The Health and Personal Care Logistics Conference, Inc.

Preparing HPC Supply Chains for Economic Recovery

April 12-14, 2010

Philadelphia, PA

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In Memorium

Tom Mentzer

- Memorial in program
- Link to *Learning to Celebrate Life*
- Tom Mentzer Memorial HPCLC Scholarship

• University of Tennessee has established an endowment in Tom's honor. If interested in contributing to this endowment, please email Ted Stank at tstank@utk.edu

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Lucky Strike Bowling

1336 Chestnut Street

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Stay tuned for details on the 1 day meeting in NJ during the 3rd week in June

Proposed topic: Dealing with Capacity Constraints and Rising Fuel Costs

Also, Make Plans to Join us at the Fall Meeting :

Supply Chain Sourcing in a Constrained Environment

October 11-14, 2010

Longboat Key, FL

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Session 1 – Washington Update

- Legislative gridlock characterizes Washington
- Some key bills on FAA reauthorization and Rail regulatory reform moving forward
- Infrastructure investment is the biggest issue on the horizon with key questions:
  - How much to spend?
  - How much to allocate between modes?
  - Should funding be linked to petrol usage and green efforts?
  - HOW WILL WE PAY FOR IT?!! Taxes, VMT? Privatization appears dead
- Draft highway funding bill includes wording to move freight to rail and water – ignores needs of high value, JIT goods. Big question – will it be forced or driven by business logic?
- Some new interest in 97,000 # GVW limit increase
- New HOS rules due by August 2011
- Concern over ocean cargo liability – which ruling holds sway, Carmack or Rotterdam?

Session 2 – 3PL Partnerships

- Shippers increasingly look to 3PL partners to increase effectiveness and efficiency
- Key goals are increasing visibility and control
- Outsourcing partnership process must consider cultural fit as well as multi-level, cross-functional buy in issues with multiple functions including sales, marketing, finance, senior leadership, IT, and legal
- Outcomes include reduction in transpo cost, reduction in labor head count and cost, increase in asset utilization, improved use of technology to enhance visibility of pipeline to customers

Session 2 – EMEA Brief

European markets will struggle to return to peak level of 2007 & 2008…

- Infrastructure developments and liberalization measures should boost overland transportation growth in the emerging markets.

Increasing deregulation in the emerging markets…

- Most emerging markets are moving towards greater deregulation of their transport sectors, creating opportunities for logistics & transport companies.

Emphasis on greener transportation…

- Will result in the consolidation of multi-modal transport networks across the world.

Significant supply-chain restructuring…

- Will provide challenges and opportunities to the overland transportation sector.

Strategic collaboration with shippers…

- Shippers are increasingly looking forward to logistics/ transport companies to streamline their operations technologically.
- Clients are looking at re-engineering their supply chains to respond to the downturn.
- 3PLs are developing industry-specific services so that they can leverage their internal personnel's knowledge in key sectors and target business that fits their services and skills and shows prospects for growth.

Changing epicenters of production, consumption/trade and emergence of new overland routes…

- The centers of production, consumption and trade have witnessed a gradual shift from traditional economic powerhouses like the US, Western Europe and Japan to emerging markets like China, India and Southeast Asia over the past 10 years.
- The recession will only reinforce this trend.

The competitive environment, globally, is still very fragmented…

- The top 10 companies account for only 20% of the market.
- This will evolve into a larger share of the space, as multinationals are setting up operations in emerging markets, boosting their share today and giving them a source of further growth in the future.

Session 3 – LATAM Brief

•Key Logistics Challenges across LATAM market include:

1. Borders Limits & International Trades Blocks – LATAM includes immense area and 5 different languages across multiple countries; no pan-LATAM free trade zone, so each nation has different rules and infrastructure
2. Regulatory – often complex and time consuming
3. Risk Management - High rate of stolen goods during transportation process requires armed escorts and convoys
4. Infrastructure - Worldwide logistics providers / Freight forward are relatively new players in LATAM (5 to10 years in most of the countries). In smaller market there are no offices (operated by local partners
5. Cycle time – in most countries, relatively long and complex cycle times due to regulation and lack of integrated providers

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Session 3 – APAC and India Brief

•APAC/India includes:

1. 26 countries, 50 languages, hundreds of dialects
2. Far bigger in both geographic size and population than US and EU combined
3. Freight traffic demand has exceeded supply capacity since late 2009, driving rates up sharply
4. Infrastructure – considerable investment in port and airport infrastructure, but challenge remains in moving product to ports
5. India set for explosive growth in healthcare demand, but needs much more infrastructure development to facilitate efficient logistics; also considerable regulatory complexity.

Challenges In India

Market Constraints	Logistics Service Provider Solutions
Carrier Capacity Allocations	Special tie ups with Preferred Carriers to ensure dedicated space availability for Healthcare customers.
Lack of Cold Chain Storage Infrastructure	Investments in Cold Chain MCF Warehouse Facility across India
Complex Customs Procedures	Specialized team to handle all Drug Control/ Customs for Healthcare business, advance clearance procedures.
In transit cargo Security, Pilferage, quality transport challenge	Route audits, Escort & GPS facilities, dedicated Pharma grade Reefer Transportation.
Inadequate training/knowledge of site staff in the correct procedures - Lack of trained resources for handling healthcare business	Vendor Trainings on Healthcare Handling and Procedures, cold chain handling SOPs.

Session 4 – M&A Panel

- Key Success Factors for merger and acquisition:
  1. Due Diligence in preparing business case for M&A
  2. Execution – including a clear structure and process
  3. Partnership with suppliers and vendors to ensure service coverage
  4. Ensure cultural fit

Session 5 – Ed Wolfe

•Freight demand is strong across modes into improving economy, inventory restocking , and easy 1H comparisons.

•Pricing has shown signs of bottoming for transport carriers in 4Q:09 but pricing improvement likely to be gradual in 2010.

•Most pricing gains expected for ocean and TL.

•Stocks have a lot of good news priced in and valuations are above historical averages.

• Expect best stocks to be able to grow earnings into improving demand, gradual pricing and valuation contraction

•For detailed slides, please contact ewolfe@wolfetrahan.com

Session 4 – Trucking Brief

•Inventories were drawn to record lows during this recession

•Many economists have theorized that an inventory snap back (replenishment) to more normal levels could yield substantial growth (percentage points of GDP)

•Taken holistically, the back-end of the economy is growing about 5 points faster than the front-end

•This implies moderate inventory building

•Consumption and production are probably driving ABOUT a 15% increase in trucking demand since November

•Inventory replenishment may be driving another 5%

•If inventory replenishment takes off, then all bets are off, and it could be a very powerful impact for trucking companies, with analysts predicting rate increases as high as 3-5% during 2010.

Session 4 – Ocean Brief

- Shippers are frustrated by their inability to get required space
  - Booking lead times are currently 4 to 6 weeks out and even then…
- Old methods of shaping carrier behavior are not as effective
  - Some Shippers continue to demand "fixed" annual rates in their RFQs
  - Some Shippers still talking about their own BAF formulas in their RFQs
  - Some Shippers continue to demand the lowest possible rate level in each lane
- Ocean Carriers are unlikely to continue honoring these demands
- Shippers are realizing Carriers will not play according to the old rules…
- Carriers are determined to return to profitability

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Session 4 – EU Brief

1. Recent developments in EU logistics:
    - Incoming airfreight decreased by 18.5%
    - Incoming sea freight decreased by 14%
    - Overcapacity
    - Imbalance in trade lanes
    - Change in schedules (super slow steaming)
    - Freight rates at historical lows
    - Severe hit euro road transport companies
    - Less new investments
2. How to cope with the current situation?

Create end to end transparency and control:

- Transparency on flows and supply chain alternatives
- Improve performance on specific modes
- Develop suitable alternatives

Session 4 – Air Brief

Key Areas for consideration in contracting arrangements with Air carriers:

1. Matching Capacity with Demand
    * 2009 Losses
    * Freighter vs Scheduled Service
    * Finding Equilibrium
    * All the usual Pinch Points
2. Special Handling Expertise
3. Regulatory Considerations (screening and temperature control)
4. Strategy Ideas Going Forward
    * Negotiate Long-term Deals
    * Quality Matters
    * Consider non-traditional Consols
    * Build Real Partnerships