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OCTOBER 2009

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NASSTRAC 2009 SHIPPER OF THE YEAR

USG KEEPS SCORE

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Janet Kemp, manager of carrier operations, USG; Craig Boroughf, director of transportation, USG

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Management UPDATE

AN EXECUTIVE SUMMARY OF INDUSTRY NEWS

Is the recession ending? You bet it is. Well, at least that's what Rosalind Wells, chief economist at the National Retail Federation (NRF), now firmly believes. In the NRF's quarterly Retail Sales Outlook report, Wells said that the economy is growing in the second half of this year, even though consumer spending—the main driver for economic activity—remains sluggish. Wells added that the nation's GDP will grow by 2.5 to 3 percent over the last six months of 2009 and be driven by a need for inventory rebuilding.

What's that noise? Lufthansa may end its freighter operations if a new "noise abatement" law prohibiting night flights is enacted. According to published reports in the EU press, Lufthansa Cargo chief executive Carsten Spohr is warning shippers that if there's a reduction in the number of flights the airline can make out of its Frankfurt hub, operating such a service will become economically unfeasible. Pending a decision by the German state of Hesse, such a law will be imposed as a condition for badly needed airport expansion. Spokesmen for Lufthansa said it would not consider moving its freighter operations to any other EU air cargo gateway if Hesse rules against the airline. The news comes on the heels of a new launch by Lufthansa of a twice weekly freighter service between Frankfurt and Seattle via Los Angeles.

New Penn Teamsters do an "about face." A month after rejecting a wage and concession package, Teamsters at New Penn, a regional subsidiary of LTL transportation services provider YRC Worldwide (YRCW), signed off on a labor agreement previously approved by more than 90 percent of YRCW Teamsters employees. The original agreement went through in early August—and was approved by Teamsters at YRCW—is comprised of a 5 percent incremental cut and an 18 month freeze on union pension fund contributions. YRCW said these measures are expected to save the company roughly $45 million per month through the rest of 2009 and roughly $50 million per month in 2010.

A positive sign for freight trends? Following flat growth from May to June, the U.S. Department of Transportation's Bureau of Transportation Statistics (BTS) reported that its Freight Transportation Services Index (Freight TSI) was up 1.6 percent from June to July. The jump represents the first sequential increase in the output of services provided by the for-hire transportation industries since February and is the biggest monthly gain since January 2008, according to the BTS. Despite the sequential uptick, the current Freight TSI level is the lowest July level it's been since 1997's 94.8. In fact, the 13.5 percent year-over-year July decrease is its biggest decline for that period in 20 years.

More than a Canal. While the Canal expansion is getting most of the ink, Panama is also wooing U.S. air cargo shippers. As a consequence, the U.S. Trade and Development Agency (USTDA) has awarded a $258,000 grant to Gulf Coast International Cargo Panama S.A. to help conduct a feasibility study on the construction of an air cargo facility with cold storage at Tocumen International Airport. U.S. companies may compete for the USTDA-funded study through the Federal Business Opportunities web site. Gulf Coast Panama will select the company. "At present, few air cargo facilities

continued, page 2 >>

The Next Generation Supply Chain Conference is coming soon! New this year, *Logistics Management* and sister publication *Supply Chain Management Review* have teamed up to offer logistics professionals a comprehensive online conference to help shippers "learn the ropes" in today's unique economy. The 2009 Next Generation Supply Chain Conference hosts thought leaders and practitioners from around the world to help shippers prepare for this "new economy" with sessions on Wednesday October 27th. The conference will be available on demand after the launch dates, so shippers can listen at any time. Visit **logisticsmgmt.com/nextgen** to register.

Management UPDATE

continued

in Latin America and the Caribbean have cold storage capacity, hampering the region's development of international markets for its perishable products and contributes to the region's food insecurity," a USTDA spokesman said.

■ **Air breathes a sigh of relief.** Although Asia-Pacific air carriers recorded a steep decline in demand in recent months, Boeing predicts a resurgent marketplace in the coming years. "Despite an unprecedented contraction during 2008 and 2009, we remain confident in the strength of the global air cargo market over the long haul," said Jim Edgar, regional director of cargo marketing for Boeing commercial airplanes. According to Boeing analysts, Asian carriers are expected to add about 750 freighters to the region's fleet to accommodate growth and airplane retirements, about 27 percent of the world requirement—second only to the more mature, but slower growing North America market.

■ **Industry players cited as standout career starters.** Class I railroads Norfolk Southern (NS) and Union Pacific (UP), along with UPS and CH Robinson Worldwide (CHRW), were cited by *BusinessWeek* as some of the best places to launch a career. This annual survey ranks top employers for recent college graduates and is based on a survey of U.S. employers, college career services directors, and about 60,000 college undergrads. NS and UP paced the transports at 26 and 28, respectively, on the publication's list, with UPS coming in at 59 and CHRW at 65.

■ **Pacer updates credit agreement.** Freight transportation and logistics services provider Pacer International Inc. has entered into a revised credit agreement with a group of financial institutions led by Bank of America. This agreement follows a July 1 announcement that it had successfully entered into a First Amendment and Waiver of its 2007 Credit Agreement with Bank of America and other financial institutions. Pacer officials said the revised agreement provides for an asset-based, revolving credit facility of up to $125 million. "Momentum is building at Pacer," said Michael Uremovich, Pacer chairman and CEO, in a statement. "We have streamlined and strengthened our capabilities, improved our service levels and achieved additional synergies across the entire Pacer enterprise," he added.

■ **Tree huggers vs. shippers.** In response to a recent joint letter to Representative James Oberstar (D-Minn.), chairman of the House Transportation and Infrastructure Committee, by the Natural Resources Defense Council (NRDC) and the Sierra Club, The National Industrial Transportation League (NITL) refuted claims made by the environmental interest groups that the NITL opposed the Clean Trucks Program of the Ports of Los Angeles and Long Beach. The Sierra Club co-signed a letter with the NRDC last month stating that "we firmly believe that a concession model is essential to the long-term success of the Clean Trucks Program." The letter added that concessions could help ports better enforce the programs and will lead to better maintained trucks because concessionaires are "well-heeled trucking companies," not "underpaid drivers."

■ **Longshore labor worries mount.** Now that the International Longshoreman's Association (ILA) has rejected a deal with the United States Maritime Alliance (USMX), East Coast ports may no longer enjoy a "labor friendly" advantage. ILA Wage Scale delegates unanimously rejected a proposed two-year contract extension offered by the USMX at meetings in Orlando, Fla., last month. All terms of the current six year agreement will now remain in effect until 2010. USMX sought to alter the terms of the final year of the current six year agreement, including deferring a scheduled ILA wage increase for a year in exchange for their immediately lifting the Container Royalty Cap and beginning to bridge the salary gap between the lower and higher tiered wages that ILA members earn. But USMX refused to address ILA's concern on new technology and rejected the union's demand to freeze introduction of new technology throughout the term on the extended contract. ■

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october 2009

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USG Keeps Score

By putting fuel costs in check, making carriers accountable, reducing total freight claims, and maintaining carrier acceptance rates above 99 percent, USG rose to the top of its game—and took customer satisfaction to new heights in near record time. **24**

cover photo by Andy Goodwin/Getty Images

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Mobility In the Supply Chain: Why now is the time to address the last link in the supply chain.
October 14, 2009, 2 pm ET
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Focus on the Fleet: Optimizing Workforce Management
logisticsmgmt.com/pbowes

The 18th Annual Trends and Issues in Transportation Management Survey Results
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on-demand virtual conferences

Logistics Management & Supply Chain Management Review Virtual Conference Webcast: Is your supply chain ready for the recovery?
logisticsmgmt.com/recessionvc

bears repeating...

"The rate at which trucks are being replaced by carriers is not sustainable. You need about 240,000 trucks a year coming into the market, and this year the market is expecting about 79,000 new trucks. If more motor carriers cannot get their rates up, we are going to see more of them go out of business."

— Lana Batts, Partner at Transport Capital Partners

this month's fast facts

1. **Railroad volumes may be on the upswing**
2. **Asia-Pacific cargo airlines reported a 15.8 percent cargo decline this summer**

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

WASHINGTON—Douglas G. Duncan, the first and only president and CEO of FedEx who oversaw the company's explosive growth to become the second-largest LTL carrier in the country, stunned the freight and logistics industry with the announcement that he is retiring next Feb. 28.

blog takeaway

The Pittsburgh G-20 Summit [brought] together important industrial and emerging-market countries from all regions of the world at a time when many shippers are concerned about a new era of trade protectionism. According to trade analysts, the situation is made worse by the fact that we are still dealing with an ongoing global economic downturn.

"Free Trade Tops the G-20 Summit's Agenda"
—Patrick Burnson, September 19, 2009
logisticsmgmt.com/blog/burnson

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USG's new collaborative era

WHEN WE'RE PORING THROUGH THE NASSTRAC Shipper of the Year nominations, we tend to look for the impact players, those shippers who have introduced new best practices creating benefits that trickle through the company's overall operations—and beyond.

This year our decision was easy. In fact, when we read USG's nomination and the details of how quickly they ushered in a new era of carrier collaboration, it became clear that the building systems supplier met all our criteria. About 13 months ago, Janet Kemp, USG's manager of carrier operations, along with the company's logistics team, pinpointed a number of areas that needed immediate improvement and put theory into practice. They're now seeing the fruits of their labor benefit their employees, carriers, customers—even the environment. Sounds simple, but it wasn't.

Executive Editor Patrick Burnson offers a detailed look into all of USG's recently implemented best practices and their subsequent effects starting on page 24.

What I found of particular interest was Kemp's determination to launch new programs designed to both benefit carriers and improve transportation operations at the same time—relationship building programs we often tout but rarely see come to fruition.

First, Kemp launched the Carrier Certification Program to award a certification rating that recognizes carriers for meeting financial, operational, administrative, and infrastructure standards set up by the logistics team. Second, the team put a Carrier Scorecard into place that establishes metrics, communicates how they're performing based on these metrics, and allows them to see how they stack up against other carriers.

From the outset, the programs forced Kemp to rethink USG's carrier strategy. More importantly, these initiatives put the logistics team across the table with a small group of core carriers with whom they could trust. This was especially important considering the tight delivery windows established by the big box guys, USG's largest customers. By taking the time and effort necessary to attempt this "consultative" approach, Kemp was able to communicate USG's goals, lay down the expectations, and create a tighter bond between the shipper and its core group of transportation providers.

And the bottom line is pretty impressive. This collaborative framework within which the shipper and its carriers are now functioning has improved on-time performance, reduced total freight claims, and has even helped USG to establish a program where it shares backhaul lanes with one of its biggest customers.

> **When we read USG's nomination and the details of how quickly they ushered in a new era of carrier collaboration, it became clear that the building systems supplier met all our criteria.**

"This not only contains costs, but also helps solidify our relationship with the customer," Kemp tells Burnson. "We have common goals and—ideally—equally beneficial results."

Michael A. Levans, Group Editorial Director

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

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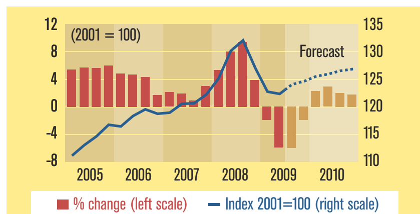
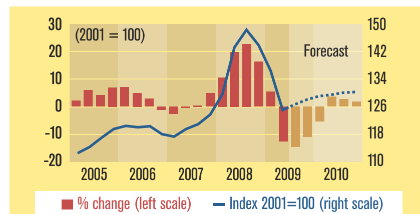


% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
General freight - local	3.3	5.9	-3.1
Truckload	-0.6	0.3	-10.5
Less-than-truckload	-1.5	0.0	-4.0
Tanker & other specialized freight	0.8	4.6	-3.4

TRUCKING

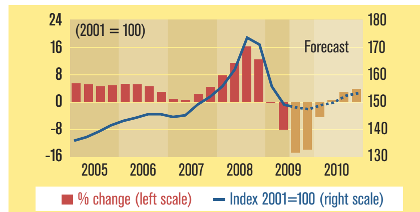
At first glance, Bureau of Labor survey data of trucking companies suggest pricing power has shifted to carriers. The aggregate price index for all types of truckers increased 0.3% in August. Our forecast has been subsequently revised upward. We're now showing a 4% average annual price decline by the time 2009 closes and a 2.2% price increase in 2010. This is a cautious forecast and could be revised sharply upward as carriers gain traction in a reviving economy. Look deeper, however, and you'll see long-distance LTL and TL trucking companies didn't participate in the price resurgence. LTL and TL prices, respectively, declined 1.5% and 0.6% from a month ago and dropped 4% and 10.5% from August 2008.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Scheduled air freight	6.6	-2.0	-14.3
Chartered air freight & passenger	-3.3	-5.7	-17.2
Domestic air courier	3.9	3.9	-12.7
International air courier	1.2	1.2	-14.3

AIR

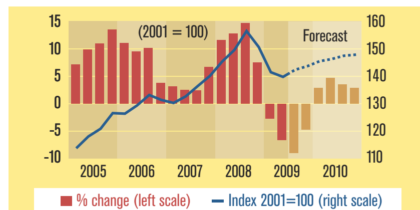
After 2008's 17.3% average annual price hike charged by U.S.-owned airlines for flying cargo on scheduled flights, it made sense to see the recession and cuts in fuel costs power sharp price drops. The question all along has been: How low will air cargo tags go before airlines regain pricing power? Over this past February through June, we had forecast the Bureau of Labor's scheduled air cargo prices to fall between 4.5% and 6.9% in 2009. After June's record-breaking 11.5% one-month price cut, we revised that down. Now, we've seen two months of price hikes. Trending prices upward at a very conservative pace yields a new forecast with prices falling 8.6% annually in 2009 and rising 0.5% in 2010.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Deep-sea freight	-0.2	-5.9	-24.2
Coastal & intercoastal freight	0.0	6.3	-2.9
Grt. Lks.-St. Lawrence Seaway	0.3	-3.6	-2.9
Inland water freight	0.9	-13.8	-16.6

WATER

U.S. owned and operated water transportation companies reported a 0.9% price hike for hauling freight over inland waterways and a 0.3% price increase for Great Lakes and St. Lawrence Seaway service in August. Elsewhere, prices either stayed steady or increased a bit. Our forecast for water transportation prices at the aggregate industry level remains unchanged for 2009 as it appears that the industry remains on track for a 9.3% annual price decline. However, we're raising the inflation forecast to a still relatively conservative 0.7% price increase in 2010. With no historical precedence for current pricing trends, new cost models we're building should provide extra insights to help tune these price forecasts.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Rail freight	1.9	2.4	-8.9
Intermodal	0.8	4.8	-15.8
Carload	2.1	2.1	-8.3

RAIL

After three quarters of price cuts in the rail industry, Q3 of 2009 will end that trend. In August, intermodal rail freight prices increased an average 0.8% and carload tags jumped 2.1% from a month ago. Overall, prices are likely to increase 1.9% in Q3. While that still leaves prices 9% below year-ago levels, the rail industry is one mode that will emerge from its deflationary hole more easily than others. However, due to the sharp price drops in the first half of the year, the industry is forecast to register a 5.8% annual price cut in 2009. Our forecast for 2010 now calls for a 3.5% annual price hike. That's a very conservative bet as the rail industry will boost prices much faster when consumer spending finally picks up.

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

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- Damco officially becomes A.P. Moller-Maersk's new brand
- UPS embroiled in contract talks with 1,200 air maintenance workers

NEWS & ANALYSIS

Forecast calls for another slow peak season

LM reader survey cites slack demand, low consumer spending as drivers for fourth straight decline in peak season shipping

By Jeff Berman, Group News Editor

WALTHAM, Mass.—With freight volumes in their fourth consecutive year of decline, it's certainly not a stretch to admit that "peak season" is significantly different from what it was in years past. In fact, the findings of a recent *Logistics Management* (*LM*) readership survey, coupled with analyst and shipper analysis, indicate that the lack of a true peak is now "the new normal."

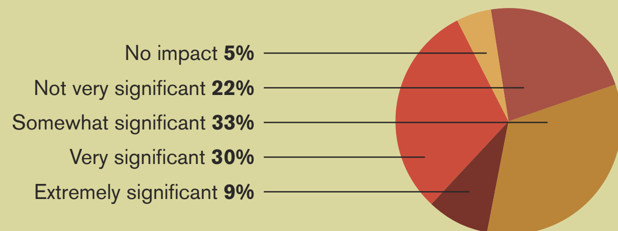
Our survey found that a cumulative 82 percent—or 373 of the 448 respondents—believe that this year's peak season will be similar or less active compared to last year, while a mere 18 percent contend that it will be more active. Reasons cited by respondents for another slow peak include: less demand, a need for lower inventory levels, the recession, sluggish consumer spending, and low import volumes, among others.

"There are no positive signs that customer demand has increased to last year's levels, or even close to them," said one shipper respondent. "Our customers are requesting just-in-time shipments instead of building inventory in their warehouses. Retailers still have excess inventory; and with the recession ongoing, they're not ramping up their inventories."

The shortfall of inventory build-up is not likely to fade anytime soon, considering the Department of Commerce's recent report that U.S. business inventories decreased 1 percent in July 2009 from June 2009 and were down 11.8 percent from July 2008. A *Wall Street Journal* report noted this reflects how businesses are slowly getting rid of excess goods that accumulated during the recession.

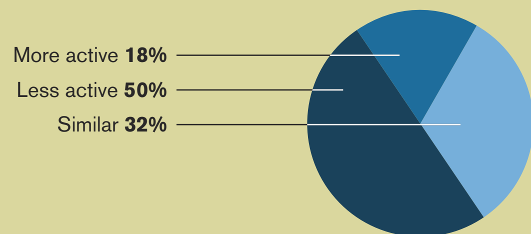
This lack of inventory build up coupled with reduced consumer spending are also reflected in the low volumes at the Ports of Los Angeles and Long Beach—the two highest volume ports in the U.S. Year-over-year volumes at both ports are down, with total containers at the Port of Long Angeles year-to-date through August down 18.3 percent compared to last year. And at the Port of Long Beach, total containers handled through August are down 25.1 percent from last year.

To what extent does Peak Season activity have an impact on your company's day-to-day operations?



Source: Survey of 448 *LM* readers, September 2009

Do you expect this year's Peak Season to be more active, less active or similar to last year?



Source: Survey of 448 *LM* readers, September 2009

"Peak Season in 2009 won't look at all like peak season in past years," said IHS Global Insight Economist Paul Bingham. "However, we're forecasting a monthly peak volume in the fall that will still technically be a 'peak.' The normal characteristics of operations in peak season won't be apparent this year as ships, terminals, the railways, and the industry workforce will not be stretched at all in terms of capacity. We see no capacity issues causing any peak season delays as a consequence," he added.

According to John Larkin, managing director of the Stifel Nicolaus Transportation Group, while various

PEAK SEASON, *CONTINUED*

economic indicators suggest that conditions may be improving, there are still major obstacles to overcome before declaring the recession over and a return to normal—or even improving—freight conditions.

Some of the obstacles cited by Larkin include limited credit availability, a high unemployment rate, as well as a high personal savings rate, which digs directly into consumer spending and consumption patterns.

"Consumers are still in the bunker waiting for the economy to feel better," said Larkin. "It used to be that even in a bad year September, October, and November used to be good. But that has not been the case recently. Part of the issue is the change in attitude by shippers themselves, where many shippers have changed their attitudes from one of partnership with carriers to one of survival and cost-cutting by taking advantage of low rates in the freight transportation market, with pricing remaining very difficult for carriers," he said.

In terms of how peak season impacts day-to-day operations, 5 percent of *LM* survey respondents said there was no impact, 22 percent said the impact was not significant, 33 percent said it was somewhat significant, 30 percent said it was very significant, and 9 percent labeled it as extremely significant.

"With peak season slow again, we are concerned about the financial stability of carriers," said Ben Cook, director of global transportation at Kimberly-Clark Company. "We spent a lot of time this year looking at carrier financial stability, particularly on the ocean side, and we're trying to focus on long-term partnerships with people we are doing business with that are also financially stable." L

TRANSPORTATION INFRASTRUCTURE

"Transportation" bill delay means longer road to prosperity, freight coalition leaders say

WASHINGTON—Freight and logistics interests are getting antsy. They want their six-year, $500 billion highway bill, and they want it now.

They also want to change its label. Thanks to prodding from the $63 billion railroad industry, America's surface freight stakeholders would like the measure referred to as the "transportation" bill, not just the highway reauthorization bill as it has commonly been referred to since the Eisenhower administration.

They may get their way. Rep. James Oberstar, D-Minn., chairman of the House Committee on Transportation and Infrastructure, has introduced his $500 billion proposal (including $50 billion for development of high speed rail projects) as part of his Surface Transportation Assistance Act of 2009. The current $286 billion, five-year spending program expired September 30.

However, Washington is having trouble doing more than one thing at a time. The heated debate over health care reform "is just sucking all the oxygen out of the room," as one transportation lobbyist put it. There is also a big debate coming over what to do about global climate change.

Because of those priorities and next year's mid-term elections, the Obama Administration has signaled its desire to kick the can down the road. It's proposing an 18-month extension of the current bill—at current spending levels.

That is being met by a roadblock thrown up by highway, freight, and logistics interests who say that the delay unnecessarily puts the nascent economic recovery at risk.

"Transportation should be on top of the nation's agenda—but it is not," says Janet Kavinoky, the U.S. Chamber of Commerce's director of highway operations. She says Obama's proposed 18-month extension "is too long." Kavinoky says perhaps a six-month extension may work. The Chamber is on record supporting an extraordinary thing—they are supporting a reasonable (5 cents to 25 cents) increase in the federal fuel tax (currently 18.4 cents on gasoline; 23.4 cents on diesel) as long

News Capsule

Retail volumes in rough seas

Monthly declines for import cargo volume at major U.S. container ports are projected to sink to 12.5 million TEU (twenty-foot equivalent units) in 2009, according to the monthly Port Tracker report by IHS Global Insight and the National Retail Federation. This would be an 8.8 percent annual decline from 2008's 15.2 million TEU and the lowest total since 2002's 11.6 million TEU.

Import cargo volume, million TEU

Source: IHS Global Insight and the National Retail Federation

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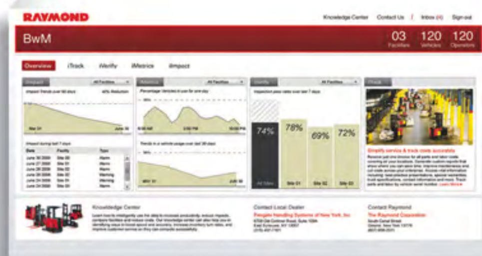

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TRANSPORTATION INFRASTRUCTURE, *CONTINUED*

as those funds are earmarked solely for highway transportation needs.

That tax has been unchanged since President Clinton raised it in 1993. Because of inflation, the federal fuel tax has been eroded by about 50 percent in real terms, causing financial uncertainty. The Highway Trust Fund, the vehicle for federal spending on infrastructure, has gone broke each of the past two years, needing an $8 billion infusion both years from general treasury funds. "With the right policy, we will support an increase in the federal fuel tax," Kavinoky says.

The current issue before freight interests is timing. Transportation infrastructure already has received

about a $62 billion infusion in spending from the $789 billion economic stimulus passed early this year. Some $29 billion of that already is going to road and bridge construction and modernization. More is needed.

"We want a multimodal strategic plan for freight to target investment," says Allen Biehler, secretary of the Pennsylvania Department of Transportation and president of the American Association of State Highway and Transportation Officials. "We don't want a port plan, a truck plan or a rail plan. We want a truly national plan that makes benefits available to all the nation's consumers."

—John D. Schulz, Contributing Editor

LABOR TALKS

UPS embroiled in contract talks with air maintenance workers

WASHINGTON—UPS, the world's largest transportation company and operator of the world's 12th largest fleet of aircraft, is negotiating a new labor contract with its 1,200 aircraft mechanics who maintain the company's fleet of 262 planes.

Recently, those workers represented by Teamsters Local 2727 in Louisville voted overwhelmingly to approve a strike authorization vote by a 90 percent margin to help jump-start the negotiations that began three years ago.

Another round of negotiations was scheduled for September 23 through September 25 in Minneapolis. Air contract negotiations are notoriously complex, but a UPS spokesman says many side issues were largely settled and it's now time to negotiate economic issues, which he called the "meat and potatoes" of the contract.

UPS's contract with its mechanics contains 37 separate articles. UPS spokesman Mike Mangeot calls the contract "the size of a small phone book" and downplays the impact of the strike authorization, which he says is a common negotiating ploy.

"It's just an internal show of solidarity," Mangeot told *LM*, noting that the strike authorization vote has "no legal authority." He called the strike authorization a negotiating ploy.

Meanwhile, Teamsters Local 2727 President Bob Combine says the strike authorization vote is "not a ploy" and warns that UPS is "playing with fire" by extending the negotiations in the peak air shipping season of the fourth quarter. About 16 percent of UPS's 15.5 million daily package deliveries are made by air.

The only time UPS endured a nationwide strike was in 1997 when then Teamsters Union President Ron Carey engineered a 15-day walkout by its small package ground delivery workers. That strike was estimated to cost UPS at least $850 million in revenue, and an untoward amount of goodwill from shippers who felt the strike could have been avoided.

"Any comparison to 1997 is incongruous," Mangeot said. "That was a different employee group, different issues were at play, and different labor laws applied."

To be sure, current Teamsters union President James "Jim" Hoffa has not shown Carey's willingness to call nearly as many nationwide strikes. UPS is the Teamsters' largest employer, with more than 255,000 members, and many in labor circles believe Hoffa would not risk damaging relations with UPS by calling for another strike.

Even so, during any protracted labor negotiation such as this, some shippers are wary of any possible disruption of service to their supply chains. A spokeswoman for J.C. Penney, Darcie Brossart, recently told Reuters it was already planning contingencies in case of a UPS strike and said flatly: "Our customer delivery process will not be interrupted."

Certainly, UPS hears those concerns. Mangeot says that the company has been contacting shippers on a regular basis to keep them informed of the contract negotiations.

"We are regularly reaching out to customers to make sure they know they are in good hands with UPS. The goal in these negotiations is to reward our mechanics for their contributions to the company while protecting our ability to compete in the global transportation and logistics marketplace," Mangeot added.

—John D. Schulz, Contributing Editor

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NEW PLAYER

Damco officially becomes A.P. Moller-Maersk's new brand

COPENHAGEN—The A.P. Moller-Maersk Group's logistics activities began trading as Damco last month as the result of the integration of the company's supply chain management activities previously known as Maersk Logistics and its forwarding activities previously called Damco.

In an interview with *Logistics Management*, Rolf Habben-Jansen, CEO of Damco, noted that Damco intends to position itself as a new, fairly sizable logistics company that distinguishes its services away from the traditional offerings many shippers identify with the old brand. "In other words, we will become more complex in terms of what we can provide to shippers, but at the same time, we will do this by simplifying our internal operations," said Habben-Jansen.

He added that the company intends to be recognized as one of the top ten major 3PLs, not a second tier company. "There will be a measurable service enhancement," he said. "For the longer term, we see shippers coming to us after we've demonstrated that we can compete with the best on every level. Do we see a wholesale shift to our services?

"We will become a bit more complex in terms of what we can provide to shippers."

—Rolf Habben-Jansen, CEO, Damco

Not at all. But we do want to capture shippers' attention and have them give us a look."

Habben-Jansen said that besides broadening its place in the U.S. market, Damco intends to penetrate so-called emerging markets as well. "And as we do this, hopefully, the entire Damco operation will appear seamless to the global shipper," he said.

Evan Armstrong, president of the 3PL consulting firm Armstrong & Associates Inc., told *LM* that the rebranding makes sense, as it clears up a perceptual problem. "Are they Maersk logistics, or Maersk Distribution or Damco? This gets the 3PL out from under that A.P. Moller-Maersk umbrella," he said.

Armstrong added that having fixed assets provided by Maersk doesn't necessarily provide an immediate advantage.

"Just like a 3PL with a trucking fleet, the company must still deliver on a number of different levels. Shippers want neutrality…not assets," said Armstrong, who added that at the end of the day a 3PL must work with shippers objectively.

—Patrick Burnson, Executive Editor

CSCMP 2009

Walmart's Maxwell cites keys to developing best-in-market global supply chains

CHICAGO—In a speech that focused on the various aspects of successful supply chain management, Wal-mart Senior Vice President of International Supply Chain Gary Maxwell said that understanding customer needs is the key to designing a fluid global operation.

Addressing attendees at the Council of Supply Chain Management Professionals (CSCMP) Annual Conference in Chicago last month, Maxwell discussed how diversity in supply chain networks and evaluating supply chains based on the needs of a particular geographic market are major drivers when developing an international supply chain. Maxwell also stressed that, while often overlooked, effective inventory management may be the most critical element to master.

"A lot of times when working with engineers to create a supply chain in a new international market the question is around what the supply chain will look like," said Maxwell. "You build your assumptions on distance and volume, and inventory is typically viewed as a fixed variable."

He explained that network engineers will present data on how many days and dollars worth of supply of product by category that Wal-mart's distribution centers need to hold to service that region. "My challenge is then to ask why that number? When you look at the number of days on hand we have in the DC today, why aren't we looking at a DC two years out in the future that is going to hold the same days worth of supply? Inventory in our network needs to be variable and not fixed, and we need to build and design for more efficient supply chains with less inventory," he added.

The inventory management function in many organizations is often thought of as separate from other logistics functions, noted Maxwell. But to run a truly thorough and efficient supply chain, you need to start with inventory and look at how you can carry less and turn it faster.

Securing corporate capital to build efficient supply chains is yet another major challenge when expanding internationally, said Maxwell. But supply chain and logistics executives need to overcome this by thinking of themselves as a "marketer" for the supply chain.

"You have to sell your ideas, and you

CSCMP 2009, *CONTINUED*

have to sell why starting with the customer and building what's right for them all the way through the supply chain through labor costs, land, and regulations is critical," said Maxwell. "Your CFO may not be thinking about these things when they think about the supply chain, but that is our job as educators and promoters of the value we add to the business."

Maxwell stressed how sustainability is a core component to any company's future global success. He cited Wal-mart CEO Lee Scott's three key goals for sustainability: to be supplied by renewable energy, create zero waste, and to sell products that are good for and sustain the environment.

"These are high and difficult goals for a supply chain that is filled with hundreds of thousands of trucks and large DCs," said Maxwell. "This leads to a lot of experimentation, and in this pursuit of a more sustainable network you need to try some things." Some green tactics Wal-mart is trying: hydrogen fuel cell-powered forklifts and reducing package sizes for toys.

Maxwell said Wal-mart took 277 toys from its product line and redesigned and shrunk their packaging. This effort resulted in using 727 fewer containers to ship the toys from China to the U.S. It also saved more than 5,000 trees and an estimated 1,300 barrels of oil.

"Putting things in smaller boxes and using less carbon produced a tremendous savings for the environment and a financial savings for the company," said Maxwell. "Our approach to sustainability is to be better for the environment and save money at the same time."

Going forward, Maxwell said that Wal-mart customers around the world will expect and demand more from the company's supply chain in the form of sustainable products so they have some understanding of whether that product is good or harmful to the environment.

In July, Wal-mart rolled out plans for a Sustainability Index in which the company is working with educators, universities, and a consortium of companies to build a product index that would tell a customer, on a to be determined scale, how a product will impact the environment when used by a customer. L

—*Jeff Berman, Group News Editor*

CORRECTION

Logistics Management listed Cathay Pacific's contact information incorrectly in our July 2009 ad index. Their correct information is:

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Explore all LTL rate tariff options

THE FIRST TIME you, an LTL shipper, sit down with an LTL motor carrier to negotiate a discount, more than likely that carrier will be basing its discount on rates in its current standard class rate tariff.

Unbeknownst to many shippers, however, there may be other rate tariffs out there a shipper may be able to take advantage of—some of which may not be subject to discounts. Here are some of the tariffs and options you should look into:

1. Check to see whether the carrier has more than one class rate tariff. Some LTL carriers have two or more tariffs that you may not be aware of; however, the carrier may be reluctant to make them known to you. For example, one may be offered only to very high-volume shippers.

2. Standard class rate tariffs of prior years. You may want to ask the carrier if it may be agreeable to base its discount on its 2006 class rate tariff. Remember, the choice of tariff used is entirely within its discretion.

3. Don't overlook SMC3's "Czar Lite" tariff that has nationwide application. Some carriers aren't particularly fond of it, but they will use it for their base rates if that's what it's going to take to get the shipper's business.

4. Adopting another LTL carrier's class rate tariff. Several years back, many shippers were able to get their carriers to adopt Yellow's class rate tariff for their base rates; but in recent years many carriers have been reluctant to adopt another carrier's class rate tariff.

5. Get the carrier to agree to use a rate tariff your company has created. You should also find out from each individual carrier whether they have any specific rate tariffs you might be able to take advantage of, such as:

A pallet tariff: These are very common with rates varying according to the number of pallets shipped.

A tariff where prices vary according to the number of feet occupied: A good example is Roadway's "Sealed Divider" tariff. This tariff allows a shipper to occupy any number of feet in the head of its trailer, which is then sealed off from the rest of the trailer with a wall and then held in place with a cross bar and locked. It's not touched until it reaches its destination and is great for high-valued products or freight that's highly susceptible to damage from terminal handling.

The key thing is to do your homework. Determine your key lanes and then make rate comparisons, lane-by-lane, both outbound and inbound. Find out how they compare with what you are currently paying and don't be afraid to ask a few questions.

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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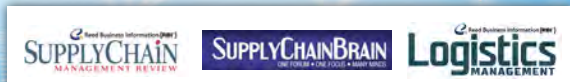

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Mulani on

Superstars in service management: Where and how masters excel

The Accenture research that was cited in last month's column brought to light some startling insights: At many companies, after-sale services can account for up to 40 percent of revenue and up to 50 percent of inventory investment. Yet far less than half of all executives polled believe that service management is a key contributor to the customer experience.

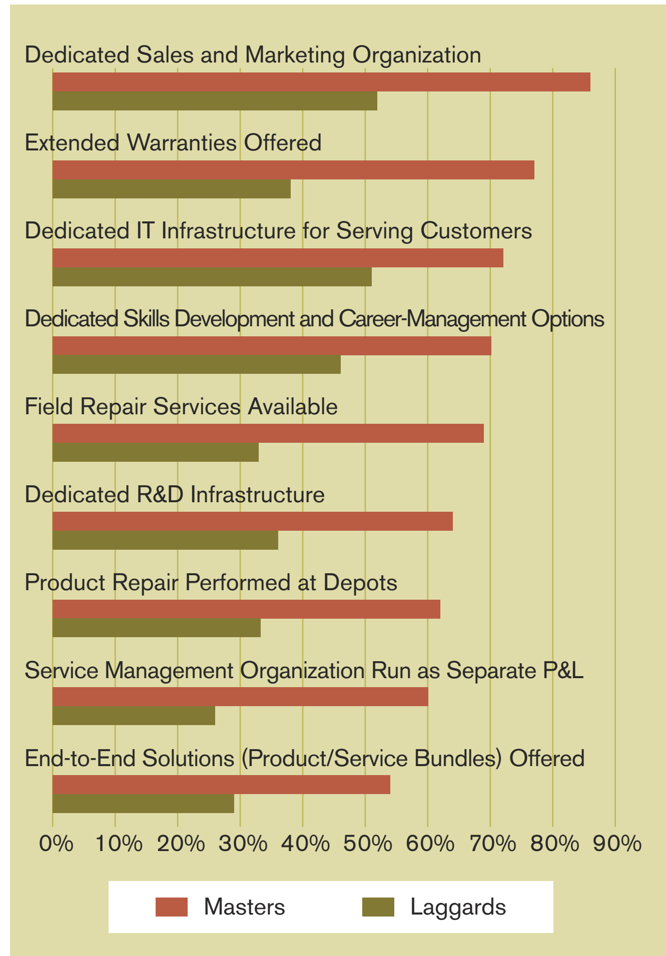
Clearly, there's a disconnect. In addition to potentially alienating customers by not fully supporting the after-sale relationship, many companies are ignoring a significant revenue-generation opportunity. However, service management masters—companies that finished in the top 10 percent of our survey based on approximately 20 service management metrics—are successfully making service management a resource for customer-satisfaction and retention, as well as revenue enhancement.

Here is a look at seven service management practices and capabilities, and how masters are using them to help achieve and sustain high performance.

Service management philosophy, organization structure, and offerings: Perhaps the clearest indicator of an enterprise-wide commitment to service management is that (compared to laggards and the survey population as a whole) masters are far more likely to approach after-sale services as a distinct unit with full profit-and-loss accountability.

A far higher percentage have dedicated support capabilities such as IT, R&D, and sales and marketing. And as shown in the graphic, more service management masters have developed formal after-sale and asset management/MRO services. Masters are also more inclined to develop professionals with focused service management specialties.

Service delivery model: Not unlike mainstream sales and services, segmentation is vital to service management masters. In fact, this group is more than three times as likely as laggards to tailor post-sale services to each customer or customer segment.



Part of what makes this possible is that masters have a broader range of capabilities and resources, including call handling/customer care, parts warehouses, repair depots, and remote diagnostic capabilities. Masters also are more likely to operate centrally, building global delivery centers and proffering more after-sale and asset management/MRO services via online portals.

Service offering portfolio: Service management

(continued)

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

masters are more than twice as likely to have a clearly defined portfolio of after-sale and asset management/MRO service offerings and (subsequently) to use simulation or modeling to continuously formulate the right mix of services; develop service and parts strategies in line with company strategy; focus sales and service professionals on selling a full portfolio of parts, services, and solutions; and analyze customer product usage and feedback data to create new parts and service solutions.

Partner relationships: Companies that excel at service management tend to work well with others. By more than four to one, masters outpace laggards in partner-strategy formulation. By nearly as large a margin, they also are likely to formulate service strategies in collaboration with partners and to integrate their service management processes and information systems with those of partners.

Resource planning: One important key to service management success is collecting, analyzing, and leveraging service data. Because masters use and leverage a greater range of information, they consistently get more "mileage" out of their service people, parts, facilities, and partners. Masters' most-cited references include maintenance plans, service-level agreements, captured response times, and scheduled preventive maintenance data.

Service transparency: Masters are exceptionally competent at observing and understanding the performance of their service resources. One reason is technology: Masters were found to be six times more likely than laggards to have a fully integrated best-of-breed system or custom software that calculates metrics on customer satisfaction and financial targets. Masters also are more likely to have a complete set of integrated organization-wide metrics for monitoring customer needs and company financial targets.

Pricing and customer insight: Our survey found that the ability to price services optimally is crucial, and that masters consistently have better insights on the factors that drive returns on their service business. For example, masters were much more likely to indicate that they base their pricing on a specific value proposition and market intelligence, and that they conduct ongoing competitive pricing analysis, often via a third party.

WHAT REALLY MATTERS

Accenture's research into service management mastery is only one of several investigative projects that our organization has launched over the last year.

Similar efforts have been completed (or are currently underway) in fulfillment, manufacturing, sourcing and procurement, and new product development.

However, it is important to note that the often cited differential between masters and laggards serves only to illustrate the vast disparities among the players.

What really matters is what masters do that gives them the real edge in the marketplace—both from a cost efficiency and revenue generation perspective. L

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2009 NASSTRAC SHIPPER OF THE YEAR
USG keeps

BY **PATRICK BURNSON**, EXECUTIVE EDITOR

By putting fuel costs in check, making carriers accountable, reducing total freight claims, and maintaining carrier acceptance rates above 99 percent, USG rose to the top of its game—and took customer satisfaction to new heights in near record time.

With consumer confidence at an all-time low, one might expect a major supplier of building systems to show concern. But Janet Kemp, manager of carrier operations for USG Corporation, says: "No problem."

She believes that what matters to their core customer base of contractors and subcontractors is service and a long-term commitment. "Relationships are our foundation," says Kemp, echoing the company's mission statement; but she brings more to the discussion than just corporate-speak. Kemp is the person behind USG's effort to build and sustain carrier partnerships and to make sure her operation remains poised for the inevitable rebound.

Sensitivity to relationships extends to the greater community as well, says Kemp, noting that USG has also made great strides introducing environmentally cleaner, more fuel efficient transportation options.

"We all have to be sitting at the same table and agreeing on what's important," she says. "That's why we're now seeing a level of collaboration between shippers and carriers that is really without precedent."

It's this cooperative attitude that earned USG the 2009 NASSTRAC Shipper of the Year award. The award is given in recognition for outstanding achievement in transportation and distribution and is presented annually to a member of the National Shippers Strategic Transportation Council (NASSTRAC), an organization that provides education, advocacy, and

score

networking for professionals in all areas of transportation. The award is presented by NASSTRAC and *Logistics Management* magazine.

NASSTRAC points out that USG's collaborative approach is providing its suppliers and customers with service reliability and a predictable pricing model that's remarkable in even the best of times. Here's how Kemp and the USG logistics team put fuel costs in check, made carriers more accountable for service levels, and maintains carrier acceptance rates above 99 percent on their way to the top of the logistics management rankings.

CONTROLLING RATES

USG's transportation department is responsible for managing the movement of more than 250,000 loads into and out of more than 50 USG plants across North America every year. The complexity of such an undertaking can be daunting, given that it comprises several diverse components including financial settlement and sustainable velocity.

That's where Kemp steps in. While only being with USG for about 13 months, Kemp brought her 25 years of "results driven" experience in transportation management with her to the new job at USG. Her previous tenure as director of supply chain business

Janet Kemp, manager of carrier operations, USG
Craig Boroughf, director of transportation, USG

development at Coyote Logistics Inc., and as president and CEO at Practical Transportation & Logistics Solutions Inc., gave her a deep understanding of supply chain strategy.

And because she's a seasoned negotiator with well-established industry relationships at senior management levels, the fit was perfect for USG. Today, oversees the management of a $350 million flatbed and van transportation network.

One of the chief challenges in her new role was putting fuel prices in check. The sudden spikes and dips in world market values over the past two years was making life for shippers and carriers untenable. To stem this disruptive tide, she quickly put new practices in place. "We knew that during periods of fuel price volatility, it was vitally important that we get surcharges set before we came into contract meetings," she recalls. "That way there were no surprises. This requires both shippers and carriers to share information and make adjustments so that individual contracts can be created to customize service."

With this in mind, Kemp and her team began crafting a new relationship with carriers that would use a lane sensitive fuel surcharge (FSC) formula. This means that mileage bands, which track distances covered, are used to match carrier fuel risk with specific lane characteristics. The team also created a "carrier portfolio strategy" with a committed request-for-proposal (RFP) schedule.

Craig Boroughf, USG's director of transportation, says that Kemp's approach was refreshing and well-thought out. "She knew that some companies had made mistakes by negotiating this process during a sudden surge in oil prices," he says. "This was especially common in 2005. She was not going to fall victim to a similar spike in 2009."

Indeed, Kemp avoided that mistake by limiting its business to core carriers that not only kept charges in check but delivered on service. Many of USG's current carriers have been doing business with the shipper for over 50 years. In fact, eight of its top 10 highest-volume carriers have been hauling USG's freight for over 30 years.

Boroughf noted that USG's RFP timetable is set in advance and the schedule is followed irrespective of market conditions at the time of the RFP. For example, USG doesn't initiate an RFP out of cycle in order to take advantage of a soft market. Equally important to Kemp and her team is that its carriers stay financially solvent for the long haul. "Our RFP process allows for a price premium for incumbents and a soft second round opportunity when needed," he adds.

On-time shipping performance is another critical metric for the team because the big box home improvement and construction markets are major areas of USG's concentration. These customers, says Kemp, require outstanding on-time delivery (OTD) performance and shipment status updates.

"We knew that during periods of fuel price volatility, it was vitally important that we get surcharges set before we came into contract meetings. This requires both shippers and carriers to share information and make adjustments."

—Janet Kemp, manager of carrier operations, USG

"One of the challenges in improving on-time metrics was our carriers' ability to meet the narrow delivery window requirements established," she explains. Most of USG's delivery windows range from six hours to only one hour for many home improvement store customers."

By communicating the importance of these windows, and creating the reporting tools to identify each shipment's OTD result, USG was able to work with its carriers to adjust its shipment processes to enable the carrier's success. Simultaneously, USG reduced total freight claims, accelerated the settlement of any remaining claims, and maintained carrier acceptance rates above 99 percent.

KEEPING SCORE

Under Kemp's leadership, USG recently implemented two new programs to benefit the carriers. First, The Carrier Certification Program awards carriers a certification rating that recognizes those who meet financial, operational, administrative, and infrastructure standards set by USG.

The second new program is the Carrier Scorecard that was created to ensure that its carriers are informed about the metrics on which they're measured, that they are performing to expectations, and that they see how they are performing compared to other carriers.

Another major achievement, says Kemp, has been the sharing of backhaul lanes with a major home improvement store customer, allowing savings for both the customer and USG. "This not only contains cost," she says, "but also helps solidify our relationship with the customer. We have common goals and—ideally—equally beneficial results."

Kemp also cited USG's consultative nature of partnering that has paid dividends for both parties. For example, her team determined that one customer could protect cargo in transit by using fewer protective wraps if they were placed more efficiently around the load. "So that by reconfiguring the way cargo is secured, we not only made it safer, but more economical," says Kemp.

At the same time, USG adheres to the highest standards for effective accident prevention and safe operating practices to prevent injuries to employees and all constituencies. According to Kemp, USG's safety expectations apply to all its carriers. "Carriers are trained on safety for operating on plant premises, and we see that loads are secured in a 'driver-friendly' manner that not only protects him or her, but ensures damage-free delivery to customers."

What it comes down to, says Kemp, is corporate responsibility. By being safe and sensitive to the needs of workers and the environment, success in business is almost a given. L

Patrick Burnson is Executive Editor of Logistics Management

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FROM ROAD TO RAIL?

BY **PATRICK BURNSON,** EXECUTIVE EDITOR

With leading economic indicators suggesting a soft economic rebound, U.S. shippers may be cautiously committing more cargo to rail and intermodal in the coming year. Our panel of industry experts provides the hard facts and likely scenarios rail shippers may be facing in 2010.

The big questions confronting rail shippers these days relate primarily to government regulations, infrastructure, and rate structure—themes that should be hauntingly familiar to seasoned logistics professionals.

For example, the Railroad Antitrust Enforcement Act of 2009, now being debated in the U.S. Senate, would, if passed, empower the Federal Trade Commission to regulate and engage in rail antitrust enforcement regarding collective rate agreements. Sound familiar? You bet.

So, in order to reset the table and give rail shippers a glimpse inside some of the issues that could be drastically shaping their transportation planning over the next 12 months, we gathered four rail industry gurus for what turned out to be a wildly discursive and engaging discussion.

Joining us is William Rennicke, a partner in Oliver Wyman, an international management consulting firm that combines industry knowledge with expertise in strategy, operations, manufacturing, transportation, and energy; Tony Hatch, an analyst with ABH Consulting who provides rail research to institutional and private equity firms; Jay Roman, president of Escalation Consultants Inc., a company that helps shippers control rail rates; and Tom O'Connor, vice president of Snavely King

Tony Hatch

Jay Roman

Tom O'Connor

William Rennicke

Majoros O'Connor & Bedell, a firm that provides shippers with transportation economics, cost analysis, and regulatory analysis.

***Logistics Management*: There had been a steady rate uptick in recent years that slowed down some in 2009 due to lower volumes and expiring contracts. Where are rail rates headed in the next 12 months to 18 months?**

Tom O'Connor: As long as this downturn continues, railroad pricing will face persistent headwinds, resulting in some moderation in rail pricing. At this stage I see few indications of an economic turnaround in 2009. The data do not indicate a broad-based resurgence either in transportation demand or in the underlying economy.

William Rennicke: Well, we're seeing that most railroads are taking a longer view of the market and have not totally backed down on renewal and growth spending. With the exception of fuel, which is up and down, most costs continue to increase. So, I suspect freight rates will also increase in the low single digits.

Jay Roman: I agree. When excluding fuel surcharge revenue, the major U.S. railroads on average have had between a 2 percent and 4 percent rate increase over the last four quarters. We expect railroad's average increase in rates—without fuel surcharges—to be in line with this over the next year.

***LM*: What are the potential effects of reregulation?**

Tony Hatch: Reregulation would be a long-term disaster for the industry, a really bad example of "unintended consequences" as short-term rate relief for a few shipper groups would result in long-term shrinkage of the industry. Fortunately, I believe that the link between rates, returns, and capital spending is getting better understood in Congress—but we shall see.

O'Connor: I agree with Tony. The legislative initiatives to remove the railroads' anti-trust exemption present a very serious challenge to the rail industry.

***LM:* What do carriers and shippers stand to gain or lose from reregulation?**

Roman: The bill is expected to give all constituents a little something, but it's not going to give anyone a slam-dunk victory. Shippers will be able to level the playing field somewhat and gain more rail access. Railroads will have some barricades in place to fend off the shipper hordes armed with rate cases and perhaps obtain a place at the federal trough.

Rennicke: And, under regulation, those shippers who had competitive circumstances that led to higher rates under differential pricing would likely have lower rates. The vast majority of shippers would likely not gain, and in fact, may see some upward pricing pressure as the carriers try to recover contribution lost from the so-called "captive shippers." The carriers would lose significant revenue and operating margin with very little ability to recover it.

***LM*: What do the railroads have to do in order to elicit help in developing the infrastructure needed to meet projected future freight demands?**

Hatch: Railroads must continue to make the case that their infrastructure is cost, tax, congestion, and carbon efficient—and I believe that in some cases they're already doing a good job in this area. Resolving the regulatory issues in the Senate would go a long way to allowing the rails to participate more fully in the Transportation Bill coming from the House and the Obama administration.

O'Connor: On top of this advice, the principal requirement is for railroads to adopt a mutually beneficial policy for shippers and carriers. The railroads cannot price aggressively toward their captive customers and at the same time expect those customers to provide political and financial support for meeting railroad infrastructure needs. The fundamental need is for collaborative action that meets the needs of the shipper, the railroad, and their mutual customers.

"The legislative initiatives to remove the railroads' anti-trust exemption present a very serious challenge to the rail industry."
—Tom O'Connor, vice president, Snavely King Majoros O'Connor & Bedell

***LM*: There has been talk of an investment tax credit (ITC) legislation offering a 25 percent tax credit for any business—including shippers—that invests in new rail equipment, tracks, intermodal facilities, or any other project that improves infrastructure. But it appears to have stalled. Do you see any future solutions surfacing?**

Hatch: I believe that the ITC could easily be put back on the table if the railroads and their shipper customers reach a compromise. Most of the major shippers want it. In fact, the modern retail and logistical revolution—think Wal-Mart but also UPS and JB Hunt as partner carriers—depends on the rail

industry as it exists. Also, and this may be a minority opinion, I believe that when the dust clears in Congress, the Obama administration will be a friend to rail, and not just passenger rail.

O'Connor: I'll just add that support for initiatives such as ITC legislation is predicated on collaborative and mutually beneficial use of the investment. A win-win partnering approach is needed to energize such support.

***LM*: Meanwhile, shippers are telling us that rail service levels are improving each quarter. Is this a sustainable trend?**

Roman: Yes and no. There is less traffic on the rails and the positive effect of this is that traffic moves more smoothly and more quickly. As long as rail volumes are down, service should not be a problem on the overall rail system. Many shippers, however, are still having problems. Since the railroads cut back on personnel, they reduced the number of days they service plants, and local trains often don't appear when they are scheduled.

Hatch: But overall rail service has never been better. To follow up on Jay's comments, I'll ask this question: Is this because of the fluidity engendered by a whopping 20 percent reduction in traffic or because of the billions of dollars spent each year on information technology?

O'Connor: Good question, Tony. The reports provided by the railroads with respect to velocity and terminal dwell show widespread improvement in recent months. However, there's no escaping the fact that this improvement in performance has occurred in the context of dramatic declines in volume.

The railroads have downsized their labor force and rolling stock in accord with the declining volume, but there are good prospects for a smooth response by the railroads when the economy recovers. The rebound is likely to be a gradual process, allowing the railroads to activate the idled work force and redeploy the stored assets efficiently.

***LM*: Will increasingly competitive long-haul truckload pricing—and other new logistics options—continue to take business away from the railroads?**

Roman: Earlier this year we conducted a survey on the impact the railroad's large rate increases were having on their customers, and results showed that 81 percent of the companies have pulled volumes off the rails due to the increases.

Rennicke: You have to keep in mind that competitive long-haul trucking always has the potential to eat into market share, but rail service has been holding share in most segments and gaining share in domestic intermodal.

Hatch: I'll go as far as saying that "competitive long-haul trucking" is becoming a misnomer. In fact, the length of haul of competitive intermodal shrinks each year, as shipper efforts to become more cost and carbon efficient have been driving domestic truck/rail intermodal market share gains—even in this terrible recession. The future for shippers is in truck/rail partnerships at length-of-haul approaching a day's (500 miles) drive.

O'Connor: You also have to remember that long-haul trucking is struggling with the same problems the railroads have been facing. Both railroads and trucking are industries characterized by derived demand. When the economy falters and basic industries contract, demand for transportation declines. Neither railroads nor trucking are very effective at generating demand in the declining demand industries. However both railroads and trucking can operate proactively to foster and nurture recovering demand.

***LM*: What advice do you have for rail shippers next year?**

O'Connor: Rail shippers should realize that the current decline in the economy is of historic proportions and that the issue of rates and service are interconnected. For example, if there's a decline in automotive, it means a production dip in steel, plastics, and chemicals. All of those industries use electric power and we see substantial declines in coal transportation to the power plants. Rates will be shaped by these macroeconomic market forces.

Hatch: Shippers should truly be concerned about the "unintended consequences" of possible legislation. Also, in the recovery there will be changing traffic flows (the "Big Reset") and that will have an effect on shippers and carriers of all sizes and forms.

Roman: I'll add that rail shippers need to understand that railroad volumes have fallen dramatically due to the recession and the erosion of their business to other sourcing and logistics options. So, shippers should not just be critical of their rate structure with railroads. They need to be proactive and educate railroads on what a better rate structure is for their company as well as for the railroad. Through this process a shipper essentially educates its railroads in order for the railroad to make better decisions about the shipper's movements.

Rennicke: I agree with all our panelists. Rail shippers must realize that the financial distress of the last 24 months has weakened many of the base-level providers of surface transportation resources. To compound the issue, many of the traditional capital sources for surface transportation providers have been severely harmed by problems in other segments of the financial markets and have limited capital to lend or have a credit allocation process that does not favor transportation. A shipper planning beyond the current economic downturn may need to focus on finding and locking in capacity at a reasonable cost in a recovering market.

Patrick Burnson is Executive Editor of Logistics Management

> **"Railroads must continue to make the case that their infrastructure is cost, tax, congestion, and carbon efficient."**
> —Tony Hatch, analyst, ABH Consulting

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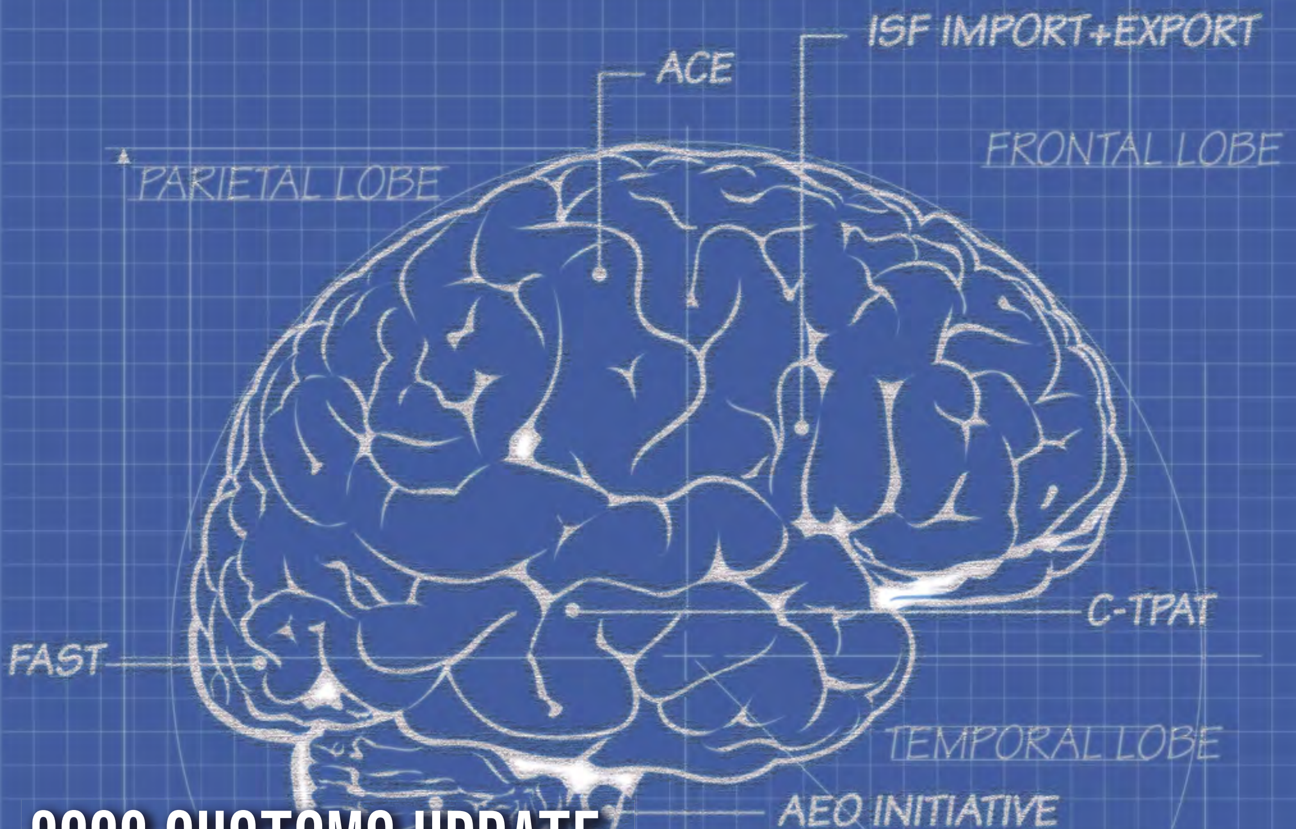


2009 CUSTOMS UPDATE: COMPLIANCE ON THE BRAIN

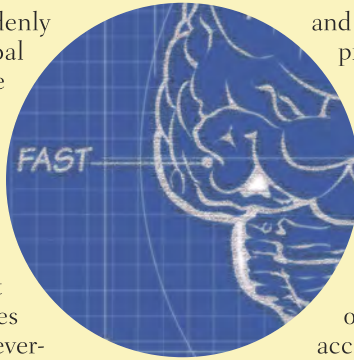
BY **SUZANNE RICHER,**
CUSTOMS & TRADE SOLUTIONS INC.

With diminishing resources in corporations today, developing and maintaining Customs compliance knowledge within your supply chain operation is imperative in managing risk. Here are four practices that will increase your compliance acumen.

The changing economic landscape has kept companies focused on the bottom line. Terms and management concepts like downsizing, rightsizing, downshifting, and redeployment are now all too familiar to most employees and management teams. However, a term that's crucial to long-term financial success and risk mitigation in the world of Customs compliance is one that just may be the most underused—knowledge retention.

However, when trade compliance specialists leave the firm the responsibility for Customs compliance falls to those wearing other corporate hats. All too often, mangers of purchasing, operations, logistics, customer service, or

supply chain are suddenly responsible for global Customs compliance responsibilities at a time when regulations are changing faster than ever.



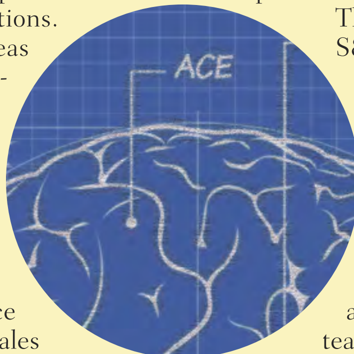
Import and export managers who are still on board are often left with limited resources while they're working feverishly to adapt to the added pressure of meeting information management concerns related to the pending ISF requirements (10+2 regulations), new trade agreement capabilities, and changes to the FDA risk management entry programs. They often become overwhelmed, so the need to update the expertise of the staff—or boost their brain power—is crucial.

Regulations are dramatically changing and the knowledge of how that change will affect your company is being compromised.

FOUR FOCUS AREAS

Today, corporate strategies for managing global trade must be focused on the greatest areas of risk in the international supply chain—supply chain financials, Customs compliance, cargo security, and the implementation of new trade regulations that require greater attention to record keeping and data management.

Firms creating multidisciplinary teams capable of shifting their paradigms from department goals to a truly global outlook will reduce costs, increase their knowledge retention, and grow the expertise of those with distinct functions. Here are four focus areas that, if fully understood and practiced, will help your team increase their compliance acumen.



Area 1: Link financial data to supply chain performance. Key performance indicators of a strong sales and operations planning program (S&OP) include reviewing the impact on the fill rate, product availability, inventory value, and cash-to-cash cycles. Variances in these areas impact the financial metrics of the number of days sales outstanding (DSO) for accounts receivable, metrics for reconciling invoices, and, of course, profitability.

Generally, these are not the terms Customs compliance professionals use on a daily basis. However, when product is delayed at the border, examined or seized, the resulting delays in receiving product affect the key metrics of both the S&OP and finance teams.

Yet study after study shows that the finance team is not always involved in S&OP planning; and the Customs compliance teams are rarely invited to attend finance or S&OP planning events. Information available to these two groups would assist the S&OP team in developing, implementing, and following through on the management of data within the global supply chain that would result in a more transparent operation—and by default, higher profits.

The challenges facing most S&OP include the ability to evaluate and compare scenarios using operational and financial metrics and the ability to share and receive input from all participants quickly and effectively. Both S&OP and Customs compliance teams are challenged with the ability to access information in a single system. Training the organization on the use of financial terms and metrics would greatly enhance the ability of colleagues to discuss shared concerns in a common language.

Area 2: Check your ISF report cards. The January 26, 2010, final implementation date for 10+2 or Importer Security Filing (ISF) requirements, is right around the corner and Customs has promised to implement penalties for non-compliance in filing this data. While the major players within the trade have undertaken steps to test their processes, many corporations are still struggling with accurately reporting the data or choosing the business partner most capable of transmitting this information to Customs in a timely matter.

Currently, ISF report cards are available to those filing the data elements as well as to Customs account managers. To manage the challenge of meeting Customs deadlines for information, ISF importers should regularly review this information with their chosen filer and determine if the accuracy levels are reflective of the information they are receiving and the timeliness in which they have shared it with the filer.

If progress continues to elude an ISF importer, testing more than one filer may be appropriate in choosing the business partner most capable of ensuring compliance in January.

Recent updates from Customs have shed light on how the enforcement period following the January 26, 2010, date will take place. Mitigation capabilities for penalties will be available to ISF Importers who have demonstrated a history of filing the data elements prior to the 2010 date, or who are currently participating in Customs-Trade Partnership Against Terrorism (C-TPAT) at a Tier 2 or Tier 3 level. As always, Customs is using this program to encourage companies to consider the importance of C-TPAT membership long term.

Area 3: Understand Automated

Having a plan to develop and maintain knowledge within the critical areas of S&OP, finance, customs compliance, and global logistics is crucial to managing the risk and associated penalties related to moving product around the world.

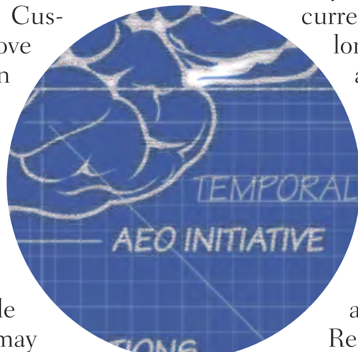
Commercial Environment (ACE) and advanced information. Staying ahead of Customs is the best way to lower the risk of fines and penalties with non-compliance. Supply chain security and trade compliance data is used by Customs to target and screen risky shipments. This data is collected electronically through the Automated Manifest System and Automated Broker Interface, with detailed information taken from purchase orders, billings of lading, as well as advance shipping notifications and related documents necessary for importing product.

Customs continues to promise updates to ACE that will eventually connect information sharing for as many as 45 other federal agencies. Once completed, ACE will eliminate the need for an importer to file the same data elements multiple times to satisfy different agencies.

Recent set backs in ACE development however, have slowed the progress promised, leaving some federal agencies to consider developing separate systems for data collection. Nevertheless, it remains the single most available repository of data available on a company's importing track record.

Firms should establish ACE accounts that will provide them with detailed information on their importing trends. In fact, having the same information being reviewed by Customs is a strategic move to stay above board on compliance and security issues.

To access this data, companies may sign up for an ACE account via the Customs Website. With assistance from consultants or trade experts, an importer may review their patterns of sourcing, tariff code use, value, and related entry information. These details may be used to help manage trade risk based off current data review.



Area 4: Update your cargo security program. The U.S. cargo security program, C-TPAT, continues to evolve and expand. Globally, C-TPAT has become the basis of many other country cargo security programs including the Canadian FAST program and European AEO initiative.

Companies validated in their C-TPAT program may take advantage of penalty mitigation for ISF filing penalties, as previously mentioned. In addition, C-TPAT participation opens the door to participation in the voluntary compliance program titled Importer-Self Assessment (ISA), as well as reduced inspections of imported product.

The benefits of C-TPAT continue to evolve, and the program requires a firm to maintain training programs annually, as well as other updates to their cargo security procedures. Companies participating in C-TPAT since its early inception may be complacent with their current practices, or may no longer have a lead person assigned to the program. With budget cuts and staff reassigning, firms may no longer have an active cargo security program in place, and an unexpected call from Customs for a C-TPAT Validation or Re-validation may leave the firm exposed to gaps in their program.

Lately, companies participating at a Tier 3 level have lost their senior ranking upon revalidation. Lack of preparation for the revalidation has left companies with reports full of "recommendations and actions required." The follow up work for an importer following one of these reports is generally more cumbersome than the preparation work that should have been performed at the notification of a Customs security team review.

Customs recently published a 2009 best practices catalogue and has continued to make available training material to support a strong C-TPAT program. Sharing the information with departments affecting the international supply chain will ensure its dissemination at a much broader level than the Customs compliance team is capable of meeting.

KNOWLEDGE DEVELOPMENT AND RETENTION

With the changing and diminishing resources within corporations today, developing the knowledge base of the firm on key corporate drivers is absolutely essential.

Regulations are dramatically changing and the knowledge of how that change will affect your company is being compromised. The need to manage these elements is even more critical, yet firms underestimate the need to train those in multidisciplinary functions on the basics of global trade.

Having a plan to develop and maintain knowledge within the critical areas of S&OP, finance, customs compliance, and global logistics is crucial to managing the risk and associated penalties related to moving product around the world. ■

Suzanne Richer is president of Customs & Trade Solutions Inc., a consulting firm specializing in international trade and cargo security. She can be reached at (609) 896-2210, Ext. 101, or via email at smricher@ctsiadvisors.com

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Container Security: Is it working?

BY JIM GIERMANSKI, CHAIRMAN, POWERS GLOBAL HOLDINGS INC.

Currently, the U.S. uses four categories of security technology in the global supply chain. We asked our security expert to define each category, examine where they are in the evolutionary process, and then assess which type of technology is most effective. Here's what he has to say.

Since September 11, 2001, and the creation of the Department of Homeland Security (DHS), there have been four distinct phases of security involving containers moving in the global supply chain: the maritime phase, the port-to-port phase, the origin-to-destination phase, and the electronic chain-of-custody phase.

Each of these phases has seen recent advancement in the security technology employed to keep up with more sophisticated demand and government requirements; and, of course, each type of technology does something very distinct from the other. Essentially, the United States uses four categories of security technology to help carry out the phases defined above. Each category represents a "crawl before you walk" process; each maturing into different security hardware and processes over time. In general, the order is as follows:

1. doors-only security with mechanical barrier seals and electronic door seals (e-seals) that utilize Radio Frequency Identification (RFID);
2. doors-plus security that utilizes door seals combined with satellite for tracking;
3. scanning security; and
4. chain-of-custody satellite and satellite-cellular combinations that detect and report internal container integrity with active supply chain management functions.

Each of these technologies also makes use of distinct electronic processes that are manufactured into the hardware. While each has its own benefits, the best of all the benefits to the user are those that will actually produce the in-container satellite and satellite/cellular combinations. Over the next few pages we'll clearly define each of the four categories of container security, examine where they are in evolutionary process, and then assess which type of technology is the most effective.

DOOR SEAL TECHNOLOGIES

The first assumption by Customs organizations, and unfortunately an assumption that's still lingering in U.S. Customs and Border Protection (CBP), is that protecting container access is limited to doors-only technology.

There are two general types of door seals: mechanical or barrier seals (or doors-only) and electronic seals. Door seals have international standards against which they're measured; in fact, a high security door seal standard was determined by voting on publicly available specifications (PAS). The International Standards Organization's (ISO) 17712/PAS Standard is the high-security bolt and cable H-seals standard—it even has standards for the facilities that examine and certify high security seal compliance to ISO/PAS 17712.

The ISO 17712 Standard was published in 2003. However, ISO standards are not binding on nations and are not necessarily the only guide for sealing a container. According to Ray Fernandez, vice president of door seal manufacturer Sealock Security Systems Inc., CBP has mandated as of October 15, 2008, that as a minimum security requirement all containers destined for the U.S. be secured with a so-called "H" designation high security bolt seal that is ISO/PAS 17712 compliant and has been tested and examined by a certified lab.

However, according to Fernandez, there's an issue revolving around the credentials of some certifying labs that performed these tests. He believes that, in fact, all seals, whether compliant or not, are being used. So no one really knows if the seals meet the standards. CBP is simply not verifying the compliance of these to ISO standards and to CBP's standards of best practices.

A basic door seal becomes a "doors-plus" seal when it does more that just function as a physical barrier. Door seals can also be electronic, in that the barrier seal contains an active RFID system or electronic feature that communicates the containers ID number, contents, and integrity with respect to whether the seal was tampered with. These seals can also offer GPS and/or cellular tracking.

GPS is a satellite-based navigation system made up of a network of 24 satellites placed into low-Earth orbit by the U.S. Department of Defense. GPS satellites circle the Earth twice a day in a very precise orbit and transmit signal information. A GPS receiver must be locked on to the signal of at least three satellites to calculate a 2D position (latitude and longitude) and track movement. With four or more satellites in view, the receiver can determine the user's 3D position (latitude, longitude, and altitude).

These almost-smart containers are able to provide the tracking function now required by the Implementing Recommendations of the 9/11 Commission Act of 2007. However, tracking is not two-way communications; therefore, it falls short of my definition of what constitutes a "smart" container.

The first assumption by Customs organizations, and unfortunately an assumption that's still lingering in U.S. CBP, is that protecting container access is limited to doors-only technology.

SCANNING TECHNOLOGIES

Because a terrorist may use a cargo container to smuggle a nuclear weapon, radiological material, drugs, contraband, or humans into a country, and since millions of containers cannot be opened for a physical inspection, scanning has been determined by some governments—particularly the U.S. government—as a form of cargo inspection.

Scanning is a federal requirement. Both the SAFE Port Act of 2006 and the Implementing Recommendations of the 9/11 Commission Act of 2007 mandate the scanning of containers. Therefore, it is done at all U.S. seaports and land ports-of-entry, and in some foreign ports.

There are basically two categories of scanning: Non-Intrusive Inspection (NII) for all types of cargo, including unshielded radiation; and special radiation portal scanning machines as part of the Security Freight Initiative (SFI) specifically for shielded, highly enriched uranium (HEU) detection.

Non-intrusive imaging equipment comes in many sizes: large-scale X-ray and gamma-imaging systems, as well as a variety of portable and handheld technologies that include radiation detection technology.

The VACIS imaging system is an example of NII. VACIS is deployed at U.S. seaports as well as land ports-of-entry and allows CBP to detect and interdict contraband (such as narcotics, weapons, and currency) hidden within the transport container and/or its cargo.

The mobile gamma ray imaging system employs a gamma ray source that permits officers to quickly "see" inside tankers, commercial trucks, cargo containers, and other conveyances without having to physically open the conveyance and/or container. NII machines can scan vehicles up to 125 feet in length in one pass. One version of the system is mounted on a truck chassis and is operated by a three-man crew. It operates by slowly driving past a parked vehicle with a boom extended over the target vehicle.

SFI is a scanning project composed of radiation portal monitors specifically to detect radiation through NII imaging systems. SFI is active at only three ports at full capacity: Puerto Cortes, Honduras; Port Qasim, Pakistan; and Southampton, U.K. It was also active in a limited capacity at Busan, Korea; Singapore;

Kiok's smart container hardware comparison table

Manufacturer	Siemens / GE/ Samsung / Mitshubishi	SAVI	Brooks GlobalTrak	Impeva Labs	IBM	European Datacomm	ZOKA / Rainer Koch
Product name	Commerce Guard	SensorTags	GlobalTrak	Global Sentinel	TREC	EDC76	CSB
UNIT SPECIFICATIONS							
Basis communication technology	RFID 2.4 Ghz	RFID 433Mhz	Satelite (ORBCOMM)	Satelite (IRIDIUM)	Satelite (IRIDIUM)	Satelite (IRIDIUM SBD)	SMS via GSM
GPS	-	-	Yes 12 Channel	Yes 12 Channel	Yes 12 Channel	Yes 12 Channel	Yes 16 Channel
Land infrastructure need	Yes	Yes	No	No	No	No	No
Other communication protocols	-	-	Cell WLAN	Cell WLAN		-	-
Range	30m near reader	30m near reader	Depending on Orbcomm network	100% coverage	100% coverage	100% coverage	Depending on cell network
Battery	-	3.6 V	12 V	12 V	12 V	12 V	12 V Solar cell
Battery uptime	6 years	4 years depending on 2 collections/day	2 to 3 months depending on message frequency	2 to 3 months depending on message frequency	-	3 months depending on message frequency	-
Battery life	6 years	4 years	2 years	3 years	-	3 years	-
Rechargeable	No	Replaceable	Yes	Yes	Yes	Yes	Yes
Tamper sensors	Door proximity sensor	Door sensor Light sensor	Optional (ex: Sensor node)	Light sensor Door sensor	-	Ligth sensor	Magnetic bridge
Enviromental sensors	-	Temperature humidity shock	External sensor node	Temperature humidity shock	-	Under development	-
Operating temperature	-40C +70C	-40C +70C	-20C +60C	-20C +60C	-20C +60C	-20C +60C	-20C +60C
Storage temperature	-50C +85C	-40C +85C	IP67	IP67	IP67	IP65	IP66
Mounting	Flexible (Door)	Flexible (Door)	Fixed (Door)	Flexible (Door)	Flexible (Door)	Flexible (Door)	Flexible (Rooftop)
Mounting time	30 seconds	30 seconds	5 minutes	Within 5 minutes	Within 5 minutes	Less then 30 seconds	Within 5 minutes
Form factor	ISO	ISO	All	All	All	All	All
Estimated unit price	$1,000*	$100*	$1,000	$3,000	$3,500	$1,000	-
Remark					Commercial not available		

* Exclusive the infrastructure cost + maintenance **Source:** Kiok Hyung, customs overseas senior researcher, the Korea Customs Service

Port of Salalah, Oman; and Hong Kong.

However, SFI still cannot detect HEU. Congress is expecting that the new portal machines called Advanced Spectroscopic Portals (ASP), or crane-mounted machines, will be developed and commercialized to detect this form of dangerous radiation.

However, in April 2007, the Government Accountability Office (GAO) stated very clearly that the Domestic Nuclear Detection Office (DNDO), which was established and responsible for ASP development, has not even collected all the testing data on its basic polyvinyltoluene (PVT) portal detectors and is not close to any developed ASP portal detector.

Experts do not expect a commercial version of the ASP anytime soon, nor is it likely that there will be one by 2012 as required by Congress. Because of the lack of this technology, Congress allowed for an extension of compliance until such time that these radiation portal detection machines become available.

The basic problem for existing NII

equipment is that gamma rays and neutrons emitted from shielded HEU are detectable at only short distances and only when there is adequate time to count a sufficient number of detected particles.

Five issues are relevant in the successful detection of shielded HEU: the mass of the HEU core; the degree of shielding; the size of the radiation detector; the distance to the source; and the time necessary to integrate photon counts. Therefore, the closer a detector is to the source of emission and the longer it "sniffs," the greater the probability of detecting HEU. This isn't possible with current portal, pass-through NII equipment.

To date, scanning is costly, inefficient, and really not doable without seriously interrupting the flow of international trade. Even CBP insiders admit that their security dogs often "alert" inspectors to areas of the conveyance which are then moved to the scanner—where the ultimate discovery and recovery is credited to the scanning function and not the dogs.

HOW SMART IS YOUR CONTAINER?

As there are different levels of door seals, there are different levels of "smart." The basic smart container is simply one that uses a global positing system (GPS) for tracking and for satellite communication between the container and the user. The addition of communication capacity—the user and container being able to talk to each other—makes the container smart.

The user can program how often it should broadcast its position as well as how to respond to the user's query to the container. Satellite tracking can be done by low-Earth orbit satellites, like Iridium or Orbcomm, or geostationary satellites like Inmarsat D+. At the present time it seems that Iridium, Orbcomm, Europe's Galileo, and China's Compass are likely to provide most of the smart container tracking.

An even smarter container combines satellite or satellite/cellular to provide total supply chain control. These high-IQ containers employ a chain-of-custody technology that identifies the following: the contents at "stuffing" (loading); who supervised the stuffing of the container; who is accountable for the accuracy of the contents at origin; the time the container was sealed and who sealed it; when it left origin; its route; its internal environment; its progress; whether it deviated from its course; its arrival at port of embarkation; when it was loaded aboard the vessel; whether it was breached; when it arrived at the destination port; and who opened it and verified the cargo—all in electronic format.

This container can even report its own hijacking. So far, there are only two licensees for this global technology: GlobalTrak and European Datacomm (EDC), which has sub-licensees in Asia. The chain-of-custody process coupled with smart container hardware technology is now being evaluated by the Seventh Framework Program (FP7) that was created by the European Union Commission to research and design a premier supply chain management system.

The issue of technology involving containers moving through the global supply chain has also been studied by South Korean Customs. Kiok Hyung, customs overseas senior researcher for the Korea Customs Service, has created a list of those major firms currently in the smart container business. Because they make the supply chain visible, efficient, fast, and profitable, smart containers represent the future of global container movement.

WHAT WORKS? WHAT DOESN'T?

What works depends on the user's level of need and the financial consequences produced by the technology. If a smart container moves the shipper through Customs faster and that improved speed and visibility turns a larger profit for the shipper, then a smart container it must be for that company.

However, if the user only locks the doors with a seal because Customs requires it, that can be perceived as effective security as well. Let's quickly revisit the four distinct levels of technology and attempt to assess their level of effectiveness.

1. Doors-only: In this writer's view, doors-only is not the best way to go. I have bypassed seals in a number of ways without disturbing the seal or the hinges. If you want to get in, you can.

E-seals can be even less effective than barriers seals. First, RFID is not applicable globally. There are too many divergent frequencies, protocols, and infrastructure problems. What's worse, RFID for container security as it's mandated in the United States serves as an improvised explosive device (IED), making it a vulnerability, not a security technology. Even CBP acknowledges its limited use. CBP's director of cargo control, Greg Olsavsky, recently stated that "RFID is only an interim solution and that ultimately CBP will use container security devices."

2. Doors-plus: There is no difference between doors-plus and doors-only with respect to access; but the GPS function serves the tracing requirement specified in the Implementing Recommendations of the 9/11 Commission Act of 2007.

3. Scanning: At this stage, if not for CBP canines, scanning wouldn't do much either. It disrupts our trade flows and our trading partners simply don't like it. Sometimes it works, but most of the times it doesn't. It certainly does not work for detecting shielded enriched uranium, and even if it worked in our Container Security Initiative (CSI) ports—there are 58 of them—the scanned container could be subsequently accessed if it went through a transshipment port.

4. Chain-of-custody smart containers: What does work—and is just beginning to be used—is in-container satellite and satellite/cellular systems that have unique detection and environmental sensors. As stated above these employ the chain-of-custody process and can communicate in real-time (or close to real-time) with the user and/or to government authorities.

Additionally its system's control center personnel and servers can provide third-party verification as well as evidentiary, legal defense, and legal prosecution value should container conditions or route change during its international movement from origin to destination.

This system's value is not only the security it provides, but also in the increase to the user's bottom line. L

Jim Giermanski is chairman of Powers Global Holdings Inc. and a frequent contributor to Logistics Management *and* Supply Chain Management Review

2009 Lift Truck Usage Study

I see indecision in your future...

Our 2nd annual study finds that fleet managers won't be replacing their old lift trucks until economic recovery is assured. Here's what they're doing—and should be doing—in the meantime.

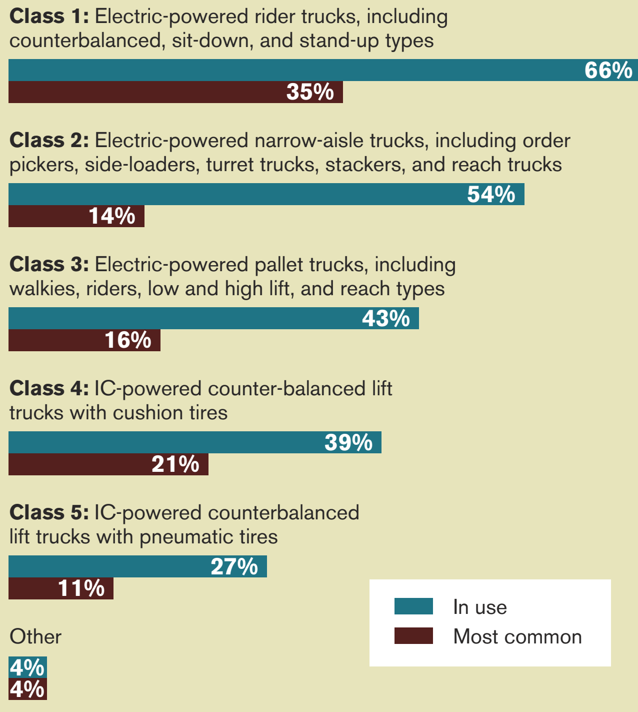
BY **TOM ANDEL**, CONTRIBUTING EDITOR

Before the recession of 2008 and 2009, the results of a lift truck usage study would have been an excellent reflection of how fleet managers are planning to upgrade their current fleets over the next 12 months. However, when you ask fleet managers about their relationship with lift trucks these days, their answers might be more accurately analyzed using a crystal ball.

But *Logistics Management* wanted to be more scientific than that, so we decided to build on the Lift Truck Usage study we started last year. In addition to examining the usage and buying intentions of our audience, we wanted to understand which lift truck characteristics are considered most important.

To put more context behind the findings, this year we've

What classes or types of lift trucks are in use at your facility? And what classes or types of lift trucks are most commonly in use at your facility?



added the analysis of two lift truck industry experts to help us identify those characteristics and issues that should and *will* be important to fleet managers in the near future. Jim Shephard, president of Shephard's Industrial Training Systems in Memphis, and Ken Van Hook, president of Safe-T-Consultants of Humble, Texas, will provide the science inside our crystal ball.

According to our 2nd Annual Lift Truck Usage Study, much of our respondents' future purchasing activity will be shaped by what happens when the recession ends. However, before fleet managers read through the findings of this year's survey, they may want to run their own, shorter survey to help them get a better picture of what the lift truck market may look like once the economy shakes out. Do your best to answer the following questions before you read on:

- How many of the Top 20 lift truck OEMs will still be around (as we currently know them) at this time next year?
- How many of your underutilized lift trucks will still be around by this time next year?
- How much excess lift truck inventory will dealers still be offering at bargain prices by this time next year?
- How many new operators will you have to hire and train to operate your new lift trucks to meet your coming workload?

Neither lift truck sellers nor their customers are sure economic recovery is imminent, and that insecurity was implied in almost every answer to our survey. Apart from the numbers (charts displayed throughout) we received many comments with a single sentiment: "I'm waiting to be convinced that recovery is real and my purchase will be justified."

CLINGING TO THE OLD

The reluctance of lift truck buyers and managers to upgrade their fleets is resulting in machines working well beyond their economic service life: 10-year-old trucks are certainly common these days. According to our 552 respondents, some of the toughest challenges resulting form this hesitation include:

- "Balancing the need for high performance from the fleet and the need to limit spending."
- "Maintaining the aged fleet we own until we feel able to update to a lease."
- "The ability to bring in replacement vehicles to keep the age of the fleet within check."
- "Parts are not as available for 10+ year-old trucks."

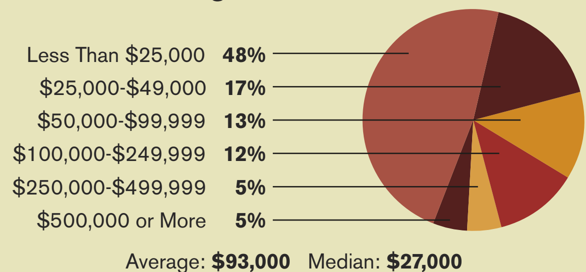
End users are not only worried about the survival of their older fleets, but that of their lift truck suppliers. Dealers are the lifeline to uptime for many end users, but sometimes these users' survival strategies put their suppliers at risk.

Jim Shephard recalls the case of one client that was planning a major lift truck purchase: "They told me they're not going to buy those new trucks after all. They just shut down one of their plants and they're going to move the lift trucks from that site to another and see what they can make of them."

That's not unusual based on our survey results. Almost half (46 percent) of the respondents indicated that they keep their lift trucks 10 years or longer. Shephard believes that these fleet managers are in for a big reality check when business starts coming back if they don't get serious about maintenance and training practices and start appreciating depreciation.

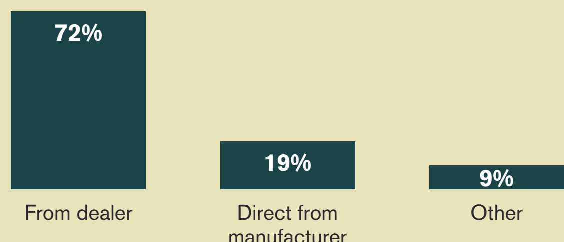
Much like a car, put enough miles on a lift truck and trade-in value drops drastically. "That old equipment in the field will fade away within a year of a comeback," Shephard says.

Approximately how much do you plan to spend on lift trucks during 2009-2010?

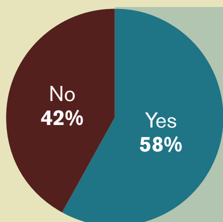


Average: **$93,000** Median: **$27,000**

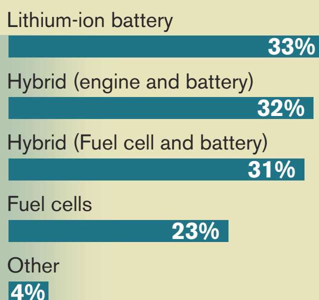
Which channels will you use for future purchases?



Are you interested in moving to alternative power systems when widely available?



If so, which do you believe shows the most promise for your operations?



WOBBLY ON TRAINING

There will also be a temptation to keep lift trucks rolling without investing in proper operator training. But let's be clear: Not only will skimping on training *not* save money, it will cost more.

"Companies aren't training as well, and they're not maintaining as they should," Van Hook says. "If it runs, it's considered good. They may do preventive maintenance every three months instead of every month. As a result, there is an increase in accidents due to poor maintenance."

On the OEM side, the legal consequences of any accidents may not be felt for a couple years, Van Hook believes, because most states have a two or three year statute of limitations. If a fatality is involved, legal action is usually taken within six months. Both Van Hook and Shephard are often called upon as expert witnesses during legal proceedings. "In the litigation I've been involved in, operators have not been trained because the companies have downsized," Van Hook says.

Shephard agrees. "A lot of times companies will pull their horns in on training because they've laid off a lot of folks and they have skeleton crews," he continues. "Any time you have a guy in training class you're paying someone else overtime. So they'll ask, 'What can we do to get this training program over in two or three hours?' They're not looking for conditions that need to be improved."

Judging by the service attributes that were indicated as the most important in making purchasing decisions, our survey respondents tend to agree with Shephard's assessment. Only 44 percent cited "training materials/programs" as highly important. Serviceability, parts availability, ease of maintenance, and productivity were the highest scoring service attributes among more than 80 percent of respondents.

Again, that's the economy talking. In the lift truck buyer's mind, he's being practical. Look at it this way: Many operators who were trained two years ago aren't driving lift trucks today. The budgets for training have been cut because the workforce has been cut. In this economy, supervisors and anyone else who can be quickly taught the controls is driving lift trucks.

CAN'T MANAGE WHAT'S NOT MEASURED

For safety and productivity to be managed effectively, they must be measured. Our survey asked: "Do you use any kind of technology to measure fleet performance?" Only 17 percent said yes; and of those, 39 percent involved vendor-provided systems, 31 percent were home-grown, and 21 percent required paper-based tracking. For those who don't measure fleet performance, there were plenty of rationalizations:

- "Not enough units to measure."
- "We do not see the need. We like the brand of truck we use and this is not an issue."
- "Cost-to-benefit ratio has not been there."
- "Right now the supplier in which we have a complete maintenance agreement with provides us with a quarterly assessment statement of hour usage, parts repaired, labor etc. We use that instead."

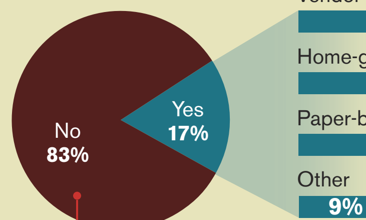
Jim Shephard is an optimist, however, and believes as business comes back, relationships with dealers will become more important to fleet managers. Energy costs will also become more important, and these managers will put in more sophisticated analytical tools to manage them.

"They'll have to change warehousing concepts to lower energy costs," Shephard says. "Some may not be able to go from LP gas to electric because of the initial cost of the electrics. But if they change their logistics systems, they'll be looking at running trucks fewer hours and rotating their fleets." That means balancing out lift truck usage so the overall fleet ages more gracefully. The technology is there today to help users monitor lift truck activity and it tends to pay for itself—even the life cycle of batteries can be monitored.

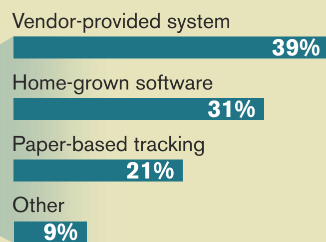
BALANCING MECHANICAL AND HUMAN POWER

It was clear from our findings that many survey respondents have their eyes on future power alternatives. Fifty-eight percent indicated they are interested in converting their fleets to another power source. The favorite candidates (when widely

Do you use any kind of technology to measure fleet performance?



If so, which type of fleet performance measurement tool do you use to evaluate fleet performance?



Reasons for not measuring fleet performance:

"Not enough units to measure. Other productivity processes used to measure level of productivity and efficiency."

"We do not see the need. We like the brand of truck we use and this is not an issue."

"Cost-to-benefit ratio has not been there."

"Right now the supplier in which we have a Complete Maintenance agreement with provides us with a quarterly assessment statement of hours usage, parts repaired, labor etc. We use that instead."

"We just don't have one!"

available) are lithium-ion batteries (33 percent), hybrids (32 percent), and fuel cells (23 percent).

For now, however, fleet managers can still be more cost efficient while we're in what many see as the tail end of the down economy. The lowest hanging fruit can be found by being smarter about balancing labor and equipment usage. Take trailer loading, for example, where much of the work is still single-layer loading. Jim Shephard says that this is a great opportunity to make better use of pallet trucks.

However, our survey indicates that only 14 percent of respondents said pallet trucks were most commonly in use at their facilities while 35 percent said electric-powered counterbalanced trucks were their vehicles of choice. This indicates labor may not be getting rationed productively.

Consider how long it takes someone to prepare a trailer for loading. While he's doing this, there may be nobody pulling orders, moving product, or staging pallet loads.

"There's a lot of wasted time if you have one person doing everything," Shephard says. "But if you have two people you have fewer trucks in the warehouse and you pull just as many—if not more—orders while the worker loading trucks can pick up and load with a pallet truck. Fleet cost would go down and quality of loads would be a lot better."

SQUEEZING OUT REMAINING LIFE

Even if our respondents took Shephard's advice, chances are they wouldn't buy brand new trucks to establish that balance. When asked how much they plan to spend on lift trucks through 2010, 48 percent said less than $25,000.

That doesn't sound like new equipment: That means the first surge in sales the OEMs can expect post-recovery will be in parts, says Ken Van Hook.

"End users will lease used equipment for a year to make sure how stable things will be," he says. "I think a lot of businesses will be cash-strapped for capital expenditures and it will take them a year to catch up. That's why I think there will be a spike in new-equipment sales after two years."

That also means any new safety features that come on the market may not see widespread usage during that time either. Luckily, existing safety features on mature lift trucks are still doing their jobs. Maybe that's why safety features came in the lowest of the top-rated attributes our respondents considered when making a purchase. Safety could be seen as a given.

On the bright side, Van Hook believes new features designed to enhance safety will be right up there with reliability and uptime (the current top attributes) when users are ready to buy the new stuff. As the top providers of this equipment evolve through mergers and acquisitions, the best minds in industrial research and development will be focused on making the perfect lift truck.

Here's a prediction: That job will never go away. L

Tom Andel is a Contributing Editor to Logistics Management

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SPECIAL SUPPLEMENT

Transportation management's role in supply chain excellence

Many firms excel at managing the core components of transportation. However, few firms truly understand the direct and indirect effects transportation management has on other parts of the business.

By **Dan Albright**, Capgemini Consulting, Vice President, Supply Chain

Albert Lo, Capgemini Consulting, Managing Consultant, Supply Chain

To operate a superior supply chain, today's transportation management (TM) function must play a more significant role in the overall supply chain than just directing modes of transportation from Point A to Point B: Transportation management must enable, facilitate, and coordinate. Moreover, it must understand business strategy, finance, sales, and service.

Transportation management does not play one role, but rather plays numerous roles that drive the performance of the overall organization. In this article, we personify the role of transportation management to convey several unique ways in which transportation

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management has an impact on supply chain excellence.

Many firms excel at managing the core components of transportation, such as routing trucks or sourcing air contracts. However, few firms truly understand the direct and indirect impact transportation management has on other parts of the business. The role of transportation management, naturally, varies based on the characteristics of a particular industry. However, a comprehensive understanding of how transportation management affects all areas of a business allows transportation managers to develop a supply chain that drives industry-leading value.

According to Michael Butler, group manager of imaging and printing at HP Direct: "Transportation management is vital to the overall coordination of our supply chain. By understanding the roles of transportation management, we exceed customer expectations while minimizing cost."

Although not an exhaustive list, the following five roles personify the expanded function of transportation management

5 ways to maximize your TMS and improve supply chain operations

By Bridget McCrea

Transportation Management Systems (TMS) rank as one of the most mature and fastest-growing segments within the supply chain—yet not all shippers are taking advantage of them. Some chose to ignore TMS completely, while others implemented the systems and have never tapped their full potential.

"TMS is a very important system for companies," says Greg Aimi, research director of supply chain at AMR Research. He sees fuel price volatility and the challenging economic conditions as two of the main driving factors for growth within the sector. "Companies lacking an automation transportation process are running on a 'we'll get the shipment where it needs to be somehow, some way' mentality, and that doesn't cut it in today's business environment."

Shippers, in their quest to get products from point A to point B, on-time, and at the lowest possible cost, are increasingly turning to TMS as the solution. For companies that haven't taken the automated route—or for those that aren't maximizing systems that are already in place—here are five ways to use TMS to squeeze both costs and time out of your transportation operations.

1. Focus on cost reduction. History shows that a good TMS provides solid cost savings for companies that use them. "Shippers looking to maximize their TMS should focus on those cost reductions," says Dwight Klappich, research vice president for Gartner, Inc. Freight spend is a particularly easy area to target. The company that writes $10 million in checks every year to an outside freight provider, says Klappich, would save $500,000 annually by simply cutting freight costs by 5 percent. "That's real money for the bottom line."

2. Tap the quick payback. Some supply chain applications take years to pay for themselves, but not TMS. "It's not uncommon for a TMS to pay for itself almost immediately," says Klappich, who recently worked with a client whose annual freight spend was $14 million. With a new TMS in place just a few days, the shipper had already saved enough on overcharges and duplicate invoices to compensate for the cost of the application. "That kind of rapid payback is pretty common among TMS users," Klappich added.

3. Increase shipment volume. All companies want to be able to do more with less, and that's exactly what many firms have achieved with the more efficient, automated operations made possible by a TMS. Take the firm that Aimi worked with recently that was handling 10 to 12 loads daily with a manual system that relied on phone, fax, and paper billing, for example. "After 12 months with a fully operating TMS," says Aimi, "that same company was doing about 120 loads a day."

4. Replace manual processes. Handling the transportation process with a pencil, paper, and fax machine is both laborious and expensive. It's also highly unproductive, says Klappich, particularly when it comes to selecting the lowest-cost carriers. "You're calling carriers, waiting for them to respond and fax stuff to you, and making decisions by the seat of your pants," he says. "By installing and using a TMS, shippers can make more efficient decisions concerning carrier selection—a process that's difficult to govern in a manual environment."

5. Explore the capabilities. Many TMS users shoot for the "low-hanging fruit" (such as route optimization and carrier connectivity), says Aimi, and wind up missing out on other valuable aspects of the software (metrics reporting and asset tracking, for example). "They try to tackle the stuff that they believe will give their company the most benefit as quickly as possible," says Aimi, who advises firms to maximize their TMS by using multi-phase implementations supported by benchmarks. "The goal should be to get to the stage where you're using TMS to its fullest degree," says Aimi.

As the business environment continues to evolve, expect more shippers to start using TMS and/or maximize their current systems, says Klappich, who adds that the software's current 20 percent market penetration allows much room for growth. And, he says, vendors are honing their TMS offerings to better meet shippers' needs. "We continue to see innovation in the breadth and depth of the systems that help organizations manage their freight."

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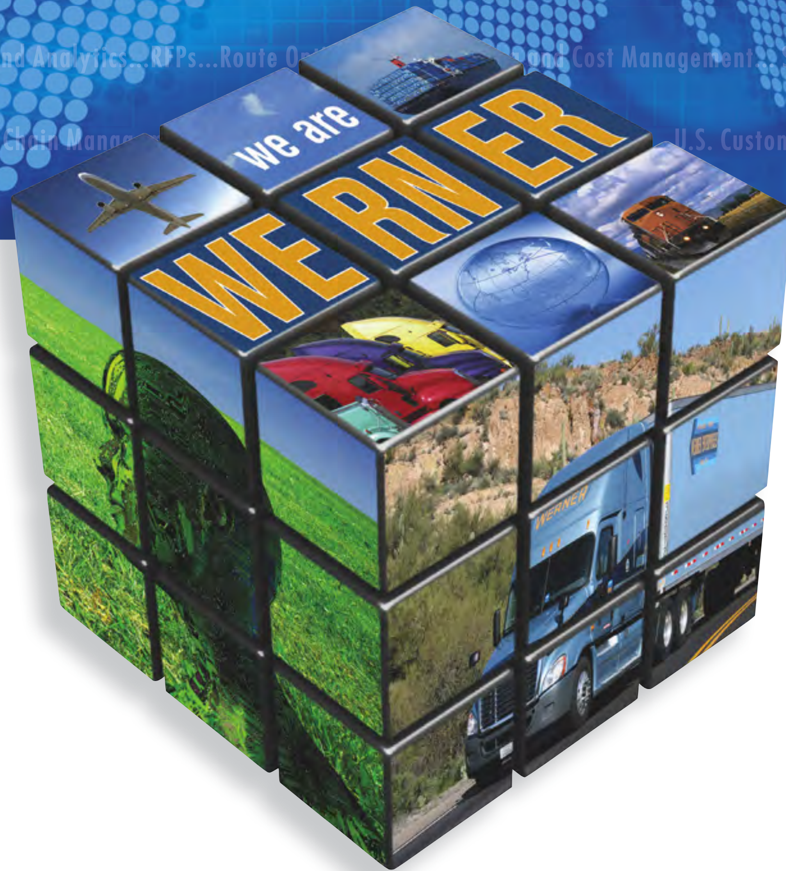

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Role #1: The Service Representative

TM has an impact on service through contingency planning

As the global economy continues to face severe and unprecedented economic challenges, carriers are continuing to see depressed shipping demand. With the tightening of capital lending and decreased shipping, shippers are realizing that many LTL carriers they once relied on are going out of business.

Trucknews.com recently reported: "Shippers should not be lulled into a false sense of security that there is a lot of capacity. In fact, 2,690 trucking companies went bankrupt or closed through mid-November 2008. That kind of capacity drawdown will leave a major dent when the economy finally turns around." Additionally, with the potential financial implosion of freight conglomerate YRC Worldwide, some carriers may even refuse to pick up a shipper's freight in favor of gaining business from former YRC shippers who have larger shipment volumes or favorable lanes.

FACT:
2,690 trucking companies went bankrupt or closed through mid-November 2008

Shippers should consider three actions to mitigate risk from both an operational and customer service perspective. First, shippers should research the financial health of their current carriers. It's important to use carriers that are financially strong; carriers that will still operate if shipment volumes decline or if lines of credit are tightened. Second, shippers should ensure there are multiple, overlapping carriers for primary lanes. Finally, shippers should make contractual changes to carrier master service agreements to extend the lead time of notification if a carrier decides to stop servicing the shipper.

By mitigating the risks of service interruptions, shippers can achieve a greater standard of supply chain excellence by maintaining service levels and can avoid spending additional money to find solutions for interruptions.

Role #2: The Gymnast

TM driving value through mode flexibility and optimization

With the current economic crisis, not only are many shippers realizing decreases in demand across multiple industries, but they're also seeing increasing volatility in demand. In the past, shippers have successfully predetermined transport modes based on historical shipments. Today, these shippers must manually balance and consolidate shipments frequently in order to consistently optimize order.

In an effort to manage volume fluctuations while improving cube utilization, some shippers are using dedicated inbound and outbound carrier programs. Instead of buying a full truckload (even if the shipper has an excellent rate), these shippers are able to minimize their fixed cost penalty of decreasing volumes by paying for what is actually shipped. Additionally, these dedicated programs can also eliminate additional handling costs and redundant moves.

To see if a shipper would benefit from this type of dedicated program, a high-level utilization assessment for both inbound and outbound full truckload shipments should be conducted. For example, take a particular inbound full truckload that is 100 percent utilized and add up all fixed costs for this load (inbound transport fees to the ILC, ILC handling costs, transport between ILCs, outbound fees to PDC, and any administration costs).

This is the amount that a shipper would pay if the truckload is fully optimal. If the shipper receives the same type of shipment but only 60 percent utilized, the shipper is actually paying a fixed cost penalty for this decreasing volume. In this type of program, a dedicated carrier would only charge a shipper for what is shipped—which would be 60 percent of the total cost. By establishing this type of

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flexibility, shippers can further strengthen the company's supply chain.

Role #3: The Bouncer

Revamping SOPs and utilizing third-party security to protect cargo

With the combination of transporting higher valued products, weak penalties for shipment theft, and growing virtual and broad distribution markets, "low risk/high reward" cargo theft is becoming more prevalent than ever before.

Types of stolen cargo are usually products of high value from industries such as pharmaceutical, high tech, auto, and media, but there has been a surprising increase in cargo theft for all products with relatively high margins, such as food, alcohol, and tobacco. It may be due to the fact that these shipments are generally protected at lower security levels.

NUMBER OF SHIPMENT THEFTS FOR H1 IN 2008 AND 2009

	Number of Thefts	
	Jan-June 2008	Jan-June 2009*
Pharmaceuticals	25	14
Tobacco	1	4
Clothing, Shoes	28	20
Alcohol	23	13
Food, drink	46	58
Building, industrial cargo	61	39
Home, garden cargo	20	33

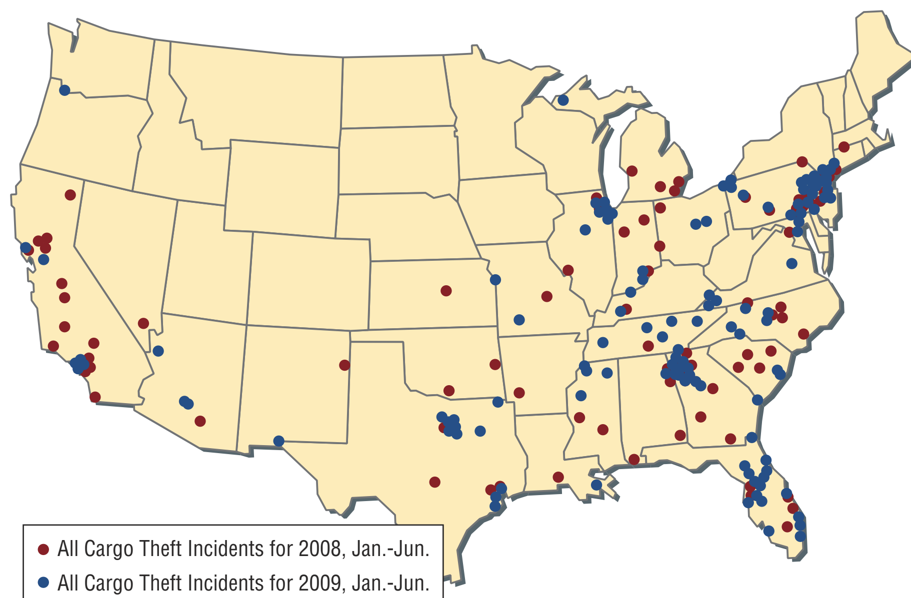
*2009 Data may be underreported due to lag time from the decentralized nature of cargo theft reporting

Source: Bi-Annual Cargo Theft Report (FreightWatch International)

Regardless of how much cost an organization may cut from transportation spend to improve the bottom line, often it is important to make the additional investment to prevent theft, which can be costly to a company when including the potential loss of revenue, loss of opportunity to market, and business downtime.

Many organizations have recently revamped their logistics policies and procedures to prevent cargo theft. Several of these companies utilize third-party security technology services, such as hidden GPS tracking devices in the actual freight. These devices can notify the shipper or local authorities of a potential theft if the freight has deviated from its scheduled geographic scheduled route. Analysis by Capgemini Consulting has found that for some companies, every dollar spent on security services can prevent a potential loss of $100,000 in revenue, especially if an organization has a requirement to destroy all batches or lots of any product that is compromised. By establishing core security measures, leading companies can avoid significant losses due to theft.

Location of Shipment Thefts for H1 2008 and 2009



Source: Bi-Annual Cargo Theft Report (FreightWatch International)

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By incorporating lean values into transportation management, leadership can identify value streams to remove unneeded activities in the transportation process, resulting in reduced complexity and cost.

Role #4: The Environmentalist

Represent the corporation by driving corporation sustainability

"Going Green" was the hot topic in 2008 that has since seen its sentiment slightly quell in the economic downturn. However, many companies still consider improving transportation efficiency as the most important method to establish a green supply chain and achieve supply chain excellence.

Transportation management's role in corporate sustainability refers to adopting leading supply chain practices, such as utilizing leading technology, selecting proper mode, reducing routes, optimizing capacity, and minimizing idling. By demonstrating leadership within a company, transportation management can not only reduce carbon output associated with transportation, but can also positively influence other areas of the business by showing tangible results. While some often state there is no cost savings associated with going green, most firms recognize financial payment by simply reducing consumption—if you use less, you save money.

One firm that understands green transportation management is Freightliner Trucks. Freightliner addresses the issue of fuel savings by focusing on more efficient aerodynamics. The aerodynamic features to the company's Cascadia truck result in 7.8 percent to 22 percent less drag than other aerodynamic tractors, resulting in annual fuel savings of $900 to $2,750 per truck.

In the *2009 Masters of Logistics Survey* by Mary Holcomb, Karl Manrodt, Capgemini, SAP, and *Logistics Management* magazine, 25 percent of surveyed companies have engaged in green/sustainability transportation projects. Although some believe they may not have a financial impact, most believe they will have an environmental impact. Regardless of short term results, a company cannot achieve supply chain excellence without considering its environmental impact.

At some point, consumers will only buy from a company that understands that green transportation management means identifying inefficiencies in transportation and correcting them to achieve positive results.

Role #5: The Financial Analyst

Promote lean practices to drive value

Because of the state of the economy, leading companies have adopted lean practices associated with transportation management. By incorporating lean values into transportation management, leadership can identify value streams to remove unneeded activities in the transportation process, resulting in reduced complexity and cost.

Lean practices in transportation management starts with establishing a lean inventory base. The ultimate state of lean inventory means that only ordered products or products that are in the upcoming forecast reside in the warehouse, translating to a constant flow of full truckloads to keep orders on-time. Other lean transportation activities include employee utilization, fuel use, route choice, capacity, and mode choice.

A notable example of lean thinking is Kimberly-Clark (K-C). K-C recently adopted a lean approach in reorganizing their supply chain by switching from a network of over 70 distribution centers to using nine regional mega distribution centers. With the new lean network, from the beginning of 2006 through the first quarter of 2008, 24 million fewer miles were traveled between K-C distribution centers and client locations. This saved 22 million gallons of diesel fuel.

Moreover, it allows K-C to reach 90 percent of its North American customers in one day transit; the old network allowed the company to only reach 65 percent of its North America customers in one day transit. By identifying ways to make these activities lean, transportation management and the overall supply chain is enhanced.

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Ever-changing goal

Supply chain excellence is an ever-changing goal. As customer requirements, infrastructure, and technology change, so too do the requirements to achieve supply chain excellence. Companies that fully grasp the concept that each component in a supply chain does not play a single role but, in fact, plays multiple roles will establish a competitive advantage.

All companies know that transportation management is core to any supply chain. However, only leading companies understand that transportation management plays multiple roles within the supply chain and is essential to drive corporate value.

The private fleet's role in supply chain excellence

By John D. Schulz, Contributing Editor

Many transportation experts insist that logistics and supply chain managers who have survived the worst of the recent economic downturn should consider one more option as they plot their companies' future surface transportation needs: the private fleet option.

Private fleets, with their strong emphasis on service, provide an essential link in shippers' supply chains. Often they provide services that cannot be replicated in the for-hire sector as manufacturers seek to maintain control of their raw materials and inventory throughout their processes.

With revenue in excess of $300 billion, private fleets represent the single largest slice of the $864 billion freight transportation pie, according to estimates from the Council of Supply Chain Management Professionals and National Private Truck Council.

That $300 billion spent on private trucking includes some of the nation's largest and most recognizable names. They include Wal-Mart Stores, Pepsi Bottling Group, Coca-Cola Enterprises, Sysco Corp., U.S. Foodservice, Halliburton, and Dean Foods, among many others.

Nearly two of every three of the 2.1 million heavy truck power units operating on the nation's highways are run by private fleets, according to the U.S. Bureau of Census Commodity Flow Survey. That same survey showed that including smaller pickups, minivans, and sport utility trucks, private fleets operate nearly 4 million of the 6 million trucks million trucks on the highways today.

Executives who run private fleets do so for many reasons. Chief among them, however, is service. Private fleets can deliver top-notch, world-class service in any economic cycle, including the most recent "Great Recession."

Take Perdue Farms of Salisbury, Md., for example. The company operates a fleet of about 230 tractors that travels 22 million miles a year with an on-time delivery score that is measured to the minute. Its on-time record exceeds 99.3 percent, according to Larry Brown, Perdue's director of logistics, who calls his private fleet "a natural component of the Perdue commitment to outstanding quality and service."

Wal-Mart Stores operates a private fleet of 6,750 tractors utilizing some 55,000 trailers. Tim Yatsko, Wal-Mart's senior vice president of transportation, says his private fleet "greatly enhances our ability to assist the communities in which we serve." Yatsko says his private fleet offers five competitive advantages—cost-effectiveness, leverage against common carriers, maximum network efficiency, flexibility, and ability to react quickly in disaster situations.

Pepsi Bottling Group operates a private fleet totaling more than 6,000 tractors out of five regional fleet locations. Dan Norris, Pepsi's Atlantic business unit fleet operations manager based in Huntington, W.Va., says the green revolution has caught up with his fleet of 1,500 trucks and 7,000 pieces of equipment in his 15-state region. He recently began utilizing a maximum 65 mph speed limit and anti-idling devices on Pepsi's private fleet to save money and improve Pepsi's carbon footprint.

AmeriGas Partners, a retail propane supplier based Valley Forge, Pa., recently unveiled a routing, dispatch, and automatic vehicle locator service for its fleet of 2,600 delivery trucks. Such wise use of technology allows AmeriGas to make routing and delivery changes "on the fly" as they occur during the day to enhance customer service and reduce costs.

According to many C-level supply chain managers and transportation experts, private fleet managers are often the unsung heroes within their corporations. They often wear multiple hats—operations, maintenance, planning, technology, even human resources.

"Having that talent and expertise on the inside can give companies the best professional judgment and the ability to decide what the best transportation solutions are in any given set of circumstances," says Gary Petty, president and CEO of the National Private Truck Council. "Those solutions may not always be wedded to just the private fleet. It's all about what makes senses and what the best optimization and value is in all locations and all runs. Having that inside expertise is such a decisive professional edge."

Companies often have that "professional edge" on their current team without even realizing it. Petty says that in the most recent economic downturn, manufacturers and shippers with private fleets often found that those logistics professionals operating private fleets could utilize their expertise elsewhere in their organizations, from operations to human resources.

"It's all about command and control of capacity optimization," NPTC's Petty says. "First, they're able to scale back on equipment and manpower if necessary to align with demand. But often many private fleets have begun internal backhaul opportunities that are part of the private fleets' ability to deliver total service."

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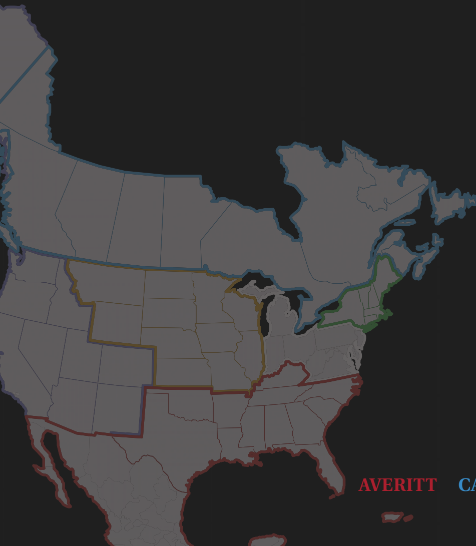

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Logistics MANAGEMENT

Ocean Carriers: TOP 30 gaining share

Scrapping capacity and protecting share characterized carrier strategy this past year. But long-term goals remain the same: finding profit while proving better service.

By Patrick Burnson, Executive Editor

When ocean cargo shipping analysts spoke with us in 2008, all the talk was about cascading rates and "bottom-feeding" competitors. The major carriers were rightly worried, but a pricing shift has occurred that may find them counting profits rather than losses in 2009.

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Logistics MANAGEMENT

Rationalization of space and services over the past year still kept the smaller carriers in the game, but the Top 30 gained share by shedding capacity and concentrating on brand equity. As in recent years, the large global piece of this enterprise remains tightly held among a trio of industry.

According to the latest figures published in AXS-Alphaliner's annual survey (Liner Market Shares/www.axs-alphaliner.com.), Maersk Line, MSC, and CMA CGM lead the pack again, but only because they had more toxic assets to dump. "As of the end of August, 1.27 million TEU (twenty-foot equivalent units) representing nearly 10 percent of the world's container fleet was lying idle," says Steven Fletcher, commercial director for AXS Marine, an ocean cargo analyst firm based in Paris.

> **"The extreme volatility of the spot container shipping market is an industry issue not just for shippers but also for container shipping companies and forwarders."**
>
> *—Philip Damas, Drewry Supply Chain Advisors*

THE TOP 30 LEAGUE

The percentage shown on the left of each bar represents the operator's share of the world liner fleet in TEU terms.

RANK	OPERATOR	TEU	SHARE
1	APM-Maersk	2,019,526	15.0%
2	Mediterranean Shg Co	1,517,200	11.3%
3	CMA CGM Group	1,023,208	7.6%
4	Evergreen Line	594,154	4.4%
5	APL	531,403	3.9%
6	Hapag-Lloyd	475,282	3.5%
7	COSCO Container L.	469,848	3.5%
8	CSCL	449,469	3.3%
9	NYK	412,711	3.1%
10	Hanjin Shipping	406,462	3.0%
11	MOL	350,647	2.6%
12	OOCL	326,035	2.4%
13	K Line	326,003	2.4%
14	Hamburg Süd Group	318,079	2.4%
15	Yang Ming Line	318,008	2.4%
16	Zim	284,148	2.1%
17	CSAV Group	278,616	2.1%
18	Hyundai M.M.	267,227	2.0%
19	PIL (Pacific Int. Line)	186,143	1.4%
20	UASC	160,985	1.2%
21	Wan Hai Lines	126,193	0.9%
22	IRIS Lines	101,802	0.8%
23	MISC Berhad	101,054	0.8%
24	Grimaldi (Napoli)	51,312	0.4%
25	RCL (Regional Container L.)	51,291	0.4%
26	Sea Consortium	50,614	0.4%
27	TS Lines	45,490	0.3%
28	CCNI	40,362	0.3%
29	Maruba + CLAN	38,305	0.3%
30	SITC	35,971	0.3%

SOURCE: AXS-ALPHALINER

Yet despite a flurry of lay ups, Alphaliner anticipates even more capacity cuts with subsequent scrapping by the end of the year. Idle ships, explains Fletcher, still incur costs, and the only way to eliminate them is to scrap. "This year has seen record numbers of container ships sold for scrap, particularly to Asian yards," he notes. For example, ranked number 23, Malaysian carrier MISC has the highest percentage of idle ships out of the top 24 container lines, while MSC has no idle ships at all following a scrapping spree.

Fletcher adds that shippers can expect rates to firm up on the transpacific and Asia-Europe trade lanes in late 2009, as carriers manage space more efficiently, fight to contain costs, and scramble to protect share.

Carriers on attack

For those keeping score, the current global fleet still has a capacity of 13,516,566 TEU. A.P. Moller-Maersk, with 15 percent of market share, has 2,028,836 TEU comprising 540 vessels. Of these, 212 are owned and 328 are chartered. Given the current slack demand, it should come as no surprise that only 67 ships are on order from this premier carrier.

Maersk's chief executive Nils Smedegaard Andersen is telling investors, however, that he feels "relatively optimistic" for the group long-term. "When markets return to normal, we will be among those making money," he says. Still, Andersen's report mentions "considerable uncertainty" for the rest of 2009, especially on container freight rates, transported volumes, the dollar exchange rate, and oil prices.

Paul Bingham, managing director with IHS Global Insight Inc., concurs with Smedegaard, saying that the pace of the recovery in trade will not see shipper volumes overtake containership fleet capacity any time soon. "The large overhang in worldwide container capacity, even accounting for increased scrapping and order cancellations, will continue to exceed underlying container trade demand for several years," says Bingham.

At the same time, Maersk is warning its rivals that it will not give any quarter when it comes to market share. In remarks made obliquely to Geneva-based Mediterranean Shipping Co. and France's CMA CGM, Andersen boldly announced that Maersk is sticking to a series of rate increases on its intra-Americas services, claiming they were necessary "to continue providing a first class service…in an environment where the operating costs remain on the rise and current rates are below sustainable levels."

The largest increases are on routes from North America to/from the West Coast South America—$300 per TEU. Smaller rate rises of between $50 and $200 per TEU on routes between Mexico, Central America, the Caribbean, and the east and west coasts of South America were also put into place.

Maersk has reason to remain vigilant, say analysts. CMA CGM became the

H4 Y4 U1 N1 D2 A1 I1

S1 T1 A1 B3 I1 L1 I1 T1 Y4

F4 U1 T1 U1 R1 E1

G2 R1 O1 W4 T1 H4

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"This year has seen record numbers of container ships sold for scrap, particularly to Asian yards."

—Steven Fletcher, AXS Marine

third carrier to cross the 1 million-TEU capacity barrier this year, with 505,000 TEUs on order while MSC has an impressive 623,000 TEUs on order.

But where does that leave the rest of the field? Fighting among themselves, it seems. Evergreen, APL, and Hapag-Lloyd only have as many vessels when those fleets are combined. At the same time, analysts tell us, COSCO and Zim have been actually delaying orders on the books until their fortunes improve.

Impact on shippers

Shippers, meanwhile, are seeing record increases in container freight rates as part of another swing in an increasingly volatile container shipping spot market.

Indeed, London-based Drewry Supply Chain Advisors maintain that rates have been surging of late. In the past year, Drewry's regional container freight rate index for European imports plunged from $3,169 per forty-foot equivalent unit (FEU) in July 2008 to a low point of $1,071 in March, before shooting up to $1,812 in July 2009, according to Drewry's latest Container Freight Rate Insight report which gathers "all-in" spot freight rates globally on 312 trade lanes.

Similarly, in the past year, Drewry's global freight rate index for container shipping has fluctuated between a maximum of $2,727 per FEU (in July 2008) and a minimum of $1,536 (in May 2009). Just recently, on the Far East-Europe route, most all-in spot rates increased by more than 50 percent between May and July, although from a

U.S. agricultural shippers rate carrier performance

While our annual Top 30 carriers feature concentrates on total volume, many shipper organizations rate carriers on a different metric: service.

The 3rd Annual AgTC Ocean Carrier Performance Survey, the national survey of agriculture shippers and forwarders to determine and rank ocean carriers' performance, is one such example. The top ranked carrier this year, announced at the AgTC's 22nd Annual Conference in San Francisco, is APL.

The AgTC initiated the annual survey in order to address significant shortcomings on the part of some carriers in the area of documentation, specifically, timely and accurate bills of lading. In recent years, with the proliferation of government data collection requirements and commercial and financial demands, the ability of the ocean carrier to provide necessary documentation has been daunting.

Dependable booking realization, smoothly functioning electronic data and web portals, and prompt and effective customer service has also become increasingly important. In fact, the ocean carriers' performance in these areas frequently matches, and at times can prevail, over freight rates as the basis for an ag shipper's selection of carriers.

"Notable is the consistency of the rankings over time, suggesting APL, OOCL, and Hanjin are maintaining a superior level of service performance," says AgTC executive director Peter Friedmann. "Some carrier performance has generated additional cargo contracts and preference by ag exporters and importers. Unfortunately, the performance of others has driven some ag shippers and their cargo away."

The objective of the AgTC Ocean Carrier Performance Survey is to recognize those carriers who consistently perform well, and to "incent" the others to focus their company, personnel, and resources on doing better. The AgTC has each year extended an invitation to each carrier to work with the AgTC and its members to address documentation and other performance practices, in order to improve them and enhance the shipper-carrier relationship.

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"The extreme volatility of the spot container shipping market is an industry issue not just for shippers, who cannot forecast their transport costs or their product's total landed costs, but also for container shipping companies and forwarders," says Philip Damas, director of Drewry Supply Chain Advisors.

Michael Berzon, president of Mar-Log Inc., a supply chain optimization consultancy specializing in international trade, and chairman of the Washington, D.C.-based National Industrial Transportation League's ocean cargo committee, says that the news should come as little surprise. "During these periods, as demand pushes the supply of space, we would expect rates to increase," he says. "In those trade lanes that are particularly squeezed, one can expect lines with capacity to enter them in order to achieve market share in a now profitable trade lane.

Analysts for Drewry say that the standard deviation for the regional freight rate index of European imports, a measure of volatility, reached $805 per FEU between July 2008 and July 2009, as compared to about $450 in each of the past two years, as rates dived and then experienced a sharp upwards correction.

"This volatility looks even more acute than that of the stock market, and makes it extremely difficult for shippers to know what a fair price is in today's spot market," Damas says.

The regional container freight rate index for imports to Europe is now back to the level of the end of 2008, while the Drewry global freight rate index is back to the level of about January 2009, thereby reversing the rate falls seen earlier this year.

Drewry contends that the removal of capacity by carriers in the Asia to Europe trade has led to capacity shortages, roll-overs, and a complete shift in the bargaining power of spot shippers and carriers on this route. Carriers are exploiting the potential to negotiate rate increases in return for peak-season capacity guarantees.

Patrick Burnson is Executive Editor of Logistics Management

AgTC Annual Ocean Carrier Performance Survey

2009 Top 10 Results

1 APL	6 Hyundai
2 OOCL	7 U.S. Lines
3 MOL	8 Yang Ming
4 Hanjin	9 Evergreen
5 K-Line	10 NYK

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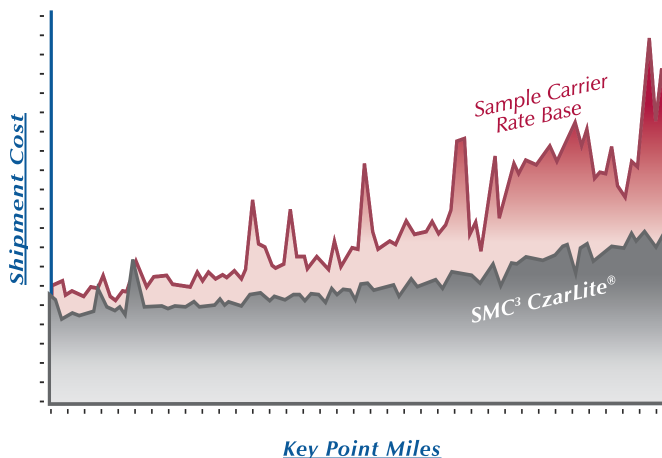

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SAGE ADVICE

Sandbags are for floods

By Wayne Bourne

Recently I read a blog in an industry publication that I found troubling. The author is discussing how logistics managers should avoid shortfalls in their budgets when confronted with General Rate Increases (GRI). In short, the author recommended that during the budget prep phase the manager should "sandbag" the budget to accommodate increases that are otherwise unforeseen.

I sincerely hope that the young professionals just entering the logistics field—or any field with budget responsibility for that matter—do not subscribe to that technique of forecasting.

You must remember that budgets are not sacrosanct rules that can't be altered or otherwise tampered with—they are not cut in stone. They are designed to offer guidelines, a roadmap that companies and departments can use to assist them in navigating the current financial condition or plot a course to growth improvement.

When you ask for more than you actually need to perform your duties then you are flat out lying. If a manager took the blogger's advice then how does that manager explain significant GRI's while currently beating his budget. Well, he'll have lie again because he'll have to cover up his first lie.

When you "sandbag" your budget you deprive other departments from funding potential projects. You may be responsible for curtailing hiring, and you're putting your reputation and your department's reputation at risk. And you then become suspect when being awarded bonuses for performances that you really didn't attain.

Once uncovered, you and your department will never be believed again. Your numbers, your projections, and your successes will be scrutinized under the microscope each time. You will never be taken seriously again, and for what? Because you wanted to avoid inherent risk? Because you were lax in your preparation?

Look, there are no crystal balls to help logistics professionals forecast budget needs, especially at a time in our history so fraught with economic uncertainty. But remember what you have learned about ethics and partnerships: Mistakes are forgiven, lies are not.

Budgets are supposed to be built on what each department accurately feels it needs to produce its deliverables as defined by the volumes and requirements provided by the company. There are a host of reasons why a manager's "actual" spend may be greater than the budgeted money.

If you are the trusted manager who was given the responsibility of building your department's budget, then you should be trusted to explain each month's variances. And if they truly were as a result of unforeseen GRIs then you'll be absolved. You will consequently be asked either quarterly or monthly to reforecast the balance of the year with your fresh information.

Therefore, my advice this month is pretty simple, nothing sage about it. It's the same advice your parents, teachers, and Sunday school teachers may have taught you: Don't Lie. Sandbags are for floods, not for budgets. L

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

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