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28th Annual

Quest for Quality 2011

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Management UPDATE

AN EXECUTIVE SUMMARY OF INDUSTRY NEWS

Earnings are on the right path. While talk of a "double-dip" recession slowly gains traction, freight transportation companies are not reflecting that sentiment based on the early innings of second quarter earnings. Class I rail carrier CSX and intermodal titan J.B. Hunt, among others, reported excellent Q2 earnings performance, supported by steady volume growth and solid pricing gains. Unlike last year at this time, when companies pointed to a significant inventory re-build for strong earnings performance that led to strong first half volumes and an earlier Peak Season, carriers said things are on a more traditional path this year.

Box squeeze. After the critical shortages of containers last year, production has picked up again, but high container prices and a tight ratio of containers to vessel slots will continue to constrain the availability of boxes. According to the *Container Census—Annual Survey and Forecast of Global Container Units*, a new report from Drewry Maritime Research, shippers have another reason to be concerned. At the end of 2010, the global fleet of containers exceeded $90 billion in replacement value for the first time, according to the report. "If capacity is more tightly controlled by the container manufacturing sector than in the past, it will likely result in higher new container prices," said Andrew Foxcroft an analyst who contributed to the Drewry report.

Ceridian-UCLA Pulse of Commerce Index is up 1.0. Evidence regarding the uneven economic recovery remains apparent, according to the most recent results of the June edition of the Ceridian-UCLA Pulse of Commerce Index (PCI) Index. The PCI was up 1.0 percent in June, following consecutive declines in April and May. Data for the PCI is accumulated by analyzing Ceridian's electronic card payment data that captures the location and volume of diesel fuel being purchased by trucking companies. This was the second month in 2011 that the index showed growth. On an annual basis, June was up 2.0 percent and May was flat, marking the first time in 16 months the PCI did not see annual growth.

FedEx takes to the seas. FedEx subsidiary FedEx Trade Networks, the company's global trade arm, is taking steps to augment its ocean freight forwarding services in the form of a new Ocean Choices portfolio the company introduced last month. FedEx said this portfolio enables shippers to choose and implement the ocean service that best meets their specific supply chain needs. These new services include: traditional freight forwarding service to and from major worldwide networks; speed-to-market ocean shipping services; and ocean delivery services for less-than-container load (LCL) and full-container-load (FCL) cargo that moves freight in and out of the ports of Los Angeles and Long Beach from origins in Yantian/Shenzen, Shanghai, and Hong Kong.

Trade promise kept. News that the U.S. and Mexican governments have finally inked a memorandum of understanding on a new cross-border trucking program was perceived to be good for American shippers. The National Association of Manufacturers was among the first industry groups to applaud this move, noting that by bringing the U.S. into compliance with our North American Free Trade Agreement commitments, shippers will face far fewer retaliatory tariffs on hundreds of products now being exported to this vital trading partner. While most multinationals will continue to rely on existing pipeline partners in distant parts of the world, having a manufacturing base and educated labor pool in this hemisphere represents a significant element of risk mitigation, trade analysts added.

SaaS soars. Worldwide Software-as-a Service (SaaS) revenue is forecast to reach $12.1 billion in 2011, a 20.7 percent increase from 2010 revenue of $10 billion, according to analyst firm Gartner. The SaaS-based delivery will experience healthy growth through 2015, when

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Management UPDATE

continued

worldwide revenue is projected to reach $21.3 billion. Gartner defines SaaS as software that is owned, delivered, and managed remotely by one or more providers. The provider delivers an application based on a single set of common code and data definitions, which is consumed in a one-to-many model by all contracted customers anytime on a pay-for-use basis or as a subscription based on use metrics. "After more than a decade of use, adoption of SaaS continues to grow and evolve within the enterprise application markets," said Tom Eid, research vice president at Gartner.

■ **Port Tracker report calls for flat summer growth.** Import cargo volumes at major U.S. container ports are expected to remain at the same levels they were at a year ago this summer with subsequent increases in the fall, according to the monthly Port Tracker report by the National Retail Federation (NRF) and Hackett Associates. The report said that the first half of 2011 is estimated at 1.31 million TEU (twenty-foot equivalent units) for a 7.2 percent increase over June 2010, which is down less than 1 percent from May's estimate. Port Tracker previously called for 6.2 percent annual growth for all of 2011, and the most recent report stated that this estimate remains "realistic."

■ **Farewell old trucks.** The Port of Long Beach, which has been promoting free market solutions to address air pollution concerns for some time, began banning an older group of trucks not originally included in the port's Clean Trucks Program. Since it began in 2008, the award-winning Clean Trucks Program has decreased drayage truck related pollution by 80 percent, two years ahead of schedule. Significantly, this was done without union coercion or their would-be organizers. About 500 "Class 7" trucks will be barred from working at the port. Beginning in 2008, the Clean Trucks Program has required the trucking industry to switch to newer, low-emission Class 8, heavy-duty trucks for shipping containers in and out of the port complex. Today, more than 10,000 clean trucks, meeting stringent 2007 federal emission standards, service the port accounting for 93 percent of the container traffic

■ **BTS Index trending down.** The DOT's Bureau of Transportation Statistics (BTS) reported that its Freight Transportation Services Index (TSI) dropped 1.8 percent from April to May, following a 1.0 percent decrease and a 1.9 percent increase, respectively, the previous two months. The BTS said that the May Freight TSI at 105.6 is up 12 percent from the recent low of 94.3 in April 2009, which was its lowest level since July 1997. May's Freight TSI is down 6.8 percent from its historic peak of 113.3 in January 2005. The May Freight TSI is up 1.4 year-over-year, but remains below the early recession level of May 2008 and the most recent May high of 111.9 in 2006, according to the BTS.

■ **3PL/shipper collaboration more critical than ever.** In an interview with *Logistics Mangement*, CEVA Logistics CEO John Pattullo said that when working with shippers, 3PLs must continue to focus on control and visibility across the supply chain. "Shippers with very long and complex supply chains always need to know where their goods are all the way through their logistics processes, and that is especially what we're hearing from large customers getting involved in global manufacturing," he said. Pattullo cited how manufacturing operations are looking for stable performance and predictable outputs, and shippers expect the same thing from their logistics providers.

■ **Tague to replace Suggs.** Non-asset based third party logistics (3PL) and transportation services provider Greatwide Logistics Services announced that John Tague has been named to succeed Leo Suggs as CEO. Suggs will remain in his role as Greatwide chairman, according to company officials. Tague comes to Greatwide from United Airlines, where he served as president and was responsible for all airline management functions. In eight years at United, he served in various roles, including chief operating officer and chief revenue officer. Suggs, the former president of UPS Freight, joined Greatwide as executive chairman in 2009 and took on the CEO role in 2010.

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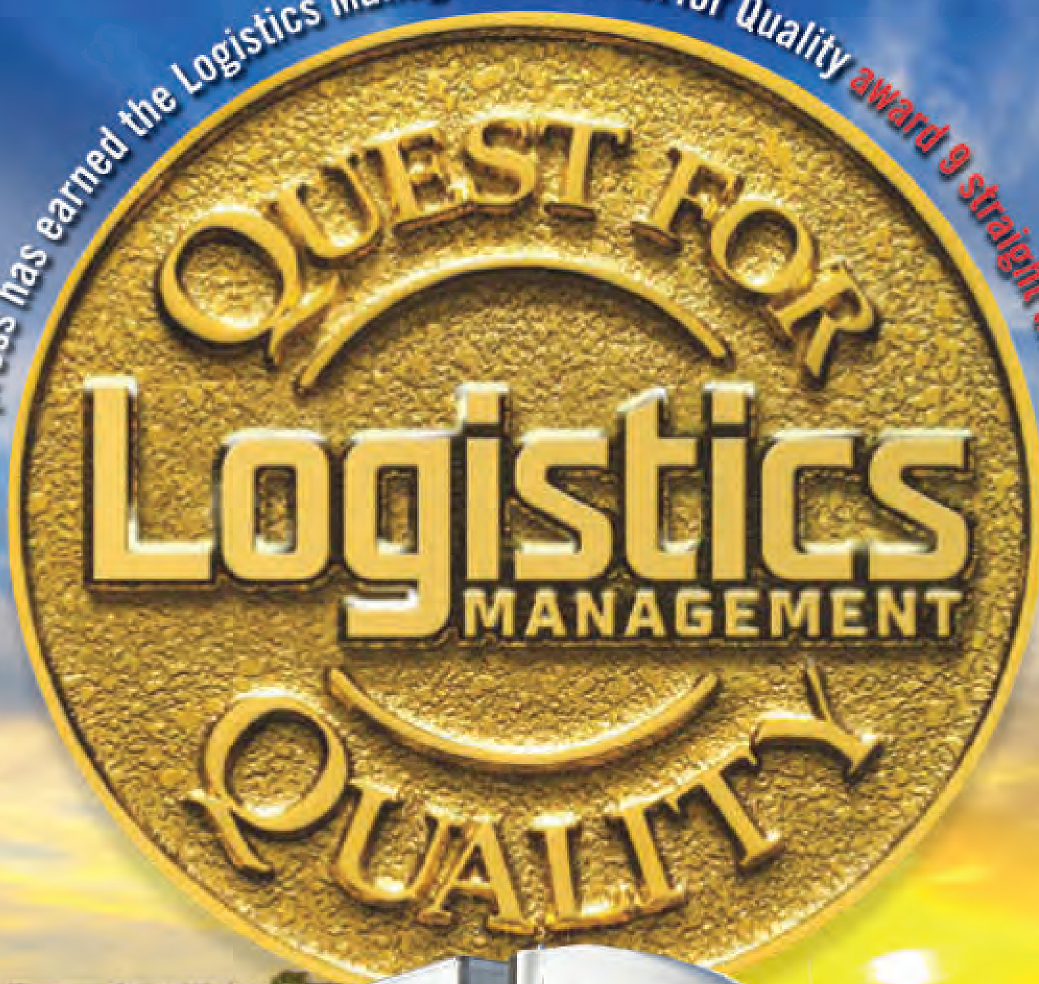

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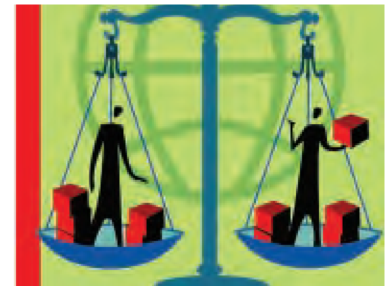

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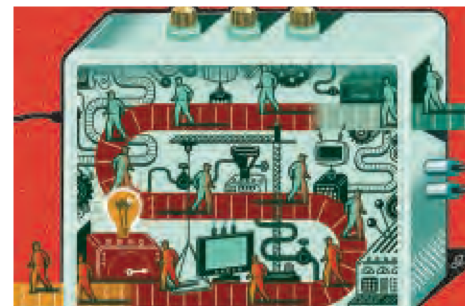

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Logistics Management® (ISSN 1540-3890) is published monthly by Peerless Media, LLC, a Division of EH Publishing, Inc., 111 Speen St, Ste 200, Framingham, MA 01701. Annual subscription rates for non-qualified subscribers: USA $119, Canada $159, Other 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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VIEWPOINT

28th Quest for Quality: Keeping the faith

THE DOG DAYS OF SUMMER FIND ME focused on one particular project, the release of our annual Quest for Quality Award winners. For just about three decades, *Logistics Management (LM)* has used its August issue to fix the spotlight on the carriers and third-party logistics providers (3PLs) that have earned the ultimate vote of shipper confidence by posting the highest scores across our critical service performance criteria.

Over this time, the Quest for Quality has been regarded as the most important measure of customer satisfaction and performance excellence in the market. But what makes these awards even more special is the fact that the lists you're about to see have been determined by *LM* readers, the buyers of transportation and logistics services who put these carriers and providers to the test around the clock in countries throughout the world.

This year, *LM* is especially proud to help shine that light on the 111 carriers and 3PLs that are being honored with a 2011 Quest for Quality Award. While continuing to face some of the toughest operational challenges ever seen by the transportation and logistics services market, this select group has proven that putting reliable service performance first and foremost is the best way to maintain the faith shippers have placed in their operations.

And considering the current operating environment, it's easy to imagine how that faith could be rocked. As we've been reporting extensively over the past six months, the recovery from the Great Recession has proven to be more elusive and prolonged than any other in our history. This challenging time has presented unprecedented challenges for carriers, services providers, and the shippers who put these companies to work—placing even more strain on the vital shipper/carrier relationship.

But I think it's safe to say that, starting on page 28, you'll find a collection of carriers and providers that have successfully overcome these challenges to maintain a level of high esteem in the eyes of the shipping community.

Judd Aschenbrand, director of Peerless Media Research Group, has done another terrific job overseeing the extensive Quest for Quality research process. This year, Aschenbrand has added a few extra data points and subtleties to help enhance the value of the data.

For example, in addition to offering the mean scores that shippers placed on the performance attributes, we show the percentage of respondents that ranked the attributes "extremely/very important." With this data, readers can more clearly see which attributes are of the highest importance when shippers rate the service performance of their carriers or 3PLs.

We've also bolded the top scores in each of the performance attributes across all of this year's charts. With this small yet significant addition, readers can see which carriers and providers are considered the outright leaders in each attribute category.

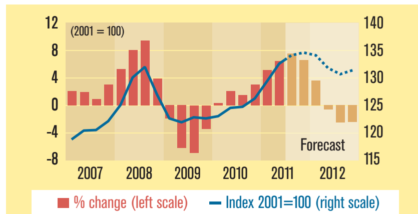
Now it's time to celebrate the winners of the 2011 Quest for Quality. As you read through the results, please keep in mind that this project represents over six months of surveying and analysis by our Peerless Media research staff and is the single biggest research project we conduct over the course of a year.

I hope the 2011 Quest for Quality helps you better measure all of your transportation and logistics services options over the next 12 months.

Michael A. Levans, Group Editorial Director

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

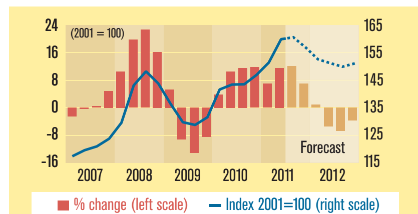
Pricing Across the Transportation Modes



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
General freight - local	0.0	3.1	2.7
Truckload	0.1	4.9	7.2
Less-than-truckload	1.1	6.4	10.4
Tanker & other specialized freight	-0.5	5.1	5.7

TRUCKING

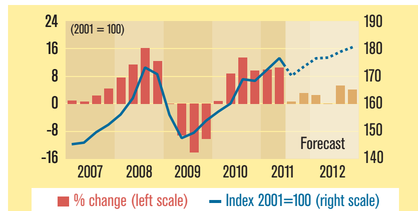
Buyers of LTL services have been hot under the collar even without a summer heat wave. Why so steamed? Because in July 2011, shippers saw average LTL prices surge 10.4% above year-ago levels. That was the single largest such price hike since the Labor Department began reporting these prices in 1992. LTL tags are forecast to increase 8.2% in 2011. Justifying all price hikes, the trucking industry's costs (excluding labor) shot up 8.3% in the year-over-year period ending May 2011. Cost escalation to operate trucking companies is accelerating, with only one speed bump in the offing—a possible double-dip recession. Our aggregate trucking price forecast stands unchanged, up 6.4% in 2011, down 0.5% in 2012.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Scheduled air freight	0.3	8.4	11.9
Chartered air freight & passenger	0.0	-4.2	-0.2
Domestic air courier	1.1	13.6	13.6
International air courier	1.2	17.9	15.8

AIR

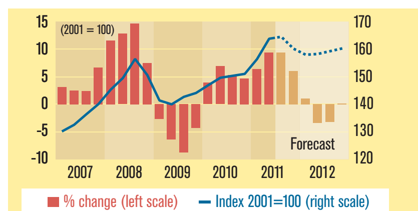
Drewry Shipping Consultants' international air freight price index has registered year-over-year declines for seven straight months, but prices for flying freight in the belly of U.S-owned planes on scheduled flights has flown in the opposite direction. In June 2011, this U.S. air cargo price index registered its third month in a row of year-ago gains exceeding 11%. From 2001 to June 2011, our airfreight price index increased 60.6%. That's about on par with the airline industry's 58.4% escalation rate in total costs that took place over the same ten-year period. (Our 10-year cost analysis includes a 344% increase in fuel cost escalation.) For all of 2011, our air cargo price index will be up 9.3%.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Deep-sea freight	2.1	7.2	9.4
Coastal & intercoastal freight	-0.3	4.0	11.5
Grt. Lks.-St. Lawrence Seaway	4.6	8.8	13.1
Inland water freight	2.9	9.9	16.5

WATER

U.S.-owned barges and cargo vessels on inland waterways, excluding towboats, boosted their average transaction prices by 3.3% from May to June. Ships on the Great Lakes/St. Lawrence seaway as well as domestic deep-sea freight carriers also hiked prices 4.6% and 2.1%, respectively. Looking at year-over-year escalation rates, the three respective inflation numbers entered the books at 18.6%, 13.1%, and 9.4%. Unlike trucking and airfreight, the U.S. waterborne freight industry continues to beat the underlying cost inflation devils. Year-over-year cost escalation in this industry increased only 2.8% in May 2011. The U.S. water transportation industry's price escalation forecast remains 6% in 2011 and 3% in 2012.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Rail freight	0.8	9.3	9.8
Intermodal	-1.2	9.4	11.0
Carload	1.0	9.6	9.9

RAIL

Intermodal rail operators reported average transaction prices dropped an unexpected 1.2% from May to June 2011. Nonetheless, year-over-year intermodal tags have increased for 11 consecutive months, ending June at 7.6%. Also escalating for seven months in a row, carload prices were up 6.4% in the 12-months ending June. For every $100 of rail services sold, ALERTdata analysis shows the rail industry spends $13.38 on a budget category called "financial, insurance, and capital management professional services." Keeping those costs under control may yield some price concessions for shippers. In any case, we forecast rail transportation tags to rise 7.8% in 2011, before falling 1.4% in 2012.

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

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YRCW finishes $500 million restructuring plan

Company names former Yellow head Welch CEO to replace Zollars, looks to win back shippers.

By John D. Schulz, Contributing Editor

OVERLAND PARK, Kan.—There's new optimism, fresh capital, and a familiar face at the wheel of financially ailing less-than-truck-load (LTL) giant YRC Worldwide (YRCW) as it aims to end a five-year slump in which it lost in excess of $2.6 billion and attempts to shed its infamous title of biggest money-loser in the history of trucking.

As YRC tries to recover and regain its place among the leading LTL carriers, it's calling upon a former top executive from a decade ago to lead its comeback.

James Welch, head of Dallas-based Dynamex and former president of YRCW predecessor company Yellow Transportation, is the company's new CEO. Welch, 55, succeeds William Zollars, YRC's chairman, president, and CEO since 1999. Zollars, who engineered the purchases of Roadway Corp. and USF Corp. that saddled YRCW with more than $1 billion of debt, is retiring.

Welch began his career in 1978 as a sales rep for Yellow Transportation, now known as YRC National. In 2000, Welch was named Yellow's president and CEO, a position he held until 2007. His return coincides with the completion of a new $500 million restructuring plan that includes a new $400 million lending agreement to help YRCW, which is still losing money, albeit at a much lesser rate.

YRCW reported a net loss of $39 million on $1.257 billion in revenue in this year's second quarter, compared to a net loss of $10 million on $1.119 billion revenue in the second quarter of 2010, which included an $83 million after-tax benefit.

Year-over-year improvement buoyed YRCW's new leadership team as the company is hoping to cash in on the slowly rebounding economic recovery and stronger freight demand and pricing.

"The headline is that we're making money on an operating basis," said Zollars in a July 22 conference call with analysts. "We can focus on our future success rather than survival."

Regarding pricing, Zollars said it's a constant balance between volume and pricing. "We're in recovery mode as an industry on the yield side," he said. "We've had a lot of success recently with customers who left us and are coming back with us at higher price levels. I think that will continue. The industry has recovered some sanity on the pricing side."

YRCW was buoyed by a near-break even quarter in operations. Its consolidated operating loss was a scant $2 million, which included $17 million of restructuring professional fees. By comparison, it suffered a consolidated operating income of $48 million, which included $92 million in non-operating costs in the year-ago quarter.

That year-over-year improvement buoyed YRCW's new leadership team as the company is hoping to cash in on the slowly rebounding economic recovery and stronger freight demand and pricing. YRC National has a 9.6 percent market share and its regional units hold a 4.6 percent market share in the $31 billion LTL sector. YRCW, along with rivals UPS Freight, ABF Freight System, and Con-way recently announced a 6.9 percent general rate increase—although that hike is subject to individual shipper

negotiations.

"We are pleased with the continued year-over-year growth in business volumes and improvements in earnings as we achieved consolidated adjusted operating income for the second quarter," stated Bill Trubeck, YRCW's interim executive vice president and CFO of YRCW. "In particular, YRC National's adjusted operating income represents an important milestone for this business."

In a recent release, YRCW emphasized second quarter 2011 improvements over its year-ago second quarter:

- YRC National Transportation adjusted operating ratio improved by 350 basis points to 99.2; shipments per day up 7.1 percent; tons per day up 6.2 percent; revenue per shipment up 5 percent; and revenue per hundredweight up 6 percent.
- YRC Regional Transportation adjusted operating ratio improved by 180 basis points to 95.9, tons per day up 8.1 percent; revenue per shipment up 9.9 percent; and revenue per hundredweight up 6.5 percent.

In its 8-K filing with the Securities and Exchange Commission, YRCW is forecasting $150 million of positive earnings before interest and debt in the second half, which would be a significant improvement over the past five years' second-half performances.

Zollars said YRCW is "well-positioned for long-term success." He cited improved pricing discipline in the LTL sector, greater freight demand, and generally improving economic conditions for such optimism. He added that contract renewals were coming with 4 percent rate increases "on a blended basis."

"We have been picking up market share the last couple of quarters, and we would expect that to continue," said Zollars. "It's hard to quantify that, but we expect business to return as momentum accelerates with the finishing of the restructuring."

YRCW, which has shrunk from a $10 billion company to a $4.6 billion company in the past five years, still has more than $1 billion in long-term debt. YRCW operates 16,400 tractors and 54,000 trailers at its five major operating companies. □

REGULATION

New transportation reauthorization bills proposed by Congress

WASHINGTON, D.C.—Following a proposed multi-year transportation reauthorization by the Republican leadership of the House Transportation and Infrastructure Committee (T&I), the Senate's Committee on Environment and Public Works (EPW) followed suit with an outline for its own take on new legislation.

Entitled "Moving Ahead for Progress in the 21st Century (MAP-21)," this bipartisan proposal, led by Senator Barbara Boxer (D-CA) and James Inhofe (R-OK), is for a two-year bill that would keep funding at levels that were intact during the previous six-year, $286 billion SAFETEA-LU—which expired in 2009 and has been kept afloat since then through a series of continuing resolutions.

This two-year bill would come at a cost of roughly $109 billion, whereas the House bill, led by T&I Committee Chair John Mica (R-FL), is a six-year, $230 billion bill.

"We have worked together to develop MAP-21, which is a bipartisan proposal that modernizes and reforms our current transportation systems to help create jobs, jumpstart our economy, and build the foundation for long-term prosperity," said Boxer. "This bill is an investment in America's future, because the nation's aging infrastructure has not kept up with needed improvements, and now our transportation systems are falling behind other countries."

The EPW bill is comprised of various freight- and supply chain-related components, including: a National Freight Program that provides formula funds to states for projects to improve the movement of freight on highways, including freight intermodal connectors; and leveraging the Transportation Infrastructure Finance and Innovation Act (TIFIA) program to help communities leverage transportation resources through federal credit assistance.

This bill was positively received by Mort Downey, Coalitions for America's Gateways and Trade Corridors chairman and former deputy transportation secretary under President Clinton. "The release of a framework for a Senate surface transportation bill is good news in a number of respects," said Downey. "It represents solid bi-partisan agreement—a rare commodity in

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today's Washington politics. At a time of constrained resources, it sets a goal of retaining current investment levels; and from the point of view of CAGTC, it answers the call for dedicated investment into our freight network."

While Mica's bill is calling for fewer dollars over a longer period, it's also calling for funding for the highway, transit, and highway safety programs at levels consistent with the amount of revenue being deposited into the Highway Trust Fund (HTF) revenue derived from the federal gasoline tax—which has not increased since 1993.

—Jeff Berman, Group News Editor

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RATES

LTL players move ahead with rate hikes

FRAMINGHAM, Mass.—Less-than-truckload (LTL) transportation services providers UPS Freight, ABF Freight System, Con-way Freight, and YRC each announced that they are rolling out general rate increases (GRI) of roughly 6.9 percent by early August.

These GRI hikes typically represent rates for non-contractual shipments in the areas these carriers serve in the United States, Mexico, and Canada.

According to Satish Jindel, president of trucking analyst firm SJ Consulting, these rate increases are good for the LTL carrier market. "The market is getting tighter, and it's a good time for this," said Jindel. "Capacity is part of this in terms of the two types of capacity the industry deals with: one being fixed capacity and the other being variable capacity."

Regarding the latter, Jindel said it's very tight at the moment, as it involves driver availability, which is very challenging at the moment. And while raising rates is seen as key for recovering revenues lost during the recession, Jindel said that there are other effective ways to address this situation. One way is for LTL carriers to charge for what they actually handle.

"If a carrier is charging for 760 pounds and the Bill of Lading says 740 pounds, charge for the extra 20 pounds," said Jindel. "About 4 percent of industry margins would improve if carriers did just that."

Another thing that can help LTL margins, according to Jindel, is freight classification and using FAK (Freight All Kinds) rates for average pricing. Leveraging both these practices would improve margins without rate hikes, said Jindel.

Anecdotal evidence suggested that many LTL carriers are seeing rates recover and are turning their attention to rate increases. This move follows a challenging 2009 in which LTL carriers were highly focused on driving vol-

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ume gains with pricing power largely diminished.

LTL carriers are also seeing marked improvements in pricing, volume, and weight per shipment in recent months, according to analyst reports. An LTL executive told *LM* that there is no question that LTL rates are starting to firm up on the yield side and it has become a focus for carriers—with all having some sort of yield improvement process to raise rates in place.

Ed Wolfe, analyst at Wolfe Trahan & Co, wrote in a research note that

while LTL capacity still is much more available than truckload, LTL pricing is "going in the right direction as the largest carriers remain very focused on improving rates." He added that LTL tonnage has seen decelerated growth during the second quarter.

Even with the firming up of these rates, the driving factors for them, according to Steve O'Kane, president of A. Duie Pyle, are expenses related to equipment additions and driver training and recruitment.

"The biggest factor is the cost of labor, which is difficult," said O'Kane. "We never reduced driver wages in 2008 or 2009 when many other carriers did. There is going to be continual pressure on driver wages, because during the deepest of the recession, the labor pool left the LTL sector and our sense is that there are a lot of people who don't care to come back into it."

A shipper, whom declined to be identified, said that it's not surprising that the industry is going after rate increases, considering that yields are still below mid-2000 levels.

"While shippers don't like to see any increase in their transportation costs, they have to realize that these companies need an adequate return in order to recapitalize their fleets," he said. "As a shipper, I just want to be sure that these rate increases lead to reinvestment. If the shape of some of the trucks coming into my dock is any indication, there are trucks being run by some carriers that don't belong on the road anymore."

—*Jeff Berman, Group News Editor*

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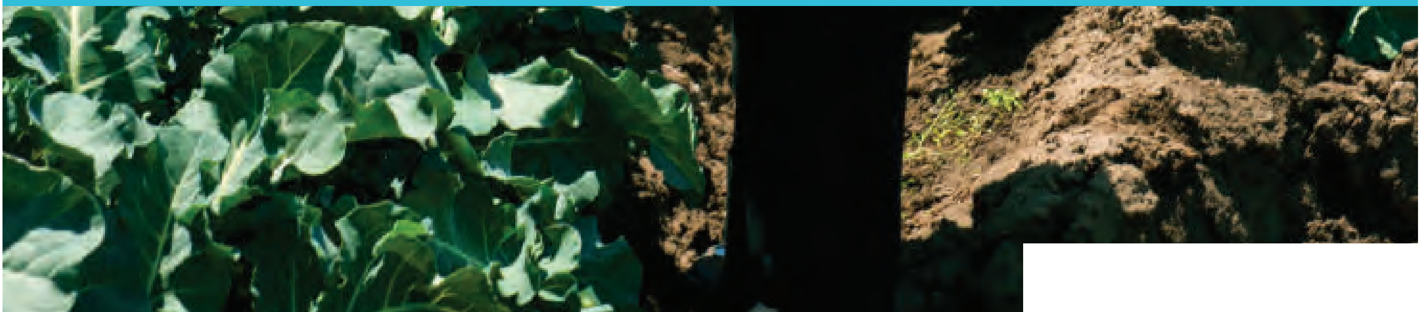

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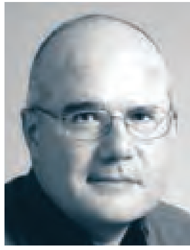

Ocean Rates: Get your foghorn ready

WHEN DISCUSSING THE OCEAN RATE and service picture with industry insiders, you quickly come to the conclusion that the ocean carrier industry is in a state of flux.

Consider some of the current trends creating this environment: The U.S. economy is picking up steam despite the poor employment numbers; the trend of bringing some manufacturing back to the continent—to be supported by foreign parts suppliers—means more imports; and the cheap dollar and growing competitiveness of U.S. finished goods means more exports. These factors bode well for ocean carriers as well as 3PLs.

As an example of this flux, recent reports tell us that ocean carriers have retired over 500 vessels but now they're adding more than 280—but many of these new ones are huge vessels capable of carrying over 8,000 TEUs. Depending on the analyst you speak with, the market is either improving or entering a phase of short-term excess capacity.

In order to navigate through this current "foggy" environment, ocean shippers need to improve visibility, spend more time training staff charged with managing ocean buys, and gain a more up-to-date working knowledge of the ocean market in order to move more fluidly—easier said than done.

Visibility in ocean is increasingly complex as the carriers add more door-to-door service. Obtaining a seamless view of cargo status during the pre-movement, land portion, port clearance, ocean, embarkation, customs, and delivery phases is still a future dream for most shippers.

Recently I had a chance to see the system used by the U.S. Transportation Command (USTRANSCOM) Surface Deployment and Distribution Command, called ISDDC. The Web-based system gathers information from multiple internal sources, as well as numerous carriers, to provide reporting on current transportation event status at the manifest level—both graphically and through historic queries.

The military users of the system told me that now that they're able to see the data, they need 3PLs, carriers, and port operators to provide accurate and timely entries so the resulting information is actionable. To this end, the new DoD Universal Service Contract (USC-7), covering international movement of U.S. DoD cargo, turns the visibility and documentation pressure up a few notches. This document has some content that other large shippers can use, and it's available free for download at www.fedbizops.gov as HTC711-11-R-W004.

With this in mind, here's some advice for ocean shippers: Remember that you're buying both the service and all the associated information regarding that transaction. Don't pay for just the service; instead, insist on delivery of the data and documentation as part of the settlement. If your contract doesn't explicitly say that, change it.

For training, I have a couple recommendations. First, assess your workforce, and your key partner's workforce, and understand who controls the key knowledge that makes the process work. Reduce your risk and improve your operations by investing in a wide and deep bench of capable operators and analysts.

Second, invest in a professional development program as part of the annual review for all employees. A good rule of thumb is that a logistics professional should spend 2 percent of their annual income in self-development and helping their team get smarter. By the way, it's tax deductable.

Gaining a better working knowledge of the ocean cargo market includes following labor trends in key markets. For example, China is experiencing the impact of the increased leverage offered by skilled and organized labor on its lifeblood infrastructure. In April, the port workers in Shanghai, reacting to the beating of a worker by officials, stopped activity at one of the largest ports in the world.

On the environmental side, container manufacturers are rushing to find substitute materials for wooden floors (hardwood shortages), carbon steel bodies (high maintenance), and solvent-based paints (pollutants). Ship owners are steaming slower to save on fuel, reduce pollutants, and reduce capacity through schedule manipulation, a trick they learned from the airlines.

Improved visibility, staff training, and industry knowledge can change an annual ocean RFP on rates into a meaningful dialog to reduce costs in the lanes in which your company moves. These are the tools that will enable you to keep moving forward competitively through the current fog of uncertainty. □

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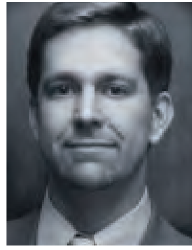

Is natural gas a transportation game changer?

ALTHOUGH THE AVERAGE PRICE FOR A GALLON of diesel has declined $0.22 in the last two months, diesel remains a dollar more expensive than it was a year ago. With little relief in sight, it's not surprising that an increasing number of fleet managers suffering from "pain at the pump" have become interested in converting all or some of their vehicles to run on natural gas.

Whether or not this is a good idea, however, pivots on whether or not the shale gas revolution, which has driven prices down from more than $13 to just over $4 per thousand cubic feet (Mcf), is sustainable. Unfortunately, a careful study of the process and economics of shale gas production suggests that the current low prices and supply glut are transitory.

While there is no doubt that U.S. shale gas reserves are immense, and shale gas production has come to supply nearly a quarter of U.S. gas demand, the size of the reserve matters much less than the rate of sustainable extraction. While the rate of shale gas production surged from 1.0 trillion cubic feet (Tcf) in 2006 to 4.8 Tcf in 2010, a number of valid arguments cast doubt on the sustainability of this trend.

Shale gas is not just a game changer; it's a different game: In a conventional natural gas play, a well is drilled through an impermeable cap rock and into a source rock through which hydrocarbons can easily flow. Because the natural gas in a conventional field is under great pressure, once the drill breaks through the cap rock, the gas flows to the surface under its own accord.

Unlike conventional source rocks, shale is completely impermeable. Consequently, any hydrocarbons that formed in shale are trapped there indefinitely. The only way to release them is by fracturing the rock itself; and even then, only those hydrocarbons at the fracture interface are released.

Importantly, because the gas in the surrounding rock is trapped, the life of a hydraulically fractured well is much shorter than a conventional field. Furthermore, producing the same areal extent of a shale formation requires more costly wells, equipment, and pipelines than would be required on a conventional gas field.

The process of hydraulic fracturing, or "fracing," requires producers to pump massive quantities of water, proppants, and biocides into the ground under high pressure. The pressure fractures the formation and releases the hydrocarbons found at the fracture interface.

Because the weight of the overburdened formation threatens to greatly reduce the flow of hydrocarbons, proppants are mixed in with the fracing fluid. The proppants act as a mechanical wedge which 'props' open the newly created fractures.

The flow through the fractures is also threatened by blooms of hydrocarbon-consuming bacteria. As a consequence, biocides which inhibit bacterial growth are also mixed with the fracing fluid. The necessary inclusion of biocides in fracing fluid is a cause of great concern among activists, and for good reason.

Most, but not all, of the fracing fluid which is pumped into the ground is produced along with the hydrocarbons. This fluid must be transported to a treatment facility, and the cost of treatment is born by the producer. Measures of effluent coming out of water treatment facilities show that some are not capable of effectively processing fracing fluid. More than that, however, it's unclear where the portion of biocides that remain in the ground will eventually end up.

Environmentalists are mobilized against shale gas expansion: Currently, there is a growing movement in Pennsylvania, New York, and elsewhere to ban hydraulic fracturing on the grounds that the human health and environmental risks of groundwater and surface water contamination are unacceptably high, and safeguards are unacceptably low. The documentary film *Gasland*, that famously shows flames shooting out from a man's water faucet, helped inspire this movement. The logic follows that if the natural gas can migrate into water wells, what's to prevent the biocides from doing the same?

The anti-fracing movement has been further invigorated by the research of Prof. Dan Voltz who shows a statistical relationship between drinking water quality, cancer clusters, and the sites of shale gas wells. Efforts to ban hydrofracing have inspired the New York legislature to place a moratorium on shale gas production in the watershed that supplies New York City with drinking water. And outside the U.S., hydraulic fracturing has been banned outright in France over rising environmental concerns.

Many fracing proponents argue that the process is safe. Others argue that no process is without risk, and that the detrimental impacts of high energy prices justify taking these risks. But whether or not the process can be done safely is not the point. The point is that

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there is a large and growing population that does not trust that shale gas extraction can be done safely, and this group has evolved into a very active and effective opponent to the natural gas industry.

It pays to play, but not all shale plays pay: While concerned citizen activists have in some cases been successful in thwarting the efforts of shale gas producers, there are others, like petroleum geologist, consultant, and shale gas proponent, Arthur Berman, who argue that the prospects for shale gas being a "game changer" are inflated—that both reserves and future production rates have been overestimated. Berman makes a convincing and empirically grounded case that the methodology used to estimate shale gas reserves and future production rates is flawed.

In addition to questioning the estimation of critical variables that drive the mathematical models used to estimate reserves and future production, Berman takes aim at a critical underlying assumption—that shale gas formations are homogeneous. If the homogeneity assumption, which is the assumption that the quantity of natural gas per cubic foot is consistent throughout the formation, holds true, the production rate of any particular well can be used to estimate the total reserves and potential production rates across the entire formation.

Berman demonstrates that the shale plays are, in fact, highly heterogeneous. He shows that economical production in two of the most extensively explored and produced shale plays, the Barnett and Haynesville plays, can only be accomplished in core areas. Taken together, these core areas represent no more than 20 percent of the total areal extent of these plays. Hence, reserves are likely overestimated.

The gas glut is the arbiter of arbitrage: For the sake of argument, however, let's step back and give the industry the benefit of the doubt. Let's imagine that environmentalists toss in the towel or that their protests have no impact on producers' bottom lines.

Let's also imagine that the thoughtful and substantiated criticisms by Mr. Berman and others are proven wrong. In other words, let's imagine that shale gas production can continue growing at recent rates. Under this scenario, there would be a strong force—call it an invisible hand—impelling producers to transport and sell gas in high priced markets, like eastern Europe, China, and India.

Globally, investment is already flowing into liquid natural gas (LNG) tanker construction, and liquefaction and regasification facilities. These investments could allow a physical arbitrage that would cause prices in the U.S. to rise while prices elsewhere would fall.

Similarly, if natural gas continues to be significantly less expensive than diesel, it would make sense that some portion of the transportation sector would convert from diesel to natural gas. But in doing so, demand for diesel would decline relative to demand for natural gas—and this would cause price convergence. ☐

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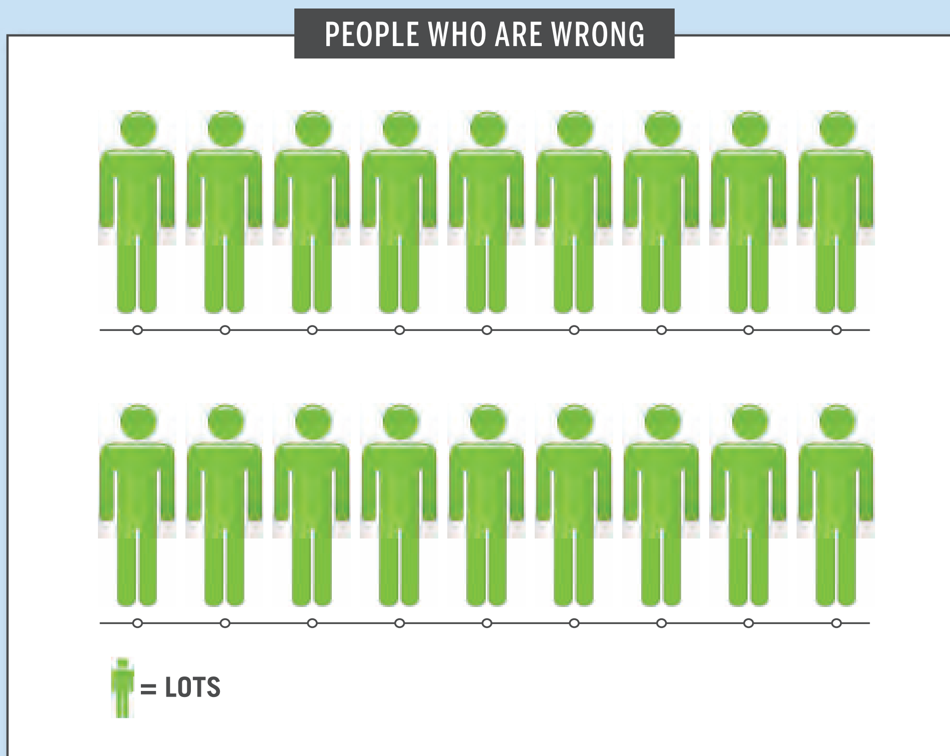

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2011 28th Annual Quest for Quality

Held in high esteem

Which carriers and third-party logistics providers are held in high esteem in terms of service performance? Our readers have cast their votes, and now it's time to reveal the winners of the coveted Quest for Quality Awards.

BY ***LOGISTICS MANAGEMENT*** STAFF

The editorial staff of *Logistics Management* (*LM*) is thrilled to offer the logistics and transportation community the results of the 28th Annual Quest for Quality Awards. This year, 111 providers of transportation and logistics services have received the ultimate vote of confidence, posting the highest scores across our lists of critical service criteria.

For nearly three decades, *LM's* Quest for Quality has been regarded in the transportation and logistics industry as the most important measure of customer satisfaction and performance excellence. To determine the best of the best, *LM* readers rate carriers and third-party logistics (3PL) service providers strictly on the basis of service quality.

And, when you consider the operating environment in which carriers and 3PLs found themselves operating over the past 12 months, the editorial staff agrees that securing reader faith and walking away with a Quest for Quality Award in 2011 is nothing less than a monumental achievement.

The recovery from the Great Recession has proven to be more elusive and prolonged than any other in our history, and the slow growth presented another period of unprecedented challenges for carriers, services providers, and the shippers who put these companies to work—placing even more strain on the vital shipper/carrier relationship.

Although many industry observers are predicting strengthening for logistics services as we head through the second half of 2011, we're finding that the pieces may not be falling into place as quickly as we thought to support anything more than weak growth. Much of this uncertainty is translating into increased volatility, sending shippers out in a search for capacity during sudden surges in demand—and carriers in search of a more sustainable revenue model.

And, when considering these mounting challenges, we're happy to report that the following pages reveal listings of the carriers and 3PLs that shippers believe have been equal to the task. Quest for Quality winners are voted on by the readers of *Logistics Management*—the customers that put these carriers and providers to the test around the clock in countries throughout the world.

If fact, this year we had 4,575 logistics and supply chain decision makers place their vote. This six-month research undertaking results in eight lists that feature 111 transportation and logistics services provider organizations that have risen above the rest.

REACHING THE PINNACLE

But before we present the awards to the 2011 winners, let's take a more detailed look at how we arrive at our list of

recipients. One of the best things about the Quest for Quality is that it allows shippers to vote in the genre of services they actually use and fully understand; in turn, they can vote for the providers that they feel have best delivered on quality service in specific niches.

To determine who wins the vote, *LM* readers evaluate companies in all modes, choosing the top performers in categories including motor carriers, railroad and intermodal services, ocean carriers, airlines, freight forwarders, and third party/contract logistics services. From January through May of this year, *LM* and our Peerless Media Research Group surveyed readers who are qualified buyers of logistics and transportation services.

In order to be a "winner," a company had to receive at least 5 percent of the category vote. The result of this overall effort is a crystal clear look at not only the overall winner in any given category, but a broad list of companies that

Performance attributes' importance

Company Type	On-time performance	Value	Information technology	Customer service	Equipment & operations
National/multiregional LTL and surface package carriers	4.7*	4.5*	3.4*	3.9*	3.4*
Rated extremely/very important	97%	92%	57%	68%	58%
Air cargo carriers/air express carriers/freight forwarders	4.8*	4.2*	3.5*	4.0*	3.4*
Rated extremely/very important	96%	86%	56%	75%	52%
Ocean carriers	4.5*	4.4*	3.5*	4.1*	3.8*
Rated extremely/very important	91%	87%	60%	77%	69%
Truckload/van lines/expedited	4.8*	4.4*	3.3*	4.0*	3.9*
Rated extremely/very important	97%	90%	52%	70%	69%
Rail/Intermodal service providers	4.6*	4.4*	3.1*	3.8*	3.7*
Rated extremely/very important	94%	87%	45%	63%	62%

	Carrier selection/ negotiation	Order fulfillment	Transportation/ distribution	Inventory management	Logistics information systems
3PL	3.9*	4.0*	3.9*	3.3*	3.7*
Rated extremely/ very important	70%	72%	71%	53%	65%

Source: *Logistics Management*, Peerless Media Research Group

* All scores are weighted. Weighted scores are determined by multiplying the average raw scores by the average importance of each attribute (1 = least important; 5 = most important). To find the attributed weights for this category, see the introduction to the Quest for Quality report.

finished well above the average.

HERE'S HOW WE DO IT

Transportation service providers are rated on *LM*'s five key criteria: On-time Performance, Value, Information Technology, Customer Service, and Equipment & Operations. Due to the nature of services offered by third-party players, a different set of criteria is used to judge this category.

Third-party logistics providers are rated on the following attributes: Carrier Selection & Negotiation, Order Fulfillment, Transportation & Distribution, Inventory Management, and Logistics Information Systems. The evaluation itself is a weighted metric. The scores take into account the importance readers attach to each attribute. Each year, readers are first asked to rank the attributes in each category on a five-point scale, with 5 representing the highest value and 1 representing the lowest value.

Our research team then uses those attributes' rankings to create weighted scores in each category. For example, readers have historically placed the single highest value on On-time Performance—and they've done so again in 2011. If you look at the table on page 29, you'll see that it was rated between 4.5 and 4.8 across the various carrier categories.

The second most critical attribute again this year was Value, followed by Customer Service. According to our 2011 findings, shippers are putting slightly more weight on Equipment & Operations than on Information Technology (IT). This may signal that more logistics operations are finding success with recently implemented transportation management systems (TMS) and related IT solutions.

After readers have ranked these key attributes in order of importance, they then grade each provider that they currently use on each of the five core Quest for Quality attributes, rating them on a scale of 1 to 3 (1=poor, 2=average, 3=outstanding).

To produce a weighted score, the research team then multiplies the provider's average scores for each attribute by the attribute's ranking. Next, the weighted scores are calculated for all five attributes for a given vendor and added together to create an aggregate number.

Companies score a quality win when their total scores exceed the average total weighted score in their category. But, remember, providers must receive a minimum number of reader responses to qualify for a win—at least 5 percent of the total base for the category.

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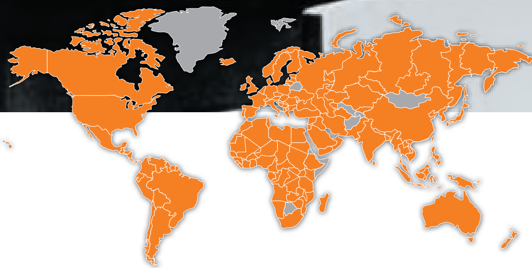

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2011 Quest for Quality

NATIONAL LTL

Tough road to the top

WHEN ALL IS SAID AND DONE, history may reveal that the Great Recession was cruelest to the carriers that make up the national less-than-truckload (LTL) category. As our John Schulz has been reporting over the past year, the overall LTL market has been less than profitable for many of the top carriers in this $27.5 billion sector, which has been plagued by overcapacity, high overhead costs, and staggering losses from its largest players.

Our daily coverage of the market reveals that parent companies of the two largest national, unionized LTL carriers—YRC Worldwide and Arkansas Best Corp.—continue to bleed red ink even as the U.S. economy maintains a slow and sluggish recovery. As shippers will read in this month's news section, however, there may be some light at the end of the tunnel for YRC as the ailing carrier has completed a new $500 million restructuring that includes a new $400 million lending agreement.

But while it's been tough going, the eight carriers on our list below have received word that shippers believe their service is second to none despite myriad operating challenges. In the National LTL category we find FedEx National LTL (45.83) and Con-way Freight (44.18) taking highest honors this year. As it did last year, FedEx National just slightly edged by Con-way in every attribute category to post the highest weighted average.

In the Multiregional LTL category, we find that FedEx Freight (47.15), Old Dominion Freight Line (44.32), and UPS Freight (43.98) ring in as repeat winners this year in the same order as the 2010 results. Estes Express Lines (43.21) joins the list this year after missing the cut in 2010.

It was nearly a toss up in this year's Surface Package category. In perhaps one of the closest categories we measure, FedEx Ground (49.67) and UPS (49.51) came in above the weighted average. FedEx took top marks in Value and Customer Service, while UPS posted highest scores in On-time Performance, IT, and Equipment & Operations.

National LTL carriers

(Bold indicates leader in attribute category)

	Overall score	On-time performance	Value	Information technology	Customer service	Equipment & operations
FedEx National LTL	45.83	**11.30**	**9.32**	**8.21**	**8.69**	**8.31**
Con-way Freight	44.18	11.11	9.17	7.52	8.45	7.93
AVERAGE	**43.24**	**10.47**	**9.12**	**7.60**	**8.35**	**7.69**

Multiregional LTL carriers

(Bold indicates leader in attribute category)

	Overall score	On-time performance	Value	Information technology	Customer service	Equipment & operations
FedEx Freight	47.15	**11.80**	9.59	**8.52**	**8.90**	**8.35**
Old Dominion Freight Line	44.32	10.76	9.55	7.60	8.69	7.72
UPS Freight	43.98	10.54	9.37	8.01	8.39	7.67
Estes Express Lines	43.21	10.34	**9.94**	7.05	8.45	7.43
AVERAGE	**43.05**	**10.33**	**9.54**	**7.48**	**8.25**	**7.46**

Surface package carriers

(Bold indicates leader in attribute category)

	Overall score	On-time performance	Value	Information technology	Customer service	Equipment & operations
FedEx Ground	49.67	12.13	**10.60**	8.88	**9.35**	8.71
UPS	49.51	**12.28**	10.42	**8.96**	9.05	**8.81**
AVERAGE	**47.43**	**11.68**	**10.51**	**8.23**	**8.59**	**8.43**

All table information provided by *Logistics Management* and Peerless Media Research Group

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Making business flow

2011 Quest for Quality

REGIONAL LTL

Staying nimble and quick

THE MANTRA FOR PROFITABILITY in the LTL market remains freight density, cost control, and pricing discipline. However, the nimblest regional LTL carriers can often understand their costs better than the more broad-reaching nationals and, therefore, price business to earn an appropriate return.

According to the readers of *Logistics Management*, not only have these 13 LTL's figured out a sustainable business model, but also rank far and away the best in servicing their particular regions. In the Northeast/Mid-Atlantic region, A. Duie Pyle (48.87), Pitt Ohio (47.81), and New Penn (46.77) scored above the weighted average this year. Of note, A. Duie Pyle's impressive 48.87 was the second highest weighted average in the entire regional LTL category.

In the South/South Central region, shippers gave highest marks to Southeastern Freight Lines (48.01), Averitt Express (46.84), and Wilson Trucking (46.53). In the Midwest/North Central region, Dayton Freight Lines (46.59) and Holland (45.80) repeat as the only two scoring above the weighted average.

Out West, Oak Harbor Freight Lines (46.59) and Lynden Transport (46.57), the only two winners from our 2010 results, are joined by leading scorer Pacific Alaska (50.69), Carlile Transportation (46.39), and Reddaway (45.73).

Northeast/Mid-Atlantic regional LTL carriers

(Bold indicates leader in attribute category)

	Overall score	On-time performance	Value	Information technology	Customer service	Equipment & operations
A. Duie Pyle	48.87	**12.02**	10.58	**8.15**	**9.75**	**8.37**
Pitt Ohio	47.81	11.75	**10.76**	7.69	9.42	8.19
New Penn	46.77	11.90	9.94	7.74	9.13	8.05
AVERAGE	**45.89**	**11.37**	**10.26**	**7.41**	**8.95**	**7.91**

South/South Central regional LTL carriers

(Bold indicates leader in attribute category)

	Overall score	On-time performance	Value	Information technology	Customer service	Equipment & operations
Southeastern Freight Lines	48.01	**11.98**	**10.72**	**7.77**	**9.37**	8.17
Averitt Express	46.84	11.43	10.41	7.56	9.23	**8.20**
Wilson Trucking	46.53	11.28	11.11	7.07	9.25	7.82
AVERAGE	**46.37**	**11.42**	**10.60**	**7.41**	**9.06**	**7.88**

Midwest/North Central regional LTL carriers

(Bold indicates leader in attribute category)

	Overall score	On-time performance	Value	Information technology	Customer service	Equipment & operations
Dayton Freight Lines	46.59	**11.55**	**10.82**	7.37	**9.21**	**7.63**
Holland	45.80	11.31	10.39	**7.54**	8.95	7.61
AVERAGE	**43.19**	**10.38**	**10.31**	**6.97**	**8.37**	**7.16**

Western regional LTL carriers

(Bold indicates leader in attribute category)

	Overall score	On-time performance	Value	Information technology	Customer service	Equipment & operations
Pacific Alaska Freightways	50.69	**13.43**	**12.21**	7.37	9.75	7.93
Oak Harbor Freight Lines	46.59	12.27	10.10	7.14	9.34	7.74
Lynden Transport	46.57	11.84	9.72	**7.65**	9.43	7.93
Carlile Transportation	46.39	10.97	9.82	7.48	**9.97**	**8.16**
Reddaway	45.73	11.50	10.70	7.56	8.53	7.44
AVERAGE	**45.20**	**11.38**	**10.19**	**7.22**	**8.73**	**7.68**

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TRUCKLOAD

Kings of the long haul

As our John Schulz reported in last month's *State of Logistics Report* coverage, the truckload (TL) sector, which supplies the vast majority of capacity in the for-hire trucking industry, is finally enjoying a renaissance after three years of financial doldrums.

Indeed, profitability is up at the major truckload carriers, and for the 28 carriers listed below, morale is certainly on the rise as well. According to the readers of *Logistics Management*, these are the long-haul service stars of the past 12 months.

In this year's Industrial & Heavy-Haul category, Roehl Transport scored a 50.08 weighted average to take the top spot, but only placed first in one attribute category, Customer Service. Prime, Inc. was right on Roehl's tail, posting 50.03 and putting up best scores in Value, IT, and Equipment & Operations.

Our Dry freight category collected eight winners this year, but only four repeats from our 2010 results. Transport America, a first time Quest for Quality winner, topped the category, posting a 50.21 weighted average. Pacer International, Inc. (46.20), NFI (46.07), and Western Express (46.06) all take home the gold this year after missing the cut in 2010.

Industrial & heavy-haul carriers

(Bold indicates leader in attribute category)

	Overall score	On-time performance	Value	Information technology	Customer service	Equipment & operations
Roehl Transport	50.08	**12.27**	10.27	7.33	**11.11**	9.10
Prime, Inc.	50.03	11.84	**10.56**	**8.14**	9.87	**9.62**
Melton Truck Lines	48.69	12.22	10.00	7.80	9.45	9.22
Landstar	46.20	11.29	9.51	7.21	9.16	9.03
AVERAGE	**46.00**	**11.37**	**9.52**	**6.98**	**9.33**	**8.80**

Dry freight carriers

(Bold indicates leader in attribute category)

	Overall score	On-time performance	Value	Information technology	Customer service	Equipment & operations
Transport America	50.21	**12.00**	10.27	**8.01**	**10.67**	9.26
Landstar	46.36	11.06	9.84	6.91	9.53	9.03
Pacer International, Inc.	46.20	10.34	**10.80**	7.36	8.92	8.78
NFI	46.07	11.45	10.63	6.60	8.62	8.78
Western Express	46.06	10.97	10.27	7.54	8.92	8.36
CRST Van Expedited	45.41	11.20	9.22	6.76	8.76	**9.47**
Con-way Truckload Services	44.89	10.73	9.43	7.09	8.57	9.08
Heartland Express	44.79	11.82	8.46	6.46	9.12	8.94
AVERAGE	**43.55**	**10.36**	**9.05**	**6.89**	**8.51**	**8.74**

Expedited motor carriers

(Bold indicates leader in attribute category)

	Overall score	On-time performance	Value	Information technology	Customer service	Equipment & operations
FedEx Custom Critical	51.98	13.24	9.00	**8.92**	**10.56**	10.26
Pitt Ohio Express	51.78	**13.26**	10.56	8.42	9.80	9.75
CRST Van Expedited	50.96	12.22	**11.20**	7.80	9.82	9.93
A.Duie Pyle, Pyle Priority	49.98	12.10	10.03	8.05	9.50	**10.30**
New Penn	49.64	12.60	10.08	7.98	9.39	9.59
Averitt Express	49.17	12.27	10.27	7.33	9.56	9.75
Holland	48.08	12.00	10.45	7.73	9.13	8.78
AVERAGE	**47.87**	**11.64**	**9.77**	**7.88**	**9.15**	**9.42**

All table information provided by *Logistics Management* and Peerless Media Research Group

(Continued on page 38)

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2011 Quest for Quality

Bulk motor carriers

(Bold indicates leader in attribute category)

	Overall score	On-time performance	Value	Information technology	Customer service	Equipment & operations
Miller Transporters, Inc.	45.37	**11.35**	8.40	6.60	**9.45**	**9.57**
Prime, Inc.	44.98	10.89	9.31	7.00	8.48	9.30
Ruan Transport	43.96	10.63	**9.43**	6.13	9.14	8.64
Bulkmatic Transport	43.78	10.08	8.80	6.60	9.33	8.97
Schneider National Bulk Carriers	43.74	10.87	8.66	**7.03**	8.63	8.55
AVERAGE	**42.69**	**10.44**	**8.68**	**6.44**	**8.50**	**8.62**

Household goods & high-value goods carriers

(Bold indicates leader in attribute category)

	Overall score	On-time performance	Value	Information technology	Customer service	Equipment & operations
North American Van Lines	48.78	**12.60**	9.90	7.01	10.00	9.26
Allied Van Lines	48.59	12.00	**11.00**	**7.26**	8.80	**9.53**
United Van Lines	48.22	12.40	9.90	7.15	9.67	9.10
Bekins Van Lines	47.51	12.00	9.29	6.19	**10.50**	**9.53**
AVERAGE	**45.21**	**11.42**	**9.33**	**6.40**	**9.11**	**8.96**

All table information provided by *Logistics Management* and Peerless Media Research Group

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RAIL/INTERMODAL

Steady rise to the top

AS GROUP NEWS EDITOR Jeff Berman wrote in last month's *State of Logistics Report*, rail and intermodal have been two of the most stable sectors in freight transportation over the past two years—although volumes have a way to go to get back to pre-recession levels witnessed in 2007.

And while those levels may not be back for a while, industry experts say that since the first half of 2010, the railroad industry appears to be maintaining its steady course, with solid earnings and strong pricing clearly intact. As for volumes, rail carloads and intermodal containers and trailers are up roughly 4 percent and 10 percent, respectively, year-over-year for the first half of 2011.

Couple that solid financial performance and demand with the fact that, according to our *Annual Study of Logistics and Transportation Trends (Masters of Logistics)*, service levels on the rails have been on the rise for the past three years, and you can picture a pretty happy group of rail executives. And for 10 rail and intermodal service and marketing companies, the news is about to get a little sweeter.

Leading the pack in our Rail/Intermodal Service Provider category with the highest weighted average for the second year in a row is Triple Crown Services (46.85). Triple Crown took honors in On-time Performance (12.88), Customer Service (9.16), and Equipment & Operations (9.13).

Pulling in first in Value was Norfolk Southern (9.58), and CSX Transportation put up an impressive 6.89 in IT to lead the way in this important category. It's interesting to note that all five of these service providers scored Quest for Quality gold last year as well—and in just about the exact order.

Our Intermodal Marketing category found three winners who didn't make the cut last year along with two repeats from 2010. J.B. Hunt Intermodal tops the list again this year, putting up a 46.59 weighted average, but only scored highest in one attribute category, IT (7.02). In fact, attribute top scores were well dispersed in this category this year.

Alliance Shippers put up the second best weighted average (45.94) and lead the way in Customer Service (9.08). Dart International posted the third best overall average (45.93) but took top spot in On-time Performance (11.50) and Equipment & Operations (10.18). Pacer Internatinal, Inc. rang in fourth with a 44.53 and was top in Value with a 10.43.

Rail/Intermodal service providers

(Bold indicates leader in attribute category)

	Overall score	On-time performance	Value	Information technology	Customer service	Equipment & operations
Triple Crown Services Company	46.85	**12.88**	9.29	6.39	**9.16**	**9.13**
Norfolk Southern	43.35	10.58	**9.58**	6.54	8.18	8.47
BNSF Railway	42.72	10.71	8.99	6.57	7.99	8.47
CSX Transportation	42.36	10.07	9.34	**6.89**	8.02	8.03
Union Pacific	42.18	10.18	9.17	6.81	7.85	8.18
AVERAGE	**42.11**	**10.32**	**9.21**	**6.47**	**7.94**	**8.18**

Intermodal marketing companies

(Bold indicates leader in attribute category)

	Overall score	On-time performance	Value	Information technology	Customer service	Equipment & operations
J.B. Hunt Intermodal	46.59	11.02	10.27	**7.02**	8.73	9.56
Alliance Shippers	45.94	11.24	10.09	6.89	**9.08**	8.63
Dart Intermodal	45.93	**11.50**	9.68	6.98	7.60	**10.18**
Pacer International, Inc.	44.53	10.90	**10.43**	6.43	8.44	8.33
Schneider Intermodal Services	41.98	10.07	8.80	6.91	7.93	8.27
AVERAGE	**41.96**	**10.13**	**9.46**	**6.42**	**7.91**	**8.04**

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OCEAN CARRIERS

Tops on the high seas

MUCH HAS CHANGED on the high seas over the past three years. In fact, the analysts at IHS Global Insight report that world trade has mostly recovered from the Great Recession—news that that should put a smile on the occupants of any ocean carrier boardroom.

Analysts estimate that after plunging 10 percent in 2009, global trade volume measured in tons increased 8.5 percent in 2010. Over the course of 2011 it's expected to grow 6.9 percent. But as Executive Editor Patrick Burnson reported in last month's *State of Logistic Report*, those smiling ocean carrier executives aren't taking anything for granted, and the tired old cliché "thinking outside the box" takes on new meaning when expressed by some of the world's leading container shipping companies.

In our 2011 Ocean Roundtable (page 52), Burnson and his panel mention that the container shipping industry may be standing on the brink of an "era-defining moment" as it faces fundamental challenges with growing equipment and capacity constraints. To overcome this pending storm, the panel believes that there needs to be greater dialogue between carriers and ocean shippers over the next 12 months in an effort to create more mutual, economic partnerships.

And while this new period of collaboration is evolving, we can report with some confidence that shippers have established valuable relationships with the 14 carriers sailing away with Quest for Quality gold this year. It's these carriers, say the readers of *Logistics Management*, that have delivered world-class service over the past 12 months.

Leading the group of winners to port this year and posting and impressive 48.43 weighted average is Sea Star Line. Sea Star put up top marks in Value (10.12), IT (8.17), and Customer Service (10.02). It's important to note that while Sea Star was among our winners in 2010, the line jumped up 16 points in its weighted average score this year.

Hyundai Merchant Marine pulled in second this year after missing the cut in 2010. Hyundai posted a 46.34 weighted average and put up the best On-time Performance score (11.38). Matson Navigation rounds out our key attribute winners in the ocean category this year with an inspiring 9.50, a clear half a point higher than the field.

We had a number of repeat winners from 2010 in this category including OOCL (46.01), "K" Line America, Inc. (45.03), Atlantic Container Line (44.98), APL (44.91), Maersk Line (44.87), Evergreen (44.39), Hanjin Shipping (44.00), Horizon Lines (43.29), and Crowley Liner Services (43.23). Hapag-Lloyd (44.92) and NYK Line (44.80) are welcomed back to the winner's circle this year after missing the cut in 2010.

Ocean carriers

(Bold indicates leader in attribute category)

	Overall score	On-time performance	Value	Information technology	Customer service	Equipment & operations
Sea Star Line	48.43	11.25	**10.12**	**8.17**	**10.02**	8.87
Hyundai Merchant Marine	46.34	**11.38**	10.09	7.10	8.82	8.94
OOCL	46.01	10.70	9.92	7.84	8.68	8.87
Matson Navigation	45.81	10.93	8.80	7.75	8.83	**9.50**
"K" Line America Inc.	45.03	10.40	9.78	7.48	8.68	8.70
Atlantic Container Line	44.98	10.38	9.61	7.00	9.62	8.36
Hapag-Lloyd	44.92	10.68	9.39	7.39	8.76	8.69
APL	44.91	10.43	9.18	7.67	8.86	8.76
Maersk Line	44.87	10.47	9.22	7.81	8.61	8.76
NYK Line	44.80	10.30	9.50	7.33	9.04	8.64
Evergreen Line	44.39	9.98	9.90	7.46	8.57	8.48
Hanjin Shipping	44.00	10.44	9.39	7.21	8.36	8.60
Horizon Lines	43.29	10.57	8.40	7.16	8.73	8.43
Crowley Liner Services	43.23	10.57	9.00	7.17	8.00	8.50
AVERAGE	**43.12**	**10.02**	**9.38**	**7.06**	**8.33**	**8.32**

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3PL

Back on the rise

ACCORDING TO OUR REPORTING over the past eight months, the third-party logistics (3PL) industry is surging again after seeing flat growth in the heart of the Great Recession.

However, those closest to the 3PL market agree that this growth trend could reach a plateau in the coming years due to a number of looming economic uncertainties, not the least of which is the price of oil—which could, in fact, send global trade numbers tumbling and increase domestic and cross-border moves.

But, for the time being, the 3PL market is enjoying a resurgence. According to Armstrong & Associates' most recent market analysis, revenues and profitability increased over the course of 2010 in all four of 3PL segments it covers. Gross revenue increases ranged from 12.9 percent to 30.1 percent and were up 19.4 percent overall from 2009, while overall net income increased 23.4 percent in 2010 over 2009 levels.

In fact, Armstrong analysts say that 2009 was the only negative growth year since the firm began tracking the results in 1995. While the latest numbers are very encouraging, the market needs to keep in mind that 2009 was a bad a year for just about every player in logistics and transportation services.

Improved global trade has certainly had a lot to do with the improved numbers, yet market analysts also contend that domestic and cross-border activity is a key driver to current 3PL growth—and could become an even bigger part of the 3PL services market as more U.S.-based multinationals consider shifting sourcing strategies closer to home.

And while shippers are considering new global and domestic networks, we can be sure that the 3PLs making the grade on our list below will most certainly be part of the strategy. This year, the readers of *Logistics Management* have voted 16 3PLs into the 2011 Quest for Quality winners' circle.

Leading our list of providers this year is first-time winner Network Global Logistics with an impressive weighted average of 45.19. Network also took top spot in four of the five attribute categories, scoring 8.94 in Carrier Selection/Negotiation, 9.72 in Order Fulfillment, 9.31 in Transportation/Distribution, and 8.48 in Inventory Management. C.H. Robinson posted a 8.82 in Information Systems to lead the pack in this increasingly important category.

It's interesting to note that only six out of this year's 16 are repeat winners from our 2010 results. Making the cut after missing last year are Network Global, C.H. Robinson, Yusen Logistics (41.78), Expeditors (40.67), DHL Solutions (39.80), Landstar (39.56), Menlo Worldwide (39.30), Kuehne + Nagel Logistics (38.78), YRC (38.18), and CEVA Logistics (37.28).

Repeating this year are second best weighted average scorer Transplace (34.21), FedEx Supply Chain Services (42.08), APL Logistics (40.75), Unyson Logistics (39.86), Exel (37.34), and Ryder Supply Chain Solutions (36.71). This year marks the third year in a row for Ryder, FedEx, and Exel.

Third-party logistics companies

(Bold indicates leader in attribute category)

	Overall score	Carrier selection/ Negotiation	Order fulfillment	Transportation/ Distribution	Inventory management	Logistics information systems
Network Global Logistics	45.19	**8.94**	**9.72**	**9.31**	**8.48**	8.74
Transplace	43.21	8.47	9.48	8.82	7.77	8.67
C.H. Robinson Worldwide	42.55	8.47	8.74	8.79	7.73	**8.82**
FedEx Supply Chain Services	42.08	8.22	9.12	9.03	7.04	8.67
Yusen Logistics	41.78	8.85	8.56	8.99	7.33	8.05
APL Logistics	40.75	7.88	8.60	8.49	7.99	7.79
Expeditors	40.67	8.09	9.12	8.45	7.37	7.64
Unyson Logistics (Hub Group)	39.86	7.76	7.90	8.11	7.91	8.18
DHL Solutions	39.80	7.98	8.79	7.89	7.22	7.92
Landstar	39.56	7.85	8.12	8.44	7.10	8.05
Menlo Worldwide Logistics	39.30	8.16	8.16	8.25	7.37	7.36
Kuehne + Nagel Logistics	38.78	8.07	8.15	8.15	6.40	8.01
YRC Worldwide	38.18	7.67	7.90	8.06	6.66	7.89
Exel	37.34	7.94	7.76	7.87	6.66	7.11
CEVA Logistics	37.28	7.76	8.10	7.28	7.22	6.92
Ryder Supply Chain Solutions	36.71	7.92	7.90	7.76	6.38	6.75
AVERAGE	**36.54**	**7.62**	**7.47**	**7.48**	**6.65**	**7.32**

All table information provided by *Logistics Management* and Peerless Media Research Group

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AIR CARRIERS

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WHILE EVERY FREIGHT transportation mode took a financial hit during the Great Recession, no other mode had to navigate the level of global volatility that the air cargo sector faced.

In fact, events affecting the air cargo industry over the past 12 months seem almost biblical: tornados, earthquakes, tsunamis, terrorism, wars, revolutions, volcanoes, as well as failing economies and continued sky rocketing oil prices.

As our air cargo correspondent Karen Thuermer reported in *LM's State of Logistics Report* last month, the world's air cargo carriers should be applauded for the work they've done to maintain a high level of service during these trying times.

And while the air sector certainly did gain some financial altitude over the course of 2010, they're still looking for a patch of smooth air in 2011. According to analyst and association reports, despite the fact that air freight revenues rose 11.2 percent in 2010, the sector hit the wall by the end of the year. Most of that growth was in the first half 2010, but by mid-year it retracted as retailers, facing disappointing sales projections, turned largely to moving shipments by ocean.

Recent reports indicate that air carriers saw business continue to dwindle during the first half of 2011 as customers, facing higher transportation costs due to rising oil prices, continued to go with cheaper options whenever possible. Outgoing International Air Transport Association (IATA) director general Giovanni Bisignani recently stated that the association expects the profit margin for 2011 to be a very disappointing 0.7 percent, with overall profits coming in at $4 billion, down a hefty 78 percent from 2010.

Any way the analysts slice it, the air cargo business has shown remarkable resilience over the past two years—and shippers have shown their appreciation. According to the readers of *Logistics Management*, the 11 carriers below have weathered the storms and have landed safely as 2011 Quest for Quality winners.

First to the gate again this year is Southwest Airlines with a category-high 50.29 weighted average. To reach this lofty altitude, the carrier posted top marks in On-time performance (12.92), Value (10.98), and Customer Service (10.46). Virgin Atlantic was right on their tail this year with a 49.47 overall weighted average. Virgin tied with Singapore Airlines (47.96) for the top score in Equipment & Operations attribute category (8.50). Lufthansa, which improved its 2010 winning score by more than 10 points this year, put up top marks in the IT attribute category (8.63).

We found quite a bit of continuity in this year's list of winners. In fact, 9 of the 11 listed won Quest for Quality gold last year—and in nearly the same order. The only 2011 winners that missed the cut in 2010 are Cathay Pacific (46.58) and United Cargo (44.05).

Air cargo carriers

(Bold indicates leader in attribute category)

	Overall score	On-time performance	Value	Information technology	Customer service	Equipment & operations
Southwest Airlines	50.29	**12.92**	**10.98**	8.08	**10.46**	7.85
Virgin Atlantic	49.47	12.18	10.02	8.62	10.15	**8.50**
Singapore Airlines (SIA)	47.96	12.38	9.33	7.97	9.78	**8.50**
Lufthansa	47.55	12.44	8.77	**8.63**	9.36	8.35
Nippon Cargo Airlines	46.74	12.10	9.91	7.70	9.28	7.75
Cathay Pacific	46.58	12.51	9.45	7.75	8.89	7.97
Alaska Air Cargo	45.71	12.27	8.87	7.00	9.50	8.08
KLM	44.17	11.38	8.72	7.67	8.64	7.75
EVA Cargo	44.12	10.91	9.24	7.35	8.80	7.82
United Cargo	44.05	10.22	8.87	7.75	9.29	7.92
Japan Airlines	43.96	11.89	8.00	7.35	8.95	7.77
AVERAGE	**43.31**	**10.95**	**8.87**	**7.38**	**8.51**	**7.60**

Air express carriers

(Bold indicates leader in attribute category)

	Overall score	On-time performance	Value	Information technology	Customer service	Equipment & operations
United States Postal Service	48.72	10.06	**10.27**	**9.00**	**9.24**	**8.66**
FedEx Express	45.61	**12.52**	9.30	8.77	8.37	8.31
AVERAGE	**44.59**	**11.18**	**8.99**	**8.07**	**8.37**	**7.97**

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2011 Quest for Quality

FREIGHT FORWARDERS

Reining supreme in a volatile market

WHILE INTERNATIONAL CARGO LEVELS certainly improved over the course of 2010, our current reporting finds that the global trading system still seems to be experiencing a high level of volatility region by region.

Over the past 12 months, the world's freight forwarders witnessed improved business throughout Europe and the U.S., as well as a mini-air-cargo boom across most of the Asia-Pacific region. And, as we roll through the current year, analyst forecasts call for specific areas of improvement that may be reflected in an uneven performance of the overall forwarding industry at the end of 2011.

According to John Manners-Bell, CEO of London-based analyst firm Transport Intelligence (Ti), the recent trends point to improved exports out of the U.S. and Europe, especially Germany, over the next six to 12 months. However, he adds that the Asia-Pacific markets are in for a bit of lull compared to the quick pace the region was on in terms of freight movement in early 2010 when many multinationals were busy re-stocking or re-locating depleted inventory.

However, Manners-Bell tells Executive Editor Patrick Burnson that he believes that the world's forwarders are going to start seeing a return to "normality" over the coming years with more traditional growth patterns as global markets eventually stabilize. In fact, Burnson digs into Ti's complete *Global Freight Forwarding 2011* report in the September issue of *LM*.

And while market volatility may still be with us for now, we can report with some assurance that the nine forwarders listed below were able to offer shippers world-class service despite myriad operating challenges.

Leading the category this year is Lynden Air Freight with a 46.54 overall weighted average. While Lynden posted the top score in On-time Performance (11.84), we find that the other top attribute scores were spread all over the board. Kintetsu World Express posted the top mark in Value (10.50); shippers say UPS SonicAir has some of the best IT (8.46); Yusen Logistics lead the way in Customer Service (9.71); while Pilot Freight Services pulls in with the top score in Equipment & Operations (7.98).

2011 Quest for Quality: *Editor's Note*

The editorial staff of *Logistics Management* would like to thank the 4,575 readers who took time out of their busy days to complete and submit the 2011 Quest for Quality ballots. Your time, effort, and insight have helped *Logistics Management* maintain the Quest for Quality as the premier benchmark study for logistics and transportation quality and service for nearly three decades.

Questionnaires for this year's Quest for Quality were sent February through May, 2011. Sample members were selected for each category and were sent an invitation via email asking for their participation in this year's survey. The invitation included a URL linked to a dedicated website which contained the questionnaire, and responses were collected and tallied by a third-party, independent data collection facility.

In accordance with tradition, *Logistics Management* will hold an awards dinner during the Council of Supply Chain Management Professionals (CSCMP) Annual Conference. This year's event will take place on Wednesday, October 5, 2011, at the Philadelphia Marriott from 6:30 p.m. to 10:30 p.m. The Quest for Quality Awards Dinner is one of the most anticipated evenings on the logistics and supply chain yearly calendar.

Our entire editorial staff will be on hand to congratulate the 2011 Quest for Quality winners.

For more information on attending please go to **www.logisticsmgmt.com/q4q2011.**

Freight forwarders

(Bold indicates leader in attribute category)

	Overall score	On-time performance	Value	Information technology	Customer service	Equipment & operations
Lynden Air Freight	46.54	**11.84**	9.71	7.88	9.25	7.86
Kintetsu World Express	46.07	11.66	**10.50**	7.00	9.14	7.77
FedEx Trade Networks	46.06	11.62	9.25	8.45	8.81	7.93
Pilot Freight Services	44.98	10.94	9.69	7.40	8.96	**7.98**
Yusen Logistics	44.86	10.63	9.60	7.27	**9.71**	7.65
Nippon Express USA	44.61	11.52	9.24	7.00	9.40	7.45
Expeditors International Express	44.12	11.38	8.53	8.06	9.08	7.07
UPS SonicAir	43.66	11.20	7.35	**8.46**	9.00	7.65
Panalpina	42.50	10.40	9.48	6.70	8.34	7.58
AVERAGE	**42.49**	**10.60**	**8.82**	**7.35**	**8.47**	**7.24**

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2011 Quest for Quality Awards dinner set for October 5

FOR NEARLY 30 YEARS, *Logistics Management's* Quest for Quality has been regarded in the transportation and logistics industry as the most important measure of customer satisfaction and performance excellence—and the annual Quest for Quality Awards Dinner has been widely considered the best evening of the year for carrier and 3PL executive networking.

This year's awards dinner will take place on **Wednesday, October 5, at the Philadelphia Marriott from 6:30 p.m. to 10:30 p.m.**, the final evening of the Council of Supply Chain Management Professionals (CSCMP) Annual Conference. Our entire editorial staff will be in attendance this year to present the 2011 Quest for Quality Awards to the 111 winners.

Following cocktails, dinner, and the awards presentation, our guests will be treated to a performance by Bill Herz, the reknown comedian/magician who's been featured on *The Tonight Show* and *Late Night with David Letterman*.

If you're interested in attending this year's dinner, please go to **logisticsmgmt.com/q4q2011** for more details on how to get your tickets. But move quickly, we have a full house every year.

Attendees will enjoy a full evening of dining and networking before stepping up to the podium to receive their awards. Following the formal presentation, the room will be entertained by Bill Herz (above), the reknown comedian/magician who's been featured on the *The Tonight Show* and *Late Night with David Letterman.*

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2011 OCEAN SHIPPING ROUNDTABLE: Resetting strategy

BY **PATRICK BURNSON,** EXECUTIVE EDITOR

Last year, shippers were concerned that they would be scrambling for capacity as the recovering economy generated cargo demand—but that scenario failed to play out. With vestiges of the recession still lingering, it's the carriers who have gone back to the war room.

Just how sincere are shippers and ocean carriers when they say they want to improve collaboration efforts on the high seas?

As *Logistics Managemen*t readers know, the first half of 2011 marked a changed attitude among ocean carrier executives who voiced positions of compromise and a new service-oriented attitude. But now we're not sure if ocean shippers are really buying it.

We've gathered a trio of prominent association executives and industry insiders to hear their opinions on how the new "era of collaboration" is progressing. Our panel also weighs in on the potential impact the Panama Canal expansion will have on U.S. ports as well as the possible affect growing equipment and capacity constraints could have on this year's Peak Season.

This year's panel consists of Robin Lanier, executive director of the Waterfront Coalition, a group of concerned business interests representing shippers and transportation providers; Peter Friedmann, executive director of the Agriculture Transportation Coalition that monitors government and commercial activity related to ocean shipping; and Don Pisano, ocean cargo chairman for the National Industrial Transportation League and vice president in charge of imports for the American Coffee Corp.

Logistics Management: *There's been a lot of talk about collaboration over the years, but carriers today genuinely seem to be pursuing shipper feedback. In fact, in a recent speech made by Maersk Line CEO Eivind Kolding, he noted "fundamental changes" in the shipper/carrier relationship. Has this really been case?*

Don Pisano: I believe that shippers are encouraged by the remarks made by Mr. Kolding and other executives in the liner community for trying to develop closer working relationships with their customers. Clearly there is a need for a greater dialogue between carriers and shippers to bring about fundamental changes, which will lead to better economic partnerships.

Robin Lanier: I have always thought that the Ocean Shipping Act of 1999 created a new environment for collaboration between shippers and carriers. However, the need for discussion continues, and shippers will need to focus on issues that extend beyond rates. For example, shippers should be working with carriers to improve the movement of their freight through and beyond marine terminal gates.

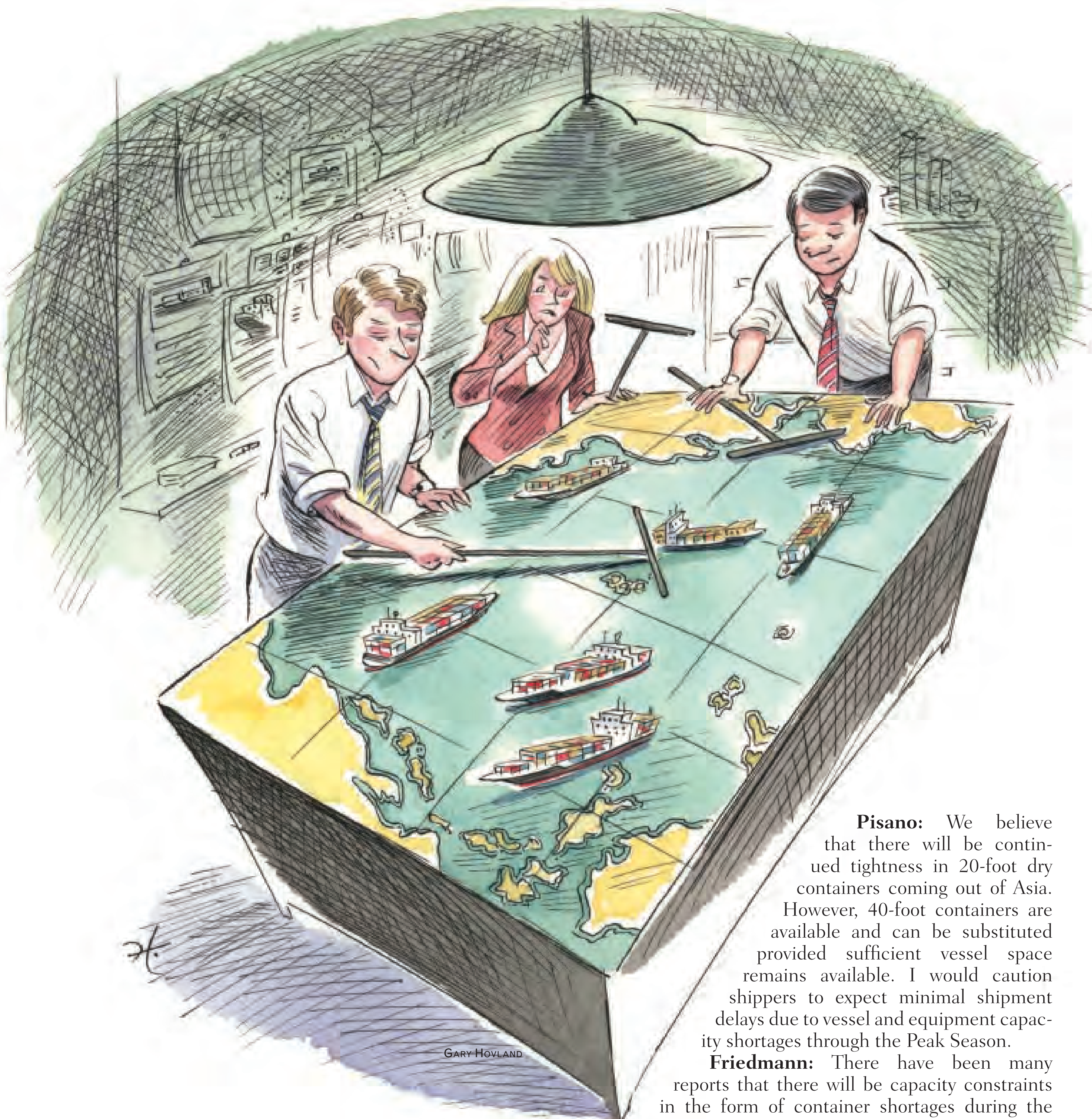
Peter Freidmann: I agree. While it's true that ocean carriers are more sensitive to shipper needs and objectives, it may be because the major ocean carriers are expressing less interest in collaborative pricing and service contract policies. The presidents of Maersk and MSC have, in recent months, declared their independence from the talking and pricing agreements and have expressed their willingness to work and prosper in an environment in which ocean carrier conferences no longer exist.

LM: *Meanwhile, the ocean carriers have given up on being in the chassis business. What new pressure does this put on shippers?*

Friedmann: Frankly, the carrier initiative to divest themselves of chassis appears to be a much more important issue to the carriers than it is to the shippers. This may change, but for now, shippers perceive that carriers are delaying their chassis divestiture and that the trucker will provide the chassis.

Lanier: I take a little bit of an exception to the assertion that carriers have gotten out of the chassis business. For store-door customers not much has changed. In fact, the changes seem to apply mostly to merchant haulage where the shipper arranges for drayage services. Under this model, truckers will need to provide chassis on behalf of their customers, and shippers can expect to see invoices for the use of chassis.

Pisano: That's right…and for each line not providing a chassis, we must factor into our freight calculations the



Gary Hovland

expected additional costs per container when comparing rates among our ocean carriers. That is particularly burdensome on distribution centers and public warehouses when scheduling the unloading of containers received from multiple clients using various ocean carriers, some with free chassis and some bearing a daily chassis rental fee.

LM: *Capacity concerns are also top of mind these days. Is there any indication that carriers are getting better at repositioning boxes for your constituents during Peak Season?*

Pisano: We believe that there will be continued tightness in 20-foot dry containers coming out of Asia. However, 40-foot containers are available and can be substituted provided sufficient vessel space remains available. I would caution shippers to expect minimal shipment delays due to vessel and equipment capacity shortages through the Peak Season.

Friedmann: There have been many reports that there will be capacity constraints in the form of container shortages during the course of 2011 and particularly during Peak Season. However, the freight rate trends don't suggest that anyone really believes that there will be container shortages or capacity constraints. It appears that the demand for ocean transportation services is declining; and there may not even be a Peak Season this year.

LM: *By all accounts, intermodal is gaining on pure-play trucking moves. Will this trend continue?*

Friedmann: Indeed it will. With increased cost of trucking on the horizon, due to increased cost of fuel and the anticipated new hours-of-service (HOS) regulations, cargo will continue to be driven off the trucks and onto the railroad.

The Obama Administration is proposing HOS regulations that will increase the cost of trucking between 9 percent and 11 percent. In addition, the administration is eliminating a longstanding truck safety measurement database, which is increasing some of the risk associated with trucking and putting the burden on the shipper to identify the safer truckers. This will also increase the costs to the shipper. (See Special Report, page 70).

LM: *Are there any indications that barge moves are going to ramp up as well?*

Pisano: We would be very supportive of increased use of our marine highways, but clearly their development needs to be part of a long-term national freight transportation plan with public/private projects added.

Friedmann: I agree with Don. There are many advocates for short-sea shipping, and maritime commerce as an alternative to congested surface transportation makes sense, but it has been slow to be adopted. As long as time is of the essence, trucking will have a competitive advantage over waterborne commerce. However, waterborne commerce offers fuel efficiencies and cost savings. Should there be a trucking shortage in the future, waterborne alternatives will become more attractive.

LM: *What are the major regulatory obstacles ocean shippers will face in the remainder of 2011? Any hidden agendas we should be aware of?*

Lanier: I don't see any major regulatory obstacles for the remainder of 2011 that would cause heartburn for ocean shippers; but that's not to say that we are expecting calm seas. We're certainly following the proposed HOS for trucking as well as the efforts around the country to mandate the employment status of harbor truckers. Earlier this year a proposal popped up in the California legislature that reclassified all port truckers as employees. It should come as no surprise that advocates for this policy are hard at work in other state capitols.

Pisano: Expect Customs to be more aggressive in ensuring timely and accurate Importer Security Filings (ISF) and asserting "do not load" orders and assessing penalties—at least for the most delinquent of ISF filers. Also expect that the implementation of the recently enacted FDA Food Safety Modernization Act will impose significant new requirements on food, drug, and commodity importers.

Freidmann: The greatest obstacle faced by U.S. agriculture and forest products exporters is the growing impediments on exports imposed by Customs within the Department of Homeland Security. Long accustomed to closely regulating, scrutinizing, and penalizing imports, Customs is bringing the same approach to exports: imposing needlessly burdensome data requirements on exporters, imposing unnecessary and unjustifiable delays and holds on exports, and imposing draconian penalties on exporters for the most minor clerical errors.

"While it's true that carriers are more sensitive to shipper needs and objectives, it may be because the major ocean carriers are expressing less interest in collaborative pricing and service contract policies." *—Peter Friedmann*

LM: *Many Gulf and East Coast seaports are investing in infrastructure to handle more traffic when the Panama Canal is expanded in 2014. Will there be a major shift away from West Coast ports as a consequence?*

Lanier: Right now, many shippers are expecting a modest rebalancing of cargo, but we're not anticipating a sudden onslaught of cargo hitting East and Gulf Coast ports. This modest rebalancing will take place gradually.

As of today, many East and Gulf Coast ports have the terminal and rail capacity to manage more freight. However, only a few of these ports have the channel depths to accept much bigger vessels. And, of course, there are congestion issues with road and rail infrastructure along the I-95 corridor, which raise some concerns.

Pisano: That's a good point, but we still expect to see a shift from the West Coast ports toward all-water services to the Gulf Coast ports, particularly for lower valued products that are less sensitive to longer transit times.

Friedmann: Well, I view it as a mixed bag. West Coast cargo gateways are, in many cases, naturally deep enough to handle the world's largest container vessels, with virtually unlimited draft available at ports of Los Angeles, Long Beach, Seattle, and Tacoma. There's also 50 feet in Oakland and 40 feet in Portland. The intermodal rail connections are unsurpassed in providing speed to market from the West Coast ports.

On the other hand, West Coast ports are facing challenges, such as efforts to ban independent owner operator dray truck drivers, and productivity data suggests that cargo loading and unloading simply takes longer at West Coast ports. Many shippers may prefer an all-water route, especially if the time can be cut through the canal.

LM: *West Coast ports are facing other challenges as well. As Peter points out, dockside labor is always an issue, and in Southern California, the PierPass expense has been a concern. Will there be a significant loss of cargo as a consequence?*

Pisano: Yes. As I mentioned earlier, there will be a significant change in many shipper strategies and cargo diversions due to these issues.

Lanier: I disagree. We're not expecting large-scale cargo diversions. The business climate for shippers using Southern California can be difficult times, and those ports are more expensive because of PierPass and other fees, but I believe that most of the discretionary cargo that could move easily to other ports, has already left Southern California.

The fact remains that the ports of Los Angeles and Long Beach still have many advantages in terms of speed to destination that can't be matched by other ports on either the West Coast or the East Coast. In addition, many shippers have invested heavily in distribution warehousing in Southern California, and this legacy investment keeps business in the area. □

Patrick Burnson is Executive Editor of Logistics Management

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WIRELESS UPDATE: Moving at the speed of

Logistics professionals are certainly moving toward mobile applications to improve overall supply chain operations, but just how fast is it happening? Our technology correspondent gives us a reality check.

BY **BRIDGET MCCREA,** CONTRIBUTING EDITOR

With tablet computers and handheld devices maintaining their tight grip on the business world, it just makes sense that the logistics sector would continue its forward momentum toward a time when wires are a thing of the past.

Long talked about in supply chain circles, goals like "real time" and "visibility" are already coming to fruition for tech-savvy shippers that integrate wireless, RFID, and other mobile technologies into their operations.

Over the next few pages we'll take a look at just how much traction mobile technologies have gained in today's supply chain, discuss the benefits of RFID and wireless integrations, and highlight what barriers to adoption still remain. We'll also illustrate just how close we are to real-time supply chain management and logistics visibility—and how far we have to go before we get there.

HARNESSING THE SPEED OF LIGHT

When Simon Ellis, practice director for analyst firm IDC Manufacturing Insights, talks to logistics professionals about real-time visibility made possible by wireless technology these days, he hears a lot of grumbling about how the rapid advancements make it difficult to make good purchase decisions.

"One supply chain executive told me that by the time he goes through the six-month purchase approval process at his firm for wireless technology, three generations of smart phones have come and gone," says Ellis.

Credit "speed-of-light" technology advancements with creating those and other frustrations as shippers strive to implement the latest wireless and RFID technologies without breaking the bank, or falling behind. "The clock speed of innovation for mobility tools," says Ellis, "tends to be much more rapid than that of the supply chain itself."

Coming up with a business case for those speed-of-light technology options isn't always clear cut either, says Ellis. After all, it's hard to put a price tag on advantages like "better access to information" and "reductions in shipper errors." Translating those benefits into tangible business results "can be extremely tricky," says Ellis.

Despite the roadblocks, logistics professionals are pushing into the wireless world on a steady basis. In its June 2011 report entitled *Incorporating Mobility into Sales and Marketing in the Consumer Packaged Goods Industry*, for example, IDC analyzed the potential opportunities for mobility once integrated into the sales and marketing function of the CPG industry.

IDC reports that mobile applications and devices are penetrating the sales and marketing organization at a "staggering pace," and expects total worldwide smartphone shipments to reach 925.7 million units by 2015 (compared to 450 million in 2011). Computer tablets like the iPad, Motorola XOOM, and Samsung Galaxy Tab are also growing in popularity, and are on pace to reach shipments of roughly 50 million units in 2011 (up 18 million units in 2010).

Expect to see at least a portion of those mobile devices in the warehouse, where more shippers are gravitating toward wireless environments. In those logistics environments, Zimmerman says requirements for specific key sizes—and the abil-

ity to withstand multiple, 6-foot drops to a concrete floor—have given way to durable devices that share the operating systems, processors, communications, batteries, and even peripheralization with their more ruggedized brethren.

"While there will continue to be a market for ruggedized applications," says Zimmerman, "many day-to-day logistics tasks will be able to utilize durable solutions for their data collection requirements."

Credit advancements in wireless communication infrastructures with helping to boost those numbers. According to Tim Zimmerman, research director of network infrastructure, mobility, and RFID at Gartner, the ratification of 802.11n combined with advancements in RFID capabilities, have made the wireless world more inviting for shippers. On the wireless local access network (LAN) side, for example, Zimmerman says the technology itself has stabilized over the last couple of years, thus opening the door for more data collection opportunities.

Not all shippers are reaping the rewards of these wireless advancements, although many are looking to upgrade and begin seeing those benefits. "A lot of [shippers] in the warehouse and distribution sector still have a lot of the old technology installed," Zimmerman says, "and are looking to integrate the value and cost advantages of an 802.11n solution."

That movement is also being driven by the fact that wireless handset providers like Motorola are rolling out 802.11n-capable devices. "That's sending a signal to the industry that now is the time to upgrade wireless infrastructures to support those handhelds," says Zimmerman, "and tap into the value that they provide."

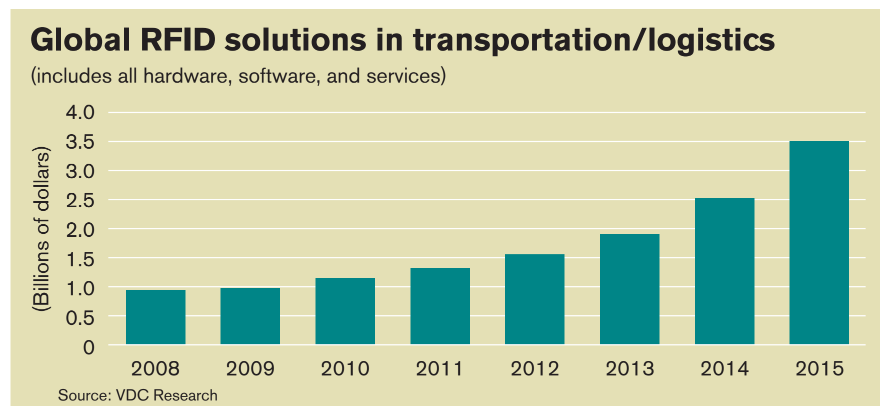
"One supply chain executive told me that by the time he goes through the six-month purchase approval process at his firm for wireless technology, three generations of smart phones have come and gone."

—Simon Ellis, IDC Manufacturing Insights

Part of the growth in wireless will come from the handheld market, where durable devices are gaining popularity among shippers that increasingly want to handle their warehouse and transportation operations without the hassle of wires. "The cost profiles and functionality of handheld devices is making their adoption more advantageous for companies," says Zimmerman, who points out that improved Wi-Fi networks, Wi-Fi hot spots, and better cellular capabilities are all playing a role in the evolution.

Looking ahead, Zimmerman sees wireless adoption growing by about 30 percent annually among businesses, and says that number will continue to be driven by the new spectrum of network services being put in front of shippers. "Eight out of the nine firms we track in the enterprise LAN space are buying wireless companies, and the rest have strategic alliances with leading manufacturers," Zimmerman says. "Everyone is getting their foot in the door."

Finally, Zimmerman expects an uptick for wireless in the next 24 months to 36 months as enterprises convert their 802.11g wireless supply chain infrastructure to 802.11n. "This move will not be driven by the need for additional capacity," says Zimmerman, "but by other factors that include the end of life of the older, 802.11g equipment, which may have been in service for up to eight years; announcements from data collection mobile client suppliers regarding the launch of new, 802.11n devices; and the introduction of new durable devices and applications being added the networks."



RFID COMES OF AGE

When Drew Nathanson, director of research operations for VDC Research, tracks the use of RFID in the supply chain, he sees explosive growth within the retail sector, and respectable adoption rates among other users. The transportation sector as a whole, for example, comprised 28 percent of the total RFID market in 2010. "We expect that number to increase slightly in 2011," says Nathanson, who credits the retail sector with driving much of that growth.

"We've seen RFID use more than double in some markets, with tag volumes reaching well into the billion-plus units right now," says Nathanson. "It's going really strong, with Wal-Mart as one of the biggest consumers." The large retailer is right now equipping its stores with RFID technology that tracks men's apparel and jeans, for example, and will soon expand that coverage into its women's apparel and other products. "Each time Wal-Mart adds a new SKU to its RFID program," says Nathanson,

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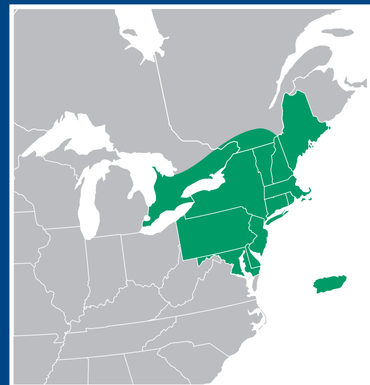

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Will RFID move into the cloud?

In a recent report titled *Managed Services: RFID's Newest Deployment Method and Business Model*, VDC Research painted a picture of an RFID market that is ripe for change. With CIOs and IT executives looking to migrate from traditional purchase-and-install software, VDC says cloud solutions and managed services deployment methods are gaining in popularity across a wide range of companies, applications, and solutions.

And believe it or not, RFID is on that list, according to VDC's Drew Nathanson. "We're starting to see traction here, namely because using RFID in the cloud mitigates risk for shippers, and it can also serve as a source of revenue," he says. "No enterprise wants to invest in RFID infrastructure, but they do want to get the benefits out of it. A cloud-based offering makes that feasible."

In the basics of a managed services model, customers are offered a number of material benefits, including reduced capital and management overhead risk and persistently up-to-date and higher performing solutions. According to VDC, the most powerful value proposition in managed services RFID may be the shift in deployment risk from customers to managed services providers (MSPs) and their technology partners.

Nathanson says the choice to move to a managed RFID application comes down to investment dollars, and whether the firm wants to buy, integrate, and maintain the system, or outsource those functions to a third party in exchange for a monthly or annual fee. "There are many different managed services models in use, each with its own plusses and minuses," says Nathanson. "In the end, the ability to obtain RFID value without having to invest significantly in infrastructure is a major benefit, and in many cases makes the RFID investment easier to justify."

RFID managed services is a "great idea," says VDC, and it should be a growth business for a number of companies during the next three years. However, a number of barriers to adoption were cited that are clearly limiting the potential now- and near-term penetration of hosted deployment models. The top three barriers are: security, loss of control, and vendor lock-in. Limited customization options could also thwart the movement of RFID into the cloud.

Challenges aside, VDC says that the timing is right for managed services RFID solutions to become a viable option for shippers, who will gain access to "recent and refreshed technology solutions," according to Nathanson, and someone who is looking out for your best interests, and handling the time-consuming maintenance issues associated with RFID infrastructures. "That should be a big relief for shippers."

—Bridget McCrea, Contributing Editor

"you wind up with millions more tags being used annually."

One of RFID's biggest barriers to adoption—high tag costs—continues to hold shippers back from investing in the technology, although Nathanson says prices for active tags are trending downward. "Depending on the functionality, active tags run $10 to $50 each," he says. "Passive solutions—such as those used in retail—are running 10 cents to 12 cents a tag." Even with the high costs of the tags themselves, Nathanson says that the value of the RFID solution now more than compensates for the cost. "It's not really the price of the tag, but the price to tag and the value that the shipper gets out of it," he adds.

Ellis concurs, and says that the benefits that shippers glean from their RFID implementations have been largely publicized, and typically revolve around inventory visibility. "It's about knowing where things are at all points in time," says Ellis, "and the ability to communicate more clearly to customers about where items are and when they're going to be delivered."

Expect more logistics organizations to explore their RFID and wireless options in the future, and more vendors to come up with innovative ways for those managers to make visibility gains and other efficiencies, especially inside the four walls. "Right now we're seeing a lot of convergence with other solutions—from bar coding to voice recognition," says Nathanson, who sees a time when hands-free, eyes-free technology is integrated into warehouse RFID systems. "That will be a perfect fit because it won't require scanning technology, wires, or hands."

Other up-and-coming wireless apps for the warehouse, DC, and moving freight include those that can sense and monitor product, particularly food, produce and high-value items. "Most recently," says Nathanson, "we've seen the introduction of passive sensors that use film to detect the build-up of gases produced by rotting fruit. That's a useful wireless application for any company shipping perishable items."

Expect to see RFID and wireless playing a significant role in the supply chain as the technology behind those solutions improve—and as more companies seek out IT-based solutions to help them work more efficiently. With technology evolving at the speed of light, it will ultimately be up to logistics managers to figure out which applications will provide the most value—and which can be overlooked in favor of future options. ☐

"The value of the RFID solution now more than compensates for the cost. It's not really the price of the tag, but the price to tag and the value that the shipper gets out of it."

—Drew Nathanson, VDC Research

Bridget McCrea is a Contributing Editor for Logistics Management

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Near-Shoring/Right-Shoring Strategies: Weighing the risks of global sourcing

As more attention is being paid to volatility in the supply chain, many shippers are reassessing their global sourcing and distribution strategies. Will multinationals retreat to a hemispheric, near-shoring model or opt for a hybrid that maintains an international component?

BY **PATRICK BURNSON,** EXECUTIVE EDITOR

Risk mitigation may now be the top concern among supply chain professionals. Given the state of today's volatile world, is it any wonder?

Natural disasters in Iceland and Japan have been highly disruptive, as has the political upheaval in the Middle East and emerging markets. Piracy, whether it be intellectual or physical, is also an ongoing worry. And, of course, there's the energy card that will potentially put even more stress on already stretched transportation budgets.

As a hedge against rising transport costs, many industry analysts are advising Fortune 500 clients to weigh the benefits of prevention and response when it comes to managing their global pipelines. Dr. Bruce C. Arntzen, senior research director at MIT's Center for Transportation and Logistics, says that there are several key drivers pushing a global reversal in sourcing strategies.

"No discussion of this topic can be started without first looking at China," says Arntzen. "The emerging middle class and mass of new consumers will be a major force for change. The demand for luxury goods manufactured outside of China is going to remake the manufacturing landscape within that country. For example, a Gucci bag made in one of the local provinces is not going to have the cache of an authentic item from northern Italy."

Furthermore, he says, the sheer quantity of these new purchasers of high-end foreign-made goods is impressive. In a few years, the number of Chinese middle-class consumers will equal the entire U.S. population, says Arntzen.

"Multinationals hoping to sell the Chinese their own manufactured products are going to take a fall," he says. "And the escalating wage structure in China will soon take away another cost-saving advantage."

At the same time, a variety of social pressures outside of China may transform that country's manufacturing base as well. Global demand for "green" products, for example, is already having an impact, says Arntzen. He points to Sourcemap.org, a non-profit consumer web site that allows buyers to create open supply chains for a wide range of products and services using a shared carbon catalog and life cycle assessment (LCA) tools.

"With the complexity in outsourcing from China, the network of sub-contractors is not going to disappear quickly," says Arntzen. "For a new generation of global consumers, the carbon footprint is a critical part of the buying process."

Indeed, even if a multinational is doing everything right when it sources from overseas, the perception that it may be socially irresponsible can be devastating. "It only takes one episode," he says, recalling when a certain Fortune 500 toy-maker had a scandal related to lead paint in one of its products.

"The threat did not come from the primary subcontractor," he says, "or even the secondary or tertiary subcontractor. It came from one of the many obscure providers of services that were vital to keeping manufacturing cost down. And guess what? The company is still paying for that mistake."

Finally, says Arntzen, the risk of losing intellectual property and control over inventory is changing the way companies plan for outsourcing.

LABOR-INTENSIVE FIRST TO SHIFT

Data from Panjiva, an online search engine with detailed information on global suppliers and manufacturers, however, suggests that it's too soon to see a major shift in outsourcing.

China actually increased its share of the U.S. import market from 32.3 percent to 33.4 percent."

In contrast, adds Green, Mexico dropped from 22.9 percent to 19.9 percent. "The one notable bright spot in the Western Hemisphere is Costa Rica, which has grown—but still has a tiny share of the market."

However, in lower-tech, labor-intensive products, like apparel, Panjiva is seeing more movement to the Western Hemisphere. In the most recent three-month period for which this data is available, China lost 1.7 points of market share—though it still retains a massive one-third of the U.S. import market. Of the 10 countries that gained share in the labor-intensive sector, five are in the Western Hemisphere (Haiti, Honduras, El Salvador, Nicaragua, and Peru).

NEAR-SHORING: ADVANTAGE MEXICO

According to a recent poll of 80 C-level executives across more than 15 industries by AlixPartners LLP, a global business and supply chain advisory firm, 63 percent of senior executives chose Mexico as the most attractive locale for re-sourcing manufacturing operations closer to the U.S. market, compared with just 19 percent who would re-source to the U.S.

According to the findings, respondents highlighted geographical proximity and improvements in transportation services between the borders as the key driver in this decision. The survey also found that 9 percent of executives surveyed have already taken efforts to near-shore manufacturing operations, and another 33 percent plan to do so within the next three years.

Additionally, just 19 percent of those surveyed have experienced supply-chain disruptions in Mexico due to

"The trade deficit with China has grown of late, suggesting that the U.S. is more dependent on China, not less," says Panjiva CEO Josh Green. "This is despite the fact that sourcing executives are talking incessantly about moving beyond China."

This is, in part, due to the fact that sourcing executives are finding it difficult to move beyond China quickly, Green adds. Also, China is growing more dominant, not less, in high-tech industries.

"For instance, we pulled data on harmonized trade, which captures the electronics and electrical machinery," he says. "In the most recent three-month period for which data is available,

security issues.

"While safety and security in Mexico are certainly issues to be taken very seriously, our survey suggests that many companies believe these issues can be effectively dealt with," says Foster Finley, managing director at AlixPartners and head of its logistics and distribution practice. "As companies think about near-shoring production that was previously off-shored to respond to rising labor costs overseas and exchange-rate changes, Mexico is obviously high on their lists."

According to the survey, Mexico's average ranking for attractiveness among those U.S. executives likely to near-shore was more than seven times that of Brazil's and countries in Central America combined.

The survey also polled executives on plans to off-shore current U.S. operations, and found that 37 percent of respondents have already completed or are in the process of off-shoring, while 27 percent expect to off-shore U.S. operations within the next three years. Of those who have off-shored or plan to off-shore, Mexico also topped the list as the most attractive locale, beating out the much-touted BRIC countries (Brazil, Russia, India and China).

"Despite security concerns in Mexico, the country has a lot of appeal right now because of its proximity to North American demand and the continuing need of many companies to improve their working-capital positions," says Chas Spence, a director in the Latin American manufacturing practice at AlixPartners. "That appeal could grow if fuel prices continue to rise globally."

In terms of the expected advantages to be gained from near-shoring, lower freight costs, improved speed-to-market times, and lower inventory costs were the top three reasons cited on average. Other reasons included "time-zone advantages" (easier management coordination) and improved "cultural alignment" with North American managers.

"In-transit inventory, in particular, was a high priority among those interviewed," says Russ Dillion, a vice president in the Latin American manufacturing practice at AlixPartners. "Obviously, shipping products in from long distances eats up a lot of inventory expense, and that's something companies would like to improve if possible."

RIGHT-SHORING = BALANCE

Other analysts insist that hybrid strategies will be in place for the foreseeable future. Eric Peltz, associate director of the RAND Corp.'s national security division and director of its supply chain policy center, says that capital-intensive industries, like automotive and farm machinery, may prefer to remain in the North American hemisphere, while more agile industries in high-tech and pharmaceuticals can remain in distant lands.

"And then there's the tactic of remaining in China, for example, but moving from the coast to further inland to save on labor costs," says Peltz. "It depends on what makes the most sense for the given organization. We don't see this as a static trend, either. Multinationals are weighing the balance of sourcing so that it can be defined and defended as right-shoring."

RAND, which conducts research that addresses issues critical to the supply chains that drive the U.S. and international economies, places a special emphasis on freight transportation policy and infrastructure. To get closer to the day-to-day issues, Peltz serves on the Board of Directors of the Council of Supply Chain Management Professionals (CSCMP) and co-chairs the CSCMP Research Strategies Committee.

Peltz and other RAND supply chain policy center analysts say that for several decades, firms have optimized their networks of suppliers to minimize inventory and increase responsiveness to customers. These actions have been an economic boon and were predicated on inexpensive and efficient freight transportation. However, several factors are conspiring to erode these gains:

1) The growth in international trade is overwhelming intermodal freight capacity in the U.S. and other countries.

2) Congestion at critical ports, border crossings, transfer points, and urban areas is slowing the flow of freight throughout North America and major gateway locations worldwide.

3) Safety and environmental concerns including noise and air pollution make expansion of the freight transport system difficult.

4) Labor shortages and security concerns compound capacity constraints.

While it certainly presents these and other evolving problems, the globalization of the world economy—leading to the rapid growth of international goods movement—is essential to world economic health. RAND and others interviewed for this article maintain that there's no easy solution to maintaining a free flow of goods and services worldwide.

"Put quite simply," adds Peltz, "it's a work in progress." □

Patrick Burnson is Executive Editor of Logistics Management

Near-shoring's unforeseen consequences

For much of this young century, the ports of Los Angeles and Long Beach have continued to benefit from a steady crush of inbound cargo emanating from off-shore factories in China and elsewhere in Asia. However, recent statistics suggest those days may be numbered.

Zepol Corporation, a leading trade intelligence company, reports that U.S. import shipment volume for June, measured in twenty-foot equivalent units (TEUs), decreased 4.57 percent from May and 7.38 percent from June of 2010. The total number of shipments also decreased 4.79 percent from May and more than 6 percent from June of 2010. Year to date, total TEUs are up 4.80 percent this year over last year.

Tellingly, the overall June shortfall was largely caused by the nearly 6 percent decrease in incoming shipments from Asia. China played a large part in this, with a 5.82 percent decrease in shipments.

"As the nation's primary gateway to the Pacific Rim, California derives ample economic benefits from the import trade," says Jock O'Connell, Beacon Economics' International Trade Adviser.

"As much as we might like to reduce our dependence on imported goods, it's worth emphasizing that moving imported goods to markets throughout the nation represents a vital source of jobs—many of them well-paying—in a state where unemployment rates remain perilously high," says O'Connell.

—Patrick Burnson, Executive Editor

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Workforce metamorphosis

Successful labor management goes beyond the installation of software. Here's a look at the implementation process and how one major retailer uses its program as a tool for continuous process improvements—with multi-layered benefits.

BY **MAIDA NAPOLITANO,** CONTRIBUTING EDITOR

Labor cost is almost always the highest expense item in a distribution center's (DC) budget. To control and manage this cost, visionary managers often rely on comprehensive labor management programs that promote and measure efficient methods for performing tasks. To achieve this goal, managers tie various software tools, such as labor management systems (LMS), together with strategies to monitor, report, and reward actual performance against established expectations.

These programs certainly aren't new, and their ability to increase productivity by providing continuous feedback on worker performance is well documented. Don Cook, president of New Jersey-based labor management consulting firm Cook & Associates, sums it up this way: "With a good labor management program, organizations can reduce costs and ensure that merchandise is processed correctly, all while improving processing timeliness."

According to Cook, users who are able to tie a program together with the appropriate measurement software typically report a 20 percent increase in productivity along with increases in work quality and reductions in service times. Cook adds that many organizations achieve payback on their investment within nine to 16 months.

Tom Kozenski, vice president of product strategy for RedPrairie—a provider of both warehouse management systems (WMS) and LMS—also points to a big modeling advantage, or the ability to test scenarios on the computer before trying it for real on the warehouse floor. "Our software can do 'what-if' analyses of an operation on the computer and anticipate results, rather than going on the floor and trying to do 'what-ifs' on the fly with 100 people."

For example, what if you consider going from picking with paper pick lists to picking with radio frequency (RF) terminals, or from RF to voice-directed systems? You can model each alternative on your LMS and predict which one delivers the most productivity improvements before purchasing a single piece of equipment.

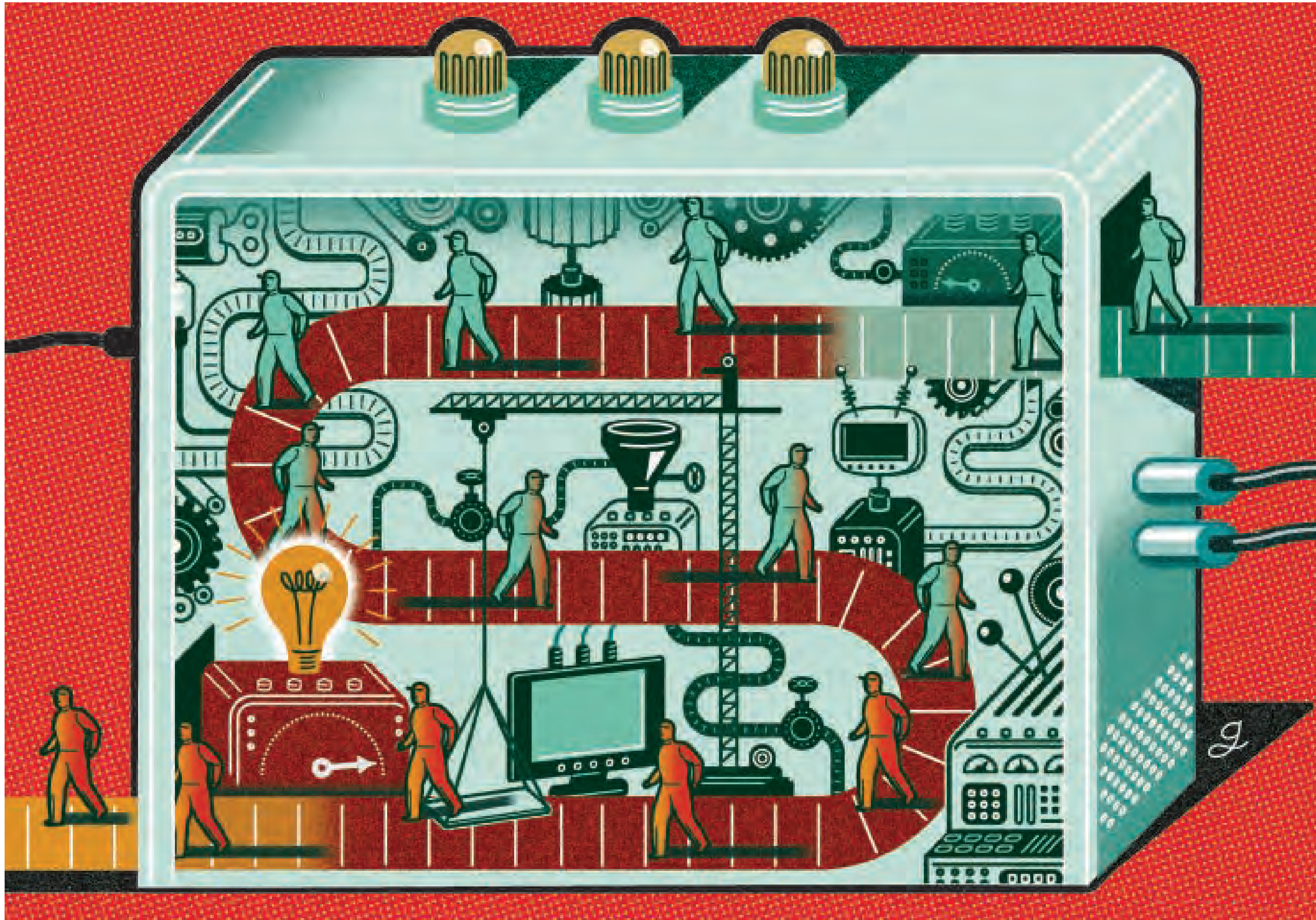
Other labor management solutions, such as those from Kronos, have also automated workforce-related processes such as hiring, time and attendance, and employee scheduling. Malysa O'Connor, director of Kronos' logistics practice group, says that by automating, you gain real time visibility into critical labor data for accurate cost accounting by customer, by order, or by task.

"When you have a comprehensive system that integrates workforce business processes, you're poised for competitive differentiation through the optimization of your labor resources," says O'Connor.

Even more benefits are reported when the program incorporates a gain-sharing, incentive-paying component. "Good workers want what they do to be acknowledged," says Matt Kulp, director of distribution and fulfillment projects for St. Onge Company, a supply chain consulting company. "When incentive programs are done right, good workers are going to want to stay onboard."

If you're contemplating such a program for your organization, your timing couldn't be better. The real-time interface of LMS with more robust WMS is giving these programs a new edge. In addition, better software, more widespread use of RF technology, and new warehouse mapping capabilities have reduced much of the manual effort involved in the work measurement component of the program, also increasing its accuracy.

Over the next few pages, we'll look at labor management programs and how they span well beyond the mere installation of software. We'll also take a closer look at what's involved during implementation and how a leading bridal


Daniel Guidera

products retailer is using labor management as a tool for continuous process improvements.

5 THINGS TO KNOW

Getting the most out of your workforce depends on a sound and effective labor management program. Here are five crucial points to keep in mind when implementing one.

First: Strategy must be defined. Why are you doing it? Do you want to do standards for yearly budgetary planning or implement an employee measurement or incentive pay system where you're rewarding people at the individual level? "These two extremes require different levels of software, different levels of sophistication, ongoing maintenance, and a lot of effort and cost to implement," says St. Onge's Kulp. "You need to understand what you're trying to get out of it first so you can pick the right software and pick the proper approach."

Second: A labor management program is more than just the installation of software. "It's a total cultural change," explains Cook. "It requires thorough knowledge of your operations, accurate work measurement, and an effective structure of reporting that promotes feedback."

In fact, the actual software installation itself can take just 30 minutes, but many other steps must also be accomplished. Critical labor-intensive tasks in the DC must be identified and the length of time it takes to accomplish these tasks is recorded by the actual timing of employees as they perform each task, or by using a database of pre-determined time standards. Once standards are established and the system is online, managers must be trained to coach poor performers and resolve barriers to productivity.

An incentive payment component often takes the program to the next level by rewarding good performers as part of a management plan to share the savings gained. "Incentive policies can be powerful tools because they put employees in control of their own destinies," says Kronos' O'Connor. "Management needs to clearly communicate expectations and put in place a consistent system that employees can trust is fair."

Third: Tough to manage without software. "You could get by for a while without software in a very small organization, say 50 employees or less," says Cook. "However, you may have to employ more managers than necessary to try to keep track of what's going on. "In this day and age, as DCs and fulfillment centers become larger and more complex, you generally need the software because of the enormity of the data that you'll be collecting and monitoring," adds Cook.

Fourth: Expect cultural challenges. In cases of union involvement, it might be wise to get them involved from the very beginning, says Lisle Holgate, product marketing manager for RedPrairie's workforce management platform. "Unions tend to support standardization when its members' performance is based on a reasonable time to do the task in a safe and efficient manner." Kozenski adds that some unions have engineers who will validate these standards as part of this process.

Fifth: Don't install a program and proclaim you're done. "You're never done," says Kozenski. "You're always peeling the onion. You're always looking for better ways to improve your operation." The program must be flexible enough to quickly change as you change your methods and procedures. As a result, it's imperative to keep maintenance costs in mind going forward. Depending on the number of employees and the number of facilities, one or an entire staff of engineers may be needed.

With these key points in mind, let's see how David's Bridal, the biggest U.S. retailer of "everything-weddings," implemented its labor management program.

MEASURING DAVID'S BRIDAL

Planning a wedding? Look no further than David's Bridal, the country's largest bridal retailer, offering the convenience of one-stop shopping for wedding-related products and services from its 300 brick-and-mortar stores and its website.

However, Tony Coccerino, vice president of logistics and distribution, will be the first to tell you that this success would not be possible without the retailer keeping a close eye on labor costs within their two DCs in eastern Pennsylvania—a 174,000-square-foot facility in Conshohocken that employs 35 to 45 hourly associates and a newer, more automated 230,000-square-foot DC in Bristol that employs 75 to 85 hourly associates.

Back in 2001, with only the Conshohocken DC up and running, Coccerino, says that his team was experiencing difficulties with managing the growing pool of hourly associates. "There was no means of tracking what each associate was doing," says Coccerino, "and we felt that we were bringing in more people and more temps without ever getting ahead."

Quickly digesting the problem, management decided to implement labor standards to at least hold the associates accountable for what they do and how much they do. Along with some due diligence, and after narrowing the field to two potential LMS providers, the retailer decided on Cook & Associates' Productivity Evaluation Program, also known as PEP.

In May 2001, the PEP team started a multi-phased approach with David's Bridal management group, bringing them up to speed on the steps to generate, use, and analyze reports that provide constructive feedback to associates. At the same time, they also started the month-long process of identifying and measuring different tasks throughout the DC, using time studies and time logs that employees were trained to fill in for certain special projects.

Once the measures and standards were established, the team then had to make sure that PEP could interface seamlessly with the retailer's WMS (Manhattan Associates) and Kronos' Time and Attendance System. The WMS details all the work and critical data—such as the type of task performed, the number of units picket, or the number of orders completed—are extracted and used as input into PEP. The Kronos system automatically provides PEP with the exact number of hours that the associate was paid to work for a given shift.

The teams then rolled out the system and introduced it to the hourly associates in September of 2001. A few more weeks of fine-tuning ensured that the standards would be correct and fair before managers started reviewing employees—identifying who was making the grade and who was going to need some coaching. A year later, management decided to share productivity gains by implementing a cash-back incentive program that included everyone from hourly associates to janitors to supervisors to managers.

It's been 10 years since the first installation, and according to Coccerino, the benefits have been significant. "Just by introducing standards we felt that we were going to get a decent productivity improvement of 7 percent. We wound up getting 10 percent to 12 percent," says Coccerino. After adding the incentive program, productivity increased another 12 percent. Through the program, DC managers now know how long it takes to do a job, allowing them to confidently plan how much staff they need to complete future work.

Coccerino admits that the associates weren't so sure at first about the changes, thinking they were being micro-managed. "But they came onboard once they started seeing an extra $50 or $100 in their paychecks every other week—just by doing their job." □

Maida Napolitano is a Contributing Editor to Logistics Management

Components of a complete labor management system (LMS)

Time and attendance	Resource planning allocation	Performance management	Incentives reward discipline	Labor optimization	Slotting and simulation
• Punch capture • Time-off management • Payroll calculation • Exception reporting • Alerts	• Estimate resource needs • Time to complete activities • Balance resources across operations	• Measure performance against standard • Provide real-time reports • Track quality and safety • Track activity-based costs	• Calculate incentives • Integrate with payroll systems • Observation management • Report cards	• ROI-based slotting • Simulation • Process modeling • Establish standards • Quality management	• Greenfield • Facility analysis • Continuous improvement

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LTL Special Report

Rising out of the doldrums

Shippers should be bracing for higher rates and tighter capacity as LTL carriers get smarter and more sophisticated during the recovery.

By John D. Schulz, Contributing Editor

The much-beleaguered less-than-truckload (LTL) sector, which has been the slowest part of the trucking industry to recover from the Great Recession, is showing signs of life. Because of that, LTL shippers should be bracing themselves for higher rates and tighter capacity as LTL operators are showing greater pricing discipline amid the toughest government oversight since trucking was economically deregulated in 1980. *(continued on page 72S)*

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The $31 billion LTL industry enjoys the distinction of being the only niche in trucking with significant barriers to entry. After all, truckload (TL) carriers running from point to point don't need the sophisticated hub-and-spoke terminal networks that are the backbone of LTL operations. They only need a truck, a driver, and a customer.

LTL carriers operate differently. They have made significant investments on brick-and-mortar terminals and break-bulk facilities—the heart of their hub-and-spoke systems that are difficult to replicate. With this, there have been no significant entrants in the LTL sector in decades, allowing LTL carriers to charge higher rates than truckload. They're beginning to price their services in smarter and more sophisticated ways, analysts say, charging extra for such services as home delivery, appointments, and freight with special equipment needs.

LTL carriers are also enjoying greater price discipline and boldness than they've displayed in several years. Already, LTL giants UPS Freight and ABF Freight System have signaled this new pricing acumen by announcing mid-year general rate increases of 6.9 percent, and others are expected to follow.

"The health of the LTL sector is better than it was a year ago," says Satish Jindel, principal of Pittsburgh-based SJ Consulting, a firm that closely tracks pricing in the industry. "That's because carriers are at the end of their rope in accepting sub-par operating margins."

Because of pricing discipline and capacity restrictions, stock analysts are more bullish on LTL carriers than they have been in at least five years. David Ross, the respected trucking analyst for Stifel Nicolaus, has "buy" ratings out on a half-dozen LTL companies currently—Vitran, Saia, Roadrunner, ABF Freight System (largest unit of Arkansas Best Corp.), Old Dominion Freight Line, and Con-way. He has a "sell" rating on just one carrier, financially troubled LTL giant YRC Worldwide, which despite $2.6 billion in losses the past five years, recently obtained a new $500 loan facility which should enable it to continue and perhaps invest in its operations.

"The question will be how disciplined the carriers can be in keeping a firm stance in rate negotiations and how disciplined they will be in adding capacity," Ross advised in a recent note to investors. "We believe that a firm stance in pricing should lead to discipline with capacity additions."

So, as the LTL sector prepares to capitalize on its improving profit margins, what do LTL shippers need to know? In discussions with top LTL executives, *Logistics Management* has identified three regulatory and market drivers that will affect capacity and profitability over the next year:

1) Impacts from the Obama Administration's CSA (Compliance Safety Accountability) initiative.

2) The diminishing pool of qualified truck drivers.

3) The looming threat of changing hours-of-service (HOS) regulations, taking away one hour of driving per day—a move that nearly every LTL executive views as a potential disaster for fleets and customers.

Over the past several weeks we have collected input from some of the best minds in the LTL industry to determine how the best players in the sector are coping with this increasingly challenging regulatory environment. The bottom line: Consensus is that shippers must change their ways right along with the carriers—and here's why.

> "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."
>
> *—Doug Stotlar, president and CEO of Con-way Freight*

CSA: The game changer

The new Compliance Safety Accountability (CSA) initiative is, according to carrier executives affected by it, the most serious, comprehensive truck safety program in the deregulated era. It has added a new level of complexity and thoroughness to truck safety evaluations, adding data from roadside inspections.

For the first time, individual driver safety scores will be available as well. For that reason, some analysts have estimated as many as 5 percent of the nation's 3 million long-haul drivers—or 150,000 drivers—might be ineligible once the program's full enforcement takes effect in the next year or so.

It rates carriers on seven Behavior Analysis and Safety Improvement Categories (BASICs). Five rating scores are currently publicly available (the higher the score, the worse the rating) on the Federal Motor Carrier Safety Administration (FMCSA) website—unsafe driver, fatigued driving HOS, vehicle maintenance, driver fitness, and controlled substances. Two others—cargo security and crash incident rate—are still being fine-tuned and are not avail-

> "But if you look at the industry as a whole, carriers are not producing the profit margin to recapitalize their equipment properly."
>
> *—Chuck Hammel, president of Pitt Ohio*

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If CSA has any significant impact on LTL capacity and driver availability, as the analyst community believes it will, it will most certainly affect rates. The LTL sector shrank from $34 billion to $26 billion from 2007 to 2009 because of the recession. It is now forecast by SJ Consulting to rebound to $31 billion this year. But that's still $3 billion below its peak period of 2007, capacity that shippers might need if boom times return. Or, as Doug Stotlar, president and CEO of Con-way Freight, put it recently: "That's a company the size of Roadway coming out of our industry."

Stotlar calls CSA "a big deal for our industry, a game changer." That's because, he says, it creates barriers to entry that haven't been there before. CSA provides visibility into a carrier's safety operations and this can benefit shippers in at least two ways: Safe carriers tend to be more efficient carriers. Also, because of legal liabilities now associated with using unsafe carriers under CSA, any shipper who knowingly uses an unsafe carrier that is involved in a fatality could be potentially liable in a jury award or court decision against that carrier.

Bob Petrancosta, vice president of safety for Con-way Freight, says that they haven't seen a great impact to operations due to CSA because of its commitment to safety—but that doesn't mean it hasn't affected how shippers think of their carrier partners. "Every month that goes by, shippers become a little smarter about CSA," says Petrancosta. "The days when shippers didn't know about a fleet's safety record are starting to change. They need to do their homework now."

In order to do that, shippers need to know where to find data. Anybody can go to the FMCSA Web page (csa.fmcsa.dot.gov); and, as long as shippers know their carrier's DOT number, they can look up very specific data on any carrier.

"What the shipping community has to know is where their liability lies," says Petrancosta. "The motor carrier has the ultimate responsibility. It's our scorecard, our performance, our trucks. But shippers using an unsafe carrier could be brought in as a third party in a wrongful death lawsuit. If you use a shoddy carrier, you take a risk—more so today than ever."

Petrancosta adds that large, safe carriers realize that CSA can be a competitive advantage. "Safe companies always had an advantage, but what's changed is that there's now a scorecard that shows how they perform in their own peer group. It's a tool that can be used very wisely by carriers; but it can also be used against you if you're an unsafe performer."

However, not all carrier executives are as buoyant over the implementation of CSA. "One unfortunate byproduct of CSA is that it has taken safety from a collaborative effort among all of us in trucking and turned into a competitive effort," says Steve O'Kane, president of A. Duie Pyle, the nation's 20th-largest LTL operator with $231 million in revenue last year.

"Before CSA, it was to everyone's advantage to have safer competition because that made the roads we all share safer," says O'Kane. "But now we're all competing with one another and making every effort to ensure our safety record is better than our competition's."

"Before CSA, it was to everyone's advantage to have safer competition because that made the roads we all share safer, but now we're all competing with one another and making every effort to ensure our safety record is better than our competition's."

—Steve O'Kane, president of A. Duie Pyle

CSA replaces the old "SafeStat" formula that used to rate carriers in four categories. CSA has seven categories and the data is much more specific, carrier executives say. Pitt Ohio President Chuck Hammel, whose fleet scored well under SafeStat and is still doing well under CSA, says the work involved under CSA is "certainly manageable," although fleets are having to spend more to stay safe.

Drivers: Shortage ahead

Because of CSA, tougher driver security measures, the industry's inability to market itself to minorities, and the inherent difficult nature of truck driving, the industry has lagged behind in its ability to attract a suitable number of compliant drivers. That situation is forecast to worsen as the U.S. employment picture improves.

Economist Noel Perry, managing director and chief consultant with FTR Associates, is predicting that the industry could face a shortfall of as many as 400,000 drivers in the coming years. Whether it's 400,000 or even half that figure, many top trucking executives are already feeling the pinch as they try to find drivers for their trucks.

"More and more, capacity is being measured not by power units, not by terminal doors, but by qualified, avail-

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LTL's crystal ball: What does the future hold?

Top LTL executives say they're prepared to keep up with the metamorphosis of the ever-changing marketplace.

Looking out 10 years or so, Pitt Ohio Vice President of Sales Geoff Muessig says LTL carriers will further become transportation solutions providers that are increasingly compensated for using their assets to provide unique-cost effective solutions.

"Pick up and delivery time windows will collapse, the need for increased consistency of service will increase, and on-time pick up and delivery performance will be measured in terms of minutes instead of days," Muessig predicts. "As supply chains become more closely managed and as shippers look to create additional value for their customers, the variability of time will need to be further reduced. Shippers will no longer be able to use a carrier that is occasionally 20 minutes late for a pick up, and a consignee will no longer tolerate a carrier that is consistently 15 minutes late for an appointment window."

To meet those windows, executives say carriers will need to rely on improved communication and information to accommodate these increasing shipper and consignee demands. Continuing improvements in cheaper and more reliable communication methodology could mean even more radical changes in freight planning and execution.

"I predict in the next 10 years the industry will create a variety of non-traditional ways to distribute LTL freight," says Phil Pierce, executive vice president of sales and marketing for Averitt Express. "Maybe it will be innovative equipment or non-traditional operational strategies. One thing's for sure, it should be exciting."

Supplying enough drivers to meet these non-traditional operational demands throughout the next decade will be a challenge, executives agreed. "The industry as a whole is being challenged to find and retain an ample supply of good drivers," Pierce says. "On the LTL side, it's sometimes a challenge to get drivers to stay in the industry, especially keeping experienced, older drivers with the daily rigors of an LTL environment. We're always looking for new and different ways to grow and retain an experienced, professional team of drivers."

In the Mid-Atlantic area, Muessig says Pitt Ohio continues to be constrained by the availability of drivers and available terminal facilities. So it's addressing this labor constraint by changing its mix of vehicles to include smaller delivery trucks, which can be operated by drivers who do not have a Class A Commercial Driver's License. The use of smaller CDL trucks, says Muessig, will enable Pitt Ohio to lower its operating expenses while also increasing its pool of driver candidates.

"I'm not sure LTL carriers will carry that title 10 years from now," new YRC Worldwide President James Welch says. "The LTL carriers of today will continue to evolve and look different as time marches on. Again, the global economy will dictate how today's carriers will look 10 years from now. One thing that won't change is the need to provide solutions to customers—in this country and globally."

Steve O'Kane, president of A. Duie Pyle, predicts in 10 years the LTL industry have two types of players. There will be large, multi-national, full service logistic providers (FedEx and UPS) and there will be smaller, nimble, responsive niche providers that offer customized solutions for unusual customer requirements.

"We're well-positioned to fall in the second grouping," O'Kane says. "We will rely on our ability to combine LTL services of the highest level, with our TL and warehousing capabilities, as well as the resources and flexibility to alter our fleet, to handle any problem in the Northeast."

—by John D. Schulz, Contributing Editor

able drivers," says Pyle's O'Kane. "Even in the current employment market, the driver supply is extremely tight."

Compromising hiring standards has "always been a fool's game," O'Kane says, and Duie Pyle has resisted that. The carrier recently opened the Pyle Driving Academy, which offers a free eight-week driving training course that includes classroom study along with behind-the-wheel, hands-on driving training in both terminal and over-the-road environments. The carrier has also twice raised driver pay in the past year in order to retain and attract drivers.

Con-way also recently reopened its driver training school, as have many other top LTL carriers. Experts estimate that it costs as much as $10,000 to attract and train a new driver, but trucking executives say the investment is worth it and that expenditure results in a safe, accident-free driver capable of staying with the company for decades to come.

With drivers already hard to come by, any method to find and train drivers can immediately add to a fleet's sustainability, analysts and executives say. "You can't find drivers," analyst Jindel says flatly. "The ability to add capacity in the LTL industry has become harder." That, in turn, is helping profitability, says Jindel.

Because capacity no longer can be added in any great amounts, and because of the increasing cost of a new Class 8 truck (now costing about $130,000, prior to volume discounts), LTL carriers are more disciplined than ever in keeping capacity in line with demand.

Analyst Ross and others say the current capacity situation is in "equilibrium" with demand. That has not occurred since about 2006, as the recession caused an overcapacity of as much as 25 percent in the LTL sector. A large factor in keeping that supply/demand curve in check has, in fact, been the tough hiring environment for drivers.

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HOS: Changes?

Nothing gets truckers fired up faster than mentioning the possibility of another change to their fleets' legal hours of service. They've been coping with this issue for more than a decade, and it's still not resolved. Now the federal government is studying whether to reduce by one hour (from 11 hours to 10 hours) the legal daily driving limit for truck drivers. A decision is expected by the end of the year.

Any change in HOS would be costly for shippers and play havoc with the nation's supply chains. It would also immediately result in about a 9 percent loss in truck productivity, exacerbating the driver shortage and probably further increasing rates.

The trucking industry is hardly ever in full agreement on anything. But every carrier executive contacted for this story was unanimous in their opposition to any change in HOS, warning of higher costs for shippers if any change would occur.

How much more? How about $2.2 billion more? That's the figure UPS Freight president Jack Holmes recently used in a speech warning the government not to tinker with HOS. "I am a firm believer in not fixing something if it ain't broke," said Holmes. If that eleventh hour of drive time is lost, Holmes says that those longer next-day lanes shippers now count on to get just-in-time products to market "are going to disappear."

The most recent government truck safety statistics do not support change in current HOS rules. The most recent data shows a 20 percent decline in annual truck-related fatalities, the lowest level since DOT began collecting those statistics. Truck-related deaths have declined by one-third since the current HOS regulations became effective in 2004.

Already, Duie Pyle and other carriers have tweaked their networks just in case HOS changes are coming. Pyle has identified all of its line-haul runs that currently utilize the eleventh hour of driving time and are re-engineering those runs to be in compliance with any HOS change. It plans to put this new line-haul network in effect in late summer.

"It will modestly increase our need for additional drivers, which currently is the biggest market pressure we face," Pyle's O'Kane says.

> "The days when shippers didn't know about a fleet's safety record are starting to change. They need to do their homework now."
>
> *—Bob Petrancosta, vice president of safety for Con-way Freight.*

Higher rates ahead

Restraints on capacity, tougher driver standards, higher driver pay, recruiting costs, and possible government-imposed reductions in capacity all mean one thing for shippers—higher rates.

"That's because LTL carriers are at the end of their rope on accepting sub-par operating margins," analyst Jindel says. "You can only bear the pain of operating at break even or negative for so long. Their lenders and employees are starting to show the strain of two or three years of that pain. They're saying, 'I can't take it any more. Where are the profits?'"

Because of that, Jindel says LTL carriers need to be more disciplined and "not leave money on the table" when it comes to getting higher freight rates, and charging premiums for add-on services that parcel giants FedEx and UPS routinely get in their operations.

"When you're hauling a 1,000-pound shipment that actually weighs 1,050 pounds, you need to charge for that extra 50 pounds," Jindel says, who adds that LTL carriers are getting smarter. "Every carrier is starting to do that," he says. "This isn't collusion. This is being disciplined."

Jindel is predicting that as long as the nation's Gross Domestic Product rises in the 3 percent range the rest of this year, LTL pricing will stay "firm." He is predicting the half-dozen or so large publicly held LTL carriers will collectively report operating ratios for the third and fourth quarters close to 95 or 96—some 3 percent to 4 percent margin improvement over the same quarters last year.

"The economy is better this year than 2010, so we're able to get modest rate increases from most shippers," Pitt Ohio's Hammel adds. "But if you look at the industry as a whole, carriers are not producing the profit margin to recapitalize their equipment properly. Typically a carrier needs to operate at 96 (operating ration) to recapitalize properly. As I look at the results on the LTL carriers as a whole, most are at that level or higher."

Con-way's Stotlar says the LTL industry is committed to getting margins back to where carriers can recapitalize their fleets. "The industry seems to be in lock step that we have to improve margins," he says. "We were successful in getting rate increases last year and that continues into 2011."

And, given the overall regulatory pressures facing LTL carriers, perhaps well beyond 2011 as well. ☐

—John D. Schulz is a Contributing Editor to Logistics Management

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SAGE ADVICE

Avoid becoming a "no name"

By John A. Gentle, DLP

RECENTLY I WAS VISITING WITH SOME FRIENDS, Tom and Michelle, who own a farm in New England. Tom was showing me around the farm—baby chicks, turkeys, and piglets. The family is raising all of these animals for consumption.

When I got to the goats I noticed that they had different colored dog collars and asked if the goats had names. Tom said the grandkids had names for them, but he believed that there was "no reason to name something that wasn't going to be around long enough."

Tom's statement reflects the reality of life and business, particularly in the shipper/carrier relationship. There is little benefit for a carrier to invest time and emotion in a logistics team that uses them sporadically or is constantly challenged by the complexity, unfairness, and inefficiencies built within a shipper's, receiver's, or 3PL's transportation program.

So, how do you avoid becoming a "no-name," dispensable entity? The answer is quite simple, and it begins with understanding that the marketplace has changed and will continue to change. Carriers have survived the worst phase of this recession; and while not completely out of the woods, the market balance has shifted enough to give them price and choice. Accordingly, there are things that you should avoid, and conversely, there are now opportunities for you to become attractive.

It's very important to recognize that their companies, like yours, have fewer resources than they did 18 months ago, and that they're not adding sales personnel. In fact, one major carrier told me that they would look "unfavorably at customers who bid and required a lot of face time and hand holding."

Accordingly, logistics teams that don't want to become "forgettable" should avoid:

- Stringing carriers along and offering them long-term or indefinite projects with only a marginal chance of being profitable—or offering no real chance of sustainable profitability and growth.
- Offering projects that don't provide carriers with immediate financial rewards or business that has safety deficiencies.
- Forcing poor payment terms and/or activities that have a negative impact on cash flow, increase risk of collection, or place the carrier's credibility at risk.
- Requiring carriers to operate in inefficient and ineffective processes environments—either yours or your customer's.
- Projects that consume high levels of human or mechanical assets with marginal rewards.
- Bids—particularly those that treat the carrier like a dispensable number.

Carriers have survived the worst phase of this recession; and while not completely out of the woods, the market balance has shifted enough to give them price and choice.

Conversely, you will find carriers anxious to work with companies that genuinely care about them and take business that provides real, tangible, short-term and clear long-term opportunities. Most importantly, carriers will only be willing to make an investment with those who have made a demonstrable investment in them. Here are some of the traits of progressive shippers, receivers, and 3PLs that good carriers will be looking for:

- Identifiable "guiding principles" that match those of the carrier, including the attractiveness of your company's culture, its defined value proposition, and direction and fitness for use.
- A "wow" factor demonstrated by strong transportation industry knowledge and management; good team dynamics/chemistry; mutual respect for each other; unwavering commitment for process and quality; and focus on productivity.
- Desire for long-term growth relationship—five or more years.
- Real transportation management talent using a comfortable, interpersonal communication style.
- A judicious use, if any, of the bid process, and a strong commitment to using the capacity that they commmit to use.

Logistics leaders need to create and demonstrate respect for their carriers and create positive brand identity and name recognition for their transportation programs within the carrier industry. Don't be caught by surprise by being considered a "no name." Remember, it's a dead end for those farm animals. □

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

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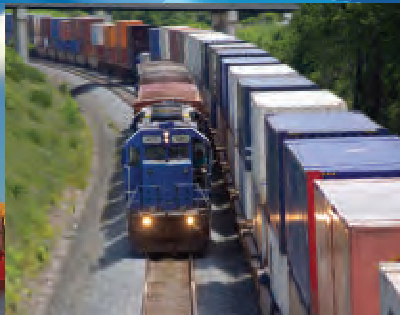

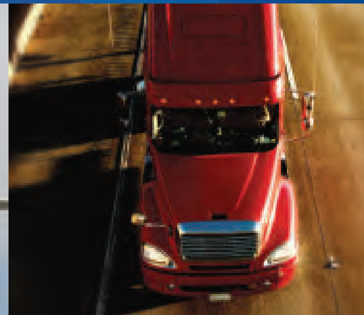

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