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FEBRUARY 2011

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Lisa Akey, DVP of distribution, Dots

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Management UPDATE

AN EXECUTIVE SUMMARY OF INDUSTRY NEWS

NASSTRAC loses a leader. Shippers lost a powerful representative when Joseph F. H. Cutrona, former executive director of the National Shippers Strategic Transportation Council (NASSTRAC) from 1978-1998, passed away on Christmas Day 2010 at his home in Naples, Fla. Cutrona was 92. He was well known to shippers during a time when the trucking industry was evolving from a heavily regulated period to today's economically deregulated market. That began with the Motor Carrier Act of 1980, which changed the way shippers dealt with their carriers and altered the lobbying landscape in Washington. During Cutrona's tenure with NASSTRAC, he worked diligently on many issues, including those raised by motor carrier deregulation in the 1980s and the undercharge epidemic.

UPS Airlines group head steps down. UPS announced that Bob Lekites is stepping down after 36 years at the company and will be replaced by Mitch Nichols, vice president of UPS Air Group operations. UPS officials said that as president of UPS Airlines, Lekites had responsibility for all aspects of the company's airline operations as well as Worldport, UPS' cutting-edge package processing facility and all-points international air hub in Louisville, Ky. While at UPS, Lekites led the introduction of several new aircraft types, numerous new flights, and the opening or expansion of multiple gateways and air hubs around the world.

Transit funding extended into March... During the Lame Duck Session of the 111th Congress, U.S. lawmakers voted to extend federal highway and transit funding through a continuing resolution through March 4. This continuing resolution is the latest in a series that has been enacted to keep transportation spending afloat since SAFETEA-LU (Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users) expired on September 30, 2009. As *LM* has reported, this funding, which goes toward surface transportation maintenance, development, and construction, has been kept afloat by multiple continuing resolutions typically ranging from four to seven weeks and keep funding at current levels.

...but future transit funding formula may be altered. A January vote by House Republicans has the potential to significantly change how funding for federal highway and transit programs is distributed and allocated. This vote dictates that the minimum guaranteed annual spending level for federal transportation will no longer apply. What's more, the current spending levels allocated for federal highway and transit programs are more than its main funding source, the Highway Trust Fund, can actually pay out. According to a letter from more than 20 transportation concerns to members of House leadership, this process would sever the user-financed basis of the Highway Trust Fund and make annual federal highway and transit investments subject to the whims of the appropriations process.

Teamsters' beef with NAFTA. In comments made last month, Teamsters General President James Hoffa told Michigan factory workers that the union "will fight like hell" against opening the border to Mexican trucks. "We simply don't believe U.S. taxpayers should pay to let more Mexican companies depress American workers' wages," he said. The jobs issue notwithstanding, some industry analysts have noted that NAFTA compliance is a "win" for the supply chain community. "The domestic and intermodal carrier can combine in partnership with the shipper to build cross-border services," noted William Rennicke, a partner in Oliver Wyman's corporate finance practice. "Often the carriers can provide effective process management in various parts of the supply chain without having the shipper make a large investment in a remote operation," Rennicke said.

No more "default" sourcing. Panjiva, an online search engine containing data for global suppliers and manufacturers, has joined those experts predicting a substantial boost in sourcing expenses. "In 2011, manufacturing costs will rise," noted Panjiva CEO Josh Green. He added that for years, China's huge labor pool helped keep global manufacturing costs down, but wages are escalating. "China's move toward a more flexible Yuan amplifies the effect of wage

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Management UPDATE

continued

increases. But perhaps the most important thing going on in China is the rise of its middle class—a middle class that is demanding goods and services," Green added. In a poll conducted with its clients, Panjiva learned that it was "jarring" for Americans to see China prosper while the U.S. held on for dear life through the Great Recession.

■ **2011 intermodal container capacity growth may be slight.** While intermodal enjoyed a strong 2010 (especially on the domestic side), there is some sentiment that volumes may not see the same type of growth in 2011. A research report by Stifel Nicolaus analyst John Larkin stated that future volume growth for intermodal marketing companies could be constrained by a general lack of domestic container capacity in the market. "Relatively few containers will be added in 2011, which we expect should keep a lid on upside surprises—except those caused by price," wrote Larkin. "We believe that the railroads will likely capture much of the price increase that the intermodal providers capture from their customers."

■ **Slow steaming quandary.** Ocean carrier schedule integrity is in jeopardy now that "slow steaming" is in vogue—and shippers have every reason to be concerned. That's the conclusion of a recent report issued by Drewry Shipping Consultants. In their latest issue of *Container Shipper Insight*, their analysts state that more vessels arrived at their destinations behind schedule in the fourth quarter—down 7 percent from the reliability rate in the first three quarters of 2009. Even more alarming, though, is the fact that each of the major East-West trade lanes suffered a drop in on-time performance during this period. Carriers have been lauded, and rightfully so, for saving fuel and anticipating regulatory reforms on emissions, but this should not mean a disruption of the supply chain. Skeptics in the shipping community suggest that, deliberate or not, this development will give vessel operators even more leverage in upcoming contract negotiations.

■ **West Coast port revival continues.** Yet more evidence of a rebound for U.S. West Coast ports surfaced in recent statistical analysis. Zepol Corp., a Minneapolis-based trade intelligence company, reports that import shipment volume nationwide for December, measured in twenty-foot equivalent units (TEUs), decreased 9.49 percent from November. And while this is a post-holiday seasonal trend, some of their other numbers are revealing. For example, total import shipments are up for 2010 by 14.19 percent over 2009, with U.S. West Coast ports showing the greatest throughput increases. Year-to-date, in fact, research reveals that there's been a bump of 18.8 percent compared to the U.S. East Coast (13.40 percent) and the Gulf Coast (13.40 percent).

■ **Port of LA healthy.** The recession may be just a dark memory for the Port of Los Angeles, which is reporting a year-over-year container surge of 16 percent in 2010. Perhaps just as significantly, a record number of exports lead the way. "We have clearly turned the corner," said port spokesman, Phillip Sanfield. "Throughput figures are up to pre-recession years, and we hope that a recovery of the global economy will sustain this growth. Port exports rose 10.3 percent in 2010 to 1,841,274 twenty-foot equivalent units (TEUs) compared to 1,668,911 in 2009 and surpassed the previous container export record of 1,782,502 TEUs in 2008. Meanwhile, imports increased 12.8 percent in 2010 compared to 2009. "The 2010 volume gains far surpass our initial estimates, and we've been able to facilitate some export opportunities in the past year through our TradeConnect initiative," said Geraldine Knatz, the port's executive director.

■ **Year of the Rabbit.** Coinciding with the Lunar New Year celebrated in Asia this month, several major ocean carriers withdrew capacity on the Transpacific. Spokesmen for The New World Alliance (TNWA)—comprising APL, Hyundai Merchant Marine, and Mitsui OSK Lines—noted that factory shutdowns during the holiday warrant the temporary carrier reduction. The announcement came at a time when industry analysts are concerned about too much existing capacity in all trade lanes. Drewry Shipping Consultants said that the industry has emerged from the global recession with both carrier profitability and demand figures recovering. But analysts beg the question: Have the carriers learned from their

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Management UPDATE

continued

experience? "The fact that no major companies 'went to the wall' still seems to have insulated the industry from the despair of 2009, and there is now the feeling that perhaps the dark days did not happen," said Neil Dekker, editor of the *Drewry Container Forecaster*.

■ **ACT says Class 8 net orders heading in the right direction.** On the heels of a promising projection for fourth quarter 2010 Class 8 vehicle net orders, ACT Research said that December net orders of heavy-duty Class 8 commercial vehicles for North American markets at 27,044 units were up 128 percent year-over-year. ACT said that Class 8 orders in December hit its highest monthly total since May 2006, with full-year production of Class 8 vehicles up 30 percent over 2009 at 154,290 units. "Unlike previous cycles that have been dominated by the U.S., there is a greater breadth of geographic demand for Class 8 equipment this time," said Kenny Vieth, ACT president and senior analyst. "While U.S. demand is ramping nicely, orders bound for Canada, Mexico, and non-NAFTA export markets remain at healthy levels."

■ **California exports up again.** California's exporters racked up another impressive performance in November, even while failing to keep pace with growth in the overall U.S. export trade. The $12.49 billion in goods California businesses shipped abroad in November exceeded the $10.95 billion sent to foreign markets in November 2009 by a healthy 14.1 percent, according to an analysis by Beacon Economics of foreign trade data released by the U.S. Commerce Department. "On the bright side, this was our best November ever in inflation-adjusted terms, and it did mark the 13th consecutive month of year-over-year increases in California's export trade," said Jock O'Connell, Beacon Economics' international trade adviser.

■ **Tactical applications.** As U.S. manufacturers begin to realign their supply chains with tactical and strategic initiatives, how will the recent recession inform their decisions? That question and others are addressed in the recently issued IDC Manufacturing Insights report *Supply Chain Strategies: Top 10 Predictions*. In putting this study together, IDC analysts Simon Ellis and Kimberly Knickle learned that while manufacturers are ready to spend again, many are still reeling from the recession's aftershock. "We see a slow return to basics," said Ellis. "They are not buying 'solutions' per se, as they understand that there's not really any ultimate answer to every shipping and sourcing challenge." Rather, he added, manufacturers are ready to invest in tactical applications that can be used for long-term strategic objectives.

■ **Piracy persists.** One issue may continue to haunt shippers in 2011: The scourge of global piracy. According to the International Chamber of Commerce (ICC), over 500 seafarers are currently being held hostage by Somali pirates. "In fear for their safety, and even of their lives, and deprived of contact with their families, these seafarers have also suffered the trauma of having their ships attacked with automatic weapons, prior to being kidnapped for ransom," said the ICC. "Many have been held captive for several months, often in the most appalling conditions, by armed criminals who can be violent and unpredictable." Merchant seafarers are too often out of sight and out of mind, noted the ICC. Analysts there said that it is vital that the international community focus on the plight of those held in Somalia, as well as the tens of thousands of ship crews who keep the supply chain strong and resilient.

■ **Great expectations.** Most Americans have high expectations for the nation's businesses, but the vast majority also think Corporate America failed to meet those expectations in 2010. While Thomas Donohue, in his annual "State of American Business Address" to business leaders at the U.S. Chamber of Commerce, is predicting a fairly strong economic recovery, some analysts are suggesting much more needs to be done by companies comprising the Chamber. According to the consultancy StrategyOne, the bar has to be raised considerably. In fact, when StrategyOne asked 1,081 Americans how well Corporate America did last year, 82 percent assigned a grade of C or lower and 40 percent assigned a grade of D or F. Just 17 percent gave Corporate America an A or a B for its 2010 performance.

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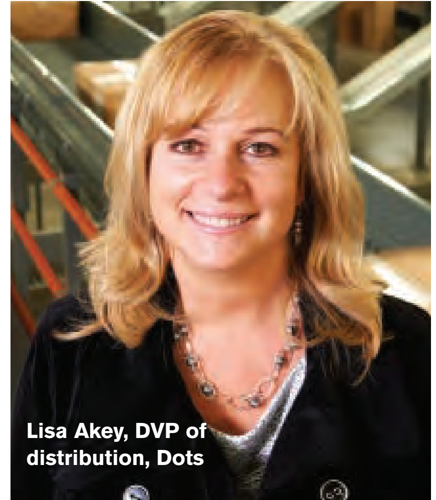
Cross dock fuels growth at Dots

By banking on a combination of cross-docking and flow-through distribution to rapidly provide its customers with the latest fashions at affordable prices, the retailer has emerged as a force to be reckoned with in a highly competitive retail landscape. 30

Cover photography: Roger Mastroianni


Lisa Akey, DVP of distribution, Dots

Logistics MANAGEMENT®

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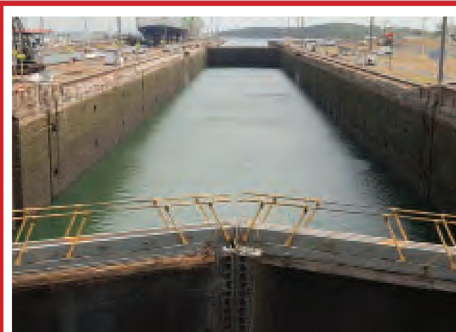

SPECIAL REPORT: 2011 PORT SERVICES UPDATE

Preparations under full sail

The Panama Canal expansion—expected to be complete by 2014—has seaports throughout the hemisphere readying for a new competitive landscape. For most, that means offering value-added services designed to move inbound goods faster than ever before. Here's where the preparations currently stand. 56S

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Conference sessions:

- **The Changing Face of Transportation Management Systems (TMS)**
- **5 Trends Driving Warehouse Management Systems (WMS)**
- **How Global Trade Management (GTM) Is Meeting the Compliance Challenge**
- **The Growing Role of 3PLs in the Technology Equation**

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This panel of top oil and transportation analysts will update shippers on:

- The current state of the U.S. economy
- Where oil and diesel prices are headed and why
- Capacity and rate forecasts for trucking, air cargo, ocean cargo, rail/intermodal, and parcel express

Economic Update: Patrick Burnson, Executive Editor, *LM* and *SCMR*

Oil & Fuel: Derik Andreoli, doctoral candidate at the University of Washington & Harvard Business School Faculty Affiliate

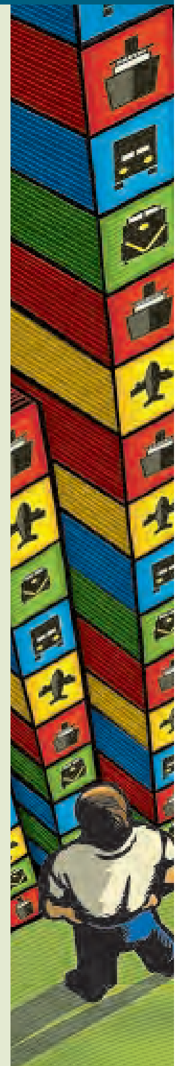
Trucking: John Larkin, managing director, Stifel Nicolaus

Air Cargo: Charles Clowdis, managing director for transportation and supply chain advisory services, IHS Global Insight

Rail/Intermodal: Brooks Bentz, partner, supply chain transportation, Accenture

Ocean Cargo: David Jacoby, president of Boston Strategies International

Parcel Express: Jerry Hempstead, president of Hempstead Consulting



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VIEWPOINT

Getting outsourcing right

JUST A FEW YEARS AGO it was quite common for a B2B magazine editor to receive thoughtful "letters to the editor" that either thanked us for a particularly helpful article or took issue with an opinion we expressed or a best practice that a reader deemed questionable.

In most magazines there was even a large portion of the "editorial" spread allotted to printing these letters—a very visible podium for readers to let their most heartfelt concerns and commentary be heard in front of an entire market. As readers began digesting more editorial online, those thoughtful letters evolved into quick "comments."

While I still get a number of e-mails and comments sent my way that either pat us on the back or take us to the matt, one particular "old school" letter that I recently received certainly caught my attention. In fact, it turned into one of this month's feature: "5 steps to improving your 3PL relationships."

Here's the story: Back in October 2010 our cover story "Armstrong brings it back in house" caused quite a stir among our devoted readership and raised a number of red flags with the some of the members of the teaching staff at the University of Tennessee's (UT) Center for Executive Education.

The story was about Armstrong World Industries' decision to cut ties with a 3PL after only a year in partnership. If fact, the case study was sent in by Armstrong as a NASSTRAC Shipper of the Year consideration; and after being reviewed by the NASSTRAC staff and the editors of *Logistics Management* (*LM*), we deemed the story worthy of the 2010 award.

I was most impressed with the fact that Marcus Smith, manager of transportation procurement, and Howard Liddic, outbound transportation manager, were more than willing to share the details of an internal decision that had gone sour. I found that suppression of ego refreshing. But what ultimately won the award was the team's quick action in re-establishing its in-house transportation team—something that Armstrong had once considered a core-competency.

"Perhaps we just didn't properly communicate on the front end, or our 3PL failed to understand how critical the service was," says Smith. "But no matter how we looked at it, we just couldn't afford delays in shipments."

To read why Armstrong World Industries pulled transportation back in house go to logisticsmgmt.com/Armstrong

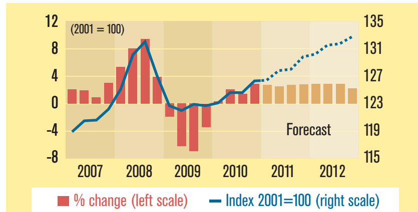
In a letter to the editor a week after publication date, Kate Vitasek and some of the UT staff took *LM* to task for not diving deep enough into the details of how Armstrong and its failed 3PL partner had established the parameters of the relationship. "I would hate for readers to blame 3PLs when it sounds like from the article that Armstrong had some fatal flaws in how they approached their outsourcing project in the first place," wrote Vitasek.

Her thoughtful, two-page letter dissected the story and offered constructive advice from the UT staff for how shippers can get the ground rules straight right off the bat. When I got on the phone with Vitasek, I put the ball back into her court and offered her on one of the most visible podiums in the market. We set a deadline, and the result unfolds on page 45.

Michael A. Levans, Group Editorial Director

Comments? E-mail me at mlevans@ehpub.com

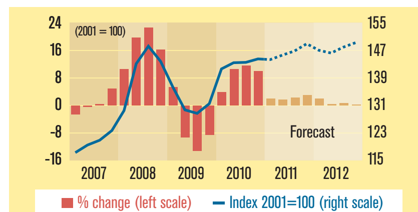
Pricing Across the Transportation Modes



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
General freight - local	0.4	-0.4	-0.7
Truckload	0.4	2.3	4.9
Less-than-truckload	0.1	3.2	5.7
Tanker & other specialized freight	0.5	0.8	2.8

TRUCKING

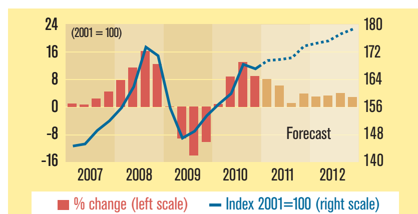
With a 0.3% price hike in December 2010, the trucking industry officially logged a 1.7% price inflation rate for the entire year. The outlook for 2011 and 2012 calls for the industry to increase average transaction prices by 2.7% in 2011 and 2.8% in 2112. That forecast brings trucking inflation back in line with long-run trends. LTL trucking prices, meanwhile, were up only 0.7% in 2010 and are forecast to increase 3.2% and 2.7%, respectively, in 2011 and 2012. Truckload prices, still recovering from its 2009 7% price plunge, registered a 2% average price increase in 2010. TL tags are forecast to register moderate inflationary price increases of 2.5% and 2.3% over the coming two years.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Scheduled air freight	1.6	1.9	10.1
Chartered air freight & passenger	9.1	10.8	7.9
Domestic air courier	1.4	0.0	8.5
International air courier	1.3	-1.8	8.0

AIR

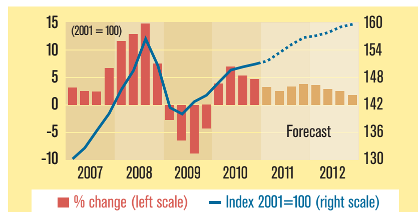
U.S. owned airline companies enjoyed an end-of-year December 2010 inflation boost as average prices for shipping cargo on scheduled flights jumped up 1.6% and nonscheduled (chartered) flights flew up 9.1% from a month ago. For the final quarter of 2010 compared to 2009, prices for moving cargo on scheduled and nonscheduled flights were up 9.9% and 5.3%, respectively. While we haven't enough historical data to be able to forecast both segments of air cargo markets, we do not anticipate recent inflationary boom times to continue. After an 8.9% annual price increase in 2010, we forecast prices for air cargo on scheduled flights will level off with a 2.2% price hike in 2011 and 0.8% in 2012.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Deep-sea freight	-0.8	2.0	14.2
Coastal & intercoastal freight	0.0	7.7	8.0
Grt. Lks.-St. Lawrence Seaway	0.2	1.8	-4.6
Inland water freight	1.0	-0.1	-1.5

WATER

U.S.-owned water transportation companies registered an end-of-year 0.2% price cut for all waterways. A 0.8% November-to-December price drop from the deep sea category of shippers was the catalyst for that. With all the monthly data in, the aggregate water transport industry reported a 7.8% price increase in 2010, which was a nice recovery after 2009's 8.6% price decline. Looking forward, we forecast the entire water transportation sector to increase prices by 4.7% in 2011 and 3.3% in 2012. Prices for inland waterways transport are forecast to increase 4.8% and 0.8%, and deep sea wil increase 6.5% and 2.5% over the next two years.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Rail freight	0.8	0.4	5.1
Intermodal	1.2	1.4	5.6
Carload	0.7	0.3	5.0

RAIL

Railroad companies pushed through a 0.8% monthly price hike in the last month of 2010 with help from a 1.2% increase for intermodal rail service. Overall, the rail industry's average transaction prices registered a 5.2% increase in 2010. That makes up for the 5.6% price cut that the industry suffered in 2009. Note, however, it is not until April 2012 that rail industry prices will finally begin to surpass the previous peak prices set in August 2008. That is because a sluggish U.S. economic recovery is forecast to hold rail transaction prices to a 3.2% gain in 2011 and a 2.7% hike in 2012.

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

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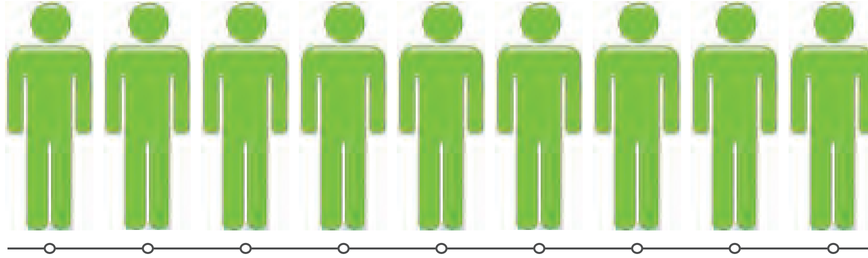

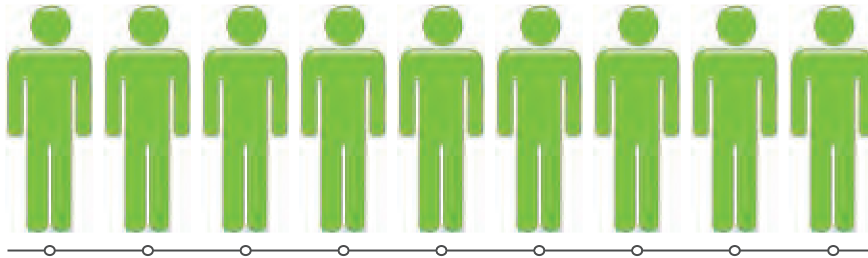

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NEWS & ANALYSIS

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HOS trial balloon a bust

Trucking industry officials, analysts, shippers, rip FMCSA proposal to reduce driving time; argue that it would conservatively cost the U.S. economy $2 billion in lost productivity.

By John D. Schulz, Contributing Editor

WASHINGTON, D.C.—It's hard to get Republicans and Democrats, shippers and carriers, administration officials and analysts, and practically anyone else in Washington to agree on much these days.

However, pretty much everyone agrees that The Federal Motor Carrier Safety Administration's (FMCSA) trial balloon to reduce by one hour (from 11 hours to 10 hours) the actual time a truck driver can be driving is a horrific idea. According to a majority of trucking interests, the move is not based in science or data and would conservatively cost the U.S. economy $2 billion in lost productivity—and much more in inefficiency and additional infrastructure requirements.

The idea that the new hours-of-service (HOS) proposal will actually become a regulation is increasingly seen by industry insiders as a long shot given the political backlash the recent trial balloon received.

In a January 19th letter to President Barack Obama, American Trucking Associations (ATA) President and CEO Bill Graves expressed optimism that the newly pro-business White House would come to its senses and throw a roadblock in front of FMCSA's proposal to shave an hour off the legal time a truck driver can drive.

The president would seem to be on that path. In a January 18th op-ed article on regulatory initiatives in the *Wall Street Journal*, Obama said his administration embraces "common sense rules of the road that strengthen our country without unduly interfering with the pursuit of progress and growth of our economy."

Graves said trucking is doing exactly that today. The current HOS rule—in place for more than seven years now—has strengthened the $550 billion trucking industry and the huge slice of the U.S. economy that relies on trucks; while at the same time facilitating "the most dramatic truck safety improvements our industry has ever seen."

On December 23, FMCSA dropped a bombshell on the industry by suggesting it would like to reduce to 10 hours the legal driving time. It also would retain a portion of the "34-hour restart" provision by allowing drivers to restart their weekly clock by taking at least 34 consecutive hours off-duty.

Other proposed changes include:

- decreasing daily "on-duty" time from a maximum 14 hours to 13 hours. Drivers would continue to be allowed to drive either 10 hours or 11 hours within a 14-hour "window";
- requiring a minimum 30-minute break after a maximum of 7 hours driving or working in order for a driver to continue driving; and
- permitting the standard 14-hour window to be extended to 16 hours twice a week.

Just the thought of reducing driving time by one hour sent analysts

and trucking industry executives to their pocket calculators to estimate the cost and inefficiencies that would result. That's because today's modern domestic distribution network is built typically on a series of regional distribution centers, serviced by truckload (TL) and less-than-truckload (LTL) moves, typically with "pedal runs" of about 200 miles to 400 miles, easily accomplished in one day's driving.

If that driving time were reduced, analysts say, it would be nothing short of chaos.

"It would be very disruptive," said Dick Armstrong, chairman of Armstrong & Associates, a supply chain management consulting company. "You would lose the ability to do about 50 miles on the first leg when the truck leaves a particular location. That cuts down from 550 miles to 500 miles maximum. Where you have commercial areas and heavy traffic, it would affect more. It's going to take 9 percent of efficiency away on that first day of operations."

Armstrong added that he didn't think the move from 11 hours to 10 hours driving has been well thought out. "It doesn't make a lock of sense. What would be impacted would be the longer lengths of haul within a region and would suddenly add an extra day of delivery time to operation of those runs."

Rob Abbott, the ATA's vice president of safety policy, said on a recent conference call sponsored by the National Industrial Transportation League that the HOS changes affect everyone in the supply chain, not merely the trucking companies or drivers.

"DOT leaves the door open to keeping the driving time at 11 hours, but the agency has said its preference is to make it 10 hours," Abbott said. "We somewhat expect the agency's final rule will push the 10-hour requirement out on the street."

Randy Mullett, vice president of government relations and public affairs for Con-way Inc., told *LM* that he doesn't believe FMCSA has the data to support such a reduction in HOS, and that's why it just floated the idea in its December 23rd announcement.

"I believe that if the FMCSA had the safety data to support reducing driver hours to 10 from the current 11 hours, they'd have published it in the proposed rule," Mullett said. "It appears they don't. In fact, they are asking carriers for input. It seems to be a case of a foregone solution in search of a problem." ☐

CONFERENCE

LaHood discusses domestic transportation issues in SMC3 keynote

ATLANTA—In a wide-ranging speech at the SMC3 Winter Conference held here last month, United States Transportation Secretary Ray LaHood provided an overview of various elements of the domestic transportation landscape from the White House's perspective.

LaHood cited the importance of freight transportation as well as logistics and supply chain professionals in "keeping the economy moving and keeping the country connected." And making sure these sectors are strong and healthy, said LaHood, is among President Obama's and the Department of Transportation's (DOT) highest priorities.

"That is why this Administration has provided a bold vision for the future of America's infrastructure," said LaHood. "And that is why the DOT is working to keep America safe through various federal regulations and fulfilling its obligations under NAFTA to keep trade flowing with our neighbors to the south and the President's commitment to doubling U.S. exports by 2015."

At a time when future long-term federal surface transportation has been in a state of flux and kept afloat due to a series of continuing resolutions since it expired on September 30, 2009, LaHood emphasized that shipping and logistics will comprise a "major part" of the Administration's plan for a robust six-year authorization bill.

"This legislation will include an upfront $50 billion investment to help employ nearly one in five construction workers that are still out of work at a time when many roads and bridges we use every day have fallen into disrepair," said LaHood. "It will include support for a national high speed rail network. Investments in tracks and trains don't just give passengers more travel options, they improve existing rail infrastructure for freight cars and ease congestion for trucks."

He also highlighted the fact that $48

"There are no Republican or Democratic roads or bridges. What we do in transportation benefits all Americans."

—Ray LaHood, U.S. Transportation Secretary

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billion was spent on infrastructure projects through the American Recovery and Reinvestment Act, with $28 billion going towards roads and bridges.

"President Obama's transportation bill will include support for a national infrastructure bank, a fund of money that does not currently exist, that would be set aside for big road and bridge projects and leverage private investment dollars and finance transportation innovation on a national and regional scope. That means more projects for freight transportation and logistics professionals to serve [shippers]," said LaHood.

While there is now a new political landscape following the 2010 mid-term elections with Republicans leading the House of Representatives, LaHood observed that in the past, transportation policy has been one of the legislative initiatives where members of both parties joined together for a common good.

He took it a step further, citing his six years as a member of the House Transportation and Infrastructure Committee, working on two transportation bills, which both passed in the House with more than 300 votes each time.

"There are no Republican or Democratic roads or bridges," he said. "What we do in transportation benefits all Americans. If past is prologue, then I believe that Congress in a bipartisan way can pass a bipartisan transportation bill this year. Our goal is to have a bill passed and signed by the August recess. We need a bill to put people to work and to fix our crumbling infrastructure. I am optimistic because of what has happened in past Congress' in a bipartisan way."

Not missing from LaHood's comments was insight regarding the U.S.-Mexico cross-border trucking program, which has been under a huge amount of scrutiny.

"This [program] is the law, and it is part of NAFTA," said LaHood. "We have to do it, and when it was suspended by Congress I met with more than 30 members of Congress to tell them we need to get this going again. Every member talked about safety, as did trucking groups and unions. Our proposal addresses a lot of the safety issues, and now a team of DOT safety officials are meeting with Mexican officials to flesh out a final proposal, because we have to under NAFTA."

LaHood said it is likely there will be a final agreement by mid-year for the cross-border trucking program, adding that there is pent-up demand from both Mexico and the U.S. to get a final plan in place.

—Jeff Berman, Group News Editor

ECONOMY

U.S. Chamber President: "Fragile" American economy "improving," but needs investment in infrastructure

WASHINGTON, D.C.—According to America's top business lobbyist, the U.S. economy is improving but the recovery is "fragile and uneven" and needs further investment in its transportation infrastructure,

Thomas J. Donohue, President and CEO of the U.S. Chamber of Commerce, in his annual "State of American Business Address," predicted 3.2 percent growth in Gross Domestic Product (GDP) this year. That figure, higher than what most mainstream economists are predicting, is based on Donohue's cautious optimism about overall economic conditions, including jobs and growth. He's predicting the economy could create as many as 2.5 million jobs this year.

While housing and construction remain "weak," Donohue said uncertainty among lenders, investors, and regulators "abounds" and threatens the economic recovery. Still, he is cautiously optimistic.

"We begin 2011 in a lot better shape than we found ourselves last year," Donohue said. "The state of American business is improving."

"Everybody is saying all the right things on infrastructure. Everybody wants it—nobody wants to pay for it. We are prepared to support a means to pay for it, and will continue to do so."

—Thomas J. Donohue, President, U.S. Chamber of Commerce

But he called the recovery "fragile and uneven," echoing what many transportation CEOs have been saying for the last year. That has created uncertainty, causing U.S. companies to be slow in hiring, causing a stubbornly high official unemployment rate of 9.3 percent, a number that threatens consumer spending. Donohue said there are as many as 25 million Americans who are unemployed, underemployed, "or have just given up looking" for full-time work.

"There are many unanswered questions that must be addressed before companies will start aggressively hiring," Donohue said, adding the U.S. Chamber's top priority this year is jobs.

One way to add jobs would be to increase spending on infrastructure, which the Chamber favors. The big question for this year is how to pay for it. Congress is balking at increasing the federal tax on fuel (18.4 cents on gasoline, 23.4 cents on diesel, unchanged since 1993). Donohue strongly hinted the Chamber is willing to support an increased fuel tax, echoing what many transportation CEOs also are saying.

"Everybody is saying all the right things on infrastructure," Donohue said. "Everybody wants it—nobody wants to pay for it. We are prepared to support a means to pay for it—and will continue to do so."

Donohue has been a frequent critic of the Obama administration, but there are signs of a thaw in the pair's relations. For starts, President Barack Obama is scheduled to give a major speech at the Chamber this month. Donohue openly cheered the appointment of former

Commerce Secretary William Daley ("A real pro," Donohue called him) as Obama's new chief of staff. Daley is widely considered pro-business, and as gatekeeper to the White House is viewed as a positive for the business community.

Donohue acknowledged a change in the Obama administration's view of business now that the White House is faced with the reality of dealing with a divided government with Republicans in charge of the House.

With a multi-year highway reauthorization bill as large as $500 billion one of the major priorities in Congress this year, Donohue disclosed the Chamber was about to embark on a new project to outline what the U.S. must do to create and secure a 21st century global supply chain and logistics system.

—John D. Schulz, Contributing Editor

RAIL

AAR says 2010 volumes show gains over 2009

WASHINGTON, D.C.—In 2010, carload and intermodal volume rebounded from a trying 2009, but volumes are still below pre-recession levels, according to data from the Association of American Railroads (AAR).

Total carload volume in 2010, at 14,820,128, was up 7.3 percent year-over-year over 2009's roughly 13.8 million carloads. Intermodal volume, at 11,282,336, trailers and containers was up 14.2 percent year-over-year compared to 2009's roughly 9.9 million trailers and containers.

AAR officials said that the annual carload and intermodal percentage gains in 2010 are the largest since AAR began its data series in 1998. But it cautioned that 2010 was the second lowest annual carload total on record next to 2009, and it said that the combined increase in total annual carloads and intermodal trailers and containers is equivalent to roughly 20,000 additional trains moving in 2010 compared to 2009.

"Like the economy in general, rail traffic in 2010 recovered some lost ground, but not nearly all of it," said AAR Senior Vice President John T. Gray. "That being said, monthly rail traffic increases were broad-based, supporting the idea that economic recovery likewise is broad-based."

A leading railroad analyst told *LM* that 2010 volumes were much stronger than the market expected throughout the course of the year.

"A recovery was expected, but all summer long, people were waiting for it to plummet," said Anthony Hatch, principal of ABH Consulting. "The low trough [for volumes] was May 2009, so starting after that we expected to see compression in the year-over-year numbers because we were increasingly going against more difficult comparisons. These still are not anywhere near the 2008 numbers, which is commonly used as a benchmark, but truly the 2006 numbers represent the last peak. We are still short of that, but it is a much stronger recovery at this point."

On top of this recovery were concerns about European currency, high unemployment, and the fallout of the Wall Street meltdown in the fourth quarter of 2008, said Hatch. And 2010 numbers are better than the numbers that came in during January 2010 and June 2010, with cautious optimism continuing to be the theme since the first quarter of 2009.

A concern for future railroad growth cited by Hatch is a lack of visibility by railroad customers, although there is also a loosening of purse strings by non-railroad companies, whereas railroads have generally been heavily active in capital expenditure-related investing for system, maintenance, and infrastructure improvements.

"We're beginning to get normal again," said Hatch. "When the railroads begin reporting earnings soon, I don't think you will see a lot of strong volume expectations. If anything, you will see railroads express frustration a little bit at a lack of visibility from customers. Since the fourth quarter of 2008, things have been in a 'wait and see' type of mode."

—Jeff Berman, Group News Editor

"Like the economy in general, rail traffic in 2010 recovered some lost ground, but not nearly all of it."

—John Gray, AAR

TRANSPORTATION INFRASTRUCTURE

Infrastructure a major theme in Obama's State of the Union Address

WASHINGTON—Not surprisingly, infrastructure was a major theme of President Barack Obama's State of the Union Address last month.

"To attract new businesses to our shores, we need the fastest, most reliable ways to move people, goods, and information—from high-speed rail to high-speed internet," said Obama. "Our infrastructure used to be the best, but our lead has slipped. South Korean homes now have greater internet access than we do. Countries in Europe and Russia invest more in their roads and railways than we do. China is building faster trains and newer airports. Meanwhile, when our own engineers graded our nation's infrastructure, they gave us a 'D.'"

Obama also stressed the fact that America needs to do a better job than it is doing now, when it comes to infrastructure, noting that America is the nation that built the transcontinental railroad, brought electricity to rural communities, and constructed the interstate highway system. What's more, he cited how these innovations led to increased business activity in the form of businesses that opened near a town's new train station or the new off-ramp.

"One of the things that is important as part of Obama's Department of Transportation is the need for a multi-modal system of transportation that serves our needs in the many ways we use it," said Leslie Blakey, executive director of the Coalition for America's Gateways and Trade Corridors. "Many other countries do have the edge on us right now multi-modally and are applying great systems perspectives to transportation in how they have gotten there."

Blakey said that America needs to do the same things with a freight system-oriented focus, building on the already remarkable job the nation does in moving goods. But she said that the system focus needs to hone in on building infrastructure, remove bottlenecks, get linkages built, and remove capacity constraints in a cleaner and greener way so that communities will want to have freight moving their regions along with the job creation infrastructure brings.

INVESTMENT NEEDED

And while infrastructure was a core part of Obama's message to the country, it was far from the first time that the President has rang the bell for increased and continued attention and investment into infrastructure.

This was evidenced in the American Recovery and Reinvestment Act, which Obama signed into law in February 2009, shortly after he was sworn in. Also known as the "Economic Stimulus," this measure allocated nearly $50 billion for infrastructure-related initiatives, including: $27.5

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billion for highway and bridge construction projects; $8.4 billion for mass transit, public transportation projects; $8 billion for high-speed rail projects; $1.3 billion for aviation projects; $4.6 billion for water infrastructure projects undertaken by the U.S. Army Corps of Engineers and $100 million for the Maritime Administration; and $1.5 billion for a discretionary program for large multi-modal and intermodal projects in the form of competitive grants to state and local governments for transportation investments—including highway, rail, transit, or port infrastructure.

Despite these allocations, many freight transportation and logistics stakeholders said these investments were not close to the true amount needed to get infrastructure development back on the right track.

Another infrastructure-focused effort Obama has cited several times during his tenure is an Infrastructure Bank, which he prominently mentioned at a labor rally in Milwaukee last September.

An infrastructure bank would increase funding that is severely needed for surface transportation projects by leveraging private and state and local capital to invest in projects critical to economic success, rather than the more traditional federal government approach of spending through earmarks and formula-based grants.

> **"We continue to be encouraged that President Obama supports investing in America's transportation infrastructure."**
> —John Horsley, AASHTO

This is not the first time the idea of an infrastructure bank has been floated. In fact, Obama's proposed 2011 budget includes $4 billion to create a national infrastructure bank to provide a source of funding for infrastructure needs, which was rejected by a House Appropriations Committee transportation panel subcommittee in July.

While Obama is keen on leveraging infrastructure to drive the American economy back into a higher gear, the future of long-term federal surface transportation funding has been in a state of flux and been kept afloat due to a series of continuing resolutions since it expired on September 30, 2009.

"We continue to be encouraged that President Obama supports investing in America's transportation infrastructure," said John Horsley, executive director of the American Association of State Highway and Transportation Officials (AASHTO). "The President understands that America needs a sustainable federal transportation program that helps state departments of transportation modernize and maintain our nation's transportation systems, and creates jobs during a critical moment in our nation's economic recovery."

—Jeff Berman, Group News Editor

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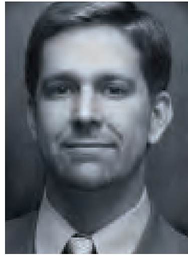

What refiner margins tell us about diesel markets past and present

OVER THE PAST TWO YEARS, THE PRICE for diesel fuel has risen from $2.00 per gallon to nearly $3.50 per gallon. This pencils out to an impressive 30 percent compound annual rate of growth. The last time diesel consumers were forced to endure such a high and sustained rate of inflation, pump prices reached $4.70 before temporarily collapsing along with the economy.

As we head into 2011, diesel prices are surging, and we need to ask what lessons from 2008 may carry over into the year ahead.

Diesel prices are surging, and we need to ask what lessons from 2008 may carry over into the year ahead.

Most explanations of the 2008 fuel price spike chalk up the rising price of diesel fuel to the rising price of oil, but refinery margins—or crack spreads—suggest the opposite. Diesel demand, in fact, pulled the price of oil up rather than the other way around. And entering 2011, crack spreads are inspiring flashes of *déjà vu*.

Crack spreads are calculated by subtracting the price for a barrel of crude oil from the price for an equal volume of gasoline, diesel, jet fuel, or any of the other oil-derived products. In the months between 1992 and 2004, diesel crack spreads ranged from $4 per barrel to $9 per barrel (9.5 cents to 21.4 cents per gallon). But, beginning in 2004, these once stable and predictable spreads tilted *way up*.

Between January 2006 and February 2008, diesel crack spreads bounced around in a wide band between $21 per barrel and $31 per barrel (50 cents to 74 cents per gallon). Then, during the heat of the oil price run, diesel crack spreads climbed all the way up to $39 per barrel, or nearly one dollar per gallon (92.8 cents).

To put this in context, if crack spreads had remained at $4 per barrel in 2008, the price for a gallon of diesel at the height of the price spike would have been $3.87—a savings of 83 cents per gallon. Even at $9 per barrel, the price at the pump would not have exceeded $4.00.

In examining historic diesel and gasoline crack spreads, another trend emerges. In the 152 months between January 1992 and August 2004, the diesel crack spread exceeded the gasoline crack spread on only eight occasions—roughly one out of every 20 months. Since then, however, the diesel crack spread has been greater than the gasoline crack spread roughly three out of every four months.

A detailed analysis of refiner margins shows that diesel has emerged as the most valuable refinery product, and they suggest that the price for oil was pulled up by global diesel demand. After all, if the prevailing wisdom that the rising price of *oil* drove up the price of *diesel* was true, what would explain refiner margins increasing at a compound annual rate of 40.6 percent between the summer of 2002 and the summer of 2008? And if the price of crude was the driver, what explains the sudden flip between gasoline dominance and diesel dominance in 2004?

At the risk of oversimplifying a complex story, the short explanation for both of these important crack spread phenomenon is that diesel supply was simply not able to keep pace with demand. Of course the details of *why* supply fell short are complicated, and they will be covered in the next column.

At this point, I'll say that when trying to make sense of an uncertain world, the wise look for repeating patterns in the data. Over the last year, diesel crack spreads increased by 76.7 percent and pump prices increased by 60 cents per gallon. Diesel crack spreads once again rose to dominate gasoline crack spreads and the gap has been widening.

And just in case anyone has slept through the last two years, the spot price for a barrel of West Texas Intermediate has raced back from the December 2008 low of $31 per barrel to over $90.

These trends suggest that diesel demand is once again tugging at the price of crude. If the economic recovery strengthens in 2011—and most economists believe it will—we can be assured that the demand for diesel will strengthen further. Barring the unforeseeable, prices will likely rise and become more volatile, just as they did the last time around. □

Derik Andreoli is a doctoral candidate at the University of Washington where the focus of his research is on the interactions between oil and the economy. He is also a faculty affiliate of the Harvard Business School through the Microeconomics of Competitiveness program. Derik welcomes questions via email at derik.andreoli@gmail.com.

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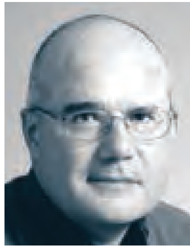

Beneath the covers of small shipment pricing

WE HAVE WITNESSED YET ANOTHER ROUND of above-the-rate-of-inflation price increases by the major parcel carriers. It seems having few choices among the players continues to encourage aggressiveness.

Well, I wish that the announced price increase was the whole story, but it's not. We need to look beneath the covers. Take a look at the rules published by UPS effective January 3, 2011, and you'll see that the denominator in the calculation for dimensional freight has been lowered, resulting in a higher dimensional weight and potentially a higher charge for your shipment.

In domestic shipments, the carrier uses either the actual weight or the dimensional weight to calculate your charge—always the greater of the two. The "factor" (denominator) for division of the cube (Weight x Height x Length/Factor) was reduced from 194 to 166. For exporters, the factor was reduced from 166 to 139. This reduction in the division factor increases the resulting sum and with it your calculated density rate. You say your sales rep failed to mention this?

This maneuver is yet another example of the disaggregation of our freight rates. Shippers and carriers have started to break it down and initiate discussions—or unilateral actions—on the many factors that make up a freight rate. By my count, the number of cost factors exceeds 25 in highway transportation.

As an example, in discussions with a CEO of a small shipper in the Northeast, he asked what he could offer the carriers. I took him through the many cost factors including geography and backhaul. He got it. As a generator of traffic out of New England, he understood why everyone wanted his volume, and he then initiated negotiations.

This brings up another related "undercover" action. This one actually supports the increased use of parcel over less-than-truckload (LTL). The six member Commodity Classification Standard Bureau (CCSB), which was formerly the National Classification Committee (NCC), has had another session where they collectively decided that the classification for shoes (in LTL rates) needs to go from Class 100 to Class 150—thus substantially increasing LTL base rates for manufacturers and retailers on this apparel necessity (See Docket 2010-1).

Other commodities are currently under review as well. This committee has miraculously escaped the demand by the Surface Transportation Board (STB) that carriers stop colluding together. According to the STB back in 2008: "…to the extent our decision facilitates the entry of competitors to NCC (National Classification Committee, now the Commodity Classification Standards Board, or CCSB) that might devise different ways of determining the transportation characteristics of commodities, we believe that it will increase the variety of pricing options available to both carriers and shippers."

So, two years later the only thing small package shippers have for competition to this LTL pricing oligarchy is the parcel carriers increasing market share using their own tariffs. Where is the competition in creative pricing for palletized freight?

Despite the substantial movement in rates this quarter, the fuel surcharges eased in slightly on January 3—temporarily for UPS parcels. This raises the LTL vs. Parcel modal question. With the option for lower minimums, lower fuel surcharge percentages, and not getting charged for the pallet, the hundred-weight programs of the parcel carriers look ever more attractive vs. minimum shipment LTL. Shippers need to do their homework before shipping out mixed pallets; and LTL carriers are, I hope, taking notes.

The parcel industry has grown substantially, and I predict it will continue to do so as we increase our Internet buying and reduce static inventories. I actually play the "I Love Logistics" song in my classroom at University of South Carolina-Beaufort. I want to encourage more players, particularly from the LTL industry, into the creative small shipment space. Shippers need to encourage this diversity with a look under the covers of their operations and of their carriers' rules documents.

Peter Moore is a program faculty member at the University of Tennessee Center for Executive Education, adjunct professor at The University of South Carolina-Beaufort, and vice president of Celerant Consulting, a supply chain advisory firm. Peter can be reached at peter.moore@celerantconsulting.com.

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EXCELLENCE

Pearson on

Can businesses really do well by doing good?

MOST COMPANIES RECOGNIZE THE NEED to act in an environmentally and socially responsible way. However, strong business cases for sustainability are also essential.

Evidence that such a case can be made was revealed by a recent research effort in which business performance and sustainability performance were compared across 275 companies in the *Fortune* Global 1,000. Accenture determined that the 50 companies that ranked highest in sustainability leadership (based on factors such as inclusion in commonly used sustainability indexes or adherence to voluntary sustainability agreements):

• Outperformed the bottom-performing 50 companies in three-year total return to shareholders by 16 percentage points and outperformed the middle group of 50 average sustainability peers by 6 percentage points.

• Exceeded their bottom- and middle-50 peers in five-year shareholder returns by 38 and 21 percentage points, respectively.

ASKING THE RIGHT QUESTIONS IS KEY TO ACHIEVING BUSINESS BENEFIT

The above findings don't imply that sustainability programs are a slam-dunk profit generator. In fact, the relationship between sustainability and profitability still involves more questions than answers. For example, businesses and financial analysts have not yet identified a standard way to value a company's sustainability investments because those returns may not be evident for years. Nor are there agreed upon methods for appraising products and services in areas such as clean energy, water conservation, and waste management.

Still, it is vital that companies investigate how sustainability initiatives can help them do more of the right thing, while potentially increasing profits. A good place to start is considering the questions that follow.

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

1. Is now the right time to invest in sustainability? On the B2B side, customer demands and regulatory mandates will only increase, with more companies seeking products and services that address sustainability needs such as carbon reduction and energy efficiency. Suppliers can build on this trend by tightly aligning their offerings with the growing sustainability needs of their corporate customers.

On the consumer side, the picture is murkier.

The reality is that capital will not rush to sustainability-focused companies until sustainable business practices are factored into valuations that use widely accepted metrics.

According to one surveyed executive: "The holy grail is being able to say that the impact on purchasing behavior of consumers for sustainable brands is clear. It is not."

This is a legitimate concern that will not fully abate until people are no longer asked to pay a premium for eco-friendly products and services. B2C companies must make the environmentally sound choice the obvious choice by rethinking product development and enacting customer education programs that demonstrate why sustainability is ethically—and fiscally—wise.

2. How do I develop sustainability talent? If there is a single talent development key, it is weaving sustainability into the fabric of day-to-day business operations. That means training managers to integrate sustainability into strategy and operations. It also means seeking and developing workers with requisite skills in science, technology, and engineering.

A logical first step for businesses might be to define the competencies needed to manage the challenges of sustainability. External education programs will also be vital: Businesses must make a case for sustainable skills development by working closely with policy makers

and education administrators.

3. How can I make long-term sustainability investments when the regulatory environment is unclear and evolving? The clamor for regulatory clarity regarding sustainability is so strong that 60 percent of the aforementioned survey respondents stated they would welcome clearer and more consistent government involvement. However, it's vital that businesses adopt a more collaborative way to work with governments—say, by assisting government working groups that research and promote environmental stewardship.

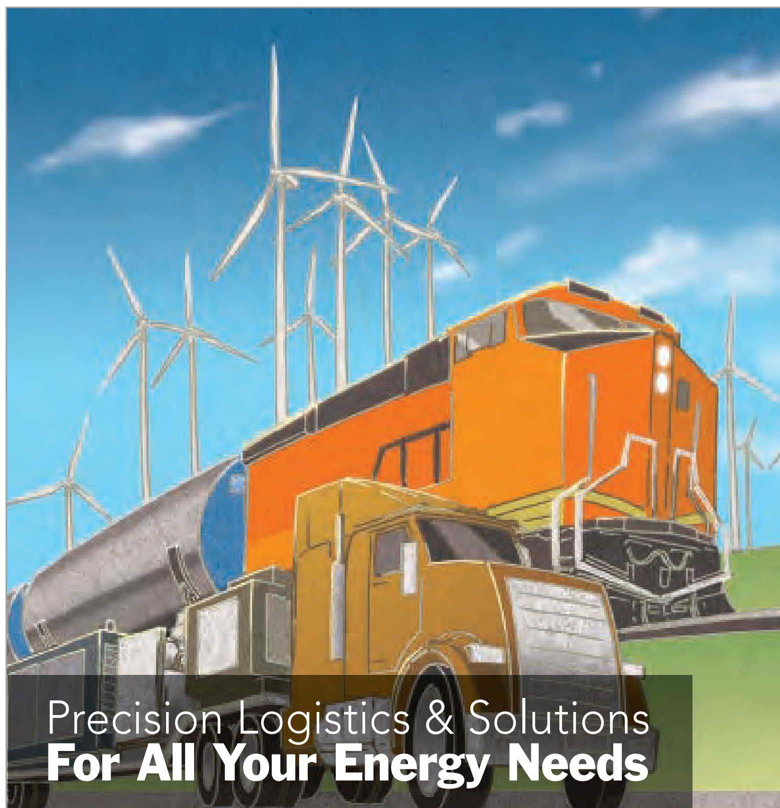
Public-private joint efforts can pay big dividends by driving a more evidence-based approach to sustainability and ensuring that government bodies are sensitive to the compliance issues faced by various industries.

4. Why should I embrace sustainability initiatives when the investor community is unlikely to reward me for it? Less than a quarter of surveyed CEOs identified investors as a principal voice in the sustainability conversation. This should not be surprising because investor decisions are driven almost exclusively by core business concerns rather than philanthropic zeal or social obligation.

The reality is that capital will not rush to sustainability-focused companies until sustainable business practices are factored into valuations that use widely accepted metrics. For the time being, the best way to combat investor reticence may be with education and interaction. Rather than waiting for the investor community to take more interest in sustainability investments, businesses can track and understand sustainability's impact themselves, and then communicate it in terms understood by investors.

INNOVATION MATTERS

Few doubt that the time will come when sustainable practices, products, and services are central to the concept of business effectiveness and corporate valuation. This inevitability could be the most compelling reason for companies to get on board now. History tells us that innovation is routinely rewarded and that the Johnny Come Lately is usually punished. And as survey results show, today's sustainability innovators are already emerging as the business community's enduring leaders. □



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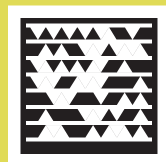

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Cross dock fuels

Lisa Akey, divisional vice president of distribution, Dots; Steve Haskell, vice president and lead implementation manager, SDI

growth at Dots

By banking on a combination of cross-docking and flow-through distribution to rapidly provide its customers with the latest fashions at affordable prices, the retailer has emerged as a force to be reckoned with in a highly competitive retail landscape.

BY **MAIDA NAPOLITANO**, CONTRIBUTING EDITOR

There's no wasting time at Dots. This Ohio-based fashion retailer uses a unique sourcing model to quickly interpret the latest fashion trends into everyday-wear apparel for women. And because what's hot today may not be hot tomorrow, the retailer's distribution team needs to immediately dispatch these latest looks from its suppliers to more than 400 stores within a 26-state radius—and do it in a flash.

How do they make this happen? Lisa Akey, Dots' divisional vice president of distribution and lead project manager of the company's new, state-of-the-art, 193,000 square-foot facility in Glenwillow, Ohio, shares her secret: "At the end of the day, we have almost nothing that stays in the building. And the rest that does doesn't stay long."

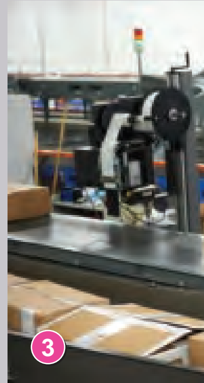
Once received, 20 percent of Dots' volume is automatically cross-docked to shipping—sometimes in as little as six minutes—via a network of conveyors and conveyor sortation systems. Within 24 hours, the other 70 percent has been diverted to two high-speed unit sorters that flow-through bulk merchandise to individual stores, while the remaining 10 percent of mostly basic, non-seasonal items, goes into storage for future replenishment.

By banking on a combination of cross-docking and flow-through distribution to rapidly provide its customers with the latest fashions at affordable prices, Dots has emerged as a solid force in a highly competitive retail landscape. Over the next few pages, we'll learn how Akey and the Dots logistics team have put this time-tested distribution method to work to keep the retailer one step ahead in a challenging and fickle market.

GROWING PAINS

Since the late 1980s, Dots has been distributing merchandise to its stores from a manual, more conventional facility, three miles from its current location. Although this older facility afforded the retailer many functional

Photographs by Roger Mastroianni



years, by 2005, much of the equipment was nearing the end of its life, putting limitations on operational growth and efficiency. In fact, it took this previous DC three to four days to get a store order out the door. Vendors communicated via faxes and e-mails, and there was no receiving sorter. All carton-labeling from receiving to shipping was manually applied.

When you boil it down, the company actually had been manually cross docking for years—just nowhere near as fast and as efficient as they're doing it now in the new DC. "Our previous system had no EDI and limited, outdated automation that restricted our throughput speed and capacity," recalls Akey. "There was a lot of double and triple handling just to get orders out the door."

With only one cross dock-capable door, many cross-dock orders would be unloaded, then staged, then put in a queue before actually getting processed—a clear departure from cross docking's "expedite immediately" philosophy.

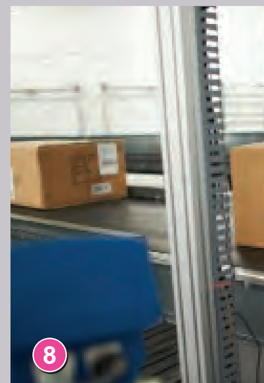
To distribute bulk apparel to the individual stores, Dots was using a 10-year-old put-to-light system that they had simply outgrown. "To support the volume demand, we had to go to extended shifts and work a lot of overtime," notes Akey.

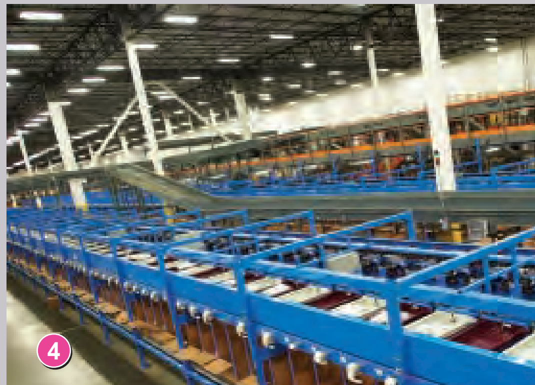
The clock was also ticking because the put-to-light system's capacity was limited to 500 stores. In 2005, they were already sitting at 350 stores and growing at a rate of 40 new stores per year. "These outdated systems and their inability to support future store growth is what ultimately pushed us to move forward with the process of designing a new distribution system," says Akey.

PLANNING AND EXECUTION

So in March 2006, Akey began the process of selecting a consulting firm that could help Dots design a new distribution system. After three months of extensive interviews, site visits, and reference checks, Dots decided to partner with California-based SDI Industries, a systems integrator and solutions provider that had extensive experience in the fashion retail industry. To aid in the analysis and establish best practices benchmarking, SDI brought in another California-based consultant, Dennis Green from Green & Associates.

For several months, the team collected data; audited current processes





from source, to DC, to store; and analyzed business projections before nailing down the final detailed system design in November 2006. "The process was slow and tedious," says Akey. "However, it was critical to define every nuance of the system, including all system specifications and software interfaces. Without this level of detail, a successful implementation could not have happened."

In May 2007, after a lengthy study of the present building and available alternative sites, Dots made the decision to build a completely new office and distribution center in Glenwillow. In February 2008, groundbreaking took place and SDI was selected to install and implement the entire distribution system.

In September 2008, with only the floor and the building shell in place, SDI began mechanical installation of the new distribution system. "The schedule was aggressive and followed closely behind the actual construction of our new building," says Akey.

By January 2009, SDI completed the installation of the equipment and immediately started hands-on training. "Because the unit sorters were perhaps the biggest change from the old system, we arranged for Dots to send their people to our other clients' sites to literally work on *their* unit sorters," says Steve Haskell, SDI's vice president and lead implementation manager. From January to April, SDI's software team was also onsite to train Dots personnel and offer systems support.

Because Dots did not really have a true WMS, "this became a more involved, all-encompassing warehouse control system (WCS) and software project on our end," adds Haskell. "The new WCS is totally tailored to match Dots' systems with almost no changes on their side." Transition to the new DC was complete by May 2009.

KEYS TO SUCCESS

According to Akey, installation of the automated equipment and software was only half the battle. The true key to a successful cross dock is the automated exchange of information through EDI between Dots and its many vendors even before the product physically arrives at the receiving door.

Dots' IT department had the unenviable task of getting its many vendors and suppliers onboard with EDI.

1. Workers unload cartons from trailer. 2. Inbound cartons travel to merge. 3. After merge, cross dock cartons enter print-and-apply stations, then are conveyed to shipping lanes. 4. After merge, cartons for store distribution get processed at the unit sorters. 5. At unit sorters, individual pieces travel on trays and get sorted to specific store cartons. 6. When store carton is full, worker closes carton. 7. Worker scans label on store carton then pushes carton to center takeaway conveyor. 8. Store carton travels to shipping lanes. 9. Cross dock and store cartons are diverted to one of eight shipping lanes.

"The EDI team has now transitioned a significant portion of our vendors to EDI, representing about 50 percent of the units processed with the goal of impacting 80 percent of units this year," reports Akey.

Dots also dedicated a substantial amount of resources on extensive training and building job aids for its internal allocation and merchant teams. "These job aids guide the vendors to identify the best way to pack a purchase order (PO) based on a category and allocation plan," says Akey. "Everything begins with the correct PO. If the PO is not written correctly or if the vendor ASN does not match, everything stops."

Opportunities to build cross-dock cartons are also identified at this point. Akey lists denim, fall sweaters, outerwear, footwear, and other bulky items that tend to quickly fill store cartons as naturals for cross docking.

"As we've done more analysis of each store and its sales history, we're replenishing only what the store actually needs. That may sometimes be less than a cross dock carton."

— Lisa Akey, divisional VP of distribution, Dots

HOW THE DOTS SYSTEM WORKS

The new operation is a blend of the most advanced conveyor and mechanical technology with the latest systems in information processing and control software. It is this combination of hardware and software that allows the retailer to achieve its goal of same-day distribution.

A vendor ASN is received either via EDI or e-mail 24 hours in advance of the physical merchandise arriving. Once allocations are received, cartons are unloaded onto one of six receiving conveyors. They flow easily through the system with either the vendor-applied License Plate Number (LPN) or, in the case of manual ASNs, LPNs that have been printed onsite and have been manually applied.

Cartons then flow quickly to the merge and shipping sorter where they can be diverted to one of 14 possible destinations: eight shipping lanes, one automated print-and-apply lane, two unit sorter induction lanes, one VAS lane, one new store/storage lane, and one no-read lane.

In the old system, Dots had been cross docking more—up to 45 percent of its unit volume. With the new unit sorters in place, however, it became a strategic decision to more precisely flow merchandise to stores based on specific needs up until the point of allocation while still creating an efficient, cost effective outbound carton.

"As we've done more analysis of each store and its sales history, we're replenishing only what that store actually needs," says Akey. "That may sometimes be less than a cross dock carton." As a result, there is now a smaller ratio of units being cross docked, from 45 percent in 2005 down to 20 percent in 2010, and more units (up to 80 percent) being processed through the unit sorter.

REAPING THE BENEFITS

This shift to automation has predictably increased Dots' capacity by leaps and bounds, allowing the retailer to now easily support up to 700 stores within their current footprint. Volume throughput from the two unit sorters almost triples that of the previous put-to-light system (5,500 vs. 1,900 units/hour). The new shipping sorter now processes up to 80 cartons per minute (cpm), more than three times the old sorter that operated at 25 cpm.

Productivity increased 20 percent versus 2008 statistics with a 30 percent increase planned for 2011. The company also achieved a 20 percent reduction in labor costs. "For the past few years, suppliers have been forced to pick-pack for retailers at supposedly no cost," notes Haskell. "Dots now has the flexibility to call on vendors that can't or won't do it, while keeping control on distribution costs and quality."

With minimal storage requirements and only 70,000 of the 145,000 square feet of DC space in active use, there's substantial room for expansion or special projects. "At some point, the ultimate plan is to position ourselves to go to e-commerce," says Akey. For now the retailer continues to work on supply chain efficiencies to maximize their system.

What's been critical to this project's success? "Choosing the right integrator," adds Akey. "One who is committed to you and who will provide you with great ideas and solutions." Second, she says, is "planning and more planning; training and more training."

Haskell agrees. "When you go automated and you tie the front door to the back door in six minutes, you better know how to run it." ☐

Maida Napolitano is a Contributing Editor to Logistics Management

Cross docking in the year 2011

Steve Haskell, VP, SDI Industries, Inc.

Q: What technological developments have enabled the adoption of cross docking today?

A: "The mechanics for automated cross docking have always been there. It's just become faster and cheaper. The technological development is more on the IT side than on the mechanical side. Information capabilities are so amazing now that you can communicate with suppliers easily, quickly, and commonly and that allows you to be able to tell them exactly what you want and when you want it."

Q: What is the key to successful cross docking?

A: "You have to have good relationships with your trading partners. First, you have to be able to tell them how to pack what you want. Second, the partner has to be able to document what they've done and get it to you, so that when you see the product at the door you know what to do with it."

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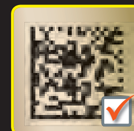
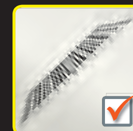

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PARCEL EXPRESS ROUNDTABLE

Service showdown

The parcel market has bounced back with an exuberance not seen in express and ground for years. Volumes are up, and for at least two carriers, margins are improving impressively. The only downside: a "duopoly" is here to stay.

BY **PATRICK BURNSON**, EXECUTIVE EDITOR

When we had three of the most knowledgeable analysts in the business speak to us last year about the state of the parcel express market, the recession had reached its nadir. Now with things looking up, we invited the same three market gurus back to share their observations and forecasts for 2011.

Once again we're joined by Rob Martinez, president and CEO of Shipware Systems Corp.; Jerry Hempstead, president of Hempstead Consulting; and David Ross, transportation and logistics director for Stifel Nicolaus equity research. Over the next few pages, Martinez, Hempstead, and Ross engage in a free-flowing exchange of views on price trends, service enhancements, and operational strategies being implemented in the parcel express sector.

Will shippers pay more and will their options be reduced? Yes, on both counts, our panelists agree.

Logistics Management (LM): *When we convened this panel last year we discussed that parcel express carriers had hit their lowest point in terms of revenue. How has the market adjusted over the course of 2010 and what kind of "health" does it find itself in heading into 2011?*

Rob Martinez: Certainly a lot has changed in a year. Following a dismal 2009, stock valuations at FedEx and UPS are approaching 2008 highs. Given the current sanguine environment, it's hard to remember that only 12 months ago FedEx froze bonuses and management salaries, rationalized networks, and suspended 401k contributions along with other measures to control costs. However, 2011 promises to be a banner year for shareholders, the result of many factors including an improving economy, disciplined yield management, lack of domestic competition, globalization, and other positive trends.

Jerry Hempstead: Rob is right on. Last year we heard from the publicly traded carriers that 2010 was the year to focus on yield improvement. Each quarter we witnessed progressive positive movements in both ground and air volumes in the marketplace with the appearance that the rate of growth was improving over time. Certainly not the market growth we witnessed in earlier years before the recession, but at least all carriers were showing year-over-year improvement in ground, air, and international.

Furthermore, they did so by not cannibalizing each other or by prostituting the price charged. If one considers that the number of parcels available for transport is a valid early warning indicator of the economy, then surely the recession ended in December of 2009.

David Ross: In fact, the parcel market, express, and ground, has shown a nice rebound in volumes in 2010, and carriers are now improving margins and returning to good health. The USPS is another story.

LM: *We understand it was a "rounding error" in terms of market share, but has the dust settled from the DHL pull out? Who is winning the customer battle there?*

Ross: Yes, the dust has settled, and the winners (to-date) have been the shippers as the larger former DHL customers were able to get very competitive pricing from FedEx and

Ryan Snook

UPS—some for multi-year deals. Others were forced to switch modes, as express was no longer affordable, and saved money. Of the three carriers, we do not think one bested the others by a wide margin.

Hempstead: True, but UPS had the most organized approach toward attracting and capturing former DHL customers. They were more responsive and FedEx was reactive. UPS had a well thought-out plan to attract the laid off DHL salespeople, and they went after and won the two largest DHL resellers.

Martinez: And with no true third player in the marketplace, the days of the "price wars" are over. FedEx and UPS have no interest at gaining market share at the cost of margin erosion. Pricing has rationalized and rates will continue to rise as evidenced by the 2011 General Rate Increases. Parcel pricing is up 6 percent to 10 percent at key weights and zones, and the changes to the dimensional rule will result in increases as high as 20 percent for some shippers.

LM: *Can you give us an update on the USPS front? How did they progress over the course of 2010? They unleashed a number of new services and nifty pricing options over the last 12 months.*

Martinez: Quite frankly, it was a quiet year for the USPS. We had expected a greater number of announced Negotiated Service Agreements (NSAs) resulting in modest market share erosion at the private carriers. Instead, news of the Postal Service's financial troubles dominated the headlines.

Ross: USPS is still far behind in competing with UPS and FedEx on parcels, and that gap widens every year as UPS and FedEx invest billions of dollars in technology and service enhancements, while the USPS does not. They still haven't negotiated many pricing deals with large shippers and are having a difficult time raising rates, even though they need it more than UPS or FedEx.

LM: *What can shippers expect to see out of the USPS heading into 2011?*

Martinez: Unfortunately, we see more financial woes for USPS. Given their fixed cost structure, how can they possibly compete for financial performance with the private carriers?

Ross: Besides a likely move to the five day mail week, we expect to see more emphasis on flat rate boxes and potentially increasing partnerships with UPS, FedEx, and other logistics and transportation providers. This "coopetition" should benefit all parties.

Hempstead: The announced annual general increase was very moderate when compared to the charges of commercial carriers. But one thing remains the same: The charges are "front-end loaded" with larger increases in the lower weights and the further distances.

LM: *What was the economy's effect on service levels during the downturn?*

Ross: We noticed no significant impact on service levels in the downturn. The quick upturn in express may have challenged service levels at first, but service is pretty good right now. Ground service continues to improve and eat into express market share.

Martinez: I agree with David. Our firm audits service performance for hundreds of volume shippers. To the carrier's credit, despite network rationalization in 2009, service levels were maintained.

Hempstead: I'd add that any visible deterioration in service levels would occur if shipments increased faster than the carriers could add capacity. For the most part, that did not happen.

LM: *Where do you see service levels heading in 2011?*

Martinez: We've talked a lot about rising costs and bad news for shippers. Well, the good news is that service levels—already at all-time highs—will continue to improve into 2011. The more profitable the business, the greater the ability to invest in people, infrastructure, technology, sorting facilities, aircraft, trucks and delivery vehicles, maintenance facilities, and contingency plans.

Hempstead: This is where I disagree, gentlemen. It will be hard to observe any noticeable change in the level of service offered by FedEx and UPS in 2011. If the economy improves, it will be moderate and the carriers can easily absorb incremental business without compromising service levels. But I believe it's more likely that the economy will continue to deteriorate in 2011 as the federal government attempts to deal with the deficit and state governments fight to stay liquid.

LM: *Taking all of this into consideration, where do you think rates are headed? More importantly, why do you see rates headed in that direction?*

Hempstead: In a word: Up. Carriers are going to impose pricing discipline, yield management, and rationality.

Martinez: Jerry is certainly correct. With the carriers emphasizing margin improvement and with few alternatives in the market, rates have and will continue to move upward. Just look at the 2011 General Rate Increase: Base rates are up 6 percent to 10 percent, and accessorial charges like Delivery Area Surcharges and Residential Surcharges are up 9 percent to 11 percent. And the new domestic dimensional divisor of 166 (139 for export) amounts to a 15 percent to 20 percent increase for many shippers. (See Moore on Pricing on page 26.)

Ross: Think of it this way: Carriers need to recoup lost margin from the great freight recession, with ground rising faster than air in order to offset some of the cannibalization of business. We believe a higher percentage

"Leverage the fact that FedEx and UPS are now multi-modal transportation providers. If you use these carriers exclusively for domestic parcel services, but have other transportation needs, your combined volumes may enhance your overall discounts."

—Rob Martinez, Shipware Systems Corp.

of the list rate increases should stick in 2011, as the competitive landscape has changed to benefit the carriers.

LM: *Because you're all in agreement on rates, what advice do you have for parcel shippers this year?*

Ross: Shippers should look at their freight with the goal of optimizing mode and service selection to mitigate rate pressure. Give regional parcel carriers a try, if it makes sense.

Martinez: We see several ways for shippers to keep costs in check. The first one that comes to mind is to leverage the fact that FedEx and UPS are now multi-modal transportation providers. If you use these carriers exclusively for domestic parcel services, but have other transportation needs—LTL, TL, international forwarding, ocean—your combined volumes may enhance your overall discounts.

Hempstead: I suggest shippers learn how to convert their parcel invoices into usable data using pivot tables or service bureaus. Then they should manage their data, each week, each month, and each quarter to spot trends and to be able to recognize and react to changes within their shipping profile. The power is in preparation and knowledge.

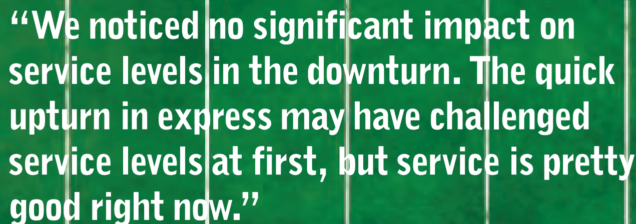
LM: *What do you think the parcel landscape will look like five years for now?*

Hempstead: It's no secret that the USPS is not covering its costs with the current pricing. Five years from now I believe that free Saturday delivery will be a thing of the past. I suspect they are going to be forced to deal with their ongoing losses with drastic headcount reductions, post office closures, and network rationalization. Meanwhile, global service will be improving as Fedex and UPS move more and more into the book of international traffic currently enjoyed by DHL and TNT.

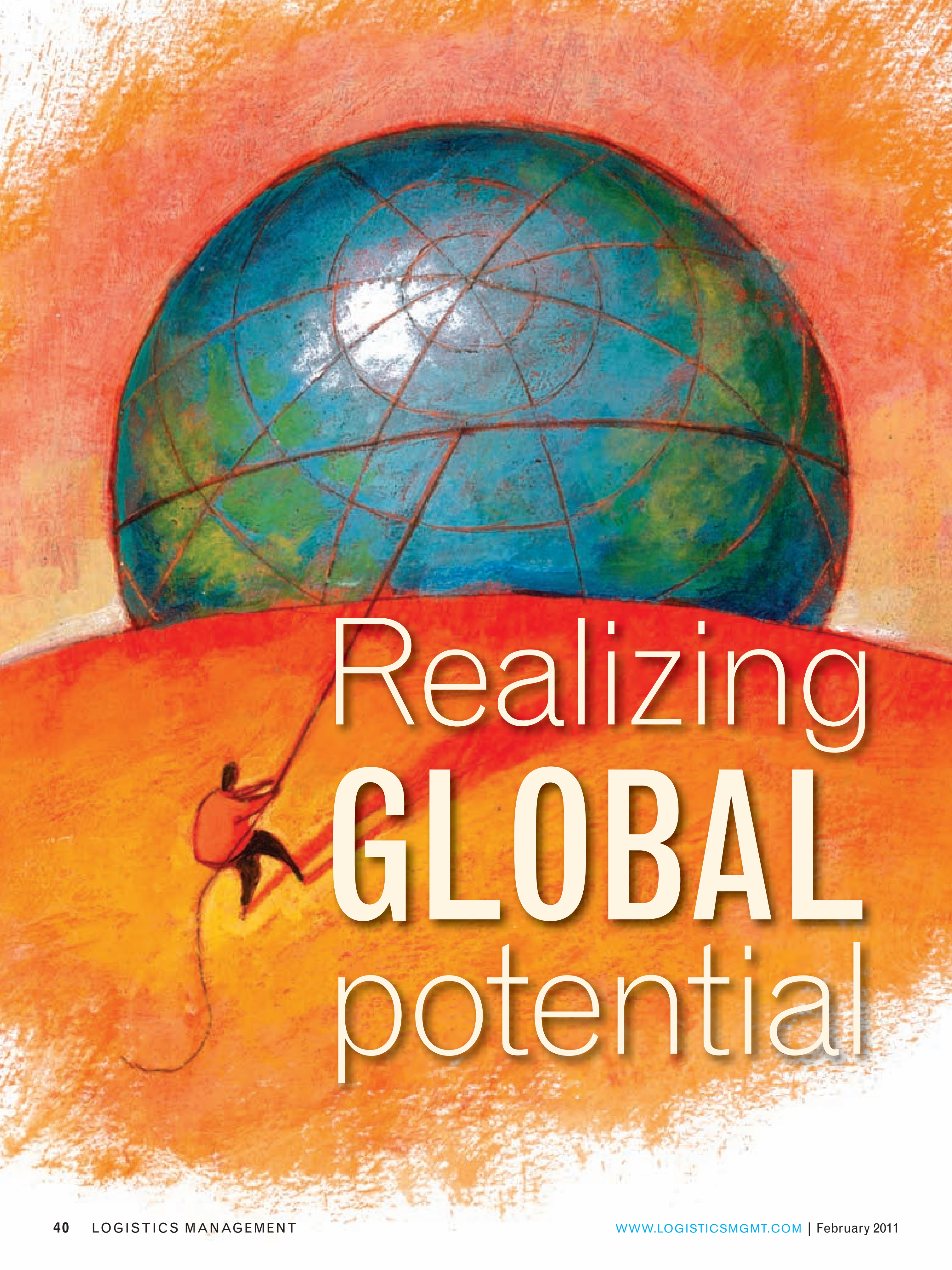
Martinez: Realistically, we don't foresee a significantly altered landscape in the future. With a huge head start, little competition and enormous financial requirement to develop a third player, we don't anticipate competition of any significance in the near term. Look to UPS and FedEx to only get larger, maintaining or even outpacing global economic growth. We expect both carriers to continue making strategic acquisitions to fill modal gaps in service portfolios.

Ross: We are all on the same page here. FedEx and UPS will remain the two main players in the U.S. parcel and express market. But the regional players may have gained another market share point or two. Finally, USPS will be downsized, although it may seek to partner with the duopoly players. ☐

—*Patrick Burnson is Executive Editor of* Logistics Management



"It's no secret that the USPS is not covering its costs with the current pricing. Five years from now I believe that free Saturday delivery will be a thing of the past."
—Jerry Hempstead, Hempstead Consulting


Realizing
GLOBAL
potential

As the global trade engine kicks back into gear, new demands for electronic notifications and the need for better, more efficient trade compliance are buoying the global trade management market. Are you prepared to harness your organization's global opportunities?

BY **BRIDGET MCCREA,** CONTRIBUTING EDITOR

Let's cut to the chase: Global trade is on a tear.

According to the World Trade Organization's (WTO) latest numbers, global trade grew by 13.5 percent in 2010 after falling 12.2 percent in 2009. It was the fastest-ever annual expansion in global commerce, reports the WTO—which originally forecasted a 10 percent increase—and an unexpected jump that comes on the heels of a long-awaited economic recovery.

Last year's global trade expansion also marked the fastest year-over-year growth ever recorded in a data series that dates back to 1950, according to the WTO, and is sure to bring even more shippers into the international market in 2011. Which begs the question: Will those companies be ready to handle the rigors and challenges of doing business overseas?

The quick answer is "no," particularly in regards to the IT necessary to navigate the increasingly complex maze of global trade. According to ARC Advisory Group's latest *Global Trade Management (GTM) Worldwide Outlook Study,* most small and midsize companies still rely on manual processes to manage their global trade operations, particularly their exports. Not only is this approach costly and inefficient, ARC reports, but it also makes it difficult or impossible for companies to remain in compliance with Customs regulations.

"The fact that companies need to stay on top of trade content, which is changing all the time, is a key driver of GTM sales," says Steve Banker, director of supply chain solutions at ARC Advisory Group. "The whole governance risk arena is getting more attention from C-level executives, with trade compliance being an [important] piece of that puzzle."

The need for better, more efficient trade compliance and new demands for electronic notifications (which must now be filed *before* goods are shipped to certain countries) are buoying the GTM market, which, like many other supply chain software sectors, saw sales flatten when the nation was in the throes of recession.

Expect that situation to turnaround in 2011, says Banker, who predicts an average growth rate of 9.4 percent annually for GTM software through 2014. "That's fairly strong growth in one of the fastest-growing segments of the software industry," says Banker.

Over the next few pages, we'll delve deeper into the GTM space to find out who's using the software, how it's being used, and what new developments will come to market this year. Then, we'll show you how one shipper is using GTM to work smarter, better, and faster in the global economy.

GAINING MOMENTUM

As the global economy emerges from recession and more companies do business with overseas partners and customers, the adoption rates for GTM are sure to rise. To manage, companies are using software programs that

can juggle the stringent requirements and regulatory issues associated with international trade.

CEOs are now waking up to that fact, says Belinda Griffin-Cryan, global supply chain executive program manager at Capgemini Consulting in Boston, and are integrating GTM into their overall operational strategies. "Historically, GTM was associated with a guy who sat in the corner somewhere, making sure the paperwork was in order," says Griffin-Cryan. "It's now become a strategic, C-level executive topic, with everyone trying to figure out global trade management's place in the overall organization."

Credit political moves like the new free trade agreements—including the one that the U.S. recently signed with South Korea—with elevating GTM's profile, says Griffin-Cryan. "Shippers are realizing the potential for large shifts in global trade flows," she adds, "and the need to better manage that aspect of their operations."

Disruptive events like the eruption of the Icelandic volcano in 2010, increased security concerns, and industrial actions taking place in Europe have also pushed more companies to turn to IT to handle their global operations, says Griffin-Cryan. "Shippers realize that we're in a dynamic period in global trade right now," she explains, "and see GTM as a way to capitalize on those opportunities while staying compliant, and on the right side of the regulatory requirements, without too much effort."

Expect that push to continue well into 2011, says William McNeill, senior research analyst for global trade management at Gartner, which estimated that 53 percent of shippers increased spending on GTM applications in 2010, with another 25 percent "holding spending levels steady" for the software.

"Only a small percentage said that they were going to decrease spending on GTM," says McNeill, who at press time was working on the 2011 study. "It's been consistent every year that we run this particular study with a group of 150 respondents who are pretty enthusiastic about GTM applications."

APPLICATIONS RUN THE GAMUT

Today's GTM applications offer a range of functionalities that are anything but stagnant. In fact, this supply chain software sector is constantly morphing to meet the needs of the global trade environment, which is both unpredictable and dynamic.

At a high level, ARC's Banker says GTM solutions automate a variety of trade activities that include performing restricted party screenings and embargo checks; assigning export and import licenses; creating and filing trade documents; and communicating electronically with Customs authorities.

GTM software can also facilitate product classification; manage Customs processes and transit procedures; facilitate restitution handling; and determine preferential trade eligibility. Such systems are offered up in both purchase-and-install and software-as-a-service (SaaS) or "cloud" formats, the latter of which is gaining traction among those shippers who want to get their GTMs up and running quickly, and with lower upfront investments and less stress on their internal IT teams.

"We're seeing a pretty high average adoption rate of cloud-based applications in the GTM space," says McNeill, who sees the geographically dispersed nature of the global supply chain as a key driver of this trend. Additionally, he says because global partners are accustomed to sharing trade information through electronic means like EDI, the move to an SaaS-based GTM is a natural

"The cloud-based GTM is the final evolution. In fact, the trend is so strong that we expect GTM to drive a 25 percent increase in SaaS supply chain management applications by 2013."

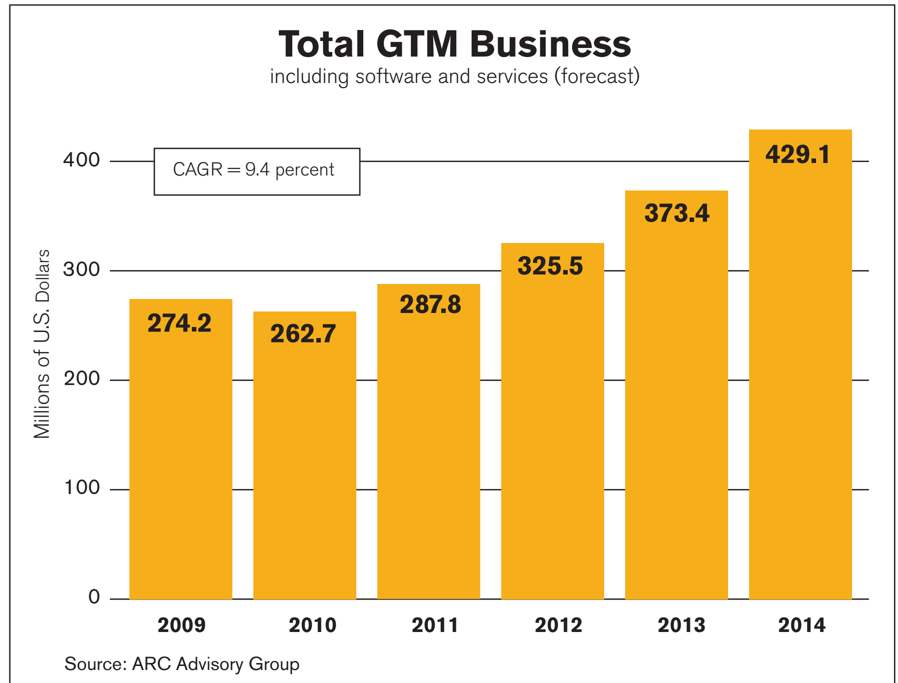
—William McNeill, senior research analyst for global trade management, Gartner

transition for them.

"The cloud-based GTM is the final evolution," says McNeill. "In fact, the trend is so strong that we expect GTM to drive a 25 percent increase in SaaS supply chain management applications by 2013." In terms of functionality, McNeill expects most applications to continue focusing on logistics, compliance, and finance—the latter of which is an area that's ripe for improvement.

"Finance is the untapped area of GTM right now, with more functionality being developed around the support of financial processes and how to link that directly to the supply chain," says McNeill. A company that wants to extend credit to an overseas customer, for example, would benefit from a GTM that allows for the examination of purchase orders and commercial invoices before such decisions are made. "With SaaS growing, those functions could become even easier for shippers to handle with their GTMs in the near future."

The popularity of cloud-based GTMs is also pushing more vendors into the space, says McNeill, who expects that trend to continue well into 2011. The business-to-business vendors that were already transmitting trade and Customs information to and from business partners, for example, are jumping into the fray thanks to SaaS' lower barriers to entry. "We've talked to about 12 different vendors who have told us that they're getting into the cloud-based supply chain management arena, which includes GTM," says McNeill. "I really think we're going to see that explode this year."



GTM IN ACTION

With GTM gaining traction and the global economy in growth mode, companies like Cadence Design Systems of San Jose, Calif., picked up on the need for a GTM early and for the last 10 years has relied on the system to ensure compliance and create a streamlined, global supply chain.

Specializing in Electronic Design Automation (EDA), or software tools that engineers use to design electronic systems such as printed circuit boards and integrated circuits, Cadence installed its Kewill Export Compliance System (ECS) and Reverse Denied Party Screening (RDPS) products.

Larry Disenhof, group director of export compliance and government relations for Cadence, says most of the firm's sales and software transfers are handled electronically through sales, research, and development offices in India, China, Japan, Europe and Israel. Disenhof says that the firm's GTM fulfills several functions, the most important of which is ensuring that no products are shipped to terrorist countries, or to companies or individuals that are listed as denied parties.

"My goal in life is to make sure we're not shipping to anyone who is on those lists, and to vet all orders against those lists and/or destinations," says Disenhof, whose GTM system serves as his eyes and ears when it comes to meeting that goal. Using the RDPS, for example, Disenhof stays on top of both new and existing customers that must be checked against a list of about 28,000 denied parties. The system syncs weekly with that government list, and notifies Disenhof of any possible conflicts.

On several occasions, for example, the RDPS has identified denied parties, thus allowing Disenhof to work with Cadence's order administrators to "shut them off, and warn the rest of the company that we can't do business with these customers."

Other times, the system alerts Disenhof to the need for a special export license, based on the customer's location. And once in a while, the GTM solution gets overzealous and generates false positives that need further investigation before any orders are cancelled. "There's a company on the denied party list called Technology Options India Private Ltd.," Disenhof explains, "so we get false positives whenever the system checks against commercial enterprises in India."

Disenhof, who remembers a time when such compliance was handled manually, says Cadence's GTM system adds a layer of protection that would be impossible to achieve without technology. "Export compliance is way too much of a burden to handle manually," says Disenhof. "Using a GTM makes the process quick, and requires just a simple entering of a customer name and destination to get an immediate response. We can then clear the 'no' response by getting more information about the customer, or by stopping the order and moving onto the next task. It's as easy as that." ☐

Bridget McCrea is a Contributing Editor to Logistics Management

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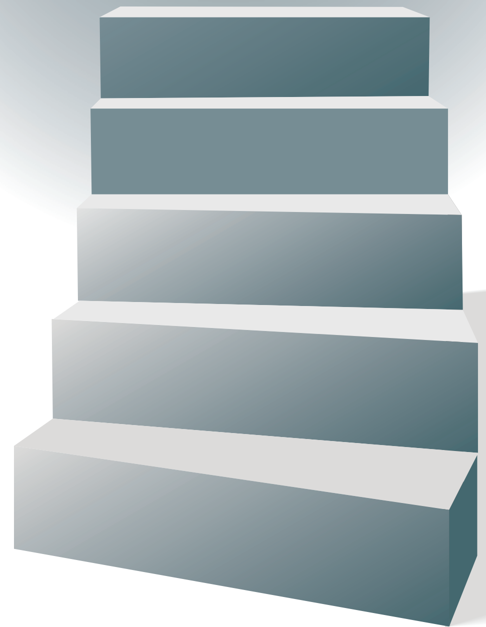
5 STEPS to improving your 3PL relationships



Members of the University of Tennessee's Center for Executive Education share their five steps and a series of tips to improve your outsourcing relationship right from the start.

BY **KATE VITASEK**, **PETE MOORE**, AND **BONNIE KEITH**

Back in October 2010, we eagerly opened our issues of *Logistics Management* (*LM*) to read the feature article about Armstrong World Industries and how they won the coveted 2010 NASSTRAC Shipper of the Year award after bringing their outsourced transportation back in house. As I read the case study I was actually disheartened to learn that the reason they brought the work back in house was due to a failed third-party logistics services provider (3PL) relationship.

Yes, there are some bad service providers out there. But my experience is that there are always two sides to every story. I'm sure that the service provider Armstrong parted ways with would have their own story to tell from which we could all learn a lesson or two.

However, this month's article is not about assigning blame, but pointing out practical steps, tips, and advice on how to improve a 3PL relationship and prevent one from becoming a failure. As experts and outsourcing coaches, members of the University of Tennessee's Center for Executive Education have created five steps to improve your outsourcing relationship from the start and help maintain that partnership once it gets rolling.

Over the next few pages, we'll explore each of these five steps and provide some of our favorite tips and advice to help you improve your 3PL relationships.

GETTING STARTED

Many of the problems companies experience stem from jumping into the contract prematurely without a solid understanding of the ramifications. With this in mind, our first tip is to slow down and take the steps to get outsourcing right before you start any work.

To do this properly, we recommend the five-step implementation approach that is profiled in the book *Vested Outsourcing: Five Rules That Will Transform Outsourcing*. The book goes into detail on each of the five crucial steps companies and service providers can take to create a successful 3PL relationship:

1. lay the foundation;
2. understand the business;
3. align interests;
4. establish the agreement or contract; and
5. manage performance.

When taken individually, these steps can offer shippers and service providers valuable insight into current operations. However, they tend to work best when implemented as a process for

outsourcing by allowing companies to implement a true collaborative 3PL relationship where the company outsourcing and the service provider have a vested interest in the other's success.

All too often, companies dust off an existing Statement of Work, rush to competitive bid, and give the service provider three months or less to transition the work—we've seen many that only allow for a four-week transition.

The great thing about the five-step framework is that it can be used during a request for proposal (RFP) or with an existing supplier to improve a relationship. Skipping steps usually results in a poorly conceived business outsourcing agreement or worse—a total disconnect in what the service provider is doing versus what the customer actually needs.

STEP 1: LAY THE FOUNDATION

The first thing a company should do before ever lifting a finger to outsource is to thoroughly understand if outsourcing is right for their operations. Management consultant Peter Drucker famously stated: "Do what you do best and outsource the rest."

The problem is that far too many companies jumped on to the outsourcing bandwagon without realizing if outsourcing was right for them.

The October *LM* case study on Armstrong raised a red flag for us when we read the statement: "Managing transportation was once a core competency of Armstrong." If managing transportation was a core competency, why did Armstrong outsource in the first place? This leads to our second tip: Don't outsource what is core. A company should only outsource when a service provider can do the work better, faster, or cheaper.

When Armstrong's 3PL relationship began failing early on they decided to move the work back in house. Because they brought the work back in house, we believe that Armstrong did not follow our second tip.

STEP 2: UNDERSTAND THE BUSINESS

Once a company has properly decided that outsourcing is the right choice and has done its homework associated with laying the foundation, it should take the time to establish a baseline that both benchmark the potential cost, service, or other opportunities.

Which leads us to our third tip: Understand your baseline and benchmarks before you outsource. In the Armstrong case study, one of the key decision makers said: "When we priced it out we were shocked to learn that we were less than half of what everyone else was charging."

Source: *Vested Outsourcing: FIve Rules that will Transform Outsourcing*

The article explains that the Armstrong team discovered this after they realized that their 3PL was failing. If Armstrong had done sound baseline and benchmarked cost and service they would have realized that they had an outstanding team that would not have benefited from outsourcing; in turn, they would have prevented themselves the pain of transitioning the work only to bring it back in house.

Armstrong also pointed out that "there was a failure by the 3PL to understand Armstrong's customer requirements" and "the biggest flaw was that our 3PL took a one-size-fits-all approach…We have specialized needs, and they did not appreciate the complexity of our business."

That sets up our fourth tip: Ensure potential suppliers understand the business. Our research and experience says that many companies are poor at stating their requirements. In fact, we often see service providers forced to "understand the business" based on a poorly written RFP and incomplete and inaccurate data.

One way to overcome this is for companies to open their doors and let service providers in to look around and explore the details of business. Let them ask for data—after all they'll need this to run your business effectively.

Once service providers have had a chance to thoroughly understand the business, the companies and the service providers should mutually agree on cost and service goals. We call these desired outcomes. If the service provider understands the baseline costs and service levels clearly then they can feel more comfortable about signing up to achieve your desired outcomes.

And this takes us out fifth tip: Develop clearly defined and measurable desired outcomes. You are outsourcing because you have gaps in where you are today and where you want to go (your desired outcomes). It is important to make sure the service providers understand those gaps and knows what success is (your desired outcomes). The Armstrong case study pointed out that the arrangement was not meeting Armstrong's established costs and service goals. As researchers and educators, we love to review RFPs and poke holes in how poorly requirements are often stated and how few clearly state their desired outcomes.

Our experience is that service providers do not sign up to take on a client's

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business with the intent to fail. As such, we strongly recommend that all companies take the time to work with service providers to ensure they understand the business and communicate the desired outcomes and gaps.

STEP 3: ALIGN INTERESTS

This step entails designing and documenting how a company and the service provider will work together to achieve the desired outcomes.

In basic terms, this is the part of the process where both companies should document, with as much precision as possible, how the outsourcing company and the service provider will work together to achieve the desired outcomes. It's the first pass at the future vision for how the two companies will communicate, collaborate, and innovate together to achieve the best results.

This brings us to our sixth tip: Identify risks before you transition the work. While it's not clear if the parties took the time to align interest, we have to assume that the parties—at least the service provider—likely did not do a proper risk assessment.

We hypothesize that if interests were aligned and a proper risk assessment was performed in the relationship, Armstrong would not have stated "it was evident pretty much from the start that it wasn't going to work." Obviously the parties got out of the gate on the wrong foot.

STEP 4: ESTABLISH THE AGREEMENT

Vested Outsourcing is based on reducing the total cost of ownership (TCO) versus simply the costs of the transactions performed by the service provider. As such, 3PL pricing models should include incentives that will be used to reward the outsource provider when they achieve the desired outcomes and TCO targets.

This brings us to our seventh tip: Establish a pricing model with incentives that encourage service providers to put skin in the game and invest in your business to close the gaps. As mentioned before, the Armstrong case study cited that "the arrangement was not meeting Armstrong's established costs and service goals." One approach they could have taken was what we call a "fee at risk" pricing model. This is when a service provider charges below market rates for service—but then is rewarded with incentives for delivering results against the desired outcomes. The more successful both parties are, the more profit the service provider makes, often two to three times market rates. A true win-win because the companies become vested in each other's success. The more successful the company is, the more success the service provider is.

STEP 5: MANAGE PERFORMANCE

This is a most crucial step around which the other steps revolve. Outsourcing is not a "throw it over the fence" business process. Neither should it be an exercise in micromanagement.

Our eighth tip helps to make this clear: Develop a governance structure based on insight versus oversight. A sound governance structure outlines how the business will be managed, not just the service provider. The service provider is in essence an extension of the firm with regards to the work they provide.

If you have picked a service provider you trust and it is aligned with your interests, we find it's often futile to micromanage the service provider. We often refer to this as a "junkyard dog" syndrome because the company outsources and then leaves in place employees who watch over and guard the old processes that have been in place for years. We hypothesize that this may have been the case in the Armstrong relationship, as the case study notes that they kept four people in place to manage the service provider's 10 employees.

Tips to better outsourcing decision making

Tip #1: Slow down and take the steps to get outsourcing right before you start any work.

Tip #2: Don't outsource what is core.

Tip #3: Understand your baseline and benchmarks before you outsource.

Tip #4: Ensure potential suppliers understand the business.

Tip # 5: Develop clearly defined and measurable desired outcomes.

Tip #6: Identify risks before you transition the work.

Tip #7: Establish a pricing model with incentives that encourage service providers to put skin in the game.

Tip #8: Develop a governance structure based on insight versus oversight.

COMING FULL CIRCLE

The lines of demarcation between doing outsourcing effectively and doing it ineffectively can get a little blurry. As such, instead of drawing a line in the sand we promote an integrated "full circle" approach that includes the five steps we have outlined above.

We believe that even though Armstrong World Industries was the winner of the Shipper of the Year award, we'd have to give both Armstrong and their service provider a failing grade on their ability to outsource effectively. Even if the service provider was 100 percent at fault, we believe an outsourcing failure is a failure. □

Kate Vitasek is a faculty member at the University of Tennessee's Center for Executive Education and is author of the popular book Vested Outsourcing: Five Rules that will Transform Outsourcing. *Pete Moore and Bonnie Keith are Program Faculty members for the University's Vested Outsourcing and Air Force Strategic Sourcing programs. Moore is also author of* LM's *"Moore On Pricing" column.*

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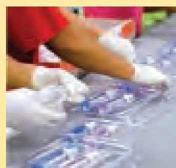

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Integrated Logistics Solutions, One Provider—*Nationwide*

The State of

By Bob Trebilcock, Contributing Editor

In August, sister magazine *Modern Materials Handling* featured Office Depot's new distribution center in Newville, Pa., on the cover. At the heart of the DC is an integrated piece-picking solution that combines mobile robots for high-density storage and conveyance; light-directed picking to ensure that the associate picks the right item; and a high-speed conveyor and sortation system to get the product to the packing zone.

While this level of automation has been common on high-speed assembly lines for years, it represents a new level of sophistication in distribution. Although the technology allows Office Depot to get a significant amount of throughput from a relatively small labor force, labor savings within the four walls of the DC wasn't the primary driver behind choosing a highly automated system.

Rather, the solution represents a broader supply chain play; it is an enabling technology that will allow Office Depot to completely retool the way inventory is replenished at the stores serviced by that DC. "We believe that the future belongs to the brave," Brent Beabout, Office Depot's vice president of global network strategy and transportation, told *Modern*. "We are in a commodity business and the supply chain is a differentiator. We plan to be on the front end of that."

That is a different way to view materials handling automation, particularly in distribution, where the historical approach to system justification was based on a reduction in head count. It got us to thinking: Is Office Depot unique? Or, is something changing in the way the user community looks at automation today? Does the future belong to the brave when it comes to automated materials handling?

Following is what 10 industry leaders had to say about the state of materials handling automation today.

Automation

Technology and innovation inside the four walls are changing the face of inventory management and transportation operations. Are you ready for the brave, new world?

THE LABOR EQUATION

There is a sense that something is happening in the market: Nearly everyone interviewed agreed that end users are taking a harder look at automation than in the past—even if that has not yet translated into more orders. "We may be too early in the cycle to be conclusive about what this interest will mean to the market," says Bruce Strahan, president and CEO of The Progress Group. "But I do believe that end users are looking back at the past three years and concluding that all of the layoffs and downsizing they went through was not fun. They want to be prepared for another downturn in demand without wondering every day whether they need 10 more people or 10 fewer based on fluctuations in volume."

What's more, as companies like Office Depot look to logistics as a profit center and an enabler of their broader corporate goals, "they are trying to use automation as a competitive advantage over their competitors within their industry," says Sean O'Farrell, business development manager for Witron.

Solution providers describe an evolving view of automation among the end user community, especially when it comes to automation in the DC. Traditionally, that has involved conveyor and sortation systems. That perception, however, is changing. "More intelligence is required in the distribution center today than in the past, when it was mostly about moving pallets out the door," contends Larry Strayhorn, president of TGW Systems. That complexity is driving interest in automatic guided vehicles (AGVs), robotics and automated storage solutions along with semi-automated solutions involving software, lights, and voice. "Every company is trying to drive costs out of its supply chain and the distribution center is the next link in the chain for optimization," Strayhorn says.

Reducing labor has always been the key metric for deciding whether to automate and that remains the case for many projects. However, with so many organizations already running bare-bone operations, new ways to think about labor and automation are emerging at some companies.

"Our customers are gaining confidence, they are sitting on cash, and they have access to cheap capital," says Jim Stollberg, vice president of global product management for Dematic. "If you look at the unemployment rate, they clearly are not hiring back people. Many are choosing to put that capital to work in automation."

Stollberg and others believe that many of those empty jobs may not come back even if the economy comes back. Having already eliminated labor, companies are looking at the costs associated with labor in a different way to justify automation. Those include the increasing cost of training new employees given the high turnover rate in many distribution centers and the inability to find enough labor in sparsely populated areas or in urban areas where there are alternatives to working in a DC. "If a new employee goes out to lunch and doesn't come back, which is happening, the cost of bringing a new employee up to speed is now part of the calculation," Stollberg says.

What's more, there's a growing acknowledgment that in distribution, lights out automation rarely makes sense, while there is an ROI in making the remaining workforce more productive. "One of the first automation projects I ever worked on years ago was in a manufacturing setting where we were focused on getting rid of as much labor as possible to the point that we probably over-automated," says The Progress Group's Strahan. "Today, there's a recognition you're still going to have people in the equation, so how do you enhance what your people do with automation."

That may be as simple as adding semi-automated solutions, like voice-directed or light-directed picking, to a manual process. "Voice and light technologies

haven't changed a lot over the years, but end users have realized they can make the associate on the floor faster and more accurate," Strahan says. "They're making decisions that affect the product the end customer receives as much as their internal ROI." Those types of technologies also address the diversity of today's workforce. "The fact is, you can put a headset on a Spanish-speaking person while the associate next to him is speaking English, and they can both get the job done," Strahan says. "That's pretty attractive."

That approach might also involve adding a mini-load automated storage and retrieval system (AS/RS) or carousel to deliver product to an ergonomically designed workstation, adds Tom Coyne, CEO of System Logistics. "The goal is not to eliminate the human component," Coyne explains. "It's to help the associate reach their potential by eliminating walking, eliminating reading, eliminating waiting, or any other extraneous process. The goal is to help the associate rather than eliminate the position."

In that same vein, companies are looking at manual processes and asking how they can eliminate the non-value added labor component. "They justify the project not by eliminating a position but by getting better performance out of their people," says Bruce Buscher, vice president of sales for the smart handling division of Jervis B. Webb. For example, Webb installed an AGV system to automatically remove bins of cardboard from workstations over a two-shift operation. "The cardboard had to be removed several times during each shift and each cycle took someone away from the workstation for about 15 minutes," says Busher. "We designed an AGV to handle special trash bins. When a bin is full, a line worker pushes a wireless call button and the AGV takes the trash out for them."

Last, but not least, companies are looking at automation to create a safer and more ergonomic work environment, especially in the context of an aging workforce. This is already an issue in Europe, where regulations are reducing the amount of weight workers can move at any one time, or during a shift. That is becoming a concern to some U.S. facilities. "One of our customers is adding automatic palletizers to their tote handling processes," says Jim McKnight, senior vice president for system sales and marketing for Intelligrated. "Because a tote can weight 50 to 60 pounds, there's a big ergonomic and safety factor to putting in a palletizer beyond reducing labor."

NEW RETURNS ON INVESTMENT

While labor remains the No. 1 reason for automation, several other variables are entering into the ROI justification.

One of those is flexibility, says Bill Casey, president and chief operating officer for SI Systems. "We have manufacturing customers that want the ability to pick a solution up and take their investment with them if they need to expand or move their operations," Casey says. That is leading to an emphasis on technologies like automatic guided vehicles and carts in manufacturing rather than traditional conveyor or overhead handling systems that were bolted to the floor. "If something changes, they can reprogram the AGV or cart, or if they move, they can load it onto the back of a truck and set it up at a new location," Casey says.

In fact, the market for AGVs has never been stronger, and not just among manufacturers. "There are whole new markets out there for AGV systems," says Mark Longacre, marketing manager for JBT Corp. and chair of the Automatic Guided Vehicle Systems group at the Material Handling Industry of America. "The cost of the units has come down, software has made them easier and more intuitive to use in the warehouse, and they are capable of handling different scenarios than they did in the past." Longacre points out that in addition to transporting pallets or product from one workstation to another, AGVs routinely put away and retrieve pallets from drive-through and push back rack systems and even load trucks in some distribution scenarios.

Materials handling automation has been common in manufacturing settings for years. Now, distributors are looking for ways to bring in targeted automation.

Flexible automation also allows end users to scale their solutions as needs change. "We have designed a fully automated robotic workstation with palletizing and stretch wrapping," says System Logistics' Coyne. "But we have a customer in Europe who implemented the system with manual palletizing to start, with the idea of installing a robot in 2011."

Similarly, TGW has developed a pallet-building solution that combines automation with manual palletizing. In this solution, a conveyor delivers a carton to a workstation at an ergonomic level. The operator, rather than a robot or software system, determines how best to build the pallet. Once a layer is built, the operator steps on a footswitch that lowers the load for the next layer; at the same time a stretch wrapper automatically wraps that layer. "The idea is to flush as much of the materials handling out of the system as makes sense, while still having the flexibility to easily build a pallet in a certain way," says Strayhorn.

TAKING A HOLISTIC VIEW

As is the case with Office Depot, companies that own their own stores and control their distribution and transportation processes are justifying automation by taking a holistic view of the supply chain, starting with what happens in the store. "In Europe, we are implementing systems in the retail

channel where the focus is on improving the materials handling in the distribution center to reduce the cost of operating in the store," says Strayhorn. In the past, companies have implemented systems that build aisle-ready pallets, meaning that all of the items on a pallet will be putaway in a specific aisle in a specific store. Sophisticated examples can design a pallet so that the top layer will be stored on one end of the shelf with the bottom layer on the other end of the shelf.

Strayhorn is now seeing systems that take that concept one step further, to loading containers—and not just pallets—with product in the order it will go on the shelf. "We've developed a system that picks women's T-shirts by size and places them in store-ready cartons in the order that they'll sit on the shelf in the women's department," he says. "The store associate simple opens up a tote, puts the cartons on the counter, and they're done."

Likewise, one of Witron's customers in Southern California justified the cost of a highly automated system on transportation savings. "The system builds a pallet in an aisle-ready fashion that ends up saving them about half a person per store over several hundred stores in their region," says O'Farrell. "But the automation is able to build a load that is taller than the load they can build manually. That's generating a 20 percent to 40 percent savings on transportation because they're getting more cube on the truck."

TARGETED AUTOMATION

The last trend might be called targeted automation: Embracing automation where it makes sense and embracing smart manual processes where they make sense. "One of our rules of automation is that an end user should take a long hard look at a lean approach to operating before they automate," says Strahan. "You don't automate more than you need or automate things that shouldn't be automated at all." Instead of spending $20 million to automate 100 percent of your storage, maybe you can spend $5 million to automate 20 percent of your storage and still get productivity gains from smart traditional processes.

CVS is a proponent of this approach, according to Intelligrated's McKnight. Over the years, CVS has built some of the most highly automated distribution centers in North America. Yet, Intelligrated is working on a project with CVS that involves a traditional wide-aisle, low-bay distribution system. The takeaway: "From working with automation, CVS has learned that it's important to find the right niche," says McKnight. "They will put in lights out automation where it makes sense, but they won't hesitate to put in a traditional solution enhanced by limited automation if that makes sense."

To that end, materials handling companies are developing flexible and scalable solutions that allow their customers to do just that type of targeted automation. One example is a mobile A-frame developed by SI Systems. "It's designed for the warehouse with anywhere from 16 to 64 fast-moving products and spikes in demand that create bottlenecks," says

Reducing labor remains the primary justification for automated materials handling, but some end users are finding their return on investment in transportation costs or more efficient store operations.

Looking for automation

MHIA's first automation survey finds a majority of end users are ready to invest in efficiency.

The idea that end users are taking a harder look at automation is backed up by the first in a series of surveys being conducted by the Integrated Systems and Controls Council of Material Handling Industry of America (MHIA). The surveys will look at end user attitudes and plans for automation. The first in the series, released in September at MHIA's fall meetings, found that nearly 90 percent of the manufacturing and warehousing/distribution professionals who responded planned to undertake process improvements during the next 12 months.

Of those, more than half (54 percent) plan to make a capital equipment investment in material handling and logistics equipment, systems, and software during the next 12 months. While racks, lift trucks, dock equipment, and totes and containers topped the list of planned expenditure, more than half voluntarily associated automation with the types of solutions that would improve the performance of their facilities. The reasons:

- Many said they want to be prepared for anticipated growth in 2011 due to new customer demands, new orders and new business.
- Respondents are concerned about their ability to recruit and retain a workforce with the skills required to get the job done.
- More significantly, a majority say they are from excellent in the metrics and operations that matter most to their companies, including on-time delivery, picking, shipping, and receiving.

Done right, automated materials handling can address each of those concerns.

—Bob Trebilcock

Casey. "You can move the A-frame into place, lock it down, and do order fulfillment of any fast-moving product that has stackability characteristics, like round bottles or square boxes. If your demand picks up, you can add another unit."

Likewise, Swisslog developed a high-density storage solution that uses bins for storage and robotic extractors that travel on a grid above the bins. "If a user needs to add more throughput, they can add more bins or more robots," says Markus Schmidt, senior vice president of Swisslog. "You can start small and easily expand."

THE NEXT FRONTIER

Over the last several years, tremendous achievements have been made in automated solutions for case picking and palletizing that use automated storage, conveyor and sortation systems, and robotic palletizing.

The next frontier is piece picking. It is, after all, the most labor intensive activity in a distribution center. It is also the process with the most opportunity for error. "Piece picking is what we're all trying to conquer," says TGW's Strayhorn. "There are solutions out there, but I don't know that any of us has solved the problem to the satisfaction of our end users."

The most common approach to automating piece picking is a goods-to-person solution that uses some type of automated storage and conveyor to deliver the products to be picked to an ergonomic workstation. There, lights, voice, or images on a display screen will automatically tell the associate how many items to pick and where to place them. That type of solution is most often used to aggregate a high number of slow-moving stock keeping units into space saving storage and eliminate walking on the part of the associate.

Witron has created a variation of that solution for operations that include case and piece picking in the same order. The systems uses an AS/RS to automatically replenish a pick face; pick-to-light to optimize piece picking; and software to marry the individual items picked to a carton or tote with full case picks for that order at the palletizer.

Other solution providers, such as Axium, have developed robotic piece picking solutions that completely automate the piece picking process in applications that include a consistent product.

Developments like these, combined with the sophistication of software for automation, could lead to a brighter future for materials handling automation. "I think the most important development is that the industry and end users are more in tune with creating a solution than selling equipment," says Strahan. "We're seeing more people who understand automation and applications than in the past." □

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2011 PORT SERVICES UPDATE:

Preparations under full sail

The Panama Canal expansion—expected to be complete by 2014—has seaports throughout the hemisphere readying for a new competitive landscape. For most, that means offering value-added services designed to move inbound goods faster than ever before. Here's where the preparations currently stand.

By Patrick Burnson, Executive Editor

When the American Association of Port Authorities (AAPA) holds its fourth annual "Shifting International Trade Routes Seminar" in Tampa, Fla. this month, more than a few speakers will be sounding the call for more infrastructure.

"As we look back on a difficult couple of years and ahead on how trade can spur economic recovery and future growth, we must begin developing and implementing policy and programs that will sustain and improve critical gateways for global trade," says Kurt Nagle, AAPA president and CEO. "By raising the priority of seaports and their connecting infrastructure in the federal agenda, America can modernize its seaports and intermodal connections to help make the nation more internationally competitive in an increasingly fierce global trading environment."

According to Nagle, this particular event will also focus on how trade patterns and infrastructure needs will be affected by the expansion of the Panama Canal that's currently underway. Among those slated to speak at the AAPA event is Dick Steinke, executive director of the Port of Long Beach. And if he is to make a case for more spending in Southern California, Steinke has the support of Joel

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Anderson, president and CEO of the International Warehouse Logistics Association.

"Competition for international trade is changing as the global recession caused shippers and receivers to reevaluate their supply chains," says Anderson. "For the ports of Los Angeles and Long Beach, this means restoring their reputation as freight friendly distribution points and mini-bridge centers."

Anderson adds that the Ports of Los Angeles and Long Beach need to act quickly before ports elsewhere use the current reputation of the southern California ports to shift the focus of Asian import trade from the West Coast to other ports in the U.S., Mexico, and Canada. "Although West Coast ports handled nearly 70 percent of the traffic coming from Asia until recently, the reanalysis away from Southern California ports will gain because of the widening of the Panama Canal," adds Anderson.

At the same time, say many analysts, a new parity is emerging among all North American ports—an unforeseen consequence of new investment in infrastructure and services.

Cross-cultural agreements

By all observation, the West Coast ports and their service stakeholders have been on the same page when it comes to enhancing services. At the Port of Oakland, for example, the focus has been on enhancing warehousing and logistics facilities and creating seamless cold chain services for U.S. companies exporting their perishable products to China.

"China is a significant and rapidly growing market for U.S. food and agriculture products, but the lack of cold chain services is inhibiting the export potential," says Omar Benjamin, the port's executive director. "Our initiatives will help make it easier, safer, and faster to export U.S. commodities from California and distribute them throughout China."

Late last year, Oakland and China Merchants Holdings International Company Limited (CMHI) entered into an agreement to strategically market and develop supply chain solutions for U.S. exports, particularly agricultural commodities and perishable products. CMHI is a leading public port operator in China with a strategic network of ports in China's coastal regions. "The form and scale of this partnership is a first for the U.S. port industry," says Benjamin.

Oakland's Pacific Rim neighbor in the far reaches of British Columbia has a similar strategic service agreement, signed by Canada's Prince Rupert Port Authority (PRPA) and Maher Terminals Holding Corp. recently.

Their "Level of Service Agreement" is designed to promote and better measure improvements in port performance and to enhance Prince Rupert's role as a preferred gateway on the West Coast for Central Canada and U.S. Midwest markets. It establishes performance targets, customer service measures, and productivity indicators to improve the flow of containers through the Prince Rupert gateway, including specific times for unloading and loading containers between vessels and rail cars, dwell times at the terminal, and Canadian National (CN) transit times to markets in Canada and the U.S.

For Claude Mongeau, CN president and chief executive officer, this represents another important supply chain collaboration with the principal stakeholders of a vital gateway for international trade.

"This agreement fully aligns the interests of CN, the PRPA, and Maher in achieving continuous performance improvement at the port; will permit transparency in data collection; and encourage balanced accountability of port stakeholders," he says.

Mongeau also recognized Maher Terminals as the first container terminal operator to engage in electronic data interchange with CN—a major step forward, allowing both parties to quickly capture and measure all events in the supply chain from container vessel discharge at port to arrival at final destination.

CN has signed the same agreements with the Port of Halifax and its two container terminal operators, Port Metro Vancouver and two of its container terminal operators, and the Port of Quebec and one of its terminal operators.

Raising bridges

On the other side of the continent, Halifax and The Port of New York/New Jersey have been investing in infrastructure and ramping up services. Canadian exporters welcomed the inauguration of the first vessel in CMA-CGM's expanded Black Pearl service last December.

This weekly and direct container service to ports in Panama, Ecuador, Peru, and Chile makes use of the South End Container Terminal, which is operated by Halterm Container Terminal Limited at the Port of Halifax. The Port of Halifax continues as CMA-CGM's Canadian port and intermodal Canadian gateway with the extension by CMA CGM of its Black Pearl service to the West Coast of South America.

Jean-Yves Duval, vice president of Caribbean and Latin America Lines for CMA-CGM Group, says that thanks to these new calls on the West Coast of South America, CMA-CGM will provide shippers with a direct transportation option to support the development of the growing markets between Canada and the West Coast of South America. This upgraded service will not only offer extended coverage, but also increase the numerous connections into the Caribbean, Central America, and the East Coast of South America.

At the same time, the Halifax Port Authority is working with the operators of the Halifax Grain Elevator to expand and develop an export market for "pulse" products from the region. "Pulse" products included edible seeds of legumes, such as beans, peas, chick-

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peas, and lentils that can be shipped around the world to emerging markets in container ships rather than by traditional bulk and/or breakbulk vessels.

"Before this container loading technology was installed here, these soybeans would have been transloaded from hundreds of miles away," says Duval.

While moving such massive mountains of beans is a significant port services achievement, the Port of New York/New Jersey may soon be using "levitation" to solve one of its most vexing problems. Following a comprehensive review of numerous alternatives, the Port Authority announced its solution to the Bayonne Bridge clearance issue—raising the bridge's roadbed to approximately 215 feet to increase the existing 151-foot navigational clearance restriction.

The modification and rehabilitation solution is designed to fix the bridge clearance issue, which will pose a navigational problem for larger ships trying to access the Port of New York/New Jersey after the Panama Canal expands.

According to the Port Authority, the "Raise the Roadway" project will involve reconstruction of the existing approaches, ramps, and main span roadway to a higher elevation that would allow the crossing to accommodate larger ships. The alternative, as compared with others reviewed to replace the bridge, is the most cost effective, and has the fewest environmental and neighborhood impacts.

Port Authority staff is currently drilling down on engineering issues for the proposed solution, including roadway design, lane configuration, and upgrades to the existing 10-foot-wide lanes, providing median dividers and shoulders, and adding additional safety and security measures. The Port Authority reports that it will also work with its regional partners to initiate and expedite the environmental regulatory process.

"The bridge is critical to the circle of mobility in the region," says Bayonne Mayor Mark Smith. "It has become an obstacle to safe navigation in the port so something had to be done. The Port Authority has selected the least disruptive, least expensive and quickest option."

But will it be quick enough to stem the flow of goods being drawn to the southern rivals of Jacksonville and Savannah?

"By raising the priority of seaports and their connecting infrastructure in the federal agenda, America can modernize its seaports and intermodal connections to help make the nation more internationally competitive in an increasingly fierce global trading environment."

—Kurt Nagle, AAPA

Southeast is booming

According to Jock O'Connell, Beacon Economics' international trade adviser, the nation's supply chains are being reconfigured due to a dynamic shift in workforce populations.

"Most U.S. multinationals are moving from the West and Southwest to the deep South and Gulf regions," he says. "And that means that the cargo flows are going to be directed to ports in the region with the best infrastructure and services."

Container throughput and volume figures released late last year by the Jacksonville Port Authority support this contention. According to Chris Kauffmann, who served as the port's interim executive director, the gateway moved a record number of containers in fiscal year 2010—the second consecutive year of container growth for the seaport—and marked a decade of consistent growth in earnings. "The momentum is building and we look for more positive news in the new fiscal year," he says.

And now that the Port of Jacksonville has former Federal Maritime Commissioner (FMC) A. Paul Anderson leading the team, a focus on services should also be key. Prior to serving on the FMC, Anderson served as a senior fellow of the Transportation and Infrastructure Committee at the U.S. House of Representatives.

The services foundation is firmly in place already, too. The Port Authority has 18 container cranes, on-dock refrigerated and freezer warehousing, and Foreign Trade Zone status. To help rush goods to market, shippers can take advantage of Jacksonville's location at the crossroads of three major railroads (CSX, Norfolk Southern and Florida East Coast Railway) and three interstate highways (I-95, I-10 and 1-75).

Georgia Ports Authority's (GPA) Executive Director Curtis Foltz is bullish on 2011, too, promoting Savannah's services and strategic advantages: "The Savannah Harbor Expansion Project will deepen the river from its current 42-foot depth to as much as 48 feet," he says, noting that the project is widely supported by Georgia's state leadership, which has appropriated $105 million of construction funds to date.

In preparation for the Panama Canal Expansion, the GPA has embarked on an aggressive expansion and modernization plan to more efficiently accommodate newer, larger vessels that are already calling on the U.S. East and Gulf Coasts. These vessels like the CMA CGM Figaro, which called on Savannah late last year, offer more capacity and lower cost per container compared to current Panamax vessels.

As the fastest growing and fourth largest container port in the nation, and strategically positioned with two Class I rail providers on a single terminal, the Port of Savannah is responsible for moving 8.3 percent of the U.S. containerized cargo volume and more than 18 percent of all East Coast container trade in 2010.

The Port of Savannah also boasts a uniquely balanced export-import ratio, and handled 12 percent of all U.S. containerized exports last year.

Gulf upstarts

Having proved its resilience in the face of Hurricane Katrina and the recent BP spill, the Port of New Orleans is

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ready to demonstrate it can compete with some of its regional neighbors for more cargo in the future.

"The port is in the process of investing more than $100 million into facilities," says port President and CEO Gary LaGrange. "Some $67 million is being spent on recovery projects either completed, under construction or in the design phase, and another $44 million is currently being spent on capital projects," he says.

Included in those numbers, says LaGrange, are two new container gantry cranes scheduled for delivery in early 2011, and expansion to the Napoleon Avenue Container Terminal, a new Riverfront Cold Storage Terminal, the complete refurbishment of the Julia Street Cruise Terminal, and a new modern dredge.

In step with the world economic climate and the weak dollar, New Orleans continues to see gains in exports, as well. Total exports rose 55 percent so far in 2010, with chemicals up 74.3 percent. Overall, breakbulk exports are up some 15.3 percent, while container exports rose 61 percent.

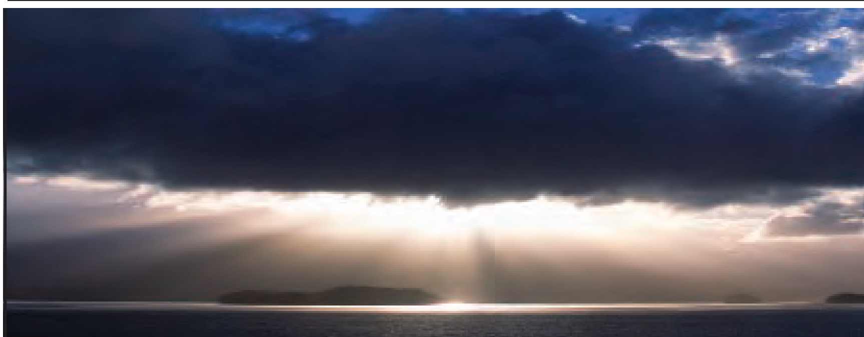
The small but impressive Port of Corpus Christi is also making a serious bid for more reefer business this year. "The port's business development team continues its pursuit of refrigerated cargo," says executive director John LaRue.

The port's cold storage facility is a 100,000-square-foot refrigerated warehouse, offering chilled and frozen space a short 60-foot distance from dockside with enclosed, temperature-controlled, rail and truck loading docks.

Strategically located on the western Gulf of Mexico, Corpus Christi is the sixth largest port in the U.S. in total tonnage. With a straight, 45-foot deep channel, the port provides quick access to the Gulf, the nation's inland waterway system, and delivers access to overland transportation with on-site and direct connections to three Class I railroads and interstate and state highways.

Up until recently, these advantages—as impressive as they sound—didn't really attract that much freight, however. What's changed? A surge in demand for U.S. cotton. Floods in Australia, ruined much of that nation's export crop just when consumers in Asia were clamoring for more apparel, and linen products. As a consequence, the commodity has become one this nation's newest success stories, demonstrating that if a port aligns itself with "a federal agenda" on exports, it can seize the moment for reinvention. ☐

–Patrick Burnson is Executive Editor of Logistics Management



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SAGE ADVICE

Superficiality comes at a price

By John A. Gentle, DLP

MANY OF US HAVE STRUGGLED TO CLEARLY ARTICULATE and/or adequately describe a problem to someone, let alone resolve a problem quickly, permanently, and proactively.

I often fail to understand my wife's computer challenges because she uses words to describe problems that have me looking in one area when the problem lies in another. Last week she complained that because I hooked up the new monitor, the mouse pointer wouldn't display on the screen. When I evaluated the problem, I found that the pointer had been on the screen the entire time; and after changing the style and color to solid black the pointer magically reappeared.

Several months ago I called a software support line for assistance. There was an immediate language problem. I struggled to hear and understand the words spoken by the technician. Regardless of how I described the challenge, the technician translated my needs differently and attempted to fix something that had nothing to do with the problem. After five frustrating minutes, I just told him thanks and hung up. The tech probably thought he had done a good job; but at that point I made the decision not to renew my subscription to an organization that could not provide a person who could give effective support.

And then there was a great experience that I had recently with a computer company whose service support approach is to have their techs gain direct access to your computer system; view the problem for understanding; discuss the various solutions; directly apply the agreed upon and appropriate correction; test for success; and then follow up.

On the day after the computer "fix," I received an e-mail from the company's "case mentor" for the agent who had worked on my case. He wanted me to know my tech was out of the office that day, but would return tomorrow and if I needed assistance during that time to let him know and he would have one of his teammates reach out to me at my convenience. Otherwise, my agent would touch base with me again early next week to make sure that everything was still working properly. If I had any questions, he added, please don't hesitate to ask. And then he thanked me for choosing his company.

Wow! His personal message and the superior support process is the reason I chose that company, and it should be the type of reason your carriers want to do business with you.

There's a big difference between companies barely doing the minimum and those that use superior support as a tool to attract and retain their carriers. Do you really care about the level and quality of the support for the work performed by or on behalf of your team?

Assuming that you do, and that your vision of quality is strong, how do you test to ensure that your vision of quality is being practiced? There are several ways:

Seek out the nagging problems: Many of us only listen for the positive things in conversations unless it has a big bearing on cost, capacity, or service. You have to listen carefully for the little and annoying things. Like paper cuts, splinters, and hangnails, small problems are painful. My experience is twofold. Vendors that need your business don't like to complain about the little things because they don't want to appear bothersome and would rather simply absorb the pain. However, bigger players—not dependent on your company—just get fed up and minimize their pain by quietly reducing activity with you without complaints.

The superior support process is the reason I chose that company, and it should be the type of reason your carriers want to do business with you.

Listen in on the calls: It's best to listen in on actual calls from your carriers' offices to your company/provider and hear first-hand about the challenges as well as how the carrier is being treated. Will you be proud of the process and quality of the response and the treatment being afforded to your partner?

Fix and test and score the process: You must care about even the smallest details as well as your major KPIs. Do your 3PLs and carriers say that you really care? Or have you been exposed as "superficial and soon-to-be-vulnerable" as capacity tightens?

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

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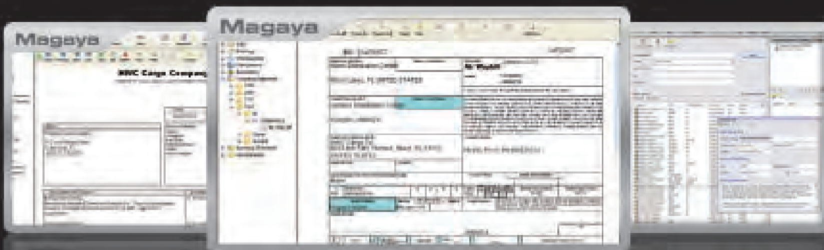

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