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Managing complexity

Visibility of information trumps price, logistics executive says.

By **Chris Dupin**

While Mark Laufer, chief executive officer of Laufer Group International, can wax poetic about the days when shipping companies, freight forwarders and customs brokers once thronged lower Manhattan, he hasn't let nostalgia or the exodus of much of the industry from New York get in the way of building a forward-looking logistics company.

Today, Laufer runs a firm with annual revenue of \$130 million and about 130 employees in six U.S. locations — New York, Seattle, Los Angeles, Kansas City, Boston and Atlanta. The company annually arranges shipment of more than 25,000 TEUs and 3 million to 4 million kilos of air cargo. It has become one of the 30 largest non-vessel-operating common carriers in the transpacific trade, according to PIERS data.

Laufer's company traces its roots to Laufer Shipping Co., a customs broker and forwarder started in 1948 by his father Norman and uncle Arthur, both of whom retired in 1991.

"They grew up in the era when America was primarily an export-based economy. In the 1970s that began shifting toward imports," he said.

Laufer, 51, grew up in the business, working as a messenger in the summer, and can recall when the World Trade Center (his dad's firm was among its first tenants), 1 Broadway, and Whitehall Street were all important addresses for the shipping industry.

"You could see all the messengers running back and forth with bills of lading. I liked it, my father was in the business and he was someone I looked up to," he said.

After college, weighing whether to get an MBA and go into finance, he finally decided, "I had an affinity for the business, I always liked it, and I might as well go into a business that I had the opportunity to own some day."

Rather than train with his dad, however, he went to San Francisco in 1982 and worked at F.W. Myers, which at the time was the leading U.S. customs broker, he said. He got his license, and was promoted to freight manager of Myers' Air Speed affiliate.

In 1984, he went to work for his dad, opening a West Coast office in Los Angeles. Laufer returned to New York, did an apprenticeship in each of the different areas of the business, and with the passage of the Shipping Act of 1984, the company opened an NVO division.

Laufer opened offices in Seattle, Hong Kong and Taiwan. The company developed a close relationship with large NVO Tai Hwa Group, merging offices with it in 1989-1990. In 2009, that company became publicly listed as the THL Group, and Laufer continues to own a 9 percent to 10 percent stake.

Today Laufer Group has about 500 customers. They include Trimas Industries, whose products are boat and trailer hitches; Safety Zone, a maker of gloves and personal protection products; toy company Melissa and Doug; and glassware company Anchor Hocking.

During his career, Laufer said the biggest change has been "how the level of complexity has increased to the point where more and more companies of all size levels are looking to outsource logistic functions.

"The industry as a whole has become less of an alternative to direct contracting by importer — because an importer can go and sign a direct contract with steamship lines — to us being more of an advisor and manager of logistic services," he said.

"We are not talking Wal-Mart or Kmart — they have their own ways of doing this — but even importers at the 2,000- to 5,000-container level are employing logistics companies like ourselves to manage the increasing complexity of the supply chain. I think you have seen that in the incredible growth of our industry as a whole."

Controlling Data. Laufer "realized early on that control of the data is where industry was headed. For a small company we got a very early jump on technology development."

He believes his firm can customize and adapt its software to customers' needs more effectively than bigger companies can.

"If you just look at where we came from 30 years ago, we were a bunch of disconnected mom-and-pop regional brokers and forwarders, and now we are extremely sophisticated industry that deals with very complex systems," he said. "The management of the process and the visibility of information to the customer is where the value added comes from. It is not really price-driven anymore. Price is always important, but it is not particularly price driven.

"Say you have a company that is sourcing from six different countries in Asia. In China they might have 50 different factories — from way up North to way down South, and now manufacturing is moving West ... The movement of all these goods have to be coordinated, especially given the difficulties we face with capacity issues, slow steaming, the turmoil that has existed with steamship lines," he said.

"The complexity of pulling all this together is very hard for a manufacturer to do for himself. They need information at their fingertips that tells them where their goods are, when they are arriving, what distribution centers they are arriving at, so they can inform their buyers as well as their salesmen. The salesmen need to know how much inventory they have in the pipeline, when it is arriving, and when they can make delivery. The buyers have to know how fast inventory is moving so they know how many orders to place, what the lead time is, and what the realistic shipping schedules are. It's quite complex."

While China is still the dominant exporter, Laufer said growth in sourcing from other countries in Southeast Asia such as the Philippines, Vietnam, as well as India and South America, would continue to increase the complexity of supply chains.

While much of the company is concentrated on shipments arriving from Asia, Laufer said the company has partnerships with companies around the world.

Contrarian. On some of the hot-button issues of the past two years — the sharp swings in freight rates and calls by some shippers and legislators for an end to antitrust immunity for ocean liner companies — Laufer takes what he admitted may be a contrarian view.

"I don't think antitrust immunity has any effect on the actual pricing or behavior of carriers," he said. "I think carriers essentially have a commodity-based business — their commodity is essentially space and their behavior is governed the same way any other commodity behavior is governed. When they have a lot of space they drop their prices, When there is a shortage of their commodity their prices go up.

"I think that importers need to understand how carriers work, and everybody would be a lot better off if this whole notion of partnership went out the window. Because there is no partnership, it's a commodity-based business.

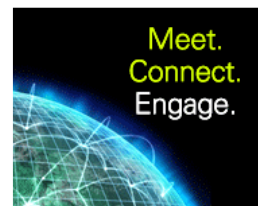
"Carriers don't collude. There is nothing carriers can do in terms of antitrust immunity that changes their



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pricing behavior. Because even if they have the ability to talk, if there is excess space on a ship, the carrier will drop their price to fill it and the others will match it," he added. "It's like seats on an airplane, if the plane is full, the discounts go away."

He also believes shippers should focus on the average of freight rates over time.

"I have customers who complain bitterly about having paid \$900 in 2008 into the West Coast and now they are \$2,900 and still can't get onto the vessel," Laufer said. "My reply to them is 'average.'

"Freight rates need to fluctuate to reflect the market and shippers need to understand how freight rates fluctuate," he said.

Export Challenges. Laufer Group also handles exports, and he said he thinks exporters will continue to face challenges.

"There is not enough revenue in exports for the carrier to make decisions based on the needs of exporters, and this will be a continuing problem." He said this is particularly true for shippers in areas where there are chronic shortages of containers.

"If the boxes are there, the exporter will have access to them. If the boxes are not there, someone will have to pay to get them there. It is a national problem — what do you do when you have grain to export but not a lot boxes?"

While Laufer believes mom-and-pop forwarders and custom brokers will fade away because they "do not have the investment base, the capital base or tools to survive," he believes there will always be a place for privately owned, mid-level logistics companies.

He also thinks there is a place for companies like his in New York. His office is located less than a block from the World Trade Center, and while Laufer was closed after the 9/11 terrorist attacks, the company was able to get its computer systems up and running within a week.

While the rise of technology has made it possible to locate forwarding and logistics companies almost anywhere, he said the savings his firm might realize by moving its offices to New Jersey, for example, "are not as great as you might think.

"It's a quality of life thing, and this is home."

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