

THE SOURCE


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THE BEHEMOTH THAT IS XPO

If you don't know the name Brad Jacobs now, it is very likely that you soon will. XPO Logistics CEO Jacobs has a vision and a strategy. His vision is nothing less than reshaping the international logistics landscape, and by all indications he intends to accomplish this through engineered growth and expansion of XPO's footprint in both Europe and the U.S., with a two-pronged pipeline of European and North American acquisition opportunities currently in discussion.

Jacobs and his private equity partners acquired the former Express 1—Expedited Solutions in 2011 for \$150 million. Since then he has taken the company from a \$177 million-a-year forwarding and brokerage company to a \$15 billion logistics and transportation behemoth.

Growth has been steady since 2012, but two major deals in 2015 are especially noteworthy in their potential to be transformative: the \$3.5 billion acquisition of France's Norbert Dentressangle, one of Europe's largest 3PLs and transportation companies, and the \$3 billion purchase of Con-Way, owner of the largest U.S. less-than-truckload operator after FedEx Freight and Menlo Logistics.

With the Con-Way purchase, XPO is filling in a gap in its collection of assets, crossing the T's and dotting the I's. XPO will for the first time have direct access to the equipment for which it has always brokered.

Jacobs sees the acquisition of Con-Way as a smart strategic move. "In the next few years there will be a capacity shortage," he told Wall Street analysts during a September conference call. "There is no doubt about that in my mind. When exactly that is, is up for debate. When that capacity shortage comes, he who controls assets will do very, very well."

The acquisition of Con-Way is expected to be substantially accretive to XPO's earnings in the first 12 months. XPO also expects to significantly increase its ABL (asset-based lending) capacity based on the addition of receivables from the acquisitions of Norbert Dentressangle and Con-Way.

"Our opportunistic acquisition of Con-Way will make XPO the second-largest provider of less-than-truckload transportation in North America, a \$35 billion market," said Jacobs. "LTL is a non-commoditized, high-value-add business that's used by nearly all of our customers. Con-Way is a premier platform that we will run with a fresh set of eyes as part of our broader offering. Importantly, we'll gain strategic ownership of assets that will benefit our company and our customers during periods of tight capacity.

"Another crown jewel in this transaction is Con-Way's subsidiary, Menlo Logistics, an asset-light top 30 global contract logistics provider with additional lines of business in freight brokerage and managed transportation. Menlo serves blue chip contract logistics customers in verticals such as high tech, healthcare and retail, which complement the verticals we serve at XPO."

OF INTEREST

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THE BEHEMOTH THAT IS XPO

There have been some signs already of what lies ahead for Con-Way post-acquisition. Con-Way Freight, the second-largest U.S. LTL carrier, will begin to look more like FedEx Freight, offering both premium or priority and economy services. An economy-style service, freight that Con-Way currently does not aggressively pursue, would extend the carrier's reach into the LTL market. This influx, along with more freight from European and other North American customers of XPO, should provide a much-needed boost to Con-Way's business. More LTL freight will move in trans-Atlantic distribution channels, and more multinational customers of Con-Way in North America and the former Norbert Dentressangle (now XPO Logistics) in Europe will use XPO's asset-based distribution services on both continents.

Con-Way and its subsidiaries will be re-branded as XPO Logistics. "We have to be one unified company globally," Jacobs said when asked why XPO would retire the Con-Way brand. Jacobs said that he has already received three inquiries about purchasing the truckload unit. "We don't even own it yet," he said, although he also said that as a public company, XPO will review and evaluate offers, even if selling Con-Way Truckload isn't high on his list at this time.



XPO's position in the highly desirable e-commerce sector, which is projected to grow at a pace of 18% to 21% annual-

ly, will be strengthened by the acquisition. XPO and Con-Way both have e-fulfillment contract logistics platforms in North America and Europe.



XPO's network of brokered, owned and contracted capacity will have lane density covering approximately 99% of all postal codes in the U.S., as well as the regions that produce 90% of the Eurozone's GDP. The addition of Con-Way's truckload fleet, including dedicated carriage, will increase cross-border Mexico services, which include intermodal, truck brokerage and expedite. Cross-border growth is projected to outperform industry growth due to the near-shoring of manufacturing.

Vision and strategy. While its pace of acquisitions will slow over the next few years, XPO isn't done yet; it will eventually return to acquisitions when the integration process is completed. And when XPO has reached its maximum benefit from consolidation, what then? Bloomberg believes that Jacobs is far from stopping, and that XPO won't be the last company he will build.

"Definitely not!" he said, adding "I like doing deals."

SOURCE: Con-Way press release—9/9/15; Journal of Commerce coverage—10/9/15 through 10/23/15.; Bloomberg News—7/30/14.

INDUSTRY AND REGULATORS HELP TO PROTECT WHALES

Blue, humpback, and fin whales are endangered species, protected by the Endangered Species Act, the Marine Mammal Protection Act, and the National Marine Sanctuaries Act. Every year about 200 blue whales make their way to the Santa Barbara Channel and spend 4 to 6 months feeding on krill, which commonly congregate beneath shipping lanes.

One of the biggest dangers to blue whales has been ship strike. These slow-moving whales are vulnerable as their feeding and migration area overlapped with shipping lanes. Their plight has brought industry into collaboration with scientists and regulators to solve the problem of possible extinction of these mammals. A 15-year tagging and tracking project highlighted their patterns and assisted in the redrawing of shipping lanes to help protect them. The IMO shifted lanes on the approaches to San Francisco Bay, Santa Barbara Chan-

nel, and the ports of Long Beach and Los Angeles.

Speed reductions were also implemented, giving rise to two benefits: first, emissions were lowered by as much as 50%, and second, the reduced speed has given slow whales time to react to oncoming vessels and take evasive action.

A phone app was also developed for iPhone and iPad for use by crew members, essentially making them whale spotters. This aids officials in reporting the presence of whales to other vessels in those areas.

The lane adjustments are voluntary, but it appears as though most vessel operators are complying with the new approach to the ports, leading to optimism that the result of the adjustments will be a sharp decrease in ship strikes.



SOURCE: Steamship Mutual—October, 2015.

PREPARING FOR THE NEW CONTAINER WEIGHT RULES

In November, 2014, the International Maritime Organization (IMO) adopted mandatory amendments to the International Convention for the Safety of Life at Sea (SOLAS) Chapter VI, Part A, Regulation 2—Cargo information. These amendments become effective on July 1, 2016, for packed containers received for transportation (gate-in or off-rail). They place a requirement on the shipper of a packed container, regardless of who packed the container, to verify and provide the container's gross verified weight to the ocean carrier and port terminal representative prior to it being loaded onto a ship, making said verified container weight a condition for loading. The vessel operator and the terminal operator are required to use verified container weights in vessel stowage plans and are prohibited from loading a packed container aboard a vessel for export if the container is not presented with a verified container weight.

The SOLAS convention is applicable global law.

What is the risk for shippers of not complying with the new regulation on verification? At the very least, the risk is that the container will be turned away from the terminal and not shipped. If a container is presented to a terminal without documentation, the terminal will do one of two things, according to The Journal of Commerce: it will either refuse to accept the container, or it will take it and try to stow it somewhere. If the latter, then the shipper could be in for additional charges as moving the container around and storing it is both time-consuming and costly for the terminal.

The risk to carriers is potentially even greater, as they can have fines or sanctions levied against them for breaking the

rule, and in some cases may face jail time.

With the various commercial arrangements coming into play, it may seem confusing as to who the shipper actually is, but there is a clear definition that will probably be used as the basis, and that is that the shipper is a legal entity or person named on the bill of lading or transport document, like a sea-way bill. The person or entity who enters into the contract of carriage with the ship owner whose name appears on the bill of lading or the transport document will be treated as the shipper and will be legally responsible for the declaration of the verified gross mass of the loaded container.

The regulation provides for two methods to verify the gross weight of a container: (1) weighing the packed container using calibrated and certified equipment, which can be done at any location freely chosen by the shipper; and (2) weighing all packages and cargo items, including pallets, dunnage and other securing material to be packed in the container, and adding the tare weight to the sum of the single weights, using a certified method approved by the competent authority of the State in which packing of the container was completed, and in accordance with the uniform industry guidance for implementing this method.

Shippers should be making any necessary preparations now in order to be ready on July 1, 2016. The World Shipping Council has published a helpful set of guidelines, which you can [read at this link](#).

SOURCE: World Shipping Council publication; Journal of Commerce "What shippers need to know about new container weight rules"; Global Shippers Forum "Industry Guidance for the Implementation..."

QUIT LIKE A CHAMPION

November 19 is the 2015 date of the American Cancer Society's annual [Great American Smokeout](#). By quitting even for a day you will be taking an important step toward a healthier life. Consider:

- **20 minutes after quitting** your heart rate and blood pressure drop.
- **12 hours after quitting** the carbon monoxide level in your blood drops to normal.
- **2 weeks to 3 months after quitting** your circulation improves and your lung function increases.
- **1 to 9 months after quitting** coughing and shortness of breath decrease and cilia in the lungs start to regain normal function, increasing the ability to handle mucus, clean the lungs, and reduce risk of infection.
- **1 year after quitting** the excess risk of coronary heart disease is half that of a continuing smoker.
- **5 years after quitting** risk of mouth, throat, esophageal, and bladder cancers are cut in half. Risk of cervical cancer falls to that of a non-smoker. Risk of stroke can fall to that of a non-smoker after 2-5 years.
- **10 years after quitting** the risk of dying from lung cancer is about half that of a continuing smoker, and the risk of cancer of the larynx and pancreas decreases.
- **15 years after quitting** the risk of coronary heart disease is that of a non-smoker.

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TRIVIA

1. Which U.S. president made Thanksgiving a national holiday—George Washington, James Madison, Abraham Lincoln, or Zachary Taylor?
2. In Great Britain, November 5 is celebrated with fireworks and bonfires. What are they celebrating?
3. We've all experienced it—the inability to remember the correct word. It's right there on the tip of the tongue, but it eludes us. It turns out that there is actually a word for that; do you know what it is?
4. In 1987, American Airlines was able to save \$40,000 by eliminating what?

[Click here for answers to Trivia questions.](#)