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Management UPDATE

AN EXECUTIVE SUMMARY OF INDUSTRY NEWS

Air cargo picture brightens. While many industry analysts are predicting a modest recovery for air carriers in 2010, one prominent expert is suggesting it may be more robust. "Air cargo can emerge from the global economic crisis in a stronger position than other transport modes as manufacturers rethink their production and supply chain strategies," said Ulrich Ogiermann, Chairman of The International Air Cargo Association (TIACA). According to Ogiermann, manufacturers and other businesses will be more reluctant than ever to tie up vast investment in stock, taking them back to the principle of "just-in-time" production which, he added, "demands the speed, security, and reliability of transportation that only air cargo can provide." Despite suggestions that cost conscious companies in the manufacturing sector will look to do more near-shoring—buying materials and products closer to their final production points—TIACA believes the business case for such a strategy will not be sustainable in the majority of cases.

OMG, no texting for truckers. American Trucking Associations (ATA) President and CEO Bill Graves joined Transportation Secretary Ray LaHood as LaHood announced a ban on text messaging by drivers of commercial vehicles. "Texting on a handheld phone while driving substantially elevates the risk of being involved in a crash," said Graves. "To promote highway safety, and further improve the trucking industry's continually improving safety record, ATA supports DOT's action to ban the use of handheld wireless devices by commercial drivers to send or receive text messages while driving." He added that the ATA will continue to work with affiliated state trucking associations and diverse stakeholder groups to make that happen. And, as proof of the trucking industry's highway safety progress: Over the last five years the truck-involved fatality rate has declined 22 percent and the truck-involved injury rate has declined 25 percent—both are at record lows.

2010 truck tonnage off to a strong start. Despite an 8.9 percent annual decline in its advanced seasonally-adjusted (SA) For-Hire Truck Tonnage Index in 2009, things may be different in 2010 based on January tonnage numbers from the American Trucking Associations (ATA). January's SA index was up 3.1 percent from December 2009 for its highest level since September 2008. And the ATA noted that the SA index was also up 5.7 percent year-over-year, representing its best year-over-year reading since January 2005, as well as its second consecutive year-over-year monthly increase.

Not such a sweet deal. Four prominent 3PLs have been charged by the European Commission with price fixing. DHL, Panalpina, DSV, and Kuehne & Nagel are alleged to be colluding on surcharges. According to the Commission, the infringements are related to services from Britain to outside

continued, page 2 >>

2010 Salary Survey Webcast...LIVE! *LM* will be staging its annual live Salary Survey webcast on Wed., March 31, at 2:00 p.m. ET. Executive Editor Patrick Burnson will give shippers the annual update on who's making what across the market and the country and then discuss where the new employment opportunities will be in 2010. Burnson will be joined by Don Firth, president of JobsInLogistics.com, a search site that has seen its job postings and resume search business increase by more than 45 percent in the first two months of 2010. He'll also be joined by Mike Regan, a logistics career development evangelist and author of *LM*'s career blog "It's Personal." Regan will share how networking and remaining wired to the industry's key user groups pays off big time when looking for that next job. Register at **logisticsmgmt.com/salary10.**

Management UPDATE

continued

the 30-country European Economic Area. Similar charges were made against some of the world's largest air cargo carriers last year by the U.S. Department of Justice (DoJ). At that time, several U.S. shipper associations voiced approval of regulatory diligence. "The Airforwarders Association remains vigilant in advocating a fair, competitive price structure for air cargo," said Brandon Fried, the group's executive director. "Price fixing costs forwarders and shippers untold dollars by damaging the competitive marketplace with regard to cost and service," he added.

RedPrairie heading to new pastures. Supply chain software vendor RedPrairie has entered into a definitive agreement to be acquired by private equity firm New Equity Capital L.L.C. Company officials said this deal will enable RedPrairie to "accelerate its already rapid growth rate while enhancing its commitment to customer success." RedPrairie CEO Mike Mayoras said this deal will allow RedPrairie to more quickly reach its strategic goals by providing more value to shippers and entering new markets. This news represents an about-face for RedPrairie, considering that in the last year much was made about the company potentially participating in an Initial Public Offering to be a publicly traded company.

UPS pilots may enter holding pattern. UPS said it has rolled out plans to furlough at least 300 of its airline pilots as part of a cost-cutting initiative, but noted that it's actively working with its pilots' union, the Independent Pilots Association (IPA), "to avert or mitigate layoffs before they take effect." The company said that if furloughs do occur, the first 170 pilots would be furloughed in May. This news follows a June 2009 agreement between UPS and the IPA in which they reached terms on money-saving measures that would take place over three years. As part of this deal, UPS and the IPA pledged to hold pilot furloughs until April 1, 2010. UPS officials said at the time that voluntary pilot savings generated in 2009 could potentially eliminate any proposed layoffs.

Sequential decline in U.S. bound shipments. Data from Panjiva, a search engine of global suppliers and manufacturers, reported that there was a 5 percent decline in the number of global manufacturers shipping to the U.S. from December 2009 to January 2010. On a sequential basis, this follows a 3 percent gain from November to December and a 1 percent decline from October to November. Panjiva also noted that the number of U.S.-based companies receiving waterborne shipments from global manufacturers declined 7 percent from December to January, following a 2 percent gain from November to December. Panjiva CEO Josh Green noted in his blog that "global trade appears to be tracking its typical seasonal path, though absolute level of global trade activity is still well below where we were before the 2009 recession."

Class 8 truck orders down 18 percent. Data from ACT Research Co., a publisher of North American commercial vehicles industry data and market analysis, indicated that net orders for heavy-duty Class 8 commercial vehicles in January decreased to 6,513 units—or 18 percent—year-over-year. ACT said that January orders were expected to be on the weak side, following the last of the pre-EPA 2010 mandate build slots filled in December 2009. ACT added that North American Class 8 production exceeded original expectations and were down 3 percent year-over-year in January as stronger late year orders went into production. ACT Partner and Senior Analyst Kenny Vieth told *LM* that the fall off in orders met expectations as forecast in January. "The supply-demand imbalance is not as big today as it was a year ago, but it certainly still exists," Vieth said.

It's good to be king. According to a report recently issued by the International

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Management UPDATE

continued

Finance Corporation (IFC), the Kingdom of Saudi Arabia has been rated as the 13th most economically competitive country in the world. The report, *Doing Business 2010: Reforming through Difficult Times*, is based on data gathered from 183 countries from June 2008 to May 2009. The report highlights the rapid rate of economic growth among Middle Eastern countries as a result of economic sector reform. For the fifth consecutive year, Saudi Arabia was ranked as the best place to do business in the Middle East. The report states that Saudi Arabia's economic reforms, including its 2005 membership in the World Trade Organization, have attracted an increasing amount of foreign investment and increased diversity to the economy.

■ **"The Rules" look good.** With the endorsement of the American Bar Association (ABA), the Rotterdam Rules appear likely to win Congressional approval. The Rotterdam Rules, the result of inter-governmental negotiations that took place between 2002 and 2009, describes the rights and obligations involved in the maritime carriage of goods. As reported in *LM*, the United States signed on to adapt the Rules last September. They will replace the 1924 Carriage of Goods by Sea Act to cover liability for cargo that's damaged at sea or on land. "Presently, trading nations operate under a number of conflicting cargo shipping regimes," noted the ABA in its endorsement. The ABA maintains that the convention builds on the existing regimes and, where possible, harmonizes and modernizes the existing conventions.

■ **NVOs get a break.** The Federal Maritime Commission voted to initiate a rule-making that would relieve Non-Vessel Operating Common Carriers (NVOs) from the costs and burdens of publishing in tariffs the rates they charge for cargo shipments. In a 3 to 1 vote, the Commission decided to grant this exemption from publishing rate tariffs to licensed NVOs. According to comments filed with the Commission, this action could save many of these businesses up to $200,000 per year. "I believe that this is one of the most significant Commission actions since Congress passed the Shipping Act in 1984," said Chairman Richard Lidinsky, Jr. "In a bipartisan vote, the Commission has provided thousands of dollars in cost savings to these critical businesses and the hundreds of thousands of exporters and importers they serve," he added.

■ **Are you getting your news fix?** If not, don't forget to check out "Newsroom Notes," the newest addition to the Logistics Management (*LM*) blog network. Written by Group News Editor Jeff Berman, "Newsroom Notes" will be updated at least twice a week and touch on the hottest topics in transportation and logistics. Like all of our blogs, we welcome and endorse feedback from you—our readers. So, don't be shy about pinging Jeff about his musings or to suggest future blog topics. And, be on the lookout for another new *LM* blog in the coming weeks from Contributing Editor John Schulz that will focus on trucking.

■ **For shippers seeking legal advice.** One of the hotter events this spring season will be the Transportation and Logistics Council's 2010 Annual Conference taking place in San Diego on April 18 – 21. The event is being co-sponsored by the Transportation Loss Prevention and Security Association. One of the leading attractions will be Brent Primus, CEO of Primus Law Office and the host of *LM*'s educational video series *Transportation, Logistics, and the Law* (logisticsmgmt.com/law). In addition to speaking on the current laws governing transportation, Primus will guide shippers on how to meet the challenges of a "deregulated" environment. This includes carriers' limits of liability for cargo loss and damage, cargo insurance, contracts and bills of lading, intermediaries and brokers, seals and security, freight charges, and billing disputes among other topics. More details are provided on tlcouncil.org.

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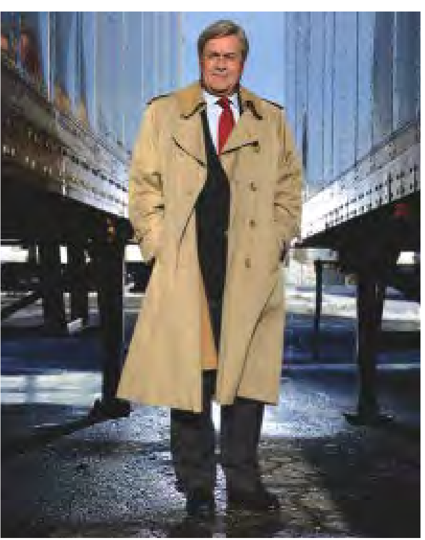
cover story

Macy's maneuver to fill empty miles

For a fee of $1,600 a year, the retail stalwart is saving tens of thousands of dollars and burnishing its environmental credentials by using a simple Web-based load-matching system—and helping its carriers save time and make money on backhauls in the process. **24**

cover photo of Macy's Bill Connell by Jeffrey Zelevansky/Getty images



Logistics MANAGEMENT®

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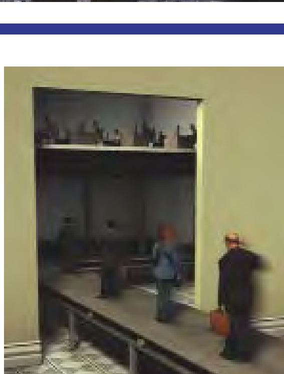

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webcasts/continuing education

upcoming webcasts

26th Annual Salary Survey Results
March 31st, 2 p.m. ET
The results of our 26th Annual Salary Survey reveal that companies were focused on retaining their logistics and supply chain talent over the course of 2009. In fact, median salary inched up again this year—to $88,000. Companies are cautiously optimistic, telling us that there's an anticipated spike in logistics and supply chain employment coming in 2010.
logisticsmgmt.com/salary10

on-demand webcasts

2010 Rate Outlook
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While the economic recovery will be slow in coming, our panel of transportation analysts and economists tell us that shippers should keep their eyes open for early signs of rate hike activity in the first half of 2010. What impact will a subtly rebounding economy have on your fright rates in 2010?
logisticsmgmt.com/2010outlook

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bears repeating...

"We need more investment in the [railroad] industry, not less. The STB Reauthorization bill needs to be more specific in that regard."

—Edward Hamberger, President and CEO, Association of American Railroads

this month's fast facts

1 **PricewaterhouseCoopers reported** that fourth quarter transportation and logistics total deal value hit $48.5 billion—83 percent ahead of the third quarter's $8.1 billion.

2 **The United States Postal Service** reported a fiscal first quarter loss of $297 million.

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

The PortTracker report by the National Retail Federation and Hackett Associates indicates that import cargo volume could be up by 25 percent year-over-year for the first half of 2010.

blog takeaway

The American Trucking Association has all sorts of statistics that demonstrate that the vast majority of accidents involving trucks are caused by automobile drivers who don't realize that a truck cannot stop as quickly as a car. While no one disputes the destruction or damage caused by the infrequent renegade or unsafe truck driver, this really has nothing to do with increasing the truck weights. Everyone wants unsafe drivers off the road. But as one person stated, if you have an unsafe driver behind the wheel, it really doesn't matter if that truck weighs 80,000 pounds or 97,000 pounds—the results are not likely to be good.

"We need to gain some more weight"
—Mike Regan, February 5, 2010
logisticsmgmt.com/blog/regan

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Salary Survey results: retain, reward, replenish

I HAVE TO SAY that the results of our 26th Annual Salary Survey came as a pleasant surprise. According to the 1,075 respondents to this year's survey, the median salary jumped for the second year in a row. Further, one out of every four logistics and supply chain professionals told us that they received at least a standard-of-living raise in 2009—an average bump of 4.8 percent.

To top off that good news, we found that average salaries increased across just about every category we measure—title, range of duties, education level, and industry—and we saw substantial average salary jumps in every region of the country.

Considering that national jobless figures remain at historic highs, these findings should be enough to put a smile on even the sternest face. Not only does this year's data build on the positive pay trends we saw emerging last year, but it also validates that U.S. businesses continue to put more value on the top logistics and supply chain talent that they've kept on board. And logistics professionals are returning that vote of confidence.

In fact, the job satisfaction data this year stayed even with the impressive number that was posted in last year's survey: 60 percent. And only 10 percent of respondents say they're currently looking for a new position with another company. To further validate this feeling of satisfaction, 80 percent of respondents say they would recommend the field of logistics and supply chain to a friend or family member.

And while it appears that U.S. business has done a pretty good job of retaining and rewarding its top logistics talent over the past year, survey findings reveal that companies are also aggressively looking to replenish the logistics and supply chain talent pool. Don Firth, president of job search website JobsInLogistics.com, tells our Patrick Burnson that his job posting and resume search service business in January and February has increased more than 45 percent year over year.

"The recession meant that companies were going to stay lean and mean," says Firth, "but we see that trend being reversed in February 2010."

In his comprehensive report, Burnson continues the job market forecast discussion with Firth, puts context around all of this year's salary survey findings, and chats with shippers concerning the current state of logistics and supply chain employment. Find out all of the details starting on page 30.

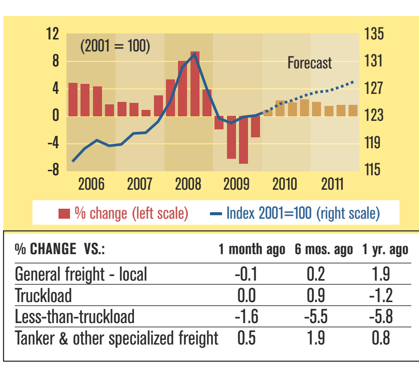
"The recession meant that companies were going to stay lean and mean, but we see that trend being reversed in February 2010."
—Don Firth, JobsInLogistics.com

And if you're looking to better understand this year's findings or get a better handle on your career path, join the **26th Annual Salary Survey Webcast** live on Wednesday, March 31 at 2:00 p.m. ET and listen to what the job market experts have to say. Register at **logisticsmgmt.com/salary10**.

Michael A. Levans, Group Editorial Director

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

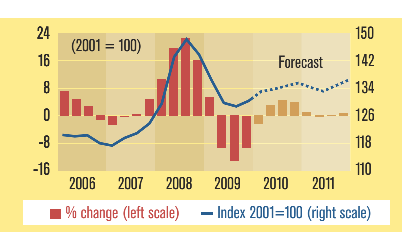
Pricing Across the Transportation Modes



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
General freight - local	-0.1	0.2	1.9
Truckload	0.0	0.9	-1.2
Less-than-truckload	-1.6	-5.5	-5.8
Tanker & other specialized freight	0.5	1.9	0.8

TRUCKING

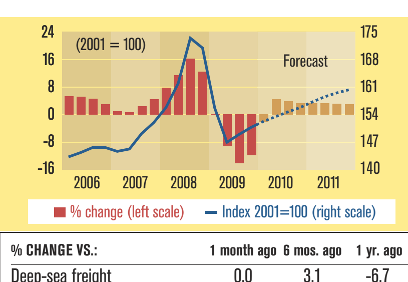
This extended economic recession continues to hamper demand for trucking services, so prices continue to fall. In January 2010, average transaction prices in the entire trucking industry fell 0.1% from a month ago and 0.8% from the same month a year ago. That's better for truckers than the 7.5% same-month-year-ago price cuts endured in last June and July. Average prices declined by 4.6% in 2009. Happily, cost pressures for truckers have been abating. In 2009, fuel costs dropped 35.9%, powering a 5.9% decline in total operating costs. Our forecast shows industry prices will increase this year and next, but at a recession-scarred, anemic pace of 1.9% in 2010 and 1.7% in 2011.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Scheduled air freight	0.4	3.6	-5.4
Chartered air freight & passenger	6.5	13.6	6.7
Domestic air courier	5.6	7.6	6.6
International air courier	4.6	4.9	2.6

AIR

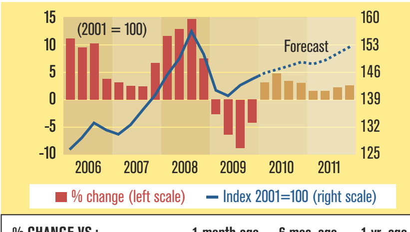
The name of the game in air transportation remains the same: cut costs so lower prices can continue. For the entire industry, average transaction prices fell 7.6% in 2009. We estimate the industry's costs dropped 9.9%. A 35.9% annual decline in fuel costs helped. On the freight side, prices for air freight on scheduled flights increased 0.4% in January 2010, but were still down 5.4% from same month a year ago. Prices for U.S.-owned airfreight chartered flights increased 6.5% in January. Forecasts are constrained by data limitations to look at airfreight on scheduled flights only. After a 7% price cut in 2009, we predict these prices will increase 2.2% in 2010 and 0.3% in 2011.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Deep-sea freight	0.0	3.1	-6.7
Coastal & intercoastal freight	1.0	0.8	-0.4
Grt. Lks.-St. Lawrence Seaway	10.9	10.5	7.5
Inland water freight	7.0	9.4	-3.6

WATER

Overall, the U.S.-based water transportation industry reported a 1.9% price increase in January 2010. Operators on inland waterways and on the Great Lakes-St. Lawrence Seaway contributed with 7% and 10.9% price hikes, respectively. Apparently under greater cost pressures than other transportation providers, Thinking Cap Solutions' economic model shows the industry's total costs fell only 1.6% in 2009. That may explain why, after dropping to a low point in Q2 of 2009, quarterly prices have been rising steadily, although slowly, ever since. After a rollercoaster ride in 2008 and 2009 (when annual prices surged 12% and then plummeted 9%), our new forecast calls for steady average industry price increases of 2.1% in 2010 and 3.3% in 2011.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Rail freight	0.5	1.2	1.5
Intermodal	-0.1	1.4	4.7
Carload	0.6	1.3	1.2

RAIL

Rail industry prices continue to exhibit more resilience to the recession. In January 2010, average transaction prices in the rail transportation industry increased 0.5% from a month ago and 1.5% from same month a year ago. That was driven by carload rail carriers where prices were up 0.6% and 1.2% over the same time periods. In 2009, a 5.6% annual decline in average industry transaction prices was met by a commensurate 4.8% cut in operating costs. Yes, fuel costs 35.9%, but the rail industry even managed to cut its spending on purchased services by 1.9% as well. With average rail industry prices already rebounding since Q3 of 2009, we forecast a price hike forecast of 3.6% in 2010 and 2% in 2011.

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

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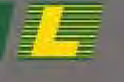

Innovative Transportation Solutions

inside

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Department of Transportation awards TIGER grants

Freight-related projects receive healthy share of $1.5 billion in allocations from the American Recovery and Reinvestment Act

By Jeff Berman, Group News Editor

WASHINGTON—Last month, the Department of Transportation awarded grants to various U.S. governments, cities, and transit agencies as part of the $1.5 billion Transportation Investment Generating Economic Recovery (TIGER) Discretionary Grant Program.

These grants were awarded in conjunction with the one year anniversary of the $787 billion economic stimulus program, formally known as the American Recovery and Reinvestment Act of 2009. Introduced by Department of Transportation Secretary Ray LaHood in February 2009, TIGER's objective is to ensure that economic funding is rapidly made available for transportation infrastructure projects and that project spending is monitored and transparent.

TIGER grants were distributed among 51 projects out of the more than 1,400 applications that came in from throughout the country. According to the DOT, the total amount requested from all 1,400 applications would have rung in at nearly $60 billion worth of projects—or 40 times the amount available through the program.

Freight transportation projects were well represented among the winners, with 22 of the 51 projects pertaining to goods movement, according to the Coalition for America's Gateways and Trade Corridors (CAGTC).

Some of the programs receiving freight-related TIGER grant funding included:

- National Gateway Freight Rail Corridor (OH, PA, WV, MD), $98 million;
- CREATE Program Projects (IL), $100 million;
- The Southwestern Regional Intermodal Freight Transportation Hub (IL), $6 million;
- Crescent Corridor Intermodal Freight Rail Project (TN, AL), $105 million;
- Port of Gulfport Rail Improvements (MS), $20 million;
- Alameda Corridor East: Colton Crossing (CA), $33.8 million; and
- U.S. 395 North Spokane Corridor (WA), $35 million.

"We're very pleased with these grants," said Leslie Blakey, CAGTC executive director. "The long-term test comes once these projects are built. We need to be able to come back and account for the job creation and related economic activity."

Blakey explained that these freight-related projects need to be viewed as long-term job producers and not just in terms of the jobs

TRANSPORTATION, *CONTINUED*

they've provided while being built.

The TIGER grant funding, said Blakey, exhibited how this process can work well, adding that DOT did a very thorough job of reviewing applications with the understanding that they could only select the top batch of applicants.

William Schroeer, state policy director for Smart Growth America, told *LM* that the TIGER freight-related projects—especially the rail-focused projects—provide myriad benefits for freight transportation and logistics industry stakeholders.

"The freight-related projects will create more options—especially the option of getting freight off the roads and into trains," said Schroeer. "But the rail freight projects didn't make the cut in the intensely competitive TIGER program because they benefit shippers and providers. These projects made the cut because they will create so many different kinds of benefits, such as reduced road congestion, reduced pollution, and reduced road maintenance needs."

Mort Downey, senior advisor at infrastructure firm Parsons-Brinkerhoff, described the TIGER grant award winners as the "cream of the crop," considering that one out of every 38 submitted projects received funding.

The criterion used by the DOT to select projects was fundamentally cost-benefit analysis, and this bodes well for the freight-related projects that were selected. But in order for these projects to be considered successful, Downey said they ultimately need to deliver.

"These grants are important on the job creation front and even more importation on the long-term economic growth front—particularly for the freight projects," noted Downey. "The freight projects in particular have very large cost-benefit potential and are largely focused on shippers in terms of supply chain efficiency and reducing inventories and [transit time] delays. A lot of these projects were 'partnership projects' between entities like railroads and ports, and TIGER money acted as the closer to make these deals work." L

3PL MANAGEMENT

Suggs takes over as CEO of Greatwide Logistics

WASHINGTON—In trucking circles, Leo Suggs is a mythical figure.

Suggs' reputation was galvanized during his three-year stare-down with the Teamsters union over its unfair labor practice strike from 1999 to 2002 while he was chairman and CEO of then non-union Overnite Transportation. Suggs, with the considerable financial backing of Overnite parent Union Pacific Corp., beat back the Teamsters' attempt to organize Overnite.

The upshot was that the company remained non-union until it was profitably sold in 2005 to UPS for $1.25 billion and rebranded as UPS Freight.

In a recent interview with *LM*, Suggs joked that he retired from UPS Freight in 2006 "for about two weeks" before the itch hit to get back in the saddle. Trucking is in the blood of this 50-year industry veteran who previously held senior executive positions at Ryder/PIE, Yellow Freight System, and Preston Trucking.

Suggs resurfaced as chairman of the board of Greatwide Logistics, a $1 billion non-asset logistics and transportation company in 2009. Last month, Suggs was appointed Greatwide CEO, replacing Raymond B. Greer, who had served as Greatwide CEO since 2005.

"I am trying to lead this company to success," Suggs said of Greatwide, which he promised would be "aggressive" in seeking tuck-in acquisitions for growth as well as expanding its customer bases with a wider array of services.

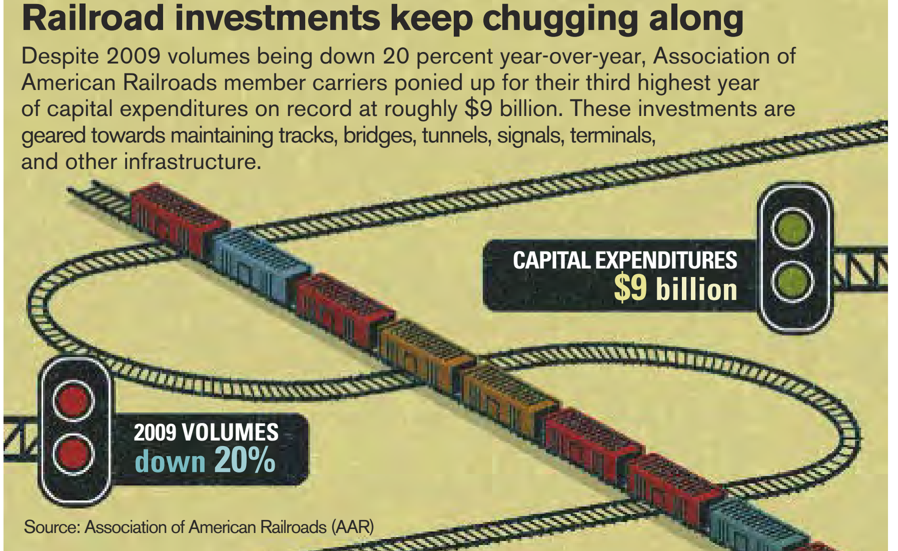
Greatwide is an interesting animal that is gaining market share and acceptance in the rapidly changing U.S. ground transportation landscape. Asset-light carriers such as Greatwide, which rely on thousands of owner-operators to avoid the large capital expenditures for truck purchases, have been growing in acceptance in the shipping community in recent years as shippers have moved billions of dollars of freight away from the asset-heavy side of the industry.

Greatwide's specialty used to be its grocery warehouse business, which Suggs described as "solid but with low margins." With Wal-Mart as Greatwide's

News Capsule

Railroad investments keep chugging along

Despite 2009 volumes being down 20 percent year-over-year, Association of American Railroads member carriers ponied up for their third highest year of capital expenditures on record at roughly $9 billion. These investments are geared towards maintaining tracks, bridges, tunnels, signals, terminals, and other infrastructure.



Source: Association of American Railroads (AAR)

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3PL MANAGEMENT, *CONTINUED*

largest customer—about 20 percent of revenue—Suggs is selling Greatwide's service capabilities. But one of his biggest immediate challenges is to diversify Greatwide's business away from the grocery and reefer business.

Leo Suggs

The company bought YRC Logistics' dedicated fleet last year, giving Greatwide entrée into dedicated aftermarket automotive and industrial products, which Suggs called a "good start" to its diversification goals.

"We're going to be very aggressive in growing our business," Suggs said. "We have really beefed up our sales force and there is a lot of evolution going on today within logistics and distribution. We can go to customers and combine a lot of our capabilities."

Greatwide grew in the past decade through 18 acquisitions. While good for the company's development, it led to sometimes messy operations. Dedicated operated separately out of Dallas; five separate broker divisions worked out of 40 locations; warehousing and distribution were located in Phoenix; while a truckload management business ("A mini-Landstar," Suggs called it) worked out of Langhorne, Pa.

Under Suggs' direction, Greatwide has consolidated its sales and back office functions of dedicated, brokerage, and distribution/warehousing and converted the holding company into an operating company. It also cut $15 million in costs.

"Today, with all the different capabilities we have, we can go to market to customers with a greatly expanded menu of services," Suggs said. L

—John D. Schulz, Contributing Editor

GLOBAL TRADE

Ports of Los Angeles and Long Beach show mixed results to start 2010

LOS ANGELES and LONG BEACH, Calif.—Volumes at the Ports of Los Angeles (POLA) and Long Beach (POLB) were mixed to begin the new year, with the POLB up 7.4 percent year-over-year, and the POLA down 2.4 percent.

POLB, imports, which are primarily comprised of consumer goods, hit 217,925 twenty-foot equivalent units (TEU) in January for an 8.6 percent annual gain. And exports, which are primarily comprised of raw materials, were up 27.9 percent to 113,183 TEU. Total POLB shipments—at 428,805 TEU—were up 7.4 percent compared to January 2009.

At the POLA imports—at 296,304 TEU—were down 6.67 percent year-over-year, and exports—at 141,243 TEU—were up 35.16 percent year-over-year. Total POLA shipments were down 2.39 percent year-over-year.

POLA Director of Media Relations Phillip Sanfield told *LM* that there continues to be a continued strong demand for U.S. exports, as evidenced by the POLA's strong January export numbers.

"This is a trend we've been seeing for several months, since last October or November," said Sanfield. "This is attributed to the lower value of the dollar, which helps our exports, as well as the rebound in Asia. Most of what we export is raw materials...that are being used for finished products that remain in Asia or inventory that is hopefully built and then comes back to the U.S. as finished products."

Sanfield added that the inbound

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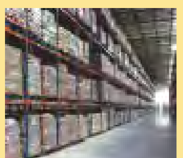

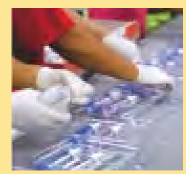

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GLOBAL TRADE, *CONTINUED*

side is less promising than exports; however, over the next six months, the POLA is forecasting for flat to 5 percent growth.

"Our imports are all about U.S. consumer spending," he said. "The more consumers spend, the more imports come here. We're not quite seeing it yet. However, we're expecting to see some improvements in the next couple of months. Slow and steady is how we expect this to happen over the next several years."

Sanfield's analysis is in line with the recently-released Port Tracker report from the National Retail Federation and Hackett Associates that calls for increased import volumes at major U.S. container ports during the first half of 2010, with POLA and POLB potentially seeing a 28 percent spike in imports during that time frame.

"We're seeing fairly good levels of restocking occurring by wholesalers and retailers," said Ben Hackett, founder of Hackett Associates, in a recent interview.

"We expect January and the first two weeks of February to be strong prior to the Chinese New Year; and we've seen reports of lack of space for container carriers that are busy managing their capacity," he said.

This current growth pattern leads Hackett to believe that a "W-shaped" recession will not occur. Instead, he maintains that there will be continued growth, with consumer spending coming back, as was evident in recent December 2009 retail sales numbers from the Department of Commerce. Those numbers, said Hackett, were higher than expected.

—Jeff Berman, Group News Editor

MERGERS & ACQUISITIONS

PwC report cites increased transportation and logistics M&A activity in Q4

NEW YORK—Following up on a positive third quarter of 2009, transportation and logistics merger and acquisition activity (M&A) made major strides in the fourth quarter, according to PricewaterhouseCoopers' (PwC) data released in late February.

In its report, *Intersections: Fourth-quarter 2009 Global Transportation and Logistics Industry Mergers and Acquisitions Analysis*, PwC stated that total fourth quarter deal value at $48.5 billion was 83 percent ahead of the third quarter's $8.1 billion. PwC noted that this figure was due in large part to the acquisition of Class I rail carrier BNSF Railway by Berkshire Hathaway.

PwC said that there were 33 announced fourth quarter deals. Average deal value for deals $50 million or more—coming in at $1.5 billion—dwarfed the third quarter's $308 million.

This was due largely to the BNSF deal, the British Airways $2.9 billion acquisition of Iberia Lineas Aereas de Espana, and Global Infrastructure Partners' leveraged buyout of London Gatwick Airport from BAA Ltd. for $2.5 billion. Deals cited by PwC in the report represent all announced deals for the quarter—as opposed to completed deals only—and does not parse out deals that are withdrawn, intended, or pending.

"Most of the values and number of deals were up in the fourth quarter, which is what we expected to see heading into it," said Ken Evans, PwC U.S. transportation and logistics sector leader. "And even without the BNSF deal, which was clearly a large driver, deal value was still up, which was pretty gratifying."

"Companies are getting healthier and more secure. Strategic investors are looking for opportunities to grow, and private equity companies are slowly getting back into the market as financing is becoming more accessible."

—Tom Connolly, managing director, EVE Partners

The types of investors making deals in the fourth quarter shifted back to financial investors from a recent surge in strategic investors. Strategic investors represented 45.5 percent of deal activity for the quarter and financial investors came in at 54.5 percent. And even with a few large deals in the mix, PwC said that most deal activity remains concentrated on smaller deals and those with undisclosed values.

The increase in financial investors, noted Evans, indicates that buyers may be feeling better about the economy, with many sale prices at reasonable levels and valuations being relatively low by historical comparison.

"Companies are getting healthier and more secure, and we are getting past the trough earnings period we were in," said Tom Connolly, managing director of EVE Partners, an Atlanta-based transportation and logistics M&A firm. "Strategic investors are looking for opportunities to grow, and private equity companies are slowly getting back into the market as financing is becoming more accessible, which is helping drive deal volumes...although it is not close to the level it was a few years ago. But at the same time, there is more activity and more people looking to do something compared to not that long ago, when people were afraid to do anything."

—Jeff Berman, Group News Editor

INTERMODAL

Domestic gains pace Q4 volumes, says IANA

CALVERTON, Md.—Mild economic improvements were evident in the intermodal market in the fourth quarter of 2009, with domestic container and domestic equipment loadings both showing growth, according to data released by the Intermodal Association of North America (IANA).

In its recently-released quarterly Market Trends report, IANA noted that total fourth quarter intermodal loadings—at 3,266,729—were down 6.4 percent year-over-year. This fared better than the third quarter, which was down 16.4 percent year-over-year, and the second quarter, which was down 18.7 percent year-over-year.

Out of its four main intermodal metrics, two were positive and two were negative for the quarter. On the positive side were domestic containers and all domestic equipment. Domestic containers were up 9 percent while all domestic equipment was up 0.8 percent. IANA noted that domestic containers were up in every U.S. region except for two.

On the negative side, trailers were down 15.4 percent and ISO (international) containers were down 12.3 percent. Trailer volume has now been down 18 of the last 20 quarters.

Early into the new year domestic intermodal volumes are holding very strong, and a 3 percent to 4 percent increase in domestic container activity is possible. This follows up on the 9.0 percent fourth quarter gain and a 34.8 percent fourth quarter year-over-year gain in 48/53-foot containers.

IANA Vice President of Member Services Tom Malloy told *LM* that a drop-off on trailer activity for the fourth quarter and for all of 2009—down 22.1 percent—indicates that trailers are starting to become the least preferred type of equipment in the marketplace.

"Containers represent the lion's share of our domestic volume, with 48-foot containers somewhat moving their way out and 53-foot containers moving more freight," said Malloy. "Twenty-eight-foot trailers and containers were also down 23 percent year-over-year, but not just because of lower LTL volumes; but also because of package and parcel shipments. This suggests that parcel carriers moved more freight via over-the-road than intermodal."

Early into the new year Malloy said that domestic intermodal volumes to date are holding very strong; and based on dialogue with IANA member companies, he said that a 3 percent to 4 percent increase in domestic container activity is possible. This follows up on the 9.0 percent fourth quarter gain and a 34.8 percent fourth quarter year-over-year gain in 48/53-foot containers.

Even though international numbers remain low, Malloy noted that there is some inventory replenishment occurring, with retailers now feeling inventory levels have dipped to a level where it's become somewhat uncomfortable. And over the next few months, Malloy added that there is a chance some moderate month-over-month gains could occur on the international side. L

—Jeff Berman, Group News Editor

RAILROAD SHIPPING

BNSF shareholders sign off on acquisition

FORT WORTH, Texas—Following a November 2009 announcement in which billionaire investor Warren Buffett and his investment group Berkshire Hathaway announced their intention to acquire Class I railroad carrier Burlington Northern Santa Fe, BNSF Chairman, President, and CEO Matt Rose said that the transaction is a done deal.

Under the terms of the transaction, Berkshire Hathaway will pay $100 per share in cash and stock to acquire the remaining 77.4 percent of outstanding BNSF shares it did not already own. Company officials said that transaction is valued at roughly $44 billion, which includes $10 billion of outstanding BNSF debt. In November, Buffett described the deal as an "all-in wager on the economic future of the United States."

"Tomorrow begins the first century of ownership of BNSF by Berkshire Hathaway. I'm looking forward to every day of it as our railroad does its part to ensure the future prosperity of the country," said Buffett in a statement.

BNSF's Rose said that BNSF management met with its Board of Directors to reflect on the past decade of BNSF as a railroad, calling it "a tremendous decade of great growth for the railroad and really positioning the railroad to provide tremendous value to our society going forward."

BNSF shareholders voted approximately 70 percent of the non-Berkshire-owned shares in favor of the plan of merger.

When asked on a media conference call if he thought BNSF would change as a company under new ownership, Rose said that it would not. L

—Jeff Berman, Group News Editor

EXCELLENCE

Pearson on

The five hallmarks of operational excellence

ACCENTURE HAS FOUND that high-performance businesses put a premium on operational excellence. We also revealed that operational excellence plays a central role in helping those companies pull ahead of their competition as the world's economic doldrums begin to recede (See figure below).

Why operational excellence? Perhaps the best reason is that it's both a source of competitive strength and a generator of cost and cash benefits. In good times as well as bad, operational excellence offers businesses an opportunity to increase quality, reliability, flexibility, speed to market, and customer value.

To make these improvements happen, operational excellence speaks first and foremost to the big picture: the way businesses are set up to achieve their goals and how work is organized and executed. Understanding the five main characteristics of operational excellence—all of which have supply chain management as a key ingredient—can help make the concept clearer and the benefits more attainable.

1. Identify your company's dominant vector

Every company needs a "dominant vector," or an internal capability that creates customer value more effectively than competitors do. This is the mechanism that uniquely qualifies an organization to create economic profit—a long-term characteristic that should change only when the company's underlying value proposition changes.

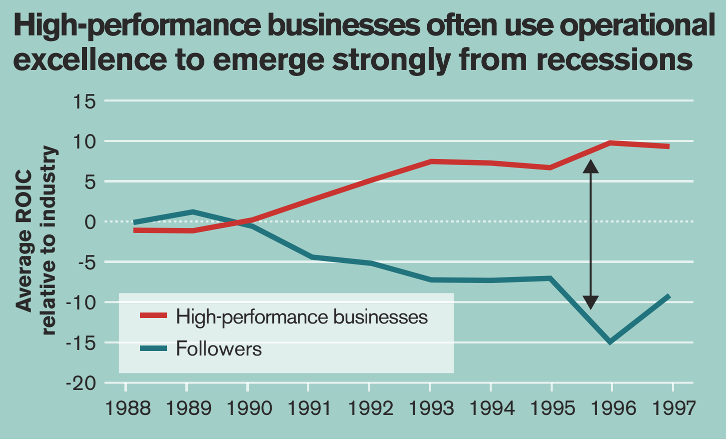
At Apple, the dominant vector is speed to market, rooted in constant innovation (think iPhone, iPad, and a million "apps."). Walgreens excels at site selection—offering convenient locations as a central plank of its value to customers. IKEA's dominant vector can be thought of as designer products made available at mass-market prices.

2. Establish the right structure

Competing through structural advantage requires a clearly defined operating model that is driven from a high level—the top supply chain decision maker—and describes how a business is organized and assembled to execute its business strategy. Aligning people, processes, technology, and organizational structure, the operating model should reflect external and internal priorities, from regulatory trends and long-term supply chain costs, to changing skill sets and improved technology capabilities. The benefits of an exceptional operating model are numerous; but the most important could be the ability to excel on a global scale—without sacrificing local responsiveness.

3. Seek to out-execute competitors

Excellence in execution revolves around drivers of simplification, standardization, and the elimination of waste. The emphasis is on how the right day-to-day work processes can help achieve significant, measurable performance improvements in cash flow and cost efficiency by improving flexibility, speed to market, quality, reliability and customer value.



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

Companies that out-execute rivals typically:

- Understand what customers value and are willing to pay for.
- Push hard on asset productivity and use return on invested capital as a guide to value creation.
- Stress process excellence.
- Build enduring capabilities and ensure that best practices proliferate across the enterprise.
- Ensure the close alignment of business strategy, goals, metrics, and initiatives.

4. Balance structure and execution

If identifying and clearly articulating the dominant vector is a critical differentiator in achieving operational excellence, then an equally defining challenge is determining the right balance between structural alignment and excellence in execution.

The need for equilibrium is all too apparent in the struggles of some Japanese corporations. Although they have outperformed at managing the details of execution and developing robust processes to drive steady gains in product quality and productivity, they are beginning to grasp the consequences of paying less attention to the benefits that accrue from an effective global operating model. Companies that underplay the need for structural advantage lack the agility, the global knowledge ecosystems, and the resource flexibility to respond rapidly to new market opportunities.

5. Choose the right journey

It is not enough for supply chain executives to know where they plan to take their organizations. How they make those journeys will also have a significant bearing on their companies' eventual positioning.

For every company and every leadership team, there will be, in theory, one journey that best suits the company's culture and positions it for survival and/or leadership. In practice, however, market complexities, customers, business units, and departments mean that most companies try more than one approach at the same time. For example, a Lean Six Sigma improvement initiative may be in progress company-wide, even as the end-to-end transformation of a particular business unit is being launched.

THE TIME IS NOW

History tells us that economic slumps often trigger positive change. As noted earlier, high-performance businesses may use the opportunity to put "more daylight" between competitors and themselves. However, downtimes can also be opportunities for struggling companies that use operational excellence initiatives to support right-sizing programs or efforts to free-up and reinvest cash.

For either kind of company, it often comes down to management vision and commitment. L

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Macy's maneuver to fill empty

BY **JOHN KERR**, CONTRIBUTING EDITOR

For a fee of $1,600 a year, the retail stalwart is saving tens of thousands of dollars a year and burnishing its environmental credentials by using a simple Web-based load-matching system—and helping its carriers save time and make money on backhauls in the process.

What a waste. As recently as early 2009, drivers of many of the Schneider National trucks pulling into Macy's distribution centers could expect to return home empty. The cost burden was phenomenal, as it is for every carrier whose rolling trailers contain nothing but air—and for every shipper that has to pay full freight in its trucking lanes.

But a new Internet portal, charging fees as small as $1,600 a year, is enabling Macy's and Schneider to fill more of those load-less miles—and reap big savings as a result. The service is essentially an electronic bulletin board that allows a carrier with an empty lane to pair up with a shipper that has a load ready for that lane. Importantly, it is also opening up new interactions between carriers and shippers across a growing range of vertical industries—potential partners that may never have had reason to work together before.

For two lanes opened not long after the launch of the portal, Macy's has seen its annual transportation costs drop by an average of $25,000 and now reports that 30 more backhaul loads leave its distribution centers each week—that's roughly 1,500 more productive hauls per year than just 15 months ago.

At the same time, Schneider reports that it has increased dedicated backhaul revenue by 25 percent on specific accounts using the new "Empty Miles" Web service—the carrier also boasts saving more than 5,500 gallons of diesel a year as a result of its involvement with the program. Through Empty Miles, Schneider says that it has already eliminated 61.65 tons of carbon dioxide emissions, 147-plus tons of particulate matter, and almost 1.5 tons of nitrous oxide.

The program draws high praise from Steve Matheys, Schneider's executive vice president and chief administration officer. "It's simple brilliance," he says. "The beauty of the Empty Miles portal is that it has created a conversation for organizations that are committed and willing to drive out waste."

Macy's is delighted that the Empty Miles Service offers opportunities to limit the environmental impact of its daily operations. "It's important for us to implement business practices that are sensitive to the environment," says Bill Connell, executive vice president of logistics at Macy's. "The Empty Miles Service greatly supports that premise while continuing to drive operational efficiency."

Connell is pleased with the price too. "You find one lane match—convert one 2,500-mile empty lane into a round trip—and you've covered the cost of the service's annual fees," he says.

TEAMING UP TO SOLVE THE PROBLEM

So what's the basic idea behind Empty Miles and where did it come from? Under the program, a shipper can connect with another company that pays a discounted rate to ship freight on the return trip. The carrier then takes most of the money paid by the second company, keeps a small amount, and passes the remainder along as a refund to the first company. The first shipper gets money that would have been wasted on an empty trip, the second is able to ship at lower rates, and the carrier makes money too. (See sidebar for details.)

The subscription-based service is the brainchild of the Voluntary Interindustry Commerce Solutions Association (VICS), a nonprofit group that works with member corporations—chiefly in retail and consumer-focused industries—to improve supply chain efficiency and effectiveness. VICS holds regular conferences for members on key themes such as transportation. At one such summit in 2007, VICS president Joe Andraski was horrified to hear how many millions of empty miles one large member company was incurring each year.

Nationwide, the empty-miles problem is huge. According to the National Private Truck Council, roughly 28 percent of the trailers on U.S. highways are running empty, at incalculable cost to companies, the economy, and the environment. This is the case despite decades of emphasis on supply chain optimization, countless releases of sophisticated software to manage complex transportation algorithms, and

PHOTO BY JEFFREY ZELEVANSKY/GETTY IMAGES

miles

Bill Connell, executive vice president of logistics, Macy's

ongoing efforts to take costs out of truck transportation.

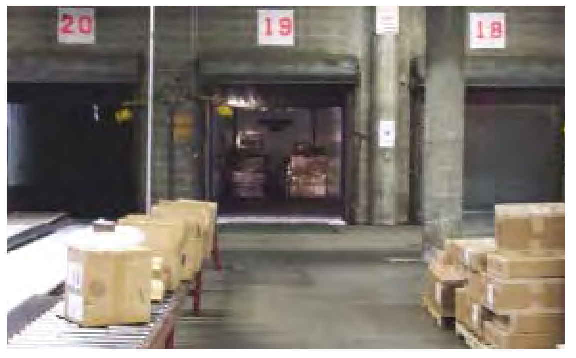
The problem is particularly acute with private trucking fleets, but it hurts carriers too. Says Schneider's Matheys: "As any carrier would do, we've always looked at ways to engineer costs out of our fleets," he says. "We have percentage targets for backhaul, and collaborative-type bid activities to try to make sure we find ways to take out the empty miles."

Macy's Connell puts his finger on the problem. He explains that with his company's core carriers and its core suppliers, it's standard practice to try to pair up to fill as many of their mutual transportation lanes as possible. "We know to do that," he says. "But we would not naturally have good reason to be in touch with a pharmaceuticals company in New Jersey or a food manufacturer in Seattle." That, he says, is what's different about the Empty Miles program. "It allows partnerships to evolve that would not naturally evolve."

Those themes had been in discussion between VICS and its Canadian e-commerce standards partner GS1 CA since the third quarter of 2007. The GS1 group built a pre-prototype for Empty Miles. By early 2008, the topic—and the potential tool—were under review by VICS industry focus groups.

Macy's and Schneider—both long-time VICS members—saw big benefits in an empty-miles solution and became heavily involved in the discussion. The challenge was not a technical one: "Some of this stuff doesn't sound like it's rocket science, and it's not," says Schneider's Matheys. "It was really about working to solve the problem. At the senior management level, we made a commitment that we were going to get this figured out."

The project work crystallized in the form of a Web-based portal contributed to and shared by subscribers. Any supply chain organization could subscribe—VICS member or not. In fact, the more the merrier because the program's success relies on a critical mass of participants to provide more chances of good matches. The objective: Bring together retailers, manufacturers, and carriers as trading partners to collaborate and mutually benefit from reducing empty miles.



Now, 30 more backhaul loads leave Macy's DCs each week–roughly 1,500 more productive hauls per year than just 15 months ago.

By January 2009, VICS and its GS1 partners had launched the Empty Miles Service. As VICS members, Macy's and Schneider pay $1,600 a year in fees (non-VICS members pay $1,850.) As charter members, the retailer and carrier were quick to load their lane data into the system. "There are certain lanes that have density—Chicago to New York, New York to anywhere in the Northeast, Los Angeles to almost anywhere—and many others that are a lot less frequent," says Connell. The two lanes that his transportation managers, working with Schneider, decided were most suitable were New Jersey to Chicago and Ohio to New Jersey.

Macy's and Schneider saw results very quickly. Filling those first two lanes yielded the $25,000-a-year savings. "The guys in our transportation office and the folks in Steve Matheys' organization felt very good about realizing those wins, even the first two lanes," says Connell. The wins have encouraged Macy's to expand its use of the program. "We've got literally hundreds of lanes posted," says Connell.

Macy's now runs similar collaborations with J.B. Hunt and is piloting programs with smaller carriers. Connell has bigger ideas: "At some point, you could envision using this with our distribution center-to-stores traffic. We'll likely expand it to all modes. It's really a matter of Empty Miles getting big enough," he says.

Schneider notes that the service has helped it eliminate 11 percent of its empty miles and increase its backhaul freight by 22 percent. "We're using the tool to get visibility into opportunity," says Matheys. "Then the job is to start working with shippers to come up with solutions that can be operationalized. The learnings here are about how you can connect multiple shippers in a string," he says.

The carrier is now working with J.C. Penney and other retailers on similar Empty Miles partnerships.

What's the business impact?

Increased Sustainability: Macy's is confident the Empty Miles Service has helped it limit its impact on the environment. The company will establish 2010 targets for reducing carbon emissions.

Schneider has eliminated 61.65 tons of carbon dioxide, 147.24 tons of particulate matter, and 1.47 tons of nitrous oxide while saving 5,554 gallons of diesel fuel.

Increased Revenue: Schneider National has increased dedicated backhaul revenue by 25 percent on specific accounts using the Empty Miles Service.

Decreased Costs: Schneider has decreased its operating costs by eliminating 11 percent of its empty miles and moving 22 percent more backhaul freight with member shippers.

Macy's has experienced an increase of 30 backhaul loads per week, or a projected 1,500 loads per year, at competitive rates.

For each initial lane opened, Macy's has reduced annualized transportation costs, on average, by $25,000.

New Business: Schneider has been able to increase business with existing customers and develop new customers through the services it offers.

Greater Customer Satisfaction: Based on improved capacity optimization, Schneider is able to offer more competitive rates and still offer the service that shippers expect.

ENCOURAGING LONG-TERM ARRANGEMENTS

Load-matching services that match empty trailers with backhaul loads have been offered before by transportation brokers and online freight exchanges. But the VICS service, targeted at companies

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that have regular deliveries that produce empty miles, is a big step forward in that it is designed to encourage long-term arrangements between companies rather than one-off lane fills.

"We want people to post their routinely empty lanes. It's the lane that's running empty every Tuesday, not just next Tuesday," says Empty Miles program manager Tony Galli.

The program has another important plus-point for those shippers, like Macy's, that are attracted by the potential to improve their sustainability profiles. Empty Miles has been endorsed by the U.S. government through the Environmental Protection Agency's (EPA) SmartWay program.

It's tempting to wonder why a similarly effective program has not emerged before this. There are at least three solid reasons. First, when the empty-miles problem became a top agenda item a year and a half ago, diesel prices were still at gut-wrenching levels. Second, environmental sustainability has become a much more visible issue for corporations. "For some time now, Macy's has had sustainability very high on our list," says Connell. "We've engaged in many different initiatives for sustainability, but Empty Miles has been in the forefront by providing us with tangible results." The tally to date for Macy's: 722 fewer tons of CO_2 emissions.

VICS' Galli adds that Empty Miles arguably has more potential to have an impact on companies' sustainability programs than many of their conventional efforts, such as materials recycling. Using EPA-approved data, he has calculated that if you could match one 500-mile lane once a week it would eliminate more than 40 tons of carbon dioxide emissions per year.

The third factor that makes Empty Miles so viable today is that there is far more collaboration among supply chain companies—notably between shippers and carriers. Connell notes that many organizations have seen the huge value of supply chain collaboration. Matheys of Schneider agrees: "In recent years, shippers and carriers alike have become more willing to work together on solutions," he says. "Today they're looking for reasons why collaborate should work as opposed to reasons why it won't."

It sounds simple because it is...

If the Empty Miles Service sounds remarkably simple, that's because it is. Here's how it works.

Traditionally, carriers and retailers try to fill backhaul opportunities by manually searching within their own company and through their external network—a process that may take hours and produces limited or no results. With the Empty Miles Service, subscribing carriers or private fleets (called "lane publishers") log on to the portal to post their empty trucks/trailers and routes, while shippers ("lane subscribers") can post their transportation needs.

A carrier wishing to post an available lane would log on with a user name and password to the VICS Empty Miles Collaboration Zone portal. Under a "My Power Lanes" tab, the carrier opens up a new page and completes a prescribed template with data ranging from available start and end dates to the zip codes of start and destination locations.

Clicking on tabs such as Vehicle and Driver Profile will invite the user to enter data ranging from trailer length to hazmat status and earliest and latest loading times. When complete, the user clicks "Submit" and the lane is posted, with an easy-to-see color box denoting its status—green for "Open," yellow for "Under Negotiation," and red for "Closed." Status updates—when a lane is being negotiated, for example—must be edited in at that time by the user.

Other sections of the portal allow subscribers to search Power Lanes and create watch lists, and enable them to use alerts when there are lane updates they may be interested in. (Detailed video demonstrations are available at: www.emptymiles.org.)

Entering the lane data does take time and effort. Lanes posted individually must be removed individually; groups of lanes can be mass-edited. "It takes a little bit of sweat equity," says Empty Miles program manager Tony Galli. The Empty Miles team has also developed a simple way of uploading spreadsheet figures to ease the burden of manually entering data.

To date, Empty Miles has 40 corporations on board—roughly half carrier, half shippers—with household-name participants such as Best Buy, Nestlé, and Johnson & Johnson. But the program has the potential to pull in hundreds, if not thousands more across North America. For all its evident advantages, Empty Miles is no certainty. Critical to its long-term success is wider acceptance—particularly among transportation managers—and a deeper commitment to commit to make Empty Miles work.

According to Galli, the need to commit time and effort to load and maintain yet another logistics system may be a deterrent for some. "Frankly, that's probably where it's falling short," he says. "Who's that guy in your transportation department who's got all the time to work on it?" He points out that one early member—Wal-Mart—has dropped out. He believes that Wal-Mart's move toward more pre-paid shipments is a key reason for its withdrawal.

Galli points out that when promoting Empty Miles, he often gets the most traction with executives in charge of corporate sustainability. That's a point that resonates with Connell: "One of the things you should be doing when considering Empty Miles is looking at the problem holistically—as more than just about freight miles. You need to be sure you're driving out waste wherever you see it," he says.

Connell is optimistic that the Empty Miles program will gather momentum. "It's one of those things that needs to get some buzz around it," he says. He reiterates the point about the critical mass that will generate what he describes as a "success spiral." And he notes that over time, he expects that Macy's will develop trend-line data for reductions in empty miles that he and the logistics team can use to set new targets for sustainability and cost reductions.

And those factors are good for business—by any measure. L

John Kerr is a Contributing Editor to Logistics Management

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Salary Survey webcast • March 31st at 2 p.m. ET • logisticsmgmt.com/salary10

26TH ANNUAL SALARY SURVEY: RETAIN, REWARD, REPLENISH

BY **PATRICK BURNSON,** EXECUTIVE EDITOR

Shipper responses confirm that U.S. business continues to place a high value on top logistics and supply chain talent—and companies are preparing to groom a whole lot more.

For three straight years our annual survey revealed that the median salary of logistics professionals had leveled off at $80,000. Then in 2009 we saw a blip when that figure jumped to $85,000. This sudden boost was to be expected, say employment analysts, as companies were shedding jobs and trying to do more with less. And in 2010 that trend continues with the median inching up to $88,000.

With national jobless figures remaining at record numbers, our research team discovered that one out of every four logistics and supply chain professionals who responded this year received a basic standard-of-living raise—and the average bump was 4.8 percent. Does that mean companies will place a freeze on hiring while compensating current workers with more raises?

Not necessarily, says Don Firth, president of JobsInLogistics.com. Following major layoffs and hiring freezes during 2009, he maintains that there is growing optimism for renewed job growth in 2010 for the logistics and manufacturing sectors. "Many of our clients are expressing confidence in the economy and planning increased hiring for 2010," says Firth. "Job postings and resume search services with us in January and February have increased by more than 45 percent over the same period of 2009," he says.

Firth adds that late last year many clients were purchasing small job posting packages to fill essential positions only. "The recession meant that companies were going to stay 'lean and mean,'" he says. "But we see that trend being reversed in February 2010."

Spurred by better than expected seasonal sales, Firth says that the retail industry increased their job posting packages by more than 60 percent in December on AllRetailJobs.com, the sister job board of JobsInLogistics.com.

"This increased confidence by the retail industry has a domino effect on the whole supply chain, including manufacturers, importers, distributors, third-party logistics providers, and transportation companies," says Firth.

WHO MAKES WHAT?

Our 26th Annual Salary Survey validates many of the good vibes that Firth is feeling. The survey was conducted via e-mail during December 2009 and is based on feedback from 1,075 respondents.

Our research team reports that 39 percent of this year's respondents participated in last year's survey, with the typical profile remaining similar to last year's despite the high turnover during the period.

This year's average respondent is a 46-year-old, college-educated male. In fact, 87 percent of respondents are male and 94 percent tell us that they've attended college. This year, 73 percent of respondents report having at least an undergraduate degree, while 19 percent report that they've taken the extra steps and nailed down an MBA.

It's also worth noting that 35 percent have completed formal education in logistics and supply chain management. And among this group, 32 percent have a specific logistics and supply chain management undergraduate degree, while 17 percent have a graduate degree in logistics and supply chain management.

The typical respondent has spent 7 years with his current employer—up slightly from last year's 6.74 years—and has been in his current position for 5 years, down slightly from last year's 5.1. Respondents have an average of 8 direct reports and work for companies with an average of 3,011 employees.

The salary gap between men and women in the field remains pronounced with women earning $80,857 in 2009—still a substantial bump up from the $69,885 they made in 2008. Men made an average of $106,329 in 2009.

Finally, the same rule on salaries for both genders is very much like the real estate business: location, location, location. Those residing on the West Coast earned the

Illustration by Randy Lyhus

Salary Survey webcast • March 31st at 2 p.m. ET • logisticsmgmt.com/salary10

Figure 1

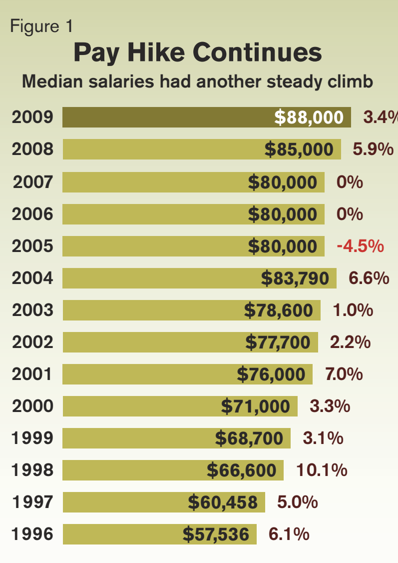


Figure 2

Job Titles Matter

Executive roles win better compensation

Job title	Average salary 2009	Average salary 2008
Vice president/General manager	$169,404	$150,000
Corporate/Division manager	$133,399	$120,000
Supply chain manager	$110,421	$97,500
Logistics manager	$85,579	$81,500
Operations manager	$79,448	$75,000
Traffic manager	$72,175	$71,500
Warehouse manager/Supervisor	$66,130	$62,400
Assistant traffic management/Supervisor	$61,484	$50,000

Figure 3

Multi-Tasking is Rewarded

Supply chain pros scored big time

Area	Average salary 2009	Average salary 2008
Supply chain management	$137,508	$103,850
Computer systems	$93,522	$100,650
Distribution/Logistics	$107,484	$88,125
Fleet operations	$99,887	$85,500
Traffic/Transportation	$90,089	$80,000
Planning	$108,911	$78,000
Import/Export operations	$82,682	$76,000
Warehousing	$73,737	$75,000
Purchasing	$81,781	$71,000
Inventory control	$82,078	$68,000
Materials handling	$92,478	$60,000

Figure 4

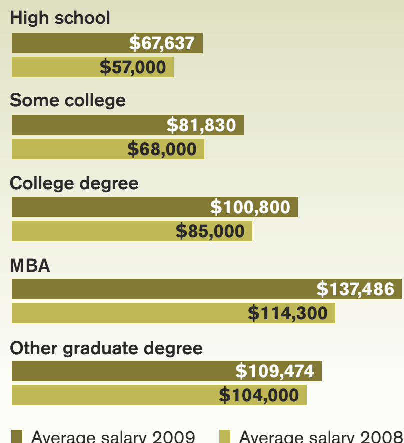


Figure 5

Gender Gap Remains Substantial

Men earned considerably more again this year

Men		Women
$106,329	Average salary	$80,857
47	Average age	45
18	Average years of experience	15
7	Average years with company	7
9	Average number of direct reports	5

Figure 6

Investing in the Future Pays Off

Companies spending more than $100 million on transportation last year sent their employees a powerful message

Annual transportation expenditure	Average salary
Less than $500,000	$73,224
$500,000 to $999,000	$68,774
$1 to $6 million	$92,463
$7 to $20 million	$105,231
$21 to $100 million	$119,753
$101 to $500 million	$137,462
$501 million to $1 billion	$116,148
More than $1 billion	$121,234

most, bringing in an average of $113,005. Mid-Atlantic workers brought in average of $107,663; while those in the south-Atlantic region fared slightly less well with $107,413.

SATISFACTION REMAINS HIGH

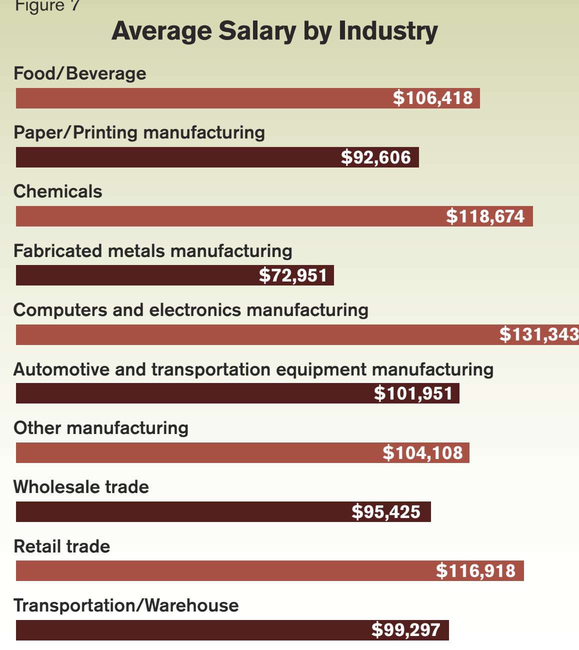
Our survey also confirms that U.S. business continues to place a high value on logistics and supply chain talent—and the feeling is mutual, say respondents.

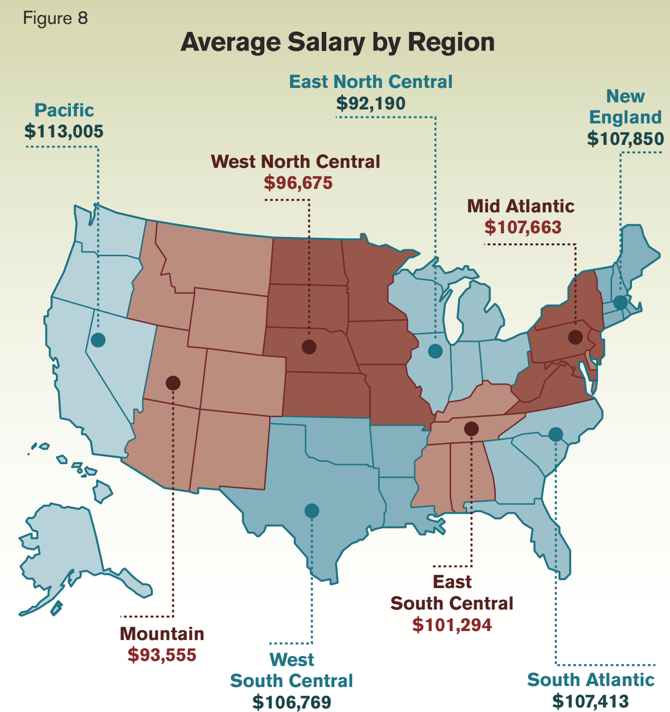
Logistics and supply chain job satisfaction is staying on an even keel, with 60 percent of respondents reporting that they're happy with their current situation—the same encouraging percentage that was posted in our 2009 survey.

It's also worth noting that 69 percent or responding shippers told our research team that their feeling of "making a difference" had the biggest impact on their well-being. Ranking second is "relationships with their colleagues," with "salary" as third in the well-being rankings.

With only 10 percent saying that they're currently looking for a job elsewhere, 45 percent of those looking say "politics" is the reason why. Lack of advancement opportunity ranked second, with lack of salary coming in third. For the vast majority that are not in the job market, roughly 80 percent say that they'd recommend the field of logistics and supply chain to a friend or family member.

While job satisfaction is critical for shippers to maintain their interest in their current position, it may not be enough to ultimately stay in the game and grow their career. Michael Regan, CEO and chairman of the board of TranzAct Technologies Inc. and career development





evangelist, argues in his *LM* blog ("It's Personal") that commitment to the industry is also critical to success.

"There are three types of logistics industry professionals," Regan says. "The first group recognizes that they are the captains of the battleship known as the IIMC (It Is My Career). They belong to industry associations such as the NITL, CSCMP, TIA, AST&L, NASSTRAC, or others. They show up to meetings or take advantage of the educational opportunities afforded by these outstanding organizations. They read industry publications, they volunteer their time for worthy causes, and in so doing they build a valuable network."

Regan defines the second group as "those who may have good intentions." He says that this group is weak on the follow through. "They may understand the importance of industry associations, but just don't belong to any groups," he adds.

The third group of individuals doesn't even have great intentions," says Regan. "They take their employment for granted and mistakenly believe that if they do a good job they will have a job for a long, long time."

Regan says that those who languish in the third group are not likely to advance their careers, much less climb the salary ladder. However, as our salary survey results and reader feedback tells us, fewer shippers are willing to regard anything as a sure thing these days.

HEALTHY ANXIETY

Respondents were asked if the state of the economy has changed their perception of their current position. Better than 6 out of 10 responded "yes," citing a variety of ways that the downturn has changed their view of their role.

"I'm much more appreciative of my position these days," says one shipper. "And I'm more willing to take on new challenges if it means ensuring job security."

And while a "healthy anxiety" will help many shippers maintain their positions and even grow their roles inside the organization, other survey respondents are telling us that their logistics operations are back on an even keel.

"While we have not been hiring for any new positions, we are certainly replacing anyone we lose," said David Cormier, operations manager for the Arizona division of Pro Star Logistics. Cormier, who has held executive positions in the past for other logistics providers, says that his new company has grown "exponentially" over the 10 months.

Also determined to stay the course is Berry Plastics, a leading manufacturer of injection-molded plastic packaging based in Evansville, Ind. Stephen Cripe, the company's traffic coordinator, says lay-offs have ceased and they're ready to hire again to accommodate forecasted demand. "Because we are global business, we have not been as hard-hit as some companies in this region," he says.

The recession's impact on Evansville was widespread elsewhere in the local manufacturing community, Cripe observes. He notes that the recreational vehicle industry, a larger employer in the region, was especially vulnerable to the economic downturn, leaving a lot of skilled and qualified assembly workers looking for new jobs. Fortunately for Berry, this provides a labor pool for them to build upon in the future.

Furthermore, says Cripe, Berry's heavy reliance on robotics will mean fewer lost jobs if another round of hard times resurfaces. The pain of unemployment still resonates in the region, however. That's why Cripe—like *LM* blogger Regan—encourages colleagues to stay engaged in industry associations. "I'm active with the local Chamber and the traffic club here is very strong," Cripe says. "I certainly value the fellowship and opportunity to network and share ideas."

Patrick Burnson is Executive Editor of Logistics Management

RIGHT-SHORING: NEW INSIGHTS for the post-meltdown economy

BY **RICHARD BERGMANN** AND **GANESAN RAMACHANDRAN**, ACCENTURE

Is off-shoring still the best option given impending increases in freight rates, a renewed focus on sustainability, and ever-changing consumer needs? Two Accenture analysts say that the time has come for companies to reconsider their global supply chain strategies.

The economic downturn and a drop in crude oil prices produced an artificial window of opportunity for many companies as they continued expanding their global manufacturing footprint to off-shore locations. However, many high-performing organizations didn't follow along and continued focusing more on flexible manufacturing operations that blend off-shore, near-shore, and even on-shore facilities.

And as before, their network design decisions were guided most prominently by calculating "total cost to serve" for each customer segment and by the levels of service they deem most effective for each of those segments. In the post-recession economy, these companies are better poised to weather fluctuating oil prices and get an edge over their competitors. In fact, it is increasingly clear that most companies could benefit from a blend of off-shore, near-shore, and on-shore approaches. Following is a closer look at why and how to control the growing risks associated with global sourcing and procurement.

A DRAMATIC DECADE

The decade of the 2000s marked a dramatic end to the commodities recession of 1980–2000. In 2008, the price of many commodities, notably oil and food, rose so high that real economic damage occurred,

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"stagflation" became a tangible threat, and the slowdown (or even temporary reversal) of globalization materialized as a real concern. At the same time, drops in U.S. GDP exceeded everyone's expectations quarter on quarter. The year also ushered in the worst recession in decades as consumer confidence slipped and U.S. purchasing hit an all-time low (Figure 1).

In parallel, crude oil prices dipped to $37 per barrel and the Deep Sea Freight Transportation Index dropped substantially (Figure 2). The lack of correlation between crude oil price changes and the deep sea freight index can be attributed to the demand-supply mismatches in the global freight volumes.

So, how did all this affect various firms' manufacturing strategies? A majority adopted classical approaches, such as ramping up scale economies, improving productivity, cutting back on manpower and raising their operational efficiency. The goal, of course, was to reduce costs and prices in order to remain viable. Many companies also became more reluctant to pursue new manufacturing strategies, because the recession's extent could not be known and conserving cash reserves was considered paramount. This often resulted in continued expansion of manufacturing operations to off-shore locations.

In the past six months, quite a few indications are that the global economy is trying to gain strength. Real gross domestic product of the United States increased at an annual rate of 2.2 percent in the third quarter of 2009, compared to a fall of 0.7 percent in the second quarter. As of this writing, oil prices are hovering around $80 per barrel, and analysts predict that $100 per barrel could be reached within the next few months.

The Conference Board Consumer Confidence Index, which had increased in November 2009, rose again in December. The Index stood at 56.5 in January (1985=100), up from 52.9 in December. The Expectations Index has increased to 75.6 from 70.3 in December 2009. Around the same time, an increase in deep sea freight rates went into effect. For example, Transpacific Eastbound Lane (TSA) carriers announced in December 2009 an "emergency revenue charge" that went into effect on January 15, 2010.

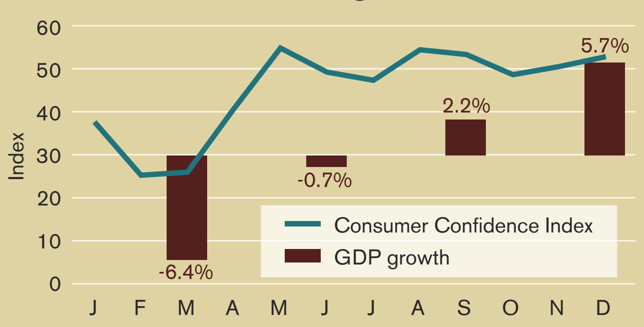

Fig. 1. In 2008, the U.S. saw the worst recession in decades. The consumer confidence slipped and purchasing hit an all-time low.

PAST TIME FOR A NEW PARADIGM

With such positive indications—many indicative of impending higher shipping costs—the time has definitely come for companies to reconsider their manufacturing strategies. Is off-shoring really the best option, given the impending increase in freight rates, renewed focus on sustainability, and ever-changing consumer needs?

As noted in an earlier article published in *Logistics Management* ("Right-shoring: A flexible strategy for tough times"), the more sensible course may be for business executives to adopt an holistic "right-shoring" approach—positioning their global manufacturing operations in three, often-concurrent contexts:

1. On-shore: Manufacturing located on land masses closest to end customers (e.g., both manufacturing unit and most consumers located in North America).

2. Near-shore: Manufacturing located near end customers (e.g., manufacturing unit is in Latin America while the majority of consumers are in North America).

3. Off-shore: Manufacturing located far away from end customer base in order to take advantage of low-cost labor and/or less-expensive raw materials (e.g., manufacturing unit in China with a majority of consumers in North America).

This tripartite approach should not imply that companies aren't acknowledging the need to consider "total landed cost." However, several macro changes have occurred that raise the importance of a flexible manufacturing strategy that will likely include all three alternatives.

The most fundamental of these involves expectations about service. On the one hand, as more and more products become commodities, consumers are using service benchmarks such as delivery accuracy and post-sale responsiveness to make their choices. At the same time, basic assumptions about the relationship between service and cost are being challenged as demand remains weak and oil prices balloon.

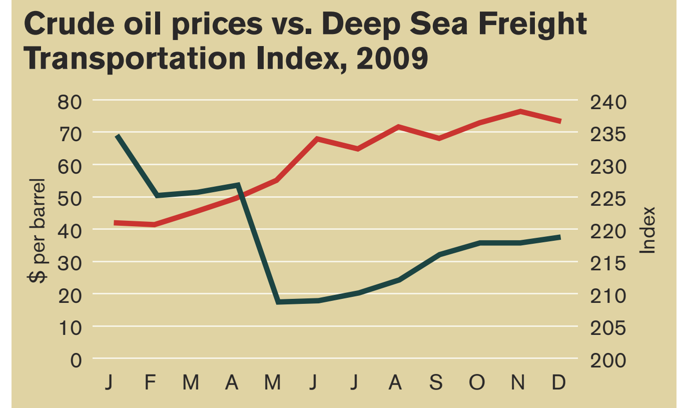

Fig.2. Crude oil prices dipped to $37 USD per barrel and the Deep Sea Freight Transportation Index dropped substantially.

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For example, perhaps a particular level of service can no longer be guaranteed for a given price. Or maybe service expectations in general need to be lowered, even if corresponding price cuts do not follow. It all comes down to understanding total landed costs and the ongoing value and cost of service. More than ever, the right manufacturing option—or combination of options—stems from these two wellsprings as depicted in Figure 3.

Fig. 3. Manufacturing strategy depends on total landed cost and service performance.

BALANCING THE CHOICES

When companies have to balance the service performance vis-à-vis the total landed cost, off-shoring may not be the only option for all product lines. In an increasing number of cases, near-shoring may be an ideal strategy for a particular product line.

Consider the case of a U.S.-based IT hardware manufacturer that embraced an off-shore manufacturing strategy in the early 2000s. The strategy worked well for a time. However, more and more North American companies started asking for shorter order cycles for their end customers. Labor costs at off-shore production sites began rising. Rising oil prices choked transportation networks with high freight costs. The cost of spares rose commensurately, while availability slipped. For all these reasons, the company is now considering a commodity-focused, near-shore manufacturing unit that will complement—not replace—the off-shore production center that will focus more narrowly on configure-to-order products.

On the other hand, if service performance is very important to the product but total landed cost is not, then on-shoring may be an appropriate option. A global consumer electronics firm that makes audio products and aftermarket car radio systems recently moved its manufacturing base back to North America.

The company had adopted a global manufacturing approach and tried to set up an off-shore production center in Asia-Pacific. However, significant quality issues—the result of local component sourcing problems and a dearth of assembly skills—sank the idea. The company then opted for a near-shore approach by opening up a center in Latin America. However, this too proved ineffective due to a dwindling cost advantage and security concerns. The company then moved its manufacturing operations to North America.

Sometimes, of course, service performance and total landed cost are equally critical and it becomes necessary for a company to adopt a strategy of postponement or to stockpile inventory if obsolescence is not a concern. For example, final assembly of foreign-made mobile phone batteries, circuits, cameras, and outer casings might be completed closer to the customer—thus simplifying customization and shortening the time needed to respond to market changes.

Still, when total landed cost is critical but service performance is not, then off-shoring may continue to remain the best option. A representative example might be in some aspects of the apparel industry—for product lines where styles change slowly and there are few fluctuations in consumer demand.

Lastly, there is another level—complexity management—that can sometimes challenge, or even transcend, cost and service concerns. For example, global aerospace companies have long operated design and manufacturing centers in off-shore locations to take advantage of low cost labor. However, the complexity of an engineering change order can often cause an off-shore contractor to incur delays of far greater length than those assumed by near- or on-shore subcontractors.

One such company was saddled with so many customers requiring frequent engineering changes that it was forced to re-examine its global manufacturing operating model eventually morphing from a pure-play off-shore manufacturing strategy to a mix of off-shore and near-shore. The company was thus able to avoid many long delays while allowing end customers to participate more fully in product prototype testing; and it still retained many of the cost advantages associated with off-shore manufacturing.

FLEXIBILITY IS PRUDENT

The global economy continues to evolve and new opportunities to reduce costs and penetrate new markets continue to present themselves. However, these opportunities can easily be offset by compromised service, management and engineering complexities and, most of all, the higher costs of fuel.

The reality is largely inarguable: In the near future, wild oil-price swings will continue. Longer term, steady price increases are a virtual certainty

All of the above influencers point to the same manufacturing conclusion: a right-shoring approach that strikes the most flexible possible balance among far-shore, near-shore, and on-shore resources. The new post-meltdown economy is rife with opportunity. But when service, pan-global collaboration, and total costs (including transportation, customs, taxes, security, control, and complexity) are factored in, it becomes increasingly clear that flexibility in the form of right-shoring is the prudent strategy. L

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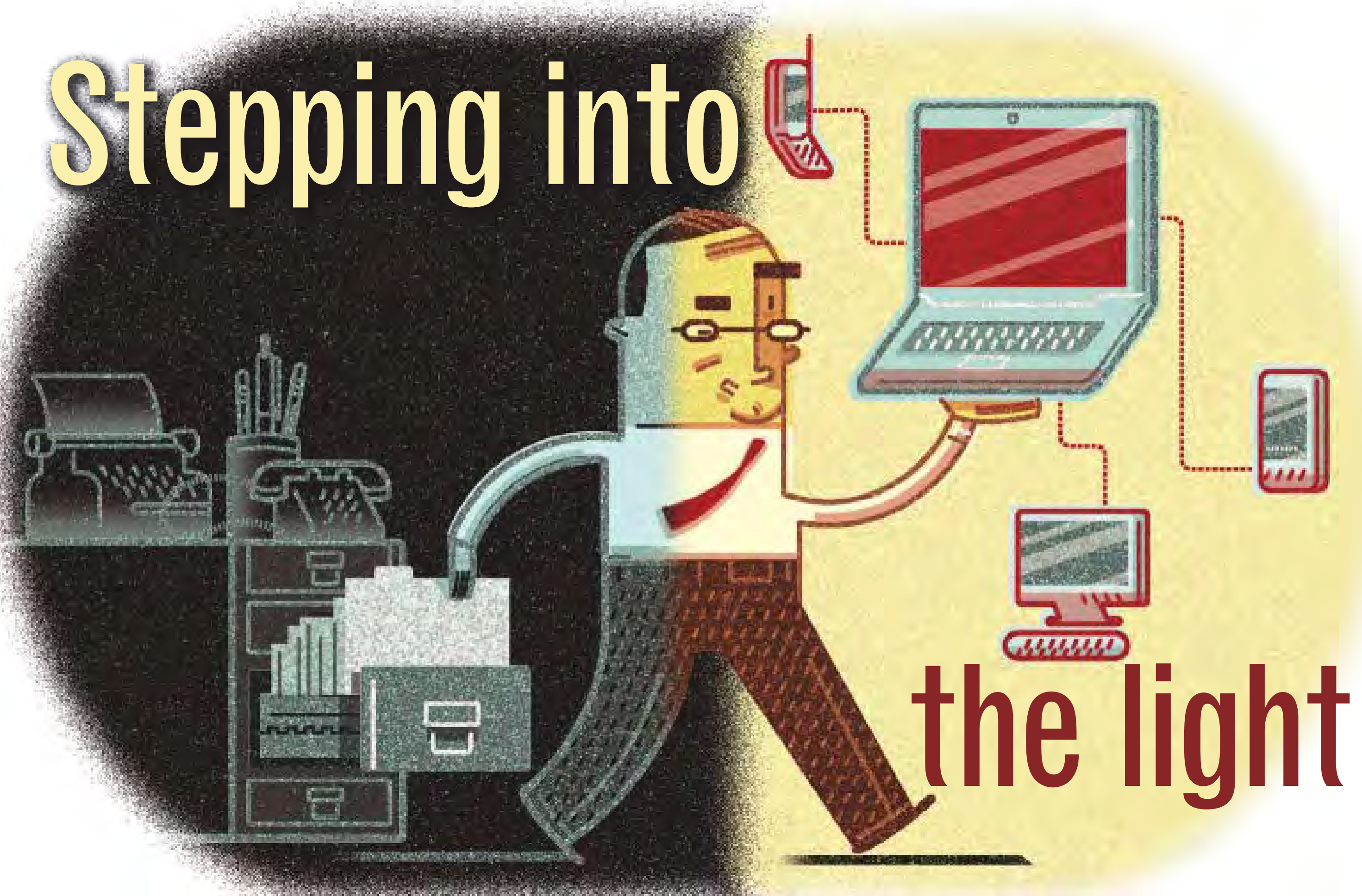


Stepping into the light

BY **BRIDGET MCCREA,**
CONTRIBUTING EDITOR

American Hotel Register's logistics team eliminated the paper, faxes, and phone calls and got up and running with an on-demand TMS in only eight weeks—boldly stepping into the new millennium of transportation management.

When exhausted road warriors and weary travelers check into hotels, most of them are looking to recharge their batteries in a clean, inviting environment that emulates their own home environments. Thanks to healthy competition amongst hotels, those expectations are usually met.

Doing its part to make sure its own hotel clients meet and exceed those travelers' expectations every time is American Hotel Register Co., a Vernon Hills, Ill.-based company that has been selling products and services to the hospitality industry (including hotels, hospitals, and universities) since 1865.

Over the last 145 years American Hotel Register has expanded its product line from a single product to a full lineup of bath hardware and accessories; bed, bath, and table linens; foodservice items; guest room supplies; housekeeping and cleaning products; and furniture and furnishings, to name a few. With more than 30,000 unique SKUs moving through its seven domestic distribution centers (DC) and four international locations, American Hotel Register's logistics operations had been mired in paperwork and time-intensive processes for several years. Add the company's private fleet delivery and line haul services to the mix, and it's clear to see why this growing firm went in search of a better way to manage its transportation operations last year.

At the heart of the issue was a manual transportation management system comprised of paper, faxes, phone calls, and an "honor system" used by the firm's carriers and suppliers to report information and data. Not only was the system inefficient, but it also didn't allow American Hotel Registry to make improvements in

ILLUSTRATION BY DANIEL GUIDERA

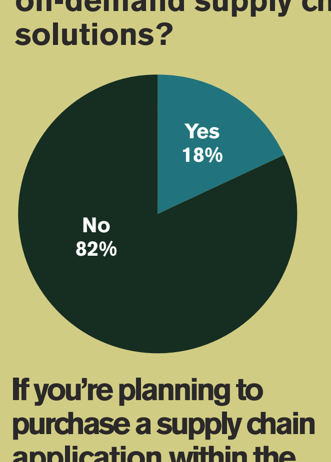
an area that all small, private firms are looking at in today's challenging economy: transportation spend.

"At the time, everything here was manual and paper-based, so we weren't able to ensure that our suppliers were using carriers at the best possible rates," recalls Ruta Ladd, the company's vice president of distribution and logistics. She says the company lacked an effective way to maximize inbound consolidation opportunities—a function the company was sure to benefit from based on its high shipping volume.

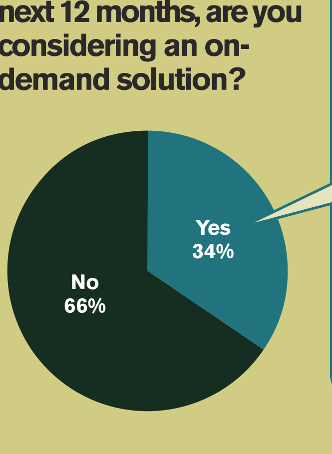
Like many other shippers have already learned, an automated system would go a long way in taking American Hotel Register from the dark "paper" ages and into the new millennium of transportation management. "When I arrived, the move to an automated system was already underway," says Ladd, who joined the company in June of 2009. "The goal was to now take our inbound [freight] spend and create step function improvements in that area."

Ladd says American Hotel Registry had three key criteria in mind when shopping around for a solution to meet its freight challenges: it wanted routing guide compliance capabilities; inbound consolidation opportunities; and a way to ferret out the best possible freight rates. Here's how Ladd and her team met each of these criterion—and then some.

Are you currently utilizing on-demand supply chain solutions?



If you're planning to purchase a supply chain application within the next 12 months, are you considering an on-demand solution?



If yes, what are the key reasons ?

Cost effective

"I have been looking at the value of SaaS for the past 3 years. SaaS offers the opportunity for lower costs for us and also lower implementation costs."

"Lower starting cost and no need for in-house support."

"Reduce the cost of infrastructure and the associated maintenance costs."

Ease of implementation/use

"Quick implementation cycle. Integrates well with legacy apps."

"Easier install, less initial cost, benchmarking across other clients"

"Added flexibility with no increase in total IT spend."

Source: *LM* research, 2010

GROUP DECISION

Consider, for a moment, the fact that American Hotel Register does business with hundreds of domestic and international suppliers, with an emphasis on the former. Those suppliers ship via LTL, TL, or small parcel to the distribution DC that placed the order, says Ladd, with additional freight movement including transfers between the firm's DCs. Products are shipped from the DCs to customers within a certain mile radius.

The logistics behind American Hotel Register's distribution setup have become more complex as the company has grown and as more suppliers and customers have been added to the network. As a first step in its quest to automate those processes, the firm's IT, finance, and transportation departments put their heads together and evaluated several TMS options, looking at both purchase-and-install and on-demand options.

Simplicity of installation and use was a key requirement for the firm, which "doesn't have a lot of people to manage the software," says Ladd. After culling through its options, the company selected LeanLogistics' On-Demand TMS and got it up and running in July of 2009.

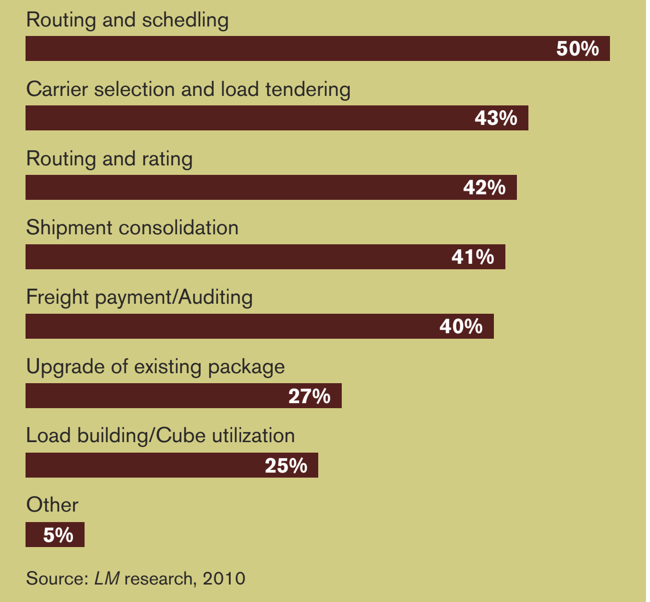
"We had a choice of installing a complete system or buying an [on-demand] option. We chose on-demand because we want to be able to use the software without having to maintain it in-house," says Ladd. The system was up and running within eight weeks, with American Hotel Register's top 100 suppliers linked into the TMS soon thereafter.

Ladd says those top 100 suppliers were pinpointed for their potential to produce the most cost savings from the new system. "Our goal was to save a gross of $2,000 a day right out of the gate," says Ladd. The expectation was met and exceeded, she adds, with the first two months exceeding $100,000. "That's a big savings compared to our total transportation budget."

American Hotel Registry is also using its vendor's managed transportation services and procurement offerings, the latter of which is producing a more than 10 percent savings in request for proposal (RFP) numbers for 2010. LeanLogistics is also managing all of the firm's inbound transportation, including consolidating loads and tendering to qualified carriers within the transportation online "cloud."

By automating routing compliance and offloading the function to its vendor, the company stands to realize significant savings, according to Ladd. By replacing its paper guidelines, for example, the company is expecting more of its business partners to be in compliance. "People don't always follow paper guidelines," says Ladd, who sees shipment consolidation as another area where the shipper will realize cost and time savings.

"We have a small staff that never really had the time or resources to be able to take LTL shipments and combine them into truckloads," Ladd explains. "Now we can do that in a very efficient manner." She says the new TMS allows the firm to tap its software vendor's expertise across some of the more popular distribution lanes. "They let us know if there are available rates that we should be going after, versus the ones we already have in place."



FAR CRY FROM MANUAL

American Hotel Register's automated transportation system is a far cry from the manual processes that it was using (and of course, honing along the way) since it began selling its patented hotel guest register books over 145 years ago. "We had a paper guideline for our [business partners], and we expected everyone to follow it," says Ladd. "It was basically up to everyone to do the right thing."

One of the most valuable benefits American Hotel Register has seen from its TMS investment is access to real data—a luxury that used to be out of reach. Previously, for example, carriers were expected to "self-report" data and deliver it to the company, which in turn used that information to make its routing and carrier selection decisions.

"When you're tracking data manually, you can only do so much," says Ladd, whose transportation team can now quickly access vendor performance, shipment size, and lane usage data—and can use that data to make faster, more informed decisions.

CLEARING THE ROADBLOCKS

However, going from paper and pencil to a state-of-the-art software system can present unique challenges for a firm with a history as long as American Hotel Register's.

In fact, not all of the company's business partners were quick to embrace the firm's new TMS, which was

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undoubtedly going to place more pressure on suppliers and carriers to perform. Luckily, many of them were familiar with TMS, and probably unsurprised by the fact that a successful, growing shipper with international reach would inevitably invest in an automated system.

According to Ladd, the bulk of the training took place on the supplier side, and comprised sessions with the company's "merchandising group" (which deals directly with suppliers). "Our transportation and merchandising groups worked closely with the suppliers and with our technology vendor to make sure everyone had all of the proper training to get going," says Ladd.

On a weekly basis, Ladd says, the company would evaluate suppliers that didn't put their orders through the TMS, worked with them to understand why the orders weren't appearing in the system, and then "clear any roadblocks in the way of getting them onboard."

Ladd says that the approach worked well, and that the first 100 suppliers were using the system within eight weeks. The remaining companies integrated within two months, depending on the frequency and volume of shipments. The next step was to set up American Hotel Register's inter-company transfers on the TMS—a move that proved more challenging than one might think.

"Some of the DCs were hesitant at first, but once they were onboard they preferred the [TMS] to how we'd been handling transportation in the past with our carriers," says Ladd.

That initial reluctance surfaced again recently when American Hotel Register added its drop-ship operations to the TMS and automated shipments sent directly to customer locations from the company's suppliers. This time around, it was the suppliers who were hesitant. "With paper guidelines those suppliers could do what they wanted and they weren't getting caught," says Ladd. "Today we can measure their compliance and hold them to it more rigorously than before."

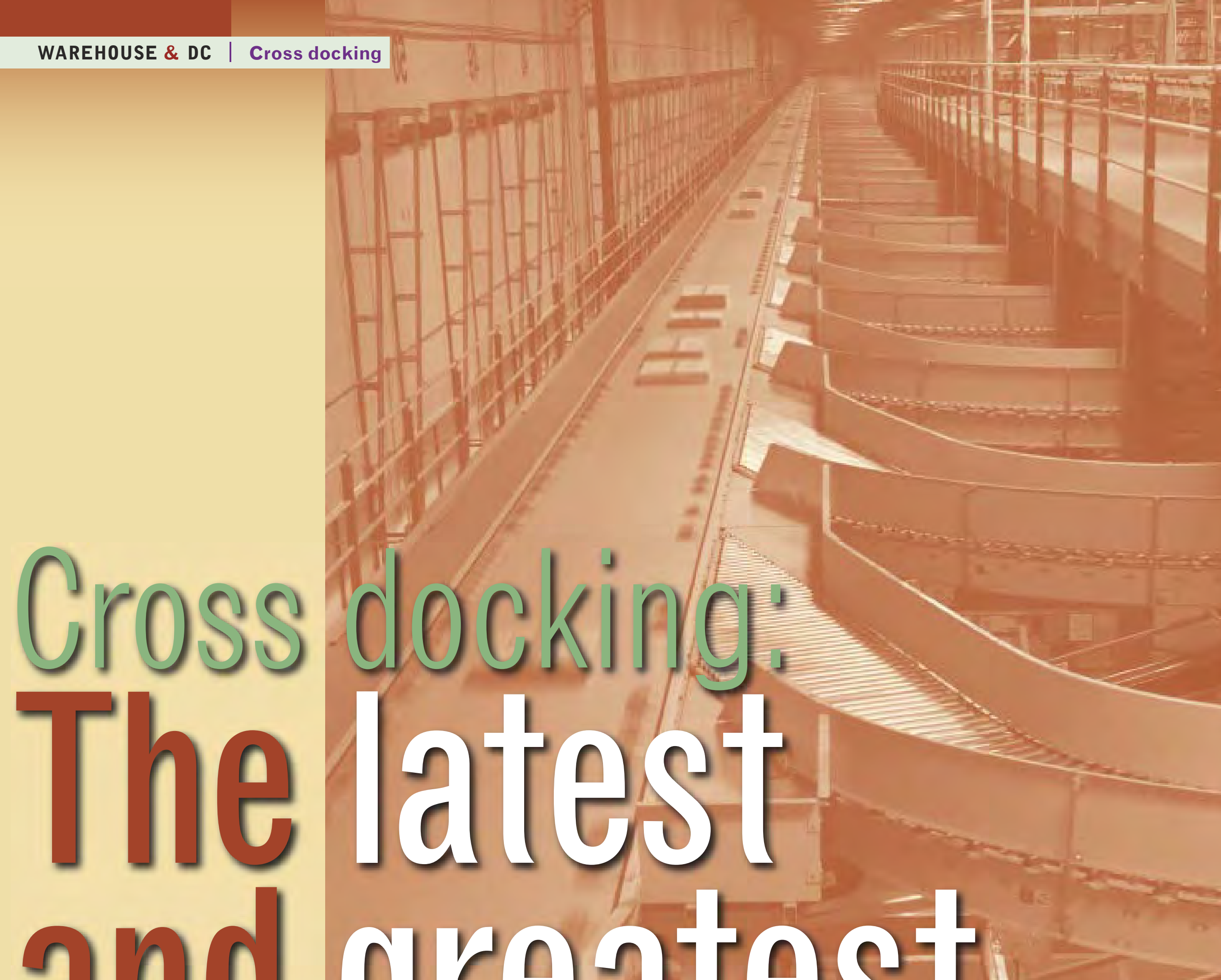
AT YOUR SERVICE

Armed with a dynamic, real-time map of American Hotel Register's suppliers, DCs, carrier rates, and transit times, Ladd and her team plan to further hone the company's transportation operations and even better serve those end users who have come to expect excellence from their hotel, hospital, and university experiences.

In some cases, that could mean tweaking logistics processes that American Hotel Register has been using for decades.

"With all of the transportation data available in a graphical format, we can now consider issues such as whether we should be hubbing through our own DCs or having every supplier to each individual DC," says Ladd. "Those are the types of opportunities we'll be exploring this year." L

Bridget McCrea is a Contributing Editor to Logistics Management



Cross docking: The latest and greatest

BY **MAIDA NAPOLITANO,**
CONTRIBUTING EDITOR

Our warehouse/DC engineer has scoured software and equipment providers to come up with the latest developments, innovations, and breakthroughs that are making cross docking easier and faster than ever.

Retailers continue to emerge as trailblazers when it comes to cross docking. Just think about the type of distribution facilities that they've been building—more dynamic flow-through rather than static storage. And it's all based on retailing's basic premise: You can't make any money until the product is sold at your stores.

And getting product rapidly to those stores is exactly what cross docking aims to execute to perfection. By dispatching inbound merchandise directly to outbound shipping, cross docking minimizes the amount of time goods spend in non-value-added DCs and thus maximizes their speed to market.

The efficiencies gained along the way don't hurt either. Companies that have incorporated cross-docking processes not only eliminate wasted time moving product to and from storage, but they also cut down on capital-intensive inventory by shipping it immediately to fulfill customer demands.

As with most good things there is a catch: It takes a considerable amount of planning to cross dock efficiently and effectively. So, in order to achieve true economies of scale and hit the jackpot on system savings, many

retailers have upped the ante. Today, they're cross docking more merchandise than ever, not just at the pallet level, but also at the case level and to a considerable number of stores.

With these types of cross docks, some degree of automation is typically needed from both the software and the equipment perspective. We've scoured a number of software and equipment providers and have come up with the latest developments, innovations, and breakthroughs that have made cross docking easier and faster. And while cross docking may be decades old, we're finding that, in many cases, it's bringing new life to many of today's most progressive supply chain operations.

SMARTER SOFTWARE

While material handling equipment may be used to "flow" the physical product within the DC, it's the automatic and real-time exchange of information between trading partners that make modern cross docking a reality.

Recent developments in information systems and software solutions have created more opportunities for cross docking, allowing for more visibility in the supply chain and improved data sharing between trading partners. Here are three new enabling capabilities that software is bringing to today's cross-dock operators:

1. Making the most of opportunities. Older systems were only able to do simple, "pure" cross docking. Only if it was a perfect match of the entire license plate going directly to an outbound shipping door could that product be considered as having a match and an opportunity to cross dock.

Software provider Manhattan Associates has taken it to the next level by allowing orders, and even order lines, to be split. "To avoid starving inventory at store shelves, most retailers prefer shipping half of that order line immediately rather than shipping none," explains Eric Lamphier, Manhattan's senior director of product management. If only one, instead of two cartons, of a popular electronic hamster toy is received, the system automatically splits the order and allocates that one carton immediately for cross docking.

2. Sending electronic notices from halfway around the world. Conducting computer-to-computer business transactions over the Internet has become commonplace. More powerful, less costly computers, in addition to lightning-quick, more reliable transaction speeds have improved the sharing of real-time data even for third-world suppliers halfway across the world.

By allowing access to web-based portals, software providers, such as SAP and Manhattan, have enabled these suppliers—that would otherwise not have the capability to send and receive information electronically—to create and transmit Advance Shipment Notification (ASN) information to their retail customers.

An ASN is an electronic file transmitted from suppliers to retail customers, providing advance notice of what products are being shipped to the retailer's DC and their estimated time of arrival. It facilitates cross docking by automating the receiving process, allowing for allocation of a product even while in-transit and by providing DC managers with a heads-up when planning resources for inbound receipts.

"The quality and accuracy of the ASN data is vital," emphasizes Lamphier. "If you don't have that, it makes cross docking that much more challenging."

As a result of these ASNs and other developments in the real-time exchange of information, managers are realizing greater visibility in their supply chains and are now able to make better decisions—especially in the case of the unexpected. "When a shipment is held up at the port," says Prashant Bhatia, director of solutions management at SAP, "what happens now is that it can trigger logic back to say that I've got a problem. I can no longer allocate that inventory on that particular shipment as I thought I could. What is my resolution? What is my back-up plan?"

3. One database, one system, one supply chain. Over the last several years, software providers have been pulling all of their products onto a single supply chain process platform. "It's fairly new," says Lamphier. "Various components have been integrated into that supply chain process platform longer than others, but actually moving our WMS onto it has been a more recent development—just within the last quarter or two."

SAP uses its enterprise resource planning (ERP) system as the central repository of information of supply and demand, as well as inventory, for the entire supply chain. And all these modules are now talking to each other. Transportation management systems (TMS) in conjunction with the event management modules help optimize freight, determine pick-up windows, determine carriers, keep track of in-transit times, and create ASNs.

That ASN not only gets sent back to the ERP for visibility but it also gets sent to the WMS where the system uses that information to plan labor, equipment, and resources at the receiving dock. When the physical product arrives, logic within the WMS, based on the receipt of goods, determines matches against actual demand.

"For years, people have worked within a silo," says SAP's Bhatia. "We were not understanding how making customer commitments impacts transportation, which in turn can impact the warehouse. Breaking down these barriers and executing an end-to-end business process is now crucial to optimizing one's supply chain and differentiating versus the competition."

SMARTER, SPEEDIER EQUIPMENT

With more retailers cross docking over 50 percent of their items at the case level to their stores, equipment innovations have centered on conveyor sortation systems, print and apply mechanisms, and automatic identification technologies. Here are three new equipment advances that are pushing cross docking into the new millennium:

1. Smaller gaps and self-regulating conveyors. In the last 12 to

This cross docking system above utilizes a sliding shoe sorter to divert cartons to specific shipping doors. The use of conveying and sorting technology allows this operation to cross dock over 150,000 cartons per day.

18 months, the sliding shoe sorter, the bread and butter of most high-throughput, case-level cross docks, has undergone noteworthy transformations.

"By doing a parallel divert, we can now run the packages closer together and get a higher throughput on the same system," reports Ken Ruehrdanz, manager for Dematic's distribution and warehousing markets. The sliding shoes that used to physically push the cartons off the sorter at an angle can now run those shoes in parallel, enabling smaller gaps between cartons, which were previously from 6 inches to 8 inches, down to 3 inches.

This gapping conveyor creates minimum gaps between cartons. Minimum carton gaps allow the conveying and sorting systems to accommodate more throughput at a slower operating speed.

With more dense traffic on conveyors, cross dock operators can run their conveyors at a lower speed while still achieving the same throughput. Slower speeds equal less wear and tear, decreased energy usage, and less maintenance.

Another conveyor breakthrough is automatic speed control. "The whole system can now self-regulate its speed depending on the volume that's inbound on the system," says Ruehrdanz. The warehouse control systems (WCS) software makes that decision using electronic sensors that's constantly monitoring where all the cartons are and how they're flowing. If there are only a few cartons, the system automatically slows down, resulting in less wear, less maintenance, and less noise. It automatically speeds up again once cartons start flowing.

2. Print and apply on the fly.

In a perfect world, all inbound cartons entering a cross-dock system should be properly labeled. But when your supplier is a fancy designer from Italy who can't be bothered with labeling, you've got to be ready with Plan B.

The use of print and apply systems allow cross-dock operators the flexibility to deal with inadequately labeled cartons from non-compliant suppliers so that correct and proper labels can be printed and applied on cartons as they travel along conveyors allowing them to be immediately cross docked.

"When they first started out, these systems could process 10 cartons per minute (cpm) maybe," says Steve Haskell, vice president for L.A.-based SDI Industries, a designer, integrator, and manufacturer of material handling systems. "Now you can get 30 cpm reliably with a tremendous range of printing and software capabilities."

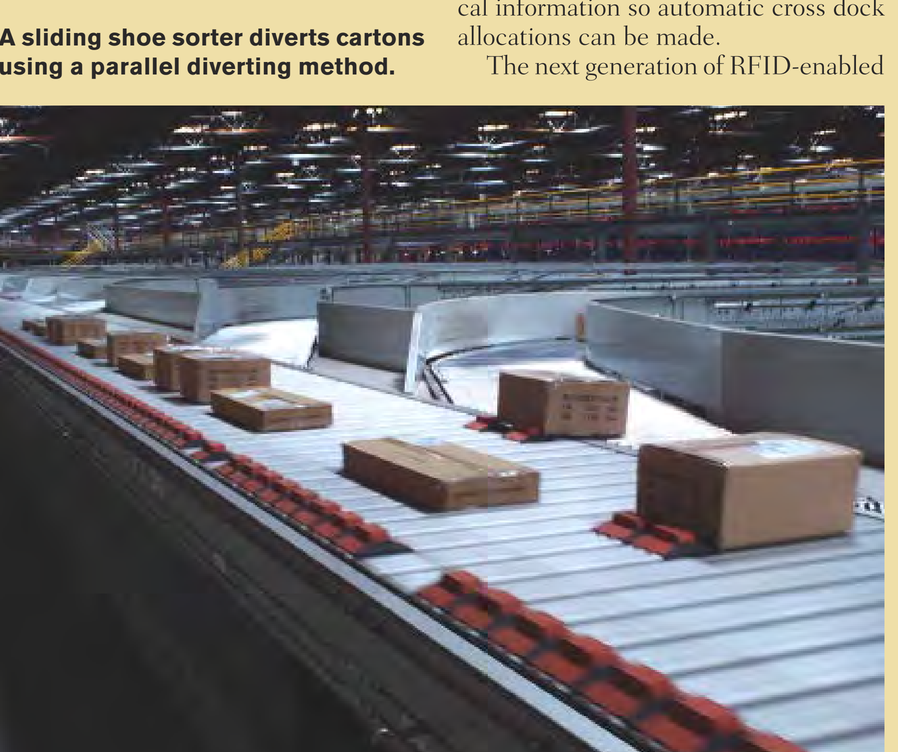
3. Cross docking with voice and RFID. With a scan of the pallet license plate, voice-directed operators on the receiving dock can be instructed to quickly move their cross dock pallets to the correct shipping doors without having to look at a terminal. When cross docking hundreds of pallets per day, these efficiencies can certainly add up.

But, in recent years, no technology has received more attention than RFID. By attaching an RFID tag on a pallet, the simple act of moving the pallet from a tractor trailer through a receiving portal not only acknowledges receipt, but allows the automatic download of critical information so automatic cross dock allocations can be made.

The next generation of RFID-enabled lift trucks goes a step further by combining RFID data collection with optical real-time location systems (RTLS) to precisely record pallet movement without any operator typing or scanning.

As adoption of this technology increases, logistics providers are investigating the feasibility of using RFID-based technology to eliminate the need for some EDI communications by encoding the advance shipping information onto the RFID tag to reduce the number of EDI messages.

The use of print and apply systems allow cross-dock operators the flexibility to deal with inadequately labeled cartons from non-compliant suppliers .



A sliding shoe sorter diverts cartons using a parallel diverting method.

VISION FOR THE FUTURE

With more trading partners sharing data in real time along with greater levels of systems integration, Manhattan's Lamphier envisions more "dynamic cross docks" that constantly look for opportunities to flow-through product, even while still in transit.

SDI's Haskell sees equipment improving and becoming more affordable. Soon, you'll simply be running out of excuses not to cross dock.

Maida Napolitano is a Contributing Editor to Logistics Management

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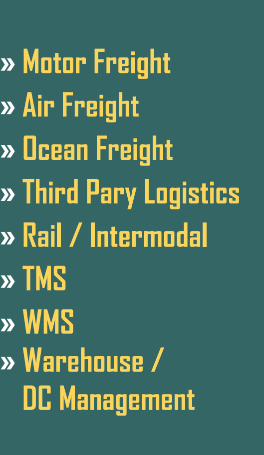

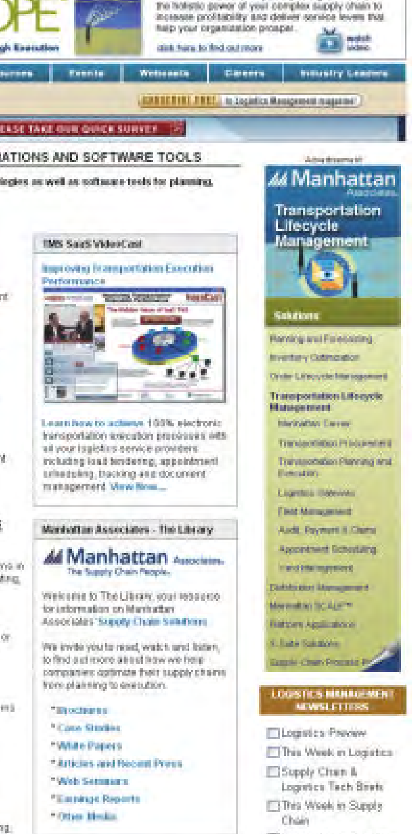

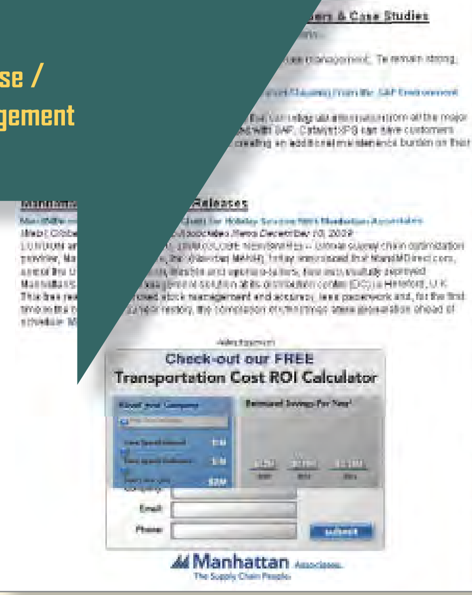

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SHRINKING toward profitability

Amid unsustainable pricing levels, leaner LTL carriers are seeking higher rates as top industry executives predict "more LTLs to fold in 2010." Here's a closer look at trucking's most diversified market.

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

The past two years has probably been the best time to be a less-than-truckload (LTL) shipper. Rates plummeted, service remained high, and nearly every sizeable carrier managed to stay in business, offering plentiful capacity.

This period was also notable for the lack of carrier closings that marked past recessions. Think about the list of failed carriers caused by previous recessions. Consolidated Freightways, a $3 billion LTL giant, closed on Labor Day of 2002 as a result of the 2001 recession. A-PA Transport shut down around the same time. Recessions also claimed the likes of LTL giants St. Johnsbury, Ryder P-I-E, Spartan, Coles Express, Carolina Freight Carriers, McLean Trucking, Smith's Transfer, Transcon Lines, Hall's Motor Transit, Lee Way Motor Freight, T-I-M-E DC, and former USF units Red Star, Dugan, and Bestway. The list of LTL carriers now in trucking heaven goes on and on.

So, how bad was the latest recession for the LTL market? "The past couple of years are the worst I've seen in my 37 years in the business," says Roy Slagle, senior vice president of sales and marketing for ABF Freight System, the nation's fifth-largest LTL carrier.

"It's still a game of survival," says Phil Pierce, executive vice president of sales for Averitt Express. "The market conditions haven't changed at all. Despite hearing things about improvement in the media, we've not experienced any real improvement just yet."

Analyst Jon Langerfeld of Baird is among many who have called LTL rates "challenged" because of the excess capacity and

"If you look at the operating results for all of the carriers, it's fairly obvious that rates are at an unsustainable level. In that case, you have to expect rates to increase." Roy Slagle, ABF

rate wars that feature discounting approaching 90 percent off list rates. That jockeying for market share has continued in 2010.

In a January survey of 115 current and former YRC Worldwide shippers, analyst Ed Wolfe of Wolfe Research found that one-third planned to reduce their shipments with the company's units in the first quarter—although that figure was down from 61 percent in the fourth quarter when YRC's survival was in doubt.

3Q 2009 LTL Market Share (in Revenues)

YRC National **13.3%**
YRC Regular **5.4%**
YRC Worldwide **18.6%**
FedEx Freight **14.6%**
Con-way Freight **11.0%**
UPS Freight **7.5%**
ABF Freight **5.9%**
ODFL **5.1%**
Others **37.3%**

Source: SJ Consulting Group, Inc.

Changing LTL market place

Some analysts believe that the mature, $26 billion LTL sector—that represents about 2.5 percent of the total $680 billion trucking market—has been slow to change.

"This industry has never adjusted to the deregulated era," said Satish Jindel, who tracks the LTL sector as principal of SJ Consulting. "They continue to operate the way they operated 15 or 20 years ago and price the way they did 15 or 20 years ago. Everything has changed post 9/11."

In Jindel's view, the surviving LTLs "have gotten comfortable from picking up the pieces from carriers that have gone out of business. There is no true growth in the sector, just a redistribution of the pie from carriers who have dropped out."

In fact, that pie that Jindel refers to is getting smaller. According to figures compiled by SJ Consulting, the LTL market size (excluding fuel surcharges) actually shank 24.5 percent from $33.3 billion in 2008 to $26.2 billion last year.

There are many reasons for this—the recession being a big one. But changing shipper patterns are also a factor. Shippers would prefer to ship full truckload, where rates are as much as

CARRIERS AIM TO MEET NEED FOR SPEED

LTL carriers are continuing to look at ways to shave days off their published transit times to attract speed-obsessed shippers and win market share. One market-leading LTL carrier is even trying to link the desire for customers to go green with its need to find more speed.

In a unique twist, $4.3 billion LTL giant Con-way conducted a major network re-engineering that cut transit times to 460 destinations, a move that will also reduce its carbon footprint by eliminating 16.6 million operating miles a year and save 2.6 million gallons of diesel fuel annually.

"The driving force behind this is our customer base," says Greg Lehmkuhl, executive vice president of operations at Con-way Freight. "The way we differentiate ourselves is fast service and transit times. We have increased our capabilities in operations research and engineering; and as we increase our capability in those areas we've taken a better look at our networks and found opportunities to further increase our competitive advantage."

Asked whether the desire to go green is greater than the desire for faster delivery capability, Lehmkuhl says, "I would put them on the same plane. We decided years ago that sustainability is critical to our relationship to suppliers, so now it's at the forefront of many of our decisions."

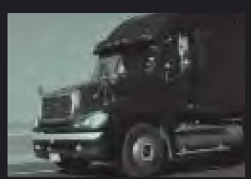
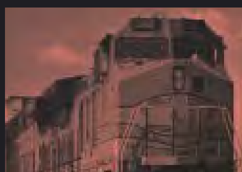
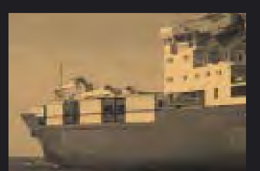
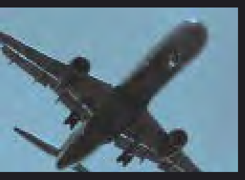
As such, he said nothing Con-way does is more environmentally sustainable than reducing its over-the-road miles. This latest network re-engineering allowed Con-way Freight to reduce total operating miles per year by 16.6 million—thus saving a projected 2.6 million gallons of diesel fuel annually. Combined with other similar initiatives in the last three years, Con-way says it has removed the equivalent of 21,000 automobiles from U.S. highways.

Major lanes affected by Con-way's move included those between southern Texas and the Northeast, Chicago and southern Florida, and Chicago and southern Texas.

Con-way isn't the only trucking company making moves to meet the increased need for speed. This year YRC Worldwide's Midwest regional subsidiary Holland cut transit times on crossborder lanes linking Toronto and the Midwest, cutting a day from transit times in some lanes.

Holland recently began next-day service between Toronto and Chicago, Toronto and Joliet, Ill., and Toronto and Wheeling, Ill.; Cincinnati and Huntington, W. Va.; and Cincinnati and Indianapolis. That has allowed the YRC unit to cut transit times from three days to two on routes linking Toronto and Kansas City, Mo., Memphis, Tenn., Worthington, Minn., and other Midwestern cities.

—by John D. Schulz, Contributing Editor

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"This (LTL) industry has never adjusted to the deregulated era. They continue to operate the way they operated by and large 15 or 20 years ago and price the way they did 15 or 20 years ago."

Satish Jindel, SJ Consulting

35 percent cheaper. Truckload carriers have lowered their threshold for picking up what was previously viewed as exclusively LTL shipments in the 5,000-pound to 10,000-pound range.

At the same time, 3PLs such as C.H. Robinson are making a living out of combining a number of LTL shipments into truckload moves. Some LTLs have even moved vigorously into the truckload market, such as Con-way when it purchased TL carrier Contract Freighters Inc. two years ago for $750 million.

On top of these factors, shipment characteristics have changed. Products, especially electronics, are smaller and lighter. Some 70 percent of LTL shipments today are less than 1,000 pounds, according to data from carriers. But pricing, which is still done largely by weight, has not reflected that change. "When weight comes down, rates come down too," Jindel says. "The problem for carriers is that costs don't come down proportionately."

That has resulted in what Jindel calls "deficit-rate pricing." That pricing peaked in the fourth quarter of 2009 when many rivals steeply increased discounts to customers to try and derail financially ailing YRC Worldwide, the LTL market leader at 18.8 percent (see chart on page 48S). To many carriers' surprise, YRC survived by renegotiating a $470 million debt-for-equity swap and is still hauling despite having suffered more than $2 billion in losses in the past three years.

As a result of YRC staying in business, many carrier executives expect some smaller LTL carriers to cease operations this year. These poorly capitalized rivals were hoping to cherry-pick some of YRC's best accounts, but that may not happen with YRC in operation. Even though the market has shrunk by one-fourth, there is still excess capacity as supply has outstripped demand.

"At some point, supply and demand has to rationalize," says ABF's Slagle. "Without a sustained increase in demand, capacity will exit the market place."

Carriers' advice for shippers? Lock in capacity now. "If you look at the operating results for all of the carriers, it's fairly obvious that rates are at an unsustainable level," Slagle says. "In that case, you have to expect rates to increase."

Change in LTL Market Size
($ millions)

	2007	2008	2009e
Total	$33,600	$33,300	$25,200
FSC Revenues	$4,200	$5,500	$2,500
Revenues excl. FSC	$29,400	$27,800	$22,700
Change		-1.0%	-24.5%

Source: SJ Consulting Group, Inc.

Staying relevant

Even though it is shrinking, the LTL sector is absolutely essential to the operations of today's increasingly complex supply chains.

Because LTL carriers have built expensive, hard-to-replicate terminal networks to operate their hub-and-spoke systems, they operate in virtually every ZIP code in the nation. Technology costs are substantial. Barriers to entry are high, so there have been few new entrants in the sector since deregulation in 1980.

Carrier executives say they are doing two things to stay relevant (and alive) in the current cutthroat market: eliminating all wasted cost and diversifying services.

New England Motor Freight, once exclusively a Northeast regional carrier, has expanded to nationwide coverage through partnerships with carriers in other regions. It has increased its utilization of its 110-door, company-owned terminal at the Port of Elizabeth, N.J., as well as branching out with 3PL, dedicated fleet, and warehousing operations services as part of its parent Shevell Group of companies.

"We have found that our customers are asking for a diversified menu of operations and we are more than happy to provide them with these services," says company founder Myron P. "Mike" Shevell. "One size doesn't fit all anymore. You have to go where the market takes you."

Pitt Ohio Express has done likewise through the formation of the Reliance Network of LTL carriers. That two-year-old alliance is doing in excess of $1 billion in revenue now as it takes market share from the longer-haul LTL carriers. Pitt Ohio recently added a new heavyweight service, a parcel option, and other supply chain services.

"The leading LTL carriers are not sitting still during the recession," says Pitt Ohio President Chuck Hammel. "We have been moving forward with new products and services. Those carriers with healthy balance sheets and good access to cash are looking at this environment as a way to move their agenda forward without the typical distractions that a robust market constrains."

John Labrie, president of Con-way Freight, adds that the shift in the supply/demand equilibrium, which has heavily favored the shipper now for some time, has put relentless pressure on carriers to get more efficient, take out waste, and operate as lean as possible. "It forces you to get better fast in all phases of the business, and do it continuously," Labrie says.

The FedEx-UPS Factor

Both FedEx and UPS entered the heavy freight sector in the mid-90s. FedEx Freight has grown to a $4 billion giant with 14.6 percent market share while UPS Freight has about 7.5 percent.

FedEx Freight has a new CEO this month, Bill Logue, who's a veteran of the FedEx Express air unit. He readily admits the advantages of being part of a $38 billion firm whose name is

virtually synonymous with top-flight service.

"It's really about offering bundled solutions," says Logue. At the end of the day, customers are looking for value, reliability, and excellent service. Yes, the market has (excess) capacity. It's a pricing market. But what we're asking customers is: 'How can I make your business stronger by doing business with us?'"

While that's great for shippers to hear, it's a major challenge to lesser-known, less-well-capitalized LTL rivals, Jindel says.

"UPS and FedEx are a new breed with a different heritage," Jindel says. "They have name recognition and technology that is far superior to anything the traditional LTL guys had."

UPS and FedEx executives say that they are merely meeting the needs of the marketplace and defend the practice of offering large discounts to valued customers. "We still have a large market where the focus is on offering the right services that constantly meet the needs of our customers," Logue adds. "If we do that, then we'll create value and continue to take market share."

Rates to gradually increase

Despite the stock market's rebound, trucking executives are only cautiously optimistic for 2010. With YRC still in business, rates should remain low. However, shippers, who enjoyed as much as a 5 percent reduction in contracts renewed last year, might expect flat to 2-percent increases this year, analysts and executives say.

"Rates will gradually move upward, albeit at a lower percentage," says Pitt Ohio's Hammel. "I don't expect any of the big carriers to fail, but probably more of the small- to mid-sized carriers will. That's because YRC continues as a viable player. A lot of companies believed what the analysts were predicting for YRC and they held on for the day YRC closed."

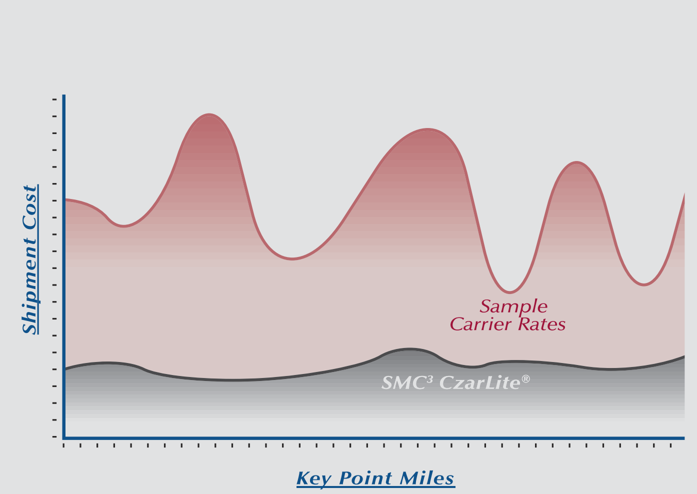
Because lenders are still tight on credit, that could cause some financially weaker carriers to have trouble accessing cash, which could lead to bankruptcies.

"LTL carriers need to take capacity down if they want to have reasonable pricing," Jindel says. He adds that some consolidation may help but they can't rely on other people to take out capacity—each carrier needs to do their part. "The industry is not declining because the business is not there. It's because the players operating there are being narrow-minded in their focus. They are not promoting the growth of that industry. They still think of that business in terms of the LTL regulated mindset," he adds.

Carrier executives say that they have no choice but to respond to market conditions. Pitt Ohio's Hammel says: "It's still a game of survival in many respects but there are also opportunities for those brave enough to move forward. Pricing continues to be one of the biggest challenges but we see that changing somewhat moving forward." L

John Schulz is a Contributing Editor to Logistics Management

Are Your LTL Rates Sending You on a White-Knuckle Ride?



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Beyond DUBAI

While Dubai and the rest of the UAE remain essential to supply chain strategy in the MENA region, analysts believe that there's more to the story. In fact, U.S. shippers are being asked to take a look at other important markets in the region, such as the Kingdom of Saudi Arabia and Egypt before making shipping and sourcing decisions.

By **Patrick Burnson**, *Executive Editor*

For a few years, it appeared that the Middle East and North Africa (MENA) region was going to be the exception to the global economic meltdown. Then came news that Dubai World was debt-ridden, thereby threatening the likelihood that the region would be spared the consequences of the international financial crisis. As a result, industry analysts are being a bit more cautious in their evaluation of risk and reward.

Still, the continued economic development of MENA has led to increased demand for logistics outsourcing services, from both multinational and local firms, says Adrian Gonzalez, director, executive logistics council at Boston-based ARC Advisory Group.

"The third party logistics industry in MENA is currently highly fragmented and local regulations and constraints present logistics service providers and customers with unique challenges," Gonzalez says. "Nonetheless, pan-regional service providers offering end-to-end logistics services are starting to emerge, which will further accelerate the growth of the outsourcing industry."

According to Gonzalez, the market still has many small players providing "point solutions." At the same time, local regulations and constraints—such as labor availability and land ownership laws—present logistics service providers and customers with unique challenges.

While the petroleum sector represents a significant portion of MENA's economic activity, Gonzalez adds that the manufacturing and retail sectors are also on the rise. At the same time, the Kingdom of Saudi Arabia (KSA), for example, is taking steps to grow its private sector, especially in power generation, telecommunications, and petrochemicals. Its $80 billion investment in the King Abdullah Economic City (KAEC) exemplifies this commitment.

"KAEC aims to become the single greatest enabler of social and economical growth for the Kingdom of Saudi Arabia," Gonzalez

says. "It has planned infrastructure investments to promote the manufacturing sector, including plastics, computer-chip manufacturing, and sectors using raw materials such as steel, wood, and paper."

Seeking Saudi solutions

Gonzalez and other analysts point to Wared Logistics—which entered the Saudi Arabian 3PL market last year—as further evidence that the region shows great promise for both shippers and their logistics providers.

Zahid Holding Group and Construction Products Holding Company (CPC) formed Wared last year and recruited Brian McHale to be the CEO. McHale is a transportation and logistics veteran who formerly worked for Menlo Worldwide Logistics and Ryder Integrated Logistics.

"The Emirates has the brand in terms of being the entry point of choice for shippers who value a free trade zone," McHale says. "But Saudi Arabia really offers more advantages once shippers want to distribute goods in MENA. Roads and highways are better developed, and rail links are being built for anticipated growth."

With Volvo and Caterpillar comprising two of its key clients in the construction sector, Wared has developed a network of 12 distribution centers in Jeddah, Dammam, Medina, Jubail, Qassim, with future plans for facilities in Riyadh and Jeddah.

"The combined strength of CPC and Zahid Holding Group enables us to operate transportation hubs, warehouses, and distribution centers in multiple geographies—not just Saudi Arabia," says McHale. "We're also in UAE, Syria, Lebanon, and Egypt."

Indeed, Egypt shows tremendous promise given its huge population concentration and access to multinational shipping and sourcing of goods through the Suez Canal. McHale references a case study done recently with Gonzalez and ARC Advisory Group on how his company is currently working with General Electric to move large-scale items like turbines, generators, and transformers from vendors around the world through the Suez Canal.

"You have to ensure compliance with Egyptian customs regulations and also comply with Saudi Arabia's," McHale adds. "Different rules exist even within the MENA trading framework. Having someone inside to facilitate the process is very important because it's not something an outside party can master overnight."

Red tape runneth over

Red tape procedures generated by customs authorities is only one of the challenges facing 3PLs and shippers wishing to generate new business in the MENA region, say analysts for Transport Intelligence (Ti), a London-based logistics think tank.

The other major drawbacks of the region consist of overcoming inefficient trucking and transport services and low outbound export volume leading to long shipping times and the need for costly inventory accumulation.

"Conventional players who have been able to consolidate their positions now enjoy a competitive advantage, as it's harder for new entrants to penetrate the market and build an effective opera-

EMIRATES SKYCARGO SEES BRIGHTER FUTURE

While news of late has been on the financial crisis in the Middle East, the flagship air carrier of the region maintains that it is not at risk. Indeed, in the first-half of its financial year 2009-10, Emirates reported robust business growth year-to-date in available capacity and in cargo bookings.

In an exclusive interview with *Logistics Management*, Robert Siegel, regional manager of cargo commercial operations for Europe and the Americas, provided some additional insight to the year gone by as well as his forecast for the future.

LOGISTICS MANAGEMENT: ***IATA researchers suggest that there is a soft recovery in air cargo. Do you agree?***

ROBERT SIEGEL: Yes, the recovery process started in the last quarter of 2009 and it has been stronger than we had expected.

LM: ***Can you share your forecast for the coming year?***

SIEGEL: We are cautiously optimistic. Indications are that this year will be as strong as the final few months of 2009. Early March will likely set the scene for the first half of 2010. We are expecting steady growth in the second half of the year.

LM: ***Which commodities are driving this trend?***

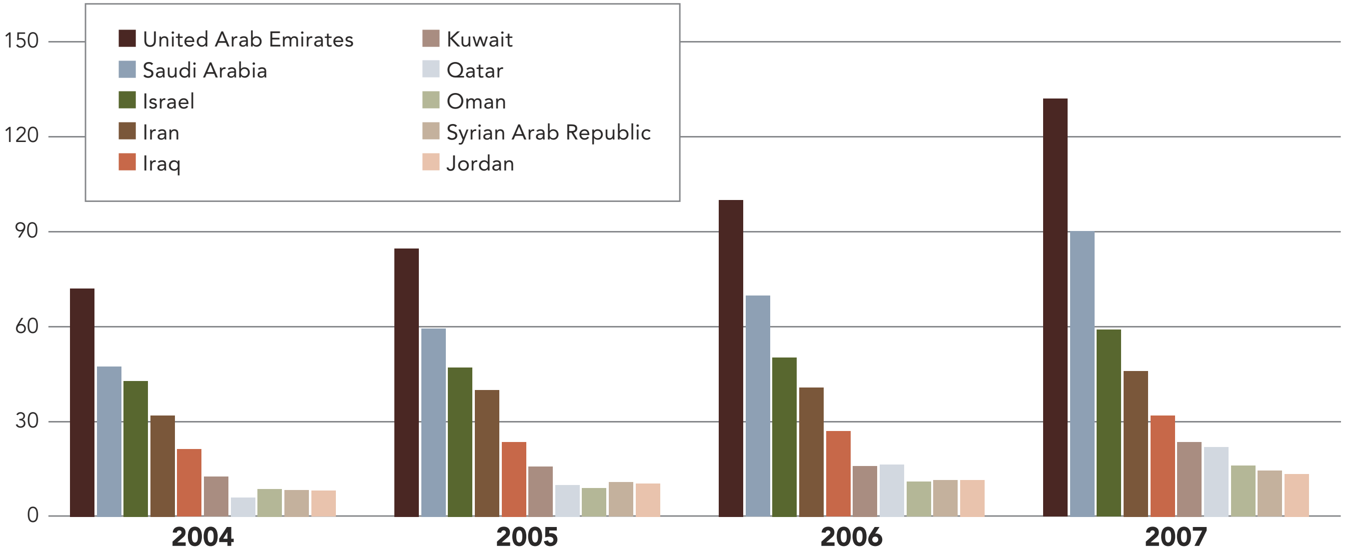
SIEGEL: Electronics, laptops, and cell phones out of the Far East have picked up tremendously in the last quarter. Some commodities such as perishables were more resilient to the downturn. We carried strong loads of fruits, vegetables, and pharmaceuticals throughout 2009.

LM: ***Will Emirates be adding capacity this year?***

SIEGEL: Yes. In terms of new routes, in March we launch passenger flights to Tokyo and in May to Amsterdam, although we have been operating freighters to Amsterdam since 1994. We will also continue taking delivery of new aircraft, which we will deploy on existing routes. Sixty five percent of our freight travels in the belly hold of our passenger aircraft, the other 35 percent in our eight freighters.

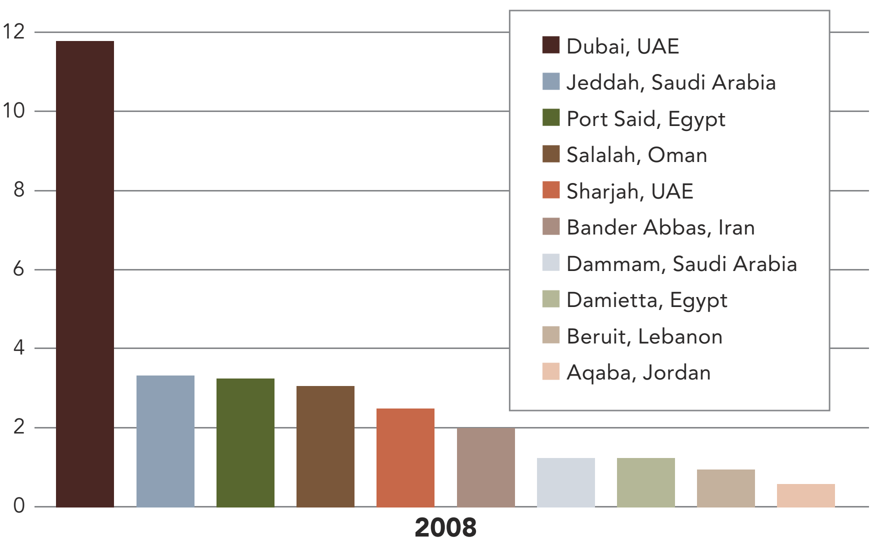
—Patrick Burnson, Executive Editor

Middle East Logistics 2009: Leading Merchandise Importers (US$bn)



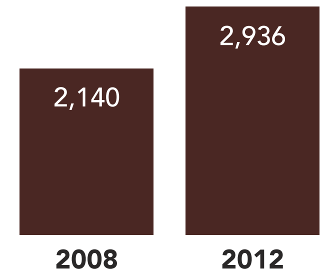
Source: World Trade Organisation

Middle East Transport & Logistics Markets: Top 10 Middle East Ports (mTeu)



Source: Transport Intelligence

Middle East Contract Logistics Market Size Forecast 2012 (€m)



Source: Transport Intelligence

Following strong growth in 2008, many economies in the region are due to contract in 2009. For example United Arab Emirates' GDP grew by 7 percent in 2008, but is forecast to fall by 1.4 percent in 2009. However after this, the prospect for stronger growth is good.

tional and terminal network," says John Manners-Bell, Ti's CEO.

He echoes other analysts in noting that the MENA ports system is dominated by the UAE, which accounts for around 50 percent of throughput. The bulk of these are trans-shipped from Asia Pacific destinations for onward distribution to Europe and North America.

"Located strategically between Europe and the Far East, UAE ports have been the preferred choice of location for a wide range of multinational companies," says Manners-Bell. "As the commercial and maritime center of the Middle East region, UAE has been very proactive in recognizing its strengths in the global market. The country has also embarked on a program of attracting investments into its free trade zones, particularly a wide range of manufacturing and service activities."

Manners-Bell also notes that the profile of import origins is very different from that of export destinations, with some 32 percent of imports by value coming from Europe, while a further 31 percent comes from Asia. This has made forecasting for the

contract logistics market still more daunting.

"Following strong growth over the past two years, many economies in the region are due to contract now," says Manners-Bell. "For example, UAE's GDP grew by 7 percent in 2009, but is forecast to fall by 1.4 percent in 2010. However, after this, the prospect for stronger growth is good. Many oil rich countries are able to invest in substantial stimulus packages that will involve major construction projects. With the recovery of the global economy, the region will benefit from an increase in oil and gas prices as well as air and sea freight volumes."

Ti sees that Saudi Arabia, with its petrodollar revenues, has shown recent commitment to reforming and improving its transport sector, and believes that its current policy agenda—including greater private sector involvement—should bring results. Oil and gas exports will be the drivers of foreign trade. Although the pace of trade growth will ease, tanker exports will remain dynamic with infrastructure projects helping to expand transport capacity and boost demand for cargo.

"The international focus on Saudi Arabia's logistics industry has increased with companies such as DB Schenker, TALKE Logistics, and Kuehne + Nagel continuing to invest in the local market," says Manners-Bell. "The local government has embarked on an investment program, funding the development of several warehousing and transportation hubs throughout the country, from the $8 billion Prince Abdul Aziz bin Mousaed Economic City in the northern city of Hail to the $26.6 billion King Abdullah Economic City in the western coast of Rabigh."

Importance of supply chain increasing

Both Ti and ARC analysts say that most local companies believe that the importance of supply chain management is increasing, with logistics operations being considered the second most important business function after sales and marketing.

There is, however, a traditional reluctance in the region when it comes to outsourcing these operations. This is changing, with increased diversification from oil-based activities.

"One of the major challenges facing shippers is the limitation of relevant skills and capabilities in the local workforce that is resulting in low-levels of success when implementing supply chain operations in-house," says Manners-Bell. "Another challenge that has been identified is the low-level of collaboration, both upstream and downstream, between suppliers and customers."

Wared, and a number of other multinational 3PLs, are currently trying to change that reality. L

Patrick Burnson is Executive Editor of *Logistics Management*

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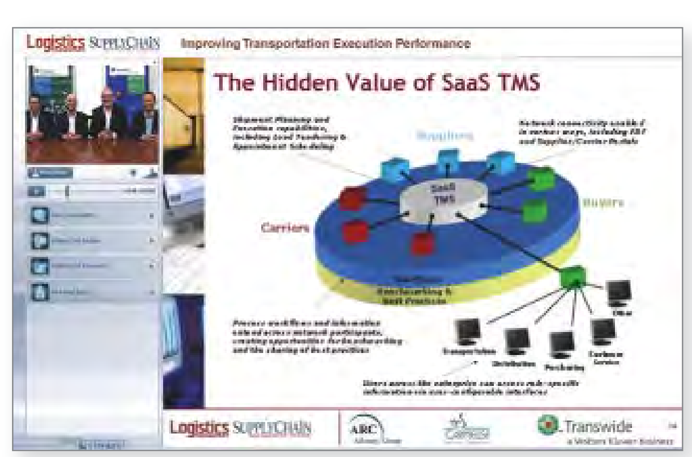

SAGE ADVICE

The dangers of logistics extremism

By John A. Gentle, DLP

I read an article recently about a utility company demanding to execute their right to cut down everything in the easement areas under their power lines. Regardless of the height of the tree, they're saying that their scorched earth policy is their "claimed" right. Trees that during their lifetime present no chance of hindering or damaging power lines must be cut down and removed. Seemingly, mass destruction policies are alive and prospering in America.

I understand the need to manage risk, and certainly we don't want to have another blackout, but the extent to which the utility industry has reacted is bizarre. Perhaps they are being driven by the entrepreneurial spirit of do it right, do it once, do it fast, and make a profit.

While our desire and drive to meet and exceed expectations is what motivates us, we have become overly influenced by policies that might have been commendable in nature but may not have been well thought out.

The productivity tools have now become weapons. It's simply ludicrous to destroy everything regardless of the risk it may introduce—and all in the name of a mandate to ensure the reliability of supply at the lowest operating costs. Over the last five years the actions of shippers, brokers, and carriers have paralleled this concept of "extremism" to the detriment of the industry.

Everything needs to be in balance—in proportion to the outcome. What makes it worse is that logistics talent that once had an appreciation for balance has been lost through retirement, outsourcing, and staff reductions to save costs. Today, it's all about "maximizing me."

Everyone is standing their ground determined and committed to meet and exceed their own personal goals regardless of the effect on other business partners or society. We have fostered and rewarded risk takers who have a mindset that "winning big" is the only mark of a strong performer.

We have set loose a group of young talent and leaders to make their mark on the logistics and transportation field; however, many have succeeded by using "scorched earth" practices and hold firm to the belief that "I am the customer, and it's my way of the highway."

We all have our respective challenges. Our ability, however, to create an environment in which our industry and society can advance must be based on balance. We must avoid the extremes that cause shippers and 3PLs to eliminate the carriers who can't meet all the rate and capacity requirements—or who are unwilling to accept the risks that may be associated with your business, be it safety, financial, or operational.

Over the last decade both shippers and 3PLs have engaged in the auctioning off of their businesses. There is nothing wrong with bidding. Some less prudent shippers, however, have not only blatantly ignored or rationalized away their contractual commitments, but with varying degrees of complexity and repetitive re-bidding stages over excessive time frames, they have exasperated and emotionally exhausted their carrier base.

No carrier is interested in deploying resources to bid without a reasonable chance to securing business; and the smaller the carrier the greater the likelihood that they will begin to look elsewhere for business.

Besides ill-conceived bidding, some shippers and their receivers have developed operating practices that are detrimental to the safety of the driver—requiring them to perform unsafe work during the loading or unloading process. Other shippers have continued to create excessive payment extensions and have developed practices that require additional paperwork to delay invoicing—or short paying carriers to string out the cash flow.

There is a big difference between reasonable marketplace interaction and illogical scorched-earth extremism. To achieve a reasonable approach, you must actively oversee the policies and actions that your teams have put in place. And you must keep in mind that it doesn't make sense to spray grass killer on your lawn just to prevent it from growing too fast.

Many companies call logistics the backbone of their company—a critical company resource that has been charged with securing service-based, cost-effective delivery capacity for their customers. Ensuring and developing viable industry resources for today and tomorrow are your responsibility.

If you think that you can incorporate a "scorched earth" policy just because a massive utility company can do it, then I suggest that you go out and get some grass killer instead of fertilizer this month and let me know how things work out for you. L

John A. Gentle is president of John A. Gentle & Associates, LLC, a logistics consulting firm specializing in contract/relationship management and regulatory compliance for shippers, carriers, brokers, and distribution centers. A recipient of several industry awards, he has more than 35 years of experience in transportation and logistics management. He can be reached at jag@RelaTranShips.com.

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