

The Future of International Freight

A range of factors point to fundamental change in the freight industry



The recent months have brought extraordinary change to world trade conditions. After 20 years of nearly uninterrupted boom—that neither the 1997 Asian financial crisis, the bursting of the Internet bubble, 9/11 or SARS could stop—trade has suddenly collapsed in the wake of a global economic recession. While carriers, integrators, freight forwarders, port operators and other participants try to adjust, we believe more fundamental change is looming for all players in the international freight industry.

These are by most accounts dismal times in international trade, with some countries, such as Taiwan, seeing exports fall by up to half. Container shipping rates now barely cover marginal costs, new vessel orders are being canceled despite seven-digit cancellation fees, and aircraft are being retired at an unprecedented rate. All of this reflects a general reduction in volumes—declines of 20 to 30 percent for international shipping and roughly half that for intraregional freight.

These woes come after more than 20 years of unfettered expansion in the international freight industry, driven by an extraordinary combination of macro- and microeconomic factors. Macroeconomic factors included world gross domestic product (GDP) growth, free trade, comparative advantage, credit conditions and financial innova-

tion, exchange rates, improved information technology (IT), outsourcing and market-oriented politics. Transportation-specific reasons included reduced costs, deregulation, industry consolidation and infrastructure. These factors reinforced each other.

Participants in the transportation industry are adjusting to new conditions. A broad range of factors points to fundamental change for the industry—changes that will have a short-term impact and longer-term implications (*see figure 1 on page 2*).

This paper offers an in-depth examination of the freight industry to understand how these factors contributed to growth and how they will evolve in the next decade. We also discuss the major issues for the industry as it prepares for the future.

Figure 1

Factors affecting international trade (1990-2020)

		Past 20 years	Today	Next decade
Macroeconomic	World GDP	Booming	Recession	Growth will resume, but at a slower pace
	Free trade	Opening up, with help from the World Trade Organization	Signs of re-emerging protectionism	Uncertain, depending on economic conditions
	Comparative advantage	High (low labor costs in China)	Rising costs of labor and real estate erodes advantage	Continued narrowing
	Credit conditions	Easily attainable	Severe credit crunch affects trade and investment	Rebuilding confidence and restoring balance sheets
	Exchange rates	Stable with a few exceptions (Asian currencies were low)	Unstable and uncertain due to conflicting monetary policies	Slowly stabilizing, with stronger Asian currencies emerging
	Information technology	Revolutionary change	Still plenty of benefits that have not yet been realized	Continued emergence of improved technology
	Outsourcing	Booming due to what was seen as “unlimited potential”	Realization of limitations (is it profitable growth?)	Further potential in select segments
	Market-oriented political environment	Opening up of Far East and Eastern Europe	Stable so far	Hard to predict if troubled economic times persist
Microeconomic	Transportation costs	Low	Lowest in years due to excess capacity and low oil prices	Long-term trend is up (oil, CO ₂ , absorption of excess capacity)
	Deregulation	Deregulation and privatization in full swing worldwide	Suspicion remain about deregulation and capital markets	Unlikely to return to post-WWII regulation and state ownership
	Industry consolidation	Largely horizontal among competitors	Excess supply (including consolidation by attrition)	Gradually resuming but less daring
	Infrastructure	Substantial investments but often failing to meet demand	Drop in volumes easing pressure on infrastructure	Big “Keynesian” push to improve infrastructure in many countries

Source: A.T. Kearney analysis

Positive Uncertain Negative

The Rise of GDP Growth

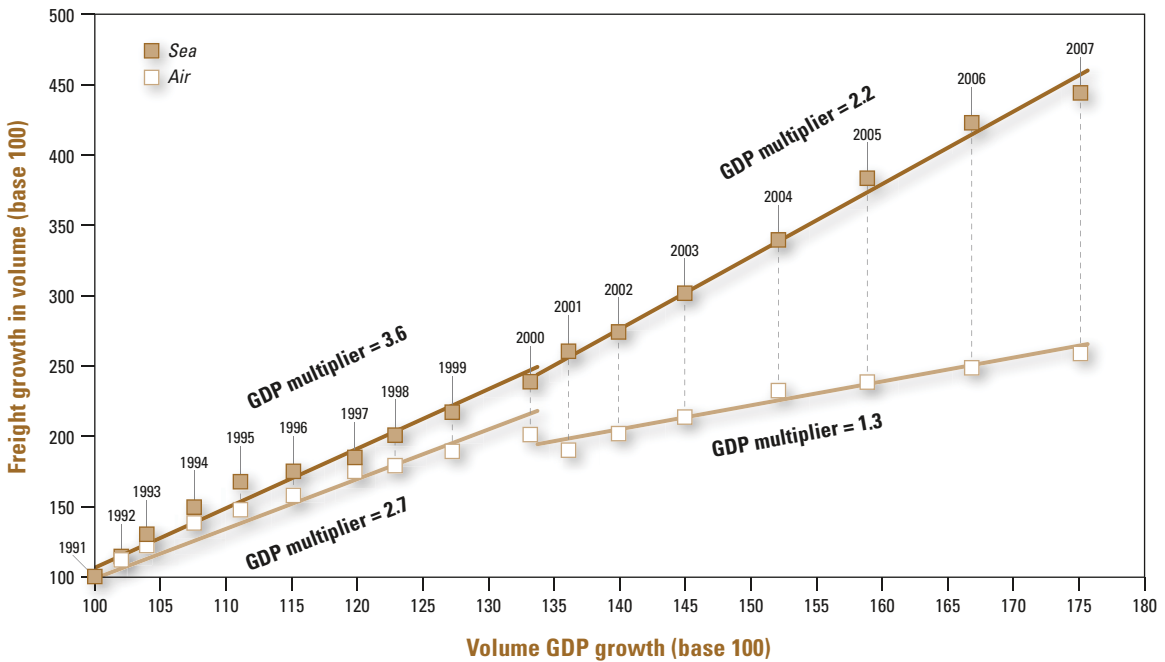
Emerging markets created unprecedented conditions for international freight. GDP growth of 4 to 5 percent per year was greater than during the Industrial Revolution. The increased trade of the past 20 years was not only a byproduct of GDP growth, it also helped fuel it. Billions of individuals gained new-found access to world markets, creating competitive sources of supply for the developed world. Eventually, developing countries built their own local markets and sud-

denly a new middle class—up to a billion people strong—was looking for products to buy.

Not all of this growth was based on healthy fundamentals. The combination of excessive liquidity, a deliberate but unsustainable policy of pegging exchange rates to the dollar in Asian exporting countries, and other macroeconomic factors made the boom unsustainable. Even after the current decline comes to an end, most observers now expect a long-term global growth rate of around 3 percent.

Figure 2

Growth of international freight industry: higher rate than global GDP



Notes: Trade traffic based on twenty-foot equivalent units (TEUs). 2001 is not included in the multiplier due to the effects of 9/11

Source: A.T. Kearney analysis

Freight industry demand has long increased at a multiple of global GDP. For example, air cargo has increased at 2.3 times GDP growth over the past two decades (see figure 2). Future freight growth will slow as GDP growth slows, but what will happen to the multiplier? Other factors need to be examined.

Unfettered Trade

The creation of the World Trade Organization (WTO), which succeeded the General Agreement on Tariffs and Trade (GATT), boosted world trade. On top of that, many countries lowered import duties beyond what had been agreed upon multilaterally. The unfortunate flip side is that this has now left room for these countries to

raise duties without violating these agreements.

More likely, distortions of free trade will take other forms, such as the government support of select domestic industries, enticements to companies to repatriate manufacturing from low-cost countries, national preferences in state-supported industries, bank preferences for established local clients, abuses in the “fair trade” concept and other forms of disguised protectionism. These developments have already begun.

A Low-Cost Comparative Advantage

Easy access to world markets created huge incentives for relocating manufacturing to low-cost countries such as China. After 20 years, though, costs for labor, real estate and transport, among

others, have risen enormously in the Chinese manufacturing hotbeds of the Pearl River Delta and Shanghai. Social security and new labor laws are being implemented. China is no longer as attractive a low-cost manufacturer as it was.

Inland Chinese provinces still hold large potential for low-cost manufacturing, but their distance from the ports make them less appealing to international buyers (although they are an

operators to manage almost any form of risk.

Financing has taken a huge hit during this downturn. Even the most prominent transportation-leasing companies are finding it hard to secure financing, and the availability of trade finance has shrunk. Although conditions are gradually improving, the healing time required for the banking industry, the hangover among investors in certain asset classes such as ships, and the higher interest rates that can be expected later suggest that it will take a long time until financial conditions return to their previous state.

The broad range of micro- and macroeconomic factors point to fundamental change for the international freight industry.

attractive substitution market for Chinese logistics services providers, following the ongoing shift of the Chinese economy to domestic consumption). While other countries, such as Vietnam, are also low-cost alternatives, their scale is much smaller and, thus, their potential impact is naturally lower. In short, there will never be another China.

Easy Credit and Financial Innovation

In a capital-intensive industry such as transportation, the availability of cheap credit was vital for funding the enormous equipment and infrastructure requirements of global trade growth. Emerging markets easily secured financing from the deep U.S., European and Japanese financial markets, facilitated by the globalization of banking and new financial instruments that enabled

Stable Exchange Rates

A benign exchange-rate environment has been a hallmark of the last two decades. Despite a few spectacular bumps along the way (for example, the pound sterling, the Russian ruble and the Argentine peso in the 1990s) and the slow decline of the U.S. dollar against the euro, currencies

have remained fairly stable. In particular, the currencies of the main exporters in Southeast Asia have traded within a narrow range relative to the dollar, the currency of the main importer.

Economic and political pressures are now changing that equilibrium, leading most economists to believe that Southeast Asian currencies are due for a steady rise while the dollar stays weak. As for the euro, despite Europe's traditionally stronger balance of trade, a question remains as to whether it can remain as strong as it has been.

History suggests that exchange-rate adjustments typically require years of instability until they finally return to equilibrium. This will hurt trade in two phases. First, currency instability will increase the risk to global supply chains, encouraging manufacturers to align the location of their

production and procurement with their geographic markets. Second, in the long term the relative attractiveness of the Far East as a source of supply will diminish.

IT: More Progress to Come

Freight transportation is as much about managing information as it is about managing the flow of goods. The explosion of IT since the 1980s has improved productivity. For example, IT facilitated the development of entire new industries, such as express integrators, increased the reliability of less-than-truckload (LTL) and less-than-container-load (LCL) flows, and streamlined customs clearance despite new rules following the 9/11 attacks.

Further progress will be achieved in this area since few companies have capitalized on the full potential of IT. For example, rather than integrating day-to-day demand and network utilization information, both routing and pricing decisions are still driven more by the way the organizations are structured than by what would be optimal for the company. A few transportation companies are able chase volumes to fill their network best, rather than adjust their network to more or less randomly gained volumes. These companies identify excess—and therefore inexpensive—capacity on competitors' networks and use these competitors as subcontractors. There are four imperatives for doing this:

- Capture up-to-date demand information from the sales force
- Gain real-time visibility of lane utilization
- Employ tools that can integrate demand and lane utilization information
- Establish a central network organization that can overrule local teams on important day-to-day operational decisions.

In another illustration of IT developments, what SAP has made possible within companies—

allowing a consistent set of data on goods and people—is now being extended to trading partners. For example, Wal-Mart can now access Procter & Gamble factories to change the mix of shampoo types needed according to demand forecasts. This IT development will have deep implications for logistics services suppliers.

Outsourcing: Profitable Growth?

The 1980s witnessed the explosion of outsourcing. Activities long handled in-house, such as IT, manufacturing, design and facilities management, were handed off to focused service providers. Transportation was among the first industries to benefit from the trend, particularly in logistics and distribution.

Outsourcing spurred the development of the contract logistics industry, which many believed had virtually unlimited growth potential. That may or may not be true, but the true challenge of contract logistics has been to turn it into profitable growth, given low barriers to entry, intense competition and the lack of scalability.

The Benefits of Market-Oriented Politics

As is often said, poor labor relations at French ports turned Antwerp, Belgium, into France's largest port. The freight industry doesn't like unanticipated disruptions, and carriers vote with their feet. On that front, the last two decades have brought great stability both within countries and among former rivals. In particular, the return of market economies to most of Asia and Eastern Europe, spurred by the mechanization of transport operations (leading to less need for labor) and general steadiness in labor relations has greatly benefited international freight.

The current crisis is still young, and it has not yet led to the self-defeating practices of the 1970s. By and large, there appears to be a relative

consensus that labor relations must be managed by all parties in a way that doesn't kill the goose. However, this is an area to keep an eye on. Should the economic situation deteriorate further, regular disruptions at critical steps of the value chain could lead manufacturers and retailers to rethink the way they are doing business.

Other geopolitical concerns need close monitoring. Blocked access to the Suez Canal would have deep implications on worldwide trade conditions. Piracy is also on the rise, not just in the Horn of Africa but also in Southeast Asia.

Say Goodbye to Low Transportation Costs

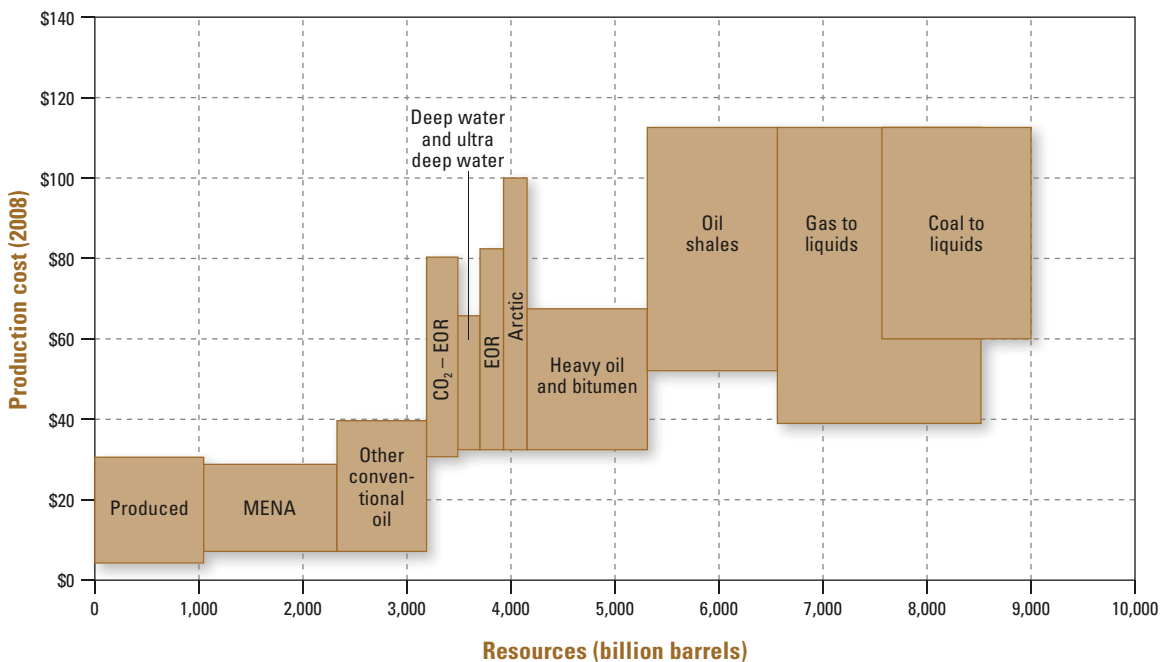
Over the past two decades, fuel costs have remained relatively low, accounting for between

10 and 30 percent of operating costs, depending on transportation modes. When oil prices began their sharp rise in 2007, the freight industry woke up to a new reality. Petroleum's supply curve, reflecting the end of cheap oil and its replacement by expensive sources, such as deep-sea exploration and tar sands, suggests a medium-term equilibrium price of around \$70 to \$80 per barrel (see figure 3). Of course, excessive speculation and political disruptions in sensitive countries or along critical shipping lanes could lead to spikes well above that level.

In addition, the Obama administration's commitment to eradicate global warming may give full global momentum to the carbon-trading mechanisms described in the Kyoto Protocol. The

Figure 3

The equilibrium price of oil is estimated at \$70-\$80 a barrel



Sources: A.T. Kearney analysis; AEA 2008; York Aviation

European Union (EU) has expressed hope that its emissions trading scheme (ETS) after 2012 will include all greenhouse gases and all sectors, including aviation and maritime transport.¹ Although polluting rights were initially given to companies for free, the EU may auction up to 60 percent of the next allocations. It is a safe bet that the value of a ton of carbon will rise substantially. Once the current excess capacity is absorbed, the combination of higher fuel costs and carbon permits will have a substantial impact on carriers' operating costs. Assuming a global application of carbon permits, we estimate that at \$70 per barrel of oil and \$42 per ton of carbon fully auctioned, air and ocean carrier costs would rise by 6 percent and 4 percent, respectively. At \$100 per barrel and \$70 a ton, those costs would rise by 14 percent and 6 percent, respectively.

Deregulation Nears the Endgame

Deregulation of the transportation industry began with the 1980 Staggers Act in the United States, which led to the revival of the U.S. railroads. This was soon followed by deregulation of the aviation, road and maritime industries in the United States. In Europe, the creation of the single market led to a defragmentation of these same industries. At the same time a wave of privatization, starting in the United Kingdom and spreading to the rest of Europe and Asia, led to deep restructuring and improved efficiency among airlines, ports, airports and to a smaller extent railways. These productivity gains have substantially transformed the transportation industry.

Looking forward, there is still progress to be made, particularly in aviation (with "open skies" regulations), European rail and some emerging countries, but the major advances are mostly

behind us. While pessimists may argue that we are entering an era in which more interventionist governments will turn back the clock, there seems to be recognition across the political spectrum that the gains of deregulation were positive and should not be discarded in the name of political expediency. Future regulation will likely focus on sustainability more than industry structure.

Industry Consolidation

Structurally, the main trend in the freight industry has been horizontal integration, namely mergers and acquisitions among competitors and overlapping or complementary networks. In container shipping, for example, Maersk acquired rivals Sealand, P&O Nedlloyd and Safmarine. Other deals include CMA's purchase of CGM and NOL's acquisition of APL. In 2000, the top eight container shipping lines accounted for 37 percent of global capacity. Today that number is 54 percent.

Consolidation also resulted in the formation of global container port companies, in particular Dubai Ports (which includes the acquisition of P&O Ports), PSA and Hutchison Port Holdings. In air, the trend is still hampered by bilateral regulations, but that has not stopped the merger of Air France and KLM, the acquisition of smaller carriers by Lufthansa, the long merger discussions between British Airways and Iberia, and interest from Middle Eastern carriers in European ones. Global airport groups have also been formed.

In parcels, DHL has built its European road network, as has TNT. The GeoPost group was formed from various DPD franchises. In rail, the number of Class I railroads in the United States has consolidated into just five. In Europe, Deutsche Bahn Cargo has acquired the incumbent cargo railways in Denmark, the Netherlands

¹ The EU's ETS issues "polluting permits" to industrial emitters of carbon dioxide. These permits can be traded among companies with excess credits and those short of credits, creating an incentive to reduce carbon dioxide emissions.

and the United Kingdom, and other rail freight operators in Spain, Switzerland and Italy.

The freight forwarding industry, although still fragmented, is now dominated by a few giant operators led by DHL, Schenker, Kühne & Nagel, Panalpina, Expeditors and a few others.

Vertical integration, upstream or downstream into other components of the same value chain, has occurred but not as often as horizontal integration. For example, some ocean carriers increased their “retail” capabilities by reducing their reliance on forwarders and offering a door-to-door product. They integrated into port terminal operations and inland road and rail transport. Others, mostly air carriers, have tried to emulate integrators by creating different classes of products and forming partnerships with forwarders. However, carrier and forwarder fragmentation has made it difficult to offer truly “integrated” products, particularly on the air side. Different information systems, multiple networks and the fear of alienating other partners have proven to be substantial hurdles.

“One-stop-shop” integration—offering a broad range of more or less related services—went through a new wave after the dismantling of the P&O and Nedlloyd transport conglomerates. However, synergies proved too elusive for a number of these groups, and the jury is still out for others. In most cases, there is little overlap between traditional freight forwarder volumes and rail cargo (except in North America, where intermodal freight is big business), and between project-based contract logistics and freight forwarder activities.

Infrastructure: A Mixed Bag

Of the factors that supported the growth of global trade in the last 20 years, only infrastructure has been a mixed bag. Countries invested huge amounts to improve their infrastructures, particularly in

emerging economies, but increasing traffic on roads, railways, at ports and in airports led to congestion—often to a choking point.

As governments intervene to stem the global financial crisis, many of their efforts and earmarks are focused on improving transportation infrastructures, in both emerging and developed markets. Although there are few details on where the money will be spent, it appears that the focus will be on line-haul infrastructure, such as high-speed rail. What does not seem to be addressed is intra-city infrastructure, which raises questions about the ongoing development of intra-city deliveries.

How Will the Industry Play Out?

With an understanding of the factors that led to the growth of global trade in the last 20 years, there are larger questions about the future of the industry.

What will be the size and structure of demand?

Slower GDP growth rates and a smaller global trade multiplier could easily cut international freight growth in half. Just as important, the structure of demand could change, particularly in terms of flows, freight imbalances and modal choices.

Many of the factors discussed earlier point to some level of repatriation of parts of the supply chain, or at least their relocation to nearer geographies. This may lead to a welcome rebalancing of intercontinental flows, relative to the days when the largest containerized U.S. export to Asia was wastepaper. Improved capacity utilization will take the current excess supply longer to absorb at first, but will eventually help to offset higher energy and carbon emission costs.

New or emerging flows will probably grow faster than the traditional east-west routes. If improved political stability in Africa can be sustained and economic growth in the Maghreb can continue, the rush for raw materials from

sub-Saharan countries and growing consumer markets in North Africa may lead to international trade growth. Another important change would be the opening of Arctic shipping routes for business in the next decade, thanks to climate change and new shipping technology. This would help to resolve the limitations of the Suez and Panama canals and drastically cut transit times. For example, the Rotterdam-Yokohama route would take 15 days through the Arctic, down from 29 days around the Cape of Good Hope and 22 days through the Suez Canal. This would free up substantial capacity and might mitigate the impact of increasing fuel and carbon costs.

In terms of modal choices, the past 20 years were characterized by a focus on speed. However, just-in-time delivery was intended to be about reliability, not speed. The express integrators helped create this trend and benefited from it, as only they could provide the necessary reliability and visibility. Speed became a key requirement on its own, both within and between continents. Longer supply chains justified it for many types of freight, including perishables, last-minute replenishments and products that become obsolete rapidly, such as fashion, some pharmaceutical products and consumer electronics. On the other hand, other types of high-value freight used air as much for “instant gratification” as out of necessity.

In the United States, deferred road became the hot segment of express in the late 1990s, as shippers realized that slower modes had made major improvements in reliability. The same shift is now occurring in Europe, helped by rising fuel prices and shippers’ emerging sensitivity to their carbon footprint. The trend toward slower modes started before the crisis and is likely to continue after.

This will not be limited to traditional modes. While not new, sea-air provides an intermediary transit time and cost solution. It has already devel-

oped in Dubai to Europe and many landlocked African countries, and also in California to South America. FastShip developed a high-speed container ship that is intended to cut costs by 70 percent relative to air and reduce transit times by 50 percent compared to traditional container vessels.

And in a tribute to the late Ferdinand von Zeppelin, large freight-moving airships have been on the drawing board for some time.

How will the industry consolidate? Will further consolidation be horizontal or vertical? Or should we expect dis-integration? Could new entrants emerge from untraditional quarters?

Horizontal integration. Many segments are still fragmented, including international freight forwarders and air carriers and, in emerging economies, other segments as well. Capacity-driven consolidation will come first. Without a substantial rationalization, excess capacity, particularly in shipping and air, will take many years to be absorbed. The expected economic rebound late this year or next year will help, but if the recovery is slow, as many anticipate, and with a smaller “multiplier,” international trade might take another five or more years to get back to 2006 levels. Still more time could pass until the large outstanding capacity backlog is absorbed. The suffering will not go away quickly.

In container shipping, where the new capacity backlog amounts to 25 percent of the existing fleet, consolidation is probable. This would move the industry center to Asia, following the historical pattern that saw control of the great commercial fleets shift to the leading trading countries, first the Netherlands, then the United Kingdom, later on the United States. In air, the necessary excess capacity reduction highlights the need for progress in open skies.

This talk of consolidation begs a question. Were the old national transportation monopolies

dismantled just to be replaced by regional or global monopolies? Thankfully, it does not appear so. Despite the onset of true global giants, most segments remain fiercely competitive, with an adequate number of large, powerful competitors. European rail is the only potential area for concern in commodities segments that have little modal choice. Assuming antitrust authorities and customers stay alert, the former by scrutinizing deals

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and the latter by refusing to let any provider dominate their freight, further horizontal consolidation will not lead to the creation of new monopolies.

Vertical integration. The success of the integrators has spurred carriers to emulate their reliability and visibility. As carriers and forwarders continue to evolve into fewer global giants, will we see new types of “integrators,” created by the merger of a large global air carrier and a leading freight forwarder? Theoretically, the last barriers toward that endgame are open skies agreements, without which traditional airlines cannot merge into true global networks. In practice, the critical obstacle of consolidation will be the combination of different cultures—the traditional enemy of any M&A.

Vertical integration is also likely in parcels as the business-to-consumer segment continues to grow. Postal organizations, integrators and parcels companies have long discussed different collaborations, yet mail and parcels operations are still mostly separate. Pick-up is radically different, sorting systems don’t match and the mailman can’t always double as a parcels distributor. This could change as business-to-consumer parcels stays on the rise, mail continues its decline, and new entrants capture low-service mail. In an interesting turn of events, could the parcels distributor double as an occasional mailman, rather than the other way around? In the meantime, the last mile will continue to complicate the job. Home or neighbor delivery, office delivery, reliance on post offices or third-party networks (including retail chains and gas stations) and 24/7 locker points are some of the alternatives.

Disintegration. At the other extreme, service integration may not require corporate consolidation at all. After all, mergers rarely deliver their expected benefits—either because cultures clash, service suffers, effective talent to manage complex companies is scarce, or customers rebalance their supplier portfolios to avoid market dominance, among other reasons. Complexity is often overlooked in mergers, and in transportation, complexity is bad. With truly open IT systems in a “cloud” environment, could effective integrated services finally be provided by independent, focused, nimble partners down the value chain?

Could we actually see disintegration, as industry participants suffer and flexibility becomes favored again? Potential candidates include some

of the large multi-business transportation and logistics groups built up over the last two decades, or international players failing to profit from the domestic businesses they acquired and will retrench to their core international strengths.

New entrants. In the current, and probably lengthy, climate of excess capacity and low asset prices, could opportunistic entrants surface from outside the transportation industry? In particular, keep an eye on well-capitalized companies that control substantial amounts of freight, including giant retailers (such as Wal-Mart), Asian governments or large freight forwarders. By acquiring fleets of container ships or freighter aircraft at a steep discount, these firms would ensure a low-cost advantage well into the future. Ireland-based Ryanair did this in the passenger business after 9/11, when it secured new, efficient aircraft at a time when aircraft builders were desperate for buyers. Excess capacity can be a great opportunity if others have to deal with it.

Sustainability: a necessary evil or an opportunity? The transportation industry is viewed, fairly or not, as a major contributor to carbon dioxide emissions, congestion, and noise pollution. As such, it has a major role to play in sustainability. Industry participants can go along grudgingly, or take the lead in addressing these issues. It's not just about winning the hearts and minds of customers and regulators—it could mean getting a head start on the competition. Adopting new sources of energy for road transport is a good start, but more fundamental changes are likely, namely in new or improved modes.

For example, rail has a role to play in reducing congestion and pollution. In North America, rail has been in revival mode for many years, and in Asia and Africa, railroads are being enthusiastically built or rebuilt. In Europe, the situation has always been more complex due to mixed passen-

ger-freight railways (where freight typically gets second priority), state ownership, varying national standards, and, for non-bulk commodities, transshipment costs (that is, the need for trucks to collect, deliver or do both).

In express, high-speed rail freight is under consideration as an alternative to night flights. However, today few high-speed connections exceed a few hundred kilometers, so high-speed rail would compete with road rather than air. Given the likely cost of high-speed rail freight, very few opportunities will exist until the high-speed rail network is more fully developed (2020 or beyond). For traditional rail freight, the concentration of much of the European economic activity on a relatively small territory (for instance, the “banana” spreading from the United Kingdom southeast to northern Italy) deprives rail of its natural advantage over long distances.

However most industry participants agree that road congestion cannot worsen indefinitely, especially if fuel costs and road regulations continue to increase as expected. This will improve rail's relative competitiveness, but will not be enough. Competition since the 2003 liberalization of rail freight in Europe has brought in new entrants that have put substantial pressure on incumbents. Intermodal efficiency, led by railways, shipping lines, freight forwarders, port operators and intermodal companies, is critical. As for the availability of infrastructure, the construction of high-speed dedicated passenger lines will continue to release capacity for freight, meaning that major investments will be limited to urban bottlenecks. Now is not the time to give up on rail freight.

In addition, the shift to slower modes is neither new nor likely to end. Inland container barges are popular again in northwestern Europe, the shift from air to road is taking place in express, and the growth of intercontinental air freight has

slowed relative to container shipping. For those who best manage to continue to increase reliability of the slower modes, including, again, rail, substantial opportunities will exist.

Finally, new models may also emerge. The Dutch, never last to innovate in the transportation industry, have toyed with the idea of using urban tramways for intra-city delivery. Whether it works or not, new models in local delivery will undoubtedly be required to reduce bottlenecks.

Now Is the Time to Rethink

If, as this paper suggests, the future will no longer be made of “more of everything,” but rather will be composed of substantial shifts in demand and industry structure, repositioning the industry will take substantial time and effort. Formulating and implementing new business models will require

identifying likely scenarios and monitoring their development, entering or exiting activities or markets, redesigning products, capitalizing on new IT developments, restructuring networks, structuring organizations to reflect the most appropriate network decision-making level, adjusting the asset base and ensuring the availability and development of human talent.

The challenge will be to adjust to the present conditions—without knowing how long they will last—while developing a long-term view of what will happen, when it will happen and how it will affect business. Then, last but not least, companies need to plan gradual adjustments to strategy, organization and operations as the future becomes clearer, as some developments materialize sooner, others come later, and some don't arrive at all.

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