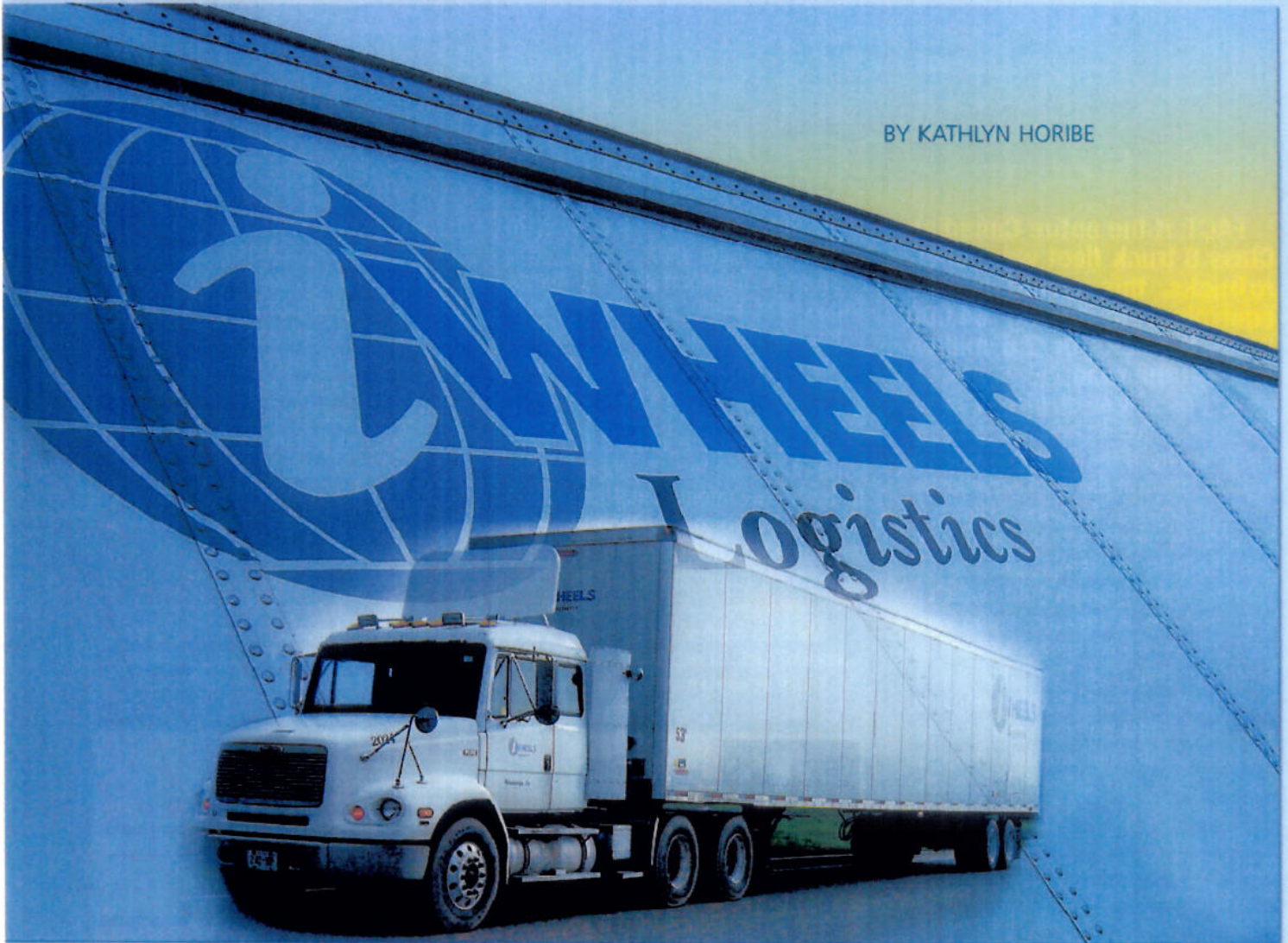


BY KATHLYN HORIBE



Photos: Wheels Group

ALL TRUCKING GOES INTERNATIONAL ROADS LEAD TO CHINA

Trucking companies are extending highways into China, an enormous strategic change for an industry traditionally operating solely on domestic routes. One company that entered the global market more than 10 years ago is the Wheels Group.

"In some respects, we were early in the game relative to China," said Jim Davidson, president of iWheels Dedicated Logistics, a division of third-party logistics provider the Wheels Group. But over the years, the company lost market share by focusing on North America rather than growing the business in China. This year, a number of fairly significant changes were made to increase offshore freight forwarding from less than 5 per cent of its revenues to 15 per cent or more.

"We hired some personnel on the ground in China," Mr. Davidson said, "and a new person to drive the initiative from this side."

The company made the investments for a number of reasons. Supply chain costs to transport manufactured products can range from 5 per cent to 15 per cent of a company's total gross revenues. When the goods originate in China, however, supply chain costs can rise as high as 50 per cent.

"Travelling to the other side of the world means the supply chain is longer, bigger, more expensive and more complex," Mr. Davidson said.

Other reasons include the soaring Canadian dollar that is trending the North American marketplace downward and the loss of approximately 300,000 jobs in the Ontario manufacturing sector six months ago. "Our business is all about moving their goods," he said.

Transporting large quantities of Ontario-manufactured products into the United States has also dried up in spite of more American products requiring transportation and warehousing from the U.S. into Ontario.

"The LTL (less-than-truckload) companies are really hurting," Mr. Davidson said. "The truckload companies somewhat less so."

Double-digit revenue growth

Last year, the company's gross revenue grew 43 per cent over the previous year. "Our budgeted revenue growth for 2007 is 65 per cent over last year's numbers – well beyond \$300 million," Mr. Davidson said.

The Wheels Group employs more than 400 drivers and 300 office staff in 10 North American cities. Other divisions include iWheels International, which focuses on the multimodal transport of consumer goods within North America by Class 1 railroads and 2,000 highway carriers. iWheels

Worldwide handles air and ocean transactions between China and Canada with inbound and outbound services to and from the Pacific Rim, Europe, South America and Mexico. iWheels Pacific's area of concentration is the Pacific Rim and the West Coast gateway.

To get a foothold in China, U.S. trucking companies are acquiring Chinese logistics firms. Menlo Worldwide, a global logistics subsidiary of LTL carrier Con-way of Ann Arbor, Mich., purchased Shanghai-based Chic Holdings for US\$60 million a week after acquiring Singapore's Cougar Express Logistics for over US\$33 million. Schneider National, a Green Bay, Wis., truckload carrier, purchased the key operating assets of BaoYun Logistics of Tianjin, China.

Cartage companies are also teaming up with shipping lines. Last year, Con-way partnered with APL to provide a less-than-containerload service from China to the United States. The venture, which is an industry first, provides "port-to-door" guaranteed service from Hong Kong, Shanghai and Shenzhen to all continental U.S. destinations served by Con-way Freight.

To manage supply chains between China and North America as well as intra-China, iWheels "looked long and hard" at establishing a joint venture with a major Chinese logistics concern, which has significant market domination in supermarkets, general merchandising, real estate, transportation, warehousing and hazardous materials.

"The Chinese tend to move slowly in the decision-making process," Mr. Davidson said. "After two-and-a-half years of too many discussions, we put the brakes on those talks."

Running parallel to those negotiations, iWheels continued to do business to and from China and North America with six agents located throughout the Asian



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President, iWheels
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country. Last year, it reduced the number of agents to one. "It just worked better for us and for the customers," he said.

Through the agent, products such as clothing, toys, furniture, sports equipment and shoes are picked up at manufacturers located in Shenzhen, Hong Kong and Shanghai and delivered to North American customers from West Coast ports. "It's a full turnkey, one-stop shop kind of service," he explained.

With most suppliers situated at the ports, the time to transport the products to dockside is minimal. "The Chinese probably have some of the best operating ports in the world, if not the best," Mr. Davidson said. Where the infrastructure becomes a challenge is when manufacturers are located inland or in northern China.

Moving offshore goods throughout North America also has its challenges. "Customs in the U.S. and Canada is certainly an issue to be dealt with," he said, as well as compliance with security requirements at North American ports. "If you know what you're doing and you're acceptably good at your job," he added, "it's certainly not a formidable task by any means."

Relationship building

When products were sourced locally, the distribution network was dramatically different than it is today, Mr. Davidson said. Going to the other side of the world requires dealing with foreign languages and currency, different modes of transportation and border crossings. There is a price to be paid for China's cheap labour and massive market potential, he added.

"The currency is patience and tolerance for overwhelming language barriers and cultural differences. In China, because of language and because of culture, the relationship is ever so more important – and

the trust that goes with it is so much greater.

"There's obviously a bigger learning curve to go through," he said, "to handle goods from China to a destination in North America than hauling them across town. My advice is partner with the experts – supply chain managers who have experience with the trade routes and the multiple modes of transportation necessary for offshore sourcing of goods."

Developments in China are forcing North American businesses to develop new models, he added, that rely heavily on the ingenuity and competitive advantage of innovative supply chain managers.

"Because of high transportation costs, it makes sense to increase the density of shipped packages by sending products broken down and nestled or by shipping products that require packaging or some assembly after they arrive at their destination," Mr. Davidson said. "Innovative supply chain management companies are offering sequencing, kitting and light sub-assembly to offshore manufacturers selling to North American markets."

In addition to China, iWheels has been doing business in Europe for the same amount of time. "Eastern Europe is growing because their labour is cheap – not as cheap as China – but cheaper than Western Europe," he said. The products imported from Eastern Europe, which he finds more attuned to the North American way of doing business, include diesel engines and construction material.

As for other Asian countries, "India and Vietnam are beyond being emerging powerhouses – they are powerhouses," he said. "The clothing and electronics coming out of Vietnam these days is just incredible."

However, the largest powerhouse continues to be China. "Our company will continue to focus on growing our business between China and North America," Mr. Davidson said. "It is the golden corridor."