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The 26th Annual Quest for Quality Awards

The envelope please...

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Management UPDATE

AN EXECUTIVE SUMMARY OF INDUSTRY NEWS

■ **Expedited's long, slow recovery.** In releasing a mid-year update to its annual projections for growth in the $101.2 billion U.S. expedited cargo market, The Colography Group Inc. said that the market won't see a rebound for a while. "While we were disappointed with the findings, I can't say we were really surprised," said Ted Scherck, Colography's president. In an interview with *LM*, he said that the economy is continuing its meltdown. "The nation's economy has been victimized by a series of 'bubbles.' Reality has set in now, and the outlook is still pretty grim for our sector." Using its most likely case scenario, Colography estimates that just under 120 million new shipments will be added to U.S. expedited commerce in the coming year, with ground parcel and air export services accounting for virtually all new expedited shipping volume.

■ **Another tough month for truck tonnage.** The American Trucking Associations (ATA) reported that June 2008 tonnage was down 13.6 percent year-over-year, representing the biggest annual dip in 2009 and in the current downward cycle as well. On a positive note, the ATA said that its not seasonally adjusted (NSA) index was up 5.2 percent in June from May. This index, which has shown sequential gains in three of the last four months, represents the change in tonnage actually hauled by trucking fleets before any seasonal adjustment. And if it continues it could mean that tonnage is slowly rebounding. But before we declare the freight recession over, we should point out that the ATA said the NSA index in June was down 10.3 percent compared to 2008.

■ **Retail news is bad news.** According to the National Retail Federation (NRF), the news about retail is not good. Even with a flurry of discounts on seasonal merchandise and apparel, consumers are holding onto their money rather than acting as catalysts for a rebound in economic activity and freight volumes. NRF data released last month indicates that retail industry sales in June—excluding automobiles, gas stations, and restaurants—dipped 3.8 percent year-over-year and 0.2 percent on a sequential basis. Meanwhile, the U.S. Commerce Department reported that total retail sales for June were off by 7.8 percent compared to June 2008.

■ **Freer skies...** The U.S. Department of Transportation granted final approval for antitrust immunity to Continental Airlines for its participation in the Star Alliance. At the same time, the agency approved a new joint venture among four of the alliance's members. Brandon Fried, executive director of the Airforwarders Association, told *LM* that the move was welcomed by shippers. "U.S. carriers need all the help they can get at this point," he said. "The antitrust immunity will permit some of the marginal players to build up their balance sheets and give shippers more sustainable levels of service."

■ **...but air volumes remain week.** Meanwhile, cargo revenue ton miles data released in July confirms that domestic air volumes remain weak. According to the Air Transport Association of America, domestic volumes remain feeble, but the rate of year-to-date contraction wasn't as bad in May as it was in April. In June, the industry trade organization for the leading U.S. airlines reported that passenger revenue fell 26 percent in May 2009

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■ **Beat the Recession Virtual Conference: Wed. August 26.** Join us at this virtual conference to learn practical ways to cut transportation, warehousing, and procurement costs at this one day event. No travel, no expense reports—just log in from your desktop! Can't make it? Not to worry, the Beat the Recession virtual conference will be continuously available on-demand access mode for 6 months. **Register at www.logisticsmgmt.com/recessionvc**

Management UPDATE

continued

versus the same month in 2008—the seventh consecutive month in which passenger revenue has fallen from the prior year. Richard Macomber, chairman of the air cargo committee for the National Industrial Transportation League (NITL), told *LM* that the data seems accurate. "Based on our feedback, the cargo picture is improving somewhat, while passenger demand remains flat. It's a soft recovery at best."

■ **Smaller is the new bigger.** DHL has announced the launch of its guaranteed weekly Less than Container Load (LCL) services connecting Bangkok to Los Angeles, Hamburg, and Tokyo, further validating that shippers and intermediaries are relying more on LCL this season. Through Danmar Lines, DHL's in-house carrier, the new weekly direct LCL services enables shipments to arrive up to a week earlier. According to spokesmen, the launch of the new service taps into the key trade lanes for businesses in Thailand. Jon Monroe, president of Monroe Consulting in Shanghai, noted that Thailand is also becoming a larger trading partner with China now, and may not need to ship as many full containers in the transpacific as a consequence. "Loads are being consolidated in a down economy," he said. "And DHL is among the players taking advantage of that trend."

■ **Times may change carriers.** Carriers will have to change their business models or risk further casualties, say industry analysts. According to a new report issued by London-based Drewry Shipping Consultants, the ocean carrier "mind-set" reliant on capturing market share is outdated and subject to collapse unless it is changed dramatically in future months. "The bad news for the container shippers is that there is no good news," said the authors of *Container Forecaster*, the quarterly review published by the analysts. "The green shoots some industry leaders have talked about are wishful thinking," states the report. Drewry's analysts said there will be a 10.3 percent contraction for containers by the end of 2009 and this should be followed by a mere 1 percent growth next year.

■ **It's getting hot in here.** According to a new report released by BMO Capital Markets, the investment and corporate banking arm of BMO Financial Group, the logistics sector is poised for a rebound. "Overall, M&A activity for transportation industry service providers remained relatively strong last year with a total of 142 announced transactions, a decrease of only 2 percent from the number of deals recorded in 2007," said Edward McGuire, managing director in the BMO Capital Markets Transportation Group. "While the turmoil in the credit markets has affected deal volume particularly in transactions where private equity firms were involved, consolidation in the transportation sector continued as strategic buyers looked to broaden service offerings and expand geographic presence," said McGuire.

■ **Tough Q2 for Big Brown.** Despite recent glimmers of an improving economy, Q2 earnings at UPS tell us that we still have some work ahead of us. Quarterly net income at $445 million was down nearly 50 percent year-over-year, with quarterly revenue and operating profits also seeing declines. The overall daily package volume of 14.3 million sank nearly 5 percent in the second quarter, with a 10.5 decline in revenue per piece. UPS officials said these less than encouraging package figures are largely due to fuel surcharge reductions, lighter-weight packages, and the negative impact of currency.

■ **Traffic still causing headaches.** That is the overall vibe from the Texas Transportation Institute's (TTI) 2009 Urban Mobility Report. Focusing on data through 2007, the TTI found that congestion has gotten worse in the country's 439 urban areas and caused urban Americans to travel 4.2 billion hours more and purchase an extra 2.8 billion gallons of fuel compared to the previous decade, totaling $87.2 billion in congestion costs. But on a positive note, U.S. travelers spent an hour less in peak traffic delays

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Management UPDATE

continued

from 2006 to 2007—dropping from 37 hours to 36 hours—and they wasted one less gallon of gasoline during peak traffic delays—dropping from 25 gallons to 24 gallons.

■ **Dumping assets.** Pacer International, Inc. a major North American freight transportation and logistics services provider, announced that it has entered into an agreement with Universal Truckload Services, Inc. and UTS Leasing Inc. (collectively, UTSI) to sell certain assets. According to spokesmen, these assets include customer, contractor, and agent lists as well as owned trailers of Pacer Transport, its specialized heavy-haul trucking operation. Industry analysts said that the proposed sale suggests that more modal consolidation is being driven by a lagging economy and weaker profit margins. "From a shipper's perspective, this move will only mean that business will remain the same or even improve slightly," said Ron Hounsell, vice president & COO of The Labor Development Group. "Outsourcing has been an ongoing trend for some time."

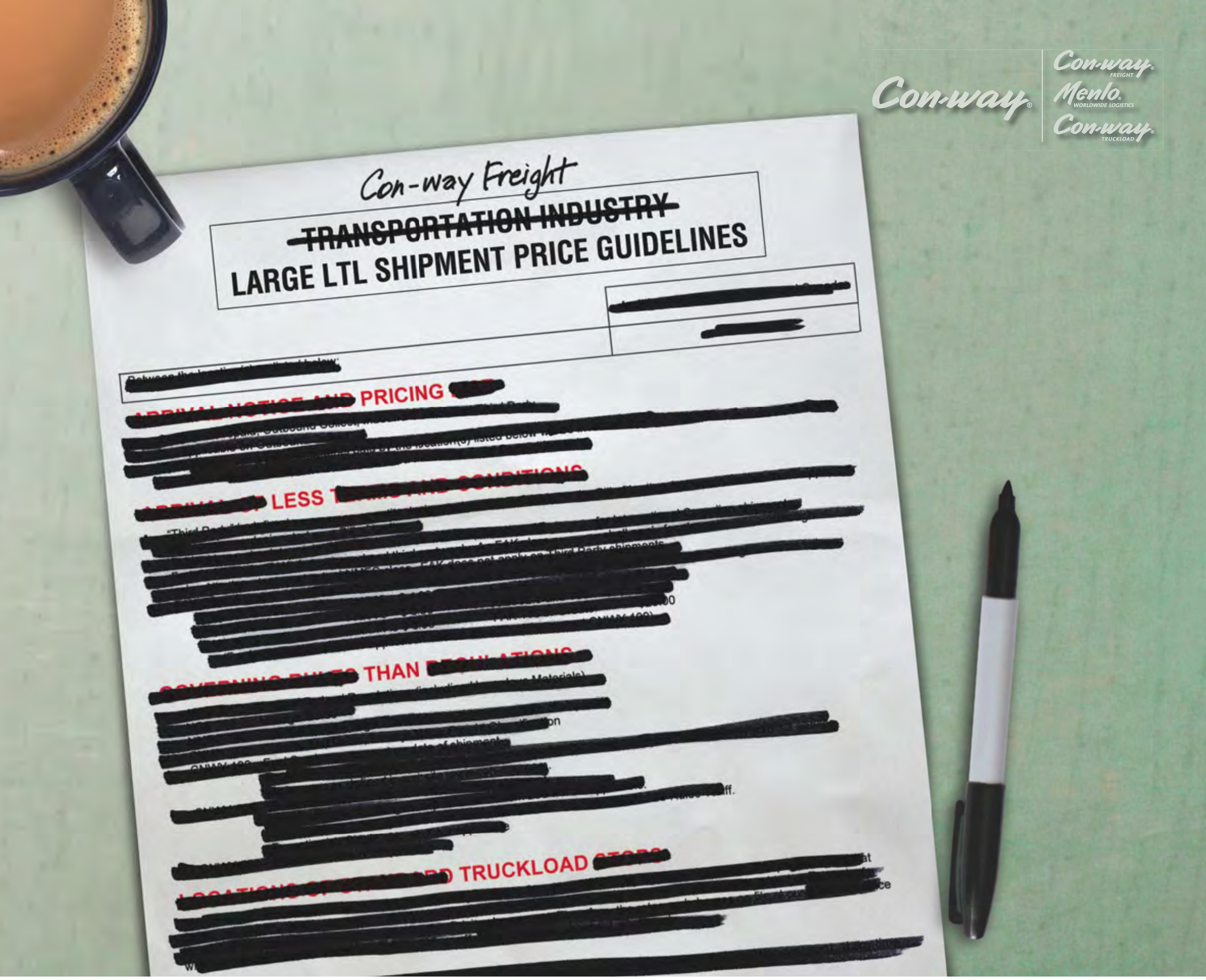
■ **Canal congestion cascades.** The Panama Canal Authority (ACP) released its Q3 operational metrics for fiscal year 2009, noting that diminished traffic through the major gateway is a reflection of the struggling global economy. "This past quarter we had a decrease in booking system utilization," said ACP executive vice president of operations Manuel Benítez. "Overall, our operational figures fluctuated downward only slightly and we expect this trend to continue." In Q3, Canal Waters Time, the average time it takes a vessel to transit the Canal, including waiting time for passage, decreased significantly. Additionally, total transits and net tonnage decreased slightly.

■ **Bar pilot sentenced.** Citing his behavior as "careless," U.S. District Judge Susan Illston in San Francisco imposed the maximum term on Capt. John Cota for his role in 2007 Cosco Busan oil spill. Cota was sentenced to 10 months in prison. This represents the first time in U.S. history a marine pilot has been sent to prison for an accident. Cota had accepted the sentence last March in a plea agreement, pleading guilty to two misdemeanor charges of polluting the waters and killing migratory seabirds by nicking a piece of the Bay Bridge with a container vessel under his charge. Cota is scheduled to report to prison on Sept. 18.

■ **Good-bye Ohio, it's been great.** Once DHL Express officially exited the domestic U.S. market in January, it increased the odds that it would not remain at the Wilmington Air Park. Late last month, that became official when DHL moved its U.S. hub operations to Kentucky-based Cincinnati/Northern Kentucky International Airport (CVG). Since exiting the domestic U.S. market, DHL's U.S. business focuses on international import and export services in major metropolitan U.S. areas. DHL previously worked out of CVG from 1983 until it moved to Wilmington in 2005. The company is also expected to reactivate its automated sorting facility at CVG.

■ **Taking iTunes to the high seas.** The next time you look to buy a song on iTunes, check out the Maritime Glossary from Coracle, an e-learning technology provider. The glossary, geared towards international trade and maritime terms, provides access to more than 9,000 nautical terms and abbreviations. And it acts as a reference tool that can provide easy-to-find information right from an iPhone.

■ **Elliott gets STB nod.** President Barack Obama nominated Daniel R. Elliott III, United Transportation Union (UTU) Associate General Counsel, as a member of the three person U.S. Surface Transportation Board (STB) and chairman of the STB upon Senate confirmation. If confirmed, Elliott would join acting chairman Frank Mulvey and former chairman Charles Nottingham on the board. Elliott has served in his current position at the UTU since 1993. L



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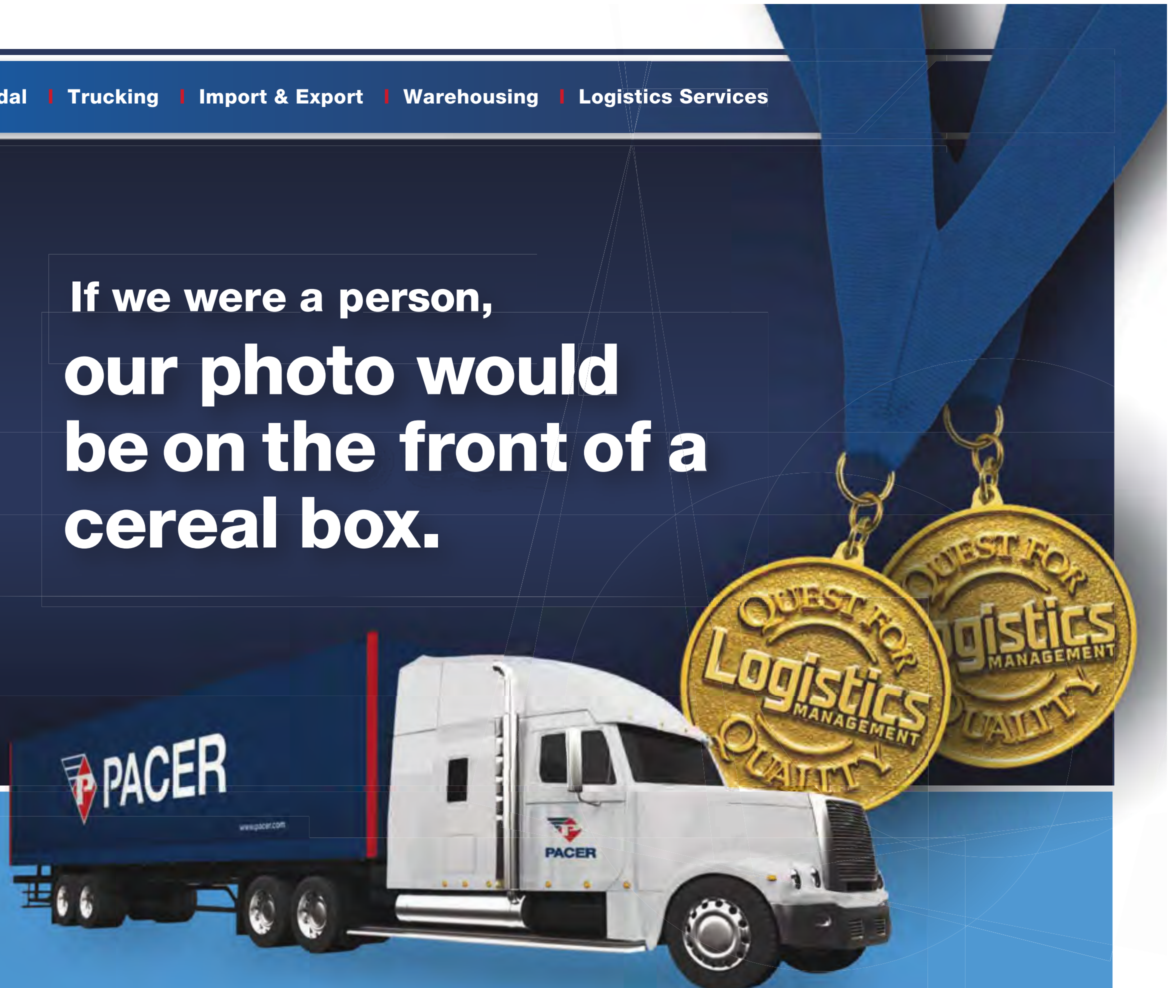

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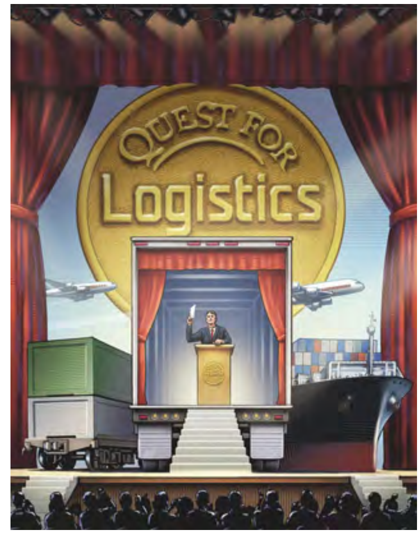
AUGUST 2009 VOL. 48, NO.8

26th Annual Quest for Quality Awards

The envelope please...

The stage is set and the tension is thick. Which carriers and third-party logistics providers will walk the red carpet and accept a coveted Quest for Quality Award? For the 26th year, our readers give a nod for the best service performances in logistics and transportation over the past year. **26**



cover illustration by john macdonald

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webcasts/continuing education

upcoming webcasts

September 29, 2 p.m...**Findings of the 18th Annual Masters of Logistics Study**
Group Editorial Director, Michael Levans, Dr. Mary Holcomb of the University of Tennessee, and Dr. Karl Manrodt of Georgia Southern University will put the findings of this annual research project into persepctive in a live wbecast.
Register at logisticsmgmt.com/masters09

upcoming virtual conferences

August 26, 11 a.m.-7 p.m....**When the Recession Ends, Will Your Supply Chain Be Ready?**
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There's no other way to put it: There's just too much capacity and too little freight. And for shippers it's still a buyers' market—if they have something to move. But how long will this unprecedented window of opportunity remain open? Find out in this on-demand webcast.
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bears repeating...

"We don't expect much growth from the economy for the remainder of 2009…or 2010. While we have seen some normal seasonal trends in volumes, our year-over-year volume changes have not moved significantly from [the end of the first quarter]."

—Bill Zollars, Chairman, President, and CEO of YRCW

this month's fast facts

1. **Total RFID revenue expected to exceed $5.6 billion this year** logisticsmgmt.com/rfid
2. **BTS says surface trade with Mexico and Canada down 35.4 percent in May** logisticsmgmt.com/trade

If you weren't online, you missed this...

UPS reports Q2 net income down 49 percent, economic conditions continue to impact volume and earnings . logisticsmgmt.com/ups

blog takeaway

"The federal government's long modern history of anti-urban bias has taken on a new look recently with the implementation of transportation stimulus monies. According to an analysis by the New York Times of 5,274 transportation projects approved so far—the most complete look yet at how states plan to spend their stimulus money—the 100 largest metropolitan areas are getting less than half that allocated for rural regions."

"Short changing nation's cities...again"
—Patrick Burnson, July 9, 2009
logisticsmgmt.com/blog/burnson

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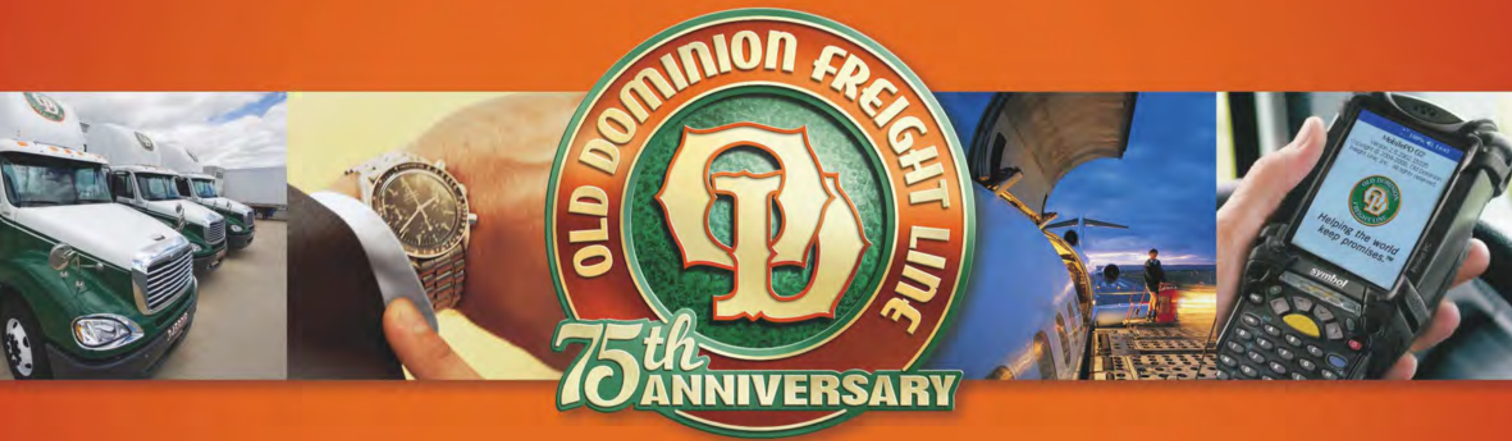

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VIEWPOINT

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THESE WORDS have become synonymous with anticipation, even a little tension. When used in relation to our annual Quest for Quality Awards, they indicate that there's good news about to break for a select few carriers and service providers that, in the eyes of *Logistics Management* (*LM*) readers, have delivered consistent, world-class service over the course of the past year.

For the 26th year, *LM* is proud to release the results of our Quest for Quality survey (Page 26), the leading benchmark of quality and service levels in the industry. This year, 115 providers of transportation and logistics services received the news that they've earned the ultimate vote of shipper confidence by posting the highest scores across our lists of critical service criteria.

Our Quest for Quality survey is perhaps the purest piece of research we do over the course of our publishing year. It gives our readers—shippers who are in the trenches on a daily basis—the chance to single out the service superstars in all key modes and logistics services. And considering just how tough the operating environment has been over the past year, walking the red carpet to receive a Quest for Quality Award this year just may be the highest form of praise a carrier or service provider may ever receive.

And as we've found over the past quarter century, when they experience superior service these shippers are eager to share that success with their peers. Despite the fact that they've never been busier in their careers, 6,485 logistics and supply chain professionals took the time out of their hectic schedules to cast their votes in 2009.

The annual results certainly yield a "who's who" of current service stars, but it also reveals how service levels are perceived by shippers across the modes and service functions. In fact, this year we found that economic pressures and operational strains have pushed the 2009 weighted average scores—the baseline from which our winners are selected—down by a few tenths of a point across the board from our 2008 results.

While that may not sound like a monumental jump, our research teams reports that this overall downward tick indicates that shippers have become slightly tougher service critics. We also found that as more and more shippers went shopping for better rates, the percentage using core carriers dropped significantly over our 2008 findings. In fact, every mode saw a sizeable percentage drop with the exception of National LTL, Intermodal Marketing, and Ocean Carriers.

So, after reporting two years back that we had seen a near-record jump into the core carrier concept during late 2006 into 2007, it appears that a considerable number of shippers have started to turn their backs to that approach as they went to market to take advantage of the current rate environment.

But now it's time for you to pore through the results and do your own analysis. As you do, keep in mind that this project represents over six months of surveying and number crunching with our Reed Business Information research team and is the single biggest research project we undertake year after year. It's helped to set the gold standard in the industry for 26 years, and I hope it helps you better weigh your service options.

Michael A. Levans, Group Editorial Director

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


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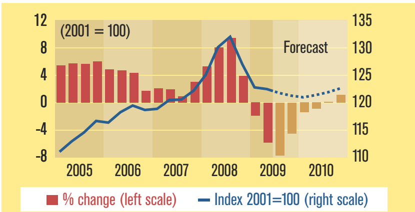
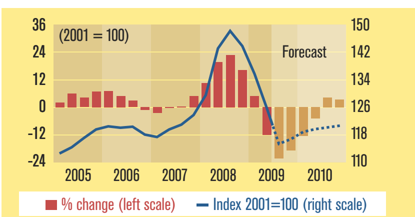


% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
General freight - local	1.0	2.0	-6.2
Truckload	0.0	-3.0	-10.4
Less-than-truckload	0.9	0.3	-5.0
Tanker & other specialized freight	1.7	0.7	-3.9

TRUCKING

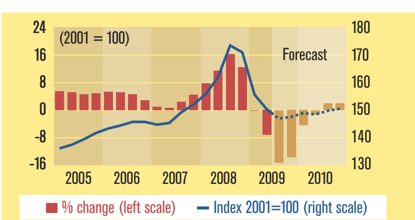
Excluding beleaguered truckload carriers, most trucking categories tracked in Labor Department surveys bucked the recession by raising transaction prices from May to June. Still, quarterly data scream: "too little, too late." Second quarter 2009 data shows the trucking industry recorded a 0.2% price decline from the previous quarter and a 5.8% drop from the same quarter a year ago. TL carriers traveled the steepest deflationary road, dropping tags 1.9% from Q1 of 2008 and 8.8% from Q2 of 2008. Average LTL prices fell 0.7% and 4.3% over the same periods. With June prices up, the industry-wide deflation outlook has been adjusted upward slightly to a 5% annual price decline in 2009 and a 0.3% drop in 2010.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Scheduled air freight	-11.5	-18.4	-21.5
Chartered air freight & passenger	-2.4	-6.1	-14.0
Domestic air courier	0.6	-6.0	-13.0
International air courier	1.0	-5.9	-12.6

AIR

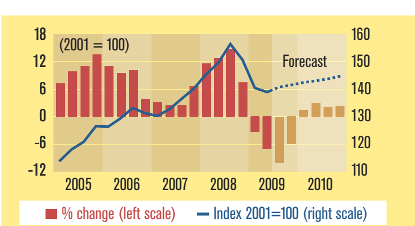
Prices charged by U.S. owned companies for flying freight on scheduled flights plummeted in June by a record-breaking 11.5% from month-ago and 21.5% from same-month-year-ago levels. At the same time, transaction prices for airfreight on chartered planes dropped 2.4% and 14%. Our outlook had assumed airfreight tags would fall in June, but not that steeply. The revised forecast for airfreight on scheduled flights (the only time series for which there's enough historical data) shows airfreight prices still down through Q3 of 2009 and struggling to claw back up thereafter. With price volatility the new norm, trend analysis suggests a 12.6% annual price drop in 2009 followed by a 2.9% cut in 2010.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Deep-sea freight	-9.5	-13.2	-22.4
Coastal & intercoastal freight	-7.1	-8.2	-6.9
Grt. Lks.-St. Lawrence Seaway	1.4	-4.6	-1.9
Inland water freight	0.2	-8.1	-4.4

WATER

U.S. companies that provide deep sea transportation services cut their transaction prices 9.5% from May to June. That drove the overall water transport industry to record a 5.9% price cut. It would have been worse if prices for inland waterways and Great Lakes-St. Lawrence seaway freight transportation (excluding towing) hadn't popped up 0.6% and 1.4%, respectively, in June. Our forecast for aggregate water transport price trends required only minimal adjusting as Q2 of 2009 recorded a 7.2% year-ago price drop. Reflecting needed adjustments after 2008's fuel-injected price hikes, quarterly prices will fall again in Q3. All told, the water freight transportation outlook shows a 9.3% annual price cut in 2009 followed by a milder 0.5% drop in 2010.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Rail freight	0.9	-1.9	-8.1
Intermodal	0.6	-0.4	-17.9
Carload	1.0	-2.1	-7.0

RAIL

Up 0.9% in June, the rail transport industry reports that it won its third monthly price hike in a row. This forecaster lost her bet (placed in last month's column) that June would see some price rebates and has revised the price forecast. The shape of the cyclical trend stays the same, but the bottom won't be as deep as previously thought. Now we can safely say rail prices peaked in August 2008, hit bottom in March 2009 having lost 12.8% from the peak, and by June 2009, had regained 2.3%. The global slowdown, however, will make it difficult for rail transport inflation to gain steam. When the average annual price data are finalized, we predict prices in this industry will be down as much as 6.7% in 2009 and up 2.2% in 2010.

Source: Elizabeth Baatz, Thinking Cap Solutions. E-mail: ebaatz@alertdata.com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Card Check provision may be removed from EFCA

Even without the controversial measure, the bill may still aid unions in organizing transportation and logistics companies.

By Jeff Berman, Group News Editor

Members of the SEIU (Service Employees International Union) participate during a rally at the Lafayette Square March 9, 2009, in Washington, D.C. The rally was held to support the "Employee Free Choice Act" bill.

WASHINGTON—The much discussed "card check" component of the Employee Free Choice Act (EFCA) bill, which would make it easier for employees to form a union, may end up stripped from the legislation, according to various media reports.

Despite the potential removal of card check from EFCA, the bill would still "offer a major overhaul of labor laws to help unions sign up more members…[and] calls for binding arbitration if a new union and management can't agree on a first contract and stiffens penalties on businesses that threaten or intimidate workers trying to form a union," according to a *Boston Globe* report.

A *New York Times* report noted that in lieu of card check, several senate and labor officials said a revised bill would require shorter unionization campaigns and faster elections.

Under current law, when at least 30 percent of workers sign a card requesting unionization, a secret ballot election monitored by the National Labor Relations Board (NLRB) is held in order to certify a collective bargaining union.

However, under EFCA there would not be a secret ballot. Instead as soon as 50 percent of workers sign the cards the NLRB would be required to certify the union.

Supporters contend the current system favors employers who can take years to recognize a bargaining union. But opponents counter that taking away the secret ballot favors union organizers and can lead to intimidation.

Even with this recent news regarding card check, a transportation and logistics industry expert told *LM* it may be too early to write its eulogy just yet.

"When Senator Arlen Specter (D-Penn.) first declared he was going to oppose card check there was momentary jubilation on behalf of the business community," said Ben Gordon, managing director of BG Strategic Advisors.

"But when he switched parties to join the Democrats, all bets were

UNIONS, *CONTINUED*

off. Now, he says there may be a middle ground where card check might not happen but the federal arbitration rules might in some other variation."

According to Gordon, the federal arbitration provisions can be terrible for business because they may accelerate the federal government's ability to intervene on behalf of unionized labor in disputes with companies.

In addition, Gordon explained that in some respects card check can be seen as the tip of the iceberg because it can be viewed as a catch-all phrase for a whole category of federally-sponsored unionized labor initiatives—many of which are likely to occur during the Obama administration's reign.

The probability is as high as it ever was that we will probably see some variation of card check or union expansion while Obama is in office."

—Ben Gordon, managing director, BG Strategic Advisors

The discussed compromise for EFCA without card check may not be much of a compromise at all, said Gordon. Instead, he noted, it really represents a massive expansion of the power of unions in all forms of business. "The probability is as high as it ever was that we will probably see some variation of card check or union expansion while Obama is in office," added Gordon.

In terms of the impact of increased unionization for transportation and logistics service providers—employees have historically been resistant to union overtures because the industry has been growing and they have generally been treated well, which has dinted the need for union intervention, according to Gordon.

But concerns over card check and what its provisions represent could make it less appealing for these companies to continue to operate and grow.

This is not directly related to costs, as much as it is about the lack of flexibility due to union rules and constraints imposed upon companies. And it also increases the possibility of reducing service levels for shippers.

"If a logistics company is less flexible, you better believe it will have an impact on service levels," said Gordon.

LESS-THAN-TRUCKLOAD

YRCW reaches tentative deal with Teamsters

OVERLAND PARK, Kan.—Less-than-truckload transportation and logistics services provider YRC Worldwide (YRCW) wants an additional 5 percent wage cut, an 18-month pension contribution freeze, and a reduction in health and welfare contributions from its 30,000 active Teamsters employees as part of its fight for survival.

The wage cut, on top of a 10 percent wage giveback approved earlier this year, would last until 2013. Together with the pension freeze, the givebacks would save struggling YRCW approximately $900 million a year, according to figures compiled and analyzed by *Logistics Management*.

If approved in a membership vote by approximately 50,000 current and furloughed Teamsters who work at YRC companies, the additional pay cut

(approximately $1.16 per hour) will go into effect immediately after ratification. The pension freeze would run through December 31, 2010; and the contractual health and welfare contribution increase due on August 1 will be reduced to 20 cents per hour.

YRC Teamsters make about $20 an hour and they've already given back $2.32 an hour in the earlier concession. With this new 5 percent request, that makes a $3.48-an-hour concession made by rank-and-file YRC workers.

Given that the average age of a Teamster at YRC is about 60, the pension freeze is even harder to swallow, according to Ken Paff who organizes for Teamsters for a Democratic Union, the dissident wing of the 1.4 million-member union.

The temporary pension termination

LESS-THAN-TRUCKLOAD, *CONTINUED*

is the biggest item. This would mean a cut of $7.60 per hour in pension contributions for the first year of the 18 months, and $8.20 for the latter part of 2010. That averages out to $7.73 an hour, according to Paff. In addition, there is a 20 cents per hour cut in welfare payments.

Ballots were mailed out on July 17. Whether it passes is problematic, Paff said. The earlier round of wage cuts passed by an 82-18 percent majority.

"It's up to the members, but they face a tough choice," Paff said. "This is a bigger concession than most members expected. We want to maintain a strong union voice in freight for the future. But the union's lack of organizing has backed the members into a corner."

Paff said that in dollar terms, the pension freeze is the biggest issue for Teamsters rank-and-file members, followed by the 5 percent wage cut, and then health and welfare are third in line in terms of priority.

"YRCW is looking at all avenues to keep the company alive," said Satish Jindel, president of Pittsburgh-based SJ Consulting. "It does not mean YRCW is going to be shutting down tomorrow, but it does not mean that they're out of the woods and on a path to recovery. This gives them a few more days and weeks of extra life and how they perform in that time will determine whether things continue or come to an end."

YRC has lost approximately $1.8 billion in its last nine operating quarters. It is saddled with approximately $1.43 billion in debt, mostly because of its purchase of rivals Roadway Express in 2003 and USF Corp. in 2005.

Jindel added that the amount of cost savings from the tentative Teamsters agreement will determine whether YRCW's lenders will support the company long enough to let it handle future shipments. L

—*John D. Schulz, Contributing Editor*

INFRASTRUCTURE

Norfolk Southern CEO calls for increased railroad infrastructure investment

WASHINGTON—Even with the high level of infrastructure spending railroads have made towards their networks in past years, more capital is needed to meet the future projected demand in capacity when the economy rebounds, said Wick Moorman, CEO of Class I railroad carrier Norfolk Southern.

Testifying before the House Ways and Means Subcommittee on Select Revenue Measures on behalf of the Association of American Railroads (AAR) last month, Moorman explained that freight railroad infrastructure tax incentives make sense for the country at this stage in the game. "America needs more transportation capacity and needs it now," said Moorman. "Railroads are the most affordable and environmentally responsible way to meet this [expected increase in railroad freight] demand, and that is why tax incentives for rail capacity would be good public policy."

In recent years, the case for expanded rail capacity has been well-documented in various studies, including:

- a 2007 report from the AAR and Cambridge Systematics that determined approximately $148 billion needs to be invested in the nation's freight railroad infrastructure by 2037 to ensure that adequate rail capacity is in placed to meet the expected demand;
- a report from the American Association of State Highway and Transportation officials that predicts by 2020 the U.S. rail system will carry an additional 888 million tons, an increase of more than 40 percent from current levels; and

News Capsule

Rays of hope for 2009?

Don't let current economic conditions fool you. Many in the logistics industry are positive about success in 2009. A survey based on feedback from more than 300 3PL, shipper, and carrier attendees at the eyefortransport 3PL Summit in Atlanta this year, revealed that more than 60 percent of respondents think the overall health of their companies will "be better or much better" between now and the end of 2009.

Source: Transite Technology

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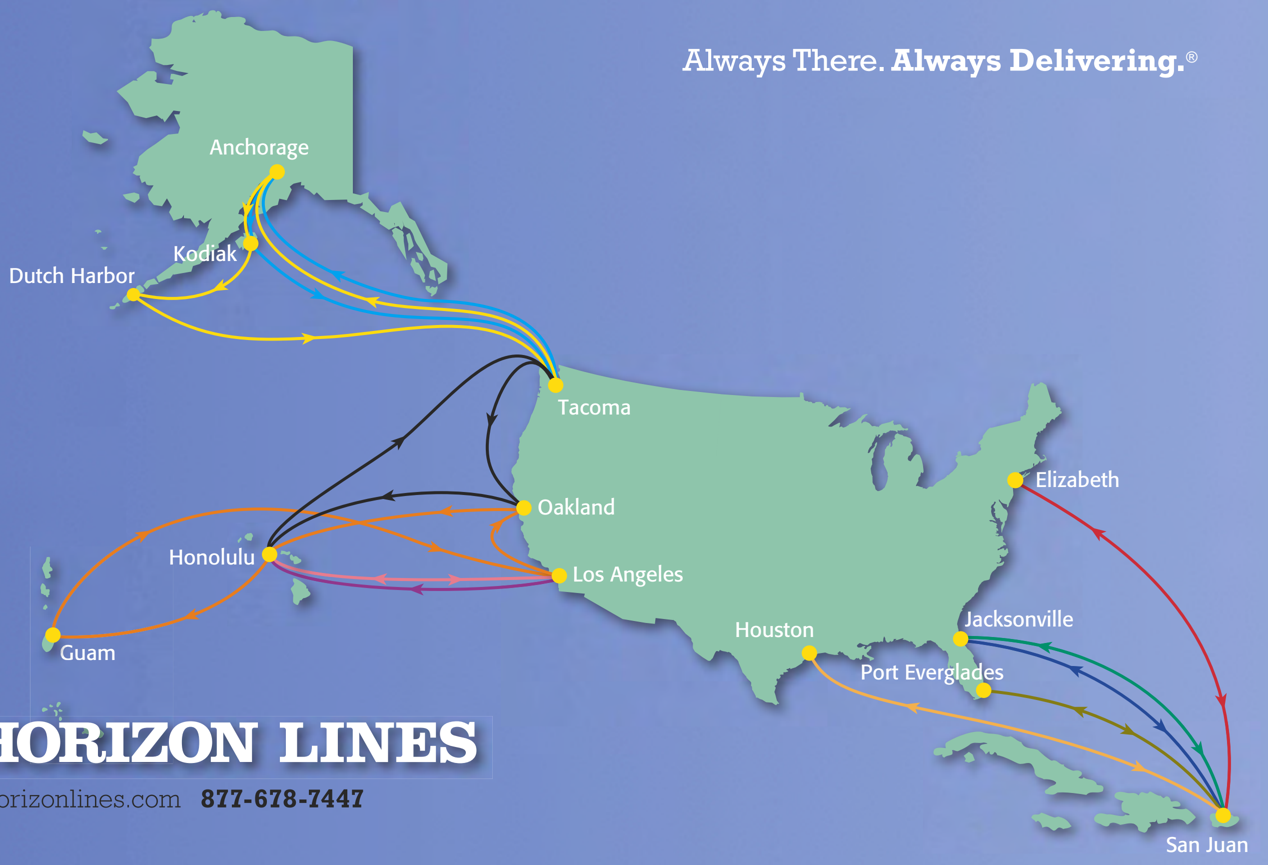

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INFRASTRUCTURE, *CONTINUED*

- a Department of Transportation analysis predicting an 88 percent increase in railroad freight tonnage by 2035.

While these statistics portend a significant future economic rebound, it's likely that the current recession will push back the Department of Transportation's trajectory by a few years, according to William J. Rennicke, director of Oliver Wyman, a Boston-based management consultancy.

And even though freight railroad infrastructure tax incentives would be welcomed by Class I and short-line railroads, Rennicke said the odds of a tax incentive being implemented anytime soon are unlikely.

"Right now, with everything else Congress has pressing, and the fact that railroads have been earning a sufficient rate of return in the past four or five years to invest in their property, it may be that they are taking the position not to fix something that is not broken," said Rennicke.

Despite the fact that railroad volumes are down significantly in 2009, that hasn't quelled the industry's continued investment into freight rail infrastructure. Class I railroad capital expenditures in 2008 were $10.2 billion according to AAR data, and this investment has hit $8.5 billion in 2006 and $9.2 billion in 2007, respectively.

In recent years, bills have been introduced in the House and Senate to expand rail capacity and help prepare for the future surge in traffic and freight demand.

At the heart of these bills is a 25 percent tax credit for businesses that make investments in new rail infrastructure. The tax credit would be available to any shipper or carrier that makes a "qualified" expenditure. Examples of qualifying expenditures in this legislation includes: track, grading, tunnels, signals, certain locomotives, bridges, yards, terminals, and intermodal transfer, and transload facilities. L

—Jeff Berman, Group News Editor

TRUCKING

ATA makes its case for longer, heavier trucks

ARLINGTON, Va.—Last month, the American Trucking Associations (ATA) cited myriad ways in which U.S. trucks would be more fuel efficient and "green" if regulations allowed them to operate like trucks in Europe, Canada, and Australia.

This was the major takeaway, according to the ATA, from the preliminary results of a multi-nation study, adding that these findings corroborate results gleaned from the 2008 American Transportation Research Institute's higher productivity model.

According to the results, many countries are focusing on programs that increase truck size and weight and result in significant productivity, environmental, and safety improvements.

Truck size and weight issues have received a considerable amount of attention in recent months in the form of two pieces of legislation. The first, the "Safe Highways and Infrastructure Preservation Act" (H.R. 1618)—also known as SHIPA—expands the current 80,000 pound truck weight limit of commercial weight vehicles.

The second, the "Safe and Efficient Transportation Act of 2009" (H.R. 1799), would increase truck weight limits to 97,000 pounds from the current 80,000 pound weight limit and would allow states to authorize the operation of heavier trucks.

The ATA referenced a recent conference hosted by the University of Michigan Transportation Research Institute where global trucking experts opined the U.S. is behind in various truck productivity and sustainability categories.

The ATA also said that "increasing truck size and weight standards to align more closely with international standards would improve truck productivity and the ability to reduce greenhouse gas emissions and carbon output."

The ATA also said that current U.S. truck size and weight regulations do not allow trucks to utilize the full potential of domestic infrastructure.

The ATA added that "increasing truck size and weight standards to align more closely with international standards would improve truck productivity and the ability to reduce greenhouse gas emissions and carbon output."

ATA Vice President of Public Affairs Clayton Boyce told *Logistics Management* that opponents of longer and heavier trucks are wrong on the assumption that bigger trucks are less safe and not as environmentally sustainable as smaller ones.

"More productive trucks in general have been a part of our policy since October 2007," said Boyce.

"Larger sizes are safer and more environmentally advantageous. We would like to see an increase in the maximum weight to 97,000 pounds and a lifting of the moratorium on the expansion of LCV (longer combination vehicles) allowances and the harmonization of LCV regulations in the West where there are some disparities in truck sizes from state to state, he added." L

—Jeff Berman, Group News Editor

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PRICING

Bohman on

You might qualify for an "exception rating"

Are you looking for a classification rating (class) lower than the rating published in the National Motor Freight Classification (NMFC)? Well, if you are, you may find that your product might qualify for what is called an "exception rating," or a rating (class) below the rating published in the NMFC.

When ratings are established on a product described in the NMFC, four factors are considered in assigning that rating, namely:

- Density (pounds per cubic foot)
- Liability (value per pound)
- Handling
- Stowability

If the latter three factors are within normal ranges, they are weighed but given little weight. In such cases, density (weight per cubic foot) becomes the controlling factor. The Commodity Classification Standards Board (CCSB) usually assigns one of 18 classes to every product, ranging from class 50 all the way up to class 500, using its so-called density guidelines (shown in the figure).

Because there are generally several shippers of any given product, the CCSB determines an industry-wide density average. If there is a wide range in densities, the Board will usually assign a multiple scale of ratings based on density; however, for the sake of this column, we're only talking about a product that is assigned a single rating.

For example, let's say your product takes a class 100 rating in the NMFC. Under the CCSB density guidelines, this would call for an industry-wide density average of between 9 and 10.5 pounds per cubic foot. But let's say your product has a density of 13 pounds per cubic foot, which under the density guidelines calls for a class 85 rating. Because the class 100 rating was first assigned, your company could possibly achieve a heavier density, perhaps by using different materials or shipping it more compactly than the rest of the industry.

In an effort to secure a lower "exception rating," sit down with your carrier(s) and point out that if you were the only shipper of that product in the country, you'd probably qualify for a class 85 rating. Your carrier(s) may be agreeable to establishing a class 85 "exception rating" for your account, while still giving you the percentage discount you have been enjoying right along. Remember, it's all negotiable.

By the way, don't confuse this with a F.A.K. (Freight, all kinds) rating, which is generally a single rating applicable to several differently rated products taking different classes. Keep in mind, some carriers may establish an F.A.K. on a single product, but technically that is an "exceptions rating." L

Commodity Classification Standards Board density guidelines

Minimum average density (in pounds per cubic foot)	Class
50	50
35	55
30	60
22.5	65
15	70
13.5	77.5
12	85
10.5	92.5
9	100
8	110
7	125
6	150
5	175
4	200
3	250
2	300
1	400
Less than 1	500

The density guidelines are used in the assignment of classes where average density is representative or reflective of the range of densities exhibited.

Keep in mind, some carriers may establish an F.A.K. on a single product, but technically that is an "exceptions rating."

Ray Bohman, a well-known author and consultant, is editor of several highly successful newsletters on transportation and is a consultant to a number of national trade associations. He is president of The Bohman Group, consultants and publishers in the freight-transportation field. His offices are located at 116 Deer Meadow Lane, Chatham, MA 02633. Phone: (508) 945-2272.

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Mulani on

The role of operational and technical excellence

FULFILLMENT MASTERY—consistently and cost-efficiently receiving, compiling, and delivering orders on time and in full—isn't just a desirable capability. In recessionary periods, when mandatory cost cutting, product-allocation conundrums, and excess capacity problems are common, fulfillment mastery can help attract and retain customers.

And in good times as well as bad, "fulfillment masters" enjoy higher service levels for growing the business and lower costs for operating the business. Results of a recent Accenture survey confirm that this elite group averages 98 percent on-time, in-full delivery, while enjoying 50 percent lower inventory and outbound transportation costs than the respondent population as a whole.

Last month, we explained that achieving fulfillment mastery is the result of stellar performance in three areas: strategy, operations, and technology. We then explored fulfillment strategy in some detail. This month we'll do the same for fulfillment operations and technology.

ORDER CAPTURE

Compared to the survey population as a whole, a higher percentage of fulfillment masters have access to have real-time data on incoming shipments and inventory availability. With up-to-the-minute information on stock levels—including what has been committed to orders—they become more adept at production scheduling and better able to make rapid and appropriate changes to production plans. As shown in the figure to the right, masters frequently use advanced planning options when capturing orders.

INVENTORY MANAGEMENT

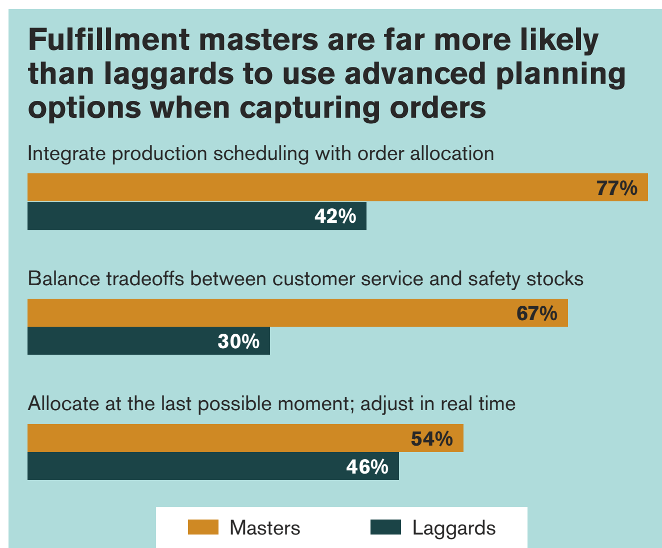
Fulfillment masters often excel at evaluating inventory levels against orders and allocating inventory at the last possible moment (based on recent demand patterns). These skills are particularly critical during tough economic times, when manufacturing cutbacks and sketchy demand combine to make allocation more difficult.

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.

Using postponement in inventory management to a greater degree than laggards, masters consequently excel at controlling inventory costs. In effect, they come closer to being a predominantly "make-to-order" operation.

WAREHOUSING AND TRANSPORTATION

Masters have flexible networks of warehouses and transport operations. On the storage side, warehouse management systems (WMS) and



Fulfillment masters are far more likely than laggards to use advanced planning options when capturing orders.

hand-scanning technologies help these networks thrive. On the transport side, masters are also more prone to structure contracts with transportation providers than respond rapidly to spikes in demand.

Nearly two-thirds of masters negotiate "mean-to-peak" capacity flexibility in their transportation contracts versus only one quarter of the survey's "laggards" (the bottom 10 percent of respondents based on cost and customer service measures). By having access to transport capacity with pre-negotiated rates and lead times, masters are better able to control fulfillment costs. This also helps them maintain superior service levels during times of peak demand.

Another transportation boon is centralized transport-planning processes. Masters are three times more likely than laggards to have a centralized international team for transportation planning—as opposed to working at a continental/regional or country level. This can be a distinct advantage because planning transportation at a global level allows companies to pursue larger purchasing discounts, standardize contracts, create common transportation processes and systems, reduce headcount, and coordinate inter-country distribution.

Another capability that separates masters from laggards is the ability to reroute during shipment. A much higher percentage of masters than laggards are able to manually reroute products while they are in shipment.

REVERSE LOGISTICS

More than three quarters of fulfillment masters feed product-return data to their companies' product development function. Having detailed information on why customers are returning their purchases helps these companies readily fix faulty product designs and manufacturing processes. Masters also appear to place more emphasis on getting unvarnished information about their product returns: They are twice as likely as laggards to manage returns in-house.

TECHNOLOGY AND DATA INTEGRATION

Fulfillment masters recognize, and know how to leverage, information technology's potential: In fact, 43 percent have fulfillment systems that are fully integrated, compared to only 4 percent of laggards. Many also have their ordering systems integrated with other major enterprise technology.

Masters are also more likely to use in-depth business cases to justify IT investments and more prone to track the return on those investments. It is not that masters spend more on IT in fulfillment (on average, they spend less than laggards). It's that they are much more likely to know what—and what not—to automate.

MASTERS MEASURE

A final, and perhaps predominant point, is that masters venerate metrics: In fact, the sophisticated collection and interpretation of data generated by fulfillment operations (costs, cycle times, customer complaints, etc.) is a major reason that masters have a 35 percent total supply chain cost advantage over laggards.

But as we've seen, the scope of fulfillment mastery goes well beyond cost savings. Masters serve customers more efficiently as well as more cost effectively. In smooth and bumpy times, masters know that fulfillment excellence can differentiate them competitively and help them react quickly and appropriately when change happens. L

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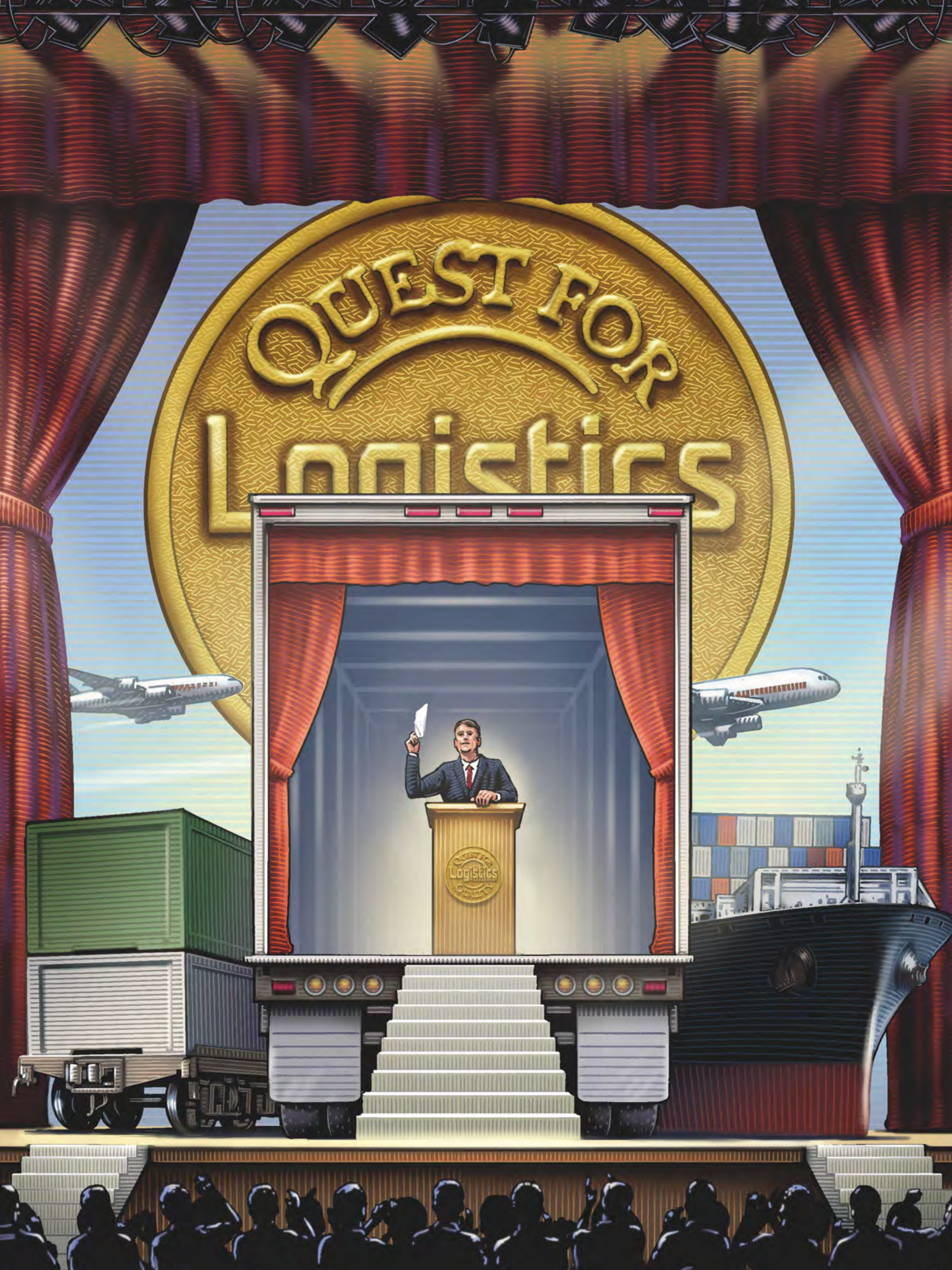
QUEST FOR

★ 26TH ANNUAL QUEST FOR QUALITY AWARDS ★

THE ENVELOPE PLEASE...

BY ***LOGISTICS MANAGEMENT*** STAFF

The stage is set, the tension is thick. Which carriers and third-party providers will walk the red carpet and accept a coveted Quest for Quality Award for their service performance over the past year?

Much like actors, directors, and the cinematographers that create films, carriers and logistics services providers are constantly being judged and critiqued on their performance and innovation. However, the editors of *Logistics Management* (*LM*) could argue that winning a coveted Quest for Quality Award should hold a little more weight than what's annually handed to some of our favorite stars.

While Oscars are typically awarded for the work on a single movie, the winners of the Quest for Quality are awarded for a much grander body of work. In fact, Quest for Quality recipients have consistently proven that they're meeting ever-increasing shipper demands in what is now a 24/7 global marketplace where actions—and mistakes—can be tracked down to the day, hour, minute, or even second.

But more importantly, instead of being voted on by a hand-picked academy of industry insiders like the Oscars, Quest for Quality winners are voted on by the readers of *Logistics Management*—the customers that put these carriers and providers to the test around the clock in countries throughout the world. If fact, this year we had 6,485 logistics and supply chain decision makers wage their vote, that's 400 more than we had in 2008.

Well, the time has come again. We've rolled out the red carpet, the tension is thick, and the lights are hot. The staff of *LM* is thrilled to offer the shipping community the results of the 26th Annual Quest for Quality Awards. This year, 115 providers of transportation and logistics services have received the ultimate vote of confidence, posting the highest scores across our lists of critical service criteria.

For more than a quarter century now, *LM*'s Quest for Quality has been regarded in the transportation and logistics industry as the most important measure of customer satisfaction and performance excellence. To determine the best of the best, *LM* readers rate carriers and third-party logistics (3PL) companies strictly on the basis of service quality.

And considering the current economy, shrinking freight volumes, shipper pressure on rates, and the list of additional operational challenges carriers and providers are facing today, walking away with a Quest for Quality award in 2009 is a true testament to a company's ability to adapt and stay relevant in what may be the most difficult operating environment since the Great Depression. The next few pages are devoted to celebrating this remarkable achievement.

AND THE NOMINEES ARE...

Before we open any envelopes, let's take a more detailed look at how we arrive at our list of recipients. One of the best things about the Quest for Quality is that it allows shippers to vote in the genre of services they actually use and fully understand; in turn, they can vote for the providers that they feel have best delivered on quality service in specific niches.

To determine who wins the vote, *LM* readers evaluate companies in all modes, choosing the top performers in categories including motor carriers, railroad and intermodal services, ocean carriers, airlines, freight forwarders, and third party/contract logistics services.

From January through May of this year, *LM* and Reed Research Group surveyed readers who are qualified buyers of logistics and transportation services. This year our research group received 6,485 total responses. In order to be a "winner," a company had to receive at least 5 percent of the category vote. The result of this overall effort is a crystal

ILLUSTRATION BY JOHN MACDONALD

Figure 1: Performance Attributes' Importance

Company Type	On-time Performance	Value	Information Technology	Customer Service	Equipment & Operations
National/Multiregional LTL and Surface Package Carriers	4.6	4.0	2.1	2.7	1.6
Truckload, Van Lines, Expedited	4.5	4.0	1.5	2.8	2.2
Rail/Intermodal Service Providers	4.5	4.1	1.6	2.6	2.1
Ocean Carriers	4.6	3.7	1.9	3.0	1.7
Airlines and Air Express Carriers	4.7	3.6	2.1	3.1	1.6
Freight Forwarders	4.7	3.6	2.1	3.1	1.6

Source: *Logistics Management*, Reed Research Group

	Carrier Selection/Negotiation	Order Fulfillment	Transportation/ Distribution	Inventory Management	Logistics Information Systems
3PL	3.5	3.3	3.3	2.1	2.8

Source: *Logistics Management*, Reed Research Group

Figure 2: Core Carrier Satisfaction Ratings

Mode	% using Core Carriers	Overall Satisfaction Score	Core Satisfaction Score
National LTL	68%	32.47	36.43
Multiregional LTL	58%	33.00	37.58
Surface Package	70%	35.78	38.59
Northeast/Mid-Atlantic Regional LTL	48%	34.31	39.78
South/South Central LTL	47%	35.49	38.72
Midwest/North Central Regional LTL	40%	32.91	36.60
Western Regional LTL	40%	33.22	35.55
Truckload-Bulk	49%	33.50	35.24
Truckload-Household Goods & High Value Goods	40%	32.51	36.58
Truckload-Industrial/ Heavy-Haul	43%	35.01	35.59
Truckload-Dry Freight	48%	33.03	35.91
Truckload-Expedited	49%	34.72	37.75
Rail/Intermodal	60%	32.03	33.18
Intermodal Marketing	62%	33.50	37.25
Ocean Carriers	68%	32.92	36.94
Air Express	62%	34.49	38.33
Air Cargo	31%	34.50	34.56

*Average weighted score

All scores are weighted. Weighted scores are determined by multiplying the average raw scores by the average importance of each attribute (1= least important; 5= most important). To find the attributed weights for this category, see the introduction to the Quest for Quality report.

Source: *Logistics Management*, Reed Research Group

clear look at not only the overall winner in any given category, but a broad list of companies that finished well above the average. Here's how we do it.

Transportation service providers are rated on *LM*'s five key criteria: On-time Performance, Value, Customer Service, Information Technology, and Equipment & Operations. Due to the nature of services offered by third-party players, a different set of criteria is used to judge this category.

Third-party logistics providers are rated on the following attributes: Carrier Selection & Negotiation, Order Fulfillment, Transportation & Distribution, Inventory Management, and Logistics Information Systems.

The evaluation itself is a weighted metric. The scores take into account the importance readers attach to each attribute. Each year, readers are first asked to rank the attributes in each category on a five-point scale, with 5 representing the highest value and 1 representing the lowest value. Our research team then uses those attributes' rankings to create weighted scores in each category.

For example, readers have historically placed the single highest value on On-time Performance—and they've done so again in 2009. If you look at Figure 1 you'll see that it was rated between 4.5 and 4.7 across the carrier categories. It's interesting to note that the On-time Performance "importance" scores were significantly up over the 2008 averages.

The second most critical attribute again this year was Value, followed by Customer Service. This year we found that shippers are putting equal weight on Equipment & Operations and Information Technology offerings. Not surprising, since so many shippers have told us over the past year that they're scraping manual/paper-based systems and investing in automation and efficiency gains—and they're expecting their carriers to be just as savvy.

After readers have ranked these key attributes in order of importance, they then grade each provider that they currently use on each of the five core Quest for Quality attributes, rating them on a scale of 1 to 3 (1=poor, 2=average, 3=outstanding).

2003 2004 2005 2006 2007 2008 2009

Seven Quest for Quality awards in a row. It's an accomplishment we don't take lightly.

For the seventh year in a row, Matson has been honored with a Quest for Quality award. As always, we owe the distinction to our employees, each one of whom is committed to delivering transportation solutions and service unmatched in the shipping industry. The fact that they've earned seven awards in the last seven years is simply a reminder that, at Matson, the quest for quality never ends.

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Has the current rate environment forced a change in how shippers are viewing the service they've been receiving from the tightest members of their transportation entourage? This year's Core Satisfaction scores certainly raise some questions.

To produce a weighted score, the research team then multiplies the provider's average scores for each attribute by the attribute's ranking.

Next, the weighted scores are calculated for all five attributes for a given vendor and added together to create an aggregate number. Companies score a quality win when their total scores exceed the average total weighted score in their category. But, remember, providers must receive a minimum number of reader responses to qualify for a win—at least 5 percent of the total base for the category.

HANGING WITH YOUR ENTOURAGE

In addition to rating the performance of individual companies, the Quest for Quality survey also explores shippers' relationships with their core carriers—that select group of vendors to whom readers tender most of their business. Again in 2009, we asked readers to share their core-carrier relationship experiences.

As more and more shippers went shopping for better rates, we found that the percentage of shippers using core carriers dropped significantly over our 2008 findings. In fact, every mode saw a sizeable percentage drop with the exception of National LTL, Intermodal Marketing, and Ocean Carriers (See Figure 2).

So, after reporting two years back that we had seen a near-record jump into the core carrier concept during late 2006 into 2007, it appears that a considerable number of shippers have started to turn their backs to the core carrier concept as they went to market to take advantage of the current rate environment.

Like last year, the Surface Package category led the way, with 70 percent reporting they're hopelessly devoted to a select few. National LTL and Ocean Carriers shippers are the second most loyal core-carrier believers (both modes at 68 percent).

The mode category that saw the single biggest drop in the percentage of shippers using core carriers was Midwest/North Central Regional LTL. This category saw a shocking 26 percentage-point drop from last year's number, signally that shippers looking for service in this region have certainly opened up their options and are looking for deals.

Next, we asked respondents to appraise those core relationships in order to gauge whether shippers experience higher levels of satisfaction in partnership arrangements. As a general rule over the many years of Quest for Quality reports, shippers have nearly always given higher quality ratings to their core carriers than their non-core carriers across every mode—and this year, again, was no exception. Across every single category we found that the core satisfaction scores were higher than the overall satisfaction scores.

In our 2008 findings, we began to see a troubling short-term trend being reversed. In 2007 our findings revealed that Overall Satisfaction and Core Satisfaction scores were trending downward over a two year period. Well, in 2008 we found that just about every Overall and Core Satisfaction score had improved by almost a full point.

In 2009 we found that Overall Satisfaction scores have generally stabilized; however, we found that half of the Core Satisfaction scores have dropped—in some cases by a full point—from their 2008 plateaus.

Has the current rate environment forced a change in how shippers are viewing the service they've been receiving from the tightest members of their transportation entourage? This year's Core Satisfaction scores certainly raise some questions.

So, what group of shippers are most satisfied? Shippers who use Northeast/Mid-Atlantic Regional LTL report the highest Overall Satisfaction (35.78), followed closely by South/South Central LTL with an Overall score of 35.49. The highest Core Satisfaction score posted this year was by Northeast/Mid-Atlantic Regional LTL with an impressive 39.78—the second highest score in this category over the past two years.

Editor's note: The editorial staff of *Logistics Management* would like to thank the near-record number of readers who took time out of their busy days to complete and submit the 2009 Quest for Quality ballots. Your time, effort, and insight have helped *Logistics Management* maintain the Quest for Quality as the premier benchmark study for logistics and transportation quality and service during the past 26 years.

In accordance with tradition, *Logistics Management* will hold an awards dinner following the final day of the Council of Supply Chain Management Professionals (CSCMP) Annual Conference.

This year's event will take place on **Wednesday, September 23rd, at the at the Intercontinental Hotel, Seville Ballroom, Chicago, Ill.** The reception and cocktail hour begins at 5:30 p.m. with the dinner following immediately at 6:30 p.m.

The Quest for Quality Awards Dinner is one of the most anticipated evenings on the logistics and supply chain yearly calendar. Our staff will be on hand to congratulate the 2009 Quest for Quality winners. Full reports that include the scores for all of the carriers that were ranked in the survey are available for purchase from *Logistics Management*.

Reports may be purchased on an individual basis for $99 or as a complete set for $550. For more information or to obtain an order form, go to logisticsmgmt.com. L

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NATIONAL LTL

High drama on the open road

The less-than-truckload market has unfolded like a high-caliber drama over the last three years. If it were to be scripted and played out on the big screen, it would star Philip Seymour Hoffman and Kate Winslet; the mood would be dark, and the title might be "Only the Strong Survive."

The back drop for this epic story has been well documented and the premise is short and sweet. According to our intrepid trucking correspondent John Schulz, we are living through the worst freight downturn we've seen…ever.

The U.S. economic slump, particularly housing and autos, drove this dismal LTL market. Shippers and manufacturers are now slowly working their way through excess inventory, but LTL carriers with high fixed costs are still struggling to manage through the sagging volumes. There's also been a lot of consolidation of long-time players, which analysts believe will lead to better long-term health; and now the market is waiting for the final shoe to drop on the YRC situation—a separate saga that could certainly write its own sequel.

However, like all great dramatic films, Schulz reports this month (page 70) that the LTL saga may be inching its way toward an inevitable conclusion, or at least a "bottom." He reports that some truckers say they're "starting to see the effect of a nascent recovery in demand." Whether this is normal seasonal uptick in volume or the start of a return to rising freight levels is top-of-mind conversation among trucking executives and analysts—and one we'll be listening to.

And with this positive news, let's also congratulate the National LTL carriers that soldiered to deliver world class service during the most challenging operational period we've ever witnessed. In fact, during the past year, Con-way Freight has used this difficult period to overtake FedEx National LTL in the National LTL Carriers category. Con-way scored an impressive 11.08 in On-Time Performance, and topped FedEx National LTL in Value (8.58) and Customer Service (6.02). FedEx National scored a 4.99 in Information Technology and took the Equipment & Operations with a 3.94.

As it has for the past three years, FedEx Freight took the top position in Multiregional LTL, scoring an impressive 35.87 weighted average. FedEx took every category but one, scoring a 11.78 in On-time Performance, 5.26 in Information Technology, 6.36 in Customer Service, and a 3.99 in Equipment & Operations. R&L Carriers scored an impressive 9.35 in Value winning that critical category.

While nearly every Quest for Quality category tends to get a few new actors in the running, Surface Package Carriers has been a two nominee race for a long time. For the fourth consecutive year, UPS has topped FedEx Ground in this category, scoring a solid 37.50. In fact, UPS improved its scores in every attribute category with the exception of Equipment & Operations this year—a tough role to pull off considering current conditions. L

National LTL

	On-time Performance	Value	Information Technology	Customer Service	Equipment & Operations	Weighted Score
Con-way Freight	11.08	8.58	4.75	6.02	3.83	34.26
FedEx National LTL	10.83	8.44	4.99	5.97	3.94	34.16
AVERAGE	10.10	8.19	4.72	5.82	3.65	32.47

Logistics Management - 2009 Quest for Quality - LTL National- Reed Business Information - June 2009

Multiregional LTL

	On-time Performance	Value	Information Technology	Customer Service	Equipment & Operations	Weighted Score
FedEx Freight	11.78	8.47	5.26	6.36	3.99	35.87
R&L Carriers	10.90	9.35	4.36	5.83	3.74	34.17
Estes Express Lines	10.52	9.10	4.53	6.06	3.65	33.85
UPS Freight	10.41	8.57	4.91	5.91	3.65	33.46
AVERAGE	10.38	8.68	4.60	5.83	3.61	33.10

Logistics Management - 2009 Quest for Quality - LTL Multiregional - Reed Business Information - June 2009

Surface Package Carriers

	On-time Performance	Value	Information Technology	Customer Service	Equipment & Operations	Weighted Score
UPS	12.02	9.47	5.53	6.32	4.15	37.50
FedEx Ground	11.57	9.31	5.39	6.34	4.04	36.65
AVERAGE	11.37	9.35	5.11	6.01	3.95	35.78

All scores are weighted. Weighted scores are determined by multiplying the average raw scores by the average importance of each attribute (1= least important; 5= most important). To find the attributed weights for this category, see the introduction to the Quest for Quality report.

Logistics Management 2009 Quest for Quality - LTL Surface Packages - Reed Business Information - June 2009

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2009 Awards

- 3PL Carrier
- Dry Freight Carrier
- Expedited Carrier
- Industrial/ Heavy Haul Carrier
- Intermodal Marketing

2008
- 3PL Carrier
- Dry Freight Carrier
- Expedited Carrier
- Intermodal Marketing

2007
- 3PL Carrier
- Dry Freight Carrier
- Expedited Carrier
- Heavy Haul Carrier
- Intermodal Marketing

2006
- 3PL Carrier
- Dry Freight Carrier
- Heavy Haul Carrier
- Intermodal Marketing

2005
- Dry Freight Carrier
- Expedited Carrier
- Heavy Haul Carrier

2004
- 3PL Carrier
- Heavy Haul Carrier
- Intermodal Marketing

2003
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REGIONAL LTL

Best use of special effects

Some analysts say they're using mirrors. Others say they're using green screens and computer-generated imagery to give the illusion of success during the worst freight downturn we may ever see. No matter what method they're using to stay relevant, the Regional LTL winners listed on this page deserve a special round of applause.

Through the past three tumultuous years, these actors have worked to re-invent themselves; and now they are not only receiving a 2009 Quest for Quality Award, but many analysts believe they are perfectly positioned to catch the next wave of business predicted for 2010.

These regional players have expanded services, formed alliances with competitors, and invested heavily in the technologies that today's savvy shippers demand.

This year, there are only nine winners, down from 14 in 2008, and we saw a subtle drop in the overall weighted averages from 2008—a signal, perhaps, that the perception of service may have sagged due to the challenging times.

Rounding off the Northeast/Mid-Atlantic LTL category in 2009 are A. Duie Pyle and Pitt Ohio Express, two perennial favorites. This was one of the tightest races in any of our categories this year, with A. Duie edging Pitt Ohio in every category, but by only the slimmest margin. Both deserve rave reviews for their On-time Performance scores. It's obvious that shippers in this region are quite satisfied with the service from these stalwarts.

In the South/South Central Region, Southeastern Freight Lines posts another victory, outscoring other contenders for the fourth year in a row. Southeastern came out ahead in On-time Performance (12.20), Information Technology (4.99), Customer Service (6.69), and Equipment & Operations (3.93). Wilson Trucking scored an impressive 9.91 in Value, while Averitt Express posted a sturdy 3.90 Equipment & Operations score.

The Midwest/North Central Region saw only one carrier scoring above the weighted average this year. USF Holland posted a 33.74—nearly a two point drop from last year's winner. However, USF scored an impressive 9.08 in Value, nearly a point higher than the weighted attribute category in this region.

Out west its a three carrier race, with Lynden Transport leading the pack for a second year in a row. Lynden swept every attribute category this year, scoring a 12.09 in On-time Performance, 9.37 in Value, 4.68 in Information Technology, and 3.67 in Equipment & Operations. This marks one of the few category sweeps for this year. Estes West pulled in with an impressive 33.91 weighted average this year, and Oak Harbor Freight Lines rounds out the region with a 33.69. L

Northeast/Mid-Atlantic Regional LTL

	On-time Performance	Value	Information Technology	Customer Service	Equipment & Operations	Weighted Score
A. Duie Pyle	11.81	9.48	4.95	6.69	3.98	36.91
Pitt Ohio	11.21	9.40	4.57	6.30	3.67	35.15
AVERAGE	10.97	9.01	4.47	6.18	3.68	34.31

Logistics Management - 2009 Quest for Quality - LTL Northeast & Mid-Atlantic - Reed Business Information - June 2009

South/South Central Regional LTL

	On-time Performance	Value	Information Technology	Customer Service	Equipment & Operations	Weighted Score
Southeastern Freight Lines	12.20	9.84	4.99	6.69	3.93	37.66
Wilson Trucking	11.57	9.91	4.50	6.62	3.79	36.39
Averitt Express	11.35	9.34	4.68	6.29	3.90	35.56
AVERAGE	11.31	9.44	4.66	6.30	3.77	35.49

Logistics Management - 2009 Quest for Quality - LTL South/South Central - Reed Business Information - June 2009

Midwest/North Central Regional LTL

	On-time Performance	Value	Information Technology	Customer Service	Equipment & Operations	Weighted Score
USF Holland	10.62	9.08	4.52	5.94	3.57	33.74
AVERAGE	10.31	9.02	4.33	5.78	3.48	32.91

Logistics Management - 2009 Quest for Quality - LTL Midwest/North Central - Reed Business Information - June 2009

Western Regional LTL

	On-time Performance	Value	Information Technology	Customer Service	Equipment & Operations	Weighted Score
Lynden Transport	12.09	9.37	4.68	6.71	3.67	36.52
Estes West	10.39	9.23	4.59	6.21	3.50	33.91
Oak Harbor Freight Lines	10.96	9.14	4.11	5.84	3.64	33.69
AVERAGE	10.58	8.87	4.35	5.91	3.51	33.22

All scores are weighted. Weighted scores are determined by multiplying the average raw scores by the average importance of each attribute (1= least important; 5= most important). To find the attributed weights for this category, see the introduction to the Quest for Quality report.

Logistics Management - 2009 Quest for Quality - LTL Western Regional - Reed Business Information - June 2009

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2009 Quest for Quality Award
Intermodal Marketing Companies

	Industry Average	**Alliance Shippers**
Performance	10.18	**10.77**
Value	9.19	**9.19** =
Information Technology	3.49	**3.75**
Customer Service	5.85	**6.34**
Equipment and Operations	4.80	**4.88**
Weighted Score	33.50	**34.93**

Source: *Logistics Management Magazine*, 8/09

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TRUCKLOAD

Truckload method actors

Industrial & Heavy-Haul Carriers

	On-time Performance	Value	Information Technology	Customer Service	Equipment & Operations	Weighted Score
Mullen Trucking	12.60	9.60	2.40	6.72	6.60	37.92
Landstar Carrier Group	11.53	10.17	3.43	6.75	5.55	37.43
Melton Truck Lines	11.52	9.28	3.46	6.77	5.37	36.39
Pacer Transport	9.35	9.54	3.58	8.40	4.91	35.77
AVERAGE	11.08	9.07	3.29	6.33	5.24	35.01

Logistics Management - 2009 Quest for Quality -Truckload and Van Lines - Reed Business Information - June 2009

Dry Freight Carriers

	On-time Performance	Value	Information Technology	Customer Service	Equipment & Operations	Weighted Score
Landstar Carrier Group	10.76	8.92	3.22	6.58	5.31	34.78
Con-way Truckload Services	10.59	8.82	3.43	6.42	5.23	34.49
Heartland Express	11.00	8.08	3.12	6.37	5.22	33.78
Schneider National	10.24	8.90	3.38	6.01	5.12	33.64
AVERAGE	10.16	8.53	3.18	6.11	5.06	33.03

Logistics Management - 2009 Quest for Quality -Truckload and Van Lines - Reed Business Information - June 2009

Expedited Motor Carriers

	On-time Performance	Value	Information Technology	Customer Service	Equipment & Operations	Weighted Score
FedEx Custom Critical	12.40	7.64	3.93	7.11	5.84	36.92
Averitt Express	11.20	9.48	3.60	7.00	5.62	36.90
CRST Van Expedited	12.15	9.00	3.56	6.65	5.23	36.59
NEMF Today	11.37	10.11	2.92	6.84	4.98	36.22
Pitt Ohio Express	11.35	9.30	3.45	6.56	5.20	35.86
USF Holland	11.08	9.52	3.51	6.53	5.21	35.85
UPS	11.19	8.85	3.82	6.24	5.49	35.60
Landstar Express America	10.98	8.92	3.63	6.78	5.10	35.42
ABF Freight System	10.85	8.61	3.51	6.72	5.29	34.98
New Penn	11.14	9.27	3.20	6.36	4.90	34.88
AVERAGE	10.82	8.75	3.51	6.42	5.23	34.72

All scores are weighted. Weighted scores are determined by multiplying the average raw scores by the average importance of each attribute (1= least important; 5= most important). To find the attributed weights for this category, see the introduction to the Quest for Quality report.

Logistics Management - 2009 Quest for Quality -Truckload and Van Lines - Reed Business Information - June 2009

As our senior trucking correspondent John Schulz deftly surmised last month in our 2009 Annual Report, the truckload (TL) sector has always been cast as the engine driving innovation in the trucking industry. But, today, it's playing the part of a shrinking giant.

In fact, TL carriers reduced capacity by an estimated 7 percent last year as the segment coped with a serious recession that has caused double-digit drops in tonnage demand. And while accounting for 87 percent of all for-hire trucking revenue, the non-union TL sector has proven to be an nimble provider whose strength has been in the ability to align capacity and resources where shippers need them to be. So, when the current trucking downturn began in August 2006, the TL sector reacted by shedding capacity and parking trucks at what normally would be considered an alarming rate.

Due to declining rates, some leading TL carriers have diversified away from their typecast roles in pure dry van freight into other transport segments.

According to the readers of *LM*, 29 carriers have taken to their more diversified roles nicely, meeting high service levels while juggling more demands.

In Industrial & Heavy-Haul we find Mullen Trucking leading our pack of winners for the second year in a row, posting a 37.92 weighted score. Mullen led the way in On-time Performance (12.60) and Equipment & Operations (6.60), while Landstar Carrier Group scored the highest in Value (10.17). Pacer Transport scored highest in Information Technology (3.58) and Customer Service (8.40).

Only four carriers will walk the red carpet this year in the Dry Freight carrier category, down from the seven winners we honored in 2008. Landstar Carrier Group's performance over the past year earned the carrier top honors with a 34.78 weighted score. Landstar won three of the five attribute categories, scoring 8.92 in Value, 6.58 in Customer Service, and 5.31 in Equipment & Operations. Con-way Truckload Services was second in overall scoring (34.49), putting up a category-leading 3.43 in Information Technology. Heartland Express led the way in On-time Performance this year, scoring an impressive 11.00.

This year we have 10 carriers in the ever-competitive Expedited Motor

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Carriers' category. FedEx Custom Critical rings in with the top weighted average for the third year in a row (36.92), but not by much. In fact, the top four winners are separated by only a few tenths of a point. FedEx Custom put a category-leading 12.40 in On-time Performance this year, and also led the way in Information Technology (3.93), Customer Service (7.11), and Equipment & Operations (5.84). Averitt Express (36.90), CRST Van Expedited (36.59), and NEMF Today (36.22) rounded out this year's top four in one of the more hotly contested battles.

This year's Bulk Motor Carriers category has seven carriers walking the red carpet. While Bulkmatic Transport put up the top overall score (35.40), top honors in each attribute category were spread around fairly well this year. Bulkmatic took top spot in Customer Service (7.11), while Groendyke Transport put up the best score in On-time Performance (11.25) and Value (9.33), and Miller Transporters placed best in Information Technology (3.40) and Equipment & Operations (5.43). L

Bulk Motor Carriers

	On-time Performance	Value	Information Technology	Customer Service	Equipment & Operations	Weighted Score
Bulkmatic Transport	10.61	8.92	3.35	7.11	5.42	35.40
Miller Transporters, Inc.	10.69	9.07	3.40	6.53	5.43	35.11
Groendyke Transport, Inc.	11.25	9.33	3.00	6.53	4.89	35.01
Prime, Inc.	10.43	8.72	3.38	6.53	5.42	34.48
Schneider National Bulk Carriers	10.11	9.15	3.29	6.08	5.09	33.73
Superior Carriers	10.42	8.94	2.91	6.13	5.23	33.62
Ruan Transport	9.75	8.73	3.00	6.87	5.20	33.55
AVERAGE	10.16	8.82	3.16	6.26	5.10	33.50

Logistics Management - 2009 Quest for Quality - Truckload and Van Lines - Reed Business Information - June 2009

Household Goods & High-Value Goods Carriers

	On-time Performance	Value	Information Technology	Customer Service	Equipment & Operations	Weighted Score
Paul Arpin Van Lines	10.50	10.67	4.00	6.53	5.13	36.83
Allied Van Lines	11.25	9.33	3.31	7.12	5.50	36.51
Graebel Van Lines	10.69	9.50	2.81	6.80	5.66	35.46
United Van Lines	10.38	8.17	3.00	6.38	4.93	32.86
AVERAGE	10.27	8.36	2.94	6.14	4.79	32.51

All scores are weighted. Weighted scores are determined by multiplying the average raw scores by the average importance of each attribute (1= least important; 5= most important). To find the attributed weights for this category, see the introduction to the Quest for Quality report.

Logistics Management - 2009 Quest for Quality - Truckload and Van Lines - Reed Business Information - June 2009

RAIL/INTERMODAL

Rising stars

Rail/Intermodal Service Providers

	On-time Performance	Value	Information Technology	Customer Service	Equipment & Operations	Weighted Score
Triple Crown Services	11.19	9.69	3.20	6.17	4.90	35.14
Pacer	9.96	9.81	3.39	5.45	4.60	33.21
CSX	10.33	8.68	3.46	5.78	4.71	32.95
Norfolk Southern	10.29	8.74	3.24	5.58	4.58	32.43
BNSF Railway	9.97	8.63	3.52	5.41	4.60	32.14
AVERAGE	10.04	8.67	3.31	5.50	4.52	32.03

Logistics Management - 2009 Quest for Quality - Railroads/Intermodal Marketing/Service Providers- Reed Business Information - June 2009

Intermodal Marketing Companies

	On-time Performance	Value	Information Technology	Customer Service	Equipment & Operations	Weighted Score
J.B. Hunt Intermodal	10.73	9.49	3.76	6.16	5.17	35.29
Alliance Shippers	10.77	9.19	3.75	6.34	4.88	34.93
Landstar Global Logistics	10.99	9.14	3.67	6.02	4.92	34.73
Schneider Intermodal Services	10.71	9.23	3.83	5.93	5.00	34.71
Hub Group	10.22	9.43	3.47	5.88	4.85	33.85
NYK Logistics	10.50	9.11	3.37	5.85	4.80	33.63
AVERAGE	10.18	9.19	3.49	5.85	4.80	33.50

All scores are weighted. Weighted scores are determined by multiplying the average raw scores by the average importance of each attribute (1= least important; 5= most important). To find the attributed weights for this category, see the introduction to the Quest for Quality report.

Logistics Management - 2009 Quest for Quality - Rail Intermodal Marketing Companies - Reed Business Information- June 2009

Back in 2008, it seemed that most freight transportation modes were acting out a depressing scene from a classic Ingmar Bergman film. The cold, mist, and fog seemed to engulf all modes, with one exception: the railroads.

While truckers and ocean carriers were watching their volumes and earnings sink, business on the rails appeared to be chugging along as carriers exercised strong pricing power and financial returns despite the grim freight climate. Fast forward to July 2009 and it looks as if the recession has finally caught up to the rails. As Group News Editor Jeff Berman reported last month in our 2009 Annual Report, volumes are now down on a weekly basis and the traditional tension between carriers and shippers is heating up again as shippers contend that rates are still too high considering the current state of economic affairs.

Now, more than midway through 2009, Berman adds that the railroads continue to plead their case for their pricing structure, pointing to the need for increased infrastructure to meet future freight projections. But rail shippers continue to turn a deaf ear stating that the rails are still having their way by charging rates that don't match level of service.

Despite the continued wrangling between parties, we may have a glimmer of good news. If the results of our 2009 Quest for Quality are any indication, responding rail shippers tell us that rail and intermodal service providers have improved their On-time Performance scores over 2008—and these key scores appear to have trickled down to show improved perceived Value. Could we be discovering new rising service stars?

We just might. In fact, the overall weighted average scores for both categories we measure have improved by more than a point over 2008, showing an uptick in overall perceived service performance.

In the Rail/Intermodal Service Providers category this year we found that every winners' On-time Performance and Value scores have improved over last year's. Coming out on top for the fourth year in a row is Triple Crown Services with a weighted average of 35.14. While Triple Crown's overall weighted score dropped slightly from 2008, the carrier improved in its On-time Performance (11.19), Value (9.69), and Customer Service (6.17).

Overall, Triple Crown placed first in On-time Performance, Customer Service, and Equipment & Operations. Pacer took the top spot in Value posting a 9.81, and BNSF Railway pulled in first with a 3.52 in Information Technology. Scores in Equipment & Operations dropped by more than a point for the winners in this year's category, signaling a shift in shipper's perceptions in this key attribute category.

In the Intermodal Marketing Companies category this year we see some improvements. In fact, the 2009 overall average jumped by 1.27 points over 2008, the average for On-time Performance jumped by 1.25 points, and the average for Value shot up by 1.26 points.

Pulling in ahead of the pack this year is J.B. Hunt Intermodal, their third appearance on the red carpet in as many years, with an impressive 35.29 overall score. J.B. Hunt also placed first in Value (9.49) and Equipment & Operations (5.17). Landstar led the pack in On-time Performance (10.99); Schneider Intermodal Services took a first in Information Technology with its 3.83; and Alliance Shippers rounds out the attribute category winners with a 6.34 in Customer Service.

OCEAN CARRIERS

Comeback story coming soon

As Executive Editor Patrick Burnson has reported almost daily on logisticsmgmt.com, ocean liner executives are anxious to see the final credits roll on 2009. But it's safe to say that those same executives are quietly anticipating the sequel due to hit the screens in 2010. The current working title: "The Comeback."

Over the past couple years, U.S. ocean shippers have certainly taken advantage of this difficult time on the high seas. There's been more balance in trade, containers and chassis are easier to locate, and shippers have had more leverage in contract negotiations. Meanwhile, carriers are rearranging their fleets and deployment cycles to mitigate further losses, while savvy shippers are matching shipments to these new routes for more supply chain efficiency.

However, a recent U.S. International Trade in Goods and Services report confirms what many ocean carrier executives have suspected for a while: A sluggish recovery in the global movement of containerized cargo will take place in 2010. Analysts are telling shippers that the worst may be over for their carrier partners—meaning that the window of pricing opportunity and port convenience may start to close soon.

While it's still a little early in the recovery game, there are indications that those analysts may be onto something. In fact, in the 2009 Quest for Quality results we're finding that ocean shippers are giving their carrier partners slightly higher scores this year—indicating that their perception of carrier service is on the mend.

In fact, the overall weighted average for the mode ticked up 0.7 points over our 2008 results. And, it's good to see that the On-time Performance average jumped up nearly a full point and subtle improvements in Value, Information Technology, and Customer Service.

Ocean Carriers

	On-time Performance	Value	Information Technology	Customer Service	Equipment & Operations	Weighted Score
Sea Star Line	11.50	8.37	4.40	7.09	4.25	35.61
"K" Line America, Inc.	11.50	8.29	4.34	7.29	4.18	35.60
OOCL	11.31	8.51	4.31	6.91	4.03	35.08
Wan Hai Lines	10.35	9.25	4.75	6.75	3.83	34.93
Matson Navigation	12.13	7.90	3.97	6.55	3.92	34.47
Wallenius Wilhelmsen Logistics	10.35	8.14	4.56	7.20	4.08	34.33
Atlantic Container Line	10.98	8.00	4.21	7.13	3.91	34.22
MOL	11.06	8.28	4.03	6.91	3.76	34.04
Horizon Lines	10.94	8.06	4.28	6.64	3.83	33.75
Hyundai Merchant Marine	10.43	8.54	4.01	6.89	3.81	33.68
Hamburg-Sud (includes Alianca)	11.37	7.82	3.91	6.35	3.90	33.36
Evergreen Line	10.52	8.45	4.04	6.34	3.71	33.05
Hapag-Lloyd	11.08	8.14	4.03	6.07	3.72	33.03
CSAV Group	10.60	8.69	3.71	6.27	3.71	32.98
APL	10.88	7.69	4.24	6.28	3.89	32.98
Hanjin Shipping	10.67	8.08	3.93	6.46	3.77	32.91
AVERAGE	10.58	8.12	4.03	6.39	3.78	32.91

All scores are weighted. Weighted scores are determined by multiplying the average raw scores by the average importance of each attribute (1= least important; 5= most important). To find the attributed weights for this category, see the introduction to the Quest for Quality report.

Logistics Management - 2009 Quest for Quality - International Ocean Carriers - Reed Business Information - June 2009

This year we find Sea Star Line posting the top weighted average of 35.61, just a hair in front of "K" Line's 35.60. In fact, the two carriers put up near identical scores. They tied in On-time Performance (11.50), while Sea Star had a very slight edge in Value (8.37), Information Technology (4.40), and Equipment & Operations (4.25). "K" Line, 2008's overall winner, edged out Sea Star this year in Customer Service with a 7.29—the best overall score in that attributed category this year.

In the individual attribute categories, Matson Navigation steamed ahead of the pack this year in On-time Performance posting a very impressive score of 12.13, more than half a point better than the next competitor. Quest for Quality newcomer Wan Hai Lines led the way in Value with a 9.25 and Information Technology with a 4.75. "K" Line's 7.29 in Customer Service topped the attribute category this year, while Sea Star's 4.25 led the way in Equipment & Operations.

While this list of winners tends to be the longest year over year, we do see a nice mix of perennial service stars as well as a few carriers we haven't seen for a year or two. Walking up the red carpet again this year we find OOCL (35.08), Matson Navigation (34.47), Hyundai Merchant Marine (33.68), Hapag-Lloyd (33.03), APL (32.98), and Hanjin Shipping (32.91). L

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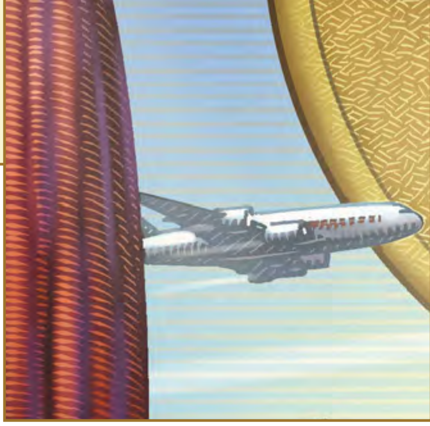

AIR CARRIERS

Still flying high

While every transportation mode has taken a beating at the box office this year, there isn't a mode that's been more ripped to shreds by the critics than air carriers.

However, the most recent numbers reported by our air cargo correspondent Karen Thuermer show that air freight demand has stabilized for the past five consecutive months in the -20 percent range, indicating that the industry may have seen the worst of the economic downturn.

Yet, while many air carriers were drastically cutting back on schedules and personnel to mitigate the decline in business levels, we're happy to report a strong list of air and express carriers that shippers believe are delivering world class service despite considerable challenges.

In fact, there are 15 winners in the 2009 Air Cargo Carriers category, one more than our 2008 list. And while air freight demand was at near record lows over the past 12 months, those shippers who were using their services tell us that overall performance has improved a bit since our 2008 results. The 2009 overall weighted average score for this group ticked up nearly 2 points over 2008 to 34.50, an indication that shippers are actually more satisfied with the service they're receiving in the air.

Air carrier executives should also be happy to know that the uptick in the overall average was driven by improvements in four of the five attributes we measure. The weighted average for On-time Performance jumped by a full point, while Value, Customer Service, and Equipment & Operations all saw subtle improvements.

Southwest Airlines will take a walk up to the podium again this year. This marks the fourth year in a row Southwest scored the top mark and the 13th consecutive year they've scored above the overall weighted average. This year, Southwest led the way in On-time Performance with an impressive 12.83, Value (9.19), and Customer Service (7.88). SAS posted a category-best 5.10 in Information Technology, while Singapore Airlines rounds out the list of attribute winners by posting a 4.22 in Equipment & Operations.

The Air Express Carrier race has been a two actor showdown for more years than we can count. And while UPS always turns in a year's worth of critically acclaimed work, FedEx seems to edge "Big Brown" out for the top spot. While they both receive Quest for Quality awards again this year, FedEx swept each individual attribute category for the second year in a row, posting a 12.58 in On-time Performance, 8.22 in Value, a 5.49 in Information Technology, 7.50 in Customer Service, and 4.23 in Equipment & Operations. L

Air Cargo Carriers

	On-time Performance	Value	Information Technology	Customer Service	Equipment & Operations	Weighted Score
Southwest Airlines	12.83	9.19	5.08	7.88	3.94	38.91
SAS	11.75	8.23	5.10	7.75	3.89	36.71
KLM	11.90	8.48	4.81	7.54	3.87	36.60
Lufthansa	12.01	8.22	5.05	7.19	4.09	36.56
EVA Cargo	11.99	8.82	4.53	6.85	3.71	35.89
Singapore Airlines (SIA)	11.66	7.87	4.99	7.07	4.22	35.81
Virgin Atlantic	11.93	8.74	4.36	6.86	3.89	35.79
Japan Airlines	11.96	7.99	4.88	7.00	3.87	35.70
Nippon Cargo Airlines	11.52	8.28	4.74	7.10	3.82	35.46
Emirates SkyCargo	12.09	8.40	4.31	6.64	3.89	35.32
British Airways	11.35	8.17	4.64	7.10	3.82	35.07
Continental Airlines	11.30	8.14	4.55	7.12	3.80	34.91
Korean Air	11.18	8.57	4.59	7.03	3.52	34.89
Cargolux	11.16	7.95	4.55	7.19	3.78	34.63
Kitty Hawk	11.59	8.49	4.20	6.86	3.43	34.57
AVERAGE	11.27	8.03	4.57	6.91	3.73	34.50

Logistics Management - 2009 Quest for Quality - Air Cargo Carriers - Reed Business Information - June 2009

Air Express Carriers

	On-time Performance	Value	Information Technology	Customer Service	Equipment & Operations	Weighted Score
FedEx Express	12.58	8.22	5.49	7.50	4.23	38.02
UPS	11.67	8.07	5.34	6.89	4.02	35.99
AVERAGE	11.11	7.99	4.91	6.65	3.83	34.49

All scores are weighted. Weighted scores are determined by multiplying the average raw scores by the average importance of each attribute (1= least important; 5= most important). To find the attributed weights for this category, see the introduction to the Quest for Quality report.

Logistics Management - 2009 Quest for Quality - Air Express Carriers - Reed Business Information - June 2009

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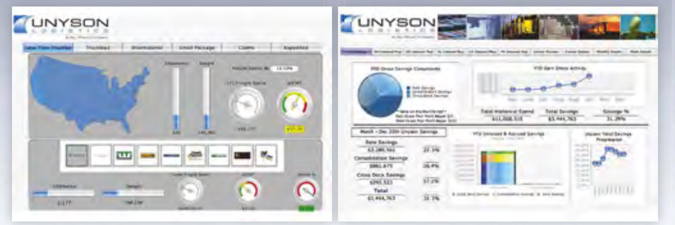

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Quest for Quality Logistics Management

FREIGHT FORWARDERS

Best foreign performance

Although many shippers are still finding that far-shore operations can still equate to a high-quality, low-budget production, some of the savviest logistics and supply chain professionals are quickly turning to a strategy we're calling "right-shoring." As we defined it in the pages of *Logistics Management* earlier this year, right-shoring is the combination of on-shore, near-shore, and far-shore operations into a single, flexible, low-cost, and service-centric approach to supply chain and logistics management.

While the authors of our feature "Right-shoring: A flexible strategy for tough times" were not implying that far-shoring is no longer a viable strategy, they were attempting to stress the fact that "worldwide economic problems and changes have drastically altered the cost dynamics associated with manufacturing and distribution network strategies." So much so, our authors found, that many shippers no longer assume that far-shore operations are less expensive in the long term.

And as we continue to follow the strategic moves top global shippers are making, we're finding that companies that are over-invested in far-shore operations tend to be the supply chain operations that are most at risk, as crude oil prices fluctuate wildly, labor costs rise in developing countries, and the value of the U.S. dollar shifts unpredictably.

But no matter how difficult the global supply chain landscape may become, there is one thing for certain: Global shippers will continue to rely on the best connected freight forwarders to move goods through expanding—or contracting—distribution networks. Indeed, this savvy group of freight forwarders has seen their business flourish over the past decade, and now the very top service providers are poised to catch the next phase of growth.

Airfreight Forwarders

	On-time Performance	Value	Information Technology	Customer Service	Equipment & Operations	Weighted Score
Pilot Freight Services	12.37	8.46	4.92	7.91	3.85	37.51
UPS SonicAir	12.63	7.65	5.38	7.65	4.00	37.31
Lynden Air Freight	11.46	8.55	4.86	7.75	3.70	36.31
Nippon Express USA	12.32	7.97	4.82	7.53	3.61	36.25
Hellmann Worldwide	10.97	8.28	4.83	7.68	3.81	35.56
FedEx Trade Networks	11.18	8.02	5.29	7.02	3.91	35.41
Expeditors International Express	11.34	8.18	4.91	7.25	3.65	35.33
Exel	11.25	8.00	4.73	7.16	3.59	34.72
SEKO	11.32	7.69	4.39	7.68	3.42	34.50
CEVA Logistics	11.20	8.05	4.56	7.03	3.64	34.48
Kintetsu World Express	11.39	8.03	4.44	6.92	3.58	34.36
UTi Worldwide	11.03	7.75	4.68	7.07	3.55	34.08
DAX Dependable AirCargo Express	11.57	7.75	4.35	6.64	3.69	34.01
Kuehne + Nagel	11.15	7.57	4.68	6.84	3.67	33.90
AVERAGE	10.87	7.82	4.56	6.95	3.58	33.78

All scores are weighted. Weighted scores are determined by multiplying the average raw scores by the average importance of each attribute (1= least important; 5= most important). To find the attributed weights for this category, see the introduction to the Quest for Quality report.

Logistics Management - 2009 Quest for Quality - Freight Forwarders - Reed Business Information - June 2009

In 2009, global shippers have voted in 14 freight forwarders, three more than we invited to walk down the red carpet in 2008. And as we've found in a number of other categories this year, shippers are telling us that this group of winning providers has kicked their performance up a notch. In fact, the overall weighted average for this group ticked up 1.27 points over 2008's number, signaling an improved overall level of service satisfaction.

As in the other categories that saw the overall weighted average climb this year, there were a couple of the individual attribute categories that helped push the number up. Freight Forwarder executives should be proud to note that four of the five attribute categories saw slight improvements, including On-time Performance, Value, Customer Service, and Equipment & Operations.

Pilot Fright Services (37.51) and UPS SonicAir (37.31) led the pack of winners this year in a race that was nearly too close to call for the overall top position. In the individual attribute categories, UPS posted the top score in On-time Performance (12.63) and Information Technology (5.38), Lynden Air Freight took top honors in Value (8.55), and Pilot Freight Services posted the high mark in Customer Service with a 7.91. L

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THIRD-PARTY LOGISTICS

Kings of networking

Third-Party Logistics Companies

	Carrier Selection/ Negotiation	Order Fulfillment	Transportation/ Distribution	Inventory Management	Logistics Information Systems	Weighted Score
Unyson Logistics (Hub Group)	10.00	9.25	9.36	5.66	7.87	42.15
FedEx Supply Chain Services	7.91	8.03	8.52	4.72	6.94	36.12
Expeditors Int'l of Washington	8.33	7.97	8.30	4.69	6.43	35.72
Exel	7.91	7.92	7.73	4.84	6.26	34.66
Averitt Express Supply Chain Solutions	7.82	8.01	7.92	4.20	6.25	34.20
Ryder	7.66	7.78	8.10	4.59	5.95	34.07
Landstar Global Logistics	7.97	7.36	7.73	4.61	6.37	34.03
UPS Supply Chain Solutions	7.60	7.74	7.81	4.52	6.36	34.03
CRST Logistics	8.00	7.43	7.39	4.52	6.02	33.35
Maersk Logistics/ Damco	7.68	7.33	7.35	4.45	6.37	33.18
NYK Logistics	7.88	7.32	7.70	4.30	5.94	33.12
AVERAGE	7.76	7.35	7.50	4.42	6.09	33.12

All scores are weighted. Weighted scores are determined by multiplying the average raw scores by the average importance of each attribute (1= least important; 5= most important). To find the attributed weights for this category, see the introduction to the Quest for Quality report.

Logistics Management - 2009 Quest for Quality -Third Party Services - Reed Business Information - June 2009

There's a hint of the James Dean saga in the script now being written about the third-party logistics (3PL) market.

There was a time when it appeared that 3PLs were poised to experience exponential growth year after year with no signs of stopping. In fact, in mid-2008 we reported that the global 3PL sector had just posted a record $487 billion in gross revenues, and the U.S. sector had just tallied its second straight year of single-digit growth after nearly a decade of averaging 14 percent annual growth.

Now, that rocket ride to stardom has been temporarily halted, and 3PL executives are now heard reading lines like "we're experiencing solid measured growth" or "we're managing through the current economic challenges." According to Dick Armstrong and his research team at 3PL consultancy Armstrong & Associates, more than $498 billion was generated in 2008 in the global 3PL market, 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. But unlike Dean, whose life was taken in a tragic auto accident, the 3PL market is still very much perched under the bright lights and ready for its next break-through role.

And when that does happen, it would be pretty safe to assume that the list of this year's Quest for Quality winners will be ready to take center stage. In 2009, shippers have given 11 third-party logistics stars rave reviews and an invitation to walk the red carpet. This year, many of the award-winning providers are nearly household names.

Leading the pack for the second year in a row is Unyson Logistics (Hub Group), scoring a very impressive 42.15 weighted average and one of the best averages overall this year in any mode or service category. In fact, Unyson came in 6.03 points ahead of FedEx Supply Chain Services (36.12), by far this year's biggest margin of victory. This large margin also found Unyson winning all five of the 3PL attribute categories, scoring 10.00 in Carrier Selection/Negotiation, 9.25 in Order Fulfillment, 9.36 in Transportation Distribution, 5.66 in Inventory Management, and 7.87 in Logistics Information Systems.

Taking this dominating performance out of the picture, we find Expeditors International of Washington taking second spot in Carrier Selection/Negotiation (8.33); FedEx Supply Chain Services scoring very well in Order Fulfillment (8.03), Transportation Distribution (8.52), and Logistics Information Systems (6.94); and Exel posting a second-best Inventory Management (4.84).

It is also good to see some faces return to our red carpet after missing the cut last year. In 2009 shippers welcomed back Exel (34.66), Ryder (34.07), UPS Supply Chain Solutions (34.03), CRST Logistics (33.35), Maersk Logistics (33.18), and NYK Logistics (33.12). L

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Straight talk on GREEN

BY **PATRICK BURNSON,** EXECUTIVE EDITOR

Shippers are tired of hearing a lot of noise about going green. So, to help clear the air on what "green" really means to logistics operations, *LM* gathered four straight-shooting supply chain experts to give you the scoop.

The experts

Gonzalez

Kilgore

Klappich

Ladd

While everyone talks about becoming environmentally conscious and fully compliant with pending new green laws and regulations, many shippers are still at a loss as to where to begin. In an effort to fathom just what "going green" really means, *LM* gathered four green supply chain experts to share their views in a roundtable discussion of the challenges and benefits of joining the movement.

Our four distinguished green panelists include: Brittain Ladd, currently the director of an IT services provider and consulting firm who previously managed green logistics operations for Dell computer and Michaels arts and crafts stores; C. Dwight Klappich, a vice president at Gartner where he leverages his 25 years of supply chain management experience focusing on applications and software technologies; Mike Kilgore, the founding president and CEO of Chainalytics and a highly regarded expert in green supply chain strategy; and Adrian Gonzalez, director at ARC Advisory Group where he advises companies on supply chain and logistics benchmarking as well as improving green operations.

***Logistics Management:* Many shippers may be anxious to go green while many are still a skeptical. First, is it really possible to accurately measure a logistics operation's carbon footprint?**

Brittain Ladd: Well, the key word in the question is "accurately," as there is disagreement as to how accurate a company can measure a logistics operation's carbon footprint. The problem is that there isn't a global standard in place so there is room for disagreement on the issue. For companies that are just curious about what their carbon footprint is but aren't willing to fully commit to a green program, they can turn to software modeling vendors that offer software capable of modeling the supply chain as well as calculating the carbon footprint.

***LM:* With accuracy up for debate, what is the best way to measure carbon?**

C. Dwight Klappich: Gartner distinguishes between three approaches to addressing carbon within a logistics organization: carbon reporting; carbon accounting; and carbon sensitive planning. Good or bad, much of the "green" hype has centered on carbon reporting and, more recently, carbon accounting.

Gartner sees a continuum from fairly rudimentary reporting of aggregated items that contribute to carbon emissions to the ultimate, though currently unachievable, vision of extremely robust and complex end-to-end "actual" accounting of carbon across extended supply chains.

Mike Kilgore: While calculating carbon content for some operations—say full truckload movements on a private fleet—may be relatively straight forward, determining the relevant carbon content for other modes of transportation such as parcel or LTL becomes a bit of an ABC operation, or Activity Based Carboning. The best way to get started is to simply adopt one of the many standards and begin to calculate the carbon footprint associated with your company's unique mode mix and usage.

***LM:* Within that framework, how do you define what you measure?**

Adrian Gonzalez: There are two main considerations when measuring carbon footprint: scope and accuracy. Some companies adopt a very narrow definition of carbon footprint, such as only accounting for carbon emissions within their four walls, while others try to take into account the emissions of their trading partners, including suppliers and logistics service providers. I'll put it this way: The broader your carbon footprint definition the less accurate your measurement because you're forced to make estimates.

***LM:* Many savvy shippers began supply chain re-design efforts last summer due to high fuel costs. What role do you think green logistics initiatives are playing when it comes to those efforts?**

Ladd: In terms of supply chain re-design efforts that took place last summer, green logistics initiatives played a very minor role as the focus of most companies was on stopping the bleeding from high fuel costs, not on saving the environment. Today, however, companies are not faced with the same pressures from high fuel costs, so more discussions are taking place in regards to combining supply chain re-design with green initiatives

Kilgore: Correct. The challenge companies have in the current environment is determining the long-term assumption around fuel costs. If you believe they will begin to move back towards 2008 levels within the next three to five years, then most re-design efforts are leading to reductions in green-house gas emissions as an after-effect as opposed to being a key driver of change.

Both Mike and Brittain are right on. Green initiatives are not the catalyst for supply chain network re-designs, but they are something companies are beginning to include as part of the analysis. In other words, companies are primarily re-evaluating their supply chain networks for cost and service level reasons. At this time, I'm not aware of any company that is optimizing their supply chains for lowest carbon footprint.

***LM:* Are network design tools now allowing supply chain mangers to take carbon footprint improvements into consideration?**

Klappich: Some network design tools have added carbon as a solve parameter, which allows companies to model their supply chains to reduce costs or reduce

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carbon, not always creating the same network. We find in talking to early adopters that the optimizers are working well, but the databases that provide carbon content are not mature and there are questions about data quality and usefulness.

***LM:* Are "smart transportation management" and "green transportation management" one in the same? If not, how are they different?**

Klappich: "Green Washing," where everything is viewed through a green lens, is counter productive and will lead to skepticism. Focusing instead on the business value green initiatives can bring to the table will better align smart transportation and green programs. For example, reducing wasted miles has both a cost and green impact, and these types of projects should be pursued aggressively because they make good business and environmental sense.

Ladd: I've found that there's a distinct difference, as green transportation initiatives go above and beyond smart transportation management processes. However, both initiatives implemented together increase the value of each to the organization. When I was at Michaels, for example, we invested the time and energy to implement smart transportation and supply chain strategies as part of an overall supply chain improvement strategy.

Kilgore: I have to interject that from my perspective they are one in the same. In transportation management, being green means burning less fuel, which means running fewer miles and using the most efficient modes possible. This is smart transportation management.

Gonzalez: I agree with Mike. They're also the same to me. Smart transportation practices, such as effective load building and shipment routing, lead not only to cost savings, but also greenhouse gas reductions.

***LM:* Are you finding in your current research that the recession is putting a damper on green transportation management initiatives?**

Klappich: Yes. We conducted a study over the last quarter of 2008 where, given the state of the global economy, we not unexpectedly found that cost reduction dominated the minds of supply chain management professionals. Green and other possible government mandates fell to the bottom of the priority list.

Kilgore: Well, only in as much as the recession has caused a dramatic decline in the price of diesel. The urgency has abated somewhat. Green initiatives are still there and still being discussed and worked on; but the true catalyst to moving quickly on implementing the initiatives is high fuel prices. As prices rise, green transportation initiatives will be pressed forward by senior management.

Gonzalez: I've seen that there has been a damper put on them, at least to some extent. But the early adopters are still moving forward with their initiatives. It's important to remember that we're still in the early, early adopter stage here. Only 148 of the S&P 500 published Corporate Sustainability reports in 2008. So, the vast majority of companies out there are sitting by the sidelines, waiting for legislation to force them to take action.

***LM:* Has the recession eroded some willingness?**

Ladd: How willing a company is to embrace green initiatives will depend in part on the financial health of their company and the ability of management to articulate the need and value for implementing green initiatives. Companies that have been able to survive and thrive during the recession can make decisions out of inspiration and are more willing to see the merits of green to their organization, customers, and shareholders. Point blank, even in a recession companies can reduce their costs while going green.

***LM:* In terms of what carriers need to do to go green, do you believe that shippers are willing to share the cost that carriers will incur to green operations?**

Gonzalez: [Laughter] Not a chance.

Klappich: That's right, Adrian. Not today given the buying clout that shippers have in the market. Maybe down the road when capacity constraints return and some power returns to carriers…but not in this climate.

***LM:* But there's got to be a little cost sharing whether they like it or not, correct?**

Kilgore: Shippers are indeed sharing in the cost. For example, Smartway carriers have made significant investments to reduce carbon emissions and they are succeeding in growing business and incorporating the investment costs into their pricing. Our research shows that there is very little difference in pricing between carriers that have been strong adopters of green initiatives and those that have not.

Ladd: Remember, it will depend on the relationship between the shipper and carrier. Shippers who understand the value of treating carriers as strategic partners and not as a commodity will understand the need for carriers to price the cost of going green into their rates and will be at least willing to discuss an increase. Unfortunately, shippers and carriers in many instances don't have strategic relationships.

***LM:* Many shippers maintain that pending cap and trade legislation has the potential to drive up transportation costs. How can shippers prepare for this possibility and for additional costs while maintaining efficiency?**

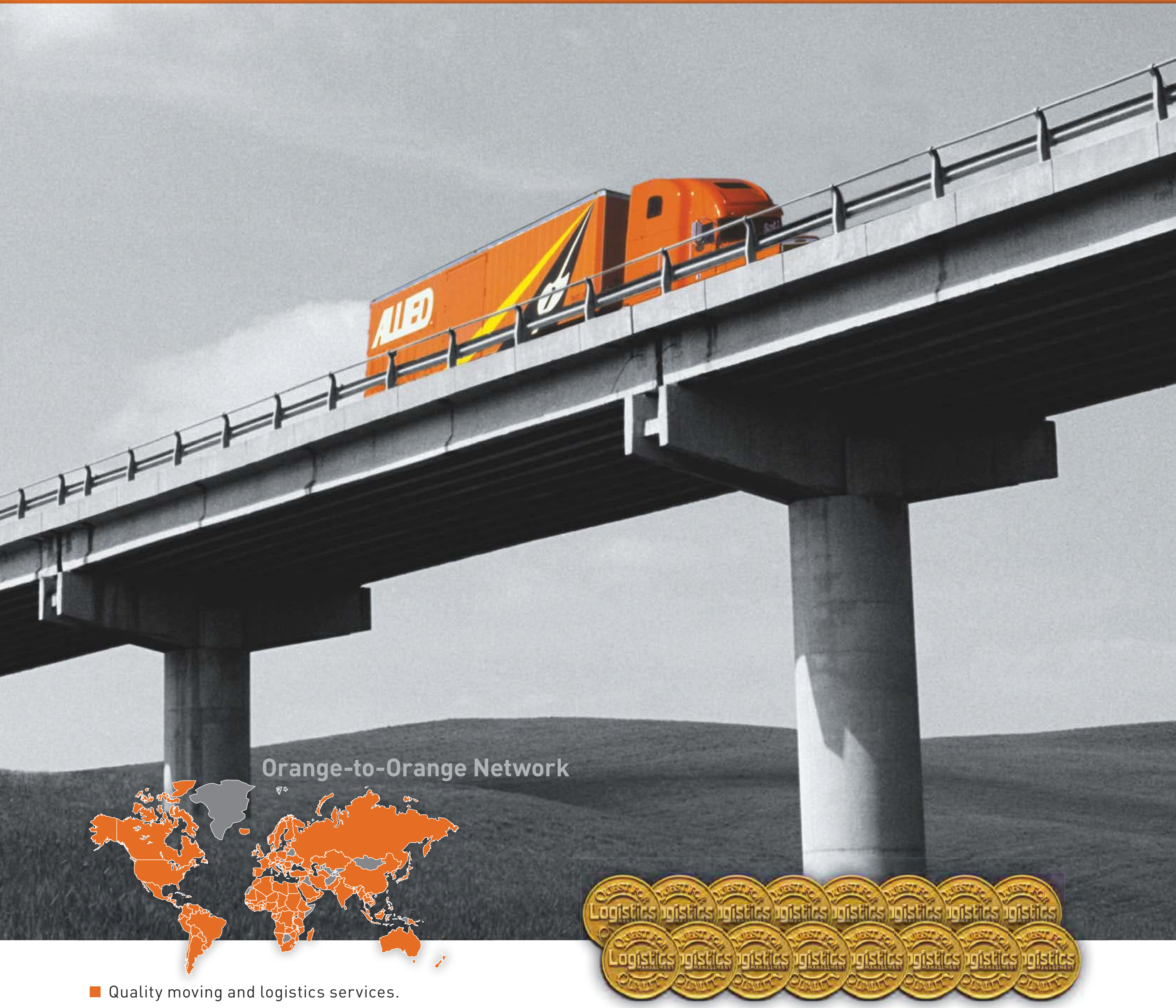
Kilgore: We're not sure how much they need to prepare since there is so much uncertainty around both the timing of this regulation as well as the framework that will be implemented. The pressure to reduce carbon footprint as a measure of good corporate citizenship will continue to increase through the media and through environmentally focused non-profits.

Klappich: That's correct. I don't think anyone really knows the extent or specifics of cap and trade, but clearly, since transportation represents a large portion of the carbon footprint of logistics organizations, adopting a transportation management system (TMS) is the logical starting point.

Gonzalez: I couldn't agree with Dwight more on this. If you're still managing your transportation operations with spreadsheets and fax machines, now's the time to consider investing in a TMS. The "greenest" action shippers can take is making sure that loads are optimized and that you're routing your shipments as efficiently as possible.

***LM:* Here's a question we hear**

Your bridge to ________________.



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shippers frequently ask: Are green transportation planning initiatives really good for business?

Klappich: Absolutely, if the focus is on planning and not carbon accounting. There is so much low hanging fruit in most logistics operations that a TMS can have an immediate impact on carbon footprint as well as saving money.

Kilgore: With very few exceptions green transportation equates to lower transportation costs, but that is not necessarily good for business. The hard trade-offs for green transportation will be in the area of service. The most fuel efficient modes or plans are typically the cheapest, but are also typically the least service oriented.

Gonzalez: I'd say that Green is good for business because only green projects that are good for business get done: In other words, if a project is good for the environment but not for business, it rarely gets the green light.

Ladd: Let me add that this has to be answered by each company individually. Carriers and shippers that invest the time and effort to implement strategies to reduce costs and complexity within their organizations will find that their work and determination accelerate the benefits of their green initiatives. Companies that fail to be rigorous and thorough in their efforts and implement a "light" version of green will soon discover that their efforts have failed to achieve the desired results.

***LM:* What is the most important piece of advice for a logistics manager about to embark on a green transportation planning journey?**

Klappich: Even if carbon is not an explicit solve goal in a TMS, leveraging a TMS to reduce total miles, and most importantly wasted miles, will have a significant and immediate impact on a company's carbon footprint.

Ladd: Take advantage of the knowledge of others who have already taken the journey in order to avoid making mistakes that can severely impact the ability for a successful implementation.

Gonzalez: Brittain is right on. But I also advise companies to stay informed of government regulations. If your company doesn't have a "sustainability" strategy, you better get started now. Collaborate with trading partners and industry peers, particularly on the standards front. Establish a "carbon footprint" baseline. It may not be "accurate" but it's a start.

Kilgore: We are all pretty much in agreement here. Seize the green movement as a means to gain competitive advantage. While your competitors may stop at making the obvious adjustments, I would encourage you to stretch and reevaluate your mode mix, extended supply chain network flows, carrier base, portfolio policies, and finally…your deployment approaches.

Patrick Burnson is Executive Editor of Logistics Management

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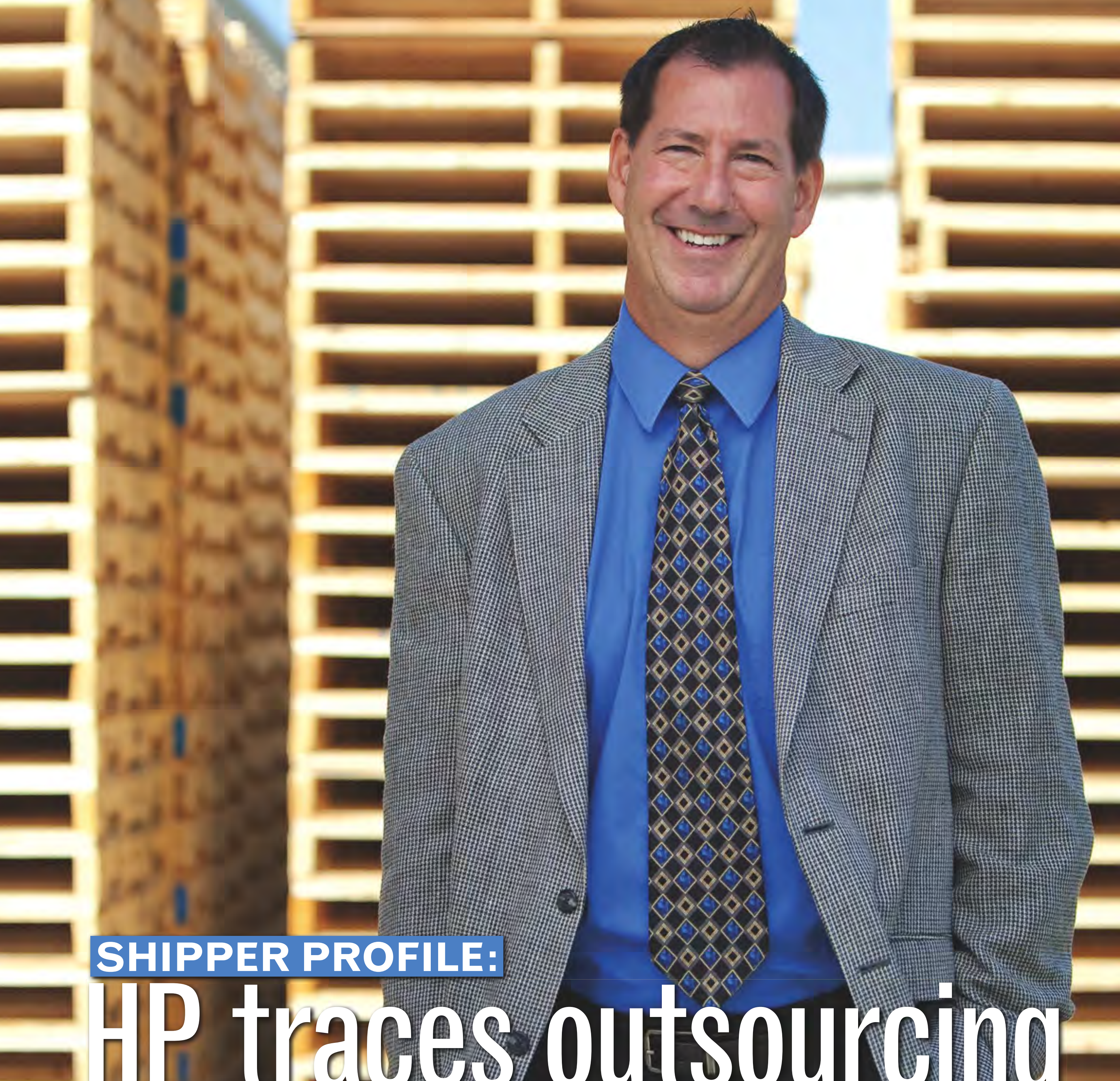

SHIPPER PROFILE:

HP traces outsourcing back to its roots

BY **PATRICK BURNSON**, EXECUTIVE EDITOR

After making a few miscalculations in its global operations during the early days, Hewlett-Packard looked for a North American "partner" to take charge of its international shipping and sourcing operations. A complex story? You bet it is.

Tom Healy, director of DC operations

To say that Tom Healy has seen it all at Hewlett-Packard Co. (HP) over the years would be a gross understatement. Having joined the company at the dawn of the printing era in 1982, he was charged with creating a supply chain and distribution strategy in a rapidly expanding marketplace. Demand for HP's printers and peripherals was surging as that time too, and as director of DC operations, he was running at full tilt just to keep up.

"We had just started making a very heavy, high-end computer, but it wasn't the best in the industry at that point," Healy recalls. But we were producing the most advanced laser and ink jet products in the business; so it was then that I first began to question if logistics was going to be part of HP's core competency."

Healy and HP were still trying to do it alone, however. Healy was charged with oversight of an HP multi-tiered warehouse in Europe armed with state-of-the-art picking and packing technology. The new and gleaming structure had everything a logistics manager could desire, but when it came to actually getting product out the door, a more classic system worked best.

"We eventually figured out that it was more practical to palletize the loads of printer components," he says, "rather than box them. It was the kind of misstep that drove us to look for a 3PL partner."

DISTRIBUTION "PARTNERSHIP" FORGED

In the early 1980s Healy served in a broad range of leadership positions covering every aspect of the supply chain, including customer fulfillment, procurement, manufacturing, logistics, demand/supply planning, and distribution.

"This was an exciting time to be in the business because it coincided with the revolutionary changes in shipping and globalization," he says. "I spent a lot of time in Singapore when we were still moving goods mostly by air, but it didn't take long for most manufacturers to transition to ocean vessels based on the supply chain characteristics of the goods."

The next decade ushered in another transformational era as HP chose to concentrate its domestic distribution from multiple factory shipping points to a single DC in San Jose, Calif., in 1989. The following year, HP ramped up its four-day delivery program to HP partners nationwide using a combination of air and ground service. Menlo Worldwide Logistics, which had been chosen earlier to help with HP's depot operations, was chosen as a DC partner for the company's expanded multi-product San Jose warehouse. Within the next 12 months, HP was shipping its printers, supplies, and computer product lines from the Menlo-operated DCs.

"While everyone in our industry was talking about working with a 3PL or 4PL, I was really just looking for a strategic supply chain partner," recalls Healy. "We were beginning to see the benefits of outsourcing the logistics so that we could concentrate

"We were beginning to see the benefits of outsourcing the logistics so that we could concentrate on R&D while adding value to our existing product line."

on R&D while adding value to our existing product line. Looking at other consumer groups, we wanted to replicate the models they had in place and get our goods out the door without any complications."

The hardest part, admits Healy, was "letting go" of the logistics function at the time. Even though he was impressed with the way the relationship had gone so far, there was a certain amount of separation anxiety in the initial stages. But one consequence of the partnership turned out to be pivotal: the retention of a skilled workforce. Healy was now able to mitigate another type of loss: that of well-trained and experienced employees.

"When you hand over a warehouse or DC operation, the partner takes charge of the existing workforce," he says. "While the people are still on our payroll, we don't have to manage them in a new system. It's really a mutually beneficial situation."

By 1996, HP had enlarged Menlo's role to provide multimodal service to all national destinations with expansion of nearly a half dozen DCs across the U.S. and Canada. Three years later, HP handed off its postponement/light manufacturing in Memphis, Tenn., thereby giving Menlo oversight of 24 productions lines and management of more than 2,000 employees.

"Looking at other consumer groups, we wanted to replicate the models they had in place and get our goods out the door without any complications."

"We were still being regarded as a leader in supply chain management," says Healy, "but we were no longer burdened by the details of distribution. What it really came down to was trading inventory for information. People often forget that this also gives the manufacturer a 'leverage point' for working with other vendors. I no longer had to negotiate every piece of the puzzle."

According to Lonny Warner, Menlo's vice president of high-tech group logistics, the 3PL offers this leveraged distribution center assets and centralized transportation management with flexible "transaction-based" solutions. "The value Menlo delivers to our customers does not fluctuate in response to economic conditions," he adds, noting that in a down economy, shipper's expectations of the time from design to implementation for a solution or process improvement "is condensed and more urgent."

Be that as it may, by the turn of the new century, HP was giving Menlo end-to-end strategic and tactical management responsibilities for its North American supply chain operation, providing HP with reseller end customer support and performance reporting. At roughly the same time, HP was beginning to source goods through the Port of LA/Long Beach and from East Coast ocean gateways for inbound shipments from Asia to the U.S. and Mexico.

EASING CULTURAL SHIFTS

With its acquisition of Compaq in 2003, HP called upon its third party providers to help with the integration of the electronics giant. At the same time, it was calling upon its 3PL to assist with a new regulatory compliance program for U.S. Customs.

"This was a complicated time for us," says Healy. "We were responding to a lot of different pressures, and also facing new competition from computer manufacturers selling systems directly to the consumer. It was a move on their part to take market share from us on the printer side."

As a consequence, HP came to rely even more on its 3PL partner for assistance. Ongoing changes in HP's supply chain lead to the implementation of a pool distribution program to meet its changing customer demand requirements while continuing to improve efficiency. "We really came to trust the proprietary software we were using," says Healy. "It was customized by the 3PL to meet our needs and we realized significant savings."

In what seemed like a great leap of faith many years ago, now appears to be part of an evolutionary journey, admits Healy and his HP colleagues. The outsourcing is now part of an established and accepted reality.

During his 27-year career at the company, Healy has also led its supply chain transformation and operation teams at three new business ventures for HP—Roseville Networks Division, Network Print Sharing, and HP's Imaging and Printing Commercial Direct platform.

"Having a trusted third party logistics provider like Menlo for collaboration is key," he says. "They have played a major role in our manufacturing-to-channel partner delivery program, and have made my job that much easier."

Does that mean that he's ready to rest on his laurels? Hardly, just this past June, Healy moved into his current role as the worldwide supply chain strategy manager for ProCurve Networking, a global business unit of HP and leading provider of network hardware and solutions.

"In this position, I'm responsible for design, development and strategic supply chains," he says. "I'm also charged with designing a global supply chain network to optimize current and future route-to-markets to compete in the networking business environment. In a globalized environment, there isn't a single part of the world we are not trying to dominate." L

Patrick Burnson is Executive Editor of Logistics Management

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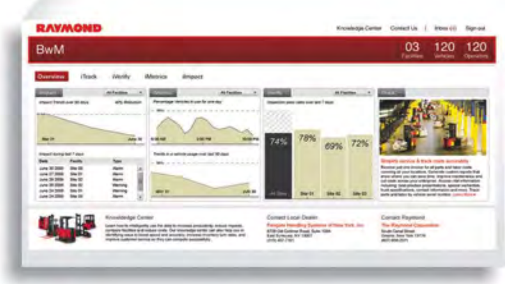

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LIFT TRUCK FINANCING: Time to wheel and deal

BY **TOM ANDEL**, CONTRIBUTING EDITOR

Interest rates are low. Prices are right. Competition is high. If you'll need to replace your lift trucks in the next 18 months, now's the time to lock in a deal.

After this year, Ralph Petta might wish for a little boredom. Right now he's witnessing events he's never seen before—and hopes he'll never see again.

As vice president of research and industry services for the Equipment Leasing and Finance Association (ELFA), Petta is among the first to see the numbers that are used to help gauge the status of productive assets in the U.S. economy. ELFA's Monthly Leasing and Finance Index (MLFI-25) complement the monthly durable goods report produced by the U.S. Department of Commerce and the Institute for Supply Management Index, which reports economic activity in the manufacturing sector.

As this article is written, ELFA's most recent numbers showed that overall new business volume for April declined by 42.5 percent when compared to the same period in 2008. Month-to-month new business volume decreased 12.8 percent from March to April, from $4.7 billion to $4.1 billion.

Bottom line for anyone anticipating adding to or replacing their lift truck fleet: now would be a good time. It's a buyer's—and leaser's—market. In fact, Lift truck providers face the same reality their customers do—as inventory ages it devalues and they have to turn it over. That's why leasing terms are more creative than ever and providers are more willing to work with fleet managers to build an affordable and sustainable leasing strategy.

"There's never been a drop in demand for leased and financed equipment across the board as we've seen this year," Petta says. "The entire first quarter of 2009 vs. 2008 shows a 30 percent drop; and our members are telling us that there are still problems across the board in the financial sector with companies having a difficult time accessing affordable credit."

So, many lift trucks in the field are either being over-used or not being used at all—except for spare parts. Dealers don't like that and want to help customers right-size their fleets and improve utilization and maintenance. Here's a look at some of the predominant trends that could affect the decision-making process for any lift truck manager who's about to enter the market.

Negotiating a lease with low/high structures, where the payments start out low and increase over time, may be an option.

CREATIVE OPTIONS

Bob Sattler, vice president of Hyster Capital, the captive finance company for Hyster Co., says that last year's horrible fourth quarter forced the company to react differently regarding the cost of funds.

"Over the last three or four months we've seen lenders leave this collateral type because the returns became so low," says Sattler. "In the past you had free flowing credit and now you're seeing it very difficult to get C and D [clients] approved."

Banks and finance companies, even those specializing in lift trucks, are trying to shorten terms while customers who want to ease cash flow are looking for longer terms. This is inspiring lessors and lessees to find creative compromises. For example, you can now negotiate a lease with low/high structures where the payments start out low and increase over time.

"If it will help a customer from a cash flow perspective, it's certainly more attractive than your traditional sales agreement where the customer is just buying the asset and carrying it to their balance sheet," Sattler says.

And while more and more creative financing options will continue to emerge, many of the experts contacted for this article agree that it's often best to first make sure you've "right-sized" your fleet and keep it in good running condition. They contend that it's better to be caught short a lift truck or two and have to rent a gap-filler now and then than to park lift trucks and pay for them to be idle.

MORE NEGOTIABLE TERMS

Business is tough for buyers and lenders. That's why lift truck providers are now more willing than ever to be flexible on the length of a lease. Darlene Harrington, lease marketing manager for The Raymond Corporation, says many of the leases quoted today are for seven-year terms.

"Some of our larger customers who used to be on a planned replacement are extending their leases for additional months," says Harrington. "That's been a surprise for us because we have had longstanding relationships with some of these customers who traditionally replaced every four years."

The problem is simple: a slow economy means less material handling activity, therefore many more lift trucks are sitting idle. Instead of repairing the ones they use, many fleet managers are just replacing them from their inactive fleet. According to Harrington, these are the same users seeking to extend their lease terms.

And that's why many experts stress that extending service life must be part of any lease extension. Whether that's the responsibility of the user or the provider, maintenance is essential. Christina Goodwin, director of financial services and remarketing for Yale Materials Handling, says dealers are getting a lot more work through maintenance contracts.

"The larger national accounts are making sure they get, at minimum, the useful life of their equipment; and now they're maybe going a year or two beyond that and paying a little extra to maintain that equipment," she says.

Raymond's Harrington recommends that in addition to considering a lease extension, fleet mangers should think about negotiating more flexible terms. For example, if a lift truck doesn't last the full length of its lease, or if your

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business operations change, you may be able to return the equipment early or purchase early.

"We don't rewrite our lease language very often," Harrington says. "Now it's standard practice for every lease to have some flexibility built in or some program offered. We haven't seen much refinancing in the middle of a term but we are being asked to put trucks on extension a lot more today than replace the trucks."

In fact, customers are even asking their providers to get them out of the lift truck management business entirely. "We're being asked by managers of larger fleets if we would manage their fleets instead of having individual schedules and leases," Harrington explains. "On top of the management, they're asking if we can make recommendations to them when they need to replace a unit due to maintenance or hours."

Harrington says her team is evaluating that for two or three of Raymond's larger customers and trying to determine what that would mean for the company. It would certainly mean more information management for Raymond, as well as deciding what kind of information it could supply and in how much detail.

Many larger users are going a year or two past the useful life of their trucks, opting to pay extra for maintenance.

At the end of the day, all of this new flexibility means that you don't have to be a Walmart-size client to negotiate a good deal. In fact, in this economy even smaller clients are getting unprecedented deals—but that won't last forever.

WHY MAKE A MOVE NOW?

Eventually, the business of selling and leasing lift trucks will regain its health. Yale's Christina Goodwin believes that if customers delay purchasing equipment by a year or two we'll be back in a seller's market by that time and manufacturers won't be working on the same deals they are now.

Another reason that now appears to be a good time to strike is the availability of Troubled Asset Relief Program (TARP) funding, the Federal government's plan to free up lending. "Some banks have access to TARP dollars and can offer competitive funding, but it's temporary," says Richard Pipenhagen, national sales and marketing manager with Toyota Financial Services (TFS).

"We try to drive the point home that we are in a captive, long-term partnership through thick and thin with TMHU," sasy Pipenhagen. "Right now [the banks'] entry point is very competitive, but 18 months from now those same banks may be very expensive or their credit criteria may be very difficult," he adds.

Indeed, many borrowers and lessees that had no trouble establishing credit in the past may be surprised at the information expected of them to qualify for financing today.

"Be prepared to provide a lot more information than you've been required

Leased assets to go back on your books?

The Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) are collaborating to develop a new model for recognizing assets and liabilities under lease contracts. The proposed new standard is expected to affect the balance sheets of all companies that lease equipment.

Under the existing standard, a company must classify and account for leases as operating or capital leases, depending on whether the lease transfers *all or substantially all of the risks and rewards* incident to ownership. The capitalization model would require companies to initially account for every lease contract's rights as assets and obligations as measured by the present value of the expected lease payments.

It would also require that the subsequent accounting for all leases, regardless of their substance, be accounted and presented in the balance sheet, income statement, and cash flow statement.

Ralph Petta, vice president of research and industry services for the Equipment Leasing and Finance Association (ELFA), says this could change the benefits of leasing for some businesses.

"Instead of taking operating lease treatment, where another party owns the asset and puts the asset on its books, and the lessee just pays a monthly expense, the lessee would have to recognize those assets on their balance sheet," he explains.

ELFA President Kenneth E. Bentsen, Jr. explains his concern: "If the proposed changes do not reflect an appropriate balancing of costs and benefits, they could result in an unwarranted increase in cost of capital to U.S. companies that utilize leasing as a means of capital formation through the acquisition and investment in capital plant and equipment or real estate."

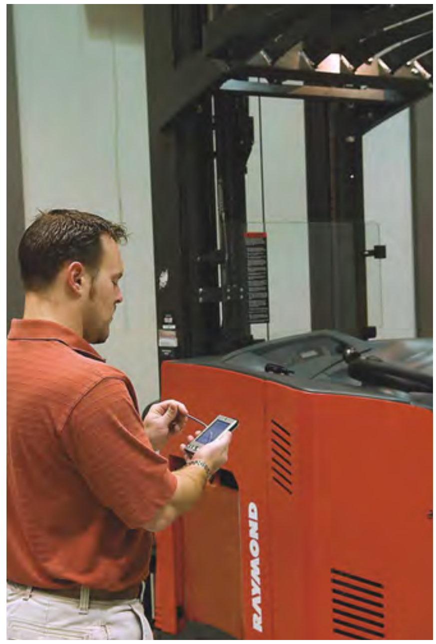
All leases will likely be affected as soon as the standard is effective, but the Boards have not yet discussed the method of transition or the effective date. For more information, visit www.elfaonline.org.

to in the past," warns Eric Gabriel, financial merchandising manager at Mitsubishi Forklift Trucks. "Today, credit remains extremely tight—tighter than even a year ago." So, make sure your credit record is spotless and your books are pristine because you may be in for some surprises if they're not.

CAPTIVE OR NON-CAPTIVE?

Most leading lift-truck OEMs have financial partners that administer their leases. For example, Mitsubishi has three: DLL, Wells Fargo, and GE Capital. Toyota Material Handling has Toyota Financial Services, which is a "captive" partner. Both types of relationships have benefits and drawbacks.

"Those with their own captive leasing company may offer more control, but on the other side you lose that element of competitiveness," says Gabriel. "What we enjoy today in having multiple partners is that they're competing for our dealers' and customers' business, and that drives down rates and drives up residuals. In this environment having multiple funding sources makes things a little easier."



No matter how good terms may be, fleet managers need to assess their needs and all the facts before diving into a new deal.

Toyota's Richard Pipenhagen argues that being a true captive enables his team to collaborate on its offerings. "We partner with TMHU so we have certain rates as a captive that make it more attractive for the prospective Toyota customer to buy forklifts from the dealer body. Eighteen months from now a bank may be very expensive or their credit criteria may be very difficult," he adds.

So, for fleet managers who are on the fence about diving into the market, there's actually good news and a little bad news. The good news is the economy is recovering. The bad news is that the recovery will put a damper on some of the flexibility we just discussed. The overarching advice boils down to this: Make a move while you're still in the driver's seat. L

Tom Andel is a Contributing Editor to Logistics Management

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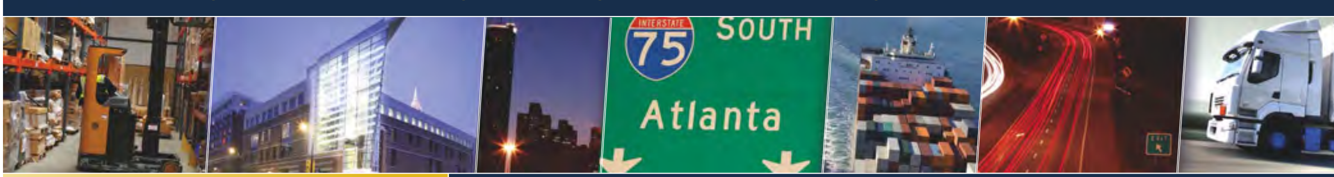

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Pitching TMS

BY **BRIDGET MCCREA**, CONTRIBUTING EDITOR

As the number of TMS-related success stories grows, so too does shipper interest in using the technology to streamline transportation operations. But while you may understand the benefits of TMS, your CFO probably doesn't. Here's how to make the pitch.

For shippers, transportation comprises a significant portion of total logistics costs as a percentage of sales, and those fees aren't getting any lower. To offset those costs, the Aberdeen Group reports that more companies are making resources available to find tools that bring better visibility and control to the transportation component.

Nearly 70 percent of companies surveyed by Aberdeen for the firm's second quarter 2009 AXIS report on TMS say that they currently have a mandate from management to make technology recommendations for transportation-related solutions. According to Aberdeen, 54 percent of respondents plan to adopt a related solution in the next 18 to 24 months. "Despite planned spending decreases as a result of the current economic conditions, investment in TMS offers the opportunity for considerable gains in business value through the removal of costs from the system and the increase in overall supply chain visibility," says Nari Viswanathan, the research firm's vice president and principal analyst.

In his June 2009 *Transportation Management Under the Looking Glass* report, Greg Aimi of AMR Research says that shippers should have little trouble making the case for a robust TMS based on the results that other firms are already reaping from such solutions. According to Aimi, TMS has proven valuable for companies that implement them, with key savings potential including freight budget cost reduction, route and mode optimization, more competitive delivery options, and reduced network inventory levels.

"Actual values differ from company to company, depending on how refined and effective their existing practices were prior to the TMS implementation," Aimi says. "For example, by using systems to tightly manage the transportation function, some companies have been able to create more aggressive delivery programs, which can be used to gain an advantage over competitors."

As the number of TMS-related success stories continues to grow, so too does shipper interest in using the technology to streamline the transportation component while saving both time and money. Over the next few pages, we'll look at how shippers can justify the case for TMS investment with corner office executives, and also examine how one logistics team worked through the pitch process and emerged more efficient.

TMS Cost Reduction Opportunities

TMS Operation/Capability	Relative Savings Potential
Route and Mode Optimization	$ $ $ $
More Competitive Delivery Options	$ $ $
Reduced Network Inventory Levels	$ $ $
Electronic Communications with Supply Chain Partners	$ $
Carrier Assignment Optimization	$ $
Rate Negotiations and Compliance	$ $
Continuous Moves and Dedicated Fleets	$ $
More Efficient and Automated Operations	$

Source: AMR Research, 2009

THE WINDUP...

At their core, TMS solutions help companies rapidly reduce transportation spend and take the logistics operations to the next level. Viswanathan says this goes beyond basic payment, auditing, and route scheduling to include functions like carrier and bid optimization, collaboration across departments, and effective fleet management. With fuel costs once again creeping up to unmanageable levels, the need for such strategic initiatives is high.

For logistics managers that haven't obtained TMS approvals yet, Adrian Gonzalez, director of Boston-based ARC Advisory Group's Logistics Executive Council, says the first step is to identify the company's short-term transportation objectives, and then match up those goals with TMS features and functions. From there, consider longer-term objectives (five years out, for example), including global initiatives that might dictate the need for a more complex TMS.

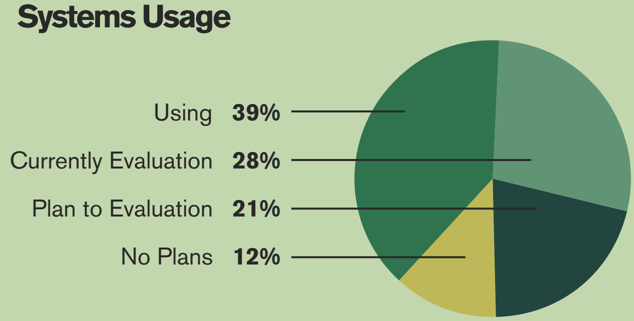
To sell the corner office on the idea of a new or replacement TMS, Gonzalez says logistics managers must translate supply chain metrics into CFO-speak. "Telling upper management that a TMS will improve on-time delivery by 20 percent, for example, means nothing to the typical CFO," says Gonzalez. Tell that same "numbers guy" that a TMS will shave 20 percent off the $60 million a year that the firm is spending on transportation and you will likely get the thumbs up.

Selling your staff on the solution will take a bit less effort. According to Paul Lord, research director at AMR, the efficiencies gained through more frequent bidding and maintenance of rate levels alone should get the crew interested. "If you're bidding on rates, maintaining those rates and paying vendors manually, then your staff's workload probably isn't very gratifying," says Lord. "The functionality associated with a TMS will surely raise the staff's productivity and effectiveness, making it a fairly easy sell."

...AND THE PITCH

With its TMS contract about to expire, and the original vendor no longer supporting the solution, Saint-Gobain

Transportation Management Systems Usage



Source: AMR Research, 2009

TMS: Delay of game

According to Aberdeen Group's TMS AXIS report, organizations that are not currently investigating TMS reported three core factors preventing them from making the investment: perceived cost of integration, initial upfront expense, and a lack of executive-level support. It is clear that in the past year vendors have responded to these concerns by improving their solution architectures and deployment options. There is also a segment of the vendor market that has taken the next step and recruited and provided world-class transportation service experts to help customer's better leverage their TMS investment with more of a bundled technology and/or services offering.

Tell the "numbers guy" that a TMS will shave 20 percent off the $60 million a year that the firm is spending on transportation and you will likely get the thumbs up.

Containers, Inc., knew it was time to find a newer solution to handle its vast transportation network.

"We've been centralized in procurement of our transportation service contracts since 1995, but we'd outgrown our existing TMS system, which was installed in 2002," says Peter Walters, the company's vice president of purchasing and distribution. "It lacked the functionality that we really needed to operate efficiently, so we set out on an extensive hunt to find a new one."

Based in Muncie, Ind., Saint-Gobain Containers is a producer of glass packaging for the food and beverage industries. Serving markets throughout North America from 13 plants, the company has operated in 24/7 mode for years utilizing the concept of just-in-time, according to Walters. "Our customers don't keep large inventories of glass packaging on hand but rely on us to manage it for them."

Depending on the time of year, Saint-Gobain Containers' distribution network also includes 50 to 70 auxiliary warehouse locations nationwide. "It's a pallet-in/pallet-out distribution operation, with a total of 1,000 full truckloads being shipped daily," says Bill Bolka, director of transportation and warehousing.

The process of selecting a new TMS to handle Saint-Gobain's complex transportation system kicked off in late 2007. "We commissioned a project team whose objective was to identify the best TMS solution for our business unit," says Walters. That project team included representatives from corporate distribution, IT, centralized load tendering, and other "subject matter experts from up and down the supply chain," he says.

The project team performed a thorough evaluation using Forrester Research's "The Forrester Wave" TMS selection criteria. Using the tool, the project team gained access to detailed analysis of vendors' products and services based on transparent, fully accessible criteria; an Excel spreadsheet that allows companies to compare products and get in-depth data and analysis about each one; and the ability to develop a customized shortlist based on a firm's unique requirements.

The first step involved a cost-benefit analysis that included details on the existing TMS cost, the project cost of transportation going forward, and the dollars to be saved by using the new system in conjunction with the firm's centralized, load-tendering environment.

Working in the team's favor was the fact that its first choice was a hosted, on-demand TMS from UltraShip. "It didn't require a big capital investment on the part of the user or the shipper," explains Walters. "This long-term agreement required senior level approval, so we still had to walk through that process."

"We laid out the criteria and showed management that we were making the right choice, and that UltraShip had developed a solution with capabilities that best matched our well-defined requirements," says Bolka.

He adds that the company has benefitted from a more reliable, automated freight-tendering process, a more timely interface within the carrier and shipper communities, and a more advantageous negotiating position when dealing with carriers. "That was over six months ago, and we've been operating successfully with our new TMS ever since."

GETTING INTO THE GAME

To logistics managers looking to duplicate the success that Saint-Gobain Containers achieved in selling upper management on the purchase of new TMS, Viswanathan says a good first step is to look at the solution currently being used to manage transportation activity and costs. Consider the good and bad points of the system, highlight everything that the system isn't doing (or, that it isn't doing effectively) and come up with a wish list for your new system.

"Map out where the gaps are in your current system, and then take that map into the marketplace as you look at what vendors are offering," says Viswanathan, who suggests all shippers partake in pilot projects before making the ultimate investment in a purchase-and-install or on-demand system.

AMR's Lord adds that those companies that come to the table with a clear idea of what they want to accomplish with the TMS before going out and interviewing vendors will be best equipped to make the right decision—and to convince their CFOs of the importance of a new investment in today's tight economy.

"Once you get out there, you'll run into a lot of vendors who are trying to sell you stuff," says Lord. "If you don't know what you want, it can be a very confusing landscape to operate in." L

Bridget McCrea is a Contributing Editor to Logistics Management

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QUARTERLY TRANSPORTATION MARKET UPDATE: **TRUCKING**

The LONG, FLAT, SLOW RECOVERY BEGINS

Surviving truckers are starting to see a "steady flow" of freight returning to their trucks. Overcapacity and the "laws of the jungle" are still factors, but carrier executives say shippers may soon be facing tightening space in some geographic regions

By **John D. Schulz**, *Contributing Editor*

After a three-year bout with the toughest economic conditions in the trucking industry in more than 30 years, truckers say that they're starting to see some uptick in freight demand. Whether it's merely a normal seasonal uptick in volume or the start of a long-awaited return to fairly robust freight levels is currently "Topic A" among trucking executives and analysts.

Whatever it is, the surviving carriers say that they're glad to see freight slowly returning to their trucks—even at modest tonnage levels.

The forecasting group FTR Associates recently reported that it believes motor carrier demand hit a three-year bottom in January of this year and has now started to pick up. But carrier executives aren't exactly breaking out the champagne just yet. FTR says the recovery in demand will be "U-shaped not V-shaped," and at this stage the industry is currently bouncing along the bottom of that U. In other words, we're not going to see a quick burst of buying that a "V-shaped" demand curve would represent.

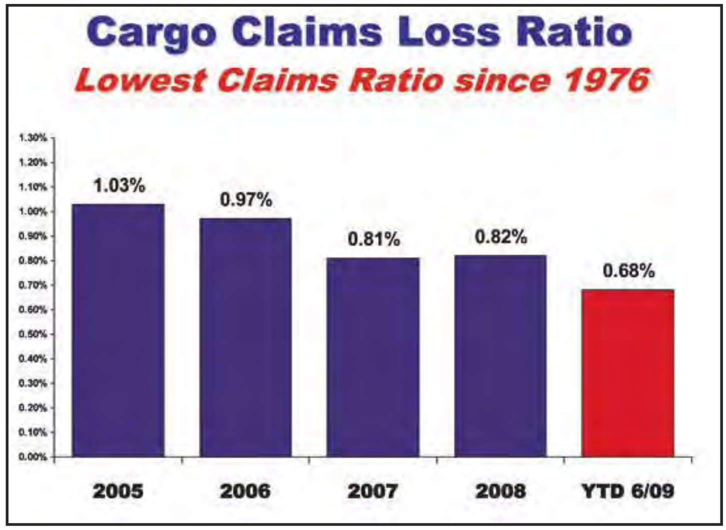
Rather, this "U-shaped" demand graph indicates sluggish demand in geographic areas such as the Central States and upper Midwest that were ravaged by the decline in the U.S. auto industry. FTR says that this "sluggishness" might last long enough to shake out one or two of the large national players in both the truckload and less-than-truckload sectors.

The trucking industry, the engine of the nation's economy, is suffering during this recession, resulting in elimination of services, widespread layoffs, bankruptcies and closures. Southeastern Freight Lines, the 12th largest LTL carrier, has yet to lay a single person off, reduce wages, or eliminate benefits.

"This has not been an easy feat. Last fall, a group of our senior leaders formed a task force to determine what actions could be taken to prevent layoffs and ensure our associates would receive enough hours to meet their financial obligations. Strategies included a focus on new LTL and TL business, vacation incentives, allowing our drivers to work at G & P Trucking, our sister truckload company, a voluntary severance for early retirement and finding other jobs for drivers outside their area of expertise. Our action plan was developed with the idea of doing nothing that would erode customer satisfaction," said Tobin Cassels, President.

Southeastern's story of surviving the recession is a classic example of remaining focused on long-term business objectives – founded on a commitment to associates as the cornerstone of the company's culture. "Our associates know that we are doing everything within our power to take care of them during this downturn. As a result, morale has never been better and the discretionary effort of everyone has contributed to 'best ever' results in all of our key customer satisfaction and efficiency measures," Cassels said.

"Our company is blessed to be financially strong enough to weather this recession without a layoff. Our owners have made our 'Keep People Working' theme an obsession. They have never wavered from their belief that taking care of people should be the number one objective," Mike Heaton, Sr. VP of Sales and Marketing said.



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"We're starting to see a steady flow and a trickle effect from that demand. I don't think we're going to see demand levels roar back. But I sense we're starting a period of steady pull."

Charles "Shorty" Whittington, *chairman of the American Trucking Associations*

Trucking's fate is essentially tied to the overall health of the U.S. economy. Paul Ashworth, U.S. specialist for Capital Economics, a London-based macroeconomic research firm, recently told the *Washington Post* that while the U.S. has enjoyed "some improvement, we're still nowhere near a meaningful recovery, or even a slight recovery."

Noel Perry, managing director and senior consultant for Nashville, Ind.-based FTR, is predicting the worst of the recession is past and trucking will be bouncing along the bottom for a while. FTR is forecasting the economy will stabilize in the third quarter, followed by a moderate recovery in 2010 with GDP growth estimated to rise 2.7 percent next year.

But FTR is forecasting that such an improvement in GDP doesn't mean a notable improvement in freight. Moreover, Perry says that there will be continued trucking company profitability issues, along with overcapacity.

Surprise, surprise, surprise

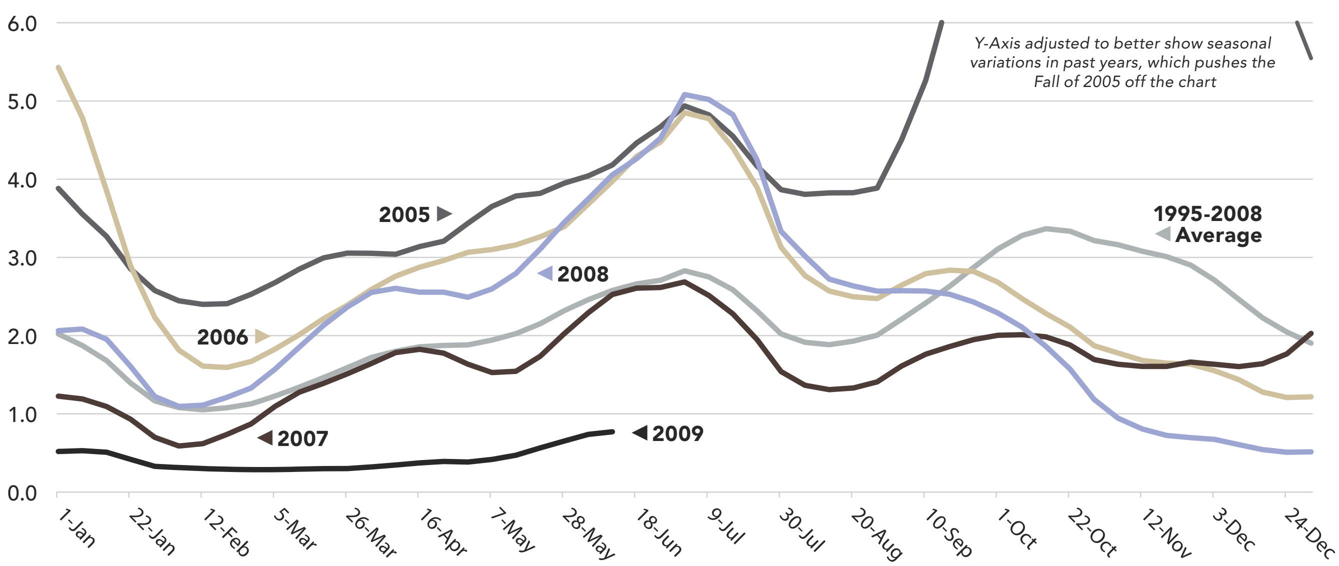
Nearly every other lengthy downturn has caused the failure of one or two "megacarriers." Not this time, to the surprise of some analysts.

On the truckload side, the most vulnerable would appear to be Phoenix-based Swift Transportation, a $3.2 billion privately held carrier that is the third-largest TL carrier in the U.S. Swift has been struggling for years but has maintained operations largely because of the personal wealth of founder Jerry Moyes, whose fortune includes ownership of the NHL Phoenix Coyotes—which recently skated into U.S. bankruptcy court.

On the LTL side, the carrier on the shakiest financial ground is YRC Worldwide, the $8.9 billion carrier that has lost approximately $1.9 billion in the last nine quarters. YRC has renegotiated its debt, sold assets, cut geographic coverage, closed terminals—and still may not be profitable. Analysts John Larkin and David Ross of Stifel Nicolaus recently advised investors that "YRC's fate lies in the hands of managers of the Teamster pension funds, YRC's bank group, YRC's shippers, and potential buyers of the company's real estate holdings."

Some rival carrier executives have expressed surprise at the leniency of YRC's lenders. "The unusual thing we have seen is the willingness of lenders to keep some carriers afloat," says Douglas W. Stotlar, president and CEO of Con-way Inc., parent of the nation's third-largest LTL carrier. "The laws of the jungle are not

Morgan Stanley Dry-Van only Truckload Freight Index



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FTR says the recovery in demand will be "U-shaped not V-shaped," and at this stage the industry is currently bouncing along the bottom of that U.

applying."

At least for now, YRC's customers have largely stuck with the carrier due to its aggressive discounting. That's according to both YRC executives, rival carriers, and shippers who for now are enjoying a price war for their LTL freight.

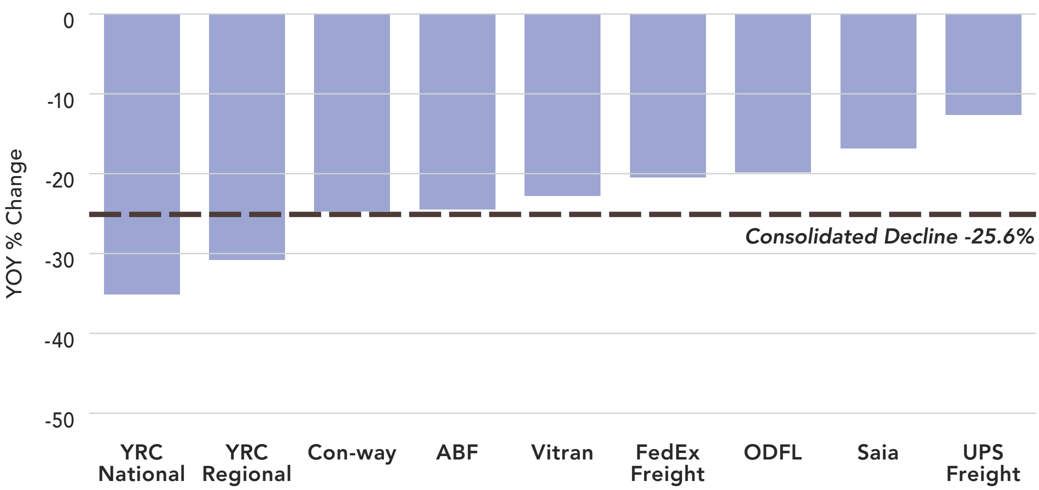
In general, this is a great time to be a buyer of trucking services. Rates have barely nudged the past couple of years, and many shippers have been able to negotiate real declines in contractual TL rates of 3 to 5 percent the past year, with slightly smaller rate cuts in the LTL sector. Spot market trucking rates continue to plummet with bargains as much as 20 percent less than year-ago levels, some shippers say.

"It's a tough economic environment," says Douglas G. Duncan, president and CEO of FedEx Freight (FEF), the nation's second-largest LTL carrier after YRC. "Clearly there is overcapacity. Anytime there is overcapacity in any industry, pricing is a factor. Trucking is no different."

What's the survival plan? Leading motor carrier executives are preparing for what they see as a "steady flow" of freight returning to their trucks. While all carriers want as much freight as possible on all their trucks, trucking's leaders say a slow return to normalcy is actually not that bad.

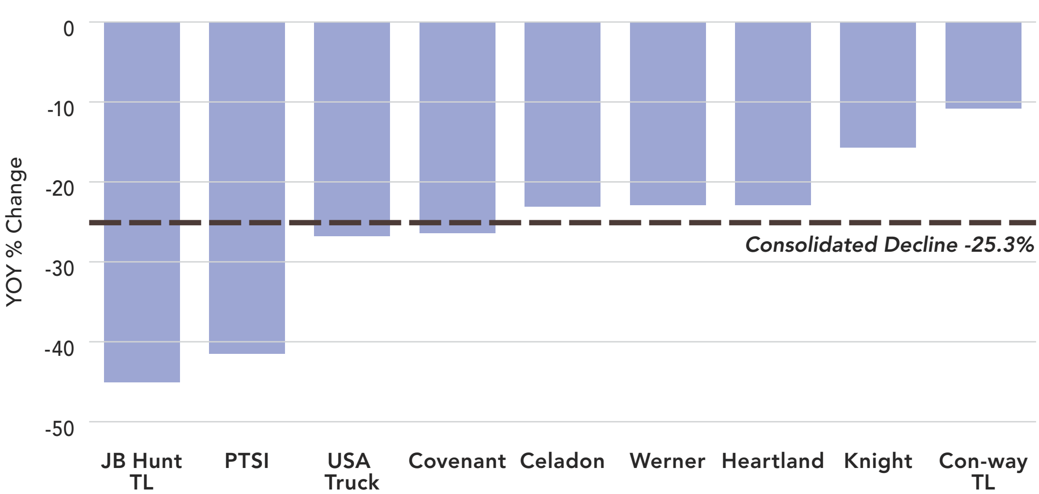
"As I travel around and talk with people, I sense we have bottomed out and that the supply chain is emptying itself out," says Charles "Shorty" Whittington, president of Indiana-based Grammer Industries and chairman of the American Trucking Associations (ATA). "We're starting to see a steady flow and a trickle

Year-Over-Year Change in LTL Revenues (1Q'08-1Q'09)



Source: SJ Consulting Group, Inc.

Year-Over-Year Change in TL Revenues (1Q'08-1Q'09)



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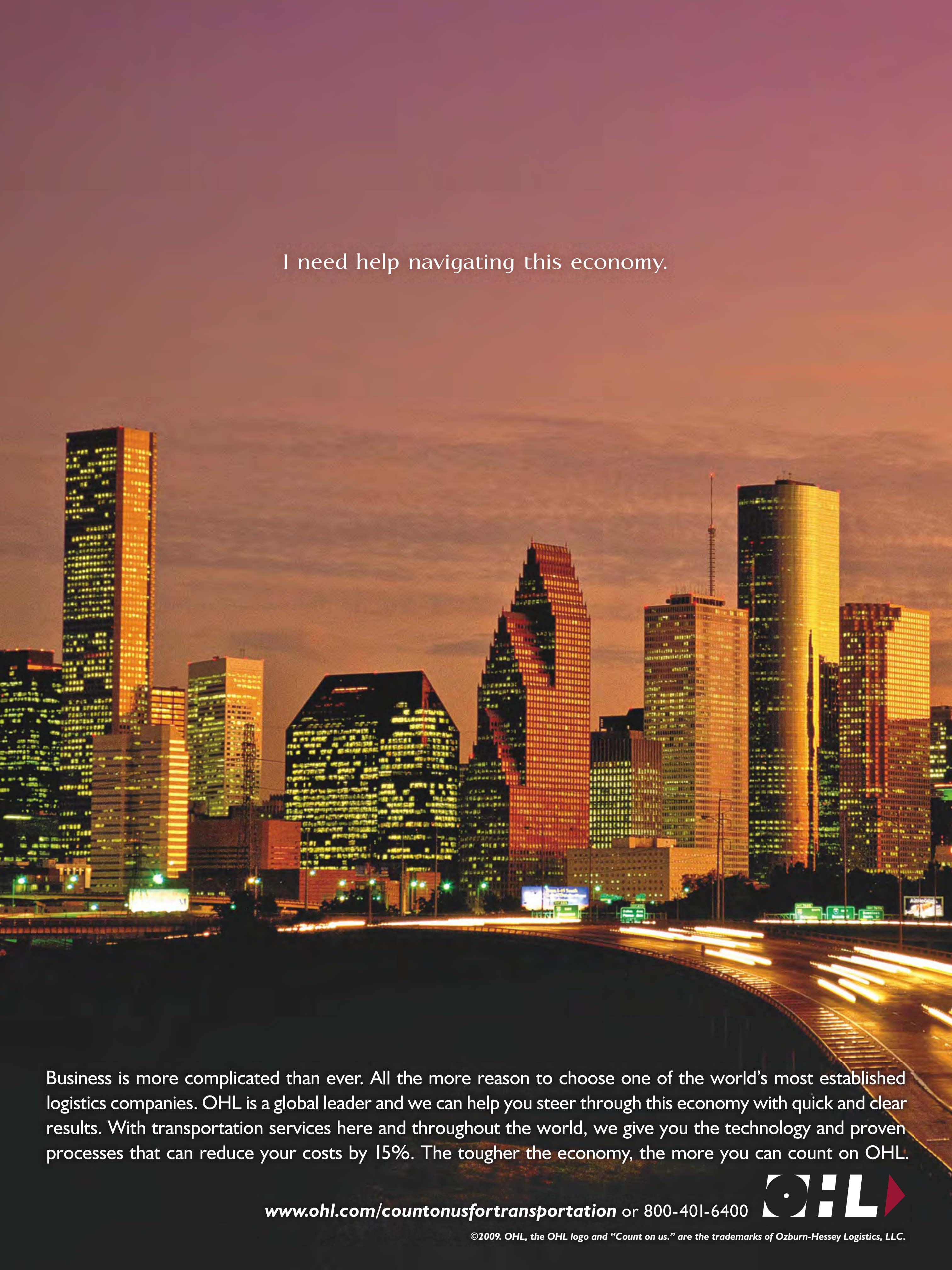
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"I thought we learned our lessons about fuel use last year, but maybe not."

Patrick Quinn, *president and co-chairman, U.S. Xpress Enterprises*

effect from that demand. I don't think we're going to see demand levels roar back. But I sense we're starting a period of steady pull."

In some sectors and regions, it's better than steady. Refrigerated transport, somewhat restrained by capacity, has been one of the first sectors to report strong demand. Freight in and out of Texas, for example, has been able to garner higher rates than freight moving in and out of, say, the upper Midwest.

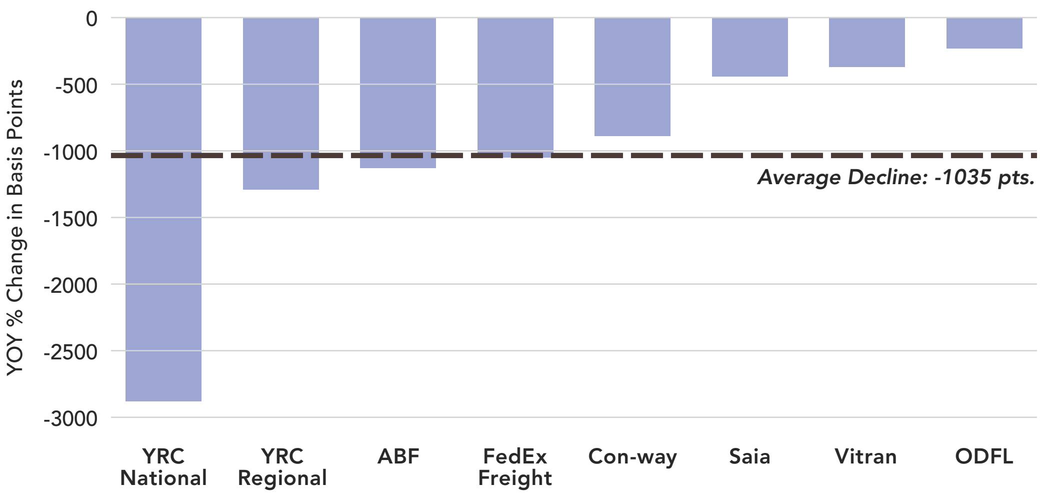
Nevertheless, shippers are proving to be tough customers as they try to lock in rates that reflect overcapacity in some areas. Con-way's Stotlar estimates the current overcapacity to be as much as 15 to 20 percent in both the TL and LTL markets, reflective of what he calls "anemic" freight demand levels.

"Rates reflect that environment," says Stotlar. "If we get new business, it's usually price driven. Same thing if we lose an account. Everything revolves around a price negotiation."

Stotlar says he can't blame his customers. He's doing the same thing with his vendors, as Con-way tries to lock in discounts at that end.

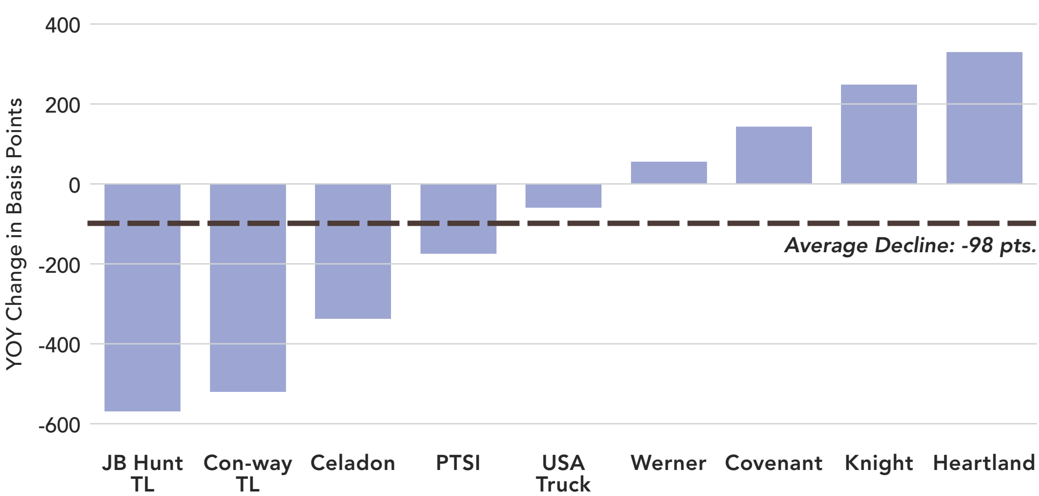
There are signs, however, that industry overcapacity is shrinking. Class 8 truck sales, which peaked at 265,000 in 2006, are expected to be less than half that this year. A recent analysis by R.L. Polk showed new registrations for Class 3 through 8 trucks were the lowest since November 1991. By way of comparison, those November 1991 figures were the lowest since Polk began compiling new commercial vehicle registration data in 1985. That means that April of 2009 registrations were the second-lowest month for combined Class 3-8 trucks in the past 24 years, and down 52.1 percent from April 2008 levels. Class 8 truck registrations decline by 50.4 percent from April 2008 with Class 6 truck registrations

Year-Over-Year Change in LTL Operating Margins (1Q'08-1Q'09)



Source: SJ Consulting Group, Inc.

Year-Over-Year Change in TL Operating Margins (1Q'08-1Q'09)



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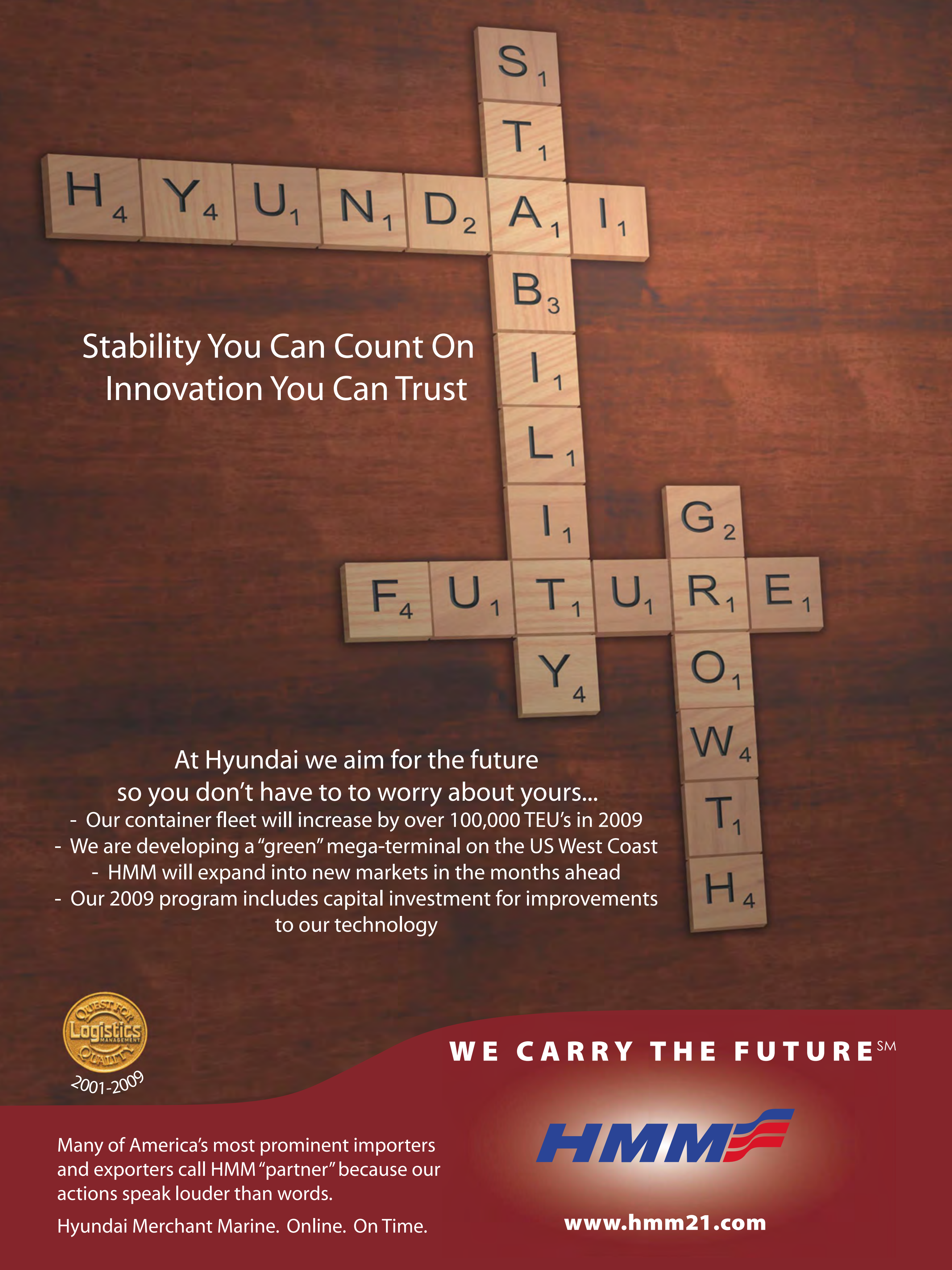
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showing the sharpest yearly decline, off a whopping 71.8 percent.

The West showed the largest dropoff in new truck registrations, off 56.8 percent, according to the Polk data. That was followed by the Northeast and the Central States, with the South showing the strongest sales—but still off 48.2 percent from year-ago levels.

"We're not adding any capacity, and none of our competitors are either," says Con-way's Stotlar, who traditionally has operated one of the best-run fleets in the country. He estimated that Con-way currently has about 7 percent of its LTL fleet

WHO PAYS FOR CLEANER AIR? SHIPPERS, OF COURSE.

The third round of a decade-long push by the Environmental Protection Agency (EPA) to reduce diesel emissions from the nation's 3 million heavy trucks comes online in 2010. That likely means higher costs for trucking services as fleets are facing higher initial costs for 2010 engines as well as increased maintenance costs.

But the cleaner air will come with as much as a 2 percent to 3 percent increase in operating costs for fleets, who say they have no choice but to pass on those costs to shippers in the form of higher rates next year.

Harry Muhlschlegel, chairman and CEO of New Century, a truckload carrier in Delanco, N.J., and a 40-year industry veteran who formerly ran Jevic Transportation, is expecting a 3.5 cent per mile increase in his overall costs that are directly associated with 2010 EPA-mandated trucks.

There are two competing technologies in play. Selected catalytic reduction (SCR) has been widely used in Europe and is expected to be the choice of most U.S. fleets. The alternative technology is exhaust gas recirculation (EGR), which is championed by Navistar and its popular International brand of Class 8 trucks in this country.

"It really comes down to what does it weigh and what does it cost," Muhlschlegel said in a recent conference call with analysts and investors sponsored by Stifel Nicolaus.

SCR has two advantages, trucking executives say. First, it claims to offer between a 3 to 5 percent advantage in fuel economy. For an industry that consumed nearly 54 billion gallons of diesel and gasoline in 2006, and is expected to pay about $126 billion for diesel fuel this year, that is no small thing.

The disadvantages are additional weight (about 500 pounds) for twin tanks for storage of Urea, a necessary diesel exhaust fluid that helps make SCR work. Urea is priced similar to diesel and is stored onboard in two twin 33-gallon tanks that contain enough of the fluid for about 7,000 miles.

"They look like two portable outhouses on the outside of the truck," Muhlschlegel said. Another disadvantage is the $8,000 to $10,000 additional cost for both the SCR and EGR technologies. That cost is expected to be widely passed onto shippers in the form of higher rates, trucking executives say.

But SCR's advantage is its fuel savings, which might pay for itself in a few years.

"SCR adds costs upfront and in maintenance but has the advantage of miles per gallon improvement," said Max Fuller, co-chairman of U.S. Express Enterprises, parent of the nation's fifth-largest truckload carrier with $1.5 billion in revenue last year. "You pay for technology up front and you might break even in 500,000 miles."

Fuller says he's excited about the technology that's powering cleaner trucks. A new 2009 model truck produces one-tenth the fine particulate emissions and roughly half the smog-forming nitrous oxide (NOx) emissions as a similar truck manufactured just three years ago. The 2010 EPA mandate is expected to drive down those emissions further—but at a cost to shippers.

"I'm excited about clean air, but my customers are concerned about higher rates," Fuller said. "But it's a sizeable cost saving in fuel, especially if fuel goes up. At best it's a break-even proposition over the lifecycle of the truck. But the technology is a big improvement."

Truckers found that as a result of the 2002 and 2007 EPA-mandated engines, those trucks' engines deteriorated faster because of higher heat that also caused gaskets to fail prematurely. Some fleets noted that engine life before a major overhaul was reduced from a typical 1.3 million miles to about 900,000 miles. A typical Class 8 truck, excluding those run by team drivers, can run about 120,000 miles a year in a single-driver operation.

After years of testing, fleet executives are anxious to see how the 2010-mandated engines run in the real world environment of dust, soot, heat, cold, congestion, and humidity of the nation's highways. "I'm looking forward to SCR technology in 2010," New Century's Muhlschlegel said "We're anxious to get into the 2010 technology once it gets up and running."

—by John D. Schulz

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parked in a reflection of that "anemic freight demand." Despite the tough economic times, some LTL and TL carriers are shifting strategies to take advantage. On the TL side, giant J.B. Hunt has diversified, getting only about 25 percent of its revenue now from purely dry van truckload freight. Instead, it has branched out into intermodal, dedicated contract and brokerage services to try and even out demand from the notorious boom-and-bust cycles of pure TL freight.

On the LTL side, Pittsburgh-based Pitt Ohio Express has been a leader in trying to offer a broader range of services to shippers. Along with five other U.S. and Canadian LTL carriers, Pitt Ohio formed the "Reliance Network" to offer longer-haul services. The two-year-old service is now garnering in excess of $1 billion in revenue, according to Pitt Ohio's president Chuck Hammel. "It's really been a bright spot for us and our customers," Hammel says. "It's the type of service that customers are asking for."

Others are forging ahead as well. FedEx Freight, despite a 27.6 percent tonnage in its quarter ended in May, nonetheless is pushing out more initiatives and services designed for its fast-cycle logistics customers.

"This will pass," Duncan says confidently. "We're still focused on the business four or five years from now and trying to be in the best position to serve our customers. Whatever cycle we're in now, and clearly there is overcapacity in the market, that doesn't stop us from trying to assist our customers in what they're trying to do in the long term."

On the truckload side, dry truckload carriers have downsized. Schneider, Swift, and J.B. Hunt all have increased their intermodal service offerings. Some are increasing their regional TL offerings, such as national-regional innovator Knight Transportation, based in Phoenix. Asset-light models such as Landstar and Greatwide Logistics (now run by former Overnite Transportation chief Leo Suggs) will continue to gain, analysts say. Others with heavy Mexico operations such as Celadon and Swift may fare well if the auto-related manufacturers goes south of the border.

SENATE SIGNS OFF ON HIGHWAY TRUST FUND CAPITAL TRANSFER

Following a House vote to transfer $7 billion from the United States General Treasury Fund to the Highway Trust Fund (HTF) in order to keep it solvent through September 30, the Senate followed suit with a 79-17 vote last month.

The next step for the legislation—H.R. 3357—is for President Barack Obama to sign it into law.

The HTF is the federal government's primary source for financing highway, bridge, and transit projects. Its shortfall is primarily due to declining vehicle miles traveled and a federal motor fuel tax that has not been raised from its current levels of 18.4 cents per gallon for gasoline and 24.4 cents per gallon for diesel since 1993. The Obama Administration has repeatedly stated raising the gas tax is currently not an option. This sentiment is also shared by House Transportation and Infrastructure Committee James L. Oberstar, who said at a recent House Ways and Means Committee hearing that he does not support the gas tax at this time.

If Obama signs the bill, state transportation departments will receive full reimbursements for federal-aid highway projects until the end of the fiscal year on September 30.

The current user fees generate only enough revenue to finance $35.1 billion of investments from this year's $53.1 billion funding level. And without additional revenues, a six-year surface transportation authorization bill could fund only $236 billion in highway, highway safety, and transit investment—that is $90 billion less than the current investment level over the next six years, according to Oberstar, a co-sponsor of H.R. 3357.

"This is a necessary step, but it does not really resolve a lot," said Mortimer L. Downey, chairman of PB Consult and former Deputy Secretary of Transportation. "What it does is ensure funding is intact until the end of September. Now, Congress can return after Labor Day and figure out what to do next. If there is no Congressional action taken by October 1, there will be no highway or transit program in place."

In the interim, Downey said it is key to get funding in place for at least the next year, so that state transportation departments can put infrastructure projects out for bid after October 1, rather than let the balance become insolvent and run down to zero.

The current funding situation has created a fair amount of uncertainty for shippers and other freight transportation industry stakeholders, said Downey. What is needed, he noted, is some sort of freight funding mechanism for future investment that these stakeholders can benefit from.

"The $7 billion bailout is absolutely necessary even if it only takes us out to September 30," said Leslie Blakey, executive director of the Coalition of America's Gateway and Trade Corridors, in an interview. "It is essentially a short reprieve at which point [after September 30] some hard choices will have to be made. From our point of view, the freight infrastructure issues needing to be addressed are critical to our nation's economic well being—not just during a recession but to keep the country healthy coming out of a recession."

—Jeff Berman

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Down the road…

Bill Graves has been part of a trucking family since the 1930s when he father owned Graves Trucking in Kansas. Now president and CEO of the American Trucking Associations, the former Kansas governor talks to hundreds of trucking executives every week, and is cautiously optimistic about the rest of the year and 2010.

"Most of our members are still optimistic about some positive growth in the last quarter of this year," says Graves. "Now 'positive' doesn't mean 'significant.' But we are trending in the right direction."

Graves said most trucking fleets are

ATA REPORTS FOR-HIRE TRUCK TONNAGE INDEX DOWN 2.4 PERCENT

After a 3.2 percent uptick in May, the American Trucking Associations (ATA) advanced seasonally adjusted For-Hire Truck Tonnage Index dropped 2.4 percent in June.

This is the third time in the last four months this index has dropped, with April and March down 2.2 percent and 4.5 percent, respectively. At the beginning of the year, the index had a promising start, with a 4.5 percent cumulative gain in January and February. The decline in the advanced seasonally adjusted For-Hire Truck Tonnage Index to 99.8 (2000=100) was not significant enough to completely offset May's performance, according to the ATA.

Meanwhile, the not seasonally adjusted (NSA) index, which represents the change in tonnage actually hauled by the fleets before any seasonal adjustment, was 107.3 in June. This represents a 5.2 percent improvement from May, and if this trend were to continue it could mean that tonnage is slowly rebounding. Year-over-year NSA index data was down 10.3 percent, according to ATA officials, but the NSA has shown sequential gains the last three months.

As defined by the ATA, the not seasonally-adjusted index is assembled by adding up all the monthly tonnage data reported by the survey respondents (ATA member carriers) for the latest two months. Then a monthly percent change is calculated and then applied to the index number for the first month. Some industry analysts maintain that the not seasonally-adjusted index is more useful, because it is comprised of what truckers actually haul.

Even through the NSA showed a sequential gain, it appears there will be a long way to go before tonnage truly comes back to pre-recession levels. On a year-over-year basis, June 2008 tonnage sank 13.6 percent, which represents the biggest annual decline in this current cycle. May's year-over-year decline was 11 percent, and April's was 13.2 percent.

Bob Costello, ATA Chief Economist, said in a statement that it is likely tonnage levels will remain at current levels for the foreseeable future.

"While I am hopeful that the worst is behind us, I just don't see anything on the economic horizon that suggests freight tonnage is about to rise significantly or consistently," Costello said. "The consumer is still facing too many headwinds, including employment losses, tight credit, and falling home values, to name a few, that will make it very difficult for household spending to jump in the near term."

Costello also alluded to inventories, relative to sales, noting they are still too high in much of the supply chain, especially in the manufacturing and wholesale industries.

Because of this, he said it is possible that truck tonnage doesn't lead the macro economy out of a recession, which is often the case. The main reason for this, he said, is that many new product orders can be fulfilled with current inventories, not new production, which, in turn, is stalling truck tonnage levels. And he said last month that he doesn't expect tonnage to deteriorate much further and that any growth in tonnage over the next few months is likely to be modest.

Opinions akin to this were prevalent at April's National Shippers Strategic Council (NASSTRAC) annual conference in Orlando, Fla. and June's eyefortransport 3PL Summit in Atlanta, with trucking and 3PL executives and shippers telling LM that business conditions and volumes appear to be "less worse" in recent weeks, but there is still ways to go for a a full recovery. Even with this tempered optimism, it is clear that the recession has taken a toll on trucking.

"The economic conditions continue to create some of the most imposing headwinds carriers have ever seen," a trucking executive said in an interview. "Those carriers that can garner market share in this environment while protecting their balance sheets will prosper in the upturn, we all just wish that the upturn would get here sooner."

And Stephens Inc. analyst Jack Waldo said the recent ATA data is consistent with what the firm has heard from the majority of the carriers that it follows, saying that "June, in particular the second half of June, felt sluggish. The antidotes we've heard so far for July are about the same, and it's starting to feel a lot like Groundhog Day."

Trucking serves as a barometer of the U.S. economy because it represents nearly 70 percent of tonnage carried by all modes of domestic freight transportation, including manufactured and retail goods, according to the ATA. The ATA notes that it hauled 10.2 billion tons of freight in 2008, and that motor carriers collected $660.3 billion—or 83.1 percent—of total revenue earned by all transport modes.

—Jeff Berman

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CON-WAY FREIGHT ROLLS OUT NEW PRICING MODEL

Con-way Freight, the less-than-truckload subsidiary of freight transportation services provider Con-way Inc., has rolled out a new pricing model that the carrier claims is the market's first capped pricing offering on large LTL shipments.

Dubbed True LTL Pricing, Con-way officials said that this model provides shippers with "uncomplicated truckload-style pricing for large LTL shipments with a predictable pricing service that is less costly than truckload and removes the uncertainty, complexity, and waste of previous LTL pricing models."

In an interview with *LM*, Con-way Freight Vice President of Pricing/Engineering Sean Devine said this launch was developed after listening to how its customers were actually shipping with the carrier.

"As we look at the kinds of shipments that move in our network, many would be surprised at how small they are, especially considering how people think LTL is comprised of relatively large shipments," said Devine. "But the reality is that a huge percentage of our shipments are really large packages, with more than half the shipments in our network weighing less than 450 pounds. We wanted to find out why. Most of the shipments in our network were smaller than one would think, given the express needs of customers," he said. "The conclusion we came to was price."

Devine explained that prices were too unpredictable, with accessorial charges in place that made calculating price for large shipments difficult. And prices were often too high.

These issues created enough uncertainty to lead them away from moving large shipments with LTL carriers, because truckload prices are typically more straightforward.

Devine said Con-way Freight decided the best approach was to address it directly, leading to the launch of True LTL Pricing launch. Devine said that the way Con-way Freight's typical LTL pricing model works is that every LTL shipment is rated twice in its system, with Con-way Freight taking the lower price of either a customer's contract pricing or Con-way Freight's True LTL capped price.

"We look at every shipment and [say] we are going to make sure it is getting charged less than they would pay a truckload carrier," said Devine. "People want LTL pricing when they are moving freight via LTL."

—Jeff Berman

YRCW REPORTS Q2 LOSS OF $309 MILLION

Economic issues, exacerbated by sluggish tonnage levels, paved the way for another difficult quarter for YRC Worldwide.

The largest provider of less-than-truckload (LTL) transportation services reported a net income loss of $309 million in the second quarter compared to $35.6 million profit for the same timeframe last year. Quarterly revenue came in at $1.33 billion—nearly 50 percent shy of last year's $2.4 billion.

YRCW's financial health and immediate future has been heavily scrutinized in recent months, with speculation running high that the company may be on the verge of bankruptcy. A main driver for this sentiment is low tonnage, with second quarter shipments per day at YRC National Transportation down 37.1 percent and total daily tonnage off by 39.4 percent.

At YRC Regional, total daily shipments were down 22 percent and total daily tonnage was down 26.4 percent. YRCW officials said part of the reason these numbers are low is an effort to "right size its network to support current and future shipment volumes."

These volumes, to a certain extent, are related to the network integration of YRCW's two largest subsidiaries—Yellow Transportation and Roadway—that operate under the YRC brand name. The integration went live in March and was made to create capacity in the company's networks to integrate operations, improve service and speed, and mesh sales teams.

Reducing capacity was viewed as an impetus for the integration, with YRC consolidating the number of YRC service centers from 650 to roughly 450 throughout the U.S., Canada, and Mexico; it also cut staff from 37,000 to 34,000 by the end of 2009; its number of trucks dropped from 16,700 to 14,000; and its trailers decreased from 62,500 to 53,000.

On a recent conference call with Wall Street analysts and members of the media, YRCW Chairman, President and CEO Bill Zollars said the operating environment for YRCW remained very challenging during the quarter, noting that while YRCW has made strides in addressing its cost structure, it has not reflected the full benefits due to challenging economic conditions.

"The global recession that has plagued our industry for the past few years has appeared to stabilize," said Zollars. "We don't expect much growth from the economy for the remainder of 2009 or 2010. While we have seen some normal seasonal trends in volumes, our year-over-year volume changes have not moved significantly from [the end of the first quarter]."

—Jeff Berman

being "rather cautious" in their expansion plans for two reasons. They are concerned about capital expenditure costs and want to reduce the overcapacity in the industry. Should the economy rebound in a meaningful way next year, that supply/demand curve could swing the carriers' way for the first time since mid-2006. "Having freight and tight capacity is not a bad thing for the trucking industry," Graves says with a smile.

Patrick E. Quinn, president and co-chairman of U.S. Xpress Enterprises, parent of the nation's fifth-largest TL carrier, said he's already seeing "quite strong" growth in some geographic regions such as the Southeast and Southwest. The Midwest, especially freight associated with the depressed auto sector, conversely still has much overcapacity.

"It's modestly beginning to change," says Quinn. "There still is a lot of pressure on rates; but when you have an imbalance in demand that can affect rates."

Quinn is concerned about two external factors that could derail trucking's recovery. One is the rise in crude oil prices, which have translated into $3 per gallon diesel in early summer. The other is a rise in interest rates, which could dampen businesses' expansion plans. "Those two things could kill whatever nascent recovery we are seeing," Quinn says. "I thought we learned our lessons about fuel use last year, but maybe not."

Again, oil speculation is causing concern to many in the industry as it slows growth. It also has the effect of being an unwanted national tax that takes away from consumer spending. Then there are pending worries over tax increases and inflationary issues as a result of President Obama's $787 billion economic stimulus.

Analysts are estimating 15 percent of capacity has exited the truckload market since the freight recession began in mid-2006. Some of that is not returning. Werner Enterprises, the fourth-largest TL carrier, indicated recently it would like to continue shrinking its dry van truckload to merely one-third of revenue with the remainder being dedicated and intermodal services.

For shippers, the time to act is now. Analysts and carrier executives both say the current real reduction in freight rates year-over-year will not last, especially if diesel continues to rise. "I think we are entering a period of stabilization, rather than recovery," says Rosalyn Wilson, author of the annual *State of Logistics* report from the Council of Supply Chain Management Professionals (CSCMP). "We will not return to pre-recession levels until probably late 2010."

While Wilson is predicting that freight volumes will begin to rise consistently in the fourth quarter of 2010, some carriers "will find it difficult to raise rates." In other words, a long, flat, slow recovery. L

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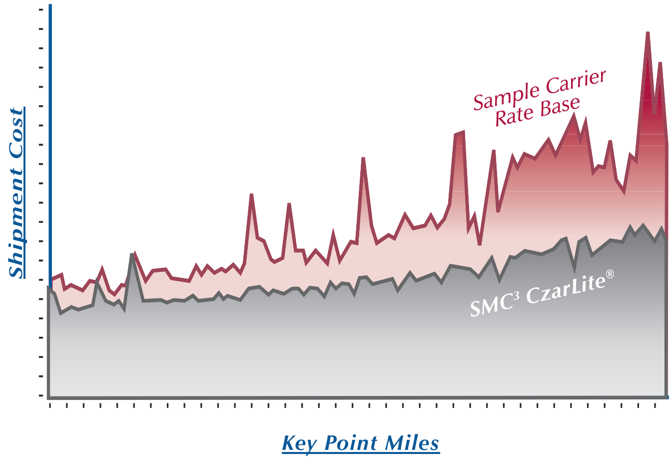

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SAGE ADVICE

Rounding third, heading for home

By Wayne Bourne

ASSUME FOR A MOMENT that a rebounding economy is like scoring a run in baseball, and that crossing the plate is indicative of a sustainable shift in the momentum of recovery. Now ask yourself: What base are you currently on?

If you're thinking second base, that would suggest that we're halfway through the economic recession and that we are at least two more years away from seeing a true balance of strength between shippers and carriers. In other words, a time when the pendulum would be at rest in the middle.

Today, the industry executives I interview believe that we have passed second base and have even reached third. They think we're only 90 feet away, but unsure about how long it will take to get home.

Of course, *when* we cross the plate may depend on *how* we get there. I, for one, do not believe that we will "slide in and beat the tag," and I don't think that we will trot in triumphantly on a line double to the gap. Both of these scenarios suggest too short a time frame. Instead, it's my belief that we'll spike the dish after three consecutive full count walks and we'll walk home slowly but surely with the bases still full of opportunity.

The turnaround has already started. The stock market is stabilizing, rising over 1,000 points in the past three months. Unemployment is easing its climb and beginning to level off. New home construction permits are positive for the first time in years, and the "cash for clunkers" program that has bewildered Washington with its aggressive activity, is portending much needed relief for our ailing auto industry.

My guess is that this will stimulate consumer confidence and produce a decent holiday season, followed by a solid Q1 and Q2 in 2010, signaling a definitive end to the recession. And of course, transportation demand will head the resurgence as it takes back its traditional leadership role within the inbound side of the manufacturing supply chain, triggering sustainable growth that may resemble pre-August 2006 levels.

Whether or not I'm close with my predictions or not is of little concern. Everyone has their opinion on what might happen and when. But, we can agree that it's not *if* the recovery will happen but *when*.

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.

And we can all agree that when the recovery does happen, the pendulum will leave the shipper side and—at minimum—move to the middle. That's when the inevitable rates "dance" between shippers and carriers will resume.

Plain and simple: How much of the scaled down truckload capacity you get in the future will depend significantly on the way your relationship has been with your senior carrier partners. The balance of negotiating power has resided with the shipper for the past three years, and the carrier has dealt with the losses as a way of staying in business.

Some believe that the carriers sat back and tried to wait this thing out. Others knew that they were busy reviewing each and every lane and determining the value to the entire program it provided. The carriers were also inspecting each and every piece of equipment and retiring or trading units that were no longer economically feasible. The traded vehicles were done on a one-for-one basis and the retired units resulted in a net reduction of equipment. They took capacity out of the system to match the fickle demand and the associated rates it was receiving.

To prepare for this month's column, I had lunch with a veteran carrier executive and was generously offered a view into the profitability chambers of a rather successful, mid-sized, high-service oriented carrier. He and I have been colleagues and friends for many years, and I knew he would share with me the parts of carrier sales management that I had never experienced before.

I asked him what he considered when he reviewed a customer's profile and how he calculated the profit driven from the rates proffered. His response was completely understandable, and I wished I had been able to say "I knew that."

He mentioned that some of the fiercest discussions in management sales meetings were centered around how to evaluate a customer's value to the enterprise, not necessarily the actual profit made on each and every customer. Did that customer provide lanes that made other customers extremely profitable? Did that customer pay their bills consistently, thus throwing significant cash against the fixed expenses of the operation and reducing the aggressive rates of other customers? Was it driver friendly?

The economy is going to stabilize and return to healthy levels. When it does, rates will level off and the resulting carrier capacity will go to the partners that survived the "dance" and walked home arm in arm. L

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