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Rail's new golden era

Page 24

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Management UPDATE

AN EXECUTIVE SUMMARY OF INDUSTRY NEWS

It may not qualify as 2008 redux…. at least not yet. Diesel prices, as of press time, have been over the $4 per gallon mark since hitting $4.051 per gallon the week of January 27. Since that time, prices have been in the $4.10 range. But while these prices remain fairly high, they're still more than 50 cents less per gallon compared to the summer of 2008, which peaked during the week of July 14, 2008 at $4.764 per gallon. Even before diesel prices hit $4 per gallon, shippers have maintained that they're forecasting for steady fuel increases in their transportation budgets should diesel prices continue to hover near or at the $4 per gallon mark.

BDP is not for sale. While an April *Reuters* report indicated that global third-party logistics (3PL) services provider BDP International was in talks with private equity firms to make the company available to be sold, BDP stated that is not the case. A company official told *Logistics Management* that BDP owners, the Bolte family, "believe in the company's future, see strong upside potential, and is exploring opportunities with private investors to raise capital that will enable BDP to have added flexibility to build on its technology, expand global presence, and help its customers grow." The spokesman added that the infusion of capital through outside investment is a normal course of activity for privately owned companies, and also said that BDP is in the most favorable position in its 45-year history, out-performing its industry and financial markets over much of the past decade.

Passing of a legend. Mc-Kinney Moeller, the visionary leader of A.P. Moller-Maersk, passed on last month at the age of 98 leaving a proud legacy of unprecedented achievement. Containerized shipping would not have gained the sudden traction decades ago had it not been for his imagination and commitment. Today, Maersk is the world's leading ocean cargo carrier, with a far-flung network of supply chain services. Maritime historians, along with many military veterans, will also recall how he provided free U.S.-flagged charters to provide logistical support during the Persian Gulf War of 1991. A life-long admirer of American enterprise and democracy (his mother was an American), he will long be remembered as a champion of free trade.

Transportation bill extension approved by House…again. In what has become a common occurrence since the previous federal transportation bill, SAFETEA-LU, expired in September 2009, the U.S. House of Representatives signed off on another extension to keep federal transportation funding intact at current levels. This 90-day extension would be the tenth one in nearly three years and would last through the end of September. This funding primarily goes toward road, bridge, and mass transit projects. House Transportation and Infrastructure Committee Chairman John Mica (R-FL) said that this bill contains no tax increases, earmarks, or new federal government programs and will help move the process forward in working to resolve differences with the Senate.

TIGER grants remain in demand. The United States Department of Transportation's (DOT) Transportation Investment Generating Economic Recovery (TIGER) grant program has again received overwhelming demand and has exceeded the level of available funding. DOT said applications for TIGER 2012 grants at $10.2 billion dwarf the available $500 million the program has available in its coffers. DOT added that it received 703 applications for TIGER grants from across the country. The objective of the TIGER program is to ensure that economic funding is rapidly made available for transportation infrastructure projects and that project spending is monitored and transparent. The federal government has had four rounds of TIGER funding, with the most recent one coming last November through President Obama's FY 2012 Appropriations Act, which has $500 million available for transportation infrastructure projects.

continued, page 2 >>

Management UPDATE

continued

Port of Long Beach optimistic about 2012 Peak Season. While a true Peak Season has not surfaced in a few years, an encouraging sign of better things to come came from the Port of Long Beach's (POLB) "Annual Peak Season Forecast" event. Featured speakers said that there's a growing sense of optimism for the upcoming Peak Season. This could be viewed with skeptical eyes by many freight industry transportation stakeholders, given that a real peak has truly failed to materialize in a meaningful way for at least four years running, if not more. At the POLB event, global shippers stated that they anticipate a busier 2012 Peak Season, with Southern California ports well prepared with facilities, labor force, and customer service ready to handle increased volumes. As part of the proceedings, Walter Kemmsies, Ph.D, chief economist for Moffat & Nichol, said that exports are currently supporting the U.S. economy through overseas purchases of U.S. autos, construction equipment, and agricultural products.

UPS sets sights on U.S.-Mexico cross-border trade. UPS recently rolled out UPS Cross Border Connect, a ground freight service between the United States and Mexico focused on easing heavyweight freight supply chain challenges for companies investing in cross-border trade. UPS described it as a contractual service that leverages the trucking network that supports the company's North American air freight service. This network is connected with Mexican-based carriers at eight points—including Otay Mesa and Calexico, Calif.; Nogales, Ariz., and El Paso, Laredo, McAllen, Harlingen and Brownsville, Texas—along the U.S.-Mexico border. The company said the service meshes its transportation and customs brokerage expertise north and south of the border to improve speed to market, drive cost efficiencies, and lessens supply chain risk.

End of a trend? Offshoring is still with us for the time being, but is it near its end? This is indeed the conclusion made by The Hackett Group's *2012 Key Issues* research study. Hackett analysts said that companies are currently adapting their business models and priorities in response to economic changes in regional global markets. Furthermore, in the next 8 to 10 years the flow of jobs offshore is likely to cease, as companies simply run out of business services jobs suitable for moving to low-cost countries. Hackett's research highlights driving factors behind the offshoring trend, but by far the most important force has been the consolidation of the delivery of business services into global business services.

Ag shippers question "index". Peter Friedmann, executive director of the Agriculture Transportation Coalition, met with Federal Maritime Commission (FMC) Chair Richard Lindinsky last month to discuss confidential service contracts and their negative impact on U.S. exports. According to Friedmann, the FMC is keen to explain to shippers the benefits of the proposed Freight Index where rates and services would be available for public scrutiny. "However," said Friedmann, "many questions remain. Is it appropriate to use confidential service contract data to create a public index? Might publication of rates in specific trade lanes for specific traffic enable third parties to identify the shipping patterns and rates of certain shippers, and thus create a competitive problem?" Industry analysts agree, and have noted that this proposal deserves careful consideration.

Canada-Cuba connection. Mexican President Felipe Calderón visited Cuba last month, signaling greater hemispheric cooperation with the "closed loop" economy of the tiny island nation. Before pushing off for The Americas Summit in Cartagena, Colombia, Calderón attempted to engage Cuban officials on "trade exchanges and investments," he told the Mexican Senate. But trade analysts noted that Cuba has been doing just fine by forging a tight relationship with that other NAFTA neighbor—Canada. That nation's investment, trade, and cultural links with Cuba are substantial. In fact, Canada is the second-largest foreign

continued, page 4>>

Management UPDATE

continued

investor in Cuba (after Venezuela) and the third-ranking country in terms of joint ventures. Canada is also Cuba's fourth-largest merchandise trade partner, behind Venezuela, China, and Spain. Meanwhile leading logistics providers and several U.S. seaports are positioning themselves to take advantage of change in our own trade policy.

Port of LA getting strategic. In a move signaling a commitment to long-term leadership, The Los Angeles Harbor Commission has unanimously adopted a five-year strategic plan for the Port of Los Angeles for 2012 through 2017. The plan focuses on three "key result areas," comprising competitive operations, strong relationships, and financial strength. It maps out the port's priorities, objectives, and various initiatives for developing infrastructure, enhancing overall competitiveness, growing market share, optimizing land use, advancing maritime technologies and sustainability efforts, and maintaining the port's top ranking as the nation's ocean cargo gateway to the Pacific Rim. According to analysts at Zepol Corporation, a leading trade intelligence service, the Port of Los Angeles increased in imports by 22.4 percent from February, but is down 10.6 percent from January. Port Executive Director Geraldine Knatz notes that "changing economic tides will require new and innovative approaches."

Ocean metrics ahoy. In an effort to help importers and exporters benchmark their carriers' service levels, Drewry and CargoSmart have agreed to introduce a wider range of container Key Performance Indicators (KPIs). Drewry will incorporate the additional KPIs into a new quarterly report, the details of which will be announced sometime in May. "The new container KPIs will add value as they will measure performance at the box-level, which is more important for shippers than at the ship-level," said Philip Damas, director at Drewry. Spokesmen added that Drewry has chosen CargoSmart for its "high quality data," which is necessary for KPIs to be effective for decision-making. "Measuring KPIs is critical for shippers to optimize their business operations," said Kim Le, director of CargoSmart North America.

Leap year bonus. California's exporters turned in another strong performance in February, continuing an unbroken streak of monthly year-over-year increases dating back to November 2009. The value of goods shipped abroad by California businesses in February reached $12.85 billion, a nominal gain of 9.2 percent over the $11.76 billion in exports reported in February 2011, according to an analysis by Beacon Economics of foreign trade data released in late April by the U.S. Commerce Department. California's exports of manufactured goods grew by 9.1 percent from $7.53 billion to $8.22 billion, while non-manufactured exports (chiefly raw materials and agricultural products) were up by 3.6 percent from $1.55 billion to $1.61 billion. "With 2012 being a leap year, we got the Sadie Hawkins' Day bump this February," said Jock O'Connell, Beacon Economics' International Trade Adviser.

American Trucking Trends paves bright road for trucking. The 2012 edition of the American Trucking Associations' (ATA) *Trucking Trends* contains current data pertaining to the U.S. trucking industry. Data points of interest include that in 2011 trucking moved $603.9 billion in freight, which represents more than 80 percent of all freight transportation revenue. What's more, ATA said that freight weighed 9.2 billion tons or 67 percent of all freight by weight. ATA President and CEO Bill Graves described this year's edition as the most important guide to trucking facts and figures. "The information in this year's edition clearly indicates that trucking is the driving force behind our great, and improving economy," said Graves. "Safe, reliable, and efficient motor carriers enable businesses throughout the entire supply chain to keep inventories lean, thereby saving the economy billions of dollars each year." □


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Contents

MAY 2012

Technology Roundtable 32

Global risk 42

Lift trucks 46

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departments

SPECIAL REPORT

Top 30 U.S. Ports: Finding the right balance

The recent surge of U.S. exports has created a more balanced trade picture for U.S. ports and the stakeholders they serve. If this is a sustainable trend, analysts expect to see more investment in infrastructure and increased competition among the leading gateways. 50S

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VIEWPOINT

How does technology look, act, feel?

NEW AND INNOVATIVE TECHNOLOGY-driven concepts are brought to our attention on nearly a daily basis. When something really lands with us for the first time, that concept is simply comprised of words on a page or vibrations hanging in the air. We nod, say that sounds interesting, and then quickly dive back into our day-to-day grind to practice "business as usual."

It's not for a lack of intelligence or desire that most of us go no further in applying a good idea following that brief moment of inspiration. Rather, it's because many innovative technological concepts are rarely communicated in a practical, illustrative fashion.

We're often left with the questions: What does this look like, act like, feel like when it's implemented into my logistics operations? What tools or software do I need to see this through? What's the benefit?

Well, this month we're taking a shot at helping *Logistics Management* (*LM*) readers gain a more practical feel for a few innovative—possibility game-changing—technology-driven concepts that I've been hearing quite a bit about recently.

Indeed, the ideas that surround terms like "visibility," "business analytics (BI)," "data integration," "item-level tagging," and "social media for business" have an exciting ring to them. Now we've set out to define these ideas and give shippers a snapshot of what they actually look like, act like when executed. I've yet to hear definitive definitions or "see" how they work in the field—until now.

My goal is to do this in two parts: The first part starts on page 32 with our *2012 Technology Roundtable* feature article; the second part will occur when we bring our annual *Technology Roundtable Webcast* to life on Thursday, May 31.

The foundation of both of these efforts is our panel of leading software and technology analysts—thought leaders who've been working with logistics professionals to understand the practicality of these concepts and then see them through to implementation.

Ben Pivar of Capgemini Consulting brings shippers up to speed on data integration and the "leveling of silos" across supply chain organizations; Deloitte's Jerry O'Dwyer offers shippers his definitive definition of BI and shares how Welch's has put it to work to realize more balanced shipments; Michael Liard from VDC Research updates us on the impact RFID technology is making on item-level tagging; and Adrian Gonzalez of Logistics Viewpoints shares examples of how social media is being put to work in logistics and supply chain management.

Now it's time to better understand how these technology-driven concepts look, act, and feel when implemented into your operations.

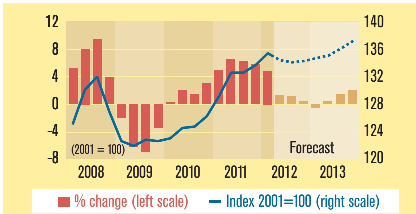
You've heard these terms bandied about, but now it's time to better understand how these technology-driven concepts look, act, and feel when implemented into your operations. Start on page 32 and bring your questions for the panel on May 31.

To register: www.logisticsmgmt.com/2012tech

Michael A. Levans, Group Editorial Director

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

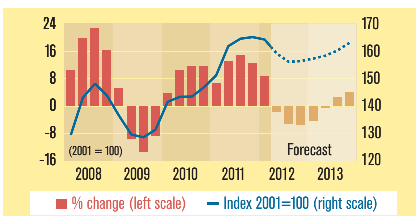
Pricing Across the Transportation Modes



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
General freight - local	0.0	1.0	1.0
Truckload	1.3	4.1	6.4
Less-than-truckload	3.1	4.2	8.9
Tanker & other specialized freight	0.6	0.8	1.7

TRUCKING

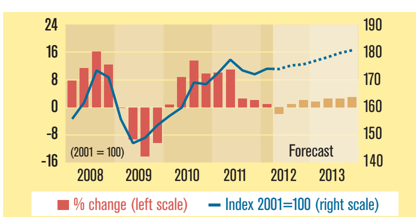
The trucking industry's inflation trajectory did hit a small speed bump. Compared to same-quarter-year-ago, price escalation in all trucking slowed from 5.8% in 2011 Q4 to 4.8% in 2012 Q1. Specifically, LTL general freight prices slowed from 8.6% to 7.2% and special freight trucking tags downshifted from 4.8% to 2.7%. Only long-distance TL revved up its price escalation, and then only slightly, from 6.6% to 6.7%. With a precarious Europe and uneasy calm in the U.S., we remain skeptical that trucking will realize an inflation surge anytime soon. Until the monthly numbers start heating up, we continue to forecast TL and LTL prices to increase only 3% and 2.5%, respectively, in 2012.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Scheduled air freight	-3.9	-2.8	3.4
Chartered air freight & passenger	2.6	0.3	-4.0
Domestic air courier	0.1	3.7	7.7
International air courier	2.1	4.9	8.9

AIR

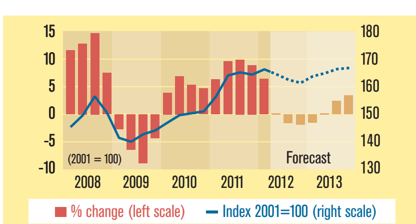
March brought a one-month 3.9% drop in transaction prices for moving freight in the belly of U.S.-owned planes on scheduled flights. Still, for the entire first quarter of 2012, prices increased 8.6% from same-period-year-ago. At least that was slower than the 12.4% year-ago price hike registered in the final quarter of 2011. Meanwhile, U.S.-owned chartered planes flying freight did more than simply slow down price escalation. Here, average quarterly prices actually were cut once in the final quarter of 2012 (down 1.3% from year-ago) and then cut again more deeply in 2012 Q1 (down 3.7%). Our forecast for airfreight on scheduled flights shows prices down 1.1% in 2012 and up 0.5% in 2013.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Deep-sea freight	3.0	2.8	-3.7
Coastal & intercoastal freight	0.1	0.6	1.4
Grt. Lks.-St. Lawrence Seaway	-0.8	12.6	15.3
Inland water freight	0.8	1.0	4.9

WATER

A cyclical downturn in prices charged by U.S.-owned ships in the deep sea category already appears firmly entrenched. Here, average transaction prices in 2011 Q4 and 2012 Q1 were down 4.4% and 4.1%, respectively, from year-ago levels. Vessels plying inland waterways, meanwhile, though not cutting prices, have reported a slowdown in the rate of price increases to 6.6% in the first quarter of 2012. Added together, average prices for the entire water transportation market have slowed from a 10.9% year-ago inflation rate in 2011 Q2 to 2.1% in 2011 Q4 and then slowed again to 0.9% in 2012 Q1. Our revised forecast for this market calls for prices to increase 0.5% in 2012 and 2.4% in 2013.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Rail freight	-0.3	0.9	5.0
Intermodal	1.6	2.6	4.2
Carload	-0.6	0.6	5.1

RAIL

Prices charged by railroads are still increasing. Yet, here too, a noticeable inflation rate slowdown has emerged. In the intermodal rail category, prices had been growing at an 11.5% year-ago rate in 2011 Q2, slowed a bit to 9.3% in 2011, Q4 and then slowed more quickly to 4.9% in 2012 Q1. Carload rail tags likewise have slowed, albeit a tad less dramatically, from 9.6% in 2011 Q2 to 8.9% in 2011 Q4 and finally to 6.7% in the most recent quarter. Prices in the carload rail market actually enjoyed a 1.1% monthly price hike in January and another 0.7% uptick in February followed by a 0.6% cut in March. For rail transport overall, we forecast average annual price increases of 0.7% in 2012 and 1.1% in 2013.

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

inside

NEWS & ANALYSIS

Fleets complaining about CSA fine print, uneven enforcement

Despite its good intentions, many carriers cite a need for improvement over regulation's methodology.

By John Schulz, Contributing Editor

WASHINGTON, D.C.—Few in the trucking industry complain about the goals of the federal government's most ambitious truck safety program in 30 years. After all, who is against highway safety? And in an era when jury awards in truck fatality lawsuits can exceed $20 million, nobody in the trucking industry can afford to run unsafe trucks with risk-taking drivers.

Compared to truck safety, motherhood and apple pie run a distant second and third in carrier priorities.

But it's the fine print, execution, and enforcement of the year-old CSA program that's irking trucking industry leaders and officials. CSA, which stands for "Compliance, Safety, Accountability," was designed to weed out as much as 5 percent (150,000) of the nation's 3 million or so long-haul truck drivers that the feds believe are involved in an disproportionately high number of truck accidents and fatalities.

"We wholly support the underlying tenets of CSA," said John White, president of U.S. Xpress, the nation's fifth-largest truckload carrier with $1.57 billion in revenue last year. "We want to drive safety. We want to improve things. We work every day to address safety. It's the core tenet we operate on every day."

But White and other top trucking executives say that CSA is suffering growing pains ranging from uneven enforcement and confusion that's causing some shippers to express bewilderment over the exact nature of the entire program—and it's one of the few issues that trucking executives, company drivers, and owner-operators see eye-to-eye on as the government tries to get it right.

At the recent Mid-America Truck Show in Louisville, truck drivers gave Anne Ferro, the well-meaning administrator of the Federal Motor Carrier Safety Administration (FMCSA), an earful as she tried to explain where the new program is heading.

CSA uses a complex scoring system to rate the nation's nearly 700,000 DOT-registered interstate trucking entities on seven "Behavior Analysis and Safety Improvement Categories," known as "BASICs." Those seven BASICs are: unsafe driving, fatigued driving, driver fitness, alcohol and drugs, vehicle maintenance, cargo security and crash history.

Carriers are given "scores" in each category—higher the score the worse the performance. So-called "warning letters" go out to fleets with scores above 65 (which means that only 35 percent of carriers in their class have worse scores). For hazmat carriers, the cutoff score is 60.

Already, Ferro is talking about eliminating the cargo security BASIC altogether and replacing it with a hazardous materials score. There are also changes coming in the way driver-only inspections are performed.

Carriers say uneven enforcement among the states can be a huge factor in a fleet's overall score. Let's say Arkansas is a state where truck enforcement is stringent and Florida is lax. If a greater percentage of a carrier's overall miles happen to be in Arkansas rather than Florida, there is a greater likelihood that fleet's score will be lower on safety.

"There are some challenges in methodology and how scoring is being done," USX's White says. "The real issue is does the scoring really point out the bad operators from the good operators? The challenge is now consistency state to state. It can vary. You have some very aggressive high enforcement states and others not as aggressive."

FMCSA officials are getting credit for listening to the industry's complaints about CSA. And to its credit, FMCSA says the year-old program is at least partly responsible for a 9 percent reduction in roadside safety violations and a 12 percent drop in driver violation rates.

To its credit, the trucking industry has largely accepted that officials openly admit that it's "a work in progress." Most industry officials have accepted it for what it is—a large government program ripe with errors, overreaches and changes—and have credited FMCSA for being able to listen to industry gripes.

"To FMCSA's credit, they are listening to the industry, enforcement community, and stakeholders," Bob Petrancosta, vice president of safety for Con-Way Freight, says. Like White of USX, he feels that CSA is a worthwhile endeavor and worth the growing pains to get it right. ☐

GLOBAL LOGISTICS

FedEx remains fully committed to European expansion

MEMPHIS—When UPS said in March that it was acquiring TNT Express for nearly $7 billion, many freight industry and logistics stakeholders said that this would spell bad news for FedEx, UPS's biggest competitor, in terms of it's ability to grow and expand in Europe.

But FedEx does not see that assessment as entirely accurate.

In fact, since that big UPS-TNT deal was announced, FedEx has made two European-based acquisitions. One was an early April acquisition of Poland-based courier company Opek Sp.Z o.o. Financial terms of that deal were not disclosed. Company officials said that the Opek acquisition, which is expected to close this summer, is part of its growth strategy in Europe and is expected to supplement FedEx' service portfolio in Poland.

And later in the month, FedEx acquired TATEX, a French B2B express transportation company focused on heavy shipments. TATEX was established in 1976 and has more than 1,000 employees and a nationwide network which includes a central hub near Paris and 35 stations including 6 regional hubs.

The company carries more than 19 million parcels each year and provides a wide range of express and time-definite services for parcels and pallets of up to 800 kg in France and throughout the world. The majority of TATEX's customers are in the high technology, spare parts, automotive, and clothing industries.

FedEx Chairman, President, and CEO Fred Smith said on the company's March 22 fiscal third quarter earnings call that FedEx has a profitable multi-billion dollar business in Europe that is growing strongly.

"I am extremely pleased with our operations there and very confident in our plans to continue expansion, primarily through organic growth," said Smith. "We believe these plans will continue to improve our competitiveness in Europe and further continue to contribute to profitable international growth."

What's more, Smith noted that even though FedEx is doing well there, growth rates in Europe are extremely low and are likely to continue to remain low as long as the policies being pursued in Europe remain the same as they have for the last 20 years to 25 years. These policies, he said, are not stimulative for GDP growth, aside from relatively low levels.

Among the inroads FedEx has made in recent years in Europe are:

- the 2006 purchase of ANC Holdings Limited, a UK domestic express transportation company;
- the 2007 rollout of its wholly-owned operation in Hungary following the acquisition of its service provider Flying Cargo Hungary Kft.;
- the 2010 relocation of its Central and Eastern European hub from Frankfurt to Cologne and a 2009 expansion of its European hub at Roissy-Charles de Gaulle Airport in Paris, which is the largest non-U.S. FedEx hub;
- and so far in 2012, FedEx Express has opened 26 new stations in France, Germany,

Italy, the Netherlands, Northern Ireland, and Sweden, coupled with FedEx Trade Networks opening up 22 locations in recent years.

Jerry Hempstead, president of parcel consultancy Hempstead Consulting, said that FedEx has a long history of purchasing transport companies in Europe, which always have been very market focused acquisitions.

"Not all of them have worked out well, and FedEx has a lot more experience now discerning firms that will be a good fit," said Hempstead. "A good piece of European transport is accomplished by niche firms, as much of the available business is within very defined geographic areas. Cherry picking is as valid a strategy as is buying an entire network like TNT. Both strategies can result in revenue and profit accretion if done well."

Hempstead also pointed out that the type of European moves that FedEx is making in buying smaller companies may have a much faster track to approval than the UPS/TNT deal—and may not come with the union complications that the UPS acquisition will face.

"There will be many more marriages as time progresses," Hempstead explained. "We're just seeing the chess pieces lining up in tactical fashion before the economy begins to crank up again and these deals become more expensive.

—Jeff Berman, Group News Editor

TRADE

Port Tracker report expects April imports to be up 3.2 percent

NEW YORK—As the economy continues to show moderate signs of growth, the monthly Port Tracker report by the National Retail Federation (NRF) and Hackett Associates expects import cargo volumes at U.S. ports to post a 3.2 percent annual gain in April.

Port Tracker indicated that the first half of 2012 is expected to total 7.3 million twenty-foot equivalent units (TEU), which would represent a 2.2 percent annual gain. The 2011 total was 14.8 million TEU, which was up 0.4 percent over 14.75 million TEU in 2010. Volume in 2010 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, Charleston, and Savannah.

"Retailers are continuing to watch rising gas prices, but job gains and other indicators show the economy is strengthening," said NRF Vice President for Supply Chain and Customs Policy Jonathan Gold.

In February, the most recent month for which data is available and typically the slowest month of the year, U.S. ports surveyed handled 1.04 million TEU, down 16 percent from January's 1.22 million TEU and down 5.7 percent compared to February 2011.

Port Tracker is calling for March to hit 1.19 million TEU for a 9.6 percent annual gain, with April expected to hit 1.25 million TEU for a 3.2 percent annual hike. May is expected to be flat at 1.29 million TEU, matching expectations for January at 1.29 million TEU, which would be up 3.6 percent. July and August at 1.35 million TEU and 1.42 million TEU are expected to be up 1.9 percent and 7.4 percent, respectively.

In the report, Ben Hackett, president of Hackett Associates, said that the report's forecast for the rest of 2012 is back to "traditional Peak Season patterns."

Hackett explained in an interview that even with relatively low growth levels and some economic uncertainty, "the overall economic fundamentals in the U.S. are strong, with steady retail sales growth, strong supply chain management, and a rebound in consumer confidence coupled with industrial production continuing to grow at a rate that has exceeded economists' expectations."

—Jeff Berman, Group News Editor

FUEL

ATA pushes tax swap, asks for 6.3-cent hike in federal diesel tax

WASHINGTON, D.C.—In an unusual move that is likely dead on arrival in an election year, the trucking industry is asking Congress to raise the federal fuel tax on diesel in exchange for dropping a 12 percent federal excise tax on large trucks.

In a plan that could cost shippers higher freight rates and fuel surcharges, the American Trucking Associations

(ATA) is pushing for the unusual swap in an attempt to provide a more stable source of revenue for improved infrastructure spending.

At a time when a long-term highway bill is stalled in Congress and unlikely to pass until after the November elections, the ATA is backing a bipartisan bill in Congress that would provide what the trucking lobby calls a "modest" increase in diesel fuel taxes.

The bill—H.R. 4321—has been introduced by Reps. Jim Gerlach, R-Pa., and Earl Blumenauer, D-Ore., and endorsed by the ATA. If adopted, new trucks will be more affordable in the U.S., but diesel fuel taxes would increase.

The federal tax on fuel—23.4 cents for diesel, 18.4 cents for gasoline—has been unchanged since 1993. Because of inflation, the federal fuel tax does not provide enough funding into the Highway Trust Fund, which repeatedly has had to have an injection of funds from the general treasury the past few years in order to remain solvent.

The bill is considered a long shot to pass in an election year, and Congress has been unwilling or unable to find a stable source of funding for a long-term highway bill. Instead, it recently passed the ninth short-term extension, continuing funding at the old level for the next six months.

ATA President and CEO Bill Graves calls the fuel tax for excise tax swap a good deal and a tradeoff the trucking industry seems willing to make.

Graves said the proposal "would not only reinforce the ailing Highway Trust Fund, but would provide a boost to U.S. manufacturing and speed adoption of environmentally friendly technologies."

Defying conventional wisdom that says no tax increase ever passes in an election year, Graves said the Gerlach-Blumenauer proposal is what the country and the trucking industry needs at this time.

"It is exactly the kind of pro-growth, deficit-trimming legislation that lawmakers should be looking at as they seek to address our nation's economic woes," Graves said in a statement.

The bill would see the federal diesel tax go up 6.3 cents per gallon. But because fuel sales are more consistent than the notoriously cyclical new Class 8 truck market, the new tax increase would provide a more stable long-term source of funding than the excise tax.

Graves added that the elimination of the excise tax—about $15,000 on the cost of new truck that costs about $125,000—would spur sales of new trucks, providing a boost for manufacturing and accelerate the adoption of new technologies aimed at improving safety and fuel efficiency.

"Legislation like this is a win-win for the government and for the business community and should be swiftly enacted," Graves said.

In a related tax development in Washington, lawmakers are mulling extension of a popular bonus depreciation for capital spending. That 100 percent bonus depreciation was begun in 2010 as part of President Barack Obama's economic stimulus package. It has worked well according to the figures, spurring near-record Class 8 truck sales the past two years.

But it expired at the end of 2011. Sen. Christopher Coons, D-Del., has introduced a bill that would extend the tax break for fleets until the end of this year. That would mean that fleets could deduct 100 percent of the purchase price of heavy trucks in the first year, rather than spread the deduction over several years.

—John D. Schulz, Contributing Editor

PROFITS

UPS reports first quarter revenue is up 4.4 percent at $13.1 billion

ATLANTA—First quarter revenue for transportation and parcel giant UPS increased 4.4 percent to $13.1 billion, the company announced in late April. Quarterly adjusted operating profit rose 6.6 percent to $1.57 billion, and earnings per share of $1.00 was up ten percent annually, falling just short of Wall Street estimates of $1.01 per share. Quarterly net income at $970 million was up 6.6 percent.

The company's U.S. domestic and supply chain and freight segments paced quarterly growth for the company, with 13 percent and 19 percent gains in operating profit, respectively.

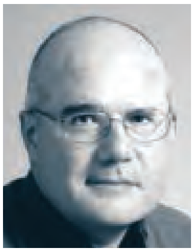
"The year is off to a good start," said UPS Chairman and CEO Scott Davis on an earnings conference call. "We announced our intention to acquire TNT Express, an investment that will contribute to our growth for many years to come, and our first quarter results built upon momentum from last year. We continue to see strong demand for UPS products and services, especially in the U.S. and Europe."

Davis noted that in January, UPS said that expectations for the U.S. economy were improving, especially when compared to the rest of the world. And during the first quarter, he said that most of the positive economic news has come out of the U.S., with signs of an economic rebound—being evident.

But other economies continue to face challenges in the form of Europe's struggles with austerity measures and slowing growth out of Asia as well. But even with those challenges Davis said UPS continues to see its export volumes in Europe and intra-Asia perform well, as it continues to grow in these areas through acquisition, including TNT Express and February's acquisition of Brussels-based Kiala, a technology provider with a platform that allows e-commerce retailers to offer consumers the option of having goods delivered to a convenient retail location.

—Jeff Berman, Group News Editor

Moore on



Increasing the intermodal mix

IN 2012, THE PRUDENT SHIPPER HAS TO be looking for options to traditional long-haul trucking in an attempt to control costs and ensure that capacity is available to sustain operations.

Fuel prices continue to trend up, while large numbers of professional truck drivers are retiring or leaving the business according to the research firm Global Insight. In fact, their projection in 2005 of an ongoing shortage of over 50,000 drivers per year was only temporarily delayed by the recession and the extension of some careers by older drivers. The pain of a trucking equipment shortage has been avoided due to the growth in intermodal rail capacity, government tax incentives to buy new trucks, and a sluggish economy.

The first and most obvious option for shippers to control costs and ensure capacity is to find those lanes of freight movement that lend themselves to intermodal conversion. In many cases, the rates can be better while service is competitive. Choosing between truckload and intermodal services, however, is not as easy as either clicking highway or rail. There are a growing number of options to consider.

Intermodal usage is less dependent upon proximity to rail yards; in fact, many truck carriers have integrated rail into their key lanes reducing the role on short-haul draymen. And with more carriers and 3PLs able to offer intermodal, there's more of a chance for competitive negotiations—so explore the services of rail and highway carriers.

A second option for those with enough steady volume in established lanes is to contract for dedicated carriage. Work a partnership with an asset-based provider that can enable the shipper to have transparency into key cost areas for the carrier and influence cost levers such as fuel, insurance, backhauls, and driver hours. Intermodal may be a part of the mix in dedicated carriage if the shipper and carrier work to bring other parties into the network—perhaps suppliers and customers at ideal locations. Any contract for dedicated carriage needs to be set up from a distribution model jointly developed between carrier/equipment provider and the shipper. A key question to start with is whether the equipment is running full in all directions.

A third option that is ready to take center stage is the other mode in intermodal: water. I'm referring to the avoidance of land bridge (transcontinental) land movements by using water. While we've used the Panama Canal for decades, the

The first and most obvious option for shippers to control costs and ensure capacity is to find those lanes of freight movement that lend themselves to intermodal conversion.

capacity of vessels is about to jump significantly, thus freeing up long-haul rail and truck capacity. Shippers should be doing the planning now and seeking out those service providers who will be taking advantage of this new capacity.

However, with options we need tools. Today there are web-based modeling tools to do what-ifs on transportation. Shippers who have intermodal options or the density to support dedicated carriage are going to be able to expand their vision and that of their partners. There are asset-based and non-asset based providers who can bring these tools to the table.

Shippers need to step up their game in the face of higher highway cost drivers. Look at the network today and after the new Panama Canal opens. Look at the extended network of suppliers and customers that you work with; and most importantly, begin to formally model your options together with your partners. □

Peter Moore is a Program Faculty Member at the University of Tennessee Center for Executive Education, Adjunct Professor at The University of South Carolina Beaufort, and Partner in Supply Chain Visions, a consultancy. Peter can be reached at pete@scvisions.com.

Pearson on

Insights on supply chain risk

Part II: Findings of the World Economic Forum study

This month we reflect on the views of the businesspeople, government policy makers, and academics that participated in the World Economic Forum (WEF) study of supply chain risk. For Part I, go to www.logisticsmgmt.com/Excellence1.

In the April edition of *Logistics Management*, I profiled a variety of research efforts targeting supply chain risk. If there is a common theme that straddles those various findings, it is this: The scope, intensity, and economic consequences of supply chain risk are greater today than in any other period in recent history—and new solutions for mitigating and managing risk are clearly needed.

This month, I'm taking a look at the nature and focus of a select few solutions. Whereas last month's column profiled research by numerous entities, this month's column specifically reflects the views of the businesspeople, government policy makers, and academics that participated in the recently conducted World Economic Forum (WEF) study of supply chain risk.

First and foremost, no recommendation put forth by members of the WEF initiative should be deemed more important than a call for increased collaboration. Three interlocking views explain why:

1. Risks outside the control of individual organizations—from terrorism and weather to currency shifts and political upheavals—have been escalating furiously; so much so that few, if any, of those concerns can be fully addressed by one entity. As a result, risk must be managed across companies' global supply chains, in lockstep with manufacturers, suppliers, customers, and third parties.

2. Risk assessment, planning, and response can no longer be the sole province of operational risk managers. Effective risk management must now encompass multiple levels within an organization: from C-suites and boards to logistics, finance, and human resources.

3. Governments must be encouraged to help companies understand and manage risk. The political, economic, and security implications of regulating in a complex environment demand greater public/private cooperation.

The above insights are not simple calls to join hands. The point is that supply chain risk has become too big an issue to handle insularly. In most cases, risk has gone global; and broad-based, inter-organizational responses are key.

The WEF task force also identified five high-level risk-management priorities. These are not mutually exclusive but rather should be thought of as an integral suite of capabilities:

First and foremost, no recommendation put forth by members of the WEF initiative should be deemed more important than a call for increased collaboration.

1. Risk-quantification metrics.
Insufficient or improperly focused metrics leave many companies struggling to quantify the risk exposure of their own organizations, or to compare risk mitigation service providers.

Thus, a top priority is developing a broadly accepted set of supply chain risk-quantification metrics that can be used to obtain accurate, consistent insights, prioritize risk management activities more effectively, and align incentives, exposure, and risk appetite.

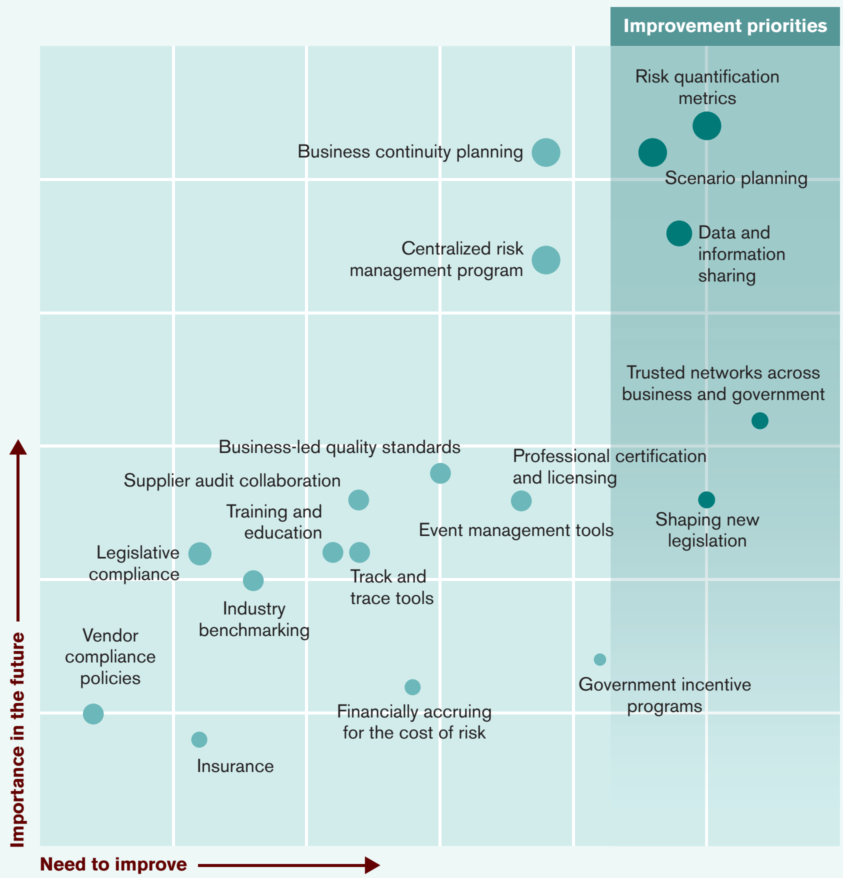
2. Scenario planning.
Conducting scenario planning on a regular basis ensures that external risks and network vulnerabilities are always top of mind and that associated mitigation controls are effectively updated.

Scaling scenario planning to the multistakeholder level is also vital because it enhances a company's understanding of external environments—while contributing to better anticipation of actions by network partners and improved joint preparation of continuity plans.

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

For a deeper look inside the findings of the World Economic Forum (WEF) study of supply chain risk, turn to this month's Global Logistics feature "New perspectives on global risk" on page 42.

Risk management improvement priorities



Source: World Economic Forum Supply Chain and Transport Risk Survey 2011

3. Data and information sharing. Access to accurate, reliable information can help create a clearer global picture of supply-chain-wide vulnerabilities and support the harmonizing of backup plans in the event of a disruption.

Identifying recurring risks at the industry level can also help businesses and governments focus efforts on increasing network resilience. Two specific actions topped the WEF list: establish reliable dashboards for macro-level information flows, and increase data circulation across end-to-end networks to maximize network-wide transparency.

4. "Trusted networks" across business and government. Bringing together public and private sector entities will allow greater sharing of data and information, thus enabling organizations to better understand and quantify supply chain risks.

This in turn will point public and private sector investment more tightly toward areas of vulnerability and facilitate the development of proactive and effective legislation.

5. New legislation and regulation. Simplified and internationally harmonized risk legislation emerged as a key WEF priority. One reason was that poorly targeted regulation could exacerbate supply chain problems.

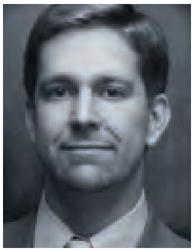
Consider that when Iceland's Eyjafjallajökull volcano erupted in 2010, the sluggish response of European transport ministries and civil aviation authorities resulted in uncertainty and delays restarting air traffic. This was primarily the result of failing to recognize in advance the potential threat of volcanic ash clouds from Iceland, the inflexible nature of existing aviation protocols, and the absence of any pre-existing agreement on safe ash levels.

While the above steps are high-level, they still represent a valuable framework that companies can use to approach risk management.

And given risk's growing presence and sweeping implications, many organizations should conclude that new approaches are vital. □

OIL+FUEL

Andreoli on



Don't blame the speculators

Part I: Never trust a politician to explain oil prices

Author's Note: *By understanding the markets and how oil prices are set, shippers and carriers will more aggressively look for ways to increase the fuel efficiency of logistics operations. Along these lines, the second part of this series, next month, will dive deeper into how futures markets work and why they are nothing to be feared or loathed.*

I BELIEVE IN MARKETS. I believe that when supply falls short of demand, prices increase; and in doing so send signals to consumers to conserve and producers to invest. I bet you agree.

Yet, when it comes to the price of oil and fuel, a significant portion of the population believes that Wall Street speculators are responsible for driving prices above the level supported by the fundamentals of supply and demand. While this explanation may be politically expedient, it reveals more about the politicians who have been promoting it than the oil market itself.

Shortly before penning this article, 70 members of Congress signed a letter addressed to the Commodity Futures Trading Commission (CFTC) urging the agency to lower position limits and increase margin requirements. Position limits cap the number of open trades that a single firm or individual can take, and margin requirements are the amount of collateral that must be posted to protect against credit risk.

Position limits can conceivably have some effect on the market-moving power of an individual institution, but to date nobody has demonstrated that this power currently exists. Lifting margin requirements, on the other hand, is like using a screwdriver to hammer in a nail. Margin requirements are tools for managing credit risk. They are not designed to dampen prices or minimize volatility. More importantly, increasing margin requirements will disproportionately impact traders with less capital, thus concentrating power in the hands of the larger players.

The letter further urged the CFTC to "utilize all authorities available to…make sure that the price of oil and gasoline reflects the fundamentals of supply and demand." To borrow the language of the Dodd-Frank Act to which the letter refers, the CFTC is being pressed to curb "excessive speculation." But precisely when does speculation become excessive?

If excessive speculation is defined as speculative activity that pushes the price above the level supported by the fundamentals, the letter will fall on deaf ears.

The CFTC's own investigation of the impact of speculation on the oil market determined that there was no evidence that the 2008 price spike resulted from the actions of speculators. Rather, the report concluded that the price spike was the result of surging global demand and stagnant production—a viewpoint that happens to be supported by the data.

If the CFTC is guilty of having deaf ears, they are hardly alone. At the request of Congress, the Congressional Research Service (CRS) studied the effects of speculation on oil prices. The CRS concluded that although rising prices are correlated with an increase in speculative positions, the line of causality could just as easily run in the opposite direction than is commonly assumed. It is not unreasonable to suspect that tight markets and rising prices lured investors to purchase oil futures.

Speculators and hedgers collectively set the price through the positions they take on futures markets, but they are only reacting to the fundamentals.

The CRS clearly states that: "The data do not support an argument that recent oil price spikes are the result of large, sudden inflows of speculative funds." Regarding margin requirements, the CRS further concluded that there is "no empirical evidence that higher margins dampen price volatility."

If the actions of the 70 signatories in Congress prove anything, it is that the CRS findings have fallen on deaf ears.

Market fundamentals in 2012

So, are the market fundamentals different this time around? Yes and No.

When demand grows faster than supply, surplus oil production capacity diminishes. During the prolonged price run that culminated in the 2008 price spike, surplus oil production capacity diminished from 9 percent

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of total liquid fuel consumption to just over 1 percent.

The global recession that ensued pulled down demand, and surplus capacity climbed to over 5 percent. Since the first quarter of 2010, surplus capacity has been declining and prices have been rising. This time around, however, tightening markets have been accompanied by rising geopolitical tensions that threaten to wreak further havoc on oil markets.

Geopolitical risks are to some extent priced into the futures market, and as high as prices are today, they would be much higher if Europe was not at risk of diving into a debt-induced recession.

Rising prices suppress demand and inspire upstream investment in exploration and production. As such, they are precisely what the world needs given the trend in declining surplus capacity.

So, are speculators responsible for the rising price of crude? The short answer is a qualified, yes. Speculators and hedgers collectively set the price through the positions they take on futures markets, but they are only reacting to the fundamentals. Of course, these same energy traders are also responsible for the historically low natural gas prices that we currently enjoy, and in both the oil and natural gas futures markets, trades are based on a reasoned analysis of market fundamentals adjusted to a risk premium.

Given that this is an election year, it's easy to understand the temptation to scapegoat, and Wall Street speculators make an easy target. But speculators are not to blame. They simply translate the fundamentals into a price, and they do so collectively through their trades.

The position limits and margin requirements outlined in Dodd-Frank won't solve the problem of high prices and high volatility, though they will likely transfer some trading from the more regulated NYMEX to the less regulated Intercontinental Exchange, which is where Brent oil futures are traded.

And this brings up another relevant point. If NYMEX speculators are driving the price up, why has the price for WTI fallen against Brent? The answer is simple. Speculators are reading the fundamentals, and the fundamentals of WTI are different than Brent.

Political grandstanding and "sloganizing populism" is not only ineffective; it is counterproductive. Chasing scapegoats confuses the average Joe, which will only make intelligent energy policy that much more difficult to design and enact.

More importantly, chasing scapegoats does nothing to help your bottom line. □

2012 Rail/Intermodal Roundtable: Rail's new golden era

Savvy shippers have found ways to put the nation's rails back to work—and the railroads have flourished. But while current market conditions remain favorable for shippers, questions over how the nation's rail and intermodal network will respond when volume ratchets up past pre-recession levels remain.

BY **JEFF BERMAN**, GROUP NEWS EDITOR

Unlike other modes of freight transportation, which saw peaks and valleys brought on by the Great Recession, railroad and intermodal service providers came out mostly unscathed—especially when compared to their trucking, ocean, and air brethren.

And it certainly appears to be a good time to be a rail or intermodal shipper. For one thing, fuel prices are still heading up, which in turn makes transporting freight on the rails a smart economic proposition. At the same time, rail and intermodal service levels remain strong because volumes for both modes remain below pre-recession levels.

While rail and intermodal have a lot working in favor for shippers, the modes are not without their issues. Some rail shippers still feel that they're powerless when it comes to rates and maintain that higher prices are not always commensurate with better service. In the meantime, the issue of re-regulation is one that's never far from the mind of anyone shipping or working in the market.

Over the next few pages, our panelists, leading rail and intermodal experts, will put the current rail and intermodal market conditions into perspective and offer their stance on volumes, service, pricing, and the regulatory environment. Our panelists include: Brooks Bentz, partner in Accenture's Supply Chain Practice; Tony Hatch, principal of ABH Consulting; and Larry Gross, senior consultant at FTR Associates.

***Logistics Management (LM):* What is your take on the current state of the railroad and intermodal markets?**

Brooks Bentz: Railroading continues to flourish as the recession torques back into recovery, and this will likely continue for quite some time. Domestic intermodal is doing well, and international is sluggish, although an increase in the range of 4.0 percent to 4.5 percent is predicted. Carload is doing OK, basically tracking close to GDP, with the major exception of coal, which is seeing year-over-year declines. Industry leaders fairly uniformly see it as a one-way slide, with recovery of any magnitude not likely to happen any time soon.

This, though, has not materially dampened the overall rail recovery. Of course, the acid test will be how the respective networks respond when volume ratchets up past pre-recession levels. Virtually all the big guys have continued investing in infrastructure, so it will be interesting to see.

Tony Hatch: From where I sit, the railroad market is mixed, and this reflects not so much on the economy as much as the strange story in the bulks, with coal down due to weather-related factors, as Brooks mentions, along with cheap natural gas and grain down due to various near-term factors. Everything else—including intermodal—is doing fine in 2012.

Larry Gross: Overall, the rail carload and intermodal sectors are making good progress. Although GDP growth is modest, volume growth is being supported by the high freight content of the recovery. Service levels are looking excellent, as the rail network appears to be operating very smoothly.

***LM:* While carload volumes are still below pre-recession levels we do see them beginning to rise. Do you feel things going in the right direction on the carload side?**

Hatch: Yes. Even housing-related stuff is beginning to show signs of life. A big factor, of course, is the double-edged sword that is shale. There are also growth components that come along with it in the form of sand, infrastructure materials, and in some cases (particularly the Bakken) oil-by-unit trains or rolling pipelines—and it has completely changed the game for the domestic chemical industry, perhaps even steel. Beyond shale, the automotive recovery has been impressive.

Gross: Tony is spot on. The modest level of overall carload growth is masking some excellent progress across many commodities. Total volume has been held down by lackluster performance in the important commodities of coal and grain. Carload activity is showing broad-based strength indicating an improving economic outlook.

Coal is suffering from a combination of immediate and long-term issues. In the near-term, coal carloads are being hurt by the warm winter weather and weaker export coal demand as competing international sources come back on stream. Long term, utility coal will be constrained by growth in natural gas generating capacity fueled by low-priced natural gas. Grain shipments have also been affected by weaker export demand. On the plus side, strong growth is being recorded in motor vehicles and metal products, while oil-shale related development is fueling strong growth in shipments of petroleum, and hydraulic fracturing sand.

"Intermodal will be a secular growth story for years to come. Why? It's really a combination of the usual suspects: poor highway infrastructure, driver issues, fuel, and carbon."

—Tony Hatch, ABH Consulting

Bentz: In general, I think carload is headed in the right direction. Again, it seems to be tracking roughly at pace with GDP growth. However, there are some things looming on the horizon that may blunt the recovery a bit. For instance, with the price of oil advancing each year and the giant reservoir of natural gas, a shift is occurring and that will eventually impact oil movements by rail as well as coal, probably for the long-term.

Coal is already losing ground and many think it will continue to do so, although a relatively small increase in the price of natural gas will make coal competitive again. With a slow-down in exploration and drilling of natural gas, sand and clay carload volumes have also fallen off. When housing starts and industrial construction begins to bounce back steadily, the traditional carload business—dimensional lumber, plywood, asphalt shingles, sand, and gravel—will do better.

***LM:* Intermodal volumes, particularly domestic containers, continue to outperform carload volumes and have been for a while. That said, how much staying power does intermodal have?**

Gross: Although intermodal has always offered shippers the opportunity to reduce cost versus over-the-road, it formerly came with an associated price tag of unreliable service that made the cost/service package unpalatable to many shippers. What has changed in recent years is that although intermodal service is still slower than truck, the all-important reliability of the service has achieved an acceptable level.

Intermodal is less sensitive to many of the factors that are working to increase trucking costs, including lower reliance on the driver pool and greater fuel efficiency. As truck capacity continues to tighten over the next few years, intermodal will provide an important alternative. Meanwhile, substantial investments are being made in new terminals, particularly in the eastern region. These will serve to open up new territories and shorter lanes to intermodal service. Therefore, we expect intermodal growth to continue, provided that adequate service levels are maintained.

Hatch: Intermodal will be a secular growth story for years to come. Why? It's really a combination of the usual suspects: poor highway infrastructure, driver issues, fuel, and carbon.

Bentz: Larry and Tony are both correct. I don't think that there are any short-term obstacles to intermodal growth. Railroads and ports are continually investing in improving and expanding infrastructure, so it will take a major trade spike to overwhelm the network.

And that does not seem to be in the immediate offing. George Patton said, 'Don't fire rifles at enemy tanks.' For one, it has no effect. For another, it tells the enemy you don't have an anti-tank weapon. Intermodal is not in that situation. The weaponry to handle fairly significant increases in volume seems to be mainly in place and being augmented.

***LM:* Where do railroad and intermodal service levels currently stand in light of current market conditions, and what can shippers expect in terms of service over the next year?**

Bentz: The overall network fluidity is better now than at almost any time in memory. In part that was due to the lower volumes of the recession, in part due to continuing investment by the big guys in capacity expansion and augmentation, and it part due to operating more effectively as a result of the "diet" everyone went on through the recession.

Gross: There was actually a significant improvement in rail service metrics as 2011 came to a close. While mild winter weather surely helped, it cannot account for all of the improvement. Train speeds have reached levels not seen since 2003. This is impressive, given that in 2011 volumes were quite a bit higher than they were back in 2003. Yard dwell time also improved in late 2011.

Cars online are down versus prior year even though volume is up. Car productivity in terms of loads per week


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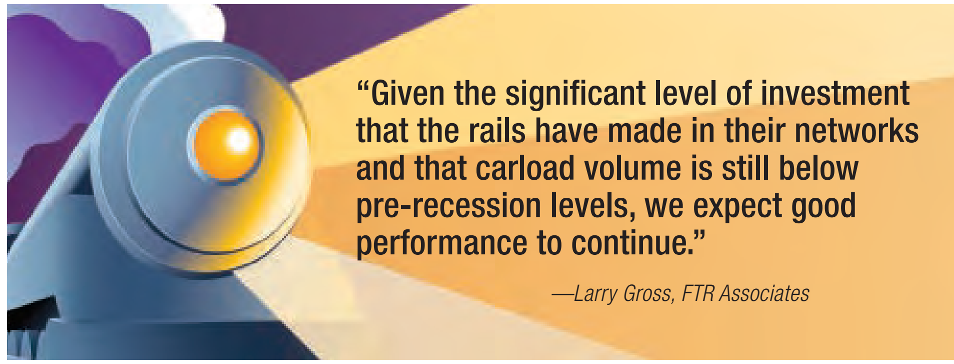


per car appears to have been on a general upswing throughout most of 2011. Given the significant level of investment that the rails have made in their networks and that carload volume is still below pre-recession levels, we expect good performance to continue. Our only caveat would be that, historically, the industry does not handle big spikes in volume very well, and in the event the economy were to recover more quickly than we expect, we could see shortages in crews or power that would impair performance.

Hatch: Railroad and intermodal service levels are at all-time highs, particularly with Canadian Pacific out of its funk. But these service levels must continuously improve for domestic intermodal to grow in the short-haul lanes.

***LM:* In what ways are market conditions affecting capacity and rates for rail and intermodal?**

Bentz: Probably the largest single driver of pricing and capacity is the cost of fuel. An increase in the price of diesel fuel of 15 percent has a much different net effect in cost per mile of a 53-foot box being towed by a tractor getting 8 miles per gallon than 200 of them on a stack train moving each box something like 500 miles on a gallon of the same stuff.

There's an inherent leverage there that favors rail and the leverage will continue to increase as fuel prices continue to rise. You can make something of a similar case for carload, although the market dynamics are considerably different.

Gross: In the meantime, the market for international containerized cargo movement is in turmoil, but this is due to conditions on the water and not on the rail. The ocean carriers are introducing massive amounts of capacity in the form of new mega-sized ships. These capacity additions are far greater than would be required given even the most optimistic near-term growth forecasts.

This excess capacity is putting substantial downward pressure on ocean rates. And with that, there should be plenty of capacity for intermodal movement of international cargo on the rail. The 2011 peak was still about 15 percent below the all-time peak in intermodal revenue moves that occurred in 2006. Since then, there has been substantial investment in network capacity by the rails in the form of double-tracking and new terminals. On the domestic side there may be a concern with regard to the adequacy of the supply of 53-foot domestic containers.

Large acquisitions of equipment in 2011 left intermodal providers with excess boxes. Consequently, most are planning only modest additions in 2012, if any. Strong growth in domestic container movements could therefore put a squeeze on supply, with consequent upward rate pressure.

***LM:* Is pricing where it needs to be, given that rails are on the hook for the lion's share of their CAPEX, which is at record levels three years running?**

Hatch: Pricing must continuously beat rail inflation, for I suspect that the CAPEX story is not going away either. The rails will need to provide more and more capacity for this to work, and that comes at a greater cost that requires an investable ROI.

Gross: The railroads have demonstrated that they are highly disciplined rate makers. Rates have been moving steadily higher, and I see no reason to expect that the trend will abate.

The operating ratios of most rails have been moving steadily downward, signaling improved profitability, due to a combination of increased efficiency and higher rates. I believe that there's still significant room for improved efficiency even given the progress that has been made to date, so rail financial results will not depend solely on rate increases for improvement.

Bentz: I think prices are probably OK. The big challenge is that in the post-deregulation era, prices, in general, dropped considerably and consistently for more than 20 years. That's been true for the other modes, too. As a supply chain guy, it was easy to look really smart for a very long time. Prices, largely driven by fuel, have been rising for a while at the TCO level and that's not going to change. It's just a harder and less pleasant story to tell the boss than when prices were falling.

I believe we will see sustained price increases, with some temporary exceptions, in all the modes for quite some time. The recession blunted some of this, but, even in the recession, prices managed to rise a bit. So, the railroads will continue to do well, in part because of the ability to raise prices judiciously and because they did such a good job of managing cost control during the recession that they are leaner and more efficient than at the outset.

***LM:* Maybe it's because it is an election year, but things have been very quiet in terms of railroad re-regula-**

tion and antitrust. Will the drum resume beating on those fronts at some point?

Hatch: I see it on the wane, but it's like a pendulum. Shippers see the need for capacity, however, and that keeps those interested in some form of re-regulation from actively joining those who have historically been all about that as their only issue. As long as service and capacity are taken care of, re-regulation talk will remain an irritant and not a terror.

Bentz: I think this will always be on the horizon when you have limited competition and rising prices. Re-regulation is essentially re-distribution of wealth: 'I'm going to take this money out of your pocket and put it in mine.' The entire rail industry is smaller and less profitable than some of those entities agitating to re-regulate it, so on balance I think it will remain problematic. There are instances where it may make sense, and certainly abuse can't be condoned. Fairness needs to rule and in some cases it takes an objective third party to pass judgment on exactly what is fair.

Gross: I agree with Tony and Brooks. At the moment we don't expect major changes in rail regulation. This could change depending on how the elections in November turn out. If the Democrats were to make gains then the potential for increased regulation would increase.

***LM:* How will the rail and intermodal markets look five years from now?**

Gross: I don't expect drastic changes. With regard to rail carload, the marketplace has already done a very good job of allocating traffic between rail and highway. We don't expect major shifts in share between rail carload and highway barring dramatic changes in the environment or regulation.

Bentz: I see more significant growth as fuel continues rising and highway congestion continues worsening in key markets. The caveat is that the railroads continue expanding infrastructure capacity. Network congestion has been absent over the past couple of years, mostly due to the fall-off in volume with the onset of the recession. Long-term growth forecasts still predict network congestion as capital requirements fall short of capital needs.

Hatch: My forecast is simple: Both markets will be better, bigger, and stronger and will be a larger part of the continental—and global—supply chain.

—Jeff Berman is Group News Editor, Supply Chain Group

LM EXCLUSIVE

2012 Technology Roundtable

Harnessing the new waves of data

BY **MICHAEL LEVANS,**
GROUP EDITORIAL DIRECTOR

Five leading technology analysts explore the roles ERP, business analytics (BI), RFID, TMS, and social media are playing to help logistics professionals capture and utilize data to improve supply chain visibility—and their careers.

As supply chain organizations evolve technologically and do a better job of collaborating with both their internal and external partners, the next challenge is integrating and interpreting the new waves of data that are now washing up on logistics and transportation managers' computer screens as a result.

With this in mind, we've gathered four leading supply chain software and technology analysts to examine the latest trends, tools, strategies, and best practices available for better capturing and utilizing the new onslaught of data on the way to realizing an improved level of visibility across your logistics operations.

Ben Pivar, senior vice president and supply chain technologies lead for Capgemini Consulting, will bring us up to speed on the role enterprise resource planning (ERP) vendors are playing in integrating disparate processes; Jerry O'Dwyer, U.S. sourcing and procurement leader for Deloitte Consulting, will help shippers better understand the concept of business analytics (BI); Michael Liard, director of RFID for VDC Research Group, brings us to speed on a new RFID-inspired wave of data; Steve Banker, director, supply chain management at ARC Advisory Group, gives us his take on transportation management systems (TMS) evolving position in visibility; and Adrian Gonzalez, director of Logistics Viewpoints, puts social media in a logistics management and career development context.

Harnessing the new waves of data

May 31, 2012 • 2:00 p.m. EST • www.logisticsmgmt.com/2012tech

ERP: Integrating processes and systems

***Logistics Management:* How would YOU define the current state of the ERP market?**

Ben Pivar: The strength of the ERP market depends on how you define ERP. Looking at core transaction components of ERP, we still see a steady amount of activity; however the nature of the work has changed. There's still some greenfield implementation, but not as many as in years past. Much of the work is focused around upgrades, instance consolidation, or global expansion off an existing template.

In addition to core transaction systems, we're seeing very strong demand for optimization and business information management applications. Many of the supply chain related applications fall into this categorization, and customers are investing significantly due to the strong business benefits and short payback of these projects.

***LM:* What trends do you see pushing ERP's growth in supply chain over the next two years?**

Pivar: One of the big trends that we're seeing in the market focuses on the idea of integrating business processes and systems that were previously operating in silos. As an example, we see strong demand for taking a time-phase consensus demand plan and doing a better job of sharing this information with upstream and downstream constituent groups like product development, logistics, and customers.

This plan better allows these groups to see trends in the marketplace and plan things like labor and other logistics activities more optimally. In addition, we believe that this integration will drive a new wave of collaboration between trading partners. We call this the "shelf connected supply chain," and it allows consumer goods companies to better plan and share information with retailers.

***LM:* How far are we from cloud ERP? Are we there on some level at this point?**

Pivar: We are seeing increasing demand for cloud-based services and managed services in general. Some of the applications that we work with are very batch process intensive, yet these batches may only run nightly or over a weekend. In supply chain, due to the data intensive nature of the problems we're solving, these applications require significant hardware investment from our clients. Cloud can provide a strong and potentially lower cost option in these situations. But while we still hear client concerns about data security, we're also seeing new private cloud options and enhanced cloud security that are making adoption more likely.

***LM:* What are the benefits to plugging in your ERP's logistics and transportation offerings?**

Pivar: There are strong benefits to using the ERP package from an integration perspective, but there may also be drawbacks in terms of rich functionality that currently exists with best of breed. We reommend a comprehensive review of the total cost of ownership of both options that considers the increased benefits of best of breed versus the potentially higher IT costs associated with the development and maintenance of interfaces to keep best of breed solutions running. The biggest benefit is reduced technical integration costs associated with the ERP solutions.

Business Analytics: Visibility enabler

***Logistics Management:* The concept of "business analytics" (BI) is certainly making its way around logistics management circles. For those new to the concept, how would you define BI as it pertains to logistics and transportation management?**

Jerry O'Dwyer: We define "business analytics" as the practice of using data to drive business strategy and performance. This includes a range of capabilities—from looking backward to evaluate what happened in the past, to forward-looking approaches like scenario planning and predictive modeling.

Transportation and logistics management is one of the most data-driven components of the supply chain and is also one of the largest cost components of the supply chain for most companies. Transportation managers often lack critical visibility into today's operations due to unreliable and inaccurate data, an inability to perform root cause analysis due to aggregated data, and too much time spent performing reactive, ad-hoc analyses. The right business analytics solution can help these organizations more proactively manage their business, make fact-based decisions, and successfully plan for the future.

***LM:* Can you give us a brief scenario of what a savvy logistics team might be able to do once they put analytics work?**

O'Dwyer: We recently helped Welch's consolidate transportation data from three different sources and achieve a return on their investment within 30 days. With operations in 35 countries, Welch's processes approximately 50,000 customer orders each year and delivers 35,000 to 40,000 shipments annually to its customers with a transportation and distribution spend of more than $50 million per year.

We implemented a managed analytics solution that gave Welch's a mini data warehouse to effectively report and produce key performance indicators within a dashboard. Welch's can now view data from three disparate systems; and with easier access to business insights, the company achieved that return on their investment through higher utilization, more balanced shipments and network optimization.

***LM:* What are the tools/technologies that you need to harness data, put it into context, and put it to work to help you improve your logistics operations?**
O'Dwyer: There are actually three foundational layers at play: First, data management and smart integration from TMS and WMS as well as freight audit and pay, industry benchmark data, or other external third sources; second, a data model that is designed for logistics users and is flexible enough to handle the complexity of the transportation network; but third, and most importantly, pre-configured analytics with metrics, KPI's dashboards, and relevant dimensions that provide the deep insight and root cause analysis capability being demanded.

RFID: Buzz is back

***Logistics Management:* Eight years ago you couldn't pick up a business publication without seeing some news on the Walmart or DOD RFID mandates. Only recently has it boiled up into the news again. What's driving the latest RFID buzz?**
Michael Liard: There's been a new level of activity for the RFID industry since it was announced in August 2010 that Walmart would begin tagging apparel items for men's jeans and basics. Dozens of U.S. and international retailers and brands such as American Apparel, JCPenney, Macy's, Gerry Weber, and Serge Blanco have been stepping up their RFID tagging programs and efforts over the last two years, and VDC expects more will announce deployment plans this year and next. The end result is billions of tags on apparel items expected in supply chain and in store environments across the world over the next few years, including more than 1.5 billion by the end of 2012 alone.

***LM:* What are the biggest benefits to item-level tagging for retailers?**
Liard: According to studies completed over the last two or three years, such as the item-level tag research projects conducted by the Information Technology Research Institute (ITRI)—part of the Sam Walton Business School at the University of Arkansas—retail business results are able to be measurably improved using RFID item-level tags to achieve and maintain higher inventory accuracy levels, which in turn provided an uplift in sales; a reduction in out of stocks, as well as improved inventory management visibility; a reduction in shrink; improvement in profit margin; and a reduction in manual labor for inventory counts.

***LM:* Are manufacturers getting to this level of tagging?**
Liard: An increasing number of manufacturers are moving toward item-level tagging. In the retail apparel sector, there are a several brands using RFID that operate closed-loop supply chains where they manufacture, distribute, and sell apparel in their own branded stores. These RFID end users are tagging at the source and reading the tags throughout the supply chain.

Open-loop retail apparel supply chains, such as Walmart's, are also deploying RFID at the item-level, asking their trading partners (such as VF Corp. and Hanes) to adopt RFID and use tags closer to or at the source; however, these deployments are more complex as a number of players are involved. In the IT asset arena, several manufacturers are embedding or attaching RFID to IT components and hardware such as servers and blades during manufacture.

***LM:* How have readers and tags evolved over the past eight years?**
Liard: Prices for both readers and tags have come down steadily since 2004, and performance has improved. Tag

TMS: Global growth ahead

***Logistics Management:* How has the TMS market weathered the economic storm?**
Steve Banker: We just completed our TMS global study and found that the TMS market came charging back in 2012—year-over-year sales surged more than 12 percent.

***LM:* Did the tough times help the TMS adoption rate?**
Banker: We did a supplier-based study where we asked TMS suppliers for their revenues; and while this type of study does not give you adoption rates, my impression from talking to them as well as shippers is that adoption is still woefully low.

***LM:* What have been the drivers pushing the TMS market along over the past three or four years?**
Banker: The global economic slowdown, of course, has impacted the market the most. Companies that have bought during this time period are primarily buying TMS for the same reason companies have always purchased TMS, to reduce freight spend. The volatility of fuel prices and the desire to be green have put extra attention on this solution.

***LM:* What would you say are the fastest growing segments of the TMS market?**
Banker: We divide TMS into fleet management, a solution for companies with transportation assets, and classic TMS for shippers without and transportation assets. Surprisingly, the growth in both segments is very close. On a global basis, the biggest surprise is the surge in buying of TMS in Latin America.

***LM:* How as the onset of SaaS TMS helped overall adoption? Has it made it more approachable form a cost perspective?**
Banker: We look at four revenues categories: software, implementation, maintenance, and SaaS/Hosting. The SaaS category is between 20 percent and 25 percent of total revenues in the industry. So has it helped adoption? Absolutely.

A platform approach does provide cost advantages, but there are other advantages as well: ease of on-boarding new carrier partners, less finger pointing around freight audit and accessorials, and the ability to use the network traffic to do some lane benchmarking. But traditional behind the firewall solutions, in aggregate, are still functionally richer.

***LM:* What is your outlook for TMS market growth over the next few years?**
Banker: I see double-digit growth for the next year or two.

costs still depend on volume and packaging/form factor, but improvements made in the number of die per silicon wafer for ICs, less expensive antenna materials, and other developments have helped drop the cost of passive UHF EPC tags—especially for high-volume, low-cost item-level tagging deployments where an inlay is now a few cents. Passive UHF EPC reader costs, too, have come down due to reader chipset innovation that reduces the number of components, size and overall costs.

***LM:* What's holding supply chain organizations back from adopting RFID?**

Liard: Supply chains are complex environments, and each industry and specific business processes is unique. According to our end-user research, a few considerations come to mind: cost concerns linger, including a lack of understanding around ROI and total cost of ownership; lack of awareness and education around specific applications/use cases and RFID value propositions; bar codes may be providing "good enough" visibility, therefore, an alternative AutoID system is not required; and now that we can effectively capture RFID data through improved technology/hardware, there's now a question as to how we can effectively leverage that RFID data.

Social Media: Liking productivity

***Logistics Management:* You've presented at a number of conferences recently on how social media should be defined in the business world. Most of us are using it in our personal lives, but how do you see social media evolving to help logistics professionals do a better job?**

Adrian Gonzalez: First, let's define "social media." Most supply chain and logistics executives have a very limited definition of the term—for them, social media equals Facebook, Twitter, and LinkedIn. As a result, executives have a hard time seeing how social media can have an impact on supply chain and logistics processes.

But social media also includes a broad set of solutions that companies are deploying internally to facilitate collaboration and communication between employees and functional groups, as well as externally with suppliers, customers, and other partners in a private manner. At the end of the day, social media is another tool logistics professionals have in their toolbox to facilitate communication and collaboration with their peers and partners.

***LM:* How has your social media vision for logistics and supply chain professionals been accepted?**

Gonzalez: Pretty well, but the next and more difficult step is seeing the business value. In a survey I conducted last year, supply chain and logistics executives said "unclear business value" was the biggest obstacle to achieving greater adoption of social media in supply chain processes. In essence, what many executives are saying is, "We know social media will transform supply chain processes, we just don't know how exactly, and where to start and why."

The problem is that many executives get caught up in the terminology—blogs, wikis, tweets, discussion forums, RSS, Enterprise 2.0—and view social media as more work to do, more information they need to sift through in addition to emails and voicemails, instead of taking a step back and thinking through the work they and their colleagues need to get done, and then determining how these tools can help them achieve their objectives in a more productive and effective manner.

***LM:* If you dare to dream, where does social media take business communication five years from now?**

Gonzalez: In five years, we won't be talking about "social media in business," it will just be business. This is history repeating itself. Back in the early 90s, as the Internet and web were creeping into the business world, we were having the same types of conversations, and everybody (thanks to analysts and pundits) were putting "e" in front of everything. The Internet is now ubiquitous, and we don't even think about it as we go about our work. The same will be true with social media.

That said, here are some general predictions: First, the worlds of social media and mobile computing—smartphones and tablets—will continue to merge, and that's where a lot of the innovation will come from; second, email will become less relevant, especially for young professionals who prefer texting; third, "public" social media tools like Facebook, Twitter, and LinkedIn will become better integrated with "Enterprise" social media tools, leading to faster connectivity and enhanced business intelligence.

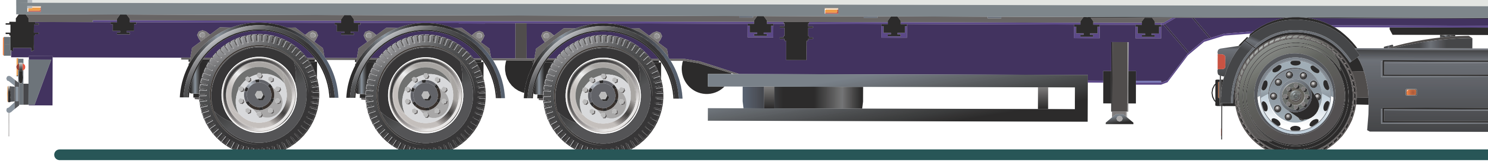
***LM:* While humans love to communicate, we don't like change. What would be a simple piece of advice for a logistics manager who may be reluctant to gravitate toward social media?**

Gonzalez: Don't fear it, and don't fight it because sooner or later you will have to use it. Think beyond Facebook, Twitter, and LinkedIn, and don't get caught up in all the buzz words. Instead, focus on the work you and your colleagues need to get done and see if social media tools are a better, more effective solution than email, conference calls, and other ways you're currently communicating and collaborating. Finally, encourage the young professionals on your team to take a leadership role in finding opportunities to improve existing processes using social media, and train/mentor colleagues who are less experienced using these tools.

—Michael Levans is Group Editorial Director of the Supply Chain Group

2012 Supply Chain Software Users Survey

Spending stabilizes



The results of *Logistics Management*'s Annual Software Users Survey over the past few years revealed that economic woes and corporate cutbacks suppressed reader spending in 2009-2010. However, the results of our 2012 study are in, and it seems as if supply chain software spending is back to "normal" after several years of backpedaling.

"Pre-2011 there was a lot of uncertainty in the market and companies were really holding back on investments," says Belinda Griffin-Cryan, global supply chain executive program manager at Capgemini Consulting. "The environment started to improve last year because a lot of companies just couldn't wait any longer to purchase or upgrade their supply chain software."

According Griffin-Cryan, as well as the results of our latest study conducted by Peerless Research Group (PRG), the initial rush of investment that was seen in early 2011 has since calmed; however, spending has certainly stabilized as we roll into 2012.

PRG conducts our annual software users survey to gain a better understanding of the current supply chain software market and to identify pertinent technology trends that may affect the logistics and transportation community. The results of this year's study are based on the feedback provided by 280 qualified readers of *Logistics Management*.

Specific areas of evaluation among survey respondents include types of software currently used and planned for purchase; annual software expenditures; stage in the software buying process; reasons for consideration of supply chain solution software; number of software packages and vendors used by company; and expected timeframe for payback on purchases of supply chain software.

Over the next few pages we'll look at the results of the survey and hear what top analysts are saying about the findings.

Top line overview

Stabilization is the name of the game in 2012 as companies steadily add more supply chain technology to their stables and/or upgrade their existing systems. This is a good sign compared to the spending decreases that the survey picked up on in 2009 and 2010.

When asked how the current economic climate has changed their companies' approach to supply chain management software spending, 31 percent of respondents say that they're scrutinizing their software purchases, down from 33 percent in 2011.

Twenty-one percent say they are still freezing investments, up from 18 percent last year, while 21 percent say that they'll be making investments in new software in the next 12 months. Another 21 percent say they plan to upgrade existing systems, compared to 22 percent the year prior—another indication that upgrade intentions have finally stabilized.

Monetary commitments to supply chain software have decreased when compared to 2011's survey results. When asked if their firms were going to buy supply chain software in the next 12 months, 39 percent responded favorably compared to 48 percent in 2011. Budgets are up slightly, with 49 percent planning to spend less than $100,000 (compared to 48 percent in 2011) and 27 percent spending $100,000 to $499,000 (versus 25 percent the year prior).

Adrian Gonzalez, director of Logistics Viewpoints, says that this year's respondents' acquisition intentions indicate that companies are continuing to either buy new or upgrade existing systems. And while the numbers have flattened somewhat compared to 2011, Gonzalez says the "tighten up our belts" sentiment of 2009-2010 has clearly passed.

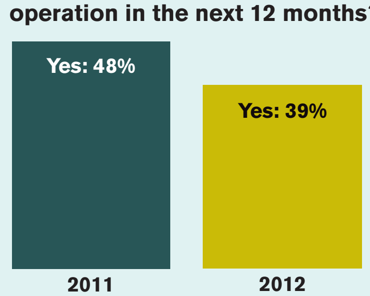
"A lot of shippers have come to grips with the fact that this is the business environment that they have to operate in now," says Gonzalez. "It's going to be dynamic and there are going to be ups and downs."

Squeezing benefits from WMS, TMS

Half of the logistics professionals surveyed say that their use of supply chain software has increased—only 38 percent answered positively to that question in 2011—and 46 percent say that usage stayed the same compared to 56 percent

Purchase Intentions

Is your company planning to buy supply chain software for your operation in the next 12 months?



Source: Peerless Research Group (PRG)

This year's findings indicate a leveling off from last year's welcome spike, but also indicate a higher overall investment by those firms that are buying new or upgrading. For 2012, the market appears to be progressing on a slow-and-steady growth path that isn't expected to let up anytime soon.

BY **BRIDGET MCCREA**, CONTRIBUTING EDITOR

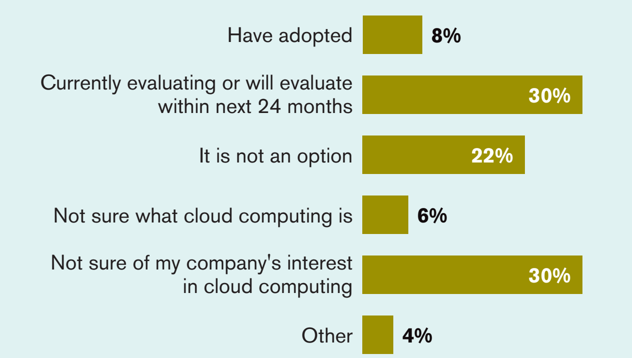
last year. When ranking the importance of individual software features, shippers have once again pinpointed the right features for their operations, configurability, compatibility with existing software, and service/support availability as their top "must haves."

Digging down to the various software packages that comprise supply chain software as a whole, we learned that 56 percent of shippers are using warehouse management systems (WMS), a number that comes in about the same as 2011. Twenty-four percent are planning to buy or upgrade their WMS, while a net 67 percent are either using or planning to buy a WMS. From their WMS, these companies want real-time control, inventory deployment abilities, existing package upgrades, and labor management capabilities.

Thirty-seven percent of respondents are currently using transportation management systems (TMS), up from 32 percent in 2011. Twenty-five percent are planning to buy or upgrade—steady from last year's numbers—and a net 50 percent are either using or planning to buy a TMS (versus 51 percent last year). Shippers most want routing and scheduling, routing and rating, shipment consolidation, carrier selection, and load tendering capabilities from their TMS.

Adoption of Cloud Computing/SaaS

Which best describes our company's status regarding the adoption of a cloud computing/SaaS strategy?



Source: Peerless Research Group (PRG)

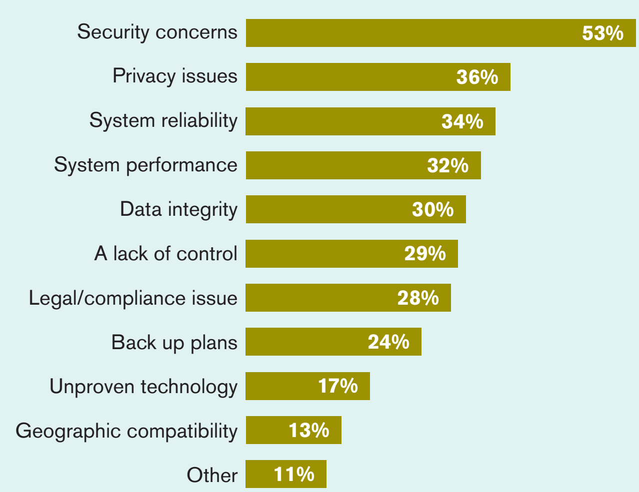
Dwight Klappich, research vice president for research giant Gartner, says shippers' keen interest in routing and scheduling falls in line with what his firm is seeing in the marketplace. "Three years ago the routing and scheduling market was dead, there just wasn't a lot of energy there," says Klappich. "That's changed over the last three years as more shippers are finally turning to technology to streamline these vital activities."

One area of the survey that surprised Klappich involved ERP systems, which are currently being used by 47 percent of companies. Fifty-four percent say they're planning to buy ERP this year, while 54 percent of those buyers say their ERP will include a WMS module compared to 48 percent last year.

The fact that shippers see their ERP providers as capable of providing solid WMS caught Klappich's eye. "This is a testament to the fact that ERP vendors have invested significantly in their WMS applications to the point where more than half of the companies feel that they could get their WMS from their ERP vendors," he says, noting that 10 years ago most shippers would not have made that assumption, namely because at the

Fear of the Cloud?

What do you see as the main concerns or fears surrounding the use of a cloud computing strategy?



Source: Peerless Research Group (PRG)

time best-of-breed WMS vendors were thought to be the *de facto* source of such software.

Any action in the cloud?

The "cloud" and Software as a Service (SaaS) may be hot topics right now across many different software sectors, but they remains a blip on the horizon for many logistics professionals. Just 8 percent of respondents say that they're using SaaS while 30 percent are evaluating such delivery methods. Twenty-two percent say SaaS is not an option for their firms, with issues like security and privacy concerns, system reliability and system performance, and data integrity and a lack of control cited as the biggest deterrents.

Of those firms that will be investing in supply chain software in 2012, 21 percent say SaaS is indeed an option. Gonzalez take a "glass half-full" approach to the SaaS-related survey findings, noting that 8 percent (adoption rate) plus 30 percent (currently evaluating) equals 38 percent—much higher than the 22 percent of shippers who say SaaS is not an option.

"Clearly SaaS is an area that more companies are considering as a deployment model," says Gonzalez, who remembers just six or seven years ago when SaaS was on very few radar screens. "That's a positive sign," he adds.

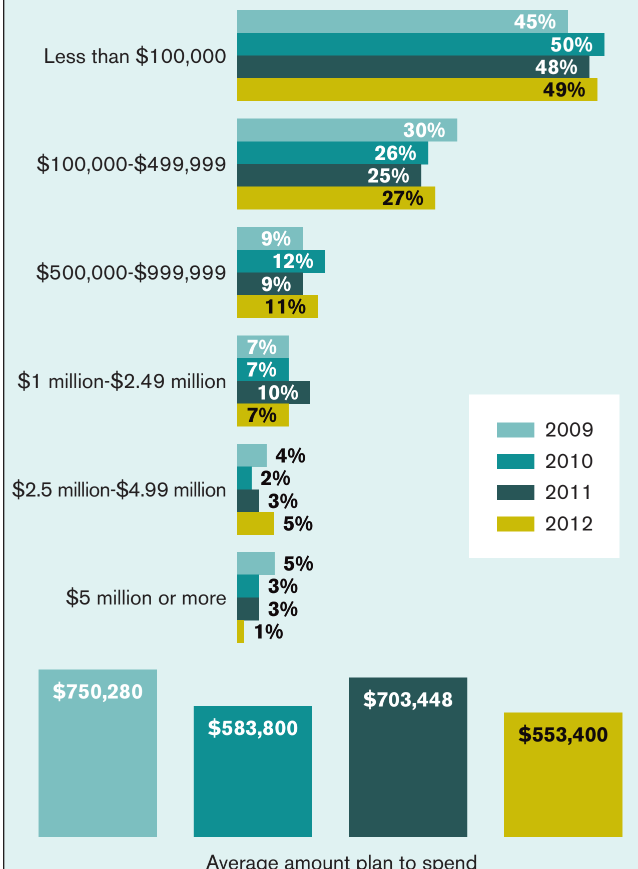
As we get further into 2012, and as the national economy continues down the slow path to recovery, exactly how the supply chain software sector fares this year remains to be seen.

However, this year's software users survey indicates a leveling off of interest in most of the sector's modules, but also indicates a higher overall investment by those firms that are buying new or upgrading. Regardless of the fine points within the results, the overall market appears to be progressing on a slow-and-steady growth path that isn't expected to let up anytime soon.

Bridget McCrea is a Contributing Editor to Logistics Management

How much on the Table?

Approximately how much will your company spend on supply chain software for your operation including license, integration, and training in the next 12 months?



Source: Peerless Research Group (PRG)

VF Corporation sees ROI in WMS upgrade

VF Corporation of Greensboro, N.C., an apparel and footwear manufacturer with more than 40,000 employees, has seen significant ROI from its supply chain software investment. VF's key brands include The North Face, JanSport, and Nautica. The firm's 2007 acquisition of the Vans brand pushed it to explore new ways to gain visibility across its 30 global DCs, 22 of which are in North America.

VF needed to increase the shipping and capacity support for the rapidly expanding Vans product line, which at the time was nearly a $1 billion business. The company also wanted to reduce order cycle times and improve DC response time for its products. Vans had been using a Manhattan Associates WMS since 2001 and was ripe for an upgrade.

The upgrade would also allow VF to centralize the various WMS packages that its acquired brands were using. "We decided to build our WMS strategy around a single, centralized solution," says Terry Brown, director of distribution systems for VF's services organization.

Completing the upgrade while business was in session in the same DC was challenging. "We didn't have the option of building a new DC on the side," says Brown. "We had to change the engines on a plane while it was in flight."

To tackle that, VF took a multi-year approach, introducing new processes, and replacing old ones on a slow, methodical basis. "That allowed us to manage any issues that came up with minimal risk," says Brown, "and zero business disruptions."

One business area where the new WMS has proved its worth is with Vans' "never outs"—a specific set of SKUs that must always remain in stock and that Vans ships to retail stores within 24 hours. Brown says that the WMS has helped VF achieve that goal of 24-hour shipment and improve service levels from a pre-upgrade rate of four to five days.

—Bridget McCrea, Contributing Editor

New perspectives on

Most enterprises have logistics and transportation risk management protocols that can address localized disruptions. Global supply chain risks, however, can have cascading and unintended consequences that no one organization can mitigate. Here are recommendations for managing the vulnerabilities.

BY **JONATHAN WRIGHT** AND **DANIELLA DATSKOVSKA,** ACCENTURE

Thanks to globalization, lean processes, and the geographical concentration of production, among other factors, supply chain and transport networks are more efficient than ever before. This increasing sophistication and complexity, however, is accompanied by increasing risk.

Major disruptions in the past five years—including the global financial crisis, the Yemen parcel bomb scare, flooding in Thailand, and the Japanese earthquake and tsunami—have illustrated the vulnerabilities of finely tuned, closely interconnected supply chain and transport networks.

Although risks have increased, there are concerns about the ability of organizations to address this new risk profile. As the recent World Economic Forum (WEF)/Accenture report, *New Models for Addressing Supply Chain and Transport Risk*, points out, most enterprises have logistics and transportation risk management protocols that can address localized disruptions. Greater supply chain risks outside the control of individual organizations, however, can have cascading and unintended consequences that no one organization can mitigate.

While it's important to be able to anticipate specific disruptions, it's even more important to build in dynamic systems and processes that can quickly and effectively respond to changing logistics and transportation circumstances. The goal is not to predict what will happen, or when, but to be prepared and able to respond in an informed, planned manner.

The report identified a number of recent supply chain and transport concerns that have increased organizations' risk profile, creating the need for more dynamic supply chains.

- **Information/communication disruptions:** Growing reliance on online systems and the sophistication of cyber attacks place ever-greater stress on supply chain and transportation networks. In transport, for example, the increased reliance upon, and use of, electronic data for real-time risk assessment—including electronic manifests for cargo—have proven effective in facilitating the movement of freight. At the same time, however, they have put more pressure on governments and businesses to maintain robust and secure information and communications networks.
- **Infrastructure failure:** Critical infrastructure, from roads to power stations, is under pressure due to lack of investment and planning for future resiliency. In the U.S. alone, the American Society of Civil Engineers estimated that the cost of repairing national infrastructure at $2.2 trillion over the next five years. The disruption or failure of critical infrastructure nodes could have a severe impact on global transportation networks, and needs attention and investment.
- **Reliance on oil**: The WEF expert group identified reliance on oil as the single greatest vulnerability to supply chain and transportation networks. An immediate change in oil availability as the result of external disruptions such as civil unrest or terrorist attacks (or closure of the Straits of Hormuz) could have an extensive global impact on transport networks in particular.

This vulnerability is itself a subset of a broader, long-term challenge of addressing oil reliance. A more dynamic supply chain might respond by varying sourcing options based on a reassessment of a company's global manufacturing footprint that moves production closer to target markets and reduces shipping costs.

- **Legislation and regulation:** When the Icelandic volcano erupted in 2010, the reactive response of European transport ministries and civil aviation authorities resulted in uncertainty and delays in restarting air traffic. There was a failure to recognize in advance the potential threat presented by such ash clouds, along with inflexible aviation protocols and the absence of any pre-existing agreement on safe ash levels. Similarly, well-intentioned government initiatives such as air cargo screening can impede the efficient flow of transport networks.

While there are significant new risks arising on these and other fronts, organizations also have new opportunities to improve their supply chain and transportation risk management. The first step identified in the report was the development of the trusted networks for effective collaboration.

global risk

Trusted networks spanning business and government

Effective identification and management of systemic risk across the supply chain and transport network requires a high level of collaboration among businesses, professional groups, governments, regulators, suppliers, customers, and even competitors. These trusted relationships are crucial to pre-disruption preparation and post-disruption rapid response.

In the research underpinning the report, considerable enthusiasm was identified for developing greater collaboration between business and government at the global level to address risk. The nature of global disruptions means that there are too many economic, security, and political issues to take a siloed or compartmentalized approach to risk management. Aligning priorities and agreeing on focus areas among these different stakeholder groups, however, will be a gradual process.

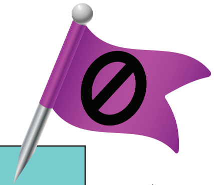
There are also opportunities for greater understanding and coordination at the industry and/or regional level. Initiatives such as the Supply Chain Risk Leadership Council, which comprises manufacturing and services supply chain firms, bring teams together to develop and share supply chain risk and transport best practices. The World Economic Forum's own Risk Response Network (RRN), launched in 2011, supports the development of trusted networks by tapping into a diverse, high-level group of domain experts.

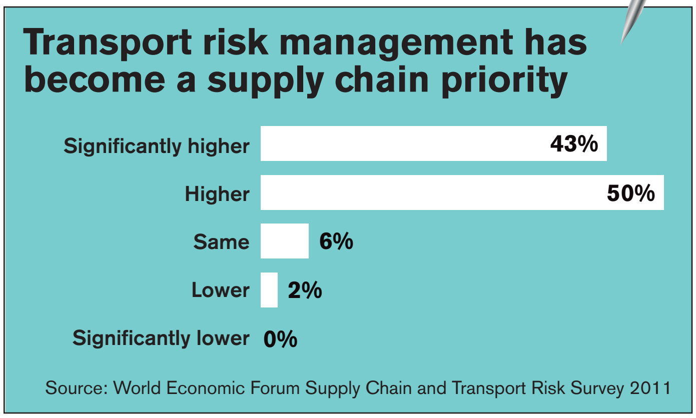
Sharing data and information

Access to accurate and reliable information can provide a clearer global picture of supply chain and transportation networks' vulnerabilities and support the coordination of backup plans in the event of a disruption. Identifying reoccurring risks at the industry level can also help businesses and governments focus efforts on increasing network resilience.

There are, however, serious questions about the availability of shared data, based on research included in the WEF/Accenture report. In fact, nearly two-thirds or 63 percent of those surveyed for that research said that the management of shared data and information was being handled ineffectively.

Improving the two-way flow of information between businesses and governments was identified as a priority. Two specific actions were suggested by the group: First, establish reliable dashboards for macro-level flows and disruptions through key infrastructure; and, second, increase the flow of information





More than 90 percent of those surveyed by the World Economic Forum indicate that supply chain and transport risk management has become a greater priority in their organization over the last five years.

across end-to-end networks to improve transparency at all tiers of the supply chain.

While limited tools and software exist that can be used to support extensive data and information sharing, a new class of software products is being developed, both internally by companies and by external providers, to deal with risk. These products are designed to help identify high-probability and high-impact risks and prepare for potential disruptions. They also create an alert system for disruptions where early detection is likely to help organize and prioritize the response.

Furthermore, the report also noted that the importance of being able to quantify and measure supply chain and transportation network risk exposure was flagged by individuals who participated in a WEF workshop and was referenced in the report. Without those metrics, companies struggle to quantify their risk exposure or to compare providers. A recognized set of supply chain and transport risk quantification metrics needs to be developed to help businesses and governments obtain an accurate understanding of risk to networks, better prioritize risk management activities, and align the incentives, exposure, and risk appetite.

Ideally, these risk metrics should be consistent within and across organizations to enable comparisons.

Scenario planning

While scenario planning is used effectively at the operational level, it also has the potential to play an integral role in reducing systemic risk across networks. Conducting scenario planning on a regular basis ensures that external risks and network vulnerabilities are continually reviewed and that the associated mitigation controls are effectively updated.

If possible, scenario planning should be scaled to the level of different stakeholders to enhance understanding of external environments while contributing to the anticipation of actions by network partners and improved joint preparation of continuity plans. Scenario planning at the regional and/or sector level can enable areas of conflict and lack of coordination to be identified, clarify the roles and responsibilities of public and private actors in the face of major global disruption, and increase the speed and effectiveness of response.

Stress testing of critical infrastructure would enable greater public and private sector understanding of infrastructure resiliency in the event of a disruption. The trusted networks mentioned earlier can increase the scope and effectiveness of scenario planning, driving effective risk management and investment in contingency solutions while helping to shape global legislation and regulation.

The Forum expert group emphasized the requirement for significant interaction between business and government to drive improvement in the risk management methods identified. Among possible courses of action, global transportation companies can urge the formation of working groups led by regional trade ministries driving action in regional hubs.

Another important initiative is the creation of disruption-level evaluation frameworks. This represents agreement on standardized classification of the impact of a disruption, which would then inform the response of the public and private sectors during and after an event.

5 recomendations

The report concluded with five recommendations:

1) governments should improve international and interagency compatibility of resilience standards and programs;

2) businesses should more explicitly assess supply chain and transport risks as part of procurement, management, and governance processes;

3) government and business should work together to develop trusted networks of suppliers, customers, and competitors focused on risk management;

4) governments and businesses should improve network risk visibility through two-way information sharing and collaborative development of standardized risk assessment and quantification tools; and

5) both governments and businesses should improve pre- and post-event communication on systemic disruptions, balancing security and facilitation to bring a more balanced public and private sector discussion.

Due to the increasing complexity and interconnectedness of global supply chains—and the emergence of new and potentially highly disruptive types of risk—risk management for supply chain and transportation networks could benefit from cooperation across public and private sectors.

In addition, companies should expand their approach to risk management and make it a strategic priority across their ecosystems of businesses, suppliers, and partners. They should develop more dynamic supply chains that are efficient as well as resilient and able to rapidly respond when supply, demand, and cost-to-serve shocks occur whether they are triggered by a natural disaster, political unrest, or other circumstances.

Jonathan Wright is an executive director in Accenture Management Consulting, with an operations focus. Daniella Datskovska is an executive in the risk management practice at Accenture, a global management consulting, technology services and outsourcing company.

Lift Trucks: Preventive medicine

With a few simple prescriptions, fleet managers can plan for the unplanned, reduce costs, and ramp up productivity and safety measures.

BY **JOSH BOND,** CONTRIBUTING EDITOR

There are plenty of usual suspects when hunting for improved efficiencies in any lift truck fleet. For example, aging equipment, truck abuse, and under-utilized assets are all key sources of unanticipated maintenance costs. But are breakdowns, excessive damage, and unnecessary trucks really unanticipated?

According to Allen Polk, national accounts manager for Kenco Fleet Services, there is a big difference between being well prepared to react and taking steps early to prevent inadvertent costs. Simply suspecting a problem is not the solution, says Polk; instead, it's the first step in what he calls the "awareness curve."

"Suspicion, data, recognition, change," Polk explains. "Companies that don't go through the curve will tend to have higher costs. Awareness is the easiest and least expensive way to fix a problem."

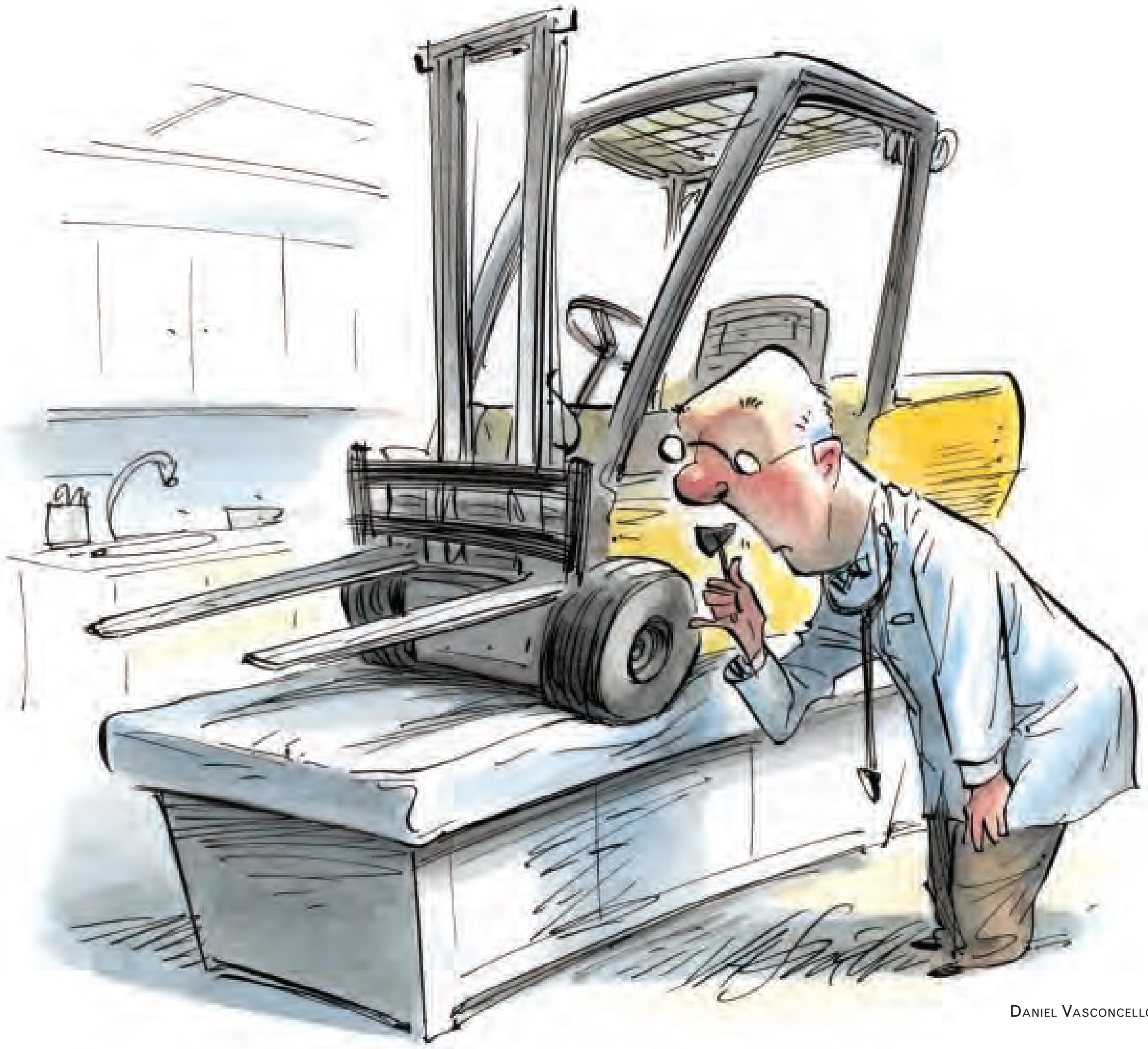
However, the current paradigm of fleet maintenance defines success as quick reaction to unplanned events—uptime at any cost. This is understandable. Because most fleet owners' core business is about moving product, few have time to ask, for example, how many lift truck tires they go through on an annual basis. Instead, Polk urges his customers to consider the benefits of a strong partnership with a service provider, the judicious use of technology for data capture, and a culture of prevention, not reaction.

To help fleet managers identify and preempt "unanticipated" costs, we compiled a survey of best practices in fleet maintenance with some of the leading experts in the market. With some simple adjustments, most fleet managers will find that they can plan for the unplanned, improving productivity and safety while reducing costs.

Challenge assumptions, act on suspicions

Jim Gaskell, director of Global Insite products for Crown Equipment Corp., has a hypothesis: "If I gathered ten customers in one room, all ten would tell me that their warehouse is run better than all the rest, and they'd have plenty of examples to back up the claim. The thing is, they can't all be right."

The chances are that simply asking the right questions can expose their mistaken confidence. Gaskell says he once visited a customer who claimed to know every penny of their spend, but had not accounted for $40,000 in unus-



DANIEL VASCONCELLOS

able inventory. Another customer had more than 100 trucks and, at most, used 80 percent of the fleet at a time—some of those were only used for a few minutes.

"I told them that they could remove nearly a third of their fleet and save that number times $30,000, right off the bat," says Gaskell.

The problem, says Gaskell, is that the planning model the customer used to determine fleet size could not be adjusted for actual utilization, especially since the fleet's use was not being monitored.

"Some people base their business on the wrong model," says Gaskell. "I always encourage people to look at the actual situation."

This involves looking at metrics to determine actual cost per hour, but it can also be as simple as looking at the actual facility in which the lift trucks operate. That ramp between floor levels might look harmless, but it could be causing premature tire failure and lots of unnecessary costs.

"People don't have an idea of what abuse is and assume it's based only on what the operator is doing," says Polk. "Abuse not only includes truck impacts, but can also be things like not coming to a full stop before shifting, going up ramps, or a crack in the floor of a facility. These things will cause excessive damage to a lift truck no matter what the operator does."

Abuse in all its forms can make up as much as 30 percent of a customer's fleet maintenance spend, according to Nick Adams, business development manager for the Mitsubishi Caterpillar Forklift America Inc. (MCFA) fleet services group. For some fleet managers, assumptions about abuse collapse when data is compared between facilities.

One facility manager in Chicago might assume that his fleet's costs for unanticipated damages are excellent. If he learns a facility in St. Louis is spending less, he might be driven to improve even further. This site-to-site visibility establishes benchmarks and spurs an exchange of best practices that has reduced damage costs by as much as 7 percent for some customers, says Adams.

Another example of a wasteful assumption is the shift overlap, according to Polk. Say a customer runs two shifts, five days a week, with 30 operators on each shift. A two-hour overlap of 15 operators automatically requires them to have 45 lift trucks. If there's no overlap, they can cut that by 15 trucks. In year one, you could see 10 percent to 20 percent, or even 40 percent to 45 percent decreases in cost.

"Overlap can be a necessary evil, but it forces costs way up," says Polk.

Gather data from fleet, operators, and service providers

A clearer picture of true costs and systemic problems often suggests that outsourcing fleet maintenance is the best choice. More and more customers are outsourcing maintenance, according to Adams.

"Today it's as much as 75 percent to 80 percent, whereas five years ago it was perhaps only 60 percent or 65 percent," says Adams. "Customers are finding it just isn't a good use of resources. It's the same reason you or I don't work on our own cars, because we don't have the training and diagnostic tools available."

Before choosing a service provider, however, customers should ask how often the provider's techs are trained, what the parts and labor rates are, and establish a consistent performance expectation, says Michael McKean, fleet management sales and marketing manager for Toyota Material Handling.

Adams says customers should also inquire about potential costs for a service technician's time in transit. Assuming a customer does not have the roughly 60 units needed to justify a full-time, on-site technician, the challenge is to find out how to optimize the travel time for an off-site tech.

Customers should also ask whether their service provider's technicians have GPS, Adams suggests. A good service provider knows exactly where each technician is and can dispatch the closest one to save their customer money and time.

A bad service provider, adds Gaskell, is typically characterized by a lack of training. Gaskell says that he has very large customers with as many as 20 percent of their sites' fleets serviced by "a buddy from high school" or a comparably untrained source. "You'd be shocked. Some of them are auto mechanics who try their hand at forklift repair."

When a customer has a great service provider, it's very challenging to make the case that they should change OEMs, says McKean. On the other hand, it's very easy to lose business if defendable data is not available.

"Perception becomes reality, so even a service provider that is doing a good job but doesn't have the data to prove it is at risk of replacement," says McKean. "A strong partnership equals a lifetime customer."

Recognize and change wasteful processes

Even the best service provider is sometimes limited by the demands of the customer. Adams offers an example: "Say a truck is oozing fluid. It becomes a fire drill. The technician is trying to explain what's needed to repair the truck and what the costs will be, but the customer is saying 'just get the truck back up and running.' When you get the invoice later and you don't like what you see, it's a little too late. Was it really essential to fix that truck right then and there?"

This example shows how the practice of pre-authorization for repairs can help a customer save money. Before the technician begins the work, a quick exchange of information could save thousands. Most technicians carry laptops that give them a pretty good idea of the total cost of a repair, says Adams. Similarly, managers can call up the lift truck's history and see that the same repair has been performed four times in the past year, or that the repair is still under warranty, and make an informed decision.

A service provider and customer can also work together to determine appropriate intervals for planned maintenance (PM). With an eye toward predictable budgets, many customers schedule PMs based on the calendar. In actuality, it might make more sense to schedule PMs based on hours of use, says Adams.

"If utilization goes up and the service provider is still servicing on calendar intervals, you will have break-downs,"

Steelcase streamlines multi-site fleet

Steelcase, a leading global office furniture manufacturer based in Grand Rapids, Mich., found itself with a number of new manufacturing and distribution centers after a series of acquisitions over a four-year period. According to Dennis Carlson, logistics manager for the company's North American physical distribution operations, the acquisitions left him with a "quite cloudy" view of his fleet.

"I had a feeling that I had more trucks than I needed in my fleet, but I didn't have the facts to confirm my hunch," says Carlson. "It wasn't long before I realized that I needed to take steps to ensure I maintained a clear understanding of the number of trucks in my fleet, the conditions of those trucks, and most importantly, their utilization rates."

Carlson chose to deploy Crown Equipment's InfoLink system to understand what was really going on with his forklift fleets. Steelcase tested the system during a six-month period on 25 Crown lift trucks at a single facility before expanding the program to five additional facilities.

"The system gave me more than just power usage data; rather, we saw when our trucks were not moving," says Carlson. "And the data showed that in many cases utilization was sporadic."

Carlson leveraged the system's findings to drive an organizational focus toward maximizing the use of the company's existing fleet. He also used the information to support recommendations on how Steelcase could change some of the processes in the facilities to help ensure the trucks were working all day. Carlson has also been able to reduce the size of his fleet by 30 percent to 40 percent and eliminate much of his older fleet.

"Without the new data we probably would have purchased new trucks and the underutilized ones would have remained that way," says Carlson. "We're now looking at the rest of our sites since we think there are dollars on the table in some of these sites that the system will help us uncover."

—Josh Bond, Contributing Editor

says Adams. "Or if utilization goes down you'll have PMs done more frequently than necessary."

Whether by calendar or hours of use, tracking and reporting technology can enable a customer to communicate real-time with the service provider and can ensure the PM schedule is appropriate. As Gaskell puts it: "The productive volume of the warehouse is tied to the usage of equipment, so it makes sense for maintenance costs to be tied to usage as well."

But even the best service provider can only do so much, so it falls to each operator and fleet manager to ensure day-to-day care is as efficient as possible. "A planned maintenance program improves productivity and helps make for a safer workplace, which is often overlooked," says McKean. "If you have no program in place, what you're really saying is you're not taking care of your operators."

In fact, OSHA requires that operators perform a daily lift truck inspection checklist, says Adams. But what happens when they find something? "Most customers do a decent job of completing the checklist," he says, "but there's often not a well-defined process for what to do if something fails inspection."

Say the horn doesn't work. Is that serious enough to lockout the truck? Does the operator make that call? The manager? The maintenance manager?

"Or say the seat belt is frayed, but it works," says Adams. "Instead of dispatching a service technician for the seat belt, you can notify your provider to bring a replacement during the next planned service visit."

Plan, plan, plan

Some companies make decisions in the name of planning that in fact limit their options. For instance, the decision to cut the capital expense budget for lift trucks at the beginning of the year might sound like responsible planning. The customer has placed a reasonable upper limit on expenses, right? Not necessarily.

"The number one bad habit is not planning in your capital expense budget," says Brian Markison, senior manager for national accounts at Nissan Forklift. "The only time people talk about forklifts is when there's a problem. It's never up-front, and it's the first thing to get cut from the capital expense budget. Later in the year, you end up putting $5,000 into a forklift that might have been worth $1,500 beforehand, all because you didn't plan for its retirement."

Markison recommends classifying a fleet into new, intermediate, and aging forklifts. Customers can then plan for equipment retirement, and will know exactly where to find the oldest and most costly trucks. Additional savings can come by setting cost-of-repair thresholds at each classification and holding to them, he says.

As new equipment is purchased, customers should note any advances in lift truck technology that will allow them to reduce maintenance costs over the long term. According to Frank Devlin, marketing manager of advanced technologies for Raymond, some new lift trucks have a 500-hour PM service interval, as much as double the standard interval. Look for more durable and reliable components, says Devlin, and ask about forklifts with extended run-times that can reduce the number of battery swaps and the associated maintenance costs.

Be aware of the "curve"

When customers build an awareness of what is happening in their facility, what's happening in other facilities, and what options are available to them, they have set out on Polk's maintenance awareness curve.

To create a maintenance program that anticipates and optimizes costs associated with the unplanned, customers will need to challenge assumptions and implement disciplined processes. Fortunately, there are resources available to make the transition justifiable and smooth.

"The tools to let customers know what they are spending have improved drastically over the last five years," says Gaskell. "They don't have any excuse not to know exactly what's going on with their fleet."

—*Josh Bond is Editor-at-Large to* Logistics Management *and Lift Truck Editor for the Supply Chain Group*

Darigold halves fleet maintenance costs in 60 days

Seattle-based Darigold, Inc. has been producing fresh dairy products for customers around the globe since 1918. Darigold recently recognized the need to maintain uptime, improve tracking capabilities, and reduce maintenance costs of its lift truck fleet.

Specifically, it wanted to be able to track all maintenance costs in one place, streamline the repair process for its 155 lift trucks, and standardize its fleet across 15 sites. Darigold turned to Raymond Handling Concepts Corporation (RHCC), an authorized Raymond Sales and Service Center in Auburn, Wash. Within the first six months, one of Darigold's largest facilities cut its lift truck maintenance costs in half in less than 60 days.

Due to a decentralized method of decision-making and tracking, Darigold could not identify what it was spending per facility on fleet maintenance. "As a company, our needs had evolved," says Mike Bevers, the company's director of supply chain purchasing. "We needed a new tracking system for costing analysis, documentation tracking, and a way to determine opportunities to switch out old equipment,"

The stringent health standards of a food production facility were particularly taxing to the fleet, which worked in varied environments such as wash-down stations and cold storage.

RHCC suggested the iTrack system, a fleet tracking system that enabled Darigold to track parts and labor costs per truck, view custom reports that identify facility cost-saving opportunities, conduct fleet replacement analysis, enter and review service orders, and consolidate company invoicing.

According to Bevers, Darigold has experienced considerable increases in productivity due to the substantial reduction in repair costs and downtime.

—Josh Bond, Contributing Editor

A SPECIAL SUPPLEMENT TO:
Logistics MANAGEMENT

Top 30 U.S. Ports: Finding the right balance

PHOTO COURTESYOF PORT OF LONG BEACH

The recent surge of U.S. exports has created a more balanced trade picture for U.S. ports and the stakeholders they serve. If this is a sustainable trend, analysts expect to see more investment in infrastructure and increased competition among the leading gateways.

By Patrick Burnson, Executive Editor

For most multinational shippers, the days of having one or two major domestic ocean cargo load centers is over. Highly segmented supply chains along with cross-enterprise operations are now changing the U.S. landscape. While Mega-vessels may be calling on some deep-water ports, ocean carriers are also hedging their bets by sending smaller ships on alternative deployments.

Zepol Corporation, a leading trade intelligence service, notes that as America's seaports prepare for balanced trade, shippers can expect to see more regional cooperation among ports. But Zepol's president, Paul Rasmussen, has one caveat: "That doesn't mean regional rivalry will disappear."

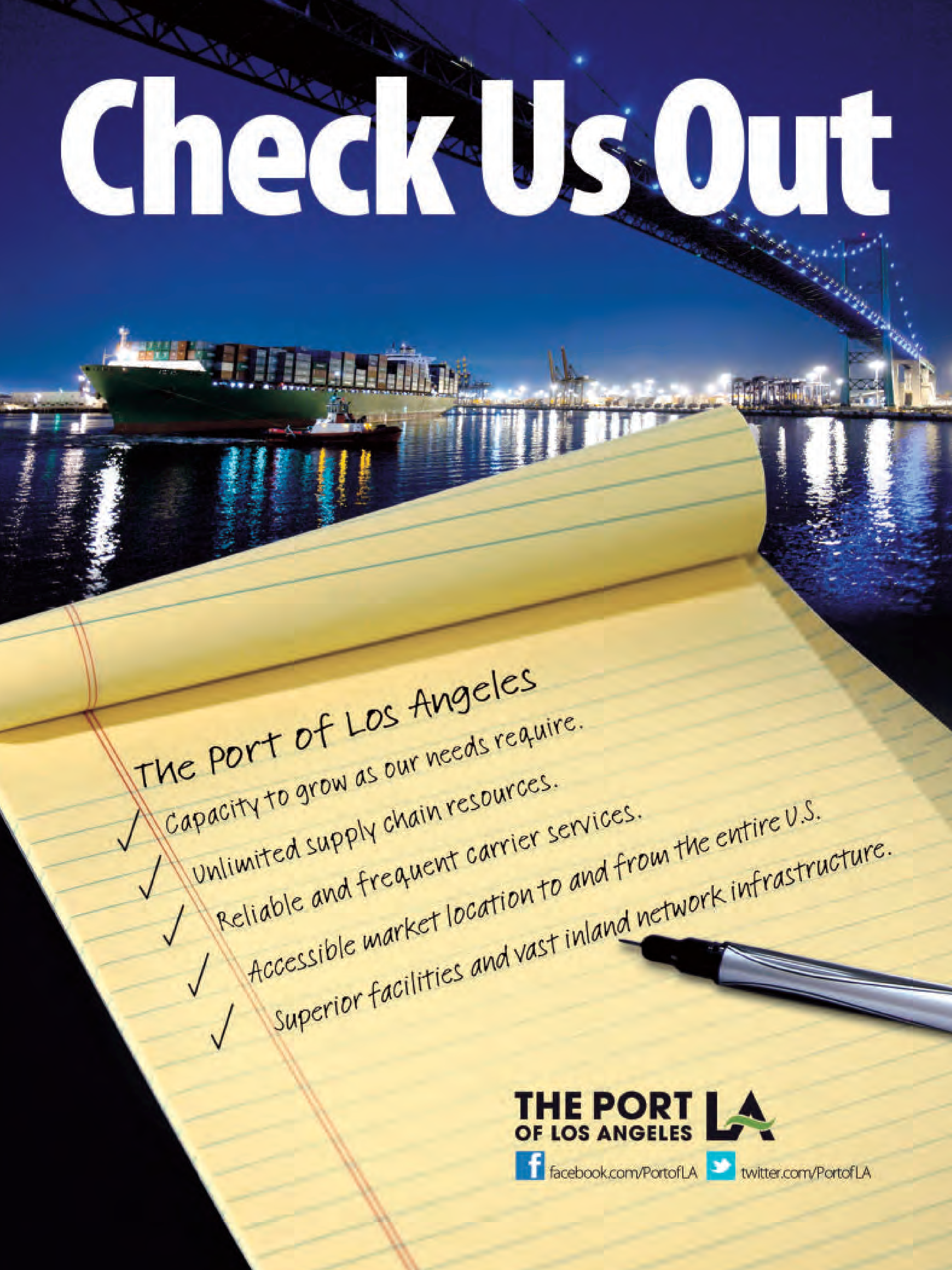
Indeed, Ports on the U.S. West Coast—which are supposed to be at risk when the Panama Canal expands in two years—don't appear to be too concerned. The neighboring gateways of Los Angeles and Long Beach are booming, with a greater balance of inbound and outbound cargo serving to keep them both on top of Zepol's' current port rankings.

According to Peter Friedmann, executive director of the Agriculture Transportation Coalition, the dynamics of ocean cargo have "flipped" dramatically. With U.S. exports growing by 5 percent to 6 percent annually, it's only matter of time when carriers will reconfigure shipping schedules. "It's pure mathematics," says Friedmann. "Outbound sailings are catching up with inbound calls, and ports need to make those adjustments."

West Coast advantage

San Pedro Bay port officials seem to concur with Freidmann's observation on surging exports, noting that outbound volumes are approaching record levels.

Kraig Jondle, director of business and trade development at the Port of Los Angeles, says that the existing infrastructure and ongoing expansion of terminals and warehousing will only make the port more attractive for trade in both directions.



Check Us Out
The Port of Los Angeles
✓ Capacity to grow as our needs require.
✓ Unlimited supply chain resources.
✓ Reliable and frequent carrier services.
✓ Accessible market location to and from the entire U.S.
✓ Superior facilities and vast inland network infrastructure.
THE PORT OF LOS ANGELES
LA
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U.S. Port Rankings: Q1 2012 vs. Q1 2011

U.S. Port	Inbound TEUs Q1 2012	Inbound TEUs Q1 2011	% Change
Los Angeles, CA	949,063	926,720	2.41%
Newark, NJ/New York, NY	673,723	644,180	4.59%
Long Beach, CA	673,172	689,917	-2.43%
Savannah, GA	271,526	262,023	3.63%
Seattle, WA	195,326	202,979	-3.77%
Norfolk, VA	188,802	181,980	3.75%
Oakland, CA	180,445	176,116	2.46%
Houston, TX	156,326	139,782	11.84%
Charleston, SC	155,951	140,358	11.11%
Tacoma, WA	118,188	108,470	8.96%
Miami, FL	87,375	89,500	-2.37%
Port Everglades, FL	84,564	84,423	0.17%
Baltimore, MD	76,056	72,920	4.30%
Philadelphia, PA	42,726	37,913	12.69%
Wilmington, DE	37,772	36,109	4.61%
San Juan, PR	36,930	36,125	2.23%
Jacksonville, FL	29,953	26,227	14.21%
Wilmington, NC	28,395	31,143	-8.82%
Gulfport, MS	26,414	27,084	-2.48%
New Orleans, LA	21,628	20,646	4.76%
Boston, MA	20,599	24,083	-14.47%
Portland, OR	19,131	19,278	-0.77%
Mobile, AL	15,014	12,262	22.44%
Chester, PA	13,394	13,281	0.86%
Port Hueneme, CA	11,924	4,511	164.32%
San Diego, CA	10,556	12,657	-16.60%
Freeport, TX	8,566	7,019	22.04%
West Palm Beach, FL	7,259	7,255	0.06%
Panama City, FL	6,115	5,905	3.56%
Honolulu, HI	4,671	4,027	15.98%

"It's encouraging to see that exports are ramping up," says Jondle, "but we are forecasting a steady increase in inbound calls, too. We work very closely with the Port of Long Beach to ensure that Southern California can compete with ports anywhere in the nation. We have deep water and a great rail network, so we don't have to raise bridges or dredge harbors."

Sean Strawbridge, managing director of trade development and operations at the Port of Long Beach, also points to the cooperative nature of the San Pedro Bay gateways. "We're seeing record strength in export demand, and are planning for a more balanced trade mix," he says. "There's a growing demand for agricultural commodities to be containerized, particularly to China."

"Regional marketing" is less successful in the Puget Sound, however, where the ports of Seattle and Tacoma are compteting aggressively for new business. When The Grand Alliance—a shipping consortium comprising Hapag-Lloyd, NYK, and OOCL—announced that it plans to move operations from the Port of Seattle to neighboring Tacoma later this year, there came a howl of protest.

"It's important that the business remains in Washington," says Linda Styrk, Port of Seattle's managing director. "Unfortunately, though many of the jobs will be preserved, others may not. Some who work in the Seattle harbor could see their livelihood impacted severely or in some cases, disappear."

Lost in this observation, however, is the fact that just three years ago Seattle lured Maersk and CMC-CGM away from Tacoma.

Oakland, meanwhile, attracted its first "mega-vessel" call this year, demonstrating that it can accommodate the new generation of huge container ships. The MSC Fabiola, a 12,562 twenty-foot equivalent-unit (TEU) vessel owned by Geneva-based Mediterranean Shipping Co SA. MSC came steaming into the San Francisco Bay early this year.

While this was largely a symbolic call—it may never be repeated—it demonstrates why the world's second-largest shipping company is one of the Port of Oakland's fastest-growing carriers.

Generally, ships arriving at Oakland carry imports such as electronics, wood furniture, apparel, bedding, toys, sports equipment, auto parts, coffee, and bicycles. When they depart, they carry exports including dried fruit and nuts, wine, rice, cotton, recycled paper and metal scrap, machinery, chilled and frozen meat and poultry, as well as vehicles.

"Our role as a leading export gateway helped us maintain our maritime volumes last year despite a weak economy," says Oakland Executive Director Omar Benjamin. "Bigger ships are part of growing our exports."

Walt Rakowich, co-chief executive officer of Prologis, says West Coast ports needn't be too concerned about losing market share in the near future, either. "There are too many "unknowns" associated with alternatives," he says. "We don't know, for example, if the East

Coast and Gulf ports will be able to handle the volume when the Panama Canal expansion is completed in 2014. And the concentration of population and industry in California is hard to dismiss."

East Coast challenge

Infrastructure investment may help to eventually move some ports up in Zepol's research rankings, however. The Port Authority of New York/New Jersey has committed $1 billion to increase the navigational clearance of the Bayonne Bridge from 151 feet to 215 feet in anticipation of the Panama Canal widening completion.

This expansion will allow for larger post-Panamax ships to access the region through the Kill Van Kull Channel. The project is currently undergoing the required Environmental Policy Act (NEPA) review with the U.S. Coast Guard, the designated lead federal agency under the U.S. Department of Homeland Security. Construction on the project is anticipated to begin in early 2013, pending federal and local environmental reviews.

"Every day becomes critically important to our goal of making sure larger cargo ships can call here," says Port Authority Executive Director Pat Foye. "Speed is essential, and I am committed to making our cargo operations faster and more competitive."

With 45 feet of depth at mean low water, The Port of Charleston currently has the deepest channels in the South Atlantic region and can handle ships drafting up to 48 feet on high tide. But officials here say that with the on-going deepening project, Deepening Charleston Harbor will open the port to expanded trade opportunities and increased big-ship traffic via the new locks of the Panama Canal 24 hours a day.

"Already in 2012, we have handled 24 ships with actual docking or sailing drafts 40 feet or greater," says Bill Stern, chairman of the South Carolina Ports Authority (SCPA) Board.

Jim Newsome, president and CEO of the SCPA, says much the same thing, noting that the local economy is thriving as a consequence. "We're experiencing a very balanced trade between import and export containers, which is a credit to the companies in South Carolina and across the Southeast that are competing well in the global marketplace," says Newsome.

Port Miami—the number one container gateway in the State of Florida—also needs to deepen its harbor to 50-feet by 2014. While containerized cargo movements were up 7 percent in its fiscal year 2010-2011, with a total of 906,607 TEUs, port officials say they expect more business in 2012.

Today, the State of Florida ranks number four in the U.S. for trade, "but we can be number one," says Port Miami Director Bill Johnson. "Thanks to our trio of infrastructure projects at Port Miami—the port tunnel, on-port rail, and the Deep Dredge—we are well-positioned to capture new trade with Asian markets."

In the meantime, analysts note that Miami has outperformed many large container ports in the U.S. due in part to the strength of Latin American economies. More than 50 percent of its trade is with South and Central American nations. "There's a reason we are called "the gateway to the Americas," adds Johnson. "We are on our way to becoming a logistical hub linking North and South America."

For the Port of Savannah, 50-foot depth is not the Holy Grail, however. The U.S. Army Corps of Engineers and the Georgia Ports Authority (GPA) have agreed to deepen the Savannah River channel from 42 to 47 feet.

GPA Executive Director Curtis Foltz says that this compromise will mean that most fully-loaded vessels will be easily accommodated, while saving money for other infrastructural needs.

"We all know how critical this extra depth is to the ability of our nation to move cargo efficiently," adds Foltz. "The depth, along with an average seven foot tide, strikes the right balance between the needs of our industry and the environment of the Savannah River. Nearly 40 percent of the project cost is dedicated to environmental mitigation, preservation of cultural resources, or the improvements to river access for the public."

Gulf Coast preparation

The Port of Houston is in the enviable position of not having to dredge, as its harbor is one of the deepest in the nation. According to Zepol, it posted an 11 percent increase in container throughput in the first quarter of this year. Along with Charleston, it was the only top 10 port to have an increase of more than 10 percent.

The "mega-vessel" MSC Fabiola, a 12,562 (TEU) vessel owned by Mediterranean Shipping Co came steaming into the San Francisco Bay early this year.

Furthermore, says Bill Hensel, Port of Houston's marketing director, the port had a record 17.7 million tons of container cargo moved in 2011: "It was a really good year for us. Container cargo was up 4 percent overall from 2010 when the port handled slightly more than 17 million tons."

With the introduction of new dual carrier service called the Gulf of Mexico Express, or GME, Houston is expected to capture even more balanced trade. Last month, Cosco Container Lines and Hanjin Shipping launched a new service linking the Far East, Panama, and Houston. The two carriers, part of the CKYH Green Alliance among Cosco, "K" Line, Yang Ming, and Hanjin, are deploying eight Panamax container ships with capacities of 4,000 TEUs apiece on the new service. Cosco deploys six of the ships, while Hanjin deploys two.

Meanwhile, analysts point out that Houston may lose some regional market share to the Port of New Orleans if a "peak pricing program" is implemented in the future.

Last year proved to be a banner year for container volumes at the Port of New Orleans. Year-end figures show that the Napoleon Avenue Container Terminal moved 476,413 TEUs, up 11.6 percent compared to 2010—the Port's previous record-setting year—and up 46 percent compared to volumes just two years ago.

Balanced trade played a crucial role in this story, too. "A strong export market, particularly chemicals and agricultural products, helped us achieve two back-to-back record-setting years," says Port of New Orleans President and CEO Gary LaGrange. "Coffee and apparel were strong commodities on the inbound side."

The port also added a new Latin American container service in 2011 and a new container carrier, as CMA CGM returned to New Orleans. The shipping line joins Mediterranean Shipping Company, Hapag-Lloyd, Maersk, Seaboard Marine, and CSAV in serving the Napoleon Avenue Container Terminal.

—Patrick Burnson is Executive Editor of Logistics Management

SAGE ADVICE

Logistical transparency

By John A. Gentle, DLP

DON'T YOU JUST HATE IT WHEN POLITICIANS or activists take a quote out of context and blow it out of proportion to make the other party look bad?

This practice can either be a conscious act, where someone intentionally knows that a comma, a selective phrase, or on conjunction with another part of the sentence actually changes the entire meaning. On the other hand, some organizations are so blinded by their distrust of the other group that they unconsciously interpret the words to mean something other than what the originator intended.

Because a national discourse on the art of political manipulation will soon overwhelm and frustrate us, I have chosen a simple way to illustrate how statements may either intentionally or unintentionally mislead the reader.

Last week I took my grandson, Joshua, to soccer practice. It was set for six o'clock. I noticed that about half of the kids were there on time and the others were late. After the practice we discussed what it meant to be on time. Josh suggested that being just a few minutes late wasn't a big deal—that there was a need for wiggle room.

We then talked about how "on-time" was defined—the criteria that determines whether the person is late or not late. It was decided that for practice, being early was not bad and that being five minutes late was considered okay as long as you had your shin guards and brought your ball. The same criteria, however, did not hold true for game day when the tolerance for being late was "zero," and if you're late you didn't play the first half.

How does this apply to the "fitness for use" guidelines that we provide to our internal and external business partners relative to how we will measure their performance?

When you talk to carriers, are you defining the criteria for timed deliveries? Will it vary depending on whether the shipment goes to a warehouse or job site? Does it require the driver to call one hour in advance or present himself with his paperwork to the supervisor five minutes before the unload time?

Do your carriers understand that for trailer pools, you will measure the percentage of the committed trailers to those empty, clean, operational, and available in your yard at some specific time of the day? Do they also know you are not going to count 'as available' trailers brought to your yard with 'foreign material' in them?

When we measure the DC for trailers loaded on time, do you say that the packing slip must be attached visibly to the last package on the trailer and it must be ready for pickup not later than the safe transit due-out time shown on the tender to the carrier?

Inventory managers can either be measured at month end when DCs instinctively withhold entering receiving reports; or more realistically, they can be measured against the average of daily inventories over a calendar month.

One of the most challenging and contentious issues for carriers and shippers is the commitment of shipping volumes and destination areas. Shippers bid specific three and five digit zip code volumes while carriers, anxious to minimize the distance and time between receiving and shipping points, bid favorably for those points and commit drivers and equipment to generate favorable earnings. How and when shippers send those carriers to those specific destinations and the criteria that are used to measure their commitment to the carrier is another matter.

"Inventive criteria," "elusive," and "deceptive" should not be words used to describe how the industry perceives you and your programs.

If the commitment criteria is just a certain volume over 30 days, that is much different than a certain volume per calendar week, or per business week, or per business day.

Everyone understands the need for wiggle room. If you don't want to live and die with a specific number, use a "range." Intentionally obfuscating the criteria has no place in the logistics community and is grossly unfair to your business partners.

I suggest that you review your data today. "Inventive criteria," "elusive," and "deceptive" should not be words used to describe how the industry perceives you and your programs. ☐

John A. Gentle is president of John A. Gentle & Associates, LLC, a Supply Chain consulting firm assisting shippers, carriers, 3PLs, and distribution centers in the management of their Logistical disciplines. A recipient of several industry awards, he has more than 40 years of experience in transportation, warehousing, and materials management. He can be reached at jag@RelaTranShips.