Day 1: Plenary Session

Vision for the Future

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I have been a professional management consultant for 33 years. For the first 10 years or so, I dealt largely with the transportation industry—you and your predecessors, some of whom are long retired or more. I have dealt with the U.S. Department of Transportation, the U.S. Department of Defense, the Maritime Administration, and the Urban Mass Transportation Administration and a whole lot of other agencies, some of which are not even around anymore. I have been to a lot of conferences like this and I have listened to a lot of panels like we just heard this afternoon.

After about 10 years, I got into physical distribution—that is what it was called back then—and then into supply chain. Now I spend much of my time trying to think about what the future is going to look like 5 or 10 years out, or even 20 or 30 years out as the case may be. I think the exchange I heard and the panelists I heard today represent an anachronism. I believe the kind of attitudes that have us dealing with individual modes as if they were entities unto themselves are gone. Those kinds of things simply are not going to be tolerated in the economy of the 21st century. Anybody who has their feet solidly planted in 20th century solutions for a 21st century problem is going to miss the mark badly. That is going to affect you personally, your careers, your government, or whatever it is you are dealing with.

I am going to share with you why I think the 21st century is going to be so dramatically different, and at the end of this I hope you will think and some of you will rethink your positions that are hardened in issues that are 20 or 30 years old. The conversations I have heard could have taken place 25 years ago. I am not sure we have made a whole lot of progress based on what I have just heard. I think you need to wake up as a group and as a conference. I think you need to wake up and smell the coffee brewing, understand how the 21st century is going to be so dramatically different from anything you have ever known, that the solutions you are stuck with as you exit the 20th century have got to be blown up. We need to rethink it with a clean sheet of paper, because the 21st century is going to be a clean sheet of paper.

The 21st century is going to be different from anything we have ever known. This is not just a continuation of a line that started in 1900. We are actually going through a major transition and there is plenty of evidence of that.

First of all, everything is global. There is no such thing as an individual country organization or a country company or a continent or a theater organization. There are some niche players, small, but if you are a player, you are going to be global in whatever business you are in—whether it is telecom or airlines or freight, whether it is retailing or wholesaling or telecommunications, or chemicals, or pharmaceuticals, or food. You are fundamentally going to be global. That means you have got to operate on a global scale for everything you do. One of the major impacts of global is that we no longer will have this constraint of regional country boundaries and suddenly all sorts of doors open. As we begin to look at the optimization of businesses on a global basis instead of in a lot of little countries, they will get far more efficient. They will be far more powerful. They will be far better. They will be global. If you are not global, you are gone.

The second thing is, if you read the front page of the *Wall Street Journal* on any day, you will quickly find there are mergers and acquisitions and alliances taking place in almost every industry. They are consolidating the players in every industry so there are typically a handful, often only three, of significant global players remaining standing at the end of the merger wave. Those three will be very powerful, very strong, very smart; if they get through their transition problems, which, by the way, are very significant in many industries, they will be very powerful.

Considerable evidence says there is room for about three large players in any business with global market shares above 10 percent. Then there is room for a series of small niche players in the 1 to 2 to 3 percent global market share areas. To have a 20 percent market share in the U.S. market and a 4 percent global market share probably leaves you fatally vulnerable. So, think about that as you go forward. This is not just your industry—these are your customers. These are the folks who are doing all the things we just talked about. That is why Wal-Mart is in Europe. That is why Wal-Mart is here.

All of this is fairly predictable from what you have seen. The wave I am now going to talk about was not as predictable. How many of you have been in the business for more than 10 years? Everybody? Okay. Remember the days before we had fax machines and used teletype. Remember the days before we had voice mail, before we had e-mail, before you carried around a laptop computer, before all of these presentations were in PowerPoint? Two years ago that would not have existed. Think about all of that technology, before cell phones. Think of all that technology. Has it changed the way you do business? That is only about one-tenth of the technology that already exists and is in a pipeline coming at you—one-tenth. Ten times that change will occur in the next 10 years. The change is not just going to be doing the same thing we did before a little faster or a little easier or a little more electronically. It will be doing different things that will allow us to solve problems that we could not solve before. That is what the technology is going to do. Good companies are going to apply that attention in the places where it adds the most value.

Fundamentally, the most dysfunctional processes we have are government, medical delivery systems, supply chains, and incorporated in supply chains is a subelement called transportation. In a subelement called transportation is something you are dealing with today called intermodal. It is a dysfunctional process. The transportation system of the world is reasonably dysfunctional. Its roots come from 17th century sailing ships. Its acronyms are about how we pass data and handle cargoes and so forth. Its operating infrastructure was built in the 1940s and 1950s. In some cases, it is not strongly dissimilar from what we used in World War II. Do you really think that is going to be the cutting edge in the 21st century in a new environment? Maybe not, when technology starts getting applied to it all. The supply chain is a terribly dysfunctional process, something most of you already know.

Fundamentally, each entity in the supply chain appears to operate as if it is all by itself and deals with everybody else at arm's length—whether it is upstream or downstream, whether it is carrier, whether it is mode, or whether it is a supplier or manufacturer or distributor or retailer. Everybody operates in his own environment and deals with everybody else at arm's length. As a result, we have a massively dysfunctional process that moves stuff in many cases two, three, or four times as many time miles as it would really take if we knew where it started and where it was ending up. We tend to buy and sell things back and forth—for no particular reason, in many cases—because we do not know where it is going. We certainly do not plan and manage things like transportation movements and infrastructure particularly well—today's notice for supplying my trucks and vessels for tomorrow. We have inventory that is a year's worth in that pipeline from mother earth where all raw materials come from, to the final consumer who is the only source of revenue. There is a year's worth of inventory. We handle things two and three times as many times as we need to. I have a client for the box of crackers that was handled 38 times between the time it was manufactured and the time it reached the consumer.

Automobiles are handled and rehandled dozens of times before they reach the ultimate consumer. All of that is very expensive. It is very dysfunctional and the main issue is, it is not operated as if it is one process from mother earth to the final consumer. It is operated as a series of disjointed processes by individual companies, individual carriers, individual modes, and so forth.

Think about the technology statement I made a minute ago. If I have ten times more technology than I have seen in the past few years, and I start applying it, where is it going to get applied? It is going to get applied to using that technology to fix the horribly dysfunctional way that we operate that supply chain. It will not operate as a series of dysfunctional, isolated decisions along the way or as one supply chain from mother earth to the ultimate consumer. Has anybody ever reengineered something when you took out the barriers and began to break it down? It will operate 50 percent better or more than it does today.

The money in the pipeline—everybody takes 30 to 60 to 90 days to pay their bills so it is not unusual or unexpected that we have a year's worth of money tied up. Freeing up all that cash has some interesting implications for investment payoffs.

But perhaps the worst thing is that the supply chain, by and large, delivers horrible service. Railroads and truckers, by the way, often cannot tell you what day something is going to arrive, and in some cases not what week. It certainly is not consistent from time to time, but those are tactical things and my issue is much broader than that.

How many of you in this room are consumers? When was the last time you were so pleased with a consumer transaction, so pleased with an event that you took the trouble to write an e-mail or make a phone call or write a letter to the company involved to tell them how wonderful a job they had done? This is, by the way, not to compliment an employee who solved a problem, but to say the processes were so smooth and I just love it—I really am excited about your company. Who has written a letter like that or anything similar? This is an aggressive group, but I only see a few hands.

What is the other side? How many of you have written a letter or made a call to tell a company how bad the service has been? Anybody here? We have about 10 times as many hands. I have done this with audiences for years. It always comes out that way. Fundamentally, nobody is delivering memorable service; in fact, in many cases we are delivering bad service. We will come back and talk about the implications of that later.

The supply chain is too expensive, takes too long, costs too much, has too much inventory and has too much handling in it, has more money in it than it needs to have for receivables and inventories, and delivers bad service. Do you think the technology and brains might get some focus on this subject? I challenge you that it will and it is going to shake the things you are talking about to their roots as that happens.

Let's talk about how it is going to be different. Instead of arm's length, stand-alone entities in the future, we are going to have relationships with other players up and down the stream. Long-term, solid relationships that, like good marriages, will handle good times and bad times and will overcome problems and solve them and work together over a long period of time. In its linear form, there will be an information conduit from the ultimate consumer, which generates all revenue, all the way upstream to mother earth and with everybody in between, so that we operate on the same information at the same time and act in parallel instead of sequentially waiting for some other person downstream to tell us to do something. If we do that, it will be at three different levels:

1. **The transaction.** When I scan something across a retail checkout counter, I can automatically tell somebody to chop down one more tree for the packaging and everything in between. There is no reason today I cannot do that.
2. **The forecast.** I need to forecast because there are processes that just have inherent characteristics. I make paper in big rolls. I sell Kleenex one at a time. So, I need to buffer these things with some sort of planning. Guess what? Everybody there has a forecast. They have more than one forecast. I have a sales forecast, a marketing forecast, maybe a promotion forecast, an operating forecast, a financial forecast, and they probably do not relate to one another. Almost assuredly, the forecasts among the players there today do not relate to one another. If we all got together based on this really good information about what the consumers are really doing, and with confidence and the goodwill that we have developed by sharing information with each other already, and begin to build the next layer, the logical result would be a forecast of what is going to happen at the consumer level, from which we can all operate. We do not use a single number. We understand that it may rain today or it may not and that will change your behavior and therefore I have to have a range around the forecast. Depending on what happens, it can be toward the higher end or the lower end. Not unlike what we do when the news media project who is going to win an election. We monitor what happens minute by minute in the process and determine whether we are tracking above, toward the upper end, or toward the lower end of our forecast and then adjust instantaneously as necessary along the way.
3. **The sharing of information.** The third level is sharing what new products are desired and needed by the consumer. We go through a process of launching new product introductions and old product deletions in a coordinated, logical way instead of shoving new products downstream to the shelves of the retailer, by whom we are charged, and who then turns around and shoves them back when they do not sell. It is going to get more efficient because we are going to move this information upstream and downstream.

From carriers and from government agencies, I heard the appeal for information earlier in the process. I can get anything I want out of this if I am a partner in it. If I am one of those long-term partners—but you know what you have to do to be a partner? You have to trust each other. I am not going to share information with you if I do not trust you. Think about that. Let that one sink in a little bit. I have to build relationships so that I trust the other players in my supply chain between mother earth and the consumer enough that I am going to share my most intimate information with them without thinking I am going to get stabbed in the back.

Guess what? There is another industry that, like you, has been antagonistic toward the players upstream and downstream for a long time—the grocery industry. They are now about 8 years into a program and they are not done yet. However, they are making progress and they are trying. If they can do it, you can do it. You could actually begin to trust each other enough to begin to do the right thing for the 21st century instead of the expedient thing based on history. As a result, the goods conduit is going to be much more efficient. We are going to move stuff with fewer ton-miles of transportation. That means fewer trucks, fewer rail cars, less handling, fewer warehouses, less inventory, and less storage space. We are going to need less money in the pipeline, we are going to require less time, and there are going to be fewer errors. Reliability of the service is going to basically move toward the inherent capabilities of each of the players up and down the stream. I can do it a lot more efficiently and save a lot of money. Funds are going to flow pretty much instantaneously when there is a checkout and a scan and the consumer pays. Everybody upstream gets his or her allocation on a prearranged basis. There are no invoices upstream, no rooms full of people doing discounts and adjusting bills and trying to figure out what the right number should have been in the first place. That is all going to go away.

Brave new world of the 21st century—are you ready for it? Is your industry ready for it? Are the processes of the 21st century going to be ready for it? I do not think so. The focus is going to be on consumers because that is the only thing that counts and the unit of a consumer is one individual human being, one soul, one memory bank. It is about what they liked and did not like about the solution the supply chain provided them, and they are going to buy that supply chain or one of the two or three competing ones on a global basis. They are going to vote with their decisions as to who wins and who loses.

Let's talk for a minute about consumers and you are all consumers. Generally, consumers in the 21st century are going to be very value driven. There is almost complete transparency of information. There are no secrets. Nothing much gets hidden. We are going to have to produce the best value. It does not mean the lowest price. It means that, in the eyes of that consumer, it is the best overall value proposition. It is the best overall mix of service, caring, product, price, delivery, reliability, reputation, and 6 or 10 or 15 other factors that I did not name. The point is low price is not going to be the sole determinant.

Retailers should be the most powerful business players in the entire supply chain, because they have the relationship with the consumer. If they really understand and embrace and provide consumers with what they are looking for, they become the captains of the supply chain. Wal-Mart kind of does that. Amazon and others are kind of doing that, but they are not there yet.

How many of you, as consumers, have been asked by someone you have dealt with, "What could we do to serve you even better? What would you like in the future? How would you like to do business with us? What can we do to make you a happier, more satisfied customer?" Do you get a lot of telephone requests around the dinner hour asking those kinds of questions, or is it more often someone trying to sell you something? How many of you have had an organization reach out to you and really try to get an in-depth understanding of you as a human being, a consumer? Only a handful of you; however, that is a start. It is slowly beginning to happen, but boy is it slow in coming.

What is the role of a brand? If it is Coca-Cola, maybe you go in and you buy Coke. But, right next to it is something that beats Coke in taste tests and it is half the price—pretty can, everything seems about the same—which do you buy? Which do you buy today or in the next recession? Most of you have been through a recession in your lifetimes. It will happen again. The bubble will burst. What is the real brand when I walk into a Wal-Mart store? It may be the Wal-Mart. It may not be the individual branded products on the shelf. It may be Wal-Mart itself—I go to Wal-Mart to get whatever it is, so if it is on Wal-Mart shelves, it sells. If it is not, I never get a chance to buy it. I buy whatever is on the shelf.

Consumers are smarter. There are transparencies. Anybody here bought a car recently? Did you know more about the dealer invoice and the pricing structure and the features of that car than the salesman with whom you dealt? That is just an example.

Time is the most valuable commodity in the 21st century. Let me repeat that: time is the most valuable commodity in the 21st century. Anybody here believe that you are working less than you did 10 years ago and getting paid more? Nobody does. Good people are absolutely scarce. Finding enough truck drivers is tough, let alone finding good people with minds. There just are not enough to go around. The result is that we are being worked harder, we are being offered more, and in some cases we get paid more (or less)—that is not the issue. It is a matter of how much time it takes. How many of us, as we get older, want to spend more time with our families recreating or doing what we want to do? Over time, time becomes more valuable. As a result, the consumer of the 21st century will often trade off time for money. For example, how many of you bought at least one thing on-line from a retailer?

Almost everyone—trust me, eventually the rest of you will do the same.

Recently, I was buying a couple of books for my daughter. I am on-line, I have got the two books—a total of $15.00 in merchandise cost—and then I close out the shopping cart, hit the button, and find that I am being charged $5.00 for shipping. Why that is one-third the cost of the merchandise. Then I bit my tongue and I said, "Oh, it is only $5.00. Is it not worth $5.00 for me to walk out the door, let alone to go down to the store to buy it?" I just paid a 33 percent premium to have it delivered to my doorstep.

It has been estimated that 1.5 billion new parcels will be created by the e-tailing industry for deliveries to people's doorsteps. Does the 21st century infrastructure of United Parcel Service, FedEx, and the U.S. Postal Service have the ability to meet that demand, to provide that service? What are you going to do if you are getting four, five, or six parcels a day at your doorstep? What are the security issues? There are all sorts of interesting issues to consider. Time becomes so valuable that people, in some cases, will trade off time for other fairly expensive things. We need to think about how that plays. What does that have to do with the transportation system? There will be people who happily pay a premium to have it there today or tomorrow. There are others who will say, send it by the U.S. Postal Service and it will get here in a couple of weeks.

Basically, I have been talking about existing channels. How many of you do the family grocery shopping in your family? Quite a few of you. How many of you who did not put your hands up know the person in your family who does the family grocery shopping? Now, try to put yourself in that mind. How long does it take to do the shopping each week—1.5 hours, 2.0 hours, maybe longer? Is it something you look forward to with great anticipation? It is a great, fun experience? Suppose I allowed you to pull up on your personal computer at 4:00 p.m. on Thursday afternoon and it shows you 300 items, which is about all you buy in the course of a year at a grocery store—300 individual items. It is already calculated what your usage rate is, based on past history, and as a result, it can suggest what you probably need. All you have to do is hit the enter button after adjusting your order and it will automatically be delivered to your kitchen counter at 8:00 p.m. in the evening, charged on your Visa card, and all you have to do is put it away. It takes you 15 minutes instead of 2 hours. Does that sound like a fun service? It saves time, although it does cost more. There are companies out there who provide that service. If you do not already use such a service, many of you probably will. You will get attached to it once you find it works very well. It sells for a premium today, but do you know what? All I am doing is item pick, no different than when supplying to the back door of a McDonald's restaurant. I have the technology to do that for a cost that is significantly less than the cost of the grocery store infrastructure today. If I now told you that you could do all that and save 10 percent, how appealing would it be? Save time and 10 percent versus save time and spend 10 percent more. Many people will change their way of shopping.

If you do not remember anything else from this session, remember this point—our basic push mentality in all businesses on all products and all services is fundamentally flawed, because push assumes that if I have a transaction today and a transaction tomorrow and a transaction the next day they are all independent of one another. The fact is they are not. The consumer who is involved in each of them—and a consumer can be a purchasing agent in an organization or any decision maker—that consumer has a memory and that consumer makes decisions. They remember whether you did it right or you did it wrong. They remember whether they thought they got a good deal or a bad deal. They remember whether it was on time or late. They remember whether the service was good or bad and they chalk it up. Even when we are in business, we basically behave as consumers and make decisions in part based on past experience.

Think about your own experience. If you have bad service, probably the first time you just let it go but make a mental note that you were not very happy with that experience. The second time, psychologically most of us will reach out in some way to communicate the service failure to the organization that did it. It could be as clear-cut as a letter to the president in the hope that the problem will get fixed. More likely, it is an offhand comment to a customer service representative or a driver that gets completely passed over. Somehow you psychologically want to reach out and tell them they are screwing up. The third time, you begin to show bias against them. Maybe you do not buy from them or shop from them. You do not recommend them. Maybe you even bad-mouth them. All sorts of negative things begin to happen. Three strikes.

What are your customer service goals—90 percent on time, or 95 percent on time? What kinds of goals have you set? Start thinking about the rule of three—think about how many times you have disappointed your customer. I do not care whether it is a real consumer or whether it is the dock foreman where you deliver the container. They remember.

The good news is, the opposite works. Once you really impress them, they will remember. The second time, they will tell you and thank you for it. The third time, they will begin working on your behalf as an advocate, as a positive factor in the marketplace.

If there are going to be relatively few large global companies and we are going to compete for the ultimate consumer, whoever it is, we better figure out a customer service, customer satisfaction strategy and execute it so flawlessly that we do not start driving customers away. There are only two or three choices and if we drive them away from Hertz, they go to National. If they get driven away from National, they go to Avis. There could be three big airline conglomerates. There could be three big shipping companies. Whatever the industry sector, it is by and large going to be three. If we begin to disenfranchise folks, they are going to go someplace else. Once they have gone, all the king's horses and all the king's men and discounts will not bring them back. Has anybody gotten a discount coupon from an e-tailer? "We're really sorry we screwed up over Christmas—here is $100.00. Please give us another chance." What is the probability that works? Think about it.

Let's move to industry. Competition is global. I think we have made that point. Everything is going to be global and you are a part of it. Products are changing. Things are moving much more rapidly. The average half-life of a computer today is about 3 months. Managing the life cycle of that—how much inventory we are going to have, how we are going to sell out, what we do with the old inventory, and what we are going to do with the next one that is going to come in behind it—how do we manage that all through the process? It requires extraordinary thinking. The information will be there; the technology will be there; but, among other things, we have to start being reliable. When we say we are going to deliver it on Thursday, we better deliver it on Thursday. The folks from Wal-Mart have a wonderful presentation that illustrates what the variability in delivery cycle time costs them. The fundamental issue that makes a Wal-Mart system work is they demand and get precision. They do not care how long it takes to get something—it could be 4 days or 5 days or 6 days—but it has to be exactly at the time agreed to.

Variability requires you to carry the inventory you need to be in stock for that variable amount of time and that is what drives inventory. They are going to take half their inventory out by increasing variability of the supply-chain infrastructure and what you are talking about is dead center in the middle of that reliability. You are going to be under a lot of pressure.

We have overcapacity in most industries because we have globalized. The safety capacity that we have built up in the past in every different country around the world is suddenly lumped all together and now we have enough capacity to build almost anything we want. There are very few industries that are undercapacity. I argue that even for the transportation system, if we operate it properly—like 24/7. The automobile industry has so much overcapacity that we are not going to have inflation in automobile prices and that is why General Motors and Ford are fighting over the Korean automobile capacity. We have lots of overcapacity and we will have it for a long time. Therefore, the long-term trend is deflation—not inflation. However, that does not mean we do not have some shortages here that are going to create some inflation—oil in particular.

Supply-based rationalization—if you have not been through it—everybody who has power is doing exactly what we expect them to do. They are going to look upstream and say, I am the customer, you are the provider; therefore, I have power over you. That means I can decide I am no longer going to do business with 20 of you. I am going to do business with one or two or typically three. For example, Wal-Mart is going to have three brands of a given item on the shelf, one of which may be the Wal-Mart brand—maybe that is the fourth one.

People are going to have three carriers. They are going to have three (or fewer) providers of almost everything they really need. Therefore, rationalization adds fuel to the fire that creates even more consolidation quicker; the haves get stronger and the have-nots fall by the wayside. The stronger you are, the better you are, the more you win, the more infrastructure you have, the more sophistication you have, the more likely you are going to win next time. If you ever get a significant lead on your competitor, you will ultimately drive him to the wall.

The economy is digital. Everything that can be digitized will be digitized. Anything you do that has to do with paper and communications and data that is not already digitized is going to be digitized. If you are going to read a book, there is a high likelihood you are going to read it on one of these screens in the not too distant future. Although you may not want to give up your hard copy of the *Wall Street Journal*, you are probably going to learn how to read it on the computer screen. We have to be thinking about the implications of that for your business.

Roles are changing. I can no longer easily determine who is a distributor and who is a third-party provider. I cannot easily determine who is an original equipment manufacturer (OEM) and who is making component subassemblies that get bolted together. For example, your PC is made up of 30 or so parts. A recent *Wall Street Journal* article about General Motors indicated they are basically going to do the same thing. They are going to cut the cycle time to 4 to 10 days or something like that so you can order a car and build it. You are not building a car from scratch—you are simply assembling these big chunks of subcomponent parts and therefore the real power in that industry is going to shift from the OEM to the parts suppliers. By the way, why am I selling it through a dealer when I can do the whole thing on the Internet? Car dealers are an anachronism. They are one of many in the economy that will ultimately go away because they do not have a real purpose. There will, instead, be fairly sophisticated repair facilities, although it is likely that reliability will improve so there will be less and less need for repairs and less maintenance.

Think about whether and how the issues I have raised are going to change the fundamentals, because there are going to be many parts of the economy that are going to go away and they are going to be replaced by other kinds of things that are even better. The reason we said trading communities will evolve is that none of us can handle an infinite number of relationships. For example, we are not going to go out and surf the web and look at every website. We are not going to have auctions with hundreds of players at every one of them. We are going to tend to settle on a limited number of relationships that we, either individually or as organizations, can manage. They are going to be upstream, downstream, two levels upstream; they are going to be sideways; they are going to be in cooperation with competitors; but there are going to be only a limited number of relationships.

What we are really saying is: Think about who your trading partners are going to be and pick them carefully. If you pick wisely, they will give you great strength. If you pick poorly, they will drag you down.

Everything I have said creates something that we call a "trigger point"—a term I have used since the late 1970s. A trigger point is simply an event in an organization's life that is so stunning that it causes you to stop and think about how you are really doing things. The changes you make after a trigger point are not just business-as-usual changes but fundamental changes. Pearl Harbor was a trigger point. It got us into a war. A heart attack for an individual is often a trigger point—it changes his or her lifestyle. A merger, an acquisition, a major service failure, sometimes a new chief executive officer, and other kinds of events are trigger points for companies. What it does is create a window of opportunity that has a very limited life, typically no more than 2 years. From the time the trigger point occurs and we recognize it, to the point that we have to finish fully, completely, whatever changes we are going to make. Trigger points are essential for breakthrough change. You cannot do really breakthrough things without a trigger point.

The problem is, most companies do the wrong thing. They hit a trigger point, and they run around like a bunch of ants; they undertake tens, dozens, hundreds of initiatives and try to change everything at once. They spread their resources, they lose their focus, and, as a result, they do not get a lot done.

I had one client in the telecom industry that had 640 projects going. We were brought in and given a description of the situation and then we asked the company "What results did you get?" We were sitting with the executive committee and none of them could stand up and name any one of the 640 projects that could be deemed successful.

Companies tend to "spread the resources" and often they focus on the wrong things—they focus on reducing the waste, reducing the cost, reducing the inventory, or improving customer satisfaction. We have an 85 percent customer satisfaction level now. We will get it up to 90 or 95 percent. Big deal—95 percent is not acceptable; we have to target and go for 100 percent. We have to go for things that will really be distinguishable in the marketplace. Too often, we waste a lot of resources doing the wrong thing.

Successful companies tend to use trigger points as an opportunity to do something really, really important. First, whatever business you are in, wherever you are in the supply chain, try to get out and put yourself in the shoes of the ultimate consumer of that product or business or service and understand what is really important to them. It is probably not what you think it is. It is almost assuredly not what your salesman is telling you it is. It is probably not what your supply-chain partner downstream is telling you it is, because they do not know. Go find out for yourself what is really important to the decision maker that drives revenue to your business. I think you will be very surprised at what you learn.

Once you understand that, you can map your supply chain all the way back upstream—look at how it works and very brutally and honestly evaluate what is good and what is not. There are going to be three categories:

1. A lot of things that are absolutely non-value added, that are stupid, that when you look in an overall context and consider the technology that you could bring to bear, you are going to ask, "Why in the world do we still do this?" Then just eliminate it.
2. There are all sorts of things that we all do in our organizations because somebody long ago made a decision and it got internalized in the bureaucracy. For example, somebody long ago made a decision that the company will receive only during certain hours. Maybe we ought to reevaluate those decisions and, again, eliminate the things we should not be doing any longer.
3. You outsource the things that are nonstrategic, the things that are not critical to satisfying the needs of that consumer. Those of you in the transportation industry are the recipients of that—almost nobody operates their own transportation system. With a few exceptions, nobody operates their own port, nobody operates their own railroads, nobody operates their own telecom companies. By and large, they do not even operate their own computer departments anymore. All those functions are outsourced. What they focus on is what is really important to the consumer for their business and their role in the overall extended enterprise. We focus all our attention on what is really important to the consumer, to our customer. If we do that, we will be successful and have a legitimate role in the future extended enterprises supply chain.

Partnering with other players upstream and downstream, we put together something that is a behemoth—

that is stronger than the competing supply chain of whoever else in the world is trying to do what we are doing. Therefore, it requires world-class alliance partners. Nobody does it all. Every movement is an intermodal movement. Nobody satisfies from the raw materials source to the ultimate consumer with one mode of transportation. The sooner we recognize that we are all in this together (and we either contribute to this or we become redundant), the better off we are.

The extended enterprise is going to produce some huge benefits—most importantly, time. Cycle times are being reduced by 90 percent regularly, whatever it is. Earlier we saw some data about the Gulf War and 180 days to deploy were going to be reduced to 30. Everything we are doing is going to get time compressed by a variety of forces. It is time to start thinking about how we take 90 percent out. Do not even think about taking 10 percent out; figure out how to take 90 percent or more out. The inventory is being reduced in many cases by 90 percent. The pipeline inventory, raw material source from mother earth and the ultimate consumer, not inventory on my books, is inventory on everybody's books.

You put it all together in an effort to get beyond 20th century thinking. The 21st century thinker asks, "Why do we do it?" Why do we have orders and invoices and collections and receipts and transfer payments against those invoices? Why do we even do those things? Does it add value? Probably not. Ninety percent reductions in such things is where technology really has its largest impact. What is interesting is if you look at how you manage the rest of the processes, the ones that are often considered the "can't change them" kinds of things, like manufacturing. For example, I have a manufacturing plant that is cranking out 100,000 units and think that is about all I can get out of it. I need to ask, "Why are we cranking out 100,000 units?" I go back and look at it and find there are actually 3,000 different skews, 20 of which produce most of the volume, 50 of which are 99.5 percent of what consumers really want anyway, and all the rest break into your production cycle and do all sorts of other things. If I sort that out, even if I continue to do all of them but do them in a different way or modify the order basis or use a different plan or a different set of machines or something like that, I can often increase the throughput of a manufacturing process by 50 percent or more—in some cases doubling the output. I can double the throughput in a warehouse. I can reduce the inventory by half. I can reduce the number of handlings. I can reduce the number of ton-miles things have to go.

I challenge the intermodal industry to quit saying they are out of capacity and need more infrastructure. Maybe you do, but I think it is based on 20th century thinking and not 21st century thinking. Take the 21st century, look at it, and then tell me what infrastructure you really need. Think about breaking down the barriers between the modes, and then tell me what infrastructure you really need. Think about 24/7 operations every place, everywhere, all the time, and then tell me how much more infrastructure you need. If you have a problem with the union, face the problem head-on.

Do not tell me 25 years from now the same issues I heard 25 years ago about the various modes—25 years ought to be long enough to solve even the most impracticable union problem if we have the management guts to do it. Think about how much throughput you are going to get in the intermodal process in the 21st century.

Why must we do this? Because I have to be one of the top three in worldwide market share in whatever business I am in or I am not going to be here, or I am going to be a niche player. Lots and lots of academic research will tell you that you have to be one of the top three. That means that everybody with global market shares with typically over 10 percent—there could be four or five in some industries, but in most cases, it is three. That is what it is all about. I am either going to be one of the top three, or I am not going to be here.

The decisions are strategic. There are a few chief executive officers in the audience and I hope you are listening. Let's talk about how we invigorate people to get out of the 20th century mindset and into the 21st century reality about how we are going to have to run our businesses.

The challenge is, are we at the trigger point? I think we are. We can ignore it. We can go home. We can pet the dog, kiss the spouse, and go on to retirement in the next year or two and ignore it. The rest of us have to live with it, which means we probably are not going to just sit down and do nothing.

I think the worst choice is the middle road. It says we are going to dissipate our corporate and shareholder assets trying to fix a problem but not really tackling it. We are going to work around the edges. We are going to make a little improvement here and a little improvement there—not enough to do anything strategically important, not enough to beat the competition—only enough to survive for a little while longer. Maybe if we retire in 3 or 4 years, we can get away with that.

I challenge you to seize the opportunity. We have got to find dramatically new ways to do things that will serve us well in a 21st century environment, in the new millennium, in a technologically enabled world that is global and that is very consolidated and will have a handful of big players in every business worldwide. We either do that or we do not have a purpose for being here. I hope I stirred things up, because that is what you asked me to do.