

lines requiring larger terminal facilities. The landside transportation systems available to handle the increased movement are inadequate and need to be expanded to provide port access at strategic locations. Finally, ports will have to deal with the inherent land use conflicts between public access facilities and traditional port facilities in a deteriorating environment with limited financial resources.

### Questions & Answers

\* How can ports project cargo volumes?

Some of the cargo is discretionary. When you have a population base like Los Angeles and Long Beach of 16 million people within an 80-mile radius of the port, cargo is going to go there. It is not going to be shipped through Vancouver and trucked down to Los Angeles. Of our cargo, 40 to 50 percent is discretionary. The other 50 percent could go to either Long Beach or Los Angeles, but it will come to the Southern California area. Even some of the discretionary cargo is not so discretionary in that if you are coming to Los Angeles anyway, you are going to bring some of that discretionary cargo there. A big segment of the business is discretionary; we compete with Seattle, Tacoma, and to some extent, Oakland and San Francisco. The real major competitor to the Port of Los Angeles is our neighbor, Long Beach.

\* What about the truck weight issue and how ports deal with that?

It should be a national issue with a national solution rather than a port issue.

### LOGISTICS SERVICE: PROVIDERS' PERSPECTIVE

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I will explain what we do in third-party logistics and give you a case study of what is going on in Kuwait as far as the need for strategic planning and the mess that anyone doing business in that part of the world is facing.

Fritz Companies, based in San Francisco, is the largest U.S. freight forwarder custom house broker. We have 65 offices in the United States and over 150 locations worldwide. We look at third-party logistics. We can offer services to our clients on a worldwide basis.

Providing third-party logistics is a seamless operation. We provide service from purchase order all the way through delivery.

Sears is one of the largest companies that we deal with so I will use it as an example. We are the transportation department for Sears. We work with Sears to provide a complete system to meet all its transportation goals. We examined its operation, made recommendations, and came up with a cost savings. The objective is to save money for our clients. We worked with their purchasing department. We don't buy goods for them but we could. We could do everything, the full range, or any individual segments of the process. From the time the Sears buyers issue their purchase orders from their foreign factories, we take it all the way until we deliver the products into their distribution centers and their stores. We have Fritz employees in their overseas buying offices. Once the order is issued, we work with the suppliers, checking on the required shipping dates, as well as the delivery dates required by Sears.

All this information is loaded into our computers. The key to the whole operation is our systems. Without them, the operation couldn't work. What we are providing to our customers is access to this information. They don't have the staff to do it. We have the staff both overseas and in the United States. There are a number of different departments within Sears that are looking for certain kinds of information. The transportation group is trying to make sure that the goods are delivered when they are supposed to be. They are looking at their cost. Purchasing is looking at making sure they are going to get their goods when they are supposed to and in the quantities that are supposed to be delivered.

Then there is finance—keeping tabs on what they paid for. This is like a Nintendo game going from one screen to another. This is basically what our computer program does for Sears. Depending on who the intended users are, their information is coded in. We can break down every single item that they have purchased—how much it will cost them in their distribution center. The system also has flexibility, so even if the goods are in transit changes can still be made. If they come to us and say that they have too much sitting out in Seattle and they want to move it to Phoenix—but it is in transit—we will take care of it as soon as it enters the port.

The idea is that once we load the system we put the data into the computer on a daily basis. It comes in from all over the world. Sears in Chicago has access to that information. They can pull it up whenever they like. They can make changes, recommendations, or comments that get back to us. Not to say we don't have problems. Of course, we have problems whether there is a shortage

or whether they have too much and want to hold up an order in a supplier's warehouse. There are a number of things we can do with it. The key is flexibility and control. This is what we are offering our clients and what third-party logistics is doing for our customers. You must be flexible.

Another part of this is to have the right partners. As a freight forwarder custom house broker, we don't have the huge assets of our own airplanes, ships, trains, trucks. We have partners that do this around the world. Merchandise may not come right into the port. It may be warehoused and consolidated with other cargo, then moved in. It may come into Los Angeles and go back into another warehouse for distribution with other cargo for other areas depending on what the customer wants. It may be sectioned and some may be flown out.

If our partner isn't doing his job, we can go get another partner without being bogged down with his assets. We handle Federal Express. We do all the customs clearance for them. We are their partner. Their cargo is precleared before it ever leaves for its destination. We have 100 people in Anchorage, Alaska, waiting for planes to come in and refuel to take the documentation off those planes and have it up and running by the time the planes get to Memphis for distribution. It took a while to set up the system but we've done it. Again, it is the partner relationship. In order to be efficient you have to have this. It is an integrated management information system that makes it work and we are constantly upgrading our system. We have FIS, the Fritz Information System, with a BASIC program. We go to a client, find out what their needs are, and develop a system for them based on what they want.

In some cases there will be problems, but it is up to us, in third-party logistics, to solve them. We have material management control for all items of purchase. For example, on our defense military contracts everything works off a purchase order, we work on a line-item basis from the original supplier here in the United States all the way to delivery to our clients overseas. It goes both ways. In reference to cost control and savings, most of our clients, like Sears and Penneys, must see some type of savings to justify bringing us in. We use our buying power around the world and our operations around the world to determine what we can tie into not only to keep the cargo moving as fast as possible but also to keep the costs in line.

I want to talk for a few moments about applying third-party logistics to world changes and demands. Kuwait is a crisis where there is no single solution. The Iraqis destroyed the entire infrastructure—all files, all computers, all transportation systems, and all

communications systems.

There are two operational ports in Kuwait that handle general cargo. Shwayka and Shwayba. Shwayka is the largest port and it is closed and will be closed for at least a year. All the equipment in the yard of the ports has been destroyed. Nothing in the port is functional any longer. Every 3-ton crane in the port was damaged and has to be replaced. Kuwaiti Customs now requires ships coming in (except for those bringing relief supplies) have 24 hours to get their cargo off the piers. If it is not off the piers, they put the cargo right back on the ship again and make it sail out. There is no domestic trucking industry left in Kuwait. What trucking there is now comes up from the emirates out of Saudi Arabia and they are charging a fortune for it.

There is no place to store any cargo because all the buildings were hit with cluster bombs. The problem in Kuwait is that they have to start again from scratch. We toured the airport and the ports to look at the basic infrastructure to see how to get cargo delivered all the way through. This is what we are studying right now. The problems we are facing I don't think anyone has faced anywhere else in the world. Even if we had the equipment there, we don't have the labor force.

## Conclusion

Third-party logistics and strategic planning go hand in hand. There are a lot of opportunities out there. We see a lot of innovations and improvements coming down the road because of situations like this.

## THE REGULATORY ENVIRONMENT

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One of the major issues is the regulatory environment we find ourselves in today. The laws that have been written and rewritten over the last 75 years are really a quagmire. Today's marketplace bears little resemblance to the marketplace for which those laws were enacted. Therefore, it is difficult to follow the letter or the spirit of the laws that were enacted in the early 1900s.

An American flag carrier today finds itself competing in a regulatory environment that allows foreign-flag carriers to have more rights and competitive opportunity than a U.S.-flag carrier. Also, certain U.S.-flag carriers compete on a more equal basis than