“Freight Lane Security in the Supply Chain”

Affiliates in Logistics Program
Supply Chain Education Partners Program

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• Agenda
• Purpose of meeting
• Housekeeping
• Rules of engagement
Transportation, Logistics & SCM @ MIT

Transp/Logi/SCM work done in 3 of 5 schools

- School of Engineering
- Sloan School of Management
- School of Architecture and Planning

And in numerous Centers & Programs

- Center for Transportation and Logistics (CTL) serves as the locus for Transportation, Logistics, SCM outreach consortiums and research at MIT
  - Integrated Supply Chain Management (ISCM) Program
  - Affiliates Program In Logistics (APL)
  - Supply Chain Education Partners Program
  - Executive Education – Logistics & SCM
CTL Role & Means

• Create value in society through improvements in transportation and logistics practice
• Means for achieving the mission
  • Education
  • Research
  • External Interaction
• Interaction with Industry
  • Consortia
  • Individually-sponsored
Supply Chain External Interaction

- Supply Chain Education Partners
  - New initiative focused on integrating companies with our educational programs

- Affiliates Program In Logistics (APL)
  - Symposia series covering logistics, transportation, SCM for manufacturers, carriers, 3PL providers together to identify frontier of critical issues

- Integrated Supply Chain Mgt (ISCM) Program
  - Collaborative research program to support accelerating implementation of SCM & advance state-of-art of SCM
  - Design
    - Research & Collaborative Exchange Among Sponsors
    - Activities (research, events) chosen by ISCM Sponsors
Current Initiatives (Examples)

- Supply chain visualization
- Network Master – Strategic Supply Network
- Intelligent Transportation Systems
- Urban and Regional Transportation
- Rail, Trucking, Air Transportation
- Transportation and Logistics Computer Systems
- Logistics and Network Analysis
- Supply Chain Management Contracting
- e-Commerce
- Revenue Management
- Motor Vehicles’ Technology
- Risk Management
- Age Lab
Motivation

• Why we are here …..
  • Recent observed (anecdotal) increase in freight losses
  • Firms responding to terrorism raises security issues
    • Call for a secure and resilient supply network, but resilience is not the same as security
    • Lots of discussion on supply network security
      • Government setting new policies
      • Industry attempting to comply with new policies
  • Security is a network problem
    • Requires shippers and carriers to be aligned and coordinated
    • Only as secure as your weakest link (e.g. Pan Am 103/Malta Air)
  • To start the discussion among shippers and carriers
    • Increased interdependence on government but we are starting first with shippers and carriers to identify the issues and hopefully create some new alignment
    • Follow up with government agencies possible…?
Agenda

• Morning
  • Surface shippers, carriers, agents issues and approaches in dealing with security
  • Will solicit broad input from the participants

• Afternoon
  • ‘Workshop’ discussions intended to focus on several topics in particular
  • Open discussion format, again will solicit input from the participants to capture a balanced view
  • Agenda

• Flexible schedule as possible to encourage discussion when we’re on a roll
Rules of Engagement

- We are here to learn & create a new collective wisdom
  - Encourage active participation from all the parties as we need representation from all groups (shippers, carriers, agents, operators)
  - Sessions designed to avoid ‘selling’ environment
    - Acting as an ‘honest broker’ among parties
  - Value each other’s contributions, but do offer different perspectives
  - Recognize that there is benefit in coordination and exchange among parties from across industries
  - Not an environment to advocate services or specific products
  - Stay on topic, lets use our time wisely
Balancing & Focusing

• After a rich discussion at dinner, we realized...
  • We need 5 days of marathon talks to do it all!
  • So to be successful we must focus our discussion

• Some related topics to be discussed in other venues
  • C-TPAT, CSI, & other government initiatives
  • Diverting product, Counterfeit product
  • Technology debates
  • Futility of efforts to defeat the pro

• On the table for discussion
  • Freight lane security
  • Improving system security performance
  • Practices and processes that improve performance
  • Ways to stay one step ahead of the pro
Context Introduction

- Observed disconnects
  - Shippers and carriers not working together
  - Government regulations not always constructive
    - Need for an industry voice
    - Proliferation of governing bodies setting rules
  - Focus on security & theft... but what do we mean by that?
    - Not resilience!
    - Several dimensions of each
Dimensions of Cargo Security & Implications

- Three components
  - Theft
  - Contraband
  - Terrorism
- Many implications
  - Evolution over time
  - Organizational ties
  - Varied risks to shippers and carriers
  - Combinatorial benefits

Source: M. Wolfe, NorthRiver
Theft

• The oldest security issue
  • Containerization reduced pilferage.
  • However, high value container load lots combined with organized crime, internal conspiracies, and low risk of punishment to increase theft losses

• Shipper and carrier risks are primarily direct losses and insurance premiums

• Traditional focus of the NCSC

Source: M. Wolfe, NorthRiver
Contraband

• An old and evolving issue
  • Fraud to evade Customs duties and taxes
  • Smuggling drugs, weapons, cash, antiquities, etc.
  • Gray market and black market brand infringement and IPR abuse
• Risks of fines, penalties, & brand impairment
• Traditional organizational foci
  • Customs’ Carrier Initiative Program (CIP)
  • World Business Anti-Smuggling Coalition (World BASC)

Source: M. Wolfe, NorthRiver
Terrorism

- Emerged from the shadows as an issue
  - Not new—but new meaning and importance
  - WMD, “incidental” explosives, terrorists
- Risks
  - Catastrophic events
  - Catastrophic economic impacts (which I will address in my brief)
  - Brand impairment
- Major organizational focus is C-TPAT

Source: M. Wolfe, NorthRiver
Combinatorial Benefits

- Improving security need not be a zero-sum game
  - Certainly not across theft, contraband, and terrorism
  - If done well, not between security and profitability either

Source: M. Wolfe, NorthRiver
Issues for Discussion Today

- Current Practices to make the system secure
  - Shippers
  - Carriers
  - Agents, Other parties
- Standards of Care
- Measures
- Investigation and Follow Up
- A Collaborative Response?
Issues and Themes Surfaced Today

- Strategic overview, tactical practices
- Coordination required
  - Industry and government
  - Shippers and carriers
  - Security and logistics personnel
- Coordinating Industry and Government
  - Name brand (leverage) shippers need to lead
  - Need to keep the pressure on, involve all the parties (shippers, carriers, agents, insurers)
  - Need to educate politicians, leaders about what it takes to move product
    - Go ahead and call your congressman/congresswoman!
Issues and Themes Surfaced Today

- Coordinating Shippers, Carriers, Agents, Insurers
  - Have you talked with your carriers/shippers about freight lane security (theft)?
  - Standards of care
    - Involve the other party, start with needs rather than dictating processes/subcontractors
- Who is the thief?
  - Is it the pro, the amateur… or your supplier?
- Do you know your real losses to theft?
  - Claims useful but not comprehensive
  - Measure warehouse losses, transportation losses, relevant customer deductions
  - Losses exist outside custody of shipper
  - Total cost of loss is 5X+ the claim…
Issues and Themes Surfaced Today

- Some progressive practices
  - Involving insurance company in risk assessment (Pfizer)
    - Measure and track all losses for early problem identification as well as losses below the traditional ‘radar’ level
  - Methodical and analytical benchmarking (Gillette)
    - Chartered by SVP VC, informal cross-functional group
    - Process management, management approach, driving improvements, collaboration
  - Socializing security (H-P)
    - Creating a security culture
    - Informally integrating security and logistics
      - In setting standards of care for 3PLs (Gillette)
      - In investigation and creating systems improvements (Pfizer)
    - Formally integrating security and logistics
      - Created Security Team as part of Global Logistics Team
    - Virtual training for trade, security, logistics (H-P)
Issues and Themes Surfaced Today

• Some progressive practices
  • Ownership, Partnership, Audit (to maintain, prevent backsliding) (Peter Scrobe)
  • Assessing risk
    • Consider lane, potential to use leverage, willingness of authorities to assist, change in the economy, local level of corruption
    • Involve insurer in assessment
  • Progressive sting operations
    • Sting trailers (Target)
    • Highly organized, multi-jurisdictional coordinated approach, contingency planning to apply to sting (H-P, Pinkerton, Cargo Cats)
    • Mettle to risk a loss and stay the course….
Issues

• Issues
  • We agree that we (shippers and carriers and agents) need to coordinate…. but we haven’t all started yet
  • No single answer or approach that works
  • Many different groups convened to deal with the issues
  • Management 101 required
    • Not rocket science, but a basic approach is to involve other party
    • People are the source of performance, a double-edged sword
      • High performance – socialized awareness
      • Low performance – not hiring angels to drive the trucks
    • The risk is on the road, not in the warehouse
Issues

- Issues very different in different regions
  - May require different approaches to different environments
    - IMO, Euro, Non-Euro
- What are the next steps?
- The ‘bad guys’ are professionals and have expendable resources
- How can we influence the policy makers, e.g. TSA? Helping support TSA as an advocate transportation solutions?
Learnings

• Lets identify the opportunities before taking steps to bring parties together
  • Discuss with business partners back home
  • IF going forward, will need to define a specific objective, goal that differentiates the group from other groups

• Paradigm shift: Security is now a key logistics issue
  • Challenge is to identify how this fits in with the business, will require education

• Security organizations more willing to collaborate among shippers and carriers on investigation – recognize this is a network problem

• Recommend bi-lingual driver instructions