SUPPLY CHAIN
GUARDIAN

SUMMER 2010 — EXPANDING MARKETS & IMPROVING MARGINS

FROM THE PRESIDENT

Is Chinese Labor Now Too Expensive?

At $1.83/hour, it's hard to imagine that Chinese labor is deemed to be too expensive for many who have outsourced manufacturing in Asia. Yet, according to a recent report in the June 14 issue of The Journal of Commerce (JOC), this seems to hold true for companies such as Intel, which is currently planning for the opening of its new plant in Ho Chi Min City. Vietnam's average hourly labor rate is a mere $.87. The hourly labor rate average in India is currently $.53. In Indonesia, the rate for hourly labor is $.59. In Thailand, it's $1.04 and in The Philippines, it's $1.67.

AVERAGE HOURLY LABOR RATE

China	$1.83
Philippines	$1.67
Thailand	$1.04
Vietnam	$.87
Indonesia	$.59
India	$.53

Source: The Journal of Commerce, 6/14/2010

In fact, the data cited by JOC projects the Chinese hourly labor rate to escalate by 18% in 2011 making it $2.16/hour. As countries such as Vietnam attract labor, they must also address the extreme lack of infrastructure such as roads that can bring finished product from remote factory locations to ports that require upgrades in terms of depth and facilities. Upgrades are taking place now at Vietnamese ports enabling direct container service to European ports avoiding transshipping in either Hong Kong or Singapore.

According to the U.S. Bureau of Labor Statistics, the average hourly rate in the U.S. for production and non-supervisory labor at privately held companies is $18.99. The current unemployment rate is sitting at just under 10%. Many fear that the U.S. may experience a jobless economic recovery. There aren't too many new manufacturing jobs developing in the U.S. The U.S. is competing with Asia for these jobs. China has had a strong foothold in the manufacturing labor market for the past decade. They are competing at $1.83/hour.

Should we be worried?

Regardless of whether you are manufacturing in the U.S., China, Vietnam or elsewhere, effective supply chain strategy design, deployment and management can help you achieve your bottom line objectives while keeping your customers happy. Supply chain, when viewed as a competitive advantage versus a problematic cost center, can be the key to profitable growth.

Sam Polakoff
President
TBB Global Logistics, Inc.

Do You Manage Your Warehouse Or Does It Manage You?

By Ray Lucas

It is estimated that 20% of all warehouse orders are filled incorrectly. Thus, the ability to meet customer demand by getting the right products to the right place at the right time and in the right condition is an essential competency with bottom-line implications.

Whether you're talking about broad-based concepts such as warehousing, transportation, and supply chain management or more focused activities such as task interleaving or task management, a warehouse management system (WMS) is critical to your success.

As companies struggle today to reduce inventory, increase labor productivity, improve shipping accuracy and reduce operating cost, most have recognized that supply chain and specifically, warehouse management isn't their core competency. It is well documented that progressive companies can achieve better performance by outsourcing to an expert. Using a third-party logistics (3PL) technology provider can make a company's business easier to run as well as increase product visibility in what can be one of the most challenging aspects of manufacturing and distribution.

In today's fast-paced world of electronic wizardry, you cannot rely on virtual reality techniques to satisfy your customers. A successful WMS implementation can be aided by the right 3PL which can lead you to the promised land by properly evaluating your current landscape, understanding its deficiencies and selecting the proper process and technology to accommodate your company's growth plan.

Ray Lucas is TBB's Supply Chain Services Manager. Contact Ray by email at rlucas@tbbgl.com or by phone at 717-227-5726.

Container Freight Insights

By Bob Oliver

TBB's international team is now employing licensed, market intelligence from Drewry Shipping Consultants of London in combination with the Shanghai Container Freight Index to ensure our clients are securing the most competitive pricing in today's volatile maritime freight marketplace. The Drewry reports are considered by many to be the leading source worldwide for both depicting as well as predicting the conditions that exist and control the interaction in the market for the purchasing of global container services.

Total U.S. goods trade increased 22.6% ... imports and exports led the way with 28.5% and 26.5% growth, respectively.

While much discussion has surrounded whether the U.S. economy has rebounded or is in the process of rebounding, it is fact that the foreign trade volume is significantly up for the first four months of 2010 compared to the same period of time in 2009. Total U.S. goods trade increased 22.6% during this period. The most notable changes occurred in April 2010, imports and exports led the way with 28.5% and 26.5% growth, respectively. With peak season shipping from Asia still a month away, China is already exporting and importing goods at a record pace. Container traffic through Chinese ports hit an all-time monthly high of 12.44 million TEU's in May of 2010. During this time period, total foreign trade surged nearly 50% over the same time period when compared to May of 2009. Six of China's top ten ports reported record volumes, with Ningbo's 52% spike to 1.23 million TEU's leading the way. Shanghai, Guangzhou, Tianjin, Xiamen and Dalian also posted record monthly traffic during May 2010.

During this period of increasing prosperity, carriers have been slow to respond to the increased need for capacity in the world marketplace and seem comfortable maintaining their position as they continue to drive pricing upward to recoup their previously reported losses. The current average global rates for March 2010 are running 74% higher than March 2009. The good news is that while rates have increased significantly over the past year, they are presently increasing at a much slower rate and are reported to be close to peaking. Several carriers have recently broken ranks and have begun discussions to address the need for added capacity and the stabilization of pricing in several of the major trade lanes. Heading towards 2011, indicators are leading us to believe the carriers will have positioned themselves to be in full support of the economic recovery currently underway.

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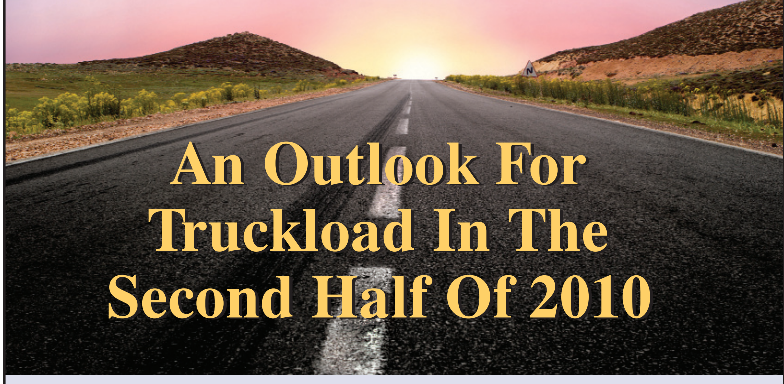
Looking Down The Road



An Outlook For Truckload In The Second Half Of 2010

By Patrick Nelson

A lot of larger truckload carriers looked at 2009 as a time for downsizing. These carriers were shrinking fleets to accommodate the reduced equipment demand. Adding to the problem is the reduction of available equipment. The ATA (American Trucking Association) estimates trucking company closures since 2007 have removed approximately 174,000 trucks from the industry. The number of trucking bankruptcies more than doubled from the fourth quarter of 2009 to the first quarter of 2010, when the number of failures hit 935.

The fourth quarter of 2009 has witnessed a bottoming-out of demand while 2010 is starting to pick up. According to several industry sources, truckload rates have been on the increase for the past 90 days and may continue to increase depending on several factors. Spot price rates have seen the sharpest increase in the 15-20% range or higher in certain oversold lanes. The slight economic upswing in the first two quarters of 2010 has caused demand to come closer to equaling the supply of available equipment. With idled trucks from the larger carriers, the continued failures of small and medium sized trucking companies, the retirement of the older drivers in the workforce and new safety compliance ratings (CSA 2010), we could see rates increasing to pre-2008 levels, and even higher, by later this year.

What can you, the shipper, do to try to eliminate the likely sharp rise in carrier rates? Here are a couple of suggestions:

- **Eliminate the "spot market" pricing game in your more frequent lanes.** Work with TBB and its contract carriers to set fair rates for your shipping lanes that can be sustained for longer periods of time. This will allow the carriers to operate more efficiently due to promised volumes and the knowledge of shipment frequency in each lane. This will benefit you, the shipper. The carriers will be more committed to servicing your needs, and thereby lessen the chances of accepting a load and returning the dispatch order. Failed pickups and scrambling to locate equipment for a rush shipment late on a Friday afternoon can also be avoided.
- **Consider a different mode of shipping.** There is capacity with intermodal carriers in certain traditional truckload lanes where truckload capacity may be limited. Intermodal now works for some shorter lanes that were not practical in the past. The Atlanta-Chicago-Philadelphia Intermodal triangle is highly developed and can rival truckload transit times as well. In most cases, the rates will be lower than traditional over-the-road rates. But again, the same holds true in the intermodal world as mentioned above…Eliminate spot pricing by setting fair rates that will stay in place for longer periods of time.

Pat Nelson is TBB's Vice President of Domestic Operations. Contact Pat by email at pnelson@tbbgl.com or by phone at 717-227-5695.

Thank you for choosing TBB for your supply chain needs. From worldwide transportation to customized warehouse logistics, TBB is the definitive supply chain resource helping small and mid-sized business expand their markets and improve their margins.

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