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JANUARY 2009

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Management UPDATE

AN EXECUTIVE SUMMARY OF INDUSTRY NEWS

■ **Obama picks Transportation Secretary**. President-elect Barack Obama has selected Ray LaHood, a Republican Congressman from Illinois, as Secretary of Transportation. LaHood is likely to play a key role in the new administration, with transportation infrastructure development being viewed as a major driver for re-building the economy and creating and saving jobs. A former member of the House Transportation and Infrastructure (T&I) Committee for six years, LaHood is said to have a close relationship with Obama's Chief of Staff Rahm Emmanuel, according to a *Chicago Tribune* report, which also noted "he has not shied away from criticizing the Bush administration and has a reputation for working with leaders of both political parties." House T&I Committee Chairman James L. Oberstar lauded the selection of LaHood as Transportation Secretary as "superb," noting that LaHood's managerial skills will be key in getting all federal modal administrators to effectively collaborate on the next transportation bill.

■ **Geodis makes a (very) big deal with IBM.** In a transaction notable for both its significance and scale, Paris-based 3PL Geodis will vastly expand its service footprint by acquiring IBM's global logistics operations. The move will allow Geodis to leverage IBM's logistics wherewithal and operational expertise in more than 50 countries, as it will be the lead logistics provider—or 4PL—for IBM and manage roughly $1.0 billion Euros (approximately $1.3 billion U.S.) of logistics costs supporting asset recovery services, service parts logistics, and flow management of all global hardware and software products. Jean-Louis Demeulenaere, Geodis Deputy CEO, told *LM* that the opportunity to acquire IBM's end-to-end logistics flow management platform allows Geodis to expand its global footprint and showcase its abilities to different customers and prospects.

■ **China trade goes cold.** The deepening financial crisis, which has led to recession in most of the Western world, is beginning to have an impact on Chinese exports, trade officials in Beijing report. And there are significant signs that container, bulk, and breakbulk vessel throughput will be relatively slack there through 2009. "Our economic slowdown has cut domestic demand for raw materials including iron ore and coal, casting side effects on the dry cargo transport business," stated a spokesman for China's Ministry of Transport. The government agency also reported that China's port throughput represented 460 million tons in November, up 0.5 percent year-on-year, the lowest growth in a decade. The tonnage report of November indicates that 310 million was domestic trade, up 1.5 percent year-on-year. Meanwhile, foreign trade throughput posted negative growth in the month.

■ **Risky business.** Are global companies managing risk? Based on the results of a recent UPS and Economist Intelligence Unit

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■ ***LM*'s 2009 Salary Survey and Outlook webcasts are right around the corner!** Be sure to watch your inbox now that you are back to work in the New Year. During mid-January, we'll be sending out **2009 Salary Survey questionnaires** via e-mail. Last year nearly 1,400 readers participated in this highly anticipated study, giving the market a clear picture of average logistics salaries around the country, as well as which titles rake in the biggest bucks. And, on Thursday, January 29th at 2:00 p.m. EST, the **2009 Logistics Outlook webcast** goes live! This ever-popular event offers shippers a snapshot of where the U.S. economy is headed and, more importantly, what kind of rates to expect in the coming year. During this interactive event, shippers will be able to ask industry experts questions in real time. Visit logisticsmgmt.com/outlook09 to register. Get ready for a great year, we'll see you online!

Management UPDATE

continued

study, they may not be. The study found that almost half of the companies operating global supply chains are leery of major disruptions in their ability to source, produce, and ship goods globally. What's more, it appears they are being less than proactive in preventing disruptions and managing risk. In fact, 47 percent of the 350 surveyed shippers admitted that they need to be more focused on risk mitigation while 42 percent noted that the expansion of their global supply chains currently outpaces their ability to manage risk.

■ **Panama on schedule.** While continuing to adjust its economic forecast, Panama Canal authorities insist the expansion project is on schedule for completion in 2014. "The big question for all of us is when will a demand for carrier capacity be restored," said Alberto Alemán Zubieta, administrator and CEO of The Panama Canal Authority (ACP) in an interview with *LM*. "In any case, we want the project on track and have it provide the industry with a more efficient routing solution." The $2.3 billion financing package will cover a portion of the $5.25 billion total cost, said Zubieta. The negotiated financing structure includes favorable provisions for the ACP including a 20-year amortizing period with a 10-year grace period and establishes unsecured, untied financing for the ACP, whereby there are no prerequisites to contract from any one source.

■ **Things are grim all over.** With grim economic forecasts echoing through the halls of industry over the last few months, it's not surprising that the Institute for Supply Management's (ISM) semi-annual forecast calls for continued economic declines. The ISM predicts an overall decrease in manufacturing sector revenue by 1.1 percent in 2009, with 12 out of 18 industries expected to show declining revenues. According to the forecast, the only manufacturing groups expected to see any type of increase are petroleum and coal, electrical equipment, and appliances and components. "Manufacturing purchasing and supply executives lack their usual optimism about their organizations' prospects as they consider the first half of 2009; however, they are somewhat more positive about the second half," said Norbert J. Ore, chairman of ISM's manufacturing business survey committee.

■ **Ocean carriers in repose.** In response to slack trade and an unstable rate structure, one of the world's leading global ocean carriers began withholding capacity late last year. Other carriers soon began to follow suit. The announcement from Copenhagen came in the wake of Maersk's recent changes to a number of its service networks previously noted in *LM*. The carrier will lay up eight surplus vessels and will combine intra-Europe volumes with feeder volumes into a "multi-trade" service. Maersk Line has announced its decision to lay up eight 6,500 TEU (twenty-equivalent unit) vessels, following the recently announced changes to its Asia-Europe, Asia-Central America, and Transpacific service networks which has resulted in surplus vessel tonnage. According to Michel Deleuran, Maersk Line's head of network and product, current market conditions indicate that it makes better economical sense to lay up the eight vessels than redeploy them.

■ **Change in direction.** A major auto manufacturer that has been importing vehicles through the Port of Tacoma since 1982 has recently changed directions—and started exporting vehicles to Asia. Although initial volumes are small, Mitsubishi Motors is exporting Eclipse sports cars through the port to China and South Korea. The vehicles are built at Mitsubishi's manufacturing plant in Normal, Ill., transported by rail to the port of Tacoma's Marshall Avenue Auto Facility and then loaded to Wallenius Wilhelmsen Line auto ships. Randy Casebolt, manager of national port operations for Mitsubishi Motors North America, said his company expects to export about 400 vehicles through Tacoma during its current fiscal year, which

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Management UPDATE

continued

ends March 31. About 500 units are projected for the following year.

■ **No dice**. Less than three months after JDA Software Group Inc. announced its plans to acquire supply chain management software mainstay i2 Technologies, it appears that the deal is off. Last month, i2 said it has officially terminated its Agreement and Plan of Merger with JDA. This news followed a November report from i2 that said its stockholders voted to approve the proposed merger with JDA. But this decision was followed by a proposal from JDA to lessen the common share consideration in the merger agreement below the $14.86 per share price, presumably due to economic conditions. The i2 board subsequently deemed this deal was not in its best interest. If the deal had gone through, it would have represented the largest deal for JDA since its May 2006 acquisition of Manugistics for $211 million.

■ **Air cargo remains soft.** A report issued by the Geneva-based International Air Transport Association (IATA) may have caused considerable alarm overseas, but many U.S. shippers were telling *LM* that it could have been worse. "Had our members not preplanned for certain cost factors after the steep hike in fuel charges earlier in the year, our carriers might have been hit harder by this development," said David Castelveter, a spokesman for the Air Transport Association (ATA). "In a relative sense, our carriers are looking a little better because they took their lumps earlier when cutting back on expenses and services was imperative," he added. But that does little to diminish the overall impact of IATA's forecast for 2009, Castelveter admitted, noting that it showed an industry loss of $2.5 billion. All regions except the U.S. are expected to report larger losses in 2009 than in 2008.

■ **Supply chain analysts ask: Where's the money?** Last month's *Chief Procurement Officer's Summit* staged by the Aberdeen Group in San Francisco gave voice to experts comprising finance, logistics, and manufacturing sectors. "There is no real recession-buster," said Jean-Jacques Beaussart, CPO of National City Corp. "We have to concentrate on the immediate needs, and worry about demand later. The cost pressure is intense." Given the vicissitudes of procuring product for distribution in a down economy, many new strategies have been put into place, they agreed. Capturing revenue today remains the challenge, so that the focus is more on "the now" than the future. "Doing more with less is something we're all facing," intoned Andrew Bartolini, vice president of global supply chain management research for the Aberdeen Group. "But how do managers do this?"

■ **Hola Miami.** In a move to enhance its hemispheric range, APL will route its leading Central America service through the Port of Miami. Beginning this month, the world's No. 7 container carrier by volume will move the Central America Express (CAX) and its companion service—the CX2—from the niche gateway of Port Everglades to a major container load center. Miami will be the only U.S. port of call for the service that connects Honduras, Guatemala, Nicaragua, and El Salvador with APL's major European and Latin American trade routes.

■ **2008's *Railroad Facts* is on the tracks.** The Association of American Railroads (AAR) annual reference book is replete with facts and statistics on a wide range of topics, including railroad finance, traffic, operations, and equipment, among others. It also includes profiles of Class I railroads, Amtrak, Canadian, and Mexican carriers. This edition, says the AAR, is of heightened interest to shippers, as it includes information on a record-breaking 2007 for industry revenues, capital investments, and accident rates. Single copies are $18; discounts are available for larger quantities. Order online at www.aar.org.

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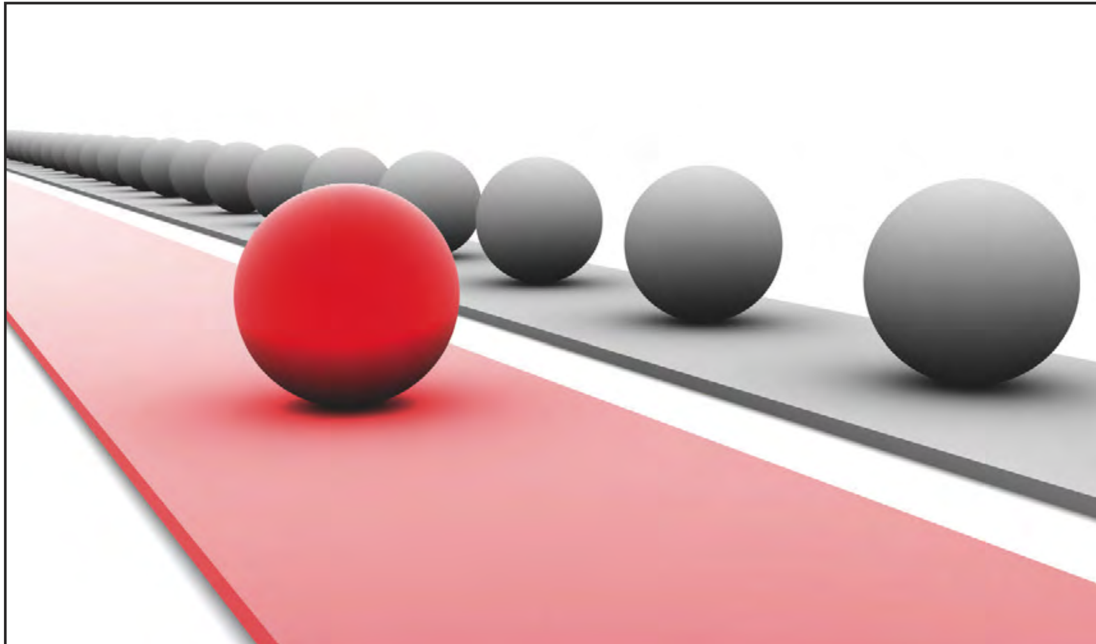

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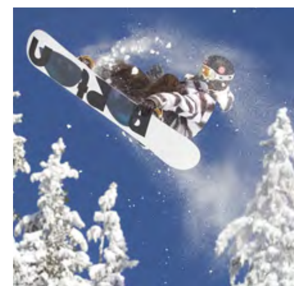

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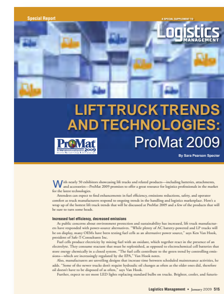

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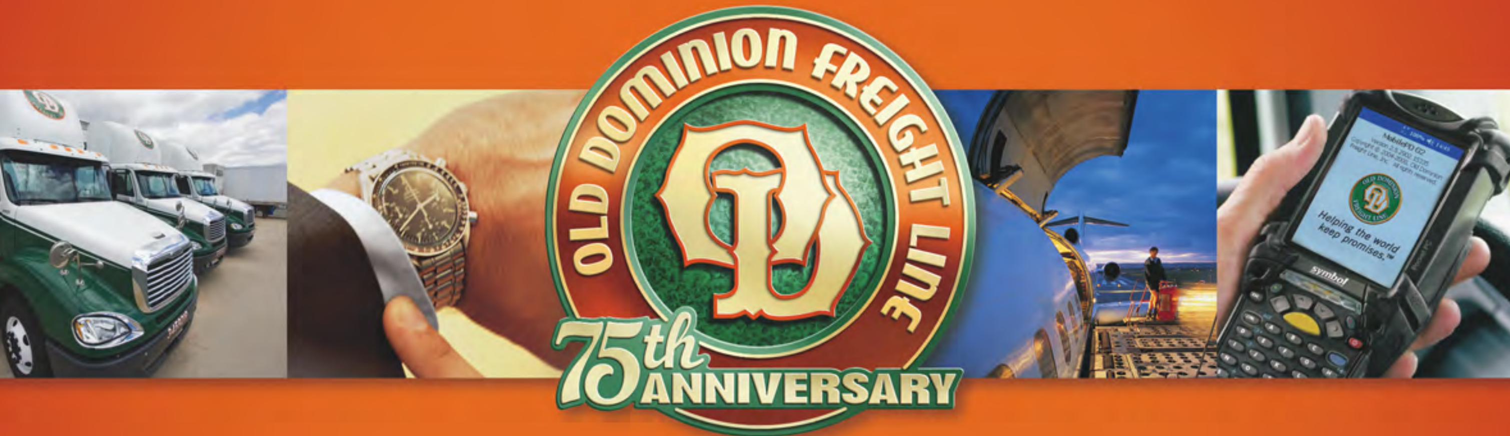

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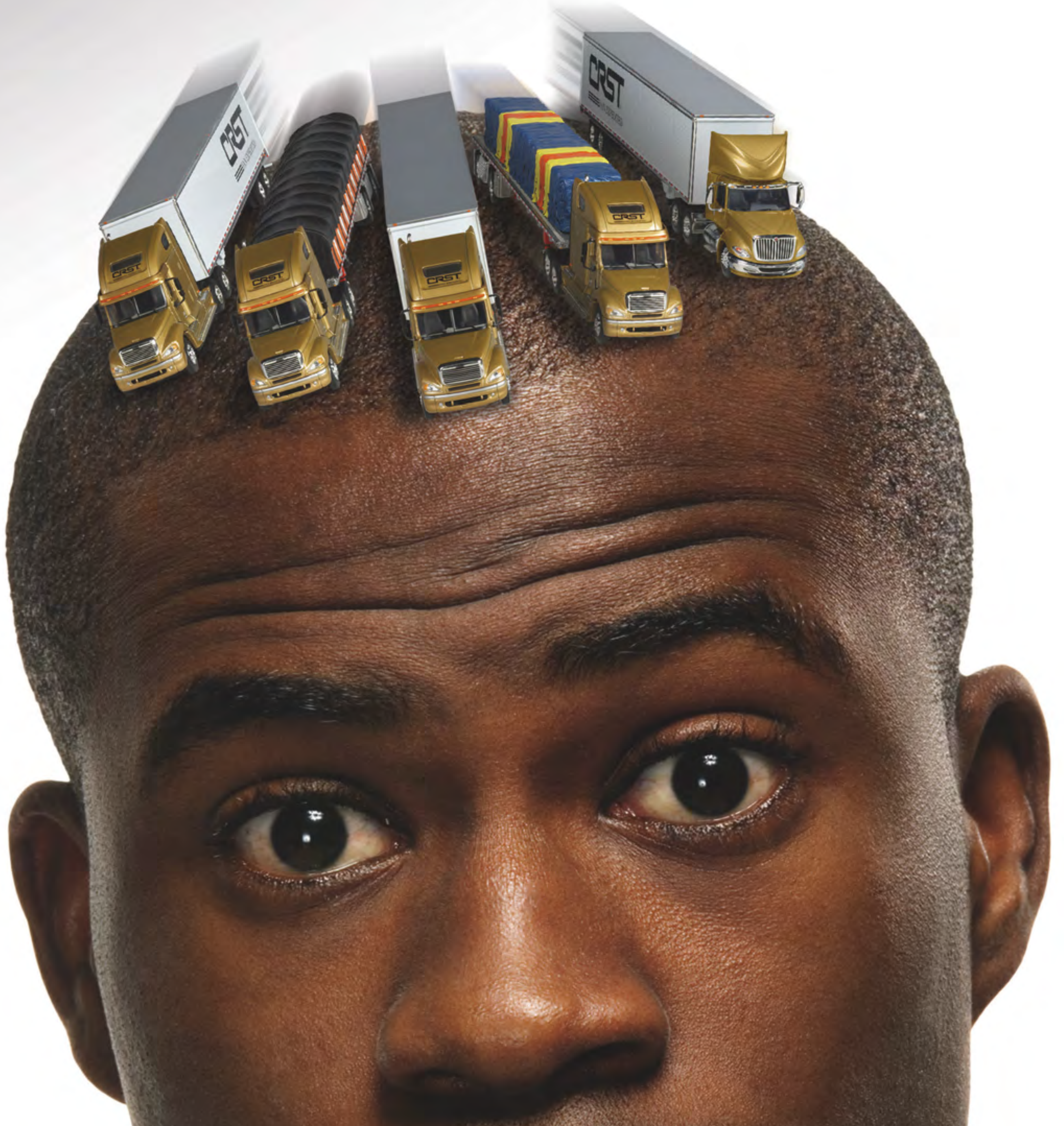

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VIEWPOINT

Assessing the opportunity

Our annual rate outlook cover is designed to help start a discussion—hopefully right in your office. This year you'll see our logistics executive looking down on a sea of open capacity across every mode. He appears comfortable, somewhat pensive, twirling his pencil between his fingertips on his right hand.

Now, place him into context under the headline "Window of opportunity" and it begs the question how he'll go about taking advantage of the opportunity he sees before him. We don't really know what kind of guy he is, and that's where the discussion should begin. Is he a tough guy who likes to beat his carriers up on rates and capacity for short-term gain? Or is he a shipper who is looking beyond the next eight or nine months and is quietly strategizing how he can realize long-term benefits for himself and his carriers when he sits down to renegotiate his contracts?

Regardless of our shipper's mindset and carrier philosophy, though, the current environment dictates that he needs to strike while the iron is hot. As our John Paul Quinn writes in the lead of our 2009 Logistics Rate Outlook (page 28), "Rather than a perfect storm, this represents a perfect break in the weather for shippers who have been battered for months by heavy fuel surcharges and uncertainty as to what modal alternatives to consider."

With oil prices dropping dramatically from $150 to under $50 a barrel in six months and plenty of capacity to be had in every mode, just about every one of our top industry observers told Quinn that the first half of 2009 is the time when shippers need to turn this unique situation into their own cost-saving advantage. Get in there and negotiate, renegotiate, and renegotiate again, he writes. Not even the market's most astute observers can tell us how long this window might be open, so perhaps our man is thinking he needs to get in there and fight for what he can get—and do it today.

But while our esteemed panel has reinforced this thinking, they also strongly suggest that shippers need to exercise extreme diplomacy, especially given how "dangerously uncertain" the transportation market has become. Our shipper may have seen some of his best small carriers shut down this past year. He may have pushed a little too hard on service levels and he could be taking the time to contemplate his tactics before he picks up the phone to call his carriers.

Before you pick up the phone I would highly suggest that you make John Gentle's Sage Advice column (page 57) your second piece of required reading this month. Gentle is a passionate advocate for the "relationship management" approach to carrier negotiations and has decades of experience in partnering with carriers in a way that benefits both sides. His column this month is an eerie reminder that you can quickly find yourself on the flip side of what was once a golden opportunity.

Join me and our esteemed panel for our Live 2009 Logistics Rate Outlook Webcast on Jan. 29, at 2:00 p.m. EST. Register at logisticsmgmt.com/outlook09

Michael A. Levans, Group Editorial Director

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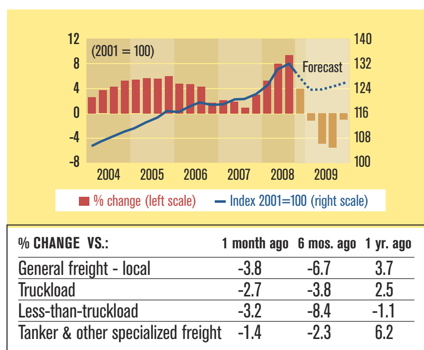
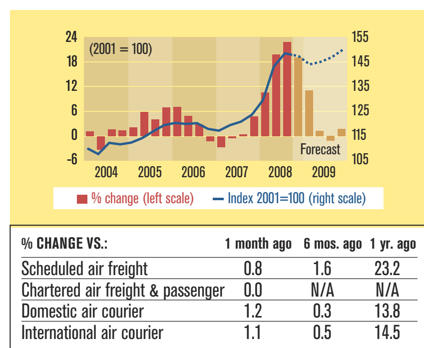


% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
General freight - local	-3.8	-6.7	3.7
Truckload	-2.7	-3.8	2.5
Less-than-truckload	-3.2	-8.4	-1.1
Tanker & other specialized freight	-1.4	-2.3	6.2

TRUCKING

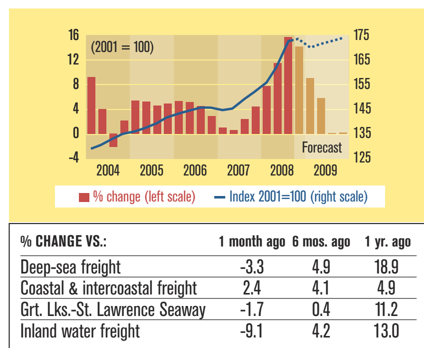
In the largest one-month drop on record, prices charged by trucking companies in November plunged 2.7%. TL companies reported their prices for primary services fell 2.7% and ancillary services plummeted 11.2%. LTL companies also cut their price tags by 3.2% for primary services. Now we are calling for prices to fall more steeply still, down 3.6% in the final quarter of 2008 and 2.8% in first quarter of 2009. With consensus forecasts calling for a deeper, longer recession, we expect average trucking prices to fall 3.2% in 2009, ending the year back at price levels last seen in the first quarter of 2008. When demand grows again—after 2008 bankruptcies cut supply—payback will be swift in 2010.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Scheduled air freight	0.8	1.6	23.2
Chartered air freight & passenger	0.0	N/A	N/A
Domestic air courier	1.2	0.3	13.8
International air courier	1.1	0.5	14.5

AIR

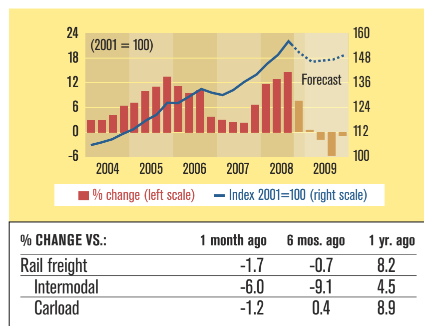
Looking at airfreight prices on scheduled U.S. airlines only, transaction prices bucked the trend in November by increasing 0.8%. That number hid two different trends, however, as prices for flying mail fell 4.7% and prices for flying freight increased 1%. We don't expect further price increases to make much headway in the near term outlook, though our forecast takeoff point is now higher than we had expected. After an 18% annual price increase in 2008, our forecast for a 1.2% annual price cut in 2009 may still be much too tentative. More data on chartered airfreight prices is being released now and that may help us tune our understanding of price trends in the future.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Deep-sea freight	-3.3	4.9	18.9
Coastal & intercoastal freight	2.4	4.1	4.9
Grt. Lks.-St. Lawrence Seaway	-1.7	0.4	11.2
Inland water freight	-9.1	4.2	13.0

WATER

The recessionary tide has begun to swamp the water transportation market now too. According to Labor Department surveys of U.S-based waterborne freight carriers, average prices in this industry fell 2.4% from October to November. Shipping on inland waterways led the way with a 9.1% price cut while deep sea freight transport prices were cut 3.3%. Our forecast for all water transport services calls for average prices to fall 2% in the first quarter of 2009. We're forecasting these U.S. prices will inch up slowly through the rest of the year. When new forecasts on import/export volumes are released, don't be surprised to see more downward revisions to water transport prices.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Rail freight	-1.7	-0.7	8.2
Intermodal	-6.0	-9.1	4.5
Carload	-1.2	0.4	8.9

RAIL

Intermodal rail prices plunged 6% in November. That was the largest one-month price drop since October 2004. In 2004, however, the trend did not persist. This time, we've seen intermodal tags decline for four consecutive months. In the carload market, prices have fallen for two months, down 1.2% in November and 1.6% in October. Like the rest of the transportation market, rail industry tags will fall in the first quarter of 2009. We saw a cyclical downturn in rail industry prices in 2006–2007 and the 2009 price bust will mirror that one. Only this time the rate of price escalation will fall more steeply and will end in negative territory, down 2% by the end of 2009.

Source: Elizabeth Baatz, Thinking Cap Solutions. E-mail: ebaatz@alertdata.com

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inside

- HOS regulations here to stay
- YRCW, Teamsters come to tentative terms on contract modifications
- Panama Canal development project on pace for completion

NEWS & ANALYSIS

Obama's focus on infrastructure may spur economic recovery

President-elect vows to leverage infrastucture investment into job creation, long-term economic growth, and congestion relief

By Jeff Berman, Group News Editor

WASHINGTON—As part of his plan to get the U.S. economy back on track, President-elect Barack Obama plans to make infrastructure investment a cornerstone of his economic recovery plan.

In his weekly radio address on Saturday, Dec. 6, Obama said that rebuilding the nation's infrastructure is a major driver for saving or creating at least 2.5 million jobs. He also vowed that his commitment to infrastructure will be the single, largest new investment in national infrastructure since the creation of the federal highway system under President Dwight D. Eisenhower in the 1950s.

"We'll invest your precious tax dollars in new and smarter ways," said Obama, "and we'll set a simple rule—use it or lose it. If a state doesn't act quickly to invest in roads and bridges in their communities, they'll lose the money."

Obama's pledge to leverage infrastructure investment as a springboard for job creation and an economic recovery comes at a time when news regarding the economy gets worse by the day, as evidenced by the Bureau of Labor Statistics recent report that 533,000 U.S. jobs were cut in November, the largest monthly number of U.S. job losses since December 1974.

While campaigning for the Democratic nomination in February, Obama called for the establishment of a National Infrastructure Investment Bank that would invest $60 billion over a 10-year period for highways, technology, and other projects.

Investing in infrastructure has been a major issue for the President-elect. While campaigning for the Democratic nomination in February, Obama called for the establishment of a National Infrastructure Investment Bank that would invest $60 billion over a 10-year period for highways, technology, and other projects.

The timing for this endeavor also matches up well with House Legislation—H.R. 7110, Job Creation and Unemployment Relief Act of 2008—

INFRASTRUCTURE, *CONTINUED*

passed in September that allocates nearly $30 billion for transportation infrastructure initiatives, with $12.8 billion pegged for highway infrastructure specifically for aging U.S. highways and bridges to improve safety and reduce congestion. A Senate version of this bill, with $10.8 billion slated for building and repairing highways, bridges, and other projects, did not pass.

"Obama has it right…now is really the time to inject some dollars into ready-to-go projects to support and preserve jobs that are out there and create additional ones," said Janet Kavinoky, director, transportation infrastructure, at the U.S. Chamber of Commerce. "We truly hope this is something that can happen in the short term, and we hope that bodes well for the important work that needs to be done over the course of the year on authorizing highway, transit, aviation, and water projects, too."

Kavinoky added that it seems as if probable recipients of federal dollars have "gotten the message" that they need to be ready to put the dollars to work and to sell the stimulus plan to Congress and the American people by showing that this effort is not another example of Washington spending money. Instead, it needs to be seen as Washington providing money to states and communities for real projects.

Along with job creation, what is driving this effort is the need and desire for the U.S. to be economically competitive with other countries so goods can be moved more efficiently from ports into cities, according to Frank M. Rapoport, chair of the Public Private Partnership (P3) team at McKenna, Long & Aldridge LLP, a law firm that specializes in helping business better interact with government.

"That is why we rebuild infrastructure," said Rapoport. "Sure we don't want bridges to fall down, but it is not to make bridges look pretty; it is to make sure they are connected [and connected to intermodal transportation]. Obama intimately understands there is a dual purpose to this immediate gratification in terms of job creation and long term economic creation by making the U.S. an easier place to do business for countries bringing their goods overseas and to U.S.-based distribution points." ■

"Obama has it right…now is really the time to inject some dollars into ready-to-go projects to support and preserve jobs that are out there and create additional ones."
—Janet Kavinoky, director, transportation infrastructure, U.S. Chamber of Commerce

TRANSPORTATION REGULATION

HOS regulations here to stay

WASHINGTON—The good news for shippers entering 2009 is that there is no news. There's going to be no change in the current hours of service (HOS) regulations governing approximately three million long-haul truck drivers.

The Federal Motor Carrier Safety Administration (FMCSA), in a move welcomed by both shippers and carriers, has decided to maintain the current HOS regulations. This just may end an eight-year legal and procedural battle to revise the HOS regulations, which went largely unchanged from 1935 until FMCSA first offered its first revision back in 2000.

In one of the final truck-related regulations issued by the Bush administration, FMCSA said it was adopting as final its interim final rule of Dec. 17, 2007. That allows drivers to drive 11 hours within a 15-hour work day with a 34-hour restart provision.

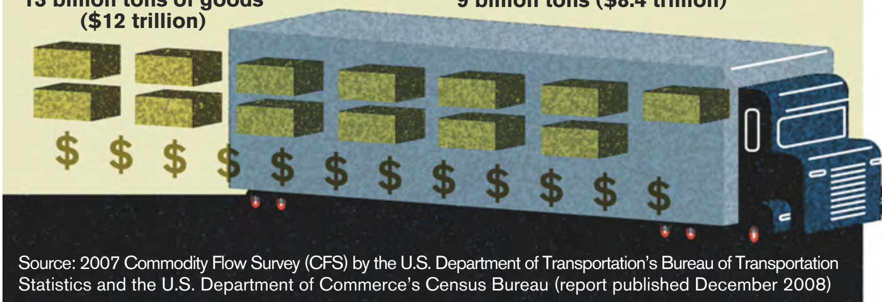
Both provisions had been challenged in court by Public Citizen, Advocates for Highway Safety, unions and other groups on procedural grounds.

The final rule was scheduled to be published in the Federal Register and became effective Jan. 19, the final day

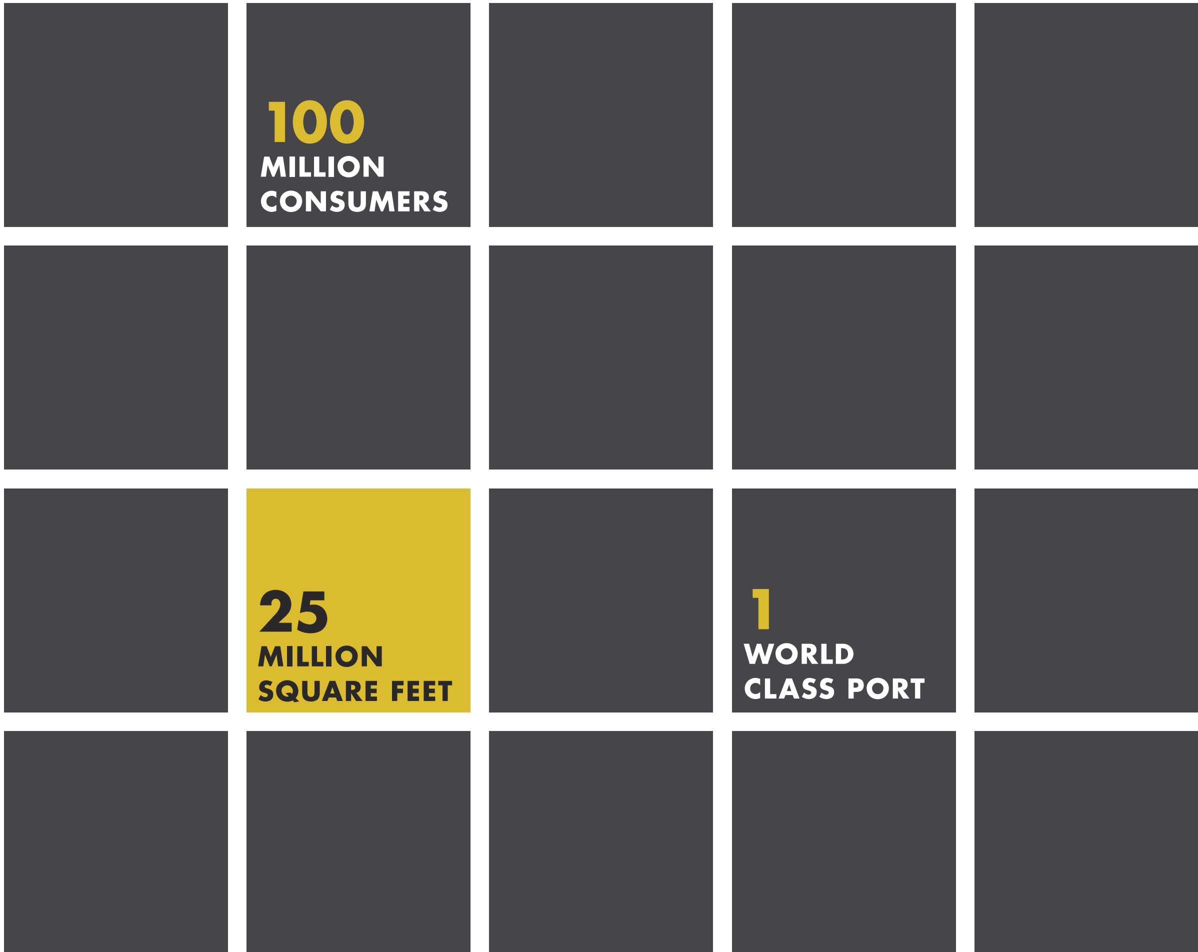
News Capsule

Despite tough times, trucking still leads the way in freight haulage

American industry shipped 13 billion tons of goods valued at almost $12 trillion in 2007. Despite economic woes, trucks moved more than two-thirds of the value and weight of freight shipped in the United States–about 9 billion tons in shipments valued at $8.4 trillion.



Source: 2007 Commodity Flow Survey (CFS) by the U.S. Department of Transportation's Bureau of Transportation Statistics and the U.S. Department of Commerce's Census Bureau (report published December 2008)



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TRANSPORTATION REGULATION, *CONTINUED*

of the Bush administration.

"There have been procedural rules that have been identified by the court. We are properly addressing the concerns of the court," FMCSA Administrator John Hill said in a conference call. "I feel confident that moving forward is the best public policy at this time."

Both shippers and carriers have adapted to the new rules that went into effect in 2003, despite court challenges. The biggest change was a push by carriers to urge shippers to become more efficient at their loading docks since driver waiting time was no longer counted as off-duty time, but rather part of the drivers' work day.

Any changes to these rules would be highly disruptive to shippers and carriers. Some shippers have made changes to their practices to adapt. Carriers, on the other hand, have fine-tuned their networks to adapt to the required 11- and 15-hour requirements. Any further changes, they say, would be costly and inefficient.

Drivers are limited to 60 hours driving in seven days, or 70 in eight days, while allowing those clocks to be reset by taking 34 straight off-duty hours. Previously, the rule had allowed for 10 hours of driving in a 15-hour period, but allowed drivers to log on and off duty whenever they wanted.

Drivers are limited to 60 hours driving in seven days, or 70 in eight days, while allowing those clocks to be reset by taking 34 straight off-duty hours.

FMCSA's Hill said he decided to propose keeping the current rules rather than create confusion within the trucking industry and the enforcement community by issuing further revisions. He called uncertainty "the enemy of enforcement and compliance."

There are still signs, however, that the incoming Obama administration might be sympathetic to the Teamsters union, Public Citizen, and other safety advocates who might try one more time to challenge these rules in court.

There are strong objections by some in Congress regarding HOS. Rep. James Oberstar, D-Minn., chairman of the House Transportation and Infrastructure Committee, said he was "disappointed that FMCSA is going down a path of trying to continue new standards for daily and weekly maximum driving time, when these standards have twice been rejected by the courts." L

—John D. Schulz, Contributing Editor

TRUCKING

YRCW, Teamsters reach tentative terms on contract modifications; puts 15 percent ownership in employee hands

OVERLAND PARK, Kan.—Details of a tentative agreement between freight transportation services provider YRC Worldwide Inc. (YRCW) and the International Brotherhood of Teamsters were released last month. The agreement, which focuses on modifying the current labor agreement for YRCW Teamsters employees covered by the National Master Freight Agreement, was reached on November 28.

This agreement would cover about 40,000 employees of YRCW subsidiaries Yellow Transportation, Roadway, USF Holland, and New Penn in various positions, including drivers, dockworkers, and clerical workers among others.

The main details of the proposed agreement include a ten percent reduction on all wages paid, including scheduled increases, and a suspension of cost of living increases. And in exchange for agreeing to a wage reduction, YRCW Teamsters employees would receive a 15 percent ownership stake in the company. YRCW Chairman, President, and CEO Bill Zollars said YRCW is working with its union partners to modify the terms of its labor contract in a way that allows it to be more competitive with non-union carriers and protect and sustain the financial help of its employees.

YRCW indicated the company would achieve $220-$250 million annually from these modifications, and a ratification vote on the proposed changes was scheduled for late December, with the modifications expected to take effect on Jan. 1, 2009, if approved. These modifications would also continue through the duration of the National Master Freight Agreement, which expires on March 31, 2013.

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TRUCKING, *CONTINUED*

A research report by J.P. Morgan analyst Thomas Wadewitz indicated these changes are positive for YRCW, but he warned that challenges still remain during a difficult economic period.

"While risks remain considerable, actions taken by YRCW are increasing the likelihood that it makes it through the current downturn," wrote Wadewitz. "[And] the cost savings are greater than we expected and they should provide a meaningful boost for YRCW in 2009."

But even with a meaningful boost, Wadewitz said YRCW still faces a grim LTL market and very intense competitive pressures.

This thought was shared by Ed Wolfe, president of Wolfe Research. Wolfe said that while a wage concession represents a significant reduction in YRCW's annual expenses, it's likely to increase the risk of further price competition and potential further service-related tonnage declines as a result of continued poor employee morale.

While the dollar savings is highly significant in this challenging environment, Satish Jindel, president of Pittsburgh-based SJ Consulting, contends that with massive layoffs occurring on a daily basis across all industries, these modifications are likely to be viewed as a good thing by YRCW Teamster staffers.

"There may be some concern that employee equity in the company may create some delusion among current shareholders…it also ties the interests of the workers to the future success of the company," said Jindel.

"To that extent, concerns about productivity and employee morale may not be all that bad. It would be one thing if this occurred in 2005 or 2006, but with what is happening now employees will feel better knowing they still have a job, which is better than the alternative."

Jindel added that this agreement is indicative of how the Teamsters under President James Hoffa have shown a little more of a business-friendly approach to labor contract.

—Jeff Berman, Group News Editor

"While risks remain considerable, actions taken by YRCW are increasing the likelihood that it makes it through the current downturn."

—Thomas Wadewitz, J.P. Morgan analyst

OCEAN SHIPPING

Panama Canal development project on pace for completion

PANAMA CITY, Panama—While continuing to adjust its economic forecast, Panama Canal authorities insist the expansion project is on schedule for completion in 2014.

"The big question for all of us is 'when will a demand for carrier capacity be restored?'" said Alberto Alemán Zubieta, administrator and CEO of the Panama Canal Authority (ACP) in an interview with *LM*. "In any case, we want the project on track and have it provide the industry with a more efficient routing solution."

The expansion project was initially announced in October 2006, when nearly 80 percent of voters in a national referendum held in Panama voted in favor of expanding the Panama Canal. When completed, the construction project will double the capacity of the increasingly congested waterway to 600 million tons a year and allow it to handle much larger vessels.

After the expansion, the canal will accommodate vessels up to 160 feet wide and 1,200 feet long, with a 50-foot draft.

The project will include construction of two sets of locks and access channels; a new traffic lane; dredging; and raising the water level in Gatun Lake. Currently, the maximum allowable dimensions for most vessels transiting the canal are 106 feet in width, 965 feet in length, and 39.5 feet of draft (depth).

After the expansion, the canal will accommodate vessels up to 160 feet wide and 1,200 feet long, with a 50-foot draft. The maximum size for container vessels will increase to 12,000 twenty-foot equivalent units (TEUs).

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OCEAN SHIPPING, *CONTINUED*

Zubieta provided additional insight to Panamanian President Martín Torrijos' recent $2.3 billion expansion financing structure announcement. And senior leaders of five multilateral and development agencies convened at Panama's Ascanio Arosemena Theater with Canal officials to sign an agreement.

"The big question for all of us is when will a demand for carrier capacity be restored? In any case, we want the project on track and have it provide the industry with a more efficient routing solution."

—Alberto Alemán Zubieta, administrator and CEO of the Panama Canal Authority (ACP)

"The geographic diversity of the offers and the high profiles of the institutions, demonstrate the international market's trust and confidence in the high-growth performance of the Panamanian economy and the successful management of the Panama Canal," said Zubieta.

The $2.3 billion financing package will cover a portion of the $5.25 billion total cost, Zubieta added. The negotiated financing structure includes favorable provisions for the ACP, including a 20-year amortizing period with a 10-year grace period and establishes an unsecured, untied financing for the ACP, whereby there are no prerequisites to contract from any one source.

"Meanwhile, our economic advisors are studying trends pointing to a rebound in shipping," Zubieta told *LM*. "Our findings suggest a recovery at the end of 2009 or early 2010."

—Patrick Burnson, Executive Editor, and Jeff Berman, Group News Editor

Home delivery carriers offer many pricing options

DURING THE MANY YEARS I've been writing this column, I never discussed pricing options offered by for-hire carriers that specialize in making deliveries to private residences, apartments, dormitories and similar type of premises.

We're not talking here about the likes of UPS Ground, FedEx Ground, or the U.S. Postal Service, but for-hire home-delivery carriers that primarily specialize in delivering larger size products such as new furniture, kitchen cabinets, appliances, etc. You'll find these carriers in every major city in the U.S.

A handful serving the furniture industry cover the entire country such as Home Direct USA, based in Hillside, Ill., and Mainstreet Delivery headquartered in Green Bay, Wis. These are non-asset-based companies using small, independent home delivery carriers scattered throughout the U. S. and in some instances, Puerto Rico. Other carriers, such as Purnell Furniture Services, headquartered in Manassas, Va., and Cory Home Delivery out of Secaucus, N.J. are regional in territorial coverage and handle much of the East Coast.

Many of these companies got their start by going into retailers and taking over the warehousing and home-delivery operations that the retailers had long been performing with their own drivers and delivery vehicles. The one unique thing about these carriers is the wide variety of pricing options that they can offer their customers, be they retail stores, catalog companies, or companies selling over the internet. Below are some of those pricing options.

Varying according to different size products: An excellent example is furniture delivery carriers that make a separate charge for a sofa, a lower one for chairs, and yet a different charge for set-up tables.

As a percent of invoice price: Some of their customers want a set percent of their invoice to cover the cost of delivery, making it easier to quote a delivered price.

By the cube of the product: A notable example is the delivery of kitchen cabinets. Actually, there are two different pricing methods offered—one for delivery to the customer's garage and the other for unpacking it and bringing it into the kitchen.

Per package, with the charge varying by weight: Some of these home delivery carriers are delivering packages in competition with UPS Ground, FedEx Ground, and the USPS, many times at a very competitive price.

Varying according to the value of the product: For example, home delivery carriers serving the furniture industry have customers selling high-priced furniture, other customers dealing in medium-priced products, and still others offering low-end lines. These carriers charge a smaller fixed percent to customers with high-end lines, an even higher fixed percent on medium-priced lines, and yet an even higher fixed percent on customers in the low-end priced furniture business.

The vast majority of for-hire home delivery carriers price their service with a fixed price delivery to points within a set delivery zone, such as a radius of 50 miles.

The vast majority of for-hire home delivery carriers price their service with a fixed price delivery to points within a set delivery zone, such as a radius of 50 miles. If they make deliveries to points beyond that zone, a higher charge applies.

Extra charges are assessed for performing "deluxing" prior to delivery—touching up scratched surfaces, polishing, etc. Assembly of a product once it is in the home, such as a bedroom set, is another type of additional charge. L

Author's Note: I wish to take this opportunity to thank Richard Purnell and Bill Contaxis of Purnell Furniture Services, Manassas, Va., for their help in preparing this column.

Ray Bohman, a well-known consultant and author, is editor of several highly successful newsletters on transportation and is a consultant to a number of national trade associations. He is president of The Bohman Group, consultants and publishers in the freight-transportation field. His offices are located at 27 Bay Lane, Chatham, MA 02633. Phone: (508) 945-2272.

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Maximizing worldwide effectiveness with a centrally led operation

GLOBALIZATION HAS HUGE IMPLICATIONS for supply chain executives. Reasons are numerous, but the main one may be that in order to capably walk the global walk, companies must excel in two often incompatible ways. First, they must design flexible, adaptable *downstream* operations to ensure differentiated products and services, and then they must achieve exceptional *upstream* efficiencies to contain or reduce costs (Figure 1).

Most companies understand this dichotomy, which is why cross-value-stream initiatives (outsourcing, shared services, mass customization, postponement and coordinated procurement, etc.) are increasingly popular. But these innovations are often compromised by autonomous organization models that are country, regionally, or even locally based. What's really needed is a single, "centrally led operating model"—an approach *designed* to combine global efficiencies and local responsiveness.

Think of a centrally led operating model as an organizational construct wherein a company's most important assets and many of its core business functions are consolidated, managed, and controlled by a single entity. This is not the same as a regional headquarters structure, which emphasizes multiple centers of responsibility for many processes, assets, and activities. In a centrally led operating model, most functions are either:

Consolidated into a principal trading company. This organization may oversee demand forecasting, order management, inventory/supply planning, supplier management, inventory management, accounting, IT application strategy, and management and HR policies.

Managed by shared services centers. Shared services centers are particularly good candidates for functions that thrive in "low cost countries" (e.g., salary administration, invoice processing, procurement).

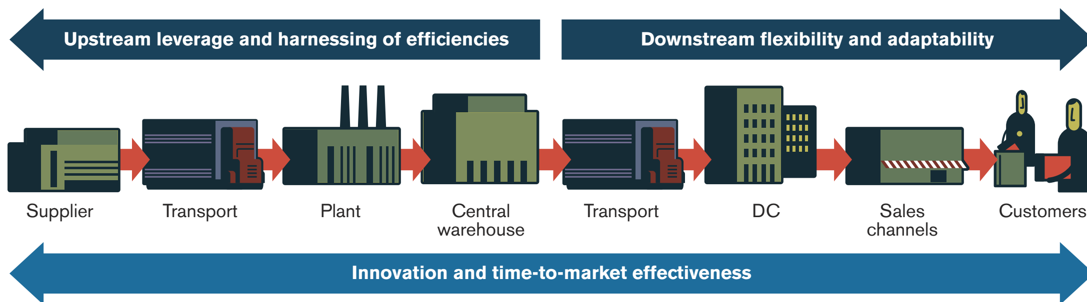

Figure 1: Attainment of truly global operations requires flexible, adaptable downstream operations and ever-greater upstream efficiencies to contain or reduce costs.

Outsourced to third parties. Traditional logistics functions such as procurement, transportation, and distribution tend to be optimal choices for outsourcing. However, outsourcing can be a viable action for any activity not considered core to the company's pursuit of competitive advantage.

WHY BOTHER?

A centrally led operating model is particularly attractive for its integration and standardization potential—one single entity or operation into which a company's best efforts and best practices can be concentrated. Procure-to-pay. Order-to-cash. Product life cycle management. Transportation and distribution. With processes integrated and standardized, it becomes possible to capture upstream and downstream efficiencies that might

(continued)

Narendra Mulani leads Accenture's Supply Chain Management service line. He has worked across a diverse set of retail, technology, and products clients, and continues to have responsibility for Accenture's global relationship with Procter & Gamble. He has been with Accenture since 1997.

previously have been unattainable.

Centrally led operating models can also be catalysts for improved visibility and business intelligence. Information required for detailed analysis and modeling (e.g., of gross-to-net revenue or key customer and brand profitability) becomes more-readily accessible and consistently presented. Inventory levels—raw materials, in process and finished goods—can be ascertained across the region or around the world. In both cases, the net effect is better and more integrated planning and increased supply chain responsiveness.

With key functions concentrated in a central unit, most companies will find it easier to formulate effective strategies and deploy them consistently across the organization. Functions can be introduced or outsourced more easily. Not surprisingly, acquisitions can be more-swiftly integrated into the centralized structure.

With so many value-added functions centralized, rewards such as better control, greater synchronization, increased availability, improved service and better product mix frequently follow. Inventory levels often fall by 25 percent to 40 percent and overall logistics costs may drop by 10 percent to 15 percent. Cost of goods sold may also dip because it becomes easier to rationalize manufacturing and supplier bases and to negotiate purchasing contracts centrally.

A final benefit of a centrally led operating model is the potential to raise tax efficiency: Corporate governance practices generally dictate that profits be allocated according to the level of risk and value-added activities attributable to each one of a company's business entities. And since profits accrue faster in a more favorable tax climate, it makes sense to locate centrally led operations in a lower-tax location. Freed-up cash flow—the result of reduced tax burdens, custom duties and sales tax/VAT outlays—is the key advantage.

CRITICAL SUCCESS FACTORS

Not surprisingly, the journey from a regional or country-based structure is lengthy and complex. It's also unique to each company's particular physiology and psychology. Thus there is no such thing as a single recipe for success.

However there are numerous "critical success factors" that apply to most organizations. These include a solid vision and business case; high levels of specificity about roles and responsibilities; strong service level agreements; and a solid governance structure.

A centrally led operating model may not be the only way to create a company that is hyper efficient, hyper responsive and unusually good at balancing upstream and downstream priorities. But for many companies, it could become the foundation of a truly global operation, as opposed to an entity that just operates in a lot of countries.

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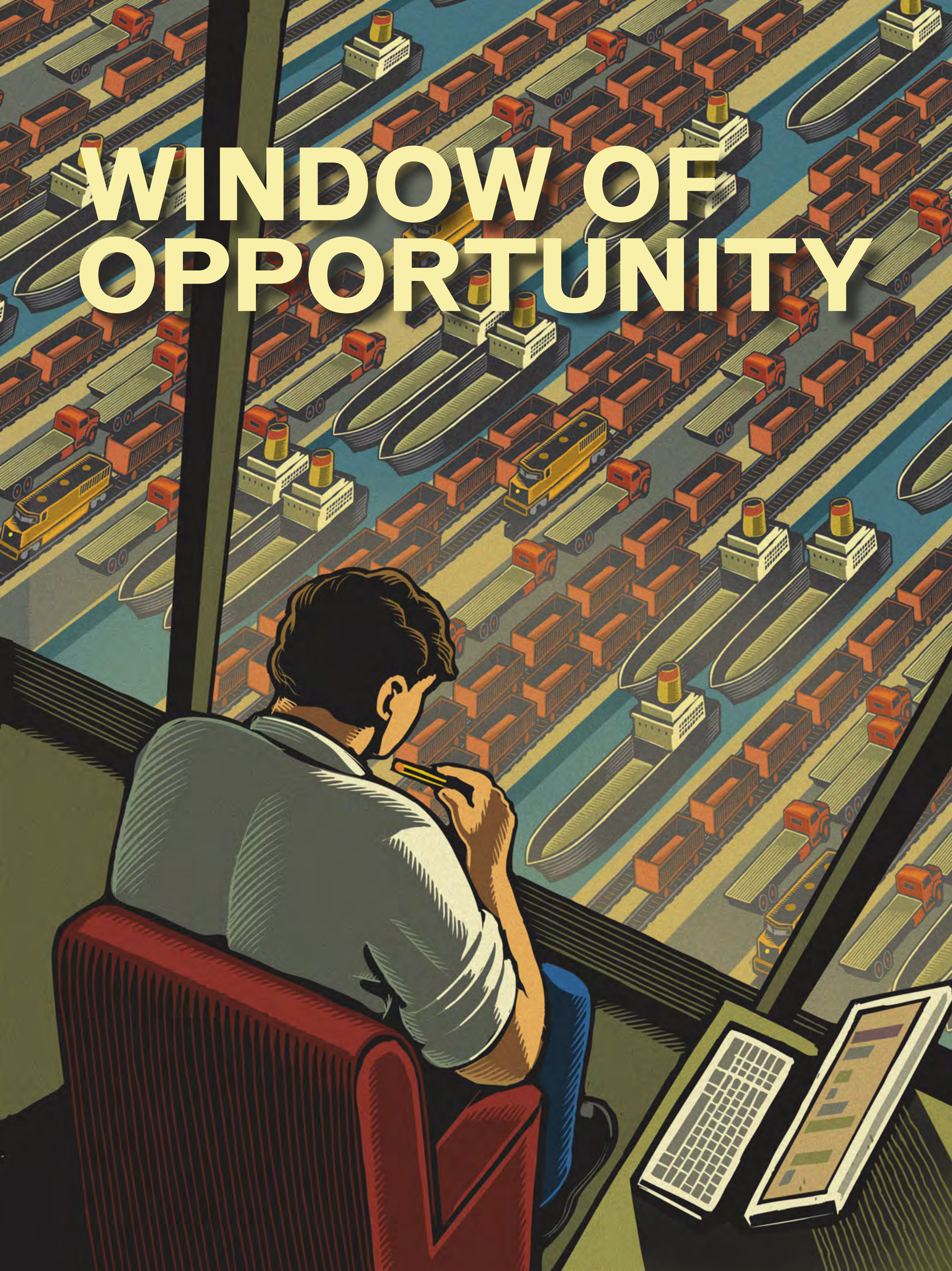
WINDOW OF OPPORTUNITY



2009 LOGISTICS RATE OUTLOOK

BY **JOHN PAUL QUINN,** CONTRIBUTING EDITOR

The confluence of global economic weakening and widespread carrier problems offers shippers a rare rate opportunity—but for how long?

As 2008 came to a close, world markets were in slow-motion freefall, retail spending was off significantly, and overcapacity was the prevailing condition of virtually every transportation mode.

Rather than a perfect storm, this represents a perfect break in the weather for shippers who have been battered for months by heavy fuel surcharges and uncertainty as to what modal alternatives to consider. With oil dropping cataclysmically from $150 to $50 a barrel in just six months, and ships, trains, and trucks empty and idle, observers agree that the first half of 2009 should be the time for shippers to turn the situation to their own cost-saving advantage.

But how long this opportunity will last depends on the duration of the present economic doldrums. "The economy will continue to shrink into the middle of this year, and we don't expect to see growth again until 2010," says James Haughey, director of economics for RBI-US, *Logistics Management*'s parent company. "The worst period will probably be the next three to four months."

Haughey believes that oil prices will settle in the $60-$70 range while the global economy remains slack, so fuel-cost adjustment clauses will actually benefit shippers over this time.

"The concern for carriers of all types is when the upturn will happen," adds Paul Svindland of supply chain advisory firm AlixPartners. "Even if the new administration stimulates the economy and things start to fall into place in February or March, the effect may not hit the freight industry until the summer. So shippers should understand that even in a best case scenario, it may be as late as the third or fourth quarter before there is any improvement in the carrier position."

The critical takeaway is this: Now is the time to review all carrier contracts and strike while the iron is hot. Bargain hard while lower rates are available and work for agreements with as long duration as possible; but remember to exercise judgment in maintaining carrier relationships given the dangerous uncertainty of future market conditions. Here is a snapshot of what shippers can expect to encounter in the modes of transport they use.

RATES UNDER PRESSURE ON THE RAILS AND ROADS

While sources report that rail rates were down 8 percent for the last quarter of 2008, many rail contracts have already been negotiated for 2009. But for those shippers who have not yet committed themselves, there is wiggle room.

"Demand for rail line-haul operations will only turn around in mid-2009 at the earliest, so rates will be under intense pressure, and this is the best time to negotiate in this sector in years," says David Jacoby, president of Boston Strategies International, a supply chain strategy consultancy.

In terms of the intermodal situation, the leverage is even more in favor of the shipper. "Shippers should buy capacity between now and June," advises Brooks Bentz, partner, supply chain transportation at Accenture. "If a shipper is considering changing his network or shifting to intermodal, or going from LTL to TL, he should do it now. The opportunity won't get any better than in the first half of this year, so this is the time for the shipper to take care of business."

The urgency relates to a large extent, Bentz believes, on the precariously transitory nature of oil prices: "Anyone who thinks the fuel crisis is over is not living in the real world. Shippers have to be aware that fuel will inevitably come back as a major factor and be up in price and down in supply."

But cheap fuel and the resulting evaporation of surcharges aren't the only complications carriers face.

"For both rail and trucking carriers this is a brutal market, and there is no indication that volumes will pick up in the first half of 2009," says AlixPartners' Svindland. "So, from the shipper's side of the equation, with plenty of capacity available, trucking rates will be in their favor because it's a buyer's market with significant downward pressure on pricing."

The sharp drop in fuel pricing factors significantly in the shipper's negotiating position, according to Svindland. "Historically, shippers shift from truck to intermodal when fuel prices are high and capacity is tight," he notes. "But now with the major retail, construction and automotive markets all weak, both trucking and intermodal carriers are

2009 Outlook Webcast
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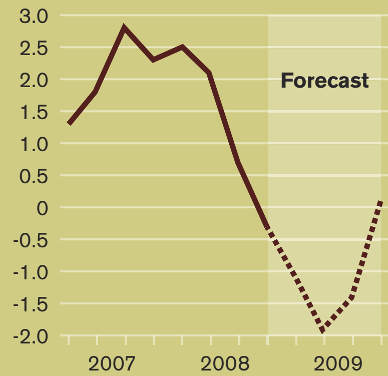
GDP expected to register year over year growth of 0.7% in 2009–the smallest increase since 1954

(percent change* in real GDP)



* % change from prior quarter at annualized rate
Source: Blue Chip Economic Indicators (Dec. 2008)

hungry for business and aggressive in bargaining to get it. So, shippers may want to stay with going over-the-road, or if they are into long-haul traffic that is not crucially time-sensitive, this is an opportunity to consider the intermodal option."

Add to this the fact that a number of TL companies have gone out of business, others are downsizing their fleets, owner-operated trucks are being repossessed, and the likelihood is that the rate situation will most probably stay stalled—since the drop in capacity has been matched by a drop in shipper volume and fuel surcharges are no longer an issue.

But on the LTL side, things might become more competitive due to the labor and volume problems of Yellow Transportation, the largest player in this sector. "LTL rates could be down 1 to 4 percent for early 2009," says John Larkin of investment advisory Stifel, Nicolaus & Co. "They would only rebound dramatically depending on what happens to the largest carrier in the field. If Yellow has to continue to consolidate internally and shed traffic, this would tighten up capacity and there would be more freight than the industry could carry."

Larkin also warns that the current reduction in fuel surcharges is a temporary respite, and he suggests that shippers who are heavily into LTL consider options such as intermodal, more TL, and to look for ways to interface TL with regional LTL to achieve the distribution they require.

> "Anyone who thinks the fuel crisis is over is not living in the real world. Shippers have to be aware that fuel will inevitably come back as a major factor and be up in price and down in supply."
>
> – Brooks Bentz, Accenture

PLENTY OF SPACE AT SEA AND IN THE AIR

Nowhere is the capacity glut more apparent than in the air and ocean freight sectors; in fact, ocean rates slipped by as much as 30 percent last year due to a combination of factors.

"Until mid-2008, with the weakened dollar, there was a boom in U.S. export traffic, but when the currency situation reversed in the latter half of the year, both imports and exports were down," notes Jacoby at Boston Strategies. "So ocean carriers had to absorb a lot of costs, and at the same time they had commissioned the expansion of their fleets by some 10-12 percent. So for the shipper there is an imperative to act now, because he could lose six months of rate gains if he doesn't renegotiate."

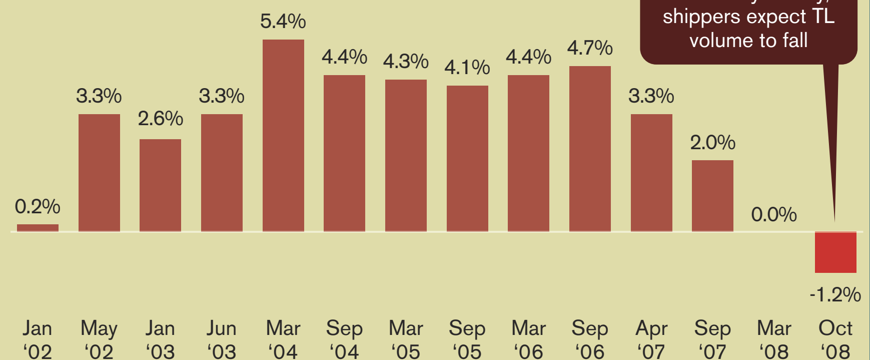
> "Even in a best case scenario, it may be as late as the third or fourth quarter before there is any improvement in the carrier position."
>
> – Paul Svindland, AlixPartners

And the carriers are suffering, no matter what sea lanes they work. "The Europe-Asia market has cratered, and the state of trans-Pacific to U.S. traffic is atrocious," states Mike Regan, CEO of freight payment specialist Tranzact Technologies. "Containers that shippers paid $2,000 for a year ago…they now pay $700 for, and it may go lower."

And for carriers it's worse up in the air. As an example, Air Japan has canceled

Economic crisis expected to weigh on TL volumes

(Shippers' expectations for changes in TL volumes over the next six months vs. the same period in the prior year)



Source: Morgan Stanley Freight Pulse survey (October 2008)

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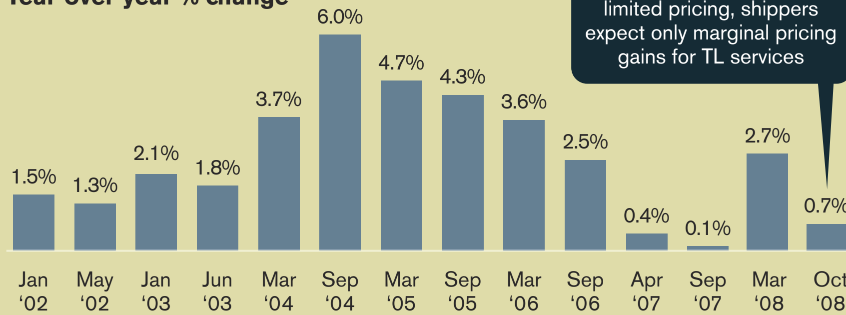
Shippers see marginally higher TL rates over the next 6 months

(Shippers expect TL rates to rise, but well below cost inflation. Given expectations for shrinking fleets and carrier bankruptcies, shippers generally feel capacity will grow tighter in the future which would put upward pressure on rates)



Source: Morgan Stanley Freight Pulse survey (October 2008)

its freight service from the Orient to New York, and will fly into Chicago and link with the East Coast by road. "There just isn't enough freight density to keep the planes flying because the volumes aren't there," notes Bentz at Accenture. "Again, it's a question of renegotiating now if you have to ship by ocean or by air."

PARCEL SLUGFEST

The most significant development in the parcel sector has been the virtual exit of DHL from the U.S. marketplace, especially since the company was the acknowledged low-cost provider for price-sensitive shippers (See Patrick Burnson's Parcel Express Roundtable on page 33).

Most likely, former customers of DHL, which was the low-cost provider, will continue to be price-conscious and migrate to USPS, UPS, and then FedEx, according to observers. But this apparent tightening of capacity isn't necessarily a threat for shippers.

"Increasingly, fewer customers actually pay book rates," says Ted Scherck at The Colography Group, an advisory firm for parcel shippers. "When the major parcel carriers announce 6 percent rate increases they will not get anywhere near that in a competitive marketplace. Historically, in a recessionary period, if they get two-thirds of what they ask for they're lucky."

According to Scherck, shippers should respond by bargaining for lower rates, or consider changing the timeframe and thus the mode by which they move their product. Over the latter part of 2008, the trend was from overnight to deferred air or to ground parcel and ultimately to LTL.

What is most critical for shippers in the parcel sector, says our sources, is to do your homework on what the rate structures of UPS, USPS, and FedEx are before bargaining with an existing carrier or switching to another. "When there are only three major players, pricing dynamics come into play," warns Jerry Hempstead at parcel advisory Hempstead Consulting. "This can get complicated, because USPS has only been deregulated for a year and is going through a learning curve on their pricing latitude."

Meanwhile, with DHL gone from the U.S., Hempstead adds that UPS and FedEx can be expected to boost their base rates to take advantage of shippers who don't realize they can renegotiate. "When a carrier has excess capacity and a fixed network, and there are declining volumes in the marketplace…if you have any kind of volume, you are now in the position to demand a better price," he adds.

IT'S NOW OR NEVER

Virtually every industry observer in every sector agrees that the first half of 2009 will be an almost unique period of bargaining strength for the shipper.

And their counsel is consistent: negotiate, renegotiate, and renegotiate again. Be sure you know the new rules and realities of each modal sector. Try to lock in conditions of contract for as long as possible, especially as relates to the fuel situation.

Finally, shippers need to remember that prognosticating transport industry conditions has proven to be both risky and virtually impossible. Six months ago anyone predicting that oil would drop below $50 a barrel by year's end would have been considered as having open capacity in the I.Q. department. Market tracking models and benchmarks in many cases last no longer than days or weeks, and everything has to be rethought and renegotiated–now.

Because what the rate outlook will be by the middle of 2009 is literally anybody's guess.

John Paul Quinn is a Contributing Editor to Logistics Management

> **"If a shipper is considering changing his network or shifting to intermodal, or going from LTL to TL, he should do it now. The opportunity won't get any better than in the first half of this year, so this is the time for the shipper to take care of business."**
>
> – Brooks Bentz, Accenture

Parcel express roundtable: SLUGFEST

BY **PATRICK BURNSON,** EXECUTIVE EDITOR

With DHL knocked out of the domestic picture, it appears that the two remaining heavyweights will be slugging it out for market share. Industry analysts suggest, however, that a wily contender may be looming at ringside.

Shipping, like nature, hates a void, and industry analysts are hoping that DHL's departure from the U.S. market will not place duopolistic pressure on those shippers already operating under severe economic strain. In an effort to determine what may lay in wait for parcel express shippers this year, *Logistics Management* convened a roundtable comprising four of the industry's leading experts.

We're joined by Gerard (Jerry) Hempstead, a former DHL executive who brings tremendous insider perspective to the discussion; Doug Caldwell, who, as vice president of ParcelPool, delivers the viewpoint of the consolidator; consulting expertise comes from Rob Martinez, president of Navigo Consulting Group; and David Ross, vice president and transportation analyst with the Stifel Nicolaus research team rounds out the panel. Together they arrived at incisive and often startling conclusions that may force many parcel shippers to pause and consider the effect the new landscape will have on their logistics operations.

Logistics Management: **How would you best define the current parcel express market for shippers?**

Doug Caldwell: The overnight express market is in rapid decline right now, and international—which in recent years has been the growth leader—is having the same kinds of issues that were being seen on the domestic side. We're observing that all the carriers are facing rising costs, in part due to the lack of shipments. So in turn, the carriers need to pass on those rising costs. It's a vicious circle.

Rob Martinez: I would have to agree that the express segment of the parcel industry has been in free fall in recent years, primarily due to higher express costs, including high base freight tariffs, fuel surcharges, and accessorial charges.

David Ross: Both Doug and Rob pretty much sum it up; but I would like to point out that shippers will see limited options with complicated pricing about to come into play due to DHL pulling out of the U.S. mix.

Shippers would like simpler pricing (i.e., fewer surcharges) and more carrier options, but given the extremely high barriers to entry in the small package market, we see this as unlikely. Still, the carriers do continue to advance their technology and improve service.

Jerry Hempstead: DHL had to be the "everyday low price" carrier that, for all intents and purposes, set the threshold for the bottom of the pricing market.

But DHL did not know how to manage its culture and endured tremendous operating losses. For shippers in early 2009, it's still a buyer's market due to excess capacity among competitors. But rates will have to get higher.

"Shippers would like simpler pricing and more carrier options, but given the extremely high barriers to entry in the small package market, we see this as unlikely."

—David Ross, Stifel Nicolaus

LM: **What will be the fallout of DHL's departure?**

Ross: First of all, we should see the removal of the pricing anchor from the market. This should also help mitigate the volume decline and margin contraction that FedEx and UPS have seen as a result of the slowing global economy. Less competition means FedEx and UPS—unless they want a price war—should be able to pass along annual rate increases with little resistance.

We should see USPS becoming, slowly but surely, more competitive on ground parcel but not on the express side since they don't have the infrastructure or technology and systems to compete on tracking and tracing and other services needed for most next-day shipments. Ground parcel is less time-sensitive, and the USPS has a fleet on the ground that is best suited for B2C shipments. The USPS also recently began negotiating rates for shippers with significant volume, as the retail rate base can't compete with FedEx and UPS prices on most business.

Martinez: I agree. Pricing discipline will be difficult to maintain. Other factors include the reliability and price advantages of less time specific—yet time definite—services like ground. Not only are base charges, fuel surcharges, and many accessorial charges lower than express, but delivery performance is the same or better than Express for many ZIP code pairings.

LM: **Where will DHL fit in?**

Hempstead: They will retain a small presence here with about 100 terminals and a small driver force dedicated to the pick up and delivery of the international express packages, which by the way includes Canada, Mexico, and Puerto Rico. It remains to be seen if DHL in fact cuts a deal with UPS to fly its packages on the UPS air network. Many industry observers now believe that there is no valid business reason for UPS to enable its largest global competitor to reduce its costs or be successful here in the U.S. Many would be surprised to see a deal actually consummated.

Martinez: I agree with Jerry, DHL's customers abandoned ship in mass exodus from its remaining domestic operations. As such, DHL will remain competitive internationally.

LM: **We mentioned how the USPS may benefit by the DHL move a littler earlier. In your estimation, what will be their new role?**

Caldwell: The USPS is really going after the current DHL shippers, and it's my understanding that they are having some success. This month, the Postal Service is rolling out some new, volume based discounts for both Priority Mail and Express mail shipments. The discounts range up to 15 percent, and start at about 25 shipments a day.

USPS has stepped up to the plate in the tracking and tracing area in the last few months, and is now very

"The parcel industry has been in free fall in recent years, primarily due to higher express costs, including high base freight tariffs, fuel surcharges, and accessorial charges."

—Rob Martinez, Navigo Consulting Group

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close to their commercial competitors in this area. All in all, the Postal Service is starting to look very entrepreneurial, at least when it comes to packages. They've put together a really innovative team focused on shipping—Bob Bernstock, Jerry Whelan, Gary Reblin, and Jim Cochrane. These guys know the small parcel market, and they know the competition. I guess you could say that it's not your Father's post office anymore.

Hempstead: Doug makes a terrific point, but I don't agree with all of it. The USPS has new latitude in pricing, true, but they are just getting their feet wet in learning how to use this freedom. Coming out of a regulated world they have a big learning curve. USPS sales force never had the tools to sell before the way UPS, FedEx, Airborne, and DHL did.

They don't have complete freedom but they also need to get beyond their current cost theories because incremental volume does not have the same associated cost as transactions currently within the network. Over time they will come out with some very competitively priced options. It's important that shippers open a dialogue with the USPS representative and keep pressing that rep for a proposal for a discount.

Ross: I'd like to add one more caveat to that, Jerry. Let's remember that USPS will now be the third biggest player in the U.S. parcel market but a distant third to FedEx and UPS.

The USPS has recently focused on becoming more competitive on price and looking to improve technology and service as well. Since it's essentially a government entity, though, change does not happen fast; and while the USPS would like to move into DHL's spot as a viable third option for most parcel shippers, we think they're years away from that actually happening.

"DHL did not know how to manage its culture and endured tremendous operating losses. For shippers in early 2009, it's still a buyer's market due to excess capacity among competitors."

—Jerry Hempstead, Hempstead Consulting

***LM:* What does this all mean for service levels and rates heading into 2009?**

Ross: Service levels should improve as the company that had arguably the worst service is leaving and the remaining players are getting significant incremental density. Rates would have been under a lot of pressure in 2009 due to the weak economy; however, it looks like with capacity falling more than demand, FedEx and UPS should realize a higher percentage of their annual rate increases than originally thought.

Caldwell: As Jerry stated earlier, until economic stability and pricing discipline is restored, all bets are off, even on improved service. But rate hikes will be a reality.

***LM:* Given all we discussed, can you give parcel shippers one or two recommendations for managing their parcel spending for the coming year?**

Ross: Ground service is improving for all carriers, so we recommend using as much ground as possible. Second-day air is better than next-day air, if a shipper can plan accordingly, and only ship it next-day early a.m. if it's absolutely critical. The few hours earlier it may arrive usually just translates into wasted dollars. Also, know your freight. If shippers just guess what their freight volumes and characteristics are without data or specifics, FedEx and UPS will likely build a "cushion" into the rate to account for the shippers' fuzzy math. Knowing your freight helps the shipper and the carrier.

"The USPS is really going after the current DHL shippers, and it's my understanding that they are having some success."

—Doug Coldwell, ParcelPool

Martinez: Fuel surcharges have gone from a very significant amount of the total express shipping cost this summer to now just a significant part of overall shipping cost. We don't know where fuel surcharges will be in 6-12 months, but we do believe fuel costs should stay relatively high and rise over time, so shippers should get used to budgeting for fuel surcharges.

Caldwell: Be creative, and look under every rock for potential cost savings. If you're like a lot of shippers, you've already picked most of the low hanging fruit. So explore all the options including FedEx, UPS, the regional carriers, and the USPS as well. And look at what you can do, as a shipper. It might be a bunch of seemingly small things—cleaning up shipping addresses, looking at cube issues, and dynamically routing shipments based on costs—but those little things can add up, and add up fast.

Hempstead: Doug has it down. I'd like to add that the carriers don't want to give up traffic they have in hand and will fight to retain you—and they will price to attract business currently handled by the other guy. They are banking on the fact that most shippers will not be bothered to take advantage of the current economic situation. So use an industry expert to help you negotiate your new deal.

Patrick Burnson is Executive Editor to Logistics Management.

Burton catches air in new markets

Teaming up with a new 3PL partner has helped Burton to clear a path for rapid growth, smoothed out shipment volatility, improved delivery times, and strengthened relationships with key customers in several unexpected ways.

BY JOHN KERR,
CONTRIBUTING EDITOR

It was not a comfortable question for Raymond Campbell: "How come our competitors can get their sunglasses here three days earlier than us?" In fact, Campbell, the vice president of operations for Burton Snowboards, was getting more and more of those kinds of questions from his West Coast salespeople.

Burton, a huge name in snowboarding, had launched its multi-season products in the mid-1990s—"surf and skate" gear such as sunglasses and sandals as well as helmets and youth fashion T-shirts. The products would arrive from Europe and Asia at Burton's East Coast distribution facilities and be picked, packed, and shipped from there to customers and dealers on the East and West coasts.

But it typically took anywhere from five to seven days to move the product by road to sports shops in California and elsewhere on the Pacific coast. Not infrequently, Burton would pay extra to have freight expedited. By contrast, a lot of Burton's surf and skate competi-

tors were based on the West coast and were shipping same-day and next-day.

That wasn't the end of it. The operations chief also heard all about the problem from the warehouse staff in Albany and Champlain, N.Y. Every fall as snowboarding season ramped up, and for several months thereafter, the distribution centers would struggle to deal with the huge spike in demand. A 15-pallet shipment going to the Dick's Sporting Goods chain effectively competed for attention with six pairs of sandals going to a California surf shop. "In a word, it was chaotic," recalls Campbell. "The staffing issues were huge."

FLASH POINT FOR CHANGE

From the viewpoint of the Pacific-coast surf shops and big sports-gear dealers, Burton's delivery problems were annoying. But from the business point of view at Burton, they were a significant obstacle to company growth. Although the company that Jake Burton Carpenter had founded in 1977 out of his Vermont barn now dominates most aspects of snowboarding, multi-season gear is where most of Burton's growth has been in the last few years, Campbell says.

Sunglasses became the flash point for change. Low-volume items that command high margins, they epitomized the potential growth that Burton could envision. Early in 2007, the general manager of the ANON lines of sunglasses and goggles flagged the problem; a meeting was convened to kick-start a solution, with attendees including Campbell as well as Burton's chief operating officer and the company's vice president of sales.

The meeting concluded with a decision to find ways to get sunglasses to the Pacific coast as quickly as the competition could—and to ease the seasonal strain on the New York warehouses. Campbell left the session with a lengthy list of to-dos for himself and his director of logistics. The immediate task was to gather raw data with which to evaluate potential solutions. "The data included SKU counts by location, by volume, and by product family, along with growth forecast numbers, shipment costs and times, the distribution of customers, and a good understanding of what our competitors did in the sunglass market," says Campbell. But, it was clear from the get-go that Burton would continue to outsource warehousing and other logistics functions.

"Owning a facility and trying to staff it up—that was not our core competency," says Campbell. He opted to use World Wide Distribution (WWD), the warehouse, distribution, and transportation services provider that operates Burton's three distribution centers in upstate New York and eastern Canada, as his lead logistics provider.

Using WWD's recommendations about warehouse operating criteria and logistics performance specifications, Campbell and his team began to build a short list of third-party logistics providers (3PLs) that could service Burton's West Coast clientele promptly and efficiently, providing everything from efficient warehousing functions to reliable shipment.

> **"Owning a facility and trying to staff it up—that was not our core competency."**
>
> —Raymond Campbell, vice president of operations, Burton Snowboards

The selection process began with location and transportation routes that would put a West Coast distribution facility closest to retail customers. Burton already had offices for product design and sales and marketing in Irvine, some 45 miles south of Los Angeles, and the team had good data on where retailers were concentrated up and down the Pacific Coast and in Hawaii.

So the search centered on Central and Southern California, looking inland at hubs such as Fresno, close to Interstate 5, and the so-called "Inland Empire," the busy urban centers to the east of Los Angeles. Campbell also looked at where Burton's competitors had their facilities, reasoning that they had had good business reasons for their choices.

The choice soon came down to six contenders—a mix of regional 3PLs and large nationals that had the security cages, the accurate count-and-fill processes, and the careful packaging procedures for high-value, fragile product such as sunglasses. But several months after the decision had been made to open a West Coast facility, Burton's chief operating officer urged that all of the company's surf and skate lines should be handled by the new hub. That changed the evaluation criteria considerably—bulky clothing in particular expanded the footprint that Burton needed, and called for different storage and retrieval systems to handle different colors. And it immediately narrowed the list of contenders.

Toward the end of 2007, Campbell and his team had come to a decision. Menlo Worldwide Logistics, LLC, had experience with managing distribution of high-value, seasonal-demand product lines similar to Burton's surf and skate gear. In fact, Menlo's 500,000 square-foot multi-client distribution center (DC) in Walnut, Calif., just east of Los Angeles, already distributed goods to and had good relationships with many of the same sporting-goods stores that Burton was selling to—a major plus. The Walnut DC had excellent transportation corridors stretching in every direction, and an established track record with cost-efficient, timely shipping. And a review of total landed cost showed the location's economics were very attractive.

"ARE WE TOO SMALL FOR THEM?"

Yet Campbell had questions. Menlo, part of the Con-way Inc. conglomerate, has operations on five continents.

"Were we too small for them? We wanted Menlo to be very honest with us," says Campbell.

He adds that for all its size and scale, Menlo showed a keen interest in the privately owned sports-gear maker, making staff available to talk about the nuances of carton marking and documentation for particular customers and

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The Burton team was also anxious about effective communication and collaboration across the country—especially since many of the business processes were still ad hoc at Burton, carried in managers' heads or in note form somewhere. According to Campbell, Menlo's managers quickly laid those concerns to rest, pointing out that they already worked with many companies with comparable levels of process discipline. They explained that the 3PL's joint planning systems would help Burton to upgrade its systems, but without requiring an overnight overhaul or a big disruption of its operating methods.

"It was good for Burton to think about all this knowledge that would be available to us," says Campbell. "That clarity and structure really appealed to us."

Campbell's team also had questions about the security of their products in a DC that was serving so many clients. Although the cost efficiencies of the multi-client approach were very appealing and it was clear that Menlo's facilities gave Burton plenty of room for growth, Campbell sought assurances that there would be minimal risk of product or order process mix-ups in the warehouse racks or on the loading dock.

When Campbell and his team visited the Walnut DC for a site tour early in 2008, they saw for themselves that Burton would have dedicated space and the proper processes that would obviate any such problems. They also liked the fact that they were getting an authentic feel for the DC's operations.

"As we walked through the facility, it wasn't just the plant manager who was describing what was going on—it was the guys and gals who were doing the hard work," recalls the Burton operations chief. The comfort factor was there. "The multi-client approach dovetails well with Burton's winter business cycle," says Campbell. "It will enable a partner like Menlo to find counter-seasonal clients, thus off-setting fixed costs for us and the other clients." Burton signed a 12-month renewable contract for 70,000 square feet of the Walnut facility, expandable when required.

Early in the summer of 2008, Burton began diverting purchase orders for its ANON sunglasses, Analog, Gravis, Burton Apparel, and Channel Islands non-surfboard product lines to the Walnut, Calif., facility. There are no Burton employees there; staffing is handled by Menlo. Employees tend to rotate from client to client within the warehouse, with a small core group assigned to one section of the warehouse and temp workers being used as needed, depending on seasonal needs. Says Campbell: "With this arrangement we do have some flexibility with product flow, and that helps from a resources perspective. If we have a heavy receiving or shipping peak, we can leverage resources from other facility tenants and quickly ramp up or ramp down and not have a base team or large temp pool sitting idle."

If we have a heavy receiving or shipping peak, we can leverage resources from other facility tenants and quickly ramp up or ramp down and not have a base team or large temp pool sitting idle."

—Raymond Campbell, vice president of operations, Burton Snowboards

Burton trained the Menlo DC staff to properly handle and package its products; for example, a few of the company's product managers went to the facility and walked the Menlo team through the processes of checking for and preventing against scratches on sunglass lenses. Burton then asked its sales reps to check with their key retailers to find out how the sunglasses looked when they were unpacked.

SUNSHINE IN A BOX

According to Campbell, Menlo understood the importance of proper handling and packaging—just one of the indicators of how the right 3PL can add value. In fact, the logistics provider already had its own sophisticated system for packaging—what it calls "sunshine in a box"—which it was using with other clients.

The "sunshine" tactic owes everything to Menlo's interactions with the small "pro" shops where the person receiving and unpacking shipments is almost never a warehousing professional. He or she is typically a keen enthusiast of the sport—someone who will be selling in the shop more than handling back-office functions. Menlo had determined that by presenting and packing goods with finesse, it could help those individuals as soon as they open the box.

"It's not just about stuffing as much as you can in the box—it's about presentation, so the product looks nice," explains Chris Davis, director of business development at Menlo.

Burton is also tapping into a new program launched recently by Menlo to help companies expand and grow quickly in new markets. The program offers customers strategically located warehouse space with close proximity to major West and East Coast ports and inland rail intermodal hubs for efficient handling of imported products. It also provides shared personnel, systems, and operations support that are leveraged in a multi-client environment.

Through this program, customers can establish distribution operations quickly and, as business grows, scale them at a competitive cost.

So far, Burton has been leveraging Menlo's joint planning session (JPS) to define projects, key dates and deliverables. What both parties learn will help to facilitate quicker product ramp-ups in the future.

DUDE, WHAT'S THE BENEFIT?

So with its West Coast presence now established, what results is Burton seeing? Given big variables such as the

economic downturn and a snow-sports season that has started late, it is hard to draw direct quantitative correlations with the previous arrangement. But the company now easily matches the 1-to-3 day shipment turnarounds typical of its surf-and-skate competitors, and the Walnut site has no problem handling the little orders—six pairs of sandals for one shop, two boxes of sunglasses for another—that are typical of the order patterns of the small West Coast sports shops.

As far as Burton is concerned, no news from its retailers is good news. It's easy for them to place new orders as well as re-orders and to get deliveries within three days. Order management and documentation are effective, and orders are more accurate, helping Burton minimize the inventory it needs to keep at the Walnut DC. And the complaints from Burton's own West Coast salespeople have pretty much dried up; the general manager of the sunglasses line—who galvanized the West Coast initiative in the first place—no longer needs to rush goods by air and has become one of the biggest supporters of the new arrangement.

More importantly, Burton can now latch onto the cultural dynamic of the West Coast. Where previously products shipped from upstate New York had something of an alien "vibe," now goods coming out of a California center have more affinity for Pacific retailers. In essence, Burton now signals to key customers that it is serious about being a great surf and skate brand as well as the big name in snowboarding.

And what about Burton's core winter recreation products? Order management and logistics operations have gone from chaos to kudos. Now that the company is using WWD's East Coast warehouses to handle only its snowboard brands, all activities, from receiving to shipping, now run predictably using the long-time warehouse management system.

Re-order turnaround times have improved; reverse logistics are no longer backlogged. And Burton has been able to operate with fewer staff on the East coast—and there is logistics capacity to spare.

It's clear that after just a few months, Burton's association with its newest 3PL partner is paying dividends. It has certainly cleared a path for rapid growth in new high-margin product lines, smoothing out shipment volatility, speeding delivery times and strengthening relationships with key customers in several unexpected ways. But it's a fair bet that the partnership will help Burton in many other ways.

There are already indications that Burton's business systems are becoming more disciplined in the process of working closely with Menlo's systems. Order management works more smoothly and Campbell's team have far better visibility of their supply chains.

Long story short: Burton's 3PL relationship has not simply streamlined deliveries of its sandals and T-shirts. It is helping make Burton a much more competitive company in the long run. L

John Kerr is a Contributing Editor to Logistics Management.

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Andel on

Warehouse expenses down, IT expenses up. Connection?

The International Foodservice Distributors Association (IFDA) recently released its 2008 Productivity Financial Report. I received an e-mail notification about its availability, and it had a whole long list of bullet points detailing the wealth of data I could mine from it. A few of the bullets looked particularly interesting: inventory turnover, warehouse department expenses, and IT department expenses.

So I sent an e-mail back to IFDA asking for those portions of the full report. They responded very quickly—with the appropriate bar charts. Here's what I could decipher: Turnover up, warehouse department expenses down, and IT department expenses up. That's it.

Now anybody with a decent imagination can spin statistics any way they'd like. Having just disconnected from the receiving end of a long political campaign that's been spewing statistics for about two years, I'm still skittish about stats. I didn't trust myself to make sense out of these tables, so I went back to IFDA and asked for an analyst to help interpret the significance of these tables. Steve Potter, IFDA's senior vice president of industry relations, offered some clarity, noting how logically the information from these tables fits together. Here's what he shared.

Inventory turnover: Many foodservice distributors have taken a closer look at inventory management as a way to reduce working capital, increase warehouse efficiencies, and improve service levels. They're evaluating product movement by SKU, improving forecasting accuracy, developing more efficient replenishment strategies, and bringing safety stock to realistic levels. So that's why turnover was up.

Warehouse department expenses (as a percent of net sales): Operational excellence has become the industry's mantra, Potter explains. Foodservice distributors are focusing heavily on eliminating inefficiencies to reduce operating costs. In the warehouse this effort typically begins with receiving and progresses through putaway, replenishment, selection, and loading to identify nonproductive activities, duplication of effort, bottlenecks, etc. Many distributors have invested in, or upgraded, their inventory management software and warehouse management systems to help identify, track, and correct inefficiencies. So that's why expenses were down.

IT department expenses (as a percent of net sales): To help control operating costs, distributors are re-vamping or replacing antiquated legacy systems to provide informational links between their sales, procurement, accounting, inventory, warehousing, and transportation functions. Others are purchasing or upgrading their computerized routing systems, adding GPS to their existing capabilities, switching to voice recognition in their warehouse management systems, or adding transportation management systems that include inbound freight controls. And that explains why IT department expenses were up.

To help control operating costs, distributors are re-vamping or replacing antiquated legacy systems to provide informational links between their sales, procurement, accounting, inventory, warehousing, and transportation functions.

Now mind you, these were 2007 numbers cited in the report. The economic landscape has changed quite a bit in the last few months. How is the current economic crisis likely to affect this year's numbers?

Potter believes we'll see more of the same. Economic low points like the one we're in now provide a good opportunity to tighten things up and make the improvements necessary to hit the ground running once the economy improves. "Distributors who have not followed this path may have a tougher time weathering the storm," he concluded.

Spin? Nope, sounds like straight talk to me. Of course just calling words straight talk isn't always a winning proposition. Let us know if you're in the same boat as the people who answered IFDA's survey. More importantly, let us know if you're not—and why not. You can reach me at tom.andel@reedbusiness.com.

Tom Andel, *LM's* Editor at Large, has more than 25 years of experience covering materials handling, transportation, distribution, logistics, manufacturing, and supply chain management. He can be reached at Tom.Andel@reedbusiness.com.

The state of on-demand: CATCHING FIRE

BY BRIDGET MCCREA, CONTRIBUTING EDITOR

It's no secret that companies of all sizes are using on-demand TMS to help reach their goals faster—and for less money and hassle. Here are two shippers that have embraced on-demand and quickly achieved savings success.

Oracle's Larry Ellison may have shrugged off the notion of growth in on-demand computing when talking to analysts at a conference recently, but hundreds of shippers have already proved him wrong by buying into this innovative way to purchase and implement software.

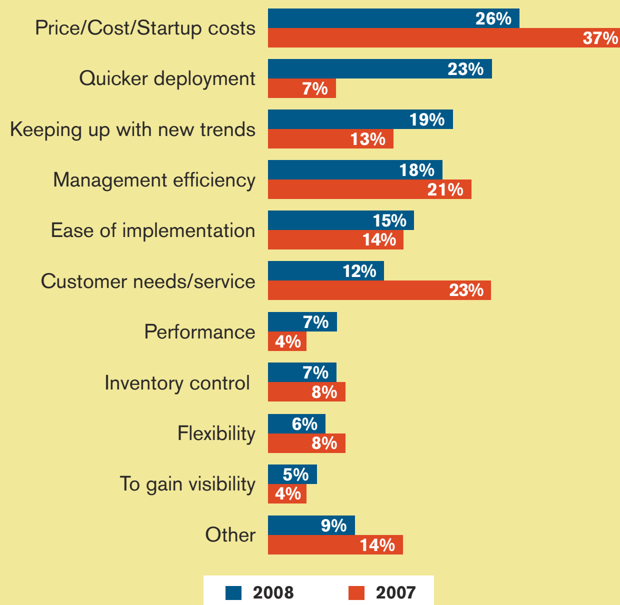
Also called "grid computing," "cloud computing," and "software as a service (SaaS)," on-demand is a way of storing data on one or more servers (rather than on a PC) that are maintained by the software vendor, who in turn grants access to users via a password-protected Internet portal. The concept caught on fairly quickly with transportation management systems (TMS) users and the vendors that develop software for them—and the trend is building speed.

The idea is also taking hold in the global trade management (GTM) space as well as in other non-logistics areas. Both Microsoft and Apple have

Are you currently utilizing an on-demand supply chain solution?

Percent considering an on-demand solution in supply chain application

If you're planning to purchase a supply chain application within the next 12 months and are considering an on-demand solution, what are the key reasons?



Source: Logistics Management Software Survey 2008

announced their forays into the market, with the latter introducing its MobileMe application to maintain calendars, address books, and Internet bookmarks synced on the firm's computers and phones.

In the transportation management world, on-demand caught on like wildfire with shippers looking for a fast and economical way to obtain state-of-the-art TMS. Such services differ from managed transportation services, which Adrian Gonzalez, director, logistics executive council at Boston-based ARC Advisory Group, defines as "quasi-3PL services through which companies contract with third parties to handle tasks like carrier management." On-demand, he says, leaves the power and control in the hands of the shipper.

Much of the growth in on-demand right now can be credited to the economic downturn, says Gonzalez, who points to the financial crisis, high fuel costs, and overall economic malaise as the key drivers. With the conditions expected to continue into 2009, he says many vendors will offset the drop in "traditional" business by developing and honing their on-demand options.

"When times get tough, companies tend to put IT projects on hold," says Gonzalez, adding that the on-demand model's low upfront costs and low time to ROI are particularly attractive. "Companies can come up with a stronger business case to move forward with on-demand initiatives, rather than doing in-house projects that require more money upfront."

Also making on-demand TMS compelling for shippers is the fact that most come with good planning and optimization capabilities that go beyond the basic "execution capabilities" such systems were traditionally known for. "When they first came to market, on-demand TMS focused on execution," explains Gonzalez. "Over the past few years, vendors have expanded these capabilities, making the option that much more compelling for shippers."

Brian Popoff, principal of CapGemini's logistics and fulfillment practice, says he's seeing shippers using on-demand TMS in two ways: as a permanent solution for more effectively managing transportation spend and as a temporary solution during the early planning stages of a "full" purchase-and-install implementation.

Ultimately, Popoff says the choice to use on-demand versus purchase-and-install TMS comes down to economics. "Large companies that are shipping several hundred truckloads annually would find it less expensive to buy and install an application, whereas a smaller firm with $50 million or less in annual transportation spending may fare better with an on-demand option," says Popoff.

It's no secret that companies of all sizes are using on-demand TMS to help reach their goals faster—and for less money and hassle. Here are two shippers that have taken the on-demand route and achieved success.

KIK CUSTOM CLEANS UP ITS ACT

When KIK Custom Products was ready for a state-of-the-art transportation management system to replace its existing, multiple legacy systems, Chet Barrows knew that the fastest, most painless route from point A to point B would not be a traditional purchase-and-install option.

"It really came down to the question: What's the easiest way to get a TMS?" recalls Barrows, director of corporate transportation for the Toronto-based firm. From its 15 warehouses, KIK ships private label bleaches and household cleaners to national retailers and major consumer packaged goods companies throughout North America.

"I knew it would be difficult to get the capital necessary for the traditional option, but I also knew that our company would benefit greatly from a TMS," says Barrows, whose biggest challenge at the time was a lack of visibility over shipments. "We really needed to improve the quality of our information to enable effective decision-making."

To select an on-demand vendor, Barrows says he reviewed several options before discovering OneNetwork's solution, which was already being used by several of KIK's largest retailer customers. "It made for a nice synergy," says Barrows. Implementation took place in late-2007 and took

On-demand TMS vendors

Software-as-a-Service:
LeanLogistics
Sterling Commerce
One Network
MercuryGate
Manhattan Associates
Descartes Systems Group
Transplace
UPS Logistics Technologies
Infor

Hosted:
i2 Technologies
RedPrairie
SAP (via consulting partners)
Oracle (via consulting partners)

Software-as-a-Service GTM:
Management Dynamics
Integration Point
TradeBeam
GT Nexus

Source: ARC Advisory Group

about three months to complete.

Making the system especially attractive, he adds, was the fact that it required no additional hardware, nor did his team have to worry about whether it would integrate with KIK's existing IT solutions. The company rolled out the solution over a six-week period to a single site first and then embarked on an aggressive strategy that resulted in eight more sites using the on-demand TMS within 30 days.

Barrows says the TMS has allowed his company to operate in a paperless environment that includes functions like electronic tendering and acceptance. Visibility over shipments has improved dramatically, as have the reporting systems that Barrows' team uses to make sound decisions.

Also because of the new TMS, KIK is handling freight payables in-house, where in the past it had to pay a third party to handle that aspect of its business. The icing on the cake, according to Barrows, is the fact that these changes will require no additional human capital or overhead. In the near future, Barrows says KIK plans to leverage the system's scheduling, online appointment-setting, and load tendering capabilities—with the latter including loads tendered on behalf of individual customers.

"Many customers look to us as transportation vendors, hand us routing guides and ask us to handle the task for them," says Barrows. "With our TMS, we're able to handle that for them without much added expense, thus increasing our value-added service offerings."

JEL SERT COOLS ITS COSTS

Up until 2006, The Jel Sert Company relied on a manual, paper-based system of transportation management. "We were printing about 18,000 orders out one-by-one on a printer and processing them manually," recalls Michael Martinez, director of distribution for the West Chicago manufacturer of foods like freezer bars, Wyler's Light Lemonade, and the Royal brand of puddings and gelatin. With 13 warehouses throughout North America, the company delivers truckload shipments to customers across the continent.

"It was just getting to be too much to handle," says Martinez. And because the company lacked "big picture" visibility over its logistics operations, he says half its truckload shipments were handled and put on the "done pile" without much thought about whether they could have been combined with other shipments to achieve cost and time savings.

"We'd have a half-truckload going to Pittsburgh in the morning, and one hour later we'd have another one going to Harrisburg," says Martinez. "Because we had no visibility, we never knew that just an hour earlier we had a truck going to the same area."

Intent on solving those challenges, The Jel Sert Company explored its TMS options and selected LeanLogistics' on-demand option. Implementation took about nine weeks and the company was going live with a new TMS solution in late-2006.

Since rolling out the system, the company has increased its order numbers from 18,000 to 25,000 a year, with 75 percent shipped between March and July. "During that period the need for processing speed is paramount," says Martinez. "The system allows us to quickly analyze shipments, route, and make the best purchasing decisions in a short period of time."

On the human capital side, Martinez says the company has been able to handle the growth in orders without having to hire any new employees. "The fact that we have an automated system allows us to process all of those orders systematically, rather than manually," he says. "That's translated into significant cost and time savings."

MORE DEMAND AHEAD

With economic conditions forcing companies to conserve cash and spend more wisely than ever, the need for on-demand systems will likely grow in 2009. "We're going to see a lot of companies being cautious about how they spend their cash," says Greg Aimi, research director at Boston-based AMR Research. "The idea of paying for a system out of your monthly operating budget—rather than putting out a major capital outlay—seems pretty good."

Expect to see on-demand slowly making its way into other applications, adds Aimi, including GTM and WMS, the latter of which are "light on functionality" right now, but showing promise. "The on-demand WMS may lack the functionality of a Manhattan or Red Prairie system," says Aimi, "but for some companies, it's more than enough."

Looking ahead, Aimi predicts slow-but-steady growth in the adoption of on-demand systems as an alternative to—and not a replacement of—licensed software. "There's a variety of reasons why companies still like licensed software options," says Aimi, "but there are also many instances where on-demand fits the bill nicely." L

Bridget McCrea is a Contributing Editor to Logistics Management.

Real DC stories: LOW COST DEEP IMPACT

BY MAIDA NAPOLITANO, CONTRIBUTING EDITOR

You don't always need hundreds of feet of conveyor or fancy equipment to achieve real productivity improvement in your warehouse or DC. These managers found significant savings by working with the equipment they already had—and, in some instances, with just a few minor IT tweaks.

With the holiday rush over, it's the perfect time to regroup and take stock of your distribution operation. You may want to walk your warehouse, study your layout, watch your workers, and perform an information technology (IT) systems audit. Look for opportunities to increase your picker's productivity, squeeze more storage space, and ultimately reign in your operating costs.

Of course, it's easier said than done. So, to help you get started we're going to take a closer look inside three very different warehouse and distribution center operations that span from thousands of square feet of private warehousing space to millions operated by a third party logistics (3PL) provider.

While all the locations we cover here are geared for very different operations, all share one common theme: The managers who run these operations achieved new efficiencies by working with the equipment they already had—and in some instances, just a few minor IT tweaks. The managers you're about to meet prove that you don't always need hundreds of feet of new conveyor or fancy equipment to achieve real productivity benefits.

J.B. PRINCE COOKS UP LOW-COST IMPROVEMENTS

J.B. Prince has been supplying top-tier restaurants, including those located in resorts and cruise ships, with the highest quality, hard-to-find kitchen tools and equipment from around the U.S., Europe, and Japan for over 30 years.

From 1996 to 2006, this family-owned company has occupied the 11th floor of a 12-story building located in midtown Manhattan, housing a showroom, corporate offices, and a 7,000-square foot warehouse. Within this warehouse, they keep stock of about 2,700 SKUs and pick and pack orders from catalog sales from their online store as well as orders from other distributors.

Running a warehouse in the middle of Manhattan may give the heebie-jeebies to any self-respecting DC manager, but to Larry Prince, the company's vice president, it's been the key to their business success. "In the world of fine dining, everybody who's anybody comes to Manhattan at some point or another, and we're here to provide them with instantaneous service through our showroom."

Such strategy is obviously working, because over the past decade business has been booming. Two years ago, to keep pace with its success, the company added 5,000 square feet of reserved storage space on the 12th floor. It not only helped open things up, but it also exposed how inefficient their picking operation was on the original 11th floor.

More business from online sales also meant that storage was again creeping to near-capacity. Prince decided to recruit TranSystems|Gross & Associates, a Woodbridge, NJ-based firm specializing in material handling and design, to rationalize the operation. Geoff Sisko, the senior consultant for this project, quickly found a few more problems.

"The storage racks had been laid out in very long rows, running parallel to the outside wall," says Sisko. "Pickers were putting a cart at the end of the aisle and walking a long distance to get the items." By making the rows of storage perpendicular to the outside wall, it shortened the aisles, so pickers only have to walk a short distance.

As an added benefit, outside windows, that were

previously blocked by storage, now threw light into the area for a better working environment. Aisles were made narrower and shelves were adjusted so that pick positions could be more appropriately sized to the item it occupied creating additional space. So much space was created by changing the layout that there is still space for storage on both the 11th and 12th floors.

To reduce pick time, pallets of popular, fast-moving SKUs were set up by the shipping area. A low-cost, gravity conveyor was added to the packing area to allow for accumulation and eliminate having people carry boxes in a congested area.

With these new layout and equipment strategies, picking efficiency has greatly improved. Overtime has been reduced significantly and they have consistently been shipping orders out in one business day. It's also become a safer, cleaner place to work.

"Knowing what I know now, I should have done this sooner," adds Prince.

By making the rows of storage perpendicular to the outside wall, it shortened the aisles, so JB Prince pickers only have to walk a short distance.

UNITED FACILITIES SKATES TO BENEFIT

Headquartered in East Peoria, Ill., United Facilities operates seven facilities totaling 4.5 million square feet in California, Colorado, Illinois, and Florida. The 3PL has been providing warehousing and distribution services to Fortune 100 companies for over 50 years. "Our customers are like every consumer out there," says Larry Yocum, vice president of operations. "They want high quality at low cost—and that's exactly how we do it."

Over the past six years, United has seen a surge of customers taking advantage of their flexible labor pool to meet post-production product packaging and assembly needs, such as the building of custom grocery displays and creation of warehouse club packs—commonly known as value-added services (VAS).

Dan Altorfer, vice president and a third generation member of the family that started the company, says VAS is now a daily occurrence in their business. "Every day we have anywhere from a dozen to a hundred people doing some form of VAS."

Because of the "episodic" nature of these labor-intensive projects, the operations team had to set up stations that were highly flexible. The team initially set up tables with workers manually carrying trays and cartons between tables and pallets. "The tables did not give us any accumulation line," says Jody Hunt, an industrial engineer for the company. "By using an inexpensive flexible conveyor, we were able to stretch the line as far as we wanted to create accumulation, yet put it aside when we didn't need it."

They bought a skate pallet, which is

JB Prince's 11th-floor showroom of kitchen tools and equipment in midtown Manhattan.

By using inexpressive, flexible conveyor, United Facilities can pull workers out of an existing line and create a new line for a new project.

a four-sided piece of aluminum with wheels, so that workers can quickly move a pallet of one SKU down the line when assembling multi-SKU pallets. With these low-cost equipment additions, United has seen over a 9 percent increase in productivity improvement over the past two years. "I was able to pull workers out of an existing line and create a new line for a new project," says Hunt.

For the picking of full pallet and full case grocery items, the team noticed that travel time was very high—lift truck operators were traveling from one end of the warehouse to the other. Because there was no logic as to how products were slotted, full case pickers needed to stop and rearrange cartons to keep heavy items on the bottom and lighter items on top.

"By using our WMS, and with a little help from our customers on sales trends, we were able to zone our warehouse, rank products according to weight, movement, and hits, which in turn increased our picking output by 20 percent," reports Yocum.

More agile, double-pallet jacks replaced the cumbersome 5,000-pound lift trucks that were used to pick full case orders. With the 96-inch long forks, these jacks could pick two orders at a time in one trip around the pick area doubling productivity. In addition, the cost per hour for operating each pallet jack was 50 percent lower than the cost for operating the lift truck. "Implementing these low-cost alternatives has kept us competitive in the 3PL marketplace and allowed us to share the savings with our customers," concludes Altorfer.

ACUSPORT HITS PICKING PRODUCTIVITY TARGETS

Consumer spending may be at an all-time low, but don't tell that to gun store owners across the country. Guns and ammunitions are selling at a record pace amid reports of stricter gun control with the incoming administration.

Such news bodes well for AcuSport Corporation, recognized nationwide as one of the leading distributors of shooting and sporting products and services. The company operates a 100,000-square-foot distribution

Low cost, deep impact tips on:

Conducting a general assessment:

Geoff Sisko of Transystems|Gross & Associates: Watch the staff as they do their job. What would make their job easier? What gets in the way of their being able to perform their duties? Do some housekeeping. Make sure there's enough light, make sure labels are clean, readable and scannable, and make sure there are plenty of trash containers. People working in a dirty place don't work as well as people who work in a clean place.

Technology:

Jeff Ross of Transystems|ESYNC: High-tech may not always be the answer. Look at the basics. It may require some data analysis and a lot of work to get there, but smart, simple changes on how to store a pick and how to move an item can have a significant impact on productivity. A lot of times you can work well with what you have by adding a few enhancements. Simple systems changes might be all you need.

Change:

Larry Yocum of United Facilities: Establish communication to the floor and to the people involved so that they have an understanding of what is changing, how it's changing, how we're going about the change, and how it will benefit them. Make them part of the team because getting workers involved gets you buy-in.

Managing multiple facilities:

Jody Hunt of United Facilities: When operating multiple facilities, check out the other facilities. Look at who's doing the best productivity-wise, with the least errors, with the most on-time shipping. Observe what they're doing and take that to your other facilities so it works for them.

AcuSport's 100,000-square-foot distribution center in Bellefontaine, Ohio, is designed to guarantee timely shipping, same-day if required.

facility in Bellefontaine, Ohio. Mary Grim, director of operations, explains that the AcuSport distribution team strives to make its warehouse an extension of each customer's business through guaranteed timely shipping—same day if required—and through reliability that ordered products are available to ship. Maintaining extremely accurate inventory is given high priority, so customers can order with total confidence.

AcuSport's unique distribution network, reconfigured following a 2006 project with consulting and systems integration company TranSystems|ESYNC, supports two-day shipping regardless of customer location with reduced overall logistics costs.

During the implementation of this network reconfiguration, Grim and the distribution team recognized opportunities to improve their Ohio facility. So, in May of 2008, AcuSport turned to the consulting firm again to assess options to utilize space more effectively, reduce the pick zone footprint, and to improve process efficiency.

Working with the AcuSport distribution staff, TranSystems|ESYNC uncovered opportunities to reduce pick zone size, thus reducing the travel distances between picks. According to Senior Consultant Jeff Ross, "We sampled multiple pick tours and found the time spent traveling between picks to be longer than expected."

Based on this information, the consulting team analyzed the impact of reducing the inventory levels in pick locations and optimizing the mix of pick location types. Using this approach, Senior Consultant Howard Turner estimates that the pick zone should shrink by about 60 percent.

To support AcuSport's commitment for availability of the right products at the right time, inventory is allocated when the order is placed.

To identify the optimal pick location for each item, the dimensions of the products needed to be captured.

Accordingly, AcuSport purchased a dimensional data collection system called Cubiscan (from Quantronix) that automates the process of obtaining product dimensions using ultrasonic technology. To keep costs low, this equipment can be rented on an as-needed basis. According to Clark Skeen, Quantronix president, "The dimensions and weights are stored and transferred electronically, so there's no lost time, no lost data, or expensive and error-prone data entry." The collection of this essential information is nearly complete.

The project team also found an IT issue that previously restricted the ability to replenish inventory from overstock to pick locations and make other material moves. To support AcuSport's commitment for availability of the right products at the right time, inventory is allocated when the order is placed.

The issue effecting the ability to move inventory within the warehouse stemmed from the manner in which inventory was allocated. Previously, the quantity ordered was allocated to a specific location in the warehouse, 'freezing' its movement. Fortunately, AcuSport's in-house IT staff was able to quickly deploy an enhancement enabling not only the strict allocation of inventory for customer orders, but also delaying the commitment to a specific location until picking begins.

As a result of this and other low-cost, high-brainpower IT recommendations, including creation of a 'hot replenishment' report and enhancements to the cycle count discrepancy report, replenishment and other material moves are completed more effectively with improved overall warehouse performance.

Armed with the data collected through the Cubiscan, AcuSport's next step along the path of operational excellence is to kick-off the pick zone optimization project late this year—significantly reducing travel distances of pickers and thereby doing wonders to their picking productivity. L

Maida Napolitano is a Contributing Editor to Logistics Management.

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LIFT TRUCK TRENDS AND TECHNOLOGIES: ProMat 2009

By Sara Pearson Specter

With nearly 50 exhibitors showcasing lift trucks and related products—including batteries, attachments, and accessories—ProMat 2009 promises to offer a great resource for logistics professionals in the market for the latest technologies.

Attendees can expect to find enhancements in fuel efficiency, emissions reductions, safety, and operator comfort as truck manufacturers respond to ongoing trends in the handling and logistics marketplace. Here's a wrap up of the hottest lift truck trends that will be discussed at ProMat 2009 and a few of the products that will be sure to turn some heads.

Increased fuel efficiency, decreased emissions

As public concerns about environment protection and sustainability has increased, lift truck manufacturers have responded with power-source alternatives. "While plenty of AC battery-powered and LP trucks will be on display, many OEMs have been testing fuel cells as an alternative power source," says Ken Van Hook, president of Safe-T-Consultants Inc.

Fuel cells produce electricity by mixing fuel with an oxidant, which together react in the presence of an electrolyte. They consume reactant that must be replenished, as opposed to electrochemical cell batteries that store energy chemically in a closed system. "The fuel cells contribute to the green trend by controlling emissions—which are increasingly regulated by the EPA," Van Hook notes.

Also, manufacturers are unveiling designs that increase time between scheduled maintenance activities, he adds. "Some of the newer trucks don't require hydraulic oil changes as often as the older ones did, therefore oil doesn't have to be disposed of as often," says Van Hook.

Further, expect to see more LED lights replacing standard bulbs on trucks. Brighter, cooler, and futuris-

tic-looking, they're also more durable and last considerably longer than traditional bulbs with filaments that are susceptible to damage and burnout from excessive vibrations.

However, as anxieties about unstable fuel costs prompt attendees to consider a switch from combustion engine to battery powered trucks, it would be wise to prepare for a bit of sticker shock, advises Jim Shephard, president of Shephard's Industrial Training Systems Inc.

"Ultimately, it's a lot cheaper to run an electric truck than it is to run a combustion engine truck; and it's cleaner, which makes it ideal for a logistics or manufacturing operation," explains Shephard. "But it's not cheaper on the initial cost because you have to pay all your fuel costs up front when you buy the battery, the charger, and install a charging station."

Operator comfort and safety improves

Logistics and warehouse professionals combing the ProMat floor will also see the latest enhancements for operator comfort and safety. With an eye toward cutting both injuries and the ergonomic strain of hours spent behind the wheel, new features include increased visibility through open masts, more comfortable seats, and adjustable steering.

"Manufacturers are also making it easier for people to get in and out of the truck as they're picking orders and doing inventory since slips, trips, and falls are the number one cause of injury in the country," notes Shephard.

Further, integrated safety devices ensure that operators use the equipment appropriately. Van Hook points to "operator presence sensing devices" as a key new feature. "These devices ensure that the operator is in the proper operating position when they run the units. The controls can't be operated otherwise," he explains. "If you leave the seat of the truck and you accidentally left the truck in gear it knows not to move anymore, or it cuts the hydraulics so the mast will not tilt up, down, backward or forward."

In that vein, more alarms and warning devices have been integrated into trucks, firing off when a handbrake is not set, or a seatbelt isn't buckled. More OEMs are offering optional bright orange or green seatbelts on their vehicles, making it easier for supervisors to visually confirm that a driver is strapped in, even at a distance in a dark facility.

Training gets needed attention

Attendees will also see more pockets on the trucks designed for storage of the operation manuals. As the vehicles themselves become more complex with more functions and systems, it's a good idea to keep the manual with the truck so operators can look up information at any time.

Relying on the operation manual alone to guide lift truck operators through the use of a new vehicle is unwise, however. Training on all those new whizz-bang features is critical to maximizing the return on your lift truck investment.

However, there tends to be a disconnect between the people who buy the equipment and the people who use the equipment, observes Shephard. "Not only is it important to select the vehicle that best fits your situation, you need to make sure that your personnel knows how to use whatever bells and whistles are on your new truck. That's the only way to maximize your investment," he says. "Because you can spend $3,000 to $5,000 on upgrades and enhancements, and then three to five years down the road discover that they've never been cycled."

Van Hook agrees. "As the lift trucks become more complex, it does become a training issue. Don't rely only on the generic, basic training programs that most OEMs offer—make sure that you train for both site- and product-specific use," he says, noting that it's critical to train on lift truck attachment use too—all of which are OSHA required.

"So as attendees examine at all the new features on lift trucks at ProMat, they should be considering how those enhancements will affect their ongoing training programs," concludes Van Hook.

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> *Shephard's Industrial Training Systems Inc.*

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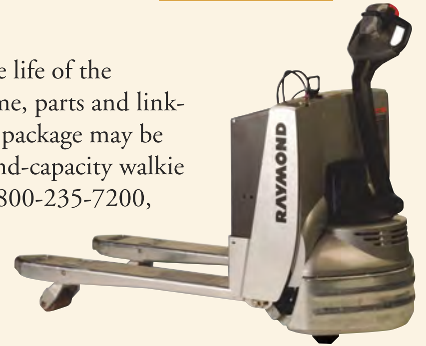

Ergonomic electric trucks

The E45-70XN electric lift truck line features a remodeled operator compartment with increased foot and leg room and a removable floor plate for quick maintenance. The truck's compartment has a relocated dash display for enhanced visibility and pallet control, while a redesigned hood provides easy battery access to reduce downtime. The hood also permits easier entry to and exit from the truck. A traction motor—with steel skin and cast end bells that maximize air flow—has improved speed sensors and generates higher traction to increase productivity and operator safety. Hyster Co., 252-931-5679, www.hyster.com, Booth 1803.

Adam Aguilar, Dana Burleigh, Mick Noce and Brian Alexander
of Unyson Logistics, A Hub Group Company

Reach trucks AC-powered

Offered in three models, the 8-Series line of AC reach lift trucks includes a single reach lift truck in 3,500- and 4,500-pound lifting capacities and a 3,000-pound capacity double reach model. Features include an AC-powered drive system, AC power hydraulic system on 36-Volt models and maintenance-free disc brakes. These systems generate Ideal for distribution centers, retail, refrigerated warehouses and third-party logistics use, the trucks increase productivity through faster travel, reduced maintenance costs and an extended life cycle. Toyota Material Handling USA Inc., 800-226-0009, **www.toyotaforklift.com**, Booth 1203.

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Pneumatic fork trucks haul 11,000 pounds

Combining improved engine, hydraulics and wet disk braking, the CX50 pneumatic forklifts offer durability and reliability while reducing operating costs. An environmentally conscious 3.3 liter diesel engine generates fuel efficiency, lower noise levels and reduced particulate in the exhaust. Other features include a closed-center load sensing system that increases efficiency and productivity while using less fuel. Gasoline and LPG models are equipped with an electronically controlled Tier 2 complaint engine and 3-way catalytic converter for emissions control. Capacities range from 8,000 to 11,000 pounds. Komatsu Forklift USA Inc., 770-788-3440, **www.kfiusa.com**, Booth 1512.

Fourth-generation AC technology powers trucks

Offering capacities from 2,500 to 4,000 pounds, the EFG 213-220 and EFG 316-320 counterbalanced trucks provide fourth generation, 3-phase AC drive, hydraulic and steering technology. This improves energy efficiency with longer run times on a single battery charge and faster travel speeds, lift/lower speeds, acceleration and ramp handling ability. Operators can access, charge and change the battery from the side of the truck with a hand pallet truck, forklift or crane. The units come in either 3-wheel or 4-wheel chassis models. Jungheinrich Lift Truck Corp., 804-737-7400, **www.jungheinrich.com**, Booth 2019.

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Christmas vacation

By John A. Gentle, DLP

So, you say Santa wasn't as good to you as you hoped last year and now you want him and President Obama to deliver only good things to you in 2009?

Yep, Christmas 2008 was extraordinary. You went downstairs on Christmas morning and found your stocking hanging limply against the fireplace. Oh, wait a second; maybe you forgot to look outside to see if your wife bought you a new car with a big bow on it? Nope, no car. Oh, the door bell just rang. Maybe it's those contest people or perhaps the boss came over to personally deliver your bonus.

Nope. It's the paper boy looking to get paid for the last four months and right behind him is the mailman with three letters marked "urgent." Well maybe this is the good news that you have been waiting to hear. Imagine what great news this has to be!

With high expectations you rip open the envelope from your company and you find a hand written note from your boss. With excitement you read: "I hate to have to tell you this way, but we are restructuring and downsizing the department. And while you still have a job, you have more to do with fewer people and the company needs you to reduce our freight bill by at least 10 percent or we are going to have to outsource everything including you. P.S. The company is under attack on bonuses, so no bonuses this year and for sure not next. You'd better come in with a plan to redeploy resources and reduce cost and improve service!" Signed, The Boss.

Wow, what a bummer; but I still have a job and a few carriers that I can force to take lower rates and push them harder on service. And then you open the second envelope. Wow! It's from your biggest carrier that handles 60 percent of your freight. Maybe he's sending you something special like a gift certificate. He really should, you know. I'm entitled and he really needs me even though I cut his FSC, lengthened the terms, and made him take some more of those loser lanes this year.

Let's see what he has to say: "This is to give you a heads up that we are being sued by our bank and may have to file Chapter 7 because we don't have enough assets. I need a job and you said that you could always use a good guy like me. When can I start?"

Holy Toledo, these guys were one of the few left that you could really muscle on rates and capacity. Um, this is really a problem. You look up into the sky and it's now a mix of sleet and rain as you open the third envelope. It's just a pitch piece for a seminar about 2009 transportation costs and anticipated government intervention in transportation. You immediately toss it.

Who needs information about hedging fuel? After all, crude was down to $40/barrel and you budgeted $50 for 2009 and plan on being a hero; and, after all, the government is bailing everyone out. I'm sure that we'll get in line and this will all work out; and if they pass new laws then we'll all be in the same boat at the same time and we'll all worry about it then.

You can rest assured that neither President Obama nor Santa will be delivering a personalized bail out gift next year. The destinies of your family and your business families rest in your hands—so be wise.

As you close the front door you wonder if you should have seen this coming. Could you have done a few things differently? Perhaps you should have been using more of a "relationship management" approach in dealing with your carriers last year. That would've helped them to remain more financially viable. Perhaps you shouldn't have forced them to do things that put them as well as your capacity and service at risk; and maybe you should have spent more time learning about industry and governmental direction and created contingency plans. Instead, you just waited for things to happen as a result of the economy and the government.

You can rest assured that neither President Obama nor Santa will be delivering a personalized bail out gift next year. The destinies of your family and your business families rest in your hands—so be wise. Remember, we get paid for the 20 percent of the job that pertains to strategic/contingency planning, relationship management, and execution—not for showing up, going to meetings, reacting to the issues of the day, and strong-arming our partners. ■

John A. Gentle is president of John A. Gentle & Associates, LLC, a logistics consulting firm specializing in contract/relationship management and regulatory compliance for shippers, carriers, brokers, and distribution centers. A recipient of several industry awards, he has more than 35 years of experience in transportation and logistics management. He can be reached at jag@RelaTranShips.com.

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