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AUGUST 2012

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2012

29th Annual Quest for Quality

Going for gold

Page 30

QUARTERLY TRANSPORTATION MARKET UPDATES


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Management UPDATE

AN EXECUTIVE SUMMARY OF INDUSTRY NEWS

Earnings growth…check! Although it sounds like a broken record, freight transportation companies continue to post strong results amid the ongoing chorus of economic uncertainty. Some of the first companies to report Q2 earnings, including intermodal market leader J.B. Hunt, truckload carrier Werner, and Class I railroads CSX and Union Pacific, reported quarterly profit growth and pricing gains. But even though Q2 earnings have been positive, many freight transportation stakeholders are exercising caution to see if that will continue to be the case, with the Peak Season forecast decidedly mixed due to cautious consumers and lack of strong demand.

UPS reports slight revenue gains. With earnings reports from UPS and its biggest competitor FedEx often used as a barometer of economic output, it looks like the recovery is slow going, with more evidence that the brakes may be applied even harder going forward. The transportation and parcel giant reported a 1.2 percent gain in second quarter revenue at $13.35 billion, with much of the growth driven by its Domestic Express segment that UPS CEO Scott Davis said allowed the company to quickly adapt to the needs of e-commerce shippers. While domestic had a strong quarter, it's uncertain how sustainable that is, with Davis pointing out that manufacturing and retail sales data issued in June by the Institute of Supply Management and the Department of Commerce are at their lowest levels since 2009. "Given these trends, UPS thinks current second half economic forecasts in the U.S. are too high, with GDP growth likely closer to 1 percent," said Davis.

More mail by rail. A report by the United States Postal Service (USPS) Office of Inspector General (OIG) issued last month highlights the fact that moving mail by rail could be highly advantageous and beneficial for the USPS. According to the report, the financially challenged USPS could save $100 million or more per year by shifting a portion of mail volume to rail without changing the overall transportation network. The report added that by increasing its intermodal usage, the USPS could save transportation costs, gain long-term strategic advantages, and still continue to meet existing service standards.

ATA report zeros in on truck driver shortage. While the challenge for carriers to find truck drivers is not new, the American Trucking Associations (ATA) released a report with guidance for carriers aimed at alleviating the many challenges that come with filling cabs. According to the report, more carriers are considering hiring inexperienced drivers and are turning to truck driver training schools to help them place those drivers. More than half of the 50 carriers surveyed in the report said that they had operated their own driver training school, but closed it in recent years. Those same carriers said that they would consider reopening the schools if they can't get enough drivers from their current school partners.

Diesel prices head in other direction. Following a 12-week stretch in which the average price per gallon of diesel was down every week, according to data from the Department of Energy's Energy Information Administration (EIA), the pendulum for diesel prices swung back in the other direction with consecutive gains during a three-week run through the week of July 23. The highlight of that run was the week of July 23, which saw diesel prices climb 8.8 cents to $3.873 per gallon, marking the single highest weekly gain since the week February 13, when prices rose 8.7 cents to $3.943 per gallon.

Offer period for UPS's acquisition of TNT Express is extended. An offer period commenced by UPS for its planned $6.28 billion acquisition of Netherlands-based TNT NV slated to run through August 31 has been extended. UPS said that the European Commission's review of the proposed acquisition is now expected to move to a Phase II review because there are facets of the deal that require more time to analyze. UPS officials said a Phase II investigation can take up to 25 weeks to complete, adding that it is likely the offer condition relating to competition clearance will not be satisfied by the end of the ini-

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Management UPDATE

continued

tial offer period. Because of this, the company said it now expects the deal to be completed during the fourth quarter of this year.

■ **North Asia Hub for DHL.** Express delivery and logistics services provider DHL Express opened up its $175 million DHL Express North Asia Hub at Shanghai Pudong International Airport. Covering roughly 13 acres, company officials said that the hub is able to process up to 20,000 documents and 20,000 parcels per hour, adding that it is part of its multi-hub Asian network that is comprised of four hubs in Shanghai, Hong Kong, Bangkok, and Singapore and connect to more than 70 DHL Express gateways in Asia.

■ **Rails set to fight fuel surcharge collusion allegations.** Following the late June decision by a U.S. District judge in the District of Columbia that granted class action certification to shipper plaintiffs in a lawsuit that maintains that four U.S.-based Class I railroads—Burlington Northern Santa Fe, Union Pacific, Norfolk Southern Corp., and CSX—colluded on fuel surcharges assessed to shippers, the four railroads are appealing the ruling, according to a Bloomberg report. According to the report, the railroads asked the U.S. Court of Appeals to reverse the ruling, explaining that it could lead to a cumulative $10 billion or more in potential damages. Various reports indicate that the plaintiffs maintain that the railroads, which control roughly 90 percent of U.S.-based freight rail volume, collaborated to maintain prices through fuel surcharges that were part of shippers' bills, and they also contend that this fuel surcharges had no direct correlation to actual fuel cost increases.

■ **Ag shippers get break.** The Federal Maritime Commission (FMC) praised the United States Department of Agriculture (USDA) for introducing the Ocean Shipping Container Availability Report. The report provides shippers, particularly those in the agriculture sector, with the participating carriers' estimates of equipment availability for the current week as well as projected weekly container availability for the subsequent two weeks. "I congratulate the USDA Agricultural Marketing Services as well as the 10 ocean carrier members of the Westbound Transpacific Stabilization Agreement for implementing the Container Availability program last week, and I urge full participation by all U.S. shippers," said FMC Chairman Richard Lidinsky.

■ **Too much outsourcing?** Pharmaceutical companies are increasingly engaging third part logistics providers (3PLs), but may be abandoning too much control over their business. A new report by healthcare experts GBI Research states that use of 3PLs is a growing trend in the global pharmaceutical supply chain, as cost cutting measures encourage businesses to use outside companies that can offer services at competitive prices. The report says that while "direct to pharmacy" and "deduced wholesaler agreement" models play a vital role in the UK, other EU countries are boosting their direct sales, and only time will tell which approach will succeed.

■ **Temporary slowdown.** A recent report indicates that the slowdown in Asian rapid-growth markets (RGMs) will be short-lived was echoed by other economists. According to Alexis Karklins-Marchay, co-leader of the Emerging Markets Center at Ernst & Young, slower expansion in the rapid growth markets is likely this year, but will "only be a blip" before returning to significant growth towards the end of the year. "Soaring domestic demand in economies starved of investment and consumption will offer business exciting new markets for goods and services in the years ahead," said Karklins-Marchay. As well as having the option of easing fiscal and monetary policy to accelerate growth, RGMs are also fortunate enough to have a growing middle class with increasingly higher incomes and an appetite to spend.

■ **Clean cargo update**. As the world transitions to low-carbon alternatives, logistics

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Menlo
WORLDWIDE LOGISTICS

Management UPDATE

continued

and supply chain managers will continue to depend on fossil fuels for the majority of their energy needs for the foreseeable future, said Business for Social Responsibility (BSR) executives in San Francisco. "But with global energy consumption set to rise by 40 percent by 2030, companies need to make smarter decisions about their current energy mix," said Eric Olson, BSR's senior vice president. BSR has come out with a position through The Future of Fuels, a new collaborative initiative with leading experts from the private, nonprofit, public, and academic sectors. BSR said that this initiative will offer shippers the information they need on all of the sustainability impacts of their transportation fuel choices, from climate change to human rights to economic development.

■ **Ports to build.** The importance of seaport-related infrastructure has not been lost on President Barack Obama, who announced seven projects of national and regional significance last month. The seven projects include five harbor improvements to deepen federal navigation channels for larger ships (in Jacksonville, Miami, Charleston, Savannah and New York/New Jersey), a project to increase the height of the New York harbor's Bayonne Bridge to enhance navigation, and an intermodal container facility in Jacksonville to increase rail capacity. All of the projects will benefit from aggressive federal permit decision-making and review schedules, while each directly supports a vital logistical hub.

■ **DC trends.** Among some of the more revealing responses contained in the recently released Tompkins Supply Chain Consortium Survey is that nearly one-third of respondent's distribution center (DC) operations are entirely outsourced. "Supply Chain Consortium data indicates that while many companies continue to have their own DCs staffed by their own employees, there is an upward trend in the percentage of DC buildings and labor being outsourced in the past two years," said Bruce Tompkins, executive director of the consortium and author of the report. "This increase signifies that more organizations are considering outsourced DCs over ones that are company-owned and operated." With responses from more than 100 companies across nine industries, the report reveals key metrics on annual logistics costs, DC operations, finished goods inventory turns, on-time delivery, and transportation sourcing solutions.

■ **Reliable pricing.** A major portal-based ocean cargo technology provider has announced the publication of a new "reliability report" on key ocean carrier metrics. According to spokesmen for INTTRA, the report combines on-time performance with schedule reliability measures. Shipping analyst firm SeaIntel has partnered with INTRAA to produce the data. "For the first time shippers can now analyze actual container delivery time versus vessel arrival time on a country-by-country level," said Lars Jensen, CEO of SeaIntel Maritime. "This is a game changer in how shippers can evaluate carrier performance and make more informed decisions on how their freight is moved."

■ **Ocean rates may stick.** Drewry's latest Container Forecaster report highlights higher freight rates for ocean cargo carriers in 2012 and 2013 together with improved prospects for sustained profitability. The recent successful implementation of significant rate restoration initiatives by carriers in the core east-west trade lanes means that most are now operating above break-even, said analysts with Drewry's, a London-based think freight transportation think tank. The report noted that carriers took sufficient capacity out in the winter months to ensure that recently re-activated services have not caused too much damage to the supply/demand balance and load factors on the eastbound transpacific remain strong. ☐


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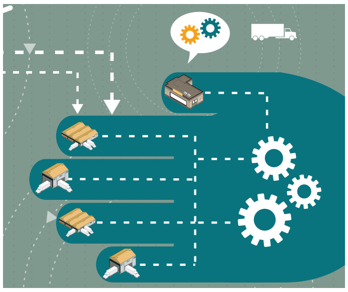

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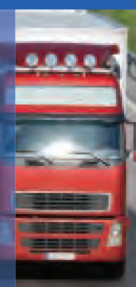
Quarterly Transportation MARKET UPDATE

LTL



Profitability improving

With pricing power back in the hands of the rejuvenated LTL sector, carriers are now laser focused on margins while concentrating on profitable freight. 68S

OCEAN

Can we still be friends?

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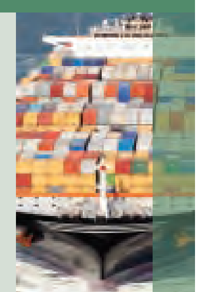

Logistics Management OnDemand

2012 Technology Roundtable Webcast

www.logisticsmgmt.com/2012tech

Harnessing the waves of data

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

With this in mind, we've collected 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.

Our panelists will be discussing:

- The rising importance of business analytics in logistics operations
- RFID's rapid market resurgence
- How ERP providers continue to expand their logistics offerings
- The rise of social media in logistics career development

Panel:

Jerry O'Dwyer
U.S. Sourcing and Procurement Leader, Deloitte Consulting

Mike Liard
Director, RFID, VDC Research

Ben Pivar
Senior VP and Supply Chain Lead, Capgemini

Adrian Gonzalez
Director, Logistics Viewpoints

Moderator:

Michael Levans: Group Editorial Director, Supply Chain Group

Now OnDemand

LM EXCLUSIVE: 28TH ANNUAL SALARY SURVEY

Go to: www.logisticsmgmt.com/salary2012

Pulling away from the pack

According to our 28th Annual Salary Survey, salary growth has leveled off a bit from last year's survey. However, we also found that an aging workforce is giving way to younger, more highly trained professionals who also happen to be savvy technologists—signaling good news for the overall growth of the logistics profession.

In this exclusive *Logistics Management* Webcast, Group Editorial Director Michael Levans, Executive Editor Patrick Burnson, and three prominent supply chain career management experts will put context around this year's Salary Survey results and offer their insight into how logistics professionals are putting technology to use to help them break away from the pack.

MEET THE EXPERTS:

Dr. Theodore P. Stank
Professor of Logistics, University of Tennessee

Bruce Arntzen, Ph.D.
Director, MIT's Master's Program

Lynn Failing
Vice President, Kimmel & Associates, Inc.

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VIEWPOINT

29th Quest for Quality: Going for gold

IT'S MY HONOR to present the logistics and transportation community with the results of the 29th *Annual Quest for Quality Survey*. This is the culmination of a six-month research project conducted by Peerless Research Group (PRG) that's become known as the most important measure of customer satisfaction and service performance excellence available in our industry.

For just shy of three decades, *Logistics Management* (*LM*) has used its August issue to officially announce the results of the survey and celebrate the carriers, third-party logistics providers (3PL), and U.S. ports that have earned the ultimate vote of shipper confidence by receiving the highest scores across our service performance criteria.

But what makes the Quest for Quality Awards stand out in the market is the fact that the lists of winners you're about to see have been determined by *LM* readers—the buyers of logistics and transportation services who put these carriers and service providers to work around the clock and around the globe.

In fact, one of the most important elements of the *Quest for Quality Survey* is that it allows shippers to vote on the type of services that they use on a regular basis and rank those carriers and providers that they work with every day.

This year we had 4,709 logistics and supply chain decision makers place their votes across our nine categories. The result: Our readers judged 127 transportation and logistics services organizations to be "best of the best."

And when you consider the level of continued economic uncertainty and the strategic cost cutting that's been executed on all sides of the logistics and transportation equation, one would think that shipper confidence in their providers would have been rocked over the past couple years—however, just the opposite is true.

In just about every category, our research team found that overall weighted average scores ticked up for the second year in a row, signaling that U.S. shippers feel that their key carriers and service providers have actually improved their service performance during these tough times. And as we conveyed to this year's Quest for Quality winners, this is a statistical fact that they should be celebrating across their organizations.

PRG's Director or Research Judd Aschenbrand has done another terrific job of conducting this survey project, which is by far our most comprehensive. This year, Judd also worked with analysts, shippers, and U.S. port executives to develop a new set of performance criteria and bring back our Ports category after a 10-year hiatus. The criteria and this year's winners can be found on page 46.

U.S. shippers feel that their key carriers and service providers have actually improved their service performance during these tough times.

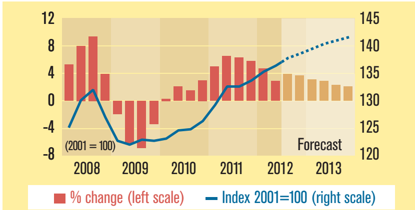
But now it's time to celebrate the winners of the 2012 Quest for Quality Awards. The lists that begin to unfold on Page 30 represent those carriers and service providers that *LM* readers believe have gone above and beyond to earn Quest for Quality gold.

I hope the results help you better measure all of your logistics services options over the next year.

Michael A. Levans, Group Editorial Director

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

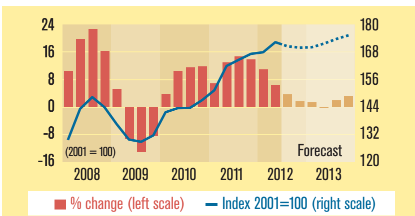
Pricing Across the Transportation Modes



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
General freight - local	-0.4	-0.1	0.8
TL	-1.0	2.3	3.9
LTL	-2.0	1.5	4.0
Tanker & other specialized freight	-0.9	0.4	0.1

TRUCKING

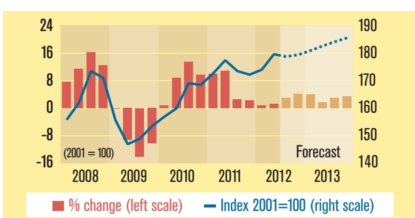
With a 1.1% price decline in June, the trucking industry's inflation trajectory did more than downshift. Indeed, this one-month cut in average prices charged by all truckers served to break a 10-month-long streak of inflation upticks. Long-distance LTL truckers of general freight took the sharpest turn, cutting their transaction prices by 2%. Nonetheless, second quarter 2012 shows all trucking prices up 2.9% from year-ago and LTL up 4.8%. We don't think a wave of falling prices is in the cards even if China's economy slows faster than expected and Europe's troubles deepen. Average prices in the trucking industry are forecast to increase 3.7% in the final quarter of 2012 compared to year-ago and 2.1% in the first quarter of 2013.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Air freight on scheduled flights	-0.2	0.4	4.1
Air freight on chartered flights	-1.4	4.4	4.6
Domestic air courier	0.0	7.0	4.9
International air courier	0.5	6.2	3.9

AIR

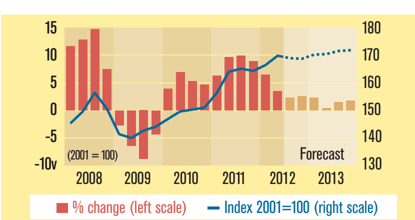
U.S.-owned firms flying non-scheduled (chartered) planes reported price cuts of 1.8% and 0.4%, respectively, for domestic and international service in June. Meanwhile, U.S. airliners together soared through another month with little push-back from buyers flying cargo in the belly of planes on scheduled flights. Average prices for these services dipped 0.2% in June. We had expected deeper cuts after April's record-breaking 7.7% price hike. As a result, our forecast for this price series has been raised again. Now we forecast average prices for cargo service via scheduled flights of U.S.-owned airliners to increase 5.5% in 2012 and 1.5% in 2013—not 4% and 1.8%, respectively, as previously reported.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Deep sea freight	-0.5	5.6	-4.9
Coastal & intercoastal freight	0.2	5.8	6.6
Great Lakes - St. Lawrence Seaway	-2.5	3.4	6.5
Inland water freight	-0.1	2.0	5.2

WATER

For the first time this year, average prices in the waterborne transportation market declined from a month ago, down 0.3% in June. The biggest deflation driver came from tugboats plying inland waterways, who reported they slashed transaction prices down 4.1%. Great Lakes-St. Lawrence Seaway freight and deep sea freight also cut prices by 2.5% and 0.5%, respectively. Inland waterway freight excluding towing, on the other hand, reported prices up 0.9% from month-ago and up 7.5% from same-month-year-ago. Only two categories (inland waterways towing and deep sea freight) saw prices fall below year-ago levels. The annual inflation forecast for all water transportation services remains 2.3% in 2012 and 3% in 2013.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Rail freight	-0.2	4.1	3.1
Intermodal	-0.9	1.9	1.4
Carload	0.0	4.6	3.4

RAIL

The latest survey shows carload rail prices stood unchanged in June as intermodal rail tags dipped down 0.9%. When reviewing quarterly price charts, it's clear that deceleration in the inflation trend for rail transportation continues apace. In the quarters ending June and September 2011, prices accelerated from year-ago levels at 9.6% and 9.9%, respectively. After slowing slightly to 8.9% in December 2011, rail inflation slowed to 6.5% in the quarter ending March 2012 and 3.5% in June. We forecast average rail industry prices will increase 2.6% in the final quarter of 2012 compared to year-ago and 1.8% in the final quarter of 2013. This means the average annual price forecast remains 3.7% in 2012 and 1.5% in 2013.

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

inside

NEWS & ANALYSIS

ILA, USMX remain in discussions over labor pact

East Coast and Gulf Coast ports labor stalemate could potentially hinder supply chain planning for shippers through the rest of the year.

By Jeff Berman, Group News Editor

WASHINGTON, D.C./NEW YORK CITY—With a September 30 deadline looming, The International Longshoremen's Association (ILA), the largest union of maritime workers in North America, and the United States Maritime Alliance (USMX), an alliance of container carriers, direct employers, and port associations serving the U.S. East and Gulf Coasts, remained in negotiations on a new contract at press time.

In recent months, the talks have ranged from amicable to contentious, and with no clear end in sight it has shippers thinking about making contingency plans to move freight that typically arrives through East and Gulf Coast ports.

Both the National Retail Federation (NRF) and the Retail Industry Leaders Association (RILA) have expressed their concerns to the ILA and USMX about what a potential labor strike could do.

In a letter to Harold Daggett, ILA president, and James Capo, USMX chairman and CEO, NRF President and CEO Matthew Shay pleaded his case for the organizations to come to terms on a new agreement. "We ask that you continue the negotiations without delay, and without impacting commerce moving through the ports," wrote Shay. "We would further ask that you issue a statement committing to continue negotiating and working without interruption, even if negotiations extend beyond September 30."

The NRF added that retailers are in the process of making final decisions on whether to divert cargo from the East and Gulf Coast ports in order to avoid potential disruptions, which would not only add costly delays to its members supply chains, but would potentially further threaten the fragile economic recovery with Peak Season approaching.

RILA pointed out that the ongoing labor negotiations affect 14 East and Gulf Coast ports that cumulatively represent 95 percent of all containerized shipments—and 110 million tons of import and export cargo—to the Eastern seaboard.

RILA President Sandy Kennedy wrote in a letter to Daggett and Capo that with the absence of certainty concerning the outcome of these negotiations, retailers have no choice but to continue planning for a shutdown.

"Some of our members advise that they are beginning to redirect their supply chains in order to allow adequate lead time to ensure that customer needs can continue to be met, regardless of whether the negotiations are successfully concluded by September 30," wrote Kennedy. "Supply chain changes of this magnitude are not desirable to retailers because they take time both to implement and to reverse."

While the final outcome of these negotiations is incomplete, ILA officials noted in March that since 1977 ILA and USMX have successfully negotiated nine new Master Contracts without any disruption in operations, with the current contract in effect since 2004 and then subsequently extended for two years in 2010.

But concerns remain heightened due to the 10-day, 2002 longshore contract dispute on the West Coast that some estimates indicate cost the U.S. economy several billion dollars per day and negatively impacted various key sectors within the economy.

A major sticking point in the negotiations between the ILA and USMX has to do with how the ILA has to negotiate all Master Contract issues with the ILA Wage Scale Committee, which the ILA's Daggett said in a letter to Capo is a democratically-elected committee that Capo has declined to address despite Daggett's overtures to do so.

Another issue has to do with technology. Capo maintains that the ILA is demanding that management guarantee a job for any worker even if new technologies eliminate a need for that position. Capo also noted that the current Collective Bargaining Agreement mandates that both sides negotiate over the impact new technology might have on the work force.

Capo also explained that the possibility of chassis pool operators joining USMX and be bound to the Master Contract, as per the ILA's request, would be "impossible" to achieve as the USMX cannot legally force pool operations to do so.

At press time, ILA and USMX officials stated that they had agreed in principle on issues pertaining to the introduction of new technology and automation and maintenance and repair of chassis within marine terminals and at off-pier facilities at the East and Gulf Coast ports.

According to Paul Bingham, economics practice leader at CDM Smith, how significant the potential disruption would be depends on its duration. "At some point the cost of obtaining alternative transportation or stocking inventories outweighs the profits lost from just waiting out a disruption," said Bingham. "Profits lost come from lost sales and depreciated product value, yet one needs to be careful to not over-value disruption impacts."

REGULATION

On-board recorders run into legal static from owner-operators

WASHINGTON, D.C.—When it comes to electronic on-board recorders (EOBRs), independent truck driver owner-operators have one message to the government: stay out of my business.

The group representing the nation's more than 1 million owner-operators has filed a preemptive lawsuit in anticipation of the government's first attempt to mandate EOBRs—or "black boxes," as they are known in trucker-speak.

Even though government's rule doesn't take effect until 2014, the Owner-Operator Independent Driver Association (OOIDA) has filed a preliminary legal challenge in anticipation of a broader mandate coming out of Washington that might affect all truck drivers. The Federal Motor Carrier Safety Administration (FMCSA) has pretty much hinted as much.

OOIDA recently filed a petition for review with the U.S. Court of Appeals, 7th Circuit, challenging the Federal Motor Carrier Safety Administration's (FMCSA) proposal on black boxes. For now, the government says it only wants to mandate those devices—which are about the size of a Bible and cost between $2,000 and $3,000—on those "bad apple" carriers and drivers who have shown egregious safety violations.

Shippers should care about these devices because typically any large cost absorbed by their carriers—whether company drivers or owner-operators—is passed onto shippers through higher rates.

OOIDA officials say they fear that once this first proposed limited rule goes into effect, it's only a matter of time before a larger, broader rule gets issued requiring the black boxes in all trucks. The black boxes are widely in use in Europe and elsewhere. In fact, trucks operating within the European Union are required to have EOBRs, which eliminate paper logs and greatly increase compliance with hours-of-service regulations.

The issue is a hot button for drivers. For one thing, some drivers view the black boxes as an invasion of privacy, another example of "Big Brother" government invading their in-cab space.

"The rest of the story is that FMCSA has pretty much made it clear that this is the first step. They've kind of tipped their hands that they intend to go much further," said Todd Spencer, OOIDA's executive director. "We have pointed out the shortcomings for years."

For one thing, OOIDA claims that companies that have utilized the black boxes have no better safety ratings than companies that do not. Privacy is another concern. Data from a trucker involved in an accident could be used in any legal proceeding. Another issue is cost. At a time when all truckers are facing an increasing regulatory burden and higher fuel costs, OOIDA says these black boxes could not survive a rigid cost/benefit analysis.

"Electronic on-board recorders are no more accurate than paper logs they replace," Spencer says. "These costs will be dumped on small business owners."

Spencer adds that OOIDA's lawsuit is about justifying the perceived benefits. "They've got to be able to justify it—or forget about it."

The issue also reopens old wounds in the owner-operator/big company schism. On one side is OOIDA, which has 155,000 members. On the other side is the American Trucking Associations (ATA), which has more than 27,000 company members. ATA has come out in favor of the black boxes, saying they improve safety and would save lives.

ATA President Bill Graves has long supported what he calls an "incentive-based approach" to trucking regulation compliance, including EOBRs. Last April, FMCSA issued a final rule mandating EOBRs for carriers. The rule provides incentives for compliant carriers to adopt the use of such devices voluntarily and sets forth certain device design/performance specifications. The rule will become effective in June 2012.

So even though the effective date is still two years away, OOIDA says the time to act is now. "The legal issues this raises have to be addressed—and addressed now," Spencer says. "You can't wait on those things. That dog doesn't hunt."

—*John D. Schulz, Contributing Editor*

PARCEL

USPS to put FedEx contract up for bid

WASHINGTON, D.C.—In a 10-K filing with the Securities and Exchange Commission, FedEx said last month that the United States Postal Service plans to solicit proposals for domestic air services that are currently provided by FedEx.

These services are for various USPS offerings, including First-Class, Priority, and Express Mail. The current agreement between the USPS and FedEx dates back to 2001 and expires in September 2013. According to industry estimates, this contract is valued at more than $1 billion.

"The U.S. Postal Service continues to strive for the best value in the fulfillment of its service obligations, including those associated with air and ground transportation procurements," said a USPS official. "The existing contract with FedEx is the Postal Service's single largest air transportation agreement. While no decision has been made to the existing contract, the Postal Service is evaluating all of its options as we move forward with our efforts to return to long-term financial stability, while maintaining excellent service for all our customers."

The USPS said that it incurred a new loss of $3.2 billion during the fiscal

Will UPS step into the ring?

second quarter, following a $3.3 billion fiscal first quarter loss and a $5.1 billion fiscal year 2012 loss. USPS officials said that despite ongoing management actions that have grown and improved efficiency, these sizable losses are expected to continue until key provisions of its five-year business plan move forward. Previous losses in recent years include $8.5 billion for fiscal year 2010 and $3.8 billion for fiscal year 2009.

In terms of what FedEx competitor might step in and win the USPS contract when it expires in 2013, one obvious candidate would be its top competitor, UPS.

"UPS, I suspect, has been lobbying that the $1 billion in business be competitively bid considering the financial woes the USPS has had," said Jerry Hempstead, president of Hempstead Consulting. "It's possible that a solution comes out of left field from ABX Air, ASTAR, or Atlas. But by far the largest threat is from UPS if they want the business. UPS can take it on, and the USPS would not miss a beat."

A Bloomberg report noted that the USPS contract represents more than 3 percent of FedEx' sales and generated about $1.4 billion for FedEx in its fiscal year through May 2012. According to the report, FedEx spokesman Jess Bunn said that during the 11-year period of the relationship between FedEx and USPS, FedEx has "raised the service levels and reliability of the Postal Service product," adding "that record of success will be an important consideration."

But that sentiment does not appear to be a detriment to UPS in any way.

"UPS has informed the USPS that it definitely intends to bid on this work," UPS spokesman Norman Black told *LM*. "UPS absolutely believes it can support the Postal Service's commitment to its mail customers by enhancing the efficiency of the mail system while creating new growth opportunities for UPS."

UPS today acts as a customer, vendor, and supplier to the USPS as well as a competitor, Black explained. And since 2006, UPS has provided airlift services for the transport of First Class and Priority Mail and remains focused on providing the best, most reliable service possible and growing its relationship for the future, said Black.

—Jeff Berman, Group News Editor

TRADE

Port Tracker report is optimistic about import volumes in coming months

NEW YORK CITY—The near-term outlook for import cargo volume at U.S.-based retail container ports appears to be solid, according to the most recent edition of the Port Tracker report by the National Retail Federation (NRF) and Hackett Associates.

The report is calling for July import cargo volume to increase 1.6 percent annually, with modest annual gains expected in subsequent months into the holiday shipping cycle. The ports surveyed in the report include: Los Angeles/Long Beach, Oakland, Tacoma, Seattle, Houston, New York/New Jersey, Hampton Roads, Charleston, and Savannah,

as well as the new addition of Miami in this report.

In recent editions of the report, Port Tracker stated that the first half of 2012 would total 7.3 million TEU (twenty-foot equivalent units), but this report said that the first half topped that at 7.5 million TEU, which was up 2.6 percent annually.

The 2011 total was 14.8 million TEU, which was up 0.4 percent over 14.75 million TEU in 2010, and according to NRF estimates, retail sales are expected to increase by 3.4 percent to $2.53 trillion.

"Whether consumers are going to have the confidence to spend during the next few months depends on what happens with employment, but retailers are being cautiously optimistic," said NRF Vice President for Supply Chain and Customs Policy Jonathan Gold. "Sales can fluctuate from month to month, but these import numbers show that retailers are still expecting this year to be better than last year."

At a time when mixed economic signals prevail and many economists are skeptical about the strength of the economy, Hackett Associates President Ben Hackett said that his firm remains optimistic that consumers will remain active.

"We think June will be up nearly 5 percent annually, and we think most of that will be driven by still-low inventories," said Hackett. "Any requirements for orders for back-to-school season in August and the beginning of holiday shopping in November will result in increased volumes. New housing starts are also continuing to grow and are still positive. We think things are not as bad as perhaps some economists and commentators are making them out to be."

While growth is expected through the rest of the year, Hackett said an abundance of ocean capacity still remains. "This situation is likely to put pressure on pricing, which has fluctuated to a fair degree," added Hackett.

—Jeff Berman, Group News Editor

MERGERS AND ACQUISITIONS

Genesee & Wyoming set to buy RailAmerica

GREENWICH, Conn.—The two largest short line and regional rail operators in North America will become one, with last month's announcement that Genesee & Wyoming (G&W) will acquire RailAmerica for an all-cash purpose price of $27.50 per share—or roughly $1.39 billion.

G&W officials said that this acquisition will boost its ability to serve its industrial partners and Class I railroad partners, yield significant synergies and provide strong leverage to the eventual economic recovery of the U.S. economy, and create a powerful platform for future industrial developments along the railroads in the 37 states where Q&W operates. The two companies cumulatively account for 108 railroads.

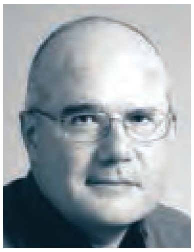
This acquisition, added G&W officials, is subject to approval by the U.S. Surface Transportation Board (STB) and is expected to close as early as the third quarter. G&W said it expects to fund the transaction and simultaneous refinancing of its existing debt with about $2 billion of new debt and about $800 million of equity or equity-linked securities.

"Today is a very shining day for G&W as we are announcing our largest acquisition in our history," said G&W President and CEO Jack Hellman. "The combination of G&W and RailAmerica is an inherently logical one as the overlapping holding company structure of our two organizations has the capacity to significantly unlock shareholder value."

Hellman also explained that the transaction is strategically transformational in terms of North American operations, as it will operate 108 railroads over more than 12,000 track miles in North America.

"This is an exciting day for both RailAmerica and Genesee & Wyoming," said John Giles, president and CEO of RailAmerica. "From this strong base of operations and having unlocked significant shareholder value, a combination with Genesee & Wyoming is the logical next step in creating a combined organization that will be a powerful driver of North American rail traffic for decades to come."

—Jeff Berman, Group News Editor



LTL Pricing: The devil is in the details

SHIPPERS ARE INCREASINGLY TELLING ME that the number of options in the less-than-500-pound shipment market confuses them. The one thing that many can understand is that costs continue to climb despite the deregulation of rates. However, enormous savings can be achieved by knowing your shipment weight and distance, direction, and cube as well as the capabilities of your carrier.

The less-than-500-pound shipment market makes up over 60 percent of LTL shipments according to Dynarates, a freight transportation consultancy. In the meantime, the market has many providers and options, from LTL carriers, various third party "hundredweight" and "multi-weight" consolidation programs, truckload stop off, and pool distribution with and without pallets.

For simplicity, many shippers include these smaller shipments in their regular LTL mix tendered to their carrier each day. But, shippers be aware: These packages are a major focus for increased revenues by LTL carriers.

The less-than-500-pound shipment rates are a favored place to bump up charges, accessorials, and minimums. The effect of a general rate increase will vary for individual customers and shipments based on characteristics such as geography, lane, product classification, weight, and dimensions. But for small shipments, the LTL carriers have made a significant change in the minimum charge. Most LTL carriers now have three minimum charges that are based upon weight breaks.

Every class rated LTL shipment you make may be subject to:

1) A standard minimum charge, subject to the additional charges and weights.

2) Single shipment minimum charge, or "SSMC." This charge, higher than the normal per shipment minimum charge, applies when the carrier picks up a single shipment unaccompanied by any other shipment. I suggest you read your rules or pricing tariff, or ask carrier representative.

3) An absolute minimum charge (AMC). This third minimum charge is the charge below which a carrier simply will not go. Even after contract discounts are applied, shippers may find they are subject to an AMC buried in the rules tariff of the carrier.

Let's look at an actual carrier tariff with a recent rate increase of a 5.9 percent "average" and see what it looked like in the lower weight breaks. While heavy loads are increased in the 3 percent to 5 percent range, minimums increased 10 percent, less than 500 pounds by 9 percent, and 500 pounds to 1,000 pounds increased 8 percent. Now we see the devil is in the details.

The less-than-500-pound shipment rates are a favored place to bump up charges, accessorials, and minimums.

These example minimum charges in a current 2012 rules and pricing tariff will exceed well over $100.00. With the weight breaks resulting in large percentage differences in scales, every pound you can take off a shipment is important. Leading hundredweight and multi-weight services don't have pallet weight or pallet cost, reducing shipment weight by a substantial 40 pounds—the weight of the pallet.

How do we manage all those details? A good TMS and accurate attention to your shipment weight and distance, pallet, and non-pallet selection of carriers can help you avoid missing opportunities.

As your product's freight classification increases and the distance your shipment moves increases, the charges will increase. Pay close attention to the dimensions, distance (zone), and weight breaks.

When was the last time you read the rules tariff and discussed the important weight category of less than 500 pounds that could represent 40 to 50 percent of your volumes? ☐

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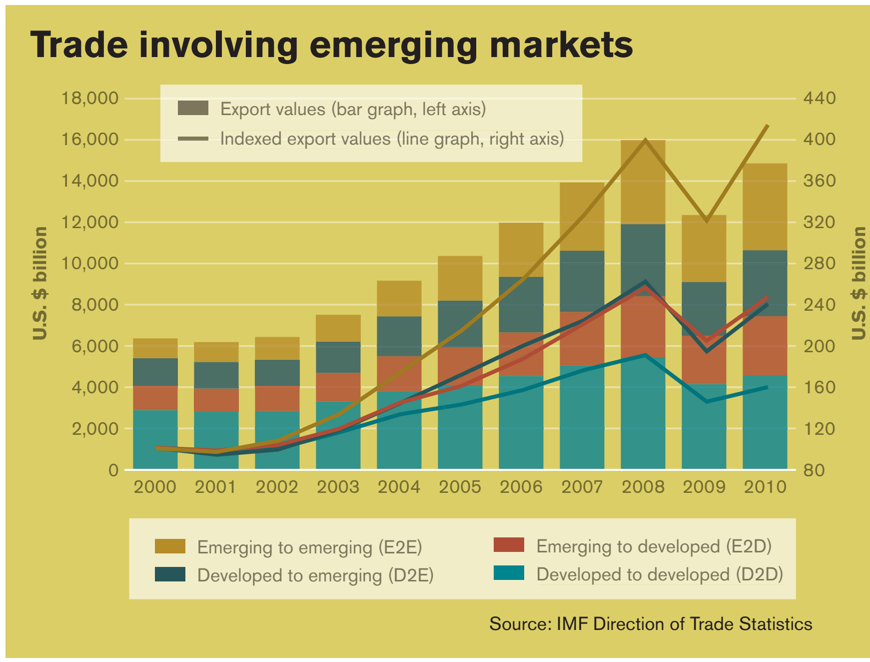
Essential capabilities for emerging markets



In 2000, the total value of the world's D2D transactions was roughly equal to the sum of all transactions involving emerging markets (E2D, D2E and E2E). By 2010, the sum of all D2D transactions was less than one third the sum of all transactions involving emerging markets.

IN LAST MONTH'S COLUMN, we presented some dramatic research insights about emerging markets. By 2020, 57 percent of the world's economic growth could come from emerging markets. Emerging market household incomes are expected to increase by a total of \$8.5 trillion between 2010 and 2020. And if emerging-market-to-emerging-market (E2E) exports continue to increase at their current rate, they will outpace developed-country-to-developed-country (D2D) volumes by 2013.

At the company level, our findings were no less striking. There are now 117 emerging market companies in the *Fortune* Global 500 (a six-fold increase since 2000). Twenty-two emerging-market multinationals replaced companies from more-developed markets in 2011 alone. And in 2011, 70 percent of the *Fortune* Global 500's fastest-growing companies (by revenue) represented emerging markets.

But what can companies learn from the pioneering work that leading-practice "globalizers" have done? Here are six key capabilities that highly effective companies are leveraging to work and sell in emerging markets.

1. Engage with local stakeholders. Tight connections with communities, suppliers, distributors, and consumers can open doors and help keep them open. To help penetrate the fast-growing Brazilian market, L'Oréal counts on retail partnerships to help forge new consumer relationships through displays and personal beauty advisers. By connecting with retailers, L'Oréal is positioned to smoothly leverage shifts in Brazilians' buying behaviors—from door-to-door sales to urban "high-street" settings.

2. Uncover latent demand. Identifying population segments that may previously have been overlooked has huge potential. First Energy uses fuel pellets made from agri-waste to run the smokeless "Oorja" stoves it sells across India. In China's rural Sichuan province, Haier sells washing machines specifically designed and labeled to "wash clothes, sweet potatoes, and peanuts." To reach large rural population segments, Brazil's Banco Bradesco operates a floating bank branch on the Amazon River.

3. Seed future demand. "Enlightened self interest"—aligning business success with socio-economic development—is a tried and true strategy. With this in mind, GSK developed its Access to Medicine program. One of the initiative's cornerstones is dramatically reduced pricing, which

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has helped GSK build new markets and make it easier for people to obtain vital medicines.

4. Explore public/private partnerships. Global companies sometimes find that working hand in glove with government is easier in emerging economies than in developed ones. South Korea's Information Infrastructure (KII) Plan was launched with the goal of connecting more than 80 percent of households to broadband services. Private-sector investments in the project totaled $14.5 billion, while the South Korean government added $1.76 billion in loans. Increased availability of Internet access has helped several South Korean companies become world leaders in market sectors such as online games.

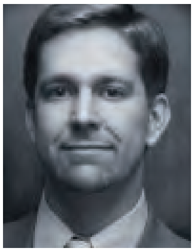
When it comes to carving inroads in emerging markets, companies are generally limited only by their imaginations, vision, market-research skills, and the willingness to put their money where their markets are.

5. Prepare leaders for tomorrow's global realities. According to the aforementioned research, a key feature of "successful globalizers" is leadership teams that are widely committed to entering, expanding and personally participating in high-growth markets. To help ensure that future leaders have diverse international experience, Nestlé assigns many of its best and brightest to a 30-month stint in a foreign market. India's Tata Communications has designed an entirely new operating model to incorporate local leadership expertise into the company's global operations.

6. Create a change-friendly culture. Stronger emphasis on emerging markets requires corporate cultures that are comfortable with uncertainty, complexity and change. Samsung has been transforming how it thinks, feels, and works by drawing select Western business practices into its corporate culture. For example, it launched meritocratic promotion and pay into a system that traditionally embraced seniority and reverence for elders.

For every example given here, there are thousands more. In fact, when it comes to carving inroads in emerging markets, companies are generally limited only by their imaginations, vision, market-research skills, and the willingness to put their money where their markets are. □

Andreoli on



Think twice: There's a danger to ditching diesel

THE AVERAGE TRUCK CONSUMES roughly 11,000 gallons of diesel per year. Consequently, even minor shifts in fuel prices have a significant impact on operating costs. For instance, when applied to a fleet of 100 trucks, a price drop of 25 cents per gallon generates annual savings exceeding a quarter of a million dollars.

Of course, in a competitive environment, some, if not all of these savings, are passed on to shippers, but the opposite is also true. When prices increase, shippers, carriers, and consumers all take a hit.

As the price spread between oil and natural gas reached an all-time high, the price differential between compressed natural gas (CNG) and diesel yawned to $1.80 per gallon (measured on an energy equivalence basis). The promise of such savings provides a compelling reason to convert all or part of a fleet to natural gas.

In addition to fuel savings, natural gas powertrains are less complex, require less downtime for maintenance and repair, and are less costly to maintain. On the flip side of the coin, equipment costs are higher, roughly $30,000 or more per truck, and switching to CNG (or potentially liquefied natural gas, LNG) requires that facilities be upgraded and employees be trained and certified. Additional considerations regarding the availability of fueling infrastructure, refueling time, vehicle weight, and residual value must also be made.

As a general rule of thumb, a price differential of roughly $1.50 is needed to break even on the investment in two years. The question at hand asks whether or not the price spread will persist long enough to cover the payback period for the initial investment. To answer this question requires thoughtful evaluation of the factors that are responsible for the yawning price spread.

Natural gas production boomed after the introduction of hydraulic fracturing technologies, and prices were forced down as production grew faster than consumption. On the other side of the equation, diesel prices have risen as demand growth—especially from emerging markets—outpaced supply.

Addressing these issues systematically requires the evaluation of factors that are likely to influence supply and demand for both natural gas and diesel. The number of natural gas drilling rigs in operation has fallen off a cliff, declining 36 percent over six months. This precipitous decline has occurred for two reasons.

First, neither natural gas spot prices nor futures prices support current drilling efforts. A conservative estimate puts the average full-cycle marginal cost of production in the $6 to $7 per million BTU (mmBTU) range. In April, natural gas spot prices bottomed out at $1.82/mmBTU, and they remain below $3.00/mmBTU today.

Second, the same drilling equipment and techniques can be redeployed to produce shale oil, which generates higher returns. Consequently, on the supply side, though natural gas inventories remain high and will likely remain high for some time to come, they will eventually decline as a result of the recent pullback in drilling activity.

On the demand side of the natural gas equation, historically low prices are driving major shifts in domestic consumption. In the year and a half since January 2010, the share of natural gas

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for electric power generation increased from 34 percent of fossil-fired generation to 46 percent. Over the same period, natural gas consumed by vehicles increased 20 percent. Neither of these trends is likely to reverse so long as the price differential persists.

We may conclude that over the medium term, the indicators are all pointing toward a tightening of the natural gas market because drilling won't pick back up until spot or futures prices rise above the marginal cost of production. And, all the while, "fracktivists" continue to mount a rebellion against producers, so when they do decide to drill they may meet costly resistance or outright moratoriums.

By contrast to natural gas, diesel is energy dense, chemically stable, and easily and safely transported. For these reasons, diesel has clawed its way to the top of the fossil fuel food chain, and as emerging markets continue to develop, their demand for diesel will follow suit. The EIA's most recent data show that net exports of diesel hit an all-time high just shy of one million barrels per day in April, which is the most recent data point. This equates to just over 23 percent of all diesel produced in U.S. refineries.

While there are no harbingers on the horizon suggesting that the trend in rising emerging market demand will reverse, the pace of growth among emerging economies has slowed dramatically and retarded the growth rate of diesel demand. European demand for the product has declined as well, and U.S. demand remains flat at a level 15 percent or more below pre-recession levels.

On the supply side, crude oil production is flat. Although total liquids production has increased, the vast majority of this increase has come from natural gas liquids and ethanol. Both of these hydrocarbon molecules are shorter than those that comprise diesel, so when they run through a refinery, neither yield diesel as an output.

Consequently, if diesel production is going to increase, and it will, the added volume must come from a source other than crude oil, and refiners know exactly where to look—residual fuel oil.

Residual fuel oil is what remains after lighter, more valuable hydrocarbons (gasoline, diesel) have been separated from longer, more complex and less valuable hydrocarbon molecules. Typically residual fuel oil is either sold as bunker fuel, burned in thermoelectric power plants, or burned in the refineries themselves as a heat source for the various refinery operations.

Whereas refineries sell diesel for $25 to $30 per barrel more than they pay for crude, more often than not they sell residual fuel at a loss. When run through a hydrocracker, however, the molecules that comprise residual fuel oil can be broken into diesel. In order to break these long chains, however, the refiner must add hydrogen under high heat and pressure. So, it's now economical to get both the hydrogen and heat from natural gas.

The cost for a hydrocracker runs in the hundreds of millions of dollars, but by cracking residual fuel into diesel, refiners can earn an additional $15 or more for every barrel processed. In a refinery that processes 300,000 barrels of crude per day, revenues would increase by $4.5 million, and the payback period could be as low as a year.

While global crude production may remain stubbornly flat, diesel production is set to rise. And looking forward, the growth in diesel demand is likely to slow and remain subdued compared to prior forecasts. At the same time, refinery investments in the U.S., China, India, and elsewhere will increase the supply at a rate faster than was the case between 2005 and 2011.

Markets always hold surprises that can't be anticipated, but given the forces at play on the supply of, and demand for, both natural gas and diesel, it is hard to imagine prices will not converge. Perhaps they will never reach parity again, but they don't need to reach parity to render natural gas a losing bet. If the spread drops much below $1.50 per gallon, natural gas powered trucks start looking less and less appealing. ☐


Yusen Logistics
To Our Valued Customers:
On behalf of the employees of Yusen Logistics, I want to personally thank you for your continued confidence and trust in our team. We are honored to be selected as one of the top five providers in the Quest for Quality Intermodal Marketing category.
Across our organization, we are committed to your success and to bringing you innovative solutions and best in class service and reliability every day. Whether providing an intermodal solution across North America or managing your global supply chain, our Yusen Logistics team members work hard to deliver on our values of integrity, innovation and intensity.
Thank you again for honoring us with this award.
Sincerely,
Michael Liantonio
Senior Vice President and GM
Transportation Division, Yusen Logistics (Americas), Inc.
QUEST FOR
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Going

Which carriers, third-party logistics providers, and U.S. ports will walk away with a gold medal for their outstanding service performance over the past year? Our readers have cast their votes, and now it's time to reveal this year's winners of the coveted Quest for Quality Awards.

for gold

BY ***LOGISTICS MANAGEMENT*** **STAFF**

The editorial staff of *Logistics Management* (*LM*) is proud to unveil the results of the 29th Annual Quest for Quality Awards. This year, 127 providers of transportation and logistics services have received the ultimate vote of confidence, posting the highest scores across our lists of critical service criteria.

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

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

This year our research group received 4,709 total responses. In order to be a "winner," a company had to receive at least

Performance attributes' importance

Company Type	On-time performance	Value	Information technology	Customer service	Equipment & operations
National/multiregional LTL and surface package carriers	4.7*	4.5*	3.6*	4.0*	3.5*
Rated extremely/very important	97%	92%	61%	72%	59%
Air cargo carriers/air express carriers/freight forwarders	4.7*	4.3*	3.7*	4.2*	3.6*
Rated extremely/very important	96%	88%	62%	8%	60%
Ocean carriers	4.7*	4.4*	3.6*	4.2*	3.9*
Rated extremely/very important	96%	88%	62%	80%	60%
Truckload/van lines/expedited	4.8*	4.4*	3.3*	4.0*	4.0*
Rated extremely/very important	98%	91%	48%	73%	70%
Rail/Intermodal service providers	4.7*	4.4*	3.5*	4.1*	4.0*
Rated extremely/very important	97%	90%	58%	75%	72%

	Ease of doing business	Value	Ocean Carrier network	Intermodal Network	Equipment & operations
Ports	4.2*	4.1*	3.9*	3.8*	4.1*
Rated extremely/very important	81%	81%	71%	69%	77%

	Carrier selection/ negotiation	Order fulfillment	Transportation/ distribution	Inventory management	Logistics information systems
3PL	4.2*	3.7*	4.4*	4.2*	4.4*
Rated extremely/ very important	86%	80%	86%	62%	80%

Source: Peerless Research Group (PRG)

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

five percent of the category vote. The result of this overall effort is a crystal clear look at not only the overall winner in any given category, but a broad list of companies that finished well above the average.

Transportation service providers are rated on *LM's* five key criteria: On-time Performance, Value, Information Technology, Customer Service, and Equipment & Operations. Due to the nature of services offered by third-party players, a different set of criteria is used to judge this category. Third-party logistics providers are rated on the following attributes: Carrier Selection & Negotiation, Order Fulfillment, Transportation & Distribution, Inventory Management, and Logistics Information Systems.

This year we re-established our Ports category, using Ease of Doing Business, Value, Ocean Carrier Network, Intermodal Network, and Equipment & Operations as the five key criteria to measure service success.

The evaluation itself is a weighted metric. The scores take into account the importance readers attach to each attribute. Each year, readers are first asked to rank the attributes in each category on a five-point scale, with 5 representing the highest value and 1 representing the lowest value.

The PRG research team then uses those attributes' rankings to create weighted scores in each category. For example, readers have historically placed the single highest value on the On-time Performance attribute—and they've done so again in 2012. In fact, the attribute was rated between 4.7 and 4.8 across the various carrier categories.

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

To produce a weighted score, the research team then multiplies the provider's average scores for each attribute by the attribute's ranking. Next, the weighted scores are calculated for all five attributes for a given vendor and added together to create an aggregate number. Companies score a quality win when their total scores exceed the average total weighted score in their category. But remember, providers must receive a minimum number of reader responses to qualify for a win—at least five percent of the total base for the category.


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2012 Quest for Quality Winner—Intermodal Marketing Company
Ship with a First-Place Team.
At Alliance Shippers Inc., we know what it takes to be the best.
Nothing proves this more than the latest Quest for Quality award.
We finished first overall in the INTERMODAL MARKETING COMPANY category, and first place in:
• Customer Service
• Performance
• Equipment and Operations
ALLIANCE shippers inc.
For more information about all of our services, visit us at: www.alliance.com

NATIONAL LTL

Road to glory getting smoother

WHILE THE RECESSION left the national less-than-truck (LTL) carriers reeling, we're happy to report that this sector is more "in balance" than in past years, with capacity now aligning with demand. For the first time in at least five years, the sector is showing positive operating margins—albeit scant—while rates have started to clearly reflect that equilibrium.

This improved stability is proving to be good for business, with our financial data showing privately-held carriers hauling more freight at better rates than a year ago, providing those carriers with far better margins than their publicly held counterparts.

And while it's been a long and winding road for the sector, we're happy to report that seven carriers in this category will be stepping up to the podium to collect Quest for Quality gold in 2012. We're also glad to see that overall weighted average scores have ticked up at least a point across the three categories in this sector, signaling that, according to *LM* readers, these carriers have improved their service performance over last year.

In our National LTL category, FedEx Freight posted the top weighted score of 47.54, 1.71 points higher than the score it posted last year when it also took top spot. FedEx Freight took quality wins in four of the five attribute categories as well, posting 9.39 in Value, 8.83 in Information Technology, 9.22 in Customer Service, and 8.59 in Equipment & Operations.

Leading the way in On-time Performance this year was Con-way Freight (11.73) on its way to an impressive 46.55 total score. It's interesting to note that Con-way also improved over last year's total average, jumping up 2.37 points from its 2011 score.

Readers voted in three winners in this year's Multiregional LTL category. FedEx Freight posted an impressive 49.42 weighted score, with top marks in On-time Performance (12.15), Information Technology (9.07), Customer Service (9.53), and Equipment & Operations (8.81). Old Dominion Freight Line put up an excellent 47.36, while R+L Carriers rounded out the winning trio with a 44.56. R+L topped the Value attribute race in this category with an 10.07 score.

As in many years past, FedEx Ground and UPS continue to battle it out with nearly identical scores in the Surface Package Carriers category. FedEx Ground edged UPS by a mere .21 points in total weighted scores this year.

LTL carriers: National

(Bold indicates leader in attribute category)

	Overall score	On-time performance	Value	Information technology	Customer service	Equipment & operations
FedEx Freight	**47.54**	11.51	**9.39**	**8.83**	**9.22**	**8.59**
Con-way Freight	46.55	**11.73**	9.27	8.16	8.98	8.41
AVERAGE	44.66	10.78	9.11	8.08	8.72	7.98

LTL carriers: Multi-regional

	Overall score	On-time performance	Value	Information technology	Customer service	Equipment & operations
FedEx Freight	**49.42**	**12.15**	9.87	**9.07**	**9.53**	**8.81**
Old Dominion Freight Line	47.36	11.74	10.01	7.87	9.49	8.24
R+L Carriers	44.56	10.53	**10.07**	7.53	8.55	7.89
AVERAGE	44.29	10.53	9.65	7.75	8.60	7.76

LTL carriers: Surface package carriers

	Overall score	On-time performance	Value	Information technology	Customer service	Equipment & operations
FedEx Ground	**50.15**	**12.28**	**10.41**	9.12	**9.50**	8.85
UPS	49.94	12.22	10.19	**9.47**	9.02	**9.04**
AVERAGE	47.88	11.65	10.22	8.69	8.76	8.57

Source: Peerless Research Group (PRG)

REGIONAL LTL

Top sprinters find success

BEING NIMBLE, QUICK, and responsive to constantly changing customer demands has kept many of the nation's top regional LTL's alive over the past four years.

But this year's story revolves around the improved scores cross the entire regional category, signaling that this year's Quest for Quality winners have come out of the Great Recession with a full head of steam.

Leading the way in the Northeast/ Mid-Atlantic region for the third year in the row is A. Duie Pyle with an impressive 49.32 weighted average score. New Penn Motor Express put up a 47.91 average, taking Quest for Quality gold for the second year in a row, while perennial winner Pitt Ohio (46.46) and Ward Transport Logistics (46.44) round out the category that saw scores up by .5 to a full point.

Only one carrier beat the weighted average in the South/South Central region. Southeastern Freight Lines, another perennial winner, posted a 49.30 to take home Quest for Quality gold. In the Midwest/North Central region we found Dayton Freight Lines and Holland battling it out again for top spot yet again. Dayton put up a 47.12 total score while Holland put an equally impressive 47.09.

LTL carriers: Northeast/Mid-Atlantic regional

(Bold indicates leader in attribute category)

	Overall score	On-time performance	Value	Information technology	Customer service	Equipment & operations
A. Duie Pyle	**49.32**	**12.23**	10.52	6.72	**9.59**	**8.56**
New Penn	47.91	11.82	10.31	**7.15**	9.42	8.19
Pitt Ohio	46.46	11.69	9.96	6.75	8.87	8.21
Ward Transport Logistics	46.44	11.11	**10.64**	6.50	9.11	7.87
AVERAGE	**46.34**	**11.34**	**10.35**	**7.67**	**9.02**	**7.97**

LTL carriers: South/South Central regional

	Overall score	On-time performance	Value	Information technology	Customer service	Equipment & operations
Southeastern Freight Lines	**49.30**	**12.21**	**10.48**	**8.27**	**9.67**	**8.67**
AVERAGE	**46.90**	**11.54**	**10.36**	**7.69**	**9.16**	**8.14**

LTL carriers: Midwest/North Central regional

	Overall score	On-time performance	Value	Information technology	Customer service	Equipment & operations
Dayton Freight Lines	**47.12**	11.47	**10.27**	**7.73**	**9.42**	**8.24**
Holland	47.09	**12.00**	10.08	7.71	9.30	8.00
AVERAGE	**44.24**	**10.62**	**9.87**	**7.30**	**8.80**	**7.65**

LTL carriers: Western regional

	Overall score	On-time performance	Value	Information technology	Customer service	Equipment & operations
Lynden Transport	**49.80**	**11.67**	**11.44**	**8.23**	**10.04**	8.42
Oak Harbor Freight Lines	48.17	11.63	10.79	8.03	9.45	8.27
Mountain Valley Express	46.73	11.36	10.31	7.14	9.45	**8.47**
Peninsula Truck Lines	46.69	11.59	10.64	7.14	9.49	7.83
AVERAGE	**46.19**	**11.21**	**10.49**	**7.46**	**9.10**	**7.94**

Source: Peerless Research Group (PRG)

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TRUCKLOAD

Long distance recovery

WELL, YOU WOULDN'T KNOW IT by the scores, but the 30 winners represented in these five market sectors have just gone through a few of the toughest operational years of their existence. In fact, the number of winners in the category along with the overall scores have ticked up, marking an overall service improvement in this category according to *LM* readers.

Melton Truck Lines' 50.62 score in Industrial & Heavy-Haul, FedEx Custom Critical's 52.16 in Expedited, and Miller Transporters, Inc.'s 54.41 in Bulk Motor are three of the highest scores recorded in this year's entire Quest for Quality survey.

Industrial and heavy-haul carriers

(Bold indicates leader in attribute category)

	Overall score	On-time performance	Value	Information technology	Customer service	Equipment & operations
Melton Truck Lines	**50.62**	**12.96**	9.72	7.80	**9.58**	**10.56**
Prime, Inc	50.42	12.22	10.85	**7.98**	9.07	10.31
Tri-State Motor Transit	50.17	12.80	**11.79**	6.50	9.31	9.78
Roehl Transport	47.96	12.80	9.58	6.20	9.43	9.95
Landstar	47.40	11.50	10.12	7.07	9.28	9.43
AVERAGE	**46.36**	**11.40**	**9.81**	**6.92**	**8.89**	**9.34**

Dry freight carriers

	Overall score	On-time performance	Value	Information technology	Customer service	Equipment & operations
Heartland Express	**47.51**	**12.20**	9.24	6.94	**9.43**	**9.69**
Landstar	46.77	11.42	9.72	6.99	9.39	9.25
Averitt Express	46.37	11.02	9.92	**7.43**	8.66	9.35
J.B. Hunt Transport Services	45.47	11.06	9.66	7.30	8.47	8.97
Crete Carrier Corp.	45.29	10.97	8.84	6.96	8.93	9.58
Werner Enterprises	45.04	10.72	8.99	7.31	8.39	9.62
Con-way Truckload Services	45.03	11.14	9.20	7.24	8.54	8.91
Covenant Transport	44.54	10.40	9.58	6.77	8.67	9.12
CRST Van Expedited	44.26	10.25	**10.25**	6.65	8.55	8.56
AVERAGE	**44.18**	**10.58**	**9.18**	**6.95**	**8.52**	**8.96**

Expedited motor carriers

	Overall score	On-time performance	Value	Information technology	Customer service	Equipment & operations
FedEx Custom Critical	**52.16**	13.04	9.33	**8.75**	**10.34**	**10.70**
OD Expedited	49.85	**13.06**	10.25	8.05	9.26	9.23
Holland	49.53	12.43	**10.65**	7.83	9.56	9.05
A.Duie Pyle, Pyle Priority	48.93	12.58	10.26	7.22	9.31	9.56
UPS	48.88	11.79	9.92	8.20	9.02	9.96
Pitt Ohio Express	48.81	11.91	10.48	7.58	9.36	9.47
Reddaway	48.79	12.14	9.62	7.65	9.73	9.66
New Penn	48.70	12.30	10.61	7.80	8.78	9.22
AVERAGE	**47.41**	**11.73**	**9.61**	**7.59**	**9.16**	**9.32**

Source: Peerless Research Group (PRG)

Bulk motor carriers

(Bold indicates leader in attribute category)

	Overall score	On-time performance	Value	Information technology	Customer service	Equipment & operations
Miller Transporters, Inc.	**54.41**	**14.40**	10.73	**8.13**	9.98	**11.17**
Bulkmatic Transport	54.26	13.44	**11.30**	7.80	**10.77**	10.95
Prime, Inc.	47.13	11.26	9.72	7.80	8.65	9.70
AVERAGE	**46.22**	**11.32**	**9.62**	**7.21**	**8.90**	**9.18**

Household goods and high-value goods carriers

	Overall score	On-time performance	Value	Information technology	Customer service	Equipment & operations
Mayflower Transit	**48.09**	12.00	10.17	**7.15**	9.18	9.60
United Van Lines	47.93	**12.30**	**10.61**	6.72	8.78	9.53
Suddath Companies	47.66	11.52	8.84	**7.15**	**10.37**	**9.78**
Allied Van Lines	46.88	11.82	9.86	6.75	9.51	8.94
North American Van Lines	45.21	11.08	9.18	6.50	9.51	8.94
AVERAGE	**44.38**	**11.20**	**9.06**	**6.34**	**8.86**	**8.93**

Source: Peerless Research Group (PRG)


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RAIL/INTERMODAL

Service stays on track

NOT EVEN THE GREAT RECESSION could slow down progress on the nation's rails. In fact, over the past four years, rail and intermodal service provider Quest for Quality scores have steadily improved as more shippers put this time-tested mode to work to cut costs and mitigate capacity issues on the road.

As Group News Editor Jeff Berman reported last month in our extensive coverage of the recently released *State of Logistics Report*, there are several factors that have kept the railroads in excellent shape amid the chaos that was prevalent in freight transportation over the past four years. According to our shipper respondents, chief among these factors are strong service and reliability, which the rails have successfully leveraged as current volumes remain below pre-recession levels.

But the rail operators will be quick to tell you that improved service and reliability are not incidental or happening by accident. As Berman reported, Class I carriers are leveraging their strong service reliability into excellent returns, even with the dramatic decline in coal loadings which represents 40 percent or more of total rail volumes.

The rail operators are also doing a good job preparing for future growth, whether it's for straight carload or intermodal movements. In fact, projected 2012 capital expenditure plans by Class I railroads represents a cumulative investment of a record $13 billion by the seven North America-based Class I freight railroads.

According to *LM* readers, the hard work and investment is indeed paying off for the 11 companies stepping up to the podium to receive Quest for Quality gold in the category. In the Rail/Intermodal Service Provider sector we find BNSF Railway (46.88) and Norfolk Southern (46.88) locked in a statistical tie for top weighted average. This marks the first time in several years that Triple Crown Service (46.13) did not post the highest score.

It's interesting to note that top scores across the attributes were fairly dispersed this year. Norfolk Southern posted highest marks in On-time Performance (11.13) and Information Technology (8.21); BNSF put up the best score in Value (10.03); while Triple Crown edged out the rest of our winners with high scores in Customer Service (8.99) and Equipment & Operations (9.39).

In this year's Intermodal Marketing Companies category, Alliance Shippers put up an impressive 52.19 weighted average, one of the highest scores reported in this year's survey. Alliance topped the category with a 12.35 in On-time Performance, 10.58 in Customer Service, and 10.12 in Equipment & Operations. The Hub Group took top marks this year in Value (10.77) and Information Technology (8.48).

Rail/Intermodal service providers

(Bold indicates leader in attribute category)

	Overall score	On-time performance	Value	Information technology	Customer service	Equipment & operations
BNSF Railway	**46.88**	11.04	**10.03**	8.02	8.82	8.97
Norfolk Southern	46.88	**11.13**	9.61	**8.21**	8.92	9.01
Triple Crown Services	46.13	10.85	9.53	7.38	**8.99**	**9.39**
CSX Transportation	45.84	10.78	9.42	8.13	8.40	9.11
Union Pacific	45.50	10.65	9.75	8.02	8.19	8.89
Canadian National Railway	42.85	10.25	9.40	7.18	7.80	8.22
AVERAGE	**42.85t**	**10.19**	**9.17**	**7.11**	**8.04**	**8.33**

Intermodal marketing companies

	Overall score	On-time performance	Value	Information technology	Customer service	Equipment & operations
Alliance Shippers	**52.19**	**12.35**	10.66	8.47	**10.58**	**10.12**
Hub Group	49.36	11.30	**10.77**	**8.48**	9.45	9.36
J.B. Hunt Intermodal	48.89	11.34	10.29	8.09	9.20	9.96
CSX Intermodal	47.55	11.01	10.12	7.94	9.19	9.29
Yusen Logistics	47.09	10.97	10.38	7.08	9.67	9.00
AVERAGE	**46.41**	**10.77**	**9.85**	**7.67**	**9.07**	**9.05**

Source: Peerless Research Group (PRG)

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OCEAN CARRIERS

Leading the way on the water

UNLIKE THEIR BRETHREN on the highways, ocean carriers will not be reporting capacity restraint issues from their unique position on the high seas over the next 12 months. As Executive Editor Patrick Burnson reported last month in our expansive *State of Logistics Report* (logisticsmgmt.com/sol2012), nearly 60 new vessels of at least 10,000 twenty-foot equivalent units (TEUs) are being staged for deployment.

In the meantime, *LM* has been reporting that the active global ocean cargo container fleet has grown by 2 percent so far in 2012, and analysts feel that it will expand more than 7 percent by the end of this year. With this news, ocean carrier analysts will now be looking closely to see if the buying spree of last year will pay off. "Most indicators reveal that overspending and rate cutting to win market share proved to be profoundly damaging strategies for all but a few ocean carriers," reported Burnson.

Well, the 13 carriers listed below have certainly seen their way through the fog of their recession strategies in terms of service performance in the eyes of *LM* readers. In fact, we're happy to report that the overall weighted average jumped up 2.7 points, signaling a slightly more satisfied shipper base.

The 13 carriers listed below have certainly seen their way through the fog of their recession strategies in terms of service performance in the eyes of *LM* readers.

Horizon Lines posted an impressive 50.02 overall weighted score, a category high this year and a whopping 6.73 jump from its overall score in 2011. Horizon got there by posting a top mark in Customer Service (10.57). On Horizon's heels are Seaboard Marine (49.78) and Evergreen Line (49.13). Seaboard posted the best scores in On-time Performance (12.14) and Value (10.82) and makes it back to the winner's podium after missing the cut in our 2011 survey.

Crowley Liner Services put up the top mark in Equipment & Operations this year (10.00), while Maersk Line posted the highest score in Information Technology (8.41). Along with Seaboard, *LM* readers welcomed MOL (47.15) and Hamburg-Sud (46.54) back to the podium this year after those carriers missed the cut in our 2011 survey.

Ocean carriers

(Bold indicates leader in attribute category)

	Overall score	On-time performance	Value	Information technology	Customer service	Equipment & operations
Horizon Lines	**50.02**	11.85	10.42	7.54	**10.57**	9.63
Seaboard Marine	49.78	**12.14**	**10.82**	8.18	9.35	9.29
Evergreen Line	49.13	11.42	10.54	8.16	9.71	9.29
Crowley Liner Services	48.27	11.57	9.19	7.20	10.31	**10.00**
Maersk Line	47.99	11.53	9.72	**8.41**	8.84	9.49
OOCL	47.57	11.24	9.53	8.33	9.25	9.22
APL Limited	47.27	11.43	9.33	7.99	9.22	9.31
MOL	47.15	11.26	9.56	7.43	10.11	8.81
Hanjin Shipping	46.90	11.06	10.12	7.82	8.78	9.13
NYK Line	46.83	10.66	9.81	7.94	9.50	8.91
Hamburg-Sud	46.54	11.31	9.12	7.20	9.08	9.83
Hapag-Lloyd	46.33	10.72	9.98	7.82	9.03	8.77
"K" Line America Inc.	45.94	11.46	9.52	7.01	9.24	8.71
AVERAGE	**45.82**	**10.83**	**9.67**	**7.50**	**8.88**	**8.94**

Source: Peerless Research Group (PRG)


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PORTS

Top gateways for service

DUE TO THE CRITICAL ROLE our nation's gateways play in the growth of global trade, the staffs of Peerless Research Group (PRG) and *Logistics Management* felt the need to bring the Ports category back to the Quest for Quality Awards survey after a more than 10-year hiatus.

Due to the unique service our nation's ports offer, we needed to create a separate set of attributes for the category with the help of port executives and shippers. From this year forward, U.S. ports will be measured based on Ease of Doing Business, Value, Ocean Carrier Network, Intermodal Network, and Equipment & Operations.

Ports: Northeast & Mid-Atlantic

(Bold indicates leader in attribute category)

	Overall score	Ease of doing business	Value	Ocean carrier network	Intermodal network	Equipment & operations
Port of Virginia	**46.78**	9.88	9.20	9.70	8.75	9.26
Port Authority of NY & NJ	46.36	8.70	8.42	**10.11**	**9.45**	**9.67**
Port of Baltimore	45.09	**10.23**	**9.74**	7.82	7.94	9.37
AVERAGE	**44.39**	**9.19**	**8.82**	**8.78**	**8.48**	**9.12**

Ports: South

	Overall score	Ease of doing business	Value	Ocean carrier network	Intermodal network	Equipment & operations
Port of Charleston	**48.00**	10.31	**9.89**	9.27	**8.76**	**9.77**
Port of Savannah	45.94	9.85	9.62	**9.52**	8.14	8.81
Jacksonville Port Authority	45.18	**10.48**	8.87	8.80	7.58	9.45
AVERAGE	**44.71**	**9.69**	**9.32**	**8.74**	**8.08**	**8.88**

Ports: Gulf Coast

	Overall score	Ease of doing business	Value	Ocean carrier network	Intermodal network	Equipment & operations
Port of Houston	**46.22**	**9.84**	**9.86**	**8.92**	**8.36**	**9.24**
AVERAGE	**44.03**	**9.58**	**9.34**	**8.08**	**8.01**	**9.02**

Ports: West Coast

	Overall score	Ease of doing business	Value	Ocean carrier network	Intermodal network	Equipment & operations
Prince Rupert Port Authority	**49.28**	**11.31**	**9.52**	8.47	**9.85**	10.13
Port of Long Beach	48.78	9.34	8.87	10.52	9.81	10.25
Port of Los Angeles	48.28	8.91	8.55	**10.74**	9.81	**10.26**
AVERAGE	**46.95**	**9.59**	**8.84**	**9.68**	**9.19**	**9.65**

Ports: Great Lakes region

	Overall score	Ease of doing business	Value	Ocean carrier network	Intermodal network	Equipment & operations
Port of Chicago	**48.56**	**9.78**	9.76	**9.08**	**10.29**	**9.66**
Port of Montreal	45.11	9.04	**9.89**	8.56	8.84	8.78
AVERAGE	**44.03**	**9.58**	**9.34**	**8.08**	**8.01**	**9.02**

Source: Peerless Research Group (PRG)

3PL

Winners in the logistics decathlon

THE GREAT RECESSION didn't slow it down, and now economic woes throughout Europe don't seem to be impeding its progress. The global third-party logistics (3PL) industry just keeps rolling along, as merger and acquisition (M&A) activity heats up and the world's providers report decent revenue growth.

If you need any evidence of recent, game changing M&A then look not further than this past March. UPS not only made a celebrated purchase of TNT Express, but also went on to buy Italian pharmaceutical logistics company Pieffe. Geodis, which fell short of our Quest for Quality weighted average this year, then acquired French pharmaceutical logistics and distribution company Pharmalog—but that's just scratching the surface of the 3PL deal market.

In the meantime, data from third party logistics consultancy Armstrong & Associates reveals that all of this global M&A activity has certainly made sound, business sense. In fact, Armstrong reports that total global 3PL gross revenue in 2011 at $133.8 billion was up 5.2 percent over 2010. Furthermore, net revenues, at an estimated $61 billion, posted a 5.9 percent annual gain during that time.

And it appears that current business strategies, especially on the service performance front, are paying off in a big way for the 18 3PLs listed below. In fact, the 45.03 weighted average is an impressive 8.49 jump from last year's number, signaling that in this category shippers have witnessed marked improvement in overall service over the last year.

The most notable news this year is Unyson Logistics' overall score of 61.53, the biggest number posted by any of the carriers or service providers in the 2012 Quest for Quality survey. Unyson's 2012 number is a whopping 21.67 points better than its 2011 score, while the provider led all of this year's 3PL attribute categories, scoring 2 points to 3 points above the remaining list of winners in every area.

And while Unyson's score certainly stands out, the remaining 17 winners all posted impressive overall scores this year, with the second highest score, Hellman Worldwide Logistics' 49.70, coming in 4.51 points better than its 2011 overall high mark.

Some other significant scores were posted across the attribute categories this year. Nippon Express Co. put up an impressive 10.90 in Carrier Selection/Negotiation and tied with Phoenix International with a 10.53 in Order Fulfillment. Phoenix, a brand new Quest for Quality, also posted the second-best score in Transportation/Distribution with a 10.88.

3PL providers

(Bold indicates leader in attribute category)

	Overall score	Carrier selection/ Negotiation	Order fulfillment	Transportation/ Distribution	Inventory management	Logistics information systems
Unyson Logistics	**61.53**	**13.00**	**12.39**	**13.01**	**10.67**	**12.45**
Hellmann Worldwide Logistics	49.70	10.73	10.29	10.45	8.52	9.71
Nippon Express Co LTD	48.58	10.90	10.53	10.40	7.60	9.14
Landstar	48.53	10.14	9.65	10.29	8.66	9.79
FedEx Supply Chain Services	48.38	10.16	10.02	10.62	7.81	9.77
Phoenix International	47.93	10.42	10.53	10.88	7.67	8.44
ADP Logistics (A. Duie Pyle)	47.31	10.17	10.10	10.05	7.71	9.28
Kuehne + Nagel Logistics	47.19	9.93	9.57	10.46	7.74	9.50
Exel	46.97	9.90	9.99	9.70	7.99	9.39
OHL	46.96	10.02	9.41	10.77	7.82	8.94
OOCL Logistics	46.95	10.42	8.80	10.31	7.71	9.71
Werner Enterprises	46.62	10.31	9.62	9.89	7.82	8.97
UTi Integrated Logistics	46.28	10.14	9.74	10.40	7.79	8.22
Purolator	46.22	10.05	8.89	10.45	8.86	7.97
MIQ Logistics	46.20	10.10	9.82	9.86	7.00	9.41
BDP International	45.41	9.79	8.80	9.79	6.97	10.06
UPS Supply Chain Solutions	45.32	9.80	9.63	9.34	7.86	8.70
Panalpina	45.23	9.50	9.32	9.97	7.59	8.84
AVERAGE	**45.03**	**9.57**	**9.21**	**9.77**	**7.52**	**8.96**

Source: Peerless Research Group (PRG)


It’s
pronounced
Sigh´-ah.
SAIA
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SAIA

AIR CARRIERS

No pain, no gain in the air

As if navigating the Great Recession, earthquakes, tsunamis, terrorist threats, revolutions, volcanos, and high fuel prices over the past 24 months wasn't enough, along comes the European economic crisis to tug on the wings of world's leading air cargo carriers.

As Executive Editor Patrick Burnson reported in last month's extensive *State of Logistics Report*, it has certainly been difficult to find a silver lining in the clouds gathering around the air cargo transport sector. Air freight revenue dipped by 2 percent in 2011, while over capacity led to bad load factors dropping domestic revenue ton-miles more than 3 percent. However, international air freight cargo was bolstered by a record $400 billion dollars in export goods transported by air, illustrating that there was a little break in the clouds.

In the meantime, some of the world's most successful cargo airlines are reporting that the ongoing economic uncertainly in Europe is holding them back. Tim Clark, president of Emirates Airline, told Burnson that international airlines are now clearly facing a "perfect storm" from high fuel costs, a slowing global economy, and volatile exchange rates that could see many carriers forced to downsize.

Well, even in these challenging times in the sky, our 2012 Quest for Quality survey tell us that the 14 carriers below have continued to offer world class service in the eyes of *LM* readers.

As it has in at least the last five years, Southwest Airlines Cargo has posted the top score in the category (52.22) and led the way in On-time Performance (13.59) and Customer Service (10.85). Emirates SkyCargo was right on the tail of Southwest, putting up an impressive 51.56 score. Emirates also scored top marks in Value (11.14) and Information Technology (9.15).

In the hotly contested Air Express category, FedEx Express (51.16) edged UPS (49.94) this year by 1.22 points. As usual, *LM* readers often make this race too close to call when you break down each attribute category.

Air cargo carriers

(Bold indicates leader in attribute category)

	Overall score	On-time performance	Value	Information technology	Customer service	Equipment & operations
Southwest Airlines Cargo	**52.22**	**13.59**	11.06	8.10	**10.85**	8.62
Emirates SkyCargo	51.56	12.50	**11.14**	**9.15**	9.97	8.80
KLM	50.58	12.48	10.44	8.71	10.00	8.94
Cargolux	49.24	11.61	9.46	8.97	10.13	9.07
Air Canada	49.08	11.85	9.11	8.74	10.29	9.10
BOC International	49.05	12.32	9.32	8.05	10.13	**9.23**
Alaska Air Cargo	48.65	12.11	9.89	8.05	10.32	8.28
Lufthansa	47.28	11.85	9.33	8.16	9.58	8.36
Cathay Pacific	46.93	11.35	9.58	8.05	9.73	8.22
British Airways	46.87	11.42	9.30	8.41	9.22	8.52
Virgin Atlantic	46.56	11.85	9.21	7.93	9.28	8.28
Singapore Airlines (SIA)	46.45	10.90	9.62	8.37	9.44	8.11
Korean Air	46.35	11.94	8.93	7.61	9.62	8.24
Nippon Cargo Airlines	46.28	11.38	9.28	7.51	9.77	8.34
AVERAGE	**46.09**	**11.28**	**9.39**	**7.96**	**9.30**	**8.16**

Air express carriers

	Overall score	On-time performance	Value	Information technology	Customer service	Equipment & operations
FedEx Express	**51.16**	**12.58**	9.84	**9.57**	**10.02**	**9.15**
UPS	49.94	12.02	**9.87**	9.47	9.53	9.04
AVERAGE	**48.21**	**11.73**	**9.79**	**8.87**	**9.26**	**8.57**

Source: Peerless Research Group (PRG)

SOUTHWEST CARGO

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Thanks to our *Customers* for an award-winning year.

Southwest Airlines Cargo® is honored to have received several prestigious awards this year. Our Customers know they can depend on our Employees to consistently deliver reliable, ontime, and friendly service. We appreciate that our dedication to excellence continues to be recognized and valued by our Customers.

In 2012, Southwest Airlines Cargo was awarded the “Air Cargo Excellence Award” (*Air Cargo World’s* ACE Survey), “Quest for Quality Award” (*Logistics Management* Magazine), and was recognized as the “Domestic Carrier of the Year” (Airforwarders Association).

FREIGHT FORWARDERS

Service providers keeping pace

GLOBAL MANUFACTURING and retail shippers now have their eyes firmly fixed on the tentative economic condition of Europe, attempting to calculate the eventual impact the situation will have on supply chain operations in the region and the rest of the world.

In a recent report from Panjiva, an online data source covering global supplier and manufacturer operations, U.S.-bound waterborne shipments, which fell 2 percent from April to May, posted a 2 percent gain from May to June. According to analysts at the firm, shipments for the first six months of the year are up 5 percent. "Relatively speaking, the numbers are holding up reasonably well," Panjiva CEO Josh Green recently told *LM*. "And considering the economic headwinds we're facing, we'll take it."

And while Europe's various economic challenges are not having a direct impact on the U.S. just yet, Green cautions that if the uncertainly continues it will most likely begin to impact trade flows across multiple geographies—adding yet another layer of complexity to global logistics management.

For global shippers, these ongoing economic issues, along with new trade agreements and increasingly complicated export policies, have forced them to become increasingly reliant on freight forwarding market leaders for most of their expanding global distribution needs—and that reliance on proven providers is not likely to end any time soon.

One thing is for sure, the nine freight forwarders listed below have certainly proven themselves in the eyes of *LM* readers in terms of service reliability over the past 12 tumultuous months. In fact, the overall weighted average score of 44.57 is up more then 2 points over 2011 results, signaling that global shipper satisfaction has improved.

Posting the highest score in the category this year is Pilot Freight Services with an impressive 49.99. Pilot put up top marks in Value (10.62), Customer Service (10.55), and Equipment & Operations (8.43). AIT Worldwide Logistics posted the top score in On-time Performance (12.38), while Expeditors International of Washington was called out as tops in Information Technology (8.17).

2012 Quest for Quality: *Editor's Note*

The editorial staff of *Logistics Management* would like to thank the 4,709 readers who took time out of their busy days to complete and submit the 2012 Quest for Quality ballots. Your time, effort, and insight have helped *Logistics Management* maintain the Quest for Quality as the premier benchmark study for logistics and transportation quality and service for nearly three decades.

Questionnaires for this year's Quest for Quality Survey were sent February through May, 2012. Sample members were selected for each category and were sent an invitation via email asking for their participation in this year's survey. The invitation included a URL linked to a dedicated website which contained the questionnaire. Responses were collected and tallied by a third party, independent data collection facility.

In accordance with tradition, *Logistics Management* will hold our awards dinner on the final evening of the Council of Supply chain Management Professionals (CSCMP) Annual Conference. This year's event will take place on Wednesday, October 3, 2012, at the Omni Hotel CNN Center from 6:00 p.m. to 10:30 p.m.

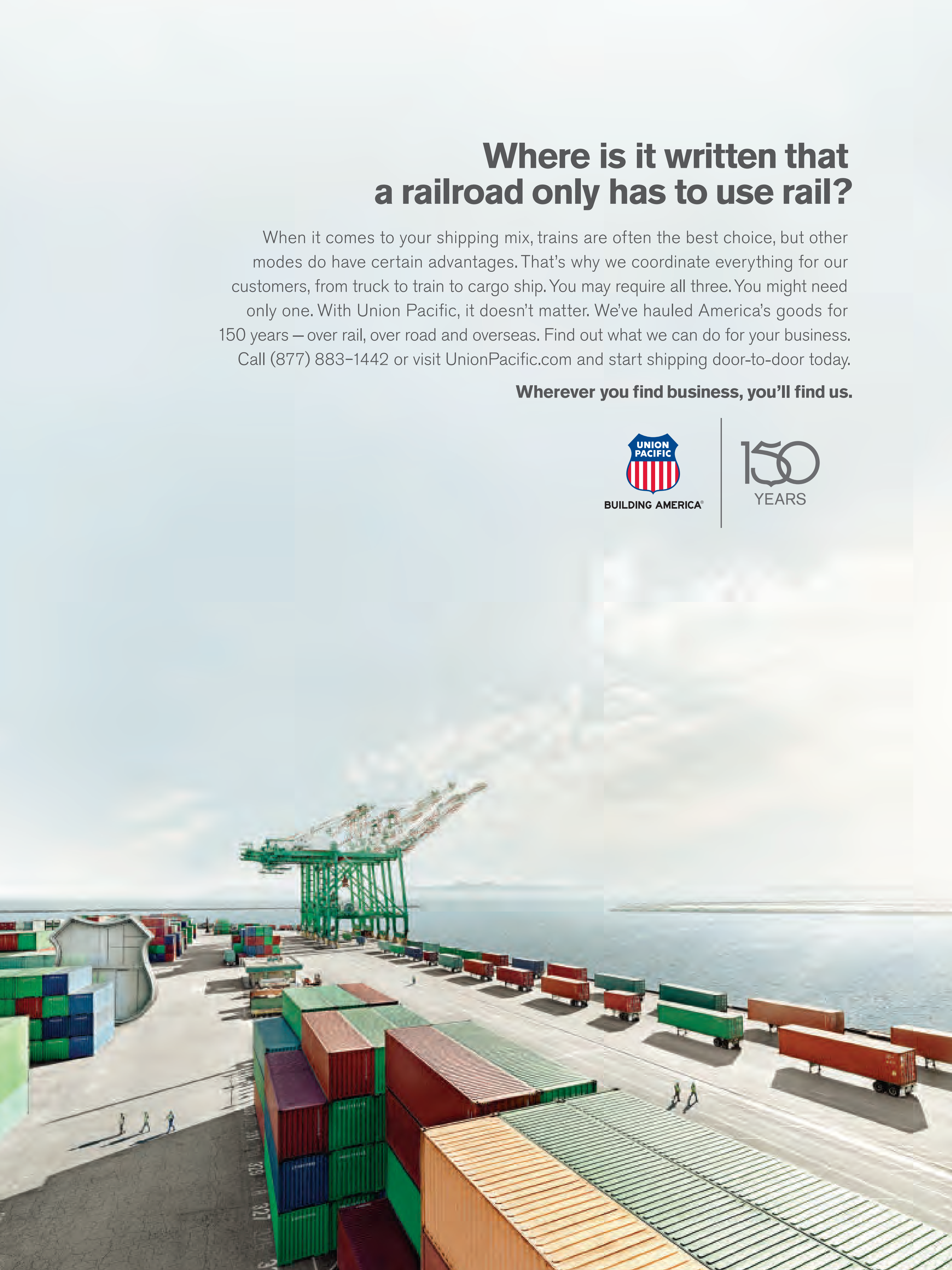
The Quest for Quality Awards Dinner is one of the most anticipated evenings on the logistics and supply chain yearly calendar, and our entire editorial staff will be on hand to congratulate the 2012 Quest for Quality winners. For more information on attending please go to logisticsmgmt.com/q4q2012.

Freight forwarders

(Bold indicates leader in attribute category)

	Overall score	On-time performance	Value	Information technology	Customer service	Equipment & operations
Pilot Freight Services	**49.99**	11.99	**10.62**	8.40	**10.55**	**8.43**
Kintetsu World Express	47.61	11.85	9.73	7.52	10.22	8.28
Nippon Express USA	47.34	12.25	9.77	7.99	9.59	7.75
FedEx Trade Networks	47.21	11.30	9.80	8.59	9.45	8.06
Kuehne & Nagel	46.42	11.03	9.46	8.39	9.56	7.99
Expeditors International of Washington	46.30	11.03	8.86	**8.71**	9.73	7.97
AIT Worldwide Logistics	46.07	**12.38**	8.60	7.12	10.32	7.66
Hellmann Worldwide	46.00	11.06	9.52	7.88	9.85	7.69
Exel	44.62	11.55	9.68	7.10	9.18	7.10
AVERAGE	**44.57**	**10.72**	**9.19**	**7.70**	**9.19**	**7.77**

Source: Peerless Research Group (PRG)


Where is it written that a railroad only has to use rail?
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2012 Quest for Quality Awards Dinner set for October 3

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

This year's awards dinner will take place on Wednesday, October 3, 2012, at the Omni Hotel CNN Center from 6:00 p.m. to 10:30 p.m., the final evening of the Council of Supply Chain Management Professionals (CSCMP) Annual Conference. Our entire editorial staff will be in attendance this year to present the 2012 Quest for Quality Awards to the 127 winners.

Following cocktails, dinner, and the awards presentation, our guests will be treated to a performance by Orny Adams, a renown comedian who's been featured on *The Tonight Show with Jay Leno* and *Late Night with David Letterman*. Along with Jerry Seinfeld, Adams is a subject of the 2002 documentary film, *Comedian*.

If you're interested in attending this year's dinner, please go to logisticsmgmt.com/q4q2012 for more details on how to get your tickets. But move quickly, we have a full house every year.

Orny Adams

Attendees will enjoy a full evening of dining and networking before stepping up to the podium to receive their awards. Following the formal presentation, the room will be entertained by Orny Adams, a renown comedian who's been featured on *The Tonight Show with Jay Leno* and *Late Night with David Letterman*, and along with Jerry Seinfeld, Adams is a subject of the 2002 documentary film, *Comedian.*

LTL Roundtable: Winning over carrier partners

With a capacity crunch upon us, it's vital for shippers to foster strong relationships with their LTL carriers in order to maintain manageable pricing and strong service in key lanes. Our panel offers sage advice to tighten those bonds.

BY **JEFF BERMAN,** GROUP NEWS EDITOR

Much like the freight transportation industry in which it resides, the less-than-truckload (LTL) sector has seen more than a few bumps in the road over past few years. As recently as two years ago, getting the best possible price was exchanged for volume in an effort to compensate for losses incurred during the Great Recession.

But since that time, LTL players have yet again gained the upper hand in pricing power. And rather than chase volumes over price, carriers are doing a diligent job of securing—and retaining—margin gains, which were lost during the depths of the economic downturn.

This operating environment has certainly not helped transportation managers; so now, more than ever, it's become vital for shippers to foster strong relationships with their LTL carriers in order to get what they need in terms of manageable pricing and top service in key lanes. How to get to that point, however, requires considerable time, effort, resources, and planning.

Joining us this year to help LTL shippers establish better partnering strategies are three prominent freight transportation experts, including: David Ross, managing director and trucking/logistics analyst at Stifel Nicolaus; Kevin Fletcher, a transportation industry veteran currently serving as an independent consultant; and John Gentle, *Logistics Management*'s Sage Advice columnist and former head of global transportation at Owens Corning.

Daniel Vasconellos

Logistics Management (LM): **Given tightening capacity in the LTL market, what do shippers need to do in order to gain needed capacity?**

David Ross: Shippers who are good partners with their carriers—use EDI, load/unload quickly, and give the carriers what they told them they would—will avoid the highest rate increases and get preferred access to capacity. Those shippers who weigh on carrier costs—use paper, are slow to load/unload, or give the carriers less or different freight than they said they would—should see the greatest rate increases and have limited access to capacity in a squeeze.

Kevin Fletcher: David is right. Shippers must have a good understanding of their freight flows, shipment characteristics, and volumes. They need to prioritize the lanes in their traffic patterns and then identify and engage the appropriate carriers to service those lanes. If relationships with those carriers have not been established, the shipper needs to forge those relationships sooner than later.

Once engaged, the shipper needs to provide the carrier a solid value proposition on why the shipper's freight should be viewed as "attractive" by the carrier. Taking it a step further, developing a partnership benefiting both parties will help to secure capacity that may not be available to other shippers.

John Gentle: I'll add that consolidating your LTL business with strong LTL carriers over a multiyear agreement is a viable method to gaining capacity. Create a strong "fitness for use" and invite solid performing national and regional carriers to discuss the opportunity of a long-term relationship. You need to test to ensure that the carrier's chosen to evaluate your business have a good reason to want your business. If they don't need your business at the origins and destinations then you need to find someone who does. Paper rates are worthless when the trucks don't show up.

LM: **What best practices should shippers adopt heading into the crunch?**

Fletcher: As we've touched on, shippers need to develop strategic partnerships with carriers that best support their LTL shipping needs; however, they must approach these partnerships as a longer-term strategy rather than a short-term fix. Shippers should also take advantage of transportation management systems (TMS) optimization and other technology tools in the marketplace to ensure that freight is being routed via the most effective mode and carrier. During periods of tight capacity, some shippers may turn to third party logistics providers (3PL) to gain access to their technologies, intellectual capital, and leveraged carrier relationships.

Gentle: I believe that shippers really need to assess their position in the marketplace and understand whether their product and volume are desirable and their expectations are reasonable. If they are not desirable, then I would look to see if a 3PL can provide better leverage. Beyond that, you must have viable relationship, because it's going to be the little things that will help to carry you over the seasonal bumps.

LM: **What are some of the "little things" that shippers should be more aware?**

Gentle: I would concentrate on ensuring that your tenders are made in sufficient time for pick up; freight, including drop trailers, should be available for pickup without unreasonable delays; good paper work including proper addresses/product descriptions/classifications/weight needs to be perfected; and shippers need to make sure that packaging is solid and claims are non-existent. Shippers need to realized that drivers are on a fast pace; and if they're not ready, they will actually bypass you in favor of someone who is ready. Make your shipping and destination points attractive places for drivers to come to.

Ross: Shippers should really ask their carriers what it is they can do to make their freight more attractive. They should also re-examine the supply chain and modal selection model, since today it may make sense to ship more TL or parcel than LTL.

_LM:_ What do shippers need to do to get the right rates on key lanes?

Gentle: Shippers need to do their due diligence and understand a carrier's need for volume in the key lanes. This is paramount. The right rate is only good when the capacity and service are there and it doesn't take heroics to make the deliveries work. You are better off getting the best sustainable rate with consistent service. What I would not do is begin to parse business out to 3PLs for certain lanes; this is very confusing for the warehouse and carriers.

Ross: I agree with John. Shippers also need to find the carriers that have networks that match best with their freight. Each carrier has a different network with different lanes and different headhauls and backhauls. With this, shippers need to find out which carriers have backhauls in the key lanes, or use a 3PL to figure that out.

Fletcher: There are a number of things a shipper can take into consideration and execute to make their freight more "attractive" to carriers and ultimately get the competitive rates on key lanes. Because carriers have different network configurations that impact their cost structures and transit times, it's important for shippers to identify the national and regional carriers that are most interested and best suited to handle traffic in those lanes rather than trying to force a square peg in a round hole.

_LM:_ How can shippers effectively foster a strong partnership with their LTL carriers?

Ross: It's simple: Be honest about freight characteristics. Don't delay drivers at load/unload. Anything that drives up LTL costs will ultimately work itself into the rates.

Fletcher: Shippers must also keep in mind that for a partnership to be effective, it must be mutually beneficial and not a "one way street." Goals and expectations of both parties must be clearly defined, and communications must be open, honest, and flow in both directions. Agreed metrics or KPI's need to be established, measured, and jointly reviewed on a regular basis. When both parties share a collaborative approach to problem-solving, the partnership increases its ability to develop solutions, control costs, and improve productivity

Gentle: I'll add that reviewing the KPIs that Kevin mentioned and recognizing carrier performance for pickup and delivery is paramount. For sure, I would be doing something during driver appreciation week at my origin and destination points. People who actually like you will find a way to take care of you.

***LM:* What advice do you have for LTL shippers turning to brokerages and 3PLs to secure freight? What do shippers need to keep an eye on when working with them?**

Fletcher: Having experience in all sides of this question—shipper, broker, and 3PL—and a believer in the value that brokers and 3PLs can add, shippers should be aware of the nuances between dealing directly with a carrier versus a broker/3PL. The financial, contractual, and service relationship with the carrier typically rests with the broker/3PL, not the shipper.

Most brokers/3PLs do a good job in managing their carriers to ensure that their shipper needs are met. Shippers must also be aware of the differences in liability terms when dealing with a broker/3PL versus dealing directly with the carrier. In most cases, brokers/3PLs take the position of a middleman in the transaction, facilitating the claims process handled between the shipper and underlying carrier. If the broker/3PL has a contract with the carrier that mirrors the terms with the shipper that exposure has pretty much been mitigated.

Gentle: Pre-approving the carriers to be used in advance is certainly critical, and evaluating the performance of the 3PL and the carriers monthly is necessary. Remember, you cannot outsource a broken process and think it will get better by making it someone else's problem.

Ross: Kevin and John are both right. We see more and more shippers turning to 3PLs for carrier procurement and freight management. This trend is likely to continue, but the shippers should make sure the 3PL they work with has a good relationship with carriers and is not just a rate shopper. If the 3PL is just a rate shopper, it will not be able to get the shipper's freight moved at a good price or at all in a capacity squeeze.

—Jeff Berman is Group News Editor of the Supply Chain Group

Wireless Evolution: Getting closer

Our technology correspondent takes a closer look at what wireless technology is being adopted, how it's being used, and what benefits logistics professionals are deriving from their mobile investments either inside the four walls or on the road.

BY **BRIDGET MCCREA,** CONTRIBUTING EDITOR

Standing at the podium in front of an audience of carriers and private fleet operators a few months ago, Dwight Klappich posed a question related to his fleet transportation trends presentation. "I asked how many of them had mobile-enabled fleets," says Klappich, research vice president for Gartner. "About half of the audience raised its hands."

Next, Klappich asked how many of the vehicles were equipped with GPS systems and the response was significantly lower. "So, basically they're driving around in $300,000 units, but still using paper to track their activities," he says.

But that's slowly changing, according to Klappich, who says that the drivers themselves are pushing for more technology. They're using mobile technology in their personal lives, he adds, while using antiquated technologies like paper on the job. "Users want to cut out the paper and go mobile," says Klappich, "and fleet operators are dealing with a driver shortage and want to do anything they can to keep their retention numbers up."

IDC Manufacturing Insights' recent supply chain mobility survey revealed a trend similar to what Klappich uncovered during his questioning following his presentation. According to Kimberly Knickle, practice director at IDC, roughly 26 percent of responding companies report using smartphones and media tablets for logistics.

"To me that shows that a lot of companies are trying mobile solutions out and some are committed to using smartphones," says Knickle. But when it comes to media tablets, the usage numbers dip down to about 15 percent. "Right now we're seeing just a small percentage of companies using media tablets and iPads in distribution and logistics."

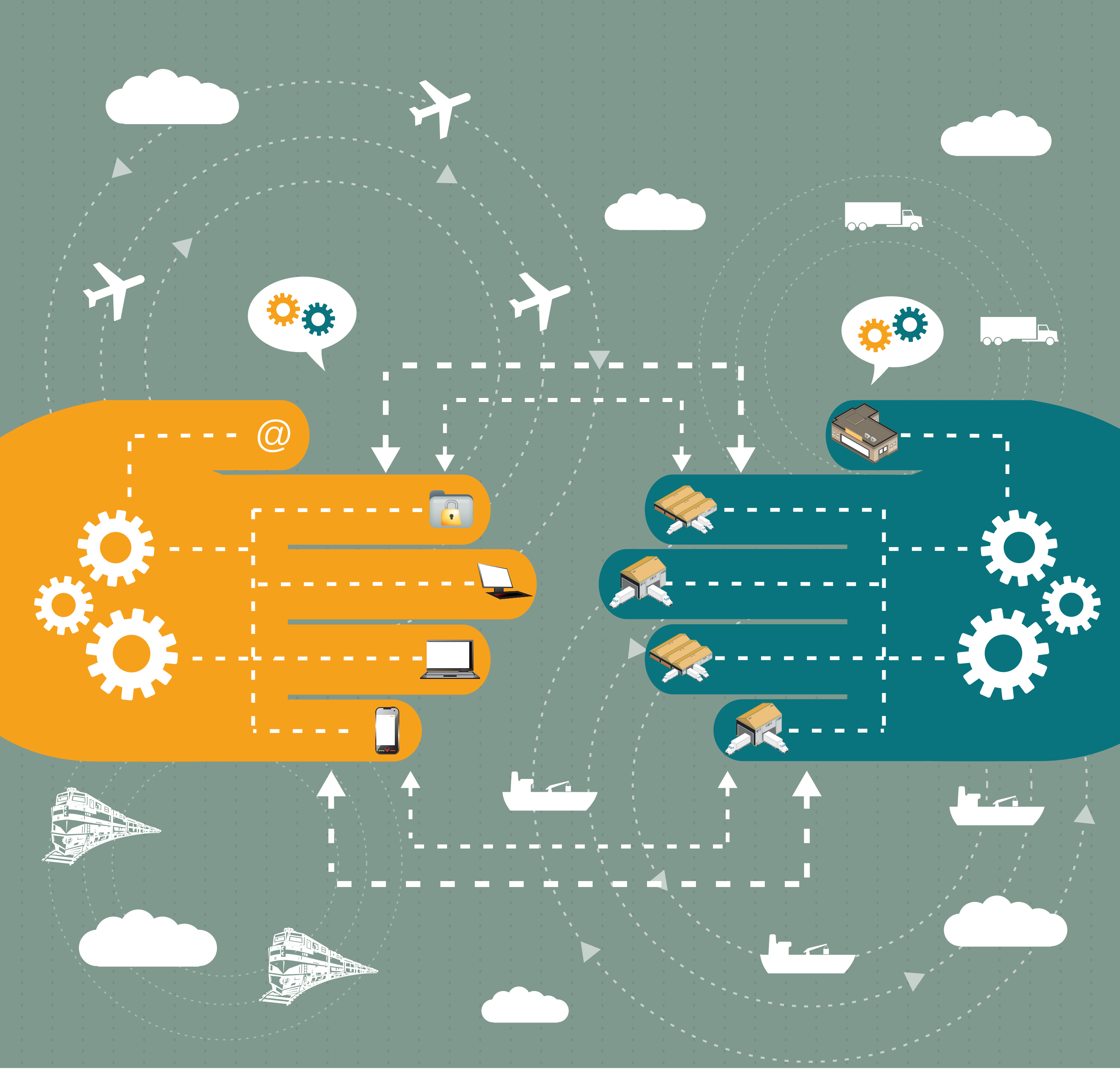
With wireless slowly making its way into the supply chain, we wanted to look more closely at exactly what's being adopted and where, how it's being used, and what benefits logistics professionals are deriving from their mobile investments either inside the four walls or out on the road in the cabs of their fleet. Over the next few pages we'll answer those questions and then take a peek at a new innovation from one of the wireless world's biggest vendors.

Brave new world

Tablet computers, smartphones, and other wireless devices may be making significant inroads in households around the world, but they haven't had quite the same impact on the modern day supply chain.

But that doesn't mean logistics professionals have shunned wireless as a whole. "The radio frequency guns we use in warehouse management are mobile, computerized devices," says Steve Banker, director of supply chain solutions for ARC Advisory Group in Boston. "And GPS/telematics was used commercially to monitor fleets long before it became common for car owners to use the technology."

Prices on wireless equipment and applications have come down over the



last few years, pushing more shippers to try working "without wires," according to Banker. "If you have a small fleet, you don't have to spend thousands of dollars on mobile resource management/automatic vehicle location solutions anymore," Banker explains. "There are low-priced cellular devices that really make mobile a no-brainer for all fleets."

Take Google's new GPS tracking tool, which costs just a few dollars a month to use, for example. "By combining Google Maps with a mobile device, the company is offering a turnkey package that used to be quite cost prohibitive for shippers," says Klappich. "The question is, do I need that expensive piece of equipment in the truck or can I just use an Android phone to do the job?"

Even with new, affordable fleet management tools coming on the market, Klappich says that the wireless movement's progress is still most evident within the four walls of the warehouse, where smartphones, handheld devices, RFID, and other innovations provide flexibility and help to enhance user satisfaction, and improve productivity. "At this point, wireless is pretty much ubiquitous in the warehouse," says Klappich.

On the freight side, Klappich says shippers are looking to improve customer service. "And that means always being able to answer the question: When will my delivery arrive? Using mobile solutions, you can answer that question accurately, provide real-time proof of delivery, and invoice the customer instantaneously," says Klappich.

Government mandates are also pushing more shippers to cut the wires to their fleets. Klappich points to the more stringent hours of service regulation, which will require companies to get even better at managing driver hours while also moving freight as efficiently as possible, as a key driver for the future. Geofencing, which is defined as a virtual perimeter for a real-world geographic area, is one innovation that could help private fleet operators more effectively comply with the mandate.

"Using geofencing, shippers could literally draw a circle around a distribution center and figure out what is driving within 25 miles of that location at any time," says Klappich. "To accommodate a truck that's set to arrive in exactly 30 minutes, for example, a dock can be cleared out and prepped in advance—but not too far in advance that it unnecessarily disrupts the rest of the warehouse operations."

Barriers to entry

The average smartphone isn't rugged enough to withstand the abuse of a warehouse worker or truck driver. "Drop an iPhone and it's toast," says Klappich, who sees the development of more ruggedized devices as a necessity for vendors. Knickle concurs, and says consumer-grade devices simply don't cut it in the warehouse or truck cab. There are some psychological ways to combat that challenge. For example, she says putting employees in charge of their own devices can help cut down on the damage and the repair costs. "If the worker feels a connection to the device and is responsible for it," says Knickle, "he or she will be more careful with it."

Training also comes into play when deciding to move to a wireless environment on the road or inside the four walls. Being able to quickly get workers up to speed on the devices—particularly when moving from a manual or paper-based environment—can also impact the success of a supply chain-wide wireless implementation. "Sometimes it's a question of how much tweaking the device needs to be fast and easy enough for someone to use with minimal training," Knickle says.

Security is another issue that shippers are grappling with as they introduce wireless into their warehouses and fleet operations. Being able to "lock down" mobile computers and avoid data theft if the device is stolen or lost; use integrated security firewalls and authentication and encryption; and confidently rely on enterprise wireless networks, such as the popular 802.11i option, are all of concern for shippers moving into the wireless world.

"Mobility makes it easier for managers to stay connected to what is happening in their supply chain when they are on the move," says Banker, who points out that integration and reporting are two areas where shippers would like to get more out of their wireless systems. "There's always a list of reports that shippers would like to have, and a desire to more tightly integrate into TMS, dispatch, and maintenance solutions."

On the horizon

The good news is that when wireless is done right across all elements of the supply chain, the positive results can be significant.

"It comes down to being more effective and efficient in overall operations," says Knickle, who adds that wireless-enabled shippers gain better visibility over both inbound and outbound freight. Armed with this data, companies can more efficiently schedule assets and labor across the supply chain; deploy dock doors; and manage issues such as product recalls.

Knickle expects the pace of wireless adoption to remain slow and steady, despite the fact that manufacturers see mobility as the second most important supply chain "pillar" (with data, cloud, and social business being the other three pillars), according to IDC's research.

"Mobility is important to the supply chain in general because it complements existing IT investments and business processes," says Knickle, who adds that companies are trying to understand mobile's role in the overall supply chain and how to use it with other technologies. "Until those questions are answered, mobile adoption will remain low."

Bridget McCrea is a Contributing Editor for Logistics Management

The new wireless guard

IN JUNE, MOTOROLA SOLUTIONS, INC., ROLLED out its new XPR 7000 and XPR 3000 portable, digital radios. They run on the Mototrbo digital communications platform and were designed for companies in manufacturing and services industries.

Randy Helm, director of product management for North America, customer solutions, says the XPR 7000 2-way digital radio includes a 5-line color display and Bluetooth capabilities. Rugged enough to withstand warehouse and fleet usage, the radio also includes integrated GPS. The 3000 model is an entry-level option that is scalable, but comes with less functionality.

Helm expects the radios to attract shippers who are looking for an affordable way to gain visibility over the supply chain while also increasing worker efficiency. "As companies look to become more efficient," says Helm, "technology like this is clearly one way they can get there."

When it comes to the adoption of wireless in the warehouse and/or on the road, Helm sees a lack of education and understanding of new wireless innovations as the key barriers. "Some people are only familiar with 2-way radio and 2-way voice communications, while others grew up with smartphones and the Internet," says Helm, who expects the two camps to merge in the future.

When that happens—and as more vendors introduce wireless products that shippers implement successfully—the adoption rates are sure to rise. "We see a continued evolution and glue between 2-way radios, data devices, and the applications that the end customer sees across both logistics and shipping," adds Helm.

—Bridget McCrea, Contributing Editor

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Labor Management: Beyond the punch clock

While adoption remains low, savvy managers are putting engineered labor standards and related labor management systems to work to jumpstart productivity and gain a new level of operational visibility. Here's how they're getting it done.

BY **MAIDA NAPOLITANO,**
CONTRIBUTING EDITOR

Integration with warehouse management systems (WMS)…*check*. Integration with time and attendance, radio frequency (RF), and voice systems….*check*. Smart phone and tablet support…*check*. Web interface and access to cloud computing and storage….*check*.

Clearly, today's top labor management systems (LMS) are keeping up with the times, evolving from basic standalone systems into sophisticated, packaged WMS-LMS solutions geared towards offering real-time visibility of tasks occurring within the four walls of a warehouse or distribution center (DC). In fact, all of these functionalities have been developed just to make it easier for logistics professionals to manage one of the most complex components of the supply chain: its workforce.

As such, Tom Stretar, practice leader for enVista, a supply chain consulting firm and LMS integrator, sees labor management as only growing in importance primarily because of how it improves overall performance. He speculates that operations that are not using any form of LMS are only operating at 60 percent to 75 percent of their capabilities. “Depending on how far you want to go with your standards and incentives, you can get upwards of 115 percent to 120 percent,” says Stretar.

Given the costs of labor, Larry Parker, principal for Aries Consulting LLC, another LMS firm specializing in the development and maintenance of engineered labor standards, concurs that LMS adoption will only increase. He cites organizations that support Lean and Six Sigma initiatives as other drivers of the technology.

With such promising potential, it’s surprising that LMS hasn’t penetrated a larger part of the market—reportedly only 20 percent, if that. Crystal Welker, director of solutions design and continuous improvement for third party logistics provider GENCO ATC, says that in the fifty sites that she oversees in her business unit, there are probably 30 percent where LMS would actually not make sense.

“Those specific sites are simply too small, and it’s relatively expensive to install,” says Welker. “You have to identify all the interfaces and configure it, and you need to do the engineering standards, which take time.” She adds that the company typically doesn’t implement LMS at a site unless the team can realize a two-year or less return on investment. To achieve that, they generally need to have a minimum of 30 to 35 variable employees at the site.

However, our experts agree that LMS is jumpstarting productivity when it’s put to its fullest potential, going beyond punch clocks and engineered labor standards to track overall performance. Over the next few pages we’ll take a closer look at how savvy managers are now using the systems to achieve operational visibility, shrink unproductive time, employ incentive programs, plan workforce levels, develop true activity-based costs, and simulate what-if scenarios.

Achieving real-time visibility

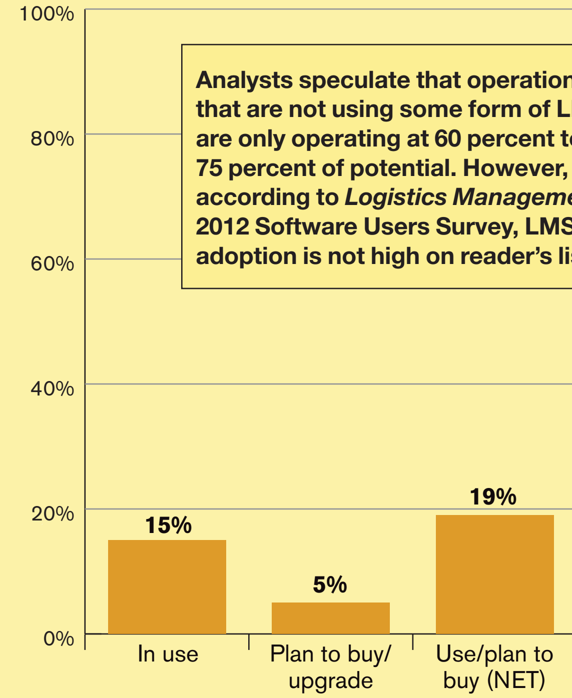
Previous systems operated in batch mode, with supervisors going over performance reports at the end of the day, or even at the end of the week. Today’s LMS providers have risen to the occasion, providing web-based dashboard technology to users in real time on their smart phones and tablets.

These dashboards display information regarding labor performance on a single screen and direct the supervisors and managers to where they need to focus their attention. Configurable reports may include the complete listing of tasks along with a measure of the utilization and efficiency of each worker.

If performance isn’t up to par, the system can alert supervisors immediately with a text or email so they can initiate action. “We’re moving from ‘we didn’t do so well this week; we need to pick it up next week’ to ‘we’re not doing well right this moment; let’s try and identify why,” adds Stretar.

This detail provides a critical layer of transparency to the DC, allowing proactive managers to avoid any dips in productivity. So, what’s the challenge? Some host WMS have difficulty processing data in a near-real-time environment, preventing potential corrective actions to be addressed immediately.

Labor management systems (LMS) Usage/Plan to buy



Analysts speculate that operations that are not using some form of LMS are only operating at 60 percent to 75 percent of potential. However, according to *Logistics Management’s* 2012 Software Users Survey, LMS adoption is not high on reader’s lists.

Source: *Logistics Management,* Peerless Research Group (PRG)

Identifying unproductive time

Pickers may be paid for eight hours, but with reports from the LMS, supervisors can see, to the element level, why there were only six and a half hours of actual productive time.

According to Welker, this is where the LMS has been invaluable to her team. “It gives us the ability to really capture that time where we’re not physically picking,” she says. It’s not necessarily because workers are catching up on last night’s game, for example. Pickers may be spending 10 unproductive minutes waiting for pick tickets, doing safety check sheets, or waiting for product to be replenished.

“We can find those reasons that they’re not doing productive tasks and eliminate them, making them productive for 7.5 hours per day instead of only 6.5 hours,” says Welker.

Implementing an incentive program

While implementing engineered labor standards may improve productivity by identifying those lagging the curve, it’s the implementation of incentives that sells LMS internally to most workers.

Let’s say it takes a worker two hours to complete a task. If he completes it in only one hour, then he saves the company an hour of labor time, worth $20 per hour. With incentives, the company takes that $20 and shares a percentage of that with its workers, perhaps keeping $10 then giving the worker $10. “Obviously with incentives, productivity increases,” says Welker.

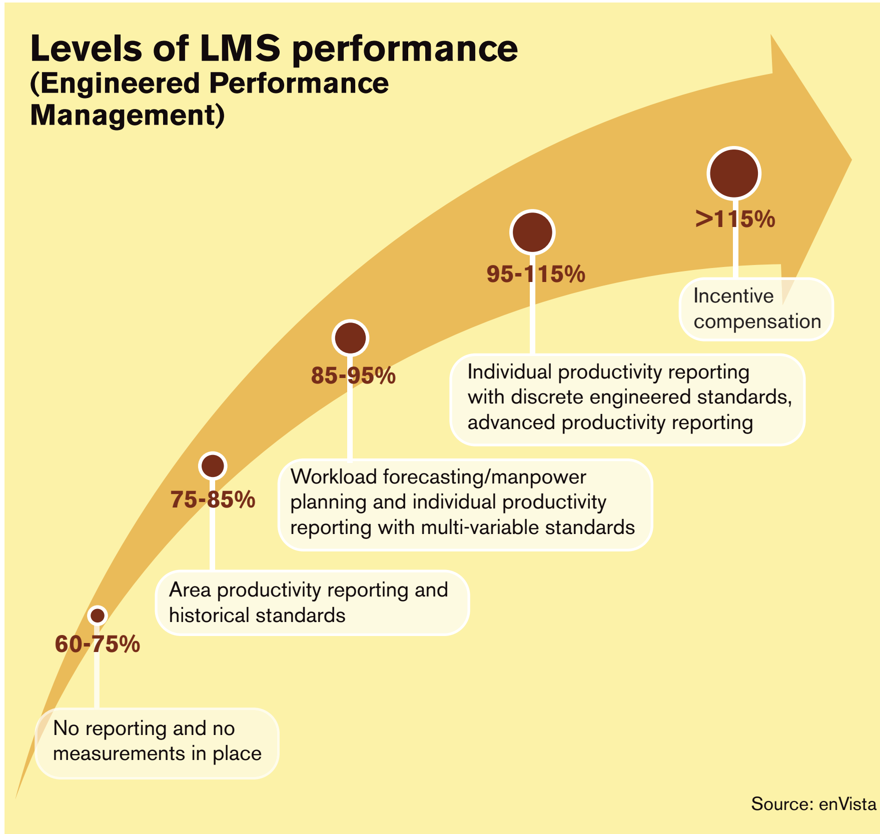
"What we also find is that people then become more creative, with many taking the initiative to improve processes because they want the incentive."

Parker warns that incentive plans may not be as effective in an environment where overtime is commonplace. "Incentive pay must be more lucrative than overtime," says Parker. "One should minimize overtime for several months before implementing incentive pay." He also cautions that incentive pay should never be tied to productivity alone. "Quality, service, and safety are also part of an effective incentive pay system."

Improving workforce planning

With seasonality, demand volumes can fluctuate. LMS provide supervisors with a scheduling tool that can define shifts and work schedules. It also allows them to evaluate current and future staffing levels based on both historical and actual work assignment data.

"I know that I have 2 million cases coming in next year," says Welker. "I know my teammates can pick about 200 cases per hour based on my LMS data. I can then determine how many teammates I need on the floor."



Performance targets that can be achieved at different levels of LMS application.

GENCO ATC's labor management edge

GENCO ATC IS THE SECOND LARGEST, privately held, non-asset based, third party logistics provider (3PL) in North America. The company runs distribution operations for a wide variety of customers at over 130 sites, employing about 10,000 "teammates." Until about four years ago, each site was on its own in terms of labor management, mostly tracking workforce performance manually.

In 2008, this 3PL provider recognized the growing need for its customers to focus on more productive labor and to identify opportunities for improvement. It decided to invest in a team that would be responsible for overseeing the implementation of labor management solutions at sites driven to achieve higher levels of workforce efficiency.

"Our process is to go to a facility, do an analysis of that operation, and identify the opportunity to put in an LMS," says Melinda Laake, the 3PL's director of labor management. "For some of our smaller facilities, if we find that cost prohibitive, we use other technologies to help us systematically track performance." On occasion, the team would bring in consultants such as enVista, a supply chain consulting firm and LMS integrator.

Since its formation, the team has implemented LMS from three leading software providers at 15 different sites around the country. Many of the sites have engineered labor standards in place, some have gone a step further with the implementation of incentive programs.

Aside from tracking labor, sites use the data from the LMS to primarily reduce indirect or nonstandard time. Supervisors run reports on a daily basis, constantly looking for opportunities to reduce and eliminate this nonproductive time. They also export data from the LMS into an Excel format to create budget reports and compare them to where they should be on standard. Any gaps are immediately addressed.

"We've also used the LMS to identify potential opportunities for re-slotting," adds Laake. "If we see that picking has gone above a 75 percent travel component, then it gives us an opportunity to re-slot that area and reduce travel times."

GENCO facilities across the country have been reaping the benefits of their LMS. On average, labor performance at LMS sites have improved 10 percent to 25 percent—with incentives, it's up 20 percent to 30 percent. Before, some sites used to bring in additional temps to handle volume fluctuations. Now, many operations are able to keep the same number of teammates and equipment to handle upticks.

Laake warns, however, that these systems do not necessarily solve the problems in an operation. "This is a tool to provide the information to solve the problems in the operation—and that's an important distinction."

—Maida Napolitano, Contributing Editor

Even when initiating a new process, managers can use a combination of historical data and predetermined time standards from the LMS to project the time it takes to complete a task and then calculate the number of workers needed.

Developing more accurate costs

With an increasing number of value added services being performed at the DC level, many don't have a good feel for how much they should be charging. More managers are using their LMS to determine exactly how much it costs to ship merchandise through their warehouse and to determine what they need to break even or to realize specific profit margins.

"The system allows the operator to apply cost values to the goal or standard times; thereby, calculating the true cost of performing the task," says Parker.

Parker notes, however, that most LMS are still limited in their ability to process this data within the system, as providers have yet to build a solid module around activity costing. For now, many simply extract LMS data and enter them into custom spreadsheets to develop detailed budgets and costing reports.

Simulating "what-if" scenarios

With input from the LMS, operators can simulate changes in equipment, processes, or layouts within a facility in a virtual mode to determine the impact on productivity. "Before investing thousands of dollars," says Parker, "why not take those same orders, reload them into a test environment in the LMS, and compare how many standard minutes it takes with your new layout."

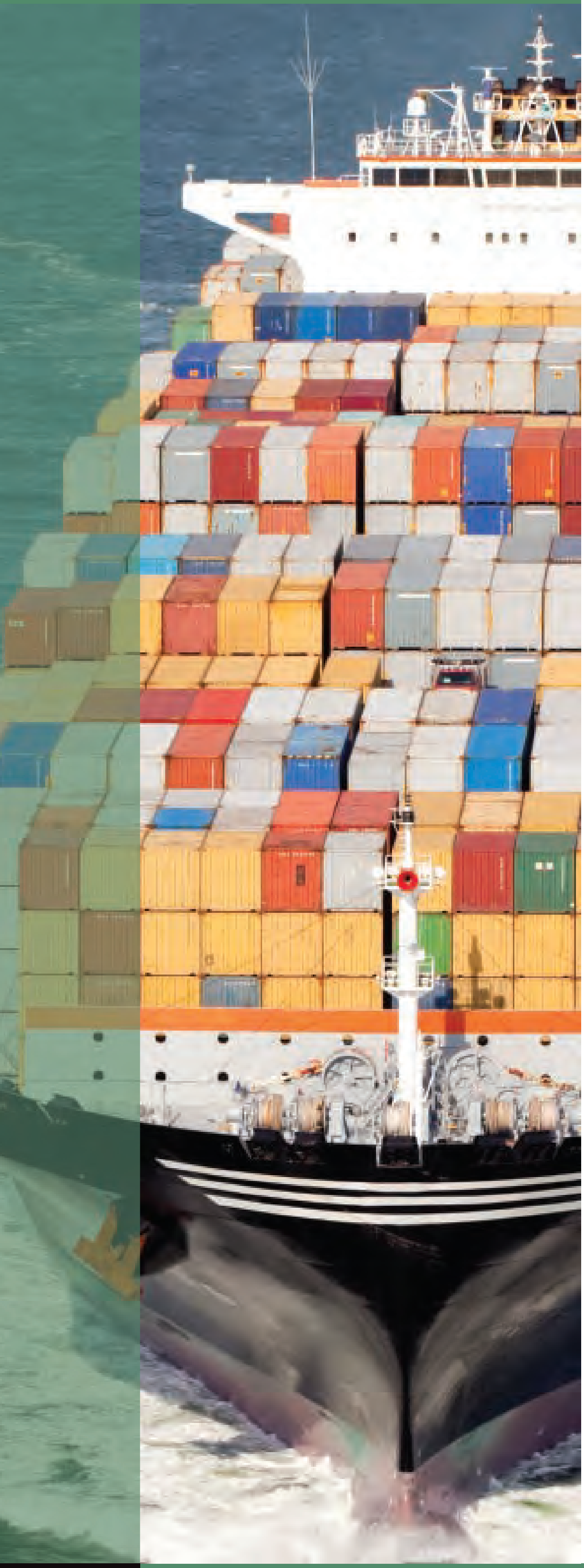
By simulating within the LMS environment, managers recognize the credibility of the simulation results, making it easier to get approval for any upfront capital. However, Parker notes that not many LMS providers offer this option within their system. "We typically have to extract the data, mimic databases, and request assistance from IT personnel to help process the data."

Tips for implementing

According to Stretar, LMS implementations usually involve working closely with employees on the floor to improve the operations. "We usually try to optimize an operation in conjunction with implementing the software. We then build and audit the standards for that operation," he says. Incentive programs can then be initiated once the standardized operations have somewhat stabilized—typically after two to three months.

Parker believes that the most important aspect of any LMS implementation is really its change management. "There's going to be resistance," he says. "It's important to educate workers on the system from the very beginning."

—Maida Napolitano is a Contributing Editor to Logistics Management



STATE OF OCEAN CARGO: Can we still be friends?

Analysts agree: One of the greatest challenges facing both shippers and carriers over the next year will be rebuilding relationships on the high seas.

By Patrick Burnson, Executive Editor

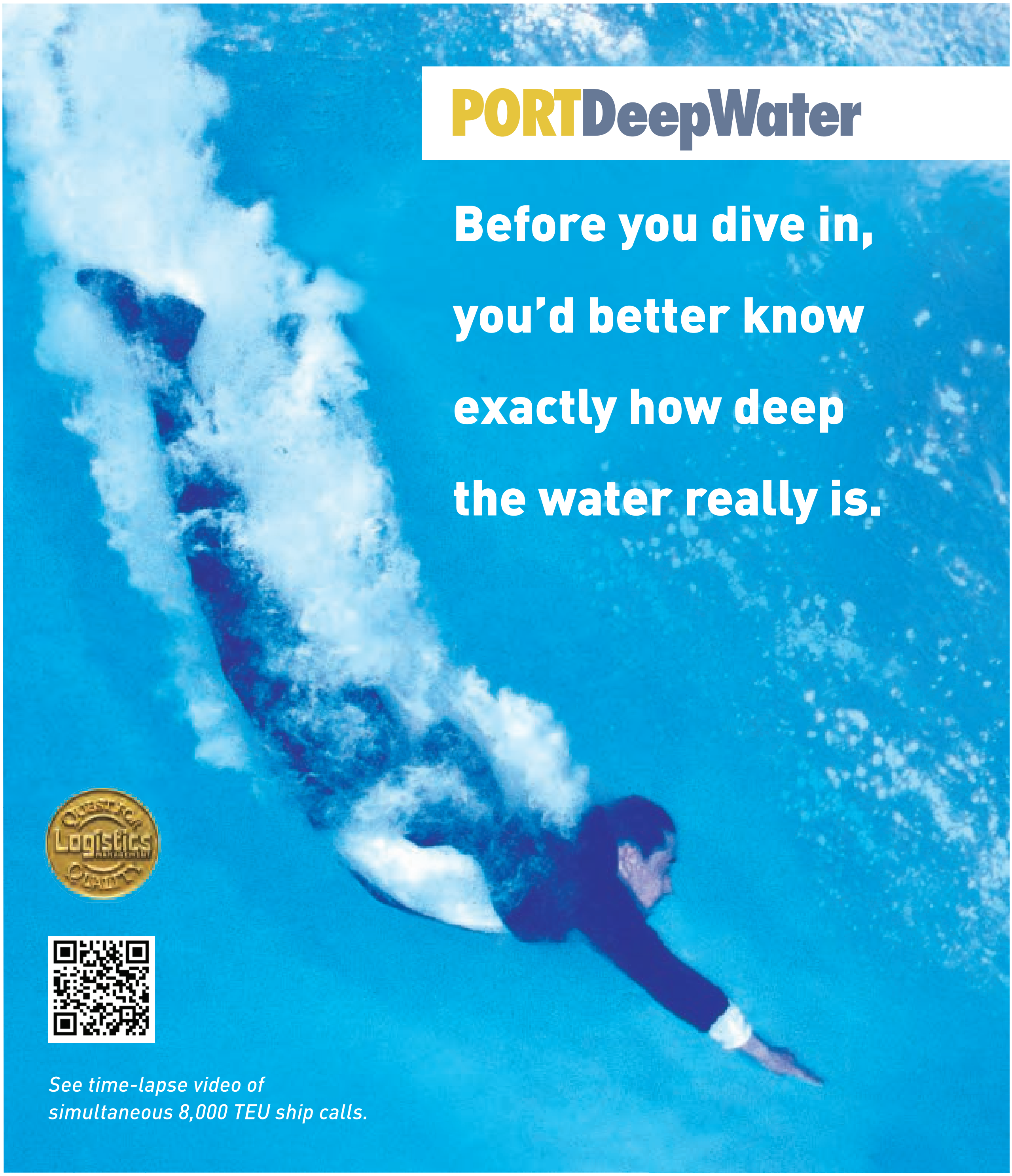
While repairing their bottom lines has become a top priority for world's ocean carriers, leading industry analysts contend that they're also looking to restore customer relationships over the coming year. To do this, David Jacoby, president of Boston Strategies International, says that carriers are now initiating their own analytics designed to measure on-time reliability.

So, how are shippers responding? "Shippers will inevitably attempt to work the metrics into their contracts, as some of them have worked rate indexing in," says Jacoby. "Meanwhile, carriers and forwarders are very pleased to see these metrics, because they've been surprisingly widely accepted in a very short time—compared to other changes that the ocean shipping industry has tried to make."

Jacoby adds that it certainly doesn't hurt that Maersk—the largest player on the block—is now focusing intensely on the customer and has its own network of terminals to influence the metrics in a positive direction. "This is all good news for shippers," adds Jacoby.

Benchmarks rule the day

By way of helping importers and exporters benchmark their performance, several carriers are encouraging constant feedback through social networks and regular surveys.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See time-lapse video of simultaneous 8,000 TEU ship calls.

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MOL (America) Inc., for example, gathers key performance indicators (KPI) from its shippers in the following categories: operations, customer service, and electronic data interchange (EDI). The results are available on a monthly basis, while a set of goals has been established for each KPI in an effort to offer transparency to demonstrate the carrier's commitment to service.

At the same time, independent market intelligence enterprises are introducing their own KPIs. For a subscription fee, shippers can engage analysts to provide them with metrics at the "container level" rather than the ship-level. The new KPI will monitor not only the performance of the physical port-to-port shipping operation, but also the performance of commercial processes, as well as regional inland transport performance and port dwell times.

More transparency, accountability, and comparability in other key aspects of container carrier performance is also being shared by shippers comprising special interest groups. The Washington DC-based Agriculture Transportation Coalition (AgTC), for example, recently released its annual Ocean Carrier Performance Survey. On-time performance is measured by this group, along with information on "guaranteed standard of service" compensations for delays. Shippers gave the highest marks in the 2012 survey to APL, K-Line, and OOCL.

"Ocean carriers understand that visibility and reliability are key elements of the supply chain value proposition, says Brian Conrad, executive administrator of the Transpacific Stabilization Agreement (TSA). "Carriers have developed their own internal schedule integrity metrics for multiple reasons, but they broadly recognize the competitive benefits of improved schedule reliability."

He adds that beyond that, carriers need to understand internally how their particular service configurations and business processes affect schedules, space, equipment, and other service elements. Conrad also noted that carriers must identify "choke points" and solutions across the entire operation, alongside perspectives from individual accounts and third parties.

Global economy falters

With the Eurozone's problems not likely to improve this year, many shipping experts are counting on Asia to propel and sustain the developed world's economic rebound.

Ocean cargo shippers can expect greater ease of doing business in the region if The Trans-Pacific Partnership (TPP) Agreement is signed and ratified this year. The TPP—currently under negotiation by Australia, New Zealand, Chile, Peru, Singapore, Malaysia, Vietnam, Brunei, and the U.S.—is seeking to create a trade agreement that could be seen as a model within the Asia-Pacific region. If successful, even more new members may be added.

The Asia-Pacific region is a key driver of global economic growth, representing nearly 60 percent of global GDP and roughly 50 percent of international trade.

According to the World Bank, the average GDP growth rate in the rapidly growing and dynamic countries in this region was 5.3 percent last year, compared with the world average of 3.8 percent. Furthermore, over the past two decades Asia-Pacific goods trade has increased by 300 percent, while global investment in the region has increased by over 400 percent.

Trade is remarkably simplified with the ability to market worldwide over the internet, with business-to-business portals, social media, and online payment. New bilateral and multilateral trade agreements will offer even small and mid-sized businesses in emerging Asian markets expanded opportunities to conduct global business across the Pacific.

It's worth pointing out that the increase in global capacity seen in recent months as new larger ships are delivered does not have the same effect in the transpacific as in other cargo markets. Infrastructure constraints, mainly channel drafts at most U.S. ports and in the Panama Canal as well as terminal productivity levels, will continue to limit average vessel size and loadability through 2013. So the largest ships, and many of the cascaded ships they replace, will remain in other trades.

Maritime economists see the U.S. market steadily recovering, with demand already picking up in the automotive sector and "green shoots" in many areas of retailing, including apparel, footwear, home/garden supplies, appliances, and toys. They also expect other segments to pick up as the job market and housing crisis improve.

Analysts add that a rising entrepreneurial middle class in Asia is likely to translate into new business formation with an eye to exports as well as domestic consumption. A large share of two-way transpacific trade is related to two-way manufacturing and retail investment.

And that trend is likely to continue and expand. In the meantime, all of this new trade growth will translate into cargo growth as 90 percent of physical goods moves by ocean, much of it in containers.

Tracking regulations

Finally, when evaluating risk mitigation in the marketplace in 2012 and beyond, ocean cargo shippers should ask their lead logistics providers to advise them on liability issues this year. For example, The Rotterdam Rules—which will extend and modernize the existing international rules relating to contract of

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maritime carriage of goods—will come into force one year after ratification by the 20th United Nations Member state.

Shipper organizations firmly believe that this will achieve greater global uniformity for cargo liability, facilitating e-commerce through use of electronic documentation, reflecting modern "door-to-door" services involving other modes of transport in addition to the sea-leg and "just-in-time" delivery practices.

Tracking environmental regulations will also be key for ocean cargo shippers through the next several years, even though there is little if any dispute about the fact that ocean shipping is the most carbon-efficient mode of transportation.

The International Maritime Organization's expert working group says international maritime shipping accounts for 2.7 percent of annual global greenhouse gas emissions. And according to analysis by the Swedish Network for Transport and the Environment, shipping also produces fewer exhaust gas emissions—including nitrogen oxides, hydrocarbons, particulates, carbon monoxide, and sulfur dioxide—for each ton transported one kilometer than air or road transport. Still, the sheer scale and global nature of containerized shipping makes it important for the industry to continuously work to reduce its environmental impact.

A recent study by Lloyd's Register suggests evidence that the industry has made significant progress. According to researchers, the fuel efficiency of container ships with 4,500 TEU capacity has improved 35 percent since the mid-1980s. Comparison between a modern 12,000 TEU ships built in 2007 and a 1,500 TEU ship bulit in 1976 shows the carbon efficiency on a per-mile cargo volume basis has improved 75 percent in 30 years.

In turn, shippers may expect a "greener" industry made safer by regulatory change. Containerized shipping will also become profitable for carriers, too, as a new era of collaboration is ushered in. Analysts advise shippers to remain in close contact with their providers for guidance and leadership.

Patrick Burnson is Executive Editor of Logistics Management


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Profitability improving

With pricing power back in the hands of the rejuvenated LTL sector, carriers are now laser focused on margins while concentrating on profitable freight.

By John D. Schulz, Contributing Editor

All current reports and analysis of the $33 billion less-than-truckload (LTL) sector indicates that it's enjoying a slow, yet uneven recovery from the depths of the Great Recession. With revenue growth on the back burner, top LTL carrier executives and analysts say that the top priorities are now yields and pricing.

David Ross, trucking analyst for Stifel Nicolaus, calls the LTL recovery "slow" and "choppy," yet he's predicting 1 percent to 3 percent annual growth in revenue at least through 2014. As a result, profitability is improving.

A recent analysis by Satish Jindel, principal of SJ Consulting, a leading trucking analyst firm, shows that year-over-year operating margins of the top publicly held LTL carriers jumped 3 percent in this year's first quarter, with revenue per hundredweight (excluding fuel surcharges) up 2.6 percent.

In fact, profits are coming, but are uneven. The top publicly held LTL carriers had a 0.7 percent operating margin in the first quarter this year, although that figure was brought down by continuing losses at unionized carriers YRC Worldwide and ABF Freight System. Still, that first quarter figure was the first positive earnings for the publicly held LTLs in four years.

"However, yields are a good bit away from where they need to be," says Ross, adding that the pricing pendulum has swung back in favor of LTL carriers as they try to execute their strategy of raising profitability. "Manufacturing has been growing, which has helped, and carriers are generally choosing to raise rates, improve operations, and expand margins rather than add capacity, which is allowing for the

LTL

rate increases to continue," adds Ross. "Volume is always important, as LTL is a network business and carriers need density."

Most LTL carrier executives say privately that there is currently at least 10 percent overcapacity in the marketplace. But there are a few network "pinch points" where capacity needs to be added or rates raised.

And in bad news for shippers, carriers say that they are increasingly shedding low-margin business in order to concentrate on their more profitable accounts.

Still, top LTL carrier executives are more bullish now than they've been in at least four years. Part of that optimism stems from newfound pricing discipline seen by virtually every carrier in most lanes.

"The industry seems to have found some religion on pricing," says Doug Stotlar, president and CEO of Con-way Inc, "and growth is now our core strategy. Do we want to grow the business 1 percent to 2 percent a year? Yes. But our focus now is on margin expansion and return on invested capital."

Analysts and executives say that there are three major market drivers nowadays—macroeconomics, capacity (trucks and drivers), and tougher rate negotiations—which will dictate LTL profitability over the next 12 months to 18 months. *Logistics Management* recently gathered the insight of a number of LTL market leaders to find out how they're coping with each of these critical factors.

It's still the economy…

The LTL business is a derived demand industry, highly cyclical and inexorably tied to overall economic conditions in the U.S. The overall economy appears to be softening, and year-over-year LTL industry volumes and rates have begun trending down.

Shippers and carriers both say that the U.S. is in midst of global macroeconomic uncertainty; and in turn, top LTL executives are seeing choppy freight demand. No industry segment seems to be doing exceptionally well, though carriers hauling auto-related materials report that business is fairly strong.

"Business is fair but very erratic," says Myron P. "Mike" Shevell, chairman of the Shevell Group and parent of Northeast regional LTL New England Motor Freight (NEMF). "You go through periods where you think it's going to rock and roll, and then it dies. We're hoping to get a shot in the arm later this year, but who knows."

Because of numerous false starts, LTL executives don't have much faith in even short-term economic forecasts. "Economic projections for the near-term appear less than stellar," says Jim Keenan, ABF's senior vice president of sales and marketing.

"I believe LTL companies and shippers alike are feeling the slight breeze of an economic headwind, and likely will until world markets settle down," adds Keenan.

"All LTL carriers are operating in a highly cyclical business with high-cost terminal infrastructure and expensive trucks that depreciate whether they are fully utilized or sitting idle," says Steve O'Kane, president of A. Duie Pyle, another top Northeast LTL carrier. "While these incremental costs increase, economic slowdowns create competitive pressures to reduce prices to put that idle capacity to work. So the slowing economy is top on my list of major impact items."

For the LTL sector to return to profit margins of the pre-Great Recession era, it would require either a burst of robust economic growth, which is unlikely, or the bankruptcy or cessation of one or more of the weaker unionized carriers, which is also unlikely. Until then, carriers are merely coping with the hand they're dealt.

"We're all still adapting and adjusting to what the new normal actually is," says Wayne Spain, chief operating officer at Averitt Express, a multi-regional LTL giant. "We've seen signs of a recovery, but it's slow."

Is there too much capacity?

Analyst Ross says carrier capacity discipline is the key to LTL profitability. At this point in 2012, carriers are saying that capacity is, more or less, in alignment with demand—largely due to the downsizing of YRC Worldwide. Because of the Great Recession and more than $2 billion in losses the last five years, YRC has reduced itself from a $9 billion carrier to one that is projected to do about $5 billion this year.

"Taking $4 billion out of the LTL market is akin to closing a company the size of Roadway," says Con-way's Stotlar, referring to the LTL giant that was absorbed during the Yellow-Roadway merger nine years ago.

"Real capacity has come out of the LTL environment, and that's the single best thing to happen to LTL carriers. We are right at capacity now, and margins are still not adequate," Stotlar says.

That, in turn, is causing carriers to re-examine their capital expenditures for new trucks. If fleets buy trucks, it's merely replacement—not adding any real capacity. "Until we get decent returns on capital, why should we be taking our shareholders' money to buy trucks?" Stotlar asks.

Along with rolling stock, the other factor affecting capacity is an adequate supply of drivers. The effects of CSA, the government mandated driver-monitoring program, are just now being felt, and

SPECIAL REPORT

there remains the possibility of a reduction in effective hours of service, which the government is studying.

Demographics, mandatory drug testing, and other factors are working against the industry as well, carriers say. "We simply are not producing enough drivers to fill the ranks of those leaving the profession," says O'Kane. "And this driver tightness exists in an economy with 8.2 percent unemployment. With a healthier employment level, there will be heightened demand for drivers and likely less supply as some drivers return to construction or other trades."

Proactive carriers aren't waiting. Con-way, for instance, has begun driver training schools where it recruits promising dock workers and trains them to get their Commercial Driver's License. A. Duie Pyle puts talented dock and warehouse employees through a 10-week program at its driver training academy. O'Kane says it costs more than $20,000 per driver to train new drivers, but it's worth it.

"We find the market for drivers challenging at 8.2 percent unemployment," O'Kane says. "What will good economic times bring for those carriers that do not provide the high quality jobs that we provide?"

Drivers are often the face of the company and reflect, poorly or otherwise, on how a carrier treats its customers. "We are in a people business and the carriers that have the highest quality of people generally operate in the top percentile," says Pitt Ohio President Chuck Hammel.

Asking shippers to do their part

Interestingly, many leading carrier executive said rate negotiations with shippers increasingly are taking on greater importance. With capacity tightening and volumes increasing, carriers can afford to be more discriminating at what freight they haul and at what rates.

"We're getting murdered by every kind of cost," says NEMF's Shevell. "When I bought a new truck in 2006, it cost $65,000. That same truck today costs $100,000. Everything is up—fuel, driver pay, insurance, tolls, terminals. You can't build a new terminal anywhere in the Northeast today because of exorbitant cost and regulations. The only way we recover that is through rate increases."

Hammel of Pitt Ohio, a $305 million regional carrier, says the biggest challenge his company now faces is how does he keep rates stable while still offering the highest levels of service. "Our salaries, benefits, tires, truck parts have and continue to increase, yet customers balk during discussions of rate increases," he says. "We know how important low rates are to our customers, so we constantly look for ways to reduce our costs of doing business."

Technology and operating efficiency helps, Hammel says. "One way is that the best LTLs use the newest and best technology to reduce any manual intervention possible," he says, adding that Pitt Ohio uses several different business intelligence tools.

Analyst Ross says that because carriers are less hungry for market share and more focused on margins, pricing, and operating efficiencies are the "chosen paths" to profitability. Density should come later, he adds. Carrier execs say that it's always a balancing act to find the right levels of pricing and service to each customer.

"Finding balance in pricing continues to put pressure on carriers," says Averitt's Spain. "There is value in services we provide, and we know our customers are looking for ways to take cost out of their supply chains."

ABF's Keenan adds that shippers are just now seeing results of strategies adopted by LTL carriers during the recession. The winners, he says, were those carriers that continued to invest in new services despite financial challenges.

"Those who invested in their business models are unveiling new dimensions to their service offerings, and able to provide new value to customers," says Kennan. "This is important because shippers are emerging from the Great Recession with new demands placed on their businesses."

Bottom line: Rates are rising. Analysts Ross and Jindel are predicting LTL rate increases in the 3 percent to 4 percent range for the next year or two. Most LTL carriers have taken a 6.9 percent general rate increase, effective midsummer. In the past, discounting has taken away about half that hike, but this year it appears that pricing power belongs to the carriers. "We believe pricing power should remain with the carriers as long as capacity and pricing remain rational," Ross says.

John D. Schulz is Contributing Editor of Logistics Management

SAGE ADVICE

Farming, baseball spring training, and logistics planning…

By John A. Gentle, DLP

IT DAWNED ON ME THE OTHER DAY that some of the practices we employ in the planning and management of our logistics operations are similar to how farmers plan and harvest crops and how baseball managers select their team and deal with the variety of performance issues and injuries throughout the long season.

As you go through this column pay careful attention to the concepts, note the advantages and risks associated with each, and see how your management approach compares to theirs.

In May I was visiting Tom and Michelle Bates, owners of Wellsmere Farm in Wells, Vt., and they encouraged me to try beet greens. They said that the cooked beet greens taste just like spinach and I should man up and try it. So, being a spinach lover, I crossed my fingers, said okay, and was pleasantly surprised at the flavor.

When I next spoke to them, I was informed that beets provided them with three different market offerings—greens early in the spring as well as greens and beets later in the summer—and that overseeding the crop initially was key to their success.

The over-seeding process intentionally creates too much capacity. It allows them to harvest half of the greens in June by thinning the field and it provides the remaining plants ample space to develop and mature to their full potential for harvesting throughout the season.

Their approach has no prequalification process or safeguards. It's all about maximizing their return on investment as the selection is done in a random manner, simply eliminating "every other plant." Tom and Michelle have no way to determine what challenges are developing below the surface of the soil or what Mother Nature has in store for them.

To the contrary, major league baseball managers follow a structured, pre-qualification process designed to maximize the upside and minimize the downside. Spring training allows the staff to view all the pre-assembled talent, evaluate them based on a number of different conditions, and then bring to market the best initial offering—farming out the rest for further development or merely trading them.

Management recognizes that some players will excel, others will not develop to their fullest skill potential, and some will lack the physical and mental stamina needed to find the way to win.

Most would probably say that the baseball manager has the better process—it allows for prequalification, testing, training, and opportunities for recovery through rehabilitation. Whereas the "beets and greens" approach, even though it affords a better and faster return on investment of seeds to dollars, has more to do with randomness and significant farming risks like drought and disease.

So why is it then that logistics managers tend to take the "greens and beets" approach over the less risk adverse baseball approach? The answer is simply impatience. Most logistics professionals feel the pressure to quickly bring capacity and savings to the bottom line without taking the time to develop the talent on their team or to conduct a low cost carrier development program.

Those shippers who have invested time and talent and nurtured their carrier base will continuously maintain a sustainable crop of top performing carriers.

Conversely, those shippers who have invested time and talent and nurtured their carrier base will continuously maintain a sustainable crop of top performing carriers.

If you are not pre-qualifying carriers today, consider doing so with a small, preselected group of smaller carriers or third party logistics providers that are willing to offer you a large number of trucks at a good rate and have a strong potential to be successful.

Let this group know in advance that you will be looking for and retaining only the best talent after a 90 day trial period, and charge your team with responsibility of creating the evaluation process.

And don't forget to eat your greens every day and develop carriers and team talent. It's critical to your success and will keep you out of the compost pile. ☐

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