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Logistics MANAGEMENT®

April 2013

The competitive advantage of private fleets 28

LMS: The human supply chain 32

RFID settles in 39

2013 SALARY SURVEY

Experience pays

Page 22

+ SPECIAL WEBCAST
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Tough at the top 44S

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management UPDATE

AN EXECUTIVE SUMMARY OF INDUSTRY NEWS

◆ **U.S. infrastructure is not making the grade.** The American Society of Civil Engineers (ASCE) handed the country's infrastructure a D+ for its overall quality. While this grade is far from the Dean's List, it represents a slight improvement over the D it received in 2009. The ASCE bases the overall score on grades for various categories, including aviation, bridges, dams, drinking water, energy, hazardous waste, inland waterways, levees, ports, public parks and recreation, rail, roads, schools, solid waste, transit, and wastewater. Final grades were assigned based on capacity to meet future demand, condition, funding, future needs, operation and maintenance, public safety, resilience, and innovation. "A report card grade of a D+ is not indicative of a first-class infrastructure," said Ed Rendell, former Pennsylvania Governor and co-chair of Building America's Future. "For America to stay competitive in a global economy we must significantly improve our energy, transportation, and water systems."

◆ **Railroad antitrust legislation returns.** A renewed effort to remove the railroad industry's exemptions from antitrust laws has emerged in the form of bipartisan legislation from Senators Amy Klobuchar (D-Minn.) and David Vitter (R-La.), entitled *The Railroad Antitrust Investment Act*. Like the previous iterations of this legislation, the senators say the bill's objective is to address so-called "captive shipping" and help promote fairness and competition in the railroad industry and remove the industry's exemption from antitrust laws. The Association of American Railroads (AAR) was firm in its opposition to this legislation, explaining that even though the bill says it claims to repeal freight railroads' limited antitrust exemptions, it instead "singles out" railroads for policies that it said could undermine the industry's ability to build, maintain, and upgrade national rail infrastructure without taxpayer assistance.

◆ **USPS plan to nix Saturday mail is dealt a legislative setback.** Shortly after the United States Postal Service (USPS) announced its plans to introduce a new delivery schedule in August, which includes eliminating Saturday delivery, a piece of legislation may prevent that from becoming a reality. Last month's passing of the FY2013 Department of Defense, Military Construction and Veterans Affairs, and Full-Year Continuing Resolution, now prohibits the USPS from ending Saturday delivery. "The Continuing Resolution is clear; there will be six day delivery for the rest of the fiscal year," said Congressman Jose Serrano (D-N.Y.). "Earlier this year the Postal Service announced that they thought they had legal authority to end Saturday delivery. That analysis was wrong, but now there is no room for misunderstanding," added Serrano.

◆ **Suez concerns mount.** As shippers continue to track the deteriorating political situation in Egypt, analysts are assessing the possible impact on Suez Canal services. Recent civil riots in Port Said were "arguably" too close for comfort for those dependent on the Suez Canal, said analysts at Drewry's, a London-based industry think tank. Although the arterial trade route is unlikely to close, the possibility cannot be ignored, analysts added. According to Drewry's calculations, there is enough spare vessel capacity to absorb most of the shock of sailing from the Far East to Europe via the Cape of Good Hope simply by increasing vessel speeds, which means that closure of the Suez Canal would not be a monumental crisis. Nevertheless, supply chain managers in Europe responsible for ensuring the smooth flow of goods after a catastrophic failure will be watching the escalating civil violence in Egypt closely.

◆ **TIGER terminals.** The Port of Stockton has selected SSA Marine to manage the port's terminal for the new M-580 Marine Highway Corridor service between the ports of Stockton and Oakland. The M-580 Marine Highway is scheduled to commence this spring. SSA Marine will provide container-on-barge terminal services, including terminal management, marketing, and logistical support. The port will provide management oversight as the prime contractor, including barge and towboat operations. In February 2010, the U.S. Department of Transportation announced the award of a $30 million TIGER grant for the ports of Oakland, Stockton, and West Sacramento to develop the infrastructure necessary to establish a container-on-barge service between the Central Valley and the San Francisco Bay area. □

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VOL. 52, NO.4

CONTENTS

Cover illustration: Dan Page

2013 SALARY SURVEY

Experience pays!

22 Our 2013 survey finds that the highest salaries in logistics and supply chain management will be earned by those sticking to time-honored values: education, hard work, and company loyalty.

TRANSPORTATION AND BEST PRACTICES

Private Fleets: Mastering their destiny 28

Despite the related costs and increasing complexity, private fleets enable operators to control their own destiny at a time when the trucking market is bracing for yet another capacity crunch.

SUPPLY CHAIN & LOGISTICS TECHNOLOGY

LMS: Optimizing the human supply chain 32

An increasing number of logistics managers are using labor management systems (LMS) to monitor productivity, identify bottlenecks, and optimize the workforce both inside and outside the distribution center. Here's how they're getting it done.

GLOBAL LOGISTICS

Conquering the cold chain 36

Scores of major and minor third party logistics providers (3PLs) have found that offering "controlled-temperature" services can help shippers break into emerging markets and develop new revenue streams.

WAREHOUSE & DC MANAGEMENT

RFID settles in 39

With suppliers jumping on the RFID bandwagon and more deployments looming in the horizon, the future of RFID remains promising. Here are the market drivers that continue to push ADC/RFID adoption and examples of facilities that are putting it to work.

Labor management 32

Cold chain 36

RFID 39

Q1/2013 News Roundup Webcast: Shippers brace for change

Now On Demand: www.logisticsmgmt.com/q1news

Join Group Editorial Director Michael Levans, Group News Editor Jeff Berman, and a panel of transportation insiders as they put all of the top stories of Q1 2013 into context for logistics and transportation professionals—and help shippers understand what to expect in 2013.

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1 Management update

7 Viewpoint

8 Price trends

11 News & analysis

16 Newsroom notes

18 Pearson on excellence

20 Andreoli on oil & fuel

64 Pacific Rim report

TOP 50 TRUCKING

Tough at the top

Analysts and top trucking executives agree that a sharp focus on a durable business plan and dependable operations are vital to remaining profitable in one of the most challenging trucking environments in history.

44S

Peter Moore on Pricing

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2013 annual salary survey

Thursday, April 25, 2013 at 2:00 p.m. ET

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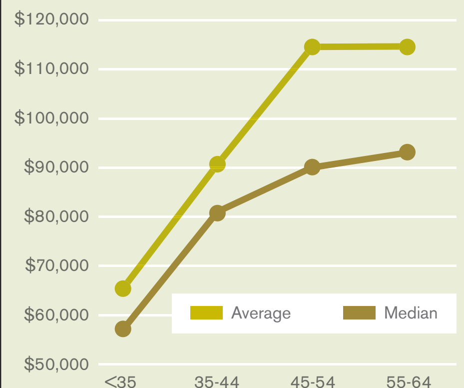
Experience pays!

Our 2013 survey finds that the highest salaries in logistics and supply chain management will be earned by those sticking to time-honored values: education, hard work, and company loyalty. Join Logistics Management Executive Editor Patrick Burnson and a panel of prominent supply chain career management experts as they put context around the results of our 29th Annual Salary Survey and offer their insight into how logistics professionals can take that next, critical step in building their careers.



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29th Annual Salary Survey: Experience still pays

THE COVER OF THE APRIL ISSUE OF *Logistics Management* (*LM*) is once again devoted to the findings of our *Annual Salary Survey*, a research project conducted by Peerless Research Group (PRG) that acts as the fuel for our best-read editorial feature (page 22) and the foundation of the most highly anticipated webcast that our editorial team produces (April 25).

First I need to thank the 1,262 qualified *LM* readers (up from 801 in 2012) who took the time to complete the e-mail survey in February. Knowing how many wide-ranging tasks logistics professionals are overseeing these days, the fact that our sample grew by 461 respondents certainly validates the importance that readers place on this project.

I would also like to acknowledge the work that is done by Judd Aschenbrand, research director of PRG, and his team in administering the survey and helping us to put context around the data. The project represents a two month effort; and without PRG's diligence, the most comprehensive survey of current logistics and supply chain salary levels simply wouldn't exist.

In terms of this year's findings, we found that it's becoming more readily apparent that "old school," time-honored values are continuing to pay off in a big way for those logistics professionals who go into a position with a solid education, are willing to put in the hard work, and stay loyal to a company. Not only do these managers eventually find themselves in the compensation "sweet spot," but they also say they end up happier.

"Company loyalty appeared to be fading away over the years, and it's a concept that has been widely rejected in other industries and by many younger professionals," Executive Editor Patrick Burnson told me after he wrapped up this year's survey summary. "But aside from stronger salary growth, our findings reveal that those managers who have spent a few years (six to 10) with their current employer say the 'feeling of accomplishment' is their number one value (63 percent)."

Being loyal does not mean being stagnant, says Burnson. "Top logistics professionals tell us that they work in a highly specialized, ever-changing industry, and to stay on top they put an emphasis on continuing education and development," Burnson reports. This year, 42 percent say they have pursued professional development, 20 percent have graduate degrees in logistics or supply chain management, and 34 percent say they are planning to enter a program in the next 12 months.

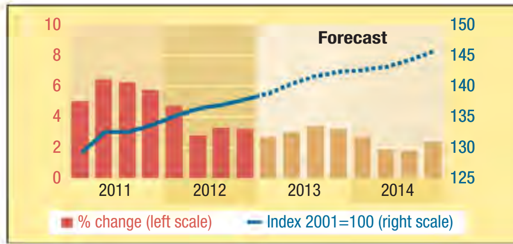
Join Executive Editor Patrick Burnson for the 2013 Salary Survey Webcast on April 25, 2013, @ 2:00 p.m. ET. Register at logisticsmgmt.com/2013salary

And while ongoing education remains a key differentiator in compensation, it no longer means spending great chunks of time or money to obtain an MBA. In fact, online certification—viewed by 66 percent of respondents as "important"—is being offered by a growing number of esteemed universities as a more practical and time-efficient way for these ambitious managers to move up the ladder. "Our readers are devoted to ongoing education and long hours because they value their work," adds Burnson. "It is their calling and they live a purpose-driven life. However, it is most refreshing to see that hard work and experience still pays—and always will."

Michael A. Levans, Group Editorial Director
Comments? E-mail me at
mlevans@peerlessmedia.com

priceTRENDS

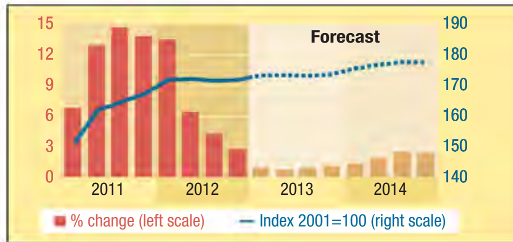
Pricing across the transportation modes



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
General freight - local	0.0	3.2	2.9
TL	0.3	-0.1	1.6
LTL	0.7	1.7	5.9
Tanker & other specialized freight	0.9	0.9	1.5

TRUCKING

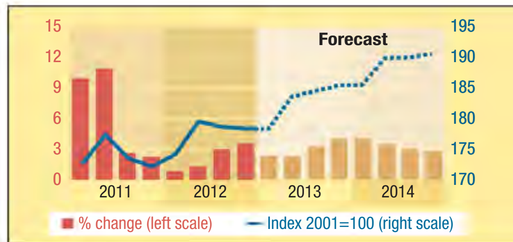
After three consecutive monthly price drops, average transaction prices for trucking services took a U-turn with a 0.7% price hike in February. That was a 2.7% increase from a year ago. As usual, LTL led the way with prices up 0.7% from month-ago and up 5.9% from same-month-year-ago. Over the same time periods, TL price tags increased 0.3% and 1.6%. We expect all trucking prices will have picked up speed in March with a 1.4% price gain. This price acceleration, nonetheless, will be slow enough and predictable enough to not disturb most logistics managers' budgets. At this stage, we do not see any disturbance in our trucking industry price forecast, which remains: up 3.1% in 2013; and up 2.2% in 2014.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Air freight on scheduled flights	0.0	0.6	0.4
Air freight on chartered flights	-4.5	-5.1	-1.6
Domestic air courier	-0.2	5.9	4.6
International air courier	-0.2	4.8	2.5

AIR

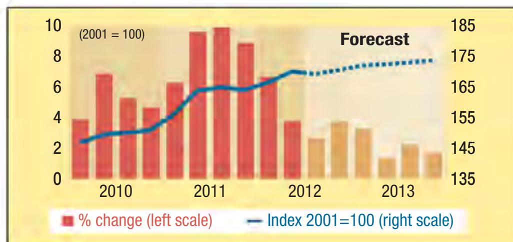
In the latest government surveys, U.S.-owned airliners reported no change in prices for airfreight service (on scheduled flights). Alas, U.S.-owned air charter companies flying freight likewise say that their transaction prices declined 4.5%. Adding to industry turbulence, wholesale prices for jet fuel remain stuck at relatively high levels. The International Air Transport Association (IATA) forecasts global cargo traffic to increase 2.7% in 2013, up from 1.4% in their previous forecast. Stronger demand may provide U.S. airliners with ammunition to rev up price hikes. We await more price data, so our forecast for scheduled airfreight prices remains unchanged: up only 0.9% in 2013 and up 2% in 2014.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Deep sea freight	0.6	-2.0	2.1
Coastal & intercoastal freight	0.1	-1.0	3.8
Great Lakes - St. Lawrence Seaway	2.2	8.2	-0.7
Inland water freight	-2.6	1.7	1.0

WATER

Companies floating cargo on inland U.S. waterways saw their average prices drop by an unexpectedly sharp 2.6% in February. Weak price increases in deep sea, coastal and intercoastal freight services likewise forced us to reconsider the water transportation industry's aggregate price outlook. In the previous column, we had forecast water transportation prices to increase 3.6% in 2013. We now call for these prices to increase 3% in 2013, though the forecast for 2014, up 3.3%, is unchanged. If inland waterways prices weaken further, then the current year's inflation forecast could be subjected to more revisions.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Rail freight	-0.1	3.3	4.5
Intermodal	-0.3	2.9	3.5
Carload	-0.1	3.5	4.8

RAIL

The rail transportation industry's price trend is chugging along its predictable, upwardly sloping track again. Some of the big price hike reported in January reversed in February, but not enough to make any difference in the inflation trajectory or its aggregate speed. Intermodal rail's average transaction prices dropped back 0.3% as carload tags retreated 0.1%. Despite the retreat, carload rail transportation prices still stand 12.3% higher than its previous peak set in August 2008. Intermodal rail service prices sit 1.9% higher than its previous peak, also recorded in August 2008. Hiring needs and capital investment plans will not be dislodged as rail industry prices escalate at a 3.5% pace in 2013 and 2.4% in 2014.

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NEWS analysis

Also:

- ILA, USMX sign off on tentative labor agreement, Page 13
- DOT establishes freight advisory committee to boost cargo visibility, Page 14
- Port Tracker report points to slight overall growth in March, Page 15

Appellate court panel hears three-pronged debate over HOS regs

Various industry groups make their respective cases for and against changes to truck driver hours-of-service rules set to take effect in July.

By John D. Shulz, Contributing Editor

WASHINGTON—The government's proposed changes to the complex truck driver hours-of-service (HOS) regulations had their day in court on the Ides of March—and certainly anybody who expected clarity on the issue should have been wary.

In the fourth court challenge to the hours-of-service HOS regulations since 2003, this latest legal battle was a three-pronged affair:

- *American Trucking Associations,* representing carriers, which warned of costly consequences for shippers and the U.S. economy if complicated forced rest breaks effectively reduced drivers' time behind the wheel.
- *Public Citizen,* representing three safety advocacy groups, which said the changes don't go far enough and that it would like effective driving hours reduced by one hour, from 11 per day to 10 per day.
- *The Justice Department,* representing the Federal Motor Carrier Safety Administration, which devised the rules, but whose methodology came under scathing attacks from both previous groups, saying the entire process was illegal.

The case was heard on March 15 at the U.S. Court of Appeals for District of Columbia Circuit before Judges Janice Rogers Brown, Thomas B. Griffith, and A. Raymond Randolph, who conducted oral arguments for more than an hour in the consolidated challenges to the FMCSA's 2011 HOS rules.

"The existing rules have a proven track record, and the agency's purported reasons for tinkering with them were baseless," ATA General Counsel Prasad Sharma said in a statement afterward. "We're hopeful the judges will see through the agency's mere pleas for deference and after-the-fact explanations for a rule that was agenda-driven rather than evidence-based."

ATA is calling FMCSA's 2011 changes "arbitrary and capricious," saying that they would put onerous restrictions on a driver's ability to effectively manage a

schedule. That's because the proposed rules would limit use of a restart period to once every seven days, as well as inflexibly mandating off-duty breaks during the workday. ATA contended that these changes were not supported by the data available and should be rejected.

After hearing ATA attorney Erica Jones attack FMCSA's methodology, Judge Griffith said that he agreed that she had made "very persuasive points." But he was quick to note that the judges were not there to decide which truck safety study was more valid, but rather to decide whether a federal agency has authority to issue such rules.

"It may be bad policy judgment, but we're not here to decide that," Judge Griffith said. "We have a very slight hand in this. We're here to decide whether the rules are arbitrary and capricious. It's beyond the court's experience to decide which expert to agree with."

Separately, a coalition of outside advocacy groups challenged FMCSA's retention of the 11th hour of driving and the existence of the restart at all.

Scott Nelson, an attorney representing Public Citizen, said his group wanted a return to the pre-2003 ruling that expanded a driver's legal driving time to 11 hours, from 10 previously, within a 15-hour on-duty day.

"Moving to an 11th hour of drive was irrational," Nelson told the three-judge panel, claiming the cost-benefits of such a move were minimal, perhaps as low as $30 million annually.

After the hearing, ATA issued a press release quoting its general counsel Sharma as saying: "Public Citizen and its cohorts also faced tough questions they didn't have good answers for. Despite Public Citizen's arguments, neither the law nor the data support Public Citizen's contention that FMCSA was obliged to make the hours-of-service regulations more onerous than they are. Nothing they said today changed that."

Jonathan Levy, a Justice Department attorney representing FMCSA, said that the DOT agency "acted rationally" in issuing the HOS rules, adding: "The agency acted very rationally and very scientifically."

The heart of ATA's challenge—which was supported by National Industrial Transportation League, Owner-Operator Independent Driver Association, Truckload Carriers Association, NASSTRAC, as well as another 15 organizations representing shippers or the business community—rests on the agency's limitations on the restart provisions. These would limit restart to once per week and require that it span two consecutive 1 a.m. to 5 a.m. periods, and require the mandatory 30-minute break within eight hours of starting a duty period to be completely off-duty rather than just a break from driving. □

LABOR

ILA, USMX sign off on tentative labor agreement

NORTH BERGEN, N.J. and ISELIN, N.J.—A little more than a month after coming to terms on a tentative agreement on a new labor contract, the United States Maritime Alliance (USMX), an alliance of container carriers, direct employers, and port associations serving Atlantic and Gulf Coasts, and the International Longshoremen's Association (ILA), the largest union of maritime workers in North America, have officially approved the agreement for a successor Master Agreement, according to the Federal Mediation and Conciliation Service (FMCS).

"I am extremely pleased to announce that the parties have approved their tentative agreement for a successor Master Agreement," said FMCS Director George Cohen in mid-March. "In doing so, the parties have successfully concluded lengthy, complex, and understandably contentious negotiations concerning a multitude of economic and job related issues."

Cohen said that the terms of the agreement, which were unavailable at press time, would be submitted to ILA and USMX memberships for ratification. He added that it paves the way for six years of stable labor-management relations covering all the Atlantic and Gulf Coast ports.

These negotiations are very significant in that they affect 14 East and Gulf Coast ports that cumulatively represent 95 percent of all containerized shipments—and 110 million tons of import and export

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cargo—to the Eastern seaboard.

This development follows news of longshoremen at the Port Authority of New York and New Jersey reaching a tentative six-year labor agreement with the New York Shippers Association in early March, with the agreement coming one day before a Friday, March 8, deadline, according to a Reuters report.

According to the report, roughly 4,500 longshoremen and women work at the Port of New York and New Jersey—or roughly a third of all longshoremen on the East Coast.

It added that the port handles about 3 million containers annually, mostly through three main terminals in New Jersey. The ILA represents about 14,500 dock workers at East and Gulf Coast ports.

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 have remained heightened due to the 10-day 2002 longshore contract dispute on the West Coast, which some estimates indicate cost the U.S. economy several billion dollars per day and negatively affected various key sectors within the economy. With that history in mind, shippers have been cautious and careful about planning for the unknown when assessing how these negotiations could affect their supply chain operations.

In anticipation of a possible strike shippers have been active making contingency plans, conducting inventory reviews, and arranging to bring in inbound inventory ahead of time, coupled with discussing alternate routes with freight forwarders.

"As expected, the FMCS acknowledged the good news in having an agreement reached and the thanks to both sides are common at the ends of these sorts of negotiations," said Paul Bingham, economics practice leader at CDM Smith. "The only catch seems to be the ratification votes, but with the agreement already announced for New York and New Jersey, it seems this new Master Agreement will be ratified by the rank and file."

Bingham added that with labor peace at the East and Gulf Coast ports for now, the attention will shift back towards the ILWU on the West Coast with their contract expiring next year.

—Jeff Berman, Group News Editor

CAPITOL HILL

DOT establishes freight advisory committee to boost cargo visibility

WASHINGTON, D.C.—The U.S. Department of Transportation is establishing a National Freight Advisory Committee (NFAC) to provide advice and recommendations on freight issues and is now soliciting nominations from industry and state officials for membership.

"I just want to say how important the National Freight Advisory Council really is," Transportation Secretary Ray LaHood said at the introductory session on March 5. "We think the freight policy council is one of the most important policy ideas we have to bring together all of the stakeholders and get people talking and working together to make sure we get it right."

Specifically, the committee will make its voice heard on a number of issues, including the implementation of freight transportation requirements of the Moving Ahead for Progress in the 21st Century Act (MAP-21); establishing a National Freight Network; developing strategies to help states implement State Freight Advisory Committees and state freight plans; as well as developing freight transportation investment, data, and planning tools.

LaHood, who has already told President Obama that he's leaving his post as soon as a successor is found, added that the freight advisory committee would be "as important as any work that we do here." LaHood added that the committee's contribution would be "immeasurable" to making sure that multimodalism and a very strong freight policy is "critical" to DOT's mission.

The idea of a freight advisory committee is not new in Washington. A similar advisory committee existed for nearly a decade at the Federal Highway Administration during the 1990s and was well received by trucking industry participants. They said that they felt the committee gave trucking matters a boost in Washington. However, the committee was abandoned around 2000 for reasons that never were made clear.

"The freight policy council is one of the most important policy ideas we have to bring together all of the stakeholders and get people talking and working together to make sure we get it right."

—Ray LaHood,
U.S. Transportation Secretary

The full committee representation for the NFAC will be announced in early April. It's expected to include about a dozen industry representatives from several modes as well as bureaucrats from the five modal silos within DOT.

Establishment of a National Freight Strategic Plan is not new, even if current DOT officials tried to present it was such. In 1989, former DOT Secretary Samuel K. Skinner under President George H.W. Bush took about a year to create a national strategic plan for freight—but its recommendations were largely ignored.

Most of the public comments at the March 5 meeting in Washington were positive. Several state DOT officials said that they already had freight plans in effect in their states, and looked forward to Washington creating one.

Greg Nadeau, deputy administrator of the Federal Highway Administration, called the creation of the national freight policy council "exciting."

"We have the opportunity to elevate the conversation about rebuilding America and its infrastructure," Nadeau said.

—John D. Schulz, Contributing Editor

PORTS

Port Tracker report points to slight overall growth in March

NEW YORK CITY—The most recent edition of the *Port Tracker* report from the National Retail Federation (NRF) and Hackett Associates indicates the federal budget sequester has the potential to curtail U.S.-bound import cargo growth at a time when trade is still growing, albeit at a very average pace.

The *Port Tracker* report said 1.33 million TEU (Twenty-foot Equivalent Units) were handled in January for the ports followed by Port Tracker, marking a 0.8 percent gain from December 2012 and a 3.7 percent gain compared to January 2012. This is the most recent month for which data is available.

The ports surveyed in the report include: Los Angeles/Long Beach, Oakland, Tacoma, Seattle, Houston, New York/New Jersey, Hampton Roads, Charleston, and Savannah, Miami, and the recent addition of Fort Lauerdale, Fla.-based Port Everglades.

The report is calling for the first six months of 2013 to hit 8 million TEU, which would be a 4.3 percent annual improvement. Port Tracker estimates February volumes, which are typically the slowest of the year, at 1.16 million TEU for a 6.8 percent annual gain. March is expected to rise 2.3 percent to 1.27 million TEU, and April is expected to be up 3.5 percent at 1.35 million TEU.

Regarding the potential impact of federal budget sequestration on port operations, the report cited how U.S. Department of Homeland Security Janet Napolitano recently said that spending cuts due to the sequester would result in port cutbacks that could cause Customs inspection of cargo containers to take up to five days, with ports also having to deal with immediate overtime pay cuts and mid-April furloughs, too.

"Retailers are aware of the impact of the cuts on Customs operations at the ports and are working to plan accordingly so the impact on merchandise headed for the store shelves is minimized," NRF Vice President for Supply Chain and Customs Policy Jonathan Gold said. "This is a situation the industry is monitoring very closely."

—Jeff Berman, Group News Editor

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A class action lawsuit claims that freight forwarders throughout the world ("Defendants") conspired to fix prices for their services, including on routes between the U.S. and China, Hong Kong, Japan, Taiwan, and the U.K. Some of the companies who were sued have agreed to Settlements. These "Settling Defendants" are ABX Logistics Worldwide NV/SA; EGL, Inc. and EGL Eagle Global Logistics; Expeditors International of Washington, Inc.; Kuehne + Nagel International AG and Kuehne + Nagel, Inc.; Morrison Express Logistics Pte. (Singapore) and Morrison Express Corporation (U.S.A.); Nishi-Nippon Railroad Co., Ltd.; Schenker, Inc. and its parents, subsidiaries, and affiliates, including Deutsche Bahn AG, Schenker AG, and Bax Global, Inc.; United Aircargo Consolidators, Inc.; UTi Worldwide, Inc.; and Vantec Corporation and Vantec World Transport (USA), Inc. The lawsuit continues against the Non-Settling Defendants (see the website below for a list). The Settling Defendants vigorously deny they did anything wrong. They have asserted a number of defenses but have agreed to settle to avoid the cost and risk of trial. The case is continuing against non-settling defendants.

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If you do not want to be legally bound by one or more of the Settlements, or you want to sue a Settling Defendant separately about the claims in this lawsuit, you must exclude yourself in writing by identifying each Settlement for which you seek exclusion. The exclusion deadline is **June 25, 2013**. If you stay in a Settlement, you may object to it by **June 25, 2013**. The Detailed Notice, available at the website below, explains how to exclude yourself and object. The Court has appointed lawyers to represent you at no charge to you. You may hire your own lawyer at your own cost. The Court will hold a hearing on **August 9, 2013, at 10:00 a.m.** to consider 1) whether to approve the Settlements and plan of distribution, and 2) Class Counsel's request for fees of up to 33% of the Settlement Fund, plus interest, and reimbursement for their expenses. You or your own lawyer may ask to appear and speak at the hearing.

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Newsroom Notes
by Jeff Berman

Jeff Berman is Group News Editor for the Supply Chain Group publications. If you want to contact Jeff with a news tip or idea, please send an e-mail to jberman@peerlessmedia.com.

Peeling the onion on intermodal data

YOU HAVE LIKELY READ how intermodal transportation is now in a favorable position due to various factors: lower fuel costs, improving service, and major investments into rail networks, among the top reasons.

In its fourth quarter *2012 Market Trends* report, the Intermodal Association of North America (IANA) trumpeted how 2012 was a record year for intermodal container movements at roughly 13,108,672 million; total 2012 intermodal volume posted a record year, up 4.0 percent annually; domestic containers posted a 12 percent annual gain; and international containers were up 1.7 percent.

In its report, IANA observed how domestic containers grew for the fourth straight quarter at a double-digit clip. Match this with the fact that big-box loads have nearly doubled in the last decade, while market determining factors such as strong rail network investment, solid terminal and container fleet health, high fuel prices, financial and regulatory burdens on truckers, high rail service levels, and expansion of rail product offerings all remain firmly intact.

These things are all true and have been noted by industry stakeholders in these pages. However there is more to this data than meets the eye, according to Tom Finkbiner, a member of the board of directors at the Intermodal Transportation Institute in Denver.

Speaking specifically to IANA's reported container growth in the fourth quarter, Finkbiner explained that while what IANA is saying regarding a record number of domestic containers as a data point is true, there are other factors to keep in mind.

"The other side of the story is that there are a record number of intermodal containers because the freight has been coming out of intermodal trailers," Finkbiner said. "That does not necessarily mean that the business is growing, it just means that it's moving from one box to another."

Finkbiner said that the reason for this is due to the transloading of international containers at ports. "In 2006, something like only 20 percent of the containers that entered the U.S. were transloaded at the ports and 80 percent of them went inland. In 2012, about 36 percent of the import containers that came in through the ports got transloaded into a domestic container or a trailer for a trucking company and then got delivered inland."

What happened there, added Finkbiner, is that the growth in the amount of freight did not increase; it moved from either an international box to a domestic box with no increase in traffic—although it did move between pieces of equipment. Taking it a step further, he explained how the gross number of intermodal loadings—both domestic and container—were higher in 2006 than in 2012, as was gross GDP and industrial production.

"We would all like to say that intermodal is a big growth mode, and relative to the other commodities the railroads haul, it is a growth mode," said Finkbiner. "But when you say it is a 'record number of domestic containers'…unless you put it into perspective, it's kind of misleading."

Fair enough, and a point well taken: But when I asked him how IANA would react to his assessment of its data, he suggested that he wasn't taking shots at them. Instead, he diplomatically stated that if you were to ask them they would agree, but they would also say that what they reported is accurate and true.

"The other side of the story is that there are a record number of intermodal containers because the freight has been coming out of intermodal trailers. That does not necessarily mean that the business is growing, it just means that it's moving from one box to another.

In the same span of time—between 2006 and 2012—Finkbiner said that the number of truckloads moved as well as truck tonnage is larger than intermodal. That said, he agrees that market share for intermodal in lanes that have a length of haul of more than 1,250 miles leads the way. But relative to all the freight that moves in the country, trucking is still growing faster than intermodal.

"It's misleading to state that things are what they are without all of the facts," Finkbiner said. "The issue is a practical matter in that intermodal is not a good mode of transportation if you aren't going at least 1,000 miles length of haul—and by far the biggest spot in the truckload market is below 1,000 miles length of haul."

One area in which intermodal offers superior service is more than 1,000 miles, added Finkbiner. "Intermodal is doing OK, and it's OK to say that; but to say that it's taking over the world of transportation or moving a record number of loadings or U.S. freight transportation is moving solely to intermodal would be very misleading." ☐

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Pearson on **Excellence**

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

Flexible innovation: Making correct change

IN THIS COLUMN—the fourth in a series of five articles focused on dynamic supply chain operations—we look at the role and importance of "flexible innovation."

Dynamic operations is a timely way to improve supply chain performance in a world where "permanent volatility" (ongoing economic uncertainty, endlessly fluctuating commodity prices, accelerated commoditization, and wildly fluctuating demand) has become the norm.

Dynamic operations is all about innovation: finding imaginative ways to accommodate change; recognizing the opportunities that often accompany economic and political upheavals; and working quickly and effectively to convert permanent volatility from a liability to a leverage point. Innovation—more specifically, *flexible innovation*—is also the third of dynamic operations' four key components.

Flexible innovation's mission is to make the design and development process less rigid by reducing changeover times, increasing interchangeability, designing products that embrace multi-channel networks and technology, and structuring ways to smoothly and rapidly rebalance order management, production, and warehousing in response to shifting conditions.

With flexible innovation in mind, companies might consider launching initiatives focused on the multi-purpose use of design and manufacturing assets. They might also create more modular product designs that encourage "plug and play" approaches. Or perhaps the ideal is increased postponement of final assembly or more-efficient upgrades.

Complexity-reduction programs might also be in play; simplifying product designs; avoiding bells and whistles that customers won't buy; and building more-elaborate products for customers willing pay a premium.

Lastly, flexible innovation can include the rapid bundling or repositioning of products and services, or even positioning a service to supersede a product. Take Philips Medical, which is developing service-based programs to make smaller, more-portable devices available to rural areas. Or General Electric, a company that may maintain ownership of an airplane engine while still providing the engine's customer with comprehensive maintenance and repair services.

In short, a company's success often depends on their ability to make the right new things. However, what customers want—or can be persuaded to buy—changes constantly. This is why the ability to shorten development cycles, accelerate times to market, and rapidly alter process attributes and product quantities is a potentially huge advantage. Flexible innovation can help make these things happen.

One of the most interesting practitioners of flexible innovation is Tesco. Seeking to grow in the South Korean market, Tesco found itself working with a new set of customers while competing against players with

The key components of flexible innovation

Key components	Principle capabilities
Design for flexibility	• Products and solutions synchronized with operations strategies • Assets are designed for multi-purpose use • Product designs that reduce unrewarded complexity vs. building complexity consumers are willing to pay for • De-complexify BOMs across products and product lines
Leverage open innovation forums	• Fluid collaboration: leverage new technology platforms such as social media to gather customer insights to facilitate communication with customers and partners • Open innovation: empower the customer to participate in collaborative product design, development and help shape up product attributes
Targeted product design	• Frugal innovation: adapting products for new markets / segments with unique needs and providing products at lower price point while maintaining the experience • Make to order strategies for mass customization

more fully-developed store networks. The solution was both novel and successful.

First, Tesco worked to increase its understanding of South Korean shoppers' unique needs and priorities. Using this information, the company determined that South Korean customers' most pressing requirement was increased convenience.

Tesco then rebranded itself "Homeplus" for the South Korean marketplace—aligning the name with an emphasis on convenient, customer-friendly grocery shopping. The next challenge was to neutralize the advantages associated with competitors' vastly larger retail networks. Opening many stores quickly would require significant capital, but that still would not be enough to swing the balance in Tesco's favor. Furthermore, South Koreans' need for increased convenience wouldn't necessarily be met simply by building another crop of traditional stores.

Tesco's solution was to open numerous virtual stores inside South Korean subway stations. These facilities provide a buying experience similar to retail stores. The difference is no actual products: Customers purchase goods by using their mobile phones to scan QR codes next to product images. Purchases log to customers' online accounts and items are then delivered to buyers' homes.

By building a large retail network that addresses customers' most pressing needs—and is simple to expand, move, and maintain—Tesco was able to achieve scale very quickly with comparatively little capital investment. Homeplus has become the second-ranked player in the South Korean retail market and is now number one in online sales.

Making it happen

Flexible innovation has a handful of cornerstones. But companies can often benefit by taking a far-reaching, multipronged approach:

- Applying lean manufacturing disciplines to their product and service innovation processes.
- Using social networking forums to collect consumer insights more rapidly.
- Working more closely with suppliers on the design of new products.
- Leveraging new collaboration concepts such as open innovation (emphasizing cross-enterprise cooperation to enhance and accelerate the generation and implementation of new ideas).
- Developing targeted product-design programs, such as customization (make-to-order) initiatives, frugal innovation projects (adapting products for new markets or segments with unique needs), and products that encourage follow-on sales or after-sale service or upgrade opportunities. □

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Cognitive dissonance, high pump prices, and the growing domestic oil supply

UPON RETIRING, Pope Benedict XVI took up temporary residence at the spectacular Castel Gandolfo, which is also home to the Vatican Observatory Research Group recently headed by astrophysicist Father George Coyne, Ph.D.

I had the pleasure of attending a guest lecture delivered by Father Coyne some years ago, and I was struck with an odd sensation as he presented progressive scientific views on evolution and the big bang theory while wearing the traditional cassock and collar. I would later learn that the term for what I was experiencing is "cognitive dissonance."

Cognitive dissonance describes the frustration that one feels when attempting to simultaneously hold two conflicting ideas. During Father Coyne's presentation, I grappled with how it is that a priest could be giving a lecture on evolution when the scriptures clearly provide conflicting explanations for how the earth was created and how humans came to be.

As major consumers of transportation fuels and mainstream media, many shippers and carriers have likely experienced cognitive dissonance when attempting to reconcile persistently high diesel prices and news reports of booming domestic oil production. When, if ever, will the domestic oil boom bring some relief to the transportation sector and the budgets of logistics managers? Or is this collective sense of cognitive dissonance the new normal?

While I may never find a satisfactory way to attenuate the cognitive dissonance imparted by Father Coyne's presentation, the cognitive dissonance that arises from the coincidence of booming domestic oil production and sustained high fuel prices can be easily resolved. Unfortunately, this explanation does not bode well for shippers or carriers—or consumers for that matter.

The recipe for energy independence combines one part declining consumption with one part rising production. In broad terms, these forces are at play, but the devil is in the details.

Rare is the news story that distinguishes liquid fuels from the larger energy basket, which includes coal, natural gas, nuclear, hydropower, and solar. And to the extent that liquid fuels are discussed, attention focuses primarily on the shale oil boom from the Bakken play in North Dakota and the Eagle Ford play in Texas. Such increases are very rarely considered against the incessant decline in production from Prudhoe Bay, which is among the largest oil fields ever discovered, and the

composition of total liquids is brushed aside.

While consumption of liquid fuels is down 13 percent from the August 2005 peak of 21.7 million barrels per day, diesel consumption in 2012 was 13 percent higher than it was in 2005. On the opposite side of the equation, total liquids production has increased by nearly 30 percent, but much of this increase is due to the swift uptick in the production of natural gas plant liquids (propane, butane, and the like) and a rapid increase in the production of corn-based ethanol. Unfortunately, neither of these fuels are direct substitutes for diesel, and diesel production over this timeframe has increased at a much slower rate.

> **"Energy independence won't bring down fuel prices because the market for diesel is global, while talk of energy independence and booming oil production is national."**

With domestic diesel consumption growing by 13 percent, and domestic diesel production growing at 14.8 percent, it would seem that the diesel market should have loosened some. But over this period diesel prices have doubled from roughly two dollars per gallon in early 2005 to over four dollars per gallon today.

The problem, of course, is that refiners sell diesel fuel to customers in Europe, South America, Asia, and elsewhere. Back in 2005, the U.S. imported an average of nearly 8 million gallons of diesel fuel per day, but the U.S. flipped to being a net diesel exporter in September 2007, and net exports have risen steadily since then. In 2012, net diesel exports averaged 37 million gallons per day, and for the first time ever net exports exceeded one million barrels (42 million gallons) per day in June 2012.

As I said, the devil is in the details, and the details reveal that any sense of cognitive dissonance resulting from simultaneously contemplating persistently high pump prices and optimistic news reports of U.S. energy independence is misplaced. Energy independence won't bring down fuel prices because the market for diesel is global, while talk of energy independence and booming oil production is national.

It is unlikely that the stars will align in such a way that fuel prices decline to any significant degree, and I think our astrophysicist friend Father Coyne would agree. Looking forward, the best advice is to prepare you transportation budget with high fuel prices top of mind. ☐

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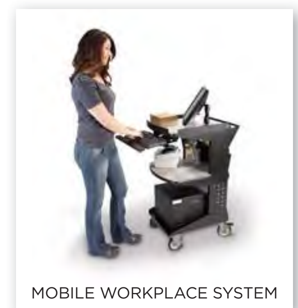

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29th Annual Salary Survey

Experience pays

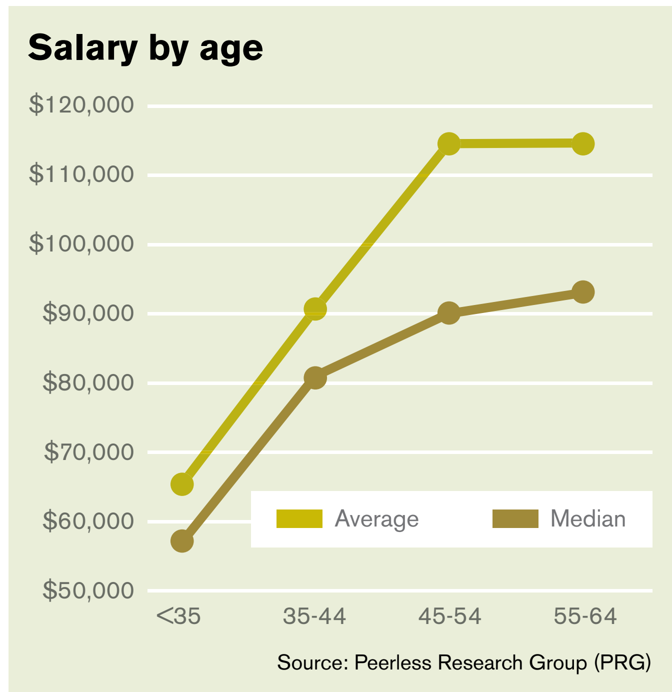
Our 2013 survey finds that the highest salaries in logistics and supply chain management will be earned by those sticking to time-honored values: education, hard work, and company loyalty.

BY **PATRICK BURNSON,** EXECUTIVE EDITOR

According to the findings of *Logistics Management's (LM) 29th Annual Salary Survey* conducted by Peerless Media Research Group (PRG), median earnings and compensation are on an even keel. But if a sudden tidal surge occurs in 2013, it will not be one that lifts all boats. Indeed, our research team contends that the winners will be those who have kept faith with time-honored values: education, hard work, and company loyalty.

Our research team also finds that the demographic "sweet spot" for salary is still in the middle-age range of 45 years old all the way to 63 years old; however, we found that younger professionals on the fast track can eclipse their current salaries with added education. But for that happen, says our research team, they will have to strive for excellence when it comes to introducing decision analysis, IT tools, cross-functional and cross-organizational teaming, as well as finance—and do it for the same company for a while.

In fact, company loyalty—a concept widely rejected in other industries—continues to pay off for logistics professionals. Aside from strong salary growth, those managers who have spent some time with their current employer tell us that the "feeling of accomplishment" is the number one value (63 percent) by a significant margin over pay (44 percent) in the job satisfaction category.



As in years past, ongoing education remains a key differentiator in compensation, although it no longer means spending great sums of money to obtain an MBA. Online certification, for example, is being offered by even the most esteemed universities as a way to help executives move up the corporate ladder.

This year's results—based on 1,262 qualified *LM* reader respondents—indicate that 60 percent did see a salary increase in 2012. Of that number, the median raise was 3 percent with the average raise coming in as high as 6 percent.

According to Judd Aschenbrand, director of research for PRG, the "median" metric is the one to watch, as it paints a more accurate picture of today's marketplace. "The median is regarded by most

WEBCAST 2013 Salary Survey

Thursday, April 25, 2013 at 2:00 p.m. ET
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Dan Page

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statisticians as the most reliable benchmark," he says. "But the average is important too. Apart from 'standard deviation,' our system provides a fairly complete overview of who's earning what levels in the market."

Those respondents with the title of "logistics manager" earned an average salary of $94,145—down substantially from the $99,600 average posted last year. But the median salary is just $87,00—up slightly from the $85,000 posted in 2012.

"What this means," says Aschenbrand, "is that several senior executives are bringing in the really big bucks, while others who may work at smaller corporations are just treading water." Indeed, based on response from logistics managers, salaries may have actually decreased in the median range.

Critical thinkers needed

For many professionals in the business, the "logistics manager" title is not specific enough to describe the functions that our readers are charged with these days—nor does it outline the scope of responsibilities. Duties ranging from procurement to payroll are often folded into the job description.

"Today, we're looking for young people who can hit the ground running and create a specialized environment that brings immediate value to logistics and supply chain management in its own space," says Lynn Failing, vice president of Kimmel & Associates Inc., a national executive search firm specializing in the logistics and supply chain.

Laura Birou, Ph.D, who currently serves on the faculty for the Sustainable Supply Chain Management program at Louisiana Tech University, agrees. "Logistics managers are becoming recognized as diversified corporate leaders in *Fortune 500* companies, and we see that filtering down to the smaller enterprises as well," she says. "We believe that the bottom-line value of these logistics decision-makers will reshape the current structure of many manufacturers and retailers."

Jim Kelly, founding CEO of JVKellyGroup, Inc., a consultancy specializing in cost reduction and risk mitigation in the supply chain, says that the next generation of logistics leaders will have to be masters of "change management."

"In particular, managers will have to create dashboards that measure both internal and external data that can be flexible and change as behavior changes," says Kelly. "If you don't measure it, you don't control it; but if you measure the wrong items, it's a waste of time."

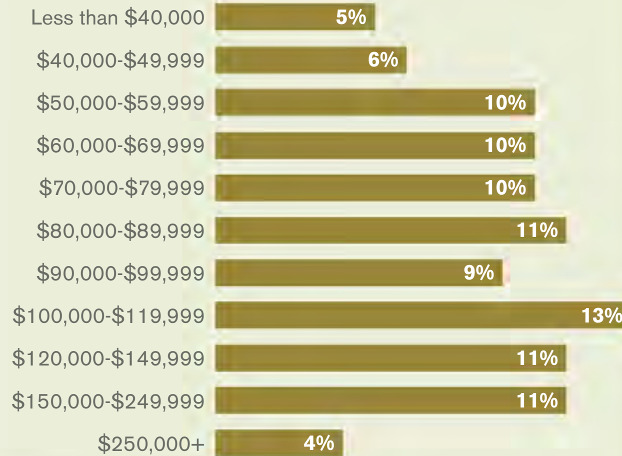
Not surprisingly, survey respondents recognized this demand for critical thinking in today's logistics marketplace. In fact, 42 percent say that have pursued professional certification to improve their understanding of logistics strategy, while 20 percent have graduate degrees in logistics or supply chain management.

"Because there are so many variables that need to be considered when sourcing materials, logistics managers will need to measure and understand the procurement process as well," says Randall Wilson, global vice president, chemical for Uti Worldwide. "Today, global companies especially will need to be more nimble in their approach to logistics and supply chain management."

However, obtaining this

Total annual salary for 2013

Including bonuses and commissions, etc.



Average salary

Median salary

Source: Peerless Research Group (PRG)

Salary by years in present position

Source: Peerless Research Group (PRG)

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kind of sophisticated skill set can cost one dearly, admits Dr. John Fowler, chair of the Supply Chain Management Department at the W. P. Carey School of Business at Arizona State University (ASU). He says that some students are opting out of MBA programs because of their expense and time commitment; but that doesn't mean that ongoing education is coming to a halt.

"On the contrary. We're anticipating a surge in demand for on-line learning and accreditation," says Fowler, adding that this fall ASU will offer a Master of Science in Supply Chain Management and Engineering geared to mid-level working professionals with approximately five years of experience in logistics management.

Joel Sutherland, managing director of the Supply Chain Management Institute at the University of San Diego, was impressed with the high percentage of survey respondents who felt that continuing online education would help in their salary negotiations.

"This is an important indicator of the value of online programs," says Sutherland. "We offer an online Master of Science in Supply Chain Management, but we're also considering new 'massive open online courses' platform for online delivery.

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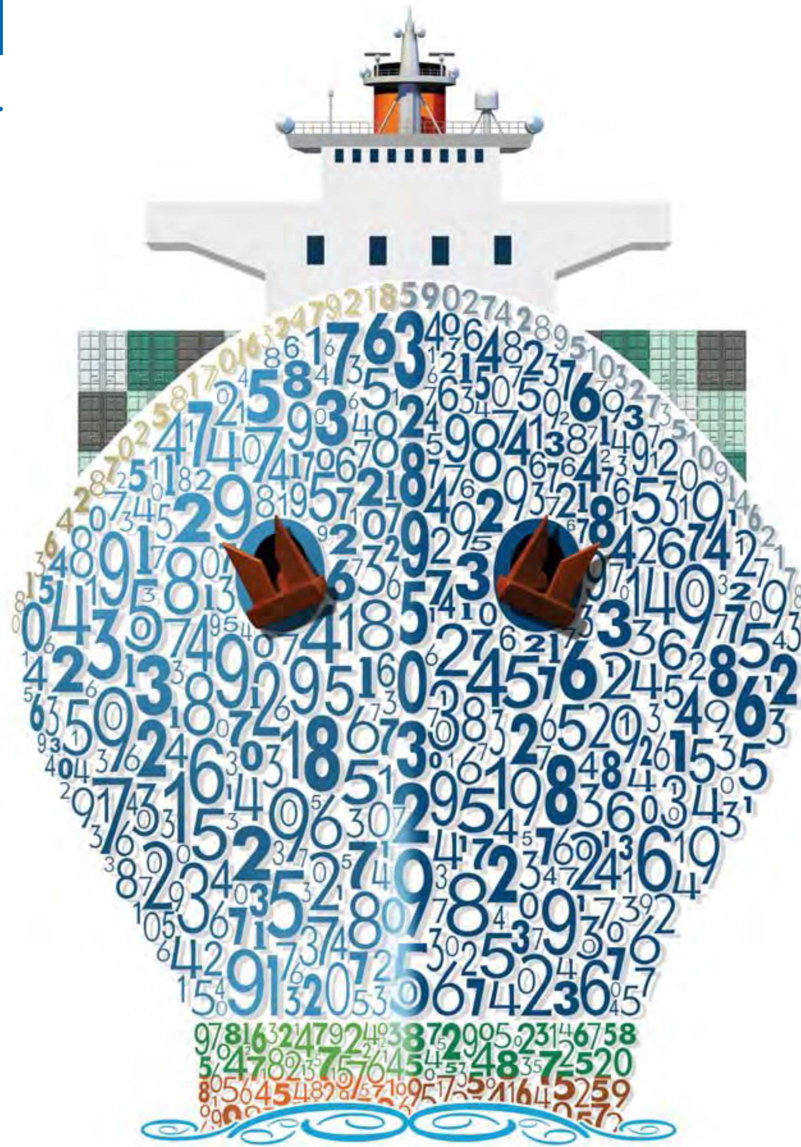

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OCTOBER - DECEMBER 2012	
88%	81%
VESSEL ON-TIME PERFORMANCE	
ASIA-U.S. WEST COAST	ASIA-U.S. EAST COAST

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Austerity and diversity

Austerity measures and "doing more with less" continue to inform most companies' tactical direction, but there's little doubt that long-term strategic plans will be reliant on attracting a younger and more diverse workforce. According to Rosemary Coates, an educator and president of Blue Silk Consulting in Los Gatos, Calif., women will be playing a much larger role in this industry in the coming decade.

"The supply chain and logistics arena is a place where there are a lot of existing problems," says Coates. "Women are problem-solvers. We have traditionally had to deal with family budgets and evaluating risk and reward in our family lives, so when it comes to bringing value to employers, we can draw from that discipline and experience."

Amanda Tillman couldn't agree more. She's a young carrier specialist with Kaiser Logistics in Milton, Wisc., who says that the "glass ceiling" may soon be a thing of the past.

"Trucking is a 'boy's world,'" says Tillman, "but once a woman can get her foot through the door, the sky is the limit. While I like working for a family-run business, in five or 10 years, I hope to move up to a higher management level."

Tillman, who has degrees in marketing and public administration, believes that ongoing education is a must. "You never stop learning when you get into this business," she says, "and I would recommend logistics management to any young woman seeking a balanced and rewarding career."

Brenda Gautier, director of operations for MW Logistics, LLC, in North Dallas, Texas, feels Tillman is on the right track. As a "seasoned professional," she says she helped lay the groundwork for women to enter the senior ranks in logistics and transportation.

"It's too late for me," says Gautier, "but I'm glad I was among those willing to 'fight the fight' and create opportunities for others. Loyalty is rewarded in this business, and you can create considerable change within the company if you work hard and keep your passion."

—Patrick Burnson, Executive Editor

Given that there are fewer logistics managers that will want to endure a post-graduate gauntlet, we believe online education will become more relevant in order to provide quality education to the masses."

New era

According to educators at the University of Tennessee (UT), there has indeed been a fundamental shift in how logistics and supply chain managers are perceived and rewarded.

Fifteen years ago, the UT staff says that the logistics and supply chain leader in most companies held a title such as "vice president of logistics." It was largely a functional role that relied on technical proficiency in discrete areas: knowledge of shipping routes, familiarity with warehousing equipment and distribution center locations and footprints; and a solid grasp of freight rates and fuel costs.

"He reported to the chief operating officer or chief financial officer, had few prospects of advancing, and had no exposure to the executive committee," says J. Paul Dittmann, Ph.D., executive director of the Global Supply Chain Institute at UT. "The way companies need to think of the modern supply chain executive has changed dramatically."

Dittmann, who recently teamed with colleagues on tracking "game changing" trends in the industry, notes that logistics and supply chain executives still need to be experts at managing supply chain functions such as transportation, warehousing, inventory management, and production planning. But the supply chain process extends end-to-end and even outside the firm, including the relationships with suppliers and customers on a global basis.

"Leading firms now see the supply chain functional leader as the executive to coordinate the end-to-end supply chain process, even though he or she does not control it all," says Dittmann. "Because of that added dimension of cross-function, cross-company coordination, senior supply chain executives must possess a number of unique characteristics." ☐

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GLOBAL*

OPERATIONS

OCT.–DEC. 2012	
Vessel On-Time Performance	
Asia-U.S. West Coast	88%
Asia-U.S. East Coast	81%
Transatlantic	67%
Asia-Europe	78%
Asia-Mediterranean	40%
Asia-East Coast South America	93%
Asia-Mexico/West Coast South America	100%
Intra Asia	99%

SAFETY

JAN.–FEB. 2013	
Long-Time Operational Stoppage	2

ENVIRONMENTAL**

FY2011 vs. FY2010	
Carbon Dioxide (CO_2) Emissions per TEU-Mile	↓2.1%
Nitrogen Oxide (NOx) Emissions per TEU-Mile	↓2.1%
Sulfur Oxide (SOx) Emissions per TEU-Mile	↑2.6%

REGIONAL

OPERATIONS

FEB. 2013	
In-Terminal Truck Turn Time	
Jacksonville	17.0 min.
Los Angeles	25.1 min.
Oakland	22.0 min.
Missed Vessel Connections Due to Rail Errors	1.5%

OCT.–DEC. 2012	
Intermodal Transit On-Time Performance	74%

CUSTOMER SERVICE

FEB. 2013	
Lost Calls	1.29%
Phone Wait Time	15 seconds
U.S. Export B/L Documentation Completion Rate	98.21%
Documentation Accuracy	
U.S. Export	99.63%
Asia to U.S.	97.35%

EDI

FEB. 2013	
Message Processing Without Failure	99%
EDI Uptime	99%
Customer Setup Time	48-hrs
Customer Scorecard Compliance	99%

* Global KPIs are international; regional KPIs are North American.

** MOL has also established a target to reduce CO_2, NOx and SOx emissions by 10% by FY2015 vs. FY2009.

Private Fleets: Mastering their DESTINY

Despite the related costs and increasing complexity, private fleets enable operators to control their own destiny at a time when the trucking market is bracing for yet another capacity crunch.

BY **JOHN D. SCHULZ,** CONTRIBUTING EDITOR

Operating private fleets has never been easy. In fact, many analysts would contend that it's more complex and time-consuming today than ever due to the increased regulatory scrutiny that all trucking fleets—for-hire and those corporate private fleets—are facing.

Whether it's the government's Compliance, Safety, and Accountability (CSA) enforcement effort crackdown to rid the industry of unsafe drivers, increasing regulations covering air pollution standards, or a possible decrease in the hours of service a driver can operate, trucking operators have never faced a more confusing array of rules and standards.

But even with all these entanglements, the $268 billion private fleet market is thriving. According to ACT Research, a firm that specializes in tracking fleet size and distribution, private fleets make up 38.6 percent market share of the overall $563 billion trucking industry revenue pie. That's because private fleets have been able to adapt to changing market conditions in the deregulated market place.

Today private trucks make up about 48 percent of the total Class 8 truck fleet, a percentage that has remained fairly the same since 1998, according to the National Private Truck Council (NPTC), the private fleets' voice in Washington. Today there are more than 200,000 private fleets, and 60 percent of those expect continuous growth in the upcoming years.

Gary Petty, president and CEO of the NPTC, says the days of the "Rip Van Winkles"—those private fleet managers who have been asleep through all the industry's myriad changes—are gone from the market place. Today's private fleet specialists are a cadre of industry expertise, able to juggle several roles while managing a private fleet that often "doubles" as a for-hire carrier to handle backhauls and other revenue loads.

First, a little history lesson is useful. Private trucking has evolved from a restricted, anti-free market environment to one today that fully competes in the economically deregulated market place. Before the Motor Carrier Act of 1980 deregulated trucking, there often had been a conflicting and disruptive relationship between for-hire and the private fleet/shipper community. Private fleets had been prohibited from having their own for-hire authority and from using multiple leasing and third party logistics service providers.

And as hard as it may be to believe now, for-hire contract carriers were once prohibited by the Interstate Commerce Commission from having more than eight shippers as customers. By the mid-1990s, trucking had become a completely free market environment, and private trucking has reflected that metamorphosis.

"The focus today is on best practices, optimal utilization, and ever-higher standards of performance," Petty says.

And don't forget capacity. Private fleets control their own destiny at a time when the market is about to slog through yet another capacity crunch. The American Trucking Associations' advanced seasonally adjusted For-Hire Truck Tonnage Index increased 2.9 percent in January after jumping 2.4 percent in December. Tonnage has surged at least 2.4 percent every month since November, gaining a total of 9.1 percent over that period, feeding shippers' anxiety.

In fact, the capacity shortfall is projected to peak late this year, with perhaps as many as 130,000 additional trucks needed to handle freight demand from a humming economy. The bottom line is simple: Companies with private fleets will be masters of their own destiny.

That explains why a "who's who" of U.S. corporate giants has chosen to operate sizeable private fleets. PepsiCo (16,696

DAN VASCONCELLOS

tractors), Coca-Cola (8,060), Sysco (7,618), Wal-Mart (6,142), US Foods (5,296), Halliburton (4,301), and Nestle (2,902) are some of the largest private fleets, according to NPTC figures.

Analyst Kenny Vieth, president and chief analyst of ACT Research, understands why. He says that with shippers facing the oncoming capacity crunch, trucking rates inevitably are going up. Shippers will either have to increase the size of their private fleets or pay more for transportation in the for-hire market. He adds that it's clear that economics will be driving this market for the foreseeable future. "The (new truck) market is credit-constrained," Vieth says.

In the current soft economic environment, it's been very difficult for truckers to realize peak level profitability, Vieth says. Because of that, credit is still not flowing to all carriers wishing to add to their fleet size. As the economy starts to strengthen in areas that produce a lot of domestic freight, shippers and manufacturers could be looking at a capacity shortfall.

"Those with assets are going to be much better insulated from rising costs in the market place," Vieth concludes. Now, let's take a look at how some private fleet operators are shielding themselves from the pending capacity crunch.

Issues abound

As with their for-hire brethren, the key to a sustainable private fleet is to optimize capacity, mitigate costs, and get as much value and volume out of the rolling stock as possible. Demand for this optimization will grow at more accelerated rates in the future, fleet managers say.

"The best and most efficient private fleets are constantly being challenged to justify their operations," says NPTC's Petty says. "There is more scrutiny on every load and every lane."

Dan Van Alstine, who runs the dedicated operation for Schneider National (the nation's second-largest truckload carrier) sees the dynamic between private and for-hire fleets nearly every day. "Private fleet conversions are very emotional," Van Alstine says. "You still maintain control whether your name is on the side of the truck or your former workers are driving the truck. We've advanced our thinking as an industry. Solutions can be created where you don't give up control and still get benefits of size and scale."

Because of this, there is a nearly constant shifting from private fleets to for-hire service on certain lanes. Some 70 percent of private truckers have for-hire operating authority for backhauls. The key, private fleet operators say, is service. When top-notch service is required, private fleets more often than not can justify their costs.

"It's a value proposition," Petty says. "In a nutshell, private fleets are creating differentiating value that customers can see and experience, particularly where competition on product and services are common across the line of competitors. If three companies are selling the same type of hammer and competing on price, that hammer is likely to be the

same—but how the hammer gets there and at what cost…that's the big plus."

Truck drivers are also a huge part of that equation. "When the driver is known by name—and missed when they're on vacation—he or she becomes more than just a driver," Petty says.

Driver turnover in the private sector is about one-tenth what it is in for-hire trucking. During a recent quarter, driver turnover in the for-hire truckload sector reached 106 percent—the highest level since 2007. Driver pay, working conditions, and fringes are considered much better in private trucking.

"The low-cost, long-haul truck driver over the next 10 years to 15 years will be a fading breed of dinosaur," Petty predicts. "The demands of regulations, CSA, higher scrutiny of drivers will all make it harder to churn and burn bodies in and out of the doors. Drivers are going to cost more, and there's going to be more accountability and technology that will assure that will happen."

Bill Hartman, mobile unit fleet director for NEP Broadcasting, operator of the largest fleet of mobile television broadcast units and production studios in the world, and the former private fleet manager for GNC Nutrition, says that the complexity of increased regulations and driver recruitment and retention are the biggest challenges facing private fleets.

Federal and state regulations such as hours of service and air quality regulations are requiring companies to spend more to comply or try to get exemptions if possible, Hartman said.

"These regulations will continue as more states realize that they can subsidize their coffers with money (from fines and infractions) from this industry," says Hartman. Increased regulations will make potential drivers re-examine their career choice, he adds. That may cause drivers to exit the industry and, in turn, exacerbate the driver shortage—which is forecast to hit as many as 150,000 in the coming years.

How the best private fleets work

The best private fleet operators say the "must-haves" for operating a successful private fleet are support of upper management, a first-class fleet management team that understands best use of private fleets, and state-of-the-art data collection.

A recent NPTC survey found about one in three private fleet operators say their fleets are more cost efficient than for-hire carriers, and a whopping 88 percent say that they provide consistent and high quality customer service.

The survey also reveled that many private fleets actually operated what's called a "blended" operation—part private and part for-hire. Advocates say that the key to operating a long-term, successful private fleet is always testing business models as demand levels and conditions change.

"Private fleets are creating differentiating value that customers can see and experience, particularly where competition on product and services are common across the line of competitors."

—Gary Petty, president and CEO, NPTC

"The private fleets of old were always saying they were going to hang on to as many trucks and drivers at all cost," Petty says. "Now the more successful private fleets are testing efficiency on every run, every lane."

Today, onboard technology allows companies to track drivers on a per minute or per mile basis. Drivers are held accountable not just for on-time delivery, but truck miles per gallon and optimization of loads. Drivers are being benchmarked against one another by using metrics such as hard braking, out-of-route deliveries, sudden acceleration, and violations. Technology has raised the bar and allowed fleets to reward drivers for good behavior.

Gary Strausbaugh, vice president of transportation for Mennel Milling Co., a 127-year-old company founded in Fostoria, Ohio, operates 11 grain elevators and five flour mills in several states serving clients throughout North America. MMC Transport Inc. is the transportation and distribution division of the company, which includes a private fleet of 64 power units, 147 trailers, and 59 drivers. In addition, Mennel owns several dozen rail cars for grain and flour distribution. Class 8 Truck Repair, another vital division of Mennel Milling, operates as a full-service equipment maintenance and trailer wash bay facility in Fostoria.

MMC recently ordered new tractors with 11-liter and 13-liter engines to improve fuel economy. Along with the smaller engines, it's using automated transmissions with the engine parameters set for fuel economy, while the van trailers on order are equipped with skirting to aid in fuel usage.

"We're trying to reduce the driver influence on the fuel economy of the trucks, and we're continuing to train drivers on the best fuel economy practices," says Strausbaugh.

On the operations side, Strausbaugh says MMC uses McLeod TMS software that interfaces with the private fleet's computer system to automate the back office as much as possible. This will allow MMC to keep its head count down and its efficiency up.

NEP's Hartman adds that he believes in giving drivers as much information as the company will allow concerning items such as financials, goals, policy changes, and expectations that are needed to improve the company's bottom line.

"If they understand the goal and the results of their labor then they will start to make a better effort to become even more productive," says Hartman. "If things are done correctly, then the drivers pay will potentially increase, and this will help current drivers recruit other drivers to your business and retain staff."

That's part of the value proposition that NPTC's Petty says only private trucking can provide. "Everybody has trucks, everybody has drivers, and everybody has the latest technology," says Perry. "We create a differentiator. We make the customer experience better. It's that bend-over-backwards principal of customer service that we're willing to do that creates the competitive advantage."

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

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Criterion	%
Rates	50.9%
Reliability of On-Time Delivery	47.4%
Financial Stability	18.4%
Reliability of On-Time Pick-Up	9.6%
Geographic Coverage	9.6%
Knowledge of Shipper Needs	9.6%
Safety Record	8.8%
Total Transit Time	7.9%
Reputation For Dependability	6.1%
Other	16.7%

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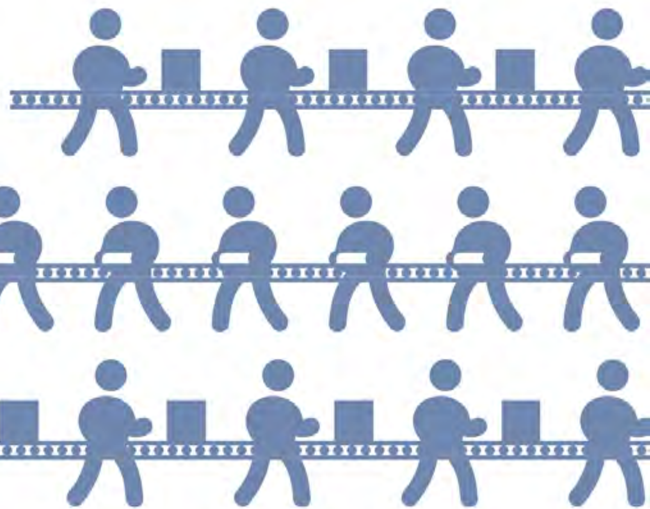


LMS

Optimizing the human

An increasing number of logistics managers are using labor management systems (LMS) to monitor productivity, identify bottlenecks, and optimize the workforce both inside and outside the distribution center. Here's how they're getting it done.

BY **BRIDGET MCCREA**, CONTRIBUTING EDITOR

It's no secret that labor costs eat up a big part of any company's bottom line. And unlike some other major expenses—the cost of raw materials, overhead, and utilities—human productivity can be extremely difficult to gauge, control, and optimize. Without the right tools in place, logistics managers choose to fly by the seat of their pants when it comes to "human supply chain" management, hoping that their tactics pay off in the long run.

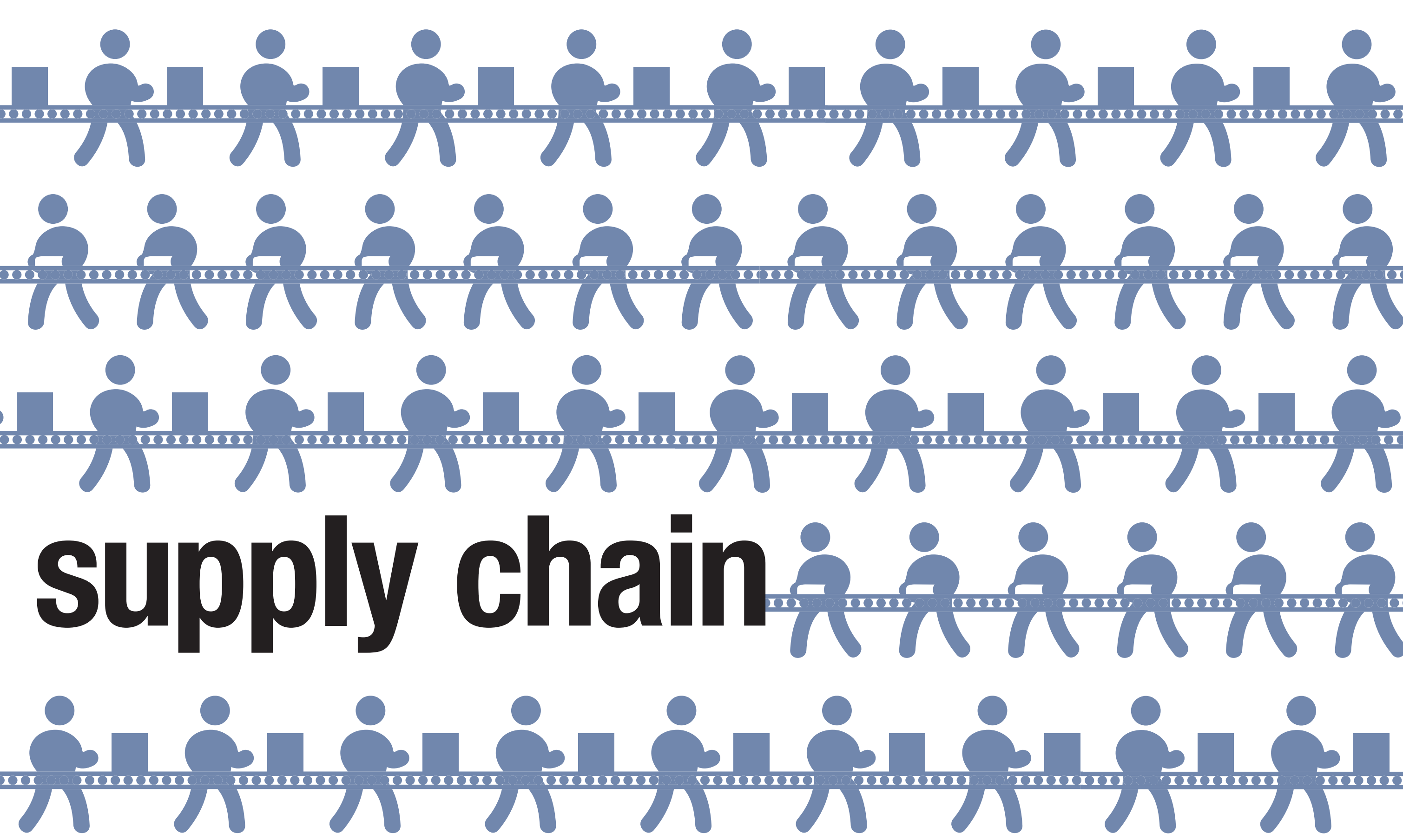
Now for the good news: Technology has put effective labor management within reach for companies of all sizes and across all industries. Using a labor management system (LMS), managers can collect information about labor activity and compare that data against historical information and established labor standards. Armed with that data, companies can monitor productivity, identify bottlenecks, and optimize labor both inside and outside of the warehouse, distribution center, and even the cab of a truck.

Drilling down even further, logistics managers can use their LMS to forecast required staff numbers right down to the job level, determine exactly how much time it takes to complete a specific task, and provide immediate performance feedback to workers. Managers use the information to more easily conduct effective labor planning and gain customer service enhancements at the same time.

Currently in the midst of this year's *ARC Advisory Group Warehouse Management Systems Study* (of which LMS is one of several components), Steve Banker, director of supply chain solutions for the research firm, says a growing number of logistics professionals are taking an interest in labor management and related systems.

According to Banker, market growth has been more robust in the U.S. versus Europe, where laws prohibit most firms from comparing performance levels among employees. "If an LMS is showing how one person is compared to another, then it is illegal in Europe," says Banker, who has seen some European companies taking a different tack when it comes to labor management. "When LMS is implemented there it's usually for the purpose of planning, or knowing how many workers you will need in the next day or two for a certain amount of orders that will drop."

In the U.S., Banker says one of the LMS market's primary drivers right now is picking, where "most of the expenses occur" within the four walls of the warehouse and distribution center. "Putting standards around picking has always been a primary LMS driver," says Banker, who estimates the average LMS implementation payback at one year—versus two for a WMS.



"Sometimes that initial push expands into other parts of the warehouse over time," he says.

At Aberdeen Group, Bob Heaney, senior research analyst for supply chain management, says he's seeing renewed interest in LMS as companies look to optimize their existing labor forces. "Labor is an important element for companies right now," says Heaney, who is currently working on an updated LMS report that will be released during the summer.

Heaney sees the growth in global business as yet another LMS market driver. With labor chains stretched across continents, human resource visibility has become more and more difficult to manage without the use of technology. The need to address issues in real-time—and not after the fact—is also pushing companies to explore their labor management options right now. "Interactive LMS on the market today help achieve that goal," he adds.

Proven software option

Companies interested in LMS have a good number of predecessors who are already tapping into the value of tech-enabled labor management. Dwight Klappich, research vice president for Gartner, points to RedPrairie—which merged with JDA Software Group in 2012—as one vendor that's been selling LMS for over 10 years. He says offerings from Manhattan Associates and Kronos are two market-leading options for logistics managers looking for varied degrees of LMS functionality.

"Labor management is a well-proven software option—it's not emerging," says Klappich. LMS has, however, been largely relegated to large DCs that employ 500+ workers and that have industrial engineers on staff to handle labor and staff development. Key performance measures tracked include travel time (how long it takes for the worker to get from one place to another within the warehouse) and pick time (how long it takes a worker to pick and pack the product). Those numbers are then compared to company and industry standards to determine the performance levels of specific employees.

And while some LMS solutions help shippers capture coarser-grained information (such as transaction-level data versus task-level), in most cases Klappich says that a DC that employs 100-or-fewer workers "wouldn't put in an LMS to save two people in the warehouse" and then be forced to hire two industrial engineers to run the labor management setup.

"LMS has been relegated to the higher end of the marketplace, where it's used to support incentive pay

systems at a very granular, individual level," says Klappich. "It's about measuring someone, understanding how much time and effort a task should take, and then paying the worker based on his or her performance on that task."

The value of LMS goes beyond just understanding which employees are performing up to snuff and which are not. The systems can also enhance labor forecasting, optimizing, and planning—all of which work together to improve overall supply chain productivity and customer service levels. For example, when a warehouse manager knows in advance that he needs 150 workers to handle the next eight-hour shift, he can quickly redeploy extra labor, delay lower-priority tasks, or take other measures to ensure that the work is completed within the allotted timeframe.

Klappich says that using an LMS to redeploy labor to more productive tasks is a union-friendly strategy that doesn't generally rustle feathers among those who see labor management as a big brother-like way to monitor an employee's every move. To companies looking to achieve this and other benefits, Klappich says a thorough, introspective look at current operations is the best first move.

"Try to fix the big issues within your warehouse first, like the worker who spends 30 minutes walking back and forth across a 100,000-square foot DC to punch in and out on a time clock," says Klappich. "The more you can fine-tune in advance, the more effective your LMS will be."

Harnessing labor management

With the typical LMS implementation resulting in 15 percent to 20 percent lower labor costs, it's no wonder that companies are taking a bigger interest in this corner of the supply chain software market.

Take the healthcare company in Puerto Rico that's using a Next View Software LMS across three facilities. William Nowak, a senior consultant with global engineering transportation firm TranSystems Corp., says he helped with the third implementation that centered on the firm's warehouse picking operations. For the healthcare company, the LMS generates data that the firm uses to evaluate its employees, establish staffing levels, and get a better handle on "how many people it takes to do a certain amount of work," says Nowak.

The LMS also provides historical labor information, tracks documents in a paperless fashion via bar code scanning, and helps the company determine incentive-based pay scales. Nowak says that the system has helped the company achieve three key labor goals: reduce turnover; increase productivity; and cultivate a more "senior" workforce.

"The LMS gives everyone visibility over what is being done," says Nowak, "and lets everyone find better ways of doing things and improving the company's operations as a whole."

Nowak says that employees have taken well to the new system and credits the company's early educational approach and determination to get employee buy-in with creating a smooth transition to the management labor environment.

In fact, Nowak adds that employees appreciate accurate feedback and tend to respond well to it. "If you can get an LMS that's simple enough to use, and then get buy-in from your employees on its usage, the results can be significant," says Nowak, who sees growing interest in LMS across the board in 2013 as companies strive to do more with less. "This is definitely an expanding segment of the supply chain software market."

Bridget McCrea is a Contributing Editor to Logistics Management

Sign of things to come?

In 2012, Amazon.com shelled out $775 million for Kiva Systems, a maker of robots that roam warehouse floors and expedite the picking and order fulfillment process. Kiva uses materials handling technology and sophisticated control software to simplify operations, reduce costs, and increase flexibility.

Steve Banker sees Amazon's acquisition as a sign of things to come in the labor management sector. "It validates the idea of mobile robots bringing stuff to workers in the warehouse," says Banker, who points to e-fulfillment as a growing piece of the warehouse management systems market—and one that's rising "at a faster pace than the other pieces."

More robots in the warehouse could affect how shippers handle labor management. In fact, Banker says that process actually becomes much easier in a goods-demand scenario that's enabled by robots. For example, it eradicates the need to do time studies on how long it takes to get from Point A to Point B, or how long it takes someone to reach up to a second level versus a third level.

"These time studies offer great payback but they aren't easy to conduct," says Banker. "Once you have good demand and specially-designed stations, these projects can be so much quicker and easier."

If Banker's hypothesis is on target, and if more Kiva-like robots make their way into warehouses and distribution centers nationwide, labor management may become easier for logistics managers who may or may not need to continue to rely on LMS vendors to develop solutions around what today remains a key challenge for most companies.

—Bridget McCrea, Contributing Editor

heroic

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Conquering the

Scores of major and minor third party logistics providers (3PLs) have found that offering "controlled-temperature" services can help shippers break into emerging markets and develop new revenue streams.

BY **PATRICK BURNSON,** EXECUTIVE EDITOR

Growing global consumer demand for pharmaceutical, food, and medical goods in emerging and developing markets has never been higher, making cold-chain management one of coolest growth niches for third party logistics providers (3PL) that are able to specialize in broad-reaching, controlled-temperature shipping.

But with so many cold-chain options now available on the global landscape, choosing the right provider can be a challenging—and risky—proposition for shippers.

Are the stakes worth it? A recent market research study maintains that, on balance, they certainly are. According to the analysts at the Lyon, France-based market research think tank Ubiquick SAS, a major shift in cold-chain markets is already underway with even greater opportunities looming in the so-called "developing world." The consultancy maintains that various regulatory initiatives embraced by governments are helping to advance the cold-chain network for U.S. food shippers, too.

"Due to the requirement of more cold storage and transport facilities, the leading cold-chain players are gradually moving towards emerging markets such as Asia and Latin America," says researcher Andre Grotz, who contributed to the Ubiquick report *3PL Service Providers in the Food Industry Cold Chain*.

And while North America remains the largest market for cold-chain logistics, global shippers understand that they can benefit from lessons learned in the domestic arena when doing business overseas.

Risk/reward

When the Washington, D.C.-based Global Cold Chain Alliance stages its annual May warehousing convention and expo in Hollywood, Fla., shippers will be given a more complete risk/reward picture, says Doug Thomas, vice chair of the International Association of Refrigerated Warehouses (IARW) Board of Directors.

"More and more emphasis is being placed on being certified for the Global Food Safety Initiative," he says. "This is an international standard that will remove some of the risk, and provide more protection," says Thomas. "When the shipper has the warehouse management and 3PL on the same page regarding international standards, they will have created a 'sticky' relationship that will be nurtured in business for the long-term."

Thomas, who is also president and CEO of Bellingham Cold Storage Co. in Bellingham, Wash., says that creating legacy with the global 3PL is essential, even as consolidation ramps up.

"Shippers should still expect specialized service from both new and existing players," says Thomas. "And while the door is by no means closed to enterprising 3PLs seeking a place in this market," he adds, "they should offer the same assurances that the more established companies have."

Bill Hendricksen, a board member of the World Food Logistics Organization, and CEO of Lineage Logistics in Colton, Calif., observes that processors and manufacturers are taking advantage of a 3PL's cold-warehousing expertise. At the same time, he adds, they also benefit from the door-to-door logistics offerings.

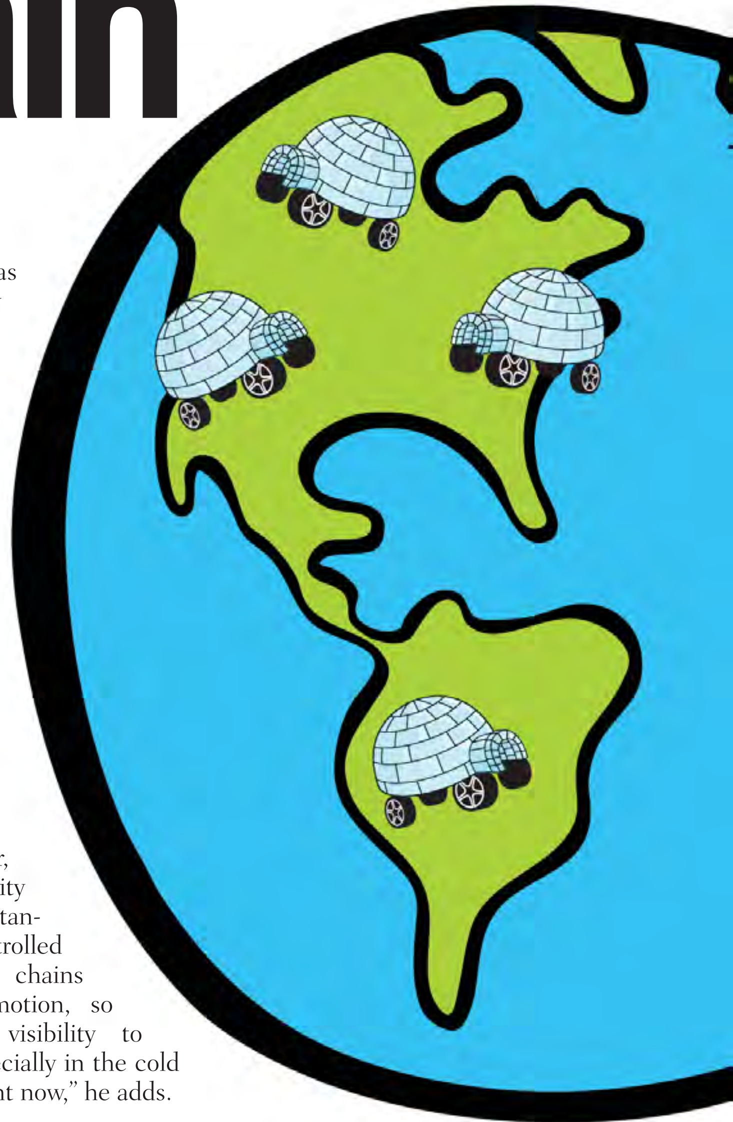
"Increasingly, we are seeing more retailers looking to outsource their warehousing and store delivery distribution requirements," says Hendricksen. "This makes sense when you consider that the shipper can conserve capital for operations and expansion purposes." Lineage Logistics has become a major cold-chain 3PL as a consequence of ongoing consolidation, which for Hendricksen means added value for his customers.

"As costs and regulations continue to increase in North America, the one way to offset these challenges is with scale," says Hendricksen. "With a larger platform it's easier to invest in technology, comply with the new laws we are seeing from state and federal agencies, as well as working with lender partners for growth opportunities."

Tracking pharma and healthcare

Before the advent of 3PLs, traditional wholesale distribution for biopharma was a fairly straightforward process, with shippers taking ownership of the product and handling the downstream process.

cold chain



Evan Armstrong, president of 3PL analyst firm Armstrong and Associates, says that as lead logistics providers became more trusted business partners in the cold chain, manufacturers have relied on them to seize more control over some of their market channels.

"Healthcare products represent about 5 percent of total 3PL volume globally, and within that, perhaps 15 percent to 20 percent is pharmaceuticals," says Armstrong. "Still, it's a good business for 3PLs that have the special handling expertise, equipment, and storage capabilities, and they can command higher prices than more commodity-type logistics."

Turney Thompson, vice president of Kenco's Transportation Management division, agrees with Armstrong, noting that his company has been aggressively pursuing more business in this sector. "Supply chain integrity is key to this piece of the pharma transportation puzzle," he says. "That means that every element must be secure, including tracking, tracing, and packaging. We are heavily reliant on WMS and TMS solutions, as you might imagine. But the cost is worth it for the shipper and the consumer. None of us can afford to cut corners."

Judy Craig, vice president of sales at Kenco Logistics Services, notes that Kenco's shipments of vaccines to Wal-Mart require end-to-end monitoring that is subject to continual upgrades. "It's a zero-tolerance business," she says, "and there's no room for error in this controlled-temperature movement. If there's a new or better way to trace it, we'll find a way to fold that into our service."

C.H. Robinson Worldwide Inc., one of the world's largest cold chain service providers, has also invested heavily in information technology for pharma and healthcare industries. Most recently, it introduced a mobile app to extend the reach of its Navisphere platform that integrates with ERP to allow shippers access to critical information via Apple or Android mobile devices.

Tom Mahlke, the company's chief information officer, says this connectivity has become a new standard for temp-controlled shipments. "Supply chains are constantly in motion, so having continuous visibility to each movement, especially in the cold chain, is a requirement now," he adds.

Caveat emptor

New and proprietary advances in technology notwithstanding, shippers must demand a complete overview of cold-chain 3PLs before committing a single load, says Jim Darnell, managing consultant with Tunnell Consulting, a company focused on strategic, operational, and technical solutions for biotech and pharmaceutical companies.

"Cold chain failures have resulted in actions including litigation, product withdrawals, postponement of clinical trials, delays in product getting to the market, lost contracts, costly recalls, product loss, and damage to reputation," says Darnell. "Certain temperature sensitive products such as vaccines are at particular risk."

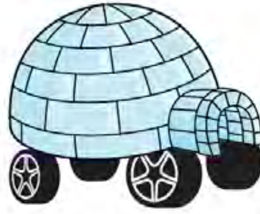
Darnell adds that The World Health Organization (WHO) estimates that about half of all vaccines are wasted due to temperature excursions as a result of poor cold-chain control.

As part of a basic check list for assessing cold chain providers, Darnell advises shippers to examine how their product is physically handled at all points throughout the cold chain, including airports and temporary

dwelling areas.

"Service providers should be able to describe container orientation and time-on-the-tarmac," says Darnell. "What is the range of exposure to high and low temperature extremes? What about the hand-off to ground transportation? Finally, shippers should know about possible delays at any one destination and if the 3PL is reliant on subcontractors."

Another essential element in cold chain provider assessment, says Darnell, is certification for Current Goon Manufacturing Practice (cGMP). Both the Food and Drug Administration and WHO mandate that vendors and facilities measure up to this standard, which establishes and maintains a system for consumer protection and product quality protection. "The 3PL should define each step of the progression and track the manufacturing in the cGMP compliant process so that a complete history can be traced and any chance for error is eliminated," says Darnell.



"The World Health Organization estimates that about half of all vaccines are wasted due to temperature excursions as a result of poor cold-chain control."

—Jim Darnell, managing consultant with Tunnell Consulting

Remaining attentive to other valuable details like years of experience in life sciences cold-chain logistics and references are also a must, says Darnell. He suggests that shippers ask for "vendor-performed" mapping studies of transportation equipment and shipping lanes as well. Putting together a questionnaire on "deviation management" and "relationship and Customs," is also a good idea.

But most importantly according to Darnell: "Trust, but verify. Conduct the audit as you would for any other critical supplier, validate responses to initial interviews, and require follow-up to any open observations in order to move forward with further qualification activities."

Finally, he advises shippers to inspect facilities themselves, including cross-docking areas. While doing this, shippers should review "quality unit responsibilities" and level of oversight, while examining the 3PL's overall operation.

"Cold-chain 3PLs should be part of your overall supplier quality management program," Darnell concludes. "Establish quality agreements in tandem with service contracts and enforce those with every 3PL you use."

—Patrick Burnson is Executive Editor of Logistics Management

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RFID settles in

With suppliers jumping on the RFID bandwagon and more deployments looming on the horizon, the future of RFID remains promising. Here are the market drivers that continue to push ADC/RFID adoption and examples of facilities that are putting it to work.

BY **MAIDA NAPOLITANO**, CONTRIBUTING EDITOR

From keyless ignitions to moisture-sensing diapers, RFID technology continues to permeate everyday living. In today's supply chains, the technology relies on readers and passive UHF tags to automatically and wirelessly capture and leverage electronic product codes (EPC) encoded with product information and serialization.

Unlike a bar code, these tags do not need to be within line of sight of the reader, resulting in increased operational efficiencies. Unloading an inbound container, for instance, which may take about two and

> **"Those with pilot projects last year are now in full deployment, and that represents big progress for the industry."**
>
> *— Mike Liard, vice president of auto ID and data capture, VDC Research*

a half hours to individually scan, sort, and count cartons, may now take less than half an hour with RFID-tagged cartons.

Despite these proven benefits, however, RFID's adoption in the supply chain has been wrought with twists and turns. Wal-Mart's initial focus of tagging pallets and cartons of consumer goods has for the most part "languished on the vine," according to some experts. Instead, in 2010, the retail giant decided to shift its focus and began tagging at the item level. Other U.S. retailers, including Macy's, Bloomingdales, and American Apparel followed suit, launching their own successful item-level RFID pilots of mostly apparel and footwear—reporting much improved visibility and higher sales at their stores.

Today, item-level tagging remains one of the biggest drivers of RFID adoption. "Those with pilot projects last year are now in full deployment, and that represents big progress for the industry," reports Mike Liard, vice president of auto ID and data capture for VDC Research. "We've got some new retailers on board who are international players and who are significantly enhancing the volume."

In fact, these early item-level adopters are now busy fine-tuning the process. "They want to know how to deploy RFID faster and more efficiently," says Patrick Javick, vice president of retail apparel and general merchandise for the standards-setting group GS1 US. "The question now is: 'How do I get my vendors on board?'" According to Javick, the number of suppliers tagging products with RFID has increased from approximately 200 to as many as 600, and these suppliers now want to know how they can get the extra benefits from the technology.

With suppliers jumping on the RFID bandwagon and more deployments looming in the horizon, the future of RFID remains promising. Being able to automatically capture data by simply passing tagged items through portals and readers—without opening or sorting through cartons—has improved efficiencies in the DC while increasing visibility throughout

RFID Pilot Project: Tagging high-value consumer electronics

As part of GS1 Italy's i.Trace initiative, Mediamarket, a leading European electronics retailer, in partnership with DHL, Sony, and Samsung, recently completed a successful pilot of EPC-enabled RFID technology for high-value consumer electronics. The project aimed to study the benefits of tagging a wide range of valuable consumer electronic products—some of which were small and particularly susceptible to theft and loss.

At the start of the pilot, 55 SKUs from Sony and 34 SKUs from Samsung were selected. In total, over 10,000 units were tagged, including notebooks, digital cameras, video games, and mobile phones. Linda Vezzani, EPC Specialist for GS1 Italy, noted how these products are more difficult to process from an RFID perspective. "They are small and contain a higher quantity of metal parts," says Vezzani. "All of this makes the traceability of these products particularly complicated all the way through the chain."

The operation begins with Mediamarket's logistics provider, DHL, receiving products from Samsung and Sony at two high-value warehouse locations. Upon receipt, products are inspected, wrapped, and put away into storage.

For this pilot, products bound for Mediamarket's Saturn store in the Le Due Torri di Stezzano shopping mall are tagged at the warehouse. In a process known as "thermo-retraction," the tag is activated, read, and associated with a product's serial number. Multiple smaller units are associated with the EPC code attached to a larger carton, and reading the tag on that carton will automatically identify the SKUs and units inside it. Cartons bound for the same store are put on a pallet that also has its own tag that identifies the cartons on that pallet.

A lift truck driver transports completed pallets through a dock door portal equipped with an RFID reader. By moving through the portal, the system automatically reads the tags and records the quantities and serial numbers of each SKU that is being loaded into the truck.

At the store's receiving dock, inbound pallets are again transported through another gateway portal and are automatically received. A second gateway portal between the store's backroom and the sales floor automatically traces and records the individual serial numbers that are being moved to the store floor.

In the warehouse, this RFID pilot resulted in a 30 percent reduction in the time it took to process store shipments. Shipping accuracy improved while enhancing the security of the supply chain leading to fewer losses, while inventory managers now have better visibility to potential "stock-out" events. In addition, the shorter cycle time to stores meant that products make it to the store's shelves quicker.

At the Saturn store, receiving operations are automatic and much more efficient. Inventory visibility into backroom stock and the stock on store shelves is also improved, and store employees who used to scan and manually count inventory are now focused on making sales. Considering the effects not only in terms of efficiency, but also effectiveness, the payback period for the RFID investment could be achieved within a few months.

—Maida Napolitano, Contributing Editor

the chain. In the next few pages we dive deeper into other drivers that continue to push RFID adoption.

Push towards source tagging

For years, it took a retailer's mandate to trigger a supplier to move forward with RFID adoption. According to our experts, however, this is beginning to change as an increasing number of retail partners are looking at item level RFID tagging at the point of manufacture.

"The majority of EPC tagging efforts takes place in the DC where it is just not as cost effective," says Javick. "The last 12 months has seen a significant increase in the number of brand owners (suppliers) in the apparel and general merchandise industry starting to move EPC-enabled RFID deployments back to the source—and industry leaders are expecting to see this trend continue."

As suppliers start to deploy and tag products at the source of manufacture, the goal is for them to also enjoy the

Photo courtesy of Intermec

Multi-modal handheld RFID readers with voice technology and scanning capabilities can acquire, in real-time, proof of identification and monitor an asset's location and its current status.

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Photo courtesy of Motorola Solutions

Pallet jack driver transporting RFID-tagged items through an RFID portal.

benefits with more accurate inbound and outbound audits in their own DCs as well as more efficient receiving and shipping processes.

Managing assets

Increased asset management continues to be another leading reason for growing RFID adoption. In this application, passive and/or active tags are affixed to products, containers, equipment—and even people.

Using handheld computers integrated with RFID readers, organizations can acquire, in real-time, proof of identification and monitor an asset's location and its current status. Adding a Web-based solution allows users to transfer this information online so that upper managers and other interested third parties can also access the most up-to-date data and make timely decisions regarding these assets from any location in the world, as long as there is Internet access.

For years, supply chains have been using RFID to track and manage returnable product containers, especially in closed loop systems. The same technology has also been applied to yard management and even warehouse workers on the floor. Depending on the asset, a wide range of unique specialty tags have been developed to solve specific business challenges.

This year, in support of its vision to improve healthcare efficiency, the Department of Veterans Affairs (VA) announced that it was funding $543 million in a project to establish real-time location systems (RTLS) at all 152 of its hospitals and seven outpatient pharmacies. This deployment would involve attaching millions of RFID tags to medical equipment, surgical instruments and supplies, further driving RFID adoption in the healthcare industry to unprecedented levels.

This project would begin with simple asset management and the management of supplies in laboratories, but is slated to expand to tracking patients and controlling patient wandering. In RTLS, tags attached to objects or people emit wireless signals that determine an asset's location usually within a building or other contained area.

Better tags and readers

Another big driver for RFID adoption is the continued improvement of all components of RFID technology. Kurt Mensch, principal product manager for RFID for Intermec, says that their new 70-series readers have become highly portable, mobile, and multi-modal—not only reading tags, but still able to scan barcodes and use voice technology for warehouse tasks. The mobility provider has also solved the issue of reading peripheral tags through software "so we can detect tags that are in motion and those that are stationary."

Reader throughput has also made significant strides. "In 2009 we were reading 5,000 items in an hour," adds Javick, "Today we are capable of reading 20,000 items in an hour." Longer read ranges and the ability to read labels on metals and liquids are other more notable developments. In fact, GS1 Italy just completed successful item-level pilots of consumer electronics involving the tagging of products with high metallic content (see sidebar on page 40).

The tags themselves also continue to improve. Some tag providers are manufacturing tags so thin that they can be placed within banknotes. Some are imbedding them into an item's clothing care label and combining them with Electronic Article Surveillance (EAS) systems. "It's not only an inventory control solution, but it's also a security or loss prevention system attributed to RFID," says VDC's Liard.

With increased adoption, tag price points continue on their downward spiral, hovering between 10 cents to 15 cents depending on quantity, how elaborate you need them to be (graphics, print, card stock), and the amount of memory it needs to carry. "That's much improved from 25 cents just three years ago," says Javick.

He also adds that software systems related to RFID solutions are becoming more turnkey. "This allows for greater integration into the core legacy systems and these store systems are able to better manage the serialized data that comes with EPC reads."

Product tracking and traceability

Another driver for RFID adoption has been the continued pressure from government agencies to protect America's food supply by ensuring product traceability. Mike Maris, senior director for transportation, distribution, and logistics for Motorola Solutions, describes traceability as the ability to track the flow of each food item in its cold chain "from farm to fork." Because it involves the real-time recording of a considerable amount of information, traceability

becomes a natural candidate for item-level RFID tagging.

With traceability, product-related data—including proper storage and transport temperatures, manufacture dates, shelf life, expiration dates, lots, batch, and serial numbers—are stored directly on RFID tags that are attached either directly to the product or on pallets and returnable plastic containers.

At each stage of the cold chain, product data can be recorded and updated wirelessly and automatically as products move through RFID portals from the farms through warehouses to stores. The information on the tags can also be used to quickly trace product back through the cold chain in the event of a recall.

With RFID, an electronic record of a product's journey through the supply chain—or its pedigree—can be created and maintained to verify authenticity, combat counterfeiting, and ensure consumer safety. Liard reports how South Korea is currently tagging millions of units of pharmaceuticals at the item-level in response to government mandates and to stem the illicit trade of counterfeit drugs.

"Many executives believe that it's still about tagging cases and pallets; it's moved well beyond that. They have not looked at it recently. GS1 US offers an educational program to brands and retailers as part of deployment support."

— Patrick Javick, vice president of retail apparel and general merchandise for the standards-setting group GS1 US

What's holding RFID back?

Despite these drivers that are spurring adoption, many remain unsure about RFID technology. Education and awareness continues to be a big challenge. "Many executives believe that it's still about tagging cases and pallets; it's moved well beyond that," says GS1's Javick. "They have not looked at it recently. GS1 US offers an educational program to brands and retailers as part of deployment support." This program provides the training, tools, and community support to incorporate EPC item-level tagging into day-to-day operations.

Liard points to industry collaboration—such as those pilots spearheaded by the retail community—as what helps drive the market. "Retail came together as a community to share their learning," adds Liard. "They demonstrated the business case and the return on investment. We don't have that collaboration outside of retail quite yet, and that's a big challenge. That's what's keeping us back."

—Maida Napolitano is a Contributing Editor to Logistics Management

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TOP 50

TRUCKING COMPANIES

CONTENTS

Top 50: Tough at the top 46S

Despite low revenue gains, FedEx Freight posts best fiscal third quarter results in five years 60S

FTR's Shippers Condition Index continues to decrease 61S

Con-way says LTL performance in Q1 may be a drag on earnings 62S

ATA reports February volumes up for fourth straight month 62S

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Top 50 Trucking: Tough at the top

Analysts and top trucking executives agree that a sharp focus on a durable business plan and dependable operations are vital to remaining profitable in one of the most challenging trucking environments in history.

By John D. Schulz, Contributing Editor

At its essence, trucking sounds so simple: Find a niche, create a business plan, execute it on a daily basis, eliminate exceptions, charge decent rates, and then get paid. However, those executives leading the biggest and most profitable trucking companies will tell you that executing this theoretically straightforward plan every day is anything but.

"For us, I think a lot of it goes back to the strategic planning we did 15 years ago," says David Congdon, president and CEO of Old Dominion Freight Line (ODFL), No. 5 on *Logistics Management*'s (*LM*) Top 25 LTL listing and one of the most profitable LTL carriers in the country. Congdon says that the path to ODFL's current perch was long and involved and could have only been achieved by staying focused on core business principals that are paying off now.

Analysts and top trucking executives agree that a sharp focus on executing a sound business plan is one of the keys to making the list of Top 50 trucking companies. The other elements, say our top sources, would be attention to detail, employee relations (both union and non-union), financial strength, information technology, and operational execution.

"Trucking is not a business where money just rolls through the door." says Donald Broughton, trucking analyst with Avondale Partners. "Everybody knows what they need to do: lower empty miles, minimize fuel, maximize revenue per truck. But execution is hard, and it's tough to establish the discipline every day

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TOP 50 TRUCKING COMPANIES

TOP 25 LESS-THAN-TRUCKLOAD CARRIERS—2012 REVENUES

(Includes fuel surcharges)

2012 RANK	CARRIER NAME	2012 REVENUE ($MILLION)	KEY COMMENTS FROM PAST YEAR
1	FedEx Freight*	$5,011	Largest operating margin growth of public LTL carriers in 2012
2	Con-way Freight	$3,340	
3	YRC Freight	$3,187	Includes YRC Reimer
4	UPS Freight	$2,378	Teamster employee contract expiring in July 2013
5	Old Dominion Freight Line	$1,942	Most profitable public LTL carrier
6	ABF Freight System	$1,669	Teamster employee contract expiring in March 2013
7	Estes Express Lines	$1,661	Largest private LTL carrier
8	YRC Regional	$1,641	Includes Holland, Reddaway, and New Penn
9	R+L Carriers**	$1,250	
10	Saia Motor Freight Line	$1,099	Largest yield increase for public LTL carriers in 2012
11	Southeastern Freight Lines**	$875	Opened three new terminals in 2012
12	Vitran Express	$703	Acquired Milan Express in Feb. 2011
13	Averitt Express	$579	Member of the Reliance Network for national coverage
15	Roadrunner Transportation	$511	Acquired Expedited Freight Systems in Aug. 2012
14	AAA Cooper	$465	
16	Central Transport Intl.	$380	Closed more than 40 terminals since 2011
17	Dayton Freight Lines**	$353	Fastest growing private LTL carrier in the top 25 for the 2nd straight year
18	New England Motor Freight	$351	Division of Shevell Group of Companies
19	Pitt-Ohio Express	$327	Member of the Reliance Network for national coverage
20	A. Duie Pyle**	$286	
21	Central Freight Lines**	$202	
22	Daylight Transport	$169	Light-asset with concentration on the West Coast
23	Oak Harbor Freight Lines	$156	
24	New Century Transportation	$151	Light-asset load to ride hybrid LTL operation
25	Wilson Trucking	$150	Only top 25 LTL carrier with larger revenue growth in 2012 vs. 2011
TOTAL TOP 25 LTL CARRIERS REVENUES		**$28,833**	

Note: Revenue for LTL operations only (including Canadian operations) unless otherwise indicated
*Revenues primarily LTL and include less than ten percent for truckload and other services
Source: Company reports and SJ Consulting Group estimates, Prepared by SJ Consulting Group, Inc.

to force your customers, suppliers, and employees to do that. It requires a lot of work and thousands and thousands of hours of planning."

Mike Shevell, chairman of the Shevell Group that includes New England Motor Freight (No. 18 on the *LM* LTL list), says that the key to success is getting proper rates to haul freight. "Without rates that can give us proper profit, there's going to be a very serious problem in future," he says. "Our cost of doing business is off the charts, and regulations are putting a noose around our neck. It's getting more difficult to operate."

Despite the most brutal operating environment in years, the top carriers on our lists are managing to stay focused on service. There's an old saying in trucking that "you get the business on price, but you keep it on service." Executives and analysts agree.

"You prove yourself to customers in a tight environment where there's very little capacity," says Saul Gonzalez, president of Con-way Truckload (No. 17 on the *LM* TL list). Gonzalez is quick to credit his employees as the key differentiators. "Our employees are what separate us. They strive to make us better."

During a recent conference call with analysts and investors after another solid financial quarter, ODFL's Congdon was asked how his trucking company was able to obtain such strong freight rates. Congdon's answer was nothing less than direct: "We've found that it's a lot easier to sell a service equation, if you have it. In order to get paid for good service, you have to offer good service."

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TOP 50 TRUCKING COMPANIES

TOP 25 TRUCKLOAD CARRIERS—2012 REVENUES

(Including fuel surcharges)

2012 RANK	CARRIER NAME	2012 REVENUE ($MILLION)	KEY COMMENTS FROM PAST YEAR
1	Swift Transportation	$3,007	
2	Schneider National	$2,290	Includes Schneider National carriers and Schneider National Bulk carriers
3	Werner Enterprises	$1,686	
4	Landstar System*	$1,680	Business capacity owner revenue only. Largest Flatbed carrier
5	U.S. Xpress Enterprises	$1,630	Includes U.S. Xpress, Arnold Transportation, Xpress International, Total Transportation, Xpress Global Systems
6	J.B. Hunt Transport Services	$1,563	Largest Dedicated carrier
7	Prime**	$1,372	Largest temperature-controlled carrier
8	C.R. England	$1,071	
9	CRST International	$1,061	Acquired Specialized Transportation (STI) in July 2011
10	Crete Carrier Corp.**	$999	
11	Greatwide Logistics	$958	Merged with Cardinal Logistics in early 2013
12	Knight Transportation	$862	Includes Knight Transportation, Knight Refrigerated, Knight Port & Rail Services
13	"Ruan Transportation Management Services "	$708	Includes Ruan Dedicated Contract Carriage, Bulk Transportation
14	Anderson Trucking Service	$668	Acquired Energy Transport in June 2011 and Waylon Transport in Oct. 2012
15	Ryder Systems	$665	
16	Covenant Transport	$641	Includes Covenant Transport, Star Transportation, SRT
17	Celadon Group**	$612	Has made 8 acquisitions since 2011
18	Stevens Transport	$609	
19	Con-way Truckload	$559	Truckload division of Con-way, Inc.
20	Heartland Express	$546	Most profitable public truckload carrier
21	Mercer Transportation*	$492	
22	Marten Transport	$483	
24	Universal Truckload Services*	$465	Acquired Linc Logistics in Oct. 2012
23	NFI Industries	$460	NFI Dedicated
25	Central Refrigerated Service	$453	
TOTAL TOP 25 TRUCKLOAD CARRIERS		**$25,539**	

* Light-Asset Carrier
** Results adjusted to closer resemble calendar year
Revenues primarily for truckload operations and may include less than ten percent for non-truckload services
Source: Company Reports and SJ Consulting Group estimates, Prepared by SJ Consulting Group, Inc.

To ensure good service, Con-way's Gonzalez says that he makes sure to talk to every new driver. "It's my job to communicate how to represent Con-way as a professional. How they dress, how they pick up and deliver, how they interact with customers. It's important that they know that from the first day, and I do that personally."

That attention to detail may be one of the key common denominators among all members of the *LM* Top 50. Deregulation weeded out the poor operators in trucking, and those now at the top all execute terrific service. Here are a few of the back stories on how some of the Top 50 are able to maintain their position year after year.

Staying on top

About 20 years ago, Old Dominion Freight Line was nearly exclusively a Southeast regional carrier, competing with a host of other top-flight, mostly non-union carriers offering nearly identical next- and second-day LTL service. Congdon, who was then working under his father Earl the CEO, realized ODFL had to diversify.

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and intrastate domestic shipping, assembly and distribution, domestic drayage, direct service to Canada, and even full container load ocean carriage. Two-thirds of its trucking business is two-day or less with 86 percent third day or less.

"We have a very good blend of regional, interregional, and long-haul across our network," Condon explains.

ODFL earned $169 million net income on $2.1 billion revenue last year as the most profitable LTL carrier in the land. It's operating ratio (OR) was an eye-popping 86.5, and that came on top of an 87.6 OR in 2011 and 90.7 in 2010—by far the lowest three-year OR in the LTL sector. "We're not perfect by any stretch," adds Congdon. "But we've got it honed down pretty well so we can balance pricing and network growth and customers and so forth. We've got a good balance of proper things going on."

At the opposite end of the LTL profit spectrum is ABF Freight System, the nation's seventh largest LTL carrier. Hurricane Sandy and a continued weak freight environment were two conspirators that created a 2012 income loss of $7.7 million at parent Arkansas Best Corp.—a swing of almost $14 million when compared to the $6.159 million net income in 2011. Revenue remained steady at just over $2 billion annually.

ABF (No. 6 on the *LM* LTL list) is currently in crucial labor talks with the Teamsters union that will likely prove decisive in whether it will be profitable going forward. The company is now asking for concessions like those obtained by YRC Worldwide (No. 3 on the *LM* LTL list).

YRC may be the poster child for trucking turnarounds. After losing in excess of $2.6 billion from 2006 to 2011, YRC turned an operating profit last year. It changed its management team, installing former YRC executive James Welch to replace Bill Zollars as CEO—and the move has paid off.

In a recent conference call with investors, Welch resisted the urge to run YRC's operating profit up the flagpole. That was a small battle, he said. The war has yet to be won.

In one of his most important early moves, Welch installed Jeff Rogers as president of YRC Freight, its long-haul and largest subsidiary. Rogers is a "blocking-and-tackling" fanatic with a knack for employee relations. In a recent letter to YRC Freight employees, Rogers told his workers that they indeed accomplished a lot in turning around the company—but much more remains.

"There's no doubt about it, we're getting our swagger back," wrote Rogers in the letter. "Here comes the honest truth, though: All our recent successes won't mean a thing unless we deliver results in 2013. We simply must win in the marketplace, and I mean now. This is the year we go from survive to thrive."

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Managing the issues

The best trucking executives say that there are many paths to success, but they all stress that there can be no shortcuts in service.

John White, executive vice president of sales and marketing for U.S. Xpress, the nation's second largest privately held TL, says that the most important thing is to be relentless on deciding what's best for shippers. "If we focus on making our customers better, we're going to be successful," White says.

Yet, White adds that trucking is even more complicated than that. White refers to something he calls the "murky horizon," which includes an uncertain supply of drivers, rising equipment costs, and an unclear legislative landscape that might include reduced hours of service and other productivity cuts.

"It's hard to plan and work the plan for five years," says White. "The challenge moving forward is moving purely away from being an entrepreneurial spirit to being a little more disciplined. You have to be in front on some challenges."

The issue of onboard electronic recorders (EOBRs)—the so-called black boxes—is a good example. Washington recently mandated EOBRs for all new trucks, probably starting with the 2015 model year. Sensing this inevitable move, U.S. Xpress began installing the boxes several years ago and will soon have its entire fleet outfitted.

"We knew that was coming," says White. "EOBRs will help our drivers better understand time management, and it will help us manage our business better as the legislative landscape evolves."

If hours-of-service rules change, the data captured by those EOBRs will be invaluable in creating new lane and truck assignments, White adds. In short, a little advance preparation will help smooth what could be a rocky transition for others.

Offering new services is another way to stay on top. U.S. Xpress recently launched a new refrigerated service offering to its grocery customers that wanted to improve shelf life of some produce. "We're constantly being asked to bring innovation into the market place," says White, adding that the service now involves 150 trucks.

The Shevell Group's Eastern Freightways TL unit has grown its dedicated and flatbed business in recent years due to customer demand. "Our flatbed business has mushroomed," says Shevell. "It's been a huge success, and we feel it will be even better as construction rebounds through the economy. If the economy grows, that will grow."

Other carriers have started new services to attract shippers. As an example, Con-way Truckload recently began offering double-stack trailers that can adjust the interior height to increase available payload. Some pallets can't be stacked because of weight and configuration; however, these double-stack trailers can adjust the height of the floor so more freight can be hauled. "That's been really helpful to us," Gonzalez adds.

Costs skyrocketing

All trucking executives interviewed for this story say that the cost of doing business is rising at least 10 percent a year. Trucks that cost $80,000 five

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years ago are now $125,000. Fuel is staying stubbornly near $4 a gallon, while drivers remain scarce and are costing more than ever to train and retain.

"The cost of everything is going up—terminals, equipment, insurance, fuel, trucks, drivers," says Shevell. "And the driver shortage is only going to accelerate as the economy comes back." And after examining the new health care act, Shevell concludes that its costs will be "mind-boggling" to carriers. "It's going to hurt carriers' profitability," he says. "It's been bad enough the last five years, but with everything going up, there are not enough pennies around our neck to pay for it."

For shippers that will mean rate increases in the low- to mid-single digits, perhaps more on lanes where capacity is extra tight. "The industry is not earning enough to sustain itself in order to continue on a successful basis," says Shevell. "Notwithstanding the driver shortage, once the business demand exceeds capacity you're going to see a very serious problem, and when it comes is anybody's guess. But, it's going to happen."

That will mean that those carriers with sufficient financial stability will be able to obtain the credit necessary to purchase or lease new trucks. Those without…well, who knows.

"Some carriers' financial stability is wonderful, and some I wonder how they do the things they do," says Shevell. "We've just spent $25 million for new equipment this year and we'll spend another $10 million before the end of year. If carriers don't continue to re-power their fleets, I don't know how they're going to be able to survive."

"Notwithstanding the driver shortage, once the business demand exceeds capacity you're going to see a very serious problem, and when it comes is anybody's guess. But, it's going to happen."

—Mike Shevell, chairman of the Shevell Group that includes New England Motor Freight

The key to survival is deciding how to anticipate shipper needs. "We all have an obligation of creating value," says Dan Van Alstine, senior vice president and general manager of dedicated services at Schneider National (No. 2 on the *LM* TL list). "But the successful companies are creating value for customers, shareholders, driver associates, and for the communities in which we operate. It's a cliché, but it's true."

White of U.S. Xpress says that his customers are asking more than ever how they can differentiate themselves through supply chain excellence by driving excess inventory and eliminating costs from their systems. But this more strategic approach will cost shippers through rising rates, he says.

"We can strategically work with our customers to drive improvement and mitigate issues," adds White. "But invariably, we're going to see continued pressure on price in base truckload rates. Whether it's HOS, equipment, cost of drug

YRC Freight's winning game plan

YRC Worldwide's financial turnaround is nothing short of amazing and unprecedented in the U.S. trucking industry. After losing in excess of $2.6 billion from 2006 to 2011, it earned a small operating profit last year and company executives say they're bullish that the company is well positioned for solid profitability ahead.

How did YRC do it? In a January letter to all YRC Freight employees, company president Jeff Rogers gave some hints with his five operating principles. A condensed version follows:

• Be brave: "Think outside the box, tap your creative energy, and work as a team to solve problems and invent business solutions."

• Decide and do: "Stay focused, decide the right course of action (there's never a perfect answer) and then as the saying goes—just do it, safely and without delay."

• Hunt in a pack and work collaboratively: "In the grand scheme of things, the team is always more important than the individual, regardless of rank or title."

• Take it personally: "Do what it takes to win, but be responsible…safety is your top priority."

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"I'm asking you to put these principles in action," Rogers' letter concludes. "It doesn't matter if you're behind the desk, behind the wheel, or on the dock. The sooner we live by our principles, the sooner we'll all succeed."

—John D. Schulz, Contributing Editor

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testing, sleep apnea testing…those are all positive and important things and will continue to improve safety and environment. But all those things come with a cost. You will continue to see upward pressure on price."

Ideally, carriers hope to form long-term strategic relationships with customers instead of what White termed "tactical ones." However, White says he believes that at the end of the day prices will continue to escalate.

In the truckload sector, the largest TL carrier, Swift Transportation, has less than 2 percent market share. In such a fragmented market, gaining pricing power is difficult. But that doesn't mean TL carriers aren't getting more strategic with rates. "Capacity hasn't been expanding, so we've seen the industry gain some discipline," White adds. Going forward, some carriers may want to expand the asset-light side of their business through brokerage or 3PL services while eschewing large capital expenditures to buy assets outright.

J.B. Hunt (No. 5 on the *LM* TL list) is an excellent example of that. Its intermodal business grew 13 percent last year while its pure truck business continued to shrink, showing a 27 percent decline in operating income. Shippers can expect Hunt's Truck division to continue to shrink and receive little additional capital as Hunt continues to find greater return on investment in other units.

All that reduction in over-the-road capacity will do over time, analysts and executives say, is push up trucking rates for the rest of the industry.

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

Despite low revenue gains, FedEx Freight posts best fiscal third quarter results in five years

Fiscal third quarter earnings for transportation bellwether FedEx were down overall on an annual basis, with quarterly net income—at $361 million—down 31 percent. However, this decline cannot be attributed to the quarterly performance of FedEx Freight, the company's less-than-truckload (LTL) subsidiary.

Revenue at FedEx Freight, at $1.24 billion, was up 0.8 percent from $1.23 billion last year, with an operating margin of 0.3 percent compared to -0.1 percent a year ago. FedEx Freight reported an operating income of $4 million, ahead of last year's operating loss of $1 million.

FedEx Freight yield was up 2 percent due to improvements in its FedEx Freight Economy yields, while average daily shipments rose 1 percent due to higher customer demand for Economy service offering for all lengths of haul. Weight per LTL shipment was flat at 1,154 pounds, and composite LTL yield—at $20.03—was up 2.3 percent. The company pointed out that the quarter had two fewer operating days, but Freight was still able to realize higher operating income and margins due to gains in yield and volume along with operational efficiencies.

The FedEx Freight Economy service is part of FedEx Freight's 2011 network re-launch that focused on offering shippers the choice of two levels of service: Priority and Economy. Prior to the launch of the revamped LTL network, FedEx Freight President and CEO Bill Logue described it as a strategy to grow its business profitably for the long-term and a "game changer" designed to simplify what FedEx determined was a "too complicated LTL shipping process."

The idea, said Logue, was to give LTL shippers two options based on speed of delivery and price. The new FedEx Freight network is comprised of FedEx Freight Priority, a fast-transit choice for time-sensitive LTL freight delivery, and FedEx Freight Economy, a less costly choice for LTL freight delivery.

While revenue at FedEx Freight in the fiscal third quarter was up less than 1 percent, Logue said on the March earnings call that it still represented the unit's strongest fiscal third quarter in the last five years, even with two less operating days.

"That had a big impact on our numbers," said Logue. "From our perspective, we saw volume up, we saw yield up and we saw weight up. And so from that perspective it was a good quarter. Our business had a healthy third quarter, and if you look forward, we saw productivity in the quarter being very strong as well."

—Jeff Berman, Group News Editor

FTR's Shippers Condition Index continues to decrease

Typically, when things are going well for truck carriers, it often means that they're not going as well for shippers. Based on the most recent edition of the Shipper Conditions Index (SCI) from freight transportation consultancy FTR Associates, that appears to be the current trend.

January's SCI, that represents data for the most recent month available, was -7.1, down 2 percentage points from December. A reading above 0 suggests a favorable shipping environment, according to FTR, which describes the SCI as an indicator that sums up all market influences that affect shippers, with a reading above zero being favorable and a reading below zero being unfavorable. May 2011's -11.4 was the worst SCI reading of this current economic cycle.

FTR said that the SCI represents "deteriorating conditions" for shippers early in 2013, with the SCI forecast expected to continue moving down as the year moves on, approaching negative double-digits by the end of 2013.

This, according to FTR analysts, will result in increased freight rates as volumes continue their slow crawl, with capacity expected to be hindered by regulations—including the new motor carriers hours-of-service (HOS) rule that's expected to kick off in July—along with subsequent increases in rates and decreases in available capacity.

FTR Senior Consultant Larry Gross told *Logistics Management* that back in 2004 there was a combination of a change in HOS and a growing economy, and that resulted in about two years of freight increases.

"Now, this year, we have a raft of regulatory changes, plus a growing economy along with the new HOS rules as currently constructed likely to stand," said Gross. "We're setting ourselves up for a 2004 replay, but the pressure on the driver supply and capacity is going to be considerably longer than the one-shot event that occurred in 2004. So we see the prospect for a negative rate environment extending much further."

—Jeff Berman, Group News Editor

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Con-way says LTL performance in Q1 may be a drag on earnings

Transportation and logistics services provider Con-way Inc. released an update on first quarter trends at Con-way Freight, its less-than-truckload (LTL) unit, that it said could collectively reduce Freight's quarterly operating income by roughly $14 million.

Chief among the factors for the potential loss in income cited by Con-way were that daily weight is expected to be down about 1.5 percent compared to the first quarter of 2012, coupled with other items expects to negatively impact near-term profitability, including a reserve for a large vehicular claim; a charge related to a transition to new technology; costs associated with adverse weather; and field training expenses pertaining to line-haul optimization.

Con-way added that first quarter 2013 revenue per hundredweight, excluding the impact of fuel surcharges, is expected to increase approximately 3.5 percent annually.

"Tonnage trends, while below last year, have been relatively stable throughout the first quarter, and our core operational performance is trending in the right direction," said Douglas Stotlar, Con-way Inc.'s president and CEO, in a statement. "Despite the near-term cost headwinds at Con-way Freight, confidence in our key initiatives and the ability to expand margins—particularly in the second half of 2013—is being reinforced each day."

The key initiatives cited by Stotlar include lane-based pricing and line-haul optimization, factors that Con-way said are expected to provide increasingly improved results in the coming months.

Quarterly revenue at Con-way Freight, at $824.7 million, was up 3.6 percent, with yield, or revenue per hundredweight, up 5.1 percent year-over-year and 4.2 percent excluding fuel surcharge. Tonnage per day decreased 3.5 percent, while operating income of $21.5 million was up 9.9 percent compared to $19.6 million last year.

Con-way said that the revenue growth was primarily attributable to improved yield and higher fuel surcharge revenue—and partially offset by lower tonnage levels. The carrier added that the operating income improvement was impacted by an accelerated decline in daily tonnage at the end of the fourth quarter that it said exceeded normal seasonality.

"LTL freight is just OK, not great, and Con-way Freight is not expected to see benefits from its improvement initiatives until the second half of 2013," wrote David Ross, analyst with Stifel Nicolaus, in a research note.

As *Logistics Management* has reported, the LTL sector has made up significant ground from the depths of the Great Recession. This is due, in part, to tighter capacity and steady rate gains since 2010.

—Jeff Berman, Group News Editor

ATA reports February volumes up for fourth straight month

The American Trucking Associations (ATA) reported that trucking volumes showed modest gains in February.

The ATA said that seasonally-adjusted (SA) truck tonnage in February increased 0.6 percent to 123.6 (2000=100) following a 1 percent gain in January. This represents the fourth straight month the SA has grown, a trend that has not occurred since late 2011, according to the ATA. The ATA added that over the last four months SA tonnage has increased a cumulative 7.7 percent.

On an annual basis, the February SA is up 4.2 percent, which is in line with January's 4.6 annual bump. Year-to-date, the SA is up 4.4 percent, compared to a 2.3 percent annual gain for the same period in 2012 over 2011 data.

The ATA's not seasonally-adjusted (NSA) index, which represents the change in tonnage actually hauled by fleets before any seasonal adjustment, was 113.5 in February, which was 5.5 percent below January.

As *Logistics Management* has reported, some industry analysts maintain that the NSA index is more useful since it's comprised of what truck-

TOP 50 TRUCKING COMPANIES

ers haul. As defined by the ATA, the NSA index is assembled by adding all the monthly tonnage data reported by the survey respondents—ATA member carriers—for the latest two months. Then a monthly percent change is calculated and then applied to the index number for the first month.

"Fitting with several other key economic indicators, truck tonnage is up earlier than we anticipated this year," said ATA Chief Economist Bob Costello in a statement. "While I think this is a good sign for the industry and the economy, I'm still concerned that freight tonnage will slow in the months ahead as the federal government sequester continues and households finish spending their tax returns. A little longer term, I think the economy and the industry are poised for a more robust recovery."

Other drivers for relatively decent tonnage data include an improving housing market, slight gains in retail sales, and steady manufacturing output.

However Charles Clowdis, managing director of transportation advisory services at IHS Global Insight, explained that these increases are small, adding that the sequester situation and the general malaise about Washington is taking its toll on most working Americans.

"Many do not understand it," said Clowdis. "Instead, they look at it as 'OK, so the Stock Market is booming, but I'm working 2 or 3 jobs and my standard of living is way down." He added that people are tired of not having new things, and some spending is reactionary—and hopefully not from credit or cashed-in 401Ks or IRAs.

What's more, Crowdies added that motor carrier executives need to temper enthusiasm, especially when it comes to expanding and also buying new equipment, unless the old equipment clearly needs to be upgraded.

—Jeff Berman, Group News Editor

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Pacific Rim Report

By Patrick Burnson

Patrick Burnson is Executive Editor of *Logistics Management*. If you want to contact Patrick with feedback or a story idea, please send an e-mail to pburnson@peerlessmedia.com.

PNW concentrates on building sustainable ports

PACIFIC NORTHWEST PORT AUTHORITIES SEEKING to become more economically and environmentally sustainable will convene in Seattle this month for an intense one-day session examining the major issues currently facing them. Staged by the Association of Pacific Ports (APP) on April 17, the seminar will include a "sustainability snapshot survey" of all participants. APP associate members Brightworks and Harris Group will then present the survey results, offering a new perspective on the industry's impacts on regional ecosystems and global sustainability. The results may also point to opportunities to capture value from appropriately balanced efforts relating to sustainability.

It should come as no surprise that the event is taking place at Sea-Tac International Airport in Seattle, Wash. Not only is this a remarkable model for sea-air shipping, but also resides in the very epicenter of environmental stewardship.

Last February the Port of Seattle presented its Green Gateway Partners Awards, which recognizes the comprehensive environmental achievements of the port's containership operators. This year's award winners are APL Ltd., Maersk Line, Matson Navigation, and COSCO Container Lines America's Inc.

The name of the awards—Green Gateway Partners—complements Seattle's role as the entrepot for maritime trade between Asia and the American Heartland. Indeed, recent independent studies indicate that for cargo originating in much of Asia and bound for a wide range of destinations across the U.S., routes through Seattle resulted in lower carbon emissions than other routes.

The Green Gateway Partners Awards set as a minimum requirement participation in the port's "At-Berth Clean Fuels" program or use of shore power to reduce air pollution. These and other environmental activities are assigned point values. Depending on the number of points earned, Green Gateway Partners can achieve one of three recognition levels—gold, silver, or bronze. The awards and scoring system are then calcluated by analysts from Cascadia Consulting Group and Glosten Associates, both consultancies specializing in policy and planning for public agencies.

Meanwhile, the neighboring Port of Tacoma has been in the forefront of the Northwest Ports Clean Air Strategy, a ground-breaking initiative that has helped further reduce emissions in the Puget Sound and Georgia air basins.

Mandatory engine and fuel standards like these have also spurred the carriers' adaptation of newer engines and cleaner fuels. Along with Seattle and Metro Vancouver, B.C., Tacoma is working with maritime partners to lower diesel emissions from all sources, with particular attention to vessels—and it's clearly paying off. Maritime-related air pollution has decreased in Tacoma as much as 40 percent, depending on the type, since 2005, says Tara Mattina, the port's communication director.

According to Mattina, much of that clean air progress is due to significant, voluntary investments of the maritime industry and government agencies in cleaner technology, cleaner fuels, and more efficient systems of operation.

PNW ports anticipate new compliance standards and have demonstrated their commitment to keeping cargo moving—in both directions—by mitigating government interference or activist disruption.

Smaller regional ocean cargo gateways comprising the APP membership are doing their part as well. According to APP executive director Dave Hunt, "niche" ports like Astoria, Grays Harbor, and Portland are encouraging all stakeholders to cut back on greenhouse gases.

The takeaway for shippers is obvious: PNW ports anticipate new compliance standards and have demonstrated their commitment to keeping cargo moving—in both directions—by mitigating government interference or activist disruption.

At the same time, shipping associations like the Agricultural Transportation Association and the National Industrial Transportation League should be encouraging their members to see that this trend takes hold parts of the country where regional cooperation makes sense. ☐

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