Penske looks on the bright side

Penske Logistics sees the traffic light about to turn green for economic recovery in the US. **Tony Danby** looks at how the company's logistics operations plans to secure 8-10% annual growth in the coming years

Although the US auto market has been dashed against the rocks in the last year, the economic climate appears to be improving, according to Vince Hartnett, Jr., president of Penske Logistics. "We're seeing a yellow light and we need to be positioned for green in the fourth quarter," says Hartnett.

Penske Logistics, a subsidiary of Penske Truck Leasing, which is a joint venture between General Electric and the group started by former racing car driver Roger Penske, has felt the pain of the stuttering US auto sector. The bankruptcies of General Motors and Chrysler in particular led to a wave of job losses and belt tightening across the automotive industry in North America.

Indeed, Penske Logistics suffered as the automotive sector ground to a halt. The recession led to Penske, which has some 19,000 associates worldwide with nearly 10,000 working in logistics, to "furlough" employees – a temporary redundancy – as GM closed plants and shed workers. It became more economic to put some Penske employees on paid leave than have them sitting around doing nothing, recalls Hartnett.

Penske also had permanent redundancies but furloughs were more common for the automotive logistics business.

The bankruptcy of GM and Chrysler, along with Ford's plant closures, also led to major readjustments and the disappearance of smaller suppliers. This meant that Penske had to react nimbly to secure vital alternative parts needed for vehicles, while ensuring costs remained stable. "We worked together to get through these tough times – but now the worst seems to be over," says Hartnett.

Penske Logistics, which provides lead logistics services for around 70 manufacturing sites in 16 countries, has – like many of its peers – been hit hard by the economic downturn. Penske has seen 10-15% knocked off its annual revenues of around $3 billion. As a result, the company should reach $2.6-$2.7 billion at the end of 2009.

Economic "up tick"

According to Hartnett, US manufacturing seems to be seeing "an up tick." Negative trends are slowing and some carmakers have shown stronger sales. This reverses the blanket of bad news in the first quarter of 2009 and now brings signs that American economy will emerge from the recession, he says.

The fourth quarter should see growth and a recovery should take place in 2010. Next year will be a good year, he predicts.

Moreover, Hartnett believes that Penske will claw back lost revenues as the US economy recovers. The company hopes to secure sales 5-10% higher worldwide in 2010 compared to 2009. Indeed, Penske is more optimistic than some economists: it expects its total logistics operations – across all verticals – to average 8-10% for the next five years as the downturn subsides and the automotive sector accelerates.

Even after the pain of the downturn, however, Penske doesn't intend to abandon the automotive sector. The company – with its roots in the auto heartland – provides a wide range of contract logistics services for the likes of Ford, BMW, Chrysler, Jaguar, Volvo, GM and Navistar, as well as suppliers like Eaton, Delphi, Visteon and Alison Transmission.

Indeed, Hartnett explains that automotive offers sophisticated, complex contracts that other sectors can't rival. With an enormous logistics skill set needed, it's the largest single market and the most challenging, he emphasises.

According to Joe Gallick, senior vice president of sales, the LSP has 85 clients that account for the lion's share of its revenues. All of them are strategic and Penske aims for long-term growth, Gallick stresses. The company doesn't want to add more than five or six new customers a year, he adds.

Gallick says that Penske has some muscle to support its growth plans. It can tap General Electric's financial muscle to open doors anywhere in the world, while Penske Corporation provides entrepreneurial drive. "We have put out money in the auto industry – we believe in it," Gallick says.

Forging ahead with Ford

Of Penske's broad automotive client base, the LSP has a long relationship with Ford. Penske Logistics provides a wide range of supply chain services to the OEM on a global basis. The company, for instance, is the North American lead logistics provider for assembly, power train and stamping operations.

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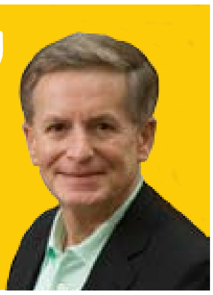
> – **Vince Hartnett Jr, Penske Logistics**



Penske also received Ford's "World Excellence Award" and was the first LSP to become a strategic supplier as part of its "Aligned Business Framework" where strict targets and investment goals were agreed.

Hartnett suggests that Ford doesn't see outsourcing as throwing out the logistics activities for another company to take over. "Ford doesn't just look at costs, expertise and flexibility – it also looks at generating new ideas and fresh thinking," he says.

Moreover, Ford offers Penske an opportunity to grow globally. Penske therefore delivers aftermarket and distribution support for Ford in Brazil's industrial metropolis of São Paulo. Penske also serves the Camaçari plant in the country's northeastern sate of Bahia. Elsewhere in Latin America, Penske operates major cross-dock operations in San Luis Potosí in central Mexico.

Motoring ahead in emerging markets

As well as the strengthening US economy, Penske sees opportunities to expand in markets from Eastern Europe to Asia and South America. Penske expects to see its revenues split 75% in North America, 10-11% in each Europe and South America, and 2-3% from Asia next year.

In Gallick's opinion, Asia and South America are likely to deliver the highest growth rate, albeit from a small base. Penske expects rapid growth on the lead logistics side from managing supply chains – with a control tower type of operation, Gallick adds.

The executives, however, point out that Penske targets new markets based on its customers' needs. Penske doesn't just jump into a market, it moves based on clients needing a service, Hartnett says. "If a client in Europe says to us that they need a plant in Romania, we work with them to plan where we'll go. We go where customers grow."

For instance, Hartnett explains that Penske manages transport operations across Central, Eastern and Western Europe. The logistics provider used third parties to enter countries such as in eastern Germany, Russia and Estonia. And Penske is looking at new facilities in Eastern Europe in 2010, Hartnett says.

In Asia, Penske has already had operations for three years in China. The LSP set up in Shanghai and has recently extended to Beijing. Penske works with clients such as Germany's BMW for material management and also acts for suppliers such as Eaton, Key Safety Systems, Continental Tire and Magna Seating. "We expect to be in additional markets in Asia in 2010 on the auto side," says Hartnett, without giving details.

In gear for growth

In Hartnett's view, companies usually don't make big outsourcing decisions during a recession unless they have to. Indeed, in the midst of changing, volatile economic conditions, OEMs will wait until they see more steady times, says Hartnett. But in the medium-term outsourcing projects are likely to open up in 2010 when partners can muster more capital. When this happens, then LSPs will really have the chance to prove their worth, he says.

Penske also sees a change in the behaviour of companies that are increasingly working together. Ford in the US collaborates with a pharmaceutical company to pool capacity to transport each other's products. "After a lot of talk, collaboration is now really happening," says Hartnett.

Moreover, Penske aims to tap new customers. For instance, opportunities may arise as rivals such as Ryder withdraw from markets like Brazil. "We have naturally called its [Ryder's] customers," says Gallick. But Penske is also eyeing opportunities with existing customers. "It's also not always that a company wants to outsource, but we go to them and show them the metrics for doing it [outsourcing]," Gallick explains.

Penske also believes that continued investment is vital. Gallick says that Penske invests in technology to make sure that it provides the best tools and engineering to remove redundancy from technical systems and strengthen the infrastructure backbone.

Penske doesn't want to slow down a customer when the recovery begins as a result of insufficient investments. Gallick believes that Penske needs to recruit the right people and provide suitable training to be ready to service customers. "If we do this, when good economic conditions return we'll be ready with our foot on the accelerator," he says.

Who we spoke to:

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Joe Gallick, Senior Vice President of Sales, **Penske Logistics**