BY MITCH MAC DONALD

THE DC VELOCITY Q&A

both sides now

First a practitioner-member of MHIA, and now its CEO, John Nofsinger brings a unique perspective to his quest to move the logistics industry to new heights.

AFTER SPENDING THE BETTER PART OF TWO DEcades as a senior executive at a material handling products and service provider in Canton, Ohio, John Nofsinger wanted to do something different. But not too different. Having been an active member of the Material Handling Industry of America (MHIA) throughout his career, he was intrigued by the notion of one day becoming part of that organization's management team.

In 1986, when MHIA relocated from its Pennsylvania headquarters to new accommodations in Charlotte, N.C., Nofsinger went along for the ride. And what a ride it has been.

Since joining MHIA—and subsequently ascending to the association's top executive position—Nofsinger has helped guide a genuine reformation of the group, whose membership has increased almost threefold in the past 15 years. He has been a key player in developing and implementing a strategic change that reflects its members' evolving role in the business. Today, as the CEO of MHIA, Nofsinger is ultimately responsible for all operations of an organization of roughly 800 member companies, representing the broad spectrum of logistics activities that make up the supply chain.

Before joining MHI, Nofsinger was employed for 20 years by Republic Storage Systems (a division of Republic Steel Corp. and subsequently of LTV Corp.). After working his way through a variety of technical and marketing positions, he finished his tenure there as vice president and managing director of the Automated Systems Division.

Nofsinger serves on the board of governors and executive committee of the Material Handling Industry (MHI) as well as on the boards of directors of the Material Handling Industry of America and Material Handling Education Foundation. He is also managing executive for the Rack Manufacturers Institute (RMI) and serves on the board of the Charlotte Roundtable of the Council of Logistics Management.

On the eve of ProMat, his organization's biennial conference and trade show in Chicago, Nofsinger met with *DC VELOCITY* Editorial Director Mitch Mac Donald to share his views on where the material handling logistics industry has been and where it's going.

Q Let's begin at the beginning. How did you come to be a key player in the industry? What experiences brought you to where you are today?

A I started my career in material handling with Republic Storage Systems, part of Republic Steel. I spent two decades on that side of the table. For about half that time, I was in various technical management roles—engineering, quality assurance,industrial engineering and so forth. After that,I moved into marketing and then general management roles. Ultimately, I became vice president/managing director for the company's automation groups.

I was active in that capacity as both a representative to the MHIA's product groups and also as a board officer of the association and as a volunteer. It gave me a chance to work with the association as a consumer, if you will. That prepared me to understand what, at least in my mind, was missing in terms of the kinds of services that were going to be necessary to keep companies interested in being members of the association in the future.

Q In the mid 1990s, your organization made a subtle change in the way it defined its scope. You went from referring to the "material handling industry" to calling it the "material handling logistics industry." At that time,the integration of internal and external logistics functions was just entering the industry's consciousness. Clearly, you had identified the interlinkage between varying logistics-related operations. How did this come about? How do you at MHIA see the material handling sector fitting into the larger logistics function for major companies?

A In the early to mid 1980s, this industry took a good hard look at the role it served and the functions it filled. We went back and reviewed the definition that had been in place for many years. At that point, the traditional definition was pretty much limited to those activities that take place within manufacturing and warehousing/distribution facilities. Not so much the "over the road side," or to put it another way, the supply chain side. You have to remember that this industry's heritage is equipment. We realized that we had to expand our thinking a bit—not to say that as an association we would represent everybody because the supply chain is just too big a process—but we needed to acknowledge that this process of handling, moving, storing, protecting and controlling really doesn't begin or end inside the factory or distribution center. It really is just one part of an overall end-to-end process. It is a key part of a process that allows goods and material to continually flow to meet demand; that's material handling and logistics.

We had tried to move in that direction earlier, by introducing the word "logistics" in the 1980s, but at that point, "logistics" was still perceived to be either strictly transportation-related or in some cases, just a military term. No one was ready to say, "OK, I understand what you are talking about. I need to be involved in this because it is really where my business is headed." So we kind of stepped away from the word "logistics," but now, of course, every 53-foot truck that passes you on the highway in the morning has the word "logistics" all over it.

Q Why was that important to pursue?

A By calling it the material handling logistics industry, we were acknowledging that companies are now focusing on total flow through—that operations now must be seamless from the raw material stage all the way through to customer fulfillment—and the functions within that process are inclusive of what MHIA members are all about. We were emphasizing and demonstrating that our members play a critical role in supply chain operations. In the case of our own members' activities, even though they spend most of their time focusing on the equipment and information technology issues, we always try to keep the relationships and communications open between our association and sister groups to be sure we are each plugged in to the other and that we are not running in different directions.

Q Adding the word "logistics" was pretty subtle. Did it really appear to be a major repositioning of the MHIA mission?

A It did and it didn't. It was just a tweak philosophically, but in reality it reflected a genuine sea change. We saw changes in business processes as they relate to the supply chain beginning to take root. We needed to solidify our members' position as key players in that process. That was a little easier said than done. At the time, we were at risk of going the route of the buggy whip manufacturer, unless we were able to expand and become inclusive. It has made an impact. In the late 1980s, we had about 300 member companies. We now have roughly 800, and the new companies are types that may not have been considered part of the material handling industry in the traditional equipment and technology sense.

Q You mentioned technology. Can you share your thoughts on how much of the change in the industry, good or bad, has been technology driven in, say, the past decade?

A We know what happened in the '90s, but what most folks don't realize is this packet exchange phenomenon has been going on since the '60s, when the first e-mail was sent. So, this is not brand new, but like everything else, what's changed is the speed at which things happen. It took about seven years for Internet service to reach the point where one-third of U.S. homes had Internet access. That is about one-half of the time it took television to reach that milestone. And television hit that mark in roughly half the time it took the telephone to get to that level. It seems that each one of the major breakthrough technologies is taking hold so much more quickly than the last. Likewise, the skunks are getting flushed out much more quickly than they did at the end of the '90s.

Out of that come business processes that are models, the best of the best, which are now applied for the legitimate advancement of industry. So I think that we could certainly argue that the '90s allowed us to experiment with some technology, to gain confidence. The people who were fearful of using ATMs 20 years ago are now using them on a routine basis. The same thing is happening with much of the online stuff. The issues of security and others, while they are still there, don't seem to be as much on everybody's mind, unless you are processing highly sensitive information. I think that another key development that took place during the '90s was the concurrent movement of goods and information.

Q Sure, the parallel flow of info and material.

A It has always been there, but it tended to be somewhat more sequential. You did something, then someone sent notice of that somewhere, it got recorded, and then you did something else. Now the ability to identify and locate items throughout the supply chain is pretty much commonplace. That concurrence allows, obviously, for the huge improvements we have seen in inventory, among other things.

Q You seem to be echoing some of the advanced thought on the role technology plays. Many would contend that the underlying principles of supply chain optimization really mirror age-old business objectives. The difference today is simply the potential of technology to boost speed and accuracy in these operations. Do you agree with that?

A I think that is largely true. Although it might outwardly appear to be driven by changes in approaches to business or business processes, much of the change was spurred by advances in technological capabilities. Just look at distribution center and logistics operations, and the ways in which they have changed in the recent past. The ability of functions within these operations to connect, communicate and coordinate has clearly been driven by technology.

But that's also led to an even more fundamental change in the way logistics functions are viewed within companies. Logistics today is clearly seen as having a strategic role rather than just being purely a tactical support tool.

Q A strategic tool rather than just a necessary cost of doing business?

A Exactly.

Q Despite all the change in processes, in technology and in the way the boardroom views logistics operations, some things almost certainly must have stayed the same. Can you point to any underlying elements of logistics operations that exist today in much the same way they did years, or even decades, ago?

A The thing that hasn't changed is the need for people to know what their fulfillment supply process is all about and basically how the things we do support that. For example, it is still critical to have clear performance metrics in place. It is also still critical to remain as flexible as possible. Everyone is still challenged by the complexities of maintaining flexibility and yet still moving forward with efforts to equip and automate to the level necessary to be competitive. And of course, there is the obvious and necessary focus on making money, although I think we've seen many good companies become too focused on short-term gains, sometimes at the expense of long-term profitability.

Q A lot of the focus has drifted away from long-term strategic growth to what we need to do right now, either to cut costs or to drive revenue so that our stock will show a strong quarterly performance. Is there any way to back out of that trap?

A There are so many structural, societal and professional things that come into play here. One is that executives' compensation is so closely tied to that short-term result that managers have much more incentive to do things for short-term gain,especially now that fewer and fewer people will work for 25, 30 or 40 years for one company. There is not that much incentive for anyone to worry about the future, because when it rolls around, someone else will probably be in that job. By contrast,if an executive has done the right things to bring about short-term gains, then the rewards are great. Not only are the rewards great, it looks great to others and it just perpetuates itself. Corporate boards have simply got to put performance measures in place that take the long-term view into account and not simply the "plan du jour."

Q It should reflect a better balance of long- and short-term issues?

A Exactly. We say the same thing in trying to approach the shifts taking place through outsourcing within the distribution process. Companies appear to be less inclined to apply some of the more advanced solutions. For one thing, those solutions may have a payback period that is longer than the length of any one contract. So as a practical matter, for most companies, the ability to predict beyond three, four or five years is a genuine strategic challenge right now.

Q Now that we've gotten into the issue of money, tell me how you see the economy affecting this industry in the months ahead.

A The last two years were obviously a very difficult period for this industry. I think, though, we have to play that off of where we came from. If we look at 1991 to 1992, when we came out of the last downturn, we kind of went on a run that blew right through what would normally have been a midterm correction. Really as an industry, we never saw any correction at all. All the cylinders kept firing together and we just sort of kept going. The trouble with that phenomenon, what with the dot-com explosion and so forth, is that there was an awful lot of artificial capitalization going on at the tail end of the 1990s. There were huge amounts of money and resources just to throw at things. Now, as a practical matter, if you consider where we are compared to where we were in 1992, even with the fallout of the past couple of years, we are still well ahead of where anyone would have predicted we'd be.

As for the future, we seem to be seeing signs that normal cycles are resuming. As has historically been the case, some sectors are up and some are down. They are not all hot together. They almost never all get cold together, which is the good news in this industry. But when we look at the businesses that are in the process of moving into a period of growth in 2003, we start to see some of the more significant industries emerging. We see electrical machinery rebounding. We see fabricated metal products bouncing back. Aluminum is rising as are aircraft parts, construction machinery, electro-mechanical components, industrial machinery, semiconductors and so on. Some of the big industries seem to be coming out of the decline pretty quickly.

The difficulty here with all of this is we are back to the question of confidence and capital formation. A lot of the sectors are not in the best of shape to be able to commit capital. We are not likely to see huge growth overall for the industry. We are likely to see growth in the 2- to 4-percent range, though there will be exceptions to that. Some will probably grow faster. There will be models that will change, just as they did in the 1990s, which will prop up particular technologies. For example, the WMS-related industries will see some maturation as the technology becomes more widely available and becomes affordable to a broader range of users. They are going to find the sledding pretty decent.

Q Will they be the exception?

A Well, perhaps not, but we're not going to go back to the across-the-board, all-sector growth of 1999 to 2000 levels anytime soon. Within the next year or year and a half, though, performance could go back to those levels. We could see the industry as a whole grow to where we were in the year 2000.

Q In other words, there's still some ground to cover, but things look pretty strong out on the economic horizon for the industry?

A I think so. Going into 2003, bookings and backlogs are elevated beyond where they were this time last year. Inventories have largely been worked down. There are some exceptions, but for the most part, it is not something that is going to extend very far past this horizon. In fact, if anything, people are now starting to put a little more inventory in place in anticipation of business growth. There is growing confidence out there that this thing will be positive for the next couple of years. It is probably a good time to put something back on the wagon.

Q What is MHIA planning to do in the months ahead?

A Well, what I would point to as one of our most significant accomplishments of the recent past also remains one of our biggest challenges of the immediate future: that is, positioning the industry and essentially building consensus about what that position should be within a group of 800 very different-minded companies. Essentially, we need to create the inclusivity that the industry enjoys today and in the process, to change the culture to allow that to occur. I am really not sure that we will ever overcome that combination of things because it will always be a moving target. At least it is rewarding for us to say that we have stayed one or two steps ahead, which is probably about all we'll ever ask at this point. We need to stay at the front edge instead of reacting to it. □