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NOVEMBER 2009

Logistics MANAGEMENT®

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THE NATIONAL INDUSTRIAL TRANSPORTATION LEAGUE: EXECUTIVE OF THE YEAR

Remaking the rules with Nick DiMichael

page 22

Nicholas J. DiMichael
Legal counsel, NITL

2009 Warehouse/DC Operations
Survey Webcast
Nov. 19th at 2 p.m. EST
logisticsmgmt.com/2009warehouse

Management UPDATE

AN EXECUTIVE SUMMARY OF INDUSTRY NEWS

Excess capacity = fewer truck drivers. At a time when there's excess capacity in the trucking industry, it stands to reason that there should no longer be a driver shortage. This is exemplified by recent data from the American Trucking Associations (ATA) that finds that both truckload and less-than-truckload carriers "took further steps to reduce employment in the face of lower freight volume" in the second quarter. According to the ATA, large truckload carriers cut payrolls the most, as their total employment dropped 2.3 percent during the second quarter. This marks the 11th straight month truckload carriers have lowered employment.

Peace treaty. Commissioners at the Port of Long Beach Harbor (POLB) have announced that POLB and the American Trucking Associations (ATA) have each approved a settlement negotiated between port officials, ATA, and trucking industry representatives. The settlement is based on a new motor carrier registration process, referred to as a Registration and Agreement, that will replace the port's "concession agreement" contained in its existing Clean Truck program. All motor carriers wishing to perform drayage services at the Port of Long Beach must, via the new registration and agreement form, register with the port and agree to provide certain operational information to assist the port in monitoring motor carrier compliance with various safety, environmental, and security regulations pertaining to the provision of drayage services.

Déjà vu all over again. According to the results of the 16th Annual 3PL Provider CEO Perspective Survey recently presented at the Council of Supply Chain Management Professional's annual conference, harsh economic realities are once again top-of-mind for 3PL CEOs. Although things are probably not as bad as they were a year ago, the survey, which polled 35 3PL CEOs in North America, Europe, and Asia-Pacific regions, found that one-year revenue growth projections for each region was down across the board. Europe's 3PL market is projected to decrease by 3.3 percent, while the North American and Asia-Pacific markets are projected to grow by a relatively sluggish 6.9 percent and 12.9 percent respectively.

Tough talk. Carriers comprising the Transpacific Stabilization Agreement were making good on their threat from last July to raise rates and stick to them. As reported by *LM*, shipping lines serving the Asia-U.S. freight market said at that time that average rate levels achieved in the latest round of service contract negotiations were not sustainable over the typical 12-month 2009-2010 contract term. Since then, the cartel has imposed floating bunker fuel surcharges adjusted on a monthly basis. The organization said that the higher fuel surcharge reflected record-breaking fuel prices. Now, a much larger push to gain revenue is seriously underway; and some shippers have admitted that rate pressures in a distressed

continued, page 2 >>

The Next Generation Supply Chain conference is now on demand. Are you feeling left out because you missed the most comprehensive virtual conference of its kind, the 2009 Next Generation Supply Chain Conference? Well, if you couldn't make the live dates, worry not. The conference is now on demand at **logisticsmgmt.com/nextgen**. Tune in now to hear thought leaders and practitioners from around the world present a series of sessions on the strategies and technologies that will help transform global supply chain management over the next few years. Register and interact now at **logisticsmgmt.com/nextgen.**

Management UPDATE

continued

market have led to some contracts threatening service levels and carrier viability.

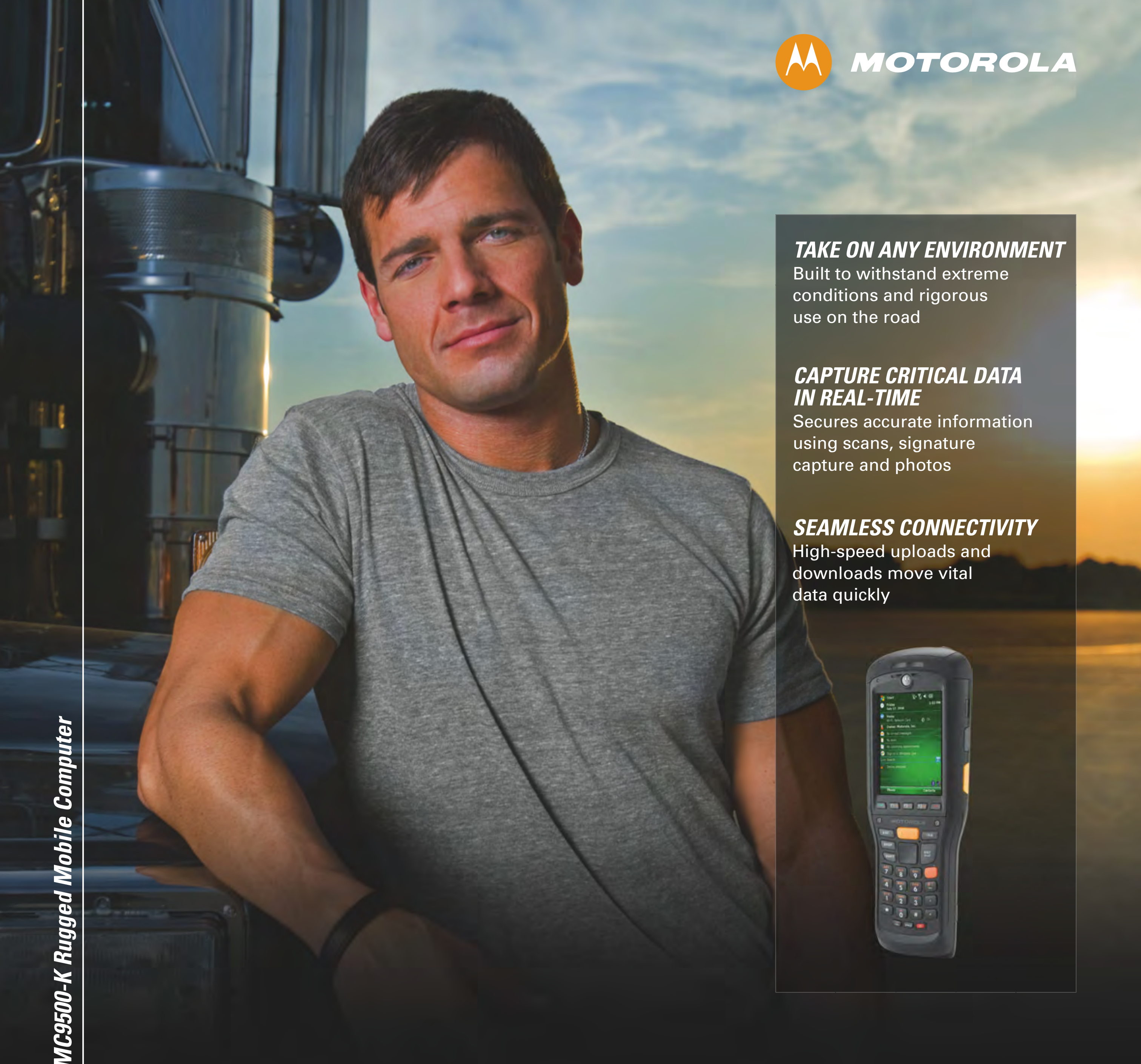
■ **Is he an Oracle?** The global recession is coming to a close, so says Loic le Guisquet, Oracle's executive vice president for Europe, the Middle East, and Africa. But that doesn't mean we're to expect a robust recovery. "I am not an economist," he said in a talk with business reporters attending last month's OpenWorld event in San Francisco. "But our analysts suggest that technological advances in services are going to drive the rebound." Countries heavily reliant on manufacturing, however, may have a harder time of it, he added. "This is especially true in Eastern Europe. Investors feel especially exposed in those markets." Based in Geneva, le Guisquet oversees a network of 139 offices in 61 countries. His advice for shippers? "Keep focused on the customer no matter where you are operating. Be global, but also be local. Customized service is key."

■ **Wal-Mart's superlative green leverage.** When it comes to saving the environment, global mega-shippers can exert tremendous clout on even their most recalcitrant partners. That hopeful declaration was one of many made at eyefortransport's 3rd Annual Sustainable Supply Chain Summit last month. In her presentation on "Partnerships, Suppliers, and *Real* Collaboration," Elizabeth Sturcken, managing director of corporate partnerships for the Environmental Defense Fund, said that it's all about leverage. "Wal-Mart is China's eighth-largest trading partner ahead of Russia, Australia, and Canada," she said. "When we learned this, it made perfect sense to begin working with them to develop an environmentally sound shipping and sourcing model."

■ **It should be easy being green.** In what many industry analysts suggest may be a trend, UPS became the first small package carrier to offer shippers the ability to offset the carbon dioxide emissions generated by the transport of packages within the United States. Under the UPS carbon neutral program, UPS said it will offer U.S. shippers the option of paying a small fee to calculate and offset the climate impact of the shipment of each of their packages. The per-package price for the optional service is 5 cents for UPS Ground services and 20 cents for UPS Next Day Air, UPS 2nd Day Air, and UPS 3 Day Select services. A flat fee is used, and the price includes the cost of calculation, administrative costs associated with the service, and the cost of the offsets.

■ **Changing of the guard in the PNW.** The Port of Tacoma Commission recently approved the terms of a transition in leadership. Newly drawn plans call for current Executive Director Timothy J. Farrell to work full time through the end of the year, with port employment officially ending May 31, 2010. The news comes in the wake of significant "downsizing" at the port, as it struggles with other U.S. West Coast cargo gateways for inbound traffic. According to the terms, Farrell and the commission will set priorities for Farrell's focus through the end of the year, ensuring a smooth transition to new leadership. "We want to assure our staff, our customers, and our community that the port is dedicated to their continued success," said commission president Clare Petrich.

■ **And the Silver Kingpin Award goes to...** Charles T. Connors, president and COO of H&M International Transportation Inc. is the winner of 2009 Intermodal Association of North America (IANA) Silver Kingpin Award. The annual award recognizes individuals for their significant, long-term contributions to the intermodal industry. According to IANA, Connors is considered by many to be the father of the dedicated international rail facility. According to IANA, the idea of aligning the operations of steamship lines, railroads, motor carriers, and terminals at one site has served as an operating model for the industry, benefiting all international supply chain stakeholders. L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Although companies locate in New Jersey for many reasons, the ability to ship goods to market quickly and efficiently is especially crucial. The state was recently ranked #1 in the country for transportation, warehousing and highway connectivity and #2 for railroad service.* New Jersey also has the largest port complex on the eastern seaboard with facilities in Newark and Elizabeth, supplemented by major ports on the Delaware River. These ports handle more than 620 million tons of freight, valued at over $850 billion annually. And, with two major airports—Newark Liberty and Atlantic City International—New Jersey serves as an intermodal gateway for trade across the country and around the world.

As the third largest industrial real estate market in the country (with nearly 800 million square feet of space), New Jersey offers a wide range of choices. The state has more than 23,000 establishments devoted to warehousing, logistics and distribution; 3,000 warehouse facilities have ceiling heights over 20 feet.

A number of major firms that store and move their products, as well as the thousands of logistics firms that serve them, are located in New Jersey. Contact us at 866-534-7789, we'll put you in touch with one of our Account Executives so you can learn more about why New Jersey is the right place for your business.

THE STATE OF NEW JERSEY
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Expansion Management Magazine

LM/1109

Contents

November 2009 VOL. 48, NO.11

cover photo by Joshua Roberts/Getty Images

webcasts/continuing education

upcoming webcasts

Creating an Integrated Transportation Platform. As supply chains become more global, complex, and competitive, and as fuel volatility and compliance become more challenging, the value of an integrated approach to managing all aspects of your transportation is becoming greater than ever.
November 12, 2009 2 p.m. ET
logisticsmgmt.com/integrated

2009 Warehouse/DC Operations Survey Webcast: Cheaper, Leaner, Greener. The results of our 4th Annual Warehouse/DC Operations Survey reveal that warehouse and distribution decision makers remain tightly focused on internal, tactical issues and are determined to cut costs across the board heading into 2010.
November 19, 2009 2 p.m. ET
logisticsmgmt.com/2009warehouse

on-demand webcasts

Mobility In the Supply Chain. Learn how to cut costs and grow revenue by capturing real-time information on the road and in the warehouse.
logisticsmgmt.com/mobility

on-demand virtual conferences

Logistics Management & Supply Chain Management Review Virtual Conference: The Next Generation Supply Chain. Experts describe the new technology that will make global supply chains more sustainable and more secure.
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bears repeating...

"The top 3PLs are getting more sophisticated all the time. They keep getting better at managing their supply chain and being an extension of customer operations."

– Dick Armstrong, President, Armstrong & Associates

this month's fast facts

1. **The United States Postal Service** plans to reduce energy use 30 percent by 2015, reduce petroleum fuel use 20 percent by 2015, and reduce greenhouse gas emissions 20 percent by 2020.
2. **U.S. freight railroads** originated 1,380,684 carloads in September, which is down 14.2 percent-or 227,837 carloads-from September 2008, marking the 11th consecutive double-digit monthly decline according to the Association of American Railroads.

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

Projected 2009 retail container volumes—currently forecast at 12.7 million Twenty-foot equivalent units (TEU)—are expected to be at the lowest annual level since 2004, according to the Port Tracker report from IHS Global Insight and The National Retail Federation.

Despite a September increase, the NRF predicted 2009 holiday sales will decline one percent—well below the 10-year average for holiday season retail sales growth of 3.39 percent.

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Supply Chain Group

Keeping with tradition

November has traditionally been my favorite issue to produce. Year after year, it not only celebrates the career of an exceptional leader in transportation and logistics, but it also shares exclusive research that reveals how warehouse and distribution center operations are responding to current economic trends.

The first reason I especially enjoy November is because it is the month we help the National Industrial Transportation League (NITL) announce the winner of the John T. McCullough Award—also known as the NITL Executive of the Year. The award is named after a former chief editor of *Distribution* magazine, a predecessor of *Logistics Management*, and is given each year to an individual for extraordinary achievement and leadership in the logistics and transportation industry. I"m honored to be presenting this award at the NITL's 102nd Annual Meeting on Monday, Nov. 16, in Anaheim, Calif.

For those familiar with the behind-the-scenes legislative work of the NITL, it should come as little surprise that the 2009 recipient is Nick DiMichael, the League's outgoing legal counsel and a partner in the transportation practice group of the Washington, D.C.-based law firm of Thompson Hine LLP.

For those readers who may not be familiar with the League's work in this arena, I'm sure you're quite aware of the results that DiMichael's efforts have yielded over the years.

In his role as the League's general legal counsel, DiMichael was influential in championing the revolutionary Ocean Shipping Reform Act (OSRA) in the 1990s as well as later forging an international effort to negotiate a new ocean cargo liability treaty—The Rotterdam Rules. But that's just scratching the surface.

Executive Editor Patrick Burnson recently sat down with DiMichael and his colleagues to put his entire career into perspective and to give those not familiar with his work a clear portrait of this unsung hero. "He's a good guy, but not one to give up too much at the bargaining table," NITL President Bruce Carlton tells Burnson. "When it comes to actually protecting the most vital interests of his constituents, Nick has been a relentless force."

My second favorite November tradition is the release of our annual Warehouse/Distribution Center Operations Survey (page 42). This marks the 4th year we've partnered with Contributing Editor Maida Napolitano and the research team at TranSystems, a supply chain consultancy, to create this snapshot of what today's distribution network looks and acts like.

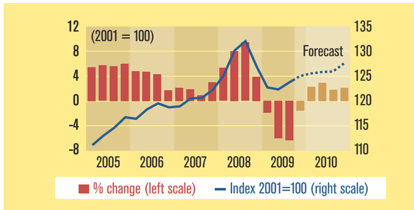
According to our record 887 respondents, distribution network operators in 2009 continue to maintain a sharp tactical focus, tightening transportation planning to cut costs, and squeezing every piece of equipment inside the four walls—hardly a surprise.

However, we did find a large percentage of respondents telling us that they're planning to move away from manual, paper-based operations systems, but they're not ready to pull the trigger on technology investment, at least not yet. Research team member Scott Pribula sums it up best: "The 2009 findings tell us that everyone wants to get on the bandwagon, but nobody wants to pay to get on it."

Michael A. Levans, Group Editorial Director

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

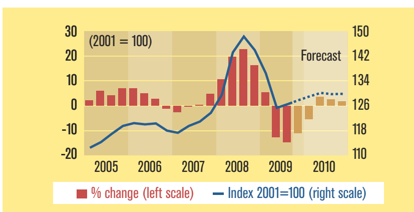
Pricing Across the Transportation Modes



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
General freight - local	-3.2	2.5	-5.5
Truckload	0.7	1.8	-8.1
Less-than-truckload	0.2	0.0	-2.8
Tanker & other specialized freight	-1.8	0.6	-5.1

TRUCKING

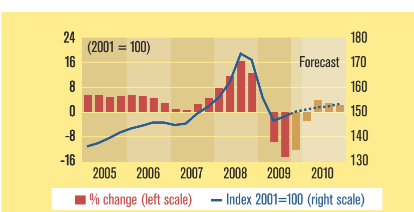
Despite a 0.8% price cut in September, results for 2009's Q3 shows that the U.S. trucking industry nonetheless managed to push prices up 1.2% from the previous quarter. However, overall trucking industry price tags still sit 6.3% below peak price levels set Q3 of 2008 when fuel surcharges ran rampant. For shippers of general freight using TL and LTL carriers, industry prices for both were up a bit in September. Quarterly trends, however, indicate LTL prices held steady in both Q2 and Q3 of 2009. That left LTL tags 4.1% below its 2008 peak. TL tags, meanwhile, increased 1.4% in Q3, but remained 9.5% below its peak. Our aggregate truck industry price forecast remains the same, down 4% in 2009, up 2.2% in 2010.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Scheduled air freight	0.5	-0.3	-12.2
Chartered air freight & passenger	2.9	2.6	-14.6
Domestic air courier	-0.9	5.5	-13.5
International air courier	0.1	3.7	-14.3

AIR

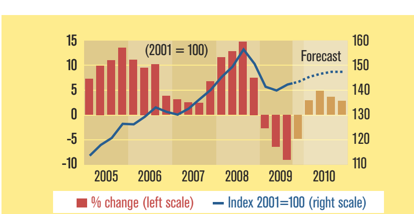
U.S. owned airline companies managed to hike prices for flying cargo on scheduled flights by a meager 0.5% from August to September. After monthly price hikes of 6.6% and 5.1% the previous two months, climbing back up to 2008's fuel-charged price levels will be a bumpy ride. The industry would have to push tags up 13.9% to return to previous peaks. Air freight charter companies managed to bump up average transaction prices by 2.9% in September. But air charter tags must ride a steep 16% ascent before matching July 2008's peak price levels. September's data didn't deviate much from forecast estimates, so the price outlook for airfreight on scheduled flights remains down 8.6% in 2009, up 0.5% in 2010.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Deep-sea freight	1.8	-4.7	-24.0
Coastal & intercoastal freight	0.1	7.2	-3.1
Grt. Lks.-St. Lawrence Seaway	1.2	3.7	-1.8
Inland water freight	1.8	-3.2	-17.5

WATER

Across the board, all the water transportation industries for which the U.S. Labor Department gathers data reported price increases in September. Domestic company surveys reported that prices increased 1.8% in September both for operators who ply inland waterways as well as those sailing on deep seas. All told, after three consecutive quarterly price cuts, the water transportation industry enjoyed a 1.2% quarterly price hike in the third quarter of 2009. Alas, aggregate water transport tags still sit 15.2% below peak levels set exactly a year ago in September 2008. Prices will be floating upward over the coming year, but our conservative bet calls for water transportation prices to be down 9.3% in 2009, up 1.3% in 2010.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Rail freight	-0.1	2.5	-8.6
Intermodal	0.5	4.7	-13.2
Carload	-0.1	2.3	-8.3

RAIL

Underscoring the difficulty of regaining pricing traction in today's tenuous economic recovery, carload rail operators reported a 0.1% price cut from August to September. Intermodal rail freight companies, meanwhile, managed a 0.5% price hike. Looking at recent rail tags compared to August 2008's peak levels show average transaction prices still off 8.4% for carload and 15.4% for intermodal. The rail price forecast assumes intermodal containers filled with imported cargo will improve, but it will be coming back from a low trough set last winter. Add in the U.S. banking industry's dismal credit situation and we set the rail price forecast at down 5.8% in 2009, up 3.5% in 2010.

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

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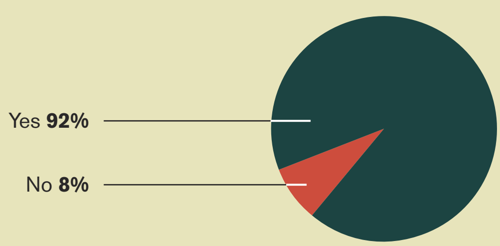
Cap and trade front and center in Kerry-Boxer legislation

Majority of respondents in LM *reader survey indicate cap and trade will result in higher logistics costs and will potentially push production to countries with fewer restrictions.*

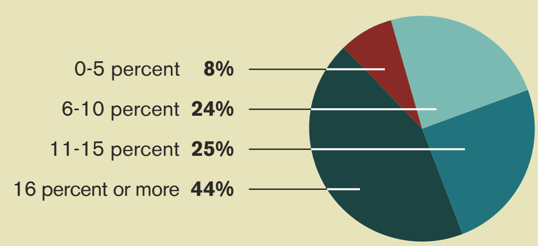
By Jeff Berman, Group News Editor

Do you think cap and trade legislation will increase your logistics costs?



Source: Survey of 115 *LM* readers, October 2009

By how much do you expect cap and trade to increase your logistics costs?



Source: Survey of 115 *LM* readers, October 2009

WASHINGTON—Legislation introduced late last month by Senators Barbara Boxer (D-Calif.) and John Kerry (D-Mass) may have a major impact on freight transportation and logistics issues.

The goal of the Boxer-Kerry legislation is to reduce carbon dioxide emissions by 20 percent from 2005 levels—a number that represents a three percent increase from the House version of this bill that was passed in June. Both the House and Senate versions of the bill seek an 83 percent reduction in CO2 emissions by 2050.

A major component of both versions of this legislation that has been met with heavy opposition has to do with "cap and trade," a form of emissions trading used to control pollution by offering economic incentives in order to achieve reductions in emissions pollutants. Cap and trade would put limits on emissions from motor vehicles, coal-fired plants, and factories.

The argument against cap and trade was made clear in a recent *Logistics Management* (*LM*) reader survey poll of 115 logistics and transportation executives that found 90 percent of respondents opposing the bill and 92 percent indicating it will increase costs to varying degrees (See pie chart).

But Kerry and Boxer maintain that these higher emission reduction targets impact "less than two percent of American businesses and keeps American industry competitive during the transition to a new energy economy."

Meanwhile, survey respondents who say they're against cap and trade cite a long list of reasons for their opposition, including the lack of details on how the process works, the need for more scientific evidence to support human caused climate change, the extra costs to the supply chain, and the potential shift of production to countries with fewer restrictions, among other factors.

While in the minority, those respondents that favored cap and trade noted there are various long-term benefits, including taking steps to reduce U.S. dependence on oil coupled with economic incentives to cut CO2 emissions.

"It's the right thing to do for the planet," said an automotive shipper. "Sustainable energy investment and growth is the newest economic and societal evolution. Cap and trade can be an area for the U.S. to gain a competitive edge in being a supplier of a portion of the world's energy needs."

This sentiment is shared by James

LM RESEARCH, *CONTINUED*

Corless, director of Transportation for America, a coalition of national, state, and local organizations calling for the renewal of a national transportation program for the 21st century. "This bill makes significant advances in addressing the impact of transportation on our climate," said Corless, adding that transportation contributes nearly one-third of the total annual CO2 emissions in the U.S. and will generate a significant portion of the revenues in the bill.

But as revealed by the *LM* survey, the bill is vehemently opposed by shipper-based organizations, including the U.S. Chamber of Commerce and the National Association of Manufacturers.

Thomas J. Donohue, president and CEO of the U.S. Chamber of Commerce, said his organization opposes the bill because it's neither comprehensive nor international, and it falls short on moving renewable and alternative energy technologies into the marketplace and enabling the transition to a lower carbon future. Donohue added that the bill would also impose carbon tariffs on goods imported into the U.S., which could spur retaliation from global trading partners.

If this bill is eventually signed into law there is going to be a need for shippers to account for their carbon footprint, according to Ben Gordon, managing director of BG Strategic Advisors, a strategy-led investment banking firm for the supply chain and logistics sector.

"There are all kinds of unintended consequences that are going to flow from this, and [large] shippers are going to have huge costs and reporting obligations associated with this," said Gordon. "Reporting costs will also be passed on to them, as well as having to report what is my carbon footprint and what is my liability and how do I quantify it and how do I reduce it? That's going to be a big deal."

Gordon explained that cap and trade is going to ultimately put a huge tax on transportation because it's going to make fuel more expensive. The reason, he said, is it's not just anything that generates pollution, it's anything that generates carbon.

The legislation will now move to the Senate Environment and Public Works Committee for consideration. L

LTL MANAGEMENT

Doug Duncan, architect of FedEx Freight, to retire in February

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

In an exclusive interview with *Logistics Management*, Duncan said that the timing was based partially on FEF's ability to recover from the economic recession and was solely his idea. He says he plans on remaining semi-active in the industry through participation in corporate boards and trade groups such as the American Trucking Associations.

"It's something I've been planning for a while, but I wanted to find the right time," the 58-year-old Duncan said. "I didn't want to leave when the market was in complete freefall. I think the worst is behind us and things are getting better. The timing works out better for me and the company."

Part of the reason for Duncan's success in creating FedEx Freight was his long-time experience in both marketing and operations. But part of it was philosophical as well. Duncan always emphasized placing his customers' needs first, then tailoring services to meet those needs.

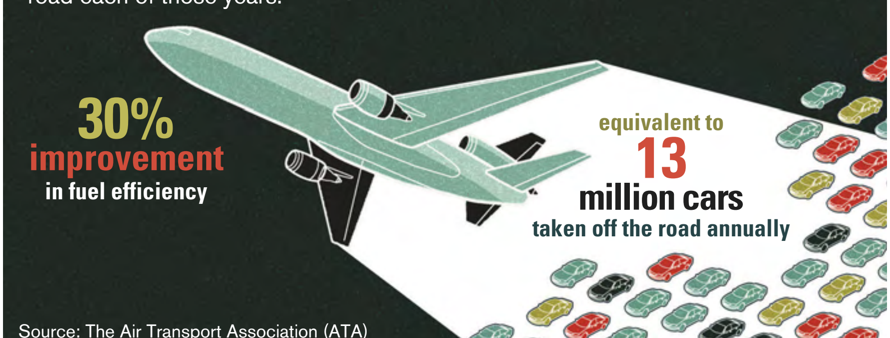
"Companies like FedEx are in business to serve the supply chain—not to run a truck line," Duncan said. "My fate is tied to serving our customers' supply chains."

While no successor was immediately named to lead the Memphis, Tenn.-based carrier, Duncan's surprise move set off a scramble within the FedEx executive suites to lead the innovative LTL giant during the anticipated economic rebound in 2010. Among the names being mentioned is Patrick Reed, 50, the COO of FedEx

News Capsule

Airlines' fuel efficiency still soaring

After improving fuel efficiency by more than 120 percent over the last three decades, U.S. airlines are on track to improve fuel efficiency by another 30 percent between 2005-2025, according to The Air Transport Association. This reduction will result in carbon dioxide savings equivalent to removing 13 million cars off the road each of those years.



Source: The Air Transport Association (ATA)

LTL MANAGEMENT, *CONTINUED*

Freight, and former president of American Freightways, a company that FedEx bought to be part of FEF.

Duncan is leaving at a time of turmoil and uncertainty in the LTL sector. The largest LTL carrier, $7 billion-a-year YRC Worldwide, has posted losses in excess of $2 billion in the last 10 quarters. If YRC were to liquidate or further downsize, that would open opportunities for carriers such as FEF to take market share and boost pricing.

Doug Duncan

"I'm surprised because I thought he would stay until he was 60," said Satish Jindel, principal of SJ Consulting that analyzes the LTL sector. "But considering all the accomplishments he has had there, and the change of executives at FedEx Ground (founder Dan Sullivan retired before 60), I guess it was time."

Duncan is credited with moving FedEx, which until 2001 had no presence in the heavy freight sector, to a company with more than $4 billion in LTL revenue. If Yellow had not bought Roadway, a $3 billion acquisition in 2003, FedEx Freight would be the largest LTL carrier. In fact, Duncan credits being part of the $38 billion FedEx Corp. for part of the LTL unit's success.

"Certainly the brand was a huge help. But I think more than anything it was the culture and the support we needed from a people-first standpoint," Duncan said. "The transportation business, stripping away the trucks and the technology, is still very, very much a people business. When we made these acquisitions it was wrong to jam them together. We needed to take time to bring people together and let them accept change; and that understanding of integration and culture had everything to do with our success in being able to create FedEx Freight."

—John D. Schulz, Contributing Editor

PARCEL EXPRESS

USPS will not raise rates for market dominant products in 2010

WASHINGTON—At a time when it's facing significant cost pressures, the United States Postal Service (USPS) said it will not raise rates in 2010 for market dominant products. This was made clear in a recent letter to USPS customers from Postmaster General John E. Potter.

USPS market dominant products include First-Class Mail, Standard Mail, periodicals, and single piece parcel post. "This is the right decision at the right time for the right reason," said Potter. "Promoting the value of mail and encouraging its continued use is essential for jobs, the economy, and the future of both the Postal Service and the mailing industry."

Potter added that while increasing prices may have generated revenue for the USPS in the short term, the long term effect could drive additional mail out of the system. He also noted that he wants shippers to continue to invest in mail to grow their business and help USPS maintain a strong presence in the marketplace.

Potter also explained that changes in pricing for its competitive products—

Changes in pricing for its competitive products—Priority Mail, Express Mail, Parcel Select, and most international products—are under consideration.

Priority Mail, Express Mail, Parcel Select, and most international products—are under consideration, with a decision expected to be announced some time this month.

An industry analyst told *Logistics Management* that by law the USPS can only raise prices for market dominant products (products that are primarily transactions under 1 pound) by no greater than the Consumer Price Index (CPI) each May.

"Since the CPI for 2009 is going to be zero there is only the option of going to the Postal Rate Commission and asking for exigent or emergency relief," said Jerry Hempstead, president of Orlando-based parcel consultancy Hempstead Consulting.

This news comes at a time when the USPS is up against mounting fiscal issues, including a $2.4 billion net loss for the fiscal third quarter, as well as a significant drop off in volume due to a shift from traditional mail delivery to electronic communication alternatives, including e-mailing business documents and online purchase ordering.

This marked the 11th time in the last 12 fiscal quarters that the USPS has had an operational net loss, with a fiscal year-to-date loss of $4.7 billion compared to $1.1 billion during the same timeframe last year.

In the fiscal third quarter, USPS mail volume totaled 41.6 billion pieces, marking a decrease of 7 billion pieces-or a 14.3 percent year-over-year drop. This

PARCEL EXPRESS, *CONTINUED*

is its largest consecutive three quarter decline since 1971, with the USPS indicating that decreases are likely to continue for the foreseeable future due to the ongoing electronic diversion of postal mail.

And in late August, the USPS offered thousands of employees a financial incentive or early buyout before September 30. Hempstead said the USPS will know how many employees will accept the offer by November 1.

However, the USPS has taken additional steps to remedy its financial condition that are expected to save it more than $6 billion, including: cutting more than 100 million work hours, or the equivalent of 57,000 positions; closing six district offices; a hiring freeze, including USPS officers and executives; potentially closing more than 3,200 of its 34,000 post offices and retail locations; and adjusting Post Office hours to "better reflect customer use," among others.

Even though the USPS says it's on track to hit its 2009 goal of $6 billion in total cost reductions, it's projecting a net loss of more than $7 billion by the end of the fiscal year. L

—Jeff Berman, Group News Editor

TRUCKING

Question of future capacity looms for shippers and carriers

WALTHAM, Mass.—Despite some recent sequential increases in trucking volumes, capacity has steadily continued to leave the marketplace in recent quarters.

According to trucking analysts, the reasons for the capacity exodus vary, but they generally come back to common refrains, including low demand and consumer spending in conjunction with tight credit markets. It's this state of capacity in 2009 that has many in the industry wondering if there will be enough once the economy rebounds.

In fact, many believe there won't be nearly enough to meet future demands. According to FTR Associates President Eric Starks, when the economy fully recovers, the capacity picture won't be pretty. As demand returns, said Starks, carriers will be found scrambling. "Carriers are not going to add capacity ahead of time, because that requires cash on hand and freight to move," he said.

While the signals appear somewhat ominous, there are some signs that things are improving on the capacity front, according to a recent report by Avondale Partners analyst Donald Broughton. In his report, Broughton notes that in the second quarter Avondale estimates that 370 companies with an average fleet size of 18 pulled 6,725 trucks from the road—less than 0.4 percent of the nation's over the road heavy duty truck capacity. This is the lowest number of companies recorded and the smallest average company size recorded since the first quarter of 2007, Broughton explained.

"The rate of companies failing is less than 40 percent of what it was in the second quarter last year. And with the drop in the average size of fleet (from 47 to 18), the total number of trucks being pulled from the road is less than 15 percent of last year's second quarter rate," wrote Broughton. "This estimate does not include the industry wide trend, especially in larger fleets, to rationalize the size of their ongoing fleets. However, it does represent a marked decline from the 46,025 trucks pulled from the nation's highways in the second quarter of 2008."

Even with these encouraging signs, larger problems loom when it comes to truck tonnage levels—and capacity—returning to healthy and productive levels. As things stand, tonnage is still well below last year's levels, with the American Trucking Associations reporting that its advance seasonally-adjusted for-hire truck tonnage measure has been up on a sequential basis three of the last four months.

As for how things look going forward in terms of the overall health of the trucking industry, it's clear that more time is needed before order is truly restored. L

—Jeff Berman, Group News Editor

United States Postal Service

Statement of Ownership, Management, and Circulation (Requester Publications Only)

1. Publication Title: Logistics Management **2.** Publication Number: USPS 801-860 **3.** Filing Date: October 1, 2009 **4.** Issue Frequency: Monthly **5.** No. of issues Published Annually: 12 **6.** Annual Subscription Price: US $119.99; CAN $149.99; MEX $149.99; FOR $259.99 **7.** Complete Mailing Address of Known Office of Publication: Reed Business Information, 8878 Barrons Blvd., Highlands Ranch, CO 80129-2345 **8.** Complete Mailing Address of Headquarters or General Business Office of Publisher: Reed Business Information, Division of Reed Elsevier, Inc., 360 Park Avenue South, New York, NY 10010 **9.** Full Names and Complete Mailing Addresses of Publisher, Editor, and Managing Editor: Publisher: Brian Ceraolo, Editor: Michael A. Levans, Managing Editor: Sarah Petrie, Reed Business Information, 225 Wyman Street, Waltham, MA 02451 **10.** Owner: Reed Business Information, Division of ReedElsevier, Inc., 360 Park Avenue South, New York, NY 10010 **11.** Known Bondholders, Mortgagees, and Other Security Holders Owning or Holding 1 Percent or More of Total Amount of Bonds, Mortgages, or Other Securities: None **12.** (Must be completed if the publication title shown in item 1 is a publication published and owned by a non-profit organization). The purpose, function and nonprofit status of this organization and the exempt status for federal income tax purposes: Has Not Changed During Preceding 12 Months **13.** Publication: Logistics Management **14.** Issue Date for Circulation Data: September 1, 2009

15. Extent and Nature of Circulation:	Average No. Copies Each Issue During Preceding 12 Months	No. Copies of Single Issue Published Nearest to Filing Date
a. Total Number of Copies *(Net Press Run)*	59,052	54,544
b. Legitimate Paid and/or Requested Distribution (by Mail or Outside the Mail)		
1. Outside County Paid/Requested Subscriptions Stated on PS Form 3541.	56,999	53,495
2. In-County Paid/Requested Subscriptions Stated on PS Form 3541.	0	0
3. Sales Through Dealers and Carriers, Street Vendors, Counter Sales and Other Paid or Requested Distribution Outside USPS	71	58
4. Requested Copies Distributed by Other Mail Classes Through the USPS	0	0
c. Total Paid and/or Requested Circulation (Sum of 15b (1), (2), (3) and (4))	57,070	53,553
d. Nonrequested Distribution (By Mail and Outside the Mail)		
1. Outside County Nonrequested Copies Stated on PS Form 3541.	876	649
2. In-County Nonrequested Copies Stated on PS Form 3541.	0	0
3. Nonrequested Copies Distributed Through the USPS by Other Classes of Mail.	0	0
4. Nonrequested Copies Distributed Outside the Mail.	399	80
e. Total Nonrequested Distribution (Sum of 15d (1), (2), (3) and (4))	1,275	729
f. Total Distribution (Sum of 15c and e)	58,345	54,282
g. Copies Not Distributed	707	262
h. Total (Sum of 15f and g)	59,052	54,544
i. Percent Paid and/or Requested Circulation (15c divided by f times 100)	97.81%	98.66%

16. Publication of Statement of Ownership for a Requester Publication is required and will be printed in the November 2009 issue of this publication.

17. Signature and Title of Editor, Publisher, Business Manager, or Owner: Simon Young, Group Audience Marketing Director, September 23, 2009

I certify that all information furnished on this form is true and complete. I understand that anyone who furnishes false or misleading information on this form or who omits material or information requested on the form may be subject to criminal sanctions (including fines and imprisonment) and/or civil sanctions (including civil penalties).

Reed Business Information Statement of Digital Circulation

1. Publication Title: Logistics Management

	12 Month Average	September
Printed Circulation as reported on PS Form 3526, Line 15a	59,052	54,544
Digital Circulation	15,345	16,829
Total Circulation	74,397	71,373

Bohman on

Packaging update: New package certification requirements

Over the years, I'm sure you've seen the circular boxmaker's certificate shown in Figure 1 on more fibreboard boxes than you'd care to admit.

That certificate is known as the box manufacturer's (or boxmaker's) certification attesting to the fact that the fibreboard box or carton is made to comply with the specifications of fibreboard boxes, corrugated or solid, published in paragraph (a) of Item (Rule) 22201 of the National Motor Freight Classification (NMFC).

But what I believe many of you may not be aware of is that there are two different types of box manufacturer's certificates—the other being a rectangular-shaped certificate as pictured in Figure 2.

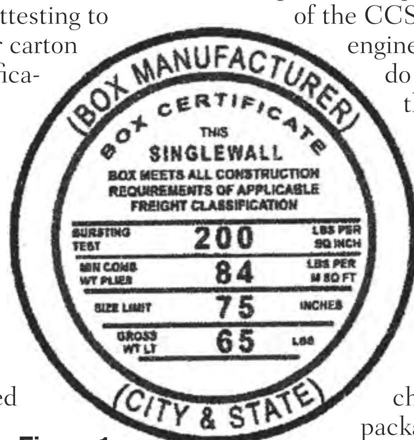


Figure 1

It should also be noted that there are two versions of each of the box manufacturer certificates shown in these figures. One is for fibreboard boxes made subject to the bursting test and the other is for boxes made subject to the edge crush test.

CHANGES FORTHCOMING

Subject 18 of the October docket of the commodity Classification Standards Board (CCSB)—CCSB DOCKET 2009-3—was a proposal to amend Item (Rule) 222 of the NMFC by requiring shippers using numbered packages published in the NMFC to certify, for the first time ever, that they're complying with the specifications of a particular numbered package. A typical example is: Package 1467, for "Lamps, NOI." To do this, shippers will be required to print, stamp, or affix a new rectangular certificate on the shipping container. This certificate will be in addition to the regular rectangular box manufacturer's certificate. The new shipper's certificate will be required to look like Figure 3.

With more and more U.S. companies having products made and packaged in countries overseas, such as China, or bordering the U.S., namely Canada or Mexico, the question arises as to whether the foreign company's name and location should be shown on the shipper's certificate.

I posed this question to Erin Topper, a member of the CCSB who serves as its packaging engineer, knowing that some importers do not wish to have the identity of their foreign vendors made known. She said that the certificate should show the name of the importer and its location in the U.S.—city and town. That's the party any carrier would have to deal with if any problem were to arise.

Clearly, this will put the onus on every shipper in the U.S. to check to make certain that the package fully complies with the specifications of a particular numbered package.

Here is what this new Item (Rule) says as to the size and information that must be shown on the certificate:

"Sec. 2. Numbered packages must bear a legible package certificate on an outside surface, in the form, size (3½ inches x 2 inches, plus or minus ¼ inch), type and wording as illustrated. City and state may be either that of the manufacturing or corporate location. When package has the length of less than 10

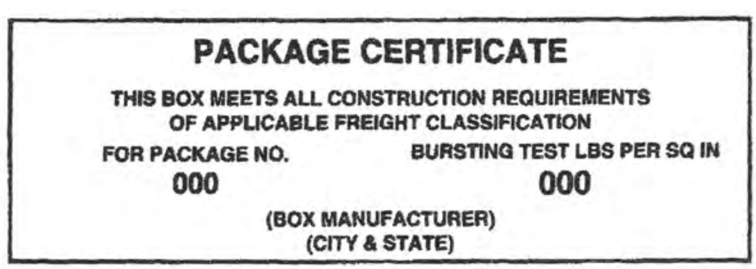


Figure 2

inches or a width of less than 9 inches, certificate may be reduced in size, but outside dimensions must not be less than 1¼ x 1¼ inches."

This new certificate is required on fibreboard boxes or cartons that meet the specifications of hundreds of numbered packages shown near the

Should your company have no in-house packaging engineer, but rely on your boxmaker to keep you in full compliance with carrier packaging requirements, you should notify them of these changes that are scheduled to become effective in a supplement to the NMFC on January 9, 2010.

PACKAGE CERTIFICATE

THIS PACKAGE MEETS ALL CONSTRUCTION REQUIREMENTS
OF THE NATIONAL MOTOR FREIGHT CLASSIFICATION FOR

PACKAGE NO.
000

(COMPANY)
(CITY & STATE)

Figure 3

end of the NMFC. Those numbered packages take up 148 pages in the current Classification.

Numbered packages are exceptions to the general packaging requirements published in Item (Rule) 222 of the NMFC. They might authorize the use of a lower bursting or edge-crush test box than Item 222 would call for. As an example, if you were shipping a knocked-down table weighing 90 pounds, Item 222, Table A, requires articles of such weight to be packed in a fibreboard box having a bursting test of no less than 275 pounds.

However, since such tables have their own built-in stacking strength, Package 19F (a numbered package) requires a bursting test of no less than 200 pounds.

It's interesting to note that Package 19F requires specific interior packaging such as corner and edge pads that Item 222 does not specifically require.

ONE MORE CHANGE

Also approved by the CCSB as part of Subject 18 was a change in wording on the rectangular box manufacturer's certificate required to be printed on fibreboard boxes packaged in accordance with NMFC numbered packages.

The current certificate is headed with the title: PACKAGE CERTIFICATE. That wording must now be changed to read: BOX CERTIFICATE.

POSSIBLE CONSEQUENCES FOR NONCOMPLIANCE

If you fail to print, stamp, or affix a sticker on one or both of these two rectangular certificates on your fibreboard box, and damage occurs while the product is in transit, any carrier claims inspector worth his salt, upon discovering such a noncompliance, might go no further and recommend denial of any subsequent claim.

Should your company have no in-house packaging engineer, but rely on your boxmaker to keep you in full compliance with carrier packaging requirements, you should notify them of these changes that are scheduled to become effective in a supplement to the NMFC on January 9, 2010.

ONE LAST WORD

These forthcoming changes only apply for the account of for-hire motor carriers, freight forwarders, and property brokers that are participants in the NMFC—just under 1,000. Many other for-hire motor carriers, such as truckload carriers and specialized furniture carriers, are not party to the NMFC and thus do not require such certificates to be printed or stamped on cartons of products moving on their line.

Many shippers don't know at the time a product is being packaged whether it will subsequently be transported by an NMFC participating carrier or one that's not.

In this case, shippers may well decide to have those two certificates printed or stamped on their boxes just to be on the safe side. L

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.

Pearson on

Six secrets of supply chain planning masters

CONSIDER THE NEW LANDSCAPE facing today's supply chain managers: new global supply sources; customized products and services; faster product development life cycles; emerging markets and customer segments. Small wonder that supply chain planning is more complex now than ever. But what exactly are the toughest challenges and how are they being surmounted? Answering these questions was the goal of a recent Accenture research effort.

Not surprisingly, most of the 240 companies we analyzed struggle with one or more aspects of forecasting demand and planning supply. For example, respondents' average forecast accuracy at the SKU level is just 75 percent. Companies tend to be more accurate (90 percent) with forecasting plant production (production adherence to schedule) and shipping complete orders (respondents' mean fill rate is 95 percent). Across the survey population, delivery lead times average five days.

Accenture also sought to understand the nature of high performance when it comes to supply chain planning. What capabilities, in other words, are associated with industry's best supply chain planners?

Toward this end, we identified companies that finished in the top 10 percent of all respondents in cost effectiveness and customer service. We titled this elite group supply chain planning "masters." Those in the bottom 10 percent we labeled "laggards."

As shown in the graphic, the difference between the two groups is dramatic. We then identified numerous noteworthy differences in how the two groups approach supply chain planning.

Mark Pearson is the managing director of the Accenture's Supply Chain Management practice. He has worked in supply chain for more than 20 years and has extensive international experience, particularly in Europe, Asia and Russia. Based in Munich, Mark can be reached at mark.h.pearson@accenture.com

1 Planning masters collaborate with key customers and suppliers. Compared to the general respondent population, supply chain planning masters are better at reaching out to customers and suppliers. Consequently, they excel at integrating planning operations all the way from raw materials to the end customer.

Nearly twice as many masters as laggards tailor their planning processes by product segment. Masters are also more likely to have formal supplier agreements in place and to link financial incentives and penalties to the performance of suppliers. Lastly, masters work harder to systematically leverage customer data in supply chain planning.

	Planning Masters	Planning Laggards
Average inventory turns per year	30	5
Average customer order fill rate	99%	90%
Production adherence to schedule	98%	90%
Forecast accuracy	82%	75%
Average lead time for customer delivery	5 days	9 days
Average throughput time	7 days	15 days

Key supply chain planningmetrics: Masters vs. laggards.

2 Planning masters create dynamic planning models. Masters are exceptional at using up-to-date information and dynamic planning models to respond rapidly to supply chain disruptions and to mute the impact of those disruptions. Masters are also better than laggards at using technology to automatically monitor key events. They also extend that edge by accurately capturing "true" demand data when customers first place their orders.

3 Planning masters excel at demand shaping and demand sensing. Think of demand sensing as predicting what demand will arise, as opposed to simply reacting to incoming orders. Shaping demand, on the other hand, is all about steering customers toward available products and services. Compared to laggards, more than four times as many masters said they can predict demand with greater than 80 percent accuracy levels. And nearly twice as many masters said their ability to shape demand was "good" or "excellent."

4 Planning masters emphasize total product life-cycle planning. The variables noted at the beginning of this article underscore why it's so important for companies to know precisely where their offerings reside along the launch-to-retirement life cycle. Such knowledge can keep companies from over- or under-stocking product, spending too much (or too little) on marketing, and investing too much (or too little) on refinements.

Masters are also better than laggards at using technology to automatically monitor key events.

This is the essence of "total product life cycle planning," a discipline that supply chain planning masters typically pursue with vigor. For example, masters are more likely than laggards to proactively reduce inventory levels of products that are near the end of their lives. However, masters are less likely to base supply chain plans solely on the age of the product.

5 Planning masters create segmented supply chain plans. Segmentation (by product, market/channel, and geography) is an important key to understanding, managing, and shaping customer demand. Masters typically incorporate all three dimensions into supply chain planning. Our survey results show that they surpass laggards when it comes to generating detailed forecasts by product/family and channel as well as incorporating local market intelligence into forecasting and planning.

6 Planning masters are receptive to new technologies, processes and operating models. Masters are way ahead when it comes to investing in planning technology and generating sizeable returns on their technology investments. They're more likely to have centralized supply chain planning departments for all products and channels, and to integrate supply chain planning processes and systems with financial and pricing operations.

Clearly, mastery in supply chain planning is a worthy goal, given its connection to efficiency and service excellence. But how have supply chain masters actually gone about achieving their planning-leadership positions? We'll examine several strategies in the January issue of *Logistics Management*.

NITL EXECUTIVE OF THE YEAR

Remaking the rules with Nick DiMichael

BY **PATRICK BURNSON**, EXECUTIVE EDITOR

As the League's outgoing legal counsel, the 2009 John T. McCullough Award winner has done a great deal of listening. However, his achievements in the regulatory arena speak volumes.

As shippers and carriers work together to rebuild the global economy, the National Industrial Transportation League (NITL) has chosen one of the men behind the legal framework of this monumental effort as its 2009 John T. McCullough Award—an honor also known as the NITL Executive of the Year.

Nicholas J. DiMichael, the NITL's outgoing legal counsel, will be presented the 2009 McCullough at the NITL's 102nd Annual Meeting in Anaheim, Calif., as part of opening ceremonies on Monday, Nov. 16. The annual award, which is sponsored by the NITL and *Logistics Management* (*LM*) magazine, recognizes an individual for achievement and leadership in the logistics and transportation industry. The award is named after John T. McCullough, a former chief editor of *Distribution* magazine, one of the predecessors of *Logistics Management*.

Well known for his compassion and sensitivity to environmental issues, DiMichael advises for a wide variety of other national associations in their transportation matters, including the recycling and scrap industries. In his role as general legal counsel to the NITL, DiMichael has been instrumental in championing the league's revolutionary Ocean Shipping Reform Act (OSRA) in the 1990s as well as forging a 21st century international effort to negotiate a new ocean cargo liability treaty—The Rotterdam Rules.

Work on the Rotterdam Rules began more than10 years ago when it became evident that earlier liability regimes—such as the

**Nicholas J. DiMichael,
Legal counsel, NITL**

> **"The industry will be facing a very different environment in the next two decades that no one has ever realized or has ever experienced before."**
>
> — Nick DiMichael

Hague Rules, approved in 1924 and ratified in the United States in 1936 as the Carriage of Goods by Sea Act (COGSA)—were no longer adequate to take into account today's shipping practices, including containerization, door-to-door transport contracts, and the use of electronic documents.

"Nick played a key role in ushering in this era of relevant rules developed for a new United Nations convention," says NITL President Bruce Carlton. "His experience and deep understanding of the issues within the issues has been an invaluable asset for the League."

In addition to his work with Rotterdam Rules, DiMichael has participated in many major proceedings before the Surface Transportation Board and its predecessor, the Interstate Commerce Commission, as well as proceedings before the Department of Transportation, the Federal Maritime Commission, and related agencies concerned with governing logistics and transportation.

"Given his vast experience and understanding of complex regulatory issues, it comes as little surprise that Nick should win this recognition," adds Carlton.

DiMichael played a major role in recent proceedings related to the hours-of-service rules before the Federal Motor Carrier Safety Administration and in dealings regarding small shipper rate cases before the Surface Transportation Board. Furthermore, he's been closely involved with a ruling concerning non-vessel operating common carriers before the Federal Maritime Commission and was a force in the recent hazardous materials transportation jurisdiction before the Research and Special Projects Administration of the Department of Transportation.

His colleagues at the League call him modest but supremely capable. "He's a good guy, but not one to give up too much at the bargaining table," says Carlton. "When it comes to actually protecting the most vital interests of his constituents, Nick has been a relentless force."

DiMichael, a partner in the transportation practice group of the Washington, D.C.-based law firm of Thompson Hine LLP, spoke with *LM* shortly after learning of the award.

Logistics Management: First, how does it feel to be in such august company?

Nicholas J. DiMichael: It's a great honor, of course, as fellow winners represent years of dedication to the League and its constituents. Being an attorney, it's especially gratifying to know that our legal efforts, which may seem arcane to the general public, are recognized this way.

***LM*:** And chief among those efforts was the role you played in OSRA. Does that seem like ages ago?

DiMichael: Not really, given that it took years to finally get done. For shippers who are new to the business, or have forgotten what the world looked like then, I guess it may not seem like such a big deal. But breaking up the liner conferences and creating a freer pricing market really changed the industry for the better. We at the League are very proud of that achievement.

***LM*:** As you should be. The Rotterdam Rules appear to be almost as transformational. Is that safe to say?

DiMichael: I should say so. For over 10 years, the League has strongly supported maritime cargo liability reforms reflective of modern shipping practices through work with the Organization for Economic Cooperation and Development. We've also worked with the Comité Maritime International on this issue.

Our 2001 Memorandum of Agreement with the World Shipping Council was a big move in representing most maritime liner carriers in the U.S. international trades. Finally, our work as a private industry adviser to the United Nations Committee on International Trade Law's Working Group III was a landmark move.

***LM*:** Much of this work is so complex. How do you communicate with leadership and members to explain this?

DiMichael: I speak with all the committee chairs as well as those on the executive committee. But I certainly don't do all the talking. I'm not a consultant, I'm a legal adviser. So my job is to listen. Then I can help use our legal arm in rule makings, court proceedings, and legislative actions.

***LM*:** With the League's constituent base broadened to include NVOs, 3PLs, and asset-base carriers, how does its mission change, and how does your role change?

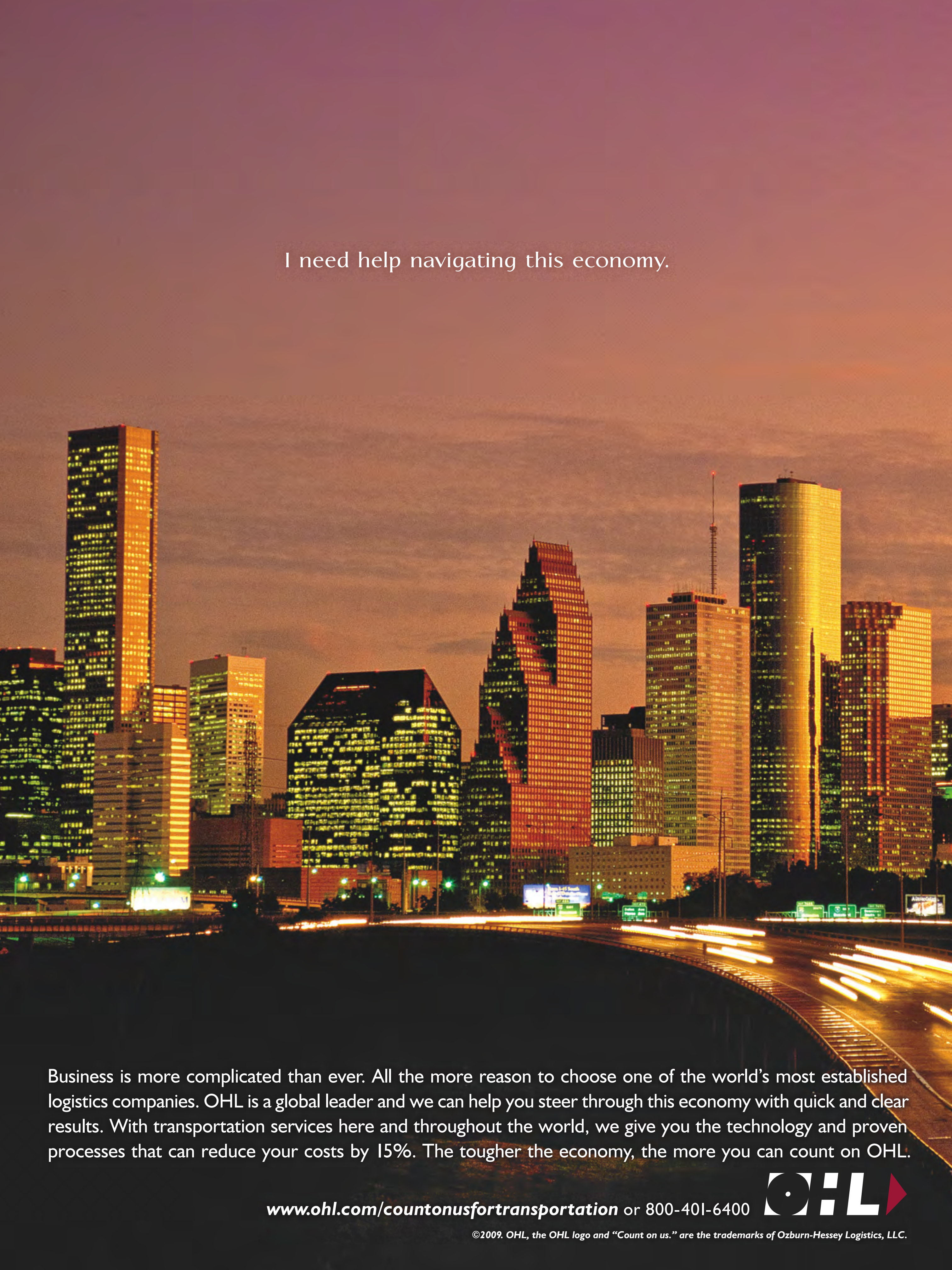
DiMichael: We feel that our mission hasn't really changed, but the way we communicate that mission has. That means a lot more internal communication, too. When we were comprised of just shippers, there was a single stream of information. Now we rely on our committee chairs for a lot more. Our membership surveys are also very useful tools. They give us feedback on the hot issues.

***LM*:** How big an issue is the Railroad Antitrust Enforcement Act of 2009 now being debated in the U.S. Senate?

DiMichael: Very big. If passed, it would empower the Federal Trade Commission to regulate and engage in rail antitrust enforcement regarding collective rate agreements. For our shippers, this remains a controversial subject. But there are other general issues that the League is equally concerned about.

For example, the industry will be facing a very different environment in the next two decades that no one has ever realized or has ever experienced

Opening spread photo by Joshua Roberts/Getty Images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"We are concerned that the transportation infrastructure will continue to lag behind when demand increases. Our highways and rail systems need to be rebuilt. Our seaports and airports have to meet world-class standards."

— Nick DiMichael

before. Transportation capacity has tended to lag behind demand in the past, and that historical pattern is going to be more pronounced in the future.

LM**:** How so? Aren't ocean carriers scrapping vessels? Aren't air carriers furloughing planes?

DiMichael: That's just a tactical trend. In the big picture, there's going to be a huge demand for capacity again, and we are concerned that it won't be there. More importantly, though, we are concerned that the transportation infrastructure will continue to lag behind when demand increases. Our highways and rail systems need to be rebuilt. Our seaports and airports have to meet world-class standards.

LM**:** And that will require more government and private industry spending. Will the economy recover in time to permit that?

DiMichael: Yes, we think so. Many shippers are telling us that we've hit bottom now, and that there will be a slow but steady rebound. Meanwhile, everyone is watching their costs…as they should be.

LM: Finally, what do you see as ongoing trends in transportation?

DiMichael: As tired as this may sound, we expect more and more collaboration among shippers and transport providers. And not just on a domestic level. I'm speaking of a global phenomenon and across all modes. Consolidation will reach a plateau, and the surviving players will make service their No. 1 priority. By the same token, shippers will be making more compromise on some of their demands.

LM: You actually sound very hopeful for the transportation industry overall.

DiMichael: That's part of what the League is all about. We wouldn't be working so hard for so long if we did not believe in what we are doing. This is especially true of the committee chairs. These people just keep giving, and without their desire for making a change I'd have a hard time doing my job. L

THE CASE FOR PRIVATE FLEETS

BY **JOHN D. SCHULZ**, CONTRIBUTING EDITOR

There's no question that private fleets are a large, fixed expense, yet some of the nation's most profitable companies are still operating fleets that deliver on service and hold their own with for-hire competition.

Private fleet managers have heard all the arguments against their very existence: It's a cost center; they're inefficient; fleets eat away corporate profits; we're in the widget business not the transportation business.

"Private fleet justification exercises are a fact of life at many companies—more so perhaps in tough economic times," says Harry J. Haney, III, associate director of logistics operations for Kraft Foods, the $5.3 billion food giant which operates a fleet of more than 2,500 power units. Haney and other private fleet experts say they have become accustomed to justifying their expenses and welcome the challenge.

There's no question that private fleets cost money to operate. And there's little doubt that transportation is more complicated now than it's ever been since deregulation nearly 30 years ago. However, some of the nation's most profitable companies—Wal-Mart, Coca-Cola, PepsiCo, Perdue, among hundreds of others—are still operating private fleets that account for four out of every five trucks in the nation's fleet of nearly four million trucks, according to the U.S. Bureau of Census Commodity Flow Survey.

"It's all about command and control," says Gary Petty, president and CEO of the National Private Truck Council. Petty claims private fleets earn their keep through execution and delivery every single day on the highways. In fact, at $300 billion, private fleets command about 45 percent of the total $680 billion trucking industry, according to the Council of Supply Chain Management Professionals' *2009 State of Logistics Report*.

> **"Private fleet justification exercises are a fact of life at many companies—more so perhaps in tough economic times."**
>
> —Harry J. Haney, III, associate director of logistics operations, Kraft Foods

And there are other reasons private fleets hold their own. Fleet managers insist that their operations allow their companies to stay competitive in today's 24-hour, just-in-time environment where transportation service requirements have never been higher and competition has never been fiercer. Many manufacturers say that they view their fleet drivers as an extension of their sales force, visiting sites every day as the "face of the company."

But that face does come with a price. According to John Larkin, trucking analyst and managing director of Stifel Nicolaus' transportation and logistics group, "Ultimately economics will win out. Private fleets will shrink as more and more shippers outsource their private fleet requirements."

With solid arguments mounting in the private versus for-hire debate, let's take a look at how some of the nation's top private fleets have re-invented themselves to navigate through the worst trucking environment in more than 30 years. Who knows, it just may be worth being in the transportation business, too.

EARNING THEIR KEEP

In this weakened economic climate, private fleets have been under pressure to innovate and expand their service offerings. Some companies operate a blended fleet of both private and for-hire carriers, switching back and forth depending on economic conditions. Others are active in the backhaul markets, often turning a profit on providing for-hire services to aligned industries.

Even representatives of trucking's for-hire sector say they admire how today's private fleets are constantly fine-tuning their service menu to help cover costs and justify their worth.

"My personal opinion is that the private fleets out there today are pretty well run these days," says Jim Van Hefty, vice president of commercial development, dedicated, for Schneider National, a 25-year company veteran whose aim is to offer services that most often mirror a private fleet. "Many of those well-run fleets are investing in continuing education, looking for ways to improve, getting the right backhauls, and treating their drivers right. In short, these are the ones who have it figured out."

Many of these new efforts are being executed by a younger generation of fleet managers who are being asked to run private fleets in a way never seen before, such as operating as a for-hire carrier en route to garnering profitable backhauls.

For example, Indiana-based Batesville Casket Co. earned $1.1 million of its total $2.95 million in backhauls from outside companies last year. "Thanks to that influx of revenue the company was able to ride out the recession very well," says its central dispatch manager Duane Miner. He adds that it's a challenge to manage such a large backhaul operation, but it's been very successful on some lanes, especially in and out of Texas where there is a large backhaul opportunity.

Kraft Foods is among the many private fleets that are proving their worth by simply providing better service and lower cost than what's available in the for-hire marketplace. "That's true in all economic situations, but it's especially the case today where tight consumer purse strings make service and cost all that much more important," says Michael Cole, director of transportation for Kraft Foods North America. "Our fleet continues to help us meet all those new challenges in many ways."

According to Cole, one way is through flexibility in handling short lead time orders to ensure products arrive on time. "Another is an ongoing focus on reducing the size of its trailer pool," he says, adding that Kraft recently implemented new trailer tracking technology to help manage its trailers more efficiently.

"This tracking has sustainability benefits as well," says Cole. "By continuously monitoring trailer status we can ensure trailers are turned promptly and not left loaded with the refrigeration unit running."

THE GREEN FACTOR

Green initiatives like this are also playing a role in the evolution of private fleets and the value they're bringing to organizations. Many managers are fine-tuning their routes, cutting empty miles, reducing their carbon footprints and offering a more "sustainable" service that they say can't be equaled by for-hire carriers.

For example, Kroger has reduced its fleet's top speed to 62 mph and is reducing the weight of its trucks by nearly 1,000 pounds as part of its sustainability initiative. Kroger says it hopes to be able to reduce its total overall miles by 2 percent by the end of next year on the way to saving 1 million gallons of diesel.

Kroger is also redesigning its freight network in and out of its 41 food processing plants by using routing software that's enabling the company to combine loads and improve backhaul opportunities.

Kraft Foods is among the private fleets using several EPA-approved SmartWay recommended practices and technologies. These practices include using auxiliary power units to reduce idling, employing "smart reefer" refrigeration units, and using more 53-foot trailers. Coles says Kraft is testing several other technologies and practices including trailer side-skirts, nitrogen-filled tires, low rolling resistance tires, and oil filtration systems to boost miles per gallon.

"We are also very proud to have been the first to introduce a hybrid direct-store delivery vehicle for frozen and refrigerated products," Cole says. "Our customers clearly understand the need to operate in an increasingly efficient and environmentally responsible manner because they face similar challenges in their own organizations."

New tool to assess your private fleet

Private fleet managers now have a new Internet-based tool designed to track their performance. Called the Private Fleet Assessment Program, the tool was launched by the National Private Truck Council (NPTC), Optima Associates (a continuous improvement consulting firm), and Schneider National, the nation's largest for-hire truckload carrier.

Its creators say that the program is the next generation of the NPTC's annual benchmarking study currently used by private fleet managers to gauge their cost effectiveness and overall operational excellence.

"While each fleet has its own performance characteristics, there are common dimensions influencing the outcomes and success of each fleet," says Gary Petty, president and CEO of the NPTC. "The idea behind the program is to enable transportation planners and fleet owners to find best practices and customized suggestions for improvement for their individual fleets."

The Private Fleet Assessment Program uses "Eight Pillars" of scoring: safety and fleet organization; network planning; customer management; fleet management; information management; driver management; continuous improvement; and financial management.

Fleet managers enter key operating information at the Optima web site and assess their performance against more than 40 qualitative and quantitative attributes. Fleet performance is scored against world-class standards that were derived from hundreds of industry benchmarks. Fleets receive reports comparing their performance to world-class standards and a set of detailed recommendations to help improve performance.

In addition to identifying opportunities for improvement, Petty says the model can also provide a sliding scale of the impact of proposed changes—the "what-if" scenarios that have been too complex to thoroughly consider until now.

NPTC members can access the basic-level assessment free. A more complete assessment is available for a fee.

—John D. Schulz, Contributing Editor

THE ROAD AHEAD

So what's ahead? For sure, there's uncertainty and higher operating costs coming down the pike. There could be an increase in the federal tax on diesel fuel on the way as well; but there could also be the long-awaited economic rebound. In fact, that recovery could end up putting further pressure on some private fleet operations.

"When the new normal does come," Schneider's Van Hefty says, "I believe we'll find that there's a tremendous amount of driver capacity that's left the industry. Once they leave, they don't come back. Add demographics and normal retirements, and I firmly believe we will be sitting here 12 or 18 months from now and people will be clamoring for capacity. It's going to be one of those big surprises nobody is expecting."

So, considering all these elements, is it worth operating a private fleet? Yes, say managers and private fleet advocates, as long as the service levels provide a differentiating value to the company that cannot be matched by using common carriage.

The challenge, private fleet managers say, is staying on top of what can be a challenging transportation matrix. Transportation is more than simply moving product from Point A to B. It is managing a complex web of ever-changing options. Good private fleet managers say they welcome the challenge, and the overall value provides proof of and justification for their worth on a daily basis. L

John D. Schulz is a Contributing Editor to Logistics Management

FINE-TUNING YOUR SECURITY STRATEGY

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

Few corporations fully understand all of the risk management assistance that's now available. To make this task a little easier, our customs expert offers a brief update of emerging technology, organizations, and best practices that every security-minded supply chain professional should know.

The evolution of cargo security standards within international supply chains has brought with it the development of many best practices programs. The United States is leading the way with its Customs-Trade Partnership against Terrorism (C-TPAT) program, while other countries around the world are now joining in with similar initiatives such as the European Authorized Economic Operator (AEO) and Canada's Free and Secure Trade (FAST).

In all cases, these programs seek to provide guidelines on the protection of freight as it moves from one country to another. But at the same time, these programs must strike a balance between commerce and the flow of goods and the need for stronger security measures that inevitably slow that process.

Participants, particularly shippers, receive benefits that improve the flow of commerce upon arrival at a U.S. port. In many cases, it moves them to the head of the line for both clearance and exam requirements. Service providers benefit from the marketing advantage of participating in security initiatives, as it improves their ability to support the shipper through customs and creates more of a business partnership.

Maintaining cargo security programs remains a challenge for most firms as the guidelines require the input of many departments within the firm—from HR and IT to supply chain and security personnel. This challenge is enhanced during economic strife, as resources are scarce and the benefits of updating the program are not seen as immediately affecting the bottom line.

Furthermore, immediate attention is being levied on the pending implementation of ISF—or 10+2 data elements—which requires time and money, leaving the maintenance of cargo security programs at a disadvantage. However, for firms

developing or maintaining a cargo security program, knowing where to turn for the latest resources to support a strong security base is now absolutely critical.

It's no secret that exploring the new technology and software available today requires time for research and follow-through, yet few corporations break the mold by offering support to key concerns within their own organizations to fully understand all that's available. To make this task a little easier, here's a brief update on some of the emerging technology, organizations, and best practices that every security-minded supply chain professional should know.

With ransom of up to $3.4 million paid per vessel, and the cost of insurance in high risk areas skyrocketing or unavailable, 24/7 security can provide an effective way to ship through areas of concern.

RISK MANAGEMENT AND ISF RESOURCES

New developments in technology have sought to decrease the effort needed to maintain and monitor international supply chains. One program shippers should become aware of is C-TPAT Connection Inc., a group that offers assistance in both securing the supply chain while collecting the much needed data for 10+2 or ISF filing.

C-TPAT Connection Inc. offers corporations the ability to collect supply chain security data on business partners worldwide and give shippers an immediate feedback mechanism regarding their "risk" as a business partner for meeting C-TPAT and FAST guidelines. The difference between this program and related programs is its ability to capture data in six different languages, making worldwide partners more capable of providing information and remaining engaged for long-term security improvements.

In short, this group allows participants to email questionnaires to their business partners around the world. Responses are translated back into the sender's language and an immediate risk assessment is provided, mirroring the Customs and Border Protection (CBP) color security rating now in effect in the United States. In addition, the program captures ISF filing data and allows users to download the information into spreadsheets for sharing with ISF filers (www.c-tpatconnection.com).

ANTI-PIRACY PROTECTION

For companies moving product in international waters preyed upon by pirates, the newly introduced SEAL Security Solutions, a Houston-based firm managed by a team of former marines, logistics professionals, and former military personnel, offers corporations cost-effective programs to prevent merchandise from being stolen in route.

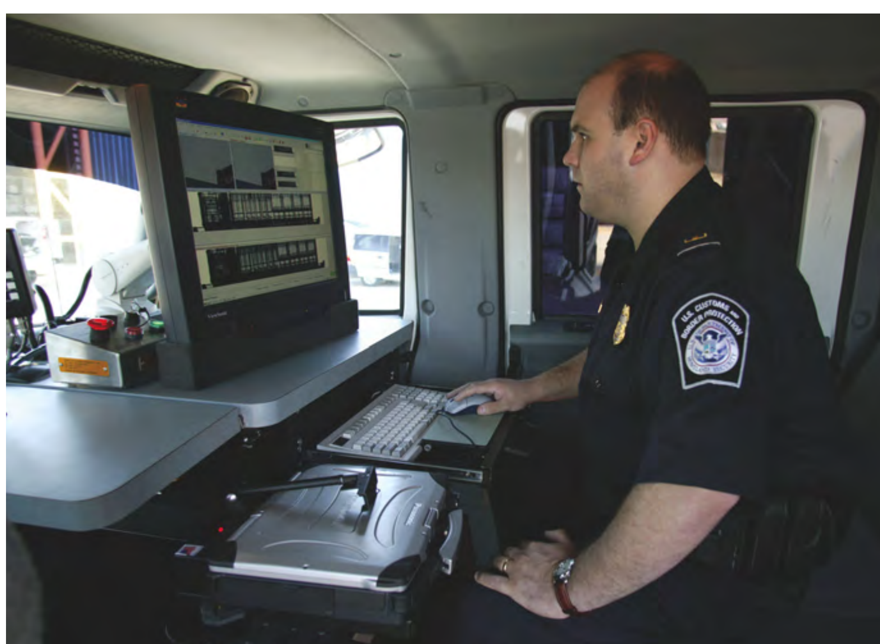
SEAL has formed an alliance with the Sharaf Shipping Agency, a Dubai-based group that specializes in arranging for the movement of supplies to and from vessels. Together, these two firms provide vessel owners and shippers a highly trained security team comprised of people and assault dogs to provide around-the-clock observation with advanced optics and technology. With a 24/7 patrol team on deck and a tactical leader with radio communication, they aim to prevent pirates from boarding a vessel.

These security teams are available at strategic ports in areas of high piracy. With ransom of up to $3.4 million paid per vessel, and the cost of insurance in these areas skyrocketing or even unavailable, this service provides a cost effective way to ship through these areas of concern. Furthermore, it provides peace of mind to ship workers whose lives are at risk in these situations.

RFID UPDATE

For firms focused on security issues tied to tracking and tracing product, the updated electronic seal, also known as an "e-seal", provides the technology required to monitor shipments from origin to destination.

Regulations in some industries require a traceability element, especially in the food and pharmaceutical



Using RFID capabilities, shippers will not only be able to track a shipment, but they'll also be notified when the security of a container has been breached.

The updated electronic seal, also know as the e-seal, provides the technology required to monitor shipments from origin to destination.

industries. Using RFID capabilities, shippers will not only be able to track the shipment, but they'll also be notified when the security of the cargo has been breached.

The U.S. Department of Defense will soon be using RFID tags, having recently purchased $6.6 million in RFID products from Savi Technology, a unit of Lockheed Martin. Savi is a founding member of the DASH7Alliance, a broad coalition of technology developers, manufacturers, test laboratories, and government organizations whose goal is to expand the commercial use of wireless sensor networks.

Look for RFID technology to soon be implemented in Munich International Airport, as the Wi-Fi RFID and GSP capabilities will be united via a tag that will be affixed to all passenger baggage dollies. This technology will allow the airport to begin monitoring its assets—and ensure that it's charged cargo companies appropriately for their use.

BEST PRACTICES

While the advances in technology will outline an easier path for monitoring security breaches, cargo security best practices still require a strong foundation of fundamental programs.

Developing and maintaining the minimum standards of C-TPAT means a corporation must first focus on threat awareness and then identify and prioritize the vulnerabilities in its supply chain. From there, it's essential to develop a multidisciplinary team that's focused on cargo security standards and trained to work together to target and reduce risk.

These are two basic steps a corporation should take before embarking on additional enhancements in supply chain security. At that stage, the need to embrace a continuous cargo security improvement plan is critical, as these programs tend to remain stagnant when they don't produce results or boost the bottom line.

From a government-to-government point of view, this means developing true global standards that are capable of thwarting terrorist threats and adaptable by all corporations internationally. Customs agencies worldwide must be aligned for greater sharing of data and resources and develop a more trustworthy approach to confidentiality that will encourage greater participation in government-to-business programs.

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

Container Security: What works? What doesn't?

EDITOR'S NOTE: LAST MONTH WE ASKED our security technology expert Jim Giermanski to define the four categories of container security technology currently in use in today's global supply chain. In fact, that feature became the most read feature online during the month of October. We decided to offer a short expert below, but if you'd like to read the feature in its entirety go to logisticsmgmt.com/security.

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.

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.

By Jim Giermanski, Chairman, Powers Global Holdings Inc.

WMS: THE BIG SQUEEZE

BY **BRIDGET MCCREA**, CONTRIBUTING EDITOR

Users rarely wring out all that a warehouse management system has to offer. In fact, it may be one of the most underutilized tools you have. Here are several ways to put your WMS to better use to improve overall operations inside the four walls—and beyond.

Warehouse management systems (WMS) play a key role in the supply chain, but—like many other types of software—are frequently underutilized by the logistics professionals who invest in them. They can control basic functions like shipping, receiving, put-away and picking, but did you know that WMS can also help shippers attain 10 to 15 percent productivity improvements by simply adding a new piece of hardware or wireless device to the mix? That's right. By uncovering the top layers and digging down deeper into their WMS' capabilities, shippers can realize benefits that far exceed their initial expectations.

ILLUSTRATION BY DANIEL GUIDERA

Calling WMS a "billion-dollar market," Steve Banker, director of supply chain solutions for ARC Advisory Group, says demand for such systems has grown steadily over the last decade, namely due to the significant and expedient return on investment that WMS typically provides. "The payback for WMS is highly reliable," says Banker, "and usually takes two years or less."

That reliable payback period has driven many shippers to adopt WMS. In fact, Greg Aimi, research director at AMR Research, calls WMS a "mandatory system" that, once installed and running, rarely requires changing or upgrading. But that doesn't mean there aren't ways to extract more productivity and efficiency out of an existing system. In fact, there are several ways to put a WMS to better use within the four walls of a warehouse—and beyond.

DON'T TAKE WMS FOR GRANTED

It's not unusual for Bob Heaney to come across logistics managers who are not taking full advantage of the features and functions of their supply chain software, especially WMS. After installation and setup, and with the basic functionalities up and running, the software handbook is tossed aside and management takes for granted the fact that the system is being used to its fullest potential.

> **"There definitely tends to be 'under-adoption' of the technology that's already in place…Many times this happens because more training is needed, or the software's functionality requires a specific hardware solution that's not in place."**
>
> **—Bob Heaney, Aberdeen Group**

"There definitely tends to be 'under-adoption' of the technology that's already in place," says Heaney, senior research analyst for supply chain management for Aberdeen Group. "Many times this happens because more training is needed, or the software's functionality requires a specific hardware solution that's not in place."

Consider, for example, the manufacturer who's using a WMS equipped with real-time, paperless picking functionality. The capability would work well in an environment where RF technology (the hardware enabler in this case) has already been deployed and is in use, but would fall into the unused category at a company where that technology was lacking. "This is just one example of the gap that exists between software functionality and hardware capability," says Heaney. "Such gaps can prevent a shipper from taking its WMS to the next performance level."

To avoid such disconnects, Heaney advises shippers to understand exactly what their current WMS offers in terms of functionality and to look deeper into their hardware capabilities to figure out if those WMS functions are usable. "If you don't have the hardware in place," he says, "consider whether it would make sense to invest in that hardware in order to leverage those software capabilities for your particular operation."

Proper training is another key consideration for companies looking to max out their WMS investments. A workforce that's not up to speed on the functionalities of the software and how to use them, he says, can quickly undermine the software investment by not using it to its fullest potential. "Providing proper training," says Heaney, "and helping users understand the system's capabilities can be a gold mine when it

SCE/WMS Software: Not just for warehousing anymore…

Source: AMR Research

Progression of supply chain proficiency

> **"Give workers electronic mobile computers to work with and the amount of moving around they have to do will be reduced significantly, with work being sent to them right where they are."**
>
> —Greg Aimi, AMR Research

comes to maximizing a WMS."

While the benefits of training may seem obvious, they often fall by the wayside once a system gets up and running. "When you bring in a new system, it's important that people understand how to properly utilize it to its capacity and that they are trained to do it in a way that helps you realize the full benefit of the deployment," says Heaney. "To keep those benefits coming requires extensive employee training, but the payback can be significant when your workforce is equipped to leverage the WMS in a way that achieves maximum potential."

CONNECT THE DOTS FOR OPTIMIZATION

But there's more to maximizing your WMS than just training. Within a warehouse's four walls, Heaney says shippers who connect the dots between their various operations and the WMS' ability to control those operations are typically the ones who get the most out of their technology investments.

Users can do this, says Heaney, by looking carefully at the space where the WMS is deployed and making sure that you're using a best practices approach across the board—and not just in specific areas.

For example, if you're using RF-enabled paperless picking try combining it with paperless replenishment and confirmation, or directed put-away, to create a more streamlined process. This holistic approach will ensure that specific WMS capabilities don't get ignored and underutilized.

"Make sure everyone is using the best possible methods for moving and tracking product through the warehouse," says Heaney, who estimates a 10 to 20 percent productivity improvement for shippers who follow his advice and you'll avoid the issue of partial deployment that many companies find challenging.

Aimi sees shippers making the most obvious WMS mistakes with slotting, or the practice of repositioning product in a warehouse to reduce the distance that product and pickers must travel. By maximizing a WMS' slotting function and moving to electronic and RF systems, Aimi says firms can significantly cut down on that travel time for every item, thus increasing the speed at which those products move.

Like Heaney, Aimi sees RF as a major enabler for shippers attempting to eke more out of their existing WMS. "Give workers electronic mobile computers to work with," says Aimi, "and the amount of moving around they have to do will be reduced significantly, with work being sent to them right where they are."

When hooked into an existing WMS system, technology like voice and other hands-free applications can also be liberating for warehouse workers who were previously tethered by paper, faxes, and phone lines. In certain environments, says Aimi, such investments not only result in productivity gains, but also safety improvements for the workers and the company itself.

"The individual who is picking product in a cold environment like a freezer may have a hard time punching numbers into a machine," Aimi explains, adding that 10 to 15 percent productivity improvements are common with such upgrades. "Instead of cutting the fingers off their gloves, they can use hands-free, voice-enabled devices to get the job done faster and more safely"

ADD HARDWARE, EXPLORE ALL CAPABILITIES

If maximizing a WMS were easy, everyone would be doing it, and we wouldn't be writing this article. In fact, any technology investment requires a long-term approach that includes not only milking the most functionality out of the system itself, but also ensuring that you have the proper hardware in place to support it and an optimal level of training for the individuals who are using it.

This balancing act isn't always easy to achieve, but it's one that pays off over time. As both Heaney and Aimi point out, shippers can often reap 10 to 20 percent in productivity improvements by simply adding a new piece of hardware to the mix, or by applying best practices across one or more areas of the warehouse itself.

Banker says those percentages can be increased over time by shippers who may not have initially wanted all of the bells and whistles associated with the WMS, but who choose to add them over time. "Many times companies are on a deadline to get the WMS up and running," says Banker, "so they skip some of the functionalities in favor of getting those deadlines met."

Consulting with the WMS vendor and/or having your IT team explore any unused capabilities can lead to unexpected efficiencies that require little time or money investments. Ideally, says Banker, that exercise will be handled in-house. "Have a handful of people on staff who understand the WMS functionalities and who can continue to configure the system and get more out of it with minimum involvement from the company you bought it from," says Banker.

Using that strategy, shippers can break out of the complacency mold and continue to reap the benefits of their WMS long after the initial money and time is invested in the systems.

But getting there requires management buy-in, according to Heaney, who advises logistics managers to hone in on the fast ROI and significant rewards associated with WMS when requesting resources for such projects. "WMS is an investment that can stand up to any challenge and allow you to move your operations to a higher level," says Heaney. "Who can argue with that?" L

Bridget McCrea is a Contributing Editor to Logistics Management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2009 WAREHOUSE/DC OPERATIONS SURVEY RESULTS:

CHEAPER LEANER GREENER

BY **MAIDA NAPOLITANO**, CONTRIBUTING EDITOR

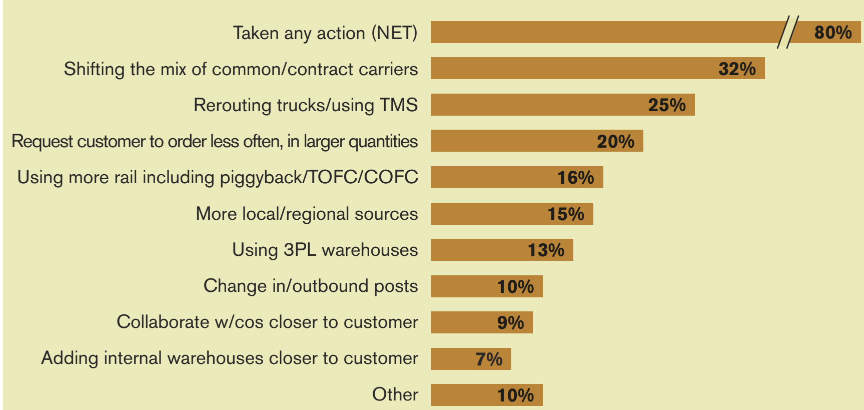
The results of our 4th annual Warehouse/DC Operations Survey reveal that warehouse and distribution decision makers are shifting from an outward strategic focus to an internal tactical focus, adopting a lean, green culture while continuing to cut costs across the board.

Like most business sectors, warehousing and distribution operations have taken quite a hit in this economic downturn. In fact, *Logistics Management*'s 4th annual Warehouse/Distribution Center (DC) Operations Survey reveals that the industry continues to hunker down and look internally for ways to cut costs as businesses cope with low consumer demand and overcapacity.

A quick look at this year's high-level findings paints a pretty complete picture of the current environment. For example, inventory turns decreased from a high of 9.86 in 2008 to 8.04 in 2009—an 18 percent drop. On top of this precipitous plunge, many warehouse and distribution managers told us that they're deferring expansion plans, freezing incentive programs, and re-examining transportation strategies to stabilize their operation. On the brighter side, however, the "leaning and greening" of DCs continues to gain ground dramatically, as managers work on getting their operations in shape for when the economy does recover.

Despite the tough sledding, warehouse and distribution managers were eager to share the details behind their operations. In fact, this year our study received a record 887 responses—up 16 percent from 2008. Eighty-eight percent of respondents ranged from CEOs to upper-level managers who are all personally involved in decisions regarding their company's warehouse and DC operations.

Actions taken to offset increased transportation/fuel costs



Source: *LM*'s 2009 Warehouse/DC Operations Survey

Most of the participating companies hail from manufacturing (41 percent), followed by distributors (28 percent), third party providers or 3PLs (14 percent) and retailers (11 percent). We also had another healthy mix of industries represented, with food and grocery (13 percent), general merchandise (9 percent), pharmaceutical and health care (8 percent), and electronics (8 percent) leading the types of products being handled in participating facilities.

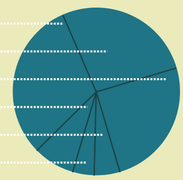
Over the next few pages we'll detail what the DC network of 2009 looks and acts like. We'll then highlight significant operational changes, technological trends, and investigate the status of "green" initiatives and other supply chain improvement processes that today's warehouse and DC mangers are taking to get their operations tuned up for the inevitable upturn.

Profile of today's distribution network I

Typical profile
Global area of service
Total people employed: **Greater than 300**
Number of SKUs: **1,000 to 2,400 SKUs**
Annual inventory turns: **3 to 4.9**

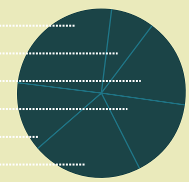
Area of service

Global **31%**
Multi-state region **27%**
Entire U.S. **25%**
Single metro area **8%**
Western hemisphere **5%**
"Half" of the U.S. **4%**



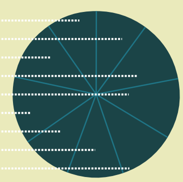
Number of employees

Greater than 300 **25%**
200 to 299 **8%**
100 to 199 **17%**
50 to 99 **15%**
25 to 49 **13%**
Less than 25 **21%**



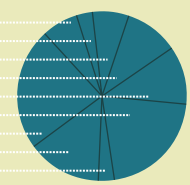
Number of SKUs

>50,000 **10%**
20,000 to 49,999 **10%**
10,000 to 19,000 **12%**
5,000 to 9,999 **12%**
2,500 to 4,999 **12%**
1,000 to 2,499 **13%**
500 to 999 **10%**
100 to 499 **11%**
99 or less **11%**



Annual inventory turns

24 or greater **7%**
18.0 to 23.9 **3%**
12.0 to 17.9 **7%**
9.0 to 11.9 **10%**
7.0 to 8.9 **11%**
5.0 to 6.9 **21%**
3.0 to 4.9 **23%**
1.0 to 2.9 **14%**
Less than 1.0 **3%**



Source: *LM*'s 2009 Warehouse/DC Operations Survey

HIGH-LEVEL FINDINGS

Despite a few results that go against the grain, Scott Pribula, principal and market sector leader with TranSystems, a consulting firm specializing in transportation and supply chain services and *Logistics Management*'s partner in the survey, notes that the results reconfirm how companies have a number of good intentions, primarily to improve their supply chains, yet they don't want to invest the capital needed to get there.

"The percentages of paper-based, manually driven, conventional operations remain basically unchanged from previous years, indicating that only a very few are investing in new technologies, automation, or new information systems upgrades," says Pribula. And while interest in new systems may be high, Pribula concludes, "Everyone wants to get on the bandwagon, but nobody wants to pay to get on it."

Don Derewecki, assistant vice president with TranSystems, agrees. He adds that the results show that there's presently a pervasive atmosphere of cost-cutting where managers are watching every penny. "You have to have very solid justifications on anything that you're spending in terms of getting a return on that investment. You can't just say 'it improves customer service.' That's not cutting it anymore."

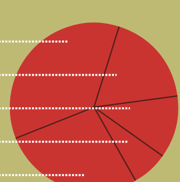
Instead, the majority of managers are now more focused internally, searching for ways to make their operations less expensive to run. Most are obviously still feeling the sting of high fuel prices, because reducing transportation costs remains an action item for 80 percent of our survey participants (page 42).Most (32 percent) report shifting the mix of common or contract carriers to keep a lid on

Profile of today's distribution network II

Typical profile
Distribution network made up of **one building**
Total area of network: **100,000 to 249,999 square feet**
Most common clear height: **20 to 29 feet**
DC supports a **manufacturer**

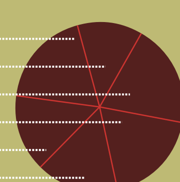
Buildings in distribution network

1 building **36%**
2 buildings **18%**
3 buildings **12%**
4 buildings **7%**
5 or more buildings **27%**



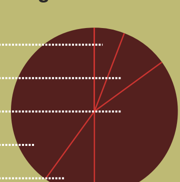
Size of network in square feet

>1M **19%**
500K to 999K **13%**
250K to 499K **20%**
100K to 249K **19%**
50K to 99K **16%**
<50K **15%**



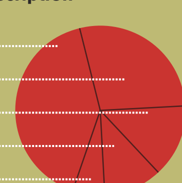
Most common clear height in feet

Over 50 feet **6%**
40 to 49 feet **9%**
30 to 39 feet **35%**
20 to 29 feet **40%**
<20 feet **10%**



Company description

Manufacturer **41%**
Distributor **28%**
3PL **14%**
Retailer **11%**
Other **6%**



Source: *LM*'s 2009 Warehouse/DC Operations Survey

costs. Twenty-five percent are re-routing company-owned trucks to improve the efficiency of delivery routes using a transportation management system (TMS). Some (20 percent) are asking customers to order less frequently, but in larger quantities.

When it comes to supply chain improvement processes, the adoption of a "lean" culture continues to increase significantly—from 30 percent in 2008 to 39 percent in 2009. According to the findings, respondents are turning to lean programs to introduce opportunities to reduce or eliminate non-value added steps and waste in an operation.

Green initiatives are also on the up and up. Ninety percent of respondents say they are implementing at least one green initiative, up considerably from 75 percent in 2008. Pribula believes that the surge to be green is in part driven by companies recognizing that it's a low-cost, easy-to-adapt program that will make it less expensive to run facilities in the network.

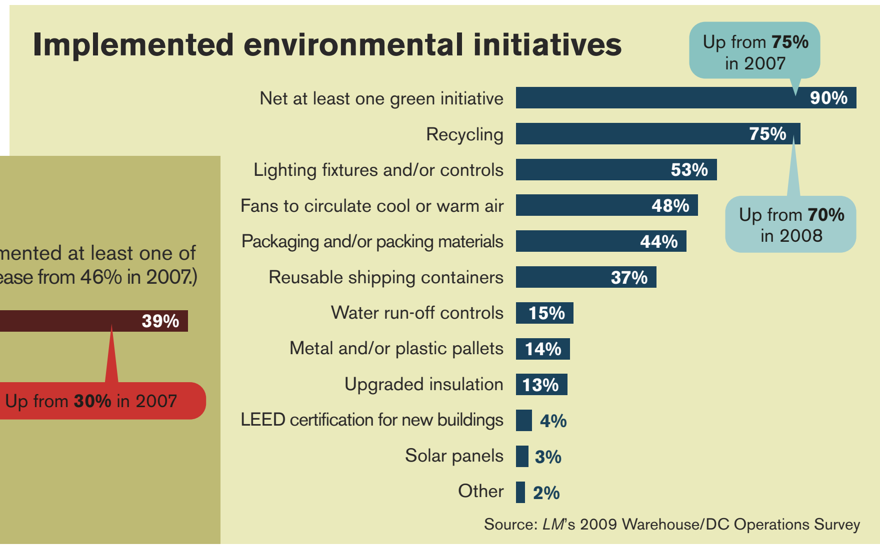
Topping the list of green initiatives is recycling, which experienced a 5 percent increase from 2008.

PROFILE OF 2009 DC NETWORK

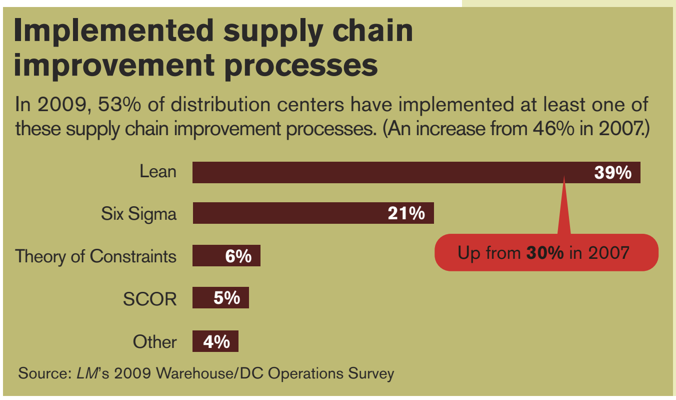
The physical profile of this year's DC network is almost unchanged from last year. Most networks (66 percent) are still made up of three or less facilities with many (36 percent) still operating with just a single facility. Typical building size remains between 100,000 to 249,999 square feet with clear heights of 20 to 29 feet.

Pribula speculates that the high occurrence of networks with five or more buildings may very well be in direct response to businesses attempting to not only increase customer service but to control highly volatile transportation costs by locating more DCs closer to customers. "We've seen a continuing trend toward the addition of smaller facilities closer to the end-user to reduce transportation costs."

About 57 percent of respondents say they handle less than 5,000 SKUs—virtually the same as 2008. At the other end of the spectrum, about 10 percent still handle well over 50,000 SKUs. Derewecki believes that one of the drivers of low inventory turns may be the excess in SKU assortment. "Everybody's stuck with these slow-moving products that they haven't gotten out of their system yet."



Source: *LM*'s 2009 Warehouse/DC Operations Survey



Source: *LM*'s 2009 Warehouse/DC Operations Survey

THE NATURE OF OPERATIONS

Most DCs (59 percent) remain a combination of full-pallet, full-case, and split-case inbound-to-outbound operation. According to Derewecki, this continued drive toward split-case distribution, with many customers ordering more frequently and in fewer quantities, has only made matters worse for some operations.

"Many don't have the proper workstations and the proper information systems

What has been the most significant change in your distribution center operations over the last three years?

Change in business processes	*"Moving closer to our customer base"*
Costs of doing business	*"Focus on cost control in order to maintain margin and provide additional value to clients"*
Economic losses/change	*"Considerable drop in business has reduced the workforce by 40%." "Increased responsibilities across fewer employees."*
Green/environmental issues	*"Green efforts that save bottom-line dollars while helping the environment."*
Supply chain initiatives	*"Implementation of lean and Six Sigma techniques and development of a lean culture."*
Incentives	*"Under current economic conditions, Employee Recognition Programs are on hold"*

Source: *LM*'s 2009 Warehouse/DC Operations Survey

> **"The percentages of paper-based, manually driven, conventional operations remain basically unchanged from previous years, indicating that only a very few are investing in new technologies, automation or new information systems upgrades...Everyone wants to get on the bandwagon, but nobody wants to pay to get on it."**
>
> —Scott Pribula, TranSystems

support, thus making the receipt of split-case quantities more difficult than it really needs to be," says Derewecki, adding that although a highly sophisticated system is not a requirement, planning for split-case operations is essential.

This year's survey also revealed a significant decrease in the percentage of product received in only "full-pallet" quantities, from 17 percent in 2008 to 13 percent in 2009. Pribula attributes this to shippers wanting to fully utilize the cube of a tractor trailer by filling any empty space with full or split cases. Some respondents reported a shift from loading only full pallets into trailers to floor-loading trailers with full cases.

Even more DCs are implementing some kind of value-added services (VAS). This has increased from 80 percent in 2008 to 84 percent in 2009. Most VAS operations continue to include some sort of special labeling (56 percent), followed by the assembly of promotional packs (35 percent).

On the labor management side, this year we found that incentive programs, for the most part, have been curtailed. Results show that 33 percent of respondents are no longer offering any incentives—that's up from 27 percent in 2008. For those who are still giving incentives, additional pay or some kind of monetary bonus remains the most popular choice. "Be happy you have your job," says Derewecki. "These days it seems like that's the best incentive."

TECHNOLOGY/WMS IN A HOLDING PATTERN

While the number of users of full-featured warehouse management systems (WMS) and basic WMS has been decreasing over the years—from 74 percent in 2008 to 58 percent in 2009—there is however a slight increase (1 percent) in the use of ERP as a WMS. "Although I don't necessarily agree with it, companies will typically put the ERP system in first then adapt a WMS out of it," says Pribula."It doesn't surprise me that we see that happening in this survey."

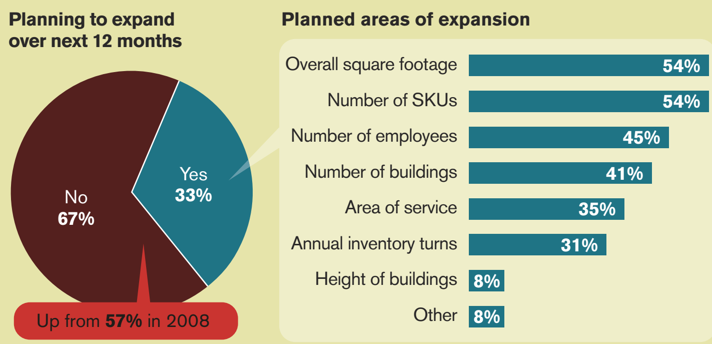
Derewecki agrees. "When companies converted their entire business to SAP, for example, top management frequently pushed warehouse and DC managers to adopt SAP's WMS functions and learn to love them."

This year's findings echo last year's on the topic of technology employed in picking and overall materials handling systems. The key takeaway is pretty straightforward: If an operation was paper-based in 2008, it's still paper-based in 2009. If they had foregone mechanization last year, it's clear that there are very few plans for buying a single conveyor this year.

More than 70 percent of respondents still do conventional receiving, picking, and storage. Sixty percent still pick orders using paper pick tickets. And even though paperless technology has been commonly used for over 20 years now, it's obvious that many still don't want to take that leap. The capital expense of shifting to a paperless system remains a huge hurdle that management is not willing to take—especially in this economic climate. Derewecki adds, "When we talk to clients about implementing technology in this economy, many of them would say we want to do this, but there's just no budget to do anything," he says.

The very few who did go paperless opted for radio frequency (RF) with scan verification (43 percent, up from 41 percent in 2008) over light-assisted and voice-assisted picking technologies, which both took slight dips.

Likelihood of expansion in the next 12 months



Source: *LM*'s 2009 Warehouse/DC Operations Survey

LOOKING AHEAD

In 2009, 67 percent of respondents said they were not planning on any expansion in the next 12 months—that's 10 percent more than last year. On the flip side, there are those lucky 33 percent that are expanding by increasing square footage (54 percent) and/or increasing their SKU offerings (54 percent).

Still, it's evident that much of the warehousing and distribution industry continues to be mired in today's economic doldrums. Derewecki urges companies to be in a position to react quickly. He counsels managers: "Have your plans in place, so that when the economy does turn around your competitors don't leave you behind, putting yourself at a competitive disadvantage."

Maida Napolitano is a Contributing Editor for Logistics Management

Q4Q IN REVIEW

BY *LOGISTICS MANAGEMENT* STAFF

Celebrating achievement at the

For more than a quarter century now, *Logistics Management*'s (*LM*) Quest for Quality has been regarded in the transportation and logistics industry as the most important measure of customer satisfaction and performance excellence.

To determine the best of the best, *LM* readers rate carriers and third-party logistics (3PL) companies strictly on the basis of service quality; and those winners are listed, by category, in our August issue. This year 6,485 logistics and supply chain decision makers cast their vote and selected 115 providers of transportation and logistics services to receive the ultimate vote of confidence—a coveted Quest for Quality Award.

This year, the winners accepted their prestigious awards at the 26th Annual Quest for Quality Awards dinner at the Intercontinental Hotel in Chicago. Nearly 170 attendees enjoyed a night of celebration and entertainment—well-deserved, as these savvy carriers and providers maintained the highest level of service in what proved to be one of the most challenging operating environments the logistics industry has ever seen.

This year's event was held at the Intercontinental Hotel in Chicago. Located in the historic "Magnificent Mile," the 170 guests attending the Quest for Quality Awards dinner enjoyed the enchanting atmosphere in the heart of the Windy City.

26th Annual Quest for Quality...

The FedEx table

...Awards on September 23rd, 2009 at


Larry Miller accepts for FedEx frieght


Tim Engle accepts for Sea Star


Bill Merda accepts for Southwest Airlines


Don Maltby accepts for Unyson

the Intercontinental Hotel in Chicago

Nearly 170 guests celebrated another year's worth of terrific achievement, networked with industry peers, and enjoyed a night of fun—including comedian Tom Ryan—at the 26th Annual Quest for Quality Awards dinner.

Logistics MANAGEMENT

Freight Forwarders BRACE FOR CHANGE

In an otherwise troubled economy, some U.S. shippers are heartened by the fact that the weak dollar has meant more revenue return on exports. Domestic freight forwarders should be happy, too; but in the global arena the fight for middleman "market share" is more heated than ever.

By Patrick Burnson, Executive Editor

According to *Global Freight Forwarding 2009*, the recent report compiled by London-based Transport Intelligence Ltd. (Ti), this dynamic sector "is in the eye of a recessionary storm." In fact, industry analysts who've examined market growth rates from 2008 and the first half of 2009 note that since the middle of last year there has been a massive reduction in demand for all forwarding services.

"The magnitude of the fall suggests that the sector is undergoing a systemic change," says Ti analyst John Manners-Bell. Furthermore, notes Manners-Bell, the market environment for freight forwarders is changing quickly, not only in terms of geography and type of business, but also by the competitive position of industry players.

"There is no doubt that the big forwarders are gradually gaining a greater market share; but in addition to this, the relative competitive position between the forwarders is also being adjusted," he says.

This is not an entirely bad thing, if you are among the leaders, says G. Edmond Clark, president and CEO of FedEx Trade Networks. "Global trade trends continue to point toward a demand for both air and ocean freight forwarding services," says Clark. "Expanding our footprint in critical growth markets will enable us to deliver a full-service transportation solution and better serve global needs."

Ranked among the Top 10 by both Ti and the venerable U.S. consultancy of Armstrong & Associates Inc., these analysts believe that FedEx Trade Networks is a forwarder that exemplifies

Armstrong's Top 25 Global Players*

Rank	3PL	2008 ($ Millions) Net Revenue	Gross Revenue	TEUs Values	Tonnes Values
1	DHL Supply Chain & Global Forwarding	21,400	37,100	2,882,000	4,291,000
2	DB Schenker Logistics	10,000	21,000	1,456,000	1,230,000
3	Kuehne + Nagel	5,815	20,087	2,618,000	835,000
4	UPS Supply Chain Solutions	6,286	8,915	700,000	500,000
5	Panalpina World Transport (Holding) Ltd.	1,620	9,855	1,278,000	901,000
6	Expeditors Int'l of Washington Inc.	1,603	5,634	896,922	678,273
7	FedEx Supply Chain Services/FedEx Trade Networks	999	1,970	10,000	7,200,000
8	CEVA Logistics	9,304	9,304	410,000	536,000
9	DSV Solutions Holding A/S	1,549	7,094	850,000	215,000
10	SDV International Logistics	1,170	5,851	680,000	510,000
11	Nippon Express Co. Ltd.	1,316	19,014	277,520	896,500
12	NYK Logistics Co. Ltd.	3,320	5,270	600,000	500,000
13	Agility	2,423	6,474	500,000	490,000
14	UTi Worldwide Inc.	1,546	4,544	487,000	370,000
15	Geodis	5,000	7,000	411,000	202,000
16	Kintetsu World Express Inc. (KWE)	477	2,923	474,000	1,118,000
17	Damco	1,270	2,883	587,000	60,294
18	Sankyu Inc.	450	2,285	715,090	21,863
19	APL Logistics	1,320	1,320	500,000	6,857
20	Hellmann Worldwide Logistics GmbH & Co. KG	830	4,153	523,650	450,959
21	Logwin AG	1,500	3,008	400,000	173,000
22	Kerry Logistics Network Ltd	220	1,087	450,000	115,000
23	C.H. Robinson Worldwide Inc.	1,375	8,579	300,000	40,000
24	BDP International	201	1,600	250,000	120,000
25	Yusen Air & Sea Service Co. Ltd.	458	1,875	175,000	530,000

* For more detailed information on the Top 25 Global Players, visit our website at www.logisticsmgmt.com

SOURCE: ARMSTRONG AND ASSOCIATES

the traits of a top player working to stay ahead of the pack. Having recently expanded its operations in Beijing, Guangzhou, and Shenzhen, FedEx Trade Networks says it's poised to support the company's growing international air freight forwarding operations and provide comprehensive coverage in key Asia-Pacific trade lanes.

This is "forward" thinking according to Manners-Bell, who notes that while the fall in volumes to and from China has been steep, the freight forwarding sector has been restructuring for a rebound. "There has been an appreciable shift to lower value goods being moved by container ship from China, while higher value goods make-up a larger proportion of cargo moved by air," observes Manners-Bell. "It seems that many shippers have taken the view that inventory velocity is not as important as lower transport costs—a situation influenced, no doubt, by low interest rates."

Recessionary tactics

If there's one area of agreement among industry analysts it's that there are major differences in the way large freight forwarders have approached the downturn.

So, why the difference in terms of performance? Manners-Bell suggests that one possible cause might be exposure to different trade lanes. "Trans-Pacific trades, particularly eastbound, have declined more quickly than the whole market. However the Europe-China lane has also fallen violently and the two compose around half of all traffic," he says.

Which leads to another question about recessionary tactics: How likely is this to be a differentiator? "Alternatively it might be possible that different companies have differing strengths on different routes," declares Manners-Bell. "This seems more likely when one looks at the relative profitability of Kuehne+Nagel (K+N) compared with DHL."

This is something hardly in dispute by spokesmen for K+N, although they would prefer to invoke "strategy" above mere tactics. "We had very satisfactory results for the first nine months of the year," says CEO Reinhard Lange, who attributed higher earnings to the early, consistent implementation of its dual strategy of strict cost management and commitment to market share expansion.

Company spokesmen add that this strategic move has proven effective, enabling the company to successfully counteract substantial volume declines through strict cost management and increased sales activities.

Market growth

After four years of double digit growth, the global freight forwarding market experienced a dramatic slowdown in 2008, some 8 percentage points lower than the previous year, according to

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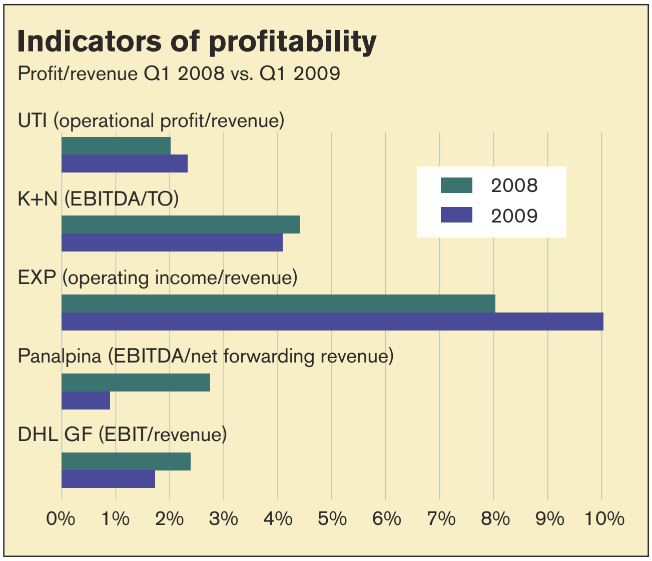
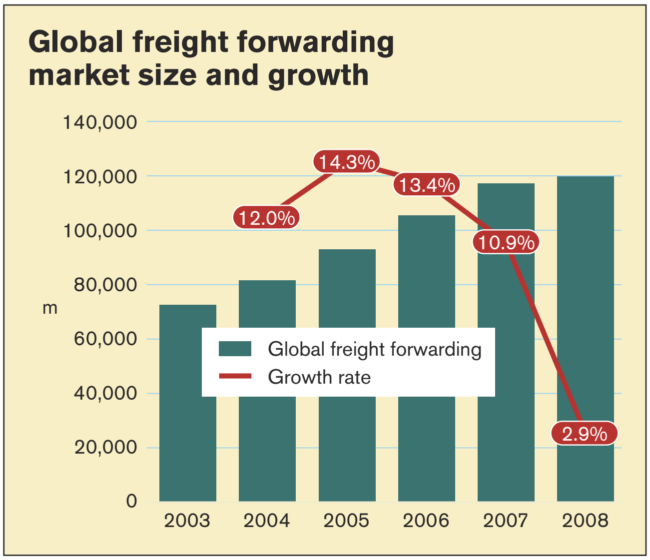


SOURCE: TRANSPORT INTELLIGENCE



SOURCE: TRANSPORT INTELLIGENCE

the *Global Freight Forwarding 2009* report.

"However it must be noted that at this stage of the economic slump, the market was still growing overall," says Manners-Bell. "The reason for this was the strong first half of 2008. The market only started to stagnate in the third quarter before dramatically falling away in the last sector of the year."

But as with K+N, UPS is telling shippers and shareholders the worst is over. While the lackluster earnings of UPS freight forwarding were negatively affected by increasingly competitive conditions in the current environment, the business outperformed the market and gained share while maintaining yields. "The business environment in the third quarter of 2008 began similarly to that of the preceding quarter," says Kurt Kuehn, UPS's chief financial officer. "However, we did see profitability improvement due to effective cost management and firming volume later in the quarter."

Both the logistics and forwarding business units experienced moderation in the rate of revenue decline, say UPS spokesmen, adding that the logistics unit again achieved significant growth from its services to the healthcare industry. "We've instituted cost initiatives that will approach $1.4 billion this year, making UPS more efficient. In addition, we will reduce our 2009 capital expenditures to $1.7 billion, down $500 million from our initial budget," says Kuehn

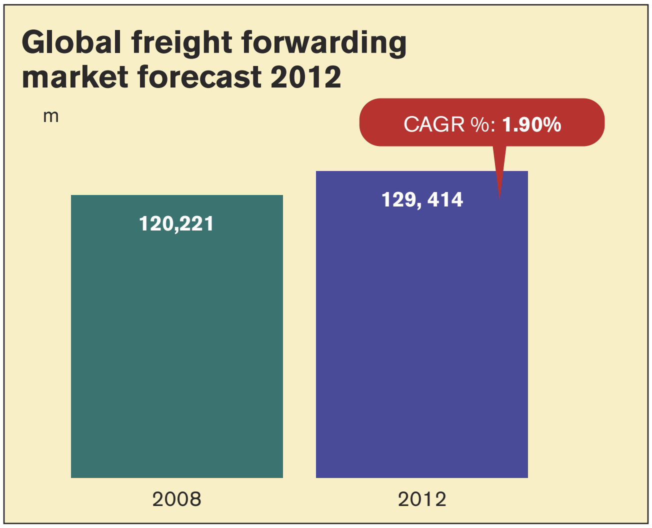
All of this came as scant surprise to industry insiders who no doubt recall that the company said its 2009 forecast would reflect "one of the most difficult periods in UPS history." Indeed, it was at that time that the company announced the freezing of management salaries and the rationalization of some operations and services.

Market forecast

Ti's five-year market forecast shows slow growth for the global freight forwarding market. However, this masks a dramatic drop in 2009, and only a slow recovery between 2010 and 2012. Ti also forecasts that the market will grow with a compound annual growth rate (CAGR) of just 1.9 percent between 2008 and 2012.

Darwinian principles will prevail, analysts agree, as the most powerful players bear down and wait out the storm. Among those to watch are DHL Global Forwarding, the world's largest middleman, followed Schenker, UPS, and K+N.

"The major European forwarding powerhouses dominate



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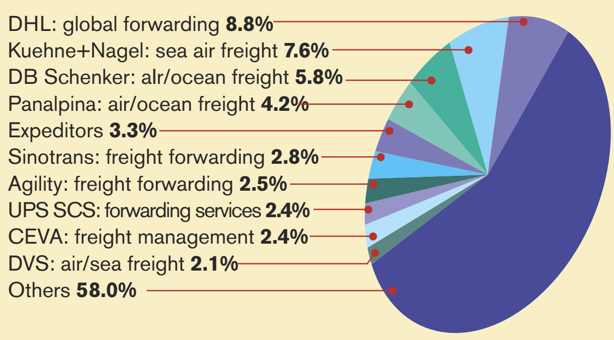
Global freight forwarding market share 2008



SOURCE: TRANSPORT INTELLIGENCE

the market, accounting for six out of the top ten," says Manners-Bell. "Their dominance has partly been driven by the aggressive acquisition strategies that have seen them buy up U.S. competitors such as BAX Global, EGL, and AEI."

Meanwhile, the global forwarding market remains highly fragmented with Ti's Top 10 accounting for just 42 percent of the market. The market leader, DHL, controls just 8.8 percent, and it doesn't expect a "substantial" recovery in world trade in coming months. "The current scenario includes continued risks to individual customers and industries, be it insolvencies or extended factory closures," says DHL's CEO Frank Appel. "In all our divisions cost-cutting initiatives are being executed, which are by now successfully taking hold."

Still, taking these factors into account, Deutsche Post DHL expects a return to a positive net income. The company says that its global freight forwarding division was able to benefit from the economic crisis and win significant new business, particularly in the life science, fashion, industrial project business, high tech, and automotive sectors. Still, an overall declining demand, particularly in the technology and engineering sectors, as well as lower freight rates and fuel surcharges, prompted a decline in earnings.

In contract logistics, DHL continued to add contracts despite the weak business climate and contract renewal rate remained around 90 percent. "We are demonstrating strength in the crisis," says Appel.

According to Manners-Bell, some companies are simply better run than others. "Freight forwarding remains a people-led business, and if staff are managed well and are good at their jobs, company performance will shine," he says, admitting that it's difficult to generate meaningful measures on the relative performance of the leading forwarders during the recession.

"This is in great part due to the variability of information produced by the forwarders themselves," he adds. "However it does appear that some have performed much better than others, both from the perspective of the underlying profitability of their business and from the levels of their cost base."

In particular, Ti notes, staffing levels appear to have a significant impact on costs. "In this respect, there are differences of opinion in the industry," says Manners-Bell. "Expeditors, for example, has vowed not to reduce headcount, as it sees its staff as a key competitive differentiator."

This contrasts with Panalpina, which has reduced employee levels by more than 10 percent. Ti analysts say that Expeditors' decision may have a short term financial detrimental effect, but may prepare it better to exploit the upturn. "However," adds Manners-Bell, "if Panalpina is able to effectively ramp up its staffing when good times return, while keeping shareholders happy through a cost reduction program, who's to say that it did not have the better strategy?"

What is clear to Ti analysts and other industry experts is that none of the major freight forwarders have been able to react quickly enough to the precipitous fall in volumes and revenues in terms of cutting costs, despite the asset-light nature of the business. The final financial quarters of 2009 will show which have adjusted to the new market environment. Those that get left behind could find themselves struggling to catch up with their rivals over the next three years…or even more. L

Patrick Burnson is Executive Editor of Logistics Management

Logistics
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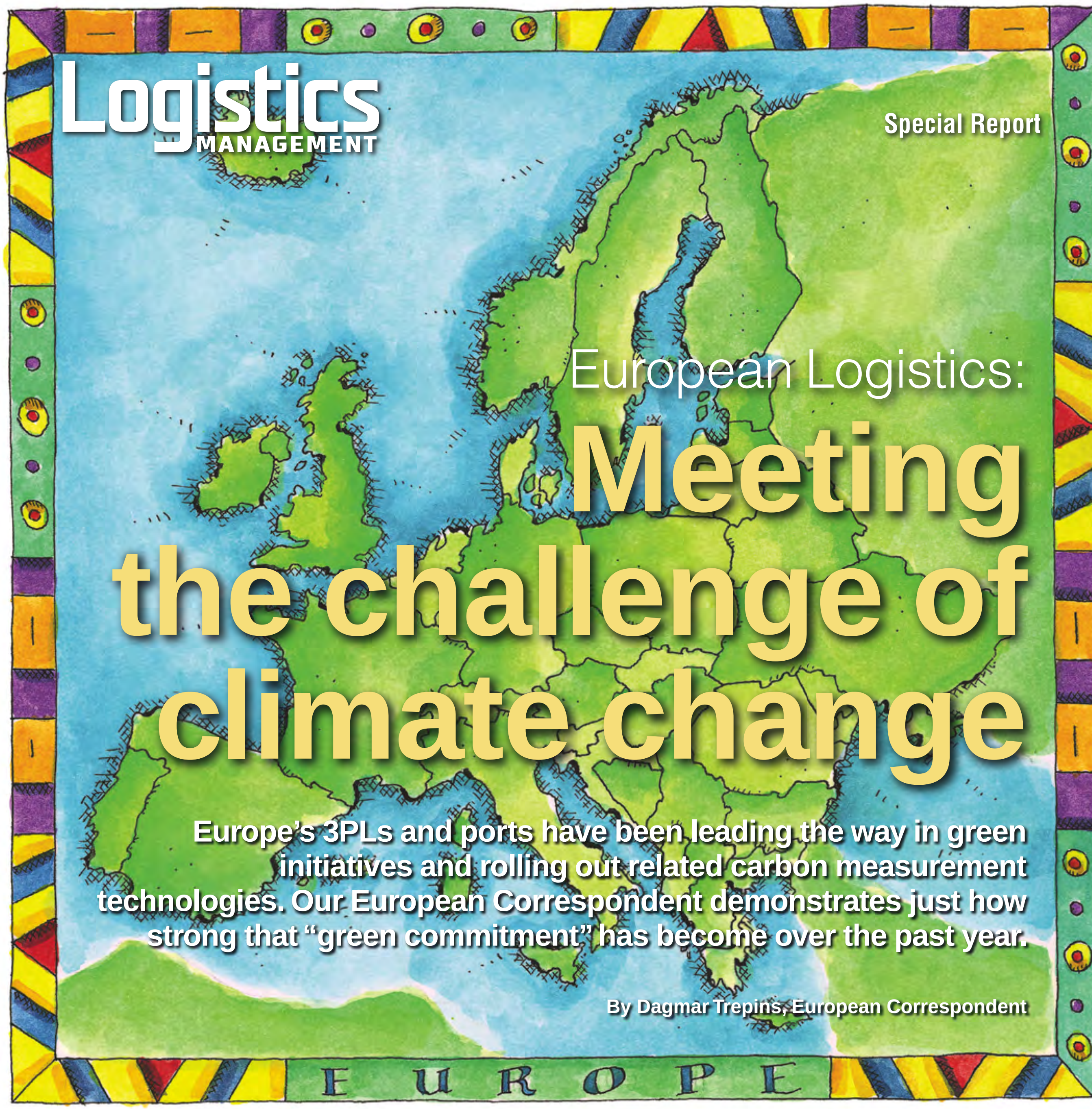
Special Report



European Logistics:

Meeting the challenge of climate change

Europe's 3PLs and ports have been leading the way in green initiatives and rolling out related carbon measurement technologies. Our European Correspondent demonstrates just how strong that "green commitment" has become over the past year.

By Dagmar Trepins, European Correspondent

While the global logistics and transportation industry is still working on global standards for accounting and trading greenhouse gas emissions, European third-party logistics providers (3PLs) and ports have started to green their own operations. Many have introduced new products and services to provide shippers with sustainable transport and logistics options in order to help organizations better prepare for inevitable "green accounting."

Over the next few pages we'll look at the strong green commitment that Europe's logistics and port industry has made over the past year. While these initiatives are only a first step on a long road, these forward-thinking service providers believe that it will lead the way to common international standards for CO2 measurement designed to make sure that "a ton of carbon is always a ton of carbon" in Europe and the U.S.

Improving carbon emission measurement and reporting

Over the past year, some of Europe's leading logistics providers have developed a variety of tools for carbon footprint measurement, calculation, and modeling.

Damco, the logistics arm of the AP Moller-Maersk Group, has launched a graphical representation system called Supply Chain Carbon Dashboard that allows customers to keep track of their carbon footprint throughout the supply chain. According to Erling Johns Nielsen, head of Damco's supply chain development team, the dashboard enables customers to report their carbon emissions periodically, and thus helps shippers execute their carbon strategy.

The dashboard, which is based on cargo transport distances, provides a detailed overview of carbon emissions by transport mode or by product. “It immediately allows you to identify ‘carbon hotspots’ in your supply chain,” says Nielsen. Using this tool, Damco says it reduced carbon and costs by 10 percent on inbound ocean movements for Macy’s department stores.

Geodis Wilson, the global freight management company of the SNCF Geodis Group, launched its sustainable development program in 2008 that includes over 20 key indicators to manage energy, water, fuel consumption, CO2 and other emissions, as well as vehicle fleet breakdown and waste production and processing.

This year, Geodis Wilson Sweden developed a tool to measure the environmental impact of its customers’ overall transport solutions. Using statistics on cargo volume and weight, the tool can compare the level of emissions according to route and transport mode.

For example, the provider found that by sending a shipment to the U.S. from Gothenburg, Sweden, rather than from Rotterdam reduces CO2 emissions by 16 percent. As part of the program the provider sends its main customers this environmental report quarterly.

Forming green networks

Europe’s leading logistics providers are working on an intelligent modal shift to less carbon-intensive modes of transport by offering alternative transport services within their networks in combination with user-friendly IT technology.

DB Schenker, for example, has bundled its climate protection activities into four so-called lighthouse projects: Green Logistics Networks, Green Road, Green Terminals, and Green Product Rail. These are all part of DB Group’s Climate Protection Program to reduce its specific CO2 emissions by a further 20 percent worldwide between 2006 and 2020.

The lighthouse encompasses DB Schenker’s international transportation network that spans all transportation modes. Its main target is to combine the strengths of different modes to offer the customer an environmentally friendly overall product and to start with climate protection during the consulting and planning phases of any new project.

In order to determine the total CO2 emissions, DB Schenker calculates the carbon dioxide emissions for each mode of transport. The resulting CO2 footprint gives customers insight into the emissions broken down into the areas of land transport, airfreight, ocean freight, and contract logistics. At the same time, the CO2 footprint is an element of a future comprehensive ecological auditing and environmental management system that entails the auditing and regulation of all relevant environment parameters.

With its internet based application, EcoTransIT, the company offers an online tool to determine the economic efficiency as well as the ecological performance of their transports—depending on the mode of transport. EcoTransIT compares the energy consumption and CO2 and pollutant emissions of trains, trucks, ships, aircraft, and combined transport operations within Europe. Users enter the starting point and destination, as well as the category and volume of the freight being transported, in a pre-set form and immediately receive information on the best route and the related energy and emissions data.

Green transport

Europe offers a 21,750 mile congestion-free network of inland waterways connecting the major sea and inland ports with the industrial centers. For an increasing number of logistics providers, inland shipping is becoming a less carbon-intensive alternative to road transport within their sustainable programs.

For example, with GoGreen, Deutsche Post DHL's group-wide climate protection program, the company has set the target of improving its CO2 efficiency by 30 percent by 2020—this includes outsourced transport services.

A central component of GoGreen is the provision of carbon-neutral or low-carbon logistics solutions. According to Thilo Specht, vice president of marketing and sales in Germany at DHL Global Forwarding, the company has helped its pharmaceutical customer Sanofi-Aventis reduce CO2 emissions generated by its sea freight operations by 30 percent.

DHL Global Forwarding is also migrating delivery of temperature-controlled goods for sea freight export from HGVs to inland vessels. Transporting sea freight containers by truck to European seaports currently generates emissions of approximately 73 pounds of CO2 per metric ton. By using inland waterways for these transports, the level of emissions can be reduced to around 49 pounds of CO2 per ton. Following the successful pilot phase, DHL is now shifting five container units from the roads to inland waterways each week. The containers are loaded onto barges in Mainz/Germany and transported to the western seaports of Antwerp or Rotterdam. To calculate CO2 emissions, Deutsche Post DHL has set up a carbon accounting system based on the Greenhouse Gas Protocol and the ISO 14064 standard.

The BLG Logistics group, a leading logistics provider for the automotive industry, has also developed an environmentally friendly concept to shift transport from the streets to barges. BLG Logistics' automotive division is running an inland shipping service for car transport with seven barges, five of which operate on the Rhine River and two on the Danube between the German terminal of Kelheim and the Port of Csepel near Budapest.

With its new 360-foot long car carrier MS Kelheim, BLG provides space for up to 260 vehicles on three decks. The integrated ramp at the bow makes it possible to transship cars regardless of the port facilities. The MS Kelheim carries Ford cars from the Kelheim terminal to Hungary, and on the return voyage her decks are filled with new Suzukis.

Environmental concerns are also part of Hamburg Süd's corporate strategy. The company uses containers with the largest interior volume worldwide for reefer transport, which increases transport performance per container and enhances the CO2 balance. The company already uses floors made of various types of wood, although the top layer remains a hardwood. In the future, there are plans to switch to bamboo for the flooring material, as it could replace or significantly reduce the use of tropical wood.

The use of modern compressor technology in most of the fleet enables the Hamburg Süd Group to operate energy-saving reefer transport. The company offers a wide range of modified atmosphere (MA) and controlled atmosphere (CA) transport solutions for sensitive commodities previously transported by air. One example is the "coffee train" between Hamburg and Bremen, which was set up by Hamburg Süd and several partners. The train, which runs once or twice a day, replaces road transports between the Port of Hamburg and Bremen, and now carries many other commodities as well.

Sustainable port initiatives

While the logistics industry is looking for international standards and tools to reduce greenhouse gas emissions, European ports are also making great efforts to fulfill their responsibilities regarding ecologically sustainable port operations and common standards.

Close international cooperation has been established under the guidance of EcoPorts Foundation (EPF) and the International Association of Ports and Harbors (IAPH) and its World Ports Climate Initiative (WPCI).

EcoPorts Foundation, supported by European Sea Ports Organization (ESPO), is a non-profit organization established in 1999 by a group of eight leading European ports. It acts as a network platform to exchange environmentally effective solutions and to collaborate on projects addressing sustainability issues in ports and the overall supply chain. More than 150 European Ports are linked in this network that offers tools like the Ports Environmental Review System (PERS), a user-friendly first step in the development of a credible Environmental Management System.

The WPCI Carbon Footprinting Project is a work group that links European ports like Amsterdam, Antwerp, the Finnish Port Association, Oslo, and the Port of Rotterdam Authority to

leading U.S. ports and IAPH in order to generate a guidance document that will serve as a reference for ports looking to determine their carbon footprint.

With the On-shore Power Supply project, another WPCI initiative, European ports are collaborating to provide docked ships with shore-side electrical power, which greatly reduces the environmental impact of vessels in ports.

Green port projects

In line with global efforts to develop and operate ports in a sustainable manner, a public-private environmental cooperation has been established in many European ports. The goal is to share knowledge and investments on green projects.

Port of Antwerp is one of the OPS members that launched a trial project with shore-based electricity this year to fight port-related air pollution. Seagoing ships belonging to the Independent Container Line (ICL) will be able to use a shore-based electricity supply when they are lying at berth. That means they will no longer have to run their polluting onboard engines to generate power.

Antwerp's investment will have a positive impact on the environment, as it positively affects NOx, CO2, and particulate emissions. The port already provides shore power for barges, as well as for the Port Authority's tug and dredger fleet, floating cranes, and the dry dock complex. Antwerp is moving ahead by extending this service to seagoing ships, a segment that has the most powerful effect on environmental performance.

This year the EU Commission awarded the City of Hamburg the title "European Green Capital 2011. In order to promote environmental commitment in the private sector, the City of Hamburg started a program in 2002 to support manufacturing and service companies investing in resource efficiency measures. To date, the program "Companies for Resources Protection" has supported 700 projects with a total financial value of $13 million. Among these were over 40 sustainable projects related to the port and logistics industry. One current example is a joint project of Hamburg's local water provider and the terminal operator and logistics provider HHLA.

Waste heat is recovered from the treatment process and used to heat the new office building at the Container Terminal Tollerort (CTT). In 2009, the system will reach its full capacity and produce 3700 kW of heat. This will prevent an output of 1,000 metric tons of CO2 per year.

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SAGE ADVICE

Outsourcing and respect

By John A. Gentle, DLP

THE IDEA OF OUTSOURCING often comes about when the CEO, controller, or another member of senior management reads an article—or has been speaking with a 3PL—about saving a minimum of 10 percent or more of their logistics costs by turning to a third party. However, I've found that these "savings opportunities" are often purely theoretical and are only supported by management due to their lack of logistics knowledge or their lack of confidence in the ability of its logistics team to efficiently manage its processes.

Of course, there are other times when the outsourcing conversation is sparked by the urgent need to reduce headcount.

The transportation teams that feel especially threatened are those that lack the experience, leadership, talent, knowledge, process excellence, and contingency strategies to guide their companies through today's global market. They often fail to anticipate and prepare themselves for tomorrow's challenges. And it often takes just one unpleasant and costly surprise to jump-start the outsourcing movement in teams like these.

Earning respect starts with your knowledge and command of the marketplace and your transportation governance, and it ends with programs that you have created to educate senior management on a regular basis.

When I hear transportation leaders tell me that their companies keep reminding them that they're just another cost center, I tell them that it's their fault that management doesn't see them as a value-add to the organization. This tends to lead into the question: How do I get some respect?

The answer is simple. It's all about education and managing expectations—neither of which start in the middle of a crisis. Earning respect starts with your knowledge and command of the marketplace and your transportation governance, and it ends with programs that you have created to educate senior management and other organizations on a regular basis. As a quick reminder, I define transportation governance as "the direction and control associated with creation, administration, oversight, and enforcement of your company and supply chain's policies, regulations, and procedures related to the legal, safe, efficient, and service-effective movement of freight it controls either directly or indirectly."

Transportation governance has both direct and indirect aspects. Direct governance includes: your carrier criteria and operating protocol/guidelines; selection and management of your carrier base; carrier due diligence evaluations, contract models and supporting documents; process with defined/flows/inputs-outputs; metrics and measures and dashboards; carrier performance reviews and process improvements; a carrier council to streamline processes and improve carrier and company productivity; greenfield projects and process improvements; and, of course, audits and benchmarking. Indirect governance, on the other hand, includes your command of the transportation industry including regulatory and political issues as well as a comparison of your approach to industry challenges versus that of your peers.

Those logisticians who have become active and proficient managers of both direct and indirect transportation governance should begin to educate the CEO's natural leadership team by asking their boss to arrange for time to present a "Transportation Industry Update."

Start the education session with a quick review of your charter, mission statement, KRAs, and KPIs and then present the industry update including its challenges and your strategic approach to managing its risks while also positioning your company to move ahead of your competition in the future. Finish your presentation by outlining your contingency plans and answering questions. And then ask for buy-in. You will emerge as a "proactive strategic thinker," and it will vault your team from being a transactional cost-based commodity to a valued strategic company resource.

It will take time and effort, but in the end, it's the best way to gain respect for your team. And, if outsourcing surfaces, your team will be in the best position to assist the CEO's leadership team to objectively compare the values instead of costs. L

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