

Alberto Cruz - President, Allied Logistics, Puerto Rico

Hurricane Maria was a turning point for us, it made Allied Logistics stronger. We literally moved Puerto Rico through the hurricane

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Allied Logistics, a leading Puerto Rican provider of transportation services, storage and distribution, is working in pursuit of one vision: to be the dominant supply chain management provider for mid to large size distribution operations in the US' Caribbean territory. President Alberto Cruz provides insights into the rise and fall of the island's manufacturing industry and the many service providers that never stopped working, supporting the industry even after a category five hurricane with the objective of making Puerto Rico the world's main pharma manufacturing hub again.

Could you start by introducing the scope and breadth of your operations to our international readers who might be hearing about Allied Logistics for the first time?

The story of Allied Logistics goes back to 1964 when our Cuban co-founder started a trucking business, moving containers from the port to the customers. The business began to grow, and more people became involved. Coming from Cuba in the 1960s meant that the only way to succeed was by working more than the next guy. We now work with more intelligence, but back then we worked more hours than anybody else to provide more time of coverage and services. The company was transformed in the late 1970s when the Less Than Truck Load (LTL) business started booming. Most of the LTL carriers in the United States, which are called non-vessel operators (NVO) here, came to the island bringing presents through agents.

Allied Logistics provided services to the NVO business that, by the way, was bringing a lot of loose cargo to the manufacturing plants in Puerto Rico; we took advantage of the manufacturing boom. Many of the big players at the time, the ones that did inter-state cargo transportation in the United States, began crossing the ocean to come to Puerto Rico and offer their far-reaching services to the island. One thing led to another and, suddenly, we had a booming manufacturing industry that demanded added capabilities from logistics companies. It was not only necessary to receive freight, but now they had to store it somehow. The floor space was being almost completely used for production, so we decided to build several small warehouses around the island to store different products.

Regulation-wise, Puerto Rico had a softer system. Since having different spaces for different products was not mandatory, spaces were shared and the industry began to establish in industrial parks like the Amelia Industrial Park between 1982 and 1984; most of it was used by companies that stored pharmaceutical products.

From that point, the new generation started analyzing the distribution models of the island because companies were not only bringing manufacturing products but also wanted to touch the finished products and ship them back to the United States for distribution in the world's largest market.

There was a unique opportunity for Puerto Rico right there, we were in a sort of legal limbo, where some took us as a foreign market and others as a domestic one. We had the US federal laws, but for some pricing strategies we were international. We had a skilled labour base, but it was probably more expensive than other countries. Most importantly, we had stability and the backing of a strong currency. Then, Operation Bootstrap and the 936-law brought us to the next level, there was plenty of money to spend and manufacturing facilities became more specialized. The regulations also changed to provide certainty and improve the quality of products being produced. The pharma manufacturing boom meant that anybody with a truck in the US was looking to take a piece of Puerto Rico's industry.

Allied Logistics took a share of that; in those years, we were handling around 35 percent of the LTL business coming into the island. It was a matter of touching a little bit of everything.

When I started, there was a company called CapsuGel which did gel capsules for the pharmaceutical industry. They did part of them in Carolina and brought the other part from the US. We had to buy our first refrigerated trucks to work with them.

Then the 936 law was eliminated, and we had to adapt, we kept the LTL business but focused also on warehousing, distribution, retail and doctor's private practices. Many companies overlooked

those segments to work exclusively with manufacturing plants and raw materials. Then globalization changed everything, and companies were trying to get away from the asset-based business model and outsourced transportation. How could they justify buying dozens of trucks when the company was not in the trucking business?

We were trying to replicate other models from all over the world and became the first one to change our business model, which was helped by the deregulation of the over the counter (OTC) products. That changed everything for pharmacies and was our biggest hit. One of the largest accounts that we managed was Bristol-Myers, which started working with us in 1968 until 2010. Allied Logistics managed OTC and nutritional products because there were too many brands and business to go around. It was huge because those products were being sold in many different types of stores.

How important is the pharma business for Allied Logistics today?

To understand the answer, I must first talk about the repeal of 936 and the continuous closing of manufacturing plants around Puerto Rico. We did not see a future in that and started looking elsewhere; we went to our core business which is transportations and distribution. We always kept the LTL business, which ties us to the pharma manufacturing industry, and have been a regional service provider for FedEx since 1998. To answer the question, we moved into freight services, leaving aside any warehousing byproducts, and went heavily into moving raw material for manufacturing. We do plenty of local manufacturing of chemicals that we ship to the Dominican Republic. We have a strong presence in the Dominican Republic, especially for Edwards Lifesciences. Locally, a lot of the companies divided themselves into the Rx business and OTC, we opted for the latter. Recently, we developed the rollout for a Veteran Affairs program to supply their hospitals through Medline products. There is a big niche for us. Being a prime vendor means that we carry items for competing companies.

Allied Logistics manages and implements supply chain solutions for customers bringing cargo from as far as China. What makes your supply chain solutions better than the competition?

We are a one-stop shop. Companies do not need to hire anybody else. Through our worldwide presence with FedEx Logistics, we are an RSP. Basically, companies can just place an order and

forget about everything so they can focus on their core business. We aim to make it a seamless process for our customers.

How do you compare in terms of time, security and efficiency in handling logistics operations? You claim to have the lowest operating costs in the industry, why?

Because nobody else touches the products. Every time that a company gets involved in the process, it puts a markup. Allow me to put an example outside of the pharmaceutical industry: when we talk about computers, the product used for the motherboard is manufactured here in Vega Baja and we ship it to China. Once in China, another company receives the shipment and takes it to the manufacturing facility, when the manufacturing facility is done with the products, because of Chinese regulations, there is only a handful of companies that can take that product to another country. Let's say that the unfinished product is then taken to Silicon Valle. There are already four companies touching the product and adding a markup. Finally, they ship it to retail stores, which adds another logistics company. By using only one company, our customers get rid of all the added markups.

We currently ship to five countries on a regular basis: China, Dominican Republic, United States, Costa Rica and Brazil.

How are you leveraging new technologies to improve the efficiency and safety of your operations?

We have created a proprietary program called WATTS, which stands for warehouse activity tracking system. It is our own technology that takes every single aspect into consideration: from documentation, tracking inventory locations, to serial dates. We spent around one million dollars in the system. There are some customers that have substituted their own software in favor of WATS. It is not how you get from A to Z, but everything in between, how much reliable information you can get.

We have heard everywhere that Hurricane Maria marked a breaking point, an after and before. In your opinion, how has the island rebounded since then?

Hurricane Maria was a turning point for us, it made Allied Logistics stronger. We literally moved Puerto Rico through the hurricane. Our facilities were severely damaged, we lost around 35 percent of the roof of the Caguas' warehouse. Manufacturing had stopped around this side of the island, so there were not many deliveries. The hurricane was on Thursday, and we were already doing deliveries the next Monday. Almost everyone around Puerto Rico showed up to work the next day and we were able to keep the industries moving. We told our employees that no one was going to be let go, which was not easy because there was no revenue coming in. We made an effort and our team rewarded us with extraordinary work.

The Federal Emergency Management Agency (FEMA) called and said that we had one of the largest private fleets and wanted to use all of it, but we told them that our customers needed the help as well. We went through hell to make it work. Puerto Rico was in a Mad Max situation; fuel was the currency because ATMs had no money and banks were closed. We came out stronger because we never stopped; we have employees that lost the roof of their house but still showed up to work. Customers know that Allied Logistics will be there no matter what.

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