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TECHNOLOGY ROUNDTABLE: NAVIGATING THE STORM


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Management UPDATE

AN EXECUTIVE SUMMARY OF INDUSTRY NEWS

■ **Piracy surcharge.** Following the jubilation over the freeing of the Maersk *Alabama* and its heroic captain last month, shippers began asking if rates will reflect the heightened risk of doing business in the Gulf of Aden. Spokesmen for the Maritime Administration (MARAD) at the U.S. Department of Transportation said that a surcharge would surely be the case. "The cost of the war risk binder for ships transiting the Gulf of Aden is estimated at $20,000 per ship per voyage, excluding injury, liability, and ransom coverage," they said in a statement. A year ago, the cost of the additional insurance premium was only $500. It is estimated that the increased cost of war risk insurance premiums for the 20,000 ships passing through the Gulf of Aden could reach as much as $400 million.

■ **Another LTL puts on the brakes.** Mid-States Express, an Illinois-based less-than-truckload (LTL) and direct volume carrier, has shuttered operations due to financial and credit-related issues, according to media reports. Mid-States closed all of its 26 facilities across nine states, which employed roughly 750 employees, following layoffs in recent months, according to a report in the LaSalle, Ill., *News Tribune*. At the time of its closing, Mid-States had 537 tractors and 1,082 trailers for city pickup and delivery and line haul operations, according to its Web site. Its service footprint included 13 states.

■ **Shippers will face a "greener" horizon.** The Environmental Protection Agency (EPA) released a proposed finding stating that greenhouse gas (GHG) emissions contribute to air pollution and endanger public health and welfare. If this finding is made official it would allow for quick federal regulation of motor vehicle emissions of GHG. What's more, if the EPA does mandate new regulations on emissions, shippers will have to re-think their supply chains, which will require supply chain modeling to devise supply chains that are as "lean as possible" to reduce transportation usage, noted Brittain Ladd, director of logistics and manufacturing at Cognizant Technology Solutions.

■ **FedEx set to reduce aircraft assets.** Making good on its pledge to reduce expenses by about $1.0 billion for Fiscal 2010, FedEx took a step in that direction with the decision to permanently remove various aircraft used by its FedEx Express subsidiary by May 31. The aircraft being removed includes ten Airbus A310-200 aircraft and four Boeing MD10-10 aircraft owned by the company. "This decision reflects management's ongoing efforts to optimize the company's express network in light of continued excess aircraft capacity due to weak economic conditions and the expected delivery of newer, more fuel-efficient aircraft in fiscal year 2010," stated FedEx in an 8-K filing.

■ **Peak season rate hike?** As the peak transpacific season approaches, ocean carriers comprising the industry's last rate-fixing cartel will try to charge shippers more. The CEOs of container shipping lines of the Transpacific Stabilization Agreement (TSA) collectively voiced their intentions to raise rates as 2009-10 service contracts are being negotiated. As to whether any of them will stick is a matter of some conjecture. "With the current market in the tank, I don't believe all the TSA carriers will play along," said Jon Monroe, president of Monroe Consulting in Shanghai. "They can try to get more, but shippers are going to shop around

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Management UPDATE

continued

with NVOs [non-vessel operators] and carriers like Maersk to undercut these efforts." Maersk was among several major carriers to leave the cartel in recent years.

■ **Green...and stylish.** NYK released an initial exploratory design for its NYK Super Eco Ship 2030, an energy-efficient ship expected to emit far fewer CO2 emissions than current vessels. The design was created by MTI, a wholly owned NYK subsidiary charged with making use of advances in technology, along with Garroni Progetti s.r.l, an Italian designer of ships, and Elomatic Marine, a Finnish marine-technology consultant. NYK Super Eco Ship 2030 will make use of progressive technologies that have the potential of being realized by 2030. The power needed to propel the ship can be lessened by decreasing the weight of the hull and reducing water friction. Propulsion power can be increased through use of LNG-based fuel cells, solar cells, and wind power, all of which will lead to a reduction of CO2 by 69 percent per container carried.

■ **First protectionism, then depression?** A recently published survey by freight logistics and transportation management firm BDP International indicates that growing protectionism has the potential to spur a global depression and bring about a "prolonged reversal" of world trade. Just over 84 percent of survey respondents said that protectionism could lead to a global depression, another 60.3 percent said it could cause a collapse of globalization. A major driver for protectionism concerns, according to Richard J. Bolte, Jr., president and CEO of BDP International, is that 17 G20 members have implemented nearly 50 measures restricting trade since late last year that have "dramatic implications for global supply chains."

■ **Playing it safe.** The U.S. and China have signed an agreement for safe transport of hazardous materials. Called the U.S./China Cooperative Project Arrangement on the Safe Transport of Dangerous Goods, the accord enables the countries to develop and strengthen avenues of communication concerning the safe transport of dangerous goods and cooperate on enforcement and investigative actions to improve dangerous goods transport safety. U.S. Secretary of Transportation Ray LaHood commented that the Dangerous Goods agreement is a step toward improving transportation's role in fostering a healthy climate for commerce and economic growth, while creating good jobs for both U.S. and Chinese citizens.

■ **RFID still buzzing.** Technology consultancy IDTechEx says the global RFID market will reach $5.56 billion in 2009 compared to last year's $5.25 billion. This figure includes tags, readers, and software services for RFID cards, labels, and other form factors; but the majority will be spent on RFID cards and their associated services which will account for $2.99 billion. IDTechEx added that the RFID market is growing due to government-led RFID initiatives for things like transportation and national ID's, among others.

■ **Cool advantage.** Spokesmen for Mercury Air Cargo said a new refrigerated transit facility at Los Angeles International Airport (LAX) will soon be taking in full freighter loads of flowers from South America, thereby increasing its move to create a hub for perishables at the gateway. As reported in *LM*, Mercury opened the 12,700-square-foot, $1.1 million facility at LAX in April. At that time, Mercury spokesmen stated that the operation could "create a shift in the U.S. flower supply chain and establish Los Angeles as a new West Coast hub for the flower trade." LAX has seen a steady decline in imports from Asia, sending its air freight tonnage down 12.6 percent last year and 24 percent in the first two months of 2009.

■ **DHS doles out the grants.** Port security initiatives received the most funding from the Department of Homeland Security's (DHS) Federal Emergency Management Agency's final allocations for 2009 Preparedness Grants for 10 federal programs, with $388.6 million allocated for the Port Security Grant Program (PGSP). The PGSP's objective is to protect critical port infrastructure from terrorism, enhance risk management capabilities, protect against impro-

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Management UPDATE

continued

vised explosive devices, and conduct training and support implementation of the Transportation Worker Identification Credential (TWIC). Other freight transportation-related grants included $15 million for the Freight Rail Security Grant Program and $2.2 million for the Trucking Security Program.

■ **Is the party over?** A recent Armstrong & Associates report says Q1 3PL revenues were down 6.7 percent year over year. The data was based on feedback from 30 3PL executives with cumulative revenues of more than $40 billion, according to Richard Armstrong, president of Armstrong & Associates, a leading 3PL research firm. In the survey, 53 percent of 3PL executives said revenues were down, while 37 percent said revenues were up due to new business. "These results are reflective of what's happening in the economy," Armstrong told *LM*. "I still think that by the time we get to the fall things will be turning upward."

■ **Grand Alliance shift.** A greater measure of fixed-schedule stability on the South China-U.S. East Coast trade lane was started in April by carriers comprising the Grand Alliance. "While we are not introducing any additional capacity, the move demonstrates that the carriers are keeping faith with shippers in this trade lane," said a spokesman for Nippon Yusen Kaisha (NYK). Other members of the Alliance are Hapag-Lloyd; Orient Overseas Container Line (OOCL) and Zim Integrated Shipping Services. Together, they agreed to cooperate on the service using the Panama Canal. Zim, which has been a prominent player in the all-water East Coast trade since 1973, is added a transloading stop in Jamaica.

■ **Deal-less in Seattle.** Despite indications that the worst might be over for the nation's bond markets, the Port of Seattle is postponing its acquisition of the BNSF Eastside Rail Corridor. The sale was originally expected to close in December 2008, but the transaction was postponed after the collapse of the credit markets. Now, said port spokesmen, they intend to issue municipal bonds to finance the $107 million purchase price. "The port remains committed to public ownership for the corridor. But no one could have foreseen the continued turmoil in the credit markets," spokesmen said. A further reason for delay is that the federal Surface Transportation Board had yet to complete its review of the acquisition. C. Kenneth Orski, a transport infrastructure analyst, and author of Innovation News Briefs, told *LM* that current interest rates are too high now for most private investors.

■ **Has "Wal-martization" taken over containerized shipping?** Many industry analysts think so, and an alarming new report suggests that a focus on cost alone may spell doom for some carriers. While the past six months have seen a huge amount of capacity changes in the industry, freight rates continue to plummet while the industry shirks the painful decisions that are needed to ensure their collective survival. "The old analogy about 'rearranging the deckchairs on the Titanic' is in fact a good one for the crisis the liner industry finds itself in," said Neil Dekker, editor of a new report titled "Capacity Management: Surviving the container crisis." In that report, Dekker and other analysts from London-based Drewry Shipping Consultants, examine how carriers have reacted to the global economic crisis and what steps will need to be taken if they are to survive. So far, said analysts, they have been altering capacity via service suspensions, slow steaming, service deviations and lay-ups.

■ **Retail associations unite.** The National Retail Federation (NRF) and the Retail Industry Leaders Association (RILA) said that they will merge to become a single trade association representing retail interests in Washington. The organizations said this move will create value for members of both organizations and provide the retail industry with a singular voice to advance the industry on pertinent issues. The merger is expected to be made official this summer. Until the merger becomes official, NRF and RILA will continue to be "business as usual" with every scheduled event, conference, and meeting proceeding as planned without any service interruptions.

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2009 TECHNOLOGY ROUNDTABLE

Navigating the storm

COVER PHOTO BY DAVE CUTLER

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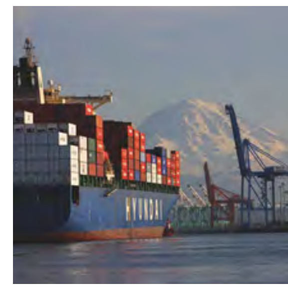
Special Supplements



Changing liner schedules could have a lasting effect on the nation's "mega" gateways. Meanwhile, niche ports are poised to take advantage of the unprecedented pattern with the hope that new fixed schedules may be the rule rather than the exception.

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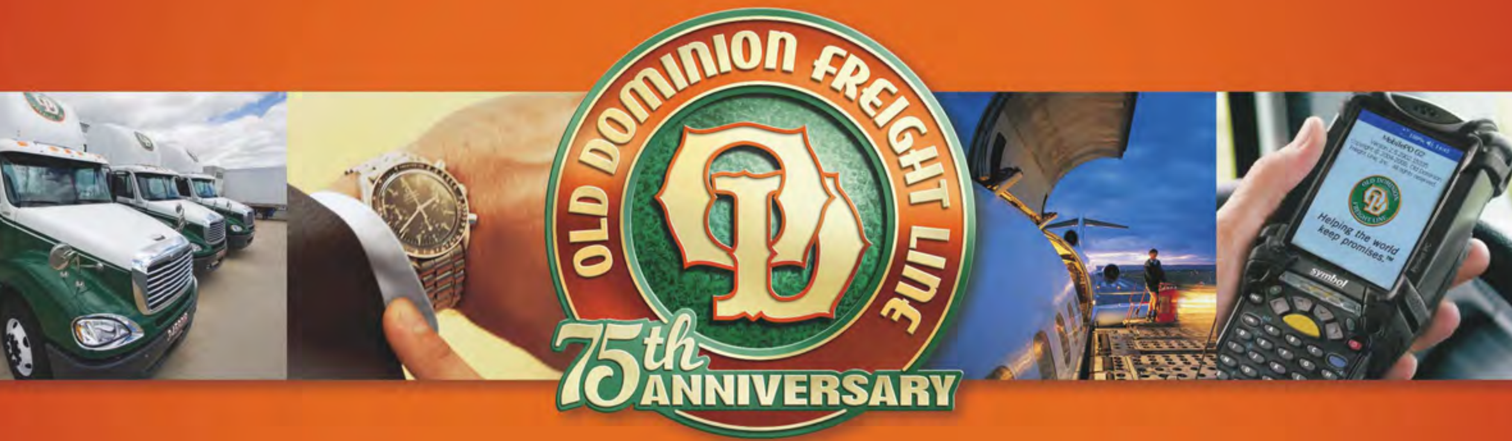

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VIEWPOINT

Tools for navigation

I'M FAIRLY CERTAIN that the results of *Logistics Management*'s 2009 Software Survey that we released last month didn't surprise a single reader. In retrospect, I wish they had.

Overall, software and technology investment is way down, and in many cases being completely shelved. In fact, 41 percent of respondents to our survey said they were painfully scrutinizing every penny of IT investment before even raising a finger, while a whopping 34 percent told us that they were just flat-out freezing all investment during 2009.

While those big numbers got the headlines last month, this month we're going to shine the light on the 15 percent to 20 percent who told us they were actually moving forward with some investment or maintaining their plans to upgrade this year—economy and budget cutting be dammed.

In fact, the entire premise of our "2009 Technology Roundtable: Navigating the storm" is built around the idea that there may never be a better time to streamline and automate your transportation operations, optimize loads and routes, and to realize cost savings—especially if you've been tied to a prehistoric, paper-based system.

The panel, who you'll meet on page 24, was asked to put a spark under every logistics professional who feels that they can't win the investment argument with upper management; but more importantly, they're looking for some converts.

"We've all been recently given a "get-out-of-jail-free" card with respect to transportation costs," says Aberdeen Group's Brad Wyland in his section designed to help ease technology adoption fears. "And if people think that freight rates can't spike again without warning, they weren't paying attention last year. Now is the opportunity to regain our footing, evaluate our business strategies, layout a roadmap for tomorrow, and identify the areas that need to be improved."

So, if you've been dragging your feet on making your case, the roundtable is this month's required reading. Adrian Gonzalez from ARC Advisory Group starts us off by explaining why TMS and GTM interest is soaring; Capgemini's Belinda Griffin better defines the growth of network optimization software, the hottest topic shippers know the least about; Greg Aimi from AMR Research helps readers get more from their existing WMS; and then Aberdeen's Brad Wyland wraps us up with his call to arms.

Shippers who implement the proper tools to reinvent their transportation management process will be in the best position once the inevitable recovery arrives.

And don't forget, the print version of the roundtable will just scratch the surface. We're bringing this esteemed panel together for a live webcast at the end of the month to dive deeper into their recommendations, so visit logisticsmgmt.com/tech09 to register for the event—and bring questions.

Our memories tend to be very short; and as Gonzalez mentions, the "good old days" of high fuel prices and tight capacity will surely return. Shippers who implement the proper tools to reinvent their transportation management process will be in the best position once the inevitable recovery arrives.

Michael A. Levans, Group Editorial Director

Comments? E-mail me at michael.levans@reedbusiness.com


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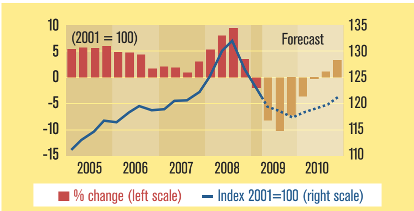
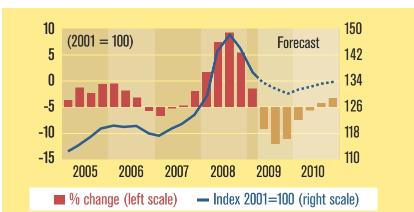


% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
General freight - local	-1.5	-7.3	-4.3
Truckload	-1.3	-9.3	-5.6
Less-than-truckload	-1.5	0.5	-0.5
Tanker & other specialized freight	-1.8	-6.1	-3.6

TRUCKING

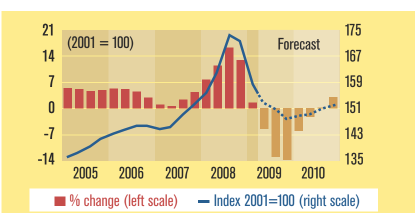
Compared to a year ago, the trucking industry cut its average prices by 2% in the first quarter of 2009. The last time the industry presented a year-ago price drop was 1993. Long-distance truckload companies led the way with a 4.4% quarterly price decline. LTL carriers, meanwhile, managed to push through a 2.6% hike. Already burdened by excess capacity, the severity of the current recession will leave supply outstripping demand through most of 2009. This means trucking prices will fall in all four quarters of the current year, before stabilizing slowly in 2010. Our forecast now calls for average trucking prices to fall 7% in 2009 and gain only 0.1% in 2010.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Scheduled air freight	-4.9	-10.8	-1.8
Chartered air freight & passenger	-5.5	NA	NA
Domestic air courier	1.3	-11.0	-4.6
International air courier	1.1	-13.3	-4.5

AIR

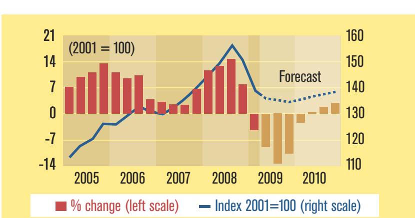
U.S. airlines dropped their average prices for flying cargo on scheduled flights by 4.9% in March on the heels of a 5.9% cut in February. Nonetheless, these prices still stood 5.5% higher in the first quarter of 2009 compared to the same period a year ago. High jet fuel surcharges allowed air cargo rates to soar in 2008. In the year ahead, recessionary winds will exert a downward draft on prices charged by airline companies and freight forwarders. Over the next five quarters, prices for flying cargo on scheduled flights will decline from the fuel-injected levels of the previous year. On an annual basis, prices will drop 5.8% in 2009 and possibly decline again by 0.3% in 2010.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Deep-sea freight	0.0	-19.2	-5.0
Coastal & intercoastal freight	-0.7	-1.9	-2.6
Grt. Lks.-St. Lawrence Seaway	0.0	3.3	6.1
Inland water freight	-13.7	-19.0	-2.3

WATER

As more economists' macroeconomic forecasts are revised downward and overseas markets drop into deeper recessions, we've been forced to revise water transportation price forecasts down too. Instead of a 2.7% price cut in 2009, we now predict water freight tags will decline 8% this year, followed by a 1.4% cut in 2010. The most recent Labor Department surveys of U.S.-owned barges and ships shows transaction prices were pummeled in March. Compared to March 2008, average prices for the deep-sea category fell 5% while coastal and intercoastal freight tags declined 2.6% and inland waterway service prices dropped 2.3%.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Rail freight	-1.2	-10.9	-5.7
Intermodal	-1.9	-16.8	-12.0
Carload	-1.2	-10.5	-5.2

RAIL

Despite wielding oligopoly power, this recession has caused average prices for both intermodal rail and carload service to fall again in March 2009. That was the seventh consecutive month of price cuts. In the first quarter of 2009, intermodal tags declined 9% from the same period a year ago. Average carload prices dropped 3.9% at the same time. Perhaps rail industry executives are making price concessions as a strategy to entice business from trucking. Rail price trends, however, now appear askew, outside the norm of historic trends. So it is with some discomfort that we project rail prices will decline 9.4% in 2009 and increase 0.7% in 2010.

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

inside

- USPS market test could add a new player for LTL-like services
- Truckers urge "Eisenhower-like commitment" in highway bill funding
- Port Tracker report says monthly volumes hit lowest level in seven years

NEWS & ANALYSIS

DHL, UPS end negotiations for domestic airlift deal

Low volumes due to DHL exiting U.S. market seen as driver for deal collapsing; should not hamper international service, analysts say.

By Jeff Berman, Group News Editor

PLANTATION, Fla. and ATLANTA—While it was far from a done deal, the proposed partnership for domestic airlift capacity between UPS and DHL is now officially off the table, according to company spokesmen.

UPS spokesman Norman Black told *Logistics Management* that talks between UPS and DHL have ceased and declined to disclose additional information. DHL officials said, "We have not been able to come to a conclusive agreement that is acceptable to both parties."

The deal was initially announced in May 2008, prior to DHL's announcement last November that it would eliminate U.S. domestic-only air and ground services to focus on international import an export offerings in major metropolitan areas by the end of January 2009. When DHL officially exited the domestic market, many industry observers noted that it left the status of the proposed 10 year, $10 billion airlift deal in flux.

Under the terms of the deal, DHL Express would have worked with UPS for airlift capacity in an effort to reduce its ground infrastructure operations costs. UPS would have provided all airlift services for DHL Express U.S. domestic and international shipments from airport to airport within North America, giving DHL a single airline partner in the U.S. UPS would have provided main hub package sorting services at UPS' Louisville, Ky.-based hub. The deal was originally supposed to be completed by the end of 2008.

One factor for the deal being shuttered centers around the decline in volume being handled by DHL now that it has left the domestic market.

Before DHL officially left the U.S. market, its air network handled about 1.2 million daily shipments for domestic and international shipments compared to its current levels that are around 100,000 per day. It also employed roughly 13,000 people, but will pare that down to 3,000 to 4,000 U.S. employees after it makes U.S. staff reductions. The job cuts are commensurate with DHL going from 412 stations and 18 ground hubs when it still had a domestic footprint to 103 ground stations and no ground hubs with an international-only U.S. presence.

"On the domestic front this announcement does not herald anything new for shippers," said Doug Turner, president of Toronto-based

PARCEL, *CONTINUED*

Obsidian Consulting. "The main event was last November when DHL announced the withdrawal from the U.S. domestic market. This withdrawal removed an important element of price and value competition from the U.S. domestic market."

In March, it was reported that DHL was in talks with its current air cargo partners—ABX and ASTAR Air Cargo—to handle, sort, and fly packages since the UPS deal had not been inked. ABX and ASTAR have long served as DHL's airlift partners out the of Wilmington Air Park in Ohio, which has served as the home base for DHL's domestic and air ground hub.

However, DHL will be moving its U.S. hub operations to the Kentucky-based Cincinnati/Northern Kentucky International Airport (CVG) by mid-to-late summer, said DHL Director of Corporate Communications Jonathan Baker. The driver for this move is nearly $2 million in tax incentives to relocate from Wilmington to CVG, noted reports.

DHL will be moving its U.S. hub operations to the Kentucky-based Cincinnati/Northern Kentucky International Airport (CVG) by mid-to-late summer.

At this time, no information has been disclosed in regards to what provider will serve as DHL's air carrier at the new location. Baker said DHL will continue to use ABX and ASTAR to provide the airlift services that UPS wanted to take over, but he would not discuss any potential agreements with other providers. DHL worked out of CVG from 1983 until it moved to Wilmington in September 2005.

A noted parcel delivery analyst said future success for DHL out of CVG is by no stretch guaranteed.

"When it opened, DHL's hub at CVG had all kinds of issues when they brought it on line. Shipments were delayed and mis-sorted for a protracted period," said Jerry Hempstead, president of Hempstead Consulting. "When DHL moved the Cincinnati operation to Wilmington, it was a complete operational disaster. Packages were delayed and missing for days and weeks after they brought the two operations together."

NEW SERVICES

USPS market test could add a new player for LTL-like services

WASHINGTON—In a filing submitted to the Postal Regulatory Commission, the United States Postal Service (USPS) said it will kick off a market test this month to provide service that will resemble a less-than-truckload (LTL) network.

The USPS said it will leverage its national transportation network that serves its processing facilities, a system comprised of approximately 440 sectional center facilities and more than 40 bulk mailing centers. USPS does not have an asset-based transportation network, as it contracts out its over-the-road trucking business; however, when the service gets underway, the USPS plans to leverage excess capacity on its trucks moving to and from these facilities—due to a significant decline in its mail volumes—by selling that capacity on a "space-available" basis.

It added that delivery unit loads will be on pallets, with exceptions on a case-by-case basis; and delivery times will range from one to four days, depending on origin and destination. According to the filing, the LTL-like market test will not exceed 24 months, with total revenues not anticipated to exceed $10 million.

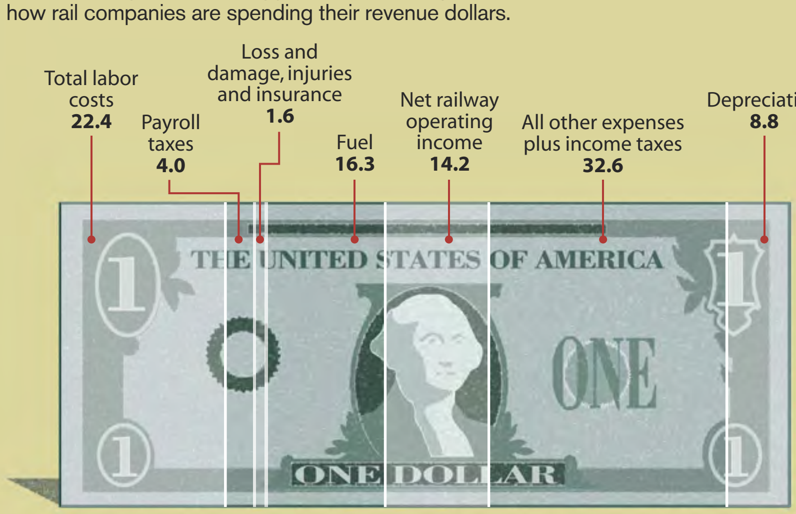
The filing also noted that the USPS "would accordingly be unable to set prices substantially above costs, raise prices significantly, decrease quality, or decrease output without risk of losing business to other firms in the LTL shipping market."

An industry source told *Logistics Management* that this plan makes sense on various levels, considering the USPS has plenty of excess capacity on the roads

News Capsule

Where rail revenue goes

Railroad companies and shippers continue to quarrel over rates, but here's a closer look at how rail companies are spending their revenue dollars.



Source: Association of American Railroads, Railroad Facts 2008 Edition

NEW SERVICES, *CONTINUED*

at the moment with a network that is already delivering mail on a daily basis. And he added that if viewed as an LTL player, the USPS has a bigger LTL footprint—or network—due to its existing mail routes.

"There is no place the USPS does not go," explained the source.

However, the catch for shippers is that they will need to determine how to get freight to and from the USPS sectional center facility or bulk mailing center. This presents an opportunity for third-party integrators to take an active role in delivering and picking up freight and then collect and deliver it to a consignee.

While this initiative occurs when the LTL market is replete with excess capacity, the source explained that this could be a good thing for shippers as it will offer up more service options. He added that shippers that are able to coordinate with a third-party for freight pickup and delivery in and out of USPS locations should be able to get competitive pricing.

The USPS will leverage its national transportation network that serves its processing facilities, a system of 440 sectional center facilities and more than 40 bulk mailing centers.

At a time when shippers have a close eye on expenses, cost management is not something that can be easily overlooked by shippers, noted Satish Jindel, president of Pittsburgh-based SJ Consulting.

"This is a time where shippers are saying cost is paramount and they will compromise on service if there is noticeable cost savings," said Jindel. "And that is what the USPS service is going to be by shippers moving freight from an existing network to the USPS."

—Jeff Berman, Group News Editor

INFRASTRUCTURE

Truckers urge "Eisenhower-like commitment" in highway bill funding

WASHINGTON—It's the Super Bowl for highway and transportation lobbyists.

The current five-year highway trust fund (HTF) reauthorization act expires in September, and there's talk of nearly doubling the spending of the current five-year, $286 billion bill. That's money that would go a long way to easing freight bottlenecks, reducing congestion and improving the nation's competitiveness.

The American Association of State and Highway Transportation Officials (AASHTO) recently told Congress that the nation needs to spend $535 billion over the next six years to adequately meet the nation's highway and transit needs.

So what does the trucking and highway lobby want with all that money?

In general, what freight interests want are congestion relief, economic growth, improved safety, and better bridge and pavement conditions. And the American people agree.

A new poll by Fabrizio McLaughlin & Associates Research shows that 88 percent of Americans are concerned about congestion and that 72 percent believe the federal government should lead in funding of major highways and bridges.

> **"We need an Eisenhower-like commitment to renewed investment in our nation's infrastructure. Absent that, America will continue to struggle in the ever increasingly competitive global economy."**
>
> **—Bill Graves, ATA**

"Finding the political will, the political energy, and the financial resources to address the significant shortcomings in the nation's infrastructure is going to be tough," said American Trucking Association's (ATA) President and CEO Bill Graves. "Years and years of doing just enough to get by have produced dire consequences."

Graves told *LM* that the way forward is clear. "We need an Eisenhower-like commitment to renewed investment in our nation's infrastructure," Graves said. "Absent that, America will continue to struggle in the ever increasingly competitive global economy. Safely moving people and products has been the circulatory system that made American strong. Whatever plan is developed to address our current and future national needs—it will have a steep price tag."

Freight interests are pushing for a new federal freight program paid for by a new fund financed by revenue by a variety of sources. They want this program to be "firewalled" from the HTF and funds distributed by the Department

continued

INFRASTRUCTURE, *CONTINUED*

of Transportation to improve conditions on certain freight corridors.

But even as this new freight fund is being discussed, some in Washington who want to tear down the existing firewall that allows for all HTF money to be used solely for transportation. President Obama's Office of Management and Budget is pushing to tear down the Highway Trust Fund firewall, which is opposed by highway and freight interests. This is shaping up to be a major issue in the coming months.

The firewall concept is complicated. Mainly, it means if Highway Trust Fund money is unspent, it can be used to offset other government spending. The bottom line means less money spent on highways.

"The real dramatic effect would be for payers into the fund, like truckers, is that it would be very difficult to convince us to fork over additional revenue if it's not used for its intended purpose," says Timothy Lynch, senior vice president of the ATA.

Already, truckers and other surface freight interests have enlisted some powerful allies. Rep. James L. Oberstar, chairman of the House Transportation and Infrastructure Committee, and many others on that committee are opposed to taking down the trust fund firewall. But appropriators in House and Senate are naturally in favor of it because it gives them greater freedom to move funds about for other pet purposes.

Preliminary discussions are already suggesting Rep. Oberstar is looking for the new plan to be in the $500 billion range. That would be a substantial increase over the current SAFETEA-LU program which was funded at $286 billion.

Kansas Secretary of Transportation Deb Miller, testifying to Congress on behalf of AASHTO, recently outlined a six-year, multi-modal transportation investment that includes: $375 billion for highways; $93 billion for transit; $42 billion for freight from outside the Highway Trust Fund; and $35 billion for intercity passenger rail, also from outside the Highway Trust Fund.

"Trucking interests in Washington are actively lobbying Congress to keep Highway Trust Funds for transport purposes and to summon the political courage to create a spending bill commensurate with the nation's needs, which have been generally ignored the past decade," added Miller. L

—John D. Schulz, Contributing Editor

TRADE VOLUMES

Port Tracker report says monthly volumes hit lowest level in seven years

WASHINGTON—While there are some indications that the economy is heading in the right direction, recent data from the monthly Port Tracker report by IHS Global Insight and the National Retail Federation (NRF) indicates that there is clearly a long way to go before the economy fully rebounds.

The recent report states that import cargo volume at the nation's major retail container ports sank to its lowest level in seven years in February, with the number of containers going below the one million mark for the first time in five years. And they are not likely to hit one million before May, even though activity will pick up in March and April with imports likely to see major year-over-year declines through the summer at a minimum. February was the 20th consecutive month in which volumes were down year-over-year.

Port trade forecasts in the report cover all containerized trade, not just retail goods, according to IHS Global Insight and the NRF. The ports selected for coverage are those considered most important to retailers, but, for reasons of monitoring the potential for overall congestion in the system, the organizations look at all containerized imports, including business-to-business shipments of items like components used in manufacturing or other wholesale goods.

> **"With the extreme drop in cargo volumes, even with reductions in capacity by carriers, there is more than adequate system capability to handle shippers' cargo."**
>
> **—Paul Bingham, IHS Global Insight**

IHS Global Insight analyst and Port Tracker author Paul Bingham told *Logistics Management* that it's unlikely these low volumes will abate anytime in the near future.

"The biggest takeaways [of this report] are that with the extreme drop in cargo volumes, even with reductions in capacity by carriers, there is more than adequate system capability to handle shippers' cargo," he said. "Transportation rates are under pressure as carriers struggle over shares of the shrunken market. Moreover, demand is not going to rebound much during the next six months, meaning the pricing pressures and capacity adequacy will continue."

Bingham added that he projects that the first quarter of this year will turn out to be the bottom of the recession. He explained that since February historically has the weakest traffic—and is the shortest month—it is fair to assume that we have hit the bottom for monthly volume. L

—Jeff Berman, Group News Editor

Bohman on

A closer look at 2009's GRIs

LATE EVERY FALL, as sure as the leaves change color, the shipping public has come to expect UPS and FedEx to announce the general rate increase (GRI) that they'll implement shortly after January 1 on both ground and air express package shipments.

In October of 2008, UPS announced, earlier than usual, that it would raise its Ground Service package rates by 5.9 percent effective January 5, 2009. As it always does, FedEx matched the UPS rate increase on its Ground and Home Delivery services, adopting the same effective date.

Shortly thereafter, FedEx gave notice that it would be raising its Air Express rates and UPS quickly followed suit.

The big surprise came in October when UPS announced that its LTL unit, UPS Freight, would hike its LTL rates by 5.9 percent to become effective on January 5. After mulling the early date for a few weeks, UPS Freight's competitor, FedEx Freight, decided to go forward with a general rate increase of its own, only slightly lower at 5.7%, but adopting the same effective date.

Since then, a number of other LTL carriers have boosted their rates. Here's a small sampling:

- Old Dominion Freight Lines with an overall impact of 5.6 percent effective February 16;
- New England Motor Freight at 5.9 percent;
- Milan Express at 5.9 percent;
- Southeastern Freight Lines at 5.9 percent effective March 2;
- Even SMC3 raised rates in its Czar-Lite tariff by 5 percent.

One big exception was Averitt Express which announced in February that it would forsake a rate increase in 2009. I should also mention that Pitt-Ohio Express hasn't taken a GRI in the last two or three years. What they do is review each individual account annually and adjust rates where warranted.

One trend that seems to be evolving is that fewer and fewer LTL carriers are publicly announcing their general rate increases; rather, they're notifying individual customers of the effective date and percentage increase of their GRI. With that move it's becoming harder to track what's happening on the rate increase front.

Just because a carrier went forward with a GRI this year doesn't mean every increase is sticking. A number of customers, adversely affected by this economic downturn, have forced their carriers to scale back their increases or drop them altogether. There's some tough bargaining going on out there. L

Sustainability: Your role as a supply chain leader

HERE ARE TWO THINGS that every company should know about sustainability:

1. A high percentage of sustainability imperatives fall into the laps of supply chain decision makers. Sustainability is also an IT issue, an HR issue, and a sales and service issue. But first and foremost, sustainability programs live in the supply chain—from eco-friendly design and manufacturing; to low-carbon strategies for sourcing, storing, and shipping; to smart reverse logistics policies and low-waste end-of-life disposal.

2. Sustainability is not a fad: It will not diminish in importance or intensity. Thus, it is generally unwise for companies to postpone or curtail their sustainability programs, even during uncertain economic times.

Following is a closer look at the above two realities, followed by the sustainability messages that forward-thinking supply chain leaders must carry to skeptical top executives.

SUSTAINABILITY'S POWER TRAIN

The rising importance of sustainability has brought about an interesting shift. At many companies, the brand promise has become as important to the supply chain officer as it is to the chief marketing officer.

At one time, "brand" was more or less about product image. But as more governments, companies, and customers queue up in support of environmental and social responsibility, brand becomes a function not just of the product you deliver, but how the product is made, who its component suppliers are, and how it is delivered.

However, fulfillment of brand promise is only one way that supply chain management is intertwined with sustainability. The reality is that few operational processes have broader potential influence on sustainability than supply chain management

A TEMPLATE FOR SUSTAINABILITY

Because so much of sustainability's activities and benefits reside in the supply chain, the supply chain executive could be the best person to carry sustainability's message to the C-suite. The core of that message is simple: Sustainable business practices—anchored by sustainable supply chains—make good business sense. A recent Accenture study concluded that sustainable businesses actually outperform peers by as much as 7 percent.

Even if sustainability programs make "good business sense," corporate decision makers may still need to be persuaded during rough economic times. Your message to the C-suite should include:

• Consumers want to buy from companies that contribute to environmental solutions rather than to its problems. Companies need sustainability credentials to attract and keep these customers. Research shows that 59 percent of consumers will pay more for products that help reduce carbon emissions.

• Most natural resources will never again be practical or abundant. Expensive, politically-charged energy forms are dinosaurs. Forward-thinking companies cannot delay their search for products, services, and manufacturing and logistics processes that depend less heavily on the consumption of scarce and costly fuels.

• Employees have acute and influential sustainability concerns. More and more people want to work for companies that "do well by doing good."

• Suppliers influence sustainability in numerous ways. Take carbon footprint or disposability issues, or the fact that one irresponsible supplier (anti-green, anti-worker, etc.) can seriously undermine its customers' branding and reputation-building efforts.

• Environmental standards and regulations are becoming higher-profile parts of the business landscape. Among the hundreds of examples are Europe's WEEE (Waste Electrical and Electronic Equipment) initiative and ISEAL (an international non-profit organization that codifies social and environmental best practices). Just recently, the EPA's "endangerment finding" referenced the possibility that "almost anything that emits carbon dioxide and other greenhouse gases could be regulated under the Clean Air Act."

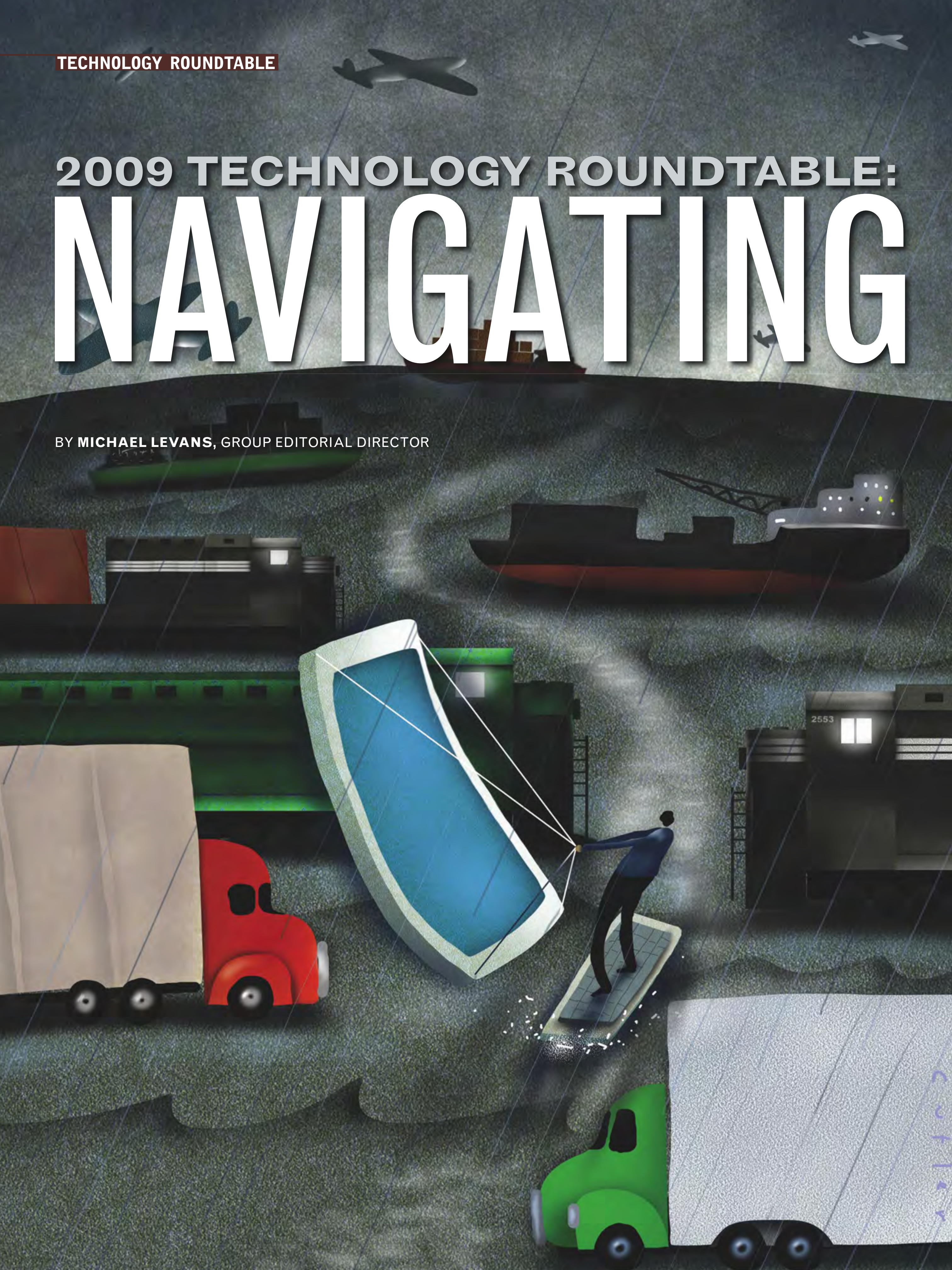
• Capital markets are developing more social responsibility indices and working sustainability factors into their valuations. Investors clearly consider sustainability a wise investment option.

The time is now: Critical mass in sustainability has been reached, and it's largely up to supply chain decision makers to carry the weight.

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.

2009 TECHNOLOGY ROUNDTABLE: NAVIGATING

BY **MICHAEL LEVANS,** GROUP EDITORIAL DIRECTOR



THE STORM

Feeling challenged by the course ahead? Our panel of four leading analysts suggests that some strategic technology investment—coupled with the optimization of what you already have—should help shippers steer into less daunting waters.

The supply chain management software and technology investment research that's been trickling in during the past few months (logisticsmgmt.com/software) has revealed that while times have certainly been tough, a percentage of savvy shippers continue to strategically invest in new implementations and upgrades.

That really shouldn't surprise anyone considering the challenging transportation market over the past year; and the fact that increased trade regulations are putting even more pressure on global shippers for data at a time when nearly every logistics staff is doing more with less. For the vast majority of shippers who told us that their hands have been tied by upper management in terms of technology spending, the following panel discussion may offer you a clearer path through the current nasty weather.

Logistics Management has gathered four leading supply chain management technology analysts to share their insight to help shippers better harness existing systems or make a stronger case to the C-suite for loosening the purse strings.

Over the next few pages we'll be joined by Adrian Gonzalez, director of ARC Advisory Group's Logistics Executive Council, who will discuss rising interest in Transportation Management Systems (TMS) and Global Trade Management (GTM); Belinda Griffin, global supply chain executive program manager for Capgemini, who will discuss the growth of network optimization software; Greg Aimi, research director for AMR, who will share tips on optimizing your current Warehouse Management System (WMS); and Brad Wyland, senior research analyst for the Aberdeen Group, who will wrap things up by helping shippers overcome technology adaptation issues.

TMS & GTM: ESSENTIAL GEAR

Logistics Management: **Our recent research revealed that while technology spending was being scrutinized, interest in TMS continues to be strong. What's driving this?**

Adrian Gonzalez: During the first half of 2008, record fuel prices were certainly the main driving force, as shippers looked to mitigate high fuel surcharges. Although demand has slowed down a bit in 2009 due to the economy, many companies continue to invest in TMS as a way to reduce costs (a top priority for every company these days) and improve productivity. Transportation procurement, in particular, is very popular as the market has shifted in the favor of shippers.

LM: **Meanwhile, global trade has slowed significantly, yet global shippers are being put to the test with the introduction of 10+2. What's your advice to shippers who have yet to get customs compliance in order?**

AG: First, the need to comply with trade regulations has not gone away—and will not go away. Seek help from your freight forwarders and brokers. In many ways, the requirements of 10+2 are an extension of what freight forwarders/NVOCCs are already doing to comply with US Customs' Container Security Initiative (CSI), namely submitting manifest information, including shipper details, electronically to U.S. Customs' Automated Manifest System (AMS). In fact, 10+2 information will also be submitted to Customs via AMS.

LM: **What type of vendors are poised to help at this stage?**

AG: Traditional software vendors are not in the best position to cash in on this opportunity. If there's ever a business process that lends itself perfectly to a network-based solution, it has to be 10+2 compliance. This is really a data collection and connectivity challenge, and freight forwarders and network-based solution providers are in the best position to address it.

LM: **It makes sense that the network-based providers would be well suited; however, recent research shows that many shippers are still reluctant to make**

Greg Aimi

Adrian Gonzalez

Belinda Grifffin

Brad Wyland

the move. Surprised?
AG: I should say I am. Global trade management is arguably one of the most complex processes companies must manage due to all of the regulations and cost factors involved. If you're managing global trade with spreadsheets and faxes, you're almost certainly leaving money on the table. Also, most customs agencies around the world are modernizing their filing systems and requiring electronic filing of data and documents. Simply put, if you don't modernize and automate your global trade processes, you won't be able to import or export products.

***LM:* You project that TMS will continue its steady growth through at least 2012. How do you see TMS evolving to meet changing shipper needs?**
AG: Transportation management systems have traditionally been developed and deployed in silo fashion. For example, parcel shipping, fleet management, and global trade capabilities have historically been offered as stand alone applications, developed on different technology platforms, with little or no integration between them or with other transportation and supply chain solutions.

Fortunately, the status quo is beginning to change. Progressive companies are taking a more holistic perspective of their transportation and logistics operations in order to increase productivity, reduce costs, and improve service levels. As a result, software vendors are transforming TMS from a fragmented collection of applications to a unified platform where users across the enterprise and value chain can execute role-specific processes via configurable user interfaces, workflows, and Web services.

***LM:* What would you tell a logistics manager who has yet to make a move to TMS, especially in today's climate?**
AG: Walk down to your transportation department today and if you see employees "dialing for diesels" or feeding forms into a fax machine, then you know it's time to invest in a TMS. Trust me, there's no better time than now to streamline and automate your transportation processes, to optimize your loads and routes, and to capture the cost savings and productivity improvements that you've been leaving on the table.

TMS has a long-proven history of helping companies save 5 percent to 25 percent (or more) depending on how "broken" and manual your current processes are. The days of high fuel prices and tight capacity (the "good old days") will return, and companies that transform their transportation management processes today will be in the best position to succeed down the road when the economy recovers.

NETWORK OPTIMIZATION: MAPPING SUCCESS

***LM:* Logistics managers have been fed varying definitions of what network optimization means. How would you best define it?**
Belinda Griffin: In the past, network optimization was viewed as a tool that primarily helped make decisions about DC placement/utilization and transportation mode selection. Now people are using it to make decisions about the optimal regions to source materials, to develop a right-shoring strategy, or to figure out how to reduce the carbon footprint of their end-to-end network.

***LM:* Can you give us an example of how it has evolved?**
BG: Today it's helping to set inventory policy in determining whether to use centralized or distributed stocking for a given product or group of products. The other major evolution is what I would call the "operationalization" of network optimization.

By that I mean that, historically, the technology available to do network optimization was often quite cumbersome and it was viewed as something that you could maybe afford to do once every few years. However, today's technology is so much easier to implement and companies are finding that they can easily build an in-house capability that allows them to run their network optimization on a regular basis.

***LM:* It's been a hot topic of late, but can you help shippers understand what strategic advantage it can give them in these tough times?**
BG: In this economic climate, networks need to respond quickly to changing business conditions such as key trading partners closing facilities or network disruptions due to mergers and acquisitions. And, most companies are looking to quickly identify and implement major cost reductions that require

"Walk down to your transportation department today and if you see employees 'dialing for diesels' or feeding forms into a fax machine, you know it's time to invest in a TMS."
—Adrian Gonzalez, ARC Advisory Group

"Focus on the applications that yield the fastest ROI. For example, LMS and TMS have proven to cut labor and freight spend respectively by anywhere from 7 percent to 30 percent. These savings are usually incurred within 6 to 12 months of implementation."

—Greg Aimi, AMR Research

minimal up-front investment.

When you combine these two trends, the business case for implementing a network optimization technology has never been more compelling.

For example, I know of several medium to large shippers that have recently been able to find multi-million dollar cost savings by optimizing their network with a few hundred-thousand dollar investment in network optimization technology. When you balance the magnitude of bottom-line cost savings that it can produce relative to the low investment required, the ROI demonstrates why network optimization is one of the hot technologies that companies are turning to in the current economic environment.

***LM:* What types of solutions are available and what are their capabilities?**

BG: There are essentially three types. The first type is custom built and offers the benefit of being highly accurate, but can be complex and costly to build and especially to maintain. The second type is a specialized network optimization module that is offered as part of larger enterprise solution. The third type is stand alone. The stand alone solution has the benefit of a low cost to implement and maintain, but effective usage will probably require some degree of data aggregation which means a slight loss in the accuracy of results.

***LM:* Is it being done in-house or being outsourced?**

BG: Like many other supply chain technologies, there's a split between in-house and outsourcing. The good news is that a lot of the logistics providers and advisory services are taking advantage of the technology that exists and have been able to enhance their ability to perform network analysis for the shippers they serve.

So, for companies who might just want that one-off analysis when something changes in their business, this is a nice option to have. On the other hand, there are an increasing number of companies that recognize that the results of network optimization can guide strategic decisions in their business and consequently they don't feel comfortable outsourcing.

WMS: GETTING MORE FROM WHAT YOU'VE GOT

***LM:* What is your advice to that group of shippers who tell us that they need to make further investment but feel that their hands are tied by upper management?**

Greg Aimi: One strategy might be to focus on the applications that yield the fastest return on investment. For example, labor management systems (LMS) and TMS have proven to cut labor and freight spend respectively by anywhere from 7 percent to 30 percent. These savings are usually incurred within 6 to 12 months of implementation; and for companies with large logistics budgets, these savings percentages can more than offset the cost of the software.

Another strategy is to seek out software-as-a-service (SaaS) offerings for the application areas you need to automate. These systems allow you to pay for the use of the software as an expense and therefore don't require a large capital expenditure yet you can still get the value quickly.

***LM:* Let's turn our focus to WMS. We consistently find users who have a WMS but are not taking full advantage of its functionality. What recommendations do you have for this group?**

GA: Think about this win-win scenario: The vendors are hurting just like everyone else as software sales are also down, however, WMS vendors have tremendous professional services resources available to do an "application and operations assessment" to see if your processes and use of the application adheres to the best practices that they've seen across their vast customer base.

Negotiate with the vendor to offer attractive consulting rates, maybe even a fixed bid, and you get the most knowledgeable product resources for your WMS. The deliverable would be a report on what changes your operation could make that would take advantage of capabilities already in the software that weren't already being used along with a projection of what the productivity or customer service gains would be if implemented.

***LM*: Let's get a little more specific on some of the "less used" functionalities of a WMS. Aside from controlling the movement and storage of materials, what are the key functionalities that users tend not to tap?**

GA: We recently published an "insider's guide to cutting costs" on tactics you can do now to shave costs out of the logistics and distribution system. For example, make use of the labor management system to measure workforce performance against standard benchmarks. You could also improve pick productivity by re-slotting warehouse inventory locations based on product turn rates. Some companies are working with customers to arrange for more full container-load orders, or enable delivery flexibility so that you can maximize cube utilization by combining orders.

You might conduct root-cause analysis of OS&Ds (over, short, and damaged) returns, and chargebacks for potential changes in manufacturing or fulfillment processes to avoid these costs. Still, other companies are electronically connecting with suppliers for shipment notifications, in-transit tracking, and appointment scheduling to better plan resources on delivery and receipt.

LM: What would it "feel like" when a warehouse/DC operation has put the full functionality of its WMS to work?

GA: First and foremost, all tasks in the warehouse would be driven by a state-of-the-art WMS system and all workers would be interconnected to the system via mobile device where they would receive their work instructions—all work would be "directed work."

All incoming receipts would be "expected," that is broadcasted electronically in advance. Unloading and putaway tasks would be scheduled for optimal use of staff. Some companies have made progress on inventory turns and cycle time by planning for cross-docking at the time of receipt. Inventory would be slotted for optimal travel time based on the product turns.

Various automated picking methods (possibly automated materials handling) would be used based on the particular product and order flow process. Optimal shipments would have been planned and sent to the floor so that what gets picked is already optimized for transportation savings. A labor management system would be in place to evaluate staff performance against standards as well as to ensure adherence to "preferred methods" for optimal productivity. Inventory accuracy and fill rates should be in the high 90 percentile because of the WMS as well.

LM: What would be the overarching benefit of that ideal scenario?

GA: The two key things that a WMS provides is inventory accuracy and perfect order performance. The WMS is intended to ensure that these two things are accomplished but with the greatest amount of productivity possible and at the least cost. Just about everything in a WMS serves these two major operations.

The inventory accuracy percentage and inventory visibility can also be an enabler for more far-reaching supply chain improvement strategies where companies are continuously looking for opportunities to lower total network inventories without sacrificing the servicing of demand.

EASING ADOPTION: IT'S NOT AS TOUGH AS IT SEEMS

LM: What is your advice to shippers who may be intimidated by the perceived high cost of adopting transportation-related technology?

Brad Wyland: I think the first bit of advice I tend to offer is to ask the question: Do you know how much your transportation is really costing your company? If that can be answered down to the finest detail, including fuel and other accessorial charges across various contract measures, the next question has to be: Can we do better?

That's where the rubber hits the road and companies have to look inside. If you feel confident that you have the visibility necessary to your carrier potential, can easily identify and take advantage of savings opportunities when they arise, and are managing your carriers in compliance with the strategic needs of your business, then "costs" are under control. But the big question is this: Can you afford not to take advantage of the tools available?

LM: Sounds like you're prescribing a one-step-at-a-time approach. Can you run us through an ideal scenario where a shipper first puts his toe in the water and then builds from there?

BW: With the flexibility of today's technology platforms, companies have a virtual smorgasbord in front of them when it comes to solutions to help automate and improve processes. The most important step is analyzing your entire process of managing transportation today, and where it needs to be tomorrow. From there, identifying areas that are easy ROI targets is the most logical step.

It may be outsourcing audit and payment to free up resources for more strategic needs and getting better visibility to "true spend." It may be leveraging a solution to manage small parcel outbound shipping to bring those costs under control and improve operations. It may be leveraging a solution from a TMS provider to start managing on particular product area or business unit and building internal processes and expanding from that point.

LM: What your suggesting is that shippers should know their needs first, correct?

BW: I'm saying that the important thing to keep in mind is this isn't "your father's supply chain," and by that I mean there is flexibility and options available to add technology where it helps and provides ROI, without taking that huge step/investment and feeling like you've gained nothing. The technology is easier to deploy, easier to license, and easier to add-on and grow.

LM: While fuel costs have dropped considerably over the past few months, there are many indications that we'll see fuel rise again as the global economy begins to pick back up. What single bit of advice would like to have resonate with shippers that remain on the fence concerning technology adoption/spending?

BW: My one bit of advice is that we've all been given a "get-out-of-jail-free" card with respect to transportation costs. If people think that freight rates can't spike again without warning they weren't paying attention last year. Now is the opportunity to regain our footing, evaluate our business strategies, layout a roadmap for tomorrow, and identify the areas that need to be improved.

While these things can't be prevented by one company, each company can create more flexibility and agility to be able to respond quickly and have the visibility necessary to manage around these situations. Improving transportation visibility, real-time collaboration with carriers and partners, rapidly being able to model and choose new courses of action, and being strategic and including transportation as a critical differentiator in the total supply chain is the next level of excellence. L

Michael Levans is the Group Editorial Director of RBI's Supply Chain Group.

WE MAY HAVE RECEIVED THE AWARD, BUT ALL THE THANKS GO TO YOU.

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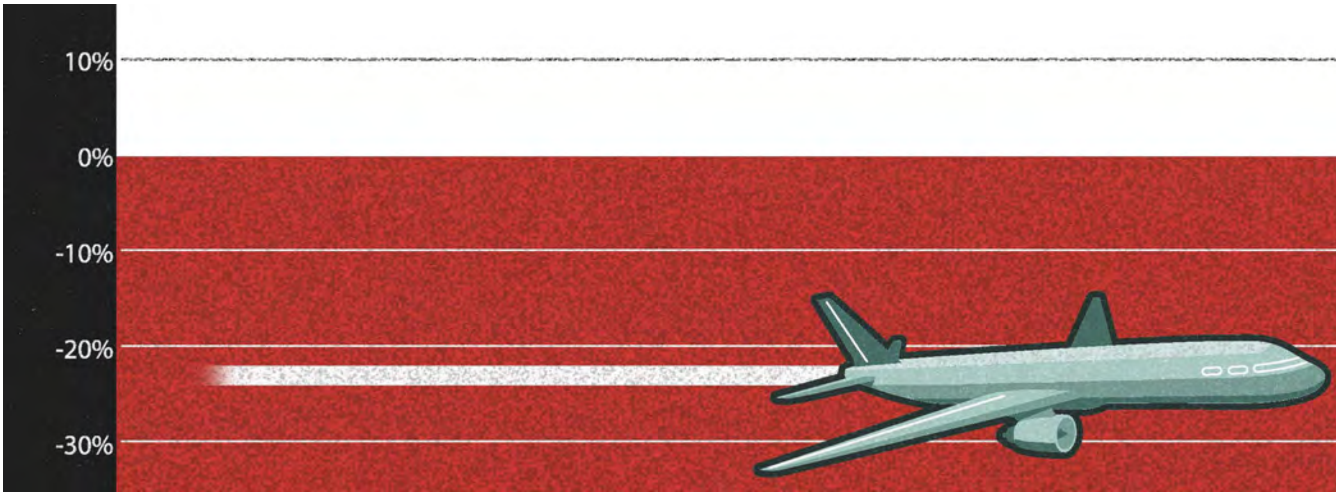


Air cargo: FLYING LOW

BY **KAREN THEURMER**, CONTRIBUTING EDITOR

Analysts contend that once economic conditions improve the increase in freight activity will spike air freight costs. However, the extent of that recovery depends on how much shippers have permanently altered their transportation mix during troubled times.

Today's global economic downturn has spared no industry, and among the hardest hit is air cargo. In fact, the International Air Transport Association (IATA) reports that in just one year international air cargo traffic fell 23 percent. Giovanni Bisignani, IATA director general and CEO, calls this drop "unprecedented and shocking."

Even leading global carriers like Lufthansa and Emirates are bracing for the worst. Although Lufthansa posted a strong 20.9 percent increase in operating profits in 2008—the second highest of all time—Lufthansa Cargo Chairman Carsten Spohr warns 2009 will reveal a different scenario. "We will see a continued decline in yields, but will continue to invest in quality and premium security products," Spohr says.

The downturn truly spared no one in the air. Fourth-quarter 2008 profits at Singapore Airlines fell 42.8 percent. SIA Cargo suffered a $46 million loss for the period, down from a $76 million profit a year earlier. EVA Air reported its cargo revenue fell by a third in November 2008 year-over-year as volumes plunged 25.5 percent, yields slumped 5.7 percent, and cargo load factors dropped 6.0 percent to 72.5 percent.

Middle East carrier Emirates is experiencing low traffic levels on most routes "like everyone else," says Ram Menen, Emirates SkyCargo's divisional senior vice president. Although not ready to release data, he adds: "This has affected the growth numbers we had forecasted last year."

IATA figures say it all. As of March 24, IATA forecasted losses in the airline industry for 2009 to hover around $4.7 billion. "Combined with an industry debt of $170 billion, the pressure on the industry balance sheet is extreme," says Bisignani.

IATA projects demand to fall sharply with passenger traffic expected to contract by 5.7 percent over the year, while cargo demand is expected to decline by 13. Both are significantly worse than the December forecast of a 3 percent drop in passenger demand and a 5 percent fall in cargo demand. Yields, IATA says, are expected to drop by 4.3 percent.

"The pressure on yields is very acute because of the competitive forces. I have never seen anything like this in the last 35 years," adds Emirates' Menen.

THE SHIFT IS ON

Dipping numbers aside, air cargo continues to be the fastest, safest, and most reliable way to move goods between continents, despite its high cost.

"That's why air cargo grew faster than ocean containerized trade volumes during times of booming demand and tight inventories," says David Hoppin, managing director of consultancy MergeGlobal. "This demand increased the frequency and value of stock-outs and off-shoring to distant lands—namely China—in pursuit of low labor costs."

But in recent years, air cargo has grown slower—and now seems to be plummeting even faster—than ocean containerized trade. "That's because demand has fallen off a cliff and inventories are swollen," Hoppin adds. "There's far less need to move goods quickly to market, and far more focus on pinching pennies."

Escalating fuel prices certainly plagued the industry much of last year and resulted in high fuel surcharges being imposed on shippers. These costs have contracted and surcharges have been nearly eliminated. But now with the worldwide economic downturn, shippers are now shaving costs everywhere. This means finding less expensive transportation modes.

"It's all about the economy," comments J. R. (Reg) Kenney, executive vice president of DHL Global Customer Solutions. "Because companies are experiencing significantly less trading activity and more pressure on earnings, there is an absolute, outright drive to reduce costs today."

There may be situations where inventory carrying costs generated by longer transit times result in shippers staying with air. But today, transit times are less important, and shippers are increasingly shifting to alternative options. "You can see the impact the shift is having in the IATA numbers," says Matt Walker, director of International Operations at forwarder A.N. Deringer. "You don't hear the need to team drive shipments any more. Time frames are not as important as they were before."

Consequently, some shippers are considering transport alternatives such as sea-air. "But sea-air only makes sense in certain geographic markets such as Asia-Europe via the Middle East where there is cheaply-priced backhaul airlift to produce a viable sea-air product," Hoppin contends. Dubai, for example, imports a great deal by air but exports almost nothing, thereby creating large amounts of backhaul airlift to Europe.

Shippers concerned primarily about price are now focusing more of ocean, which offers the cheapest, although slowest, mode for continent-to-continent moves. "Importers are closely monitoring and looking for changes, improvements, and reductions in costs to their supply chain," states Panalpina USA Managing Director Lucas Kuehner. "They want to find new ways to adjust such as working with increased transit times by air or even switching to the ocean mode on a portion of their transport volume."

In fact, through 3PL subsidiaries, steamship lines now offer airfreight and ocean freight forwarding services, arrange ground transportation, and provide warehousing, distribution, and supply chain management services. For example, APL Logistics, the logistics arm of Neptune Orient Lines, and Con-way Freight offer OceanGuaranteed, a port-to-door, day-definite transportation service that combines premium ocean less-than-container-load (LCL) service with high-performance less-than-truckload (LTL) transportation. Corporate executives with both companies say it offers a level of on-time delivery and in-transit visibility not available before.

Shippers are considering different options for domestic air shipments as well. "Even within the U.S. domestic market, companies are choosing to significantly reduce their use of express air services in favor of ground," observes Kenney. "What used to be moved on a priority basis is now being moved on a preferred basis."

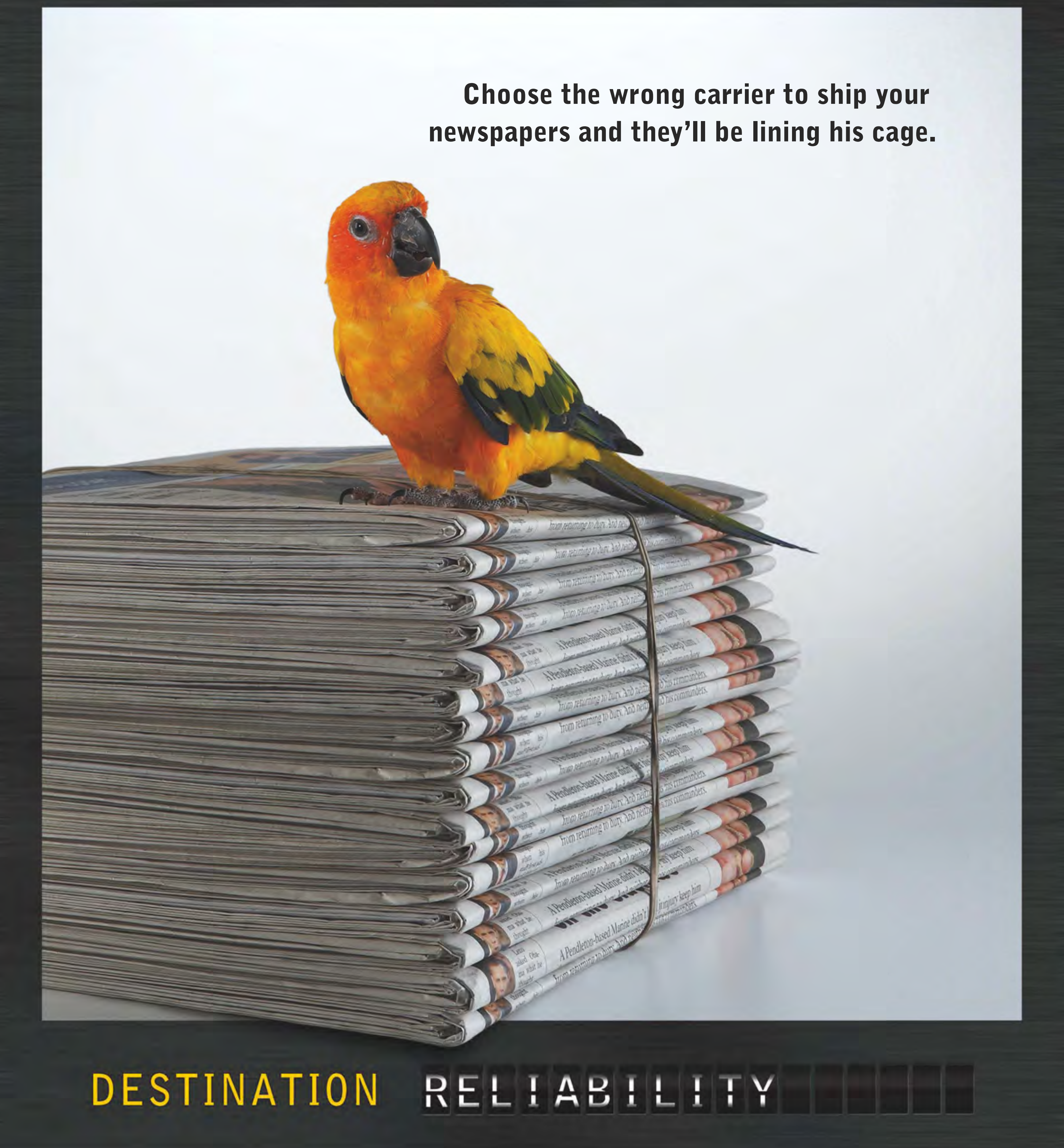
FLEET REDUCTIONS

Given the severe drop off in air cargo volumes, air carriers find it necessary to right-size their networks by using fewer widebody aircraft into strategic primary hubs and feeder aircraft to places previously serviced by the larger jets. This is especially the case for integrated carriers.

"Given the weakness in the market for both passenger and cargo, these capacity reductions are necessary," says Neel Shah, Delta Airlines' vice president of air cargo. "Traditionally this industry has not been smart about making sure capacity matches demand."

But Shah points out, for every capacity reduction made, air carriers find ways to route cargo a timely and efficient manner. "We have not gotten feedback that a certain specific capacity reduction has impacted a customer," he says.

The slow down in the industry, however, has resulted in a dramatic grounding of aircraft. "Today all-cargo carriers from Asia have no qualms about canceling a midweek flight if capacity or revenue has not met some internal target," says Joseph Hoban, director of air services, AIT Worldwide.



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Figures from Ascend, consultants to the global aerospace industry, reveal that a record total of almost 2,300 jet airliners, more than 11 percent of the global aircraft fleet of 20,293, are now parked. Of that total, 1,167 were grounded last year. North American carriers have announced fleet reductions totaling almost 800 aircraft since mid-2008. European carriers have parked over 450 aircraft and Asia/Pacific airlines at least 230.

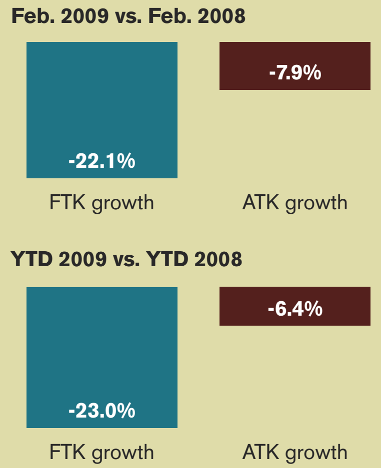
In December, Cathay Pacific announced plans to ground two B747-400BCFs for 12 months in the California desert and delay several new freighter aircraft deliveries. The airline is reducing cargo capacity to Australia, North America, and Europe. Cathay has also delayed construction of its Hong Kong cargo terminal, which had been scheduled to commence operations in 2011.

"With new deliveries still likely to be around 1,000 this year, subject to financing, airlines also have to park older aircraft to avoid even more surplus capacity," says Chris Seymour, head of market development for Ascend.

The Middle East has not been affected to the same degree as other regions of the world. Emirates has not grounded any airplanes at this time, but has phased out its three A310-300F fleet and is currently operating with a freighter fleet of seven—four B747-400Fs and three B747-400ERFs. "This is on top of the 123 wide-body passenger fleet," says Menen. "Our strength is our distribution network and we continue to capitalize on this."

International Traffic Results

(Industry wide)



FTK: Freight Tonne Kilometers measures actual freight traffic

ATK: Available Tonne Kilometres measures available total capacity (combined passenger and cargo)

Source: IATA

WHAT'S AHEAD?

So what does this mean to shippers as a whole? Observers maintain that when economic conditions finally improve and consumers begin spending again, the increase in freight activity will spike air freight costs.

But a wild card remains: To what extent companies will have permanently altered how they manage their supply chain will indicate the level at which air cargo fits into their transportation mix.

New transportation products available that include multiple modes of transportation, and changes in sourcing patterns that include nearsourcing will all factor in. "Going forward, air cargo's role will depend on how each shipper's sourcing strategy evolves," maintains Hoppin.

Karen Theurmer is a Contributing Editor to Logistics Management

Buyer beware in the air

As Warren Buffet says, "When the tide goes out you can see who's been swimming naked." Those who don't have the wherewithal to stay in business are out of business, or get bought out—and it's been happening in air cargo. Consider how Delta Air Lines swallowed rival Northwest Airlines late last year in a $2.6 billion merger that created the world's biggest airline. "We are now one division with one sales force selling a combined network with NWA," states Neel Shah, Delta Airlines vice president of cargo.

Similar situations are happening elsewhere. KLM combined its sales force with Air France. Lufthansa combined its network with Swiss and more recently purchased a 45 percent stake in Brussels Air. Last year, Lufthansa teamed with Deutsche Post's DHL Express to form AeroLogic which began operation last month out of Leipzig, Germany.

Particularly noteworthy is the consolidation trend of large transportation and logistics companies acquiring smaller freight forwarders. Examples include the Schneider Logistics acquisition of American Overseas Air Freight, an international freight forwarder and customs broker; the Deutsche Bahn AG (the parent company of Schenker) purchase of BAX Global; and the Meridian IQ (the global logistics management subsidiary of YRC Worldwide) acquisition of Shanghai-based GPS Logistics Group.

Given today's environment of tight credit, some freight forwarders no longer have the financial wherewithal to stay in business. "In today's economy, some of the players will not survive," says J.R. (Reg) Kenney, executive vice president of DHL Global Customer Solutions.

While these larger third party logistics operators (3PLs) may offer a wider cornucopia of services to shippers, the big difference between 3PLs and their forwarder counterparts is the fact 3PLs are asset-intensive and don't work on the same case-by-case "book space" mentality as air freight forwarders. They also widen the gap between the shipper and air cargo carrier.

While shippers traditionally do not do business directly with air carriers, forwarders have always operated as their go between by negotiating rates and booking space with carriers to accommodate shipper needs.

Given the current environment where there is a large concentration by 3PLs to grow their networks and transportation options, David Hoppin, managing director of consultancy MergeGlobal, stresses it is important for air carriers to do the same in order to keep competition in the marketplace. "They need to be able to match resources and bargaining power with large forwarders and logistics service providers," Hoppin says.

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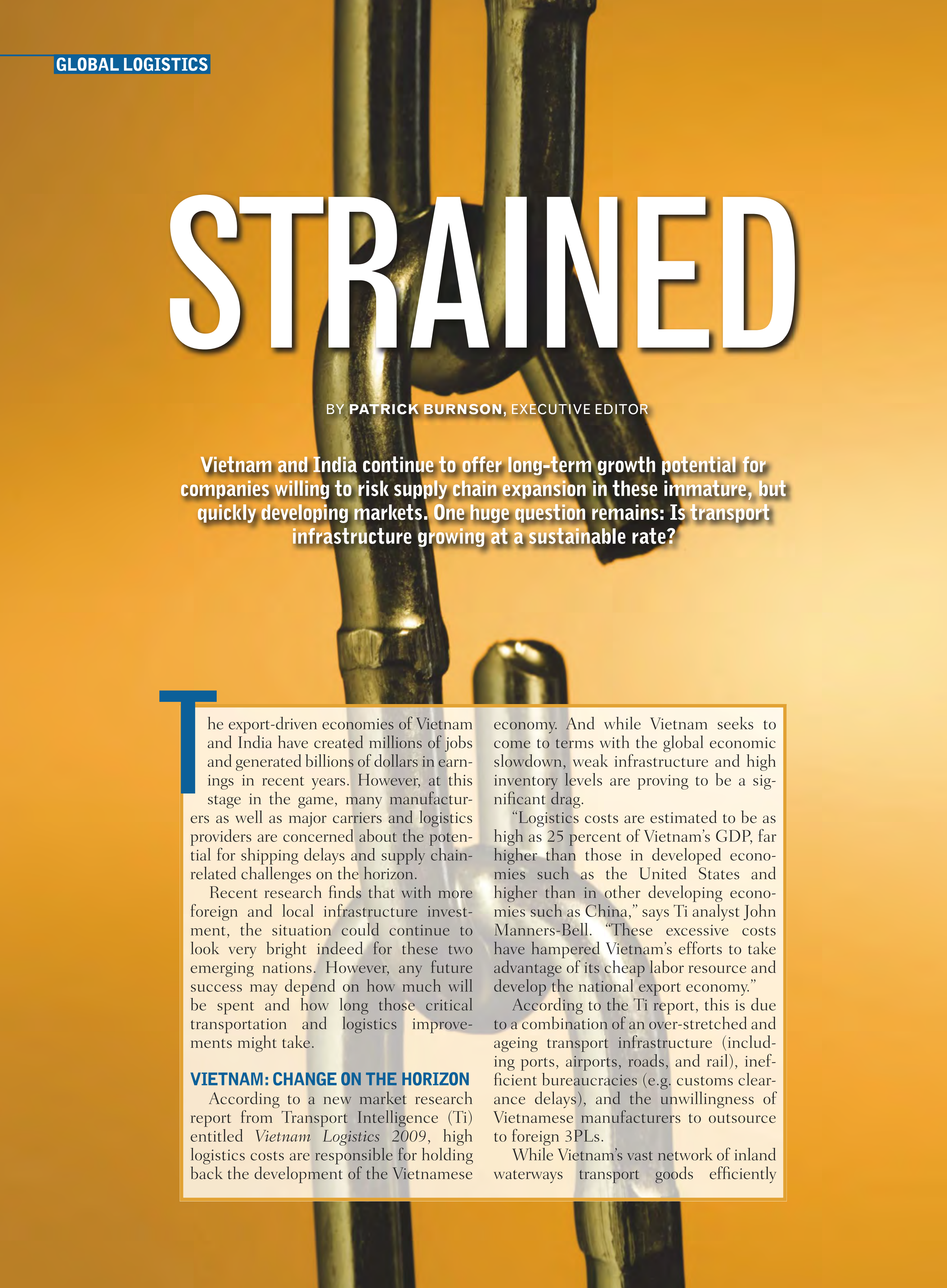


STRAINED

BY **PATRICK BURNSON**, EXECUTIVE EDITOR

Vietnam and India continue to offer long-term growth potential for companies willing to risk supply chain expansion in these immature, but quickly developing markets. One huge question remains: Is transport infrastructure growing at a sustainable rate?

The export-driven economies of Vietnam and India have created millions of jobs and generated billions of dollars in earnings in recent years. However, at this stage in the game, many manufacturers as well as major carriers and logistics providers are concerned about the potential for shipping delays and supply chain-related challenges on the horizon.

Recent research finds that with more foreign and local infrastructure investment, the situation could continue to look very bright indeed for these two emerging nations. However, any future success may depend on how much will be spent and how long those critical transportation and logistics improvements might take.

VIETNAM: CHANGE ON THE HORIZON

According to a new market research report from Transport Intelligence (Ti) entitled *Vietnam Logistics 2009*, high logistics costs are responsible for holding back the development of the Vietnamese economy. And while Vietnam seeks to come to terms with the global economic slowdown, weak infrastructure and high inventory levels are proving to be a significant drag.

"Logistics costs are estimated to be as high as 25 percent of Vietnam's GDP, far higher than those in developed economies such as the United States and higher than in other developing economies such as China," says Ti analyst John Manners-Bell. "These excessive costs have hampered Vietnam's efforts to take advantage of its cheap labor resource and develop the national export economy."

According to the Ti report, this is due to a combination of an over-stretched and ageing transport infrastructure (including ports, airports, roads, and rail), inefficient bureaucracies (e.g. customs clearance delays), and the unwillingness of Vietnamese manufacturers to outsource to foreign 3PLs.

While Vietnam's vast network of inland waterways transport goods efficiently throughout the country, an inadequate road network (less than 20 percent paved) and limited railway capacity have prevented Vietnam from meeting its full transport potential. Furthermore, the report finds that a substantial proportion of Vietnam's logistics costs can be attributed to high inventory holdings.

However, this situation is gradually changing. The Vietnamese government has invested billions of dollars in the country's infrastructure and is encouraging foreign development income in projects such as the Cai Mep Container Port near Ho Chi Minh City in the Mekong River Delta, and the new Long Thanh airport that's projected to be completed by 2015.

One of the most obvious logistics-related benefits coming from increased investment in infrastructure has been the enhanced road links with its neighbors. The Kunming-Hekou-Hanoi-Haiphong Corridor has enabled road freight operators to connect the country to its regional ground networks, bypassing ports and airports and thus reducing international freight costs by up to 30 percent.

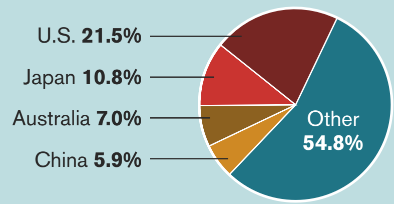
"Overall, it can be said that the speed of infrastructure development in Vietnam is much slower than that in its neighbor and rival, China," says Manners-Bell. "Once the world claws its way out of the current recession, high inventory levels and slow moving supply chains will delay Vietnam's economic recovery."

With nearly 900 logistics companies listed in Vietnam registries, demand for services continues to ramp up, industry experts say. But even though strong inbound and outbound growth is steady, it accounts for only 4.4 percent of the nation's total GDP. Analysts for Spire Consultants, an international construction consulting firm, note that in Thailand and Singapore the logistics sector earns almost 15 percent of the GDP.

Vietnamese logistics companies can only meet 25 percent of domestic demand, with the greater part of market share held by foreign firms including Maersk Logistics and APL Logistics, say analysts. Planned government

Vietnam's leading export markets

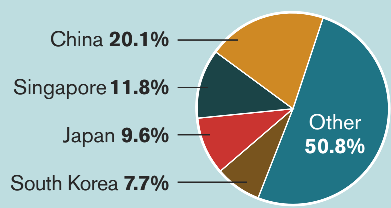
(%)



Source: *The Economist*

Vietnam's leading import markets

(%)



Source: *The Economist*

investment of $17.5 billion to develop infrastructure is expected to change this scenario soon. But until that happens, local logistics companies are fighting to stay competitive. Nike is using Schenker Logistics to ship and source in Southeast Asia, but some local Vietnamese 3PLs are driving partnership deals that may soon add value.

Gemadept, a major domestic freight intermediary, recently announced that it has cut a deal with Schenker to set up a logistics center promising to meet international standards in southern Binh Duong Province. Gemadept has an annual turnover of 1 trillion dong ($60.2 million), and may prove to be a shining example of what smaller firms may achieve in the future, says a spokesman for the Vietnam Freight Forwarders Association (VIFFAS).

Considering that 80 percent of Vietnamese logistics firms have registered capital of less than 1.5 billion dong ($90,000), one can easily understand why joint partnerships make sense. Eckhart Dutz, general director of Cartridge World Vietnam—a leading supplier of laser printer ink products—has issued just such a forecast, noting that local firms will soon bond with multinationals with global reach.

None of this can happen too soon for officials at the World Bank, who note that Vietnam's airport, roadway, port, and telecommunications services—the infrastructure required for a logistics network—rank fourth in the region behind Singapore, Malaysia, and Thailand.

"Due to infrastructure constraints, freight costs are disproportionately high in Vietnam, running at around 30 percent to 40 percent of total costs, compared to around 15 percent in other countries," says World Bank spokesman Michael Peskin.

INDIA: MOUNTING CHALLENGES

Transportation infrastructure (or rather, lack thereof) is a key concern for shippers sourcing from India. While manufacturing still contributes only about 16 percent of India's GDP now, analysts say multinationals will increase their sourcing dramatically in the near future.

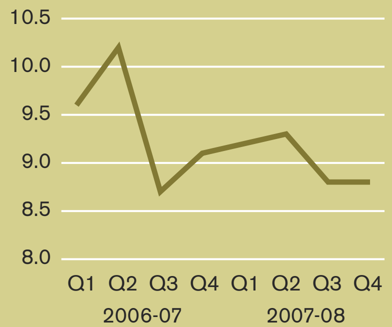
Noha Tohamy, an analyst with AMR Research, noted in a recent study that India has been making forays into the manufacturing sector with companies like Moser Baer, Bharat Forge, Bajaj, and Larsen & Toubro working hard to change that nation's reputation as a low-quality manufacturing center. And like Vietnam, India is looking to use its skilled and highly educated resource pool to differentiate itself in the global marketplace by focusing on skill-intensive design and manufacturing outsourcing. But that may be a tough task, she adds.

"From unreliable electricity supplies, to dilapidated roads, to congested seaports and airports, India's infrastructure preparedness pales in comparison to many other established 'emerging world' countries," says Tohamy.

According to Rohit Pattnaik, an analyst with Drewry Shipping Consultants Ltd. in London, the economic pressure being placed on India's seaports can be mitigated by allowing more private

Real GDP at factor cost

(India quarterly GDP growth)



Source: Reserve Bank of India

GDP growth in India, while still strong, is threatened by a fragile transport infrastructure.

investment. "Steel, oil, mining, and cement industries could benefit from the government's plan to unveil a new policy whereby private companies will be allowed to develop captive berths at all major ports," he says.

Under the new policy, captive berths are to be given on the basis of minimum guaranteed cargo and after payment of royalty on a per-ton basis. While the captive berths will be exclusively used by their operator, companies may also be given the freedom to offer the infrastructure for use to a third party after getting permission from the port authority.

"In this case," says Pattnaik, "the operator may have to pay certain charges to the port authority. The government's change of heart is the result of lobbying by port authorities that have been under pressure from domestic steel and mining companies." The government, at the same time, is augmenting port infrastructure needed to handle the growing cargo traffic.

The U.S.-India Business Council (USIBC) agrees that seaports need such funding, but also emphasizes that weakness in other parts of that nation's ailing infrastructure need mending. "This presents an enormous opportunity," says USIBC president Ron Somers. "Models of public-private partnerships will need to be tested and proven to develop India's airports, ports, roads, and railways," he says.

These models, adds Somers, must include guarantees against the political risks of changes in contracts and government levies. Meanwhile, India's railways are also in need of an upgrade, says Somers, to ensure safety and efficiency. "The Ministry of Shipping will be encouraged to embrace the implementation of the National Maritime Development Policy with an eye toward active involvement of the private sector," he says. "Development of viable models, demonstrating returns on investment, will need to be profiled and successfully promoted."

Air transportation is particularly crucial as well. USIBC seeks to support the Government of India's desire to develop world class cargo facilities consistent with the goals embodied in the historic U.S.-India "Open Skies" agreement.

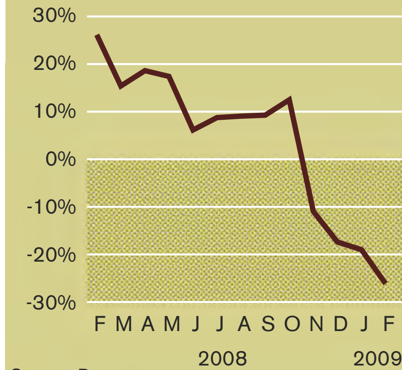
FedEx Express is among the carriers taking advantage of this new relationship. "India's GDP is growing at a rate of 7 percent per year, making it one of the fastest growing economies in the world," says Robert Elliott, president of FedEx Express Europe, Middle East, and Africa. "This growth represents huge potential for our customers in terms of market expansion and global trade."

FedEx has expanded its market position by increasing flight frequencies in and out of India and improving connectivity between key export centers and regional hubs, resulting in improved service, especially for customers in Delhi and north India. The company also added capacity to move shipments of greater weight and size to key global markets within 24 to 48 hours.

Shippers have also been working closely with Menlo Worldwide Logistics, which provides a wide range of domestic 3PL services for the entire subcontinent. Among the company's offerings in the region are warehousing (dedicated, multi-client, and in-plant); transportation management; facilities; and supply chain offices. "We pride ourselves in using our proven experience in solutions for India-based logistics with strong capabilities in many of the region's dominant industries such as automotive, consumer electronics, high-tech, and industrial, notes spokesman Gary Frantz.

Container volume at India's major ports

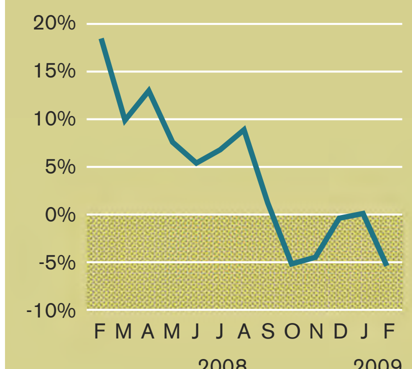
(year-over year growth)



Source: Drewry

Traffic at India's major ports

(year-over-year growth)



Source: Drewry

An expected surge through 2012 in ocean cargo throughput measured in both tons (top) and containerized volume (bottom) is placing added pressure on India's seaports.

Shippers use Menlo to leverage a global platform that is integrated with a regional service portfolio including far-flung operating locations in Chennai, Delhi, Mumbai, and Vadodara. But as to whether other major global logistics players will enter the fray in India is still a matter of conjecture. Analysts agree that without rapid development of a distribution network, U.S. companies will take a cautious approach. L

Patrick Burnson is Executive Editor of Logistics Management

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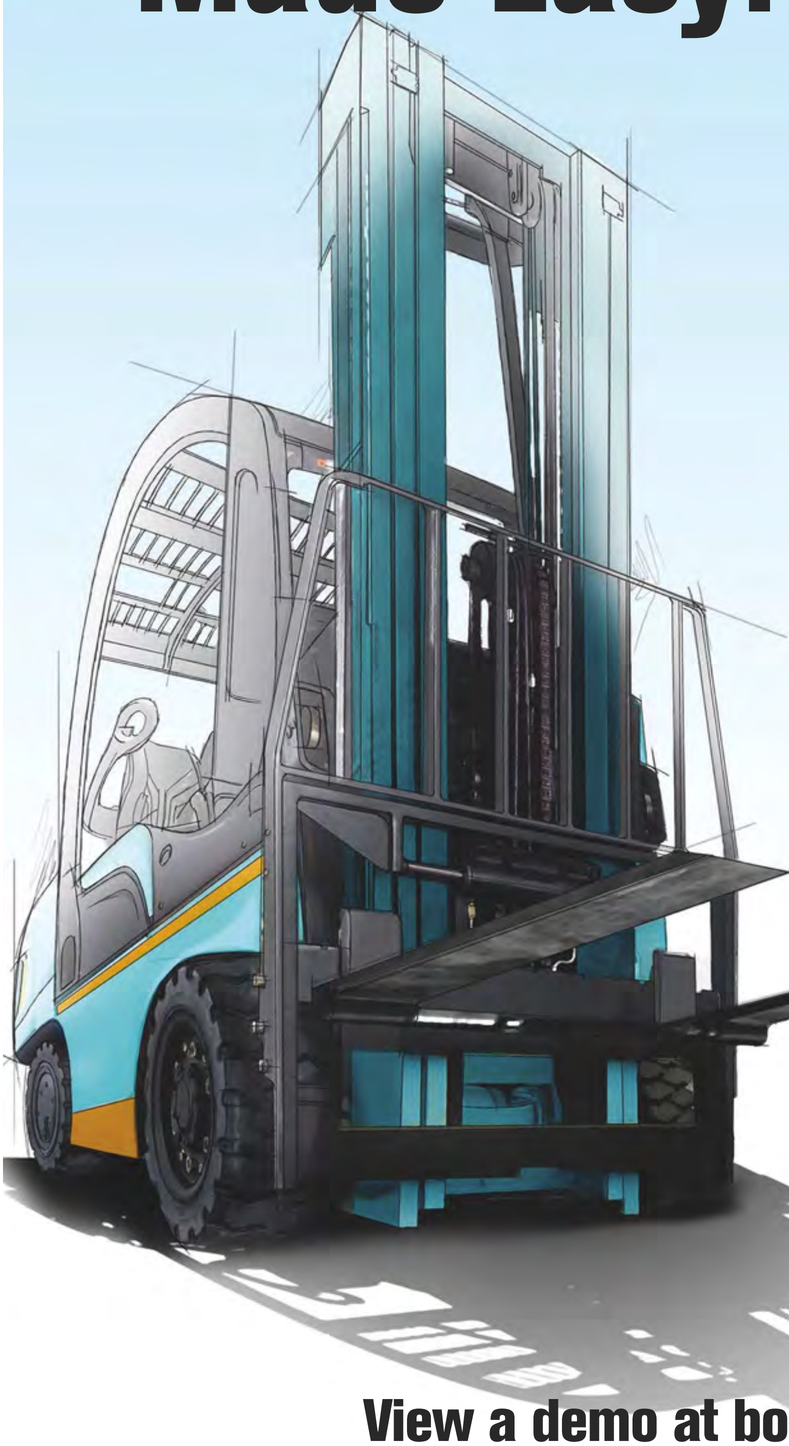

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WMS: Prompt payback

BY **BRIDGET MCCREA**, CONTRIBUTING EDITOR

Seeing little promise of an economic recovery in 2009, WMS providers continue to hone their systems for new verticals and work diligently to shorten payback periods for increasingly anxious users. Here's where the market stands and how two managers took the plunge.

Whether they're buying new warehouse management systems (WMS), upgrading their existing packages, or replacing antiquated solutions, savvy logistics managers nationwide continue to seek out the best ways to automate the warehouse floor despite increased scrutiny on spending—and they're demanding a quicker payback than ever before.

According to Steve Banker, service director for supply chain management at ARC Advisory Group, the total number of warehouse management systems sold by vendors shrank by 4 percent in 2008 compared to 2007. However, a new *Logistics Management* (*LM*) survey found that companies have put WMS at the top of their technology "wish lists" for 2009. How soon that wish may come true is still up in the air.

According to *LM*'s annual software trend study, 55 percent of respondents told us that they're currently using WMS, while a surprising 31 percent of current users say they plan to upgrade their WMS this year. Of the 41 percent of shippers who say they're planning to purchase supply chain management (SCM) software sometime in the next 12 months, the bulk (31 percent) will invest in WMS, with 29 percent interested in TMS. From their WMS investments, the survey reveals that shippers expect to improve their inventory deployment, real-time control, labor management, and slotting functions, to name just a few.

The fact that the WMS market contracted just 4 percent last year—and that it's leading the pack in the SCM space—is music to the ears of HighJump, Manhattan Associates, and RedPrairie, the "big three" best-of-breed providers. Also claiming their piece of the WMS pie are enterprise resource planning (ERP) vendors SAP and Oracle. "All of these vendors went into 2008 doing pretty well," says Banker, "but sales cycles started to lengthen in the second and third quarters. By the fourth quarter, they weren't selling anything."

Which of the following types of software do you/ your company currently use for your operations and which will you be purchasing/ upgrading in the next 12 months?

	Currently use	Plan to Purchase Upgrade	Both (NET)
Warehouse Management Systems (WMS)	55%	31%	67%
Transportation Management System (TMS)	36%	29%	54%
Yard Management Systems (YMS)	14%	10%	21%
Global Trade Management Software (GTM)	15%	13%	25%
Enterprise Resource Planning (ERP)	44%	18%	53%
Supply Chain Planning (SCP)	34%	23%	47%

LM's 7th Annual Software Survey, April 2009

VENDORS FIGHT THE TRENDS

To combat the economic-related decrease in sales, WMS providers continue to tweak their solutions and package them in a way that differentiates them in a mature software market. RedPrairie and Manhattan continue to reign as the most functionally-rich solutions available, says Banker, while HighJump promotes its system's flexibility.

However, all vendors are working to shorten shipper payback periods, which have historically been two years for WMS. "In a recession there's a natural tendency for customers to look for a quicker payback," says Banker. "We're now seeing WMS add-on modules with payback periods of less than 12 months."

Software providers are also redeploying resources to customer verticals that continue to purchase systems despite the economic conditions. "The retail sector has been clobbered by the recession, but the third-party logistics [3PL] providers are doing okay because their industry is somewhat counter-cyclical," explains Banker. "That's because during a recession, many manufacturers start to think about outsourcing to 3PLs when the leases come up on their warehouses."

The replacement market is another bright spot for WMS providers, according to Greg Aimi, research director at AMR Research, who says that his own research shows that about 50 percent of WMS sales in 2008 fell into that category. "Some of these systems that were installed in the late-1990s have been in place for 10 to 15 years and need to be replaced," says Aimi.

Other drivers include the need for labor management (for benchmarking employee performance and improving productivity on the warehouse floor, for example) and globalization of the supply chain. "The import and export of inventory overseas is changing the flow," says Aimi, "and firms are moving their distribution centers and implementing WMS to handle this globalization."

To help shippers achieve those and other goals, many WMS providers are extending their systems' functionality beyond the warehouse floor, according to Bob Trebilcock, who covers the technology sector for *Modern Materials Handling* magazine.

"Manhattan is the largest WMS provider, yet just 50 percent of its revenues come from WMS, and that number is going down all the time," Trebilcock explains. "Where it—along with HighJump and RedPrairie—differentiates itself is with the applications that handle the functions that come before and after the actual WMS."

Take HighJump, for example, whose store replenishment system has gained in popularity among customers. A firm that's delivering Frito Lay snacks to 100 different 7-Eleven stores can use the system to seamlessly replenish from the retail floor, and have that order information fed directly into the distributor's WMS.

Software developers are also beefing up their systems' slotting functions to help customers figure out the best possible product placement on retail shelves. They're also creating more robust route management systems to assist with the picking and packing of orders, as well as the scheduling of the day's deliveries.

With little promise of an economic recovery in 2009, WMS providers continue to hone their systems and package them in a way that appeals to companies in need of new or improved warehouse automation. Now let's take a look at two companies that have put their existing WMS to work to help them get smarter and faster in today's challenging environment.

CABELA'S MULTI CHANNEL CHALLENGE

As the largest direct marketer in the U.S. and a leading retailer of hunting, fishing, camping and related outdoor merchandise, Sidney, Neb.-based Cabela's has a 20-store retail division that draws more than 40 million visitors annually. The company's three DCs comprise more than 2 million square feet and house 300,000 SKUs from more than 5,000 vendors. The company switched from a manual WMS to Manhattan Associates' PkMs in 2000 to handle its inbound operations, and in 2006 moved its outbound logistics onto the Manhattan system.

According to Baloo Eledath, Cabela's director of enterprise business solutions, the new implementation focused on three areas: pre-season planning and purchasing; in-season fulfillment and restocking; and post-season assessment and preparation for the next season. The WMS was installed in three DCs, two return centers and 20 stores. The company uses the system in its retail stores to track inventory location and replenish stock on the floor as sales occur as well as for receiving and returns.

Cabela's multi-channel strategy requires optimization of people, systems, and capital to meet the complex needs of its diverse customer base, whose preferences vary by geographic region, sporting season, and skill level. The ability to accurately forecast, purchase, and place inventory in advance of demand is essential. The first attempt at WMS automation in 2000 wasn't easy for Cabela's, which handled the installation in-house.

"We tried to implement the WMS within our existing methodology and that resulted in operational difficulties," says Eledath. "We got where we needed to be within a few months, and then started to see significant improvements."

To avoid running into similar issues, Eledath advises users to "understand their operations well" before getting into the WMS buying process. "And if you haven't implemented a WMS before," he adds, "consider enlisting external help to do it."

In return for its investment, Cabela's has realized improvements such as increased operational efficiency, cost savings, and enhanced customer service capability. Other benefits include better visibility of information, improved metrics, and the ability to benchmark and make the necessary configuration changes for its multi-channel network. "In the past, configuration changes took days or weeks to complete," says Eledath. "We now handle them within an hour with our WMS."

PAPYRUS UPGRADES FROM PAPER

Papyrus may make its money selling paper, but that doesn't mean it wants a paper-based warehousing system. Founded in 1950, the Fairfield, Calif.-based company's product lineup includes custom-printed announcements, items for entertaining, greeting cards, gift wrap and bags, stationery, note cards, journals and other unique gifts.

Five years ago the company decided it was time to upgrade its manual warehouse management system, and set out to find a WMS that was flexible (should the company's product mix change, for example) and independent in nature.

"We didn't want to be dependent on a vendor," says Del Duquette, warehouse manager for the firm's 275,000-square-foot DC in Nashville, who found what he was looking for in a RedPrairie WMS. "I haven't placed a support call this year."

Rewind back to 2004 and Duquette says the installation posed significant challenges for the firm, which ships products throughout North America. "We had to figure out everything from scratch," recalls Duquette. "It took at least six months to marry our distribution practices with the WMS."

Today, Papyrus uses its WMS for inventory management and order fulfillment and replenishment. The most significant benefits have come in the form of inventory accuracy, says Duquette. "With our paper-based system, our total inventory accuracy never exceeded 85 percent," he says. "Now, our inventory is always at 99.5 percent or higher." The company has also eliminated physical inventory events, which in the past required one-week warehouse shutdowns. "Now we just do spot audits," says Duquette.

Finally, the warehouse manager says company productivity has gone from shipping about 15,000 orders a day to as many as 50,000 a day, with 30,000 orders being the average. "Fulfillment time has also improved," says Duquette. "Thanks to our WMS, we can process about half of our orders same-day, and get them out the door that day or the next." L

Bridget McCrea is a Contributing Editor to Logistics Management

On-demand WMS?

THE SOFTWARE-AS-A-SERVICE (SAAS) MODEL HAS MADE significant inroads in the TMS space, where 36 percent of those shippers looking at transportation management systems in 2009 will consider the on-demand model, according to the *Logistics Management* survey. Unlike purchase-and-install options, the SaaS model resides on the provider's server and is accessed by the user over the Internet. Rather than paying licensing fees, the shipper pays out a monthly fee until the subscription period is up (usually one year).

Can SaaS gain the same traction in the WMS space? SmartTurn, a provider of on-demand WMS, thinks so. According to *Modern Materials Handling*'s Executive Editor Bob Trebilcock, SmartTurn is targeting the small-to-mid-sized facilities that have relatively simple inventory management and order fulfillment requirements.

The company has already completed numerous implementations of its on-demand product, whose functions include purchasing, receiving and put-away, inventory control, order fulfillment, shipping, integration, and mobile computing.

Greg Aimi of AMR Research isn't so sure that on-demand will make it big in the WMS sector, where the option has only recently been made available to managers. "I do think customers would buy into it more if it were readily available," says Aimi, who points out that the lack of "network benefits" in warehousing make the SaaS option less attractive for shippers.

"With TMS, there's intrinsic benefit to everyone belonging to a network," Aimi explains. Lane speeds and port codes, for example, can be built into the content in a TMS and provide benefits for everyone who is hooked into the system. The same doesn't hold true for warehouses, says Aimi, which tend to be focused on what lies inside their four walls.

"While on-demand WMS gives companies visibility over their entire network," says Aimi, "there really is no need to span multiple companies that everyone can tap into, as there is with TMS."

5 ways to find hidden warehouse space

BY MAIDA NAPOLITANO, CONTRIBUTING EDITOR

So, you're struggling with higher inventories and upper management is not about to invest in new warehouse space. Fear not: Our team of experts will help you find space where you think there isn't any.

In this current economic decline, many warehouse and DC managers are struggling with higher inventories as they lag behind in adjusting supply chain operations to lower-than-expected demand trends. This inventory has to go somewhere, and many times your space-challenged warehouse or DC may be the only option.

With upper management reluctant to spend money on anything these days—and most certainly not on a new warehouse—you're stuck, but you need to find space.

If this situation has become all too familiar to you, we may be able to help.

We've recruited three "warehouse space" experts who bring more than 60 years of combined experience on the subject. Jack Kuchta is president of the warehouse-consulting firm, Jack Kuchta LLC, and author of the book "How to save warehouse space;" Larry Shemesh is presi-

Tip: Compare each SKU's cubic velocity versus its cubic inventory to find which products have little or no movement.

dent-CEO of OPSdesign Consulting, a N.J.-based firm specializing in the design of warehousing, distribution, and fulfillment operations; and Carlos Bastos is director of proposal development for Frazier Industrial Company, a leading manufacturer of structural steel storage systems.

Many of the suggestions they're about to share require no capital costs, while a few call for minor layout reconfigurations and the purchase of low cost storage and handling equipment. However, all are geared to help warehouse/DC managers increase storage capacity in existing space.

By finding precious space, Bastos says, "You will eventually take control of your inventory, increase your operational efficiency by handling fewer pallets, and reduce current outside storage costs."

WISE USE?

How do you know If you're using space wisely? First, Kuchta wants you to check your entire "airspace." "That includes space within racking as well as above the storage modules," he says. Not counting necessary clearances required by building and fire codes, you might be surprised by the amount of unused vertical and horizontal space throughout your facility.

One of the biggest culprits, says Shemesh, is unused overhead space above operating areas. "This is particularly prevalent over receiving and shipping docks, value-added processing areas, and packing stations."

Are floor lanes only half full most of the time? Are full pallet rack positions holding half-pallet quantities? Although being 100 percent full is never optimal, as it will increase travel paths and cause redundant handling, "each type of storage/picking media has a specific range of utilization that best optimizes its use, typically ranging between 70 percent and 90 percent," says Shemesh. If your storage positions are occupying consistently less than this typical utilization rate, then the cause should be investigated.

Do you really need such wide aisles? "Perhaps the aisles and the associated lift truck equipment are not well-suited for the operation," notes Shemesh.

And, of course, the cardinal sin in any warehouse: Are you so close to capacity that you're not only storing in access aisles, but also in emergency egress aisles?

GETTING STARTED

It's been said that it wasn't raining when Noah built the ark, so don't wait for a major crisis before attempting to find space in your warehouse. "Space planning initiatives should be an ongoing, continuous improvement process," says Shemesh. "It should not be undertaken only when the costs of outside storage or redundant handling becomes too great to bear."

Instead, stay informed with inventory forecasts and SKU growth or reductions, upcoming marketing plans and promotions, and any other relevant company directives that affect the flow of product to and from your warehouse. Prepare alternative space configurations that can be readily implemented in response to these changing requirements.

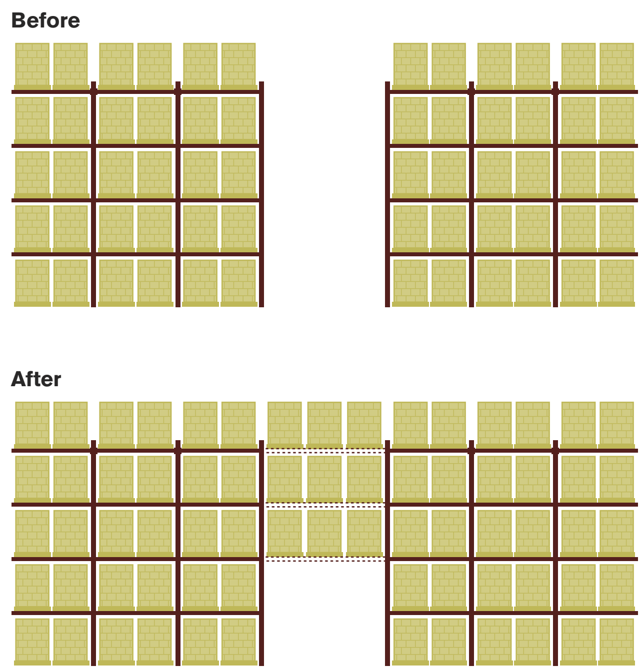


Figure 1. Adding racks over cross aisles *(Diagram courtesy of TranSystems|Gross & Associates)*

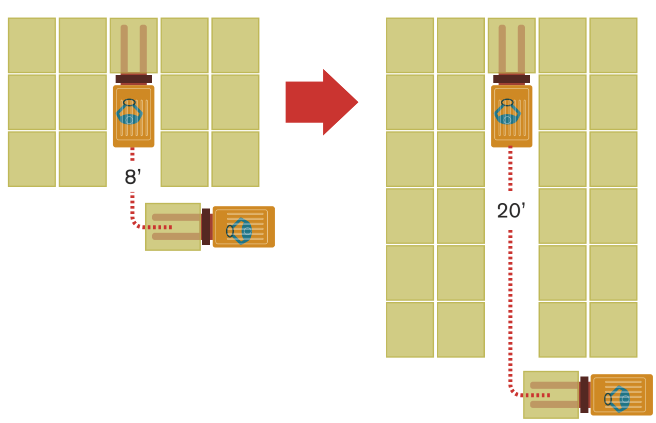
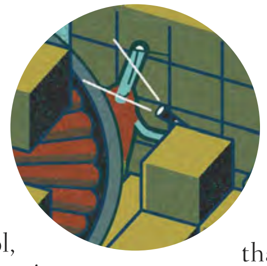


Figure 2. Creating deeper bulk lanes can increase storage density, but it takes longer to retrieve a pallet. *(Diagram courtesy of TranSystems|Gross & Associates)*

WAYS TO CREATE SPACE



Solutions to space problems are plenty. For this article, we're focusing only on a small number of them. The first few are mostly procedural changes meant for long term inventory control, but they require little or no capital investment and focus on working with what you already have.

The remaining solutions are physical changes, which may involve the purchase of low cost storage and material handling equipment.

1 Take control of your inventory. Compare each SKU's cubic velocity versus its cubic inventory to find which products have little or no movement. "Every time your warehouse employees move past these slow and no-move SKUs, that unnecessary travel time results in increased labor costs," says Shemesh.

He suggests liquidating this inventory and freeing the space it now holds. "It is the least expensive way of optimizing warehouse space and may actually generate some revenue by discounting and selling the goods or by donating them to a charitable organization."

Shemesh also suggests profiling inventory to see if items are stored in appropriate modules. Are decked pallet racks holding piece quantities better suited for shelf storage?

Some warehouses have become a dumping ground for old files and old office equipment. Notify department managers of this equipment and initiate steps for removal.

2 Adopt distribution strategies for specific products that can lower inventory and increase turns. After receipt, move product "across the dock" and load directly onto the tractor trailer. In other words: cross dock.

Shemesh suggests pushing some inventory back to your vendors, where possible, in a vendor-managed inventory (VMI) strategy.

"Ask your purchasing department to work with key vendors to honor the quantity pricing, but hold back some of the quantities in your vendors' warehouses for them to deliver upon demand," he explains.

Kuchta agrees, adding that you should consider "receiving smaller quantities more often, thus increasing turns and reducing inventory."

3 Make sure you're leveraging your warehouse management system (WMS). The standard functionality that a WMS

Tip: Where possible, double stack pallets, but remember to treat each pallet as a separate location so that it can be tracked properly.

offers can do wonders with space. A WMS streamlines receiving, picking, and shipping procedures to reduce dock space requirements and free up valuable space for storage.

Combined with a good location system, it also permits directed random storage based on the availability of space instead of dedicated storage that can block the use of an available storage position.

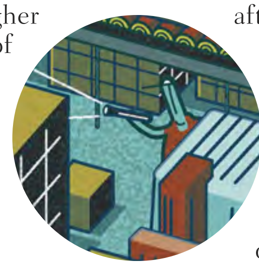
It allows directed putaway of a product to the most appropriate locations based on size, movement, and storage conditions. A good WMS can also identify partial pallets and generate tasks to consolidate them to reduce space.

After gaining control of your inventory in Step 1, a good WMS will help you maintain control of it.

4 Find actual physical space at little or no cost. Kuchta advises you to review docks, staging, and VAS areas with an eye to minimizing them to current activity levels.

"The need is likely to be short term and the extra space will not always be designated for storage," he says.

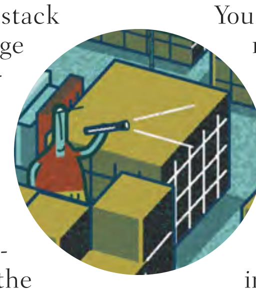
Move battery chargers for lift trucks between truck doors and use the existing charging space for storage. Is there space below the overhead sprinkler system? Kuchta suggests creating higher pallets on the top level of racked space.



Where possible, double stack pallets, but remember to treat each pallet as a separate location so that it can be tracked properly.

If you floor stack, Kuchta also proposes pyramid stacking, where the top pallet straddles two lower pallets.

"This may allow you to stack pallets to higher storage heights because the top pallet is stabilized by the two lower pallets. However, it may also mean less labor efficiency," says Kutcha.



When palletizing, invest in low-cost pallet calculator programs to determine the optimal pallet pattern that maximizes the number of cartons that can be stored on a pallet, thus reducing the overall number of pallets.

And if you own outside trailers on your property, use them for temporary storage. Many managers use them to store their supply of corrugated. However, if you don't own any, consider renting trailer storage during peak periods when space becomes a major issue.

5 Purchase low cost storage and handling equipment. "Spend money on equipment such as rack systems, mezzanines, and other vertical storage devices only after exhausting all no- or low-cost options," suggests Shemesh.

Are there partial pallets occupying full pallet positions? If yes, purchase beams to create more levels. Bastos recommends adding racks over cross aisles (See Figure 1) and over the dock doors.

Use the space above the conveyors to install shelving for dunnage, empty cartons or additional pick facings. You can even add racking for reserved storage that can facilitate the replenishment of pick facings.

If using 9 feet or more wide aisles, consider dragging racks and creating 6-feet very narrow aisles (VNA) and purchasing VNA trucks to increase storage density.

As VNA trucks can cost up to $100,000, make sure you evaluate the ROI for these storage systems. In the long run, it may still be cheaper than getting outside storage.

LAST WORDS OF CAUTION

Lastly, our experts express a word of caution: The indiscriminate maximization of storage density can sometimes compromise productivity. Reducing the number of cross aisles can result in higher storage capacity, but it's at the expense of a longer pick path, thus reducing picker throughput.

In Figure 2, deeper bulk lanes may increase storage density, but it means a longer travel distance for a driver to retrieve a pallet.

With this in mind, Shemesh emphasizes that a thorough data analysis must precede any space optimization initiative. "Depth of inventory by SKU, order profile, FIFO requirements, and many other attributes must be addressed before embarking on any such exercise."

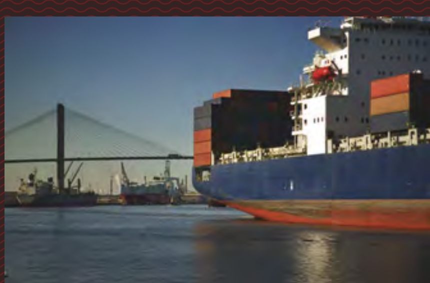
If push comes to shove and increasing storage capacity is indeed the number one priority, Kuchta maintains that managers must accept, for the short term at least, that some sacrifices in labor efficiency may be necessary to increase storage. L

Maida Napolitano is a Contributing Editor to Logistics Management

Tip: If you own outside trailers on your property, use them for temporary storage. If you don't own any, consider renting trailer storage during peak periods when space becomes a major issue.

Port of Tacoma

Shifting TIDES



At the Port of Savannah—the fastest growing ocean cargo gateway in the U.S.—investments in new facilities are paying big dividends.

Changing liner schedules could have a lasting effect on the nation's "mega" gateways. Meanwhile, niche ports are poised to take advantage of the unprecedented pattern with the hope that new fixed schedules may be the rule rather than the exception.

The world's major container lines are redeploying fleets on a flexible and non-traditional basis to stem the bleeding from slack demand and a slump in manufacturing. As a consequence, the major ocean cargo gateways are suffering from less congestion, and supply chain disruption.

Could this be a good thing? Well, the second-tier and "niche" ports certainly think so, and have been taking advantage of the unprecedented pattern with the hope that new fixed schedules may be the rule rather than the exception. In fact, shipping analysts are saying that the days of "mega" U.S. seaports may be diminished, if not entirely behind us, as some of the smaller ocean cargo gateways capture more share.

Philip Damas, division director of Drewry Supply Chain Advisors in London, says inbound container traffic at Los Angeles and Long Beach has fallen 39 percent to date. "These were activity levels last seen in February 2006," Damas says. "We have rolled back about three years of growth."

He notes that U.S. East Coast ports have also seen declining volumes, but not to the level of the West Coast ports. "East Coast ports have gained share in a declining market, and to some extent because West Coast ports are more exposed than East Coast gateways to the decline in transpacific trade," he says.

Gulf ports, too, are growing in relative terms, says Aaron Ellis, communication director for the American Association of Ports Authority (AAPA). Given the fact that the Panama Canal's expansion is on schedule for 2014, this trend can only become more sustainable, he says. "Many of the ports in Georgia, Florida, and Texas are positioning themselves for more business," he says. "And given the flexibility of carrier calls now, they are in a better position to be included in North American deployment loops."

That's not to say that other West Coast ports will quit seeking the same advantage, however. Ellis observes that both Oakland and Tacoma are building for the future with innovative new finance plans and public/private partnerships.

"The whole continental landscape—or 'port scape,' if you will—is changing," he says. "As a consequence, port authorities have to reinvent themselves every five years just to stay in the game. That's what makes it such a dynamic industry."

Inbound container traffic at Los Angeles (shown above) and Long Beach has fallen 39 percent to date.

Battle for inbound

As reported in *Logistics Management* and across the trade press this past spring, a reconfigured Asia/North America service provided by the CKYH Alliance and China Shipping makes the Virginia Port Authority in Norfolk the first U.S. East Coast stop. The Port of New York/New Jersey had formerly enjoyed this position.

"A few infrastructure issues notwithstanding, New York is going to lose some business to ports with better intermodal connections," says Paul Bingham, managing director of IHS Global Insight. "Clearly, other ports are waging an aggressive battle to win direct inbound calls."

Officials at the Virginia Port Authority (VPA), the parent organization of the Port of Virginia, note that the port now provides a direct weekly link between the burgeoning gateway and Asia-based manufacturing markets. The CKYH Steamship Alliance comprises four steamship lines that contribute cargo and vessels, including: China Ocean Shipping Co. (China); "K" Line (Japan); Yang Ming (Taiwan); and Hanjin (South Korea).

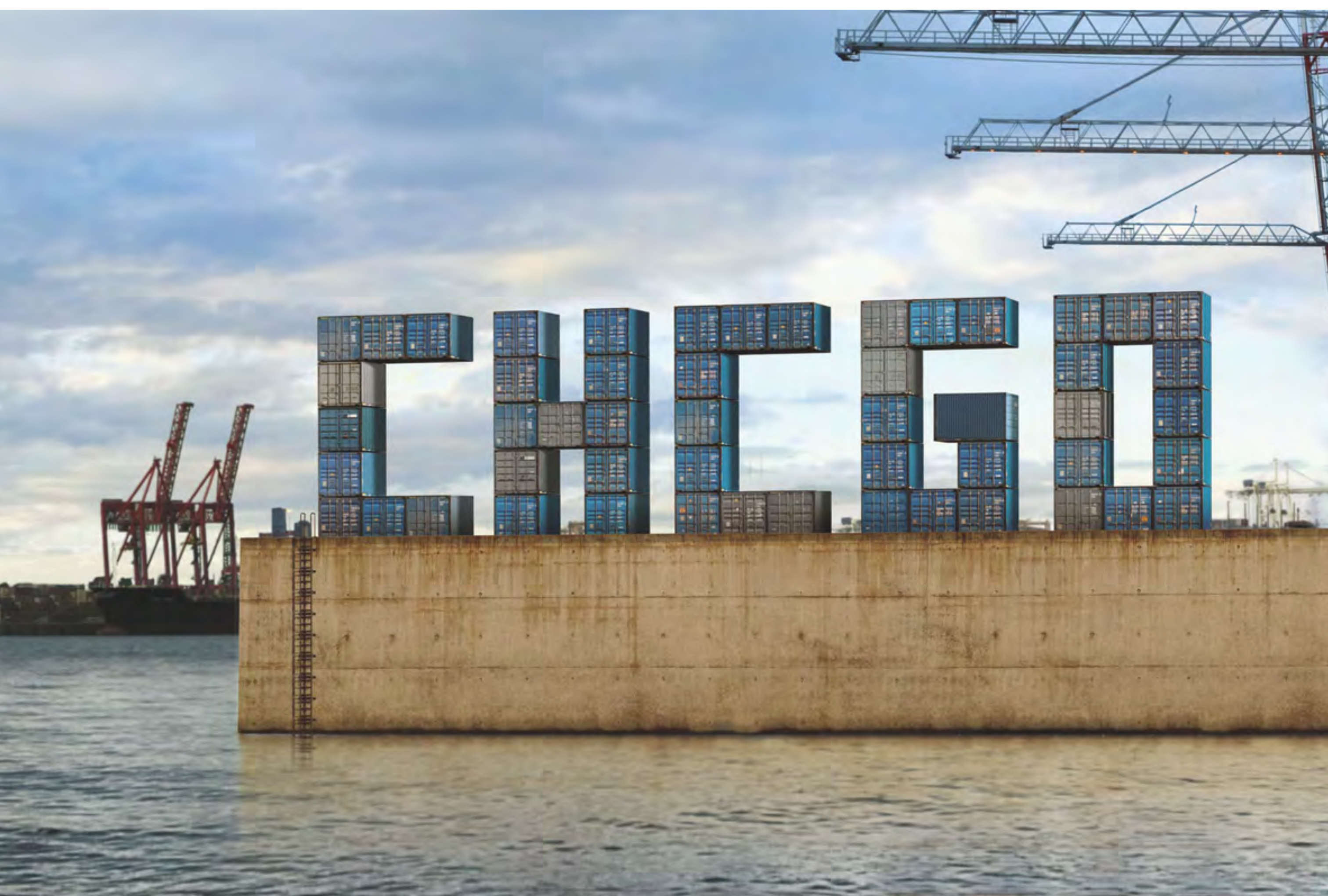
The Panama Canal will also continue to play a huge role here. "Our partnership with the Virginia Port Authority is more important than ever," says Panama Canal Authority CEO Alberto Alemán Zubieta. "As the only U.S. East Coast port with the existing capability to handle today's larger vessels, the Port of Virginia is prepared for the waterway's expansion."

At the neighboring Port of Savannah—the fastest growing ocean cargo gateway in the U.S.—investments in new facilities are paying big dividends, says Doug Marchand, executive director of Georgia Ports Authority (GPA). "We are setting new records, exceeding service levels, and moving forward with an aggressive $1.2 billion capital improvement plan," Marchand adds.

By 2015, the throughput capacity at the GPA's main Garden City Terminal is projected to be 6.5 million TEUs, (twenty-equivalent units) more than double the existing capacity. While the global recession has significantly affected international trade, the GPA is focused on preparing for future growth by improving efficiencies and increasing capacity. "We are taking the opportunity during this time to improve rail connectivity, increase on-terminal capacity, and decrease the time it takes to process cargo," Marchand says.

"A few infrastructure issues notwithstanding, New York is going to lose some business to ports with better intermodal connections."

***Paul Bingham**, managing director, IHS Global Insight*



U.S. East Coast ports have also seen declining volumes, but not to the level of the West Coast ports. "East Coast ports have gained share in a declining market, and to some extent because West Coast ports [like Port of Seattle shown above] are more exposed than East Coast gateways to the decline in transpacific trade," says Philip Damas, division director of Drewry Supply Chain Advisors in London.

Gulf go-getters

Two Gulf ports are making bullish bids for more business in a down economy, too. Both Freeport and Galveston are poised to take advantage of the Panama Canal expansion with the hope of capturing more discretionary freight destined for inland destinations.

"The Port of Galveston has deep water and is right on the coast, which always is an advantage," says Global Insight's Bingham. "The sea change in ocean vessel deployment may become more intense as a widened Panama Canal comes into the equation."

Located at the entrance to Galveston Bay, the port leases and maintains facilities situated on the north side of Galveston Island and on adjacent Pelican Island. The Galveston Island operations are a diversified mix of traditional and non-traditional cargo operations including roll-on/roll-off cargo, bulk, export grain, refrigerated fruit, general cargo, and project cargo.

Meanwhile, the Port Freeport is busy widening the offshore entrance and jetty channels to its harbor. The non-federal widening project is an innovative public/private collaboration between Port Freeport and users of the waterway, notably Freeport LNG and Conoco Phillips.

Port Freeport's traffic has increased substantially in recent years with the opening of the Freeport LNG facility and the growth in the importation of windmill components, pipe, and project cargoes. The widening of the six mile offshore entrance and jetty channels up to 600 feet from the current 400-foot width will allow larger LNG, crude oil, and other cargo vessels to access Port Freeport.

"The non-federal widening effort is the initial component of a more extensive federal expansion of the navigable waterway that has been under development for more than five years" says Port Freeport executive director and CEO A. J. "Pete" Reixach, Jr. "The widening will facilitate additional growth in the years ahead by accommodating larger vessels," he adds. In 2008, Port Freeport handled over 29.6 million tons of cargo through the public and private docks.

> ***"Many of the ports in Georgia, Florida, and Texas are positioning themselves for more business. And given the flexibility of carrier calls now, they are in a better position to be included in North American deployment loops."***
>
> ***Aaron Ellis**, communications director, American Association of Ports Authority (AAPA)*

West Coast stalwarts

The Ports of Oakland and Tacoma are not taking anything for granted, either, as both battle back with innovative new strategies. At Oakland, for example, two new developments promise to give this major West Coast ocean cargo gateway competitive advantage in the future.

Just a few months ago the Oakland Board of Port Commissioners approved a precedent-setting, long-term agreement that is the first of its kind for U.S. marine terminal concession agreements. As a consequence, Ports America Outer Harbor Terminal, LLC (PAOH) will be the new concessionaire for the port's Outer Harbor berths 20-24 for 50 years beginning in January 2010.

PAOH envisions investing $2.5 billion over the life of the concession for capital improvements in the Outer Harbor. According to PAOH, economic consultants Martin Associates estimates this long-term agreement will realize over 6,000 jobs and more than $100 million in direct personal income.

"You could call it a stimulus package at the Port of Oakland," says executive director Omar Benjamin. "We know it will translate into local business and employment opportunities and environmental improvements to the maritime area."

Traditionally, the port has had 10-15 year lease agreements. This concession is for 50 years and requires the concessionaire to be responsible for operations, investment in capital improvements, and development of the property.

The Port of Tacoma is marking a break with tradition, too, partnering with its key supply chain partners in tracking and tracing shipments. For several months now, tests have been underway on a GPS tracking system designed to measure throughput speed from the time containers leave waterfront terminals to final destination in the U.S. Midwest and East.

"This whole new strategy is port-driven," says Larry St. Clair, Tacoma's director, of intermodal marketing. "It will provide shippers with a new information base to make their future sourcing decisions." Joining the port in the test project are BNSF Railway, ocean carrier Yan Ming Line, and Edmonton, Alberta-based Safefreight Technology.

"We will be able to proactively work with our steamship and rail partners to plan for the future and make sure that Tacoma remains a high-velocity transit point in the global supply chain," says Rob Collins, the ports' manager of transportation and supply chain planning.

Since June 2008, when the port began testing the container tracking system, Collins says his team learned much about what happens to containers after they leave the Tacoma waterfront. "People have assumptions about cargo scheduling routing and delivery, but when you dig into the data, many of those assumptions may turn out to be false," he says.

A side benefit, according to Collins, is that systems like Safefreight's ultimately could lead to greater security in the intermodal supply chain. "I have long felt that the most secure supply chain is the most visible supply chain," he says. "Moreover, this system illustrates when cargo is moving and when it is standing still. Cargo in motion is inherently more secure." L

> ***"The sea change in ocean vessel deployment may become more intense as a widened Panama Canal comes into the equation."***
>
> **Paul Bingham**, *managing director, IHS Global Insight*

PRINCE RUPERT: CANADIAN CONTENDER

While the bulk of this Special Report has taken a closer look at niceh U.S. seaports, shippers would do well to examine what's happening with the upstart cross-border neighbor of Port of Prince Rupert. Despite a global economic downturn that has resulted in declining traffic through most other North American West Coast ports, it had a surge in container of traffic over the past year.

According to Port of Prince Rupert Authority (PRPA) board of directors chair Dale MacLean, the opening of its Fairview Container Terminal in 2007 was an important step toward connecting the Canadian economy to the developing economies of Asia and solidifying Canada's position as a leader in international trade in the Asia Pacific Region. "The new express gateway is providing shippers with unparalleled speed and reliability, a competitive advantage in their supply chain management, while the Fairview Terminal has created a solid foundation for economic activity in Western Canada and a stimulus for new investment across the region," he adds.

Strategically situated on the direct great circle route from Asia, Prince Rupert is more than a day's sailing time closer to Asia than Vancouver and Seattle and nearly three days closer than LA/Long Beach. Furthermore say spokesmen, it has the deepest natural harbor in North America with plenty of capacity to expand.

PRPA president & CEO Don Krusel says its second half surge in traffic last year reflects the growing confidence of shippers in the competitive advantages of moving their cargo through the new Asia-North America express gateway corridor anchored by the Prince Rupert container terminal.

"Fairview Terminal never achieved more than one million tons of cargo in any given year during its first 30 years of operation as a bulk/breakbulk facility," says Krusel. "Now, after only 14 months of operation, and with considerably more capacity for growth, the terminal is moving 80 percent more cargo through a brand new trade corridor into North America."

What causes some U.S. port authorities concern is that Prince Rupert may also be taking share from the containerized operations on the West Coast. The port is anchoring a high-speed "Express Gateway" that is resulting in containers shipped from Asia arriving at their North American Midwest destinations faster than through other North American ports.

The Prince Rupert port Authority is building upon Prince Rupert's strategic advantages to achieve container capacity of at least 4 million TEUs by 2020, which is aligned with Asia-Pacific Gateway targets.

Logistics MANAGEMENT

Supply Chain Education:

BRACING FOR THE FUTURE

In today's hectic and complex business environment, supply chain professionals need to make certain that they have the skills to succeed. That's where education comes in.

By Bridget McCrea

Today's supply chain organizations are facing tough challenges when it comes to securing the talent they need to operate—and it won't be getting any easier going forward. In its 2008 report, "Supply Chain Talent: The State of the Discipline," AMR Research cites a number of factors behind this development. A principal one is the dramatic expansion of scope and responsibility of supply chain professionals.

The Ohio State University "2008 Survey of Career Patterns in Logistics" study concurs with AMR's findings. The authors of this annual report note that the major challenges companies are grappling with include global supply chain integration, the repositioning of the logistics/supply chain function, a trend toward more integration of material flow in and out of the firm, and the fact that energy expenditures have shifted from an accepted part of the cost structure to a critical strategic issue.

"We have not yet reached a point of stability in the logistics/supply chain management arena," says the report. "The profession continues to evolve, with broader scope, and more global integration and continued movement to higher levels of the firm. More than ever before, the chief logistics/supply chain officer of the company is among the senior executive team that is positioning the firm for the future."

David Aquino, research director at AMR Research, sees supply chain talent—and its nurturing and availability—as critical to business success these days. But at the same time, he says, "The talent pipeline itself is not sufficient to be able to support the growth and extension of supply chain management as a modern discipline."

To help fill the talent gap universities, colleges, professional associations, and individual companies are expanding their offerings of degree programs, certifications, online courses, and seminars targeting supply chain professionals. Along with focusing on traditional supply chain and logistics topics, the programs now also address collaboration skills, the ability to work across cultures and global boundaries, financial acumen, long- and short-term strategic thinking, planning (including new product design and launch), and technology expertise to name a few.

In this special supplement, *Logistics Management* examines the various pathways available to acquire the skills necessary for future success in the supply chain world.

THE EDUCATIONAL COMPONENT

Whether they are offering full degree programs, awarding certifications, or providing non-degree courses, institu-

tions like Arizona State University, Georgia Tech, Michigan State, Indiana University, Penn State University, and Tennessee and a growing number of others have stepped up to the plate to help prepare supply chain professionals to succeed now—and in the future.

Georgia Tech professor of supply chain management John Langley believes that the best foundation for success includes a broad education combined with exposure to the supply chain/logistics disciplines. This approach ensures that the students come away from the school with a breadth of knowledge that spans the liberal arts, business acumen and supply chain expertise.

"A lot of professionals who are mid-career wish that they took more liberal arts courses, which help develop creative and innovative thinking that supply chain managers need to succeed for the long term," says Langley, who sees executive education as a viable way for existing employees to develop their supply chain skills. Through such courses, he says students can expect to develop needed competencies and become familiar with supply chain processes, refine their knowledge of supply chain analytics, and hone existing supply chain knowledge into a useful resource for their organizations.

Because not every supply chain professional can afford the time or financial commitment needed for a degree program or a traditional online executive education course, online education has grown in popularity over the last few years. "Using technology to deliver these types of educational products is the wave of the future, and very attractive in the tight budget times we're seeing today," says Langley. "And while you miss the diversity of discussions between students, the key is to take extra steps—such as scheduling a lunch or dinner for the class to get together—to create those interactions."

Ted Stank, professor of logistics at the University of Tennessee, says that professionals looking to position themselves for future success must brace for constant change.

Stank believes they need to focus on recognizing and reacting to a wide variety of scenarios and concepts—many of which go beyond the traditional boundaries of the supply chain space. These new competencies include, among others, financial acumen, risk management skills, and global trade abilities. In some cases, that could mean taking courses that are tailored to a specific industry and/or company.

"There is still a role for Supply Chain Management 101," says Stank, "but as we develop more value around education, we realize that it has to address the nitty-gritty of what a manager faces everyday and that often means getting more specific and customized."

"One of the most productive things you can do when you're not so busy is to enhance your education and development. Then, when things turn back up, you'll be better equipped to succeed."

—John Langley, Georgia Tech

ROLE OF PROFESSIONAL ASSOCIATIONS

When it comes to helping supply chain professionals develop the skills they need to succeed, the supply chain-related professional associations have expanded the number and scope of educational offerings available to their members.

For example, APICS—the Association for Operations Management—offers two certification programs, national and regional conferences, online events, and self-study programs on a range of topics. The Council of Supply Chain Management Professionals' (CSCMP) online university offers members and potential members access to the latest in logistics and supply chain management. And the Institute for Supply Management (ISM) provides certification programs, seminars, professional development services and online courses for the supply management professional. (The listings section following this article gives more information on the associations offerings.)

How are supply chain people reacting to expanded educational opportunities? Burt Blanchard, CSCMP's manager of education and research, says demand for those offerings is high right now thanks to the constantly-changing nature of the supply chain profession. He sees customer service, collaboration, financial skills, and performance management as the skill sets that practitioners and students need to work on developing right now. "These are the areas that companies are really looking at, and that they expect their supply chain professionals to be able to handle," says Blanchard.

At the Institute for Supply Management, CEO Paul Novak says the current economic conditions have created a real need for financial expertise among supply chain professionals, many of whom are dealing with suppliers and customers in

"cash crisis" mode. And because the situation doesn't appear to be letting up anytime soon, those same skills will be valuable in the future. "Cash is hard to come by," says Novak, "so you need to understand it, and how to deal with the lack of it."

Novak expects associations to continue honing their supply chain offerings to deal with these and other evolving trends that just 20 years ago weren't even a blip on the radar screen.

ON THE JOB TRAINING

Using strategies like job rotation to expose employees to other functional areas of the organization, firsthand experience working with global suppliers and business units, and various other initiatives, individual companies are doing what they can to ensure that their supply chain managers are adequately prepared to do their jobs in the future.

To handle the huge task for its global operations, Procter & Gamble relies on a "hire from within" strategy that finds the company grooming current employees for senior management positions, including supply chain professionals. Through a process known as "pathing," the firm uses assignment and career planning across its diverse operations with the goal of giving workers experience across various job functions.

"We give them the basics across the end-to-end supply system," says Jake Barr, P&G's director of manufacturing, planning and logistics. "The process is structured in a way that moves the individual across various nodes, including engineering, purchasing, manufacturing and supply network operations, and blends it all into a one career path opportunity."

Taking a broad look at the future, John Langley of Georgia Tech says there's no time like the present to enhance your supply chain education. "It's a known phenomenon that university enrollments increase during business downturns, and there's a reason for that," explains Langley. "One of the most productive things you can do when you're not so busy is to enhance your education and development. Then when things turn back up, you'll be better equipped to succeed." L

Bridget McCrea is a business writer specializing in supply chain and logistics. She can be reached at bridgetmc@earthlink.net.

UPCOMING SUPPLY CHAIN PROGRAMS

UNIVERSITIES and EDUCATIONAL INSTITUTIONS

Arizona State University

W. P Carey School of Business
480-965-7579
www.wpcarey.asu.edu/exec

- Strategic Procurement
  June 29-Aug. 2, 2009
- Supplier Management and Negotiation
  June 29-Aug. 2, 2009

Cranfield University/School of Management

44-011-1234-758102
www.cranfieldmsc.biz/log

Offers an MSc in Logistics and Supply Chain Management. Two modes of studyed: Full time programs (11 months) and Executive (part-time) programs, which are 2-year modular programs.

Georgia Institute of Technology

Executive Masters in International Logistics (EMIL)
404-385-7306
http://www.emil.gatech.edu/

Participants experience real-world results by learning best practices from world-leading experts in EMIL's five two-week residences (both in-person and distance learning) at key locations around the globe.

Georgia Institute of Technology

Supply Chain and Logistics Institute (SCL)
404-894-2343
www.tli.gatech.edu

- Logistics Short Course
  June 1-5, 2009

Golden Gate University

Edward S. Ageno School of Business
415-442-6500
www.ggu.edu

Golden Gate University offers undergraduate and graduate certifications in operations and supply chain management.

Indiana University

Kelley School of Business
877-785-4713
www.kd.iu.edu

Kelley Direct at Indiana University offers an MS in Global Supply Chain Management. This online graduate program can be completed in 15 months.

Massachusetts Institute of Technology (MIT)

Center for Transportation and Logistics
617-258-7267
http://ctl.mit.edu/

- Individual Choice Behavior: Theory and Application of Discrete Choice Analysis
  June 9-13, 2009

Michigan State University

Broad College of Business
517-355-8377
www.bus.msu.edu/msc

Offers an undergraduate major in supply chain management, two MS programs, and two PhD programs in SCM. Also offers an MBA with supply chain concentration. Executive education includes a range of open enrollment programs and customized logistics seminars.

North Carolina State University

College of Management
919-515-5560
www.mgt.ncsu.edu

Offers undergraduate studies in Operations & Supply Chain concentration. The university's Supply Chain Resource Cooperative also provides a wealth of educational resources.

Northeastern University

College of Business Administration
866-890-0347 x3510
www.cba.neu.edu

Northeastern offers an MBA degree with supply chain concentration, plus a Certificate program in SCM. Also offers an online MBA degree program with an emphasis in Operations and Supply Chain Management (via five specialized, elective courses).

Northwestern University

Kellogg School of Management
847-467-7020
www.kellogg.northwestern.edu/execed

- Supply Chain Management--
  Strategy and Planning for Effective Operations.
  Feb. 24-27; June 7-10, 2009

Ohio State University

Fisher College of Business
614-292-8808
www.fisher.osu.edu

Undergraduate, masters, and PhD programs in supply chain/logistics as well as executive education programs. Fisher College of Business and College of Engineering also jointly offer a new specialized program, Masters in Business Logistics Engineering (MBLE).

Penn State University

Smeal College of Business
814-865-3435
www.smeal.psu.edu/psep

• • • • •

Stanford University

Graduate School of Business
650-724-6301
www.gsb.stanford.edu/exed

New program on "Strategies and Leadership in Supply Chains." Program is designed for executives who have strategic responsibilities for SCM, manufacturing, operations, logistics, distribution or procurement.

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Syracuse University

Whitman School of Management
315-443-3751
www.whitman.syr.edu/scm

Offers B.S., MBA, and PhD programs in SCM. Focus areas: demand management, inventory control, risk sharing, supply chain planning, information flows, transportation, production management and global b-to-b marketing. Six Sigma training also offered.

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Texas A&M University

Mays Business School
979-845-1616
www.business.tamu.edu

Supply Chain Management major offered as part of BBA in Information & Operations Management.

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The World Academy

908-354-7746
www.theworldacademy.com

Provides training programs and seminars in all phases of export/import logistics, hazardous materials (HAZMAT), letters of credit, communications, harmonized tariff schedules and INCO terms.

• • • • •

University of Arkansas

Sam M. Walton College of Business
479-575-6142
www.waltoncollege.uark.edu

Offers a B.S. in Business Administration (Transportation and Logistics Major) and a B.S. in International Business (Logistics Concentration). Also operates the SCM Research Center and RFID Research Center.

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University of Liverpool

Laureate Online Education B.V.
31-0-20-713-0000
www.ohecampus.com

Liverpool offers a 1- to 6-year MSc in Operations and Supply Chain Management program online. Core modules include Operations Management, Strategic Operations Management, Logistics and International Trade, Total Quality Management and Lean Thinking.

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University of Maryland

R.H. Smith College of Business
301-405-2189
www.rhsmith.umd.edu

The R.H. Smith College of Business offers executive education programs through the Supply Chain Management Center.

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University of Michigan

Ross School of Business
734-763-7804
http://execed.bus.umich.edu/

The Ross School offers a one-year Master in Supply Chain Management degree. Also an executive education course in Supply Chain Design and Execution for Global Markets.

• • • • •

University of San Diego

Supply Chain Management Institute
619-260-4600
www.sandiego.edu/scmi

Emphasizes a community of learners, limits class size and incorporates company-related projects to give participants an educational experience relevant to their specific career objectives. Classes for this 36-unit program cover SCM and Logistics, Supply Chain Systems, Global SCM and World Class Supply Management.

University of San Francisco

800-609-4196
www.usanfranonline.com/ism
USF offers an online interactive Master Certificate program for Supply Chain Management.

University of Tennessee

College of Business Administration
865-974-5001
http://supplychain.utk.edu

University of Wisconsin-Madison

Executive Education Center
608-441-7357
http://exed.wisc.edu/supplychain

- Supply Chain Leadership
  Feb. 18-20; April 22-24;
  June 22-24, 2009
- Supply Chain Collaboration
  June 11-12, 2009

Walden University

866-492-5336
www.waldenu.edu
Online management programs including a PhD in Applied Management and Decision Science, an MBA, M.S. and B.S. in Information Systems and a B.S. in Business Administration.

PROFESSIONAL ASSOCIATIONS

APICS (The Association for Operations Management)

800-444-2742
www.apics.org
APICS offers two certification programs, national and regional conferences, online events and self-study programs.

CSCMP (Council of Supply Chain Management Professionals)

630-574-0985
www.cscmp.org
CSCMP's global conference brings together thousands of supply chain professionals from all over the world. Also conducts local roundtables across the country and the globe. CSCMP's Online University offers members and potential members easy access to the latest in logistics and supply chain management.

ISM (Institute for Supply Management)

480-752-6276
www.ism.ws
ISM offers certification programs, seminars, professional development services and online courses for supply management professionals. Features an annual Conference and Educational Exhibit. Also provides in-depth research on supply management topics through affiliation with CAPS Research.

NITL (National Industrial Transportation League)

703-524-5011
www.nitl.org
The League represents shippers in their dealings with various regulatory bodies. Provides educational forums, annual conferences and industry exhibitions through annual Transcom event.

SIG (Sourcing Interests Group)

530- 582-8600
www.sourcinginterests.org
SIG provides summits, global regional conferences and web-based learning to enable members to network and build relationships.

Supply Chain Council

202-962-0440
www.supply-chain.org
Through the Supply Chain World conference, the Council provides a forum for supply chain and business executives to identify opportunities to improve financial and supply chain performance. Presents a performance benchmarking database; also offers training in the SCOR model.

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Apocalypse now

By John A. Gentle, DLP

Just when you thought that all the surprises were over, out of nowhere warehouse employees are reporting that drivers are saying that their companies will be sending bids out to shippers for their capacity next year. Why that's ridiculous, you say. It doesn't work that way—buyers create bids and vendors bid.

Days later, rumors persist and you hear the same thing from a few other logistics and transportation peers. Then a call comes in from one of your national carriers asking for an urgent appointment. You wonder what this could be. They're an excellent carrier with superior performance, but you use them only sparingly to handle difficult customers and areas.

The meeting starts with their President painting the traditional picture of rising costs, the need for stronger ROI, further reduction of their fleet, constricted service areas, and the need for first-pass efficiency. Suddenly the President announces they'll be putting their capacity out for bid and asks whether you would like to be considered to participate.

What? You ask him to say that again. He repeats it slowly, and you say, "Tell me again why you want to do this? Why would I want to do this? What carriers are doing this besides you?"

The President's staff explains that shippers' unpredictable, non-stop, year-round bidding (each with 2-3 rounds and subsequent negotiations) is a terrible waste of his human resources. The bids create significant operating inefficiencies and have a negative impact on driver retention. Earnestly, the President says, "We just cannot sustain a reasonable ROI doing business this way. Carriers need a more stable operating environment."

Then, of course, his VP of sales chimes in: "As to why you'd want to do this…Like you always tell us, it's all about helping us keep our company and customers competitive. Many carriers are sacrificing insurance, maintenance, and safety just to stay in business. Our trucking company isn't. If you like our culture, superior processes, risk management, exceptional customer service, and safety performance and would like an opportunity to minimize the financial and service liability risks associated with a lesser player when capacity gets tight again, then you should strongly consider this."

The President adds: "We will post a targeted rate and you can bid higher or lower with the capacity you are committing to use or pay for. If your bid is successful we'll let you know in 30 days. Then we'll guarantee in writing that your capacity and service will be there when you want it."

The carrier's controller then interjects: "You, of course, would have to be prequalified to be able to participate in the bid." She goes on to explain that you would have to attend a class, provide the three- and five-digit codes you would like them to service, along with the capacity that you are willing to commit to specifically by day of the week.

The President adds: "We will post a targeted rate and you can bid higher or lower with the capacity you are committing to use or pay for. If your bid is successful we'll let you know in 30 days."

Furthermore, we would need you to agree to paying us without setoffs within 30 days; agree to and sign the NITL/ATA model contract; agree to our rules tariff for accessorial; and, of course, agree to a fuel surcharge program.

Composing yourself, you thank them for sharing their view of the future and that you'd get back to them. While they have valid points about liability, you question your ability to sell the "minimal risk concept" to your management or get more resources to be able to qualify other carriers.

While great service-based capacity will get tighter when business picks up, aren't there other good carriers out there that will want my business? I might be okay as long as all the rest of the really good carriers don't do this bidding thing. Then again, if only a few shippers bid, maybe I can get some really good rates.

Hoping that this is just an anomaly, you go back to work wondering whether they would have honored your existing contract period and if you should bid next year.

Then, all of sudden, your assistant interrupts and says that your two favorite core carriers called wanting an appointment to see you…about bids? L

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