in build, representing a combined capacity of 0.9m car equivalent units. "We will have the capacity to serve this market," he said.

In fact, with significant tonnage still due to come online, ro-ro providers may have to continue to deal with overcapacity, which could apply more downward pressure on rates. Mahoney said that a pure car and truck carrier (PCTC) has operating costs of around \$50,000 a day at sea, and \$100,000 in port, and so shipping lines in the market for the long term simply could not accept bids that did not cover costs. There is still some under-cutting, however, and Mahoney pointed to a carrier that moves cars from North to South America at loss-making rate as an example of a player bringing the industry down.

"I don't take loss making bids – I let them go," Mahoney said. "Our South America rates are terrible because of this one provider. One of my customers uses them and his cargo waits for weeks and weeks. He asked me if I could help him out, but we need three times the price (he is currently being charged). He says 'no way'. I would love to help, because he is a great customer, but I can't do it."



*(centre) Jerry Mahoney, Director of Business Development,  
Region Americas, WWL*

#### Ports distracted by containers, gentrification

For port capacity it was generally agreed that, given the sharp drop in imports to the US since 2008, even with the incremental increases this year, current vehicle handling capacity was sufficient. However, port operators and carmakers still saw potential threats to future capacity. While the contraction in container shipping has meant that ports have been somewhat less keen recently to develop land for containers, carmakers still believed that port owners were more interested in the higher returns from handling containers than from vehicles.

Peter Bresnee, department manager for national import and domestic logistics at Mercedes-Benz USA, said that containers would always be tough competition, particularly for the ports of Long Beach and Los Angeles.

"We will always be direct competition with containers in LA-Long Beach, and that won't change," he said. "There is a logistics trade-off though, since 70% of our [West Coast] distribution is within 30 miles from here, and you cannot put a price on servicing our end dealers."



*(right) Peter Bresnee, Department Manager, National Import and Domestic Logistics, Mercedes-Benz USA*

Scott Crail, from American Honda, said that the company's recent decision to switch to new facilities at the Port of Richmond in California was done to avoid a future confrontation with space over containers. He admitted that he was sceptical about statements from some of the port representatives present at the conference who said that they had learned their lessons in the container trade. "I would admire you [ports] if you held to your word when the container market takes off again, but Honda wanted to make sure that if we turned into an 18m unit per year market again and it is going to get tight, we could control our own destiny."

Stan Gabara, from the Pasha Group, also said that there was still a threat from developers for high-rise condos and "gentrification" real estate, particularly among West Coast ports. "Those developers are struggling to get financing now, but those who still have money are still a threat. As long as our ports are sitting with empty space, they could fall prey to such development and we think we could have a problem," he said.

#### IT has legacy issues too

In a conference break-out session devoted to IT, the lack of standardisation and the consequent inefficiencies which bedevill the industry came to the fore. GM's Anthony Clevio put it sharply: "It's hard for a dealer to accept that a vehicle may be just 50 miles away in a distribution centre, but it takes him 7-8 days to get it. Or," he added, "that we tell him our systems show he already has it."



These and other examples of poor service come from a lack of common processes at LSPs, said Clevio, noting that GM gets "every kind of reporting from paper to telephone to satellite".

Mazda's Scott Mize, manager of logistics operations in North America, pointed out the contrast with his car-buyers' experience of IT. "Our customer base is among the youngest. They use Facebook, Twitter, iPod applications. They need real-time visibility of the movement of their vehicles." He added his own call for standardisation, though acknowledged the difficulties. "It's tough, like working with different truckers," he confessed.

Echoing this theme, session chairman Tom Swennes, vice president at ICL Systems, said that current IT spending is being directed at processes, not devices. What's 'hot', he said, are applications like visibility & event management, ETA, and business intelligence & analytics which seek to make sense of all the data being collected. And the payback on IT spending has shortened. Prior to the recession larger IT projects were expected to payback over 18-24 months, but that timescale has now shortened to more like eight months.

It is not only LSPs which have to develop common protocols. Clevio described how GM's core Vehicle Transport Information Management System (VTIMS) was developed in the 1990s as a carrier payments system, but has since been developed to monitor day-to-day operations, including inventory status. Every attempt to modernise it and add functionality have been "very costly and largely unsuccessful", he admitted.

GM systems have also struggled to be global. "We don't have a common event model covering, for example, the release from a plant," said Clevio, and because some markets build to order, while others build for stock, GM has been unable to find an off-the-shelf application. The OEM has limited integration, with order fulfilment, manufacturing, logistics and the like still largely in 'silo systems'.

#### Growth in spend and investment is returning

But while carmakers worried over their future service levels, there was a definite sense of revenue and investment returning to the North American finished vehicle logistics sector generally. Delegate voting in a real-time conference survey revealed that 75% of carmakers expected to increase their outbound logistics spend by around 5% or more in the next year, while a further 19% said they would increase spending 10% or more.

Meanwhile, nearly 50% of LSPs in the voting survey said that they would re-deploy assets currently in

storage, while 39% said they would invest in new assets.

But those investments would have to be made with a sense for the new requirements and flexibility of the North American market. Jack Cooper Transport's Greg May said that carriers could no longer rely on chain lashing to secure vehicles, but rather had to use straps. However, while acknowledging the clear benefit of damage reduction in eliminating chains, the switch to straps requires time and a significant capital investment.

Toyota's Mike Nelson ("the godfather of the strap" according to Glovis's Scott Goodwin) noted that even the standardisation of hooks between OEMs had taken some time to achieve, despite the obvious advantages.

Meanwhile, the railways struggle to cope with the fluctuations in vehicle sizes, which in the US has recently shifted from a predominance of large SUVs and trucks to smaller cars. UP has a fleet made up of 72% bi-level railwagons, which are usually used for SUVs, with the remainder tri-levels, used for smaller cars. According to Julie Krehbiel, vice president and general manager, the company currently has about 15% of its bi-level railwagon fleet in storage because of the change in demand among vehicle types.

These shifts are particularly difficult for the railways because their railwagons tend to be 30-year assets, and cannot be changed quickly in line with the varying tastes of the American consumer. In response, this year UP has designed a new multi-level wagon that can switch between a bi-level and a tri-level configuration without any loss to load capacity. The wagon will compete with the Auto-Max wagon, built by Greenbrier, which pushes two platforms together to convert to a bi-level. For the UP version, the B-platform is removed from the wagon.

Krehbiel said that UP would likely put the wagons into the North American pool and sell them to the other railways. "Our projections are that if the US market reaches 13.8m units in 2011, as the latest IHS Global Insight forecast suggests, we will build about 400 of these railcars," she said.

Krehbiel also said that her company was investing in new equipment, such as new chocks to better secure vehicles, as well as measures to help improve the width clearance of certain smaller models in railcars, such as for electric vehicles like the Nissan Leaf, which UP will begin handling this year.

#### Electric vehicle logistics challenges

The new challenges presented by moving electric vehicles were covered at the conference. UP will have standard charging stations for its ramps by the fourth quarter of 2010, to handle the Leaf as well as other types of electric vehicles.

Evelyn Chiang, vice president of supply chain and information technology at EV-maker Tesla Motors, said that in principle the requirements for moving its cars were no different than conventional vehicles. The biggest challenge, she said, was paperwork - moving a car with 6,000 nickel-ion cells is new for every regulatory body across the US, at both national and state levels. "There is no box to tick for this sort of technology on import or export forms either, so we are mostly having to educate carriers and regulators," she said.

Tesla does need to plan carefully, she said, because the state of charge of the vehicles depends on transport mode. Tesla does not recommend moving vehicles at no charge, nor did they need to be fully-charged. But while Chiang said that Tesla cars had a very slow discharge rate when not being driven, for ocean transport they would need a higher state of charge than for road or air (Tesla often uses the latter for its exports). Chiang revealed that the carmaker has not yet introduced an advanced order planning system, meaning that if a car in Singapore is needed in a week, it is flown. "But when we have the ability to plan, we use ocean," Chiang said.

Chiang said that because Tesla's current volumes were so small, it had had to invest in much of its own equipment to move its vehicles, and in some states it even owned its own distribution channel and moved directly to end customers without a dealer. However, as the company negotiates for a permanent plant in California - there are suggestions that it could take over the now closed Toyota-GM NUMMI plant - and launches its new "Model S" in 2012, Chiang said that volumes would reach 70,000 units.

"For this we cannot afford to invest in our own equipment, and we are looking for your [logistics service providers] help to build a logistics infrastructure," she said.

#### Used car logistics is booming

For the first time at an *Automotive Logistics* conference, a session was dedicated to logistics issues in the used car market. This is a major opportunity for finished vehicle logistics providers, and voting revealed that 43% of delegates thought that used vehicle logistics would be the most significant growth area this year for finished vehicle logistics in North America.

Michael Wysocki, CEO of United Road, said that the auction and remarketing market in the US represented about 9m cars a year, many of which need to be handled three or four times between auction houses, marshalling yards, dealers and end customers. Around 30% of the 1.5m vehicles that United Road moves per year are remarketed or used vehicles, he said.

The dynamics of the used car business are in some ways more complex than new cars, with a greater variety of origin and end point destinations, and an extreme degree of seasonality. It is also a business that, even more than the new car market, sees a direct correlation between delivery time and sales value. Since a used car is a depreciating asset, every day of delay to a possible weekly auction date means a loss in value. "It is a

tougher business on the inbound delivery side to an auction," said Wysocki. "If you miss a sale day, you miss a week, and that could effect the value."

Manufacturers such as Toyota, Hyundai and Kia which are seeking to protect the resale values of their used vehicles, returned as off-lease or from car rental fleets, all said that they were looking to reduce their transport time to the sell date.

"If you can increase the residual value of the car, that is more important than the cost of transport," said Tom Hetrick, national manager for fleet and remarketing operations at Hyundai. "The Hyundai brand value has improved recently and we are willing to spend some money on transport to get those remarketed cars to market."

The used car market is also considerably ahead of the new car market when it comes to direct internet sales, including online auctions. Ralph Fisco, national remarketing manager at Toyota Financial Services, said in the past two months internet sales represented about 45% of his sales.

United Road works with eBay Motors on the delivery of vehicles sold via the internet, offering transport services door to door, with options for pick-ups at marshalling yards as well. Wysocki believes that the internet offers exciting opportunities for vehicle logistics, in part because the sales are often disparate and distant. "If someone in Boston buys a car online from Albuquerque, New Mexico, how do you get it there? You will need to have a great network, marshalling and sophisticated route optimisation system," he said.

Risco said that the internet lead to an entirely new customer base for Toyota Logistics Services at its auctions, and that as a result the distance which cars moved was increasing. "The radius of size (between seller and buyer) has doubled or tripled, with an expansion to 600-700 miles," he said. "We are seeing a greater need for new logistics models."



**Walter Lowe, Manager,  
North America Vehicle Logistics, Ford**

Ford's Walter Lowe expressed concern over the fact that the involvement of major carriers United Road in the user car market could take away capacity for moving new cars, and questioned how carriers would allocate capacity.

Wysocki's answer addressed the structural issues that have been at the heart of vehicle logistics for more than a decade; the fact that vehicle logistics has very high capital costs.

He revealed that United Road had just purchased 20 rigs from Cottrell at a cost of around \$4.5m. But despite these being seven or eight year assets, contracts with carmakers were usually no more than three years under very low rates. "We have to hedge our bets somehow. The used car market is one way to get a higher return on my investment which the new car industry hasn't given me," he said.

On the other hand, Wysocki noted that finding more volume could help with moving new cars as well. "We can sometimes balance out our network with used vehicles to support the outbound vehicles. That puts us in a better position to service [the OEMS]," he said.

#### Hard to work together

Issues of collaboration, and whether it was possible or wanted, were a running theme throughout many sessions of the conference. Toyota's Mike Nelson, suggested that quite a lot was already going on. He pointed in particular to the Automotive Logistics Industry Steering Committee (ALISC), which has OEM membership and encourages joint standards, research and design initiatives, as well as encouraging approaches to greener logistics and fuel economy.

Nelson also pointed to a shared move with American Honda on moving backloads east and west by rail. American Honda's Crail said it was a collaboration led by Greenbrier and the railways. "They pointed out the opportunity to us, and it has worked very well," he said.

Ford's Lowe said there was no reason why the industry shouldn't collaborate more. "I don't honestly believe there is a competitive advantage in vehicle logistics. It is rather a necessary, non-value added process to get the car to the customer," he said. Lowe added that he was looking for a "big bang" change to the way the industry works

Markus Gichert, department manager of vehicle distribution for Mercedes-Benz USA, admitted that Daimler's past experiences in working with other carmakers - notably Chrysler and Mitsubishi - had somewhat tainted the company's view of collaboration. He pointed to potential pitfalls, such as neither expecting too much gain nor losing competitive advantage. He also warned that forced collaborations were destined to fail. "I think the forced equity shares don't always work. You may have the will from a top executive, but the guy who is executing on a day-to-day basis may not understand or gain any advantage," he said.

Despite the misgivings, Mercedes has nevertheless made some important moves for collaboration in the past year with its rival BMW. The Mercedes vehicle-processing centre at the port of Baltimore is being used by BMW, where Mercedes is actually the a service provider to BMW. "This is a sort of vertical collaboration where there is a customer-client relationship," said Gichert. "We went through a bidding process and it turned out that we worked out best for them, and we had spare capacity, so it was a win-win situation."

The other collaboration is in sharing distribution. Gichert noted that the two German OEMs often had delivery points within 15 miles of each other, and were already using the same facilities for ports and processing centres. "In that way it was an easier decision to collaborate here as the win-win was obvious," he said.

Collaboration is sometimes needed within the four walls of a single company. Nathan Porter, manager of North America and intercontinental vehicle logistics at General Motors, admitted that the company had not always looked beyond its individual regions and departments. Partly as a result of bankruptcy and restructuring, his department has now absorbed the intercontinental logistics that had previously been separate.

"When they were separate, the domestic and the intercontinental divisions didn't always talk to each other, and sometimes vehicles had a tendency to sit for a long time at certain ports. Now we have been able to decrease the lead times from overseas no matter which ports we are using," he said.

#### Future flows from China and India

The conference had a session which looked ahead to the potential for future flows, to or from North America, from fast-growth markets like India and China. However, most delegates seemed to agree that the flows, at least to the US, were still some years away. While some logistics providers expressed interest in getting into those markets, their focus appeared to be more around teaching best practice or selling IT expertise, rather than investing in local fleets.

Only WWL and the shipping lines were dealing more directly with those markets, and currently that appeared to be for flows out of North America. Mahoney revealed that exports from North America to China are now enough to run direct ships, rather than transshipment via Japan as previously. However, he warned that these flows could be impacted when import duties for US-built cars rose to 25% starting from July 1st this year.

Coming from China, Mahoney predicted that GM would actually be the first to start importing Chinese-built vehicles to the US, based on their success in that market.

- Following the main conference, delegates were taken on a tour of the nearby port of Wilmington, where they were shown WWL's vehicle processing centre, United Road loading and tracking technology, as well as UP's tracking system and its new bi/tri-level rail wagon.

*Finished Vehicle Logistics North America conference will return again to the West Coast in May 2011.*

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