

JANUARY 2012

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LM EXCLUSIVE:

BD goes big on green

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**2012 Logistics
Rate Outlook 30**



INCLUDING LIVE WEBCAST:

January 25th @ 2:00 p.m. ET
Register: logisticsmgmt.com/2012outlook

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Fernando Gonzalez,
Ewald Parolari,
Kevin Booth (L to R),
Becton Dickinson and
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SPECIAL REPORT

**WAREHOUSE/DC BEST PRACTICES:
Decoding the mysteries
of lift truck fleet
management 50S**



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Management UPDATE

AN EXECUTIVE SUMMARY OF INDUSTRY NEWS

■ **At last... Final HOS rule is issued.** The long-awaited and highly-contested final truck driver hours-of-service rule was issued on December 22 by the Federal Motor Carrier Safety Administration (FMCSA). See all the details in News on page 13. Since the FMCSA rolled out its proposed HOS rule changes in December 2010, there have been mixed reviews in terms of their potential impact regarding an increase in the cost of doing business, as well as questions from trucking industry stakeholders as to whether or not these rules need to be changed from their current version that have been in effect since 2004. Safety groups say less time on the road equals safer roads, while trucking companies and shippers say that the rules will only increase congestion and hinder fluid supply chain operations. FMCSA officials said that commercial truck drivers and companies must comply with the HOS final rule by July 1, 2013, but it is more than likely that this chapter of the HOS saga is far from over.

■ **Stand up for trucking!** Trucking companies are getting a legislative and lobbying boost from a rather unlikely source—their customers. Shippers, led by the National Shippers Strategic Transportation Council (NASSTRAC) and supported by nearly a dozen other shipper and carrier organizations, are planning a Feb. 1 “fly-in” to lobby Washington policy makers and legislators on the importance of maintaining and improving productivity in the trucking industry. This industry-wide event, called “Stand Up for Trucking,” will bring together scores of transportation executives and key stakeholders in trucking. The groups are calling this orchestrated effort “historic” because both shippers and carriers are working collectively to let their voices be heard so that their Congressional and Senate representatives understand that trucking is a vital national asset that contributes to the well-being of the United States.

■ **Driver shortage ahoy.** The turnover rate for truckload drivers at large fleets headed north for the fourth straight quarter, according to data from the American Trucking Associations (ATA). The ATA said that the turnover rate for this category hit 89 percent in the third quarter, following rates of 75 percent and 79 percent in

the first and second quarter, respectively. The third quarter turnover percentage represents its highest level since the first quarter of 2008. And since the first quarter of 2010, it has gone up 50 percentage points and averaged 81 percent year-to-date in 2011. ATA officials said that this turnover rate reflects the increased demand and competition for drivers.

■ **Cops, not creeps.** Shippers have told the Port of Oakland that it's time to get tough with the “Occupy” movement or they'll be moving their cargo through other ocean cargo gateways next year. The port listened, but Oakland's City Council failed to support its most vital economic resource. According to published reports, global shippers comprising Target, Walgreens, J.C. Penney, and Crate and Barrel told the Port Commission that if tougher measures are not taken to keep protesters from disrupting operations, they will take their business elsewhere. The port's executive director, Omar Benjamin, brought this concern to Oakland's City Council, but a vote to consider such action was deliberately avoided. Now “Occupy” leaders are calling this a victory. Benjamin's letter to the Council noted that many other ports—including those with lower labor and environmental standards—compete with Oakland on the basis of price. “Disruptions here makes it easier for them to take cargo and jobs from us,” he said.

■ **Exports pave the way for POLA.** Outbound cargo shipments hit record-breaking levels for the second straight month at the Port of Los Angeles (POLA) in November, hitting 197,878 TEU. This topped October's 193,548 TEU. The previous monthly export record for the port prior to October and November was March at 192,849 TEU. “Exports are certainly the bright spot of 2011,” said Phillip Sanfield, POLA director of communications. “To some degree they are keeping our overall numbers up year-over-year.”

■ **FedEx goes long on aircraft assets.** During its fiscal second quarter earnings announcement, FedEx announced it has inked a deal with

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Management UPDATE

continued

The Boeing Company to modernize its FedEx Express aircraft fleet. FedEx Express said it will purchase 27 new 767-300F aircraft, with three arriving in fiscal 2014 and six per year in fiscal 2015-2018. FedEx officials said that the 767s will replace the company's MD10 aircraft, many of which are more than 40 years old. The 767s provide similar capacity as the MD10s and are more reliable, are 30 percent more fuel efficient, and offer a 20 percent reduction in unit operating costs. FedEx also said that FedEx Express is delaying the delivery of 11 777F aircraft, with two deferred from fiscal 2013; five from fiscal 2014; and one per year in fiscal 2015-2018 to better balance air network capacity to demand.

■ **Southwest goes for the MAX.** In an ongoing effort to improve fuel efficiency while extending its profitability in the airline industry, Southwest has placed a firm order for 150 Boeing 737 MAX airplanes, with the first delivery scheduled in 2017. "The improved fuel efficiency of the 737 MAX will enable us to improve our fuel costs, as well as our environmental performance," said Wally Devereaux, Southwest Airlines' director cargo sales and marketing. In an interview with *LM*, Devereaux added that over the next couple years, Southwest will continue to work closely with Boeing "to access our air cargo opportunities." According to Devereaux, the 737 MAX with LEAP-1B engines will reduce fuel burn and CO2 emissions by an additional 10 percent to 11 percent over today's most fuel-efficient single-aisle airplane.

■ **Crash landing.** Even if government intervention averts a banking crisis, it's unlikely that Europe will avoid a brief recession, maintain air cargo analysts. According to the International Air Transport Association, (IATA), global business and consumer confidence has already fallen too far. Global GDP growth forecasts for 2012 have been revised downwards to 2.1 percent. Historically the airline industry has seen profit turn into loss whenever global GDP growth falls below 2 percent. This is driv-

ing the downgrade in the 2012 outlook. Tony Tyler, IATA's director general and CEO, paints a pretty bleak scenario. "Even our best case scenario for 2012 is for a net margin of just 0.6 percent on revenues of \$618 billion. But the industry is really moving at two speeds with highly taxed European carriers headed into the red," Tyler said.

■ **Making a case for a higher gasoline tax.** A report released by the Institute on Taxation and Economic Policy found that state lawmakers reluctant to update gas taxes have cost their states, on average, \$201 million in annual revenues. What's more, these losses are exacerbated by the fact that the federal gas tax, which also supports state transportation projects, has lost 41 percent of its value since it was last raised in 1993. These findings come at a time when transportation funding options are quelled by political gridlock and both sides of the aisle maintain that raising the gasoline tax is not a feasible option.

■ **YRCW sells off Glen Moore.** Last month, less-than-truckload (LTL) transportation services provider YRC Worldwide (YRCW) "sold a significant portion of the assets" of its truckload subsidiary Glen Moore to Celadon Trucking Services Inc., a subsidiary of truckload carrier Celadon Inc. YRCW CEO James Welch told *LM* that the driver for this deal "was to get the company focused precisely on what we mainly do for a living—and that is LTL." Financial terms of the deal were not disclosed, and YRCW officials declined to disclose how many Glen Moore assets were involved in the transaction.

■ **NRF bumps up holiday sales forecast.** In mid-December, the National Retail Federation (NRF) reported that it raised its forecast for the holiday shopping season. Following an early October prediction of 2011 holiday sales rising 2.8 percent to \$465.6 billion, the NRF is now calling for 2011 to be up 3.8 percent to \$469.1 billion. Holiday sales—as defined by the NRF—are sales in the months of November and December.

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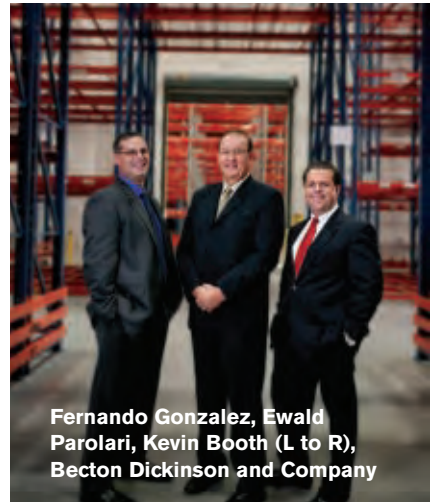


EXCLUSIVE COVER STORY

BD big on green

The medical technology giant's new 720,000-square-foot hyper-sustainable DC has ushered in a 9 percent improvement in two-day service times along with subsequent reductions in transportation and facility costs.

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Fernando Gonzalez, Ewald Parolari, Kevin Booth (L to R), Becton Dickinson and Company

Cover photo: Charles Harris/Getty Images

PRINT/WEB EVENT

2012 Rate Outlook: Flat...for now

30 While analysts say rates across the board are forecast to be fairly level compared to what shippers have seen over the past two years, they add that there are a number of unanswered questions that could greatly affect rates.

TRANSPORTATION TRENDS & BEST PRACTICES

2012 Parcel Express Roundtable: Are regional entrants storming the gates?

38 Our distinguished panel tells shippers to expect to pay more for parcel services, be on the lookout for competition among existing carriers, and keep your eyes open for new regional entrants.

SUPPLY CHAIN & LOGISTICS TECHNOLOGY

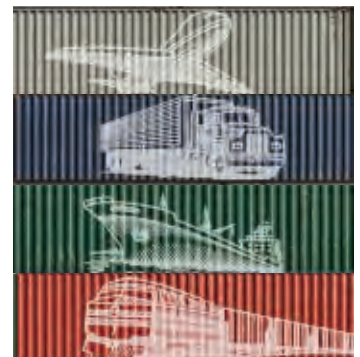
5 trends driving TMS growth

42 Top supply chain software analysts break down the drivers that will keep the transportation management systems market on a steady upswing for years to come.

GLOBAL LOGISTICS

2012 Customs & Regulations Update: Balancing risk and reward

46 A flurry of new trade agreements should signal greater opportunity for U.S. importers and exporters. But this adds another layer of compliance complexity. How will today's global shippers deal with the new risk/reward scenario?



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Parcel Express Roundtable 38



Customs Update 46

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◀ **SPECIAL REPORT**
Decoding the mysteries of fleet management
 Lift truck owners want it and are ready to spend money on it—but they're not sure exactly what it means. These guidelines will help take the mystery out of implementing a comprehensive fleet management program from start to finish. **50S**

Logistics Management Exclusive Webcast

2012

RATE OUTLOOK

Thursday, January 25
2:00p.m. ET

Register at www.logisticsmgmt.com/2012outlook

2012 Logistics Rate Outlook: Flat...for now

While leading transportation analysts say that rates will be fairly level across all modes heading into 2012, they warn that a number of unanswered economic and regulatory questions could push them skyward if suddenly resolved.

What can shippers expect in 2012 in terms of rates and capacity?

Join Group Editorial Director Michael Levans, *Logistic Management's* Executive Editor Patrick Burnson, and a panel of leading economic and transportation analysts as they share their exclusive insight on where rates and capacity are headed over the next 12 months. Our distinguished panel will also take a closer look at the moves carriers will be making to stay the course and provide shippers with the services they require to achieve sustainable growth.

Attendees will gain a better understating of:

- The current state of the U.S. economy and its impact on freight transportation.
- Which way oil and fuel prices are likely to go in 2012.
- What to expect in terms of rates and capacity across all modes.

Moderators

Michael Levans, Group Editorial Director, Supply Chain Group

Patrick Burnson, Executive Editor, *Logistics Management*

Speakers

Oil & Fuel: Derik Andreoli, Ph.D., Senior Analyst at Mercator International, LLC

Trucking: John Larkin, Managing Director, Stifel Nicolaus

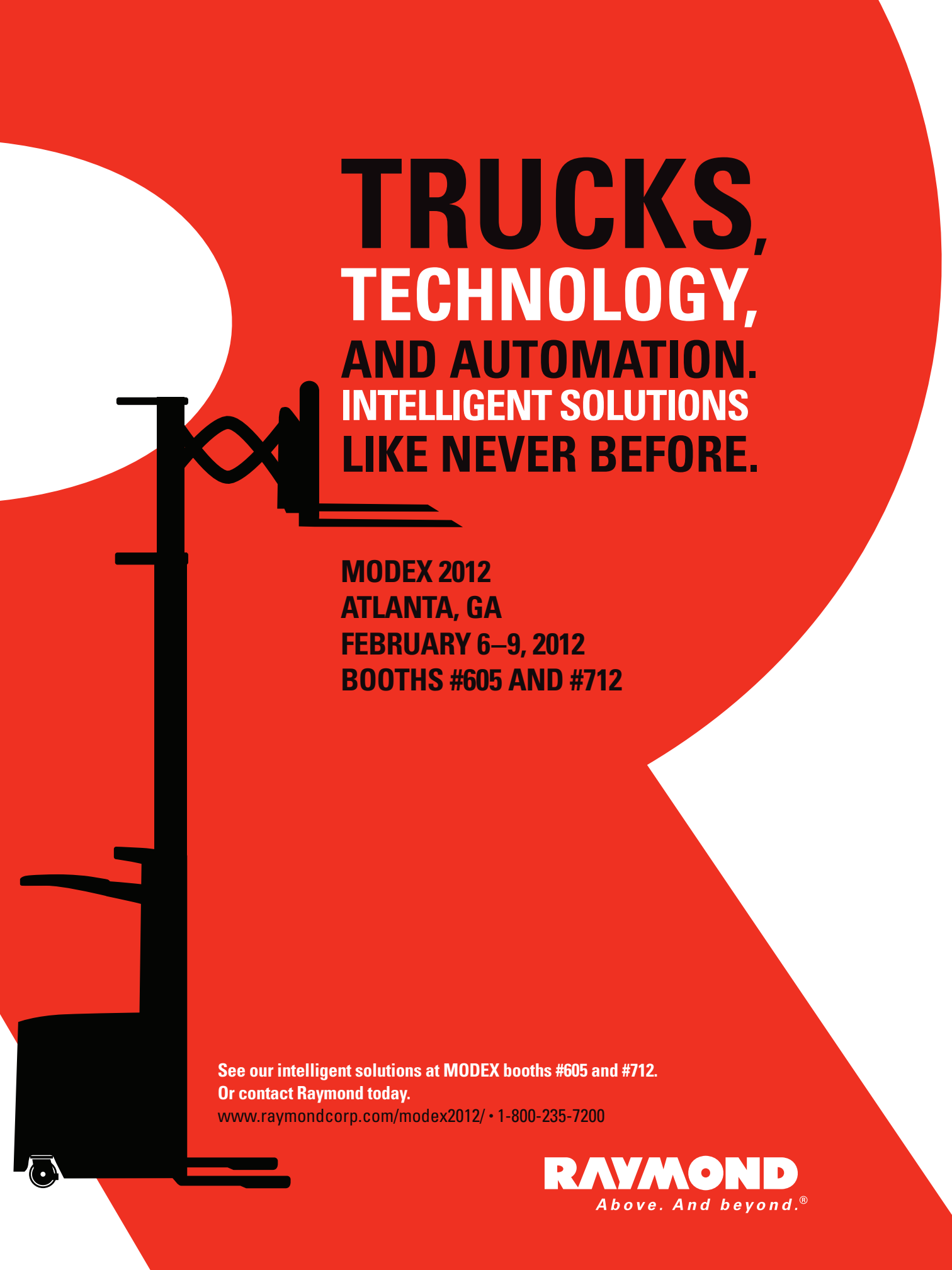
Rail/Intermodal: Brooks Bentz, Partner, supply chain transportation, Accenture

Air Cargo: Charles Clowdis, Managing Director for transportation, IHS Global Insight

Ocean Cargo: David Jacoby, President of Boston Strategies International

Parcel Express: Jerry Hempstead, President of Hempstead Consulting





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Too many wildcards

OUR JANUARY ISSUE FEATURES ONE OF our most anticipated reports, *Logistics Management's* Annual Rate Outlook. Not only has it traditionally been one of our best-read reports—second online only to our Annual Salary Survey—but over the past seven years the related webcast (logisticsmgmt.com/2012outlook) has attracted thousands of shippers looking for insight into what the coming year may hold in terms of rates and capacity.

Executive Editor Patrick Burnson, who has put this report together the past several years, has done another terrific job of rounding up our top economic, energy, fuel, and transportation analysts to put the overall forecast into perspective (page 30). However, as he was finishing up his first round of calls for this year's report, he noticed a tempered tone from what is usually one of the more confident groups we source.

"It's almost as if the last three years have worn down many analysts," Burnson told me. "And at this point, many of them feel that there are too many wild cards, too many unanswered questions in play to offer any solid, long-term rate projections."

Indeed, the first question in need of resolution—and the one most out of the control of shippers and carriers—is the still-unsettled global economic picture. The European debt crisis still hangs in the balance and continues to put pressure on financial markets and business confidence despite late-year market enthusiasm.

Gene Huang, chief economist at FedEx, tells Burnson that these financial headwinds will wreak havoc with inventory planning and transportation volume forecasts if they persist deep into 2012, making it even more difficult to predict rates and capacity.

Back here at home and on the roads, the fallout from the CSA implementation is far from being quantified. By mid-2011 more than 50,000 warning letters had been sent out to carriers that scored poorly in at least one or more of seven "BASICS" categories. Just from this enforcement effort, our analysts estimate that as many

as 150,000 long-haul drivers (out of about 3 million) could be sidelined—but the timeline remains foggy.

To add more fuel to the driver-shortage fire, the ATA reported in December that the driver turnover rate hit 89 percent in the third quarter, following rates of 75 percent and 79 percent in the first and second quarter. This represents the highest level since the first quarter of 2008.

Hardly a surprise, another wild card remains fuel prices, which our Oil & Fuel columnist Derik Andreoli says will remain high and volatile due to low production capacity. "Geopolitical risks to the production and transportation of crude and refined products remains high," he tells Burnson. "This will be increasingly important because when spare production capacity is low, the price impacts of even small supply disruptions, like those that occur on a regular basis in Nigeria, are high."

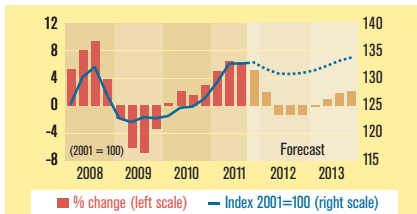
One lingering question that has been clarified is the truck driver hours-of-service (HOS) rule changes that the FMCSA rolled out just before Christmas. The final rule retains the current 11-hour daily driving limit; however the maximum number of hours a driver can work within a week has been reduced by 12 hours. Group News Editor Jeff Berman breaks down all the details on page 13.

As expected, the HOS changes have met with mixed reviews, but no one is certain what they mean to carriers in terms of the cost of doing business, service times, or driver recruitment. Many insiders contend that the changes could have been worse, and with the 18-month transition period there is plenty of opportunity for opposing forces to continue the battle.

Michael A. Levans, Group Editorial Director

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

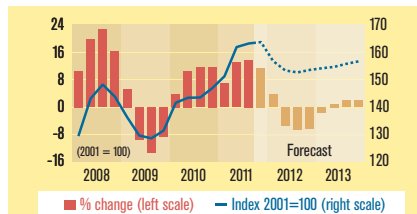
Pricing Across the Transportation Modes



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
General freight - local	-0.6	0.0	3.0
TL	1.0	0.4	5.7
LTL	0.5	1.8	7.8
Tanker & other specialized freight	0.2	-0.6	4.8

TRUCKING

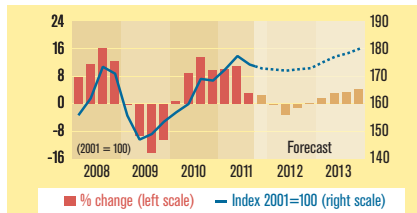
TL trucking companies reported a 1% price increase in November 2011—their biggest monthly hike since April. LTL also pushed through a 0.5% price increase. Meanwhile, trucking industry costs have come down in recent months, though from year-ago levels fuel costs are up 26.5% and non-management wages are up 5.5%. With Europe facing a devastating banking crisis, the price trends forecast continues to assume a double-dip U.S. recession lies ahead. This will serve to keep inflation in check for logistics buyers. After a 5.7% annual price hike in 2011, the trucking industry's aggregate price index is forecast to decline 0.6% in 2012, led by a 1.3% TL price cut. In 2013, all trucking prices will increase 1.2%.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Air freight on scheduled flights	-0.1	2.4	13.1
Air freight on chartered flights	-7.0	0.2	-6.4
Domestic air courier	-0.2	-0.9	12.9
International air courier	-0.2	-1.1	17.0

AIR

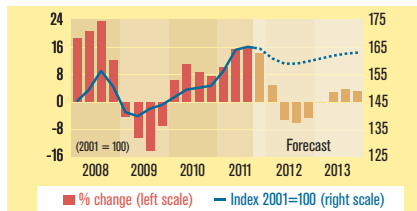
Latest surveys of U.S. airliners show price cuts across the board in November. Prices for flying freight and mail on scheduled flights inched down 0.1%. Nonscheduled, airfreight charter companies cut their prices by 7%, more than reversing the previous month's 5.5% price increase. Even air courier prices declined by 0.2%. These monthly price cuts, however, are meager compared to price gains that have taken place over the past two years. For example, from Q4 of 2009 to 2011, U.S. companies flying freight on scheduled flights increased their prices by 24.4%. Assuming a global recession, we forecast prices for this segment of the market to decrease 3.7% in 2012 before increasing 0.8% in 2013.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Deep sea freight	-2.8	-10.4	-5.2
Coastal & intercoastal freight	0.0	0.3	4.2
Great Lakes - St. Lawrence Seaway	2.4	8.3	15.8
Inland water freight	-0.9	2.5	13.6

WATER

In the U.S.-operated water transportation market, the biggest price cut in November came from the deep sea water transportation category. Here, prices fell 2.8% from month-ago and 5.2% from same-month-year-ago levels. Looking at a three-month moving average, we see deep sea prices riding big waves: up 21.4% in October 2008 and down 23.6% in October 2009, then back up 19.7% in September 2010, and now down 2.8% as of November 2011. We expect price trends in U.S. water transportation to be less volatile ahead. Average prices in the deep sea category are forecast to drop 3% in 2012, followed by a 1.5% gain. Water transportation service industry prices overall will decline 1% in 2012 and will rise 3% in 2013.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Rail	-0.2	-0.2	9.1
Intermodal	0.7	-2.1	9.7
Carload	-0.3	-0.2	9.2

RAIL

The railroad industry displayed diverging data in the November 2011 transaction price surveys. Intermodal rail operators reported a 0.7% price hike, which was the first significant monthly price hike in half a year. Average prices reported by carload rail, meanwhile, declined 0.3% in November on the heels of a 0.2% price cut in October. Both intermodal and carload rail operators have been showing either reluctance or inability to continue the sharp price escalation trends that had characterized the market from December 2010 through June 2011. After an 8.7% average annual price increase in 2010, our forecast remains unchanged; rail industry prices will decrease 1.7% in 2012 and increase 1.5% in 2013.

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

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FMCSA issues final hours-of-service rules

Final rule retains the current 11-hour daily driving limit, but cuts maximum number of hours a driver can work per week.

By Jeff Berman, Group News Editor

WASHINGTON—As expected, the final rule for truck drivers' hours-of-service (HOS) was issued by the Department of Transportation's Federal Motor Carrier Safety Administration (FMCSA) on December 22.

Back in December 2010 the FMCSA rolled out its proposed HOS rules changes that received decidedly mixed reviews in terms of their potential impact on the cost of doing business, as well as questions from trucking industry stakeholders as to whether or not these rules need to be changed from their current version which has been in effect since 2004.

The final HOS rule is comprised of the following, according to FMCSA:

- The maximum number of hours a truck driver can work within a week has been reduced by 12 hours from 82 to 70.
- Truck drivers cannot drive after working eight hours without first taking a break of at least 30 minutes, and drivers can take the 30-minute break whenever they need rest during the eight-hour window.
- The final rule retains the current 11-hour daily driving limit (the FMCSA was considering lowering it to 10 hours) and will continue to conduct data analysis and research to



further examine any risks associated with the 11 hours of driving time.

- Truckers who maximize their weekly work hours will take at least two nights rest when their 24-hour body clock demands sleep the most—from 1:00 a.m. to 5:00 a.m. This rest requirement is part of the rule's "34-hour restart" provision that allows drivers to restart the clock on their work week by taking at least 34 consecutive hours off-duty.

- The final rule allows drivers to use the restart provision only once during a seven-day period.

- Carriers that allow drivers to exceed the 11-hour driving limit by three or more hours could be fined \$11,000 per offense, and drivers could face civil penalties of up to \$2,750 for each offense.

FMCSA officials said that commercial truck drivers and companies must comply with the HOS final rule by July 1, 2013. "Trucking

is a difficult job, and a big rig can be deadly when a driver is tired and overworked," said Transportation Secretary Ray LaHood in a statement. "This final rule will help prevent fatigue-related truck crashes and save lives. Truck drivers deserve a work environment that allows them to perform their jobs safely."

Prior to the final HOS rule being released, it was under review at the Office of Management and Budget. And has been the case over the last year, the debate over HOS regulations has been somewhat polarizing.

On one side are safety advocates that maintain making these changes is the right and safe thing to do, as evidenced by a letter sent to President Obama in October by a group of senators, including Frank R. Lautenberg (D-NJ), John D. (Jay) Rockefeller (D-WV), and Barbara Boxer (D-CA) in which they said that they support the proposed HOS rules.

“The National Transportation Safety Board has found that fatigue is the primary factor in 30 percent to 40 percent of large truck crashes,” the Senators wrote. “The DOT’s proposal would permit increased flexibility for CMV drivers to get the adequate rest when they need it and to adjust their schedules to account for unanticipated delays without sacrificing a full day’s work. As you finalize the HOS rules, we urge you to make safety, scientific research, and the work that has already been completed by the DOT the primary factors in your decision.”

American Trucking Associations (ATA) President and CEO Bill Graves blasted the final HOS rule. “Today’s announcement of a new rule on the hours-of-service is completely unsurprising,” said Graves in a statement. “What’s surprising and new to us is that for the first time in the agency’s history, FMCSA has chosen to eschew a stream of positive safety data and cave in to a vocal anti-truck minority and issue a rule that will have no positive impact on safety. From the beginning of this process in October 2009, the agency set itself on a course to fix a rule that’s not only not broken, but by all objective accounts is working to improve highway safety. Unfortunately, along the way,

FMCSA twisted data and, as part of this final rule, is using unjustified causal estimates to justify unnecessary changes.”

What’s more, the ATA has repeatedly stated that the current HOS rules, which have been in place since 2004, have allowed the trucking industry to move more than 70 percent of U.S. goods while achieving record low levels of crashes and fatalities. Graves added that if there is a positive in this rule, it’s the lengthy 18-month period of time before it becomes effective—which will give ATA time to consider legal options, noting that by delaying implementation of this rule, the agency is acknowledging there is no safety crisis on U.S. highways.

Michael Regan, president of TransAct Technologies, chairman of the NASSTRAC Advocacy Committee, and point man for the planned February 1 Washington, D.C. “fly-in,” entitled Stand Up For Trucking, said in an interview that this ruling will present major challenges for the shippers’ supply chains, but noted it could have been worse. “There is a real incongruity in this decision, and that is that the FMCSA says it wants to make the roads safer—and as part of that you need to deal with congestion. Yet this rule is structured to maximize congestion after 5 p.m.” □

(BMW) which has extended its “cooling off period” with the railroads to February 8, 2012. These developments quelled the possibility of a national rail strike, which would have taken effect on December 6 when the 30-day “cooling off” period between companies and employees was set to expire.

“We’re pleased that we have now settled with 12 of the 13 unions in this bargaining round,” said A. Kenneth Gradia, chairman of the National Carriers’ Conference Committee (NCCC), the railroads’ bargaining representative. “Everyone wins when we reach voluntary agreements. In a tough economy, these agreements offer a terrific deal for rail employees. They lock in well-above market wage increases of more than 20 percent over six years, far exceeding recent union settlements in other industries.”

In early November, a Presidential Emergency Board (PEB) offered recommendations on contract terms for the two sides to resolve their disagreements. These recommendations included:

- a five-year package of wage increases for a total of 15.6 percent, plus a 1 percent lump-sum signing bonus along with proposing that each union have the right to sign off on an additional 3 percent pay raise, effective January 1, 2015;

- moving towards a restructured health and welfare plan reducing the cost of insurance for employees;

- and freezing employee health insurance contributions at the current level of \$200 per month until July 1, 2016.

Matching legislation from both the House and Senate under the guidance of House Transportation and Infrastructure Committee Chairman John Mica (R-Fla.) and Senate Majority Leader Harry Reid (D-Nev.), respectively, proposed to implement the recommendations of the PEB as a final agreement for the three rail unions that had not reached agreements with the railroads prior to the agreements made in early December.

Prior to these agreements, shipper groups were in favor of issues being resolved in order to avoid a strike that could have had a severe impact on

LABOR

Railroad strike stays off the tracks

WASHINGTON, D.C.—While the prospects of a national railroad strike were fairly high in early December, the situation recently became less dire, with tentative agreements in place between major freight railroads and two of the three railroad labor unions.

In national bargaining with the 13 major rail unions comprised of 132,000 employees, the National Railway Labor Conference (NRLC), a concern representing more than 30 railroads, said that the Brotherhood of Locomotive Engineers and Trainmen and the American Train Dispatchers Association have come to tentative agreements with the railroads.

According to the NRLC,

these two unions represent 26,500 employees. At this point, the sole union without a deal in place is the Brotherhood of Maintenance Way Employees



freight transportation.

In a letter to all members of Congress on November 23, National Industrial Transportation League (NITL) President and CEO Bruce Carlton said that if the remaining unions do not reach an accord with management and a strike is called, America's freight rail system will shut down, including passenger rail systems that use freight rail track. According to Carlton, such a result would have a devastating impact on the economy and businesses of all sizes and hinder the economic recovery, adding that economists have estimated the impact of a national rail strike at \$2 billion per day.

Association of American Railroads (AAR) President and CEO Ed Hamberger said that if a strike were to occur, Congress, under the power of the Railway Labor Act, would have the authority to put striking workers back to work almost immediately if it reached that point. "A major reason for that is that freight railroading is considered a national defense industry," said Hamberger.

Wolfe Trahan analyst Ed Wolfe wrote in a recent research note that the chances of a strike occurring were very low, as there have only been two strike days in the railroad sector going back to 1991.

—Jeff Berman, Group News Editor

OBITUARY

U.S. Xpress Co-chairman and President Pat Quinn passes away at 65

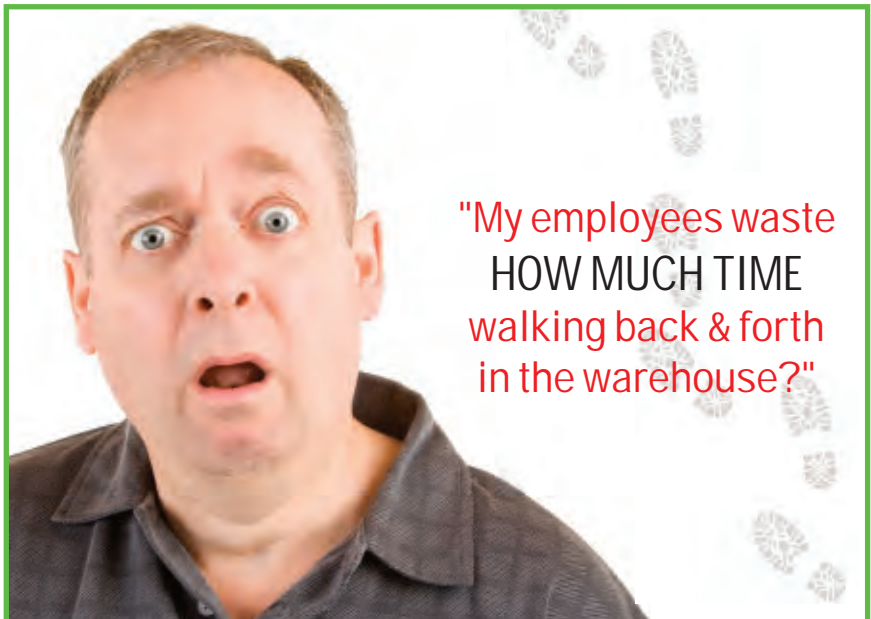
CHATTANOOGA, Tenn.—*Logistics Management* regrets to report that Patrick Quinn, Co-chairman and President of truckload and full-service freight transportation provider U.S. Xpress Enterprises Inc. has passed away from brain cancer. He was 65.

Quinn founded U.S. Xpress in 1985 with his business partner Max Fuller, Co-chairman and CEO of the company. Prior to U.S. Xpress he was a transportation attorney. Quinn and Fuller took U.S. Xpress from a 48-truck start-up

to the second largest privately owned truckload carrier in the U.S., with 8,500 trucks and more than 10,000 employees.

Quinn also served a term as Chairman of the American Trucking Associations (ATA) from 2005 to 2007 and served as chairman of the Truckload

Carriers Association from 2001 to 2002. His many accomplishments in these roles included serving as an initial member of the ATA's Associations' Image & Communications Committee in which he helped to develop the plan for National Truck Driver Appreciation Week, a successful annual event celebrating the work of



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Pat Quinn

truck drivers throughout the country.

“Pat was a tremendous business partner, and he had a real passion for working to make a difference in our industry,” said Fuller. “One of the most lasting accomplishments of my career was the business partnership that Pat and I established. We could count on each other to divide up the leadership responsibilities. Pat was a real people person, and he excelled in sales and his legal background was very valuable, especially during the first days of the company as deregulation was helping to revolutionize the transportation industry.”

Logistics Management had an oppor-

tunity to speak with Quinn at the November 2010 TransComp Exhibition in Fort Lauderdale, Fla. Among the many topics discussed were the myriad regulatory issues within the trucking industry, including hours-of-service, CSA, and truck size and weight. During this interview, it was clear that Quinn was passionate about his work and his company and pulled no punches when it came to making his opinion clear.

When asked about what effect proposed hours-of-service regulations could have on capacity and truck productivity, Quinn said: “I don’t believe any of us think that it’s not going to reduce driving time. It depends on whether breaks will be allocated in that process that don’t count against the driver time. That could perhaps offset the lost productivity. If you lose an hour, it does not reduce the amount of freight to be moved; it means that you have more freight to move and it requires more drivers to do it.”

Quinn is survived by his wife of 43 years, Anna Marie, three children, and seven grandchildren. His oldest daughter, Lisa Pate, serves as executive vice president and general counsel for U.S. Xpress Enterprises, and his son, Brian, is the vice president and general Manager of the company’s International Business unit.

—Jeff Berman, *Group News Editor*

Charleston, and Savannah.

“The uptick we’re expecting for December isn’t large at all, but it comes after several months where retailers had reduced their imports from last year, so it’s a positive sign by comparison,” said NRF Vice President for Supply Chain and Customs Policy Jonathan Gold. “Retailers are placing a cautious bet that consumer demand is increasing.”

While December is expected to see a slight gain, the report stated that October, the most recent month for which data is available, handled 1.28 million TEU, which is off 3.5 percent compared to September’s 1.33 million TEU and is the best single month of 2011 to date. October is down 5 percent year-over-year.

Ben Hackett, president of Hackett Associates, explained that there are clear signs that the U.S. economy is picking up, with things currently not as bad as originally expected. Among the metrics showing improvement are consumer confidence, the Institute for Supply Management’s PMI, and industrial production, among others.

“Consumers have continued to spend after Thanksgiving weekend into December,” said Hackett. “Carriers in the Far East are confirming that December is actually stronger than usual.”

Along with consumer spending showing signs of life, cautious inventory planning by retailers is also impacting freight flows and volumes, too, said Hackett. He said this was evident, with inventory being managed at or near critical levels, with a little increase in October.

But especially since Thanksgiving weekend, inventory levels are back to fairly low levels, coupled with some restocking occurring by retailers. With September looking to be the best volume month of the year, Hackett was blunt in his assessment of November.

“It was not a good month for volumes,” said Hackett. “But we are optimistic about December. Early January should be solid due to pre-Chinese New Year production coming up at the end of January, but the last ten days of January and the first two weeks of February will likely be down sharply, which is seasonal.”

—Jeff Berman, *Group News Editor*

TRADE

Port Tracker report calls for December increase in import cargo volumes

WASHINGTON, D.C.—Shifts in inventory management by retailers appear to have made an impact on import cargo volumes at major U.S.-based container ports, according to the monthly Port Tracker report by the National Retail Federation (NRF) and Hackett Associates.

Port Tracker noted that December is expected to be up 0.3 percent on an annual basis. Total volume for 2011 is now expected to come in at 14.76 million TEU (Twenty-foot equivalent

units), which is down from recent estimates in the last three months of 15 million TEU, 15.4 million TEU, and 14.73 million TEU, respectively. 2010 ended up at 14.75 million TEU, which was up 16 percent compared to a dismal 2009. The 12.7 million TEU shipped in 2009 was the lowest annual tally since 2003.

The ports surveyed in the report include: Los Angeles/Long Beach, Oakland, Tacoma, Seattle, Houston, New York/New Jersey, Hampton Roads,

The news that shaped the year in logistics and transportation

1. The return of LTL rate hikes



Two General Rate Increases in 2010 helped pave the way for steady pricing gains in a sector that needed to focus on improving yield management following the depths of the recession. **Full text at:**

logisticsmgmt.com/2011topstory1

2. Proposed Hours-of-Service rules are still stuck in traffic

When the Federal Motor Carrier Safety Administration unveiled its proposed changes to truck driver HOS rules, they probably did not envision the level of scorn it has received from the trucking industry. **Full text at:**

logisticsmgmt.com/2011topstory2

3. Great proposals come out of new stabs at surface transportation reauthorization, but funding issues linger

Until effective means of transportation come to fruition in a bipartisan manner, expect to see more roadblocks.

Full text at: logisticsmgmt.com/2011topstory3

4. Impact of CSA not as severe as first thought...yet

With initial estimates calling for up to a 10 percent reduction in capacity, flat volumes and a tight labor pool are keeping numbers in check. **Full text at:**

logisticsmgmt.com/2011topstory4

5. White House unveils National Clean Fleets initiative



UPS, FedEx, AT&T, PepsiCo, and Verizon are the five charter members of a push to reduce petroleum dependence in U.S. fleets. **Full text at:**

logisticsmgmt.com/2011topstory5

6. Fuel prices continue to ebb and flow in 2011

Regardless of what mode of transportation a shipper used to move freight in 2011, chances are fuel prices were never far from top of mind. **Full text at:**

logisticsmgmt.com/2011topstory6



7. Peak Season plans fail to materialize

While hopes were high for a return to a "traditional" Peak Season in early 2011, things did not go according to plan based on freight trends, volumes, and insight from industry stakeholders. **Full text at:**

logisticsmgmt.com/2011topstory7

8. Proposed Positive Train Control changes could be good news for rail carriers

The proposed changes, according to Department of Transportation Secretary Ray LaHood, would provide greater flexibility to railroads and the FRA in assessing the need for PTC without adversely affecting the safety of America's rail lines. **Full text at:**

logisticsmgmt.com/2011topstory8



9. YRCW completes \$500 million restructuring plan

Former LTL market share leader aims to get back on track with new CEO and fresh capital to end a five-year slump during which time it lost more than \$2.5 billion. **Full text at:**

logisticsmgmt.com/2011topstory9

10. Intermodal continues to post impressive gains

While various modes of freight transportation appear to have "leveled off" with the economy in a holding pattern, intermodal continues to star at a time when shippers are looking for cost-efficient and effective shipping services. **Full text at:**

logisticsmgmt.com/2011topstory10



11. USPS ends fiscal year 2011 down \$5.1 billion

Financial issues for the United States Postal Service (USPS) remain front and center, but its Shipping Services shows annual gains. **Full text at:**

logisticsmgmt.com/2011topstory11





Pricing outside the box

FACED WITH A TIGHT DOMESTIC transport market that includes labor and fuel pressure on carriers, shippers are inclined to leverage volume and go for extensions of past rate agreements. I would like to encourage shippers to start thinking outside the box.

There are opportunities for carriers to optimize for improved margins without blunt-force price increases. In the meantime, shippers need to be actively helping carriers improve operating ratios.

To make this happen, there are three questions that carriers need to ask themselves about each shipper:

1) Where is the variable cost level and at what point am I not even covering my variable or out of pocket cost?

2) What is my breakeven point from a contribution standpoint? This is where the carrier is getting some contribution from an account, but not enough based on the volume of business to cover fixed cost and overhead.

3) At what point do I know I have covered my variable and fixed cost and I am making money on an account?

These questions look at each account holistically and factor in some bad lanes and some goods lanes for each shipper. Carriers then tend to make across-the-board price increases attractive as a simple solution to a customer's profitability using averages for risks.

Another smaller set of questions focuses on the details that make each transaction a "contributor" or a "loss" for the carrier. Elements of the carrier's cost were captured in the recently conducted *2011 Transportation Payment Benchmark Study*. The

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study states that the majority of shippers (59 percent) experience at least a 5 percent error rate in carrier billings.

These errors are not all carrier errors. The study found that descriptions, service needs, or weights are often the cause of error. Improving accuracy in manual and digital descriptions would certainly help carriers, while aligning TMS rating engines through shared or mirrored rate tables would reduce mistakes in calculations.

This same report indicates that carriers spend over \$10 generating and collecting invoices 40 percent of the time. Further, 60 percent

of invoices take more than one day to generate. These numbers are high, so I would suggest you take a look under the hood of your carrier's operations and your own accounts payable departments. If you are not automatically and electronically settling with carriers, then you need to look into doing so. This might mean a change in internal processes or



even going with a new carrier.

Again, shippers need to examine whether the business they're giving their carriers has lanes that have no capacity or lanes that just aren't profitable. Focus on fixing the exceptions to improve margins and help the carrier hold down rates while increasing profit margins.

Thinking outside the box means engaging in a dialog about the elements of the shipper/carrier contract that are having a negative effect on carrier margins. The carrier is under real pressure in labor costs, equipment, and fuel. Creative and collaborative leaders are investing time and effort in beating the inflationary cost curve with strategies outside the traditional contract box. □



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Pearson on



The dynamic supply chain: Bridge over troubled waters

FROM A BUSINESS STANDPOINT, the first 10 years of the 21st Century have been anything but normal. Economic turmoil is almost constant, currency valuations shift with the wind, and bank lending vacillates between lenient and tight fisted.

What many people are saying, in fact, is that this state of volatility may actually be permanent: a “new normal” characterized by abnormal business conditions.

According to a recent Accenture survey, executives are acutely aware—and quite concerned—about this apparently ceaseless state of sudden changes and rapidly shifting paradigms. Seventy percent of more than 3,000 decision makers we polled expressed dissatisfaction with their company’s ability to predict future performance.

And more than 80 percent said that they are worried about the resilience of their supply chains—specifically the ability to adapt operationally to rapid changes in products, markets, and currencies.

The impact of a new normal on companies’ supply chains is potentially huge. But what sort of changes should companies consider as a result? In our view, one of the best solutions is reinventing the supply chain as an adaptable, malleable ecosystem of processes, people, capital assets, technology, and data.

In other words, what you want in this volatile age is supply chain capabilities that:

- Help anticipate, identify, and mitigate risk.
- Respond quickly and decisively to sudden market and product shifts.
- Make it easy to rebalance supply/demand behaviors based on changing conditions and customer needs.
- Contribute to competitive advantage and

profitability by leveraging hard-to-replicate process-management skills.

- Adopt the right level of flexibility for every link in the supply chain based on an often-shifting value proposition for each customer, product, and geographical segment.

Simply put, the “dynamic supply chain” we’re proposing facilitates maneuverability in unpredictable markets. This may sound like something companies have always wanted, but the reality is that few organizations have achieved true supply chain dynamism. They’ve made tremendous progress, but the emerging state of permanent volatility demands more.

One of the best solutions is reinventing the supply chain as an adaptable, malleable ecosystem of processes, people, capital assets, technology, and data.

DOING MORE

No two dynamic supply chains will be precisely alike, even among industries, geographies, or business units within the same company. There is a common trait, however: speed to outcome within each functional domain. There are also at least five largely universal components of any dynamic supply chain.

An adaptive operating model. This is a living, breathing design geared to ensuring that supply chains align fully with growth and innovation strategies and embrace processes and systems that help companies rapidly scale or shutter operations based on short-notice demand signals.

New skills in risk anticipation and mitigation. “Speed of response” is a critical characteristic of dynamic supply chains, and one way to get it is with advanced risk prediction and identification capabilities. Unfortunately, only 11 percent of the aforementioned survey respon-

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dents actively manage supply chain risk and only 18 percent have formal supply chain risk management systems in place.

Enhanced visibility and information acquisition. Maximizing responsiveness and adaptability means you excel at gathering, analyzing, and applying information contributed by each link in the supply chain. Leveraging visibility and marshaling better information can also mean integrating your supply chain systems with pricing, promotion, sales, and marketing applications.

Executional excellence. Companies focused on the development of dynamic supply chains don't overlook the importance of investing in core business processes.

Supply chain sophistication and professionalism. It's essential that the organization as a whole understand all components of a dynamic supply chain strategy, and this means developing superior supply chain skills and ensuring that the entire company is receptive to new ways of operating.

HOW NECESSARY?

Can a typical company justify the changes needed to create a dynamic supply chain? Most likely, yes, because today's state of permanent volatility can severely impede the logistics operations of most organizations.

Still, there are many questions companies can pose to help determine the intensity of their need. For example, they can question their current level of adaptability. Another evaluation perspective might be to question strategic value. Lastly, companies might view the issue from a growth perspective.

Addressing the above questions won't produce a go/no-go decision, but it could shed more light on the game-changing shifts occurring in the global business community, as well as on a supply chain solution for helping them respond to those changes in a profitable and competitively advantageous way. □

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¹Data as of 11/30/11 ²Fiscal Year 2010 – 2011

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Andreoli on



Oil and fuel developments to watch in 2012

WHEN IT COMES TO THE OIL AND FUEL MARKETS, it's been quite a year. On the supply side, the biggest story was the Middle East and North Africa (MENA) region uprising epitomized by the Libyan revolt that led to the death of Muammar Gaddafi and the shuttering of 1.6 million barrels of daily oil production.

Looking forward, it's possible that much of the lost production will be brought back online in 2012, but it will take time for the infrastructure to be rebuilt and for reservoir pressures to be re-established. Furthermore, there is a chance that some reservoirs were permanently damaged—so only time will tell whether or not Libyan production will reach pre-revolution levels before the end of the year. Doing so will certainly require political stability, and the re-emergence of conflict in Egypt highlights just how tenuous such stability can be.

Perhaps the second biggest supply side story came from the world's third largest oil producing country, the U.S., where the deployment of new extraction technologies (hydraulic fracturing) has permitted the extraction of previously inaccessible shale oil in the Bakken and elsewhere and reversed decades of declining oil production. While shale oil production is not going to win the country energy independence, it's positively impacting oil production rates and prices in the Midwest.

This brings us to the biggest price story of 2011—the divergence of the world's two most prominent benchmark crude oil streams: West Texas Intermediate (WTI) and Brent Blend. Because these two crude streams are very similar in composition (both are relatively light and sweet), the market has historically priced the two streams within just a couple of dollars of one another.

Geographically speaking, however, these two streams are quite literally an ocean apart. The delivery point for WTI is Cushing, Okla., and the delivery point for Brent Blend is the Sullom Voe Terminal located in the Shetland Islands in the North Sea.

Whereas Libyan oil is primarily shipped to, refined, and consumed in Europe, Bakken oil is primarily refined in the Midwest U.S. As a consequence, when

Libyan oil production fell to zero, the European market tightened, and the price for Brent Blend, the European benchmark crude, increased.

Meanwhile, oil from the Bakken (North Dakota) and Canadian oil sands flooded refineries in the Midwest U.S.—which were and are still operating at nearly full capacity. As a consequence, the price differential increased from just two dollars in October 2010 to more than \$28 in October 2011, though it has since dropped to the \$10 to \$12 range.

Such large price differentials provide a strong incentive for physical arbitrage in which “surplus” crude which has been accumulating in Cushing is shipped to Europe. In order to do this efficiently, the pipelines that are currently configured to flow from the Gulf of Mexico to Cushing must be reversed, and this is exactly what pipeline owner, Enbridge, has announced that it plans to do some time in the first half of 2012.

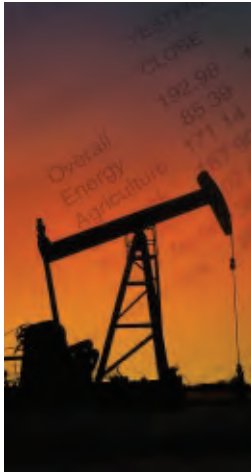
When this happens, the WTI-Brent spread should narrow, with WTI rising and Brent falling. This, in turn, causes U.S. refiners' average acquisition costs to increase, and these costs will inevitably be passed along to consumers.

The second big price story of 2011 was the divergence in the retail price of gasoline and diesel. Between 1992 and June 2006, the spread averaged 1.2 cents per gallon. The spread jumped, however, when ultra-low-sulfur diesel regulations were introduced in June 2006.

At this point, many refineries had yet to put in place capacity to remove sulfur, and since they were no longer allowed by law to sell medium and high sulfur distillates to U.S. retailers, diesel exports quickly rose to 20 percent of refinery output. Rising exports caused the U.S. diesel market to tighten significantly and the price for diesel began to diverge from the price of gasoline.

In the second week of December (the last available data point) diesel exports reached an all-time high above the 11 million barrels per day barrier. The U.S. is now exporting 22 percent of domestically produced diesel. Foreign consumers are increasingly outcompeting U.S. consumers.

Foreign competition and rising diesel exports explain why diesel prices remain stubbornly high, but do little to explain why gasoline prices have been falling. In large



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part the answer to this riddle is found in rising production of corn-based ethanol, which can be blended with gasoline, but not with diesel. Over the last ten years, ethanol production has grown at a compound annual rate of 26 percent. Currently, ethanol production amounts to 823,000 barrels per day or roughly 9 percent of refinery output of gasoline.

As a consequence of rising diesel exports and ethanol production, the diesel-gasoline spread reached an estimated \$0.67 per gallon in December 2011. The monthly spread has only been higher twice before (the last two months of 2008), and there is little reason to believe that the forces underlying this gap will change significantly in 2012.

THE YEAR AHEAD

I'm fond of saying that while hindsight may be 20/20, foresight is rarely better than 50/50, and I urge you to take any and all oil/fuel forecasts with a grain of salt. But as Louie Pasteur said, "luck favors the prepared," and being prepared requires the evaluation of likely scenarios.

The most important determinant of oil and fuel prices is spare oil production capacity. Historically, when spare production capacity is declining rapidly or when it dips below 1.5 percent of total world liquid fuels production, both prices and price volatility rise significantly. Consequently, forecasting spare production capacity is the single most important metric for evaluating future oil price scenarios.

Unless the world economy remains in the dumps or oil producers significantly outperform expectations, oil markets are likely to tighten and prices are likely to remain high and volatile. Here in the U.S., oil prices will likely be pushed upward as the physical arbitrage pulls the WTI price up towards the Brent Blend price, and diesel prices are likely to remain high one way or the other because U.S. and foreign demand are likely to remain strong.

Of course, Libyan production may climb to as much as a million or more barrels per day, but such gains are tenuous as are oil exports from elsewhere in the MENA region. Of particular interest and concern are the mounting tensions between Iran and the West, which have continued to escalate as a consequence of Iran's nuclear weapons program. The West is seriously considering imposing oil sanctions as a punitive measure, and in turn, Iran has threatened to block the Strait of Hormuz—an act which would cut off much of the exports from Iraq, Kuwait, the UAE, and Saudi Arabia.

Needless to say, an extended closure of the Hormuz would result in skyrocketing prices, possible military intervention, and potentially a global recession.

But Iran's problems are not purely external. Ahmadinejad's gaze is anxiously fixed on their ally, Syria, to see how the rebellion against the Assad regime unfolds. The conflict in Syria is the Arab Spring knocking on Iran's door. Should the protestors force out Assad, oppressed Iranians may find the courage to follow suit. Iran currently exports 2.6 million barrels of oil per day, and the loss of Iranian exports would cause spare capacity to fall to 1.5%.

Between Iran and Syria lies Iraq, a country that could prove to be either a white or black swan in 2012. On the one hand, Iraq has incredible potential. With the adequate investment, production could feasibly increase by 350,000 to 500,000 barrels per day by the end of 2012 and climb to over 5 million barrels per day by the end of the decade. On the other hand, tensions between Kurds in Northern Iraq and Baghdad to the South are frothing, and oil lies at the center of the dispute.

To date, the Iraqi central government has not passed a hydrocarbons law to govern the distribution of oil revenues, but this has not stopped Iraqi Kurds

Supply chain managers will likely be challenged by high and volatile fuel prices, and competitive advantage will be bestowed on those that minimize their exposure to fuel price volatility.

in the North from signing roughly 40 oil contracts with foreign energy firms on a production-sharing basis. Personally, I find it more difficult to imagine a diplomatic solution to this disagreement than a situation in which internal conflict greatly reduces Iraq's oil output potential, but only time will tell.

Like Iraq, Russia could prove to be a black swan in 2012. Russia is the world's leading oil exporter, but the country has been somewhat destabilized by popular revolt against a political system which has been accused of corruption and an electoral process which has been accused of being rigged. If instability causes exports to decline, spare capacity would quickly evaporate to dramatic effect.

In short, 2012 looks to be as interesting if not more interesting than 2011. Supply chain managers will likely be challenged by high and volatile fuel prices, and competitive advantage will be bestowed on those that minimize their exposure to fuel price volatility. □

BD goes big on green

The medical technology giant's new 720,000-square-foot hyper-sustainable DC has ushered in a 9 percent improvement in two-day service times along with subsequent reductions in transportation and facility costs.

BY MAIDA NAPOLITANO, CONTRIBUTING EDITOR

From the sale of its first glass syringe in 1897 for \$2.50, Becton Dickinson and Company (BD) has grown to become a global medical technology powerhouse with sales of over \$7 billion in 2010.

For over a century, BD has stood by its commitment to “helping all people live healthy lives” by innovating, producing, and distributing a broad range of medical devices, equipment, and supplies to its many customers including hospitals and clinics, laboratories, pharmaceutical companies, government agencies, physician’s offices, and pharmacies here and abroad.

In everything it does, this New Jersey-based manufacturer is steadfast in providing the highest standards of excellence—particularly when it comes to its supply chain. In 2011, Gartner Research ranked BD’s supply chain third in its Healthcare Supply Chain’s Top 25, recognizing it as one that achieves “supply chain excellence and supports high-quality patient care at optimal economic cost.”

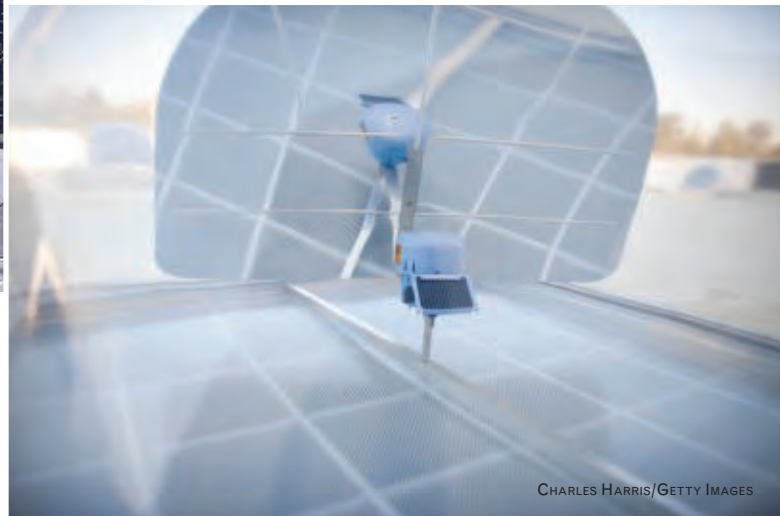
At the core of this supply chain is a three-distribution center (DC) network that primarily supports BD’s Medical segments along with portions of its Diagnostics and Biosciences segments. Last November, to further strengthen this network, the company opened a new 720,000-square-foot facility in Four Oaks, N.C. After only a few months up and

running, the facility has already garnered some significant certifications.

It will be the company’s first Leadership in Energy and Environmental Design (LEED) Gold certified DC—a certification developed by the U.S. Green Building Council to rate a facility’s environmental friendliness. “BD has a real drive for sustainability, and we kept that on the forefront when we planned and designed this new DC,” says Ewald Parolari, senior director for supply chain operations.

Not only is the DC green, but it’s also safe and secure in terms of moving its products around the globe. It was awarded with a Customs-Trade Partnership Against Terrorism (C-TPAT) certification from the U.S. Customs and Border Protection, that ensures a more secure and expeditious supply chain for BD’s employees, its trading partners, and customers. In addition, it successfully completed a TSA certification process that included an onsite assessment of the facility, designating it as a Certified Cargo Screening Facility (CCSF). As such, the facility is certified to do cargo screening in-house so that it’s not subject to a secondary screen at the airport.

And we haven’t even started to describe its state-of-the-art materials handling. With 50 percent of its orders comprised of full pallet picks, the DC uses the latest in lift truck



Left: Skylights use solar-powered GPS technology and mirrors to track the sun and deliver natural light, minimizing the need for conventional lighting for the office area. Top: Partial view of four acres of solar panels, estimated to reduce the site's energy consumption by 20 percent.

technology to transport pallets, while case-pick orders are picked using hands-free voice technology onto pallet jacks.

So, how did they do it? Over the next few pages we'll share how the BD team made this one-of-a-kind DC a reality.

TIME FOR A CHANGE

For years, BD had been shipping products using a three-DC network: a 600,000 square-foot facility in Swedesboro, N.J., that opened in 1991; a conventional 425,000 square-foot facility in Redlands, Calif., that opened in 2002 to handle all Far East shipments; and a 650,000 square-foot mechanized (pick-to-conveyor) facility in Plainfield,

Ind., that opened in 2007.

"The Swedesboro DC was the oldest in our network and basically had a suboptimal configuration," explains Parolari. "With 28-foot clear heights, there's room for only four levels of racking. Because of its limited height, it had a large footprint, causing material handlers to make long runs."

It was also running out of space, closing in on a 85 percent capacity threshold. "We need flexibility," adds Fernando Gonzalez, BD's manager of supply chain process improvements. "We have to be in a position to readily support acquisitions and route new products lines. And due to its age and where it was in its capacity, the Swedes-

boro DC would not have been able to adequately support that."

But what pulled the trigger on the Four Oaks facility was the fact that the Swedesboro DC's lease was about to expire. Instead of simply extending the lease, the team wanted to take a good hard look at the current network configuration in a detailed study and determine the best option moving forward.

LOCATION, LOCATION, LOCATION

In July 2008, the team began exploring multiple network scenarios. Over nine months, the network model was run with different candidate sites ranging from New Jersey to North Carolina. In the end, the study reinforced



“The cost to go green was about 8 percent of the total capital invested.”

—Fernando Gonzalez, manager of supply chain process improvements

the three-DC network solution with a recommendation to close the Swedesboro facility and open a new East Coast DC in either North Carolina or Virginia.

A total of eight sites in the North Carolina and Virginia areas were investigated. “Because of considerable exports to Europe, we needed to have the DC close to a major port,” says Parolari. Quick accessibility to a major thoroughfare was also a critical requirement, along with reasonable real estate costs, as the new DC would need a substantial tract of land to allow for future expansion.

In early 2010, the team decided to build a new facility in a new industrial park in Four Oaks, N.C. Why a new DC in a new industrial park? “We had very specific requirements with regards to the size of the DC—ceiling heights, column spacing and building layout—along with specific temperature control requirements. In the areas where we concentrated our search, there was no available existing real estate or spec buildings that would have addressed all of these requirements,” responds Parolari.

Just to be sure that Four Oaks would be the current and the best solution, the team re-examined the network study in March 2010 using the latest sales and cost information. The second study simply re-affirmed its plan and BD broke ground in October 2010.

According to Gonzalez, installation of the new facility went flawlessly—by keeping a close eye on a 1,500-line project plan and by nipping issues in the bud before they escalated. “The pallet racks had the longest lead time,” says Gonzalez. “You’re looking at 90,000 pal-

lets worth of racking—that’s 10 million pounds of steel. We spent a lot of time upfront coordinating with the vendor to map out their timeline.” By November

Fast facts on BD’s East Coast DC

Location: Four Oaks, North Carolina

Size: 720,000 square feet

Products handled: medical devices, supplies, instruments, laboratory equipment, and diagnostic products

SKUs: about 2,600

Throughput: 100,000 units per day (full capacity)

Shifts/Day: 2

System suppliers

Lift Trucks: Crown

Pallet Rack: Frazier

Stretch Wrapper: Beumer

Conveyor: Intelligated

Battery Changing System: Energys

Rack Labeling: DataPower

3PL Provider/WMS: Genco ATC

Voice Technology: Vocollect

2011, BD began shipping product from the Four Oaks DC.

HOW IT WORKS

Operations within the DC are fairly conventional and are run by BD’s third party logistics partner Genco ATC. Most of the product is lot controlled with both FEFO (first-expiry, first-out) and FIFO (first-in, first-out) requirements. At receiving, inbound items are checked for accuracy and damage before being put away into racks that are six levels—or more—high within a 38-foot clear building.

“We use the latest reach trucks from Crown equipped with regenerative masts. As you’re bringing down a pallet from the rack, it’s reenergizing the lift truck’s battery,” explains Kevin Booth, BD’s director of distribution and North America transportation operations. According to Crown, this feature supports fewer battery changes, more productivity, and 12 percent more run-time for improved energy utilization. With a swipe of an operator’s key card, driver-specific requirements can also be



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programmed to the truck. For quicker putaways and retrievals, drivers select specific rack height options that automatically position the forks to the correct height.

Full cases are picked and put onto single and double pallet jacks using voice technology by Vocollect. Completed orders are then transported to two state-of-the-art hooded Beumer wrappers. "This automatic wrapper uses a plastic film that encloses the entire pallet, so it's very secure. In fact, we've seen a decrease in damages, shortages, and missing product," says Booth.

PUSHING GREEN

Not only is the Four Oaks DC operationally high-tech, but it's also designed to reduce its environmental footprint. "The challenge was funding these design elements while still maintaining our budget and timeline," says Gonzalez. "We involved our financial team early in the design process and worked closely with them to define and then obtain the appropriate level of funding for the project."

"The cost to go green was about 8 percent of the total capital invested," adds Gonzalez.

One of the most notable sustainability initiatives is the installation of four acres of solar panels on a roof that spans 15 football fields—that's right, 15. An online dashboard can monitor the electricity generated along with onsite weather conditions. This roof-mounted photovoltaic system reduces the site's energy consumption by an estimated 20 percent.

In the main office area, the use of skylights with GPS technology and mirrors that track the sun bring high levels of natural light. Most times, the main office area operates without the need for conventional lights.

In the warehouse, all interior lights, except on the dock and main equipment aisle, are on motion sensors to reduce energy use. Exterior lights in the parking and trailer lots are also on photo sensors, reducing light pollution.

Employees with fuel-efficient vehicles are rewarded with the closest parking spots at the front of the main entrance. The facility also encourages

On securing the C-TPAT Tier III certification for the Four Oaks DC...



◀ **Kevin Booth**, *BD's director of distribution and North America transportation operations*

LM: What motivated the team to get this security clearance and certification for this facility?

Kevin Booth: The reason we sought C-TPAT certification was part of BD's commitment to supply chain security and to simply doing what is right. BD is committed to driving continuous improvement in supply chain security processes and improving site security for all BD facilities.

By participating in the C-TPAT program, BD is subject to validations of supply chain security processes by US Customs and Border Protection on a periodic basis.

As a company, BD is committed to maintaining supply chain and site security so that we can therefore provide adequate security to our associates, assets, and products and so that we can remain in compliance with our C-TPAT Tier III status. Tier III is the highest tier that can be attained by companies that participate in the program and demonstrates BD's adherence to developing and implementing "best practices" in supply chain security processes.

BD Corporate Security requires all BD sites worldwide to maintain compliance with internal reviews, audits and updates to maintain this certification.

LM: What specific properties of BD's DC makes it C-TPAT certified?

Booth: To secure our C-TPAT certification, we demonstrated a comprehensive supply chain security program using the C-TPAT security guidelines and a commitment to continuous improvement of global supply chain security. Those guidelines address Procedural Security, Physical Security, Personnel Security, Education and Training, and Access Controls.

LM: What are the benefits of this certification?

Booth:

- Improve predictability in moving goods and services across borders.
- Lower exam rate for imported products and goods.
- Participation in other countries' Customs programs is dependent upon certification in C-TPAT.
- Mutual recognition with security programs in other countries

BD has C-TPAT programs around the world; all work in conjunction with similar programs in New Zealand, Canada, Japan, Mexico, Ireland, and Singapore.

alternate transportation, such as bicycling, by offering a bicycle storage rack next to the employee entrance, as well as changing/shower rooms.

IT'S PAYING OFF

BD's newer, greener, more efficient network is expected to reap many benefits. There's already an estimated 9 percent improvement in two-day service times to customers and subsequent reductions in transportation and facility costs.

"By moving the East Coast DC a little further south, we're also able to move some states currently serviced by our Plainfield DC to the Four Oaks DC, increasing Plainfield's capacity," adds Booth.

So what's BD's secret to success? "Keep executive leadership updated so that there are no surprises," advises Parolari. "We got quick approval for the capital from our leadership because we kept them in the loop the entire time." □



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While analysts say rates across the board are forecast to be fairly level compared to what shippers have seen over the past two years, they add that there are a number of unanswered economic and regulatory questions that could greatly affect rates if suddenly resolved.

BY PATRICK BURNSON, EXECUTIVE EDITOR

Rates went up in 2011, just as our analysts predicted, but they didn't skyrocket. With the exception of the parcel market, it appears that it will be more of the same in 2012, with rates leveling off in balance with inflation. In the meantime, it appears that shippers have come to terms with the need for modest rate increases—if that's what it takes to keep carriers from withdrawing capacity.

According to analyst consensus, trucking, rail, and intermodal rates are forecasted to inch up by 2 percent to 3 percent over the course of 2012. Ocean and air cargo providers are seeking similar improvement, but will encourage shippers to sign long-term contracts designed to give carriers sustainable returns to cover their capital investments. The biggest rate jump, say our analysts, has already been announced by parcel shipping players—and shippers say they're ready to live with at least a 5 percent hike when going express air and ground.

Fortunately, much of the speculation voiced by transportation rate specialists suggests that shippers are already preparing for contract negotiations to get underway in the coming weeks.

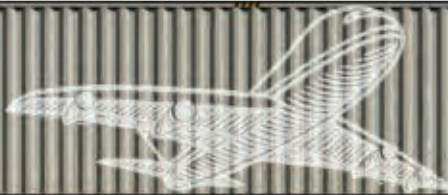
MACROECONOMIC IMPACT

When shippers do sit down with their transportation providers, the talk is surely to center around the global economic pressures both sides will face in 2012. In its most recent survey, the National Association for Business Economics (NABE) cut its projections for economic growth for 2012 compared with their projections made just last May.

"Our panel expects real GDP to grow at a modest pace of 2.3 percent in 2012," says NABE president-elect Gene Huang, chief economist at FedEx Corp. "Factors supporting growth include accommodative monetary policy, growth in the rest of the world, business investment spending, and pent-up consumer demand."

According to Huang, a wide variety of factors were seen as restraining growth late last year, including low consumer and business confidence, uncertainty about future economic policies, a tepid housing market, and financial headwinds caused by tight credit conditions and balance sheet restructuring. Huang adds that panelists are very concerned about high unemployment, federal deficits, and the European sovereign debt crisis.

Furthermore, inventory shortages of popular products



in the past few years had a profound impact on the freight rate structure confronting shippers now, says Ellen Davis, vice president of the National Retail Federation.

“Inventory levels were still very lean in 2011,” she says, and this had an impact on the availability of top products. But she adds that “retailers have done an incredible job of streamlining their supply chains to ensure that they’re maximizing regional or local markets that may be performing particularly well.”

Also on the inventory front, retailers were able to place holiday orders later this year for shipping—enabling them to get a better sense of consumer sentiment closer to the holiday season before making a commitment on how much merchandise to buy. “Having time on their side from a shipping standpoint was a crucial factor in helping retailers protect their profits and manage inventory,” says Davis.

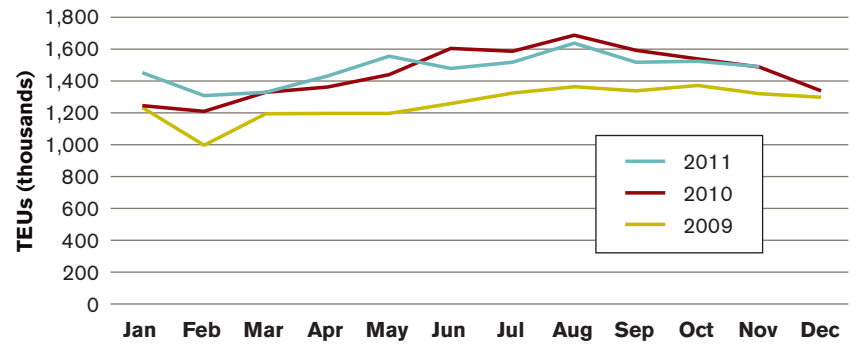
Meanwhile, the single-family housing market—a key indicator for anticipated transportation rate hikes—remains stuck at the bottom. The multi-family market is slowly coming back to life, however. IHS Global Insight U.S. Economist Patrick Newport says he’s expecting a small improvement in the overall numbers for 2012.

“Last year will be the worst year on record for the single-family housing market,” he says. “New home sales, single-family housing starts and single-family permits will all set record lows in 2011 nationally and within all four regions of the country. Existing home sales may also drop into the cellar nationally. These rankings do not adjust for population growth. If they did, conditions would look even worse.”

OIL & FUEL: RISING VOLATILITY

In our 2011 Rate Outlook, Derik Andreoli, Ph.D.c., senior analyst at Mercator International LLC and *Logistics Management’s* popular Oil & Fuel columnist, correctly predicted that oil supplies would be tight, and fuel prices were going to be high and volatile. Fast forward 12 months and his message sounds strikingly familiar. In fact, Andreoli is expecting even

U.S. imports in twenty-foot equivalent units (TEUs)



Source: Zepol

more tightening of the global oil market in 2012 along with increased price volatility.

“My current analysis of global supply and demand leads me to the conclusion that spare production capacity—a primary price determinant—will most likely dip below 2 percent and perhaps fall below 1.5 percent by the end of 2012,” he says.

There are, in fact, only two scenarios where this will not be the case, Andreoli argues. In the first scenario, the economies of developed markets remain in a state of recession or “anemic” growth, while growth of emerging economies slows markedly. In the second scenario, the economies of the world grow and decline at rates predicted by the International Monetary Fund, and global oil production outperforms expectations. In all other scenarios, a supply crunch will likely emerge before the end of 2012.

“Additionally, geopolitical risks to the production and transportation of crude and refined products remains high,” says Andreoli. “This will be increasingly important because when spare oil production capacity is low, the price impacts of even small supply disruptions, like those that occur on a regular basis in Nigeria, are high.”

Here in the U.S., Andreoli is forecasting that diesel prices will spike over the course of 2012. “Overall, I see rising prices and rising price volatility across the nation,” he says. “If this prediction turns out to be wrong, it will be because





the economies of the world have dipped back toward slow growth or outright recession...and even then prices could remain high."

TRUCKING: QUESTIONS ABOUND

Trucking industry analysts are saying that despite the sluggish growth of the overall economy, truckers remain optimistic after weathering the storm.

Noel Perry, a transportation economist and senior consultant with FTR Associates, predicts "sustained growth" in trucking freight demand for this decade and 2.6 percent in full year growth in truckload freight for 2012.

Perry says that a slow growth recovery is actually beneficial for trucking, which has had a difficult time attracting added capacity in the wake of greater scrutiny of unsafe drivers, demographics, greater regulations, and a 35 percent increase in the price of Class 8 trucks in the past five years.

"Truck driver hiring remains weak despite stronger carrier financial gains this year," he says. "Some 95 percent of the nation's 3 million long-haul truck drivers are white males, and demographics are working against the industry due to an aging workforce. Also, driver pay increases have lagged behind inflation rates, making driver recruitment harder."

Stifel Nicolaus analyst John Larkin says that there are a great many questions that remain unanswered for both less-than-truckload and full truckload industries: "For example, how will the government determine what hours of

service rules revision will ultimately contain? When will the electronic on-board recorder mandate be re-written and re-issued? Will medical fitness tests ultimately disqualify the shrinking pool of CSA compliant drivers?"

Any sudden shifts, resolutions, or answers to these questions, says Larkin, could push any early rate forecasts off the mark considerably. For the time being, however, both analysts see a very slight spike in pricing ahead.

RAIL/INTERMODAL: MEASURED GROWTH

While Larkin agrees with Perry that rates will continue to inch higher this year for truck shipments, he notes that intermodal continues to gain traction with shippers seeking alternatives to pure trucking movements. From both a fuel savings perspective and as a way to "dwell" inventory, he says this may make a lot of sense.

"With Norfolk Southern and CSX



both investing in numerous corridor development projects, we expect some truck traffic to shift to intermodal in the East," he says.

Indeed, officials for the American Association of Railroads (AAR) observe that the containerization of U.S. rail intermodal service continues its upward trend. Just this past fall, containers accounted for more than 80 percent of U.S. rail volume, representing a new high for dual-mode transport.

High volume of intermodal containers means a shift to higher rates, says Brooks Bentz, a partner at Accenture's supply chain management practice. But Bentz adds that rail rate increases, will not be "large" ones. "My bet is that the average will not exceed 3 percent to 5 percent, with some exceptions on specific cases," he says.

Which raises the question: Why are some rail segments more expensive than others? Many prominent shippers are expecting some change in supply chain strategies. Peter Gatti, executive vice president of the National Industrial Transportation League, says that an investigation of rail rate collusion is long overdue.

"Our constituents are being told that the railroads are losing money, but their quarterly reports to shareholders tell a different story." With that said, where will rates go in 2012? "A lot of that depends on what the U.S. Surface Transportation Board decides to say about 'captive shippers' and competitive pricing," adds Gatti.

AIR CARGO: LONG TERM GAINS

According to Jim Edgar, regional director of cargo marketing for Boeing, air cargo traffic will triple over the next 20 years and cargo rates should mirror demand during this time period.

"From now through 2029, we expect world air cargo traffic to grow at an annual rate of 5.9 percent," says Edgar. "And Asia will continue to be at the forefront of the air cargo industry. Routes associated with Asia will continue to experience the world's highest growth rates over the next 20 years, at 6.8 percent."

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cargo rate integrity is the demand for warehousing space around major U.S. airports. In fact, Jones Lang LaSalle's third annual *Port, Airport and Global Infrastructure (PAGI) Report* suggests that it "has ramped up."

This year the PAGI report features the first Airport Real Estate Index that measures the nation's top 12 airports against criteria including cargo volumes, infrastructure plans, and real estate conditions. "The Index is an indicator of how well the real estate markets around top U.S. airports are performing," says John Carver, head of the PAGI group at Jones Lang LaSalle.

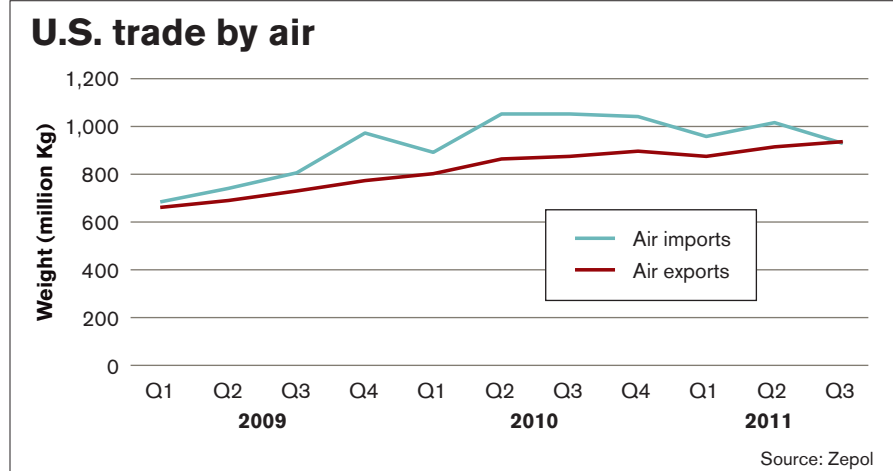
According to Carver, markets such as LAX and New York JFK have held strong with low vacancy rates owing to high demand and a lack of new construction. "Whereas airport submarkets that saw a rise in new development before the recession, such as Dallas-Fort Worth and Miami, suffered higher vacancy rates during the recession and are taking longer to recover," he says.

Due to this date, should shippers expect a bump in rates?

"Absolutely," says Carver. "But not a significant one. Given that airlines and stakeholders are investing heavily in infrastructure, there is every reason to expect some sort of pricing adjustment."

OCEAN: RATES FAVORABLE

With the ongoing emphasis placed on U.S. exports and the restoration of a sustainable trade balance, it comes as little surprise that agricultural shippers are at the center of this effort. Emerging markets, after all, are the



ones clamoring most for high-end food and beverage commodities and getting those goods to market has been an ongoing challenge.

According to the Agriculture Transportation Coalition (AgTC), ocean shippers have been concerned about the sudden drop in Transpacific vessel capacity, and the rate manipulation of the carrier cartels.



However, freight rates have been "favorable" according to a recent members poll. Of those responding, 52 percent say that they expect rates to go up "a little" over the next three months, while 10 percent believe that rates will go up "substantially." A third of the respondents report that they expect freight rates to remain flat, and only 5 percent say they expect rates to go down "a little."

"Given the fact that AgTC members control approximately 1.4 million TEUs a year, we can use a certain amount

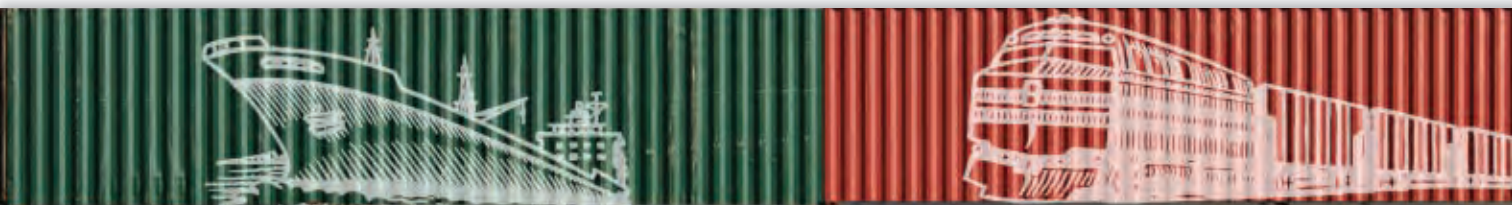
of leverage," says Peter Friedmann, the coalition's executive director. "But at the same time, we have observed a whole new attitude when it comes to service and shipper concerns."

This suggests that shippers may give in on rates—if only slightly—to secure capacity on the inbound side as well. According to Peter Sand, chief shipping analyst for The Baltic and International Maritime Council in Copenhagen (BIMCO), inflow of new tonnage in 2012 has created downward pressure on freight rates, asset values, and earnings, basically affecting all participants in the shipping industry.

"The supply/demand ratio must be balanced somehow," says Sand. "Handling this with care is a condition for bringing back profitability to ship owners, at least in the short term."

PARCEL: GOING UP

Finally, when it comes to forecasting parcel rates in 2012, all the heavy lifting has been done say our analysts. Both FedEx and UPS let shippers know late last year just what their plans would be.



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FedEx has already reported that it will increase non-contractual rates for certain services, effective immediately this month; while FedEx Ground and FedEx Home delivery rates will increase

by a net average of 4.9 percent.

This announcement closely followed that of rival UPS, which told shippers 2012 rates comprise a net increase of 4.9 percent for UPS ground packages

and a net increase of 4.9 percent on all UPS air services and U.S. origin international shipments.

"This is good news for UPS and FedEx investors, bad news for shippers," says Rob Martinez, CEO of parcel auditing and consulting firm Shipware LLC. "Furthermore, increases are likely to stick due to lack of shipper alternatives, complexity of the pricing structure and carrier discipline."

Jerry Hempstead, president of Hempstead Consulting, a parcel consultancy,

"Be aware that carriers can change the rate rules at any time. Therefore, look for protection clauses that can be included in a contract before you sign it."

—*Jerry Hempstead, president of parcel consultancy Hempstead Consulting*

says there is still an upside for shippers, however. "As long as the carriers don't change the rules tariff, then shippers are looking at cost increases similar to prior year announcements. Not that this is a good thing, but it's the reality of dealing with a marketplace dominated by two carriers here in this country."

According to Hempstead, the announced 2012 rate increase for ground shipments is based on a 5.9 percent increase in the base rate, less a 1 percentage point reduction to the indexed ground fuel surcharge. "My gut tells me that the carriers might expect the shipment count to go up next year as the economy improves. If the economy does not pick up then I don't expect another tariff increase—but the carriers could make rules changes," he says.

Hempstead's advice for parcel players might be well applied by shippers in general: "Be aware that carriers can change the rate rules at any time," he says. "Therefore, look for protection clauses that can be included in a contract before you sign it." □

Patrick Burnson is Executive Editor of Logistics Management



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2012 PARCEL EXPRESS ROUNDTABLE

Are regional entrants storming the gates?

Our distinguished panel tells shippers to expect to pay more for parcel services, be on the lookout for competition among existing carriers, and keep your eyes open for new regional entrants.

BY JEFF BERMAN, GROUP NEWS EDITOR

Despite the stop and start nature of the economy, parcel market activity—on both the express and ground side—is actually flourishing. While volume growth has been slight, parcel carriers are taking this opportunity to adjust and invest in service offerings to best meet shipper needs.

At the same time, the duopoly of industry bellwethers UPS and FedEx continues to dominate the market to a large degree. However, this year's panel of parcel market analysts tells us that there are opportunities for regional entities and niche providers to make inroads—and offer new services that could eventually put pricing pressure on the “big two.”

Joining us to put this dynamic market into perspective are Jerry Hempstead, president of Hempstead Consulting; Doug Kahl, principal of Integrity Logistics Consulting Group and executive consultant at TranzAct Technologies; Rob Martinez, president and CEO of Shipware LLC; and David Ross, transportation and logistics director at Stifel Nicolaus.

Our distinguished panel offers shippers their views on parcel market trends, pricing, and the state of the United States Postal Service in this wide-ranging discussion. Heading into 2012, they're telling shippers to expect to pay more for parcel services, be on the lookout for competition among existing carriers, and keep your eyes open for potential new regional entrants.

Logistics Management (LM): *Since the beginning of 2011, how would you describe the parcel marketplace?*

David Ross: We've seen rational competition with rising prices, but steady service levels. In fact, I think things are now better than a year ago, as UPS, FedEx, the USPS, and the regional carriers continue to invest in services and technology.

Jerry Hempstead: This year has been at all time high for service levels for all the major players. If anything, FedEx ground has been pushing the envelope and rapidly expanding its footprint and tightening its service commitments. UPS has been forced to reexamine its service in order to be competitive on the ground; and the USPS has vastly improved its package tracking that will further improve next year with some enhancements they're adding.

Doug Kahl: I agree with Jerry. If you consider the two primary providers, FedEx and UPS, then the condition would be described as “good”—especially with the recent announcements of profitability and predictions of record holiday volume. But if you consider the dire financial condition of the USPS, it's not as rosy. We see the regional carriers gaining traction and other options from consolidators that could lead to some optimism for having additional service choices.

Rob Martinez: I would say that it depends on your perspective. If you're UPS or FedEx things are better now. Take a look at recent quarterly earnings report for UPS. While volumes have been flat, revenues are up 8 percent. The result, of course, is a lack of U.S. competition and aggressive yield management. If you're a shipper, things are certainly not better off than a year ago since pricing is tighter today and fuel surcharges are higher.

LM: *How would you describe the current rate and pricing environment for parcel shippers?*

Martinez: Pricing is as rational—tight—as I've ever seen it. Both big carriers have been very forthcoming that the past two years have been all about margin improvement. Now that we're down to only two major express parcel delivery companies in the U.S., each January we're consistently seeing the



DANIEL VASCONCELLOS

most severe rate increases in my 22 years in the industry. Not only have published list rates gone up significantly, so too have accessorial and dimensional charges.

We're seeing carriers make subtle changes to contract language resulting in enormous increases. For example, in 2011 UPS developed a new set of published rates for the first time called "standard." Standard rates are 6 percent to 30 percent higher than historical "daily" rates for air services, and it's very likely that many shippers will see their UPS contracts go from daily to standard rates.

Hempstead: The marketplace is at the mercy of a pricing duopoly. UPS controls ground pricing, and FedEx controls where air pricing goes. Each looks to the other to announce the "good news" for the following year. Neither is interested in trying to enter into a price war to gain the other carriers' accounts with lower prices and logically lower yields.

Kahl: Actually, every year you read about how the rate increases are historic, unprecedented, excessive, and so on. When I look at the analysis, I see a consistent, measured action being taken. You have to do a deep dive into the rates by service level, zone, and weight to understand how much or how little the pricing will change on your book of business.

LM: *Where do you see rates going in 2012 and why?*

Kahl: Any way you cut it, rates are going up. Shipper's need to compare their service level, zone, and weight distribution pattern to the actual new rates to identify the real impact the 2012 increase will have on their cost.

Hempstead: Costs to send a parcel increased significantly for shippers in 2011. There's just no way of getting around it in 2012. There were two significant changes. First, the minimum

charge went up far more for ground than the percentage announced as the general rate increase. The second has to do with the way dimensional weight is determined. Many shippers were caught off guard with that rule modification and failed to appreciate the magnitude that change was going to make on their shipping budgets. Most likely it's the largest cost increase for shippers in our lifetime.

LM: *How are market conditions affecting service and vice-versa? What role is the slow-to-recover economy playing?*

Martinez: Air and ground service performance has been strong. Over the past two years, both carriers have improved ground transit times by a day for hundreds of ZIP code pairings. The rationalization of transportation networks that came out of the financial challenges of 2009 has since been

rescinded, and carriers continue to make investments in their networks and expand infrastructure.

Ross: Market conditions are not affecting service levels. The slow-to-recover economy just allows the parcel carriers to adjust their networks slowly to changing demand levels. Interestingly, service disruptions would most likely take place if economic activity were to surge unexpectedly.

Hempstead: If you look at the sum total of packages available for the first nine months of this year among the big players, there's just no real organic growth to crow about. In the absence of organic growth, the carriers can do what they can to take costs out of their operations without compromising service—but the real net profit improvement has been from price increases.

LM: *It's no secret that the USPS is "on the ropes" financially. What are the possible changes for the USPS that could affect shippers?*

Kahl: While I don't foresee a "shut down" of the USPS, I do predict higher prices for its customers. On November 8, 2011, the USPS informed the Postal Regulatory Commission its intention to seek an exigent postal rate increase above the CPI-linked price cap—one of several life preservers I believe the agency will be tossed. If UPS and FedEx can raise rates 4.9 percent to 5.9 percent every year, the USPS should be allowed to set market-driven increases as well.

Ross: The USPS is losing billions of dollars, but the bulk of these losses stem from an unusual pre-funding of retiree benefits for workers who have not yet even been hired by the USPS. Also, the organization's inability to appropriately size its business is causing the remainder of the financial strain. The U.S. government will not let the USPS become insolvent; so, while its current bottom line leads to the "on the ropes" characterization, it should also lead to some governmental action to allow the USPS to remain a viable part of the parcel industry.

Hempstead: Doug and David are both right on. Keep in mind that the USPS is a minor player in the grand scheme of things. Its most viable niche is the last mile delivery they do for

FedEx Smartpost and for UPS Sure Post. There're some other players in the parcel consolidation space, but the sum of them pales by comparison to the two big consolidators. Parcel for the USPS is less than 15 percent of its operating revenue.

LM: *What advice do you have for parcel shippers in the coming year?*

Martinez: Meet frequently with your carrier reps, challenge your carriers with ongoing rate improvement initiatives and zone skipping opportunities, and addend your pricing agreement as needed. Also take the time to develop a valuable relationship with your current carrier, but be sure to invite the non-incumbent carrier to participate in annual bids. Finally, explore using market experts if you think you might need help with contract negotiation, and take advantage of their complimentary benchmarking and market assessment.

Hempstead: First, stay informed. There are tools that will allow a shipper to determine the impact the announcement of the new rates will have on your particular book of business. The announcement of an "average" increase is a meaningless piece of information for any particular shipper. Second, don't be shy in putting your book of business out to bid. Carriers don't have a "right" to your business, they have an obligation to honor their contract with you—but you have a right to price your business to get your optimum combination of cost and service.

Ross: If shippers want to avoid paying more, pay attention to modal selection and make sure they're not paying for more than they need, especially for regional shipments. ground can be a great value, as UPS and FedEx have significantly improved service levels and transit times over the past several years. For example, a ground shipment from Baltimore to New York City will get there the next day, as will the air express shipment—just at a dramatically lower cost.

Kahl: Know and understand your distribution pattern and have complete and accurate visibility to all the components that make up the total cost of shipping. That means converting from paper data formats to electronic—that's critical. Given last year's dimensional calculation changes, shippers also

need to pay closer attention to how they package their product. Also, the UPS-Teamsters contract comes up in 2013 so keep your eyes and ears open to information from both sides as they begin that negotiation.

LM: *How much different could the parcel landscape be in five years?*

Ross: We don't see it being much different. B2C parcels will continue to grow faster than B2B shipments, as consumers order more online and collaborations between the big two and the USPS should continue delivering more of the B2C shipments.

Martinez: Hopefully, there will be greater competition in the U.S. market in five years. I would love to see the USPS fix some of service differences with UPS and FedEx to become a true third carrier option. Long-term parcel shipping trends—like the rise in residential deliveries as well as packages getting "lighter" and more regional—favor the USPS. In addition, it would be terrific to see growth in the regional carrier market to keep FedEx and UPS honest.

Hempstead: The big change in parcel has been the globalization of inventory placement. Many major corporations have already figured out how to keep inventory in places like China and using Chinese labor to pull, pack, and ship fulfillment orders. Then they can use consolidation into the U.S. and get the parcels into one of the U.S. networks like UPS, FedEx, and USPS. It's not going to be a surprise to see international volumes grow far greater over the next five years than domestic.

Kahl: The USPS financial situation will need to be dealt with, if not this year then certainly within the next five years. But anticipate that a regional carrier network will continue to gain traction in the market as shippers look for alternatives. I don't think people realize how much more expensive it's going to be to operate a carrier through the increased regulations of the current administration, ongoing security compliance, insurance rate hikes, and potential for independent contractor reclassification. So, look for rate increases to continue at a level equal to or greater than recent history. □

2012

RATE OUTLOOK

Thursday, January 25
2:00p.m. ET

Register at www.logisticsmgmt.com/2012outlook

2012 Logistics Rate Outlook: Flat...for now

While leading transportation analysts say that rates will be fairly level across all modes heading into 2012, they warn that a number of unanswered economic and regulatory questions could push them skyward if suddenly resolved.

What can shippers expect in 2012 in terms of rates and capacity?

Join Group Editorial Director Michael Levans, *Logistic Management's* Executive Editor Patrick Burnson, and a panel of leading economic and transportation analysts as they share their exclusive insight on where rates and capacity are headed over the next 12 months. Our distinguished panel will also take a closer look at the moves carriers will be making to stay the course and provide shippers with the services they require to achieve sustainable growth.

Attendees will gain a better understanding of:

- The current state of the U.S. economy and its impact on freight transportation.
- Which way oil and fuel prices are likely to go in 2012.
- What to expect in terms of rates and capacity across all modes.

Moderators

Michael Levans, Group Editorial Director, Supply Chain Group

Patrick Burnson, Executive Editor, *Logistics Management*

Speakers

Oil & Fuel: Derik Andreoli, Ph.D.c., Senior Analyst at Mercator International, LLC

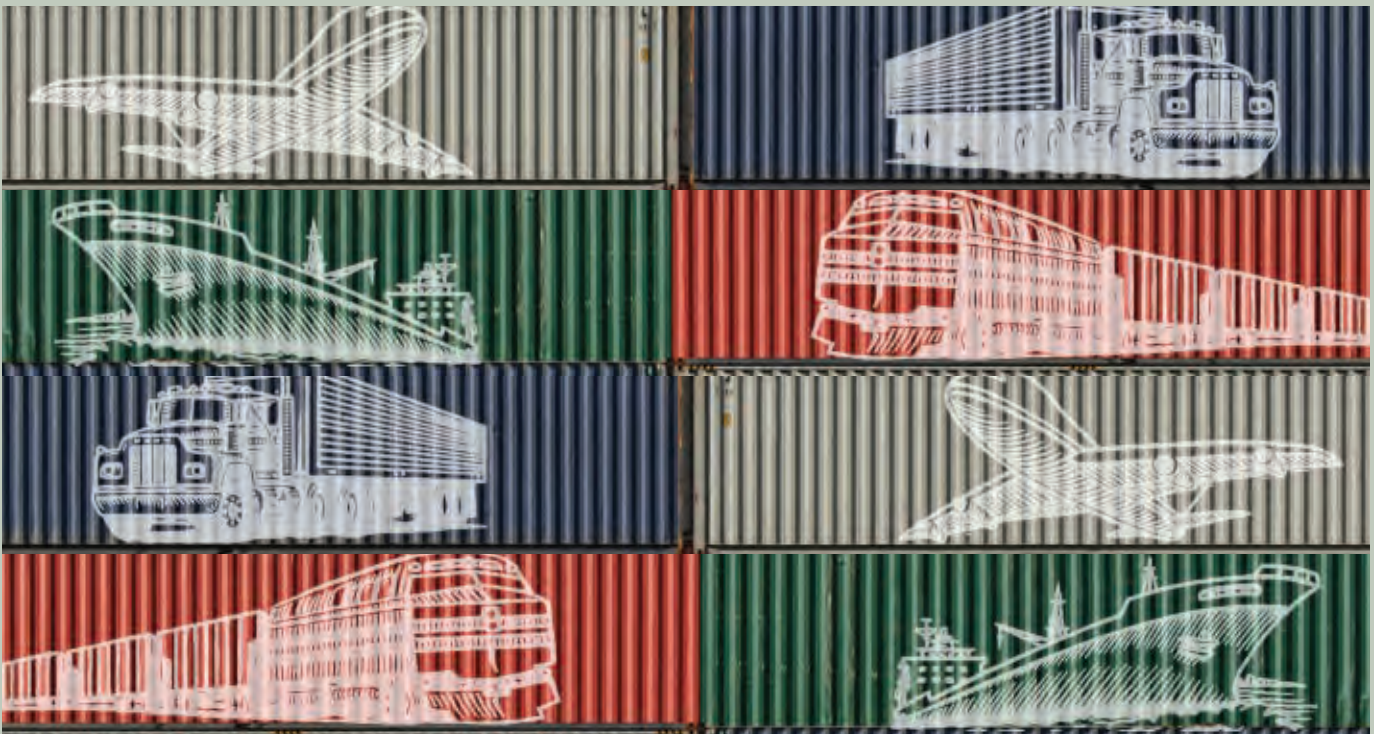
Trucking: John Larkin, Managing Director, Stifel Nicolaus

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

Air Cargo: Charles Clowdis, Managing Director for transportation, IHS Global Insight

Ocean Cargo: David Jacoby, President of Boston Strategies International

Parcel Express: Jerry Hempstead, President of Hempstead Consulting





trends driving TMS GROWTH

Top supply chain software analysts break down the drivers that will keep the transportation management systems market on a steady upswing for years to come.

BY BRIDGET McCREA, CONTRIBUTING EDITOR

Relied on for their innate ability to handle transportation planning, decision making, follow up, and measurement for companies of all sizes and across all industries, transportation management systems (TMS) held their own by posting positive sales growth through the recession and are poised for growth in 2012.

Credit the fact that these systems can shave percentage points off of transportation spending, create efficiencies that were previously out of reach, and come in the attractive SaaS (software as a service) format with helping to keep many TMS vendors in the black during the last three tumultuous years.

“In 2010, the TMS market grew significantly faster than the rate of inflation, or roughly 6.1 percent, and we’re forecasting an additional 6.8 percent compound annual growth through 2015 for the market,” says Steve Banker, service director for supply chain management at the ARC Advisory Group. “It looks like the market is holding up pretty well.”

Banker singles out planning and execution systems—the end-to-end solutions used by shippers who utilize carriers to move their freight—as the largest and fastest growing segment of the TMS market. In highest demand right now, says Banker, are the networked SaaS solutions that facilitate high quality electronic communication with partners, enable fast on-boarding of new partners, enhance transportation procurement efficiencies, and allow for freight audit and pay improvements.

In this article we’ll look at five key trends that will help cement TMS’ status as a growing supply chain software

segment in 2012. According to our analysts, the demand for system upgrades, the growth in intermodal transportation, and a new focus on “big data” requirements are helping to sustain a healthy TMS market.

1 OLDER SYSTEMS NEED FACELIFTS

If there is a single, primary driver for the TMS market right now it’s the fact that many systems are outdated.

Many of the solutions in operation today were installed five to 10 years ago—before tablet computers and mobile technologies had come to the forefront of the business world.

That will pave the way for more TMS upgrades in 2012, says Banker. “The business case for supply chain application upgrades are often difficult to make,” he says, “but with TMS there are so many different ways to save money.” For example, Banker says solid arguments in favor of a TMS upgrade include the money saved when preferred carriers are used on a regular basis or when preferred procurement positions are successfully negotiated and orchestrated.

Other areas where TMS can assist include use of fully loaded vehicles and improved routing and scheduling tactics. To companies that will be upgrading this year Banker says to focus first on outbound transportation (load consolidation, better routing, and so forth) when making the case, “and then move into procurement negotiations and other advanced features that you can’t get from any other [supply chain] application.”

The 28 vendors that participated in the 2011 Profile of the Transportation Management Systems Market Survey

Vendor	Product	Home market
Transportation Management Systems		
Centric Logistic Solutions	Plan&Go!	The Netherlands, Europe
ESPRITEC S.R.L.	GESPETMS	Italy
Four Soft Limited	4S eTrans / 4S eTrans SME / 4S Infotips / 4S VisiLog	Asia Pacific
GreenCat	Cat4RoadHaulier / RoadRunner+	Benelux
i2Technologies	i2 Transportation Bid Collaboration / i2 Transportation Management Solution / i2 Supply Chain Visibility	Global
IBM Sterling Commerce	IBM Sterling Transportation Management System	North America
Imtech ICT Austria GmbH	cargoNET, LBASETMS	Austria, France, Germany, Switzerland, UK
Informore	LogicLogistics L2 for Shippers	Europe
INTRIS Group	TRIS Logistics Application Suite / TRISTMS	Belgium, The Netherlands
JDA Software Group	JDA Fleet Management / JDA Transportation Planning / JDA Shipment Execution	North America
Kewill	Kewill Forwarding / Kewill Logistics / Kewill Service Logistics	Europe
MP Objects	MPO Supply Chain Suite	Benelux
Oracle Nederland	Oracle Transportation Management (OTM)	Global
Precision Software—a division of QAD Inc.	PRECISION Global Trade Management / PRECISION Trade Compliance / PRECISION Transportation Management / QAD Supply Chain Portal	North America
Qurius	Q-TMS	The Netherlands
RedPrairie	Collaboration Portal / Fleet / Parcel / Transportation Manager	Global
SAP AG	SAP Transportation Management	Global
ShipitSmarter.com	ShipitSmarter.com / TrackitSmarter	The Netherlands, Germany
Tesi Spa	Net Mover	Italy
Transics	TAS / TX-CONNECT / TX-SOCIAL / TX-VISIO	Europe
Transplace	Transplace Transportation Management System	North America
Transporeon	TISYS	Germany
Wexlog Technologies	WexVS for Transportation and Logistics	Europe
Young & Partners	NaviTrans Forwarding / NaviTrans Transport	Belgium
Transportation Planning Systems		
ORTEC	ORTEC Shortrec / ORTEC Loaddesigner / ORTEC Transport & Distribution (OTD)	Europe
PTV Nederland BV	INTERTOUR	Benelux
Quintiq	Quintiq	Europe
Roadnet Technologies Inc.	MobileCast / Roadnet / Territory Planner	North America

Source: Capgemini Consulting

2 INTERMODAL IN GROWTH MODE

Manual and aging transportation management systems may cut it when all shippers have to choose between are truckload and less-than-truckload moves. Throw a few more complications into the ring, however, and a company's ability to efficiently manage freight movement up and down the supply chain becomes extremely difficult.

The growth in intermodal, which involves the use of more than one mode of transport during a specific journey, makes the situation even more complex. "We're seeing a lot more companies shipping via intermodal," says Dwight Klappich, research vice president for Gartner, "and many of the systems that those firms were using in the past don't fit with intermodal movement."

The brick-and-mortar manufacturer that begins selling directly to consumers online, for example, will likely find its existing supply chain solutions to be inadequate for handling the new line of business. "Add small-package shipping to the lineup

and their TMS will no longer fit," says Klappich.

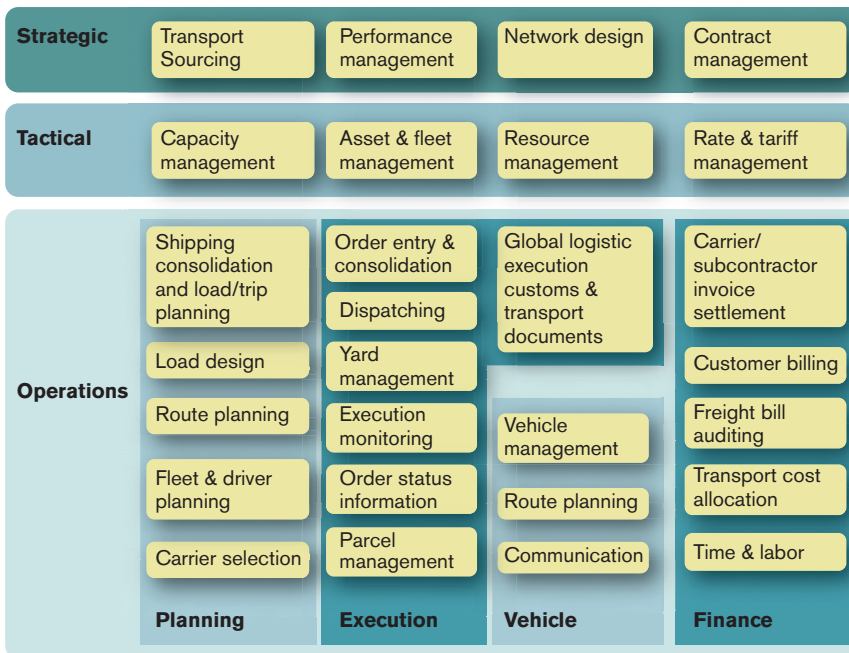
The shipper that expands globally will face similar challenges when it tries to manage multiple rail, truck, and ocean shipments. "Intermodal can be a complicated process for the firm that hasn't dealt with it in the past," says Klappich, who expects the intermodal trend to continue into 2012. "We're definitely seeing more of it, as well as a need for a more robust TMS to handle the multidimensional shipping approach."

3 TMS VENDORS WILL GO BEYOND EXECUTION

In its 2011 *Transportation Management Report*, research firm Capgemini Consulting outlined the various components that make up the execution side—as opposed to the planning aspect—of a typical TMS.

Basic execution functions include: order entry and consolidation (registration, validation and management of orders); dispatching (confirmation reports for carriers and/or

TMS functional reference model and domains



Source: Capgemini Consulting

drivers); order status information (recording information related to the pickup, collection and delivery of shipments); global logistics execution (customs and transport documents); and yard/parcel management.

As evidenced by Capgemini’s report, the execution component of a TMS covers a lot of valuable ground for shippers, but that hasn’t stopped vendors from coming up with new additions that push their systems beyond the basics. “One of the biggest trends we’re seeing right now are TMS that are trying to be more than just execution systems,” says Chris Caplice, executive director at Massachusetts Institute of Technology’s Center for Transportation and Logistics.

“Basically, a TMS gathers the information on a load to be tendered and matches that data to a historical routing guide. Then it communicates to a carrier and manages the ensuing communication process,” says Caplice. “The more advanced TMS is going beyond that and tapping into other information services and utilizing that data to help the shipper make the best possible decisions.”

For example, he says that the TMS can be connected directly into a market data benchmarking service that funnels data back to the system. “The addition of this

automated, real-time market monitoring function helps shippers avoid the yearly or biannual carrier bidding process,” says Caplice, “positioning the TMS to serve as more than just an execution feed.”

4 SYSTEMS EQUIPPED TO HANDLE BIG DATA

Defined as the datasets whose size is beyond the ability of typical database software tools to capture, store, manage, and analyze, “big data” is big business in today’s corporate environment. According to McKinsey Global Institute, enterprises globally stored more than 7 exabytes (one exabyte = one quintillion bytes) of new data on disk drives in 2010. That number is expected to grow as companies capture trillions of bytes of information about their customers, suppliers, and operations.

Managing the data isn’t easy, but MIT’s Caplice says TMS vendors are stepping up to the plate and developing systems that make valuable use of the “big data” that is collected and stored. “TMS is going beyond just being tendering systems,” says Caplice, who points out that transportation as a whole tends to generate rich transactional data. By drilling down into specific regions or focusing on particular market trends, for example, shippers can utilize the

“big data” stored in their TMS to make educated business decisions—the placement of new DCs, for instance. “Companies are really only starting to tap into this function, but it’s something that I definitely see continuing to gain momentum in 2012,” says Caplice.

5 MORE HOLISTIC SOLUTIONS

Intent on becoming one-stop-shops for the shippers that they serve, today’s third party logistics providers (3PLs) view TMS as an important addition to their vertically integrated service offerings.

“We’re seeing a lot more 3PLs trying to come up with TMS systems that their customers can implement,” says Ellen Chen, MOVE practice leader at Capgemini. “Those customers can then save money by consolidating and ‘sharing’ those systems with other shippers or suppliers.” Those shippers that take the 3PL route also gain the benefit of a full-blown TMS without the need for maintenance or management.

Chen says that the trend blends well with a broader push to create holistic transportation systems that are consolidated under one roof, rather than being sold, installed, and managed by multiple vendors. She’s working with a vendor right now that’s developing a “cookie cutter” TMS targeted for the small- to medium-sized enterprise that wants complete functionality without the high purchase and maintenance costs.

“We’re seeing a lot more RFPs being issued by shippers seeking holistic transportation management systems,” says Chen. “They want deeper, broader solutions without the extreme costs, and they see this as a way to meet that goal.”

Bullish on TMS vendor’s ability to achieve a 6.8 percent growth rate over the next few years, ARC’s Banker says yet another trend that’s propelling the industry right now is demand for TMS coming from non-traditional industries.

“It used to be that TMS sales were highly concentrated in consumer goods, food and beverage, retail, and electronics,” says Banker. “Other industries are now taking an interest and realizing that even a modest 5 percent savings—afforded by a solid TMS—is a pretty good return on investment for this type of software.” □

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2012 Customs & Regulations Update:

Balancing RISK

A flurry of new trade agreements should signal greater opportunity for U.S. importers and exporters. But this means that another layer of compliance complexity has been introduced. How will today's global shippers deal with the new risk/reward scenario?

BY PATRICK BURNSON, EXECUTIVE EDITOR

Under the Competitive Supply Chain Initiative, which is an important piece of the Obama Administration's National Export Initiative (NEI), the Departments of Commerce and Transportation are working with freight system users and stakeholders to identify the critical elements of a comprehensive, holistic U.S. freight policy. This initiative's goal in developing such a policy is to achieve the seamless and facilitated goods movement across all transportation modes throughout the nation, which is needed to boost U.S. export sales and U.S. national competitiveness.

Although most U.S. exporters may not need specific licenses to take part in the NEI, determining if that is the case can be very expensive. "But it's worth the diligence if you are not certain," says Dan Gardner, chief executive officer of Ocean World Lines (OWL), a global, single-source non-vessel operating common car-

rier (NVOCC) and subsidiary of Pacer International. He says that a few new "bombshells" may be introduced by regulatory agencies before the initiative gets fully underway.

"This is a particular concern for shippers of 'dual use' products," says Gardner. "A technical piece of equipment might have both an industrial and military application. If that's the case, it's important that the shipper knows how to properly apply for a license."

Martin Zima, vice president of customs for global logistics provider Kintetsu World Express (USA) Inc., says that this concern is shared by importers as well, especially those doing business with the so-called "emerging markets." One of the greatest challenges for his company is when sudden and unexpected changes in the rules come along.

"Supply chain transparency is still not universal," Zima says, "and the strategic solution for creating this visibility is to enact a single standard

for declaration filing." He adds that for the past several years, Customs has pledged that all transactions will be done electronically using the ACE system. But for a variety of reasons, they keep pushing that back. "Meanwhile, penalties for misfiling remain pretty severe," says Zima.

Shippers initiating business with South Korea, Panama, and Columbia—all recently approved trading partners—could face even more regulatory scrutiny. And as a consequence, adds Zima, supply chains are being kept lean just when carrying more inventory could help get the global economy back in gear. It would be wrong, however, to blame Customs and Border Patrol (CBP) for it all, says Zima.

"CBP are doing all that they can within the existing political structure," says Zima. "They are going back to Congress every quarter to ask for more



REWARD

funding, and until a longer-term solution comes around, we have an agency that must still operate on a tactical—and less efficient—manner.”

ACE IS INEVITABLE

To that end, the National Customs Brokers and Forwarders Association of America (NCBFAA) is encouraging all its members to begin integrating the Automated Commercial Environment (ACE) into their business processes. The association says that this is especially important given that CBP will roll out new modules over the course of 2012.

ACE is the corresponding module in The Automated Commercial System (ACS)—a pilot project first put into place more than two decades ago—and will be de-commissioned as ACE becomes the only system available for that functionality. “The NCBFAA ACE

Strategy Task Group believes that it’s no longer a question of whether to migrate to the ACE, but when. We believe that the time is now,” says Jeffrey Coppersmith, president of NCBFAA and president of Coppersmith Global Logistics in El Segundo, Calif.

Regardless of emotions concerning the pace of development, the implementation of ACE is a foregone conclusion and it will not be abandoned, says Coppersmith: “While much work remains to be done, CBP has recently started to show good progress and has adopted essentially all of the recommendations for functional development outlined in the NCBFAA White Papers. It’s time for our industry to support that development.”

Coppersmith adds that as more firms become involved in ACE processing they’ll be able to enjoy more competitive advantages. “CBP has recently announced that the new ‘simplified entry release’ functionality will only be

available to ACE filers,” he says. “ACE also provides better data integrity for ACE reports for both customs brokers and their customers.”

For this reason, Coppersmith believes that additional broker live-testing is critical to fully debug the ACE functionality that brokers will be using this year. Coppersmith is calling on NCBFAA members to start testing in ACE in order to be ready when multi-modal cargo release becomes functional this year. “Experiment by choosing a single client for filing entries in ACE,” he says. “The resulting increase in utilization and experience will allow members to make meaningful suggestions for better ACE development.”

BALANCED ADVICE

Suzanne Richer, president of Customs & Trade Solutions, Inc., a consulting firm specializing in international trade and cargo security, advises global shippers to get “their houses in order” by

hiring and training the right people right off the bat. "With so many companies hoping to export their way to prosperity, it's vital that they find the staff capable of such ambition," she says. "Export laws are very complicated, and if laws are violated, the penalties can be severe."

She notes that the new trade agreements mean that a new level of expertise will be required to negotiate International Commercial Terms, or Incoterms. These are a series of international sales terms widely used throughout the world that define monetary transaction and role responsibilities for both sides of the international trading transaction.

The purpose of standardized Incoterms is to determine export and import clearance responsibilities, who owns the risk for the condition of the products at each stage in the transport process, and who is responsible for paying what. "But the trouble is that many shippers don't have the right person in place to deal with these details," says Richer. "Downsizing during the recession meant that workers had to share responsibilities; and, unfortunately, that put some unqualified people in compliance positions where they could create a lot of problems for the company."

Dan Herbert, vice president of Trade Tech, Inc., a cloud-based software provider for forwarders, agrees, noting that Customs procedures will become even more complicated for cross-border transactions in the future. "Canada will be creating an Importer Security Filing



New trade agreements mean that a new level of expertise will be required to negotiate International Commercial Terms, or Incoterms.

(ISF) equivalent in late 2012, mirroring what our government agencies are doing this year," he says.

Herbert, a former executive with APL, says that the Federal Maritime Commission will be adding new wrinkles of its own when it comes to compliance procedures in the EU and Asia. "I sit on one of the FMC's regulatory boards, and can tell you that more rules are going to be enacted to provide supply chain transparency," he says. "Will this be a challenge for exporters lacking the internal expertise required for compliance? You bet it will."

Not surprisingly, Herbert believes

that "cloud computing" and other web-based solutions will mitigate the learning curve and help shippers currently struggling with a reduced work force.

Kewill, a provider of high-tech compliance tools, works with shippers like Kintetsu's Zima to do more with less, as well. "And it's about time," Zima says. "For years we've been like the 'boy who cried wolf' regarding ACE and other regulations. Now the wolf is really at the door, and we've got to get up to speed as fast as we can." □

Patrick Burnson is Executive Editor of Logistics Management

South Korea, Columbia, and Panama: Trade treaty promise

ACCORDING TO THE U.S. CHAMBER OF COMMERCE, the primary shipper benefits related to recently inked trade treaties with South Korea, Columbia, and Panama include:

- The elimination or reduction of tariffs on U.S. exports;
- Creation of a "level playing field" for U.S. investors and businesses;
- Open service markets in areas like telecommunications and semiconductors;
- The protection of the environment, labor rights, and intellectual property rights.

But while the fundamental concepts are the same for each of the three nations, the specific economic and political situations vary substantially.

South Korea, the world's thirteenth largest economy, and seventh-largest U.S. trading partner, should significantly increase agricultural exports, which have been held back by high tariffs.

Columbia is second only to Brazil as a market for U.S. products in South America. Indeed, it purchased \$12.1 billion in U.S. goods last year alone. With Columbia promising to reform

harsh domestic labor practices, more U.S. shippers are likely to explore opportunities here.

Panama has a small economy with a trading relationship that already heavily favors the United States. In 2010, Panama bought \$6 billion in U.S. products while exporting only \$381 million. The agreement should increase U.S. trade with Panama and make it easier for American companies to compete for contracts on the \$5.25 billion expansion of the Panama Canal.

—Patrick Burnson, Executive Editor



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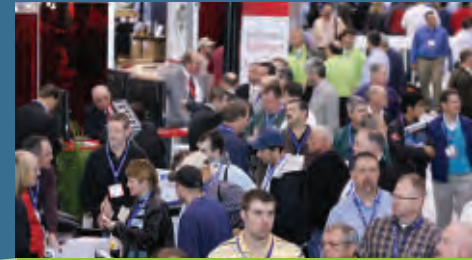
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Decoding the mysteries of fleet management

Lift truck owners want it and are ready to spend money on it—but they're not sure exactly what it means. These guidelines will help take the mystery out of implementing a comprehensive fleet management program from start to finish.

By Josh Bond, Editor at Large

“**V**isibility” is the buzzword these days among supply chain circles, while inside the four walls the concept of “lift truck fleet management” has quickly become the Holy Grail for savvy managers looking to get a better handle on costs. Amid the scramble for both, traditions are being challenged, business relationships are becoming more nuanced, and new products, services, and technologies are emerging at a rapid rate.

And while establishing a comprehensive lift truck fleet management program can seem like a surefire source of savings and transparency, fleet managers have encountered a few misconceptions and miscommunications along the way. To help overcome the early missteps, industry experts and manufacturers are now working to ensure that fleet managers are aware of the opportunities and pitfalls associated with a more structured—or more flexible—approach to fleet management.

According to Scott McLeod, president of independent lift truck fleet management company Fleetman Consulting, the heart of fleet management is identifying and managing each lift truck's operating cost per hour. McLeod says that there are more than 40 separate costs associated with a lift truck, including fuel, depreciation,

operator costs, and even the impact of aisle design and warehouse layout on a lift truck's operation.

“Once you figure out those costs you can determine if there are better options available,” says McLeod. “Customers might feel that there's only so much time in a day, and lift trucks are at the bottom of their to-do list. But if they have to do it, they just might find that there are thousands—if not hundreds of thousands—of dollars to save.”

But where do you start? Who should be involved? How should it be implemented? “It's about peeling back the onion,” says McLeod. “If you do the basics well then you're ahead of 80 percent of the companies out there.”

To help *Logistics Management* readers gain some ground, we've created a set of guidelines for navigating the adoption of an effective fleet management program with the help of a panel of consultants, suppliers, and users. No off-the-shelf solution will work for everyone, but these practices will help fleet managers avoid wasting time and money as they reconnect to their fleet's true costs.

1) Understand what it is

According to Nick Adams, business development manager for the MCFA fleet services group, fleet managers



DANIEL GUIDERA

should not fixate on assuming fleet management has a single definition. “A lot of people will tell you that fleet management means a full maintenance contract. That’s not necessarily true. They also say fleet management will always produce cost savings. That’s also not true. Like any product, it’s a set of tools that you have to use correctly to get savings.”

Michael McKean, fleet management sales and marketing manager for Toyota Material Handling, says it’s imperative that fleet management not be confused with other capital expenses. “The company might have five projects on the agenda, like a new roof or a new dock,” says McKean. “But those are just projects. Material handling equipment is not a project, it’s an essential part of a well-run business.”

2) Know your needs

A well-run business will pay attention both to its customers and to its status as a customer, according to Adams. “You have to understand your requirements relative to your assets,” he says. “Two people may order different things from the same menu based on budget and tastes, and both are good meals.”

Before pursuing a third-party maintenance agreement or new equipment, McLeod advises customers take stock of what they have and what it’s costing them. “I’ve seen

operations with 15-year-old trucks so well maintained that it makes sense not to upgrade,” he says. “Other places have trucks that are three years old and are a disaster.”

Jason Bratton is vice president of business development for BEB Industrial Asset Management, a third party forklift fleet management company. Bratton says that each customer might have its own preferences for how to do business. “Third-party invoice consolidation works for some but not for others,” says Bratton. “End users either find they need that service or would rather keep control over it for other reasons.”

According to Patrick DeSutter, director of fleet management for NAACO Materials Handling Group, Inc., customers need to understand their asset mix, especially short-term rentals that have overstayed their welcome. “You need an enterprise-wide mindset,” said DeSutter. “A series of separate programs might not be working toward the common good.”

3) Communicate, communicate, communicate

Communication is often the single best way to ensure progress toward the common good. And it’s important to communicate not just with your fleet management partner, says Bratton, but also within your organization. “It’s critical for the success of a rollout,” he says. “If we’re calling a site to begin a preliminary fleet assessment and the first time

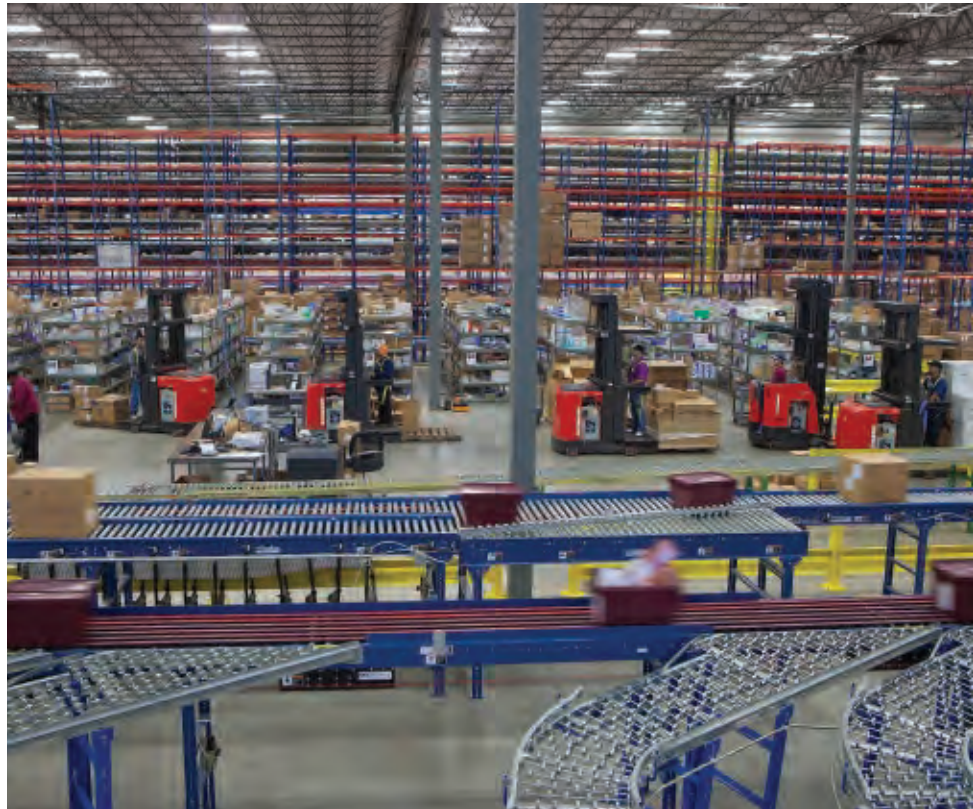
they've heard about us is from us, that's a problem."

Effective communication is about more than memos. A discussion of motives and objectives with a fleet management partner will help a customer later evaluate the service. And communication within a company generates enterprise-wide buy-in that can be essential for the success of the program. A new fleet management program is unlikely to succeed if it's as fractured and disconnected as the problem.

4) Don't change too quickly

Initial communications can brace an organization for change. But as fleet managers work to identify costs, it's essential to collect data at a manageable pace and to react to the data with incremental steps, not sweeping change.

"In fact, some clients should not change anything in the first three months," says Bratton. "It allows your fleet management partner to establish a baseline. Let's not go in guns blazing, saying we need to change this, fire them, buy these trucks."



After moving into a bigger location, this Owens and Minor Facility reduced lift truck fleet spend.

Owens and Minor finds partner for relocation

Chris Wroblewski, the general manager of the Dallas division of medical products giant Owens & Minor, says the stressful moments of early 2010 are now just a fading memory. The transition of a new customer required a completely new 238,000 square-foot distribution center by May 2010.

"And we were informed of the transition in January of 2010," says Wroblewski. "Put yourself in my shoes and you can imagine I was concerned."

After a 48-hour-move requiring 190 people, 300 truckloads of material, and a double-sized fleet of 80 lift trucks, the facility went live in May of 2010—just 78 days from concept to completion. "We finished operations on Friday and moved the entire building over the weekend," says Wroblewski. "We were operational on Monday."

After the move, Owens & Minor wanted to take the opportunity to

improve its lift truck fleet. With the help of Malin, an integrator of materials handling equipment, systems, and services, Owens & Minor improved visibility by installing a fleet optimization solution for its lift equipment. Among other efficiencies, the new technology helped right-size their Raymond fleet for a reduction of \$12,000 per year in lift truck optimization.

Wroblewski says the solution is working remarkably well, especially considering the initial concerns of some of his internal teammates. "They were skeptical of disrupting operations or including costs that aren't needed," says Wroblewski, who adds that a pilot program helped allay those concerns. "Suddenly they had hard data that showed that there were gaps of idle time in our operations. What was perceived to be a painful process was seamless and painless and has helped us improve our productivity."

Depending on how well-capitalized a customer is, rapid change might not be a problem, says McLeod. A customer might instead plan to evolve over five or more years if it doesn't have the capital to swap an entire or partial fleet. "Take things in bites, with a methodical approach and frequent pauses to review goals and progress," says DeSutter.

Once a customer has established a baseline it can then address things like avoidable damage caused by either the operator or the facility design. "These can be significant costs," says DeSutter, "as high as 25 percent to 35 percent of the lift truck maintenance spend."

5) Put a maintenance program in place

Toyota's McKean says that he understands why lift truck retirements, replacements, and rotations often get

shuffled to the bottom of the priority list. “For facility managers, their priority is not managing lift trucks...it’s moving product,” he says. “So, as long as the lift trucks are getting that done, that’s good enough for many people.”

However, this can lead to a reactive instead of proactive approach to things like maintenance costs. “The problem is that many people only recognize a downtime problem if they happen to have a half dozen lift trucks in the shop at one time,” says Jim Gaskell, director of Global Insite products for Crown. “All trucks need maintenance, all of which must be managed, not just when it becomes a big enough problem to be visible.”

By that time, the negative impact will become visible elsewhere as well, as productivity and throughput suffer. “Any improvement in maintenance efficiency will also improve the main goal of product movement,” says McKean. “Fleet management should be employed at all locations, but it’s not. More customers need to rely upon a fleet management tool to manage their fleet.”

6) Control costs

To budget effectively you need to look at maintenance costs and lock them in, says McLeod. “The worst situation any lift truck user can get into is a pay-as-you-go maintenance program. As soon as you do, you can be held hostage by the dealer.”

McLeod also recommends that customers negotiate fuel contracts and lock in those costs as well, either at a fixed rate or by tying costs to a commodity. “So many customers seem happy enough to get charged by the batch, and three or four out of five will say that they don’t even know what they pay per pound or liter of fuel,” says McLeod. “Get three or four propane suppliers bidding on your business and you’d be amazed at the savings.”



7) Take out the emotion

Emotion-based decision-making can take many forms, says BEB’s Bratton. When a customer buys a lift truck because that’s what their predecessors did in the past, he adds, that’s an emotional decision.

“An employee’s under-performance might be about data and it might have measurable solutions,” says Bratton. “But firing that person is an emotional decision. You might be able to use the data and fix, not fire.”

Making decisions with data rather than emotions can mitigate the apprehension many facility managers may feel

at the idea of involving a third party, adds McLeod. “The people tasked with fleet management are usually the ones who least want to do it,” he adds. “They think a third party will prove they’ve been wasting resources, or that they had no real grasp on their costs to begin with.”

Facility managers often worry about an outside company finding something they should have found, says Bratton. A good fleet management partner, adds Bratton, is not a whistle-blower, but a team member who can shine a light on problems and best practices for all to see.

8) Lift trucks can’t be maintained forever

Whether by design or by accident, too many facilities maintain old lift trucks until they no longer provide any value. “Set realistic life cycle goals for your fleet, like seven years instead of 20,” says Gaskell. “Draw a line in the sand. Anything over 10 years will get replaced.”

Otherwise, says Gaskell, companies can get stuck pumping lots of money into aging equipment. “A 10-year-old truck might not have cost much up to that point, but if it should suddenly need \$3,000 in repairs, then the customer says, ‘Well, I just put all this money into it. Maybe I should keep it.’”

Gaskell refers to a program Crown created for a specific customer called “No Truck Left Behind.” The program requires that when a delivery driver



MBM seeks an inch, finds a mile

The quest for efficiencies turns up huge savings and increased productivity for food distributor.

Eight years ago, MBM Corporation, a leader in food distribution, partnered with Crown Equipment and set out to find some answers. There was no crisis, simply a notion that some efficiencies could be squeezed from a fleet that MBM thought it was already handling rather well. Today, at the company's 34 distribution centers across the country, fleets are as much as 22 percent smaller, and the company has cut equipment and maintenance costs by 10 percent.

Sean Bennett, director of financial operations for MBM, says, "The most surprising element of fleet management implementation was learning all the things we didn't know we needed to know."

Before implementing a suite of fleet tracking software, Bennett says lift truck usage, cost, and quantity was unclear, with inconsistent or nonexistent inventory listings from one DC to another.

"Our idea of fleet management was simply looking at the general ledger for

maintenance costs," says Bennett, who said MBM once processed 15,000 fleet maintenance invoices annually.

"Today we have just one invoice per month," says Bennett. "We know so much more about what we spend, by DC, by truck type, by make and model, by parts and labor. We track each piece of equipment at the serial number level."

By taking a holistic approach, Bennett says MBM has lengthened the life cycle of its equipment by two to three times, while enjoying less cost, more productivity and more compliance. For instance, when lift truck inspections required pens and paper, the form had to be legible, hand-delivered, photocopied, and filed.

"That's kind of exhausting," says Bennett. "Now, you log in, the form is stored electronically, and if the inspection reveals that the lift isn't safe, it automatically locks out and pings both management and maintenance. I would say the system easily cuts our time in half."

drops off a new lift truck at one of the customer's facilities he must pick up the old truck before he can leave.

"Fleet managers used to say that they'll keep it as a spare," says Gaskell. "Then they'd have a change of heart when a report showed that they were paying maintenance costs for the new one on top of the old one."

9) Not one-size-fits-all

On the small scale, this tip is best exemplified by what Adams calls a "captive application," when a lift truck is required only for periodic tasks, but is absolutely essential when its time comes. Utilization will be down by definition, and a fixed maintenance program would clearly be excessive for such a lift truck.

On the larger scale, decentralized companies can get into trouble when they assume that there are quick fixes to a fleet's needs. One-size-fits-all might work for some centralized companies, says Adams. Lift truck usage in a retail chain store in Kansas, for instance, is going to look much the same as one in Minnesota. A similar business might bundle its locations and negotiate directly for an initial equipment purchase.

"The fallacy is that decentralized customers can round up volume and negotiate, so they must be able to do that on the aftermarket as well," says Adams. "It's understandable. They've got a lot to do and they want an easy win so they can move on."

The problem is that maintenance program templates can be disastrous when forced onto facilities with vastly different usage and applications. But a fleet management partner can help a decentralized company get some leverage with local service providers. In fact, according to DeSutter, one of the most valuable things a fleet management partner can provide is a third party audit of service provider work orders.

10) Know when enough is enough

Avoid a hunt for efficiencies for its own sake. Every company can benefit from a better-run fleet, however, says McLeod, "There's a point when it doesn't make sense to go further down the path of fleet cost control." That point will become clear to anyone paying attention, he says. "If you understand your entire business's costs, then when you stop the bleeding in your fleet you might find that your postage costs, for instance, are where your attention can produce the best returns."

By opening windows into the tiniest corners of a facility's expenses, technology often encourages over-complication or excessive detail, says McLeod. "You don't need to be comparing light bulbs to save a fraction of a kilowatt hour," he says. "Nobody needs that kind of detail to run their business. You just need the lift truck's cost per hour and to ask whether there are better options."

The chances are good that there are alternatives to the status quo that can improve productivity, increase visibility, and save money now and later. With clearly defined objectives and a deliberate approach, any organization can tackle its fleet with confidence.

"At the end of the day," adds Adams, "fleet management shouldn't interfere with what a facility is trying to get done. But, if designed well, it can be a valuable tool in creating cost savings."

Josh Bond is an Editor at Large for Logistics Management



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Helpful, not harmful communications

By John A. Gentle, DLP

CONSIDER THIS POST-HOLIDAY SCENARIO: You go to return something you received for Christmas, and when you finally get to the front of the exchange line after waiting 20 minutes, a smirking face behind the counter condescendingly tells you that “all you needed to do is pick out the right size and exchange it at the regular checkout counter.”

How were you supposed to know that, and why did it take so long to get that information? For those of us who occasionally volunteer to stand in line, two- or three-minute waits are certainly tolerable—although a simple sign would have gotten us out of the store a lot faster.

If you value your time and productivity, and you want your business partners’ employees to be able to communicate effectively without being frustrated by your employees and your communications systems, then it falls to you to ensure that every logistics organization inside your company works passionately and intelligently toward that end.

For example, here’s a common yet critical communication choke point that merits your attention: Warehouse personnel and management are flat wrong when they say that it’s not their job to keep carriers and drivers moving; to stay informed about appointments, loading, and unloading delays; or getting their paperwork signed in a timely manner. In fact, it’s just the opposite.

These warehouse teams need to ensure that carriers have easy access to your messaging systems that provide directions; safe driving rules inside your complex; proper check-in procedures; as well as counting and load-securement information.

My experience is that ware handlers—I used to be one—are very impatient people. They consistently and rightly remind us that they have important things to accomplish during their shift, and they don’t need

interruptions or any delays. When we installed an automated WMS, any delay over three seconds was met with complaints, and delays of a minute resulted in operators trying, sometimes successfully, to ignore the system and put the product in bays that they thought were reasonable.

Imagine how you would feel if warehouse personnel consistently and intentionally ignored you, seemingly taking pleasure in making you wait until they’re good and ready? Why would you want to do business with these companies?

Likewise, your company’s dispatch team needs to be well staffed and well educated to ensure that superior communications are in place that can facilitate extraordinary events like system failures, surge, vacations, illnesses, reconsignments, returns, and detention. Progressive companies have websites that allow carriers to

Progressive companies have websites that allow carriers to secure the information they need to operate efficiently and make sure their drivers are making the most of their operating and driving hours.

secure the information they need to operate efficiently and make sure their drivers are making the most of their operating and driving hours.

Now more than ever it’s critical that your logistics organizations provide highly visible, self-help information systems and act in an empathetic and helpful manner to assist drivers, dispatchers, and other carrier administrative teams in the execution of their business on your behalf.

Your teams first needs to answer the phone and then use phrases like “How can I help you” rather than “I’m busy what do you want?” If you hate long lines coupled with impersonal and unhelpful staff, then you know what poor service looks like. My question to you is: Have you really tested to see if your staff treats your carriers any better? □

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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