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APRIL 2010

Logistics MANAGEMENT®

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CE DE CANDY'S SWEET TRANSFORMATION

Page 26

Rick DePinto, Ce De Candy's information technology manager


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Management UPDATE

AN EXECUTIVE SUMMARY OF INDUSTRY NEWS

Open Skies now a reality. The U.S. and the European Union reached an agreement on an expansion of their historic 2007 Ope Skies accord that will provide for greater U.S-EU cooperation on a wide range of aviation issues. The agreement was concluded after eight rounds of talks, the most recent of which included three days in Brussels, Belgium. This makes good on President Obama's promise to European leaders that such an understanding would be met this year. This accord affirms that the terms of the 2007 agreement will remain in place indefinitely; and it also deepens U.S.-EU cooperation in aviation security, safety, competition, and ease of travel. In addition, it provides greater protections for U.S. carriers from local restrictions on night flights at European airports.

Federal highway and transit funding secured. The uncertainty surrounding federal highway and transit funding received a respite through the rest of this year when the Senate voted to pass the $18 billion Hiring Incentives to Restore Employment Act, followed by President Obama signing it into law. This follows a series of continuing resolutions—or extensions—to keep funding afloat at current spending levels, following the September 2009 expiration of SAFETEA-LU. This measure also ensures that the Highway Trust Fund (HTF) remains solvent during that period through a $19.5 billion transfer from the United States General Trust Fund. The HTF is the federal government's primary source for financing highway, bridge, and transit projects, according to the DOT. It's largely financed by the federal motor fuel tax, which is 18.4 cents per gallon for gasoline and 24.4 percent for diesel, and has not been raised since 1993.

FedEx fiscal Q3 takes off. In a sign that the economic recovery is making progress, FedEx announced last month that net income for the fiscal third quarter of $239 million was up 146 percent over last year's $97 million. Spurred by strong growth through FedEx Ground and international express, quarterly revenue at $8.7 billion was up 7 percent from a year ago. Operating income, at $416 million, was up 129 percent from $182 million over the fiscal third quarter a year ago, with a quarterly operating margin of 4.8 percent up from 2.2 percent. "Outstanding execution of our business strategy and an improving global economy drove solid financial performance in the quarter," said FedEx Chairman, President, and CEO Frederick W. Smith.

Slashing ships. A number of Asian carriers have significantly trimmed their container ship fleets over the last 15 months as they sought to reduce exposure to the fragile liner shipping markets. According to analysts at the Paris-based think tank Alphaliner, the seven major Asian operators surveyed have disposed of 282,000 twenty-foot-equivalent units (TEUs) during the period, representing 16 percent of their combined fleet. This includes 155,000 TEU that these operators sent to scrap and a further 127,000 TEU that

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Calling all shippers! It's time to submit your 2010 Best Practices in Logistics Awards entries! Have you recently introduced a logistics best practice that has saved your company thousands in freight costs, cut transit times, or improved your relationship with your carriers? Or, maybe you've recently re-engineered your distribution network to fundamentally change the way your company approaches their logistics and transportation operations? Then this is your time to shine. Visit **logisticsmgmt.com/bestpractices10** and fill out your entry form today and you just may be featured on the cover of *Logistics Management*. **Remember, the deadline is Friday, April 30, 2010.**

Management UPDATE

continued

were sold in the secondhand market and in financial engineering deals. The Asian carriers were not the only operators to be trimming their fleet, said analysts. Among the other main carriers, CMA CGM, MSC and Maersk had also taken steps to dispose of parts of their fleets.

ABF, Teamsters may re-open talks. The Teamsters Union said last month that it's looking into establishing a dialogue with ABF Freight System Inc., a less-than-truckload subsidiary of Arkansas Best System, to renegotiate ABF's labor agreement, the National Master Freight Agreement. Teamster officials said that they have not entered discussions with ABF; but based on its current understanding of the industry, the company's financial position, and concerns from ABF Teamster members, they stated that "it's in our best long-term interest to fully engage ABF through formal discussions to determine what type of contractual relief may be necessary." An ABF official told *LM* that the company is pleased that the Teamsters Union recognized the need for potential discussions.

Overall RFID market to hit $5.35 billion. A new market data report released by ABI Research predicts that the overall RFID market will reach $5.35 billion this year, a glimmer of optimism after the economic slide required the firm to adjust its RFID forecasts downward for 2009 and 2010. ABI said that their forecast is for steady growth through the next five years, adding that it expects the overall RFID market to exceed $8.25 billion in 2014, representing a 14 percent compound annual growth rate (CAGR) over the next five years. The report, *Semi-Annual RFID Market Data*, contains extensive data on RFID revenues and unit shipments segmented by technology, application, and vertical market.

Port of Oakland revival. With the arrival of three new container cranes from Shanghai last month, the Port of Oakland is anticipating increased cargo throughput. According to Omar Benjamin, the port's executive director, Oakland had a 30 percent increase in its maritime cargo imports and an 11 percent increase in outbound cargo exports compared to a year ago. "There are glimmers of economic recovery on the horizon," Benjamin said. "And people are beginning to feel the negative news of the past several months beginning to thaw and give way to better days." In a letter to shippers, Benjamin also noted that Union Pacific Railroad recently opened its Donner Pass route located in the Sierra Nevada mountain range to domestic double-stack intermodal container freight traffic.

New transpacific player. The Containership Company (TCC), a new Norwegian-based container line, has selected TraPac Container Terminal at the Port of Los Angeles as its U.S. West Coast gateway. The announcement comes at a time when many ports are positioning themselves for a revival of exports. The newest entrant in the trans-pacific cargo trade, TCC will give local businesses another option for exporting goods and materials to the major inland industrial and manufacturing center northwest of Shanghai. TCC will operate a weekly service between Los Angeles and the Modern Terminals facility at the Port of Taicang in the Jiangsu province of China. Starting in April, TCC will offer "no frills" service for importers and exporters seeking a cargo link between Southern California and Taicang, a thriving manufacturing center approximately 40 miles northwest of Shanghai.

Gulf ports gain share. Georgia Ports Authority's (GPA) Executive Director Curtis J. Foltz announced at its board meeting that the GPA continued to experience positive growth during the month of February and has recorded three consecutive months of increased trade through its ports. "Three consecutive months of double-digit growth is a positive sign that overall market conditions have improved considerably since last year," said Foltz. Overall tonnage reports for February 2010 showed gains of 29.7 percent, which brings the GPA's year-to-date volume for the first eight months to a 2.7-percent increase

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Management UPDATE

continued

compared with the same time period last year. Container volume showed strong growth, posting a 20.6 percent increase in TEUs compared with the same period last year.

■ **Airlines mean business.** The heads of the world's regional airline associations met in Brussels last month to issue a statement reaffirming their commitment to the industry-wide global sectoral approach to aviation and climate change. The associations are supporting the efforts of the International Air Transport Association and the Air Transport Action Group to push for a strong International Civil Aviation Organization (ICAO) commitment at the ICAO General Assembly in September. With private industry taking the lead on this issue, the group hopes that government policy makers will listen. "We reaffirm our commitment to the industry-wide effort to reduce aviation's climate change impact through three targets: A 1.5 percent improvement in fuel efficiency annually from 2010; a cap on net carbon emissions from 2020 through carbon-neutral growth; and a 50 percent reduction in carbon emissions by 2050, compared with 2005 levels."

■ **No more boxes.** U.S. exporters of agricultural goods meeting in San Francisco last month said they were facing a dire shortage of ocean cargo capacity this season. *LM* was told in a memo that carriers' increasing use of slow steaming was also a concern, as it causes severe disruptions in the supply chain. According to sources, prominent West Coast shippers met with carrier representatives of the Westbound Transpacific Stabilization Agreement to discuss ways to expedite movement in the U.S.-Asia trade lane. Sources said that part of the problem is that carriers are not using the proper forecasting tools to anticipate growth. Shippers comprising the Agriculture Transportation Coalition insist that demand is ramping way up and that vessel operators are slow to recognize the need for better deployment and more reliable service.

■ **Most admired.** Several logistics providers and freight transportation companies were recently recognized as some of America's most admired companies by *Fortune* magazine. Selections for the annual list were based on a company's innovation, employee talent, and quality of products and services. FedEx ranked 13th and UPS ranked 33rd in the top 50 companies for brand recognition, with C.H. Robinson Worldwide leading the trucking, transportation, and logistics category, followed by Expeditors International of Washington, J.B. Hunt Transport Services, Ryder System, Landstar, Con-way, and Werner Enterprises.

■ **Hong Kong targets Central America.** In a move highlighting the increasing importance of trade agreements between China and Central American nations, DHL announced the launch of its new direct LCL service linking those two destinations. According to spokesmen, LCL (Less than container Load) service will enhance connectivity and trade from Hong Kong's strategic port to one of the busiest ports of Central America, as well as the trade flows between Asia Pacific and Central and South America. DHL currently offers the industry's widest coverage with more than 700 weekly point pairs from 24 North Pacific terminals sailing to 30 destinations in Central America. The newly added LCL service underscores DHL's move to respond to growing trade volumes from Asia Pacific as well as Hong Kong to Guatemala.

■ **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" is updated weekly and touches 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.

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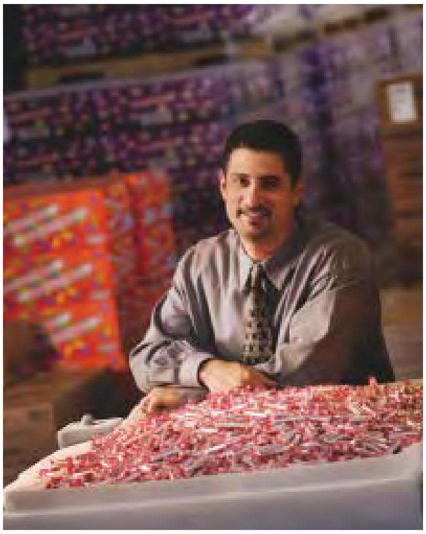
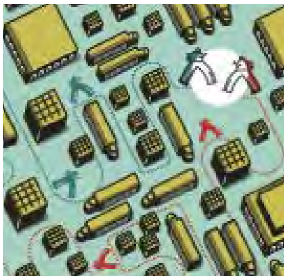


cover photo by Dennis Connors



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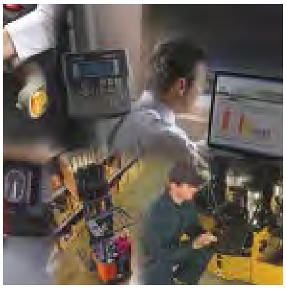

Lift trucks 50

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webcasts/continuing education

upcoming webcasts

Rethinking TMS: Time to implement, upgrade, or replace your transportation management system?
April 13, 2 p.m. ET
logisticsmgmt.com/TMS2010

Adrian Gonzalez, ARC analyst and director of Logistics Viewpoints, and Mike Levans, group editorial director, will discuss the key factors forcing companies to implement a TMS for the first time or to take a second look at their current TMS capabilities. Also covered: the trends, capabilities, and deployment options that should be considered when examining vendors and the solution landscape.

Looking to transform your supply chain and save money?
April 22, 2 p.m. ET
logisticsmgmt.com/infor2010

Is your warehouse struggling with unsatisfactory transportation planning and ineffective warehousing and the high cost of freight and operations? Hear Brian Randleman, logistics manager at Generac, share what his company achieved by implementing a warehouse management system (WMS) and a transportation management system (TMS).

on-demand webcasts

Results of the 26th Annual Salary Survey
Now on demand
logisticsmgmt.com/salary10

The results of our 26th Annual Salary Survey revealed that companies were focused on retaining their logistics and supply chain talent over the course of 2009 with rewards based on measurable performance. In fact, we found that the median salary inched up this year to $88,000. Meanwhile, companies are cautiously optimistic, telling us that there's an anticipated spike in logistics and supply chain employment coming in 2010. Will you be ready to make the big move when the time is right?

on-demand virtual conferences

Logistics Management and SCMR's 2010 Supply Chain Security Virtual Conference
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Learn about the best strategies for protecting your global supply chain operations at this fully interactive virtual event that incorporates online education, live chat, and active movement in and out of exhibit booths and sessions. Get right to the best industry information and security solutions from the comfort of your desk.

bears repeating...

"I'm open to all [funding] ideas except tolling for existing highways. We've paid for those highways once. We're not going to pay for them again."

—Rep. James L. Oberstar (D-Minn.), Chairman of the House Transportation and Infrastructure Committee

this month's fast facts

1 The American Trucking Associations reported that its most recent advanced seasonally-adjusted (SA) For-Hire Truck Tonnage Index was up 2.6 percent year-over-year.

2 FedEx's net income for the fiscal third quarter of $239 million was up 146 percent over last year's $97 million.

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

While the Obama Administration is pledging to make America an exporting power again, the U.S. Chamber of Commerce is questioning its commitment.

blog takeaway

"It is true that we are seeing some decent metrics for freight transportation sector volumes. But we all know that these numbers are based on pretty easy year-over-year comparisons. If we see this same incremental growth in the second half of the year, and see signs of something we used to call Peak Season beginning in August then maybe, just maybe, this recovery we are slowly seeing take place will come to fruition in a larger way."

"Another Good Sign" —Jeff Berman, March 25
logisticsmgmt.com/blog/Newsroom_Notes

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East Coast Warehouse Imports Outstanding Performance from RAYMOND

East Coast Warehouse is a leading third-party logistics provider for over 150 customers, many of whom are import-based. For their day-to-day operations, they must be able to manage the throughput of thousands of pallets in their combined 1.7 million square foot locations in New Jersey, under temperature-controlled conditions and unyielding pressure. To improve their efficiencies, East Coast Warehouse raised their operations to new levels with customized materials handling solutions from Raymond and a solid commitment from our authorized sales and service center, Raymond of New Jersey.

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Message to shippers: rates will rise

April signals the return of baseball and the release of our Annual Top 50 Trucking Companies Special Report, the preeminent inside look at the fiscal, operational, and mental health of some of the nation's leading truckload (TL) and less-than-truckload (LTL) carriers.

To say that this Special Report is highly anticipated would be selling the work of veteran trucking journalist John Schulz a little short. In fact, this annual endeavor, which includes the coveted Top 50 carriers list (Top 25 TL & Top 25 LTL), is now the single best read feature posted on logisticsmgmt.com year after year—and that should come as no surprise.

Known for having one of the deepest—if not *the* deepest—contact lists in the trucking business, Schulz is able to get the nation's leading trucking analysts and top carrier executives to open up in candid discussions. The results paint the most realistic picture of the market available. Needless to say, that picture from the carrier perspective has been consistently bleak over the past two years. Words like "brutal," "horrid," even "lethal" have been freely bandied about in our pages to describe the recent period in U.S. trucking.

This year Schulz rounded up some of the most vocal survivors of the two-year trough and set out to find if the recent positive economic news has yet to have an effect on the wealth of open capacity and the subsequent lower pricing so many shippers have been enjoying.

And just what did he find? Without giving away too much, many of the top analysts and trucking executives interviewed believe that—as indicated by recent general economic news and ATA tonnage reports—U.S. trucking is on the cusp of a steady and prolonged recovery. And with this turnaround will certainly come rate increases to match—anywhere from 3 percent to 5 percent over the next 12 months seems to be the consensus.

Schulz neatly analyzes the four issues (overcapacity, pricing, recapitalization, and diversification) that will drive prices back to levels that will allow carriers to stay above water and even reinvest.

As Schneider's Mark Rourke stressed, "If you look at our industry's lack of investment in equipment over the past couple of years…that's unsustainable." Con-way's John Labrie puts it this way: "I would not call pricing irrational; in fact, it's been very rational, reflecting supply and demand. But it needs to change in order for this asset-heavy business to recapitalize itself."

"Let's put it this way," Schulz told me as he wrapped up his reporting, "trucking simply can't go on with its current state of overcapacity and unsustainable pricing levels. In no uncertain terms, rates will rise."

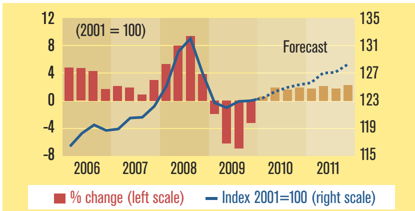
> **Many of the top analysts and trucking executives interviewed believe that U.S. trucking is on the cusp of a steady and prolonged recovery. And with this turnaround will certainly come rate increases to match.**

I would like to thank Satish Jindel and his team at SJ Consulting in Pittsburgh for again compiling our exclusive Top 50 list this year. This most comprehensive look at the U.S. trucking market begins on page 54S.

Michael A. Levans, Group Editorial Director

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

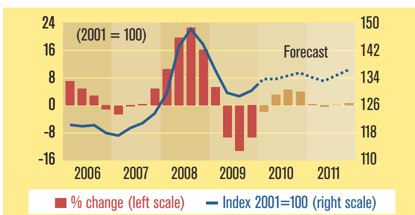
Pricing Across the Transportation Modes



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
General freight - local	0.6	0.8	2.6
Truckload	-0.7	-0.5	-1.0
Less-than-truckload	3.7	-1.4	-2.5
Tanker & other specialized freight	-0.6	1.0	1.4

TRUCKING

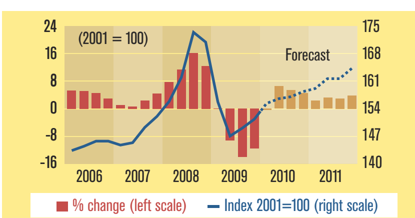
The cyclical low point in inflation (or, in current environment, deflation) appears to have finally passed. U.S. Labor Department surveys report LTL transaction prices jumped 3.7% from January to February 2010. Of course, that one month didn't wipe out five consecutive months of LTL price cuts, but any glimmer that recession-induced price concessions may be ending should concern shippers. From the July 2008 peak to the March 2009 trough, average trucking prices fell 8.6% while industry costs dropped 14.7%. Since hitting bottom, prices have inched up 1.5% as fuel-driven inflation has pushed aggregate industry costs up 8%. Our new trucking price forecast: 1.5% annual gain in 2010 and 2% in 2011.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Scheduled air freight	1.2	4.8	-1.2
Chartered air freight & passenger	-10.1	0.9	-0.9
Domestic air courier	-0.5	8.1	12.8
International air courier	-0.4	5.4	8.6

AIR

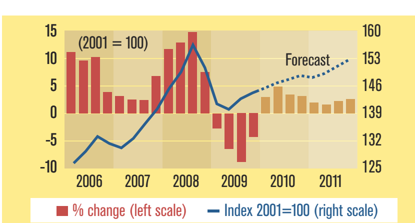
Transaction prices for flying freight on U.S.-owned airliners' scheduled flights increased 1.2% in February. Meanwhile, prices for flying cargo on chartered flights plunged 10.1%, and even air courier tags deflated half a percentage point. The airline industry's aggregate prices and underlying operating costs both peaked in July 2008 before falling to the May 2009 low. From that low to February 2010, prices for all services have increased 8.7% and prices for air cargo (on scheduled flights) have grown only 5.4%. Industry costs, however, jumped 10.4% due largely to a 63% surge in fuel costs. Demands from recession-battered buyers will likely constrain air cargo annual inflation rates to 2.3% in 2010 and 0.2% in 2011.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Deep-sea freight	4.8	6.4	1.8
Coastal & intercoastal freight	2.8	3.6	11.0
Grt. Lks.-St. Lawrence Seaway	-1.8	8.9	5.5
Inland water freight	-0.8	4.0	-7.6

WATER

After dramatic price increases last month, prices for moving cargo on inland waterways and on the Great Lakes/St. Lawrence Seaway gave back a bit, down 0.8% and 1.8%, respectively, in February. Now, however, other water transport markets are getting into the price-hike act, with deep sea freight prices up 4.8%, and coastal/intercoastal freight tags up 2.8%. For the aggregate water transportation industry, prices overall increased 2.4% as industry costs grew only 0.5% thanks to a 1.2% one-month drop in spending on fuel. Nonetheless, January and February data shifted the forecast take-off point, so our industry-wide price forecast has been revised upward to a 4% annual inflation rate in 2010. Next year, prices are expected to remain on a 3.1% inflation track.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Rail freight	-0.1	1.0	2.6
Intermodal	0.3	1.4	5.5
Carload	-0.3	1.0	2.5

RAIL

In February 2010, average prices for intermodal rail freight services increased 0.3% from a month ago and 5.5% from February 2009. But compared to the same month two years ago, intermodal tags remain down 2.9%. These price changes mirror changes in U.S. rail intermodal traffic as reported by the Association of American Railroads. Carload tags, however, despite a one-month 0.3% price cut this past February, now stand 0.3% above price levels set two years ago. After a fuel-driven August 2008 cyclical price peak to a trough set in April 2009, price trends are now settling into more typical inflation patterns. Our forecast continues to call for rail transportation prices to increase 3.5% in 2010 and 2.1% in 2011.

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

inside

- Oberstar continues pledge for more transportation infrastructure investment
- Senate passes FAA Reauthorization Act
- GAO calls for action to remedy USPS financial condition

Wal-mart rolls out ambitious sustainability plan

Retail giant sets the course for massive greenhouse gas reduction; supply chain analysts applaud the effort.

By Jeff Berman, Group News Editor

BENTONVILLE, Ark.—Last month, Wal-mart announced that it's taking major steps to eliminate 20 million metric tons of greenhouse gas emissions (GHG) from its global supply chain by the end of 2015.

This is the latest in a series of steps the retail giant has taken on the sustainability front in recent years, including plans for a Sustainability Index that will tell customers how products sold by Wal-mart will impact the environment; using hydrogen fuel cell powered forklifts; reducing packaging sizes for toys; and installing auxiliary power units for its entire private fleet, among others.

Wal-mart officials said that removing 20 million metric tons of GHG emissions from its global supply chain is the equivalent of removing more than 3.8 million cars from the road in a year. This move is critical to its overall sustainability plans, the company said, considering that its global supply chain footprint is much larger than its operational footprint and presents a significant opportunity to reduce emissions.

Through collaboration with the Environmental Defense Fund (EDF), Wal-mart cited that the following three components will drive its plan to reduce GHG emissions:

Selection. The company says it's focusing on the product categories with the highest embedded carbon. That will be defined by the amount of life-cycle GHG emissions per unit multiplied by the amount the company sells.

Action. Wal-mart will also concentrate on anything that reduces GHGs from a product in either the sourcing of raw materials, manufacturing, transportation, customer use, or end-of-life disposal. Wal-mart will also demonstrate that it has direct influence on the reduction and will show how that reduction would not have occurred without the company's participation.

Assessment. This will be done by having Wal-mart and its suppliers jointly accounting for GHG reductions. It will also have external adviser, ClearCarbon, performing a quality assurance review of those claims to ensure methodology, completeness, and calculations are correct. PricewaterhouseCoopers, another external partner, will assess whether the defined standards were followed consistently to quantify the reduction claim once the claims meet the quality assurance check.

Wal-mart President and CEO Mike Duke said this endeavor reflects Wal-mart's aggressive growth

WAL-MART, *CONTINUED*

goals on energy efficiency and using renewable energy in existing and new facilities.

"We know we need to get ready for a world in which energy will only be more expensive...and there will only be a greater need to operate with less carbon in the supply chain," said Duke. "Wal-mart and our supplier partners have a history of working together to create a more efficient supply chain that benefits us all. The effort to reduce energy will be no different."

Duke also said that reducing carbon in the life cycle of Wal-mart's products will often mean reducing energy use, adding that this will mean greater efficiency—and with the rising cost of energy, lower costs that will make its business stronger and more competitive.

Analysts said that this initiative is well-intended and could reap significant benefits for Wal-mart, its suppliers, and consumers.

"Wal-mart is proving that they're leaders in the area of reducing GHG emissions among global businesses," said Brittain Ladd, a supply chain consultant and lecturer on green supply chain strategies. "By reinforcing the importance of looking across the supply chain from suppliers to consumers, Wal-mart is laying out a business model that can easily be copied by other companies to achieve reductions in GHG levels as well as achieve reductions in costs regardless of the industry they compete."

Ladd also noted that it is becoming more apparent that the focus on reducing GHGs is driving unheard of collaboration between suppliers and businesses that will significantly change the competitive landscape and place new pressures on supply chains.

Kevin Smith, president and CEO of North Kingston, R.I.-based Sustainable Supply Chain Consulting, said that if this is being done for the right reasons, with Wal-mart truly trying to conceptually improve the carbon footprint of its entire supply chain, this could be a good thing because it could be an initiative that works to everyone's advantage.

"We should never be doing things just for the sake of being green," said Smith. "If we're in the business of making money we should be doing things to help the environment and add to the bottom line. This sounds like it's sophisticated enough and I would applaud [Wal-mart] for doing this; but as an industry we need to be careful to make sure we are doing things for the right reasons, things that are good for the environment and good for supply chains by saving money and therefore benefiting consumers." L

INFRASTRUCTURE

Oberstar continues to push for more transportation infrastructure investment

WASHINGTON—When it comes to transportation infrastructure spending and innovation, the world is in the passing lane and the United States in the breakdown lane with a broken axle. At least that's how Rep. James L. Oberstar, D-Minn., chairman of the House Transportation and Infrastructure Committee, currently sees it.

On the heels of historic health care reform, Oberstar is imploring the nation to reach deep into its pockets for a six-year, $450 million surface transportation bill (with another $100 million for mass transit) and said he is "open to all ideas" on how to pay for it—except one.

"I'm open to all ideas except tolling for existing highways," Rep. Oberstar said. "We've paid for those highways once. We're not going to pay for them again."

Oberstar, speaking at the spring conference of the American Association of Port Authorities, said Europe and Asia are outspending the U.S. on infrastructure and the results show. For instance, he noted a high speed train that connects Paris to Brussels—244 miles, in 45 minutes. By comparison, Amtrak's fastest train connects New York to Washington that covers 244

News Capsule

Surface trade with Mexico and Canada down 23.3 percent year-over-year

Trade using surface transportation between the United States and its North American Free Trade Agreement (NAFTA) partners Canada and Mexico fell to $637 billion in 2009, a 23.3 percent decline from 2008's $830 billion. This was the largest year-over-year decline ever recorded for this data, with imports down 26.5 percent and exports down 19.2 percent.

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

INFRASTRUCTURE, *CONTINUED*

miles in 2-1/2 hours.

"And I guarantee you it goes 135 miles per hour for three minutes," Oberstar quipped. "What are we, a third world country? We're not doing things right in this country. We need a new Interstate Highway process."

Rep. James L. Oberstar, D-Minn.

Two recent commissions on that process have called for investing $106 billion a year over the next 20 years to maintain the current system, compared to the $80 billion a year currently spent on highways and bridges by all levels of government.

"We need to get people moving again," Oberstar said, "and get them out of traffic. What are we leaving for the next generation? What investments are we making to make their lives better?

The nation is ignoring ocean and water shipping as well, said Oberstar, who called for a "new understanding" of our relationship with water to help modernize maritime shipping. "Our great cities were great ports before they were cities," he said. "Ports are a driving engine of our economy," he said, noting that they produce 13.3 million jobs and generate $3 trillion in revenue, or 15 percent of the nation's Gross Domestic Product.

"In the maritime business, you cannot afford to think small," Oberstar implored port officials. "You have to think bigger."

Invoking the memories of the great clipper ships and using quotations from poet Lord Byron, Oberstar, a 35-year member of the Transportation and Infrastructure Committee, is strongly pushing a six-year, $450 billion bill to replace the $286 billion expired SAFE-TEA-LU highway bill. He also wants to spend $100 million on mass transit in that span. L

—John D. Schulz, Contributing Editor

LABOR

Senate passes FAA Reauthorization Act; labor classification differences between FedEx and UPS linger

WASHINGTON—The United States Senate recently passed the $34.5 billion Federal Aviation Administration (FAA) Reauthorization Act that will secure FAA funding through September 30, 2011. This followed a vote by Congress to extend the House version of this bill for three months through June 30—the most recent in a series of extensions for this bill, which expired in 2007.

The FAA bill has received considerable attention in recent months due to a labor-related difference between FedEx and UPS over the House and Senate versions.

At the heart of this difference is that the House version calls for "express carrier employee protection" and has the potential to change the labor status for FedEx Express from Railway Labor Act (RLA) to the National Labor Relations Act (NLRA) that applies to UPS employees. Should this bill be signed into law, many industry experts contend that it will make it less challenging for the Teamsters Union to organize FedEx Express workers.

In the House version, an amendment would enable the RLA to clarify that employees of an "express carrier" can only be covered by the RLA if they are employed in a position that is eligible for certification under FAA's rules such as mechanics or pilots, and that they are actually performing that type of work for the express carrier. It added that all other express carriers would be governed by the NLRA.

"The term bailout is not accurate. The issue at hand is the treatment of drivers under the law—the application of law as it applies to drivers."

—Malcolm Berkley, UPS spokesman

In the Senate vote, the House provision was not included, a move that FedEx viewed as a positive.

"We are encouraged that the United States Senate passed an FAA Reauthorization bill that is focused on modernizing our air travel system and enhancing important safety provisions that we support, including an increase in co-pilot training requirements," said Maury Lane, FedEx director of media relations, in a statement. "To their credit, the Senate has rejected efforts to include an ill-conceived 230-word bailout provision inserted by UPS lobbyists into the House bill that would change how FedEx Express has been regulated since its founding 38-years ago."

Lane added that this is an important bill that should advance without extraneous labor provisions, "and we continue to believe that UPS should abandon its bailout quest that puts the interests of UPS ahead of the public."

In literature for its campaign—dubbed BrownBailout.com—FedEx says that this amendment amounts to a "bailout to UPS," adding that it would force FedEx to operate under a law not designed for

LABOR, *CONTINUED*

airlines and express companies. FedEx has previously defended this position by explaining that UPS and FedEx are "fundamentally different companies," with UPS shipping 85 percent of its parcels on the ground and FedEx primarily functioning as an airline, flying 85 percent of its packages in the air.

UPS spokesman Malcolm Berkley said that the only "bailout" occurring is not one for UPS but one that FedEx has been enjoying for the last several decades, as its drivers are the only ones in the country covered by the RLA.

"The term bailout is not accurate," said Berkley. "The issue at hand is the treatment of drivers under the law—the application of law as it applies to drivers. And right now there is only one company with its drivers covered under the law differently than all other drivers in the U.S. and that's FedEx. If you want to talk about special treatment and about being bailed out, that is where that is."

"The change in the legislation really does nothing for UPS, although UPS contends that they have to operate under different laws than FedEx, which is unfair," said Jerry Hempstead, principal of Hempstead Consulting.

"This is really a battle with organized labor that FedEx has been fighting since deregulation in 1979," added Hempstead. "However, FedEx can't say that they are battling organized labor. That will not sell to the current administration or the population at large; but if they paint it as a battle with the big bad corporate giant UPS then they can get an ear and some sympathy." L

—Jeff Berman, Group News Editor

POSTAL SERVICE

GAO calls for aggressive action to remedy financial condition of the USPS

WASHINGTON—Following a July 2009 report in which the Government Accountability Office (GAO) added the United States Postal Service (USPS) to its "High-Risk List" of federal areas in need of transformation, a March GAO report cited the need for the USPS to consider various restructuring steps to stem its significant revenue and volume declines that it has incurred in recent years.

The GAO report noted how USPS mail volume has declined by 35 billion pieces—or 17 percent—from fiscal years 2007 to 2009, losing $12 billion during that span. It also mentioned how the USPS does not expect total mail volume to return to its previous level when the economy recovers, forecasting that total mail volume will decline to 167 billion pieces in fiscal year 2010—its lowest level since fiscal year 1992 and 22 percent off its fiscal year 2006 peak.

POSTAL SERVICE, *CONTINUED*

A reason for these declines is due to a shift from traditional mail delivery to electronic communication alternatives, including e-mailing business documents and online purchase ordering.

The GAO stated how the USPS expects to borrow $3 billion in fiscal year 2010, which would bring its total outstanding debt to $13.2 billion. And by fiscal year 2020, the USPS is projecting that total mail volume will further decline by 16 percent to its lowest level since 1986.

"Action is urgently needed in multiple areas by USPS and Congress to address USPS' pressing challenges so that it can achieve financial viability, including restructuring USPS operations, networks, and workforce to reflect changes in mail volume, revenue, and use of mail," said the GAO in the latest report. "The longer it takes for USPS and Congress to address USPS' challenges, the more difficult they will be to overcome."

The USPS is fully aware of its myriad challenges, and on March 2 released a report that addressed key areas that would make it a more financially viable entity, including:

- restructuring retiree health benefits for as many as 800,000 retirees, even though it only has an active work force of 596,000 career employees. Left uncorrected, that bill will reach $4 billion next year;
- adjusting delivery days to better reflect current mail volumes. This likely would mean the end of Saturday home delivery, although most of its 32,741 post offices would remain open that day; and
- establishing a more flexible work force to respond to changing demand patterns. More than 300,000 of its 596,000 career employees are expected to retire in the coming decade.

"The USPS finds itself on a course that is not sustainable," said Louis J. Guiliano, chairman of its board of governors. "These challenges can be overcome, but overcoming them will be an enormous undertaking."

The USPS maintains that cutting Saturday delivery would provide an annual savings of about $3 billion, whereas the Postal Regulatory Commission in 2008 estimated it would result in roughly $1.9 billion in savings.

Cutting weekly delivery days from six to five raised several questions by the GAO, including how it would impact the USPS' efforts to grow mail volume and encourage commercial mailers to continue using the mail; as well as how it would affect mail processing costs, salary, and benefits for mail processing employees and carriers.

USPS Deputy Postmaster General and Chief Operating Officer Patrick Donahoe explained that the USPS has seen a 23 percent decline in mail volume since the end of 2006, which has forced it to "look very seriously" at this measure. He added that a slowly improving economy may help temper falling volumes somewhat, but at the same time the USPS is not forecasting a substantial volume uptick. L

—John D. Schulz, Contributing Editor and *Jeff Berman, Group News Editor*

SUSTAINABILITY

Report says cap and trade legislation may be running out of time

WASHINGTON—The concept of "cap and trade" as a cornerstone of a United States climate change policy appears to be losing steam, according to a recent *New York Times* report.

The *Times* report makes note of how opponents of cap and trade—a form of emissions trading used to control pollution by offering economic incentives—maintain it will be costly, adding that it's not even mentioned in President Obama's current budget.

The report added that Senator Lindsey Graham (R-S.C.), who is working on a climate change bill with Senators John Kerry (D-Mass.) and Joseph Lieberman (I-Conn.), pronounced cap and trade as "dead" last month. Graham and Kerry are working to draft a bill "that satisfies the diverse economic, regional, and ideological interests of the Senate," according to the report.

Graham has previously said that the current cap and trade bills in the House and Senate are "going nowhere" and are not business-friendly enough

SUSTAINABILITY, *CONTINUED*

and do not lead to meaningful energy independence.

Instead of cap and trade being used as a form of emissions trading to reduce emissions pollutants, the bill would initially include a cap on greenhouse gas emissions for utilities, with other industries potentially phased in later. The bill would also include a modest tax on gasoline, diesel fuel, and aviation fuel, accompanied by new incentives for oil and gas drilling, nuclear power plant construction, carbon capture and storage, and renewable energy sources like wind and solar.

Late last year, the White House introduced its U.S. emissions target, calling for an emissions reduction of 17 percent below 2005 levels in 2020 and an 83 percent reduction by 2050—as well as being in line with final U.S. energy and climate legislation. The Senate version calls for a 20 percent reduction below 2005 levels, and the House version calls for a 17 percent reduction below 2005 levels.

Both bills, like the White House, calls for an 83 percent reduction by 2050.

The notion that cap and trade's future is decidedly murky has been kicking around for months. At a recent transportation conference, Patrick Larkin, partner at Strasburg & Price LLP in Washington, D.C., said that if the climate change bill does not pass by June 1, it could very well be dead for 2010.

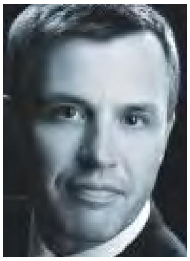
If this ends up being the case, many freight transportation and logistics industry stakeholders maintain it will be for the best as they contend that cap and trade will raise taxes for all businesses and consumers and increase fuel costs by nearly $1.00 per gallon and cost taxpayers more than $840 billion.

David Miller, vice president of global policy and economic sustainability at Con-way, said that if cap and trade were to ever become law, freight transportation companies would have no chance at all to get the fuel and gasoline taxes needed to support critical infrastructure.

"What's bizarre about this is that those of us that are huge energy consumers who move freight throughout the entire country are not going to be given any credits [in this legislation], but those that are supposed to be paying the taxes are being given all the credits," said Miller. "It is entirely possible we could see a 30 percent to 40 percent increase in fuel costs should this be passed." L

—*Jeff Berman, Group News Editor*

Pearson on



Profit-focused supply chain planning

Accenture research has shown that enterprise-wide perspectives are critical to the attainment of supply chain mastery, and one of the best examples is a supply chain leader's ability to understand and influence decisions involving corporate revenue, margins, and profitability.

At most companies, however, supply chain decision making remains a unit- and volume-focused exercise. Revenue, margins and profitability issues are acknowledged, but usually after the fact, once an execution-level decision has been made. Consider a product shortage or allocation issue involving two customers. Standard sales & operations planning (S&OP) approaches treat the problem as an inventory-allocation decision rather than concurrently examining the financial and logistical implications. The larger customer would likely gain the upper hand because it contributes more to the manufacturer's revenue—regardless of whether that customer contributes more from a margin perspective.

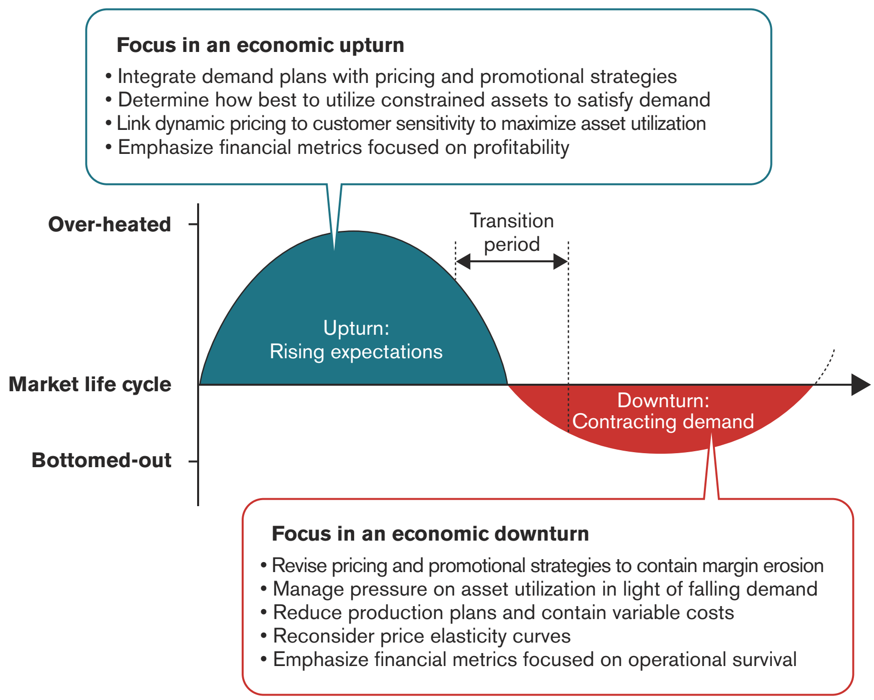
Excess or constrained capacity is another common challenge. Standard S&OP processes rarely incorporate profitability implications into manufacturing decisions like making cost/benefit tradeoffs for overtime or examining the financial impact of expedited freight. A third scenario may involve product lead times that vary due to multiple sourcing locations or transportation modes. With traditional S&OP, lead times tend to be analyzed only when physical changes are made.

A MORE HOLISTIC APPROACH

We are implying that companies may wish to consider a more comprehensive, profit-oriented approach to S&OP planning—making supply chain decisions that simultaneously optimize sales, balance demand and supply, and maximize profits.

This is not as radical a move as one might think. Traditional S&OP, and the more advanced methodology we're suggesting, are both iterative processes focused on integrating demand and supply planning for enterprise-level decision making and execution. However, the new approach adds an important dimension because it emphasizes financially-based scenario modeling to create profitable outcomes. As a result, the focus is always on where and how to make the most profit and/or generate the most market share.

A good example would be enhancements to market life cycle planning based on economic conditions. When times are good, companies need to manage their pricing and promotion strategies to determine how to make a finite number of products generate the most profit (See figure).



Adapting to various economic conditions with profit-focused sales & operations planning.

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

Using a profit-centric S&OP planning approach, high demand and limited availability will automatically trigger a move to higher prices and higher margins for a particular segment and time period. Conversely, challenging times often require that a company find price points that help sell what you have—driving sufficient revenue to cover variable costs.

To make this happen, the same profit-centric S&OP planning approach can help you adjust pricing and promotion strategies to accommodate expected margin erosion and to alter production plans to cover drops in demand.

THE BOTTOM LINE

There is no one recipe for blending revenue, margin, and profit considerations into a company's S&OP planning process. To drive the transformation, however, most organizations will need to modify their operating models (restructuring teams, individual roles, and responsibilities), enhance their analytical capabilities, train resources in financial modeling concepts, and establish new metrics for individual and organizational performance.

Deeper and more integrated demand and supply planning efforts will also be critical. On the demand side, that could mean aggregating forecasts by family groupings, incorporating more macroeconomic factors, and reworking pricing and promotional strategies. On the supply side, more attention would likely be given to recognizing supply constraints and opportunities, balancing and reassigning production across the network, and adjusting capacity based on newly formed pricing and promotional strategies.

Another reasonable certainty is the new approach's potential to benefit industries ranging from consumer goods and high-tech, to media, mining, and oil and gas. After all, most companies and industries share a desire to understand and raise their bottom lines. Taking a more profit-oriented approach to S&OP planning can complement these goals by helping to:

- integrate unit/volume planning with financial/profitability planning;
- shape demand by considering production, inventory, and distribution strategies across customers with varying demand characteristics and service-level requirements;
- factor capacity and inventory constraints into decisions about promotional strategies and optimal price points;
- leverage scenario-based modeling to clarify operational and financial perspectives;
- improve product life cycle decisions and asset/product utilization; and
- continuously assess and refine profit/volume tradeoffs across products, channels, and geographies.

The most skillful supply chain decisions are usually those that extend from the design room to the store room to the board room and back—with a consistent emphasis on the bottom line. A profit-oriented approach to S&OP planning can help make that happen. L

CE DE CANDY'S SWEET TRANSFORMATION

Photography by Dennis Connors

BY **BOB TREBILCOCK**, CONTRIBUTING EDITOR

Faced with new FDA record-keeping requirements, Ce De Candy tossed out its manual systems and turned to information technology to collect information and drive new efficiencies across its logistics operation. And the results have been simply delectable.

Since 9/11, even candy makers have been enlisted in the fight to keep the nation's food supply safe from bioterrorists. That's why Ce De Candy, the maker of the Smarties brand of candy products, installed an automatic data capture and inventory management system in its Union, N.J., and New Market, Ontario manufacturing plants. Technology is not only transforming the way the company collects data, it is also laying the foundation for using that data to improve its processes in the future.

The technology allows the candy maker to track and trace the source and lot of the ingredients used to make its popular candies as well as the customers who that shipped

Rick DePinto, Ce De Candy's information technology manager

the finished goods. That has enabled Ce De Candy to comply with the new lot and product tracking requirements from the U.S. Food and Drug Administration's Bioterrorism act.

"When the FDA announced the new requirements, we suddenly had to maintain accurate records in case there was product tampering, contamination, or a recall," says Rick DePinto, Ce De Candy's information technology manager. An added challenge was that Ce De Candy still ran a paper-based warehouse without a warehouse management system or bar code scanning. "Prior to that, we didn't have to track anything," he adds. "We had to get up to speed and implement a system that would comply with the new mandates in a hurry."

How fast? Once the requirements were finalized, Ce De Candy had just six months to get the system up and running. The solution it implemented was a highly customizable software package (Portable Technology Solutions) that integrated easily with the manufacturer's ERP system and utilizes wireless, rugged bar code scanners (Motorola) to accurately track the source of ingredients—the important steps in the manufacturing process and finished products.

Since going live, Ce De Candy is not only compliant with the federal tracking requirements, the company has also discovered additional benefits in its logistics operations. "With the additional information available, we now have a record of every pallet picked for a customer," says DePinto. "That has improved the way we handle customer disputes regarding shipments."

GETTING UP TO SPEED

Founded in England in 1932, Ce De Candy Inc.'s chairman launched operations in the U.S. in 1949 with only two wrapping machines, a rented facility, and a lot of ingenuity. More than 60 years later, the company produces 8.8 billion rolls of Smarties and other products each year that are sold through a large number of retail channels including drug stores, supermarkets, convenience stores, and wholesale clubs.

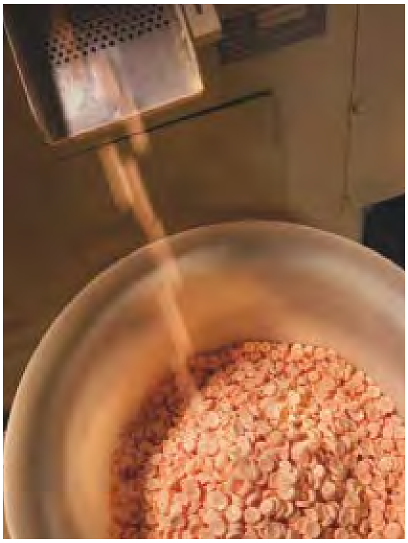
For most of those 60 years, Smarties had been manufactured, stored, and shipped in much the same way. Suppliers provided the raw materials that go into making the rolled candy product. Depending on the ingredient, a shipment of raw materials may satisfy several days worth of manufacturing, or longer. While some information was collected, it was not as complete as was required by the new bill; and it was collected manually, not electronically.

The federal Bioterrorism Act changed all that. First passed in 2002, the act created new FDA requirements to track the source and ingredients that went into every food product and identify where that product was shipped for the purposes of potential contamination. "Suddenly, everything had to be trackable," says DePinto. "We had six months to get a solution in place."

While compliance was a priority, Ce De Candy didn't want to meet the mandate at the expense of it current manufacturing processes, or put new burdens on its candy makers. "We did not want to add major steps for people who know how to make candy but aren't tech savvy," says DePinto. That was especially important because English is not a first language for many of Ce De Candy's employees.

Finally, DePinto put a priority on finding a solution that could meet the candy maker's new requirements and integrate with the existing ERP and order entry system without a lot of custom programming.

For those reasons, DePinto decided to focus on the software rather than the hardware. "My approach was to find the right software application and let the vendor dictate how that would work," DePinto says. "Whether it was handheld scanners or tablets, real-time or batched, I was going to rely on the vendor."



Prior to introducing raw materials into the manufacturing process (shown left), a bar code label scan captures supplier and lot information. Ce De Candy can then track that info through production (shown right).

His search led him to a highly customizable inventory lot tracking software package that integrated easily with the order entry system and operated in a real-time, wireless environment. In fact, once the specifications for the processes were nailed down, the implementation and training took just a few weeks at both plants. Because the system is wireless, Ce De Candy's personnel are mobile. "That makes data collection and recording much easier for them," DePinto says.

In addition to installing wireless data collection systems in the two plants, the candy maker also outfitted tethered, or wired, scanners at remote warehouses. Those systems capture batch data on the products shipped from those locations.

GOING WIRELESS

Using the wireless scanners, Ce De Candy is capturing the information it needs with just three scans at critical stages of production. "With those scans, we're able to track when and where these processes take place for every pallet," says DePinto.

The process begins when suppliers fax an advance ship notification that identifies the lot number and quantity of product that's going to be delivered. With that information, Ce De Candy creates license plate bar code labels in advance of receipt that include the supplier's lot number and an internal lot number created by the candy maker's ERP system for the product. The bar code labels are applied to pallets after the product has been verified against the purchase order and inspected for quality. Product is then putaway in the central storage area without a bar code scan.

The license plate label is scanned for the first time before the product is introduced into the manufacturing process. An operator scans the label to verify that the right product and quantity were pulled from a central storage area. The system also records an electronic time and date stamp for when the product was retrieved.

The second scan happens at the end of the manufacturing process, after the ingredients have been converted into a finished product. The system creates a bar code label with a UPC code for a carton that is scanned to verify in real-time

After finished goods are inspected (shown left and right), they are packaged and scanned once again.

Ce De Candy's new tracking system enables compliance with FDA mandates by capturing critical information throughout manufacturing, finished goods putaway. and shipping processes.

that the product that was just produced. That also creates a date and time stamp for that product. Following that scan, the system automatically recommends the number of cases of that product that should be put on a pallet.

Once a pallet has been built, another license plate bar code label with a new lot number is created for the pallet. "We now have a lot number that tells us that at a certain time of day on a certain date that a certain batch of material was produced including the specific lot of raw materials that went into that production run," DePinto says.

Once the pallet is labeled and stretch-wrapped, it's stored in the warehouse. Putaway locations are maintained manually. The final scan takes place when an order is placed and a bill of lading is printed in the shipping department. That bill of lading includes a bar code representation of the order.

An operator scans the bar code representation of the order, and then scans each pallet being pulled from the warehouse for that order. Those scans validate the order number and quantity of pallets and create a third date and time stamp. Once an order has been fully picked and is ready for shipment, the system now creates a packing list that will accompany the order.

SWEET BENEFITS

From a compliance standpoint, the system has been a success. Where the company once relied on paper record keeping, Ce De Candy now has instant access to pertinent data regarding its ingredients and final product. "In the past, we literally wrote down everything we did during the day, and then reported it at the end of the shift," says DePinto. "Now, everything is in real-time, and we know up to the minute when things were made." The company has been audited by the FDA and is in full compliance.

However, once Ce De Candy began working with the system, it also discovered additional benefits that have improved operations. One has been the ability to use the new data to resolve shipping disputes. In the past, if a customer claimed they were short-shipped or sent the wrong products, Ce De

Candy only had its paper-based records to argue its case, and those are prone to error. Now, the system ties shipments to specific lots of product.

The system also generates a packing list at the end of the picking process that's included with all shipments now. "We have an electronic record of when the pallet was picked and the packing list," DePinto says. "We can tell if there was a picking and shipping error on our part or an error at the other end, at our customers' facility."

In addition, Ce De Candy has real-time visibility into both its manufacturing operations—at its New Jersey headquarters and at the company's plant in Ontario. "Production data goes directly into our ERP system and can be viewed instantaneously," says DePinto. "That means we no longer have to call our plant manager in Canada to find out what's going on up there because all of that information is sent to our central tracking system."

Last, the company expects to utilize the data it is now collecting to drive continuous improvement by identifying trends regarding the quality of ingredients it is receiving and inconsistencies in its processes.

"This is only the beginning of what we can do for efficiencies within the manufacturing process," he says. "It is the most significant technology investment our company has made." L

Bob Trebilcock is a Contributing Editor to Logistics Management


Fwd: Momentum
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SEPARATE PATHS SAME RESULT

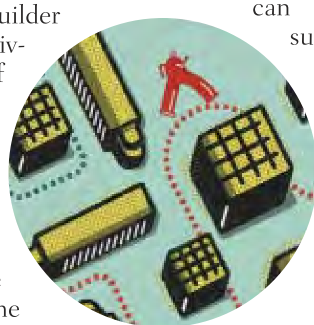
BY **PATRICK BURNSON,** EXECUTIVE EDITOR

When it comes to finding the right 4PL, no one tactical or strategic plan may fit the bill. Here's how two manufacturers took different paths in search of a customized logistics and transportation solution.

Illustration by Daniel Guidera

A single logistics provider worked out just fine for American Woodmark Corp. for a while—until it suddenly didn't. Reliance on a solitary 3PL, even one with global credentials, became a problem when it could not keep growing with this dynamic building materials supplier as it widened its footprint and deepened the complexity of its North American operations.

Today, American Woodmark, the largest independent manufacturer of kitchen and bath cabinets in he United States, uses a mix of 4PLs to service their distribution requirements. This arrangement, which provides outsourcing of its logistics operations to two or more specialist firms, uses another specialist firm (the fourth party) to coordinate the activities of the third parties. This web of providers offers home delivery service for their retail customers, jobsite delivery for their builder customers, and retail delivery for their network of independent distributors nationwide.



American Woodmark, which operates 11 manufacturing facilities and nine service centers across the country, has leveraged the "Theory of Situational Leadership" to strengthen the relationship with their key 4PLs. Developed by Ken Blanchard and Paul Hersey, two well-known business theorists, the theory presumes that different leadership styles are better in different situations.

For ATM giant Diebold, the strategic thrust was placed on a search for a lone logistics provider capable of keeping pace with its international scale and ever changing demands. Here too, a strategic model shared by its partner was crucial.

In Diebold's case, "Smart Business 200"—an internal initiative aimed at driving millions in costs out of the organization—was embraced by its 4PL to assist in transforming Diebold's global distribution infrastructure and practices. Today, the partnership is providing integrated solutions in self-service and security technology for financial institutions, government agencies, commercial enterprises, and retail outlets.

While taking two distinctly different paths, both Diebold and American Woodmark have developed critical strategies for ensuring that performance expectations in the supply chain are met and that new visibility has been realized.

WOODMARK'S QUEST

According to Mike Feighery, American Woodmark's director of supply chain services, the company's major challenge when he was hired in 2006 was to continue to grow its business without the benefit of one true branded, big-box home delivery network in the United States.

"Many household goods manufacturers—be it cabinets, windows, appliances, televisions, spas, generators, fencing, and millwork—have an unmet need for a nationwide network," he says. "We were all looking for something similar to a UPS or FedEx, but capable of handling heavier freight and providing inside delivery and product placement at a competitive cost."

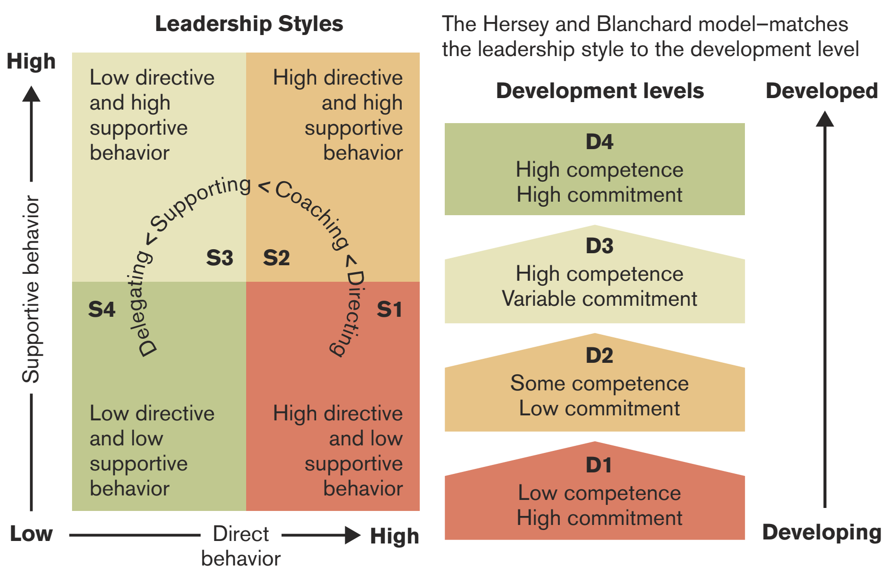
The search for such a singular solution was not without frustration, explains Feighery. Before he came aboard, there was a lot of trial and error even when some of the early picks were taken from a deep talent pool. "There are some large players in the country," he says, "but most of them have strung together networks of company-owned and agent-based facilities, with varying levels of influence over the local operations."

Feighery adds that many also come from the household goods moving industry and have expanded to include high value product delivery with "white glove" services, but at a price point that's not commensurate with Woodmark's product.

Feighery says that they cycled through a number of 4PLs, piecing together solutions for the various regions of the United States and discovered that they were outstripping their previous distribution network's capacity. American Woodmark then made a tactical change, spending three years in a "reactionary mode" just trying to provide a quality delivery experience for their customers.

"We had a lot of turnover in 4PLs as we assessed their capabilities and better understood our needs," he adds.

Situational Leadership Theory



"We were looking for companies that could meet the central tenants of our program—the ability to receive our product that was directly shipped from our assembly plants in full-truckload quantities and then staged in their (4PL) facility.

—Mike Feighery, American Woodmark

> **"We now have the most flexible, consistent, and reliable delivery network in the history of our company—and I would contend in our industry."**
>
> **—Mike Feighery, American Woodmark**

"At the very core we were looking for companies that could meet the central tenants of our program—the ability to receive our product that was directly shipped from our assembly plants in full-truckload quantities and then staged in their (4PL) facility. Then they were to schedule a delivery appointment to the customer, meet that commitment, and maintain piece count integrity throughout the process with minimal damage."

A tall order, Feighery admits, especially considering that the 4PL would also have to help American Woodmark with its service commitment to their retail customers and provide, at minimum, one-day-a-week home delivery service to every market.

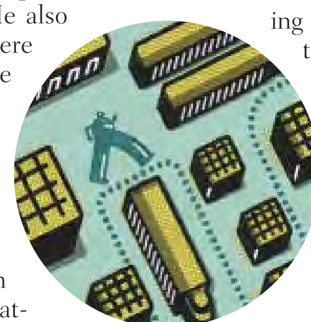
"The delivery agent could not hold product to build density for the more remote markets," he explains. "What we found was that all of the 4PLs sold the services we needed, but at the end, few had the infrastructure—people, systems, and processes—to maintain the degree of consistency and reliability we required."

WOODMARK'S SOLUTION

That's when Feighery's team put together their "Carrier Development Model" based on the Theory of Situational Leadership. The theory presumes that different leadership styles are better in different situations, and that leaders must be flexible enough to adapt their style to a specific situation.

"The team identified the key attributes needed for the 4PL, and ultimately American Woodmark, to succeed," he says. "Further, they identified demonstrable behaviors they needed to see in order to recognize the 4PLs graduation through the development continuum, allowing them to scale their resources accordingly.

As a consequence, Feighery began to plot the 4PL's development level in three key categories including field operations, quality, and corporate relations every six months. He also asked the 4PL to plot where they felt they were in the process. Then, they sat down together to discuss how their perceptions matched and differed.



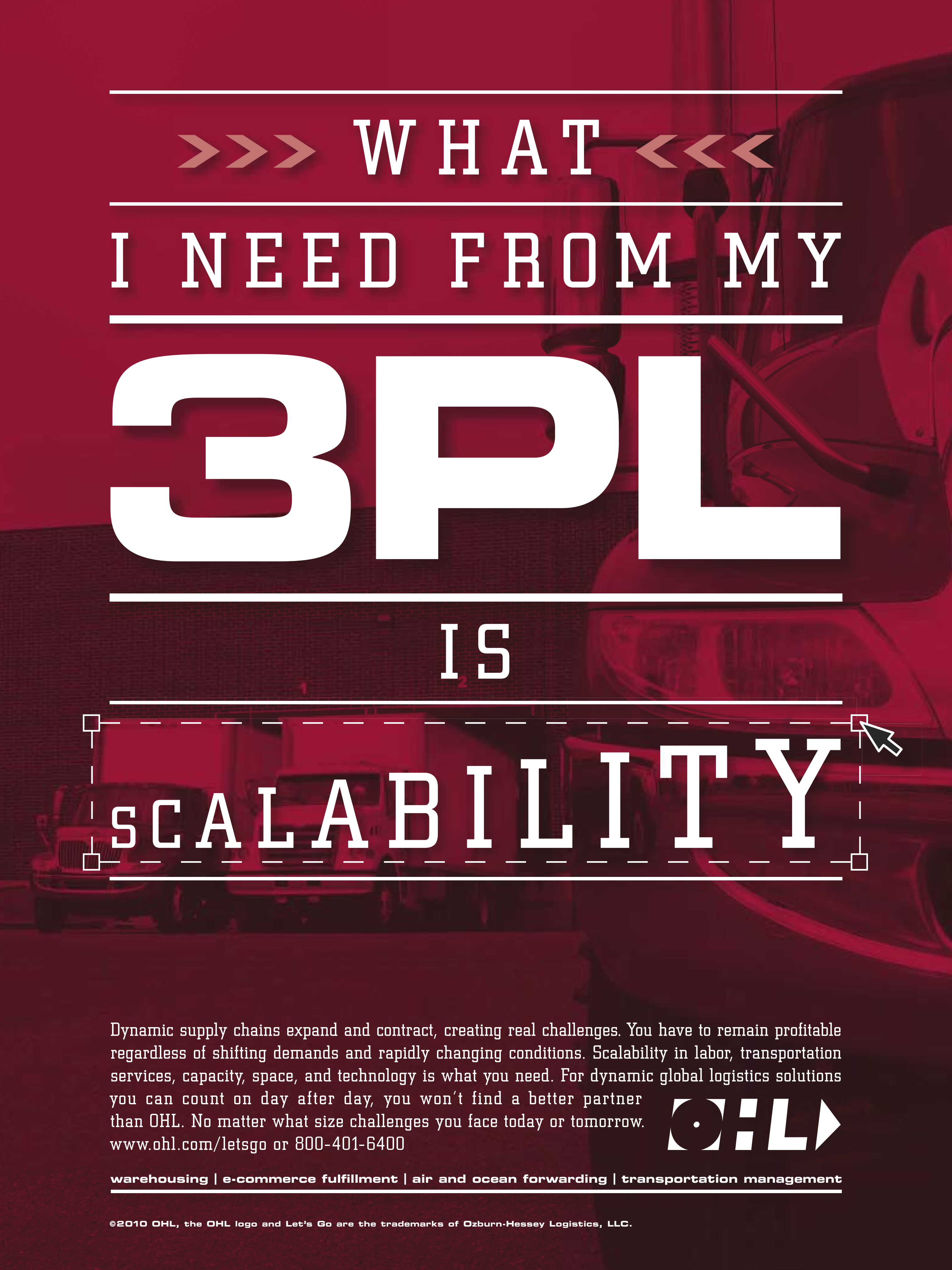
According to Feighery, Woodmark also asked the 4PL to challenge them if they are not demonstrating the proper leadership style given their development level. "This has provided a wonderfully constructive tool to facilitate discussions and grow our mutual capabilities," he adds.

As a consequence, each of American Woodmark's three 4PLs handle specified geographic regions of the country, and they all execute the program very well, says Feighery. "In fact," he adds, "we now have the most flexible, consistent, and reliable delivery network in the history of our company—and I would contend in our industry."

He admits that the housing recession has been tough on many building material suppliers, but at the same time he adds that investment in all aspects of American Woodmark's future operations is critical in order to fully participate in the recovery.

DIEBOLD'S SINGLE-PLAYER PARTNERSHIP

Diebold is no less enthusiastic over its decision to go with one mega 4PL rather than the several 3PLs it had been using for its


WHAT
I NEED FROM MY
3PL
IS
SCALABILITY
Dynamic supply chains expand and contract, creating real challenges. You have to remain profitable regardless of shifting demands and rapidly changing conditions. Scalability in labor, transportation services, capacity, space, and technology is what you need. For dynamic global logistics solutions you can count on day after day, you won't find a better partner than OHL. No matter what size challenges you face today or tomorrow.
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> **"Savings, control, leverage, and speed—these are the key benefits of Diebold's adoption of the lean 4PL model."**
> **—Chris Kushmaul, Diebold**

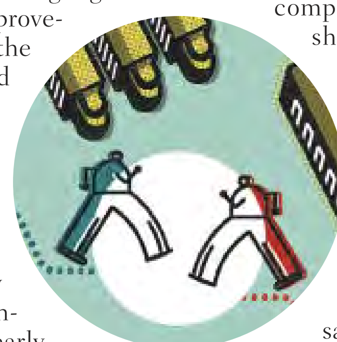
international operations. Four years ago, when it incorporated the initial phase of its "Smart Business 200," an initiative aimed at driving millions in costs out of the organization, it defined supply chain optimization as a key component of that effort. According to Chris Kushmaul, the company's director of global logistics, the initiative was untested, but promising.

"We were looking for a holistic solution," recalls Kushmaul. "This was especially important to us as we began penetrating more emerging markets in Latin America and elsewhere in the world. We wanted to manage what we could measure, irrespective of cross-cultural challenges."

According to Kushmaul this "change management" was done by leveraging a strategic partnership with Menlo Worldwide Logistics. At the heart of this approach has been a focus on supply chain visibility, not only to material at motion and at rest, but also visibility into costs and metrics that track supply chain performance at multiple levels.

Another key element, says Kushmaul, is a philosophy based on "balanced scorecards" that measure service provider partners against cost thresholds and minimum service levels or performance expectations. "This has been a critical tool for ensuring that performance expectations in the supply chain are met as well as for early identification and resolution of failure points," he says. "Information has played a key supporting role, and has been most effective in providing visibility and insight into performance metrics."

However, Kushmaul's view of information technology is that it's only as good as the process it supports. Technology, no matter how cutting edge it may be, is not compensation for weak or ineffective processes, or the people managing those processes, he says. Kushmaul also had his colleagues adapt and use "lean tools" such as value stream mapping to highlight opportunities for improvement and model how the supply chain would operate with different changes in place.



"The process stressed both collaboration and accountability, with team members continuously challenging the conventional wisdom and clearly demonstrating the value of new ideas to multiple stakeholders," he says.

According to Kushmaul, value stream mapping has also allowed him to present key third-party providers with the full picture of Diebold's materials flow and hone their roles within that system.

Kushmaul says that a recent trip to Russia also confirmed his decision to use a single 4PL with a track record dealing with multiple nations in the supply chain.

"I was attending a logistics conference and studying how other companies were sourcing and shipping raw parts with countries like China and India. In those countries, it's very important to use local people for the day-to-day management and transactions."

These companies were doing a lot of the same things Diebold was doing with its 4PL in terms of measuring objectives with a critical focus on service levels, observes

> **"Lead times have been reduced by nearly 25 percent due to reduced process variability and logistics engineering."**
>
> —Chris Kushmaul, Diebold,

Kushmaul. He also notes that a page on reverse logistics can be taken out of the same book. "Reverse logistics is definitely an area we plan to attack more aggressively in the future," he says. "Other manufacturing industries understand how much efficiency can still be squeezed out of returns."

BENEFITS TO DIEBOLD

Diebold's close collaboration with its 4PL began with a focus on simple value creation that evolved into supply chain innovation and, over time, actual business transformation.

According to Kushmaul, the advanced processes utilized by the Diebold/4PL team have driven changes not only in the way the company moves materials but in the way it operates as an organization—from sales and order management to final customer delivery.

"Savings, control, leverage, and speed—these are the key benefits of Diebold's adoption of the lean 4PL model," says Kushmaul. He adds that the company is measurably driving down costs through the dynamic optimization of all modes of transportation, continued application of value stream mapping, global sourcing, and real logistics engineering.

Benefits from these innovations include a more than 50 percent reduction in distribution infrastructure and low double-digit reduction in annual supply chain spend while lowering lead times and improving delivery to its customers.

From a performance perspective, Kushmaul adds, Diebold has increased visibility of inventory both at rest and in motion, and established real-time metrics for operations and supplier compliance. Using Web-based tools, it has gained greater control over material and product flow.

"The company has mitigated risk by working with an established 4PL and employing regular communications as standard operating procedures," he says.

"All of these results are being realized more quickly, as well. In fact, lead times have been reduced by nearly 25 percent due to reduced process variability and logistics engineering." L

Patrick Burnson is Executive Editor of Logistics Management

IMPROVING IMPORT/EXPORT OPERATIONS: HOW TO HIT A MOVING TARGET

BY **PATRICK BURNSON**, EXECUTIVE EDITOR

International trade pros advise targeting areas to streamline costs, improve operating efficiencies, and cope with expanding regulations. Now, where should global shippers aim first? Three new reports may help.

It's a happy problem or a nagging conundrum, trade analysts say. Both perspectives have merit because they're both based on an anticipated surge in export and import operations for U.S. shippers in the coming year.

A new industry report maintains that multinational corporations are the most aggressive adaptors to sudden change. This observation is also echoed in a recent industry white paper that warns shippers against deferring global trade management (GTM) strategies much longer. Finally, an academic study suggests that getting your GTM model together is just as important as setting a course of action.

What follows is an objective summary evaluation of the strategic vision shared in recent reports by several leading industry think tanks. Just how can global shippers hit all these moving targets? Well, there's certainly no shortage of well-meaning advice.

MANAGING THE NEW COMPLEXITY

Growing global concern over environmental and safety issues is spinning a global web of trade and security programs that affect both importers and

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- Keep distribution and warehouse facilities secure
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- Reduce theft, pilferage, loss and damage
- Support global, nationwide and local requirements

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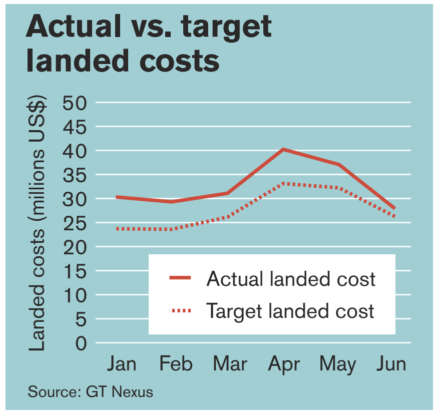
But, of course, compliance with new regulations such as the EU REACH and U.S. Importer's Security Filing 10+2 programs can be complex and costly. So, to better understand how companies are dealing with these issues, global logistics firm BDP International and its Centrx consulting unit surveyed 184 logistics executives from a wide range of industries to find out how today's global organizations are handling the new pressures.

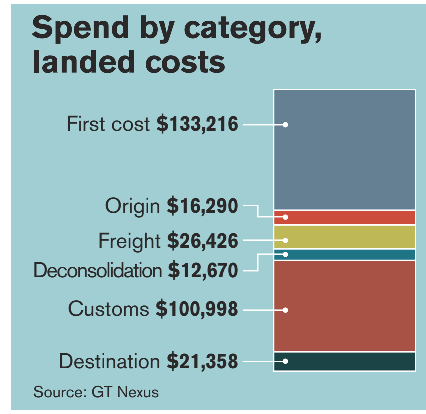
Nearly half (45 percent) of supply chain professionals surveyed by BDP and Centrx indicated that they are currently supporting their internal regulatory compliance departments with external resources—especially those with under $1 billion in annual revenues and doing business in emerging markets.

"It was not surprising to find that the larger companies with more resources were more inclined to handle compliance matters themselves, particularly on their home turf," explains Michael Ford, BDP vice president of regulatory compliance. "Nor was it surprising to see that the bigger companies are relying on local expertise in places like Africa and Asia."

But it is notable, adds Ford, that they all recognize the need to proactively manage the function to minimize often highly punitive penalties. That way, he says, they can maintain "desk-level productivity."

It was found that the need for compliance services is most pronounced in emerging markets. Respondents conducting business in Asia-Pacific indicated that they outsource the entire compliance function. Moreover, 60 percent of the respondents trading in Asia-Pacific cited a growing need for such services over the next 12 to 18 months, compared with 53 percent in North America and 50 percent in Europe. Compare these results with the 80 percent of respondents who staff and administer the compliance function internally for North America.





With cost data centralized and standardized, it is possible to run a range of reports and gain critical intelligence based on what's actually happening in the global supply chain.

The survey suggests that companies typically deal with product-related regulations such as registration and labeling themselves, while outsourcing compliance with those associated with its movement.

"With regard to use of outside compliance services, respondents split fairly evenly between those who retain the function fully in-house (43 percent) and those who outsource at least a portion of it (45 percent)," says Ford. "Only 12 percent indicated they outsource the entire function."

More than half (51 percent) of respondents from companies with annual revenues up to $1 billion indicated that they outsource at least a portion of the compliance function, with a third (32 percent) retaining the function in-house, and just 17 percent outsourcing it entirely. This compares with 38 percent of respondents from billion-dollar-plus companies who reported outsourcing part of the compliance function; 58 percent who retain it fully in house; and just 4 percent who outsource it entirely.

"Over half of all respondents reported employing two to eight full-time staff in the compliance function," says Ford. "Only 5 percent of the respondents with in-house compliance departments reported staff reductions over the past two years, whereas 45 percent reported additions." During the same period, adds Ford, respondents outsourcing the entire function reported increased usage of these services, compared with 44 percent who use a combined in-house/outsourced model.

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UNDERSTANDING TARGET COSTS

Everyone agrees that global sourcing has become an essential element of enterprise strategies to reduce the cost of acquiring, building, and selling products. Yet, extending supply lines overseas raises complex new commercial and operational challenges. These efforts expose the enterprise to an entirely new universe of investments, costs, partners, liabilities, resource acquisition issues, and management needs.

But a new white paper produced by a leading industry trade services company maintains that the result is often sourcing initiatives that do not deliver projected cost savings and profits. This, say researchers, is because the risks and costs of longer, more complex cross-border supply chains were not properly understood, tracked, and managed.

Accurately understanding target costs—the expected full cost to purchase goods from an overseas supplier and get them to market—is the key to profits.

"Integrated global cost control systems present significant advantages and can be the source of qualitative as well as quantitative differentiation for a global enterprise," says Greg Kefer, director of corporate marketing for GT Nexus.

One major opportunity area includes improving target costing. Accurately understanding target costs—the expected full cost to purchase goods from an overseas supplier and get them to market—is the key to profits says Kefer. Dynamically tracking actual costs against previously set targets quickly uncovers targets that are unrealistic or inaccurate.

Early visibility into the delta between targets and actuals allows shippers to quickly adjust targets and modify plans for downstream product pricing and marketing campaigns. By reducing the lag in discovering unrealistic targets from months to weeks or even days, companies can save millions in lost margins.

According to researchers, this can be achieved by implementing a global platform that automates and centrally manages global logistics data collection and consolidation. Furthermore, they add, this can substantially reduce cost reporting delays. Researchers also argue that traditional reporting solutions suffer from latency problems and are good only for post-audit or "after the fact" analysis. Furthermore, issues that may be uncovered relate to logistics activity that's long since been completed—retroactive resolution is not possible.

"With dynamic cost reporting, lead-time for actuals can be cut from days or weeks to hours," says Kefer. "Supply chain issues are exposed early. Enterprises can take steps to respond quickly and correct problems before excessive costs are incurred."

As globally sourced goods are manufactured and then start their journey to market, says Kefer, the enterprise incurs liabilities for payment for goods and services. With actual global cost tracking, financial managers can literally "watch the meter build" as sourcing and supply chain milestone activities are executed and costs are incurred. This intelligence can be used to better assess obligations, as well as to calculate current and future cash flow needs.

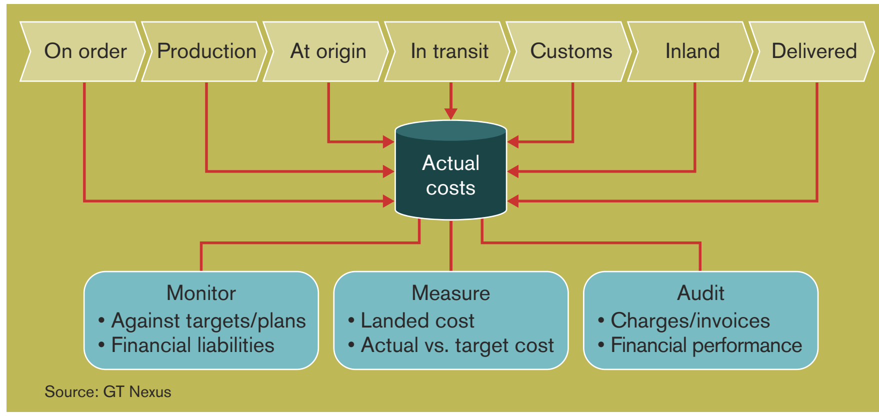
An integrated global cost control

system also supports key financial management processes that underpin accurate total cost management. These include:

• **Cost allocation:** Costs can be automatically allocated in the proper proportion to the right shipment, order, product line item or SKU. No "orphan" costs are left out and the resulting global landed cost calculation is accurate.

• **Cost audit:** Costs can be automatically audited. For example, freight costs can be matched against transportation contracts, duties against item classifications, first costs against commercial invoices or original purchase orders.

• **Cost timing:** The time in which a certain liability (cost) was incurred can be audited or matched against a corresponding event in the physical supply chain. For example, transfer of title to goods (and resulting payment) can be associated with or triggered by related events in the physical supply chain, such as forwarder cargo receipt, vessel on-board or vessel arrival.



As goods move through the supply chain, a global cost control platform captures costs dynamically as they are incurred, aggregates them, and then provides the tools needed to leverage that information.

THE STANFORD MODEL EMERGES

Now that the global economy seems to be edging up from the crisis mode, will shippers start spending more on software as a service (SaaS) technology to solve more of their global logistics and trade compliance challenges? A new GTM study jointly conducted by TradeBeam and Stanford University suggests that that may indeed be the case.

"This report demonstrates that companies can gain substantially by automating their global supply chains, probably much more than they have estimated to date," says Warren Hausman, professor of operations management in the Department of Management Science & Engineering at Stanford University. "By creating a new process model attuned to global trade, we hope to help companies make improvements that will let them thrive in the global economy not just with short-term gains, but over the long term as well."

Experts from TradeBeam, a player in SaaS GTM technology, teamed with Hausman and Hau Lee of Stanford's Graduate School of Business on the research project. The report, *How Enterprises and their Trading Partners Gain from Global Trade Automation: A New Process Model for the China-U.S. Trade Lane*, provides estimates in key benefit categories based on input from supply chain practitioners from the U.S. and China.

"To improve the level of understanding of GTM, and to help companies estimate and work to realize efficiency gains through skills, process, and technology investments, we've used these results to develop a new, detailed process model for global trade that we label the Stanford Trade Process Model, or STPM," Lee says.

Based on more than a year of research, the results demonstrate that companies stand to gain dramatically by implementing global trade best practices and accompanying automation, enabling improvement in profitability from 10 percent to 40 percent or more, as well as delivering significant improvements in other benefit categories, such as cycle times.

In building the model, the Stanford professors defined the scope of pre-export steps needed to initiate the global trade process, including import screening, negotiation of price, contract and payment terms, creation of purchase/sales orders, and export screening.

So what are shippers doing to master these tricks these days? According to Lee, organizations have begun to address improvement in their global trade operations in a systematic manner. "The model contains sufficient detail on cross-border trade processes to allow users to estimate the benefits of IT-enabled GTM at the individual process level for over 100 separate process steps."

As an example, Lee notes that the final steps would include international ocean or air transport of the goods, generation, and submission of import documents, and import customs clearance. And all that must be achieved while still paying attention to post-import Customs clearance and payment.

It's a daunting prospect, certainly, but if there is one area of agreement among academics, industry analysts, and multinational shippers, it is about the ultimate GTM impact. While failure to adhere to the many rules and regulations governing imports and exports could have dire consequences, the upside to all of this is that transparency is leading to greater efficiency and more global opportunities for U.S. shippers.

Patrick Burnson is Executive Editor of Logistics Management

8TH ANNUAL SOFTWARE SURVEY: SPENDING REMAINS FLAT

BY **BRIDGET MCCREA**, CONTRIBUTING EDITOR

The results of our annual study shouldn't surprise anyone: Spending is down or flat across most supply chain software categories; purchase expectations are lower than they were in 2009; and more shippers are turning to SaaS in lieu of purchase-and-install. Our tech correspondent divulges all of the findings.

The results of our 8th Annual Software User Survey are in, and the results reflect what most of us would expect during the current economy. Spending is down or flat across most supply chain software categories; purchase expectations for the year are lower than they were for 2009; and a growing number of shippers are turning to hosted solutions in lieu of purchase-and-install options.

Logistics Management (*LM*) has been tracking software user trends for the last seven years in order to get an inside look at the current supply chain software market and to help identify which technologies shippers are more prone to adopt. Specific areas of evaluation include types of software currently in use; which software they're planning to purchase; the level of annual software expenditures; what stage respondents say they find themselves in the buying process; and the reasons shippers are considering turning to supply chain software, to name a few.

This year's survey of *LM* readers was conducted in February, and only included those professionals who are involved in specifying and evaluating logistics and supply chain software solutions for their companies. For 2010, 346 qualified respondents were received and tabulated.

The first question, and perhaps the most telling of the questions we ask, is one that was on every software vendor's mind in the early stages of 2010: Does your company use or plan to purchase or upgrade supply chain software in the next 12 months? According to the survey, 88 percent of respondents are currently using supply chain software, while 75 percent say they plan to buy or upgrade this year—up from 73 percent and 64 percent, respectfully, in 2009.

From here, the survey pinpointed variations in buying habits among the different supply chain software options, although the two biggest components of the market, warehouse management systems (WMS) and transportation management systems (TMS), garnered similar results. Twenty-seven percent of respondents say they plan to buy or upgrade their WMS this year—down from 31 percent the prior year—in an effort to gain real-time control and improve inventory deployment.

The same percentage of shippers (27 percent) say they want to buy or upgrade their TMS, down from 29 percent in 2009. From their TMS shippers are looking for routing and scheduling capabilities, better carrier selection and load tendering, and shipment consolidation.

Adrian Gonzalez, director of ARC Advisory's Logistics Executive Council, is surprised at the lowered interest in TMS—a software category that roughly one-third of shippers are currently using. "I would have thought more than 27 percent would be upgrading this year," says Gonzalez, who points to the fast potential payback as the biggest selling point for TMS. "Part of that, however, could just be the effect that the economy is having on budgets right now."

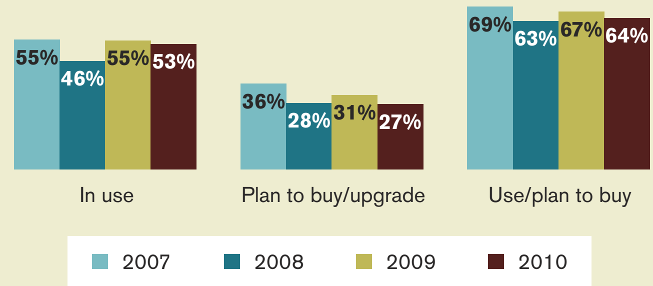
AROUND THE HORN

According to the survey, interest in enterprise resource planning (ERP) systems has waned, from 18 percent in 2009 to 17 percent this year, based on the number of shippers that plan to buy or upgrade. Of those who are buying ERPs, 52 percent say they'll include a WMS module while 27 percent say their systems will come equipped with a TMS module.

Surprisingly, interest in global trade management (GTM) software has remained pretty much level year over year, even with the new Customs compliance challenges that now face shippers. In 2010, for example, 14 percent say they're ready to buy or upgrade, compared to 13 percent in 2009. Adoption rates for GTM remain low: just 10 percent of shippers are currently using such systems, down from 15 percent in 2009.

Warehouse Management Systems (WMS)

What are your purchase or upgrade plans for WMS?

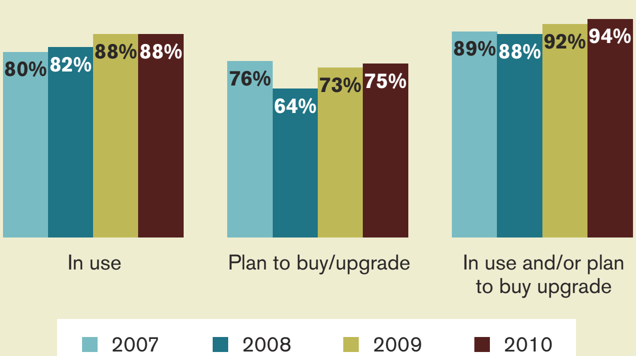


How much will you spend on WMS in the next year?

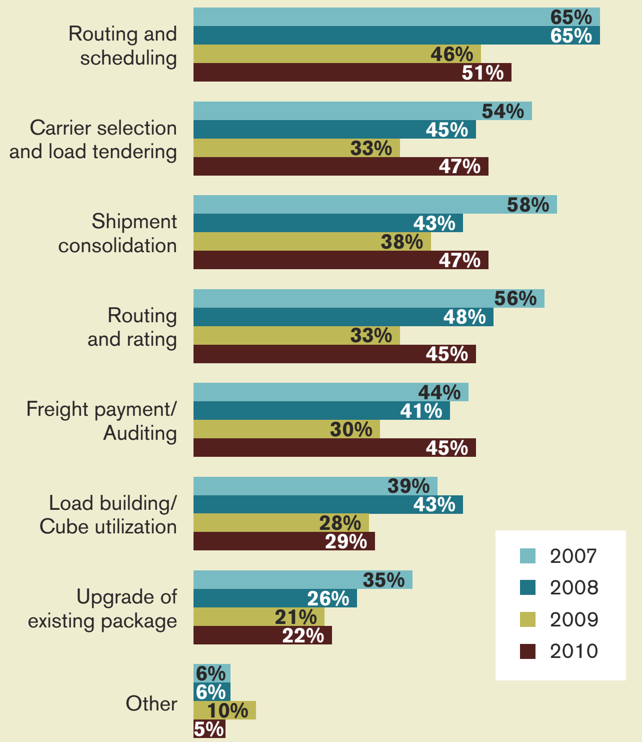
	<$100,000	$100K-$500K	$500K-$1M	$1M+	Average $	None
2007	55%	24%	7%	9%	$414,000	5%
2008	39%	27%	14%	11%	$606,500	9%
2009	44%	29%	10%	8%	$542,600	9%
2010	45%	24%	8%	9%	$631,600	12%

At which stage are you in the WMS purchase process?

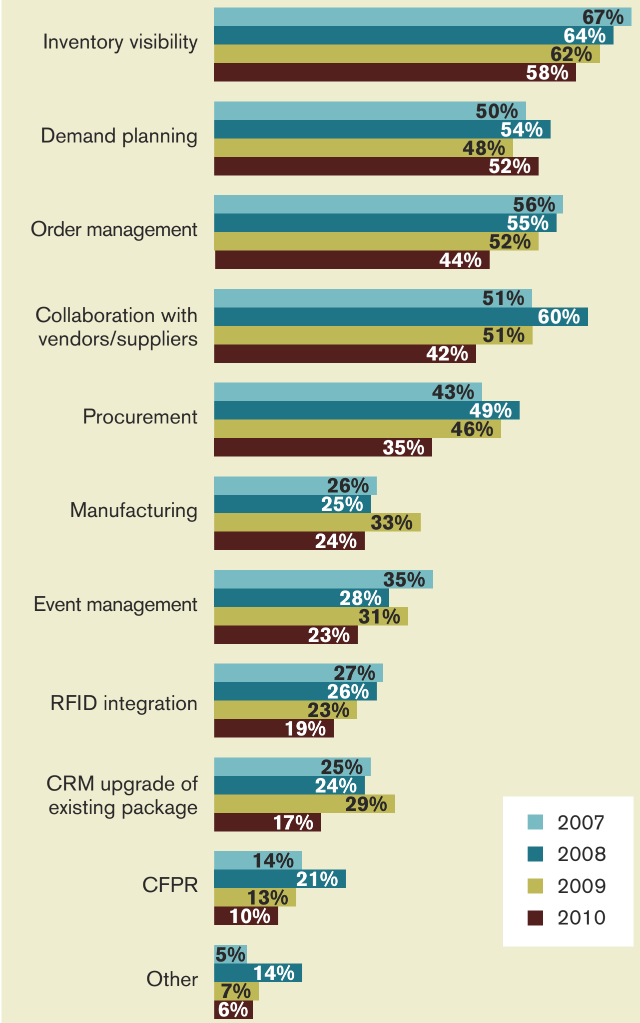
Does your company use or plan to purchase/upgrade supply chain software in the next 12 months?



If your company is planning to buy Transportation Management Software (TMS) in the next 12 months, what are the key reasons you plan to purchase it?



If your company is planning to buy Supply Chain Management Software in the next 12 months, what are the key reasons you plan to purchase it?



"I'm surprised by those numbers because last year our studies showed that GTM would be up quite a bit [this year] over other software options," says Greg Aimi, research director of supply chain for AMR Research. "But this survey paints a different picture."

Belinda Griffin, executive program manager for Capgemini, says she's seen lower interest in GTM due to its niche status, and the fact that most shippers are maintaining a conservative purchasing stance and seeking the biggest bang for their buck. "GTM is not as encompassing as some other supply chain software options, and is still seen as a niche area," says Griffin.

The fact that 3PLs and other third parties offer outsourced GTM capabilities could also be having an impact on the sector's growth. "If someone else can deal with the GTM without the shipper having to buy the actual solution, then all the better," says Griffin. "There are precious few dollars to go around right now, and shippers would probably rather spend them on a solution that encompasses a bigger part of the supply chain."

Another niche supply chain sector that is seeing activity right now is yard management systems (YMS). Overall usage of such systems has dropped (from 14 percent in 2009 to 12 percent this year), but 13 percent of respondents says they're planning to buy or upgrade their systems this year compared to 10 percent in 2009.

Also gaining ground are Software as a Service (SaaS) supply chain options—a trend that started in the TMS space, but is now radiating out into other sectors. According to the study, 35 percent of shippers are considering SaaS-based supply chain solutions, while 18 percent are already using them.

"SaaS is hot right now; everyone wants to talk about it," says Griffin. She sees the option as particularly useful for small to midsize shippers that lack the monetary and IT resources to handle a full, on-site installation. "Larger shippers are intrigued by SaaS, especially when they learn how easy these systems are to implement and maintain," she adds. "When they really dig down into the business case, however, it's still not there for those larger companies."

Gonzalez says that ARC's own studies show that subscription-based TMS revenues and transaction fees grew

Are you currently utilizing supply chain solutions that are Software as a Service (SaaS) based?

Key reasons		
	Price/cost/start up costs	49%
	Ease of implementation/ integration, compatibility	13%
	Quicker deployment/quicker turn-around/real time	13%
	Automatic upgrades/keeping up with new trends	12%
	Lack of internal resources/fewer resources	12%
	Management/ product flow/efficiency	11%
	Flexibility/customization	7%
	Performance/lower risks	4%
	Better meet customer needs/customer service	3%
	Other	26%

by double digits in 2009 compared to 2008, when those revenues contracted. These revenues are expected to expand even further in 2010. He says low startup costs (compared to purchase-and-install options), ease of use, and speed of implementation remain the prominent drivers within the SaaS market. "It's getting harder and harder for shippers to ignore these advantages," says Gonzalez.

WHO'S PROVIDING WHAT AND HOW WELL?

Our survey also delved into which features shippers are looking for, the vendor selection process, as well as the level of shipper satisfaction once they're up and running with those vendors.

When using supply chain software, shippers ranked the right features for operations, configurability, compatibility with existing systems, and service/support as the most important criteria. Most shippers (49 percent) say that their usage of supply chain software has remained the same over the past two years, while 47 percent said it's increased.

The results also reveal that the current economic climate has changed shippers' approach to supply chain management software on several fronts. More are scrutinizing their investments and moving cautiously (46 percent versus 41 percent in 2009), yet only 21 percent are freezing investments (compared to 34 percent last year). Twenty percent are moving forward with new software investment (compared to 16 percent in 2009) and 16 percent are upgrading versus buying new (versus 15 percent in 2009).

The actual number of vendors on any shipper's docket at one time is also changing. Thirty percent of respondents say they're using more software vendors than two years ago—compared to 28 percent in 2009—perhaps signaling a diminishing interest in vendor consolidation. The number of software packages in use has remained somewhat steady, with 36 percent of responding shippers increasing that number (versus 37 percent in 2009) and 56 percent staying the same (compared to 53 percent in 2009).

Griffin says she's confused by shipper feedback regarding the number of software vendors and packages in use. "Quite a few shippers I talk to are looking to simplify their software footprint and standardize processes," says Griffin. "It's interesting to see how this survey doesn't reflect those intentions."

Exactly how shippers get their new software up and running, and the ROI expectations associated with those implementations, hasn't changed much in the last two years. A good chunk off responding companies (36 percent) continue to rely on in-house expertise to handle software implementations, compared to 37 percent in 2009. Thirty-one percent turn to their software suppliers, up from 27 percent in 2009.

Once those systems are in place, payback expectations remain fairly constant. Thirteen percent of shippers expect payback in less than six months; 31 percent anticipate ROI within 6 months to 12 months; and 34 percent within 12 months to 18 months, according to the survey. "Those expectations are realistic," says Gonzalez, "and consistent with what we see in the marketplace right now."

WHAT DOES THE FUTURE HOLD?

The 2010 survey continues to reflect a bleak economic picture that, according to shipper respondents, isn't on track for any significant improvement over the next six months. But all the news isn't negative.

The total number of shippers who intend to buy or upgrade supply chain planning software is actually up, from 23 percent in 2009 to 27 percent in 2010. From those purchases, shippers are looking for better inventory visibility, improved demand planning, enhanced order management, and better collaboration with vendors/suppliers.

However, actual expenditures for supply chain software will be down significantly in 2010 compared to 2009. When asked how much their companies will spend on supply chain software for their operations including license, integration and training over the next 12 months, 50 percent (compared to 45 percent last year) of respondents said less than $100,000, and 26 percent (compared to 30 percent last year) said $100,000 to $499,999.

The average amount that shippers plan to spend this year is $583,800, compared to $750,280 in 2009 and $706,450 in 2008. Blame the economic conditions for the conservative stance, says Gonzalez, but also factor in the growing interest in lower cost SaaS options and in those solutions that solve one specific problem.

"Companies are beginning to realize that they don't have to address an entire process with an all-encompassing software package," states Gonzalez. "Instead, they can invest smaller amounts in more targeted areas, and then allocate those cost savings to future projects." L

Bridget McCrea is a Contributing Editor to Logistics Management

LIFT TRUCK MANAGEMENT: NEW WINDOWS INTO PERFORMANCE

BY **TOM ANDEL**, CONTRIBUTING EDITOR

Whether motivated by improved operator performance or equipment spend, fleet managers have new tools to turn data into critical operations information—and it's helping them reach new productivity heights.

Autonomy, mastery, and purpose have never been high on the list of what separates great lift truck operators from the mediocre; but increasingly, lift truck providers are equipping their vehicles with systems that cater to these qualities. The information these systems collect is now being used by operators and their supervisors to maintain or improve productivity at a time when head count is down and assets are underutilized.

For example, Crown's InfoLink system helps managers identify savings and improve management processes. One of its customers calculated a time savings of 15 minutes per day, per shift from collecting and filing inspection checklists. With a fleet of 18 trucks, they saved $5,000 per year using an electronic inspection checklist that helps supervisors ensure all lists are properly completed and filed.

At another customer site, the "Top Performers by Shift" are posted on the lunch room wall. The logged-in time, idle time, and traveling/lifting time available through the system helps managers identify the operators that are making the best use of their day and gives the entire team insight into how their performance affects overall business operations.

"The human element of information management is the real key," says Maria Schwietrman, marketing product manager at Crown. "If operators see they're being more productive and lowering costs, that's how they'll secure their jobs in the future. If you can get them to see that bigger picture of what this is all about, operators will have the incentive to do things right."

This kind of subtlety wasn't always possible with earlier lift-truck fleet management systems. In fact these systems were more like fire hoses of

information—too much, too fast. "Some customers were going to give up their systems because they got reams of paper that didn't reflect real time information," Schwietrman says. "They didn't know what to do with it and it took too long to decipher. Today, the whole goal is to make managing data easier so customers can make something meaningful of it."

TURNING DATA INTO INFORMATION

Joe LaFergola, manager of fleet services for the Raymond Corporation, says lift trucks are becoming a data platform for companies, not unlike a warehouse management system (WMS).

"Up to now many customers have used WMS and various types of pick platforms, bar code scanners, etc.," he says. "Now many of the OEMs are starting to move toward capturing the data that's on the truck to help warehouse managers optimize their fleets."

Key data points include how many hours the lift truck has been used, and of those hours, how many were spent traveling and how many were spent lifting. The next step in the evolution of such systems, says LaFergola, is to integrate them with the company's WMS. "Right now the two systems are independent and no one has integrated a WMS with these data loggers on the truck," LaFergola explains. "But if you have those pieces of information, you can use it to your advantage."

Dan Murphy is working on doing just that for Masters Gallery Foods Inc., a full-line supplier of cheese products based in Plymouth, Wis. As warehouse

Distributors for Toyota Material Handling, U.S.A help clients understand what the cost per hour utilization should be and identify which trucks are falling out of that range.

Raymond's iWarehouse fleet optimization system gives managers insight into what might have caused lift truck damage–and better ability to act on it.

manager, Murphy relies on the IT department to keep the AS/400 based inventory management system up-to-date. However, he also needed additional insight into the lift truck fleet that wasn't available through IT. For example, why were the lift trucks sustaining so much damage?

Answering that question became his mission. At the same time, the company expanded and doubled its warehouse size and added more lift trucks at the headquarters. After the expansion, it became even more important for Masters Gallery Foods to focus on decreasing lift truck and facility damage and increasing operator accountability.

Using Raymond's iWarehouse fleet optimization system, Murphy says that his operators now have better insight into damage causation—and better ability to act on it. "If an impact occurs, all supervisors receive an e-mail," Murphy says. "They can make sure the person is all right and determine what the impact was."

Information comes in the form of warnings and alarms; for example, alarms are generated when an operator hits something at a high rate of speed. They also slow the lift truck down to 1 mph until the problem can be determined and the vehicle reset. This process is enough to cause operators to improve their techniques. In fact, the number of alarms generated at Masters Gallery each month went from 45 to five in three months.

But does such a tattle-tale system cause operators to hate it? "There was no negativity from our people," Murphy testifies. "In fact I positioned it as a 'going green' initiative because we're using less paper."

That's because they're not printing out as many OSHA-required pre-operation safety checklists or incident reports. In fact not all incidents are caused by lift trucks. A damaged dock plate might be the culprit; and that makes it a facility issue, not an operator issue.

However the cause is coded, Masters Gallery's lift truck dealer, Stoffel Equipment of Milwaukee, also has access to the information. Even if a code isn't programmed to shut a lift truck down, it could indicate a problem in development. That's enough to generate an e-mail to Stoffel, which will then send out a technician.

According to NACCO Materials Handling Group, avoiding damage and balancing your utilization will improve uptime and help compress maintenance spend.

According to LaFergola, even Raymond benefits from these reports. If it sees that a particular model is exhibiting a systemic issue across different customer profiles, product engineering can focus on that problem and make improvements.

"Our field service people and engineering groups can do analyses on these data to help us make a better lift truck," LaFergola says.

But knowing that bad information leads to bad results, it's important for operators to take part in lift truck fleet management. Some of Masters Gallery's operators have been with the company for 20 years, so the observations on the health of their equipment must be addressed before their lift truck goes back to work.

Such veterans earn the right to have higher-performing equipment. In fact their profiles are part of the system's software. Their facility ID badges are also the key to their lift trucks. Murphy sets each vehicle's performance parameters to the skill level of its operator and the lift truck automatically adjusts to the operator. If operators have not yet been proven on a vehicle, that vehicle will not operate.

CUSTOMER-DRIVEN SOLUTIONS

Of course, the days when staffs were populated with 25-year veterans are long gone, and fleet management systems are being designed to compensate for that loss. They're also being designed with the help of some of those remaining veterans.

Steve Rogers, program manager for Mitsubishi Caterpillar Forklift America (MCFA), tells of one large client in the trucking industry that designed a way for its lift truck operators to generate the necessary paperwork to match the materials they're moving. The system will confirm a match by weighing the lift truck's load and then instructing the operator where to take it.

"All of their transactions are driven off the weight of the load and that's how it's priced out to their customers," Rogers explains. "This client even developed a way for the system to send e-mails to the operators."

"In a perfect world you'd manage both the operator and the lift truck spend. We say let's look at the total spend first and then we'll look at a system that measures the performance of the operator."

—Mike McKean, TMHU

Motivated by fun?

Lift trucks never entered Dan Pink's mind when he wrote his book about what motivates workers. He was more focused on carrots and sticks—and why they're such rotten motivators.

Autonomy, mastery, and purpose are the true motivators of 21st century business, according to Pink, and in his book, *Drive*, he describes companies that go beyond positive and negative external motivations and focus instead on determination that comes from within. Lift trucks aren't in his book.

But when sister magazine *Modern Materials Handling* contacted him while researching the topic of labor management, Pink was intrigued to learn that lift trucks are becoming "rolling computers" that can offer operators and supervisors performance feedback.

"I love the idea that forklifts are rolling computers," he said. "I actually think that these information management systems can be really useful. The information they provide is a form of feedback—and feedback is essential for achieving mastery. Indeed, regular feedback coming from these systems could even make the job a bit more game-like. As long as there aren't high-stakes rewards for hitting certain goals, this seems like a great motivation-enhancing innovation."

Rogers adds that information technology is becoming a standard offering on its lift trucks. In addition to basing operator access to entry of a pass-code, a vehicle now generates information such as key-on time, engine-on time, and seat-on time. "You can compare these three data sources and see how much the truck is being used," he adds. "You don't want to pay for something and have it sitting around."

BOTTOM LINE COST

For many, an accurate snapshot of what their fleet is costing them is tied to how well their operators are using the equipment. But to Mike McKean, fleet management sales and marketing manager for Toyota Material Handling, U.S.A., Inc. (TMHU), nothing is more important to a fleet manager than defining his spend first.

"In a perfect world you'd manage both the operator and the lift truck spend," he says. "We say let's look at the total spend first and then we'll look at a system that measures the performance of the operator."

According to McKean, TMHU tells a client what its cost per hour utilization should be on a particular model and identifies which trucks in the customer's fleet are falling out of that range. Measuring the fleet at hand, he adds, is far more important than using a national average as a benchmark.

Armed with that kind of intimate customer knowledge, a lift truck provider, whether the OEM or the dealer, can help a fleet manager avoid significant damage and thus better control his spend, adds Pat DeSutter, director of fleet management for NACCO Materials Handling Group (NMHG). "In many environments avoidable damage associated with operator abuse can be as much as 35 percent to 40 percent of the total cost to maintain the lift truck," he says.

DeSutter suggests establishing an enterprise-wide mindset when it comes to fleet optimization; and for large fleets that means shifting assets from site to site—where practical—to balance equipment utilization. "Balancing your utilization will improve uptime, help to compress maintenance spend, and ensure that you optimize the value and usefulness of the asset for its full economic life," he concludes.

Your lift truck provider knows his viability depends on ensuring a healthy and productive life for your lift trucks. His survival instinct is the best productivity guarantee a fleet manager can have. L

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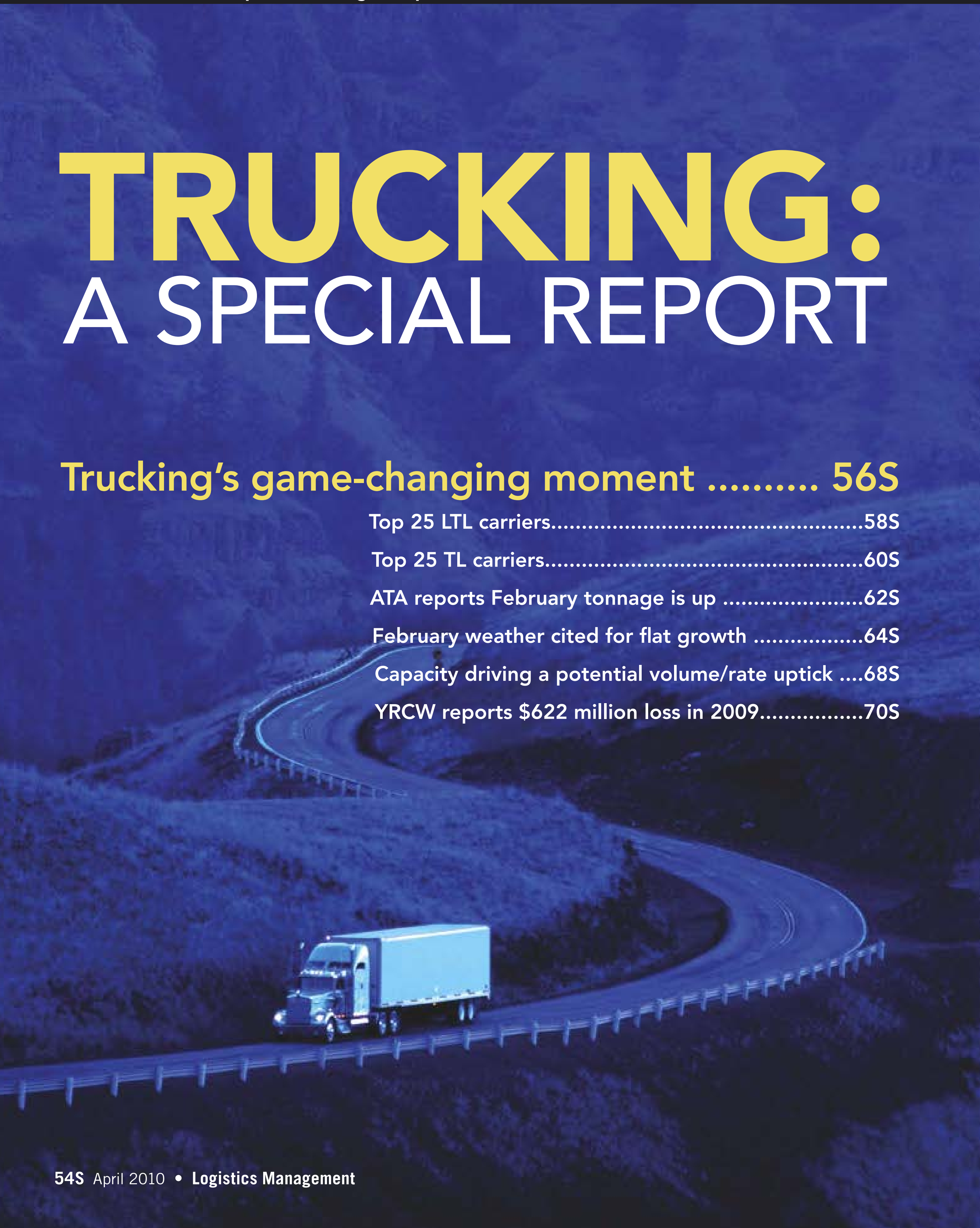
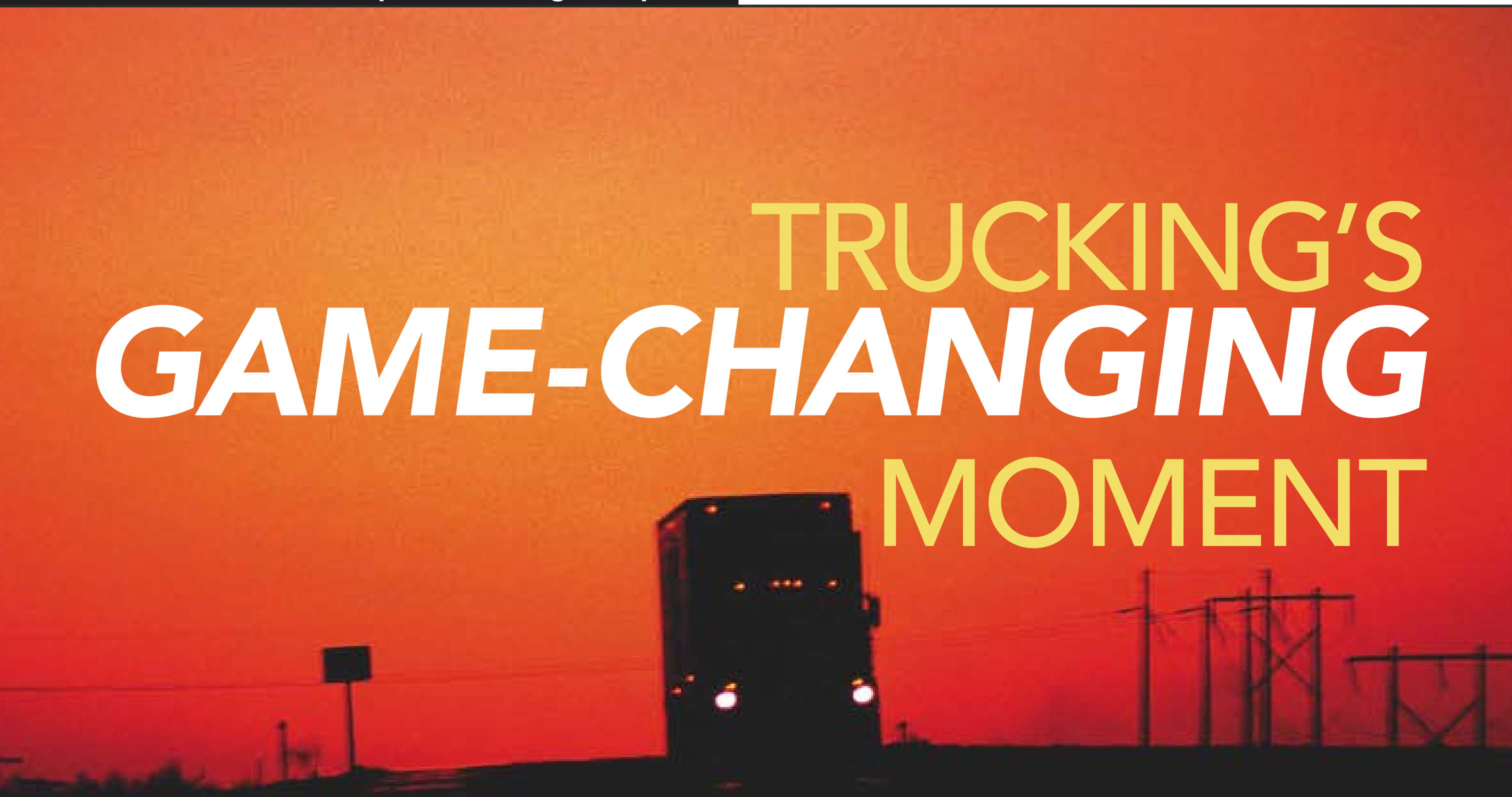


TRUCKING: A SPECIAL REPORT



TRUCKING'S *GAME-CHANGING* MOMENT

John D. Schulz, Contributing Editor

Many trucking executives believe that we're on the cusp of a steady, prolonged recovery with solid price increases to match. Analysts aren't so sure. But nearly all agree that shippers should expect rate increases when their contracts expire, some in the 3-percent to 5-percent range. Here are the four issues that are now in the driver's seat.

Trucking is coming out of its worst three-year slump since the 1930s. Housing and automotive, two hugely important sectors to trucking, both cratered simultaneously starting in early 2007 and have not fully recovered yet.

It's gotten so bad that veteran trucking analyst John G. Larkin of Stifel Nicolaus, worried about continuing overcapacity in the industry, continues to "de-emphasize" trucking stocks to his clients in favor of railroads. Except for recommending a couple of small-cap trucking stocks and perhaps a non-union carrier or two, Larkin really is not recommending any general trucking companies these days.

Less-than-truckload (LTL) companies have been particularly hard hit, according to analysis compiled exclusively for *Logistics Management* (*LM*) by Satish Jindel of Pittsburgh-based SJ Consulting. He says that the average operating margins of LTL carriers fell by 5.5 percent last year, with Old Dominion Freight Line being the only LTL carrier to report positive operating margins during every quarter in 2009. Con-way Freight was the only other reporting carrier to have positive operating margin for the entire year, a scant 1.9 percent.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All reporting LTL carriers posted year-over-year declines in shipments, with YRC National suffering the worst decline at 36.3 percent. Con-way was the best, ringing in a 0.3 percent decline in shipments.

Just how bad is it out there for the nation's top LTLs? Let's ask some survivors.

Myron P. "Mike" Shevell, chairman of the Shevell Group, the parent of New England Motor Freight (No. 17 on *LM*'s Top 25 LTL list), says conditions today in the industry are the worst he's seen in his 60 years in the industry. "Brutal," Shevell says simply. "Everybody is just trying to hang on."

Top 25 less-than-truckload carriers 2009 revenues
(including fuel surcharges)

RANK	CARRIER NAME	2009 REVENUE ($ million)
1	FedEx Freight	$3,618
2	YRC National	$3,177
3	Con-way Freight	$2,574
4	UPS Freight	$1,807
5	ABF Freight System	$1,260
6	YRC Regional	$1,226
7	Estes Express Lines	$1,174
8	Old Dominion Freight Line	$1,158
9	R+L Carriers*	$862
10	Saia Motor Freight Line	$794
11	Southeastern Freight Lines*	$628
12	Vitran Express	$519
13	Averitt Express	$471
14	AAA Cooper Transportation*	$418
15	Central Transport International*	$342
16	Roadrunner Transportation	$316
17	New England Motor Freight	$311
18	Pitt-Ohio Express	$255
19	Dayton Freight Lines*	$214
20	A. Duie Pyle*	$205
21	New Century Transportation*	$186
22	Central Freight Lines	$162
23	Daylight Transport	$128
24	Wilson Trucking*	$122
25	Oak Harbor Freight Lines*	$104
2009 TOP 25 TOTAL REVENUES		$22,031

Note: Revenues for LTL operations only, unless otherwise indicated
*Revenues include truckload and other services
Source: Company reports and SJ Consulting Group estimates

Others agree. Ray Slagle, senior vice president of sales and marketing for ABF Freight System (No. 5 on *LM*'s Top 25 LTL list) says :"The past couple years are the worst that I've seen in my 37 years in the business. While we have seen some incremental improvements, there has not been a material change." In fact, Stifel Nicolaus is not forecasting a profit for this venerable Teamster long-haul carrier until 2011.

"It is still a game of survival in many respects," says Chuck Hammel, president of Pitt Ohio Express (No. 18 on *LM*'s Top 25 LTL list). "But there are also opportunities for those brave enough to move forward."

Pitt Ohio, for example, has branched out from its regional LTL roots to offer longer-haul and specialized logistics services. Old Dominion Freight Line, another old-line regional carrier, now is offering everything from long-haul truckload to other specialized services for shippers.

David Congdon, CEO of ODFL (No. 8 on *LM*'s Top 25 LTL list), says he believes the economy has bottomed out. "We have seen some hints of an improving economy, albeit from a low bottom," he says. "It's nothing to jump up and down and scream about. But we are seeing a little bit of strength."

On the truckload (TL) side, the story was slightly better. That's because the non-union TL carriers were able to react to the sudden drop in freight volumes somewhat quicker than the LTL sector, which has higher fixed costs in general because of the extensive hub-and-spoke terminal networks they operate.

For TL, according to Jindel's analysis, average operating margins fell 0.4 percent last year from 2008 levels, while average operating margin was 3.4 percent last year compared with 3.8 percent in 2008. Among the best were Heartland Express, Knight Transportation, Celadon, and Con-way Truckload, all reporting positive operating margins last year.

Still, total TL loads fell 3.3 percent last year from 2008. J.B. Hunt and P.A.M Transport showed the largest declines, falling by 20 and 15 percent respectfully. That was part of a conscious decision by both carriers to diversify—especially Hunt where pure truckload revenue now accounts for just over one-third of total revenue. The reporting TL carriers moved a combined 200,000 fewer loads last year than in 2008, Jindel says. In fact, at the depth of the downturn last year, many TL carriers were faced with freight volumes falling as much as much as 25 percent in some lanes.

TL carriers have responded by parking trucks at an unprecedented rate during the depth of the recent recession. As Steve Williams, chairman and CEO of Maverick Trucking, a large Little Rock, Ark.-based TL carrier, recently told the *Arkansas Trucking Report*: "It took us 30 years to get up to 1,500 trucks. It took us three months to park 300 of them."

So, was this trucking's worst recession ever? "The others weren't anything compared to this," Williams told *ATR*. "This is the 'Big Kahuna.' It's a game-changing moment."

Those days, thankfully, appear to be over. The current forecast

is for TL volumes to rise modestly after hitting the floor the first half of 2009. But analyst Larkin says TL volumes "are still not robust" and that there is no clear consensus on how strong the recovery will be.

In interviews with *LM*, some trucking executives believe that we're at the cusp of a steady, prolonged recovery with solid price increases to match. Others aren't so sure. But nearly all agree that shippers should expect rate increases when their contracts expire, some in the 3-percent to 5-percent range.

So what are the industry leaders in trucking doing to hasten their recovery? *LM* spoke with more than a dozen top trucking executives and have broken down their analysis into four broad market issues that could directly affect shippers during the remainder of 2010.

Top 25 truckload carriers 2009 revenues (including fuel surcharges)

RANK	COMPANY NAME	2009 REVENUE ($ Million)
1	Swift Transportation	$2,489
2	Schneider National	$2,380
3	Werner Enterprises	$1,433
4	U.S. Xpress Enterprises	$1,333
5	J.B. Hunt Transport Services	$1,204
6	Prime Inc.	$992
7	C.R. England	$866
8	Crete Carrier Corp.	$849
9	CRST International	$610
10	Knight Transportation	$585
11	Ruan Transportation Management Services	$584
12	Covenant Transport Group	$541
13	Celadon Group*	$479
14	Ryder Systems	$471
15	Heartland Express	$460
16	Western Express	$457
17	Interstate Distributor Co.	$448
18	Stevens Transport	$439
19	Anderson Trucking Service	$432
20	Comcar Industries	$400
21	Marten Transport	$397
22	National Freight	$385
23	Dart Transit	$373
24	USA Truck	$368
25	Con-way Truckload	$365
TOTAL TOP 25 TRUCKLOAD CARRIER REVENUES		$19,340

Note: Revenues are for truckload operations and exclude intermodal, logistics and other services
*Revenue adjusted to reflect calendar quarters
Source: Company reports and SJ Consulting Group estimates

Issue #1: Overcapacity

This recession had survivors. Unlike past recessions, there wasn't the one mega-carrier bankruptcy or closing that immediately took, say, $3 billion of capacity out the market. That immediately caused an imbalance in supply and demand, favoring shippers. But some executives feel that pendulum is swinging back in favor of the carriers as industrial and retail demand recovers.

Perhaps the carrier with the biggest impact in trucking these days is YRC Worldwide. Rivals say it's nothing personal against CEO Bill Zollars, a nice enough guy, it's just that they were counting on YRC's battle with bankruptcy to fail—and take perhaps as much as $5 billion of capacity out of the market. Instead, Zollars engineered a debt-for-equity swap that basically diluted current YRC shareholders' worth by 90 percent, and the company has stayed in business, albeit with a smaller footprint.

"YRC used to be a four-legged stool, comprised of employees, shippers, banks, and shareholders," says Jindel of SJ Consulting, a firm that closely tracks the LTL sector and produced the market share charts for this Special Report. "With this debt-for-equity swap, they have gone to a three-legged stool—the stockholders have gone away. You can still balance something on a three-legged stool, but the third leg is now the shippers. If they were to leave, YRC could not survive."

Jindel believes that YRC could still get out of the woods, but only if all their management and employees are single-mindedly focused on getting more profitable freight into its networks.

Others are echoing Jindel's analysis that YRC is not yet out of the financial woods. Some analysts are saying that YRC's financial position is still precarious, and that it still might have to further downsize or exit the market completely.

"From a cash flow standpoint, there certainly is the possibility for more carriers to fold before the economy picks up again," says Phil Pierce, executive sales director for Averitt Express (No. 13 on *LM*'s Top 25 LTL list). "You simply cannot survive without cash flow."

Other carriers agree. Old Dominion's Congdon says, "There is a minimum 15 percent to 20 percent overcapacity" currently in the $25.6 billion LTL sector. And some carriers have even more." Others are more sobering in their view. According to analyst Larkin: "The unfortunate reality is that capacity will not likely exit in a big way over the near term."

Carrier executives seem intent on increasing yields. John Labrie, president of Con-way Freight, says that demand is

improving and the economic indicators are clearly showing an improved economy. "I think that will continue this year," he says. "LTL is more affected by supply side than demand. We're in excess capacity situation that's pretty severe and it's going to take service to offset that excess supply. Customers have lots of options."

Issue #2: Pricing

The past three years of overcapacity has led to bargain-basement pricing, carriers say. The YRC situation exacerbated that as some non-union rivals "went for the kill" with pricing that was nearly predatory, some rivals say. But that is not expected to continue much longer.

"There's some crazy stuff going on out there," Old Dominion's Congdon says of rates. "Some of our competitors are pricing at unsustainable levels."

With this in mind, shippers should be bracing for higher rates, though perhaps not this year. Jindel is forecasting LTL rate increases of just barely 1 percent or so. Truckload rate increases might even be higher, as some owner-operators parked their trucks in mid-2008 and have not returned.

The pricing worm appears to be turning in TL as well. According to Mark Rourke, president of the truckload division of Schneider National (No. 2 on the *LM* list of Top 25 TL carriers), even with the fragmented TL market, rates are rising. "There's a firming of capacity and demand the last couple of months," says Rourke. "Whether it's capacity coming out or more demand on a macro level, it's uncertain."

Spot truckload rates, which at the depth of the recession in late 2008 were some 20 percent to 30 percent less than contract rates, now in many markets are trending above contractual rates

ATA REPORTS FEBRUARY TONNAGE IS UP

ARLINGTON. Va.—The American Trucking Associations reported that its advanced seasonally-adjusted (SA) For-Hire Truck Tonnage Index dipped 0.5 percent in February following a revised 1.9 percent January gain. February's decrease put the SA at 108.5 (2000=100), following a 109.1 January reading.

Despite the sequential decrease, the ATA said the SA was up 2.6 percent year over year, marking the third straight year-over-year gain. The ATA added that for the first two months of 2010, SA tonnage was up 3.5 percent compared to the same time a year ago. This is a better beginning to the year than 2009 when the SA was down a revised 8.7 percent), which marked its largest annual decrease since the 12.3 percent decline in 1982.

The ATA also reported that its not seasonally-adjusted index (NSA), which represents the change in tonnage actually hauled by fleets before any seasonal adjustment, hit 97.6 in February, which was down from January's 99.5 but up 2.6 percent year over year.

ATA Chief Economist Bob Costello said in a statement that February's tonnage reading is somewhat difficult to gauge due to the various winter storms that occurred in February, especially on the East Coast. Despite February's weather, Costello said that he is optimistic about the industry's recovery prospects.

"I continue to hear from motor carriers that both the demand and supply situations are steadily improving," said Costello. "Certainly it will take a while to make up the ground lost during the recession, but the industry is on the path to recovery." Costello added that he expects to see some volatility on a month-to-month basis throughout this year, but the trend line should be for moderate growth.

—Jeff Berman, Group News Editor

FEBRUARY WEATHER CITED FOR FLAT GROWTH

LOUISVILLE, Ky.—Harsh weather conditions in February had a negative impact on economic growth, according to the results of the Ceridian-UCLA Pulse of Commerce Index (PCI), leading to flat economic growth over the first two months of 2010.

The PCI, according to Ceridian and UCLA, is based on an analysis of real-time diesel fuel consumption data from over-the-road trucking and is tracked by Ceridian, a provider of human resources and prepaid card payment services. The PCI data is accumulated by analyzing Ceridian's electronic card payment data that captures the location and volume of diesel fuel being purchased by trucking companies.

The PCI had a strong start to the year with a 0.6 percent gain but fell in February by 0.7 percent. December's PCI was up 2.8 percent. Unlike previous PCI readings, UCLA and Ceridian said that the February PCI was adjusted for monthly workdays, which they said create less volatile month to month index changes.

"This change is a correction for work days and traditional seasonal adjustment," said Edward Leamer, director of the UCLA Anderson Forecast and PCI chief economist. "We discovered that the weekend days have about half the volume of diesel fuel transactions as the weekdays; and because that varies from month to month as the year changes, that creates a lot of volatility due to the number of weekend days and week days in any given month."

Leamer explained that on average, a weekend day sees 46 percent of the diesel fuel consumption that is seen during a week day, but it is lower in the Northeast, which has a 36 percent diesel fuel consumption rate. In turn, there is little difference between week days and weekends in the Mountain region.

Prior to this adjustment, the PCI mainly focused on a three-month rolling average for diesel fuel consumption to eliminate varying up and down swings, which mostly had to do with differences in workdays, said Leamer. Now that the PCI takes a month-to-month approach towards its data, Leamer explained that after a strong December, the first two months of the year are flat.

"Of the 5.9 percent fourth quarter GDP growth, 3.9 percent had to do with inventories, which is not a sustainable phenomenon," said Leamer. "It is very volatile and has no sort of persistence to it. Most people look at that GDP number as 2 percent growth quarter. If we have 2 percent growth quarters the rest of the year, the job market is going to remain dismal."

Ceridian Vice President and Index Analyst Craig Manson told *LM* that despite the flatness in the current quarter, it is worth noting that year-over-year diesel fuel transaction volumes are up for the third straight month. December's increase was the first time that had occurred in 21 months.

—Jeff Berman, Group News Editor

in some head-haul lanes, Rourke says.

That has caused Schneider and other large TL carriers to examine their pricing, especially for the bottom 10 percent of their customer base. "We're going after that bottom 10 percent in a more aggressive fashion," says Rourke. "More of those rate increases are sticking and we're now taking a much firmer look at pricing."

Issue #3: Recapitalization

Trucks do not last forever. As wonderfully engineered as the modern 18-wheeler is, that $125,000 bundle of steel, rubber, and computer microprocessors tends to wear out. And while carriers slashed their capex budgets during 2008 and 2009, they now say that the time has come to trade in those 5-year-old and 6-year-old trucks in favor of the newer, more fuel efficient, EPA-compliant 2010 models.

"If you look at our industry's lack of investment in equipment the past couple of years…that's unsustainable," says Schneider's Rourke. "Our rolling stock wears out and we need to recapitalize our industry."

The two main drivers holding back freight rates, trucking executives say, are consumer spending and expansion of manufacturing. Both are linked directly to the credit markets, which still have not recovered to pre-2008 levels. But if credit loosens, some carriers expect freight flows to be robust—and shippers will have to pay more.

"Pricing is way too low right now," Con-way's Labrie says flatly. "The industry is not producing enough profits to recapitalize our asset base. I would not call pricing irrational; in fact, it's been very rational, reflecting supply and demand. But it needs to change in order for this asset-heavy business to recapitalize itself."

Issue #4: Diversification

For more than a decade, truckers have tried to offer exactly what the marketplace wanted. That has caused once regional

"This is the 'Big Kahuna.' It's a game-changing moment."

— Steve Williams, Maverick Trucking

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LTLs to expand coverage to become virtual long-haul carriers. Pitt Ohio and Averitt are charter members of the Reliance Network, an interline long-haul arrangement that has exceeded $1 billion in revenue in its first two years.

ABF Freight System, once a traditional long-haul carrier, has branched out into the regional markets through its new network for under 500 mile shipments. "We are the only carrier operating parallel regional and national line-haul networks, which enables ABF to offer reliable next-day, second-day, and transcontinental service without the hassle of processing multiple drivers from the same company every day," says ABF's Slagle.

Truckload carriers are changing as well. Schneider has recast its business model so that now 30 percent of its volume is regional, up from the low single digits just a few years ago. It's also expanding its mix of freight, expanding its offerings in the food and beverage sectors, and has continued to take over some private fleets, a segment that remains a $300 billion slice in the nation's $745 billion freight transportation pie.

One leading LTL carrier recently hired a person from the commercial airline industry who had a doctorate degree in operations research involving airline traffic. After one week of dealing with the load complexity at this trucking company, she

"The past couple years are the worst that I've seen in my 37 years in the business. While we have seen some incremental improvements, there has not been a material change."

— Ray Slagle, ABF Freight System

remarked to a colleague: "Compared with trucking, optimizing air freight is like a preschool program."

And network reengineering is a task that never ends in trucking. Greg Lehmkuhl, executive vice president of operations at Con-way Freight, says reengineering is an ongoing exercise at Con-way, with teams of research engineers constantly developing tools and models to modernize its own network as well as tweaking freight flows and forecasts of freight demands from customers, which vary widely from month-to-month as well as seasonally. "Nothing is more competitive than the LTL industry," Lehmkuhl says.

Old Dominion set out its diversification plan in 1997. Once exclusively a Southeast regional carrier, Old Dominion now pursues freight in all regional markets and fills out with global and expedited services. It now has 5 percent market share in the LTL sector. "That's a respectable share, but we see room for more growth, especially with smaller accounts," adds CEO Congdon.

Message from carriers to shippers

The overall industry simply can't go on with its current state of excess capacity and unsustainable pricing levels. Trucking has had negligible price increases for three years while its costs have continued to rise.

The message from carriers to shippers is blunt: Be prepared for price increases to start this year and continue in proportion to the strength of the economic recovery.

"We operated at a 94.2 operating ratio last year," Old Dominion's Congdon's says. "But the rest of the LTL industry was at 105. Ex-

CAPACITY DRIVING POTENTIAL VOLUME/RATE UPTICK

NASHVILLE—A fourth quarter survey of roughly 100 trucking carriers conducted by Transport Capital Partners (TCP) indicated that trucking companies are optimistic about market conditions, especially if rates and volumes go up as they suspect.

This mindset appears to be ongoing based on the results of TCP's recently released "Business Expectations Survey." A prevalent theme of the survey focused on projected 2010 rates and volumes. For large carriers—with revenues over $25 million—TCP found that 64 percent expect rates hikes, compared to 37 percent of smaller carriers with revenues below $25 million.

As for volumes, TCP found that more than 70 percent of large carriers expect volumes to rise in the next 12 months compared to the last 12 months (about 10 percent more than small carriers), with slightly more than 30 percent of small carriers and about 25 percent of large carriers calling for volumes to remain the same. Only 5 percent of small carriers anticipate volume declines.

TCP Managing Partner Lana Batts told *LM* that the projected rate increase is directly related to the ongoing excess capacity in the trucking sector. This is simply due, said Batts, to the fact that when there is excess capacity rates go down.

"Carriers have not purchased a substantial number of trucks over the last three years, and last year was a perfect example of that with only 90,000 Class 8 trucks purchased," said Batts. "We have always expected that, just to maintain a 'normal' replacement cycle, it took more than 250,000."

This point was further validated by a research report from BB&T Capital Markets analyst Tom Albrecht that said that a number of Class 8 tractors 8 years old or newer has shrunk by 13 percent or 211,000 units. In short: fleets are getting older and smaller.

While the trucking sector has had its fair share of bumps and bruises in the recent past, Batts pointed out that rates are stabilizing not declining, adding that in some spot areas there are equipment shortages. These areas include dry van capacity in the Midwest due to a rebounding automotive market.

Another factor cited by Albrecht's report was the Monthly Market Demand Index (MDI) from the Internet Truckstop. An MDI above 7 benefits truckers while below 7 benefits brokers and shippers. Batts said the MDI was as low as 1.43 in February 2009 and is now above 7.

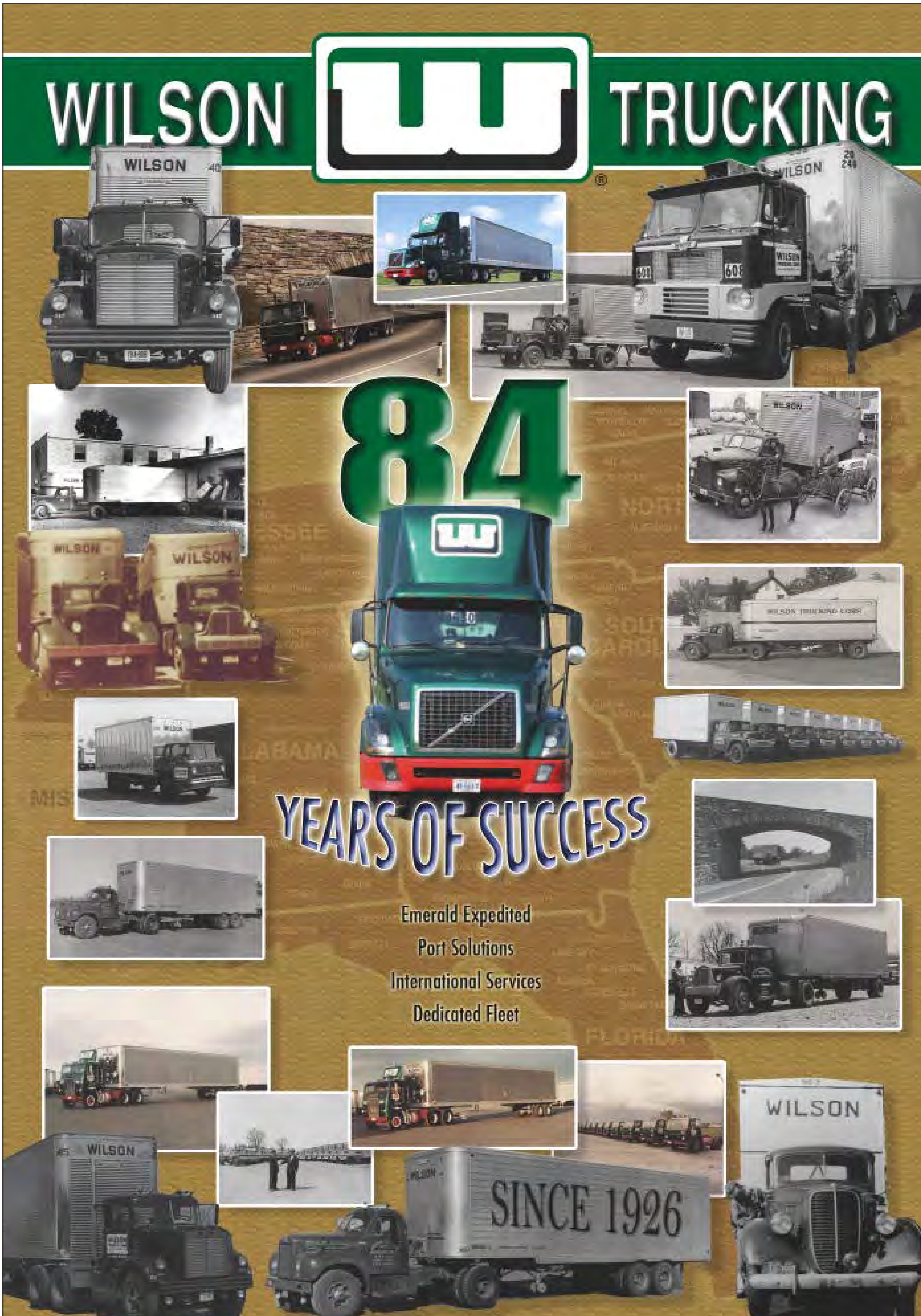
"The spot market tends to be an indicator of what is going to happen in the contract market," added Batts. "And even though carriers have contracts with shippers for mega-bid packages [not dedicated], the shipper does not guarantee traffic, and the carrier does not guarantee trucks. All they have negotiated is price."

This has led to a situation where shippers have continually re-bid packages and are now under a false illusion that there is going to be capacity to go with those rates, said Batts. But this will not happen, she said, because that capacity is going to go to the higher rate and not the lower rate.

The TCP survey data found that 45 percent of respondents will add capacity when the current fleet is fully utilized and rates increase significantly, while roughly 15 percent cited they will not add capacity until the economy improves and is more stable.

What's more, TCP noted that large carriers are twice as likely not to add capacity until their fleet is fully utilized and rates increase sufficiently; whereas smaller carriers are waiting for the economy to stabilize; which, TCP said, could explain why a higher portion of smaller carriers are currently adding capacity compared with larger carriers.

—Jeff Berman, Group News Editor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YRCW REPORTS $622 MILLION LOSS IN 2009

OVERLAND PARK, Kan.—In a recent 10-K report, less-than-truckload (LTL) transportation services provider YRC Worldwide (YRCW) reported a $622 million net loss in 2009.

The company did not make this information available during its fourth quarter earnings release because it was in the process of completing its income tax provision that was part of its now completed debt-for-equity exchange in which it received tenders—or exchange offers—for roughly $470 million, representing about 88 percent of its outstanding notes.

The $622 million net loss came along with $5.3 billion in operating revenue, which was down 40.4 percent compared to 2008's $8.9 billion in operating revenue. The 2009 numbers were an improvement over the $976 million net loss the company posted in 2008.

YRCW's financial condition has been closely watched by industry observers due to the extensions leading up to the debt-for-equity exchange as well as the difficult LTL market conditions caused in large part by excess capacity, decreased fuel surcharge revenues, and pricing issues. The current market has also led to lower tonnage volumes across the board for YRCW, with fourth quarter shipments per day at YRC National Transportation down 39.9 percent.

Despite these losses, YRCW Chairman and CEO Bill Zollars is optimistic about where the company is headed. In a Web video for customers, he explained that 2009 was a year that "tested YRCW's strength as a corporation, and [YRCW] did more than prove the cynics wrong, not only by surviving the worse business downturn since the Great Depression but by positioning YRCW to grow financially and operationally."

Zollars cited how YRCW accomplished the integration and rightsizing of its Yellow and Roadway networks, executed the turnaround of its regional business, implemented cost-reduction and process improvements, and concluded its debt-for-equity exchange offer, which he said improved the company's balance sheet and liquidity.

"Our comprehensive recovery plan, which was the basis of our efforts in 2009, continues to guide us as we move through 2010. We are optimistic and we are confident," said Zollars. "And above all, we continue to win back business and gain new customers every day."

Last month, YRCW reported that it's seeing improving first quarter shipment trends at YRC National Transportation and YRC Regional Transportation. Company officials explained that shipment volumes in the latter end of December and early January were affected by the extensions to its note exchange, along with difficult weather conditions in January and February having a negative impact on shipment growth.

Continuing to keep costs in line will remain a major part of YRCW's strategy, according to Zollars. Recent media reports noted that YRC has eliminated roughly 2,000 jobs since the end of 2009. A *Kansas City Star* report quoted Zollars as saying by the end of 2010 YRCW plans to take out an additional $300 million in annual costs, with $200 million removed by the middle of this year.

Stifel Nicolaus analyst David Ross recently wrote that he remains skeptical of YRCW's long-term viability, although the company likely has sufficient access to funds to operate through 2010 after undergoing a complicated out-of-court financial restructuring to eliminate near-term debt payments.

"A high-degree of uncertainty lingers, in our opinion, around the company's future," wrote Ross.

—Jeff Berman, Group News Editor

cluding YRC, it was 101. That is not sustainable. We have to get some pricing improvements and I certainly anticipate that we as an industry will we get them."

If shippers want a hint of their rates, just look at the government numbers regarding industrial capacity, Gross Domestic Product, and other productivity trends. Unemployment, which is still 10 percent and forecast to stay above 6 percent through 2015, is one number truckers look at regularly.

"In the end it's consumers," Congdon says. "These industrial numbers may be rising, but unemployment greatly offsets everything that's going on. If you're unemployed, you're not buying. Those people employed are not spending as much as they once did. We have to get our consumers back out there spending and to do that we have to get that unemployment number down."

Analyst Jindel is calling for a modest economic recovery: "I'm not finding any hopeful signs that life for LTL carriers will get better any time soon. It will be a very slow process in improving tonnage levels. Things are getting lighter and smaller; and that does not portend well for an industry that bases its pricing on weight."

What should shippers expect? In two words: rate increases. "We've been chopping at the bottom for several months," Schneider's Rourke says. "Pricing will certainly go north, no question. Whether that's in a big way in 2011 or starts to manifest itself in 2010, that is the big question. That's our crystal ball moment for this industry." L

John D. Schulz is a Contributing Editor to Logistics Management


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HOS: Friend or foe?

By Wayne Bourne

Is it just me or have shippers become bored with the ongoing saga of the government's attempts to re-regulate the rules governing the hours a driver can (safely) drive in a 24-hour period?

The shippers I've spoken to at industry events are tired of the "leap frog," quasi-legislative attempts to solidify a rulemaking that's nearing its 15th anniversary. It has been written, re-written, enacted, challenged, modified, and re-enacted over and over—and remains under study as we go to press.

While carriers wait for the proverbial other shoe to drop, it appears that shippers are taking a "sky is falling" approach. In other words, they've heard the safety mantra over and over, but without a final product having any permanency they're simply ignoring the issue because they don't believe it or trust the accuracy of the results. Instead, shippers think that this is a carrier issue and therefore a carrier problem.

Maybe I'm off-base in my observations, but it does seem all quiet on the shipper front on this issue. But, maybe it should be quiet. After all, this mess has been going on since 1995 when the Federal Highway Administration (FHA) was ordered by Congress to revise the decades old hours-of-service (HOS) rules.

The FHA failed to issue the required notice of rulemaking, so it fell to the newly created Federal Motor Carriers Safety Administration (FMCSA) in 1999 to do the job. Unfortunately, each and every change or proposed change has created operational confusion and productivity reductions within the carrier community—and eventually the shipper community.

I don't think you can argue with the intent for modifying the rules. After all, who could argue with increasing safety on our highways? But, has any side come up with definitive proof that the new rules are indeed safer than any of the older rules?

I have seen and read interviews with carrier executives, industry leaders, and shipper groups in which they express their candid opinions. I wonder if anyone has sat down with a hundred or so drivers to get their take on the matter. How have these changes affected them? Do they feel more rested? Do they feel more alert? Are their skills sharper?

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

In fact, shippers should be asking their core carriers about the economic impact that new changes may create. They should also be questioning when and how much these costs will affect their newly acquired low rates. Distribution executives certainly want to consider what impact any new changes may have on the decisions they need to make on locating new DCs. What happens to your delivery schedule and transportation costs when the possible hours of driving operations are shortened?

In my most recent column ("Those who cannot learn from the past are doomed to repeat it" on logisticsmgmt.com), I suggested that our newly minted logistics and transportation executives continue to study the science and politics of the field. The HOS situation is a perfect place to start.

Follow the impetus and the journey of the original HOS endeavor from 1995 when managed by the FHA through to the FMCSA's most recent offering today. Look for and make a list of all that was to be accomplished by the modified rulemaking.

Then, determine whether or not it was appropriately addressed in the proposed and subsequently enacted rules. Determine what you feel the benefits were, each time with each change. Then decide who the winners and losers were. One life saved from a highway accident cannot be measured in an economic equation. However, among the stated players at least, who fared better: the shippers, the carriers, or the politicos? I've been in the game for a long time and I don't have a convincing answer to that question.

This rulemaking is designed to improve the health, and subsequently the capability, of the driver; and yet no one has asked the drivers if they are feeling the love. We went from a 10-hour maximum with a forced break at no greater than eight consecutive hours, to a rule that although allows one extra hour of driving in a day, also allows those 11 hours to be driven consecutively with no mandatory break.

Does that produce a more rested, more alert driver? If a driver was considered too tired to drive more than eight hours consecutively, how does it make sense that he is better equipped and safer driving 11 consecutive hours?

I would sincerely like to hear from you about your concerns with the HOS rulemaking process. The actual proposals are available on line as well as the challenging petitions. Yes, they are woefully long and boring. Yes, they are lessons in double-speak. However, there is so much at stake here and you really do need to be on the front line. L