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APRIL 2011

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LM EXCLUSIVE: 27th ANNUAL SALARY SURVEY

Ready to move up

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SPECIAL SUPPLEMENT: CSA 2010 FIELD GUIDE
Untangling the beast

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Management UPDATE

AN EXECUTIVE SUMMARY OF INDUSTRY NEWS

■ **Deployments disrupted to Japan.** Spokesmen for the International Maritime Organization (IMO) told *LM* that container lines were making daily adjustments to their deployment schedules to and from Japan. "We are not aware of any ships being advised to cease service," said the London-based spokesman, who added that the IMO is providing daily updates. In Copenhagen, meanwhile, spokesmen for Maersk were saying that operations "are running as normal with the exception of certain ports like Sendai, Onahama, and Hachinohe, which suffered severe damage." Spokesmen added, however, that this is subject to change: "Depending on how the situation develops, it may be decided to deviate vessels." Similarly, NOL in Singapore was telling its shippers that they were declining bookings to the same locations in Japan because operational facilities are inaccessible or unavailable due to earthquake or tsunami damage.

■ **IATA initiative.** With the closing of three Japanese ports—Sendai, Hitachinaka and Kashima—some U.S. manufacturers and retailers may be opting for air cargo alternatives to meet shipping and sourcing deadlines. But given the high cost of fuel and institutional complications at Japan's airports, that strategy will not work for long. According to the International Air Transport Association, Tokyo's airports remain 75 percent more expensive than Seoul (Incheon) and more than double the cost of Singapore (Changi). IATA urged Japan to develop a more effective airport policy in Tokyo, a level playing field with more open markets for airlines to compete. Prior to last month's earthquake, IATA said that Japanese international air cargo was expected to grow from 2.7 million tons (2009) to 4.4 million tons (2014). This 10.2 percent average annual growth exceeds the world average of 8.2 percent.

■ **FedEx reports a 3 percent decline in net income.** Despite rising oil prices, the fallout from the earthquake in Japan, and slow economic growth, fiscal third quarter performance for FedEx was relatively strong. Net income for the quarter—at $231 million—was down 3 percent from last year's $239 million, but quarterly revenue at $9.66 billion was up 11 percent from last year's $8 billion. Operating income—at $393 million—was down 6 percent year-over-year. FedEx said that excluding costs related to its late January integration of FedEx Freight and FedEx National LTL operations, earnings would have been higher. "Strong demand for our services drove revenue higher as volumes increased across our businesses," said FedEx Chairman, President, and CEO Frederick W. Smith "Yields increased as we continued to focus sharply on managing FedEx for profitable growth. Particularly efficient was the performance of FedEx Ground, with faster delivery times and other innovative solutions continuing to win customers," added Smith.

■ **UPS appoints a "green" chief.** UPS has named Scott Wicker as its first chief sustainability officer. Wicker previously served as UPS's vice president of corporate plant engineering and has been with the company for 34 years, first joining as a package loader before serving in various engineering positions. Wicker has been very involved in sustainability-related initiatives at UPS prior to this appointment, leading an engineering group that manages global sustainability data for reporting, as well as also leading internal environmental initiatives. Wicker told *LM* in an exclusive interview that his new role is a part of the company's maturing process as an organization as it moves forward with sustainability activities and initiatives.

■ **Cat sale?** Caterpillar Inc. announced that it's examining a range of strategic options for its third party logistics business, which is part of its wholly owned subsidiary Caterpillar Logistics Services, Inc. (Cat Logistics). The company believes that the third party logistics business is a unique and attractive asset that has excellent growth potential. "Over the last 24 years, the company has leveraged its traditional competitive advantage in the Caterpillar parts distribution business to create a global leader in third party logistics," said Caterpillar group president Stu Levenick. Caterpillar manufacturing logistics

Management UPDATE

continued

and transportation operations and Caterpillar brand parts distribution are not part of the third party business and are not part of this strategic review.

■ **Resurgent rail.** More than 20 railroad and shipping experts are slated to predict their industry trends at the 2011 North American Rail Shippers (NARS) annual conference in San Francisco next month. NARS President Allan Roach said that there's been a resurgence in rail shipping, particularly domestic intermodal, as a result of driver shortages, shorter hours-of-service, and increasing fuel prices. Meanwhile, short-line railroads are looking at shortened intermodal hauls of less than 500 miles. Another hot agenda topic is how railroads are tapping into the Bakken oil boom: "It's growing by leaps and bounds due to insufficient pipeline capacity and the flexibility that the rail network provides to crude oil shippers," said Roach.

■ **U.S. surface trade up big in 2010.** Trade using surface transportation between the United States and its North American Free Trade Agreement (NAFTA) partners Canada and Mexico was up 24.3 percent in 2010 compared to 2009, increasing to $791 billion, according to data released by the United States Department of Transportation's Bureau of Transportation Statistics (BTS). BTS officials said that the 24.3 percent annual increase is the largest annual increase for the time it has been collecting this data. But despite the increase, the value of North American surface trade in 2010 is below 2007 and 2008 levels, according to the BTS. The bureau added that total North American surface transportation exports in 2010 were up 25.1 percent over 2009, with exports up 23.3 percent annually.

■ **GPA growth.** The Georgia Port Authority (GPA) announced that it experienced 16.3 percent container volume growth in February 2011, with additional impressive gains in automobiles, machinery, and wood pulp. "Our ports are critical to Georgia's continued economic recovery," said Governor Nathan Deal. "Additional cargo creates jobs in many sectors including farming, manufacturing, transportation, and logistics. Propelling the flow of cargo will spur a thriving business climate and new opportunities for Georgia and the entire Southeast." Curtis Foltz, GPA's executive director, reported to the Board of Directors last month that a total of 235,665 twenty-foot equivalent units (TEUs) crossed Georgia's docks in February alone. Fiscal-year-to-date volume is up 13.6 percent for TEUs compared with the same time period the previous fiscal year.

■ **Volume growth continues at the Ports of LA/LB.** Volume gains continued on a steady pace at the Port of Los Angeles (POLA) and the Port of Long Beach (POLB) in February. POLB imports, which are primarily comprised of consumer goods, came in at 233,660 TEU in February for a 12.4 percent year-over-year increase, but were down compared to January's 242,445. POLB Exports, which are primarily comprised of raw materials, were down 1 percent to 121,929 TEU, down from January's 127,546 TEU. Total POLB shipments—at 458,336 TEU—were up 10.9 percent compared to a year ago. POLA imports—at 275,887 TEU—were up 3.19 percent from last year, and exports—at 150,357 TEU—were up 1.64 percent. Total POLA shipments for February—at 554,913 TEU—were up 5.61 percent annually and were behind January's 660,517 TEU.

■ **3PLs anonymous.** As a natural extension of its third-party logistics market research work, Armstrong & Associates (A&A) launched 3PLAdvisor.com to provide 3PL customers with a platform for sharing customer relationship experiences about their third-party logistics providers (3PLs). In-turn, 3PLs can receive feedback from customers at no cost. Customers can anonymously rate their current 3PLs and send request for information (RFI) forms to 3PLs. According to A&A's President Evan Armstrong: "This type of no-cost information sharing forum is one of the greatest benefits we see from social networking. Unlike customer satisfaction surveys, 3PL Advisor takes an ongoing approach versus a one-time snapshot." □

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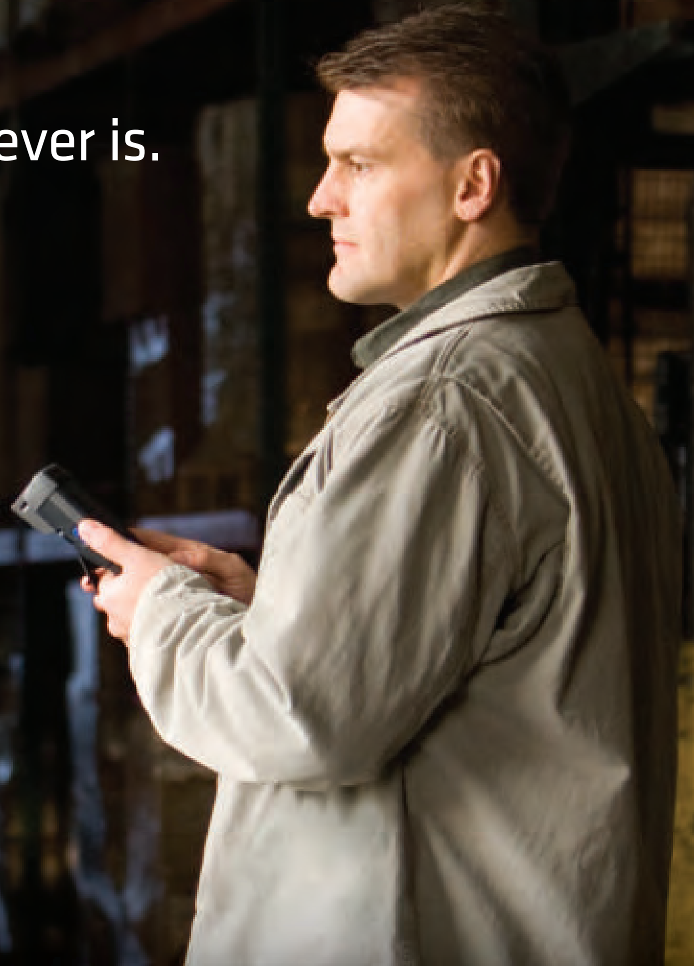

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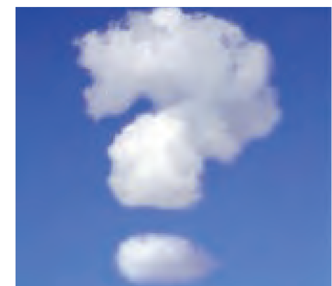

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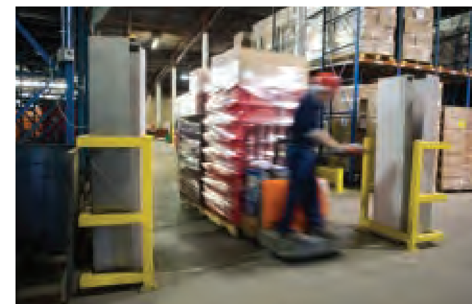

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Logistics Management® (ISSN 1540-3890) is published monthly by Peerless Media, LLC, a Division of EH Publishing, Inc., 111 Speen St, Ste 200, Framingham, MA 01701. Annual subscription rates for non-qualified subscribers: USA $119, Canada $159, Other International $249. Single copies are available for $20.00. Send all subscription inquiries to Logistics Management, 111 Speen Street, Suite 200, Framingham, MA 01701 USA. Periodicals postage paid at Framingham, MA and additional mailing offices. **POSTMASTER: Send address changes to: Logistics Management, PO Box 1496 Framingham MA 01701-1496.** Reproduction of this magazine in whole or part without written permission of the publisher is prohibited. All rights reserved. ©2011 Peerless Media, LLC.

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SPECIAL REPORT

Top 50 trucking companies: Emerging from the shadows

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SPECIAL SUPPLEMENT

2010 CSA field guide: Untangling the beast

Our intrepid Transportation Editor offers shippers, carriers, and private-fleet operators the ultimate field guide for understanding and managing the complexities surrounding the implementation of CSA 2010, the biggest regulatory change to hit trucking since deregulation.

SALARY SURVEY WEBCAST
April 21st at 2 pm ET
logisticsmgmt.com/salary11

27th Annual Salary Survey: Ready to move up

In line with what appears to be a sustained economic recovery, our *27th Annual Salary Survey* found that there was a much-anticipated uptick in salaries over the course of the past year.

However, when we dig deeper into the data we find that younger hires are expecting more from their career than just a job, while more veteran logistics professionals are polishing up their resumes, hoping that their recession-era experience will propel them a few rungs up the corporate ladder.

In this exclusive *Logistics Management* webcast, Group Editorial Director Michael Levans, Executive Editor Patrick Burnson, and three prominent supply chain career management experts will put context around this year's Salary Survey results and offer their insight into how logistics professionals can use their new experience to take the next step in their careers.

Q1 2011

WEBCAST: NOW ON DEMAND

Logistics Management Q1/2011 News and Top Stories Roundup

Hear Group Editorial Director Michael Levans, Group News Editor Jeff Berman, Oil & Fuel columnist Derik Andreoli, and transportation analyst Noel Perry, in this exclusive Webcast as they put all the top news stories of the first quarter of 2011 into perspective for the readers of *Logistics Management.*

For free registration, go to logisticsmgmt.com/newsroundupQ1_2011

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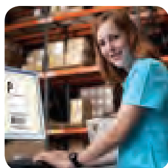

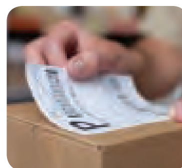

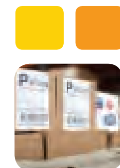

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CSA 2010: Untangling the beast

ON MY FIRST DAY in the newsroom at *The Pittsburgh Press*, the chief editor looked me firmly in the eye and said: "When you don't understand something surround yourself with people who do understand and don't be afraid to ask them questions."

And while that was the only guidance he ever gave me, it was by far the single, most important piece of advice I ever received in terms of how to cover markets, no matter how complex or mysterious. In fact, his old voice popped to mind about a month ago when Jeff Berman, John Schulz, and I were discussing the unfolding ramifications of CSA 2010 on the logistics and transportation market.

We had just learned that over 50,000 warning letters had gone out to carriers who scored poorly in at least one or more of CSA's seven "BASICs" categories—the criteria FMCSA is using to score carriers under the program. So, what did this mean? What exactly are the BASICs? Would these letters be the first step to putting questionable carriers out of business? What actions should shippers take to check up on their existing list of carriers?

In fact, when I picked up the phone and started asking those questions to carriers and shippers I heard a lot of concern mixed with a healthy dose of conjecture. How could the biggest regulatory change since trucking was deregulated 31 years ago not be fully understood by those it would affect the most?

While Berman and Schulz have done a terrific job on logisticsmgmt.com of covering the progress of the CSA 2010 roll out and the projected impact to capacity, we realized that we'd yet to produce a comprehensive explanation of exactly why CSA 2010 exists, how carriers would be measured, and what the program could do to an already tenuous capacity situation. We were covering the timing of the implementation, assuming that carriers and shippers understood the fundamental details.

Enter our *CSA 2010 Field Guide*, a special eight-page supplement that we've titled *"Untangling the beast."* The assignment John Schulz received could not have been more straightforward: Explain what CSA 2010 is, how it's being implemented, how it's being enforced, how it will affect carrier and private fleet operations, and offer advice on how carriers can better manage the program as well as how shippers can keep track of their carriers.

What unfolds is nothing short of the single, most complete explanation of CSA 2010 that I've read to date. Schulz has, indeed, surrounded himself with some of the key players inside the Beltway who have worked tirelessly to implement this program and make sure it's no longer misunderstood. "A fair amount of the reporting puts a lot of the myths surrounding CSA to bed," Schulz told me when he wrapped up this project. "In fact, I think shippers will be surprised to find out just how well the program is being received in many trucking circles—not all, but most."

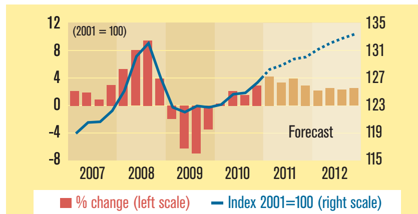
If you don't have all of your questions surrounding CSA 2010 answered in this supplement, then drop me a line and we'll do our best to get you the answer.

Simply put, *"Untangling the beast"* is required reading this month for any shipper or private fleet operator. And if you don't have all of your questions surrounding CSA 2010 answered in this supplement, then drop me a line and we'll do our best to get you the answer.

Michael A. Levans, Group Editorial Director

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

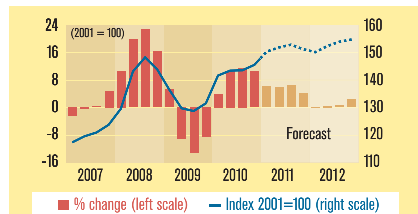
Pricing Across the Transportation Modes



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
General freight - local	0.0	0.1	-0.4
Truckload	0.8	3.3	5.8
Less-than-truckload	1.3	4.7	7.3
Tanker & other specialized freight	0.9	2.5	3.6

TRUCKING

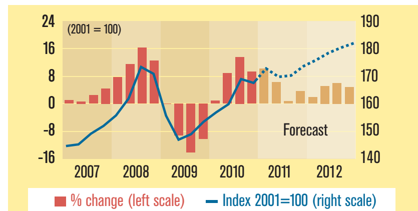
Excluding local trucking and household/office movers, all other trucking categories increased prices significantly in February. The biggest inflation bump came from general freight LTL and special freight long-distance trucking, with prices for primary services up 1.3% and 1.5% from month-ago and up 7.3% and 4.9% from same-month-year-ago price levels. New fuel surcharges helped to hike shipper bills and pushed forecasts up. For LTL trucking, we forecasted prices would rise 4.4% in Q1 of 2011 from a year ago. With two months completed, it looks like LTL tags will be up 7%. For all of 2011, average annual prices in the aggregate trucking industry now are forecast to increase 3.6% instead of our previous 2.7% estimate.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Scheduled air freight	1.6	4.6	4.9
Chartered air freight & passenger	-10.4	-5.4	0.9
Domestic air courier	0.9	10.0	11.1
International air courier	3.0	11.9	15.0

AIR

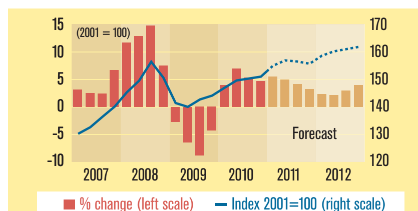
Wholesale prices for jet fuel sold by U.S. refineries soared 31% from February 2010 to February 2011. That cost pressure makes it hard to argue with the 1.6% one-month price hike for shipping via scheduled U.S. airline flights that occurred in February. Problem for shippers: this was the third monthly price hike and charts a new inflationary path that exceeds our previous forecast. The 2011 average annual price forecast for scheduled airfreight had to be increased from a 2.2% inflation rate to a 5.6%. And, U.S.-owned companies that fly chartered (nonscheduled) airfreight reported a 10.4% one-month price drop in February. That wiped out the price hikes that the Labor Department reported took place in December and January.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Deep-sea freight	1.6	1.3	12.4
Coastal & intercoastal freight	-0.5	1.1	6.8
Grt. Lks.-St. Lawrence Seaway	6.9	10.9	7.0
Inland water freight	3.4	5.6	9.8

WATER

In February, average transaction prices for shipping over water using U.S.-owned vessels increased 1.6% from a month ago and 12.4% from the same month a year ago. The inflation pressures came from all sectors. Compared to a year ago, prices for deep sea shipping services jumped 12.4% and prices for inland waterways (excluding towing) services increased 9.8%. Likewise, coastal and intercoastal vessels pushed through a 6.8% year-ago price increase as those on the Great Lakes and St. Lawrence Seaway hiked tags 7%. Our forecast for overall water transportation had projected average annual prices to grow 4.7% in 2011. The revised forecast now shows prices up 5.1% in 2011 and 4.4% in 2112.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Rail freight	2.1	3.8	5.9
Intermodal	2.7	6.0	7.8
Carload	2.0	3.6	5.7

RAIL

As elsewhere in the transportation sector, railroad companies have been ready to punch with price hikes as soon as the U.S. economic recovery picked up steam. In February 2011, apparently enough steam was in evidence as the railroad industry's transaction prices were raised 2.1% from the prior month. That was the largest one-month price hike since July 2008. Intermodal rail freight prices led the way with a 2.7% one-month price increase and a 7.8% price hike from same month year ago. Carload tags also increased 2% and 5.7% over the same time periods. With a higher take-off point for the forecast, average annual price inflation for railroads are now forecast to be 4.4% in 2011 and 2.8% in 2012.

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

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Obama inks extension for SAFETEA-LU funding through September 30

Most recent extension provides much-needed time to get a long-term bill done, but transportation funding issues persist

By Jeff Berman, Group News Editor

WASHINGTON, D.C.—With the clock ticking down on the future of federal highway and transit funding, the United States Senate and House of Representatives voted last month to extend funding through September 30, the end of the fiscal year. This measure has now officially been signed into law by President Barack Obama and will cover funding related to highway, highway safety, and transit programs.

On February 11, House Transportation and Infrastructure Committee Chairman John Mica introduced a bill, entitled H.R.662—Surface Transportation Extension Act of 2011, which was approved by the House T&I Committee. Prior to that, near the end of December during the Lame Duck session of the 111th Congress, U.S. lawmakers voted to extend federal highway and transit funding through a contributing resolution through March 4.

This vote was part of H.R. 3082, which was sponsored by Texas Congressman Chet Edwards, and signed into law by President Barack Obama on December 22. This continuing resolution is the latest in a series that have 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.

This funding, which goes toward surface transportation maintenance, development, and construction, has been kept alive by multiple continuing resolutions typically ranging from four weeks to seven weeks and keep funding at current levels. The primary funding mechanism for surface transportation—the federal gasoline tax at 18.4 cents for gasoline and 23.4 cents for diesel—has not been increased since 1993.

When these previous continuing resolutions were granted, there was no clear picture as to the future reauthorization and if, or when, a new long-term alternative would be offered. But that recently changed when the White House released its proposed Fiscal Year 2012 budget proposal.

Included in this proposal was a six-year, $556 billion surface transportation reauthorization proposal. If enacted, it would be more than 60 percent above the inflation-adjusted levels of SAFETEA-LU.

Included in this new six-year plan are: funding for highways,

transit, highway safety, passenger rail; a National Infrastructure bank, which would be allocated $30 billion in loans and grants to support individual projects and broader activities of significance for the Nation's economic competitiveness; and a proposal to boost transportation spending by $50 billion above current law spending in the first year of the authorization for roads, railways, and runways, among other components.

"We're pleased that Congress and President Obama acted this week to extend federal highway and transit programs by seven months, allowing thousands of construction projects to move forward uninterrupted," said John Horsley, executive director of the American Association of State Highway and Transportation Officials (AASHTO).

"Now we set about the hard work of getting a multiyear reauthorization in place later this year," added Horsley. "This essential legislation will allow states to continue to preserve and modernize the surface transportation systems that individuals, families, and businesses depend on everyday. We must get this done."

Several transportation infrastructure experts have told *LM* that without a viable funding mechanism in place, the future for transportation infrastructure funding is likely to remain in its current situation.

"We are transitioning into a new environment," said Payson Peabody, of counsel, at Washington, D.C.-based law firm Dykema Gossett PLLC. "The stimulus package contained a great deal of transportation funding and that is running out; so there is more urgency, especially on the state side to get a transportation bill done."

Janet Kavinoky, vice president of Americans for Transportation Mobility, noted that in order to get a fully-funded, six-year transportation bill these ongoing extensions need to end. "There has to be quick action to get a new bill done soon," said Kavinoky. "But for now there is some certainty on funding, and it gives Congress time to roll up its sleeves and get to work on crafting a long-term bill." □

REGULATION

Shippers adjust as first CSA "warning letters" go out to carriers

WASHINGTON, D.C.—Motor carriers have started receiving the first of an expected 50,000 "warning letters" the government is sending out under its new "Compliance, Safety Accountability" (CSA 2010) truck safety program.

The letters are going to carriers who have scored poorly in at least one or more of CSA's seven "BASICs" categories—unsafe driving, fatigued driver, driver fitness, alcohol and drugs, vehicle maintenance, cargo securement, and crash history (See the CSA 2010 special supplement in this month's issue.)

While the Federal Motor Carrier Safety Administration (FMCSA) says it's currently in a period of "phased implementation," it advises motor carriers and shippers that the CSA program is fully in effect. Enforcement procedures can range from simple warning letters to full-blown compliance reviews for the most egregious violators.

Analysts and trucking executives estimate perhaps as many as 150,000 long-haul drivers—out of a total of about 3 million—could be sidelined after the CSA enforcement program takes full effect. And government officials are hardly apologizing, saying it's a necessary step to make highways safer for everyone.

"Before we only had one tool in our toolbox," FMCSA spokesman Duane DeBruyne told *LM*. "That was the full-blown compliance review. It was one size fits all." Now, according to DeBruyne, the government can take a much more detailed look at a carrier's operation, can zero in with precise data on the exact nature of a carrier's operation, and then work with that carrier to correct the defect.

"The response from carriers for the most part is that they're interested in finding out how the seven BASICs work," DeBruyne said. "Overall, it's a very valuable tool to make everyone on the road safer with better clarity of information."

Anne S. Ferro, the FMCSA administrator charged with carrying out the program, recently told analysts and trucking officials at a recent Stifel Nicolaus transportation conference that "unsafe behavior will be closely monitored" and unsafe operators will be taken off the highway.

"All that is good business practice," Ferro said. "Unsafe behavior can't and shouldn't be tolerated. The driving public must be protected from unsafe drivers and carriers."

In 2009, the last full year for which data is available, there were 3,380 truck-related fatalities, which accounts for about 10 percent of the total 33,808 highway fatalities, according to the National Highway Traffic Safety Administration (NHTSA). While the 3,380 figure is about a 20 percent year-over-year decline, government officials are concerned that a small number of unsafe operators are causing an unduly high percentage of truck-related accidents and are committed to getting them off the highway. That's where CSA comes in.

"By looking at all safety violations, and grouping them into detailed categories, we will have a much more accurate

"By looking at all safety violations, and grouping them into detailed categories, we will have a much more accurate reading of the overall safety of a truck or business company."

—-Anne Ferro, FMCSA administrator

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reading of the overall safety of a truck or business company," Ferro said, adding that CSA is really preventive medicine to encourage carriers to correct unsafe operating practices before they result in crashes or fatalities.

Still, as with any large government program, there are some kinks to be worked out. Dave Osiecki, senior vice president of policy and regulatory affairs for American Trucking Associations (ATA), said that his organization continues to support the overall goals of the CSA program, but there are some details that need to be corrected.

On the crash accountability issue, Osiecki said that the government needs to capture better data and do a better job of correcting mistakes from incorrect data captured during roadside inspectors. "In many cases, motor carriers feel that the data is wrong, but when they make a data rescue request, that data is not corrected in a timely fashion," Osiecki explained. "As more carriers are reporting these requests, the states are getting overwhelmed."

He added that the driver fitness data is also suspect at times, and that data related to the cargo securement area is not really relevant to the chance of having an accident. "Absolutely these things are fixable," Osiecki said. "But they will all take time."

—John D. Schulz, Contributing Editor

ECONOMY

Surprisingly strong freight demand ignites truck capacity concerns

BALTIMORE, Md.—The combination of the fragile-but-improving U.S. economy and tighter enforcement of unsafe truck drivers is reigniting fears of truck capacity shortages later this year, top trucking officials and analysts are saying.

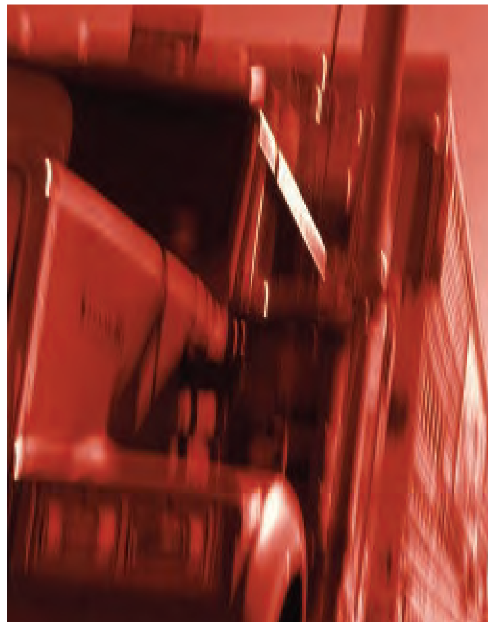
According to Stifel Nicolaus analyst John Larkin in his recent analysis of transportation supply, demand, and pricing, freight conditions in the U.S. are "surprisingly strong in light of all the economic headwinds."

However, Larkin added that the coming capacity shortage seems to be a matter of if, not when. "The carriers best positioned for a potential capacity shortage will be those that can provide shippers with the capacity to handle large volumes, in some cases across different modes, while maintaining strong service levels."

Despite $100-a-barrel crude oil, unrest in the Middle East, persistently high unemployment in the U.S., the Japan earthquake and tsunami, unprecedented deficits in federal spending, still-depressed U.S. housing, and only a partial recovery in the U.S. auto industry, freight levels are currently booming.

Jim Meil, vice president and chief economist for the Eaton Corp., a major trucking industry supplier, said he was fairly optimistic that the industry could handle capacity concerns for the rest of this year. But he is forecasting strong trucking demand levels for 2012 and 2013, and strong Class 6, Class 7, and Class 8 truck sales to handle additional capacity.

Truck tonnage surged 87 percent in January from year-ago figures to their highest level since January 2008, according to the American Trucking Associations' (ATA) truck tonnage index, making the 14th straight month of increases.



But that same ATA index fell 2.9 percent in February after increasing a revised 3.5 percent in January 2011. Still, compared with February 2010, tonnage climbed 4.2 percent, although this was smaller than January's rise, a whopping 7.6 percent year-over-year increase. Through the first two months of the year, tonnage is up 5.9 percent compared with the same two months last year.

ATA Chief Economist Bob Costello said that the winter storms in February were a factor in the latest reduction and that he wasn't concerned about the decrease. "Tonnage is not going to increase every month, and in general I'm very pleased with freight volumes early this year," Costello noted, adding anecdotal reports from motor carriers are very encouraging.

"I'm hearing a significant amount of positive news from fleets and that the largest concern continues to be the price of diesel fuel, not freight levels," Costello said.

At the same time, the actual number of trucks on the highways is basically flat. An analysis by R.L. Polk & Co. shows there were about 3.57 million Class 8 trucks in operation in the fourth quarter last year. That was only a 0.1 percent increase from fourth quarter 2009 levels.

This is causing some equipment shortages in specific geographic regions, trucking executives say.

Specifically, the upper Midwest is tight as is capacity in Southern California due to the level of intermodal traffic at the ports of Los Angeles and Long Beach, carriers say. Even parts of the Southeast, which usually has an abundance of quality, low-cost, non-union carriers, are becoming tight for capacity, trucking officials add.

"Capacity is close to equilibrium right now," said Doug Stotlar, president and CEO of Con-way Freight. "Truckload capacity is lane-specific," Stotlar added. "The good news when truckload capacity gets tight is that LTL carriers get more tonnage."

An analysis by Transport Capitol Partners, a leading trucking advisory firm that tracks industry operations and strategy, shows that capacity has dropped between 12 percent and 16 percent since its peak in 2006-07. The lack of buying new trucks, used truck exports to Eastern European countries and elsewhere, and trucking bankruptcies are cited by TCP as factors in the reduced capacity.

Meanwhile, demand for trucking services is forecast to grow annually by 4 percent to 5 percent for at least the next two years, experts predict.

—John D. Schulz, Contributing Editor

TRANSPORTATION

U.S. railroad capex expected to hit $12 billion in 2011, says AAR report

WASHINGTON, D.C.—While heavy capital expenditures are nothing new for the freight railroad industry, a report from the Association of American Railroads (AAR) stated that United States-based freight railroads are planning to spend $12 billion in capital expenditures in 2011, following a $10.7 billion investment in 2010.

The 2011 tally would be a new record, with 2010 being the current record for railroad capital expenditures, according to the AAR.

The report, *Great Expectations 2011, Railroads and Continued U.S. Economic Recovery,* points out that although capital expenditure investments are expected to grow, these investments could potentially be negatively affected by various regulatory and legislative policies being bandied about by Congress—which could hinder the amount of dollars railroads invest into capital expenditure-related efforts.

These policies include: legislation attempting to remove antitrust exemptions currently granted to the railroad industry; legislation calling to increase competition (or re-regulate) the railroad industry; a Congressional mandate to implement Positive Train Control (PTC) technology; and an ongoing push to increase truck size and weight.

AAR President and CEO Ed Hamberger cited a recent speech President Obama gave to the United States Chamber of Commerce in which Obama called on the private sector to get off the sidelines and spend money to hire employees and get the economy moving again.

"I am pleased to say that [the railroad industry] is not on the sidelines," said Hamberger. "This industry has been in the game. The $12 billion investment for 2011 follows three years where we averaged $10 billion per year, and up to this year they were the three highest years on record for capital expenditures, which occurred during the middle of the worst recession since the Great Depression. This industry is putting its money on the future, and we will be hiring about 10,000 people this year."

Hamberger also noted that these capital expenditure investments are funded by private capital and not taxpayer funding, adding the railroad industry owns, maintains, improves and pays taxes on their rights-of-way.

Other costs included in capital expenditures include maintenance, with 20 cents of every revenue dollar going back into maintaining, expanding, and improving the U.S. rail network over the last 10 years. What's more, railroad networks, said Hamberger, are key in the President's goal to double U.S. exports by 2015, with one-third of all U.S. exports moving by freight rail to U.S. ports.

"If we are going to double exports, we need to make sure there is enough freight rail capacity to get those exports to market," said Hamberger. "It is important that we be able to make the investments that we have been making and will be making this year."

—Jeff Berman, Group News Editor

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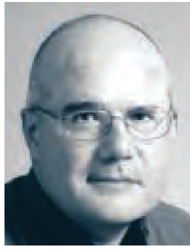

Replace negotiation with collaboration

THE TRUCKLOAD (TL) MARKET IS BEING BOMBARDED with pricing pressures from hours-of-service (HOS) regulation, lack of capital, rising insurance rates, and energy cost spikes. On the revenue side, TL carriers also have stiff competition from intermodal providers to worry about. Meanwhile, shippers are forced to explain huge price increases to their bosses in a market where many manufacturers simply can't pass on any more cost increases.

Considering the current market dynamics facing shippers and carriers, we need to change the way we approach buying TL services. Shippers need to understand the myriad expenses that make up a trucker's cost basis, while carriers need to understand what makes the shipper a successful seller of merchandise.

While there are over 25 cost factors for the trucker, let's look at just three that lend themselves to a more collaborative effort: downtime, density, and cargo risk.

Downtime is a nightmare for both the carrier and the driver. Carriers make money by moving loaded equipment, although periodically accessorials are high enough to be suspect as the profit makers. Drivers make money in driving; especially as their "in service" hours are restricted.

Many shippers and receivers of freight are often blissfully ignorant of their tendency to keep drivers and their vehicles idle at their facilities. They also miss opportunities to help match inbound and outbound equipment to keep drivers rolling. Carrier dispatchers and shipper TMS systems can better collaborate in idle time for drivers and equipment. Shippers and dispatchers need to have a two-way conversation about available loads and available equipment. If we share more information, idle time will drop as a percent of the driver's day.

Density is a real cost lever for shippers that's often overlooked. Density refers to the ability of the carrier to keep equipment in a geographic area where dispatchers can optimize driver and equipment utilization. Shippers too often ignore collaboration with other shippers, customers, and neighboring industries to offer carriers higher density in an area.

Major beverage and food companies have learned to cooperate with other savvy shippers (with compatible products) in annual bids so that carrier planners can put together annual lane plans for several shippers in regular routes. The result has been consistent savings for all parties and greater efficiencies for the carriers.

The classic error example is when a shipper insists a carrier take all their loads, despite the fact that the carrier has no business in some of the destination geographies. Thus, the carrier has to spread the risk over the entire business, negatively affecting many of the shipper's rates.

Considering the current market dynamics facing shippers and carriers, we need to change the way we approach buying TL services.

That leads us to risk. There are many types of risk, but the one I'll refer to here relates to cargo insurance. While many shippers have umbrella policies that cover their products all the way into the customer's hands, they still pay for standard carrier cargo coverage—see your carrier's rules tariff. Manufacturers and distributors need to discuss product coverage with suppliers and the carriers in the value chain to determine who should cover the cargo risk and where hand-offs take place—preferably before a loss.

In this market, the business side of common carriage needs to be in the conversation with multiple departments at the shipper's organization as well as the consignee's. To take cost out of the system, the shipper representative needs to facilitate discussions between the carrier finance and planning departments and his or her key company cost departments who can influence freight expenses. An example is reducing insurance and freight settlement costs through a discussion with the CFO. If a 3PL is involved then this is the perfect time for that "value added" service they have been promising to start kicking in.

Any way you slice it, it's time to get collaborating. □

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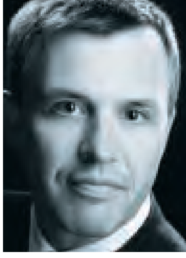

Inoculate against supply chain risk

RISK HAS ALWAYS BEEN PART of the supply chain journey, but for many organizations it's never been quite this intense. Consider how much global sourcing and manufacturing is done by a typical company and how many points of potential failure this implies. In addition, many customers have become hyper demanding, which often means that companies have little choice but to reduce costs and accelerate deliveries and product lifecycles. Yet drops in reliability or quality—common results when things get rushed—can seriously hurt sales and erode loyalty and brand value.

All of these hazards should remind us that today's supply chains are less likely to be simple linear progressions and more likely to be networks or webs of two-way relationships—with increased potential for risk in both directions and at every crosspoint. To understand and manage the risks in this new environment, companies must take a holistic view of risk across the enterprise.

RISK MANAGEMENT PRESCRIPTIONS

The goal of risk management has never been to avoid risk. All business activities have uncertainties attached to them. The key is to understand and manage those uncertainties in a way that allows the company to reach its goals.

This is where sophisticated supply chain management comes in: helping companies address existing risks in a smarter, more informed way. At a high level, companies can do this by making risk management part of the corporate operating model, as opposed to a standalone function. Among other things, this makes risk mitigation a core consideration when determining which processes should be global (centralized) or local (decentralized).

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Most organizations could also benefit by becoming more sophisticated about vendor management. For example, companies might opt to use more than one supplier for critical components. More specific contractual obligations and higher levels of monitoring and relationship management can also be helpful when dealing with suppliers.

Six Leading Practices in Supply Chain Risk Management

- Integrate risk management practices across all business functions to ensure understanding, commitment, and alignment.
- Identify, measure, and prioritize risks by mapping out the complete supply chain "ecosystem."
- Emphasize operational flexibility, global visibility, and a diversified supplier portfolio to blunt the impact of supply chain calamities.
- Use probability modeling to identify unknown risks and develop contingency plans.
- Insist that suppliers and business partners perform upfront due diligence.
- Hedge risk by make prudent choices about insurance.

Beyond operationalizing risk management and rethinking vendor relationships, companies can also benefit by launching their own risk-inoculation process. A good place to begin is by defining your supply chain's components—especially the nodes and touch points, which is where most breakdowns happen. Then consider all of the business partners (particularly suppliers and third parties) that are part of your supply chain.

Ask yourself, what is their operational and financial risk profile? If you are counting on supplies from a vendor, what happens if you don't get those raw materials? Reliable delivery depends not only on the vendor's financial condition but also on that vendor's risk management sophistication.

It can then be helpful to make an inventory of key risks, evaluate their potential impact, and quantify the likelihood of their occurrence. In addition to determining probability and magnitude, this means assessing factors such as the likelihood of detectability, detection lead-time, and the time and cost associated with recovery. It

also means taking into consideration issues relating to labor, politics, and the regulatory environment.

Then consider designing a framework for managing supply chain risk. The idea is to embed risk considerations into all business operations and link them with important business processes. By understanding all its supplier interrelationships and interdependencies, a company can manage supply chain risks with a proactive view, rather than an after-the-fact response. Five pillars often support such a framework:

1. Organization and governance: Roles and responsibilities for managing risk must be explicitly defined.

2. Risk management processes: Specific processes are needed to identify critical supply categories; segment vendors; determine interdependencies; assess and measure risk; formulate and launch action plans; and determine costs.

3. Risk analytics: Analytical tools are needed to fully quantify the impacts of uncertainty. Analytics technology can also abet risk prioritization, risk measurement, scenario analysis, stress testing, and the ability to correlate identified risks with the success of key initiatives.

4. Risk reporting: The key here is delivering the right information in the right form. Too often, supply chain risk management reporting is limited in its distribution—lea loving top management insufficiently informed about what risks are being raised and how they are being controlled.

5. Supply chain wide communication: Risk management programs cannot be effective unless their insights are effectively communicated out, up, and across the supply chain.

Lastly, an implementation plan is needed to explain how each part of the organization will be alerted to risk events and what actions should be taken for each type of risk. A comprehensive, top-to-bottom action plan enables risk-based decision making to permeate the company. In effect, the plan is much like supply chain risk itself: an issue best addressed in a holistic, enterprise-wide fashion. ☐

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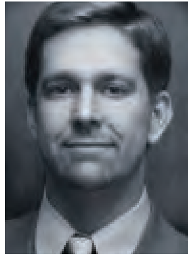


Turmoil in Middle East/North Africa has taken oil markets by surprise

IN THE PREVIOUS OIL & FUEL COLUMN, I explained that throughout 2010 and early 2011 tight diesel markets had been pressuring the price of crude in much the same way that they did during the 2008 price run. My intention was to write a follow-up article this month that compared the factors underpinning tight diesel markets then and now. However, the rising turmoil in the oil-rich Middle East and North Africa (MENA) region has taken the markets by surprise, and thus deserves attention.

The uprisings that have swept through the MENA region caused the front month WTI contract to jump nearly 20 percent from $88 per barrel (12/17) to over $105 (3/7). Some of this jump can be explained by the loss of Libyan oil production, but the majority of the jump is due to the rising risk premium on the future supply of oil.

This risk premium represents the balance that is struck between sellers, who believe prices will fall, and buyers, who believe they will rise. These counterparties are acting largely on gut instincts and are guided by a constant flow of incomplete information about geopolitical events (e.g. the Libyan crisis and the Japanese earthquake), economic news, and the like.

In order to understand how the oil futures markets have reacted to geopolitical events in the MENA region, we need to understand the risk equation: Risk = Threat (x) Vulnerability (x) Cost.

Derik Andreoli, Ph.D.c. is the Senior Analyst at Mercator International, LLC. He welcomes any comments or questions, and can be contacted at dandreoli@mercatorintl.com.

Threat represents the estimated frequency of a potentially adverse event—like a political demonstration or a magnitude 9.0 earthquake. Vulnerability is the probability that a threat will cause a disruption, and cost is the measure of impact of the disruption (e.g. the amount of oil production lost, or demand destroyed by the earthquake).

When it comes to applying the risk equation to the MENA crisis there are plenty of "known unknowns" and "unknown unknowns;" and as a consequence, risk premiums vary widely. Throughout the MENA crisis, the frequency of potentially adverse events rose; the perceived probability of an event having an impact similarly rose; and the amount of oil at risk is staggering. As such, the crisis deserves attention.

The seeds of the MENA crisis have been fostered by persistently high unemployment, racing food inflation, suppressed political rights, and endemic political corruption across these countries. These frustrations erupted into protests in Tunisia on December 17, 2010, after a street vendor set fire to himself to protest harassment by Tunisian authorities. This act of self-immolation inspired Tunisians to flood the streets, and Tunisian authorities attempted to quell the uprising through force, thus initiating a positive feedback loop.

By the end of December, the Tunisian protests had spilled across the Algerian border. Algeria is a significant oil producer; and behind Russia and Norway, Algeria is the third largest supplier of natural gas to Europe. The oil markets began to react.

From Algeria and Tunisia, the unrest spread east with protests erupting in Libya and Egypt. Both countries have since undergone major revolutions. Presidents Mubarak and Ben Ali have been ousted and provisional governments are beginning to take root. The short/medium-term prognosis in these countries will remain uncertain so long as the socio-economic problems that led to the unrest persist.

Meanwhile, Libya has devolved into an armed rebellion, causing Libyan oil production to fall by 700,000 to 1.2 million barrels per day (mbd). The other half of Libya's oil production and the nation's

(continued on page 23)

(continued from page 22)
oil infrastructure (pipelines, ports, and refineries) remains at risk of attack by rebels and Gaddafi loyalists alike. Saudi Arabia and other OPEC member countries claim that they have lifted oil production to meet this shortfall, but OPEC production is far from transparent so it is difficult to verify these claims.

Further to the east, Iran—the world's fourth largest oil producing nation—has not been immune to the wave of unrest. Thus far, the Iranian government has successfully suppressed the revolution, but the seeds of unrest are growing.

Violent protests have also erupted in Iraq, prompting a wave of resignations of provincial governors and other authorities. Prime Minister Maliki announced that he will not run for a third term, and given the delicate situation, Iraqi oil exports are threatened. Bear in mind that Iraq was one of only eight oil exporting nations that was both willing and able to lift oil exports to meet rising demand through the 2008 price spike.

As of the writing of this column, the situation in Bahrain has reached a fevered pitch. Sensing that the tension in Bahrain could reach a tipping point further destabilizing the region, Saudi Arabia has preemptively sent troops across the border to contain the Bahrainian uprising. While Bahrain is not a large oil producer or exporter, it functions as one of the Middle East's most important financial hubs.

Perhaps most troublesome, at least from an oil supply perspective, were the calls for a Saudi "day of rage" on March 11. Acting preemptively, Saudi King Abdullah made a $35 billion "royal gift" to his subjects in hopes of quelling dissent. But despite the hundreds of billions of petrodollars that Saudi Arabia has earned, the country remains poor by global standards, and many Saudis hunger for freedom and democracy. Spontaneous protests on the March 10 were forcefully suppressed, and at least a few protestors were shot and wounded.

The Saudi carrot and stick approach appears to have been successful. The turnout for the "day of rage" was inconsequential, and rather than creating havoc on the oil markets, the "day of rage" in fact caused the front month WTI futures contract to drop below $100 per barrel. The market has clearly discounted the probability of disruption there.

The MENA crisis is not over yet, and the Saudi royal family is not out of the woods. As we can see, the MENA crisis is very complex and the threat of major disruption persists. The amount of oil production and oil exports at risk is staggering.

Armed rebellions have pulled more than 1 percent of the total world supply off the market, though this amount has been replaced by increased production elsewhere. The Libyan rebellion threatens another 1 mbd of oil production and exports.

An additional 1.6 mbd of oil production is at risk in the recently revolutionized Egypt and Tunisia. Even more importantly, the Suez Canal and the SUMED (Suez-Mediterranean) pipeline—both major oil transit chokepoints—are at risk in Egypt.

On top of that, major protests in Iran, Iraq, Yemen, and Algeria threaten 9.1 mbd of production and 6.74 mbd (14.8%) of world exports. On March 9, crude stopped flowing through the Iraq-Turkish pipeline after an explosion on Iraqi soil.

Minor protests have occurred in Saudi Arabia, Syria, and Sudan, putting an additional 10.6 mbd of production and 7.68 mbd of oil exports (17% of world exports) at risk.

Overall, political unrest in the MENA countries has, to varying degrees, put 16.8 mbd of oil exports at risk of disruption.

So why have oil prices have not climbed even higher? After all, there were no major political events that threatened oil production in 2008, and many of the other price pressures that were present in 2008 have reemerged.

As we can see, the MENA crisis is very complex and the threat of major disruption persists.

What gives? The answer is spare capacity. In April 2002, OPEC surplus production capacity was nearly 7 mbd. By May 2004 spare capacity had fallen to 2 mbd, and by July 2004 it had fallen below 1 mbd. By March 2007, surplus production capacity had rebounded slightly (climbing to 2.3 mbd), but by July 2008—the height of the price spike—spare capacity had fallen back below 1 mbd.

As a consequence of the recession, oil consumption declined and Saudi Arabia completed a number of important new projects. By December 2009, spare capacity was back up to nearly 4.8 mbd, but as the world economy recovered, demand grew and spare capacity dropped to 4.1 mbd by February. Then the Libyan uprising knocked surplus capacity down to somewhere between 2.9 mbd and 3.4 mbd.

Since the beginning of 2010, surplus production capacity has declined between 30 and 40 percent. The Libyan impact on surplus production capacity has put the world in the danger zone. As surplus production capacity declines, the risk premium increases, and markets become more volatile and reactionary.

Of course the devastating earthquake in Japan has adjusted the oil demand outlook, but to what extent the destruction to Japan's economy will eat into global oil demand is another one of those "known unknowns" that the market will price.

With so much uncertainty, and such strong forces acting in opposition, it is impossible to know what is going to happen with oil prices. Given this uncertainty, now is the time to shore up supply chains against the upward trends in both fuel price and fuel price volatility. □

27th ANNUAL SALARY SURVEY

Ready to move up

Having survived an epic recession, logistics and supply chain professionals are now looking beyond maintaining a comfortable threshold. Indeed, the time seems right to get those resumes in order, reconnect with your network, and continue that climb up the career path.

BY **PATRICK BURNSON,** EXECUTIVE EDITOR

According to the findings of our 27th Annual Salary Survey, those workers who were able to keep their logistics and supply chain positions saw a slight salary gain over the past 12 months. Our research team also revealed that more than half of the logistics and supply chain professionals responding to our 2011 survey say that they're ready to put their experiences from the great recession to work and are actively looking or are wide open to entertaining better offers.

And the timing could be right for them. Industry recruiters are telling us that employers want experienced and dedicated managers to take their logistics operations to the next level of achievement—and what better experience can you ask for than managing a logistics and transportation department through the past two years?

When the median salary index moved from $85,000 to $88,000 in our 2010 results, analysts suggested that companies were finally in a position to reward professionals with a modest, but sustainable raise. This trend continues in 2011 as the median salary now rings in at $90,000, with 10 percent of our 669 respondents reporting that they received a raise of 10 percent or more over the past 12 months.

Tellingly, nearly half of the respondents from 2010 responded again this year, although researchers report that there were few "astonishing" revelations this year. One conclusion may be that it's simply encouraging to see the watermark rise. As to whether it's a tide that lifts all boats, however, remains a question. Better than last year is the fact that 43 percent of the salaries reported fall in the $100,000-plus range—with 2 percent rising above $250,000. The average salary reported in our 2011 survey totaled $107,802.

Anecdotal information gleaned from this year's survey, coupled with subsequent interviews with shippers, academics, and recruiters, point towards a new trend where workers are seeking more than just enhanced financial compensation. They tell us they want transcendent and often intangible payback by way of recognition and personal fulfillment as they make their way up the career path.

Methodology

An online survey was first directed to the attention of *Logistics Management* subscribers on January 31, 2011. Data collection was completed on February 8th, 2011. The survey was administered by Peerless Media's Research Group. The summary results presented here are based on a total of 669 usable replies. At a 95% confidence level, results are accurate with a margin of +/- 6 percent.

SALARY SURVEY WEBCAST

April 21st at 2 pm ET • logisticsmgmt.com/salary11

Pay hikes continue

Median salaries continue to climb

Year	Median salary	%
2010	$90,000	2.2%
2009	$88,000	3.5%
2008	$85,000	5.9%
2007	$80,000	0%
2006	$80,000	0%
2005	$80,000	-4.5%
2004	$83,790	6.6%
2003	$78,600	1.0%
2002	$77,700	2.2%
2001	$76,000	7.0%
2000	$71,000	3.3%
1999	$68,700	3.1%
1998	$66,600	10.1%
1997	$60,458	5.0%
1996	$57,536	6.1%

% Percentage change from previous year

Job titles matter

Executive roles win better compensation

Job title	Average salary 2010	Average salary 2009
Vice president/General manager	$167,650	$169,404
Corporate/Division manager	$138,630	$133,399
Supply chain manager	$100,159	$110,421
Logistics manager	$95,479	$85,579
Operations manager	$89,180	$79,448
Traffic manager	$76,546	$72,175
Warehouse manager/Supervisor	$68,534	$66,130
Assistant traffic management/Supervisor/Analyst	$66,446	$61,484

Source: Peerless Media Research Group

Multi-tasking is rewarded

Supply chain pros are rewarded with higher salaries

Area	Average salary 2010	Average salary 2009
Supply chain management	$129,396	$137,508
Distribution/Logistics	$115,777	$107,484
Fleet operations	$90,167	$99,887
Traffic/Transportation	$90,228	$90,089
Planning*	$114,610	$108,911
Import/Export operations	$74,879	$82,682
Warehousing	$94,587	$73,737
Purchasing	$89,540	$81,781
Inventory control	$84,755	$82,078
Materials handling	$94,131	$92,478

Source: Peerless Media Research Group

SALARY SURVEY WEBCAST • April 21st at 2 pm ET • logisticsmgmt.com/salary11

It pays to stay in school

Time spent on education continues to pay off

High school

Some college

4-year college degree

MBA

Other graduate degree

■ Average salary 2010 ■ Average salary 2009

Source: Peerless Media Research Group

NOT ABOUT THE MONEY

While the climb up the corporate path can often be taken two steps at a time, for many of the respondents we spoke with, that move isn't always about the money. Michael Kusuplos, logistics manager for Areva Solar in Mountain View, Calif., says job satisfaction remains key to long-term satisfaction—and it was imperative in his latest move.

"It really doesn't matter where the opportunity is, but rather the challenge that the position holds," he says. "That was a major contributing factor as to why I recently left Texas for California. "It was for the challenge that this new assignment afforded to me professionally." Kusuplos adds that companies truly committed to having the logistics process become part of their core competencies will be a natural magnet for those professionals who have a real passion for logistics.

Pete Kalemon, division traffic manager for Matthews International, a Pittsburgh, Pa.-based manufacturer of identification products, agrees with Kusuplos, saying that he enjoys working in a fast-paced environment with other colleagues who share his dedication to the logistics profession. "Compensation is certainly part of the satisfaction," he says. "But I'm at the top pay level for a traffic manager, and I enjoy living in a city that is relatively inexpensive."

Bruce DeBruyn, transportation planning manager for Akasha, a decorative glass manufacturer in Ann Arbor, Mich., says that he, too, wouldn't move from one job to the next just for the money. "Although there has been a significant shift in manufacturing, many of the jobs will remain in the nation's heartland, where the quality of life remains high," he says.

Gender gap remains substantial

Men earned considerably more again this year

Men		Women
$108,465	Average salary	$90,642

Source: Peerless Media Research Group

The remarks from these shippers certainly support our 2011 findings. In fact, more than half of this year's respondents say that they're very satisfied with their choice of a career in logistics and supply chain—only 2 percent indicated that they are dissatisfied with the path they have chosen. Having the biggest effect on their satisfaction at 59 percent is the feeling of accomplishment they receive from their job. Ranking second is the relationships with their colleagues. Again, this mirrors last year's findings.

Among the factors contributing to

job dissatisfaction is company politics, with 47 percent of respondents reporting this as the top negative factor. In second place is lack of room for advancement, followed by salary and workload. And consider this: Twenty-seven percent say they're currently happy where they are, while more than 50 percent indicate that they are "open to new opportunities."

WHAT EMPLOYERS WANT

And the time might be just right for those seasoned pros looking for a better job, say analysts. Lynn Failing, vice president of Kimmel & Associates, Inc., a national executive search firm specializing in the logistics and supply chain industries, says that manufacturers and retailers cannot afford to get any leaner if they wish to build their top lines.

"Companies have whacked the workforce so hard that they've gone beyond the bone," says Failing. "Most recognize that they got carried away with this emphasis on improving the bottom line, and are set to hire so that they can generate some revenue again."

But that doesn't mean they will be hiring the same narrow job descriptions, says Failing, who emphasizes that candidates with a broader background in supply chain management will be the ones in demand. "Our clients are looking for people with project skills and transportation redesign experience," says Failing. "They want leaders who can complete specific tasks while concentrating on continuous process improvement."

As to what kind of salaries these leaders can command, says Failing, it's really a matter of the scale and scope of responsibility. For example, the vice president of a regional manufacturing operation cannot expect to earn as much as the director of a Fortune 500 company.

"The GAPs and Honeywells are looking for copies of the Mona Lisa," he says. "While we can certainly deliver that, we're also looking for someone who can be the director of a small food service company, managing 150 people in the transportation department." According to Patricia O'Rourke, career center coordinator for the Council of Supply Chain Management Professionals (CSCMP), activity in hiring has been "very strong" so far this year, and gaining momentum. "This is terrific for our candidates, to employers, and to the profession as a whole, to see confidence and strength in moving business forward from the depressed statistics we experienced for the last two years," she says.

O'Rourke says that she continues to see job descriptions for logistics and supply chain professionals with broad skill sets. "I cannot stress strongly enough to candidates and employers

Demographics

- Average age is 48.
- 83% of the respondents are male.
- The most frequently reported job title was that of Logistics Manager.
- 93% have attended college; 78% have a college degree of some sort (Associate's, Bachelor's or graduate);16% have an MBA.
- 38% have completed formal education in logistics and/or supply chain management. Among this group, 30% have an undergraduate degree in logistics and/or supply chain management, and 14% have a graduate degree in logistics and/or supply chain management.
- Respondents have an average of 18 years of logistics/supply chain management.
- Respondents have been with their current company for an average of 9 years, and in their present job for 7 years.
- They work for companies who have on average 3,244 employees. Almost one-quarter (24%) of these companies are reported to spend more than $100 million annually on transportation.

Rewarding the "stars"

Salary and compensation experts have always assumed that the most successful companies get their competitive edge by paying their star employees more than the competition to fuel innovation.

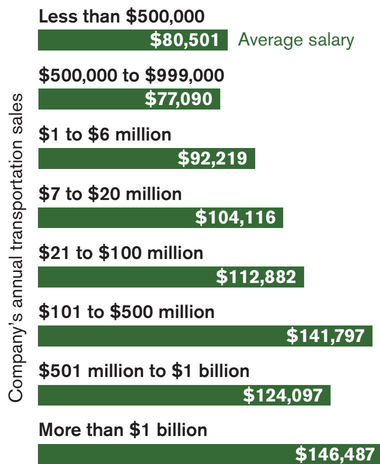
New research titled *Reaching for the Stars: Who Pays for Talent in Innovative Industries,* co-authored by Stanford professor Kathryn Shaw and using the academic field of insider econometrics, has been able to prove that this assumption is indeed true.

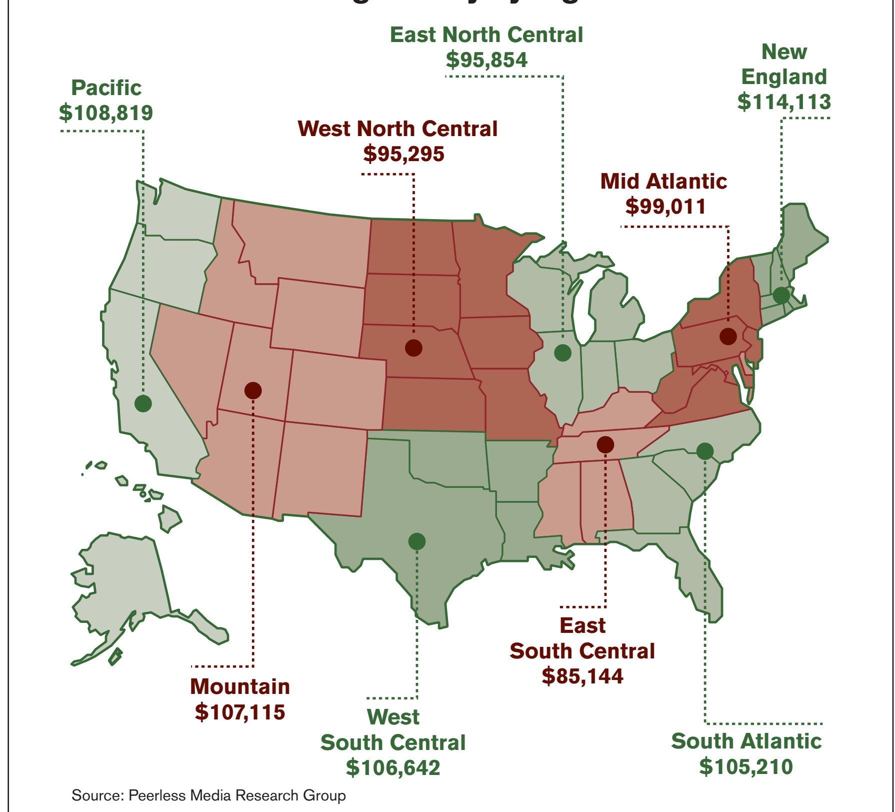
"It is noteworthy for more than its insight into the human resources industry," says Shaw, the Ernest C. Arbuckle Professor of Economics in the Stanford Graduate School of Business. "It's an example of how insider econometrics, the careful analysis of rich, new sources of data, combined with interviews of industry insiders, is leading to a much clearer understanding of the efficacy of management strategies in general, and human resources practices in particular," she says.

The researchers concluded: "In short, our results are consistent with the view that innovative firms offer skilled individuals (stars) substantial sums of money up front because they bet in a high-stakes game of producing winning high-payoff products. The results are also consistent with the view that such firms reward loyalty with performance pay, which further increases the likelihood that they will win the high stakes product competition."

Alan Beaulieu, president of ITR, an economic forecasting firm, says this is good advice for firms looking to invest in their supply chain operations.

"It's time to hire now if there are any skill gaps in your operation," says Beaulieu. "And while you should be ruthless when it comes to efficiency, you should concentrate on retaining the best workers. Indeed, if you care about the people who work for you—give them raises. Productivity is at stake."





how important it is to give considerable thought to how you will highlight these skills clearly and prominently," she says. "Employers should develop their job descriptions with clear requirements, and candidates must present their cross skills accurately, quantified, and displayed prominently in their resumes."

PREPARING FOR THE FUTURE

And then the real question, say educators, is just how qualified these professionals have to be to meet the new challenges ahead. Indeed, will many of them need to be ready to move to a better opportunity if and when they are called?

Dr. Theodore P. Stank, Bruce Chair of Excellence in Business, University of Tennessee, says that supply chain professionals still need to be proficient at managing the core functions, such as transportation, warehousing, inventory management, and reverse logistics—but within the context of this broader supply chain process.

"For transportation to make that needed impact in an integrated supply chain, managers need to become proficient at making smart decisions on four different levels—long-term strategies, lane operations, mode and carrier selection, and dock operations," he says.

The University of Tennessee, one of the nation's leaders in logistics and supply chain education, has been concentrating on placing graduates "where the jobs are," says Stank. "And that sometimes means making some lifestyle sacrifices." According to Stank, a lot of new jobs are moving to the South and Southeast as a prolonged shift in manufacturing takes hold. "At the same time, the quality of life is improving in these parts of the country, and many of our top cities are more affordable for raising a family while building a career."

The willingness to relocate transcends domestic boundaries, says Jarrod Goentzel, Ph.D., and executive director of the MIT Supply Chain Management Program. "We find that our most gifted students don't even want to work for a company that doesn't have a significant international dimension," he says. "So, if that means moving overseas for a job, so be it."

Goentzel recommends that his graduates get out into the workforce as soon as possible before returning to school for advanced degrees. "That way, they cannot only command much higher salaries, but also expand their options beyond manufacturing," he says. "For example, there's always a demand for analysts and consultants with a supply chain background in the financial sector, too. Wall Street needs these people." ☐

Patrick Burnson is Executive Editor of Logistics Management

Legal Notice

If you directly purchased Air Cargo Shipping Services to, from, or within the United States from January 1, 2000 to September 11, 2006, your rights could be affected by Proposed Settlements

What are the Settlements about?

Plaintiffs claim that numerous air cargo carriers conspired to fix the prices of air cargo shipping services in violation of U.S. antitrust laws. Cargolux, Qantas, All Nippon Airways (ANA), and Thai Airways have settled these claims and have agreed to pay $75.5 million to direct purchasers to, from, or within the United States. The Cargolux settlement provides $35.1 million, the Qantas settlement provides $26.5 million, the All Nippon Airways settlement provides $10.4 million, and the Thai Airways settlement provides $3.5 million. These are in addition to prior settlements with other air cargo carriers in the case of approximately $203 million. The settling carriers deny liability but have settled to avoid the cost and risk of a trial. The case is continuing against non-settling defendants.

Who is a Class Member?

You are a class member if you purchased air cargo shipping services, directly from one or more defendants, for shipments to, from, or within the United States during the period from January 1, 2000 to September 11, 2006. All you need to know is in the full Notice, including information on who is or is not a class member.

Will I get a payment?

If you are a class member and do not opt out of these settlements, or if you are a class member and did not opt out of the prior settlements with Air France, KLM, Martinair, Japan Airlines, American Airlines, or SAS, you are eligible to file a claim and receive a payment. The amount of your payment will be determined by the Plan of Allocation, which is described in the full Notice. You may request a claim form online at www.AirCargoSettlement2.com, or by calling toll-free at 1-888-291-9655. Outside the U.S. and Canada, call 1-614-553-1296 (toll charges apply). You may also request a claim form by writing to Air Cargo Settlement 2, c/o The Garden City Group, Inc., P.O. Box 9380, Dublin, OH 43017-4280, USA.

Completed claim forms must be postmarked no later than July 26, 2011.

What are my rights?

If you do not want to take part in the settlements, you have the right to opt out. To opt out of one or more of the settlements, you must do so by May 27, 2011. Class members have the right to object to the settlements, the Plan of Allocation, and the request for up to 25 percent of the settlement funds in attorneys' fees and up to $5 million in expenses. If you object, you must do so by June 6, 2011. If you do not opt out of a particular settlement, you will be bound by the terms of that settlement and give up your rights to sue regarding the settled claims. You may speak to your own attorney at your own expense for help. For more information, visit www.AirCargoSettlement2.com or call toll-free 1-888-291-9655. Outside the U.S. and Canada, call 1-614-553-1296 (toll charges apply).

A Final Approval Hearing to consider approval of the settlements, the Plan of Allocation, and the request for attorneys' fees and expenses will be held at the United States District Court for the Eastern District of New York on June 24, 2011. You may ask to appear at the hearing, but you don't have to attend. For more information, visit www.AirCargoSettlement2.com or call toll-free 1-888-291-9655. Outside the U.S. and Canada, call 1-614-553-1296 (toll charges apply).

This is a Summary, where can I get more information?

You can get complete Settlement information, including a copy of the full Notice, by registering at www.AirCargoSettlement2.com, calling the number below, or writing to Air Cargo Settlement 2, c/o The Garden City Group, Inc., P.O. Box 9380, Dublin, OH 43017-4280, USA.

1-888-291-9655 **www.AirCargoSettlement2.com**

Solving the transportation

BY **BROOKS BENTZ**, **SCOTT FATA**, AND **MARGARET TEDLIE**

Transportation deregulation was a watershed event, but let's face it, wasn't 1980 a long time ago? We now have a whole generation of supply chain professionals who came along after the regulated era ended. But, really, when it comes to how transportation networks function, not much has changed: Freight comes in from vendors and suppliers, and goes out to customers and end users.

What has evolved is how those networks can be assembled to yield optimal results. Optimal is an overused word, but in this case it's what we seek. But how do we achieve it? Transportation has been balkanized and de-centralized in many organizations, in large part because of history:

- Companies grew through acquisition and the functions of transportation and logistics simply weren't a high priority when it came to re-engineering core processes;
- It was easier to leave things as they were than to stir up established organizations in what were frequently viewed as ancillary functions;
- Communications were fundamentally basic—telephone and FAX—which made viewing a dispersed network in a holistic manner a virtual impossibility.

But things changed at the beginning of this century. The re-engineering craze of the 1990s had run its course. Companies who bought the notion that you should focus on your core business

There's a better way to configure complex transportation networks and fill them with the right sort of hauling capacity. The caveat, however, is that the sheer size and complexity of these networks means technology is required to perform the analytics that enable harvesting the value. Here's how to get it done.

network puzzle

and outsource everything else were now faced with one of Wall Street's favorite questions: "What have you done for me lately?" Those companies began the scramble to find the next round of operating efficiency.

Other things had an impact around that time. Transportation rates had taken a precipitous and sustained nosedive since 1980. While this resulted in a large number of carrier failures, it also pruned the tree of excess capacity, rates began to stabilize, and then, around 2004 to 2005 rates actually started to rise as capacity tightened.

Additionally, the notion of a small core-carrier program was prevalent throughout the 1990s and early 2000s. Companies did not have the resources or technology to manage a large amount of carriers, and this made it difficult for shippers to optimize the full capacity of a carriers network because they were working with a limited number of carriers.

Finally, the maturing of the Internet as a global communications device enabled companies to link their own networks together with their supplier and provider networks in unprecedented fashion. It took time for the enabling technology to develop the capabilities that exploit the functionality of the Internet, but the supply chain world is changing radically.

What this means for shippers and consignees, those who consume significant amounts of transportation capacity, is that there's a new—and better—way to configure complex networks and fill those networks with the right sort of hauling capacity. The caveat, however, is that the sheer size and complexity of these networks means technology is required to perform the analytics that enable harvesting the value.

WHAT IS EXPRESSIVE COMPETITION?

The basic theme is actually fairly simple: Carriers and transportation service providers either own or have access to a set of expensive assets. If you view this set of assets as relatively fixed, at least in the short run, everyone in the game has a network of capacity, typically expressed in terms of the lanes they either serve or desire to serve.

The best interest of the carriers is served in putting as much revenue-generating freight in their network as possible so that the capacity is consumed and the assets achieve the highest possible level of utilization. That makes for efficient network operations, the best operating cost characteristics, and the ability to offer the most competitive pricing and still be profitable: It's the perfect competitive scenario.

As a consumer of transportation capacity, those who control freight spend—the shipper or consignee—has a vested interest in facilitating this scenario. By utilizing your service provider's assets as fully as possible, you aid them in reducing their operating costs, which in turn allows them to price more competitively. This is a textbook method for taking costs out of the supply chain.

Fundamentally, it is just exercising good common sense. What's more efficient? Having one carrier delivering inbound product and another taking outbound product, or utilizing the same carrier for both legs of the move? Of course, freight flows don't always line up in a neat and orderly fashion.

Historically, many buyers of freight capacity basically said to their carriers: "I have lots of freight, so you need to give me discounted rates to get it." And, post-deregulation, this worked flawlessly as inefficient and financially weak providers simply vanished when they couldn't sustain lower pricing levels.

When capacity began to tighten in 2004-2005—many will remember photos of 100 ships awaiting berthing space at LA/Long Beach, driver shortages, and few rail cars—things began to change

The way we approach this type of activity can be characterized more as business process re-engineering, of which freight sourcing is a key part, rather than simply running a bid to get better rates.

and rates began to rise. This was a new phenomenon. Not since before 1980 had anyone seen such a thing.

A new approach was needed. The trick in all of this revolves around what is known as "Expressive Competition." This is based on a simple concept: Service providers know better than anyone where they have excess capacity to fill. In the past, buyers put out requests for rates, usually in discreet bits, frequently by plant, region, mode, and direction (inbound, outbound, etc.)

This was because these exercises needed to be managed in bite-sized chunks due to sheer size and complexity. This left the service providers woefully under-informed about what was really needed, which led to responses that were incomplete, misdirected, or disadvantageous to one or both parties. It was also difficult for shippers to analyze bids and compare apples-to-apples rates as pricing may have reflected different insurance levels, fuel surcharges, and accesorials paid.

In the world of Expressive Competition, the buyer can expose information about the entire network of freight flows however they chose to define it. This allows the service providers to look at those flows and map them efficiently to their own needs. This in turn leads to more competitive pricing because the whole network becomes more operationally efficient. Largely gone are the carriers who have to "take the bad with the good." Untenable economic models are unsustainable for very long, and service providers stuck with bad deals simply wear out on them and either abandon them or serve them poorly, which is not good for either party.

With Expressive Competition, the aim is achieving a basic level of harmony that puts together: The right freight, with the right carriers, for the right service, at the right price.

When done thoughtfully and holistically, the resulting network is cost-effective and sustainable—profitable for buyer and seller alike.

RE-ENGINEERING THE PROCESS

Interestingly, a relatively small percentage of transportation consumers use this approach. In a recently conducted Accenture survey, only 30 percent of the respondents said they employed some sort of procurement application. That means that 70 percent still conduct this part of their business in a less-than-efficient manner and will inevitably sub-optimize results. Clearly, opportunities for substantive improvement abound.

There are many reasons organizations focus on simply trying to get better rates or forestall increasing them. They do not view transportation as a network or portfolio of services that, more often than not, are interconnected and interdependent. For some, it's simply not a priority. Freight is too small a percentage of cost of goods sold (COGS) or is viewed as a necessary evil rather than something to be managed strategically. Also, freight services are often locally or region-

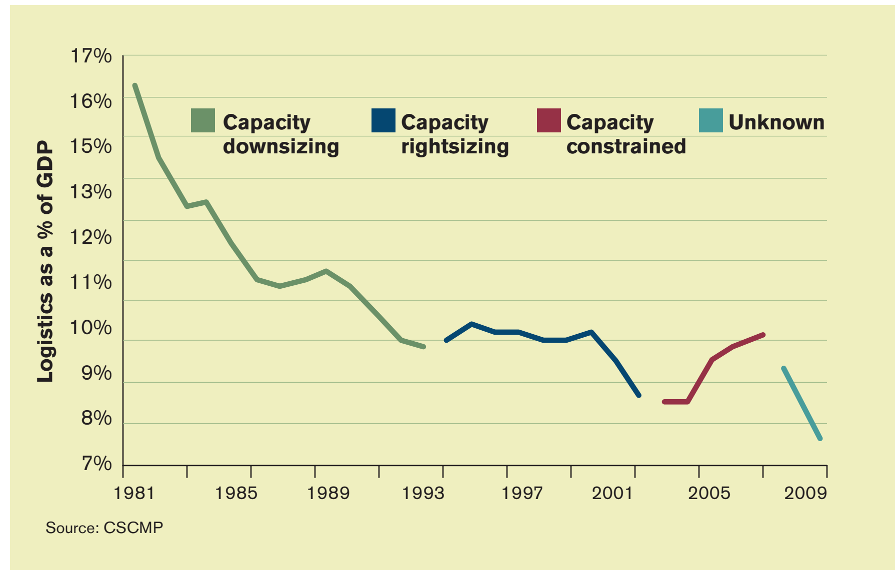
ally managed, which makes a holistic approach difficult from both a cultural and data management standpoint.

Empirically, it makes sense to buy transportation services centrally so as to aggregate volume, market power, and influence. But, this only works if the organizational structure and systems exist to support such a strategy.

The way we approach this type of activity can be characterized more as business process re-engineering, of which freight sourcing is a key part, rather than simply running a bid to get better rates.

We suggest re-engineering the contracting process so it more fully encompasses commercial terms, in addition to the typical legal and risk mitigation provisions.

Our team also prescribes standardizing and simplifying basic elements of transportation services. Many companies are dealing with complicated and arcane practices that frequently bear the residue of the regulatory era. This make them difficult to manage effectively and too often exposes the buyer to unforeseen charges relating to obscure rules and provisions. We seek to put a standard, preferably modular contract in place that is flexible enough to cover multiple modes. The overall goal is to embed all of the applicable commercial terms in the agreement and avoid obscure "omnibus" provisions, which invoke tariff references that may not be easily or readily discovered.



This historical chart shows resurgent cost increases in transportation. Deregulation (price-based costing) provided a once-in-an-eternity benefit from regulation (cost-based pricing); it took a generation, but we have now "eaten all the seed corn."

With Expressive Competition, the aim is achieving a basic level of harmony that puts together: the right freight, with the right carriers, for the right service, at the right price.

We do that by clearly stating common-sense and fair business rules and requirements that all can abide by; establishing a commonly agreed set of accessorial charges so that it's clear when they apply and what they are for; developing a fair, equitable and standardize fuel surcharge mechanism, so that all carriers can clearly see what the deal is *before* they submit pricing; and finally setting forth clear and standard payment terms and conditions, with an eye toward simplifying and standardizing the process so payment can be made accurately and timely the first time.

We execute this process through an advanced, web-enabled, automated RFI/RFP process that is less about exhausting a carrier's patience—filling out reams of useless and unused information—and more about providing a complete picture of the buyer's business and what is being sought. This new process offers specific, detailed information to enable potential serving carriers to present an informed and accurate response and avoid having to go back an re-work the process a few months into the new network operation.

This is done by conducting a holistic, multi-modal, web-enabled sourcing event using leading-edge optimization technology for Expressive Competition. From that, we work jointly with our clients in developing an optimal solution that aims to be a solution of right freight, right carriers, right service, right price and focusing on a solution set that can be implemented and sustained.

Putting all of this together into a seamless, well-orchestrated program-approach to transportation management yields effective service networks that are profitable for buyers and sellers, which are then sustainable when they are operationalized. In the final analysis, this becomes a much less disruptive, much more systemic way of efficiently operating complex transportation networks. □

Brooks Bentz is a Partner with Accenture, Scott Fata and Margaret Tedlie are Senior Managers in the North American Fulfillment Practice in Supply Chain Management

9th Annual Software Users Survey:

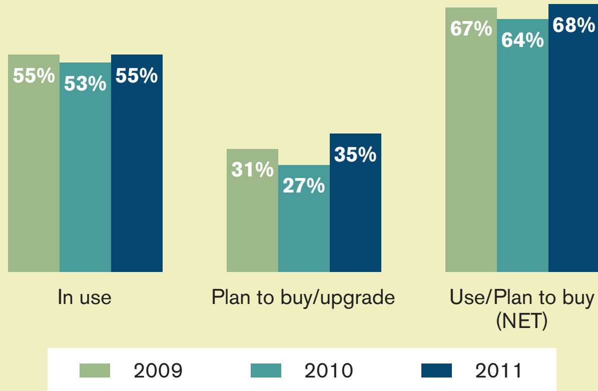
MIXED RESULTS

While shippers say they're taking a more calculated approach to vendor and product selection, our survey finds that there will be an increase in overall supply chain software spending over the next 18 months.

BY **BRIDGET MCCREA,** CONTRIBUTING EDITOR

Warehouse Management Systems (WMS)

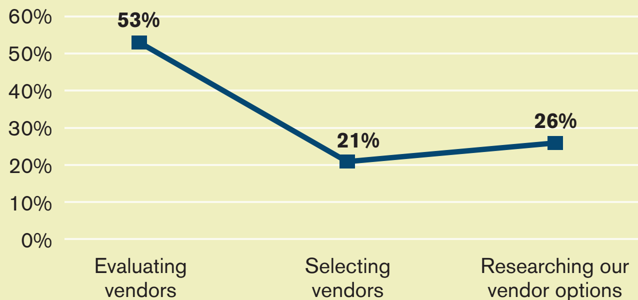
What are your purchase or upgrade plans for WMS?



How much do you plan to spend on WMS in the next 12 months?

<$100,000	$100k - $500k	$500k- $1M	$1M+	Average $	None
35%	18%	4%	5%	$445,918	36%

At what stage are you in the buying process?



Source: Peerless Media Reseach Group

Logistics Management magazine recently conducted its 9th Annual Software Users Survey to better understand the current supply chain software market, identify pertinent trends, and gauge just how far logistics and supply chain managers have come in terms of implementation.

With the economic recession gradually loosening its chokehold on the nation's businesses, *Logistics Management* was keen to learn which new and upgraded software options were at the top of shippers' wish lists, and which of those options were already in the planning and purchasing stages.

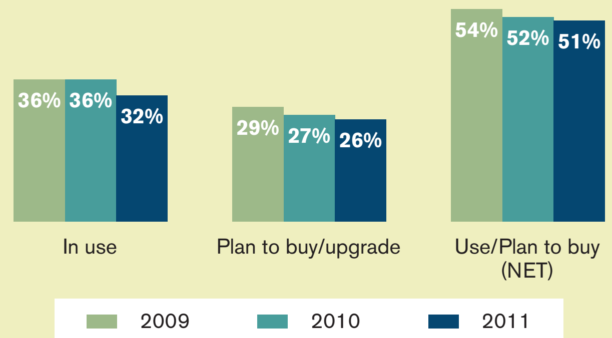
As in years past, specific areas of evaluation from survey respondents included types of software currently used and planned for purchase; annual software expenditures; respondents' stage in the software buying process; reasons for consideration of supply chain solution software; number of software packages and vendors used by company; and expected timeframe for payback on purchases of supply chain software, to name just a few of the areas examined.

This benchmark study to assess the supply chain software market was conducted among readers of *Logistics Management* magazine and e-newsletters, and the study participants are involved in specifying and evaluating logistics and supply chain software solutions for their company. The study gauges the state of the market and identifies any trends that may have become apparent from year to year.

A total of 132 qualified responses were received from *Logistics Management* subscribers who indicated that they were personally involved in buying supply chain management (SCM) software for their companies' operations. Over the next few pages we go deeper into the results and find out what some of the top SCM analysts have to say about this year's findings.

Transportation Management Systems (TMS)

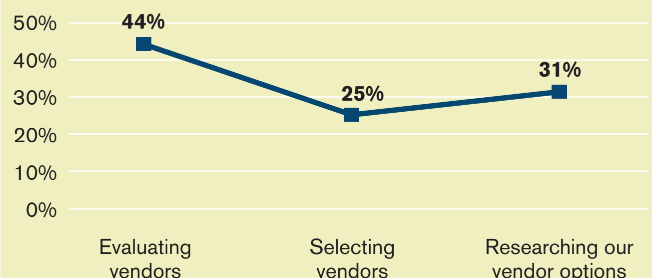
What are your purchase or upgrade plans for WMS?



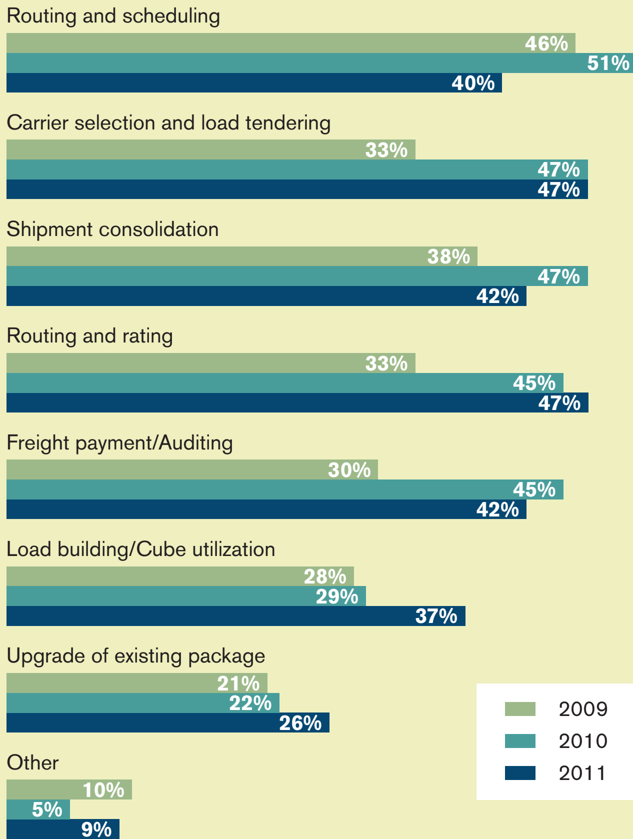
How much do you plan to spend on TMS in the next 12 months?

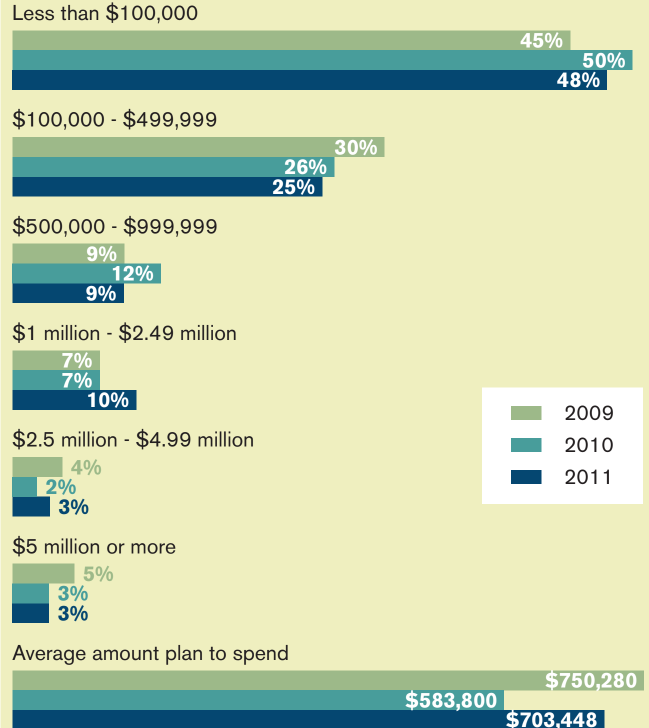
<$100,000	$100k - $500k	$500k- $1M	$1M+	Average $	None
23%	23%	5%	2%	$264,706	47%

At what stage are you in the buying process?



Source: Peerless Media Reseach Group





WHO'S PLANNING TO BUY WHAT?

The top software choice for logistics professionals in buying mode was warehouse management systems (WMS), with a total of 68 percent of shippers either already using or looking to buy a new WMS in 2011, compared to 64 percent in 2010.

When they're ready to procure those systems, 35 percent plan to spend less than $100,000, while 18 percent expect to pay $100,000 to $500,000. Four percent plan to shell out $500,000 to $1 million for their new WMS. Key expectations from such systems include upgrades of existing packages, real-time controls, inventory deployment, and label printing.

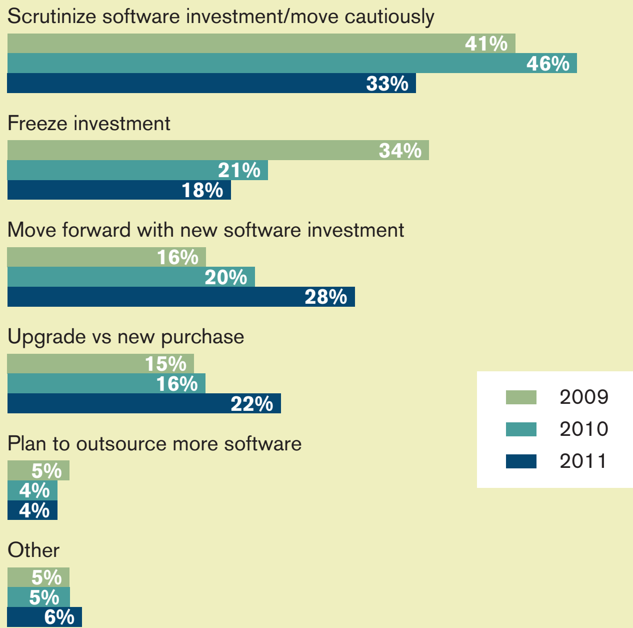
Transportation management systems (TMS) are also top of mind for shippers this year, with 26 percent planning to purchase such systems within the next 12 months. A total of 51 percent are either already using or looking to buy a new TMS this year, compared to 52 percent in 2010. Twenty-three percent expect to pay less than $100,000 for a TMS, while another 23 percent want to procure their TMS for $100,000 to $500,000. Five percent expect to pay $500,000 to $1 million for the software.

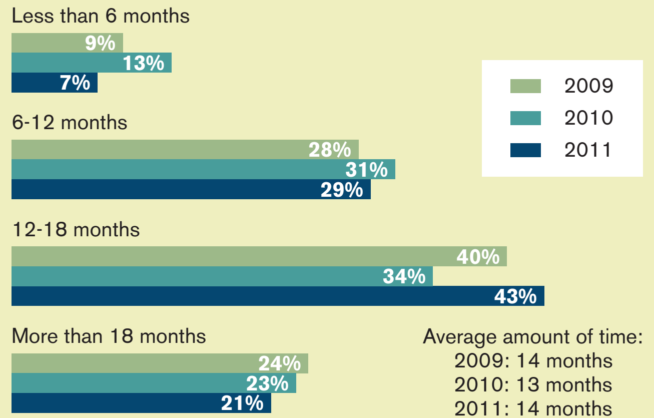
When it comes to getting the most out of a TMS, shippers are hoping to gain better routing and scheduling capabilities, improved carrier selection and load tendering, shipment consolidation, and routing and rating.

Seventeen percent of companies are shopping around for new enterprise resource planning (ERP) packages this year, with 24 percent planning to spend less than $100,000 for their new systems. Fifteen percent expect to procure their ERPs for $100,000 to $500,000, and three percent will pay $500,000 to $1 million. When buying their ERPs, 48 percent of companies will be looking for an integrated WMS and 25 percent expect a TMS to be included in the package.

To help improve inventory visibility, demand planning, order management, and vendor/supplier collaboration, 13 percent of shippers will invest in supply chain planning (SCP) software this year, compared to 27 percent in 2010. In total, 43 percent of shippers say they're either using or planning to use SCP in 2011, compared to 25 percent in 2010. Fourteen percent of those firms say they'll pay less than $100,000 for this investment, while 5 percent expect to spend $100,000 to $500,000, and another 5 percent will shell out $500,000 to $1 million.

When asked whether 2011 would be the year to integrate a global trade management (GTM) system into the mix, just 6 percent of shippers nodded. Of that group, 4 percent want





to spend less than $100,000 for their GTM, while 4 percent will pay $100,000 to $500,000 and 2 percent will spend $500,000 to $1 million. Yard management systems (YMS) are on the radar screen for 3 percent of shippers this year.

TAKING TO THE CLOUD?

Twenty-four percent of shippers report that they're currently using an on-demand supply chain package, and the same percentage of respondents say they're looking to move into an on-demand option over the course of the next 12 month. Meanwhile, 76 percent say they weren't using on-demand solutions and are currently not shopping for one.

In examining this low interest in on-demand supply chain solutions in the survey, Belinda Griffin-Cryan, global supply chain executive program manager at Capgemini Consulting, says that the numbers could be trending downward because while the initial buzz around such solutions has subsided, they also haven't "quite hit critical mass yet."

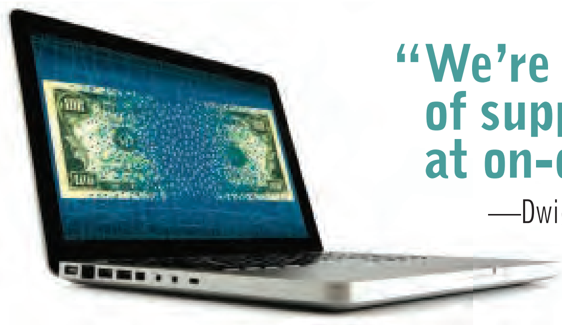
The low-hanging fruit has been picked, so to speak, and non-adopters have yet to jump at the chance to move their supply chain software into the "cloud." "Shippers are still interested in on-demand solutions," says Griffin-Cryan, "but they are approaching it more cautiously than we would expect, and that cautiousness is reflected in the adoption rates of some of these solutions."

When asked how much logistics professionals are expecting to spend overall on supply chain software in 2011, 48 percent of shippers plan on $100,000 or less. Twenty-five percent expect to pay out $100,000 to $499,999; 9 percent are planning on $500,000 to $999,999; and 10 percent fell into the $1 million to $2.49 million range. The average amount that shippers expect to pay is $703,448, up from $538,800 in 2010.

The criteria that shippers use when evaluating software packages has changed as a result of challenging economic conditions. Forty-six percent of respondents say they are scrutinizing their software investments more closely (compared to 33 percent in 2010) and moving more cautiously, while 21 percent have frozen all investments for this sector (compared to 18 percent in 2010).

Thirty-eight percent of respondents say their company's use of supply chain software has increased over the last two years. When asked the same question in 2010, 47 percent responded affirmatively. This year, 56 percent of companies say their supply chain software investment has remained steady over the last 24 months, and 6 percent say it has decreased.

Important factors that shippers will use when choosing the



"We're finding that about 50 percent of supply chain operations are looking at on-demand options."

—Dwight Klappich, research vice president, Gartner

right supply chain software include operations service/support; compatibility with existing software; and configurability. Twenty-four percent of shippers are currently using an on-demand supply chain package. Most respondents (43 percent) expect ROI on their purchases within 12 to 18 months, while 29 percent want to see those results within six to 12 months.

WHAT DO THE ANALYSTS THINK?

Dwight Klappich, research vice president for Gartner, Inc., isn't surprised by the overall results of the software survey, which indicates a cautiously optimistic approach to new purchases for 2011, an overall increase in total supply chain software spending, and a more calculated approach to vendor and product selection.

Klappich did have some comments on specific data points. For example, he says that a higher number of shippers are probably considering on-demand solutions than the survey indicated. "Our own analysis shows that about 50 percent of supply chain operations are looking at on-demand options," says Klappich.

Griffin-Cryan says she was surprised at the fact that inventory visibility and demand planning "dropped off a bit" as drivers of supply chain software purchases. While 58 percent of respondents cited inventory visibility as a key concern in 2010, only 42 percent pointed to it as a driver in 2011. For demand planning, the percentages were 52 percent and 25 percent, respectively.

She credits an improving economy with taking some of the emphasis off of those two drivers. "During the recession, that's where companies were spending money because there was so much focus on improving inventory position and doing better demand planning," Griffin-Cryan says. "That's probably why we're seeing a drop-off now, because those were the two areas where companies were able to justify spending for the last couple of years."

When it comes to overall spending on supply chain software, Griffin-Cryan states that the *Logistics Management* survey results are in line with Capgemini's own findings. "It does look like firms are starting to spend money and invest again," she notes. "We're seeing that trend in our own discussions with clients, and it's reflected in the survey data."

Adrian Gonzalez, director at Newton, Mass.-based Logistics Viewpoints concurs, and says his firm's numbers also show an uptick in IT spending in the supply chain space for 2011, compared to the previous two years. "The year 2009 was a bad one for the market, and a lot of companies pulled back," says Gonzalez. "In 2010 we started to see some recovery, and the momentum is definitely continuing in 2011." □

Bridget McCrea is a Contributing Editor to Logistics Management

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Demystifying the 4PL

Even though the term 4PL remains shrouded in mystery, a number of prominent logistics providers claim that if there is indeed a 4th dimension, they've got it. But can they really deliver on that promise? After defining the differentiating features, we'll let shippers decide.

BY **PATRICK BURNSON,** EXECUTIVE EDITOR

Logistics management has long been a discipline fond of neologisms—newly coined words in the process of entering common use, but not yet been accepted into mainstream language. Take the now, relatively common term third-party logistics provider (3PL) for example. Simple enough until you add a strategic component; and then, say many providers, you have a model on steroids—or a more dynamic fourth-party logistics provider (4PL).

However, if you gathered a group of 10 logistics professionals and asked them to define the difference between a 3PL and a 4PL you'd probably get 10 different answers.

Most industry experts contend that 4PLs are focused on the logistics processes of the client, from the way they handle operations internally, through the partners/logistics suppliers they use, to customer service. Still, they say, there remains a number of "pretenders to the throne," and severe scrutiny is advised before making a commitment. After all, the 4PL is obligated to provide the best supply chain solution, not the one that it's in the best position to implement.

"It is very difficult to make the distinction between a 3PL and a 4PL," says Rosalyn Wilson, senior business analyst at Delcan Corporation, a supply chain consultancy in Vienna, Va. "During the recession everyone was trying to grab onto anything that would get them more business. Even small trucking companies were trying to get in on the action by saying they offered 3PL and 4PL services, but most were well out of their element."

According to Wilson, 4PLs by definition must be non-asset

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based. She argues that many "wannabe" companies are hiding transportation assets somewhere under false advertising. And Wilson argues that it's not good enough to have a separate division offering the service.

"There must be complete mode/vendor neutrality," she says. "The element that complicates this issue even more is the fact that some non-asset based 3PLs say they offer 4PL services… but they are not really in a neutral position." For example, the consulting arm of such an organization would be hard pressed when making recommendations not to include their 3PL services as an option. "They can't have warehouses, transportation equipment, or even a software product that would be recommended," notes Wilson.

Alan Van Boven, head of technology solutions for the consultancy Supply Chain Visions, Ltd., is on the same page with Wilson: "Ideally, a 4PL would never have assets. It would typically work as the single partner for a shipper, selecting 3PLs, freight forwarders, and customs brokers." Van Boven allows that a 4PL could also be a 3PL with its own network, but must be mode neutral.

Armstrong & Associates Chairman Richard Armstrong insists that economic globalization and the need for more sophisticated management of global supply chains has already made the 4PL coinage obsolete. "Anderson Consulting is credited with creating the expression '4PL' so that they could be charged with one more element of business," Armstrong says. "For all practical purposes, though, the term has been eclipsed by global chain managers,'" he adds. "These are the companies that can manage transportation and inventory without doing the tactical work."

Evan Armstrong, the president of Armstrong & Associates, agrees. He prefers to use the term "lead logistics provider" (LLP) to define this value-added function that has recently been tossed into the 4PL bucket. When the father-son team rolled out their 3PLAdvisor.com, a social network service intended to provide 3PL customers with a platform for sharing customer relationship experiences about their providers, the term "4PL" was conspicuously absent.

"The term has simply become too confusing," says Evan Armstrong.

"During the recession everyone was trying to grab onto anything that would get them more business. Even small trucking companies were trying to get in on the action by saying they offered 3PL and 4PL services, but most were well out of their element."

—Rosalyn Wilson, Delcan Corp.

AGNOSTIC APPROACH

Menlo Logistics' 4PL Product Owner Carl Fowler says he does not take issue with Armstong's assessment—but only to a point. Having launched the company's 4PL division some years ago, he maintains that "synchronizing the supply chain" is still a unique service representing the 4th dimension of a logistics provider.

"And it's important to note that just because we are asset-based, this does not mean that customers must use Con-way too," he says. "In fact, fewer than 10 percent of our customers rely on us for that piece of the transportation solution."

Given the increased complexity of the globalized business, shippers require more—not less—information from a single provider about their options, says Fowler.

"We take an agnostic approach to the enterprise," he says. "After evaluating a customer's long-term goals, we develop a strategic plan that can use all or part of Menlo's offerings." Even a company that chiefly offers software-as-a-service can call itself a 4PL if it can map the customer's enterprise, Fowler concludes (See sidebar on page 44).

And then there's the player we all knew as the modest freight intermediary. SEKO, for example, has been in the forwarding business for more than 36 years, but began offering 3PL/4PL services for the past eight years with accelerated success. According to Jim Wallace, vice president of global sales for SEKO, current logistics services include air, ground, and ocean. He says being "mode neutral" is an advantage when helping shippers move their goods and raw materials from vendor to factory to end-user in a JIT environment.

"It enhances asset utilization," says Wallace. "Also, we provide warehousing services that help customers with space constraints or those who wish to outsource more of their logistics functions."

For SEKO, its 4PL services manage the selection process for carriers and for warehouse management activities as opposed to handling the freight movement. According to Wallace, they can provide supplier management services, transportation and supply chain oversight, and manage vendor compliance—all key functions that fall under the definition of a 4PL.

"There is a fine line between the activities of the two, and frequently a 4PL has 3PL capabilities and takes advantage of those with its customers," says Wallace.

This is a fine line indeed, say industry analysts, who contend that a hard and true differentiation between a 3PL and a 4PL is tough to nail down.

"Ask 10 people, and you probably will get 10 different answers," says Clifford Lynch of C. F. Lynch & Associates, a supply chain consultancy. "In my view, a fourth party is a non-asset business process outsourcing provider. It may or may not be a consultant and often contracts out for the services it provides. It is mode neutral."

Lynch adds that it's similar to the function of the LLP, offering total supply chain or logistics solutions, utilizing its own facilities and systems through strategic alliances with other providers.

Charles Clowdis, Jr., managing

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director of transportation advisory services for supply chain analyst firm IHS Global, says that while a 3PL or 4PL can certainly be asset-based, it has never particularly been his concern as long as the client is being served well with price and service. "I just never got too hung-up on who owned the assets unless the evaluating party was an asset-based 3PL who would have a vested interest in selecting their assets as the client's solution," he says.

Clowdis recalls one of his "most successful adventures" with a client seeking to outsource multiple logistics elements. In that case they came up with a 4PL that managed two 3PLs and provided another missing service themselves. At the same time, he had to be careful to avoid the appearance that the provider did not favor its own assets when maximizing the value for the client.

"Ideally, a 4PL should be mode neutral and asset-free, but there are exceptions. It all comes down to the element of trust—which is so vital in any 3PL or 4PL relationship. The asset-based provider who favors his assets to the detriment of the client makes for a short-lived relationship," he says.

"Ideally, a 4PL would never have assets. It would typically work as the single partner for a shipper, selecting 3PLs, freight forwarders, and customs brokers."

—Alan Van Boven, Supply Chain Visions, Ltd.

HORIZONTAL COLLABORATION

Relationships become even more important as the trend for "horizontal collaboration" gains traction, say analysts for Eyefortransport (EFI), a London-based research organization. In its most recent analysis on North American supply chains, "trust" was a word invoked by shippers and their 3PL/4PL partners.

"Shippers who responded to our survey were asked to identify the key drivers encouraging their company to consider or initiate horizontal collaboration," says McKinley Muir, head of EFI's Research & Market Insight.

According to Muir, cutting transport costs and satisfying customers were seen as the biggest drivers for shippers, though enhancing customer service, improving delivery times, and improving overall logistics operations were seen as being very important by more than 50 percent of the respondents.

"The final part of the survey looked at which key barriers are stopping respondents from investing (or further investing) time and money into horizontal collaboration," she says. "There was not a great deal of consensus between the groups of shippers, though the most widely perceived barriers was fear of information disclosure."

Muir notes that this, too, comes back to the difficulty of starting trusting relationships. "Finding appropriate partners is also a significant concern," she said. "For carriers, the need for a legal framework is key, and for 3PL/4PLs, capacity control is perceived as the biggest barrier.

So when it comes to "breaking down walls" regarding the 3PL/4PL conundrum, does it really matter what they're called if the transparency and trust are delivered as promised?

Clowdis may have the answer: "You may get some resistance from those in the industry favoring the expression 4PL, but I can remember when the word didn't even exist. We called these companies 'advisors' before it became so complicated. Personally, I prefer LLP, or even something as benign as 'Logistics Outsourcing Consultant.'"

All those interviewed agreed that acronyms stick around for a long time in this business; and despite the cache of LLP, we may wait for some time before it gains currency. One thing seems certain, however. The "5PL" is not a coinage that will command much attention. □

Virtual LLPs take hold

Software-as-a-service (SaaS)—now known as "the cloud"—is another one of those mad coinages that's been confusing shippers for a while. But there's a line of conjecture that these software companies may also be regarded as lead logistics providers (LLPs). After all, many now link shippers with transportation and logistics providers without compromising themselves by holding hard physical assets.

Defenders of this line of thinking maintain that the transport element of a global supply chain system has expanded from basic functions incorporating load planning; matching buyers with sellers; import/export; track and trace; and finally, reverse logistics.

In evaluating an appraisal of the new structural elements of the supply chain, one might consider that all of its complex functions can indeed be managed by SasS providers.

After all, most of the widely recognized LLPs promise to provide the information infrastructure linking e-commerce on the front end to myriad back office applications and external systems influencing procurement and distribution. If that doesn't describe SaaS, what does?

Spokesmen for TMC, a managed transportation management system offered by C.H. Robinson, argue otherwise: "Software as a service was a great leap forward...but shippers, despite significant investment and time implementing, still struggle to realize the full benefits of their purchase," says Jordan Kass, executive director of TMC.

That's because shippers must still share all their supply chain goals and methodology before an asset-free, mode neutral SaaS player can begin to do the work for them. And that, according to analysts, brings them back to square one.

—Patrick Burnson, Executive Editor

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Mission Foods' wireless evolution

Over the past six years, the tortilla manufacturer has rolled out a combination of wireless technologies—from handhelds, to wireless networks, to RFID—to automate transactions, track assets, and manage labor and inventory in its distribution and warehouse operations. Here's how they made it happen.

BY **MAIDA NAPOLITANO**, CONTRIBUTING EDITOR

It's official: You're not the only one addicted to your Blackberry. Most everyone in your supply chain is.

According to a 2010 survey conducted by the ARC Advisory Group, respondents picked the smartphone (Blackberry and iPhone) as the most used mobile or wireless technology being applied in supply chain management (SCM) today, at 69 percent. It even surpassed the veritable workhorse of the logistics industry—the handheld computer, at 54 percent.

"A person uses a smartphone to stay connected to his business and to link in to his office," says Steve Banker, ARC's service director of SCM. "But on the warehouse floor I don't see it replacing the standard handheld scanner anytime soon. The handhelds are more robust, don't break easily, and scan much more efficiently."

Pete Doyle, strategic account manager for Intermec Technologies and provider of rugged handheld computers, agrees with Banker's assessment. "Having WIFI, GPS, cellular, and Bluetooth connectivity—and still being able to drop the device from eight feet to concrete, that's been a big game changer for us. And we've had it even before the smartphones had it."

No matter which wireless technology you're putting to use in your warehouse/DC operations, going wireless and freeing yourself from paper—while achieving real-time visibility on your trucks and inventory—are the clear beneficial attributes that are making wireless technology the hot topic it is today.

Tortilla manufacturer Mission Foods is a terrific example of what can be done through a comprehensive wireless system. The company employed a combination of wireless technologies—from handheld computers, to wireless networks, to RFID—to automate transactions, track assets, and manage labor and inventory in its distribution operation. Let's take a closer look at how this innovative manufacturer made it happen.

MISSION'S MISSION

With 16 plants and 50 distribution centers (DCs), Irving, Texas-based Mission Foods is one of the largest manufacturers of tortillas, chips, salsa, and taco shells in the U.S. Mission's mission is simple: To deliver fresh, shelf-stable tortilla products to every customer, every time, on time.

Mission's supply chain operation accomplishes this by following a direct-store-delivery (DSD) model using independent operators to quickly move products to market. It has a network of about 2,000 independent distributors who transport Mission's products over 2,300 routes. They pick up these products from Mission's facilities and deliver them directly to supermarkets and retail stores.

Since the late 1980s, Mission Foods had been using batch computers for its DSD routes, while relying heavily on paper and corrugated for picking and packing items. But by 2005, following years of dramatic developments in wireless networks, data capture, and mobile computers, Eduardo Valdes, vice president of management information systems, knew it was high time to leverage these technologies and transform Mission's distribution process.

Under his watch, Mission Foods began making the move towards wireless technology in three critical areas: its DSD operation; in the tracking of returnable plastic containers; and within the four walls of the warehouse.

THREE WIRELESS RADIOS IN ONE

Like worker bees in a colony, Mission's independent

"In the past, we'd have to wait for the distributors to establish a modem connection to download invoices and get an update, or we'd wait for them to come to the office."

—Eduardo Valdes, vice president of management information systems, Mission Foods

Warehouse worker transporting pallet with reusable containers through an RFID portal.

Photos by Brandon Thibodeaux/Getty Images

An independent distributor uses a handheld computer with attached portable printer to wirelessly transmit delivery information to Mission Foods in real time and generate invoices at a grocery retailer's store.

distributors are tasked with delivering the company's products to stores and producing invoices requiring a customer's signature before moving on to the next store.

"In the past, we'd have to wait for the distributors to establish a modem connection to download invoices and get an update, or we'd wait for them to come to the office," says Valdes. Hard copies of invoices that were dropped off had to be manually scanned for electronic processing—not a small task when you're dealing with about 30,000 documents a day nationwide.

In 2005, having worked with Intermec since 1996, Valdes and his team went back to its solution provider to see if it had a handheld computer that could simultaneously support three forms of wireless communication: wide area wireless connectivity to transmit invoice and delivery data in real time from distributors in the field to Mission's SAP systems; a wireless LAN 802.11b-standard connection for use within its facilities; and Bluetooth connectivity to print signed paper invoices at a customer site from a portable printer.

According to Valdes, the provider's handhelds clearly fit the bill; and in 2006, these mobile devices were rolled out to Mission's independent distributors who could now generate invoices for customers on the spot.

In this system, the capture of a customer's signature on the handheld automatically triggers a wireless transmission that sends the invoice data to Mission Foods over AT&T's wide range area network. If out of network coverage, the system will automatically retry to send the data. If any transactions haven't been transmitted when the distributor returns to the DC, the DC's wireless LAN is used to send the data from the handheld.

Although the biggest benefit to Mission Foods might be the real-time exchange of accurate transactions, electronically capturing signatures on invoices has also eliminated the need to scan and process 30,000 documents. More importantly, independent distributors don't take as much of the customer's time to complete deliveries, elevating service levels on delivery routes.

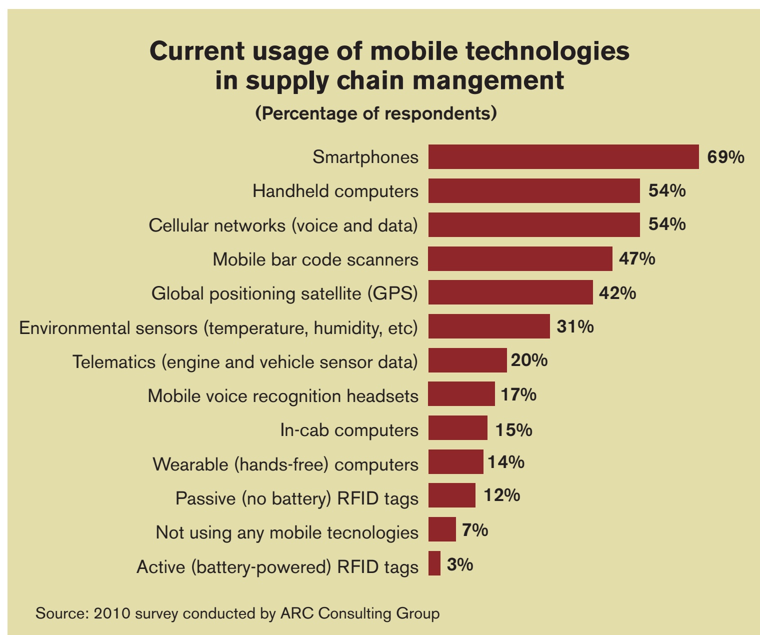
CONTAINER TRACKING WITH RFID

After offering independent distributors these new handhelds, Valdes and his team switched gears in late 2008 to focus on the containers used to transport products to stores. The company, in response to sustainability initiatives, had been gradually replacing its corrugated boxes with returnable plastic containers (RPCs).

With these containers costing $8 each, the company's ability to be "green" relied heavily upon distributors returning RPCs after product delivery—easier said than done. Nearly 100 percent of the RPCs were being replaced each year at a loss of $3 million.

While keeping track of containers leaving may have been easy, tracking them coming back proved difficult. "Most distributors would drop the empties outside the warehouse, but facilities lacked the manpower to check-in and count the trays that were returning," says Valdes. He needed a system that wouldn't create extra work for warehouse personnel, follow the natural picking and shipping process, and still track who was returning the containers.

Valdes and Intermec set up a "proof of concept" in Mission's 150,000 square-foot Dallas facility to determine whether using RFID to track containers would be feasible. They attached an adaptor to a DSD handheld, making it an RFID reader.



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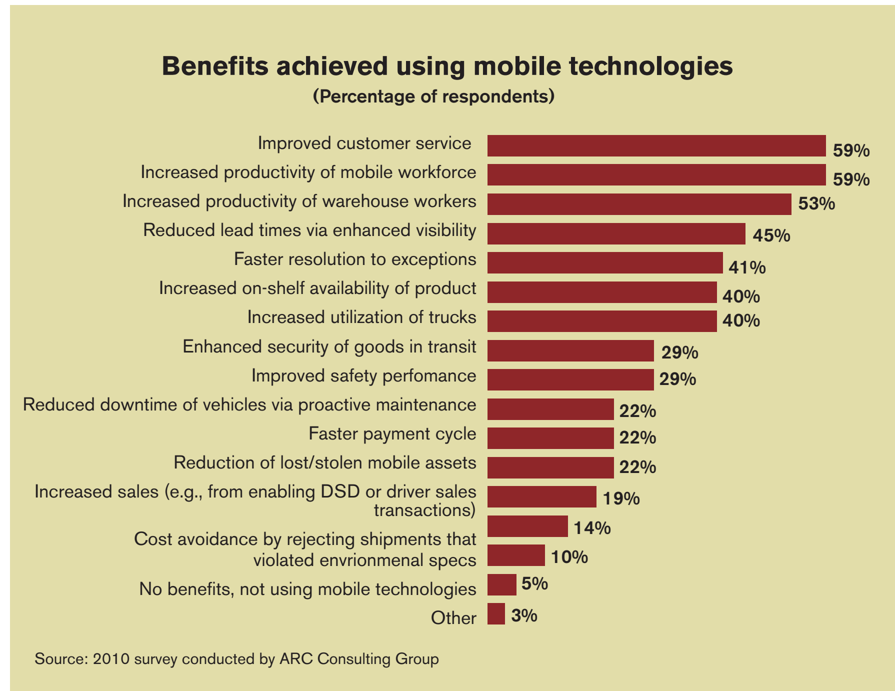

"We put a fairly expensive RFID tag on a thousand containers so we knew it would read, and then we successfully tracked them with this handheld coming and going," recalls Intermec's Doyle. Engineers then tested the readability of less expensive tags on containers filled with Mission's products until finally recommending an inexpensive, but reliable weather-resistant, polyester label with an RFID tag built into it. Placing RFID reader portals on each dock door would have been cost-prohibitive, so Mission's team located a minimal number of portals along the workers' most travelled paths.

To facilitate tagging each container, Mission printed the containers' RFID labels in-house before sending them to the RPC manufacturer for application to the containers before they arrive at Mission's facilities. Before loading onto the independent distributor's truck, a worker prints and attaches an RFID paper tag on the pallet indicating which independent distributor gets the pallet along with the number of containers associated with the pallet.

Lift truck drivers then transport product through an outbound portal that automatically records both the pallet and container codes. Upon the independent distributor's return, the trays are processed through an inbound portal near the docks where lift trucks must drive before unloading the empty containers in the warehouse. Because every reader has a unique IP address, Mission knows where the containers were read and if they were leaving or coming back to the facility.

The only issue, according to Valdes, is the inadvertent reading of stray tags from product stored within the vicinity of the portal—a problem that's common in many RFID applications. Valdes and his team installed filtering software that could identify these stray tags and eliminate them from tracking reports.

In July 2009, Dallas went live with three strategically placed portals. Soon after that, portals were installed in Houston and San Antonio in just one week. Mission Foods plans to continue rolling out this RFID system to all of its DCs and plants through 2012.

The system, including readers, tags, and software, cost about $100,000 for all three Texas facilities—which move a total of 20,000 containers per day. For 2010, these facilities saved a combined $700,000 by switching from corrugated, resulting in a return on investment of only a few months.

Scanning the barcode of an outbound pallet with a handheld computer equipped with a scanner and terminal emulator software.

TAKING WIRELESS TO THE WAREHOUSE

Valdes and his team's foray into wireless technology continues to evolve over time. In 2009, they decided to concentrate on Mission's warehouses that still used paper pick lists to pick full cartons of product onto a pallet.

For years, this paper-based approach caused mispicks and inhibited automatic traceability for recalls. Many times, the oldest products weren't picked first, resulting in some items going to scrap due to expired sell-by dates.

To address these issues the team chose another handheld computer capable of scanning barcodes up to 50 feet away. The handheld is equipped with a terminal emulator software that mimics the data entry terminal on Mission's host system, essentially making the handheld a smaller version of the system.

With these wireless devices, a worker scans the pick location and the product to make sure he or she is picking the correct product and quantity. The handheld then directs the worker to the next pick location.

Using these wireless handheld scanners in the warehouse has allowed real-time tracking of inventory, labor productivity and delivery status, while seamlessly interfacing with Mission's SAP systems. In late 2009, they went live with the first location, adding two more locations in 2010. □

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TOP 50 TRUCKING COMPANIES

EMERGING from the SHADOWS

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

Leading trucking company CEOs say it's time to pay down debt and put profit to work to recapitalize their businesses—all at a time of tightening capacity. For shippers, the days of rock bottom rates could be long gone.

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Special Report

TOP 50 EMERGING from the SHADOWS

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What do the Top 50 trucking companies have in common? That's easy. Leading CEOs and trucking analysts agree that their shared traits include shrewd and experienced management teams, an obsession with service and operational details, an ability to react quickly to market conditions, and a motivated work force.

Emerging from the roughest three-year economic cycle since the industry was deregulated, CEOs from *Logistics Management's* list of the Top 50 trucking companies say that they're now focused on improving yield and profits. That's at the same time they're increasingly tailoring their services for each specific customer to satisfy changing shipper demands.

What's making the *LM* Top 50 tick? According to David Ross, trucking analyst for Stifel Nicolaus, the most important aspect of any Top 50 trucking company is the strength, ability, and breadth of experience of its management team.

"Management is number one," says Ross. "They all run the same trucks along similar networks, but it's how you run them that makes the difference. The best make the right decisions on how much to charge, what kind of capacity to bring on, and how much equipment to buy. It all starts with management."

HOW THE TOP 50 ROLL

FedEx Freight this year surpassed YRC Worldwide as the nation's largest less-than-truckload (LTL) carrier. It is at the forefront of industry changes. Bill Logue, president and CEO of FedEx Freight, says he draws his cues from Fred Smith, the founder and CEO of

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TOP 25 LESS-THAN-TRUCKLOAD CARRIERS - 2010 REVENUES (Including fuel surcharges)

RANK	CARRIER NAME	2010 REVENUE ($ MILLIONS)	COMMENTS
1	FedEx Freight	$4,421	Revenue adjusted to calendar quarters Includes FedEx National LTL
2	Con-way Freight	$3,026	Surpassed YRC National as second largest LTL carrier
3	YRC National	$2,642	Includes YRC, Inc. (former Yellow and Roadway) and YRC Reimer brands
4	UPS Freight	$2,002	Completed first full year with union workers
5	ABF Freight System	$1,395	Expanding regional service in Western U.S. during 2011
6	Old Dominion Freight Line	$1,377	Most profitable public LTL carrier
7	Estes Express Lines	$1,352	Largest privately-held LTL carrier
8	YRC Regional	$1,257	Includes Holland, Reddaway, and New Penn brands
9	R+L Carriers*	$1,077	Includes R+L, Gator, Greenwood, and Paramount brands
10	Saia Motor Freight Line	$836	Coverage of 34 states
11	Southeastern Freight Lines*	$723	12 Southeast states. Launched logistics division in Jan. '11
12	Vitran Express	$582	Acquired Milan Express (Feb. '11). Coverage in 34 states with Milan
13	Averitt Express	$495	Southeast coverage. Member of Reliance Network for national coverage
14	Roadrunner Transportation	$410	Acquired Bullet Freight (Dec. '09). Light-asset carrier
15	AAA Cooper Transportation	$399	Coverage in 15 states primarily in the Southeast
16	Central Transport International*	$354	Full coverage of 33 states
17	New England Motor Freight	$317	15 Northeast and Mid-Atlantic states
18	Pitt-Ohio Express	$275	Mid-Atlantic coverage. Member of Reliance Network for national coverage
19	Dayton Freight Lines*	$257	11 Midwest states
20	A. Duie Pyle*	$231	13 Northeast states
21	New Century Transportation	$170	Light-asset load to ride hybrid LTL operation
22	Central Freight Lines	$150	Coverage in 14 states primarily in the Southwest
23	Daylight Transport	$144	Light-asset with concentration on West Coast
24	Oak Harbor Freight Lines	$129	Coverage in 5 Western states
25	Ward Trucking	$114	10 Mid-Atlantic states
	2010 TOP 25 TOTAL REVENUES	**$24,070**	
	ALL OTHER LTL CARRIER REVENUES	**$3,401**	
	2010 TOTAL LTL MARKET REVENUES	**$27,471**	

Note: Revenues for LTL operations only, unless otherwise indicated
*Revenues primarily LTL and include less than 10% for truckload and other services
Source: Company reports and SJ Consulting Group estimates
Prepared by SJ Consulting Group, Inc.

FedEx Corp. Logue says no detail at any of FedEx's operating units is too small for Smith to ignore.

"It's a culture created at the top," says Logue. "Fred has always emphasized that we are in business for the customer. But it's our employees who make that customer expect great things. We try and make every employee responsible for that customer treatment."

According to Douglas Stotlar, president and chief executive officer of Con-way, the No. 2 LTL carrier on our list, says that he sees several common characteristics in his operation and those of his chief competitors, including comprehensive

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TOP 25 TRUCKLOAD CARRIERS - 2010 REVENUES (Including fuel surcharges)

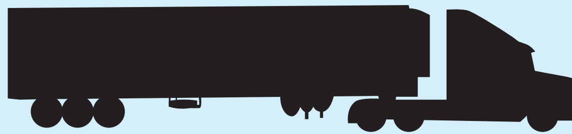
RANK	CARRIER NAME	2010 REVENUE (In $ millions)	SUBSIDIARY PORTFOLIO / COMMENTS
1	Swift Transportation	$2,631	Swift Transportation
2	Schneider National	$2,350	Schneider National, Schneider National Bulk Carriers
3	Werner Enterprises	$1,542	One-way Truckload, Dedicated, Cross-Border
4	U.S. Xpress Enterprises	$1,450	US Xpress, Xpress Global Systems, Xpress Direct, Total Transportation, Arnold Transportation, Abilene Motor Express, C&C Transportation, Smith Transport, Pinner Transport
5	J.B. Hunt Transport Services	$1,386	J.B. Hunt Truck, Dedicated Contract Services
6	Prime*	$1,019	Flatbed, Refrigerated, Tanker
7	Crete Carrier Corp.	$841	Crete Carrier, Shaffer Trucking, Hunt Transportation
8	C.R. England	$835	England North America, England Mexico, England Dedicated
9	Knight Transportation	$659	Knight Transportation, Knight Refrigerated
10	CRST International	$612	CRST Expedited, CRST Malone, CRST Dedicated Services
11	Covenant Transport	$603	Covenant Transport, Southern Refrigerated Transport, Star Transportation
12	Ruan Transportation Management Services	$591	Ruan Dedicated Contract Carriage, Bulk Transportation
13	Celadon Group*	$542	Celadon Trucking, Celadon Logistics, Jaguar, Celadon Canada
14	Stevens Transport	$501	One-way, Dedicated, Expedited
15	Heartland Express	$500	Heartland Express
16	Ryder Systems	$483	Dedicated Contract Carriage
17	Con-way Truckload	$461	Con-way Truckload
18	Western Express	$432	Truckload Van, Dedicated, Flatbed
19	Penske Logistics	$422	Dedicated Contract Carriage
20	Dart Transit	$415	Dart Regional, Dart Dedicated
21	Interstate Distributor Co.	$413	IDC - Specialized Services, Heavy Haul, Temperature Controlled, Dedicated
22	Anderson Trucking Service	$409	ATS Inc., ATS Specialized, SunBelt Furniture Xpress, Midwest Specialized Transportation, Warren Transportation
23	USA Truck	$402	USA Truck
24	NFI	$401	NFI Dedicated, NFI Transportation
25	Marten Transport	$393	Marten Transport
	TOTAL TOP 25 TRUCKLOAD CARRIER REVENUES	**$20,293**	

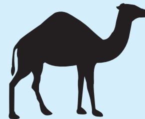
Note: Revenues are for truckload operations and exclude intermodal, logistics and other services
*Revenue adjusted to reflect calendar quarters
Source: Company Reports and SJ Consulting Group estimates
Prepared by SJ Consulting Group, Inc.

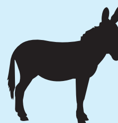
service offerings, the ability to execute at high levels against stated service standards, and customers who appreciate a level of consistency.

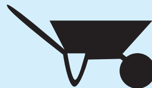
Astute carrier executives are quick to point out that the lowest rate may not mean the best value. Increasingly, carriers are "bundling" their services to meet ever increasingly exacting shipper needs. As Stotlar told *LM*: "The price/value proposition we offer works to our customers' advantage."

Chuck Hammel, president of Pitt Ohio, No. 18 on *LM's* LTL list, agrees with Stotlar and says that he sees several similar trends. He's seeing more need for time-definite services, and also a move toward LTL shippers trying to increase volumes to qualify









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for a truckload shipment. Toward that end, Con-way recently bought Contract Freighters Inc., a major TL carrier, and now ranks as the 17th-largest TL carrier in the nation.

Hammel says he's also seeing more shippers seeking out financial information about their carriers. He says financially strong carriers will have an edge as shippers, under the new CSA 2010 standards, are able to find out more information about individual carriers.

"Carriers who are strengthening their balance sheets by paying down debt, recruiting the best drivers, and adjusting their pay and benefits to stay ahead of what could be a looming driver shortage will have an advantage," Hammel says.

2007-2010: Staying alive

The period from 2007 to 2010 was perhaps the roughest three-year economic cycle for the trucking industry since deregulation in 1980.

Trucking's solution: "Reindustrialize" the U.S.

Trucking industry leaders are unanimous in choosing the No. 1 thing on their wish list of priorities to increase freight volumes, improve rates, and create better services: Reindustrialize America.

Trucking volumes are split roughly half and half between retail and industrial. But the industrialized portion of the business has been shrinking for decades, as the U.S. increasingly became a service economy.

"There's only so much retail," says Myron P. "Mike" Shevell, chairman of the Shevell Group, which includes Northeast regional LTL giant NEMF and truckload carrier Eastern Freightways. "There is virtually no clothing made in the U.S. You've got to produce goods to survive."

How bad is the U.S. industrial base? Consider a few facts:

- The U.S. has lost approximately 42,400 factories since 2001.
- In 2008, 1.2 billion cell phones were sold worldwide. Not one was made in the U.S.
- The U.S.has lost a total of about 5.5 million manufacturing jobs since October 2000.
- In 1959, manufacturing represented 28 percent of U.S. economic output. Today, it represents about 9 percent of all non-farm jobs.
- Today about 12 million Americans worked in manufacturing. The last time less than 12 million Americans were employed in manufacturing was in 1941.
- Dell Inc., the computer giant, is expanding operations in China with an investment of over $100 billion over the next decade. Dell now employs more people overseas than in the U.S.
- Consumer spending accounts for 70 percent of GDP. Of that amount, more than half is spent on services.
- The U.S. has lost 32 percent of its manufacturing jobs since the year 2000.

There are signs, however, that these disturbing trends could be changing. For the first time since 1997, U.S. manufacturing jobs increased. Last year U.S. manufacturing grew by 1.2 percent, or 136,000 jobs. That figure is expected to grow by another 330,000 manufacturing jobs this year, or 2.5 percent, according to IHS Global Insight and Moody's Analytics.

Fortunately, there are serious people who believe the deindustrialization of this country is nothing short of a national crisis. President Barack Obama long has called for a reindustrialization based on "clean" energy jobs and other 21st-century endeavors. His efforts to create a network of high speed rail projects is an example, but hardly the only one.

Manufacturing jobs are actually the "shining star" of this economic recovery, Thomas Runiewicz, an economist at IHS Global Insight, recently told *The Wall Street Journal*. There are several reasons for this manufacturing rebound:

1) Quality: The U.S. worker has continually proven to produce a superior product, albeit perhaps not at the lowest possible price.

2) Onshoring: The trend to offshore outsourcing has begun to end as U.S. manufacturers discover advantages to producing goods here.

3) Excess U.S. industrial capacity and infrastructure: This nation's cities are full of potentially high quality real estate and brick and mortar locations that can easily be retrofitted to nearly any industry.

According to Runiewicz, examples abound. Whirlpool Corp. has 39 factories worldwide but recently decided to modernize and expand its plant in Cleveland, Tenn., to meet rising demand. Dow Chemical is building an 800,000 square-foot factory at Midland, Mich., to design and make hybrid batteries in order to be close to the auto plants of this country. Caterpillar is building a $120 million plant in Victoria, Texas, to build heavy machinery that used to be built in Japan.

All these expansions, and many more, potentially have dollar signs dancing in U.S. trucking executives' heads. That's because eventually every one of those products will be shipped on a truck, even if the long-haul perhaps is handled by intermodal rail.

So while America may never be the industrialized giant it was in the 1950s, it appears it doesn't have to be the manufacturing ghost that it's been in the past decade or two.

"Nobody in this country should be getting a free meal—they should be working either in the private sector or on city, state, or federal projects," Shevell says. "At least then you're paying them for work received. Then they might be buying some goods made in this country. If not, what's the point?"

—By John D. Schulz, Contributing Editor

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It saw even top-flight carriers like FedEx Freight and Con-way post their first quarterly losses in their history. Some marginal carriers such as Jevic Transportation, C.W. Johnson Trucking, Alvan Motor Freight, and Boyd Logistics and Cargo Transportation Services declared bankruptcy or closed. Others, such as LTL giant YRC Worldwide, teetered on the brink after losing in excess of $2.3 billion over the past three years. To the surprise of many, YRC is still afloat, although it has moved down *LM's* list in revenue.

But the successful carriers quickly adjusted to the market downturn, and are now poised to take advantage of the reduced capacity in the market place.

Mark Rourke, president of transportation for Schneider National, the No. 2 truckload (TL) carrier on the *LM* list, says it tightened up capacity by 10 percent, taking as many as 1,400 power units off the road.

"Like most large truckload companies, Schneider's capacity peaked in 2008. We tightened up about 10 percent of capacity, and as we come out of this we're keeping our numbers there and will focus on returns. We're not building the church for Easter Sunday any more."

—Mark Rourke, Schneider National

Schneider was not alone. J.B. Hunt, No. 5 on the TL list, reduced its over-the-road truck capacity by more than 1,400 units, or 27 percent, during the nadir of the downturn. Werner Enterprises, our No. 3 TL carrier, took out 950 trucks, or 10 percent of its capacity. Swift Transportation, the largest TL carrier, reduced its fleet by 2,750 trucks, or 15 percent, in order to cope with declining freight demand, according to figures compiled by analyst John G. Larkin of Stifel Nicolaus.

"Like most large truckload companies, Schneider's capacity peaked in 2008," says Rourke. "We tightened up about 10 percent of capacity, and as we come out of this we're keeping our numbers there and will focus on returns. We're not building the church for Easter Sunday any more."

LTL carriers had a tougher time reducing their overhead, and that explains the unprecedented quarterly losses at carriers such as FedEx Freight and Con-way. That's because, unlike TL carriers that operate largely point to point, LTL carriers operate and maintain intricate hub-and-spoke networks of terminals and breakbulk facilities.

But even so, the LTL industry was shrunk from a $32 billion industry in 2007 to about a $28.5 billion sector today—a $3.5 billion reduction. Or, as Con-way's Stotlar says: "A company the size of Roadway has come out of the market as far as capacity is concerned."

There were significant capacity reductions by major carriers. In November 2008, Con-way shut 40 locations to match volume levels. Recently, FedEx took out 100 locations in its recent network redesign. "LTL capacity is probably closer to equilibrium now than it has been in a long, long time," adds Stotlar.

It's nearly impossible to close a low-volume terminal without affecting service, so LTL carriers were more vulnerable to reduced profitability during the downturn. So they reduced head counts where they could, and went lean in hiring in order to stay in business.

"The downturn in the economy meant that many service providers did not need to hire, thus we did not bring new blood into the business," says Steve O'Kane, president of A. Duie Pyle, No. 20 on our LTL rankings. "For example, for an 18-month period, for all 2009 and the first half of 2010, we did not put anyone through our own driving academy. That was simply because we did not have driving jobs for them."

According to Myron "Mike" Shevell, chairman of the Shevell Group, which includes top Northeast regional carrier New England Motor Freight (NEMF): "LTL carriers are at the mercy of so many things that we have no control over. We have no control over tolls, fuel, no control over driver supply or whom we can put to work. We're running four driver schools. It costs a fortune to do that; but without them, there would be nobody to haul the freight."

2011: Time to recapitalize, reorganize

This year is a time for change, top carrier executives agree. Having ridden out the storm, leading trucking executives say it's now time to focus on profits. Fleets need money to recaptitalize after three lean years and shippers should be bracing for higher freight rates across the board, they say.

"Customers understand it," says FedEx Freight's Logue. "Yield improvement is very important right now. It's been three or four tough years, and we need to rebound in terms of profitability in order to reinvest in our businesses."

That's already starting to happen. Last year, sales of new Class-8 trucks rose nearly 15 percent year over year, while medium-duty truck sales zoomed 24.7 percent to 271,992 units, according to WardsAuto.com.

Carriers are adjusting their networks to meet customers' needs. Often, that has meant reinventing long-haul truckload networks into a series of regional networks in order to place trucking equipment and drivers closer to their customers as shippers have increasingly created a series of five or six regional distribution networks to cover the country.

"We've been a long-haul trucker for 75 years, but now we have 50 percent of our business in regional configuration," says Schneider's Rourke. "We have reinvented ourselves."

That's because that's where shipping is going.

> "LTL capacity is probably closer to equilibrium now than it has been in a long, long time."
>
> *—Douglas Stotlar, Con-way*

Because more long-haul freight is moving on the railroads, Rourke says the over-the-road emphasis is on short-haul (under 750 miles) going by truck.

"Previously, in our long-haul network, we might have dispatched a truck once a day," Rourke says. "In our new regional model, we dispatch that truck on average one and a-half times a day. The intensity has picked up the entire pace

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across our operation."

This has occurred in response to changing shipper demands. "They've deployed inventory closer and closer to the end user, whether it's industrial or retail freight," Rourke says. "We've studied the demands of the market and that's why we've made the change."

> "Customers understand it…Yield improvement is very important right now. It's been three or four tough years, and we need to rebound in terms of profitability in order to reinvest in our businesses."
>
> *—Bill Logue, FedEx Freight*

Similarly, LTL carriers have tweaked their operations. Pitt Ohio recent expanded its service offerings, adding a small package service, heat-track service, temperature control, truckload, and logistics capabilities.

Averitt Express, No. 13 on the LTL list, has historically been a Southeast regional carrier. But it has changed with the times, joining Pitt Ohio and four other regional LTL carriers to form the Reliance Network. That consortium, launched in 2009, has grown to be the eighth-largest LTL network nationally, according to a recent Raymond James analysis.

"Regionalized distribution networks are popular in the industry because they offer quick and flexible services," says Phil Pierce, Averitt's executive vice president of sales and marketing. "However, many shippers have long-haul LTL needs. The challenge with regionalized networks has been shipping outside of the network; so, in response to this, Averitt participated in forming the Reliance Network."

Similarly, FedEx Freight recently transformed its operations from separate long-haul and regional operations into one network handling both types

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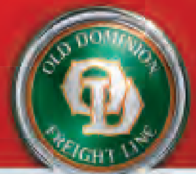

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of freight. It also changed the nomenclature from "regional" and "long haul" to "expedited" and "economy" and pricing that freight accordingly.

More and more, freight is being priced according to its distinct characteristics and its cost within a carrier's network. Shippers who tend "driver-friendly" freight (on pallets with no waiting time for drivers on pickups and deliveries) will be getting spared the higher increases that other customers might face.

"For an 18-month period, for all 2009 and the first half of 2010, we did not put anyone through our own driving academy. That was simply because we didn't have driving jobs for them."

—Steve O'Kane, A. Duie Pyle

"If a shipper is making it as easy as possible for freight to be picked up, that allows us to be much more flexible on rates," adds FedEx Freight's Logue.

Road ahead

The coming capacity crunch and carriers' new-found emphasis on profits means only one thing for shippers: higher freight rates.

On the TL side, analysts and executives say privately that shippers can expect rate increases of perhaps as much as 7 percent to 8 percent, net of fuel surcharges. On the LTL side, which has slightly more excess capacity currently, rate increases of 3 percent to 5 percent are more likely.

"As our volumes grow, we're working on the yield side," says FedEx Freight's Logue. "Increasingly, we are looking at every account and asking ourselves: 'Is this a good long-term decision for this shipper?' I would say everybody is in that same situation."

Con-way's Stotlar couldn't agree more. "Everybody is committed to getting margins back to re-capitalize their fleets," he says. "The industry seems to be in lock step that we have to improve margins. We were successful in getting rate increases last year and that continues into 2011."

NEMF's Shevell says rate increases are essential for carrier survival in an era when a new Class-8 truck costs about $125,000, diesel is threatening to break the $4 plateau, and increased wages for qualified drivers are necessary as government programs such as CSA 2010 threaten to eliminate as many as 150,000 unsafe long-haul drivers.

The days of shippers beating up their carriers over rates and then dropping them in favor of a cheaper-priced carrier are ending, Shevell predicts. "There are shippers who laugh and say we'll give it to the next carrier, but it's coming to a point where the next carrier will be gone too," adds Shevell.

In fact, there's only a few regional carriers left in the Northeast and Midwest. Shevell is warning shippers that the same mega-consolidation that has happened to airlines and railroads could be happening to trucking, which would be a disadvantage to shippers.

"When that happens, capacity is going to be tight," Shevell warned. "The shippers who gets capacity will be the ones who have taken care of their carriers. The days of running roughshod on rates are over."

That's because capacity is tightening. Although it's difficult to gauge precise trucking capacity at any time, most carriers say they are approaching the "sweet spot" when tight capacity enables them to raise rates year over year in the mid-single-digit range. This last occurred during the period from 2002-2006 when carriers say they enjoyed the best pricing power since deregulation in 1980.

"Our view is that capacity is at its equilibrium," says Schneider's Rourke. "The spot market is indicative of what's available in terms of capacity. What we're seeing is that the truckload industry appears to be at or slightly short of capacity; so there's little doubt that rates are certainly going up."

Schneider is predicting overall rate increases of 5 percent to 7 percent, net of any increase in fuel surcharges. Analysts agree. "It's a positive environment for carriers," says analyst Ross. "Pricing (discounting) got a little too aggressive the last two years. Most of those guys at the top are unprofitable, and we think there will be capacity constraints. That's good for the carriers."

And probably not so good for shippers—at least those shippers who have enjoyed rock-bottom freight rates the past three years. □

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ATA February tonnage data is down sequentially, up annually

TRUCK TONNAGE SAW ITS FIRST decline in three months, according to data released recently by the American Trucking Associations (ATA).

The ATA's advance seasonally-adjusted (SA) For-Hire Truck Tonnage index dropped 2.9 percent in February following 3.8 percent and 2.5 percent gains in January and December, respectively. Prior to those sequential gains, November was up 0.6 percent and September and October were up a cumulative 2.8 percent.

The current SA index is 113.3 (2000=100) in February, following January's 117.1, which was its highest level since January 2008. December's SA index of 112.7 was the highest it had been since September 2008 at that time. The cumulative December and January SA was up 6.1 percent.

The SA index was up 4.2 percent compared to February 2010, which was short of January's 7.6 percent annual gain. On a year-to-date basis, the SA is up 5.9 percent compared to 2010.

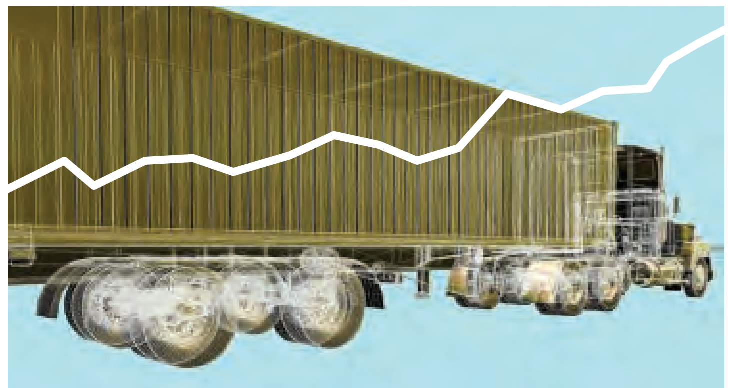
The ATA's not seasonally-adjusted (NSA) index, which represents the change in tonnage actually hauled by fleets before any seasonal adjustment, was 102 in February, down 2.8 percent from January's 105.4.

As *LM* has reported, some industry analysts maintain that the not seasonally-adjusted index is more useful, because it is comprised of what truckers haul. As defined by the ATA, the not seasonally-adjusted index is assembled by adding up all the monthly tonnage data reported by the survey respondents (ATA member carriers) for the latest two months. Then a monthly percent change is calculated and then applied to the index number for the first month.

"Tonnage is not going to increase every month, and in general I'm very pleased with freight volumes early this year," said ATA Chief Economist Bob Costello in a statement. "I'm hearing a significant amount of positive news from fleets and that the largest concern continues to be the price of diesel fuel, not freight levels."

Costello added that harsh weather throughout much of the country in February likely contributed to the sequential decline.

And as Costello pointed out, the prevailing mood in the market is one of optimism in terms of demand and volume, according to carriers and shippers. This is notable considering the myriad challenges occurring, such as high unemployment levels, increasing fuel prices, and various regulatory efforts that are likely to impact the trucking industry to a degree.



Carriers have repeatedly told *LM* that the current market outlook is "slow but steady" and is likely to remain that way for the foreseeable future.

"We are seeing the same things that the ATA data is showing," a trucking executive recently told *LM*. "February was relatively firm, but just like January it was somewhat negatively impacted by the severe winter weather affecting many parts of the country."

The carrier executive also pointed out that with the supply and demand of capacity much more closely balanced this year, a continued uptick in tonnage will create greater challenges for shippers needing trucks. He said that other items that will further squeeze capacity include CSA 2010 and the proposed changes to the Hours of Service (HOS) rules.

—Jeff Berman, Group News Editor

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Much ado about oil

*A blog by **Jeff Berman**, Group News Editor*

While looking at mainstream media news sites, an item in *The New York Times* recently caught my attention.

Maybe it caught your attention, too. Here is the headline:"Obama to Set Goal of One-Third Cut in Oil Imports."

Given the current situation, with oil barrel prices hovering around $100 and diesel approaching $4 per gallon, that headline, again, is really an attention-grabber as far as I can tell.

In short, the article explains how in a speech Obama will be giving at Georgetown University, he will discuss how the "United States needs, for geopolitical and economic reasons, to reduce its reliance on imported oil," with more than half of the oil burned in the country today coming from overseas and Mexico and Canada.

It also notes that when prices go up we all panic, and when they go down, we resume our previous habits.

Of course, there is more to it than that. This current run up in prices, coupled with carriers focused on yield improvement does not help shippers run cost-efficient supply chains. But those are the cards currently being dealt at the table.

And as *LM* has reported in its coverage of weekly diesel prices, shippers are clearly concerned about the pace of these increases, as they are largely on the hook for them, financially-speaking, with fuel surcharges passed along to them by carriers on top of freight rates. Should prices continue to head north, it could likely limit future growth as well increase the cost of doing business, as it likely it already.

In recent weeks, there has been talk of the White House opening up the country's Strategic Petroleum Reserve to alleviate pain at the pump for shippers, carriers, and consumers alike. And there has been a buzz of late about natural gas and how that could off-set our expenses and reliance on fossil fuels. There also are many companies making tremendous progress on alternative fuel vehicles for freight operations, too.

These things are very promising and could make a legitimate difference down the road. But with no defined deadline in site for when they could be fully applicable and depended on, it is the same old story for now—a story that is getting tired and repetitive.

Oh, yeah, there is also that little issue of zero meaningful forward progress on energy legislation in our country. Given the divided political party lines that are the new normal in the U.S., that is hardly surprising.

It seems like Obama's speech will bring to light the things that need and should be done for the most part. The hard part is actually getting there. ☐

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BTS says surface trade with NAFTA partners up 24.3 percent annually in 2010

TRADE USING SURFACE TRANSPORTATION between the United States and its North American Free Trade Agreement (NAFTA) partners Canada and Mexico was up 24.3 percent in 2010 compared to 2009, increasing to $791 billion, according to data released by the United States Department of Transportation's Bureau of Transportation Statistics (BTS). BTS officials said the 24.3 percent annual increase is the largest annual increase for the time it has been collecting this data.

Surface transportation, according to the BTS, is comprised mainly of freight movements by truck, trail, and pipeline, and nearly 90 percent of U.S. trade by value with Canada and Mexico moves by land. According to the BTS, 86.2 percent of U.S. trade by value with Canada and Mexico moved on land in 2010, and total North American surface transportation trade value in 2010 was up 13.4 percent compared to 2005 and up 37.5 percent compared to 2000.

But despite the increase, the value of North American surface trade in 2010 is below 2007 and 2008 levels, according to the BTS. And it added that total North American surface transportation exports in 2010 were up 25.1 percent over 2009, with exports up 23.3 percent annually.

BTS said the value of U.S. surface transportation trade with Canada was up 22.1 percent year-over-year in 2010 at $471 billion. Imports carried by truck were valued 17.3 percent higher in 2010 compared to December 2009, said the BTS, and the value of exports carried by truck was up 21.8 percent.

The value of U.S. surface transportation trade with Mexico was up 27.6 percent year over year in 2010 at $320.3 billion. Imports carried by truck were valued 26.5 percent higher in annually, said the BTS, and the value of exports carried by truck was up 24.3 percent.

—Staff

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Uproar over proposed HOS regulations not abating anytime soon

*A blog by **Jeff Berman**, Group News Editor*

As you probably already know, not too long ago the Federal Motor Carrier Safety Administration (FMCSA) floated the idea of reducing available daily driving time for truck drivers by one hour from 11 to 10 hours per day.

Needless to say, this was not well received, and not surprisingly, it seems to have become even less popular than it was when first introduced.

The reasons for this vary. But in most cases it comes back to the fact that the current regulations are safe and reasonable, with an ample amount of data available to back that up.

The new FMCSA proposal released perhaps as an early Christmas present (more likely a lump of coal) on December 23 is comprised of the following:

- Dropping available driving time from 11 to 10 hours per day.
- Retaining 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. However, the restart provision would be revised by requiring that it include two.
- Decreasing daily "on-duty" time from a maximum 14 to 13 hours. Drivers would continue to be allowed to drive either 10 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.
- Permitting the standard 14-hour window to be extended to 16 hours twice a week.

These are, in sum, pretty major changes. And to get an idea as to the potential negative impact they could have on supply chain management operations for shippers across the nation, look no further than what my colleague John D. Schulz wrote in a January *LM* article.

"The Federal Motor Carrier Safety Administration's (FMCSA) trial balloon to reduce by one hour (from 11 to 10) the actual time a truck driver can be driving is a horrific idea, unbased in science or data, that would conservatively cost the U.S. economy $2 billion in lost productivity, and probably much more in inefficiency and additional infrastructure requirements."

Starting to get the picture here?

Try this one from Stifel Nicolaus Managing Director John Larkin on for size. This is from a recent FMCSA listening session on the impacts associated with the FMCSA's proposed changes to HOS rules.

"We believe the proposed HOS rules would make driving a truck, already a difficult profession with more than its fair share of irritations, less appealing to many workers (due both to lifestyle factors and possibly less pay). Therefore, we believe that tightened HOS rules, combined with other safety regulations, could exacerbate an upcoming driver shortage driven by volume growth and unfavorable driver demographics. Some carriers may experience near-term cost increases associated with hiring/training/retaining drivers and rerouting freight through alternate terminals. Longer-term, tightening HOS rules will likely serve as one of several regulatory actions that will constrain driver and capacity availability. We believe that in the presence of tight driver and capacity availability, trucking rates should increase at faster trajectory than trucking costs despite expected increases to certain expense line items."

Well, here is one more opinion from Rick Gaetz, president and CEO of Vitran Corporation.

"These changes would tighten a tight market even further," Gaetz told me. "I think no one will ever know when the perfect regulation is drafted. Much time and effort and great expense goes into the study of driver hours, driver fatigue, and safety, and I think we are pretty close to having it right—where things stand now. The key measurement is safety, and statistically it appears and feels safe under the current format. The industry has to operate efficiently and safely, and those two lines are crossing very close right now in terms of working properly."

At the end of the day, we can only hope that the powers that be in the federal government truly take into account the potential backlash these changes could produce. Until then, we can only speculate on what may happen, but if the proposed changes become official, then we can all expect to see supply chains become shorter and more costly.

Let's hope for a better outcome than that. ☐

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Trucking rates poised to continue upwards, according to Transport Capital Partners' survey

EVEN THOUGH THE TRUCKING industry appears to be benefitting from relatively healthy volume growth, there are enough obstacles in the way to make its future outlook somewhat cloudy. That is the consensus of a recent survey from Transport Capital Partners (TCP).

TCP's Fourth Quarter Business Expectations Survey typically polls about 200 trucking executives on various industry-related topics to gain insight into what the market is thinking on different issues, including demand, government regulations, capacity, and, especially of late, oil and gas prices.

Some of the survey's chief findings included two-thirds of executives indicating they are optimistic about growth in 2011 when it comes to volume and rate increases, and 45 percent of carriers stating they are interested in making an acquisition in the next 18 months–coupled with about 1 in 5 carriers showing interest in selling their business.

Another main theme was how capacity has been tightening due to things like bankruptcies, exporting of used equipment, and fewer new truck purchases, according to TCP.

"Carriers are optimistic, because the economy is going to improve, but that depends on Congress and Wall Street not doing things that are not smart," said TCP Partner Lana Batts.

"Barring factors that nobody can control, carriers are feeling pretty good. The other side of that is capacity is so constrained, with carrier not buying replacement vehicles over the last three years and not expanding their fleets,"added Batts. "As a result, the old law of supply and demand is going to play out. When capacity does expand, rates do go up."

These rate increases, said Batts, are already occurring and are very apparent on the spot market, too. What this means for shippers is that motor carriers have no interest in adding capacity at this point.

Instead, she explained, they need to replace old trucks, because replacement costs for older vehicles are very high, and the actual amount of capacity carriers truly want to increase is miniscule. This is due to the fact that truck buying activity was quelled in 2008 to 2010, with the majority of truck buying activity occurring being allocated for replacement trucks only to a large degree.

"What the motor carrier industry is saying is 'I have to take care of my balance sheet first,'" explained Batts. "And the fastest way to do that is by increasing rates, not by adding trucks. The reality is trucks today cost $120,000, whereas in 2006 it would have costs $70,000 to $80,000. Today we are still seeing 2006 rates, which defeats the purpose of adding trucks if 2006 rates are still in effect."

What's more, the impact of CSA on truck buying activity and capacity is also significant. Batts said that a portion of carriers that received CSA-related warning letters from the Department of Transportation will shut down, resulting in lost capacity, coupled with low driver ratings, too.

> "What the motor carrier industry is saying is 'I have to take care of my balance sheet first.' And the fastest way to do that is by increasing rates, not by adding trucks."
>
> *—Lana Batts, TCP Partner*

And the heavily-contested DOT proposal to cut back on available driving time from 11 hours per day to 10 will also remove capacity. This capacity will not simply be replaced by adding more trucks, according to Batts. Instead, rates will be raised.

"All of these things coming together for the trucking industry are creating a perfect storm in a positive sense, with the only way for rates to go being up," said Batts.

—Jeff Berman, Group News Editor

Lynden subsidiary acquires Port Side Trucking

IN MARCH, Pacific Northwest-based refrigerated motor carrier Brown Line, LLC, a subsidiary of Lynden Transport, acquired the operations of Port Side Trucking, a Kent, Wash.-based refrigerated trucking company. Financial terms were not disclosed.

Lynden Director of Marketing and Media David Rosenzweig told *LM* that the primary reason for this deal was that Port Side was a good fit for Brown Line and presented a market opportunity to increase volume, and add several lanes to its existing business.

Brown Line provides shippers with temperature-controlled, less-than-truckload (LTL) specialized service along the West Coast, as well as scheduled service to San Francisco, Los Angeles, Phoenix, San Diego, Chicago, Boston, and Minneapolis from the Puget Sound and Southern British Columbia. Port Side offers service from the Pacific Northwest to Boise, Salt Lake City, Denver, and Portland, Ore.

Company officials said the routes the company is gaining from Port Side will benefit shippers served by both Brown and Port Side and provides a seamless, high-quality refrigerated delivery network.

Rosenzweig added that Port Side was an attractive acquisition because it also carries refrigerated food commodities but to different markets not previously served by Brown Line. "There are a large number of customers who did business with both companies," he said. Now those customers can reach all the market locations from a single source. One call for all of the customers' needs."

"Port Side serves markets that complement our existing services and allows us to offer customers a true one-stop-shop for shipping all temperature-controlled commodities," says Jason Jansen, Brown Line President, in a statement. "Brown Line's specialty is shipping seafood and other delicate freight. Now we can offer customers additional delivery areas and a variety of choices in shipping fresh, frozen, and non-refrigerated freight. We are now positioned to serve the West Coast, Midwest, Northeast, and British Columbia with the fastest door-to-door service available."

—Jeff Berman, Group News Editor

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Hiding from your performance scores

By John A. Gentle, DLP

ARE YOU OLD ENOUGH TO REMEMBER when teachers used stars—red, blue, silver, and gold—to tell us how well we did on homework or tests? I remember when teachers hung all the scored papers on the wall so everyone could see how well we did or did not do, and I have tried hard to forget a few "see me" notes on some high school tests. Can you remember when the teacher had us score each other's test papers? I always looked for a friend to score mine. After all, what are friends for?

Certainly computers have given us the ability to track everything—sounds, images, numbers, words, topography, and stars. Some individuals and organizations seemingly have dedicated their lives to keeping track of how poorly the other guy is doing. They like to find ways to publicize information about others from a "glass half-empty" perspective so everyone can see how marginal their performance has been.

It's also true that some look and report on their own work from a "glass half-full" viewpoint. They judiciously choose either high or reciprocal low percentages and use the appropriate adjectives to present their work experience in the best light possible.

Both groups will use "compounding" to maximize the impact of their information.

So, what is your reporting focus? Do you just report back to the carriers/3PLs on how well they're doing for you, or do you report on their performance as well as on your commitments to them?

Some shippers say that if their business partners really want to know how well the shipper is doing then they can gather the information and report on it themselves—because it is what it is and there is no value in generating and reporting on/against yourself.

If you report on yourself as well as your carrier, do you use the same criteria or do you present your contribution in a positive manner and their shortfall negatively? If you're not currently reporting your performance to carriers, there are many good reasons why you should.

First, it would demonstrate to your partners that your commitment is real; it's neither fictitious nor merely a factor of convenience. Second, it would say that performance improvement belongs to everyone. Third, shipper commitment performance reporting (SCPR) can either create differentiation between your company and your competition, or it could simply put you on par with others who are already doing it.

Here are six specific KPIs worthy of your "*self–measurement*" and process improvement if there is a shortfall:

Carrier Capacity Utilized: Measured to the lowest level of detail the shipper committed to and/or you are holding your carriers accountable for.

Trailers Loaded on Time: Drop trailers loaded and ready for pickup or live loaded within "x" time of driver arrival.

If you're not currently reporting your performance to carriers there are many good reasons why you should.

Complete and Accurate Tenders: Shipments tendered correctly the first time.

Safe Transit Time Shipments: Shipments loaded in time for safe delivery.

Complete and Accurate Freight payment: Carrier paid accurately without legitimate balance due.

Carrier Payment Terms Honored: Mailed/transferred within contracted terms.

In addition to these six individual self-measurements, Shippers of Excellence create a compound shipper commitment performance test to judge their overall process efficiency and then measure it against a pre-established level of satisfaction created by members of their Strategic Carrier Council. The comparison is the strongest single key performance indicator of the level of carrier satisfaction generated by the company's transactional processes.

Achieving a high compounded performance percentage is not easy. If a company strived for a compounded "A" rating of 94 percent or better, it would need to generate a performance of 99 percent in each of the six measurements. What do you think the compound rating would be if the average performance for each of your six measurements is 90 percent? Is that something that you would be proud of?

So, has your Strategic Carrier Council helped you establish the elements, performance percentages, and levels of satisfaction for your "self measurement?" Carriers are looking for shippers with a strong value proposition. With cost effective service based capacity the goal of every company, how are your chances of positioning your team to win? □

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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