

Forbes

Logistical Nightmare

By Michael Freedman

"What do you need to do business in a lawless nation? A good head and a strong gut."

Sources: Cass Information Systems; U.S. Department of Commerce; Logenix.

By the Numbers

Logistics Statistics Terrorism has slowed the distribution business here and abroad, but has also created new opportunities for niche players like Logenix.

\$910 billion The cost of U.S. business logistics last year, down \$47 billion from 2001.

5% The decrease in U.S. goods exported between 2001 and 2002. Last year's total: \$682.4 billion.

6 million pounds The weight of water bottles, earthmoving equipment and blankets Logenix moved to the Middle East in the 60 days preceding the Iraqi war.

Ronald S. Cruse just got back from a trip aboard a C-130 military transport plane over Iraq. "It was fabulous," he says coolly. The chats with U.S. Army officials were useful. The view of Saddam's palace overlooking the ruins of Babylon wasn't bad, either. But what got Cruse's juices flowing was the thought of bringing into northern Iraq supplies to build latrines and makeshift living quarters, not to mention syringes and stethoscopes, elementary school textbooks, flak jackets and helmets.

Cruse specializes in moving goods into tough places. His Logenix International, a profitable \$3.5 million (sales) outfit in Springfield, Va., has helped companies like construction outfit Fluor Daniel and financial services giant BearingPoint (formerly KPMG Consulting) get metric wrenches, computers and construction equipment into remote parts of Afghanistan, Kazakhstan, Sudan and Somalia. Hospitals and smaller companies like Input-Output that want to start selling seismograph and sonar equipment to oil companies have also turned to Cruse. Logenix is virtually asset-free, leasing its transportation means where it can; Cruse charges clients 5% to 20% of the retail value of the delivered goods.

In places where governments change suddenly--sometimes violently--and regulations change daily, even hourly, often with no warning, logistics are a challenge. In 1995, for example, Cruse was moving fuel in Siberia for a gold mine when he ran smack into a bureaucrat, who on the spur decided that train schedules, instead of being set locally as they always had been, now had to be dictated from Moscow. That brought the process to a halt. But Cruse got around it, he claims, by paying \$50 a week to the lady who cleaned the Moscow office where scheduling petitions were signed each day. Each evening she found his petitions and put them on the top of the pile to be signed in the morning. It underscored an important lesson in flexibility: By the time the rules are set in some places, the window of opportunity may have long since slammed shut. "If you want a piece of the market," he says, "it's better to be early."

And agile, when it comes to customs rules. When shipping computer equipment for modernizing nuclear reactors into Russia, Cruse got around Russian duties by shipping it as U.S. embassy goods, says James Halstead, who has worked with Cruse for 13 years and is now vice president of operations. Another stumbling block: the Foreign Corrupt Practices Act, the 1977 U.S. law that forbids bribing public officials in foreign countries to get, say, an airplane contract or an oil well concession. The law does, however, allow companies to pay a fee to a red-tape worshipper to expedite paperwork or to get something through customs, which Cruse has done on more than one occasion.

Tough travel is in Cruse's blood. His father, a U.S. Navy veteran, told stories of his World War II days in the Atlantic. His maternal grandfather worked overseas for the British Colonial Office. "From when I was very little, the world was a place that was very interesting to me," says Cruse, 47. Born in Fort Sills, Okla., where his father was a civilian employee at an Army base, Cruse graduated with a liberal arts degree from Villanova University and moved to New York City, where he took a job selling muni bonds. He hated it and moved on to a position at a shipping outfit called Four Winds, where he got the chance to visit exotic places like Jeddah and Cairo. When Four Winds went bankrupt in 1986, Cruse ventured out on his own. He found that the U.S. Agency for International Development offered millions of dollars' worth of contracts, and he seized upon them. He and three partners launched Matrix, a logistics company specializing in developing nations, or "the mud," as Cruse calls it. His largest contracts today are still funded or backed by the U.S. government.

One of his first jobs was in Pakistan, helping to get medical supplies, stretchers and food to rebel groups in Afghanistan fighting the Soviets. Matrix later won a government contract to deliver contraceptives in Africa, where his company encountered thieves. Cruse dispatched himself to Harare, Zimbabwe and discovered that shipping containers full of prophylactics were being unloaded at the port of Durban, South Africa and then transported to Harare in open-bed trucks. By keeping the condoms in sealed containers the entire route, Cruse foiled the robbers.

The collapse of the Soviet Union in December 1991 augured big opportunity, and Cruse knew he had to set up his own office. But now that the Communists were gone and private property suddenly came into existence, it was unclear who owned the office space he wanted to lease. With help from a local partner, Cruse found a building janitor in St. Petersburg, gave him two years' rent up front in cash and took possession. With offices in the region, he was netting \$4 million on \$80 million gross revenue by the mid-1990s.

Still, business was not easy. Cruse and his business partners had different visions of where the company should go, and when private equity group William E. Simon & Sons offered roughly \$30 million for Matrix, they sold. The sale closed in November 1996, but Cruse stayed on and things got worse. In July 1997 one of his Russian business partners was shot six times in the head and left in a garbage dumpster behind some St. Petersburg apartments. The murder remained unsolved, and Cruse found his new bosses to be so risk-averse it drove him crazy--and, he says, the company

nearly into the ground. In 1998 he left Matrix, but three years later, immediately after the noncompete expired, he founded Logenix with \$1 million, hiring back seven of his old employees.

The war on terrorism has been good to Logenix. Last October it was hired by Louis Berger Group to bring shredders and incinerators to Kabul to destroy the old currency. He helped BearingPoint set up financial infrastructure and governance programs by bringing in computers and software. Next stop: operations in Iraq, where Cruse must keep an eye out for snipers and the inevitable wave of larger competitors like UPS and FedEx.