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JUNE 2009

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GOLD AWARD WINNER

K-C'S TRIUMPHANT TRACKING

Scott Buss, research manager of corporate research and engineering, Kimberly-Clark

Reassess risk 30

Cut your wires 32

Solve your DC network dilemma 36

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Management UPDATE

AN EXECUTIVE SUMMARY OF INDUSTRY NEWS

■ **A year for the ages.** According to Jon Langenfeld, senior research analyst at Robert W. Baird & Co., "2009 is a freight year for the ages." Speaking at the recent National Shippers Strategic Council (NASSTRAC) annual conference, Langenfeld said that it is not likely freight rates will see a meaningful uptick later this year. But when freight volumes do eventually recover, he said it could be by 5 percent to 10 percent or more. In the interim, though, he said that the first half of 2009 could be the worst period for the transportation industry since deregulation. Going forward, he said that once a freight recovery occurs, it could take anywhere from 1 year to 3 years, with a meaningful recovery unlikely before the second half of 2010.

■ **Risky business.** Sourcing from low-wage countries like China seemed like such a logical idea before the world's economy went south, said C.J. Wehlage, research director at AMR Research. But with demand continuing to slacken, logistics decision makers are now more concerned with maintaining the integrity of their pipeline. "The failure of some suppliers in China has become an issue," he added during a conference in San Francisco last month. "And having the low-wage option is not such an advantage if quality and reliability suffer." Wehlage was among the featured speakers at last month's "High-Tech Forecasting & Planning Summit" organized by the London-based IE Group. His presentation mirrored a study done by AMR Research last year, finding that volatile fuel, energy, and commodity prices rank highest in areas of global risk.

■ **A possible solution to risk?** In a move promising to bring more transparency to sourcing from China, U.S.-based Panjiva announced that it will partner with an overseas credit specialist. Panjiva, which gathers objective information on global manufacturers, and Sinosure, a provider of credit information on companies in China, announced an exclusive relationship to provide U.S. companies with information that will help them mitigate the risks of doing business overseas. Panjiva CEO Josh Green said that given the level of "macroeconomic uncertainty," this can be a microeconomic solution. "Sinosure has been the only provider of export insurance to Chinese manufacturers, which makes it a strong source of business intelligence," he said. "They know which companies are financially stable and which ones are in trouble.

■ **Is the economy slowing down the mail?** That appears to be the case as evidenced by the recent United States Postal Service (USPS) report that it suffered a net loss of $1.9 billion for the fiscal second quarter. The USPS cited the recession, coupled with the diversion of letter mail to electronic alternatives, as playing a large role in the ongoing reduction of mail volume and revenue. The USPS will likely face a $1.5 billion cash shortfall by the end of the year. It has also experienced operational net losses in 10 of the last 11 quarters, with

continued, page 2 >>

■ **Get caught up and connected.** Itching to be a bigger part of the most connected, best-informed supply chain community on the planet? So, what are you waiting for? Go and get your daily updates from the Supply Chain Group, including such world-renown titles as *Logistics Management*, *Modern Materials Handling*, and *Supply Chain Management Review*. The daily news posts on **logisticsmgmt.com** by Group News Editor Jeff Berman and Executive Editor Patrick Burnson have become the best read editorial. And, while you're on **logisticsmgmt.com**, interact with our bloggers who have been working hard to bring you the inside scoop on what's happening across the entire supply chain. So, get more involved and get into the loop—visit us at **logisticsmgmt.com**.

Management UPDATE

continued

a year-to-date net loss of $2.3 billion. The USPS Postmaster General said the agency has its sights on the future by realigning costs to match lower mail volumes and taking various steps to grow revenue.

■ **Intermodal volumes are down now too.** Citing low consumer spending and high inventories, the Intermodal Association of North America (IANA) reported that total intermodal container and trailer loadings—at 2,786,465—were down 16.3 percent in the first quarter. While domestic intermodal performance has been a bright spot during the recession, economic conditions caught up in the first quarter, with a mere 0.1 percent gain at 893,506 containers. International containers remained in the red at 1,485,753 for the quarter, which was down 22.7 percent year-over-year.

■ **Savannah's surge.** The Port of Savannah, which receives 22 all-water Asian services transiting both the Panama and Suez Canals, gained China Ocean Shipping (Group) Company (COSCO) as a new customer last month. The first COSCO vessel to call on the port, M/V Zhen He, arrived at the GPA's Garden City Terminal. Prior to the Zhen He's arrival, COSCO moved cargo through Savannah on alliance carrier vessels. "By adding Savannah as a port of call for our vessels, we have enhanced our customers' ability to reach the consumer markets faster and at a lower cost," said Howard Finkel, the carrier's vice president of trade. He added that the growing number of distribution facilities in proximity to the port represents a new market opportunity to expand COSCO's business.

■ **Swine flu flew.** While the force of the Swine Flu epidemic touched every mode of transportation, the air cargo industry has taken the hardest hit. "Fewer passengers means less lift for existing flights, and a reduction in schedules for shippers to adhere to," said Brandon Fried, executive director of the Airforwarders Association (AfA). "This really could not have come at a worse time for our business." Numbers released by The International Air Transport Association (IATA) last month confirmed this observation. According to the Geneva-based organization, scheduled international traffic demand fell to 11.1 percent below 2008 levels. Airlines cut international passenger capacity by 4.4 percent resulting in an average load factor of 72.1 percent. This is 5.4 percentage points below the average load factor recorded in 2008.

■ **Brokers want a break.** Shippers and freight intermediaries posed a legal challenge to an action by Customs and Border Protection (CPB). The National Customs Brokers & Forwarders Association of America, Inc. (NCBFAA) filed an Amicus brief in the Court of International Trade contesting CPB's authority to revoke a customs broker's entry filer code without affording the broker due process. The NCBFAA brief argued that deactivation of the entry filer code is tantamount to suspension or revocation of the customs broker's license.

■ **Tough to top these industry reputations.** Of the world's 600 most reputable companies, four of the top 139 are in the freight transportation and logistics sectors, according to the Reputation Institute's 2009 Global Reputation Pulse. Leading the way at number 12 was UPS, followed by FedEx (16), A.P.Moller Maersk (31), and Union Pacific Railroad (139). The Global Reputation Pulse measures the corporate reputations of the world's 600 largest companies and is based on consumers' trust, esteem, admiration, and good feeling about a company across seven dimensions of reputation in 32 countries.

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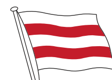

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COVER PHOTO BY DARREN HAUCK/GETTY IMAGES

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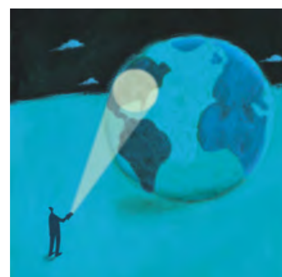

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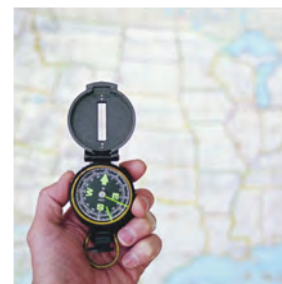

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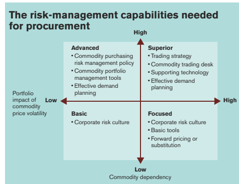

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Persistence and passion

In keeping with tradition, I would first like to thank the more than 40 logistics and supply chain managers who took the time to enter our 2009 Best Practices in Logistics Management Awards program. With shippers juggling more duties with less staff during this unprecedented period, our editorial staff was duly impressed at the level of detail and passion that went into this year's entries.

In fact, it's this annual expression of reader pride in their accomplishments that makes June my favorite issue. After a quick glance through all the entries, our staff began to notice a few common themes rising to the surface. While each entry is unique, the subtle similarities are striking—and it's this realization that's the most satisfying part of the exercise. Through it, we gain a clearer look into the issues that are keeping shippers up at night. The bonus is that we're able to share a sampling of best practices that define how the current environment is forcing logistics operations to evolve.

In last year's award program it was crystal clear: Sharply rising freight rates driven by unwieldy fuel surcharges were changing logistics practices—and driving most shippers crazy. This year the overarching mood is still grim, even though fuel and freight rates have dropped precipitously. The game today is all about cutting costs, but *not* cutting back on strategic investment and targeted innovation: To do so would be short sighted and a recipe for future failure, according to this year's winners.

In fact, all three have used the tough economic times as their inspiration. They've pushed specific solutions through the pipeline that have automated paper processes, introduced substantial cost and time savings, improved overall quality control and service—and yes, demanded a certain amount of investment.

So, after more than a month of poring over submissions, the editorial staff of *Logistics Management* is pleased to announce the entries that made it to the top of our list: 2009 Gold Winners Scott Buss and Todd Armstrong of Kimberly-Clark; Silver Winner Eric Hartman of Papa John's; and Bronze Winner Bob Zellis of Newegg.com.

This year's winning success stories begin on page 22. I think Executive Editor Patrick Burnson said it best when we were discussing our final choices: "These three winners continued to make strategic investment in technology and innovation at a time when too many companies are tightening the purse strings on both." I couldn't agree more.

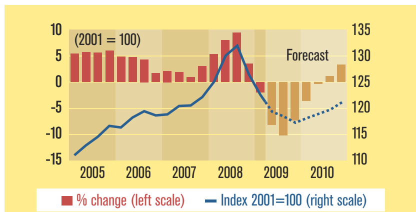
The game today is all about cutting costs, but not cutting back on strategic investment and targeted innovation.

Fed up with inefficiency, they shredded ancient paper processes and used technology to automate some of the oldest logistics challenges in the book—and were able to make a strong enough case to get the proper financial support. Some may call it bucking the trend, but I call it persistence and passion.

Michael A. Levans, Group Editorial Director

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

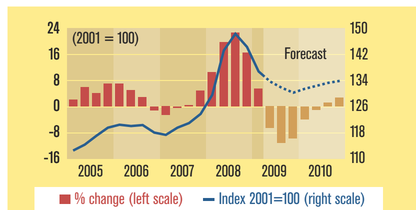
Pricing Across the Transportation Modes



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
General freight - local	1.0	-4.8	-4.5
Truckload	-0.6	-7.4	-7.1
Less-than-truckload	-1.5	1.6	-3.7
Tanker & other specialized freight	3.1	-1.5	-1.3

TRUCKING

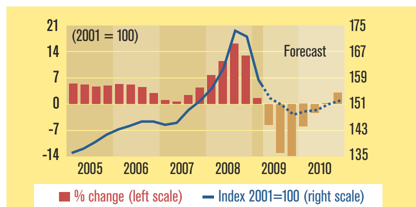
Average prices charged by the trucking industry increased an unexpected 0.7% from March to April. The cause lay squarely in the lap of local truckers of specialized freight, where prices reportedly jumped 7.7%. As more survey data comes in, we'll see if that data point gets revised down. Meanwhile, long-distance truckers who haul chemical tankers and other special freight say their prices went up only 0.2% from a month ago and fell 7.6% from a year ago. Less-than-truckload and truckload long-haulers of general freight also cut their average prices from year-ago levels by 3.7% and 7.1%, respectively. A turn-around in fuel surcharges most likely accounts for this trend.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Scheduled air freight	2.2	-7.6	-5.6
Chartered air freight & passenger	-1.5	N/A	N/A
Domestic air courier	-2.4	-14.2	-8.1
International air courier	-2.4	-13.4	-7.9

AIR

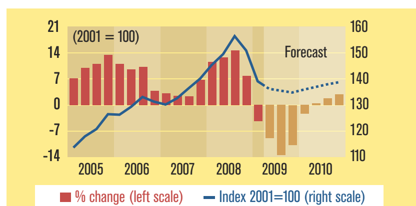
Across the spectrum of airborne carriers, prices fell from March to April with one glaring exception: airfreight in scheduled flights. U.S.-owned airlines managed to increase the prices charged for flying freight on scheduled flights by 2.2% from a month ago. That one-month price uptick, however, still left domestic airfreight prices down 5.6% from year-ago levels. U.S.-owned chartered planes, meanwhile, cut the prices they charged for flying freight by 1.5% from a month ago as domestic and international air couriers both dropped their prices by 2.4% from March to April. Not until world trade picks up will we see any significant price gains in airfreight services.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Deep-sea freight	0.2	-14.2	-6.2
Coastal & intercoastal freight	-0.9	-4.4	-0.4
Grt. Lks.-St. Lawrence Seaway	-3.4	-0.2	1.3
Inland water freight	4.9	-11.3	0.1

WATER

International shipping companies have cut rates sharply and a global trade bust is holding tags down. U.S.-based waterborne transportation providers, however, report their average prices actually increased 0.4% from March to April. The price pressure came mostly from companies that move cargo over inland waterways. In this market, average transaction prices increased 4.9% from March to April. With towing services excluded, prices in this sector jumped 6.1%. We'll evaluate this statistic carefully as the year progresses, but for now our overall U.S. water transport price forecast continues to call for an 8% price cut in 2009.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Rail freight	0.2	-9.0	-6.1
Intermodal	0.5	-11.4	-14.3
Carload	0.1	-9.1	-5.3

RAIL

After seven consecutive months of decline, the railroad industry finally boosted prices in April 2009. Prices for intermodal rail service increased 0.5% while average carload service prices inched up 0.1%. This turnabout may have made shippers unhappy, but economic forecasters looking for any inkling that the bottom of the U.S. recession has hit might take this number to heart. Nonetheless, intermodal and carload rail prices remained 14.3% and 5.3%, respectively, below year-ago price levels. Our forecast for further rail transportation industry price cuts remains in force until new data shows an economic recovery emerging.

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

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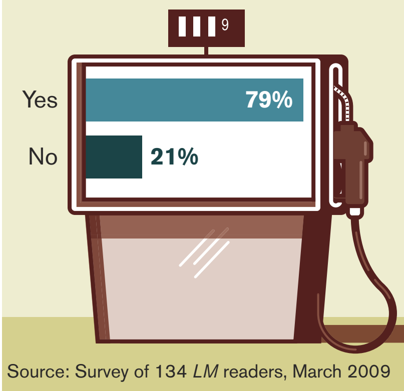
Supply chain redesign still top priority

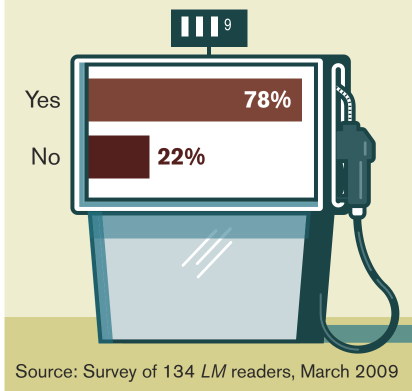
Nearly 80 percent of LM survey respondents indicate supply chain redesign is essential, even as oil and fuel prices decline.

When fuel and oil prices were hitting record levels in 2008, did you consider making changes to supply chain operations?



Source: Survey of 134 *LM* readers, March 2009

Now that fuel and oil prices are down, is supply chain redesign still a priority for you?



Source: Survey of 134 *LM* readers, March 2009

By Jeff Berman, Group News Editor

WALTHAM, Mass.—When the price of a barrel of oil hovered around $150 and diesel was nearly $5 per gallon less than a year ago, the subject of redesigning supply chain operations to cut down on transportation expenses gained a lot of steam.

Since that time, the economy suffered through the near collapse of the financial markets and the recession gained momentum—which in turn led to oil and fuel prices plummeting in conjunction with the economy. This leads to the question of whether shippers are still focusing on supply chain redesign strategies since energy prices have tailed off from the record levels reached in 2008.

According to the results of a recent *Logistics Management* reader survey of more than 130 transportation and logistics executives, supply chain redesign strategies are still top of mind, with more than 100—or 78 percent of respondents—indicating supply chain redesign is a priority for them. This matches up with the 79 percent that indicated they were considering making changes when oil and gas prices first began to spike.

Our data clearly supports how supply chain redesign has become an essential tool for success in the new economy, even when they are facing major obstacles such as weak demand and tonnage volumes, coupled with oil and fuel prices slowly inching back up.

Some of the supply chain redesign steps *LM* readers said they are currently taking include modal shifts, consolidating shipments from suppliers, renegotiating fuel surcharges, and transportation network restructuring, among others. Meanwhile, those respondents that said they're not considering making changes cited reasons such as a viable lack of options and contractual obligations.

Regardless of where oil and fuel prices go, many shippers said it's imperative to find ways to reduce expenses during a time when there are many triggers that can alter logistics operations.

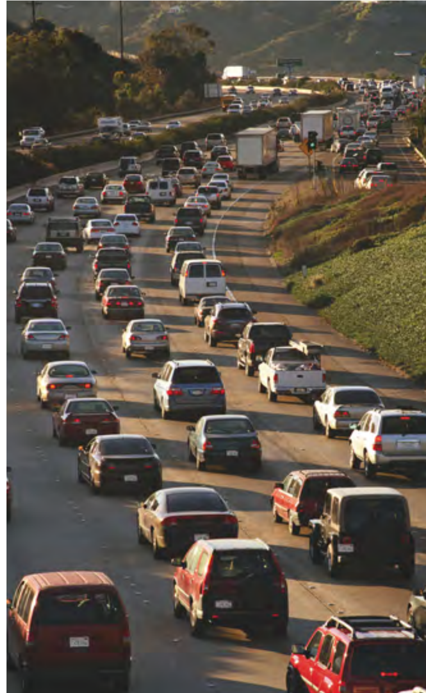
"Supply chain redesign is still a high priority within our company," said Tom Vollmuth, vice president of operations at Printex Packaging Corporation in Islandia, N.Y. "Wherever we can save time and money in the supply chain we can lower our costs and hopefully increase our profitability while passing on some cost savings to our customers."

John Larkin, managing director of the Stifel Nicolaus transportation and logistics group, said that a major component of supply chain redesign centers around re-evaluating product design by removing weight or volume from a product, looking

LM RESEARCH, *CONTINUED*

at more efficient packaging processes, and re-evaluating suppliers and manufacturing locations, too. Another component cited by Larkin is environmental sustainability, even if lower energy prices make supply chain redesign plans less economically compelling. But he noted that this mindset is typically reserved for larger shippers that are better equipped to handle supply chain redesign processes.

"Some of the larger shippers who typically have very well-developed strategic planning efforts, business plans, and sustainability plans are more likely to continue to redesign their supply chains and also realize that the recession we're in, and these relatively low fuel prices, are not likely to be with us for very long," said Larkin. "The more sophisticated and larger shippers are often the ones pushing supply chain redesign to become more energy efficient to reduce their carbon footprint even if it costs them in the interim."



While Larkin maintains that supply chain redesign efforts are underway to a certain extent, a prominent economist said that there is no widespread evidence of supply chain redesign just to reduce transportation and logistics expenses at this time.

"With the drop in energy prices and the downward shift in transportation rates since last summer, the primary cause of redesign of networks now is the need to react to the closure of factories and changes in source supply conditions quite separate from transportation and logistics expenses," said Paul Bingham, an economist at IHS Global Insight. "Appropriate risk management calls for shippers to understand their vulnerability to an eventual rebound in transportation energy prices, but there is little pressure today to design their networks solely around minimization of this one cost element." L

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TRANSPORTATION

Mexican trucks could be heading this way soon, DOT's LaHood says

WASHINGTON—Mexican drivers, currently banned from operating on U.S. highways outside a 25-mile zone near the southern border, might be making a U-turn and heading back north.

That's the word from Transportation Secretary Ray LaHood. The former Illinois congressman says he's been actively lobbying up to 30 former colleagues in the House of Representatives to craft a program that satisfies this country's commitment to the North American Free Trade Act (NAFTA) as well as highway safety.

Ray LaHood, Transportation Secretary

"I hope we can have a Mexican program reinstated," LaHood told a gathering at the National Press Club on May 21. "This is part of NAFTA; this is part of something we need to do. We've put together a very good proposal, and it's being vetted by Congress."

Under NAFTA that was passed in 1993, the U.S. is required to open its border to both Canadian and Mexican carriers who meet this country's trucking standards. The Canadian border is open; the Mexican border is not.

Yielding to pressure from the Teamsters union (who fear loss of jobs) and safety advocates (who fear unsafe Mexican trucks), a small pilot program allowing Mexican-domiciled trucks to deliver freight in this country was yanked last year in an overwhelming vote by the House who gave a resounding "no" to Mexican trucks.

Mexico reacted to what it viewed as discrimination by enacting stiff tariffs on as many as 90 products from the U.S., including some agricultural products. Farm interests complained to the Obama administration, which has since been working with Congress to craft a proposal that satisfies the Mexican government as well as U.S. labor and safety interests. LaHood says he's optimistic that the House could agree to a modified Mexican truck proposal by summer.

The trucking industry is taking a wait-and-see approach. "The secretary is saying he will make the new cross-border trucking plan public soon, and that Congress will approve it relatively quickly," said ATA spokesman Clayton Boyce. "It remains to be seen how he will reverse the opposition of Congress to cross-border trucking, but he hinted that the Mexican government's punitive tariffs on

TRANSPORTATION, *CONTINUED*

U.S. agriculture are doing the job."

If there is one thing the lone Republican in the Obama administration seems good at it's lobbying his former House colleagues. The folksy Republican from Peoria, Ill. is the first to admit he doesn't know much about the nuts-and-bolts of transportation. During his Press Club speech, he openly admitted he had no idea that YRC Worldwide, the nation's largest trucking company, was in deep financial difficulty. Except for the Mexican truck issue, LaHood also steered away from commenting on anything vaguely controversial.

But if you want an old Washington hand to steer a testy issue (like Mexican trucks) through Congress, LaHood is very much the man to see. He's a blend of another former Chicago pol, Samuel K. Skinner (the first Bush DOT secretary) and Casey Stengel, the legendary late baseball manager and master of doublespeak.

And to top it off, LaHood is pals with Rahm Emmanuel, another former Illinois House member who graduated to President Barack Obama's chief of staff. So besides overseeing the auto industry bailout, investigating plane crashes, increasing the mileage standards of cars and working on reauthorization bills covering highways and aviation, this transportation secretary also is the man with deep pockets. L

—John D. Schulz, Contributing Edi-

TRUCKING

YRCW revises credit amendment

OVERLAND PARK, Kan.—After indicating in a recent 10-Q filing it may not meet its second quarter earnings before interest, taxes, depreciation and amortization (EBITDA) covenant of $45 million, YRC Worldwide reconfigured its amendment with its credit facility lenders.

Under the original agreement, YRCW was required to have a $45 million EBITDA in the second quarter that increased to a cumulative $130 million in the third quarter and $180 million by year-end. The new arrangement eliminates the second quarter EBITDA covenant, while its other financial covenants, including minimum liquidity comprised of cash and cash equivalents, restricted cash, and availability under the credit facilities, remain in effect.

When the EBITDA requirements were first announced, Tim Wicks, YRCW CFO, said they were an achievable threshold, citing how the company's Teamsters employees 10 percent and non-union compensation wage reductions and accelerating benefits of the Yellow Transportation and Roadway integration that went live in March would provide sufficient room for YRCW to remain in compliance with the amendment.

Since then, YRCW reported a $257.4 million first quarter loss, with tonnage at its national and regional units down about 29 and 22 percent, respectively. Part of its quarterly decline was attributed to $65 million in estimated costs for the Yellow-Roadway integration.

The 10-Q noted that many key YRCW operating metrics have improved since the integration went live. It said that from mid-April to early-May, YRC has experienced an increasing shipment trend, with customers returning shipping volumes, whereas prior to the completion of the integration it contended that many customers had reduced shipments with YRC to mitigate their risks from the integration. Other shippers, it said, reduced shipments due to uncertainties over the covenants in the credit agreement.

YRC National Transportation President Mike Smid told *LM* that during the first few weeks of the integration roll-out there were a few bumps in the road, but things began to stabilize in the late March, early April timeframe.

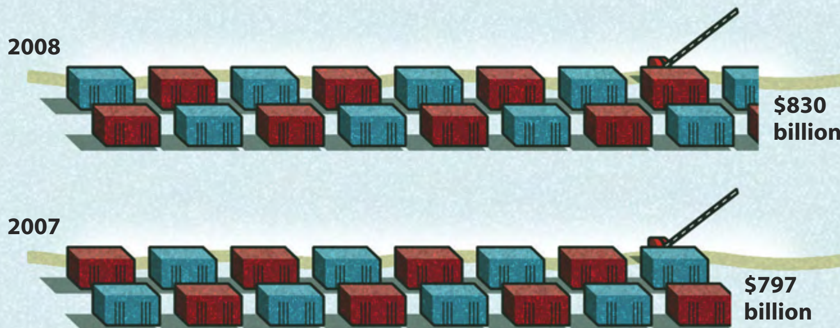
"We started to see significant week-over-week improvements in every category, including all our productivity measures," said Smid. "And as we got to the end of the second week of April, we really started to move—from a performance standpoint—beyond the historical performances of Yellow or Roadway both from a service perspective and an efficiency perspective." L

—Jeff Berman, Group News Editor

News Capsule

Surface trade with Mexico and Canada up 4.1 percent year-over-year

Trade using surface transportation between the United States and its North American Free Trade (NAFTA) partners Canada and Mexico hit $830 billion in 2008–a 4.1% increase over 2007. Even with a 4.1% uptick in trade, the Bureau of Transportation Statistics said this rate of growth was the smallest year-to-year growth since 2003–also a mere 4.1% boost.



Source: U.S. Department of Transportation, Bureau of Transportation Statistics

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EXCELLENCE

Mulani on

Reduce supply chain risk by increasing procurement expertise

Most companies have some risk management expertise within their finance organizations. However, most companies have minimal risk-management expertise within their supply chain organizations.

Take the procurement function: Despite tenuous business conditions, increasingly wild commodity-cost fluctuations, and emerging/converging material sources, few buyers have all information and tools they need to do their jobs effectively. The reality is that supply chain risk has increased significantly, but companies' ability to support procurement with improved risk-management capabilities hasn't kept pace.

And what are companies missing as a result? Accenture experience has shown that applying innovative risk management practices to procurement could reduce raw material and commodity-based product costs by up to 3 percent. Cost drops of this magnitude rarely happen quickly. For most companies, in fact, an escalating series of new and enhanced capabilities are needed with each stage adding new resources, competencies, and tools. One basic level of improvement might be a more astute "corporate risk culture"—an organization-wide effort to increase risk awareness.

From there, companies could incorporate specialized tools for identifying and managing risk scenarios; develop more standardized approaches to forward pricing (passing on price changes to the customer); or smooth their ability to substitute different commodities or commodity-based products as conditions necessitate.

Further up the ladder might be more advanced risk management capabilities such as:

• A formal risk management policy that articulates the organization's risk appetite, risk limits, and risk-taking policies.

• Additional tools focused on making holistic decisions across the product portfolio.

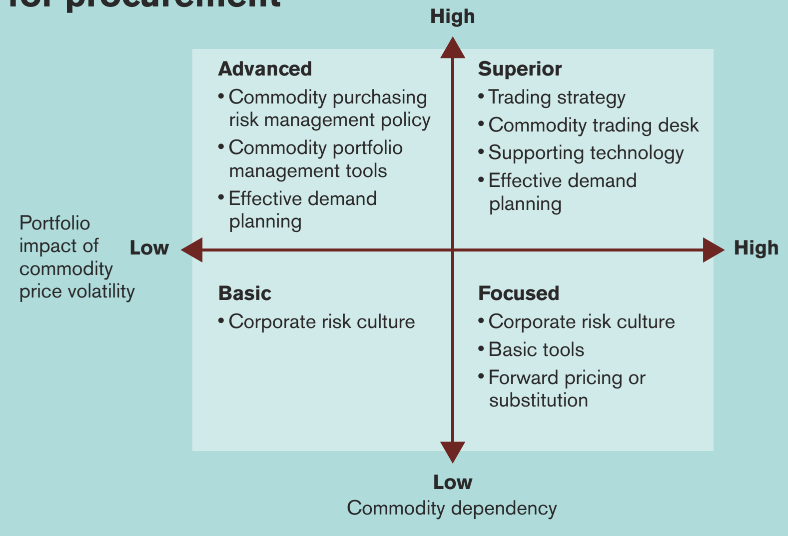
• More sophisticated demand planning expertise. Highly accurate demand forecasts are key to defining optimal procurement batches, thus avoiding "panic purchases" and emergency transportation costs.

At the very top, "superior risk management capabilities" might complement the previous attributes with:

• A formal trading strategy that specifies the organization's risk appetite, risk limits, and performance measures.

• A commodity trading desk staffed by professionals who are specially trained according to the above trading strategy.

• Additional specialized technology to support market modeling, simulation, and efficient trading based on established rules.



KEY SUCCESS FACTORS

As shown in the graphic, it may not be necessary for each company to achieve "superior risk-management capabilities." The key is recognizing (and subsequently attaining) a balance between the company's commodity dependency and the impact of commodity price volatility on the company's portfolio. Still, Accenture experience has shown

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.

that four success factors are generally required to significantly reduce procurement risk.

The first of these is to align procurement and finance. Given that a typical company's strongest risk-management capabilities (and responsibilities) reside within the treasury function, it is vital that procurement and finance tighten their bond. One such link might be a corporate risk policy that aligns the company's overall risk appetite with the comfort zone of each individual buyer or trader. Clearly defined and shared responsibilities are also needed to ensure that finance and procurement work together to pool risks and hedge the company's total position accordingly. This also helps individual buyers see the effect that their purchasing decisions have on the company.

Tighter linkages are also needed to optimize commodity supply and price. Again, the key is bringing two disciplines together. On the one hand, procurement personnel execute a sourcing strategy that considers price and availability of raw materials, and ensures a reasonable level of inventory to meet demand. On the other, experts in corporate trading support procurement by pooling purchases and contracting with market participants on future purchase volumes and prices. This may include setting firm prices or negotiating on options to protect against sudden price increases.

A third success factor is to maximize demand visibility across the supply chain. To mitigate risk—from product development to production to sales—information must be drawn from every point and fully integrated into procurement planning. One good example is an international stainless steel company that is building a business intelligence and integrated planning tool to pull commodities information from multiple databases. In addition to maximizing data transparency, the new application should improve spend analysis, report generation, and demand/supply alignment.

The final success factor is to instill effective performance measures. In a highly volatile market, savings on purchases over the previous year cannot be the sole measure for commodity purchase performance. This lone metric won't reflect successful negotiations when prices are high and is generally misleading when prices are low. A more effective approach is to link the actual purchase price of a commodity to its market price and assess the effect of raw material price fluctuations on the business. These metrics provide the insight a company needs to continually adjust and improve risk models.

Bringing risk management to bear on procurement is the concept that ties together the four risk management capabilities and the four success factors noted above. Key benefits include lower raw material costs and enhanced company-wide competitiveness; but risk-reduction opportunities relating to currency, availability and market penetration may also figure prominently. L

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K-C'S TRIUMPHANT TRAILER TRACKER

By applying modern technology and problem solving to one of the oldest problems in the book, Kimberly-Clark has reduced trailer detention, cut back significantly on third-party jockey services, practically eliminated the need for trailer rentals, and turned simple data collection into an operational tool.

BY JOHN D. SCHULZ, CONTRIBUTING EDITOR

It's an age-old problem in logistics: How do you manage a yard full of trailers and eliminate the costly, manual, labor-intensive method of driving around the lot looking for a specific load?

That was certainly the problem Scott Buss, research manager of corporate research and engineering at Kimberly-Clark Corp. (K-C), was facing at the company's 1,200-acre site at Beech Island, S.C.—K-C's largest manufacturing site in North America. The site is open 24 hours a day, 365 days a year, and holds nearly 900 trailers a day. From entrance to exit it's a 1.3-mile loop—plenty of space to "lose" a trailer on the site's multiple graveled parking lots.

And loosing trailers was something that K-C particularly wanted to avoid, especially when one quarter of the world's population has come to rely on its stalwart products like Kleenex, Scott, Pull-Ups, and Depend undergarments. "I worked at that site and I was aware of its complexities," says Buss, who is based at K-C's Neenah, Wis., office. According to Buss, managing those trailers and yard jockey services manually had become labor intensive, inefficient, and of course, costly. Workers were using outdated paper logbooks and old data that made

finding the precise location of any single trailer nothing more than a crapshoot.

"When you have nothing, all your sins come to the top," Buss said.

In response, Buss and his team started planning back in February 2007 to roll out a pilot program utilizing a system from a small company called PINC. Buss thought if there was a way to design an inexpensive automated trailer tracking methodology in real time, many of the decades-old methods of visually tracking trailers could finally be discarded. PINC Solutions came through on the technology front. Its Web-based, yard management tool utilizes passive RFID, GPS, and Wi-Fi to provide real-time asset visibility to both users and outside parties, including carriers. The eight-month pilot focused on testing system functionality, developing capability, and demonstrating a reliable return on investment. The pilot began in January 2008 and has since been rolled out to its entire Beech Island yard. "Today, we just kept it running," says Buss.

In less than a year Buss' work has achieved a 19 percent cost reduction in trailer detention, a 6 percent reduction in yard checks, a 31 percent reduction in third-party jockey services, and a 23 percent reduction in trailer rentals. For this high-tech solution to an age-old problem, the editors of *Logistics Management* award Scott Buss and Todd Armstrong this year's Best Practices Gold Medal.

HOW THEY DID IT

So how does it work? Yard jockey trucks are fitted with RFID reading, GPS tracking, and Wi-Fi communication capability. As they move through the various yards, they collect reads from semi-trailers tagged with temporarily attached passive RFID tags.

In action, the K-C system is impressive. As trucks move through the various yards they collect reads from semi-trailers tagged with the RFID tags. This information is collected along with data from the trucks themselves and it is overlaid on a "virtual" site map and made available through dashboard displays, on-line data, and reporting capability. All this enables Buss and his team to gain better visibility in real time of exactly where assets are located throughout the sprawling South

Scott Buss and Todd Armstrong, Kimberly-Clark Corp.

Carolina yard.

Buss says by leveraging real-time information coupled with historical information, K-C's logistics team is able to make better decisions more quickly. As a result of this improved business process, the company has enjoyed improved flow, workload was reduced, and overall efficiency has improved, officials say.

> **"Other companies are using a similar approach, but we're the one taking it the farthest. We're making it an operational tool rather than just for data collection management."**
>
> —Todd Armstrong, K-C's director of distribution operations

Buss says that PINC's software advantage was its ability to offer a targeted solution that provides actionable data and reliability without excessive functionality to avoid what Buss called "bird-hunting with a bazooka." Some software was so heavy on the functionality side and lacked the auto-ID functionality that was really needed. "We didn't want any overlap," Buss says. "We were looking specifically for location-finding functionality along with work direction capability. We didn't want a lot of extra costs."

Of course, there were challenges to overcome. Electronic equipment had to be made rugged enough to handle rough trailer yards; that was resolved with product fixes and upgrades. Temporary tag attachment was better than anticipated, but Buss said improvements in design and alternative attachment methods increased success in temporarily attaching passive RFID asset tags to a wide variety of asset types.

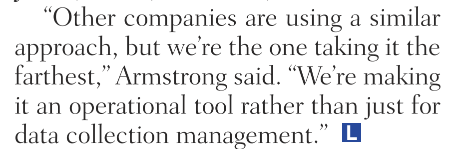
THE BENEFITS

According to Buss, the project has certainly validated the use of an RFID-based asset tracking solution for supply chain and logistics management applications. "They can be installed incrementally, one distribution center or manufacturing plant at a time, which pays for itself within the first year just from the savings it generates at the installed site," says Buss. As more deployments are rolled out at multiple facilities in the K-C distribution system, Buss adds that the end-to-end visibility of the system offers potential additional savings.

The immediate return from the project has allowed K-C to quantify its savings and justify further investment. As a result of the successful pilot and implementation, Buss says ROI expectations have been exceeded significantly by:

- Eliminating the daily manual yard check. That four-hour operation has been replaced with a real-time electronic yard check report available at any time;
- Discontinuing the manual process of color coding trailers and rehandling trailers in order to manage trailer status by location in the yard;
- Developing a new trailer parking plan to improve the flow of trailers. This has greatly reduced site traffic, travel distance, and improved safety;
- Enhancing processes to more effectively locate and utilize selected materials (on trailers) to minimize materials and eliminate the potential of expiration or spoilage;
- Reducing third-party yard jockey services by establishing operation metrics and tracking to them. This ability to match third-party services with site needs down to the shift level offers K-C the ability to more cost effectively and efficiently plan;
- Customizing alerts/notifications and the ability to obtain actionable data and information at any time. K-C is now able to monitor yard activity from anywhere, anytime.

Todd Armstrong, K-C's director of distribution operations, says there are plans to roll out similar systems in five to seven other large manufacturing sites. Two are planned for this year in Jenks, Okla., and Paris, Texas.



"Other companies are using a similar approach, but we're the one taking it the farthest," Armstrong said. "We're making it an operational tool rather than just for data collection management." L

John D. Schulz is a Contributing Editor to Logistics Management

Kimberly-Clark Corp.

Headquarters: Dallas, Texas

Products: Personal care products including Kleenex, Huggies, Little Swimmers, Depends, Viva paper towels

2008 sales: $19.4 billion

Employees: 53,000

Logistics Best Practice: K-C transformed managing semi-trailers and yard jockey services at a 1,200-acre site with manual processes from a labor intensive, inefficient and costly process using paper logs, old data, unknown asset locations and lack of actionable information into a modern, Web-based management process to achieve real-time asset visibility and significant cost savings.

PAPA JOHN'S QC QUEST

Taking a measured approach, the pizza purveyor automated its transportation processes and created a holistic solution to achieve load visibility—and in turn has cut freight spend by 15 percent and turned up the heat on quality control.

BY **PATRICK BURNSON,** EXECUTIVE EDITOR

After implementing new replenishment software, Papa John's was able to manage inventory levels more accurately, says Eric Hartman, pictured right.

More than merely a foodstuff, pizza enjoys a special place in the pantheon of global cuisine and culinary culture. That's certainly the way the supply chain professionals at Papa John's International, Inc. feel about their product—only more so.

Because pizza is a highly perishable commodity, brand confidence is critical. "Everyone who works here shares the same passion for pizza," says Eric Hartman, Papa John's senior director of logistics who runs his operation out of the company's headquarters in Louisville, Ky. "We pretty much regard it as the perfect food."

And while a statement like that will generate little argument, there's no question that speed to market is crucial. It was also a major part of the challenge for Hartman dating back to 2007. "Our pizza and other foods move under temperature-controlled conditions, making the supply chain rather complex," he says. "Over the past two years, we've been trying to streamline that process. But we didn't rush into this."

Hartman realized that he needed new solutions for planning and procurement, along with carrier and fleet management to make this streamlining a reality. He was also searching for vendor integration among solutions—replenishment, warehouse management, transportation, and performance management.

"A DC would place an order over the phone rather than place it electronically, increasing the potential for error either on our side or on the vendor side," Hartman recalls. "The vendor then selected a carrier, freight was prepaid, and we often wouldn't know which specific carrier was coming. If we had concerns regarding the load, product quality, or the temperature during transit, we had to go

back to the vendor, who had to go back to the carrier, to get that information."

Another major challenge during this 24-month period, says Hartman, was inventory tracking and accuracy. Back in 2007, Papa John's lacked the carrier relationships necessary to gain visibility and to ensure the highest level of quality control.

Taking a measured approach, Hartman and his team invited three software vendors to come up with a holistic plan to address their needs and the needs of PJ Food Service, Papa John's parent company. PJ Food Service provides one-stop shopping for virtually all the ingredients and supplies used in Papa John's restaurants through its 10 quality control centers, making the challenge even greater—but the solution has earned Hartman this year's Silver Medal.

GAINING VISION

In addition to achieving visibility, Papa John's goal was to reduce manual processes and increase efficiencies to better control costs and increase shareholder value. The process of choosing such a partner to achieve this aim required considerable diligence, but Hartman says that Manhattan Associates delivered on its promise to provide an adequate off-the-shelf solution.

"Our decision was based on the provider's background in planning and procurement," says Hartman. "Its carrier and fleet management offerings were also attractive to us." But that doesn't mean there won't be other hard decisions down the road. At this point, says Hartman, the strategic piece of the puzzle has been put in place. That leaves the tactical details—and more metrics.

"We did an initial freight bid last year," he says. "Our goal was to establish a foundation first with truckload, and we'll bid out additional freight this year for LTL and intermodal. Selecting the 12 carriers and the contract preparation process was fairly seamless."

Using the current solution to select carriers based on rating tables from the procurement process, Hartman and his team are still learning how to use the tools

> **"Having the replenishment and transportation software in place gives us a solid foundation to now pursue the more tactical projects—distribution, audit, and payment."**
> —Eric Hartman, Papa John's senior director of logistics

to broker effective shipper/carrier relationships and network alignment. "Just getting through the procurement process to establish transportation planning and execution functionality was tough," recalls Hartman. "But it's being done."

As a consequence, Papa John's has established a solid foundation in its vendor and carrier relationships, providing better visibility and enabling carriers to schedule appointments. And soon, EDI will be tied in to further reduce the administrative workload on both vendors and carriers.

"We started with no inbound transportation capability—it simply didn't exist," says Hartman. "The fact that we completed the project within a year speaks volumes about the talent here at Papa John's—and speaks just as loudly about the capabilities and the ease of use of our newly-purchased solutions. Having the replenishment and transportation software in place gives us a solid foundation to now pursue the more tactical projects—distribution and audit and payment."

Papa John's new direct relationships with carriers also enables it to capture essential data on shipments—such as temperature during transit—often in real time. Once EDI is fully implemented, this can only improve.

One of the primary goals for Papa John's in automating transportation procurement was to deliver reduced costs. According to Hartman, they were able to reduce freight spend after just six months of live runtime on the system, achieving its goal of a 10 percent to 15 percent reduction.

But perhaps the biggest benefit, says Hartman, is overall piece of mind. "From a food security standpoint, the visibility to our product and to our carriers is a huge factor," says Hartman. "Our restaurants are known for serving meals with fresh ingredients, so anything that puts that image in jeopardy is unacceptable." L

Patrick Burnson is Executive Editor for Logistics Management

Papa John's International Inc.

Headquarters: Louisville, KY

Products: Pizza restaurant menu items

2008 sales: $1.13 billion

Distribution centers: 10

Locations: Over 3,000 restaurants worldwide

Logistics Best Practice: After implementing new replenishment and transportation software, Papa John's was able to manage inventory levels accurately and efficiently. Because it was more dynamic and based on actual need, the solutions allowed Papa John's to allocate in-transit product to outbound orders even before it arrives at the facility. The improved visibility has also allowed them to reduce inventory.

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NEWEGG.COM COOKS UP A NEW MODEL

Rapid growth forced the e-tailer to roll out a new automated order processing system to its East Coast DCs resulting in improved processing time and near flawless quality control and order accuracy—all without adding or subtracting headcount.

BY **JEFF BERMAN**, GROUP NEWS EDITOR

Bob Zellis, NewEgg.com's vice president of logistics

In late 2003, California-based Internet retailer Newegg.com established its East Coast operations with two locations in New Jersey. One was a 75,000 square-foot bulk-order warehouse in Cranberry and the other was a 50,000 square-foot warehouse in Edison.

While these locations fit the company's needs when they first set up shop, rapid growth forced the e-tailer—with more than 40,000 computer hardware, software, consumer electronics, and communications products—to re-evaluate East Coast operations, because the region had quickly become responsible for nearly 40 percent of total sales.

"As we saw that market grow, we continued to grow," says Newegg.com Vice

President of Logistics Bob Zellis. "In terms of operations, we realized we were outgrowing the physical locations of our Edison and Cranberry locations."

In these locations, Zellis notes that Newegg's material movement of product and people was limited and not technologically sophisticated. As an example, he says it was not uncommon to see several employees walking through the facilities picking orders without any real automation leading the way.

Add in the fact that Newegg's annualized orders for its East Coast operations at the time were at 1.1 million (2005), and it was not hard for Zellis and his colleagues to see that even more space and efficiency improvements were now necessary.

In fact, the company's needs were filled with the September 2007 opening of its new 380,100 square-foot Edison-based distribution center that saw the e-tailer take a more automated and streamlined approach to warehouse operations and efficiency—and netted results that earned Zellis our 2009 Bronze Medal.

ROLL IN THE NEW

Rather than continue working with manual processes and limited technology, Newegg rolled out a pick-to-light system and conveyor platform from materials handling system integrator Dematic in the new Edison location.

"In terms of pick-to-light for small items, there is much less labor involved," he says. "We now have orders that are auto-routed to where the inventory is, as opposed to having staffers walk though a DC to find specific inventory." By using totes with unique bar code identifiers placed on them when an order is assigned to it, workers can leverage the pick-to-light system that now routes totes to the appropriate pick zone. When an order is closed out, a shipping label is printed and the order is packed—with the shipping label applied—and placed in a box and on a conveyor to be routed to a staging area for shipping.

According to Zellis, this system is far more efficient than giving an employee a piece of paper and having them walk through a warehouse to find a specific order. What's more, Zellis estimates that the average processing time for one order is now about 20 minutes, representing a 15 percent to 20 percent improvement over the manual set-up. This is particularly vital considering that annualized East Coast orders at Newegg in 2008 hit 3.3 million, tripling 2005's demand. East Coast orders were responsible for about one-third of Newegg's total of 10.6 million orders in 2008.

Although the size of its workplace and order quantity went up sharply, Zellis notes that headcount did not get pared down, explaining that Newegg saw an overall 20 percent reduction in its costs-per-order coming directly from labor savings. "We were able to process many more orders utilizing the same labor force [of about 100 people]," says Zellis. "We were fortunate to find ourselves not reducing our workforce at all, which allowed us to expand and handle more orders."

SMOOTH SAILING

So, how does it work? The customer executes an online order that is then routed to the Edison location where it gets assigned to a tote with a unique bar code ID. At that point, the tote is routed to one of three modules in the pick-to-light system, and, is then transported to the module where the inventory exists, and is then diverted to a specific pick zone where the inventory is stored.

A picking associate scans the tote and then sees lights glimmer at the location where the inventory that needs to be picked is stored. The system also identifies how many items need to be picked from a particular location.

When an order—or tote—is completely picked it's then routed to one of 30 packing stations where a staffer scans it and the order's contents will appear onscreen for a quality check. This check involves scanning each order item to ensure there is a "perfect match" of what was picked compared to what needed to be picked. Zellis stresses that orders are not closed out until there is a perfect match.

"With the steps we have taken, any order received by 3 p.m. local time ships same-day about 98 percent of the time," notes Zellis. "And the accuracy and quality of orders received by customers' damage-free runs about 5.3 percent Sigma or 99.99 percent."

Jeff Berman is Group News Editor for Logistics Management

"With the steps we have taken, any order received by 3 p.m. local time ships same-day about 98 percent of the time."

—Bob Zellis, vice president of logistics, NewEgg.com

NewEgg.com

Headquarters: City of Industry, Calif.

Products: Online retailer of computer hardware and software, consumer electronics, and communications products

2008 revenue: $2.1 billion

Employees: 2,000 worldwide

Logistics Best Practice: Improved order processing by switching to an automated system and moving into a larger DC to better meet increased demand.

Reassessing risk

BY JADE RODYSILL, CRAIG FARIS, AND BILL SPINARD, ACCENTURE

The global economic downturn has changed the nature of supply chain risk. How ready are companies to face and respond to this new challenge?

The global economic downturn has changed the nature, magnitude, and complexity of supply chain risk. The most compelling implication may be the need for supply chain leaders to rethink their companies' most serious risks and potentially rebalance the trade-offs between cost optimization and effective risk management.

In Accenture's view, three areas of significant supply chain risk have emerged as top management concerns:

1. Vendor and supplier stability. Despite the best efforts of many companies, the negative effects of the downturn on vendor and supplier stability are poised to wreak havoc on many supply chains. Upstream supply chain partners may have devolved from stable to shaky—victims of liquidity and cash flow problems.

From a buyer's perspective, the most serious result is production gaps and delays caused by supplier misfortunes. Sourcing strategies and production plans could be subject to failures due to a rapid decline in a supplier's financial viability—perhaps the inability to access sufficient working capital or a newfound unwillingness to ship unsecured raw materials.

2. Product quality and safety. At many organizations, efforts to squeeze every last molecule of cost out of manufacturing and distribution processes have (however unintentionally) reduced quality controls and oversight—even as more counterfeit and contaminated products find their way into the supply chain.

It is a problem that cuts across industries and companies. For example, the acting administrator of NASA recently testified before a Congressional subcommittee that some of the agency's cost overruns are due to counterfeit parts. On the same line of thinking, some forward-looking retailers have introduced a more rigorous and transparent quality control program for their suppliers. Yet another example is the revision that was precipitated by safety concerns over pet food, drugs, children's toys, and baby cribs.

Contaminates in the food chain have commanded the most media attention. The salmonella outbreak at Peanut Corporation of America (PCA) is only the latest in a long chain of problems. *The New York Times* recently reported that the contaminated PCA facilities had received a "superior" rating for food safety not long before the outbreak. This is particularly disheartening because it reminds us that food

quality issues are potentially systemic: We cannot blame all our problems on quality standards in other countries, and companies cannot depend solely on the U.S. government's food inspection process.

3. Demand forecasting. The ability to accurately forecast sales lies at the heart of a well-oiled supply chain. Forecasting is the most critical contributor to production and delivery scheduling, and to decisions regarding channel selection and pricing strategies. Unfortunately, the recession has made accurate sales forecasts far more difficult to achieve.

A distinguishing feature of this recession (and a major reason for the slow recovery) is the widespread degradation of consumer and commercial balance sheets. Steep declines in the value of consumers' primary assets, housing, and retirement funds have wiped out hundreds of billions of dollars in wealth. And consumers have responded by spending less and focusing instead on paying down debt. This new era of low spending and unpredictable consumer behavior will render many demand-forecasting models inaccurate or even obsolete.

THE BIG PICTURE

How ready companies are to face and respond to the above challenges is not clear. What is clear, however, is that a new world economic order has taken hold and that many of a company's most fundamental assumptions about risk must be revisited as a result. One such assumption may be the sanctity of short-term cost savings and returns—not always the best idea if longer-term stability and improved positioning in a much tougher business environment are compromised.

Broadly speaking, the need is for a thorough and objective evaluation of supply chain risk-management approaches and processes. Key to this prescription is the term "objective." Too many companies overestimate their capabilities, underestimate risk, and oversimplify the solutions. To keep this from happening, a review of risk management approaches would typically include the study of:

- which market assumptions have recently changed;
- new risk influences and implications;
- risk's impact on competitiveness;
- which processes are affected, which are stable, and which may need to change;
- keys and approaches to integrating upstream and downstream process changes;
- and risk-monitoring, measurement, and communication capabilities.

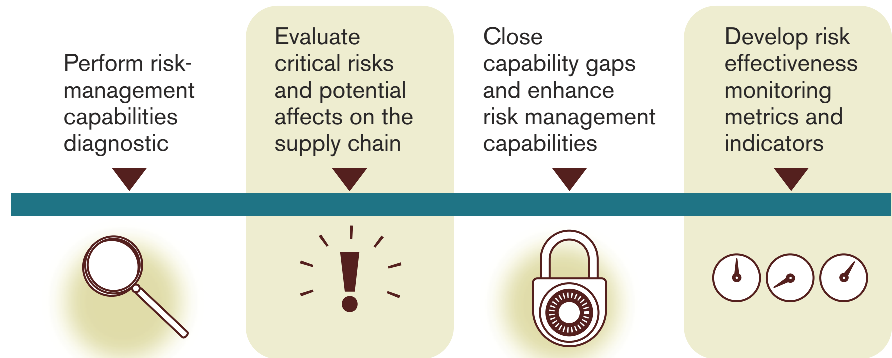

Figure 1. A four-step process can get supply chain risk management back in the game and position companies to compete in a new world of risk.

Following the study must come implementation, and this step is neither simple nor geared to quick "how to" recipes than can be packaged in a short article. Still, there are several common activities, including assessment, that will likely be addressed by most companies embarking on such a journey. These activities (summarized in Figure 1) are worth noting because they can help companies understand what to expect during the lifecycle of such a program.

Perhaps most important, however, will be establishing an ever-tighter link between enterprise risk management (ERM) and whatever formal approaches the company has developed for enterprise performance management (EPM). The idea is to interweave risk mitigation with corporate operating models, performance goals, accountability strategies, and decision-making frameworks.

NEAR-TERM ACTION PLAN

Getting a formal risk-abatement plan off the ground may not happen fast. So what might a company's supply chain leaders do in the short term to prepare their companies for the unknown? One practical step would be to look at the problem from three perspectives:

1. What is the range of possibilities?
2. What are we currently prepared for?
3. What do we need to be prepared for?

To answer these questions, a quick scenario-planning exercise can be helpful. First, pick an emerging risk to consider—perhaps one of the three discussed earlier. Then convene a small group of knowledgeable leaders to brainstorm three distinct, but plausible, situations relative to the risk. Take vendor stability: The three scenarios could include one in which 50 percent of your upstream suppliers declare bankruptcy, a second that involves a complete loss of one critical type of supplier, and one scenario consisting of significant supplier loss spread over the next five years.

Then have the group consider:

- How is the company positioned to compete relative to each of the scenarios?
- How would operations and profitability be affected if each scenario were occurred?
- What are the major gaps in the company's current plan, relative to the scenarios?
- How do we close those gaps?

The valuable outcomes of this exercise are potentially twofold. The first is newly focused thinking about what the possibilities are and why they are important. The second is a highlighting of key supply chain vulnerabilities.

They may seem simple, but the reality is that few companies have taken even the most rudimentary step, and even fewer follow through with necessary changes. That distinction is what separates high-performance companies—those that work proactively—from the great majority of lesser-performing and less successful organizations. L

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Wireless

BY **BRIDGET MCCREA,** CONTRIBUTING EDITOR

While wireless technology has come a long way in the past 35 years, adoption has been slow with some shippers still relying on paper-based communications to get the day's orders processed and shipped. Here are a few points to consider if you're ready to cut the wires and work smarter in an era when every penny counts.

The year was 1974 when J.C. Penney became one of the first companies to implement wireless technologies in its supply chain. The initiative was rolled out at a company distribution center in Southern California where J.C. Penney installed a new warehouse management system (WMS), complete with terminal-based wireless connections attached to lift trucks. Using the contraptions—which included a small display and printer—lift truck operators could wirelessly create ID tags for the case goods being picked.

"It was pretty primitive," recalls John Hill, vice president at transportation consultancy TranSystems, "but it worked." By the mid-80s, companies like LXE, Intermec, and Symbol Technologies entered the fray with alternative methods of providing communication links between those same lift truck drivers, who then began using handheld devices to track inventory in the warehouse. Some of the technology was clunky at best, and most of it was proprietary in nature—and as such, unable to integrate with other pieces of equipment.

Fast-forward to 2009 and the phrase "you've come a long way baby" can certainly be applied to the wireless technology as it applies to logistics and supply chain operations. Today, shippers are now using rugged mobile devices, 2-way communication devices, RFID, and GPS to "snip" the wires and create supply chains that can go anywhere. Used in the warehouse, DC, yard, and on the road (for private fleet/truck management), wireless technology is helping companies work faster and smarter during an era when every penny counts. In this article, we look at the top wireless applications being used in the supply chain and examine the potential of a "no wires" supply chain in the near future.

WIRELESS IN ACTION

According to VDC Research Group's *2008 Enterprise Mobility Report*, which was conducted smack in the middle of a significant market correction/contraction, the overall market for rugged mobile computers shrank last year to $1,041.8 million, and is expected to further contract to $814.2 million in 2009.

The research firm is projecting a gradual return to growth by 2010, and expects the overall market to grow by an average of 2.7 percent annually for the 2008-2013 period. This market includes rugged mobile devices such as handheld/PDA computers and forklift-mounted computers that are sold to retailers, manufacturers, and transportation organizations that incorporate a warehouse/DC into their supply chain process.

Wireless implementations span a wide range of companies and uses. Last year, for example, the Polish Ministry of Defense deployed an RFID-based solution from Savi to automate tracking and management of military supplies. Domestically, Wal-Mart Stores Inc. last year announced that it would deploy its first Vehicle Management System (VMSs monitor and manage a fleet of vehicles, including vehicle movements, histories, and routing) from I.D. Systems in a single facility as a pilot program in order to improve distribution facility safety for its workers. When the evaluation period expired, Wal-Mart expanded the wireless technology across multiple distribution facilities.

Also in 2008, Rompetrol Group, a multinational oil company operating in 13 countries, installed a wireless fuel distribution monitoring solution from Hi-G-Tek. The system monitors and communicates real-time information regarding the fuel in the company's secondary distribution chain, from depot to pump, in both Romania and Bulgaria. The data captured via RFID is then processed and transmitted to Rompetrol's enterprise software system that receives and records the information that the oil company then uses it to track and monitor inventory, deliveries, and asset levels in real-time.

And the list of wireless supply chain implementations goes on, and is catching the attention of shippers looking to cut time and costs out of the supply chain through the use of advanced technology. According to Brad Wyland, senior research analyst at Aberdeen Group, 39 percent of shippers recently surveyed by the company have a need to increase sales without increasing staff or storage space, and 36 percent were looking to implement warehouse automation tools like speech recognition, RFID, and ruggedized mobile computers to get there. From those solutions, 71 percent expect instant communications, 61 percent expect ease of use, 49 percent expect low cost, 35 percent expect no recurring fees, and 32 percent expect large coverage areas.

Wyland says today's logistics manager can choose from simple 2-way communication devices, to the more complex voice technology and RFID devices that can "extend beyond the warehouse and out into the field" to encompass fleet operations. Wyland adds that the adoption of wireless has been slow-but-sure, with some shippers still relying on paper-based communications and a "full office of workers" to get the day's orders processed and shipped. "There are definitely opportunities for growth when it comes to the wireless supply chain," he says. "While the best-in-class companies are taking advantage of it, a huge gap still exists."

BENEFITS ON THE ROAD

Shippers may still be using paper-based systems to manage inventory, equipment, and workers in their DCs, but they've definitely embraced the wireless movement on the road, where field mobility devices and GPS has gained in popularity over the last few years.

Telemetric applications (those that use automatic transmission and measurement of data from remote sources by wire or radio) that support compliance with regulatory rules (such as fuel tank and DOT driver lock requirements) are particularly popular now, according to David Krebs, director for the mobile and wireless practice at VDC Research Group.

"We're starting to see those installed," says Krebs. "Wireless solutions expand in terms of their functionality to support a broader range of fleet management solutions that not only address management of the driver and his or her performance but that also extend into the actual fleet assets, such as spare parts management for a field service fleet."

Krebs says he's also seeing a tighter integration of onboard computing functionality and the extension of those capabilities. Rather than simply reporting data relating to truck diagnostics such as fuel economy, for example, the onboard, wireless computers are helping to maximize cargo space and driver productivity. Krebs points out that GPS solutions are especially popular, with the higher fuel costs creating a need for more efficient routing and scheduling of deliveries.

Demand for cellular wireless solutions is also ramping up among shippers that are operating in large environments, such as port facilities, says Krebs, as

Pressures on today's warehouse managers

% all respondents

Pressure	%
The need to support increased sales without increasing staffing or space	39%
Increased demand/supply fluctuations (e.g. seasonality, promos product introductions)	27%
Customers' need for faster turnaround times	26%
Constrained by current amount of warehouse space (i.e. expansion, relocation, or the need for new facilities)	22%

Source: AberdeenGroup, October 2008

Action plans for improving warehouse operations

% all respondents

Action plan	%
Improve warehouse processes	61%
Implement warehouse automation (speech-recognition, RFID, ruggedized mobile computers	36%
Implement new warehouse management software	29%
Upgrade or enhance existing warehouse management software	21%

Source: AberdeenGroup, October 2008

is demand for integrated Bluetooth for short-range peripheral connectivity (bar code scanners, RFID interrogators and printers, for example). Together, these various wireless technologies come together to create an untethered supply chain that operates seamlessly in today's business environment.

WITHIN THE FOUR WALLS

As J.C. Penney proved 35 years ago, wireless technology can be extremely useful in the warehouse. These days, the availability of "open wireless" solutions (rather than proprietary options that operate independently) permits for a wide range of data capture and usage within the DC and in surrounding areas. John Hill says that bar coding continues to work in that environment, with voice data entry and RFID both gaining ground as wireless warehouse management options.

"RFID still has a way to go, but is being used effectively right now for pallet identification and for the identification of high-value items where you can afford to put a tag on the box that will handle the rigors of the environment and still perform," says Hill.

According to VDC, the warehouse/DC and port segment represents one of the more mature market segments for rugged mobile computer solutions and enterprise mobility applications. "This segment is being hit especially hard by the current global recession as end-users look to extend the lifecycle of their existing solutions and postpone planned upgrades," says Krebs.

With the use of iPhones and BlackBerrys being all the rage right now, Hill says vendors are also developing programs that wirelessly connect WMS systems with those handheld devices.

"A number of WMS providers are offering that functionality, which allows users to tap into the system from a remote location in order to get status updates and monitor performance while offsite. This is something that was talked about 15 years ago, and now it's being done," says Hill.

The Competitive Framework

	Best-in-Class	Industry Average	Laggards
Process	Confirms transactions with automatic data capture (barcoding, speech, RFID)		
	65%	55%	53%
	Direct order picking with mobile devices		
	60%	50%	31%
	Ability to send electronic Advance Ship Notices (ASNs)		
	70%	45%	44%
	Advanced pick methodologies like batch, zone, or cluster picking		
	65%	53%	28%
Organizing	Only employees who have our application loaded onto their PC can login and view driver and vehicle status data in real time		
	35%	23%	25%
Technology	Technology enablers to support fleet management		
	• 70% Ruggedized Mobile Computers (Forklift or Handheld) • 50% Automated Shipping Sortation • 40% Conveyor Based Picking Systems • 25% Automatic Palletizing Systems	• 48% Ruggedized Mobile Computers (Forklift or Handheld) • 21% Automated Shipping Sortation • 27% Conveyor Based Picking Systems • 9% Automatic Palletizing Systems	• 31% Ruggedized Mobile Computers (Forklift or Handheld) • 12% Automated Shipping Sortation • 12% Conveyor Based Picking Systems • 6% Automatic Palletizing Systems
Performance	Measure and update fleet performance daily or in real time		
	55%	37%	22%

The characteristics identified above serve as a guideline for best practices, and correlate directly with Best-in-Class performance across the key metrics.

Source: Aberdeen Group

A PERFECT WORLD

Ask Adrian Gonzalez, director of ARC Advisory Group's Logistics Executive Council, where he sees wireless fitting into the entire supply chain, and he'll tell you that 15 years to 20 years from now everything will be tracked wirelessly. He points to advancements being made by Savi Technology and IBM. He believes that the smart supply chain of the future will use sensors, RFID tags, meters, and GPS to function.

But there are at least three hurdles to jump through before that can happen, says Gonzalez. For starters, he feels that vendors must develop hybrid Automatic Identification and Data Capture (AIDC) devices that integrate a combination of technologies, including barcodes, passive and active RFID, satellite communication, GPS, cellular, and sensors.

And before hybrid AIDC devices can gain traction, standards must be developed and/or harmonized for these various AIDC technologies to play nicely together. Lastly, Gonzalez says companies need new business models that drive "wireless tracking of everything" in supply chain management, and suggests the outsourcing of the infrastructure (software, hardware, etc.), much like major utilities do, as the best way to get there.

Krebs also sees a completely wireless supply chain in the future, and notes that the solutions already available in today's market will provide a solid backbone for that movement. "Based on the coverage maps that are available, and the ability to combine and leverage the best available connectivity whether it is Wi-Fi, 3G, or even satellite," says Krebs, "we should be able to fill the gaps and create a comprehensive network."

With wireless solutions already integrating with WMS, Transportation Management Systems (TMS), and Enterprise Resource Planning (ERP) applications, it won't be long before cutting-edge shippers are able to tie together all ends of their supply chains with wireless technology.

"Whereas in the past there were wireless solutions for the warehouse, solutions for the telemetric, and solutions for the delivery truck driver," says Krebs, "we're now seeing a more 'umbrella' approach being used to get to the next level and extend the enterprise, functionality, and integration and weave those once-disparate systems together in a much tighter fashion." L

Bridget McCrea is a Contributing Editor for Logistics Management

Maines gets fresh solutions from RAYMOND

For Maines Paper & Food Service, Inc., one of the leading and most honored independent food service distributors in the country, every day is ripe for improvement. So when it needed a partner to help it continuously achieve higher service levels, profitability and safety, while reducing time-consuming lift truck equipment management at all of its locations, it chose Raymond and our 100% integrated authorized service and support center network.

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Redrawing your DC network

BY **MAIDA NAPOLITANO,** CONTRIBUTING EDITOR

With sales plummeting and stores closing, you suddenly find yourself with a distribution infrastructure that's designed to support a much bigger organization. You've got to scale back, and you've got to do it quickly. Here are seven market trends making today's DC network more flexible and more sustainable in trying times.

It's the classic distribution network dilemma: How do I design my network of plants, suppliers, and DCs in order to provide my customers with the highest possible level of service at the lowest possible operating cost? How many DCs do I really need? Where should they be located? Which warehouse/DC must be served by which plant or supplier?

Of course, these are just a few of the questions that exemplify the complexities of this strategic planning problem—and the current economic environment, coupled with the push for more sustainable supply chain infrastructure, has just made this puzzle more complicated.

Perhaps, like most managers over the past two or three years, you probably thought you designed the perfect DC network—up until last spring when the cost of fuel shot through the roof. A second redesign of your network suggested adding another DC to reduce transportation costs. Fortunately, you had stores opening and sales were chugging along pretty well, so finding capital wasn't that much of a problem.

But then last fall the tide turned. Consumer spending shut down, the economy headed south, and logistics managers realized they needed to reconfigure the network—for a third time—to conserve cash, minimize capital outlay, and significantly cut down on logistics operating expenses.

Marc Wulfraat, director of strategy for supply chain consultancy TranSystems, is seeing this reality unfold firsthand. "Some companies are now fighting for survival. They want to know how they can get the most out of their existing assets."

Mike Hooban, president of Microanalytics, the provider of network modeling tool Optisite, agrees, saying that saving money is now the biggest motivator for network studies. "Companies are studying their networks to somehow find a way to cut costs, yet continue to provide a decent service level."

In fact, much of the current distribution environment is in a state of flux. Troy West, assistant vice president for TranSystems, points out that trade

lanes have been shifting; there's a greater need for more flexible intermodal facilities, and increased pressure to make the network greener. To boil it down: "All of these conditions have had a dramatic impact on today's distribution network," says West.

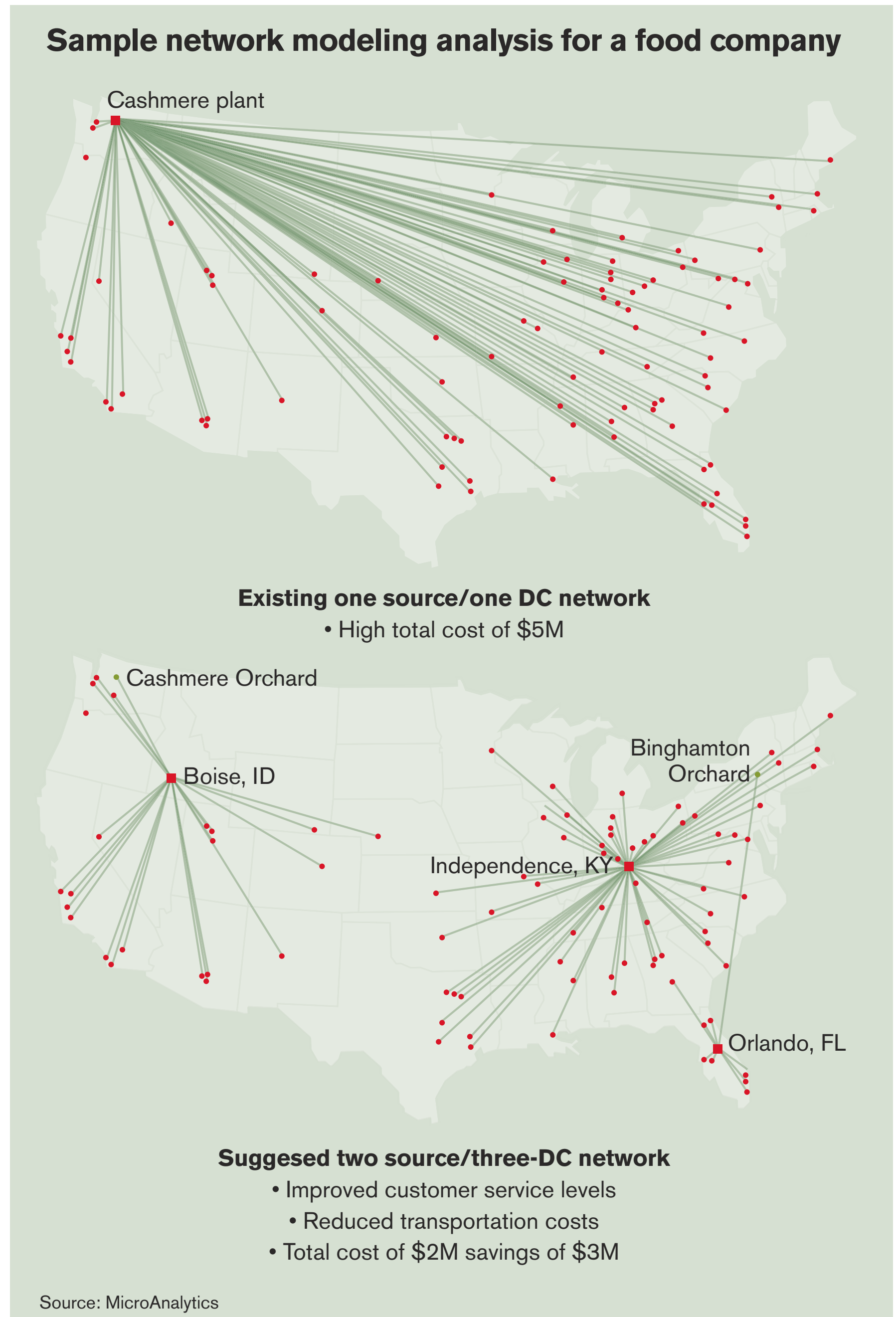
Now, how do we get a handle on it all? In the next few pages, our three network experts will detail the changes they've seen in today's DC networks, many of which are in direct response to current volatile economic conditions and the move to greener operations.

1. Downsized networks. Stores opening, companies merging, DCs busting at the seams; those were the good old days. But as markets started collapsing and sales began shrinking, you suddenly found yourself with a distribution infrastructure designed to support a much bigger organization than what you are today. You've got to scale back, and you've got to do it quickly.

As a retailer, for example, you start by closing stores. "A publicly-held retailer is going to immediately want Wall Street to know they're serious and they're going to close non-productive stores," says Wulfraat. "That's one of the quickest ways to save money." As a result, you'll find some DCs are going to be half-full and you start tightening up your budget on the operations side, in order to respond to this decline in sales.

"For many manufacturing companies, the options are pretty much limited to contracting and divesting of assets: closing facilities, consolidating, perhaps undergoing measures to improve the utilization of a facility to enable this to occur," Wulfraat adds. You might even end up paying penalties for breaking leases in order to get out of buildings quickly. Many are now looking at their distribution networks to do very fast-track, strategic studies to try and figure out how to shed millions from their supply chains within six months.

And it's not a simple flip of a switch. Depending on the nature of the closures, there could be union constraints, severance pays, and a number of what can be substantial one-time expenses when you close a facility. In Wulfraat's experience, it's usually a 3 month to 6 month process, at a minimum.



2. Increased use of 3PLs and outsourcing partners. Instead of building a new DC, companies today are leveraging the services of 3PLs in the area where they need to distribute. "In a volatile economy with soft demand, using 3PLs provides a flexibility for companies to be able to ramp up and ramp down quickly and get in and out of certain locations easily, especially when considering volatile regional forecasts," explains West. In addition, you're likely to be more diversified and stable by sharing warehouse square footage with other companies than if you were a single firm occupying it by yourself.

3. More focus on product profitability before network analysis. In order to squeeze that next nickel, companies are taking a good hard look at everything they are doing before embarking on logistics network optimization. One of the key issues is the specific profitability of every single item, tracing the

Using network modeling to reduce your carbon footprint

Objectives	Solution	Benefits
• Find the appropriate trade-off between reducing costs and reducing the company's carbon footprint • Comply with regulations and corporate objectives • Reduce CO2 emissions • Meet demands of growing market • Cut costs and improve service	• Add more DCs • Operate fewer trucks • Shorten average distance to customer • Rely more on rail transportation	• Fewer harmful emissions • Lower vehicle operating costs • Better, more reliable service from operating more DCs • Compliance with industry regulations and corporate objectives for reducing CO2 emissions

Chart Courtesy of ILOG, an IBM Company

source of every financial component of that item's lifetime in the supply chain.

"Some managers don't have any idea that they're losing money on specific SKUs," says Wulfraat. He cites items that are delivered directly to stores (DSD), as an example: "Because of minimum order quantities required by DSD vendors, there may be way too much inventory in the stores. What if we change the path for these items to flow through your own DCs? Here's how much cost you would generate and here's how much money you would save."

By doing so, says Wulfraat, managers can understand at the SKU level why certain products shouldn't be going directly to the store and why they should be going through the company's DC. "When you're recommending another 10,000 SKUs to go directly through your infrastructure, your network obviously needs to change as you may need a larger warehouse," adds Wulfraat.

4. More use of rail, more need for intermodal facilities. When oil hit $150 a barrel in 2008 it sent shockwaves through companies that built distribution networks predicated on the supply of cheap oil. Although the price of oil has since receded to less than half that amount, industry analysts agree that when the economy does recover, the price of oil will recover very strongly in the next years to come. According to Wulfraat, that's what's going to drive the way companies move product to market over the next five years.

West concurs. He has already seen an increase in the theoretically cheaper use of rail when making modal decisions. As a result, networks are now seeing a more prevalent need for intermodal facilities—one that can accommodate not only tractor-trailer traffic, but also rail transport.

"Studies are currently being conducted to locate distribution facilities that are directly rail served," says West. "In addition to our network modeling optimization software, we use other tools that incorporate rail networks into the distribution network being modeled." He uses geographic information system

A few more observations on DC network design

Troy West, assistant vice-president, TranSystems:

On the mapping capabilities of modeling tools: "A picture is worth a thousand words. Utilizing the geo-coding and mapping capabilities from the tool allows management to visually see the results of scenarios and help bring out further discussions; whereas if I were looking at a spreadsheet it does not stand out as readily."

On leveraging a modeling tool's optimization engine: "We have a tendency as humans to think sequentially and linearly in our logic. We can only handle so much manually as far as the amount of variables. With all the trade-offs in the supply chain and the amount of variables that are involved, I would rather use a tool. Once you develop your baseline, your future state scenarios and your what-if analysis can also be done much quicker."

On going global when modeling: "Make sure you have local representation as part of your project team when doing global supply chain modeling. They will provide their local subject matter expertise and brief the team in the nuances of various countries, their culture, their trade programs, and taxes."

Marc Wulfraat, director of strategy, TranSystems:

On forming the network modeling project team: "You need to have knowledgeable people on board that truly understand the business. They can be internal or external resources, but they must have strong analytical skills and financial acumen to go through one of these projects."

On when to use modeling tools: "The modeling tools are not necessarily the end-all solution. They're really broad-based planning tools and great for modeling complex networks, but in a number of situations you may need to first get down to the brass tacks and figure out exactly how an SKU is going to affect the network."

Mike Hooban, president of Microanalytics:

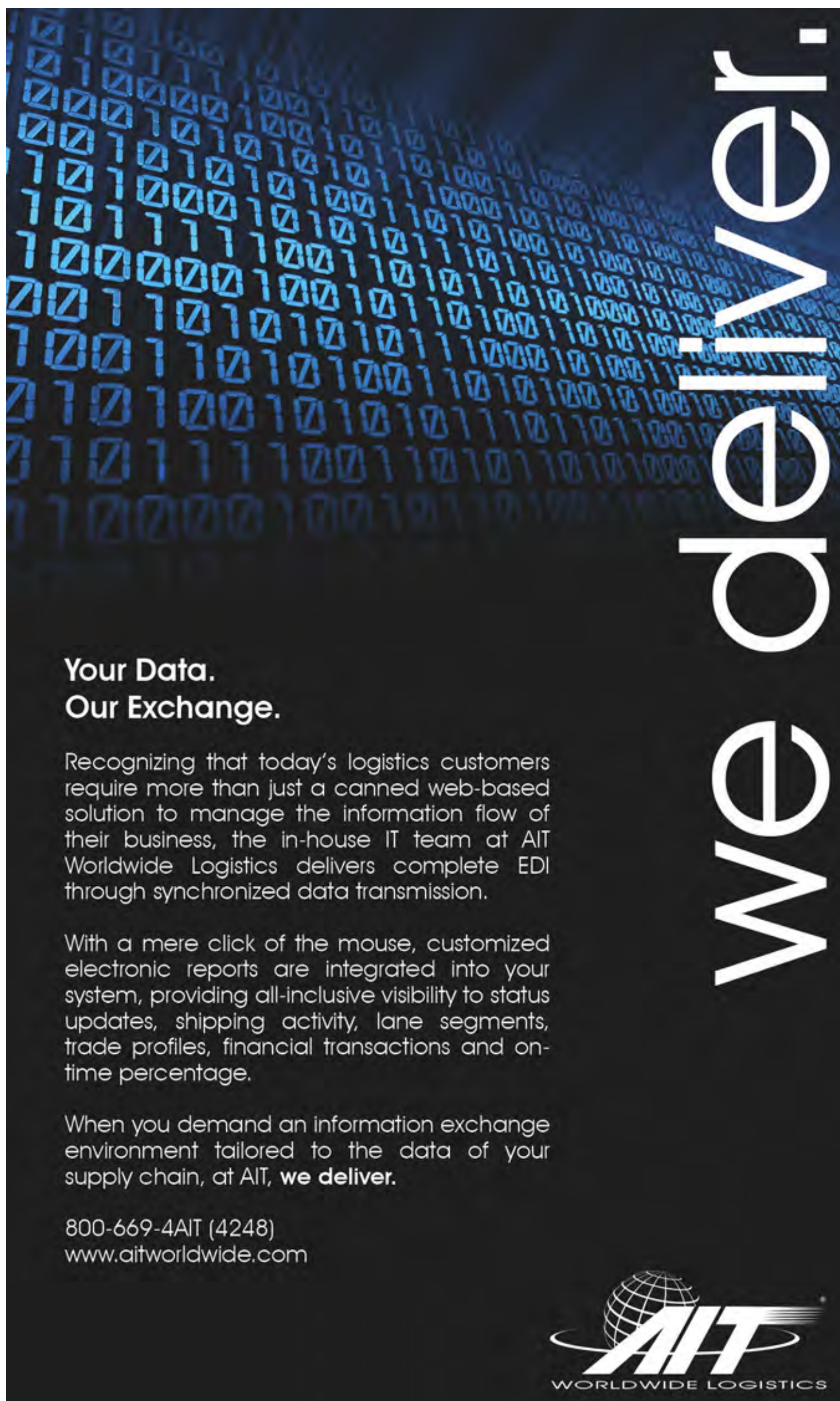
On creating the network model: "The devil is in the details. People need to understand that they are doing a strategic analysis and they need to focus on the essential components and not get bogged down by details."

On adding forecasts: "It's a bit spurious to take consolation in the fact that you've included every possible data point because in the end, it's still just a forecast. As any sensible statistician would tell you, beyond a certain point, it's not really possible to overcome uncertainty by adding more data. You can be more detailed, but you will not necessarily be more accurate."

(GIS) tools that, when used in combination with network analysis tools, permit an overlay of rail networks and other relevant data to help identify candidate distribution facility sites.

5. A shift from centralized to regional warehousing. In an effort to keep transportation costs low and position products closer to customers, West notes that more companies are transforming from a centralized network to a regional network, especially in companies with substantial "last mile" costs of distribution.

"With more DCs needed for network regionalization, companies are working with 3PLs to gain flexibility without the need for high upfront capital investment," says Hooban. In this economy, however, Hooban sees some of his customers re-running their regional networks to see what they can shut down while realizing some economies of scale with the facilities that are left.



6. Increased use of East Coast and Gulf ports. Growth of the import trade from China, India, and other countries west of the Pacific a couple years ago forced capacity to a critical mass in West Coast ports. "As a result, we're seeing trade lanes moving, greatly changing the flow of merchandise into North America," says West. "Trade routes have shifted with additional routes to East Coast and Gulf Coast ports via the Panama Canal and the Suez Canal." And in turn, regional DCs and inland ports with intermodal facilities have developed over these new corridors. "Large importers are also spreading their risk by using multiple ports as gateways to their distribution network," he adds.

7. Greening of networks. The pressure to reduce a company's carbon footprint has penetrated the realm of network modeling. New offerings by providers of network modeling tools can now measure a network's carbon footprint by tracking CO2 and energy usage. These tools seek to arrive at network solutions that reduce harmful emissions and let companies evaluate their environmental impact along with operational costs when designing their network.

Can adding more warehouses be greener? It depends: "We've seen with carbon footprint examples where it does make more sense to increase the number of warehouses and reduce emissions by reducing transportation miles," says West. From a manufacturing perspective, however, it may have the opposite effect as adding more plants with high emissions may result in an increase of a network's carbon footprint.

The last word: Perhaps the biggest lesson learned from maintaining the optimal DC network is that it will always be subject to change. The savvy managers are the ones that stay on top of it; continuously adjusting it and preparing it for the world of tomorrow—be it for better or for worse, for richer or for poorer. L

Maida Napolitano is a Contributing Editor to Logistics Management

HAS OPPORTUNITY SET SAIL?

With 2009 now judged as "a wash," liner execs are banking on a 2010 rebound. The good news for U.S. shippers is that there's still leverage in contract negotiations, more balance in the trade, and less seaport congestion—but for how long will the opportunity last?

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By midyear, maritime and trade analysts expect the U.S. International Trade in Goods and Services report to confirm what many ocean carrier executives suspect: A sluggish recovery in the global movement of containerized cargo will not take place until 2010.

The report, issued by the Department of Commerce's U.S. Census Bureau and the Bureau of Economic Analysis, notes so far that U.S. exports of goods and services decreased by 2.4 percent year-to-date and $123.6 billion, while imports declined 1.0 percent to $151.2 billion over the same period.

The good news for U.S. shippers is that there's more balance in the trade and less seaport congestion. Containers and chassis are easier to locate, and shippers have more leverage in contract negotiations. Meanwhile, carriers are rearranging their fleets and deployment cycles to mitigate further losses.

All of which raises the question: Has the "Wal-martization" effect 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, ocean rates continue to plummet while the industry shirks the painful decisions that are needed to ensure their collective survival.

"Titanic" analogy

According to Neil Dekker, analyst for London-based Drewry Shipping Consultants, "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 today."

"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 today."

— Neil Dekker, Drewry Shipping Consultants

In his report Capacity Management/Surviving the container crisis, Dekker and other analysts for Drewry 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, say analysts, carriers have been altering capacity via service suspensions, slow steaming, service deviations, and lay-ups.

"If we think of that grand liner as the market—proud, overconfident, and heading towards a catastrophe partly of its own making—then we can see the operators desperately rearranging their fleets, while refusing to acknowledge the necessity of abandoning ship—or ships—before the crisis becomes a disaster," says Dekker.

Other maritime analysts say that much of this behavior can be blamed on trends established by the big box stores like Wal-Mart, which emphasize cost-cutting above all else. "And there comes a time when all the value is priced out of that equation," says a San Francisco-based industry consultant. "Nothing is left but space and a price point that can't get much lower."

While some of these strategies are more effective than others, says the Drewry report, few if any carriers have yet adopted the full suite of measures consistently—and there

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Despite earlier signals of an economic rebound, the Panama Canal Authority is giving carriers a break on rates through the summer.

is still reluctance on a collective front to tackle the dire situation head-on. Drewry also argues that the operators who move the fastest and are the most radical in their strategies will be best placed for recovery in the long term.

"We still expect some major operators to fail this year," declares Dekker. "Without a doubt, scrapping and wholesale cancellation of the container orderbook are the two most effective tools of capacity management." He notes that while scrapping has increased significantly since late last year, it will not alter the fleet enough to make a real difference and carriers will not start sending ships younger than 20 years to the scrap yards.

"Carriers now have to swallow some very unpalatable truths as the global recession subverts conventional wisdom, and the degree to which they have signed up to the cost-cutting agenda has been rather patchy," adds Dekker.

New consolidation

Maersk and CMA CGM—two of the three largest carriers—are ahead of the curve when it comes to consolidating resources. With at least nine joint vessel sharing and cross slot purchasing agreements set up to cover the big east/west container trade lanes now in place, analysts suggest that yet more changes will be underway this summer.

Just last April, shippers witnessed the creation of half a dozen new vessel sharing agreements between Maersk and CMA CGM, with carrier officials saying that yet more will follow on the major east/west trades. Notably, a series of contracts covering the Asia-Mediterranean and Asia-United States East and West coast routes comprises one of the most recent additions to the Maersk/CMA CGM alliance.

For carriers, this represents a way to differentiate services until freight rates are restored and demand strengthened. For shippers, though, it's still a zero sum game in many respects. The new agreements do not alter the fact that there's still too much capacity in the trade lanes. Between the two lines, more than 35,000 TEUs (twenty-equivalent units) of weekly capacity is available for shipments once an economic recovery gets underway.

Meanwhile Zim Integrated Shipping Services has joined the Grand Alliance on the Asia-Europe, Asia-Mediterranean and Asia-U.S. trades. The establishment last spring of a new Zim/Grand Alliance joint service on the South China Express service, initially operated by the Grand Alliance lines, now comes under a new vessel sharing agreement between the two groups.

On the Asia-Europe trade, Zim has also taken slots on two Grand Alliance east/west services, and most recently, upgraded its own Asia-Mediterranean service commitment through a further slot deal with the Grand Alliance to cover the central and western Mediterranean using the alliance's Europe-Mediterranean Loop M.

Panama Canal incentive

Despite earlier signals of an economic rebound, the Panama Canal Authority is giving carriers a break on rates through the summer. Panama Canal Authority (ACP) has announced a temporary plan that will provide short-term cost reduction and greater flexibility to its Reservation System. The temporary measures, designed to help mitigate the impact of the economic crisis on the Canal's clients, were approved by the ACP board of directors in late March.

The result of informal consultations with clients, the temporary measures will take effect June 1, 2009 and

continue through September 30, 2009. The two primary components comprise a redefinition of ballast (ships without cargo) for full container vessels transiting the Canal along with modifications to the reservation system to increase flexibility and reduce fees.

Alberto Alemán Zubieta, administrator and CEO of ACP says carriers may soon see some light at the end of the tunnel. “Our economic advisors are studying trends pointing to an uptick in shipping,” he says. “Our findings suggest a recovery at the end of 2009 or early 2010.”

And while the latest news does not directly contradict that observation, it indicates that business is still lagging behind a bullish forecast. Carriers will now have 30 days before the date of a vessel’s transit to request slot substitutions without additional costs. Previously, carriers could make such requests without an additional charge if that request was made at least 60 days prior to the date of transit. This temporary measure grants shipping lines more flexibility for slot substitutions, allowing them to replace one vessel for another with similar dimensions.

Meanwhile, the base reservation price is being reduced depending on the vessel size for all segments that use the ACP’s Reservation System. For example, the base reservation price for a super vessel, with a beam greater than or equal to 100 feet and a length greater than or equal to 900 feet, is reduced by $5,000 per transit.

Up until recently, when vessels failed to arrive on schedule, they lost their slot, but had the option to pay an additional charge to keep the reservation and transit that same day. The new temporary measure reduces the charges and provides shipping lines with greater flexibility. The percentage reduction varies depending on the vessel’s arrival time.

Patrick Burnson is Executive Editor of Logistics Management.

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THIRD-PARTY LOGISTICS (3PL)

2009 state of the market

48S *Treading water*

54S *3PLs put accent on IT services*

58S *3PLs building brands*

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THE **TOP 50** 3PLS

Treading water

By **Patrick Burnson**

While not exactly drowning in red ink, many global 3PL players are hoping that they can stay afloat until the demand (and debt) cycle makes its full turn. Here are some of the current trends in the 3PL market that shippers need to understand heading into 2010.

In the general lexicon of the third-party logistics (3PL) industry, few terms have been viewed as negatively as "measured growth." But in a down economy, which has proved challenging to even the most aggressive global players, just gaining a bit of margin is quite an achievement. Just ask a few of the front line veterans. The consensus this year is that a step forward—no matter how small—is better than falling further behind.

"What we once viewed as a predictable surge in 3PL demand has trickled down to a weak but steady process," says Dick Armstrong, chairman and CEO of the Stoughton, Wis.-based consultancy Armstrong & Associates, Inc. "No one can afford to stop investing entirely, but the same level of buying has fallen off considerably."

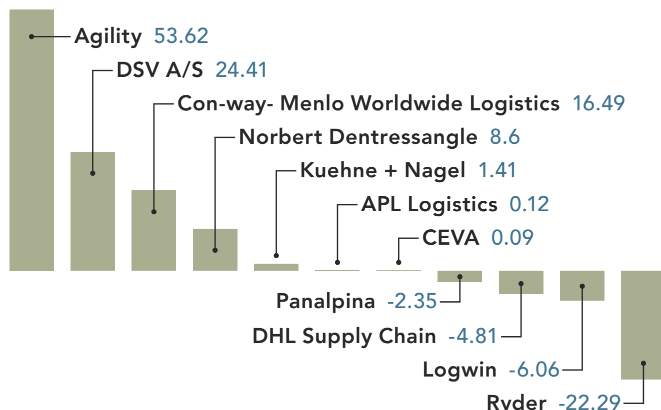
That's not to say that the industry is moribund, however. By Armstrong's reckoning, more than $498 billion was generated in 2008, and much of that revenue will continue to be reinvested in 2009 in new solutions and competitive tools. However, Armstrong admits that 2009 will be the first recorded negative year for 3PL gross revenue growth since he began tracking it in 1996.

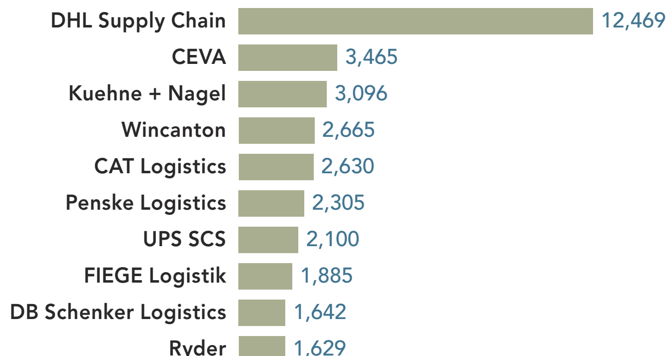
"After 11 modest months in 2008, third-party logistics revenues dove in December and have remained depressed in 2009," he says. "While a few third-party logistics providers could drown, most are treading water and some are swimming strongly."

Armstrong's analysis shows gross revenue (turnover) for 3PLs down by 8.8 percent for 2009. Net revenues (gross margins) were less impacted for many non-asset transportation managers and leading value-added warehousing 3PLs. Expeditors, C.H. Robinson, Kuehne + Nagel, and other major transportation managers report net revenues that decreased anywhere between 3 percent to 10 percent.

Earnings before interest, tax, depreciation, and amortization (EBITDAs) as well as earnings before interest and tax (EBITs) fell proportionately. Additionally, net revenues are expected to be down another 5 percent this year for what Armstrong deems the transportation management group of 3PLs.

Armstrong's recent survey, *U.S. and Global Third-Party Logistics Market Analysis*, indicates that for 3PLs as a group, 60 percent show that they are reporting lower gross and net revenues for this year. Among value-added warehousing 3PLs, 57 percent





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are reporting increased net revenues. Automotive and retail vertical industries were the main drags on 3PL market growth for 2009, with projected revenues down 32 percent and 23 percent respectively. The food and grocery vertical and 3PL returns management sub-segment are up for the year. GENCO, Kenco, and New Breed expect revenues to increase in 2009.

He says that quite a few 3PL leaders will nonetheless continue to spend with an eye on the future. "And this points to one of the key new trends we see in the global marketplace," Armstrong says. "Third parties that are already entrenched in overseas operations are building upon their base there, while smaller 3PLs are scrambling to get into that end of the business."

The key differentiator, says Armstrong, is information technology. The companies that continue to sink portions of their profits into global IT networks, he adds, are going to prevail over those that don't have them. "So it's the usual players, as one might imagine," he adds. "Companies with single information platforms capable of sticking to standards are going to remain in front. Information is power in this game. It's all about the integrity of the data."

This is especially important when it comes to moving goods within a foreign economic zone, says Armstrong, noting that it's often harder to negotiate with the myriad regulatory bodies within a single nation. "Take India, for example," he says. "A small 3PL would have a very difficult time with the compliance issues generated from one province to another. The logistical challenges are daunting for all but the largest and most-wired companies right now."

It's all about costs

While agreeing with many of the same points made by Armstrong, Brooks Bentz, partner at consulting firm Accenture, notes that another trend is taking hold in the global 3PL industry that goes hand-in-hand with the need for more high-tech solutions.

"In this economy, it's all about cost," he says. "Pressure on rates and fees is continuing to mount, and 3PLs want to see an immediate return on investment…whether it be in tactical technology or strategic consulting."

And while this trend began in North America, the emphasis on cost savings has become truly global, says Bentz. What makes this hard, he adds, is that a threshold

Top 50 Global Providers

Rank	Providers	2008 Gross Revenue (USD Millions)*
1	DHL Supply Chain & Global Forwarding	37,100
2	DB Schenker Logistics	21,580
3	Kuehne + Nagel, Inc.	20,087
4	Panalpina, Inc.	9,855
5	UPS Supply Chain Solutions	9,805
6	CEVA Logistics	9,304
7	C.H. Robinson Worldwide	8,579
8	Geodis	8,000
9	DSV Solutions Holding A/S	7,094
10	Agility	6,800
11	Nippon Express Co. Ltd.	6,237
12	SDV International Logistics	5,851
13	Sinotrans Limited	5,743
14	Expeditors Int'l of Washington, Inc.	5,634
15	NYK Logistics/Yusen Air & Sea Service	5,270
16	GEFCO	5,198
17	DACHSER GmbH & Co. KG	5,155
18	Toll Holdings Limited	4,764
19	Norbert Dentressangle	4,567
20	UTi Worldwide Inc.	4,544
21	Wincanton	4,005
22	Hellmann Worldwide Logistics, Inc.	3,677
23	Caterpillar Logistics Services, Inc.	3,465
24	Logwin AG	3,008
25	Penske Logistics	2,980
26	Maersk Logistics/Damco	2,883
27	Schneider Logistics, Inc.	2,700
28	Kintetsu World Express	2,683
29	Fiege Logistics AG	2,660
30	Sankyu Inc.	2,283
31	Ryder System, Inc.	2,191
32	FedEx Supply Chain Services/FedEx Trade Networks	1,990
33	GENCO Supply Chain Solutions	1,884
34	Hub Group, Inc.	1,861
35	Nissin Corporation/Nissin Group	1,749
36	BDP International	1,600
37	Menlo Worldwide Logistics	1,512
38	Integrated Distribution Services Group Limited	1,501
39	Arvato Logistics Services	1,322
40	APL Logistics	1,320
41	BLG Logistics Group AG & Co. KG	1,310
42	VersaCold Logistics Services	1,246
43	Kerry Logistics Network Limited	1,087
44	YRC Logistics	1,062
45	Werner Enterprises Dedicated & Logistics Operations	1,052
46	Greatwide Logistics Services, Inc.	1,048
47	Transplace	975
48	J.B. Hunt Dedicated Contract Services	927
49	Ozburn-Hessey Logistics	907
50	Phoenix International Freight Services, Ltd.	865

**Revenues are company reported or Armstrong & Associates, Inc. estimates and have been adjusted to USD using the average 2008 exchange rate in order to make non-currency related growth comparisons.*

This list includes value-added warehousing and distribution, outbound DCC 3PL segments, and domestic or international non-asset based transportation management revenues.

Source: Armstrong and Associates

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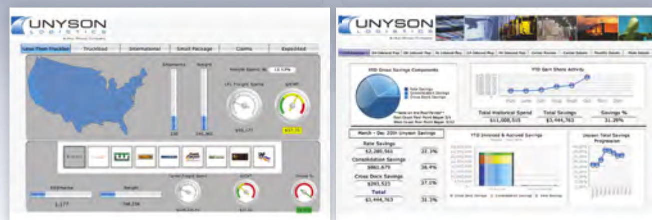

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KEEP AN EYE ON THESE 3PL PLAYERS

According to Transport Intelligence, shippers should track the fortunes of several key players in 2009 as they contemplate a reconfiguration of their global supply chains. In summary, here are few promising leads.

Schneider National, Inc. has built a shared user network for automotive clients in the U.S. It has also developed IT capabilities which allow it to integrate a large number of carriers into a global solution for clients. It is one of FedEx's largest clients, using the express carrier for a major part of its automotive parts business.

TDG, which focuses on the retail, FMCG (fast moving consumer goods), industrial and chemical markets, was bought last year by private equity company Laxey Partners Ltd. This is a UK-based logistics company that has operations in six countries employing over 7,000 people and works with clients in the chemical, consumer goods, industrial and retail sectors. FMCG is regarded by many analysts as a market which has been historically underserved, but that is set to change when demand is restored.

Toll Asia recently opened new logistics centers in Guangzhou and Shanghai in China and Ho Chi Minh City in Vietnam with new facilities planned for India, Malaysia, and Shanghai. It has strong contract retention across the region, bolstered by significant incremental work from existing customers.

Kuehne + Nagel, which specializes in sea freight, air freight, and contract logistics sectors, has a focus on providing IT-based supply chain management services. Although its strongest in its home European markets, it has grown organically, and quickly, in the Asia Pacific Rim, as well as purchasing a U.S. logistics company, USCO, to extend the range of its services in North America.

may now be lurking beneath the surface.

"Many shippers thought they might mitigate their costs by choosing to go with a single asset-based transport provider," he recalls. "But the 'one-stop-shop' model is proving to be ineffective in many parts of the world. There's too much complexity in the supply chain for any one company to control. And the situation becomes worse when capacity becomes tighter in a weak economy."

Cutting cost at the 3PL management level is another thing Bentz cautions against, noting that market expertise is a nonrenewable aspect of global third-party operations. Technology, he says, is important, but it is more vital for shippers to understand how it is to be used for maximum efficiency when making a 3PL choice.

"Price shouldn't be the only concern when building for growth," he says. "When a shipper asks a 3PL to gather intelligence on load-finding, for example, it must be done by seasoned professionals who know how to apply the information they've obtained. That solution does not come out of a box."

Bentz and Armstrong are also on the same page when it comes to hemispheric trade and the penetration of overseas markets. Both agree that Intra-Asia commerce is going to be the most resilient 3PL sector, and shippers that already enjoy a piece of that action are at a decided advantage.

Coping with recession

And this brings us to a dove-tailing of trends, says Jon Manners-Bell, president of Transport Intelligence, Ltd. (Ti), a London-based industry think tank. "A common assumption about the current recession is that it is a cyclical phenomenon," says Manners-Bell. "The world is experiencing a near universal slow down, caused by an intense downturn in the business cycle focused on debt."

Manners-Bell allows that while there may be some truth in this, caution should be expressed about the probability of traffic "bouncing-back." The huge surpluses of goods and inventory in China, Germany, and Japan are probably unsustainable, he argues, and this present crisis will see a shift in economic activity affecting these economies as much as any. The resulting change in trade patterns will be reflected in the nature of the demand for logistics services.

Like Armstrong and Bentz, Manners-Bell is keeping his eye on intra-Asia, but says that there's untapped potential for U.S. shippers closer to home. While the rate of trade growth in the Mexican market was relatively low in 2008 in terms of transport and logistics development, the Mexican market still shows considerable potential.

"There is little doubt that greater integration of the economy into the region—and better infrastructure links with the U.S.—will see the Mexican contract logistics market increase in strength," he says.

Meanwhile, the Mexican Government hopes that investment in seaports will complement the southern Californian ports of Los Angeles and Long Beach as the main gateways for shipments of raw materials and components imported, mainly from Asia, on behalf of the approximately 3,000 "maquiladoras" in Mexico.

Many U.S. and Canadian importers, including major retailers, continue to source consumer goods from Mexico, in addition to lower cost Asian markets, like China, and Vietnam. The "maquiladoras" import large volumes of raw materials and components from Asia, as well as other sources. "However, in 2008, its proximity to the US market—which will be a long term strength—was also its weakness," says Manners-Bell. "The importance of its neighbor as an import/export market meant that weakening in demand had a detrimental impact on the growth of Mexico's contract logistics market."

Finally, trend watchers are noting that there's also more scrutiny being paid to specific commodities in any given region. In its recent report called *Global Contract Logistics 2009*, Ti observes that there are likely to be important areas of growth, although these will not be "across the board"—and it will require a certain amount of agility and market knowledge to benefit from them.

"For example, stable state spending in both the West and Asia Pacific will result in ongoing demand from the health sector," says Manners-Bell. "The construction sector will also benefit from the numerous infrastructure projects governments are fast-tracking. And because these sectors have been resistant to logistics outsourcing in the past, the potential for growth could be substantial."

Patrick Burnson is Executive Editor of Logistics Management

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3PLs put accent on IT services

For users of 3PL services, the type and availability of IT services offered by the provider is becoming a bigger factor in the evaluation and selection process.

By **William Atkinson**

The availability of value-added IT services from third-party logistics services providers (3PLs)—and actual usage of these services by customers—is on the rise.

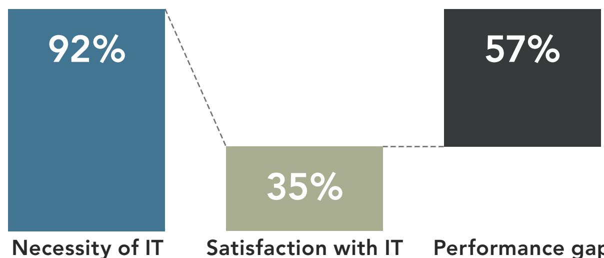
At least one major research study confirms the trend. "One thing we found in our *17th annual study on Trends and Issues in Logistics and Transportation* is that it is clear that more customers are relying on 3PLs for their information services," reports Karl Manrodt, associate professor of logistics at Georgia Southern University. "There was a significant increase in the availability of these services last year from the year before." (For more on this research, see www.transportation-trends.com.)

One reason for the heightened interest, according to Manrodt, is that 3PLs are looking to leverage their value propositions and increase their revenues. At the same time, customers are actively looking to reduce costs. They look at IT and ask, "Why would I want to spend a lot of money for software, when my 3PL can do it for me?"

Supply chain consultant Chuck Franzetta, CEO of Franzetta & Associates, comments on this trend. "In the past, a lot of 3PLs tended to look at the acquisition of software as a necessary evil in order to perform the services they needed to perform. They didn't see it specifically as carrying value."

All that has changed, Franzetta says. Today, 3PLs are providing more information to customers than just the location of an ocean container, for example. The IT services these days help customers determine what they should be doing from a broader business perspective. "When 3PLs look at the supply chain and the logistics activity contained within that supply chain, they begin to get involved in intimate relationships with their customers," the consultant explains. "They can make information available to customers that the customers didn't have themselves."

3PL user satisfaction with 3PL's technology capabilities



Source: Dr. C. John Langley, Jr. / Global 3PL Study (www.3PLstudy.com)

In sum, 3PLs have come to realize two things. Franzetta explains: "First, they have this valuable information that can be manipulated into a form that warrants compensation for the value that it represents. Second, they realize they can use it as a way to market the overall value of their services to existing customers, as well as potential customers, who aren't completely sold on the idea of outsourcing their logistics, but do see the advantages of some of the additional information and controls that would be made available to them by 3PLs."

Value-added IT services

Third-party logistics providers now have the ability to do much more than just store product and ship it from Point A to Point B. They can provide information that's valuable to multiple functions in the customer organization beyond logistics—including marketing, finance, operations, and production.

"There is even technology that will provide information on temperature, humidity, and shock variations that were in place during the time your shipment was in transit," Franzetta says, noting that this data is critical in shipping high-value, sensitive, electronic equipment or perishable commodities.

Technology also provides an attractive avenue for shippers to save in fundamental areas of operation, which becomes hugely important in tough economic times. "Using IT, 3PLs can help shippers reduce their inventory levels," says Joel Sutherland, the managing director for the Center for Value Chain Research at Lehigh University and executive vice president of Priority Distribution, a provider of 3PL services. "In transportation, shippers want to optimize the lanes that they put their products in to minimize the wasted out-of-route lanes."

With technology, Sutherland continues, 3PLs can minimize the number of miles necessary to move product. That is, they can use technology to combine lanes that will enable a shipper to benefit from other shippers' freight that is being managed by the 3PL. As an example, Priority Distribution is now working with a nationwide retailer to optimize the inventory that flows through its supply chain.

"We couldn't have done that five years ago, because we didn't have access to the technology that we now have access to," explains Sutherland.

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IT service delivery methods
Third-party logistics providers typically either have their own IT-related software or use programs from outside vendors. In fact, it is the increased adoption of IT services in general, says Franzetta, that has helped facilitate the emergence of the pure non-asset-based 3PL. The consultant explains: "There is human interface, monitoring, and manipulation, but, overall, the system is set up to handle everything for customers from a logistics perspective and allowing customers to have full visibility of everything that is going on."

The availability of different technology delivery methods helps both the customers and the logistics services providers. "3PLs are now getting involved in more on-demand technologies," Sutherland says, pointing to one popular delivery method. Increasingly, these and other types of IT services are being offered by big and small providers alike. According to Sutherland, smaller 3PLs can match up very well technology-wise with the larger players thanks to the availability of less expensive solutions and pay-as-you-use options. And as a 3PL takes on more customers, it can add more IT features and pay for only those features, rather than having to pay for the full package at that time.

Transplace, a non-asset-based 3PL, is among those providers offering a software as a service model (SaaS). The company believes this option allows customers to get up and running more quickly than if they were using an installed software package. Vincent Biddlecombe, the company's CTO, notes that in the past 3PL IT services tended to focus on transactional systems. Now, they also include analytics and reporting, which are designed to improve efficiencies and reduce costs. "Beyond offering a TMS service, we are also doing a lot with business intelligence, which includes operational dashboards not only for our internal teams, but also for our customers," Biddlecombe says.

Transplace also offers a wide array of reporting capabilities, including technologies that can monitor carrier service and performance, such as on-time delivery. "In fact, this service has helped one of our customers become recognized by Wal-Mart for its on-time delivery performance," Biddlecombe says. He adds that in terms of visibility, Transplace works with carriers to make it as easy as possible for them to provide status update information.

Another 3PL emphasizing new technology to serve customers is LeanCor LLC, which is three years into a five-year roll-out of supply chain optimization technology. Components of the technology are inbound logistics, outbound logistics, material planning, full pipeline visibility, and pull replenishment systems. "A big part of this involves helping to implement 'lean' in the supply chain, which focuses on reducing inventory and moving smaller shipments more frequently in a very level fashion," explains Robert Martichenko, LeanCor's CEO. "When you reduce inventories to high-risk levels, you need to know where inventory is in the pipeline at all times. This requires pipeline visibility technology."

Stability in the performance of the players in the supply chain—suppliers, transportation carriers, and 3PLs—is an important consideration here. "This also requires technology that can provide real-time information," Martichenko says. "We have several customers who are already using some of this technology to plan material requirements, to communicate parts ordering requirements to their suppliers, and to communicate requirements to transportation providers."

Stability in the performance of the players in the supply chain—suppliers, transportation carriers, and 3PLs—is an important consideration.

The LeanCor executive adds that the technology also provides real-time visibility of supplier performance in the critical area of fill rates. Each day, a supplier goes onto LeanCor's website, enters the web portal, and sees the part numbers and quantities scheduled to ship that day. The supplier also sees what type of truck is supposed to show up to pick up the shipment. Thirty minutes before the truck is scheduled to arrive, the supplier goes onto the website again and updates what it intends to ship relative to what was ordered. "If there is any discrepancy, a whole flurry of e-mails are sent out to all parties involved in the supply chain," says Martichenko. "Then, all of these people have 30 minutes to try to correct the problem before the truck shows up at the supplier location."

Investing for the future
Companies like i2 Technologies, which provides consulting services and supply chain software to shippers and 3PLs alike, can offer an interesting perspective on the subject. "The 3PL has had a tradition of being responsive to customer needs, but, at times, just reactive," observes Razat Gaurav, the company's senior vice president, global logistics. "They have done a good job dealing with operational needs of shippers, but they often lag behind on the innovation curve—not bringing new ideas to the table. As a result, one thing we are seeing is that shippers are forcing their 3PLs and us to innovate, especially in the area of technology."

In fact, according to Gaurav, some shippers now feel that if their 3PLs aren't willing to make the investment in technology, the shippers will either start doing business with other providers or implement their own technology solutions in-house. "In sum, 3PLs that don't begin offering technology-related services will become extinct," asserts Gaurav.

Robert Martichenko of LeanCor takes that observation a step further. "The successful 3PLs will be those that offer flexible technologies to their customers, rather than those that tell customers how their technology works and expect customers to change their processes," he says. "In other words, the right process should drive the technology that is being used, rather than the technology driving the process design."

According to Georgia Southern University's Manrodt, though, before "marrying" a 3PL for its value-added IT services, it's important for shippers to think carefully, strategically, and long-term. "Once their business becomes interconnected with a 3PL that offers these IT-related services, 'divorce' becomes incredibly painful, if not impossible," Manrodt concludes.

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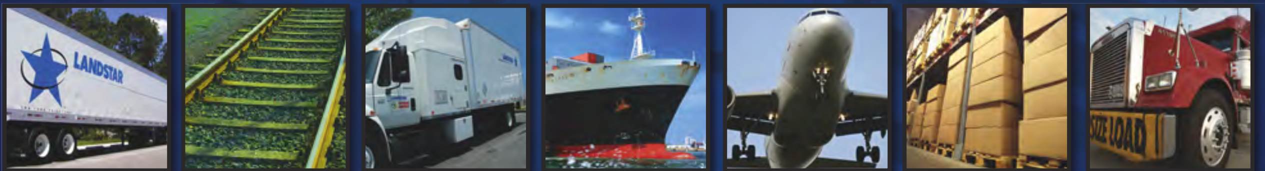

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Why **3PLs** need to build their brand

A fast-changing, competitive arena has made it more difficult for third-party logistics providers (3PLs) to differentiate their services in the marketplace. But clear differentiation—call it effective branding—is essential to long-term success in this industry. Here are some steps that can help 3PLs sharpen their brand message and benefit the buyers of their services at the same time.

By **Robert C. Lieb** and **Kristin J. Lieb**

Over the past several years, the global third party logistics (3PL) industry has changed dramatically. While the demand for 3PL services has grown steadily, the major logistics service providers have expanded their geographical reach and broadened their service offerings. At the same time, the structure of the industry has changed not only through mergers and acquisitions, but also through new market entry by many companies, including some funded by private equity investors. 3PL company reorganizations and name changes have become commonplace.

These changes have fostered a degree of buyer confusion in the marketplace, and many large 3PLs fear a possible "commoditization" of their services in the eyes of those who currently buy their services or are considering doing so. If this is indeed occurring, existing and potential customers will become increasingly indifferent when choosing between logistics service providers. And this, in turn, will intensify the price compression pressures that already plague the 3PL industry.

A key question that needs to be asked here is: What are executives of those 3PL companies doing in response to these market developments? Specifically, what steps have large 3PLs taken in recent years to differentiate their service offerings in the marketplace while strengthening their brands? Further, is there more that those executives should be doing in those areas?

This article addresses the typical steps that companies should take in building, refining, and strengthening their brands—and in particular examines recent attempts by major 3PLs to do so. Branding literature forms the basis for discussion of the general case, and the branding steps taken by large 3PLs were documented through data generated during 2006 and 2007 in surveys of the CEOs of major 3PLs operating in three geographic regions: North America, Europe, and the Asia-Pacific region. (For more on the surveys, see accompanying sidebar). We conclude with suggestions for 3PL industry executives concerning their future branding efforts—and the potential positive implications of these efforts on the buyers of these services.

Step 1: Define your brand, mission and key points of difference.

Marketing texts have defined a brand as "a name, term, sign, symbol, or design, or combination of these that identifies the products or services of one seller or group of sellers and differentiates them from those of competitors." (Kotler and Armstrong, 2007).1 Branding can also be used to communicate information about specific service offerings, explain a shift in company direction, demonstrate a commitment to a social cause, associate the company with a celebrity, or to simply remind the marketplace what a company stands for and what it does. Brand clarity is critical to any of these pursuits. If a company isn't clear about its brand, the marketplace certainly won't be clear about it either.

An important first step for companies in the branding process is to decide what really differentiates them from their competitors. Sometimes this differentiation is obvious—a company serves a different niche than others, operates in different markets than others, or charges more or less for services than others.

But, more often, a company's points of differentiation are subtler, and require elaboration and explanation. Perhaps a company is focused on environmental or sustainability issues. In such a case, the company may need to demonstrate its commitment to the cause through illustrative case studies. By telling the story of a prominent customer that uses the company's services in attempting to "go green," the company may create a powerful, positive association for the brand that moves beyond price and reach.

3PL market differentiation factors

Over the past several years, many 3PL companies have taken steps to differentiate their service offerings from those of their competitors. Some of those steps were documented in a 2006 survey of 44 3PL CEOs. The survey questionnaire asked the CEOs to identify the most important market differentiation factor used by their companies in attempting to set their companies apart from their 3PL competitors. As shown in Exhibit 1, many factors were identified and several were mentioned by multiple respondents.

The CEO respondents mentioned two differentiation factors, IT systems capabilities and broad geographic coverage, most often as the most important differentiation factors, each being cited nine times. It should be

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noted that in many instances, the companies emphasizing superior IT solutions capabilities as a competitive variable rely upon alliance agreements with software companies to deliver those services. Several of the companies that focused on broad geographic coverage also highlighted country-specific experiences, which have become increasingly important as the 3PL customer base has become more international in scope.

The third most frequently cited differentiation factor, company commitment to high-quality customer service, was mentioned by seven respondents, with two of them emphasizing the consistency of that commitment across countries. Three other differentiation factors were each mentioned by four CEOs. They were the breadth of company service offerings, ability to provide excellent execution of solutions for customers, and adoption of a non-asset approach to the marketplace. Presumably, that last factor would lead to a lower overhead burden for clients and greater provider flexibility.

These company-reported points of difference are telling. Firms citing IT capabilities and broad geographic reach as points of differentiation may need to refine their marketing message further, as others are obviously attempting to claim the same space in consumers' minds. These companies may refine their stated differences by saying more about them and providing a stronger focus for customers. For instance, those companies claiming broad geographic coverage may want to elaborate on the benefits of working with a 3PL partner with vast knowledge of a given country, for example China; and its local regulations, policies, and customs.

Similarly, companies claiming IT excellence may also emphasize the breadth or speed of their IT systems, their ability to integrate customer IT systems with their own, or their ability to link their customers' systems with those of their supply chain partners.

Step 2: Explain the company's mission and key points of difference internally.

So, how does a company harness all of its possible points of difference in an effort to choose and refine the best one? All levels of the organization should be involved in the process to make sure that all views of the brand/company are considered. This is particularly important when acquisitions are being migrated into the acquiring brand in order to ensure that all operating units understand the message. Management may take a variety of approaches to successfully solicit

Exhibit 1:
KEY MARKET DIFFERENTIATORS
(Number of mentions)

- Systems capabilities, superior IT solutions (9).
- Broad geographic coverage, global reach (9).
- Commitment to high-quality customer service (7).
- Non-asset approach (4).
- Excellent execution of solutions for customers (4).
- Breadth of service offerings (4).
- Network strength, end-to-end (3).
- Extensive asset base (2).
- Consistency of service across countries (2).
- Innovative approach to problem-solving (2).
- Ability to demonstrate quantifiable value propositions to customers (2).
- Talented employees (2).
- Flexibility (2).
- Experience in specific industries (2).

Exhibit 2:
HOW DIFFERENTIATION FACTORS ARE COMMUNICATED TO POTENTIAL CUSTOMERS
(Number of mentions)

- Use of client references and/or referrals (8).
- Direct presentations at the executive level in targeted companies (6).
- Presentations at professional conferences stressing company capabilities (5).
- Advertising (4).
- Development of marketing publications (3).
- Trade marketing (2).
- Public relations messages (2).
- Periodic performance reviews with customers to demonstrate improvements (2).
- Use of country-specific websites (2).
- Use of case studies (2).
- Development of multi-tiered marketing approach (2).

Exhibit 3:
STEPS TAKEN TO BUILD BRAND RECOGNITION AND VALUE
(All factors mentioned by multiple CEOs)

- Focused on consistent messaging (5). This typically involves standardization of company systems, IT, building design and advertising throughout the world.
- Adopted more liberal policies concerning media interviews (4).
- Developed "aggressive" media campaigns (4).
- Redesigned and updated websites (4).
- Re-branded company acquisitions (3). Generally followed by aggressive marketing and media campaigns to establish that brand in its acquisitions
- Migrated all divisions and subsidiaries to one brand (3).
- Advertised in top logistics magazines on a global basis (3).
- Expanded press release efforts (3).
- Became more active in professional conferences/presentations (3).

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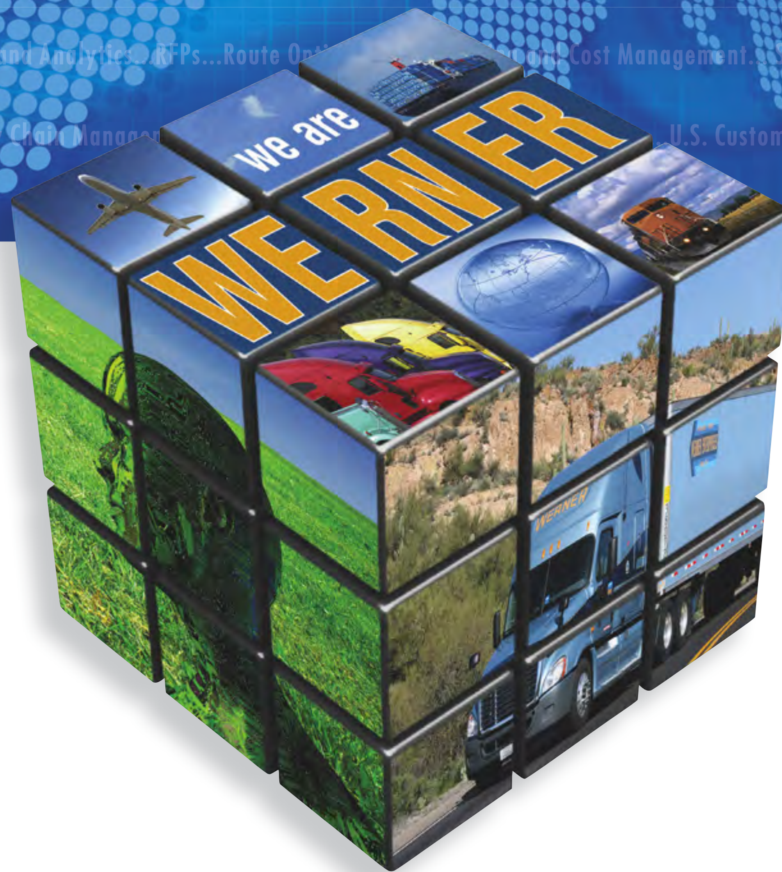

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feedback from all levels of the organization. For example, they may distribute physical or online surveys to employees, hold brainstorming meetings at company headquarters, create off-site retreats to discuss branding issues and answer brand questions. Alternatively, they may have an outside consultant interview employees (and perhaps customers) about the brand and synthesize the findings for top management.

The company could then create an ongoing brand panel of selected executives to monitor the brand, hire a brand steward or brand manager whose sole responsibility is monitoring and protecting the brand, or designate a high-ranking executive as the person with decision-making authority with respect to brand decisions. This person or group of people ensures that the points of difference are present in the company's myriad messages and customer touch points. Brands are dynamic—they don't live in isolation. Therefore, this appointed brand expert or group of brand experts must continuously monitor what the brand stands for, who it serves, and what services it provides. Once the company can answer these questions, it must share this information internally with all of the people who contributed to the process of developing potential points of differentiation. The aim is to garner widespread understanding and buy-in for the brand as defined. Of course, this buy-in is not a given, particularly when a company has acquired other companies with radically different cultures. It is likely to take significant time and resources to achieve real buy-in in such situations.

While the 3PL surveys did not generate data on the extent to which such internal processes are currently used within the industry, they did address the issues discussed in Step 3.

Step 3: Develop an integrated messaging plan and dissemination strategies for the outside world.

Once there is internal agreement about what the company is, what it does, and who it serves, the next step is to develop an integrated messaging strategy for external audiences (mainly investors, customers, and potential customers).

One surprising finding from the surveys was that many companies appear to invest more time thinking about the marketing medium than the message. That may be because sometimes the marketplace views the medium as the message. As such, when a company chooses to advertise in periodicals rather than on broadcast television or over the Internet, that says as much about the company as the advertisement itself. While it is important to consider the media used to carry messages, it is as important to invest in making sure the message is compelling, succinct, and memorable to your intended audience. As part of this effort, you need to decide on key elements to use regardless of whether the message is to appear in print, on a television advertisement, or on a podcast.

It is also important to think about the "personality" of your brand. Brand personality is how a company wants its audience to interpret and describe its brand in personality terms.2 Is it exciting? Reliable? Worldly? Efficient? For example, some service brands, such as GEICO and AFLAC, have created memorable characters and creative vignettes to establish and reinforce their brand messaging. Such an approach might lead customers to call them "modern" or "cutting edge" insurance companies. Whatever a company feels is its most important, memorable point of differentiation should be consistently reinforced through an integrated approach to marketing across various forms of media.

Once a company has built a brand and established a messaging strategy, the next step is to decide how to share that message with potential customers. Simply put, this means selecting the medium or media most appropriate for carrying the message or messages. One approach might be to test the messages with your customers to determine the best media to carry those messages.

Also valuable is a concept called Integrated Marketing Communication (IMC), an increasingly popular strategy for delivering consistent messages regardless of the medium used. Using an IMC approach, a company effectively develops a central marketing and messaging strategy designed to cut across all media types and touch points (presentations, print and television ads, personal selling efforts, direct marketing efforts, press releases, and so forth.)

This comprehensive approach to messaging and dissemination is an improvement over the old model, which often failed because different groups within the same company (for example, advertising and public relations) were operating more or less independently and were unwittingly sending inconsistent and therefore confusing messages about the brand into the marketplace. As the industry has grown and evolved, such problems have plagued many of the larger 3PLs.

The 2006 surveys also asked the CEOs to discuss their companies' strategies for disseminating their differentiation messages to the marketplace—their branding dissemination strategies. Their responses, summarized in Exhibit 2, reveal that the approaches varied broadly.

The most frequently cited means of communicating the differentiation message (cited by eight CEOs) involved presentations to potential clients that had been identified through existing client references or referrals. Six CEOs cited direct presentations to execu-

BACKGROUND OF THE RESEARCH

In an attempt to provide insight into the provider side of the 3PL industry, every year since 1994 Professor Robert Lieb of Northeastern University has conducted annual surveys of the CEOs of many of the largest 3PL companies in the world. In 2007 and 2008 those surveys were sponsored by Penske Logistics. Previous surveys were sponsored by a number of companies such as Accenture and Mercer Management.

Initially, the surveys focused on the North American 3PL marketplace. Then in 2004 they were restructured to focus on three separate 3PL marketplaces: North America, Europe, and the Asia-Pacific region. Each year, 40 to 50 CEOs of major 3PLs operating in those regions participate in the surveys, which not only emphasize major industry dynamics, opportunities, and problems, but also focus on a variety of current issues within the industry.

Collectively, the results of the surveys provide a global overview of the industry from the perspective of the CEOs of many of the major 3PLs. The companies that participated in the 2007 surveys generated approximately $60 billion in 3PL revenues in 2006.

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tives in targeted companies, but without references or referrals. Five respondents said that their companies delivered the differentiation message through presentations at major professional conferences. Exhibit 2 lists all of the other communications strategies mentioned by at least two CEOs.

Recent branding activities of 3PLs

As we mentioned earlier, the annual surveys of 3PL CEOs conducted in 2006 and 2007 clearly indicated that branding issues are becoming increasingly important in the industry. In fact, 36 of the 40 executives involved in the 2007 survey indicated that their companies had recently taken significant branding actions. They were then asked to identify the specific branding steps taken to develop, refine, or strengthen their company brands. Their responses, shown in Exhibit 3, may be clustered in several categories.

The first category of responses focused on brand name. Among the actions taken by companies in this category were migration of all company divisions to one name, re-branding of all company acquisitions to the acquiring brand, and re-branding of the entire company with new corporate names and logos. It should be noted that several of these actions were accompanied by programs aimed at implanting company culture into the acquired companies. Illustrative of this approach was Apollo Management L.P.'s decision in 2007 to rebrand its two major logistics service company acquisitions, TNT Logistics and Eagle Global Logistics, as CEVA. That same year, YRC Corporation rebranded its 3PL subsidiary Meridian IQ to YRC Logistics.

The second category of CEO responses centered on development of messaging materials such as case studies highlighting branding initiatives, upgraded company websites, increased focus on industry awards given to the company, and increased emphasis on the company's expertise in particular verticals.

The third category of responses focused on media strategies and included such actions as making a commitment to consistent messaging, initiating advertising in top logistics magazines on a global basis, expanding press release activities, adopting more liberal policies on media interviews of company executives, developing an "outreach" program targeting top industry periodicals to get more company mentions, and designing more aggressive, multimedia campaigns. An illustration of this last approach is provided by the earlier "What Can Brown Do For You?" and the more recent "White Board" campaigns employed by UPS to demonstrate the breadth of its service offerings to a wide, diversified audience.

While the data gathered in the 2007 surveys are interesting, they also bring some cause for concern. There appears to be little consensus within the industry concerning the steps that need to be taken to build brands. Only four of the steps mentioned in Exhibit 2 were reported by four or more CEOs.

Recommendations going forward

Data generated in the 2006 and 2007 3PL CEO surveys suggest that while brand-building efforts are clearly on the minds of many 3PL executives, to date these efforts often appear to be short-term and tactical in nature. A review of branding literature suggests these companies should focus more on strategy and planning and less on execution—at least until they clearly define who they are, how they differ from competitors, and how they want to position themselves for the long-term in the marketplace.

{ 36 of the 40 executives involved in the 2007 survey indicated that their companies had recently taken significant branding actions. }

Several industry dynamics make these steps easier to prescribe than to accomplish. As large, branded companies acquire other companies to build expertise, service offerings, or, in some cases, reputation, they struggle to decide what the core brand will be. If the acquiring brand is well-known and well-regarded, it is likely that the acquired company will be folded into that brand umbrella.

In contrast, if the acquiring company has a weak brand, it may be wise to assume the brand of the acquired company. Of course, these things do not happen overnight. Brands have many dimensions, and as such branding decisions are complicated, strategic moves. Similarly, a company may end up with three or four strong brands under its corporate umbrella, and may need to decide whether it can support that number of brands successfully.

In single-brand situations, however, there are several steps we suggest 3PLs consider to develop, refine, or strengthen their brands.

1. Focus less on tactics and more on strategy. 3PL companies should be building long-term brands, not cobbling together just-in-time solutions.
2. Seek inputs from employees about what your brand is and does.
3. Decide what your brand is and does—and make sure everyone in your company understands.
4. Establish a brand group or brand steward to make ongoing brand decisions that are consistent with the company's stated brand.
5. Develop a messaging strategy and test it with customers before taking it to market.
6. Decide on an integrated dissemination strategy. 3PL CEO responses to date suggest that companies focus more on modes of dissemination than on strategic messaging, which we believe is a mistake.
7. Reinforce the company brand through every touch point.
8. In the case of multiple brands, take the time to properly migrate acquisitions into the brand. This can't be rushed, and involves all of the steps above.

By incorporating these kinds of recommendations, 3PL companies are not only likely to strengthen their brands in the long-term, but also give existing and potential customers more relevant information about the options that exist in the marketplace. If those customers received consistent messaging from providers that reinforced real differences between the logistics service providers, the 3PL selection process could become more rational and efficient.

Buyers could better match their needs with the relevant services offered and focus their selection process on the best potential providers. This could form the basis for longer-term relationships.

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To be or not to be. . .

By Wayne Bourne

I AM A CONSULTANT. I have been for several years and it's what I enjoying doing. I have the right experience, education, and contacts to make a real go of it. I work for the clients I choose and on projects I enjoy: and best of all, I am blessed with an high success factor.

That said, I was recently contacted by an industry colleague and friend of mine, steering me to write a column for another supply chain related trade magazine. It was co-authored by Ken Ackerman and Art Van Bodegraven, two experienced logistics professionals.

In the column, Ken and Art took on the subject of whether or not consultants actually deliver their promised value propositions. They did a great job of breaking down the various categories of consultant groups and I would like to address the smallest of the groups they mention: The sole practitioner.

I toiled in the industry for 35 years with two respectable Fortune 200 companies. The former was fully matured and the latter was in its infancy. I was able to learn a great deal from the former because their network development models had already been designed and tested before my arrival. So, I was able to implement enhancements on a stable platform.

In the company still maturing, I had to use everything I learned in school and leverage my experience from my former company just to keep my head above water. But I survived. And I learned a great deal. From these experiences, I felt that I had something to offer certain companies. So, after more than three decades, I hung out my own shingle.

The friend who sent me the heads up on the column thought maybe I would be somewhat offended by the categorizing of consultants and the perceived inference that we are all alike. Well, I read the article three times just to make sure I wasn't missing anything, but I came away feeling very comfortable with the commentary. In truth, you will find the good, the bad, the winners, and the losers, as well as a few who are resting on their laurels. But you will find a few capable leaders out there who are able to help.

I was a reluctant executive when my former superior told me that the company was engaging a large consulting company to help us. My first thought was that we didn't need the help: If the company would give us the money they were going to pay the consultants, we could do it faster and with better results. The consultants were merely going to ask to borrow our watches just to tell us what time it was.

So, how did I go from being uncomfortable with consultants to becoming one? Well, I wanted a change. I needed to step out from behind the mantle of protection that a corporate position provides to see if I was as good and creative as I thought I was.

My idea was to specialize purely in transportation economics and network development. I would offer individual fixes and very deliberate and specific network design and contract strategies. I did not offer "all things to all people" because I know my limitations and shared them up front, and I recommended supplementary specialists in other logistics disciplines to fill gaps in larger projects.

I am a transportation specialist. When my project is complete, it's time for me to leave. I don't like the routine the large consulting companies seem to thrive on: the temporary-turned-permanent "partner." I want to be thought of as a contributor—an advisor that sits on the bench and is called in for a special play that requires a unique set of experience and skills, then returns to the bench while the others learn and adapt.

There are plenty of reasons why corporations from both the shipper and the purveyor sectors will retain consultants. They may want to fill a knowledge gap temporarily, or they may need to rent expertise to teach and train the incumbents, or perhaps to conduct process reviews that lead to more efficiency. Then there are the "language" classes where carriers learn how to speak "shipper" and shippers learn to speak "carrier." The bottom line: My clients don't hire me to hear about my previous successes, rather they want to hear about my failures so they won't make the same mistakes.

In a down economy perhaps the first place that corporate budgets get trimmed is the outside consultant category. But if the consultant is as good as he presents himself, then this is the most opportune time for corporations to engage.

I am not attempting to polish up the consultant nameplate. Calling us anything more creative simply won't work. In short, find the right consultant that fits your immediate need and validate his prior successes before you engage. Release him when the project is complete and demand an audited report that details their actual results versus the stated objectives.

Nicely done Art and Ken, but go easy on us the next time around. L

Wayne Bourne is founder and president of The Bourne Management Group, a consulting firm specializing in supply chain, logistics, and transportation network creation, economics, organizational development, and process analysis. A recipient of several industry awards, he has nearly three decades of experience in transportation and logistics management. Mr. Bourne may be reached at WLB1144@aol.com.

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