

Descartes' art of customer service

Cultural change brings shipping industry technology company back from the brink.

BY GEOFF WHITING



There's no escaping it: supply chain software developer Descartes was in a bad place in 2004.

The company was staring into an abyss as its share price dropped from more than \$100 to just 95 cents that year. The company had \$28 million in debt and a working capital deficit of \$400 million. It had just recorded a \$14 million loss in the prior quarter.

It appeared as if Descartes would join the mounting casualties of the dot-com bust.

But that was also the year when Art Mesher joined as chief executive officer, and by all accounts, righted Descartes' course.

The company has since enjoyed a financial renaissance under Mesher's leadership, evidenced by 28 consecutive quarters of profitability. The comparison between its \$108.5 million loss in the fourth quarter of fiscal year 2003 to an operating profit of \$4.5 million in its most recent quarter is stark.

The company reported a net profit of \$12 million for its fiscal year 2012 (which ended Jan. 31) — up 4 percent from the

prior fiscal year. What's more, Descartes had annual revenue for fiscal year 2012 of \$114 million, a 15 percent year-on-year gain, and the first time it broke through the \$100 million revenue barrier.

Descartes develops and provides on-demand, software-as-a-service platforms focused on improving the productivity and security of logistics-based businesses. It unites its members through groups like the Global Logistics Community, which is made up of more than 35,000 organizations collaborating in 160 countries

The company's network covers multiple

transportation modes, with Descartes providing management over the network, including multi-party data and documents allowing for Customs and regulatory compliance alongside its transportation management services.

According to Descartes' estimates, it now handles 68 percent of the top 25 global forwarders' air freight, and 35 percent of all Canada/U.S. cross-border filings.

"Most shipments from most major forwarders run through our network," Mesher said in a March interview with *American Shipper*.

Those close to the company give the majority of the credit for Descartes' turnaround to Mesher, who in turn hands the credit to his staff and customers.

"It's not our success that makes us successful really, it's our customers' success," he said. "We're here because our customers are successful."

It's clear how Descartes returned from the brink after discussing the company's revitalization with Mesher, who has focused on innovation and autonomy within the



Mesher

company. He said autonomy is the cultural linchpin that makes Descartes tick.

"As the leader, my job is to create an environment where it is okay to take risks, fail, or be wrong," Mesher said. "What is most important is that you as an individual take responsibility for your decisions about how you will impact outcomes."

He added that Descartes is not a place where someone will get fired for trying something new and screwing up, but it is a place where employees walk a perilous line if they don't take risks.

Right Acquisitions. The company has grown aggressively through acquisitions over the past decade, with Mesher pointing to two standouts — the 2000 acquisition of eTransport and the 2006 purchase of Flagship Customs Software — as examples of how Descartes expands its reach while also promulgating its internal culture.

Both the acquisitions were family-owned businesses where the leadership was interested in stepping aside but a family member was willing to take on a leadership role.

According to Mesher, the family members who stayed on board gave employees a familiar face and Descartes a frame of reference for how to change the existing culture to fit that of Descartes.

Mesher said Descartes has to be de-liberate with acquisitions, balancing the benefits of new technology with possible style and leadership conflicts as it accepts new members into the fold.

He described the acquisition ethos as "buy and build."

"The best way that we can get customers better results faster is to find really good products with really good little companies that we can acquire, make part of us, and give customers immediate access to in their environment," he said.

The goal of the buy-and-build strategy is to give Descartes a broader platform and accelerate the speed at which it can give customers a defined benefit from a new system. It does this by allowing Descartes to generate a cash flow with its existing software, reinvest that cash into new systems and acquisitions, and then leverage the increased cash flow back into the system to accelerate future purchases.

Lifecycle. In 2004 Mesher and his team developed what the company calls its resources in motion management system (RiMMS).

RiMMS was designed to create a new industry category and business model based on the congruence of three market

advancements: hardware and software networks driven by the proliferation of the microprocessor; ubiquitous wireless connectivity; and the ability to tell what's actively connected to a network.

The convergence of these advancements has prompted Descartes to focus on creating a new breed of shared, social systems that can interoperate across a network ubiquitously. Pairing this with rapidly decreasing hardware costs, the company has been able to put forth sophisticated networks with the capability to handle billions of messages globally on a single, interconnected system.

New York-based forwarder and customs broker Encore Forwarding implemented Descartes' Global Logistics Network to automate the electronic exchange of data and enable real-time visibility. Encore had been struggling with supply chain updates because it depended on two staff members to visit carrier Websites and manually enter carrier numbers and bills of lading, then manually enter the most up-to-date information in its own system.

Encore said automatic updates now enter its system four times a day and delay notifications are automatically sent to carriers. The forwarder has also seen a 10-fold increase in the number of carriers that are connected to its own track-and-trace network through the Descartes integration. In addition, using Descartes has allowed Encore to reallocate both staff members to other duties.

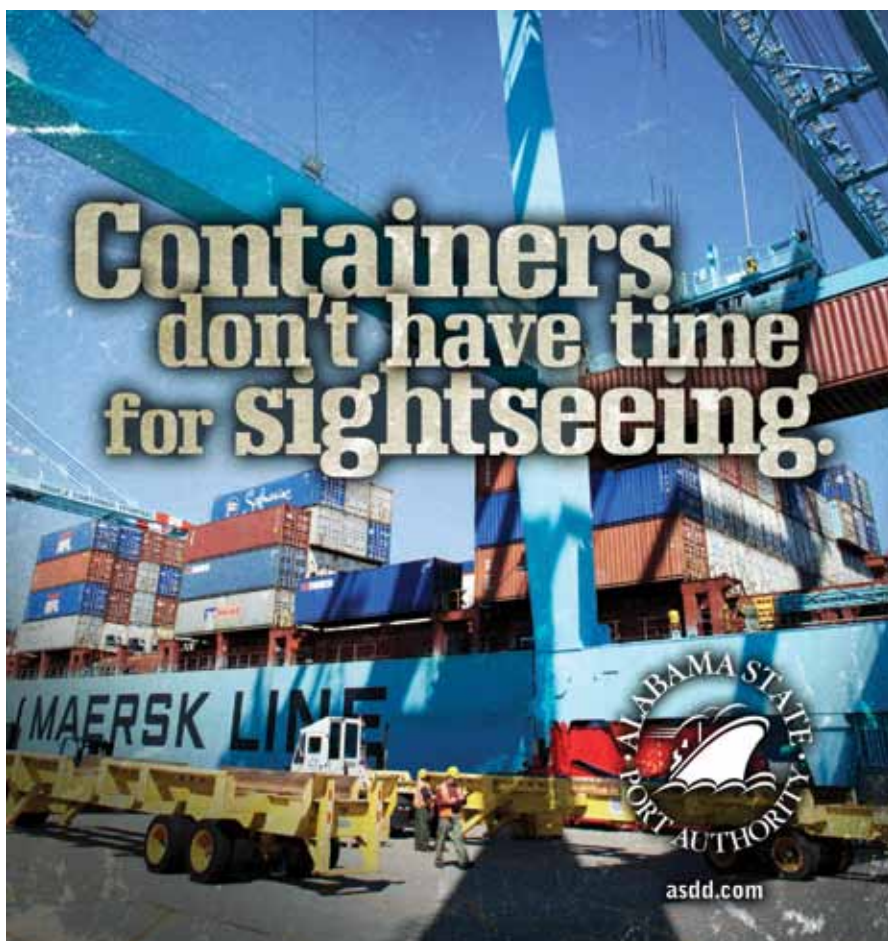
RiMMS is emblematic of Descartes' rise in prominence, because its growth is dependent on getting all the pieces a customer needs in as small a product as possible. As Descartes condenses all of these systems into a smaller offering, it loses the ability to charge per piece or create continuous revenue streams off separate lines. The company will make up for this by introducing new products and services, blending together existing software as it goes mainstream and supplementing it with new innovation.

RiMMS is expected to go mainstream soon, according to Mesher, who referred to the adoption curve for the company's software products as the "hype cycle."

"It takes about 15 years from when innovation is started to when it's mainstream," he said.

For the first two years of the cycle, the product has 20 to 30 customers that are highly innovative and want to do things that have never been done before. About 10 years in, this expands to most of Descartes' customer base that's seeking a best solution from the supplier.

After about 15 years, the activity has become the norm and companies that come



on board tend to be small enterprises that are very manually oriented and just want it to be as easy and pain-free as possible.

When the innovation is successful, Descartes' customers who got in at the beginning and were able to wait the 10 to 15 years get a large advantage from the middle of the cycle, because they can leverage the new technology and efficiencies in their networks sooner.

Fewer Entrepreneurs. Mesher has some strong opinions about the direction of the supply chain software industry going forward, and much of it has to do with giving the logistics industry a more simplified technology landscape to navigate.

"I think it would be better for our industry if we could replace some of the entrepreneurs with professional management, because we'd probably all agree to merge," he said. "Of course we want to see that and become the best home for these companies as possible."

Mesher said it's not efficient for data to feed into multiple systems.

"Why does data go in and out of every ERP system?" he said. "Why does everyone create an order and an invoice? And why are there seven to 15 payment cycles that exist in a global trade transaction?"

"If everyone knows who is shipping what to whom, and everybody knows what they're supposed to do, there really could be one system of record that's not an ERP system but a supply chain system," Mesher said.

Descartes is developing a product that could potentially serve as a single supply chain system of record; one would stamp each item with all of its information from the moment it first enters the supply chain.

The idea behind the product, Standardizing Transactions And Managing Processes Platform (STAMPP), is that it would combine private information — what most companies keep behind their firewalls — with public data, such as that found on social networking sites, in one location with a system smart enough to make decisions with it.

"Once you have all that information of what's supposed to happen, there's little reason that a system can't have event-driven data where data is automatically connected all along the supply chain," he said. "It's what we are going to do. It's in our plan."

The system relies on a type of processing called federated computing, which allows a system to act as a middle ground with public and private data, intelligently determining what is shared and when it's shared. The term might not be recogniz-

able yet, but Mesher said it's at the heart of Descartes' future.

STAMPP will not only build on the efforts of RiMMS but increase its scale and mass.

"We've got all the ingredients for a cake and a working cake mold, we just need to put all the ingredients in the mold and bake it," he said, adding that STAMPP is in the initial phase of its hype cycle.

As for what's coming in the nearer term, Mesher sees a merging of RFID (radio frequency identification devices), telematics, and other data gathering technology as having the greatest impact on the future of the supply chain software industry.

Most systems available now will be rebuilt to address new technologies, and for software companies, those are expensive upgrades, he said. While cloud-based systems are cheap for customers, they require a lot of infrastructure on the part of the software provider, and when new technologies come up, the majority of that infrastructure has to be upgraded.

"We're constantly reinventing our core base system and infrastructures because we have the capital to do it," Mesher said. "You can count on us to rewrite our system every three to five years" and to keep customers current. ■



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