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MARCH 2009

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SALARY SURVEY WEBCAST
logisticsmgmt.com/salary09
March 25, 2PM EST

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Management UPDATE

AN EXECUTIVE SUMMARY OF INDUSTRY NEWS

10+2 sets sail. The importer security filing, more commonly known as the "10 + 2 Rule," went into effect last month with little fanfare from the Department of Homeland Security (DHS). Shippers meanwhile will still have some time to adjust to the interim final rule. "Even though the modifications alleviate onerous burdens, some serious problems have still not been corrected in the interim rule," said John Engler, president of the National Association of Manufacturers (NAM). The rule, which requires importers and ocean carriers to provide additional data elements that do not appear on the manifest, will not become final in June after shipper comments have been received and considered by the agency.

Who loves 3PLs? Nearly eighty percent of domestic Fortune 500 companies use third-party logistics (3PL) service providers for logistics and supply chain functions according to Armstrong & Associates' recently-released report, *Trends in 3PL/Customer Relationships*. The report suggests that the larger a company is, the more likely it will be to have at least one 3PL relationship. The report states that large shippers like General Motors, Procter & Gamble, and PepsiCo each use 30 or more 3PLs. For more information about the report, go to www.3PLogistics.com.

Vietnam losing cache? According to Transport Intelligence (TI), a London-based logistics consultancy, high logistics costs are responsible for holding back the development of the Vietnamese economy. In their recently-published report, *Vietnam Logistics 2009*, TI noted that logistics costs in the market are estimated to be 20 percent to 25 percent of Vietnam's GDP, a ratio far higher than that in developed economies such as the U.S.—higher even than in other developing economies such as China. These high costs have hindered Vietnam's efforts to take advantage of its cheap labor resource and develop the national export economy. However, the report also finds that this situation is gradually changing. The Vietnamese government has invested billions of dollars in the country's infrastructure and this investment is slowly beginning to pay dividends.

FedEx Freight makes job cuts. In yet another example of the toll that the current economy is taking on the less-than-truckload sector, FedEx Freight said last month that it's eliminating 900 positions, according to media reports. These cuts represent roughly 2.6 percent of its 35,000 employees in various positions at 150 locations. An article in the *Memphis Business Journal* cited FedEx Freight President and CEO Doug Duncan saying in an e-mail to employees that the job cuts were due to the continued decline in consumer spending and overall industrial production—two factors putting unprecedented pressures on the trucking industry.

Undermanned vessels may cost shippers. While commercial fleets have enough capable seafarers now, industry experts fear that this may not be the case when the economy improves. "Manning is still a major even though the global downturn may have thrown most shipping industry forecasts out of the window," said Drewry Shipping Consultants. "And the problem of officer shortfalls is not going away." According to Drewry, the industry

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2009 Salary Survey webcast is coming! Join Group News Editor Jeff Berman for our annual Salary Survey webcast on March 25th at 2pm Eastern. Berman will share which industries pay the most, which titles command the highest salaries, and how having a logistics or supply chain degree actually pays off. Recruiters David Thomas from North American Findings Ltd. and Jim Rohan of JP Canon Associates will also offer their analyses of this year's findings and comment on the major trends of the logistics and supply chain employment marketplace. Watch **logisticsmgmt.com** for registration information.

Management UPDATE

continued

will need as many as 33,000 officers for 2009 rising to 42,700 by 2013—adjusted to factor an increase in newbuilding cancellations and scrapping. "Concerns are also being raised about companies cutting back on training to mitigate costs. If they do, the manning problem is likely to return to bite them, particularly given the length of time it takes to bring a seafarer to officer class." The bottom line for shippers: fewer vessels will translate into higher rates.

■ **DOT has the eye of the TIGER.** United States Secretary of Transportation Ray LaHood said last month that he has formed a team at the Department of Transportation (DOT) to coordinate the DOT's role in President Obama's economic recovery program. The objective of this team—dubbed the Transportation Investment Generating Economic Recovery (TIGER)—is to ensure that economic recovery funding is rapidly made available for transportation infrastructure projects and that project spending is monitored and transparent. As part of its duties, the team will identify and prioritize key highway, bridge, rail, transit, aviation, and intermodal spending.

■ **L.L. Bean goes with UPS as primary carrier.** UPS has been chosen by outdoor apparel and equipment retailer L.L. Bean to be its primary package and delivery carrier. UPS will provide ground and air service to deliver the orders that L.L. Bean customers place through its print and online catalogs. A Bean spokesperson told *LM* that the company will leverage UPS for its catalog and direct marketing efforts, as well as customer returns. L.L. Bean will use FedEx—its former primary carrier—and the United States Postal Service for specific portions of its business that request their services, including deliveries to P.O. boxes and international shipping.

■ **Bullish intermediary.** Positive news surfaced in the Pacific Northwest last month as a major freight intermediary announced significant earnings. Expeditors International of Washington Inc. said it had fourth quarter profit of $77.7 million, an 11 percent increase from $70.1 million for the same quarter of 2007. For the entire year, the company posted a net profit of $301 million compared to $269 million in 2007, a 12 percent increase. "Given the incessant tales of woe emanating from Wall Street these days, we hope the consistency and stability projected by these results will be reassuring to our employees, to our customers, and to our shareholders," said Peter Rose, chairman and CEO.

■ **How soon does RFID pay off?** A survey conducted by ABI Research revealed that rapid, positive return on investment (ROI) estimates are critical to RFID purchasing decisions. The survey of 185 organizations conducted in mid-2008 reported that 36.7% of RFID end users anticipated a return within the first year. With more than a third of survey respondents expecting an ROI on RFID within a year, other notable findings found that 25 percent indicated 12-18 months, 13.3 percent said 18-24 months, and 6.7 percent felt that ROI should be between 18-24 months. ABI also found that a general lack of clear ROI models and data on real-world results has slowed adoption of RFID technology, particularly in open-loop supply chain environments.

■ **Retail dip.** Retail container traffic is expected to dip 11.8 percent in the first half of 2009, according to the Port Tracker Report from Global Insight and the National Retail Federation (NRF). The report's projected volume output for the first six months of the year is 6.6 million TEU (twenty-foot equivalent units). This analysis reflects the ongoing realities of the economic downturn, considering 2008 volumes were down 7.9 percent (15.2 million TEU), according to the report. Reasons cited in the report for expected low container volumes included the winter slowdown, the recession, and low retail sales. NRF Vice President for Supply Chain and Customs Policy Jonathan Gold noted that cargo volumes at ports reflects retailers' anticipated sales, and NRF expects

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Management UPDATE

continued

that sales will get worse before they get better, adding that retailers are only going to import what they can sell.

CN & NS set to share. CN and Norfolk Southern (NS) are collaborating on a track sharing endeavor—dubbed the MidAmerica Corridor—on routes covering Chicago, St. Louis, Kentucky, and Mississippi. The companies said the objective of this initiative is to establish shorter and faster routes for merchandise and coal traffic moving between the Midwest and Southeast regions of the country. As part of the deal, NS and CN will haul each others freight on certain routes to reduce distance between destination points. They'll also develop a new coal gateway at Corinth, Miss., to better link NS-served southeastern utility plants with CN-served Illinois basin coal producers, among others.

Transportation can hear you now. Despite slowdowns and spending cuts in many industries, overall investment by all U.S. businesses on wired and cellular calling is forecasted to reach nearly $140 billion by the close of 2009, says a new market research report from Insight Research. The study predicts that cellular calling will account for just over 41 percent of the U.S. corporate phone bill for telecommunication services in 2009, and is the fastest growing expense area. Among the biggest cellular service spenders, said researchers, will be transportation companies. Insight's newly released market analysis report, *Telecom Services in Vertical Markets 2008-2013*, reveals that wireless service revenues are expected to grow at a compounded rate of nearly 16 percent annually from 2008 to 2013, while growth in wired services remains essentially flat.

Senator kaput. One of the most storied liners in the history of modern shipping wrote its final chapter last month as a victim of the global recession. As a result of the financial and economic crisis, and as a consequence of reduced volumes, overcapacity, and extreme unhealthy competition, the shareholders and the board of Senator Lines have decided to cease business. Shippers are well aware of the declining fortunes of several carriers; however, many view the trend as disruptive rather than cataclysmic. "Taking the long view, we understand that the capacity is not going to just disappear," said Peter Gatti, executive vice president of the National Industrial Transportation League (NITL). "The tonnage will still be out there when the economy rebounds."

"Clean Trucks" equals fewer jobs? California's congressional delegation is being encouraged by the Pacific Coast Council of Customs Brokers and Freight Forwarders Associations to support the Federal Maritime Commission's (FMC) investigation of the Clean Air Action Plan at the ports of Los Angeles and Long Beach. These freight intermediaries maintain that the clean air plan will harm small shippers in particular, and result in a loss of cargo volumes and jobs in and around the ports. "It has been our experience that many of the large trucking companies now focus their efforts and best pricing on their larger customers," stated a letter to the FMC. "When there are two containers with the same urgency, we see that the larger customer gets his container first. Under the new rules, small business will be stuck for delays and demurrage when their containers are bypassed because a large customer demanded that their freight moves first."

Plummeting air cargo volume. Now that numbers are in for 2008, both of the U.S. West Coast's major air cargo gateways reported a big fall off in freight volume last year. Los Angeles International Airport, the largest trans-Pacific airport in North America, reported a 24.3 percent decline in freight traffic in December with overall cargo traffic falling 11.9 percent in 2008. Declining imports sent cargo traffic at San Francisco International Airport down by 36 percent in December, giving it a 14.4 percent loss in overall freight business in 2008. International imports fell 43 percent at SFO in December from the same month the year before. Industry analysts said this is another indication of slackening production and bloated inventories in factories in China and other major Asian nations.

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25th ANNUAL SALARY SURVEY

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COVER PHOTO BY MURRAY KIMBER

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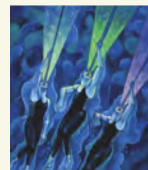
3nd Annual Salary Survey webcast: Get the scoop on logistics salaries on March 25th! Join Group Editorial Director Michael Levans, Group News Editor Jeff Berman, and industry recruiters to learn how to boost your career prospects—and your paycheck! **Register at logisticsmgmt.com**



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Research: Search the latest *LM*-exclusive research projects, including Salary Survey, Masters of Logistics, Software Survey, and more.

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VIEWPOINT

And now, some good news...

Like you, I've been combing my trusted news sources every morning for some sliver of good news. Well, look no further. I'm about to share what I believe to be two of the most upbeat news nuggets I've found over the course of the last year.

First, the results of our 25th Annual Salary Survey tell us that the median salary for a logistics professional has actually ticked up by $5,000 to $85,000. That's the first year-over-year increase since the 2004 salary numbers were reported. Amid all the doom and gloom and mounting operational pressures facing shippers these days, these numbers suggest to me that U.S. business is beginning to place more value on the problem solving skills that top logistics and supply chain professionals can offer.

And while many shippers may feel that a vote of confidence from the corner office should come naturally, I could not have made that statement over the past three years when the median remained stuck at $80,000.

Dig into the details of our 25th Annual Salary Survey during a live webcast on Wednesday, March 25, at 2:00 p.m. EST. Register at logisticsmgmt.com/salary09.

Second, and this may be my favorite bit of good news considering today's challenging environment, this year's survey validates that shippers are still quite passionate about what they do. In fact, we found that 60 percent of responding shippers say they're "quite satisfied" with their current career. Respondents cite factors such as a "feeling of accomplishment," "relations with employees," "salary," and "advancement opportunities" as a few of the key reasons for their positive outlook.

As our Jeff Berman points out in his analysis of this year's findings (page 27), one of the other top sources of job satisfaction is the fact that there is no such thing as a typical day. In fact, shippers continue to tell us they're energized by the challenges being thrown their way and that they simply love solving the ever-changing logistics puzzle. In short, upper management is looking to cut costs, and today's shippers have been up to the challenge.

I've always been a firm believer that if you love what you do, and do it well, you'll eventually receive the recognition you deserve. Five years ago, when I first started writing this column, shippers were looking anxiously for the attention they believed they deserved. Many conferences had sessions designed to help communicate success up the ladder to put the logistics function on the map. Well, the current cost-slashing environment may very well have helped logistics professionals in that quest.

While you may feel like you've been swimming against the tide for the past few years, rest assured that the results that savvy logistics professionals are producing—be it through distribution network re-organization, shipment consolidation, or overall cost cuts—are finally being noticed and rewarded.

Michael A. Levans, Group Editorial Director

Comments? E-mail me at michael.levans@reedbusiness.com

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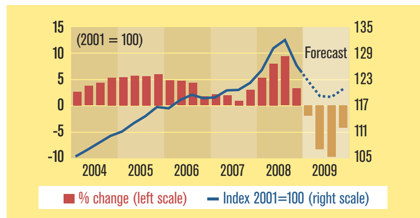
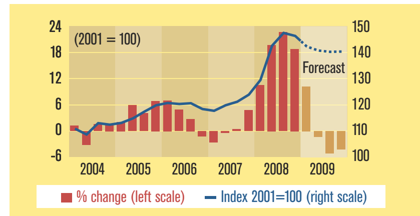


% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
General freight - local	0.5	-8.8	-2.2
Truckload	-2.0	-9.8	-3.7
Less-than-truckload	8.1	-0.9	4.9
Tanker & other specialized freight	-2.1	-5.6	-0.6

TRUCKING

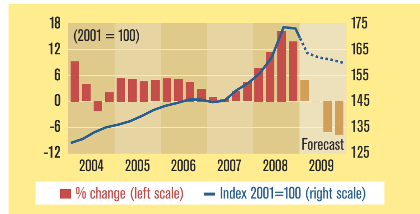
Despite a big drop in truck tonnage last December, LTL trucking companies say they increased average transaction prices in January 2009 up 8.1% from a month ago and up 4.9% from the same month a year ago. If that hike holds, then it will have wiped out all the LTL price cuts reported in the last quarter of 2008. Demand for transportation services will likely continue to fall through at least Q3 of 2009, so we forecast LTL prices to drop again in the second and third quarters of 2009, although not nearly as sharply as in August-to-December last year. By the end of 2009, prices in both the LTL and TL industries will end up returning to levels last seen at the end of 2007, before fuel surcharges went haywire.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Scheduled air freight	0.2	-3.9	12.7
Chartered air freight & passenger	3.4	NA	NA
Domestic air courier	0.1	-14.4	-3.5
International air courier	1.8	-12.4	-1.7

AIR

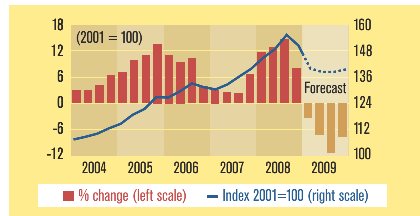
Following a 3.1% monthly price cut in December 2008, U.S.-based airline companies propped up their transaction price for hauling freight on scheduled flights with a 0.2% price increase in January 2009. It helped, no doubt, that at the same time air charter companies increased their prices 3.4% for flying cargo on unscheduled flights. North American demand for air freight service, however, reportedly has fallen more quickly and more deeply than any other mode in this emerging recession. Following 2008's sky-high 17.9% price hike, our current forecast shows average airfreight prices on scheduled domestic airline flights declining only 0.4% in 2009. That number probably won't remain airborne for long.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Deep-sea freight	-7.4	-9.4	8.9
Coastal & intercoastal freight	-0.1	-3.3	-1.0
Grt. Lks.-St. Lawrence Seaway	3.3	0.8	6.1
Inland water freight	7.1	0.1	14.9

WATER

Thanks to the global recession, international containership base rates reportedly are so low now that some shippers are paying only for fuel and handling. Surveys of companies that ship on U.S. waterways, however, show some carriers still enjoy pricing power. In January 2009, prices for inland waterways freight transport (excluding towing) jumped 9.8% from the prior month and were up a whopping 17.4% from same month a year ago. With no sign of a cyclical peak yet in this market, nonetheless our inland waterways freight forecast shows prices declining modestly over the first three quarters of 2009, before stabilizing in the final quarter.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Rail freight	-4.3	-10.0	-2.8
Intermodal	-4.5	-17.6	-6.6
Carload	-4.4	-9.3	-2.4

RAIL

The rail freight industry hasn't been immune from feeling the effects of recession either, despite its relatively strong financial position. In January 2009, intermodal rail freight prices declined for the fifth month in a row, ending up back at price levels last seen in the summer of 2007. Intermodal rail tags increased 13.7% in 2008 and are forecast to decline 13% in 2009. The same pattern holds for carload rail service as well where prices also have fallen for five consecutive months. Average transaction prices for carload freight shipping grew 11.8% in 2008 and are forecast to fall 7% in 2009. Overall, our rail freight price forecasts continue to be revised downward again.

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

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inside

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- Carriers, shippers share roller coaster diesel fuel ride
- PwC reports cites solid M&A activity in Q4, but annual volume is down slightly

Obama puts transportation in the spotlight

Transportation infrastructure development is viewed as a significant component of U.S. economic recovery, but industry groups insist that $50 billion falls well short of what is really needed.

By Jeff Berman, Group News Editor

The final bill came in at $789 billion with roughly $50 billion dedicated to transportation infrastructure investment.

WASHINGTON and DENVER—President Barack Obama officially signed the American Recovery and Reinvestment Act of 2009 into law last month, paving the way for the United States economy to get back on track.

Many in logistics and transportation were happy to see that transportation infrastructure development figures significantly into the bill as a way to stimulate economic growth and job creation. While the House and Senate versions of the bill were $819 billion and $838 billion, respectively, the final version came in at $789 billion—with roughly $50 billion dedicated to transportation infrastructure investment.

"We know we cannot build our economic future on the transportation…networks of the past," said Obama prior to signing the legislation at the Denver Museum of Nature & Science. "We are remaking the American landscape with the largest new investment into the nation's infrastructure since Eisenhower built an interstate highway system in the 1950s. Because of this investment nearly 400,000 men and women will go to work rebuilding our crumbling roads and bridges…building high-speed rail lines that will improve travel and commerce throughout our nation," Obama added.

In terms of specific funding allocations dedicated to transportation infrastructure initiatives, highlights of the bill include:

- $27.5 billion for highway and bridge construction projects;
- $8.4 billion for mass transit, public transportation projects;
- $8 billion for high-speed rail projects
- $1.3 billion for aviation projects;
- $4.6 billion for water infrastructure projects undertaken by the U.S. Army Corps of Engineers and $100 million for the Maritime Administration; and
- $1.5 billion for a discretionary program for large multi-modal and intermodal projects in the form of competitive grants to state and local governments for transportation investments—including highway, rail, transit, or port infrastructure.

This legislation comes at an opportune time in the economic history of the country, but according to various concerns, the roughly $50 billion allocated to infrastructure investment is nowhere near enough to tackle the projects that are already in the works.

In its recently-issued infrastructure report card, the American Society of Civil Engineers said that one-third of America's major roads are in poor or mediocre condition, and 45 percent of urban highways are congested. The society added that the nation needs to spend $2.2 trillion over the next decade to get roads and bridges in "good condition."

"Transportation infrastructure pays off in so many ways that the argument for budget busting deficit spending

INFRASTRUCTURE, *CONTINUED*

is probably stronger for transportation infrastructure than it is for most anything else," said Leslie Blakey, executive director of the Coalition for America's Gateways and Trade Corridors. "Construction puts people to work, and the efficiency of the transportation network improves the ability for us as a country to improve and get more production out of our economy," added Blakey.

Despite the funding allocated towards transportation infrastructure in this bill, the difference between the final tally and what is needed is wide. In December 2008, the American Association of State Highway and Transportation Officials (AASHTO) said that based on the results of a survey sent to the Departments of Transportation for the District of Columbia and all 50 states, there are 5,148 "ready-to-go" transportation projects worth more than $64 billion.

AASHTO said that these projects are considered "ready-to-go" because they could be under contract within 180 days and support an estimated 1.8 million jobs if sufficient funding were available. Meanwhile, the National Governors Association recently informed President Obama that there are approximately $150 billion in transportation projects ready to build, with each $1 billion in spending able to produce 40,000 jobs.

The potential for job creation was cited by the House Committee on Transportation and Infrastructure that stated that the $50 billion of total infrastructure investment will "sustain more than 1.8 million jobs and $322 billion of economic activity. [And] each $1 billion of Federal funds invested in infrastructure creates or sustains approximately 34,779 jobs and $6.2 billion in economic activity."

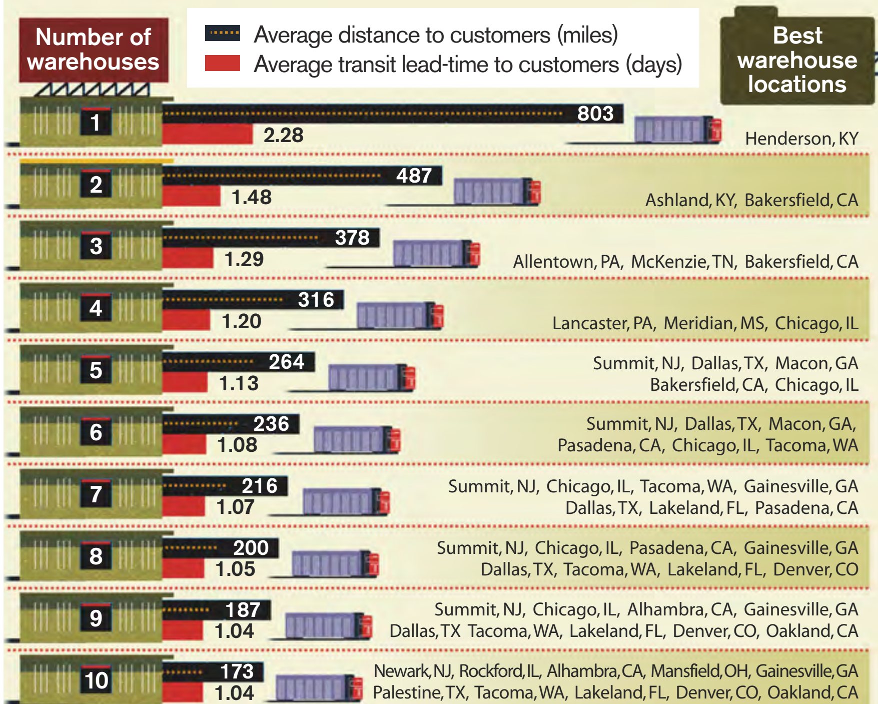
While the funding currently allocated for highway and bridge construction projects falls short of what is needed, it appears to be a step in the right direction, said Janet Kavinoky, director of transportation infrastructure for the U.S. Chamber of Commerce.

"This is a good start, but there is much more demand out there," said Kavinoky. "It is a down payment on what Congress has to turn around and do, which is deal with the major re-authorization bills towards the end of this year." L

News Capsule

The 10 best warehouse networks for 2009

Chicago Consulting has identified the 10 best warehouse networks for 2009. The consultancy said these networks made the top 10 because they serve the U.S. population in the shortest time possible, as well as set benchmarks for companies interested in how more efficient distribution can reduce their costs.



Source: Chicago Consulting

RAIL

STB reverses 2007 ruling, BNSF to pay

WASHINGTON and FORT WORTH Texas—More than 15 months after the Surface Transportation Board (STB) issued a decision in favor of Class I rail carrier Burlington Northern Santa Fe (BNSF) regarding a pricing challenge from two utility shippers, the STB has reversed course and ordered $345 million in reparations and reductions from BNSF to the shippers.

Western Fuels Association Inc. and Basin Electric Cooperative Inc. had initially challenged the railroad transportation rates charged by BNSF to haul 8 million tons of coal each year from mines in Wyoming's Powder River Basin to their electric-generating plant in Moba Junction, Wyo., said STB officials. The STB noted that this utility plant is captive to BNSF and provides electricity into grids serving customers in nine Western states.

The STB said it found "the transportation rates BNSF charged the Utilities…to be unlawfully high." The decision also stated that BNSF was ordered to lower its transportation rates by approximately 60 percent. The STB stated that this represents the single largest award to a captive shipper, with BNSF obligated to reimburse the ship-

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RAIL, *CONTINUED*

pers for approximately $100 million in overcharges from 2004-2008.

The $245 million balance of what BNSF will pay out will come from an STB edict ordering BNSF to lower its current rates to the revenue-to-variable cost (R/VC) levels ordered by the STB in this decision and keep these rates below the R/VC ratio of 240 percent through 2024.

"It is a bad decision that comes at a time when rail transportation is being encouraged. . .The potential implications of this are horrendous."

—Roy Blanchard, president, The Blanchard Group

BNSF said it "strongly opposes the STB decision on its merits and believes the process used to arrive at this result is unfair." The company added that the case is a manipulation of the new rule and represents an outcome-oriented decision in favor of these shippers and maintains that the rates charged to the shippers are reasonable from both a market and regulatory perspective.

A noted railroad analyst told *LM* this decision may ultimately do more harm than good for railroad carriers and shippers.

"It is a bad decision that comes at a time when rail transportation is being encouraged, as well as [a push] to take trucks off the highways," said Roy Blanchard, president of Philadelphia-based railroad consultancy The Blanchard Group. "The potential implications of this are horrendous, because the minute you start regulating what somebody can charge for a line of service, you limit your ability to provide that service."

Morgan Stanley analyst William Greene wrote in a research note that the while the STB's decision is not a game changer for rail rate regulation, it demonstrates that there are political pressures to curb rail pricing, and the STB is sensitive to these concerns. "The more the STB demonstrates a balanced approach to rate regulation, the more likely calls to re-regulate railroads lose urgency in Congress," wrote Greene.

That said, as captive rates move higher, shipper wins in rate cases could become more common leading more rails to settle at regulatory limits rather than face the cost of litigating a rate case," said Greene

—By Jeff Berman, Group News Editor

TRUCKING

Carriers, shippers share roller coaster diesel fuel ride

WASHINGTON—So, you think you're smart? You tabbed the Pittsburgh Steelers to win the Super Bowl a year ago, predicted the Obama landslide in the presidential election, and can accurately forecast the weather 10 days in advance.

Now try your hand at this: See if you can predict what diesel fuel (or crude oil, its major raw material) will cost six months from now? Give up? So have many trucking executives.

"It's a total crapshoot," says David Congdon, president and CEO of Old Dominion Freight Line (ODFL), a major regional and interregional LTL carrier. "We estimate the best we can. You can try to forecast all you want, but we never would have dreamed fuel would have gone as high as it did last year or as low as it has this year."

Diesel fuel costs have whipsawed the industry and caused trucking CEOs and their accountants to fume over their mostly futile projections for both the near- and long-term. After all, who really knows when the next big international crisis might cause another $50 per-barrel spike in diesel fuel? Or when the U.S. dollar might fall precipitously and prices rise again?

"We estimate the best we can. You can try to forecast all you want, but we never would have dreamed fuel would have gone as high as it did last year or as low as it has this year."

—David Congdon, president/CEO, ODFL

Consider these facts: Last year, the American Trucking Associations (ATA) estimated the trucking industry paid more than $150 billion on diesel, up from $112 billion in 2007. Truckers consume about 55 billion gallons of fuel—diesel and gasoline—annually.

Last year diesel fuel peaked at $4.764 per gallon on July 14. That was 69 percent higher than the corresponding week from 2007.

From there, it has since fallen to its lowest level since 2005, hitting a low of $1.838 per gallon on Jan. 26. In mid-February, the cost averaged $2.186, less than half its peak just eight months ago.

Such peaks and valleys have affected motor carriers' bottom lines and shippers' rates. Werner Enterprises, the nation's fourth-largest truckload carrier, calculated that the total negative impact on its operating income due to fuel cost increases, net of fuel surcharges, was $61 million from 2004 to 2007.

Other carriers report similar figures, although they can be mitigated by collection of fuel surcharges.

"Fuel surcharges were never meant as a profit. It was designed as a pure pass-through mechanism," says ODFL's Congdon. "But our industry would not

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TRUCKING, *CONTINUED*

have survived the past few years without fuel surcharges."

For the record, the U.S. Energy Information Agency is predicting diesel fuel prices around $2.50 for the remainder of the year. But the Department of Energy's forecasts have been wildly inaccurate in the past and many trucking executives take them with a grain of salt. Bob Costello, ATA's chief economist, is talking about prices in the $2.25 range for the rest of the year.

"In the short term, I'm not very confident about those forecasts; but in the long-term I am very confident I'm right. Fuel prices will rise at a rate higher than inflation," says Douglas Duncan, president and CEO of FedEx Freight. "Long-term trends can be understood, and it's important we look at it that way."

Much will depend on world oil prices. They have gone from $33.78 a barrel on Jan. 5, 2004, to $147.27 last July 11 and then back down to a low of $32.40 last Dec. 19. That means crude had a $100-a-barrel plunge in less than four months.

Who's to say that it can't rise by the same amount just as quickly?

Much depends on world supply and demand. The International Energy Administration (IEA) recently forecast that global demand for oil would drop 1.2 percent this year, its biggest drop in 27 years.

U.S. demand is forecast to drop 2.9 percent from 2008 levels, which were 5 percent lower than 2007. The recession, more fuel-efficient cars, and more efficiency are the major reasons, IEA said.

Most oil experts say today's supply/demand charts make a "normal" price for oil to be between $50 and $60 a barrel, which translate into fuel costing about $3 a gallon.

But there are lots of assumptions in that $50 to $60 forecast that may not materialize. Middle East tensions could escalate. Some countries could nationalize their oil companies. Some proven oil reserves could disappoint.

"These things are controlled by monopolies such as OPEC," Duncan added. "The one certainty is the price of fuel will escalate higher than inflation over time. That's our planning. It's important we look at it that way. This nation can't lose sight of development of hybrid vehicles and alternative energy forms. They're as important as ever. We can't be shortsighted." L

—John D. Schulz, Contributing Editor

MERGERS AND ACQUISITIONS

PwC reports cites solid M&A activity in Q4, but annual volume is down slightly

NEW YORK—While the economic storm in the United States and abroad created plenty of turbulence for both shippers and carriers, those conditions didn't negatively impact transportation and logistics merger & acquisition (M&A) activity, according to a report from PricewaterhouseCoopers (PwC).

In the quarterly report entitled "Intersections: Fourth Quarter 2008 Mergers and Acquisitions Analysis," PwC said that in the fourth quarter there were 43 announced M&A deals in the transportation and logistics sectors worth $50 million or more. This is in line with the 46 deals that occurred in the previous quarter. The annual total for 2008 was 181—just shy of 2007's 192 but ahead of 2006's 167.

The average value of announced deals worth $50 million or more was $533 million for all of 2008 and $453 million for the fourth quarter. This tops 2007's $421 million average deal value, but is well short of 2006's $964 million. It's important to note that deals cited by PwC in this report represent all announced deals for 2008—as opposed to completed deals—and do not parse out deals that were withdrawn, intended, or pending.

U.S.-based deals worth $50 million or more dipped from 54 in 2007 to 36 in 2008, with just four of those occurring during the fourth quarter of 2008.

While the pace of deal making appears to have held steady over the course of 2008, it appears to be slowing and is likely to slow down further in early 2009, according to PwC U.S. Transportation and Logistics Sector Leader Ken Evans.

"We are very reluctant to say deal activity will continue, but I think there is some carryover from deals that took place earlier in the year into the fourth quarter numbers," said Evans. "There is definite slowing in the U.S. market, and we will see that continue until some of the uncertainty in the economy and credit markets becomes clearer, and even then it is hard to tell. We see a continued pattern of slowness in the U.S. and some increasing slowness globally."

The weakness—in terms of value—of deals in which a U.S.-based entity was involved as an acquirer or target remained low as it did throughout much of 2008. As an example of this, deals involving a U.S. entity represented only one-third of the total deal value in 2008.

And U.S.-based deals worth $50 million or more dipped from 54 in 2007 to 36 in 2008, with just four of those

MERGERS AND ACQUISITIONS, *CONTINUED*

occurring during the fourth quarter of 2008.

Many of the reasons for the decline in the number of U.S. deals being made remain the same, due to things like frozen credit, tightened inventories, lack of consumer spending, and exorbitant energy prices throughout much of 2008, among others.

Meanwhile, the economic forces, which have dampened the pace of deal activity in the U.S. have not yet curbed growth elsewhere, noted Doug Turner, president of Toronto-based Obsidian Transportation and Logistics Consulting. "I think that there are structural reasons for this," said Turner. "The non-U.S. deal volume growth is being driven mainly by strong growth in the emerging markets, whereas Europe was flat."

Turner pointed out that Asia and Oceania deals grew by 20 percent from 47 to 56 in 2008, and South America more than doubled from 8 to 17. He opined that the accelerating pace of activity in the emerging markets is not a surprise, given the highly fragmented composition of domestic markets in the emerging economies generating a lot of opportunities and the growing interest in these markets by the major players.

"There is definite slowing in the U.S. market, and we will see that continue until some of the uncertainty in the economy and credit markets becomes clearer, and even then it is hard to tell.

—Ken Evans, U.S. transportation and logistics sector leader, PwC

PwC's Evans said it was a "little surprising" that fourth quarter deal making activity stayed as high as it did, but looking ahead to the rest of 2009, he said it may be unlikely to see continued growth at these previous levels.

"The biggest driver will be transportation and logistics getting a clear picture of what the future is going to look like, as these companies typically lead economic cycles by being the first to go into recession and are typically first to come out," Evans added. "But that has not happened yet. Once we get to the bottom, we may see some pent up demand or opportunistic acquisitions and stronger companies extending market share by acquisition." L

—Jeff Berman, Group News Editor

OCEAN

Inbound ocean cargo will miss screening deadline, says DHS head

WASHINGTON—Department of Homeland Security Secretary (DHS) Janet Napolitano told the House of Representatives Homeland Security Committee last month that 100-percent scanning of inbound ocean cargo containers will not meet the 2012 deadline.

The impetus for cargo scanning was put forth when former President George W. Bush signed "H.R. 1 Implementing Recommendations of the 9/11 Commission Act of 2007" into law in August 2007. The bill calls for the 100-percent scanning of maritime cargo before it's loaded onto vessels heading for the United States to be required by 2012.

The bill also calls for specific annual benchmarks on the percentage of maritime cargo containers headed for the U.S.; an analysis of how to best incorporate existing maritime security initiatives, including the Container Security Initiative and C-TPAT; and an analysis of the scanning equipment, personnel, and technology needed to reach the 100-percent container scanning objective.

The news that 100-percent container scanning will not meet the 2012 deadline should come as scant surprise to shippers who have been struggling to get the paper work done on their own layers of compliance directives.

"While some U.S. importers have adjusted to the DHS directives of the 10+2 rule and are ready to step up, there may be as many as 800,000 shippers still struggling with compliance," said Albert Saphir, principal with ABS Consulting in Marietta, Ga.

Tom Mathers, communications director for the National Customs Brokers and Freight Forwarders Association (NCBFAA), said that members of his organization are "still ahead of the curve," due partly to the lagging economy. "Business for our members has been very steady, although volumes are down. This has given them time to adjust to the new regulations and to be prepared for the rebound," Mathers said.

Nevertheless, when the DHS secretary was pressed for comment on scanning of inbound boxes, she said screening was working—but scanning was not.

Napolitano, who was the sole witness before the House panel to discuss the "path forward" for the DHS, stated that improving a department as large and new as DHS requires a broad look at the current state of its programs.

"In an effort to assess security across all forms of transportation, I directed the review of transportation security in the surface, maritime, and aviation sectors," she said. "The review identified a number of areas where risks to transportation security could be reduced. Resources such as explosives detection systems and transit, rail, and port security personnel contained in the recently passed American Recovery and Reinvestment Act of 2009 will enable the Department to accelerate the mitigation of risk in these areas." L

—Patrick Burnson, Executive Editor

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Congestion surcharges spread to more cities

When shipping via LTL carriers, we're all familiar with paying fuel surcharges in addition to the normal freight charges. And the same is true with extra charges for shipments to private residences, apartments, schools, and other types of locations.

But today, one type of additional charge that's spreading rapidly is the so-called "congestion surcharge." More and more LTL carriers are adding this charge to shipments moving into and out of larger cities and surrounding areas that have been flagged as glowing congestion concerns.

Where can you find out which cities are subject to congestion surcharges as well as the amount you might have to pay? You'll find this information in individual LTL carrier rules tariffs. Just to give you an idea of how many areas of the country are subject to such additional charges, we picked, at random, Con-way Freight's rule tariff CNWY 199-S2.

Item 235 is titled "High Cost Delivery Surcharge." It provides, for points named or ZIP codes shown, an additional charge of $16.50 per shipment, or $3.75 per 100 pounds, whichever is greater, subject to a maximum additional charge of $68.50 per shipment.

Mind you, this section takes up five pages in this rule tariff, so we are only showing the areas covered, but not individual cities or towns listed. Here are the areas to which these added charges apply.

Section 1:
- All of British Columbia
- Chicago Loop area
- Downtown Atlanta
- Greater Metro Boston
- Maryland Shore
- New Jersey Shore
- Louisiana
- Points on the San Francisco Peninsula
- Greater Downtown Los Angeles, Calif. and Hollywood, Calif. area
- South Carolina island communities
- Upstate New York
- Washington Island, Wisc.
- Greater Metro Washington, D.C.

Section 2:
- Downtown Philadelphia
- Greater New York and adjacent New Jersey area
- Greater Seattle/Tacoma, Wash. area

Some of these covered areas may be subject to only seasonal congestion, or have far more freight coming in than going out, resulting in a severe imbalance.

The key thing for shippers to remember is to check your LTL carrier's rules tariffs and find out which points are covered and what additional charges apply. Just remember, when seeking rate quotes online, those extra charges might not show up.

Ray Bohman, a well-known consultant and author, is editor of several highly successful newsletters on transportation and is a consultant to a number of national trade associations. He is president of The Bohman Group, consultants and publishers in the freight-transportation field. His offices are located at 27 Bay Lane, Chatham, MA 02633. Phone: (508) 945-2272.

Mulani on

Global operating models: Lessons from (and for) emerging-market mulinationals

A RECENT ACCENTURE SURVEY found that 95 percent of senior executives doubt their companies have a global operating model that is fully capable of supporting their international strategy. Ninety five percent! That's astonishing close to complete consensus. But what exactly is a global operating model, and why is such a thing so attractive yet so hard to perfect?

First a definition: Accenture views global operating models as integrated sets of capabilities that allow multinational enterprises (MNEs) to coordinate relationships between their headquarters and geographic business units. This is a significant departure from how companies used to approach globalization.

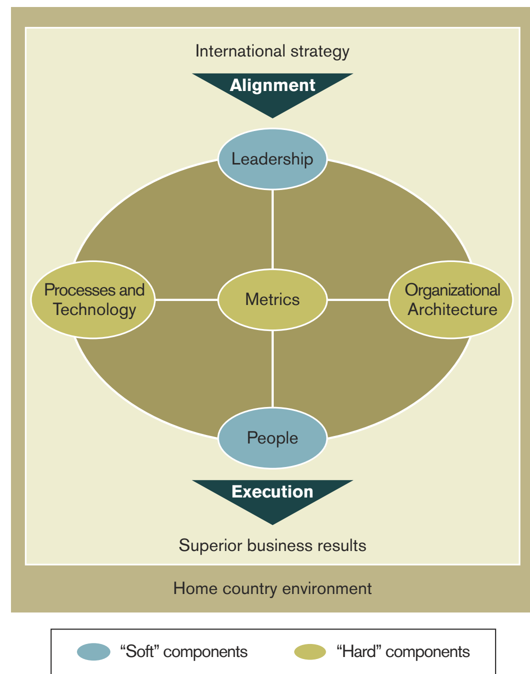
Rather than a loose confederation of far-shore material sources, low-cost-country factories, and remote call centers, companies bent on high performance now seek holistic approaches—global operating models—that allow them to rationalize supply chain processes across the multi-polar world. Given the complexity of this undertaking, maybe it isn't surprising that 95 percent of executives question the efficacy of their global operating models.

One way to increase that confidence level might be for developed-market companies to study the business approaches of emerging-market multinationals—and vice versa. Using the five core components of a global operating model (illustrated to the right), here are some examples.

1. Leadership. Global operating models of developed-market and emerging-market MNEs rely on strong leadership. Yet among emerging-market companies, leadership tends to be more personalized and centralized. Leadership is also more entrepreneurial, with top executives generally making faster, bolder decisions.

Emerging market MNEs are introducing more formalized and structured (Western) leadership styles. This can be both good and bad: Overly centralized decision making can slow newer companies' ability to penetrate developed markets. But underemphasis of entrepreneurial leadership by developed-market MNEs can also hinder their assimilation into emerging economies. Re-emphasizing entrepreneurialism is a lesson that developed-market MNEs can learn from their emerging-market counterparts.

Global operating model



Source: Accenture

2. People. Research suggests that the global operating models of emerging-market MNEs focus heavily on the development of interpersonal and interorganizational networks. For developed-market MNEs, a focus on people means extensive, formalized HR-management processes. Some emerging-market MNEs have started to emulate these processes, including career development training, annual reviews, performance-based rewards, and so forth.

But developed-market MNEs seeking to penetrate emerging economies also have something to learn from their emerging-market counterparts: How to perfect internal and external networking capabilities. For example, interpersonal relations are not a prerequisite for inter-firm networking in the West; but in China, personal networks are the very

(continued)

Narendra Mulani leads Accenture's Supply Chain Management service line. He has worked across a diverse set of retail, technology, and products clients, and continues to have responsibility for Accenture's global relationship with Procter & Gamble. He has been with Accenture since 1997.

basis of institutional networks.

3. Organizational architecture. Think of organizational architecture as how activities are grouped and regrouped (e.g., around geography, customers, products, functions); the extent to which power and authority are centralized or distributed; and the existence (or lack) of written policies, job descriptions and standard procedures.

At emerging-market MNEs (where authority is more top-heavy), an organizational architecture is less-fully incorporated into the global operating model. Developed-market MNEs are further ahead with network-based organizational structures (horizontal and inter-dependent relationships) that create cross-border synergies and respond to local market specificities. In today's multi-polar world, this approach is clearly preferable.

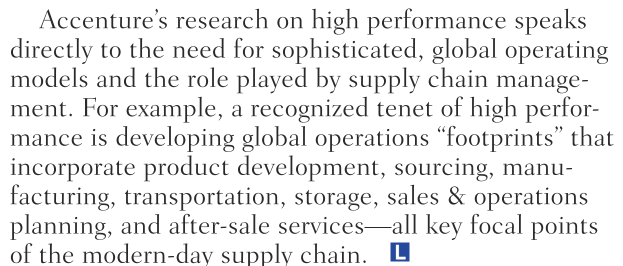
4. Processes and technology. These are the tools and activities needed to manage and improve the global supply chain: ERP, strategic planning, sourcing/procurement, resource allocation, customer relationship management, etc. In the global operating model configurations of emerging-market MNEs processes and technology tend to be less important than leadership and people.

However, a more modern balance is being sought. For example, Korea's Samsung was an early adopter of Japanese quality circles, while Mexico's Cemex was the first cement company in the world to use GPS technologies. Still, adoption of "enlightened ways" should not be so aggressive that emerging-market MNEs lose their distinctive strengths.

5. Metrics. Metrics tell companies how their global operating model is performing. For example, measuring the direction and intensity of trade between geographic business units can help gauge inter-unit cooperation. Metrics may also show a company that it is (or is not) generating sufficient economies of scale across boundaries (the ratio of central purchases versus local purchases for each geographic unit).

Not surprisingly, emerging-market MNEs don't use metrics as much as developed-market organizations. Emerging-market MNEs must emulate the West by putting clearly-defined metrics at the center of their global operating models.

GLOBAL OPERATING MODELS AND SUPPLY CHAIN MASTERY



Accenture's research on high performance speaks directly to the need for sophisticated, global operating models and the role played by supply chain management. For example, a recognized tenet of high performance is developing global operations "footprints" that incorporate product development, sourcing, manufacturing, transportation, storage, sales & operations planning, and after-sale services—all key focal points of the modern-day supply chain. L

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25TH ANNUAL SALARY SURVEY

SWIMMING AGAI

BY **JEFF BERMAN**, GROUP NEWS EDITOR

Logistics professionals are making progress on salary growth despite being battered by consistent waves of bad economic news.

Salary Survey webcast • March 25th at 2 pm ET • logisticsmgmt.com/salary09

NST THE TIDE

For three years straight *Logistics Management*'s (*LM*) annual Salary Survey revealed that the median salary of logistics professionals had leveled off at $80,000. It's worth noting that while the economy was not stellar during this period, it was far healthier than what we're experiencing in 2009.

Today we're being served up a veritable smorgasbord of bad news ranging from widespread layoffs, ongoing housing and automotive slumps, a paralyzing credit crunch, and a consumer spending slowdown that has put many retailers out of business and altered supply chain operations for companies of all sizes.

Yet, amid all this doom and gloom, we're happy to report that we can expose a sliver of light emanating from the findings of our 25th Annual Salary Survey. According to this year's results, it's evident that U.S. business is beginning to place more value on logistics and supply chain talent. In fact, the median salary for logistics professionals is up for the first time in four years, ringing in at $85,000. *LM* uses the median salary for what we deem the most notable annual figure, as it's the "midpoint" used when extreme highs and extreme lows skew the average.

Of course, given the current state of business affairs, that figure may come as a surprise to many. However, once you dig a little deeper into the data you can surmise that the uptick in salary may be directly linked to the passion logistics managers have for their work—and in turn, the bottom line benefit their passion is yielding.

This year, 60 percent of the respondents told us that they're quite satisfied with their careers in logistics and supply chain due mainly to things like a "feeling of accomplishment" (69 percent), "relations with colleagues" and "salary" (both 50 percent), "advancement opportunities" (36 percent), and perhaps the most important of all, logistics professionals say they that they like working in a "challenging environment" in which most days are unalike.

And while you may feel as if you're swimming against the tide in these troubled times, our findings prove that this passion, along with the ability to manage multiple tasks and make quick decisions on the fly, are all attributes that the corner office is noticing—and appreciating.

FROM THE TOP

Data for *LM*'s 25th Salary Survey is based on feedback from 1,219 respondents. The survey was conducted via e-mail during December 2008. More than 400 respondents—or 35 percent—participated in last year's survey; but despite the level of respondent turnover, the typical profile remains somewhat steady year after year.

This year's average respondent is a 46-year-old college-educated male. In fact, 85 percent of respondents are male and 92 percent tell us they've attended college. The average age of our female respondents was also 46. The typical respondent has spent 6.74 years with his current employer—up slightly from last year's 6.4 years—and has been in his current position for 5.1 years, up from last year's 4.8. Average length of work experience this year was 17

Figure 1

Pay ticks up in '08

Median salaries over the past 14 years. For the first time since 2003, salary is on the up and up.

Year	Median salary	Percentage change from previous year
2008	$85,000	5.9%
2007	$80,000	0%
2006	$80,000	0%
2005	$80,000	-4.5%
2004	$83,790	6.6%
2003	$78,600	1.0%
2002	$77,700	2.2%
2001	$76,000	7.0%
2000	$71,000	3.3%
1999	$68,700	3.1%
1998	$66,600	10.1%
1997	$60,458	5.0%
1996	$57,536	6.1%
1995	$54,218	2.4%

$ Median salary
% Percentage change from previous year

Figure 2

Heavyweight Titles

Once again, a heftier title means a fatter paycheck.

Title	Average salary 2008	Average salary 2007
Vice president/ general manager	$150,000	$134,000
Corporate/ division manager	$120,000	$115,000
Supply chain manager	$97,500	$93,500
Logistics manager	$81,500	$78,050
Operations manager	$75,000	$72,500
Traffic manager	$71,500	$65,000
Warehouse manager/ supervisor	$62,450	$65,000
Assistant traffic management/supervisor	$50,000	$48,000

Figure 3

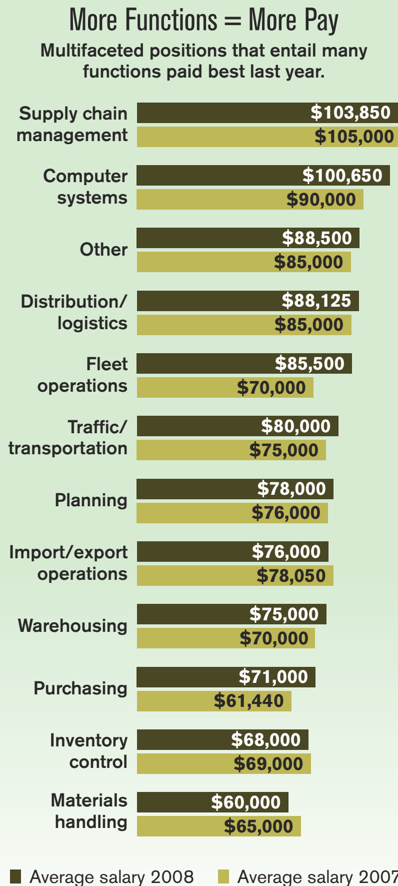


Figure 4

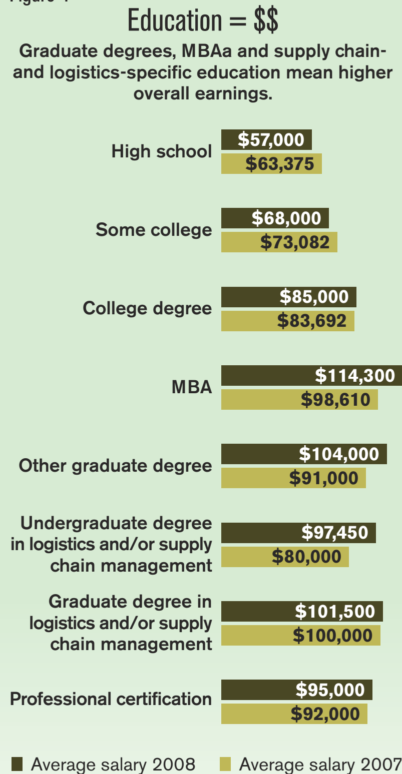
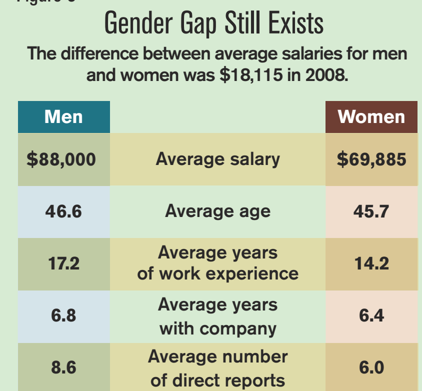


Figure 5

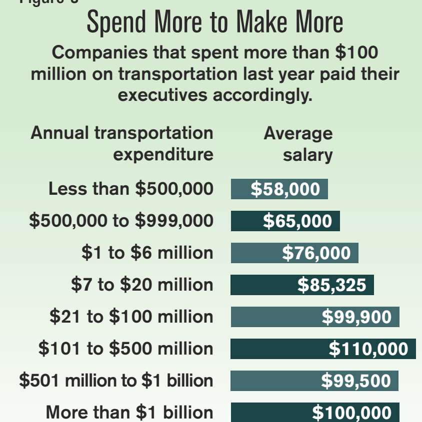


Gender Gap Still Exists

The difference between average salaries for men and women was $18,115 in 2008.

Men		Women
$88,000	Average salary	$69,885
46.6	Average age	45.7
17.2	Average years of work experience	14.2
6.8	Average years with company	6.4
8.6	Average number of direct reports	6.0

Figure 6



years, up from 15 years last year.

One quick takeaway from the above data is that the overall logistics workplace is becoming a little more mature, which may explain why salaries are up for the first time in four years. But if that's the case, it is likely temporary, according to Jim Rohan, senior partner at JP Canon Associates, a supply chain executive search firm in Manhattan.

"This trend will not continue," says Rohan. "In a year, salaries will either be noticeably down or flat. More companies are implementing wage freezes as a type of 'pain sharing' to go along with the former good times of 'gain sharing' across multiple industries," he adds. But even if this year's reported salary gains are, in fact, fleeting, Rohan notes that the logistics professional's role will continue to gain value in the eyes of top management as supply chains get longer—or shorter—and demand more sophistication.

While the median salary was up $5,000 this year, the median raise was 3.38 percent, just shy of last year's 3.6 percent. Average raises, however, were more in line with previous years. Seven percent of respondents reported receiving a raise of 2 percent or less, while 47 percent reported a 2 percent to 4 percent hike—matching last year's result for this range. Fourteen percent said their pay went up 5 percent to 7 percent, 6 percent claim an 8 percent to 10 percent gain, and a fortunate 4 percent exceeded expectations with an 11 to 20 percent hike. Finally, two percent saw their pay go through the roof with a 20 percent or more pay uptick.

With the economy still in decline, and companies on high cost-cutting alert, Rohan says it would not be surprising to see the 47 percent of respondents with a 2 percent to 4 percent raise see their pay drop down into the 1 to 3 percent range a year from now.

HEY, WHAT'S YOUR TITLE?

You know the old saying: The fancier your title the more you earn. Well, this year's data certainly validates that in the logistics and supply chain field.

As usual, vice presidents and general managers—10 percent of survey respondents—were at the top with an average salary of $150,000 for 2008, a 12 percent gain from last year's $134,000. Next were corporate and division managers, representing 8 percent of respondents, at $120,000, or a 4 percent raise from 2007's $115,000. And logistics managers, the largest group in the survey, earned $81,500 on average, topping 2007's $78,050 by nearly 4.5 percent.

Aside from your title, what you actually do in terms of job function has a

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Figure 7

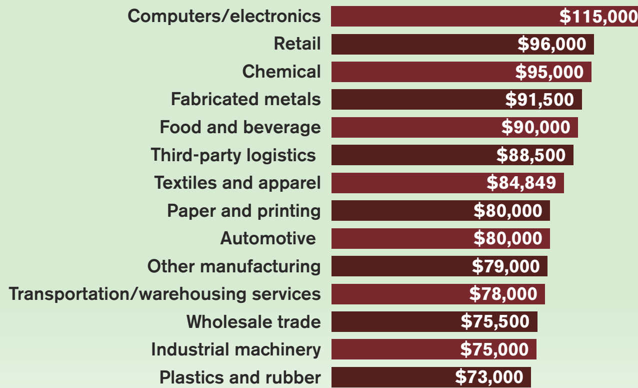
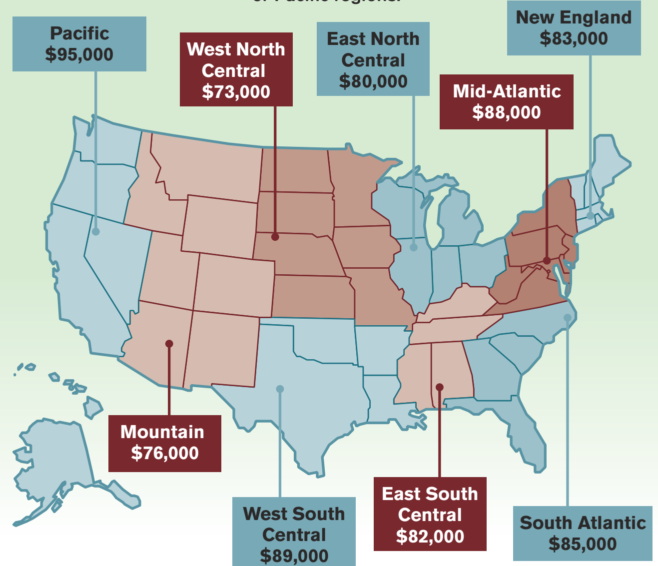


Figure 8



direct influence on what you make. Respondents with supply chain management as their main job function earned an average salary of $100,650, that's a sharp drop from 2007's $105,000. However, logistics professionals charged with "computer systems" check in with an average salary of $100,650, an 11 percent improvement over 2007 and putting it back on track with 2006's $110,000 average. Meanwhile, average salaries for more narrowly-defined, operations-oriented job functions such as purchasing, materials handling, warehousing, fleet operations, and traffic/transportation ranged from $61,440 to $75,000.

EDUCATION = $$

It shouldn't come as a surprise that the level of education you achieve coupled with the experience you have under your belt will influence your paycheck. However, this year we saw dips and hikes across the broad educational spectrum.

Respondents with a high school diploma earned an average of $57,000 last year, that's actually an 11 percent decrease from 2007. And those with some college experience took home an average of $68,000, a roughly 7 percent dip from $73,082 in 2007. Those with a bachelor's degree earned an average of $85,000, up nearly 1.5 percent from 2007's $83,692. The average salary for respondents with an MBA rebounded nicely from 2007's $98,610, shooting up almost 16 percent to $114,300. Interestingly enough, we wondered aloud last year if going for your MBA was actually worth the effort. Well, this year we stand corrected.

An education path gaining traction in recent years is supply chain- and logistics-specific education; and, once again, it presented some interesting Salary Survey data. Respondents with an undergraduate degree in logistics or supply chain management earned and average salary of $97,450, a whopping increase over 2007's $80,000 for this category.

To add to this trend, a logistics or supply chain management graduate degree resulted in an average salary of $101,500, a 1.5 percent bump from 2007's $100,000 average. A year ago it looked like MBAs and supply chain and logistics graduate degrees were on equal footing, but it now appears MBAs are leading the way when it comes to pay. Another area, professional certification like those offered by AST&L or APICS, were up 3 percent at $95,000 this year compared to $92,000 in 2007.

"Education is making a difference," says David Thomas, an executive recruiter at North American Findings Ltd., a Toronto-based logistics industry search firm. "Industry-specific degrees are being sought more by employers than they were in the past. The ones that have elevated themselves beyond the median salary are those with a higher education level, and it shows in this year's data," he adds.

WHO, WHAT, AND WHERE

As in any field, the longer you stick with something the better you will be paid. Respondents with one to 10 years of experience earned an average salary of $68,000, while those with 11 to 15 years of experience earned an average of $90,000. Average salaries leveled out somewhat at the 16- to 20- and 21- to 25-year experience levels at $88,000 and $90,000, respectively. Those with 26 to 30 years averaged $95,000.

As in past years, the respondent pool was male dominated at 85 percent. That said, male respondents averaged $88,000 while female respondents came in at $69,885. This $18,115 difference was less than 2007's $18,882

gap and down considerably from 2006's $21,385 difference from 2005's survey. This year's average male had 17.2 years of logistics experience compared to 14.2 for women, and men had more direct reports at 8.7 compared to 6.0 for women.

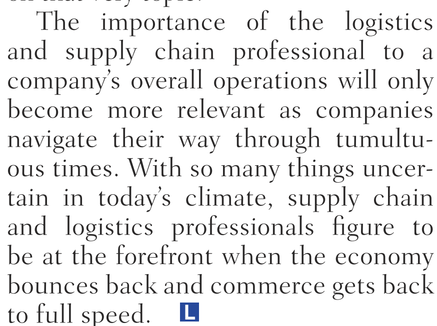
Typically, one of the more consistent annual findings is the correlation of average salary to a company's annual transportation budget. Those at companies with annual transportation budgets of $101 million or more reported an average salary of $103,167, while those at companies spending $100 million or less averaged $76,845.

As usual, we broke down salaries based on specific industries. Logisticians in the computer and electronics sector outpaced all respondents at $115,000. The retail and chemical industries were neck and neck at $96,000 and $95,000, respectively.

Not surprisingly, where in the U.S. you ply your trade has a noticeable impact on your wages. The Pacific region led the way this year at $95,000 (noticeably higher than last year's $86,000 average), followed by West South Central at $89,000. The Mid-Atlantic region placed third at $88,000. South Atlantic, New England, East South Central, East North Central, Mountain, and West North Central rounded out the pack with salaries ranging from $73,000 to $85,000.

AN UNCERTAIN FUTURE

At a time when the economy and job security are very fragile, it was encouraging to see salaries, for the most part, pointing in the right direction this year. Companies are continually being forced to do more with less, and one could make the argument that supply chain professionals are writing the playbook on that very topic.



The importance of the logistics and supply chain professional to a company's overall operations will only become more relevant as companies navigate their way through tumultuous times. With so many things uncertain in today's climate, supply chain and logistics professionals figure to be at the forefront when the economy bounces back and commerce gets back to full speed. L

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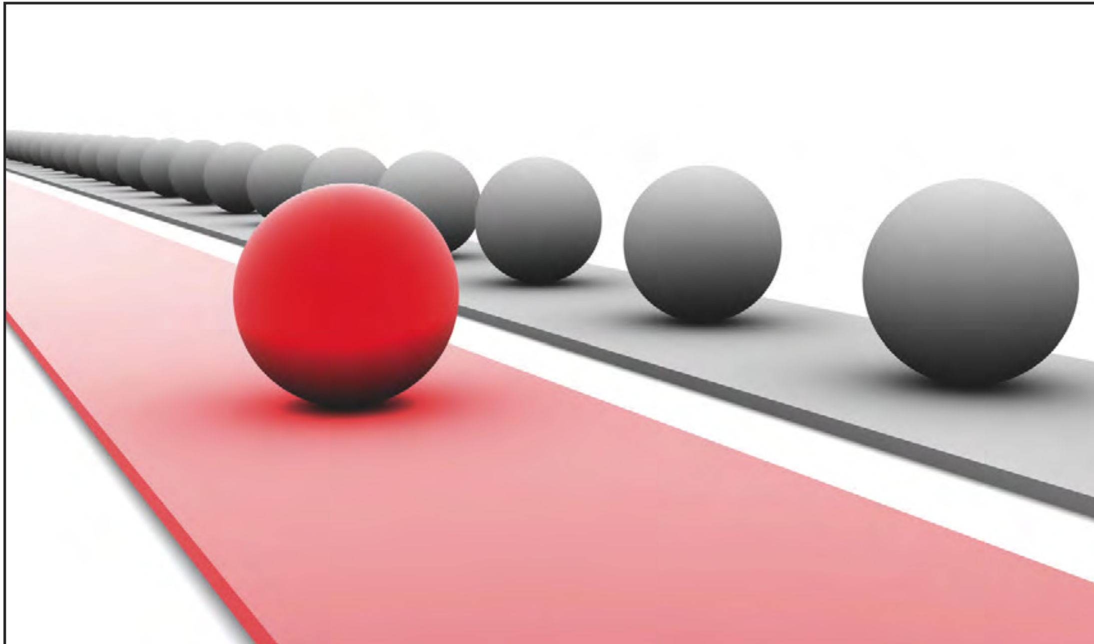

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TRUCKLOAD ROUNDTABLE

KEEPING IT ON THE ROAD

BY **PATRICK BURNSON**, EXECUTIVE EDITOR

As the price of doing business escalates for truckload carriers, will shippers get the service they require to help stage their own rebound? Our panel of industry experts tell us that it's not just about risk and reward anymore, it's about survival.

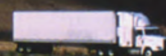
With the surface transport landscape littered with scores of bankrupt motor carriers, many analysts are suggesting that the truckload (TL) business is about as bad as it's going to get. In trying to determine what may lay in wait for TL shippers over the course of 2009, *Logistics Management* convened a roundtable comprising four of the industry's top thought leaders to shed some light on the gloomy situation.

Our esteemed panel consists of John Larkin, managing director of the transportation and logistics group of Stifel, Nicolaus & Company, Inc.; Eric Starks, president of FTR Associates, a major consultancy for the freight transportation industry; FTR's managing director Noel Perry, an economist and transport specialist who held senior research positions with Schnieider National and CSX; and Steven Neiman, principal with the Tioga Group, Inc., a multidisciplinary transportation and logistics consulting firm.

While there was no consensus on how deep the current economic downturn will go, the panel generated some very compelling conclusions and begged a few questions that may not be answered for some time to come.

***LM:* Is there a way to summarize the current state of the truckload market in a single sentence for U.S. shippers?**

John Larkin: It's going to take me more than one sentence, but basically the truckload market is in a depression. The credit crisis has pushed the bank-



Larkin

Niemen

Perry

Starks

ing system to the precipice and, in turn, has caused deep drops in manufacturing activity and personal consumption. Meanwhile, shippers have begun to reengineer their products, packaging schemes, and supply chains with a keen eye on permanently reducing transportation requirements.

Noel Perry: I have to agree with John. But if you want one sentence, let's just say the trucking industry is in the worst recession of our working lives.

Steve Neiman: And this is occurring at a faster and deeper rate of decline in the for-hire truckload industry in my memory. Worse yet, the bottom is not yet in sight.

Eric Starks: Let me add that the combination of low, or no freight demand and growing excess capacity means rates for many TL carriers are static or even declining.

LM: Let's attempt to put this into perspective: Where can shippers expect to see freight volumes heading the rest of this year?

Starks: The heavy declines of the fourth quarter will continue for the first half of this year, especially for carriers of durable goods. After that, the fall off will be more muted.

Larkin: I'll add that freight volumes will remain perilously weak at least through the first half of the year and perhaps longer. We will have to work through an inventory glut before we see any improvement.

LM: Can anyone offer some numbers to describe volume decline?

Perry: Shippers can expect significant reductions, say from 3 to 5 percent, between now and July with basically flat conditions the rest of the year.

Nieman: Those are good numbers, Noel, but we feel that each shipper has to speak to its own volume projections. There are some indicators of what might occur that might stem the downward trend, and then there's the historical fact that all prior downward trends have eventually flattened out and then started to rise in volume.

LM: With that in mind, where will we see capacity heading?

Nieman: Carriers will continue to shrink capacity as fast as they can individually until demand starts to increase.

Perry: I'll try to put a date on that. Capacity utilization will fall until late summer at which point significant capacity reductions will catch up to the demand and stabilize utilization and prices.

Larkin: Well, Steve and Noel are right on. I would simply add that capacity will continue to decline as big fleets continue to downsize their exposure to the truckload market, as long as small fleets fail, and owner-operators either park their trucks or have their trucks repossessed. We might see a few large carriers exit, but that is a function of the creditor's or the bankruptcy judge's willingness to allow certain companies to continue operating.

LM: Where do you project we're going to see company failure rates heading?

Perry: Failure rates will resume their acceleration through March and will increase until early summer.

Starks: But don't forget the impact of fuel. Recent declines in fuel costs have allowed some of the weaker carriers to avoid failure so far, but a continued rough freight market will bring about more, especially for smaller carriers and independent operators. We expect to see a large spike as we move through 2009 similar to, or exceeding, the one that we saw in mid-2000. It is likely to remain elevated through the majority of the year.

Nieman: I would add that the future rate depends significantly on the future prices for diesel fuel. If prices stay low, the number of failures will not spike as it did recently. Instead, the cause will not be fuel costs as much as continuing negative cash flows.

LM: Anyone want to venture a guess as to when company failures may spike?

Larkin: Company failure rates should spike in the first half of 2009 as freight volumes are incredibly weak. But fuel prices, by definition, cannot continue to favorably fall so dramatically. As a consequence, shippers will look to reduce their exposure to financially troubled carriers.

LM: What are the characteristics of a TL carrier that will survive this storm?

Neiman: The for-hire TL carrier that will most likely survive the current difficulties is solidly profitable even in current times, has significant positive cash flow, does not allow its shippers to extend payment terms, has a solid balance sheet, has a variable cost structure that allows it to shrink rapidly, gets a lesser fraction of its business through intermediaries, and says "no" to high pressure tactics from customers and brokers that resort to such.

Starks: And these tend to be larger carriers that generally have better resources to withstand tough economic times. But remember, good management never goes out of style. Those who are aligned with discount retailers and

"...if you want one sentence, let's just say the trucking industry is in the worst recession of our working lives.

—Noel Perry, an economist and transport specialist

other stable-demand sectors are looking to be much healthier.

***LM:* Any way to predict when the uptick in TL freight might begin?**

Perry: History tells us that it will begin in earnest early in 2010.

Larkin: Well, given that this is the biggest freight downturn in all of our professional lifetimes, we are navigating uncharted waters, so to speak. So none of us knows how long this will last. If someone held a gun to my head and asked me when freight would begin to show positive year-over-year comparisons, I would point them to the fourth quarter of 2009.

Nieman: I honestly can't predict. There are some economic indicators to watch such as factory orders, overtime, and the purchasing manager index; but even the reporting of that data can lag. The best indicator is for the carrier to be on sufficiently good terms with its customers that the customers are reporting the status of future orders to its carriers in an attempt to have the carrier ready to respond.

***LM:* When it does pick up will there be enough TL capacity to get the U.S. moving?**

Perry: No way!

Larkin: In fact, the period following the freight rebound will make 2004 and 2005 look mediocre—for the carriers that is—by comparison.

Starks: When demand finally turns the corner and gets hot, then we could see a historical capacity shortage that supersedes what we saw back in 2004. Much will depend on how long this downturn lasts. The longer the downturn the worse it will be.

Nieman: Traditionally carriers have been good at adding capacity when business gets stronger. However, the situation in the next two to three years is not going to be as favorable as it previously was. Many carrier management teams have learned the benefits that accrue by keeping capacity tight and they will strive to do so.

***LM:* Will the move from truck to rail persist, or was this something done out of necessity?**

Nieman: Diversion from long haul for-hire truck—only in specific lanes—to rail intermodal has been occurring for some years and I believe it will continue. It will accelerate as fuel prices increase as they did in mid-2008. Savvy shippers and carriers tend to favor rail intermodal when the conditions surrounding the shipment requirements are favorable.

"This can be a significant opportunity for shippers to reevaluate whom they do business with and to look for significant cost savings."

—Eric Starks, president, FTR Associates

Starks: Well, I believe the move from truck to rail was a fundamental shift but one that has recently paused given the freight slowdown. The fuel cost advantage of moving trailers onto rails has declined and the move from over-the-road to over-the-rails has stopped. The huge level of idled truck capacity will make it difficult to move more freight onto the rails; and eventually, more containers and trailers will again move onto rails, but not until an economic recovery.

Larkin: I'll add that the move from truck to rail will continue as shippers implement their sustainability plans and reduce their carbon footprints. However, in the grand scheme of things, that will not reduce the opportunity for success for truckers as rail intermodal only serves long-haul, high-density lanes anchored on either end by big cities and highly automated intermodal ramps. The vast preponderance of traffic lanes are still truck only traffic lanes. This is the key point that so many seem to miss.

***LM*: We now have a new President with a mandate for "change." What impact will the new administration have on the TL market?**

Perry: I say very little, if at all.

Starks: We don't anticipate any noticeable impact to the market. However, most government programs take a year or more to have any effect on the economy and freight demand. The expected stimulus plan could have significant impact on those carriers that are in the heavy-haul construction business, but this remains a relatively small part of the total freight market.

Larkin: I disagree with Noel and Eric. We feel the new administration is likely to be relatively anti-truck. Look for stricter security, safety, and environmental regulations, regardless of cost and impact to our global competitiveness. Security, safety, and the environment seem to be sacrosanct in Washington. Look for policy that endeavors to shift traffic from truck to rail as rail is viewed as the energy efficient, environmentally-friendly mode that will partially bail us out of our inability to generate adequate financing for highway infrastructure investments.

Nieman: Well, I think it depends on how the economic stimulus package is framed. Just because an action creates demand for freight service, that does not make it the preferable or the most successful plan to implement with TL.

***LM:* Finally, gentlemen, what advice would you give to TL shippers in light of what you just shared?**

Starks: The economic turmoil is not yet over and will keep freight demand weak for some time. But, this can be a significant opportunity for shippers to reevaluate whom they do business with and to look for significant cost savings.

Larkin: Align with the core carriers that you believe will survive a protracted downturn. Be kind to them with respect to rates now and they will be there for you in two to three years when we are experiencing what could be the mother of all capacity shortages.

Perry: Pretty simple, really. I would say to be conservative in 2009, but develop your recovery plans now.

Nieman: We all seem to be on the same page with this question. When times are difficult, as they are now and will be for the foreseeable future, good rapport with preferred carriers should be rewarded with good long-term relationships. L

5 STEPS to upgrading your compliance program

BY **SUZANNE RICHER,** PRESIDENT OF CUSTOMS & TRADE SOLUTIONS, INC.

Upgrading import and export compliance programs can be done through a series of steps focused on cost savings, regulatory compliance, and an increased awareness of how a product is brought to market. Here's how you can make it happen.

If you're moving freight across borders you're well aware that global trade is becoming even more complicated. Expanding security data measures such as the U.S. Department of Homeland Security's new Importer Security Filing (ISF) regulation, better known as 10+2, Consumer Product Safety Commission (CPSC) updates, and the increase in penalties for export violations all continue to push the limits of customs compliance professionals strapped with limited resources.

When it comes to customs compliance, most companies fail to recognize and reward the critical work being done by a very select team. Unlike sales and marketing teams where key players are rewarded for their efforts improving a company's bottom line, compliance teams strive to be seen and, most importantly, understood.

To move product globally, successful international supply chains require the dedicated effort of individuals in multiple departments interacting at a high level. Successful interaction at this level will reduce the risk of loss of freight or funds during this transaction.

This internal "compliance group" is taxed with the responsibility of successful international transactions; but yet many groups are limited in their ability to influence other departments in the process. Worse yet, they are often unable to sell senior management on why their area is so crucial to the company's bottom line. Viewing compliance as a profit maximizing tool instead of a regulatory requirement offers the potential for organizations to increase profit through specialized training and

A team of CBP officers board a ship to check cargo and check foreign workers.

improved communication—thereby making the compliance group the "go-to group."

Upgrading import and export compliance programs can be done through a series of steps focused on cost savings, regulatory compliance, and an increased awareness of how a product is brought to market. This focused transformation will result in regulatory compliance that is simultaneously less costly to perform and more successful in its mission.

Companies that recognize this positive impact on the bottom line tend to view the compliance groups not only as essential, but as the drivers of profit throughout the supply chain due to their impact on multiple departments. Let's walk through the steps to upgrade your compliance program.

STEP 1: REALIZE THE COMPLIANCE TEAM IS NOT A SINGLE DEPARTMENT

Import and export compliance, as with cargo security programs such as the Customs-Trade Partnership Against Terrorism (C-TPAT), are programs driven by Customs and Border Protection (CBP). Most companies assign the development of internal controls for moving freight globally around the import or export group without recognizing the role of associated departments.

Successful 10 + 2 implementation will absolutely require the education and cooperation of the purchasing department, since the details of the purchase order impact the compliance process. Companies that have succeeded in obtaining the coveted Tier 3 status of C-TPAT have developed a team lead by customs compliance, with team players from human resources, IT, purchasing, and related departments.

Recognizing the need for teams that extend beyond the core compliance group will provide a company with the greatest opportunity to lower costs and improve efficiency.

STEP 2: LOCATION, LOCATION, LOCATION

As important as location is to the art of selling real estate, so is the consideration of where a compliance team will be located within a company in terms of its reporting structure.

Mastering the art of moving product internationally requires a company to recognize the role of the compliance team and improve its internal location by aligning it with a department known for fiduciary responsibility, such as finance or legal. Locating compliance within departments subject to budget constraints—such as sales or logistics—will limit the capabilities of the compliance team to a budget constraint that no longer values accuracy, but is driven only by the compliance it can afford based off this year's budget.

To better understand this analogy, imagine placing your company's tax group under the logistics or sales department. Based on budget concerns and profit goals, would anyone be surprised if the taxes were improperly calculated before providing them to the IRS? Probably not; yet, customs compliance is routinely placed under sales or logistics departments with similar results.

Recognizing the need for teams that extend beyond the core compliance group will provide a company with the greatest opportunity to lower costs and improve efficiency.

Building an import or export compliance team should be aligned to the same principles that govern the creation of the tax department: accuracy, timeliness, and adherence to regulations—the sole driving force of a tax team. Also, customs compliance needs to have a goal that's tied to the company's corporate objectives and is clearly articulated for all to follow.

STEP 3: LEARN TO INFLUENCE WITHOUT AUTHORITY

Given the number and complexity of departments that directly or indirectly effect customs transactions, customs compliance professionals must develop the skills to influence others even though they don't have direct authority over those operations.

Acquiring this talent requires one to identify the stakeholders in the transaction and outline what's important to their department. For example, if purchasing is seeking to lower lead time, then provide them with guidelines that explicitly show how improving customs clearance will positively impact their lead-time. Seeking buy-in from other departments requires the ability to build and maintain relationships, work to overcome resistance, and, most importantly, offer a vision of how change could increase efficiency.

Until now, the usual practice has been to centralize the development of written controls, training programs, and risk assessment around the import or export staff with limited outreach to other departments. The requirement to develop additional controls with new programs such as 10 + 2 offers the opportunity to involve the affected departments from the very beginning rather than after the fact.

When multiple departments jointly develop written internal controls, the buy-in is practically guaranteed. To quote Steven Covey: "No involvement, no commitment."

STEP 4: IMPROVE TECHNICAL EXPERTISE

Major drivers for any well-run global supply chain include production, inventory, location, transportation, and customs clearance—and demands real-time information throughout this process. Typically, companies work as silos, with each department focusing on a single aspect of the supply chain without understanding how their position or activities affect other functions.

Everyone may have knowledge of the product they sell, yet few understand how it's brought to market. For example, purchasing department personnel may have no idea that they are now fundamental supply chain drivers. They need to understand the new role that they play, and in order to play it

well, will require increased expertise in global compliance.

Improving technical expertise requires that companies must place a priority on training based around supply chain drivers with an eye on customs compliance issues—since these factors permeate every step of a global supply chain. The end result is increased efficiency of the trade compliance operation and improved awareness of what going global really means.

STEP 5: REMEMBER, PARTNERSHIPS TRUMP INDEPENDENCE

Today's global compliance professionals are facing increasing demands to improve the fluidity of shipments in the wake of stricter regulations and increased cargo security measures. Benchmarking for excellence requires this group to seek new ways to harness innovation, technology, and networks to lower risk with potential supply chain disruptions.

The latest product recalls of many global companies have emphasized the need to anticipate obstacles and align all functions within a supply chain. Understandably, managing risk within this environment requires strategic partnerships from within the organization as well as through external partnerships.

The most often overlooked partnership within the supply chain is the government-to-business relationships and a company's ability to align them on a global level. Voluntary government programs for international supply chains have emphasized two areas of mutual concern between the government and global corporations: cargo security and regulatory compliance issues.

Often, companies volunteer for one program, such as cargo security, and avoid joining the additional program geared toward customs compliance that would give them the greatest benefit for supply chain risk management.

Border issues improperly handled result in the holding of shipments, storage fees, potential compliance penalties, and even the seizure or destruction of shipments. The business case for partnership with governments is the reduction of risk associated with certain disruptions, as well as allowing a company to commit to their own core values of protecting corporate brands and reputations.

TRANSFORMATIONAL DIPLOMACY

Aligning government initiatives with corporate supply chain risk strategy requires a level of transformational diplomacy. This needs to be a government/private-sector approach to building partnerships that go beyond promoting best practices by strengthening information sharing for greater transparency.

The latest U.S. government approach is the 10 + 2 initiative, requiring more advanced data to be transmitted at the time the shipment moves from the foreign port inbound to the U.S. Advanced data information improves the government's ability to target and hold high-risk shipments for further inspections and allows low-risk shipments to move through.

The European answer to the 10 + 2 approach is the "single window" concept. Single window is a web-based approach for all participants within a supply chain to access a single window where real time data will be available, including Customs clearance details for every shipment. Still in an exploratory stage, the single window could provide the necessary compliance and cargo security data elements all groups are seeking.

RISK MANAGEMENT FOCUSED ON COMPLIANCE + SECURITY

To achieve the benefit of a fluid international supply chain, global companies must align supply chain risk strategy across their trade networks by aligning their strategies with existing government programs.

The greatest benefit for reduced risk is obtained when a company joins a cargo security program that also has a compliance program attached—allowing the lowest risk score to be obtained. Some examples of these programs include the U.S. C-TPAT program and the Canadian FAST program.

C-TPAT importers are rated under a Tier system, with a Tier 1 level simply being certified into the program while a Tier 3, the highest status, recognizes

Subaru makes compliance job #1

SUBARU OF AMERICA (SOA), A WELL-KNOWN importer of vehicles and parts, holds the firm belief that customs compliance is an outreach of their company's core values, and as such, will only help improve supply chain efficiency. In 2000, when reassessing their corporate goals against their compliance goals, a decision was made to move the customs compliance team out of sales and out from under the wing of the finance department.

Tim Bright, director and assistant controller, oversees customs compliance with the guidance of Debra Jones, the customs compliance manager and a licensed customs broker. "We saw immediate benefits to our customs compliance program when we aligned it with our corporate goals and increased the department's visibility by overlapping the internal controls developed under Sarbanes-Oxley with trade and security programs," says Bright. "Today, we have a dedicated compliance and cargo security team that represents multiple departments and provides us with strong support when implementing and maintaining internal controls."

According to Bright, having the compliance expertise of Debra Jones on board has provided the group with a centralized resource for all employees, lending a strong sense of stability to the area. "In addition, our annual customs compliance training programs have kept the entire company informed of areas of global risk as well as how their individual positions contribute to the success of our programs," adds Bright.

Today, SOA participates in C-TPAT and is currently seeking ISA participation with assistance from their consulting group. They recognize the benefit of partnership that comes with volunteering in business-to-government programs.

-Suzanne Richer

Cargo is removed from an incoming ship newly arrived at the Port of Los Angeles/Long Beach. This is the largest and busiest port in the U.S., handling about 45 percent of all containers incoming into Customs and Border Protection.

the company's security measures as exceeding minimum requirements and demonstrating best practices.

C-TPAT importers at any level then have the ability to join a government's voluntary compliance program called Importer Self Assessment (ISA) which then takes them out of the pool of company's that can be audited under a Focused Assessment (FA). A C-TPAT/ISA participating company will be given preferential treatment in both security and compliance concerns.

Despite these benefits, only 160 companies in the U.S. currently participate in the ISA program of the approximate 12,000+ C-TPAT members. With an estimated 724,000 importers in the U.S. today, most companies are not taking advantage of a strategic approach to risk management through government to business programs.

Those same companies with Canadian divisions or Canadian suppliers could benefit from even lower risk ratings by having their Canadian counterparts join the Canadian cargo security program, or FAST (Free and Secure Trade), and then move into the voluntary compliance program, Customs Self Assessment (CSA), which has benefits similar to ISA.

Similar programs that overlap cargo security with compliance include the European Union's Authorized Economic Operator (AEO) and Sweden's StairSec. All in all, a global corporation with strong risk management strategies should align its global cargo security and customs compliance programs to achieve worldwide preferential treatment in all trade lanes in which these programs operate.

Instead, the achievement of C-TPAT rarely results in ISA participation and does not become the catalyst for joining similar programs in other countries where a company has other divisions.

CHANGE WILL BE A CONSTANT

Consideration of all these steps and factors forms the foundation for a company seeking and achieving excellence in their global supply chain import and export functions. Changes in regulations will always be with us.

The past decade alone has initiated previously unseen requirements for cargo security and data sharing. This part of our global environment will remain constant—change is here to stay.

Firms focused on building the fundamental elements highlighted above will weather the storm, embrace new regulations, and adapt to change faster than competitors. This will drive supply chain excellence, and at the end of the day, the product sold will be the quickest to market. And that now requires a true global mindset. L

Despite these benefits, only 160 companies in the U.S. currently participate in the ISA program of the approximate 12,000+ C-TPAT members.

Suzanne Richer is president of Customs & Trade Solutions Inc., a consulting firm specializing in international trade and cargo security. She can be reached at (609) 896-2210, Ext. 101, or via email at smricher@ctiadvisors.com

SUPPLY CHAIN TECHNOLOGY

GTM: Smooth sailing?

BY **BRIDGET MCCREA**, CONTRIBUTING EDITOR

Credit 10+2 for driving the Global Trade Management (GTM) growth that many analysts are predicting for 2009. And while many savvy global shippers are turning to it to manage import compliance, a surprising number still aren't sure how they're going to handle the new data demands.

Adrian Gonzalez opens a slew of e-mail messages every week from software vendors like Log-Net and TradeCard, all of which claim to have developed the best solution for managing the U.S. Department of Homeland Security's new Importer Security Filing (ISF) or "10+2" rule. As director of ARC Advisory Group's Logistics Executive Council in Boston, Gonzalez expects more e-mails ahead, along with white papers, webcasts, and other marketing blitzes, promoting solutions related to this regulation.

In many cases, those 10+2 solutions are being delivered as part of the more comprehensive Global Trade Management (GTM) software packages, which ARC segments into four specific areas: customs and regulatory compliance; trade financing and financial settlement; ocean/air procurement and contract management; and global trade visibility. "If there's going to be a bright spot in IT spending this year, GTM will probably be it," says Gonzalez.

Credit the new 10+2 regulation, first announced in January 2008, with driving much of that growth. The rule requires importers or their agents to submit 10 data elements to customs 24 hours prior to vessel departure, and ocean carriers to submit two additional data elements. The new rules have thrown some shippers into a tailspin, namely because existing regulations do not require importers to file some of this information at all, or they allow shippers to file within 15 calendar days after the shipment has arrived in the U.S.

The good news is that software vendors have mobilized to help shippers deal with these and other regulations that would be virtually unmanageable using manual processes. Here's a look at how GTM and ERP vendors are filling the void, as well as some steps shippers can take to deal with the increasingly complex global business environment.

WE'RE NOT READY YET!

According to Viktoriya Sadlovska, research analyst with Boston-based Aberdeen Group, a recent survey

of 349 companies (including 171 U.S. importers) found that 49.1 percent of respondents reported that they don't know how they'll handle the 10+2 requirement, while 21.6 percent are currently working to gain the required visibility to comply with the rule. Another 14.6 percent aren't preparing at all for 10+2, Aberdeen reports, while an equal number say they're indeed ready to deal with the new compliance.

"Right now, many companies are reconsidering the way they think about their global supply chains," says Sadlovska. "In the past, a company's supply chain partners (including carriers and 3PLs) handled many of the compliance processes. Now the actual data filing responsibility will fall on the company itself, thus increasing shippers' awareness of supply chain visibility and the need for GTM software."

Calling GTM an "emerging area" within the supply chain software sector, Sadlovska says the solutions are being delivered by a variety of vendors and come in both purchase-and-install and on-demand varieties. Much like it already has within the Transportation Management Systems (TMS) space, the latter is gaining ground due to the fact that it can be up and running quickly and at a lower upfront cost.

"The economic trends over the last year have pushed companies to become extremely cost-conscious," says Sadlovska. "The value of an on-demand GTM has been emphasized in these circumstances."

> **"I can't tell you how many messages I get a week about 10+2...It's the hottest topic out there right now, and that creates real demand from companies looking to use technology to solve the problem."**
>
> **—Adrian Gonzalez, ARC Advisory**

Gonzalez concurs, and says GTM is a good fit with on-demand thanks to GTM's reliance on trade content that must be updated regularly to ensure that shippers have the most accurate compliance information available. "Trade content is continuously changing," says Gonzalez, "and lends itself well to a subscription-based, central management system."

The Enterprise Resource Planning (ERP) sector is also gaining ground within the GTM sector according to Gonzalez, who singles out SAP as the market leader. The company launched its global solution several years ago and already has strong traction in the marketplace, he says. "SAP is able to present its clients with a broader value proposition," says Gonzalez, "namely because it has incorporated GTM as part of its larger, ERP offering."

Gonzalez says that Oracle plans to release its first GTM sometime in 2009, having announced its entry into the marketplace last year. "We expect similar success for Oracle's GTM," he adds, "based on the fact that there's a lot of pent-up demand from the ERP's current client base."

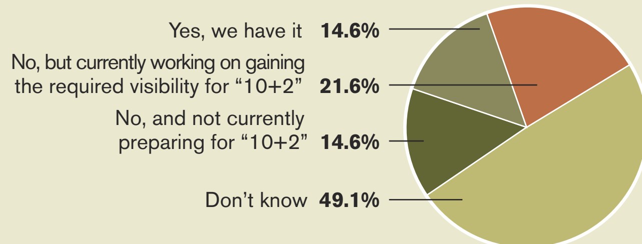
AN EYE ON COMPLIANCE

From her vantage point as president of Princeton, N.J.-based international trade advisory firm Customs & Trade Solutions, Inc., Suzanne Richer says shippers are beginning to understand the gravity of the new 10+2 rule, and are tapping solutions to help deal it. She gives credit to the U.S. Department of Homeland Security (cbp.gov) for posting the important compliance information on the Web, and for offering outreach programs in cities nationwide.

Richer says she sees 2009's "flexible enforcement period" as another plus for shippers that have yet to come up with a viable way to handle 10+2, and sees GTM playing a key role in getting those companies on track for the solid deadline in 2010. "Companies that start implementing compliance programs now will eventually be able to hit the target," says Richer. "On the other hand, those that are doing nothing are going to run into huge problems at the

Figure 1

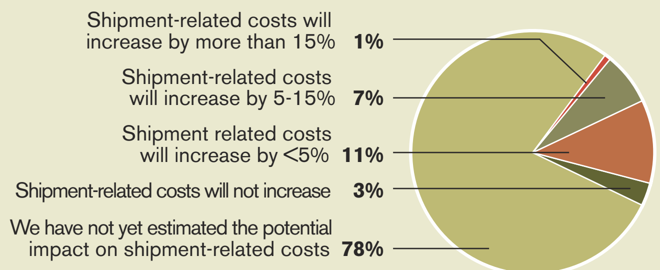
U.S. importers' visibility into the 10 of the "10+2" required data elements



Source: Aberdeen Group

Figure 2

How much will the "10+2" rule cost your company?



Source: Aberdeen Group

> **"Right now, many companies are reconsidering the way they think about their global supply chains."**
>
> —Viktoriya Sadlovska, Aberdeen Group

end of the year." (See Richer's feature, "Upgrading your compliance programs," on page 36).

Epson Portland, Inc., is a company that hopes to avoid those "huge problems" when 2009 wraps up and shippers are forced to comply with 10+2 or risk fines and penalties. Based in Portland, Ore., the company manufactures ink cartridges for Epson computer printers, imports from various international locations, and ships to sister companies worldwide. Already using a GTM from Integration Point, the company was beta testing the vendor's on-demand 10+2 solution at press time.

The solution takes electronic data from any supply chain partner able to send it, maps it to the requested data elements, and then provides the filer with a tool to fill in the blanks, if there are any. Using the solution, Epson Portland—which is ultimately responsible for the filing—can either handle the process itself or trust a third-party filer with the task.

The company's logistics supervisor says she's using the system to link item master details (for the security filing) with the item master detail that's already populated via the firm's GTM. Using shipment-specific Importer Security Filings (ISFs), she says she can import part classifications and origins into the forms to develop comprehensive item master details, which are then used for the 10+2 compliance.

One of the most attractive aspects of the Web-based solution for Epson Portland, says the logistics supervisor, is its ability to integrate with other Integration Point compliance solutions that are built on the same single, Web-based platform. "All of the item master detail is already in our foreign trade zone software," she says. "Rather than recreate an entire database that already exists, our GTM will allow us to use a 'link' function to input a part number and pull up the detail in order to comply with the 10+2 rule."

Unlike many companies that are still grappling with how they will comply with 10+2, Epson Portland is well on its way to being able to meet the end-of-year mandate for compliance. The best part, says the logistics supervisor, is that it will be done without having to hire any additional staff. "We're still going to have to input and manage data, and that will take some time," she says, "but I'm hoping that our GTM will help us do that as painlessly as possible."

Some leading GTM providers

- GT Nexus (www.gtnexus.com)
- Tradebeam (www.tradebeam.com)
- Management Dynamics (www.managementdynamics.com)
- Descartes (www.descartes.com)
- Precision (QAD) (www.precisionsoftware.com)
- Integration Point (www.integrationpoint.net)
- JP Morgan Chase Vastera (www.jpmorgan.com/trade)
- Log-Net (www.log-net.com)
- QuestaWeb (www.questaweb.com)
- SAP (www.sap.com)
- Oracle (www.oracle.com)
- Infor (www.infor.com)

NOT A CURE-ALL

Look for more shippers to turn to GTM solutions as the 10+2 deadline looms. Also expect on-demand GTM solutions to gain ground, says Greg Aimi, research director at Boston-based AMR Research. "Trade regulations are changing all the time," says Aimi, "and luckily these GTM vendors are digitizing the books of rules and regulations for shippers to use."

And while GTM will play an important role in 10+2 and other regulatory compliance, Gonzalez warns that it's not a cure-all for every shipper. "You can put a GTM solution in place, but it won't solve the problem of how you're going to get the information you need from your freight forwarders, carriers, and overseas manufacturers," says Gonzalez, "nor is it guaranteed that the data is timely, accurate, complete, and presented in the right format for customs."

So while GTM goes a long way in serving as the systems that consolidate the required information, says Gonzalez, "changing business processes and using elements like EDI and Web portals must be considered when it comes to getting information from the various entities."

The good news is that GTM can provide significant benefits for companies, particularly in terms of preventing delays at customs. "If there are any errors or exceptions, shipments can be delayed for days or longer," says Gonzalez. There's also the possibility of fines and legal actions—neither of which help a shipper's bottom line—that can be avoided with a robust GTM system. Finally, from a financial standpoint, Gonzalez says the increased supply chain visibility afforded by GTMs translates into lower total costs of shipping across borders.

Add up those benefits and you get a recipe for growth within the GTM sector in 2009. "I can't tell you how many messages I get a week about 10+2," says Gonzalez. "It's the hottest topic out there right now, and that creates real demand from companies looking to use technology to solve the problem." L

—Bridget McCrea is a Contributing Editor for Logistics Management

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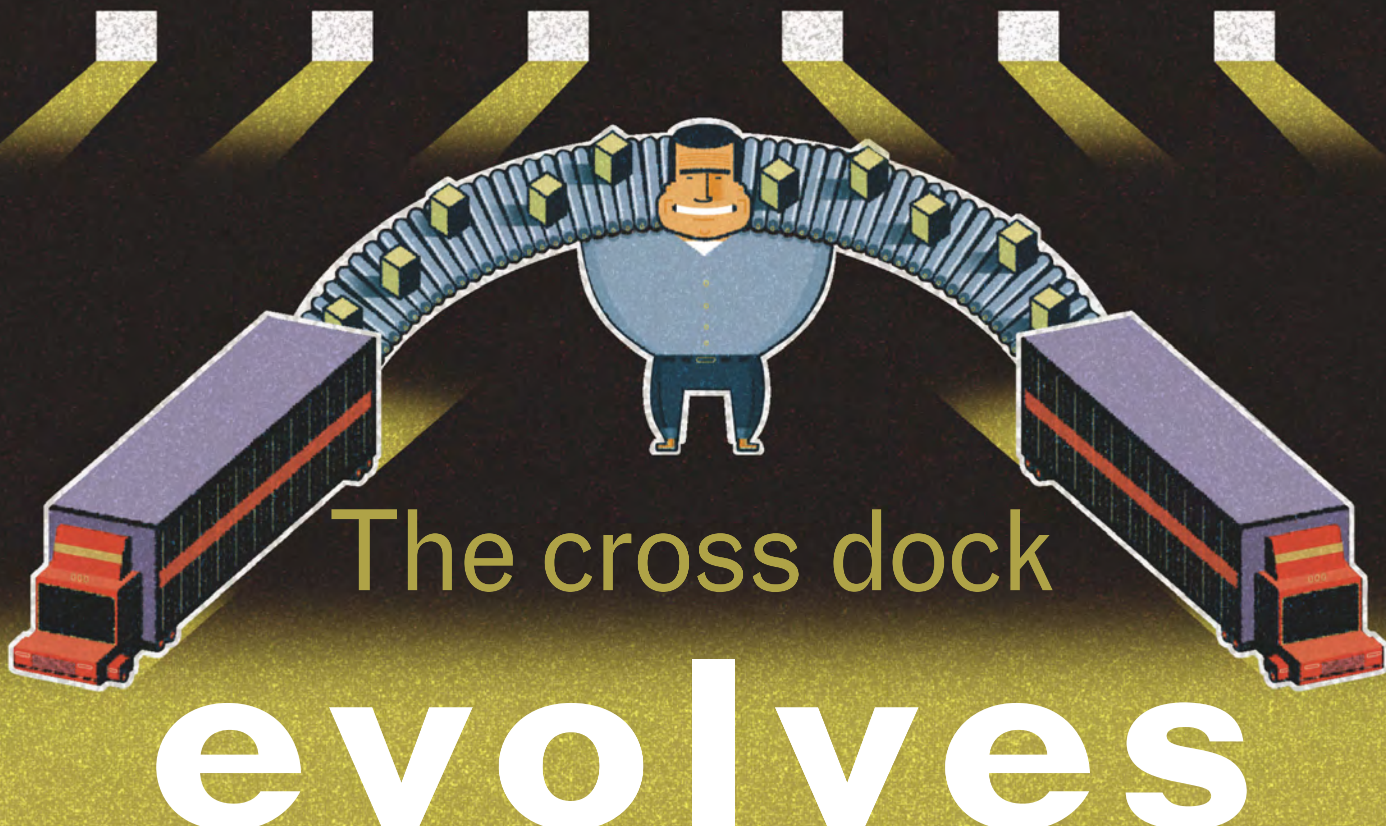

The cross dock evolves

BY **MAIDA NAPOLITANO,** CONTRIBUTING EDITOR

It's not just about increasing speed to market anymore. Today, cross docking is helping shippers make the most out of every mile—while cutting costs along the way.

It is not a pretty picture. Consumers are buying less, many retail stores are closing, and manufacturers are putting the brakes on production. The good news is that with less demand we're seeing fuel prices spiraling downwards…for now. So, how should this confluence of events affect your approach to cross docking, that age-old strategy of moving product directly from receiving to shipping with little or no inventory and minimal handling?

According to Mike DelBovo, senior vice president of 3PL provider Saddle Creek Transportation, Inc., cross docking should be, and will be, all the rage. "Now, more than ever, management is looking to find any way to save a dollar. This old concept has been made new again because it has been proven to cut costs."

Today's cross dock, however, is undergoing some twists and turns. Some traditional, "pure" cross-docking facilities are evolving by repositioning and becoming more flexible as they cope with changing global sourcing and destination points. And despite lower fuel costs, others are integrating with transportation strategies like consolidation and deconsolidation to maximize savings.

Cross docking goals have changed. It's not just about increasing speed to market anymore. In these tough times it's more about cutting costs, creating flexibility in your supply chain, and making the most out of every transportation mile. In the next few pages we'll take a look at what strategies and techniques cross dock operators and experts around the country have deployed so that they can better respond to challenging economic trends.

These strategies have transformed today's cross dock operations; and forced its evolution.

STRATEGY NO. 1:
Don't just cross dock, consolidate.

You cross dock when you move a pallet from receiving directly into shipping; but in order to achieve even more savings, schedule receipts and shipments so that full truckloads of outbound shipments are consistently created.

"If I bring 10 trucks in and immediately send 10 trucks out, I know I'm going to save on my warehouse cross dock by not going into storage. Now, the real value is in bringing 10 trucks in and shipping out only 9, consolidated. Now I save a whole truck; now we're talking big money."

Consolidation is the practice of maximizing cube on a trailer by collaborating with suppliers so that shipments can be combined into full truckloads.

It's a simple matter of economies of scale. The more you transport per mile, the lower your cost per unit. Cutting down one trailer a day may not seem like much, but if it can save you $1,000 per day. That's a lot of savings,

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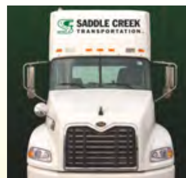

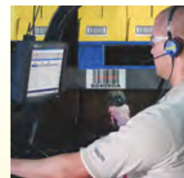

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Some traditional cross-docking facilities are evolving by repositioning and becoming more flexible as they cope with changing global sourcing and destination points. Above is a Saddle Creek cross-dock facility employee working on consolidating a load.

especially in today's cash-strapped environment.

STRATEGY NO. 2:
It may be time to relocate and deconsolidate.

As more products are being manufactured from across the Pacific, more East Coast-based companies have been relocating or adding West Coast cross docks and deconsolidating.

Deconsolidation is the process of breaking down a single shipment, which may consist of multiple ocean containers, into several smaller shipments and processing those shipments for immediate delivery. Combining that with a West Coast facility, you eliminate the costly and redundant transit of criss-crossing the country—twice—to ship from a West Coast port to an East Coast cross dock, then back across the country to West Coast stores.

For example, 40-foot ocean containers from Asia would arrive at your West Coast cross-dock/deconsolidation facility where product would get sorted and shipped to a retailer's distribution centers (DCs) in truckloads via higher capacity, less expensive, 53-foot inland transportation trailers.

Deconsolidating close to ports also enables the strategy of postponement. With ocean transit sometimes taking weeks, customers can postpone allocation of products to their stores until the product actually reaches port. By doing so, they take advantage of the latest demand trends, weather-related forecasts, or transportation costs variability.

STRATEGY NO. 3:
You cross dock some; you store some.

In an economy that's taking a downturn, where you may be stuck with long distribution lines and rapidly declining demand, there exists a basic imbalance between supply and demand. Jack Kuchta, assistant vice president of the warehouse and distribution center

Cutting down one trailer a day may not seem like much, but if it can save you $1,000 per day. That's a lot of savings, especially in today's cash-strapped environment.

engineering firm Transystems|Gross & Associates, explains that inventory's got to go someplace; product will need to go into storage.

"A likely result for retail chains will be a hub and spoke pattern with the spokes being cross-dock facilities that balance day-to-day fluctuations, while larger hubs are forced to carry greater inventory or storage," he explains. And although storage putaway runs counter to cross-dock principles, it may provide the flexibility needed to weather these tough times.

Instead of pure cross-dock facilities with many doors, DelBovo sees a trend towards a multi-use facility, using cross docking as a partial strategy and working in tandem with traditional warehousing.

STRATEGY NO. 4:

Investigate more creative and cost effective routes.

Today's cross-dock operators are re-routing and combining shipments to include multiple stops when picking up product from suppliers or when shipping them to customers.

"With this economy, what used to be truckloads shipping out to a cross-dock facility might change into half-truckloads," says DelBovo. "You may be costing yourself more per unit, because you can't get the full utilization of a truck."

For example, because of declining demand, supplier A in Nebraska and supplier B in Ohio may each be shipping only half-truckloads directly to a cross-dock facility in Florida, resulting in higher transportation costs per unit.

Consider first picking up the half-truckload from Nebraska, then the other half-truckload from Ohio to create a more cost-effective truckload for the long-haul travel to Florida.

STRATEGY NO. 5:

Use the latest technological forecasting tools that incorporate current market trends for planning your cross dock.

One of the most ideal items to cross dock are those with consistent, continuous sales such as "staple" items like milk and toilet paper. "The prime requisite for successful cross docking," says TranSystems' Kuchta, "is predictable demand."

Unfortunately, today's supply chain is characterized by a dwindling product stream with unpredictable demand causing today's cross dock to become more of a challenge to execute.

Kuchta suggests using demand modeling technology to help with predicting demand. "These are mathematical models that incorporate not only internal data but also current market data to predict how a business will react," he adds. "The better the tools you have for predicting demand, the easier it is to cross dock."

Sunbelt picks up furniture from multiple manufacturers and furniture importers, transports items to Sunbelt facilities where they are cross docked to furniture retailers in the 17-state "sunbelt" area that they service. The company cross docks about 5,000 pieces of furniture daily.

SUNBELT FURNITURE XPRESS TRANSFORMS ITS CROSS DOCK

Now that we've covered the strategies currently being used by cross dock operators, let's take a look at a recent cross-dock transformation story.

Sunbelt Furniture Xpress, a specialized carrier of new furniture, has been cross docking for 42 years. Over the past few months, the company has re-invented its cross-dock operation to combat a challenging housing and furniture market. Stan Froneberger, vice president of sales and marketing, explains: "As business has declined, we've had to work smarter to reduce handling, to reduce miles and to consolidate our loads to make them tighter and more defined."

The company picks up furniture from multiple manufacturers and furniture importers, transports items to Sunbelt facilities where they are cross docked to furniture retailers in the 17-state "sunbelt" area that they service. They cross dock about 5,000 pieces of furniture daily. The main bulk of their delivery—about 90 percent—goes to small chain retailers in the southern U.S. with six stores or less.

While some cross dock proponents may cringe at cross docking large, heavy, bulky furniture, it's been the key to Sunbelt's success. "Furniture can be an expensive commodity, so we're very conscious about not damaging the product," he adds. "With cross docking, there is less handling of an item, so you are less susceptible to damaging that item."

All of Sunbelt's freight is typically handled by hand with a two-man team. "Less than 10 percent is palletized, so

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we don't use any forklifts. Manual loading also allows for better stacking and packing of the product in the trailers creating tighter, consolidated loads while reducing shipping costs," says Froneberger.

And while the actual physical cross dock may be largely manual, the planning and execution behind the operation is where the company concentrates a large part of its technology. Using e-mails and fax, the carrier is in constant communication with its customers to set up pick-up and delivery stops. These are entered into a computer system where district fleet managers are planning routes, tracking every pick-up and delivery, consolidating loads, reducing excess miles, and eliminating deadhead miles.

Froneberger believes in the notion that "if a trailer is loaded correctly, then it delivers correctly." The company also keeps track of the hours and associated dock costs used to move the freight across each facility.

Originally, the company operated two large cross dock facilities within North Carolina. "By keeping track of costs, we realized that we were spending a lot of time and money shuttling between these two facilities," recalls Froneberger. North Carolina's furniture market was also changing significantly; major manufacturers were shifting production to low-wage countries in Asia. "We didn't see a need for 180,000 square feet of combined cross-docking space on the East Coast when we were seeing more products coming in on the West Coast," says Froneberger.

To top it all off, as home sales declined, the company saw its business decline. All of these major economic developments have paved the way for major restructuring changes in the way Sunbelt operates its cross docks.

"We opened a 15,000-square-foot facility in Fontana, Calif., and are consolidating into one larger 114,000-square-foot facility in Hickory, N.C.," explains Froneberger. Their Hickory cross-dock expansion is due to be completed in early 2009. In the short term, there are also plans to open another facility in Dallas, Texas, close to more ship points.

"When it's all said and done," he adds, "there's going to be the same amount of cross-dock square footage in the Sunbelt system, but it will just be more efficiently spread over three locations closer to ports and markets."

By not shuttling between facilities, there will be less handling and consequently less damage with fewer claims from damage. Froneberger sums up the overall benefits of his company's cross-dock restructure.

"It shrinks our customers' time to market and significantly reduces our transportation and handling costs. It becomes a win-win for everyone." L

—Maida Napolitano is a Contributing Editor to Logistics Management

Procrastination is the thief of time

By John A. Gentle, DLP

My Dad borrowed this quotation from the 17th Century English poet/critic Edward Young and wrote it on the back of an envelope that I now have in my den: "Procrastination is the thief of time."

It shouldn't come as a big surprise to anyone that he also gave me a sign before I headed off to college in 1960 with the inscription, "It wasn't raining when Noah started building the Ark." Coupled with my military training, this has, for the most part, defined how I've chosen to lead and manage my life and business practice.

Now, some may say that I have too much time on my hands these days. Maybe so, but that's also allowed me to fine-tune my observations about time and how undisciplined approaches to time management negatively affect supply chain and logistics processes—including best practices, consistency, problem resolution, results, and contingency planning.

Today, it's certainly easy to relate to those who claim they have too much to do and take short cuts in order to finish an assigned task on time. Most of these individuals fall victim to the "express to disaster" approach that they casually picked up from a colleague who doesn't understand the perils associated with not completely understanding a process system—let alone how to fix a complex problem.

I think that it's a lot harder to understand why employees miss deadlines or make errors when activity levels are light and there's more than adequate time to complete all the transactions properly. In these situations, procrastination levels tend to be high and process problems are normally related to a loss of concentration.

They wrongfully assume that because their work load may be light their colleagues work load is light as well; and, of course, everything will work out just fine when they get around to completing the task. Regrettably, the processes are still running on schedule either with or without their input. Meanwhile, they eventually learn that the opportunities that could have been harvested are lost or accomplished at a higher cost when the work isn't completed on time.

Good companies recognize that focus, pace, and process are inseparable—as is the need for consistency of training and real supervisory oversight. Training must encompass more than simply teaching and testing employees on how to enter data into systems. Quite often significant problems are created when we let a new person sit with a veteran, one who knows their way around the system, rather than a qualified trainer. Remember, a veteran isn't necessarily a qualified instructor. In addition to explaining to employees why process discipline and pace are critical to goal achievement, some companies need to begin placing a time clock on process charts. This, in turn, will help organizations recognize and track wasted time and opportunities, create KPIs that are time specific, and begin to realize that old fashioned supervision trumps self-directed work forces and ensures that the right processes are being followed and efficiencies are being harvested—every hour of every day.

Only individuals who are disciplined and have consistently practiced fire drills actually know the alternate exits and will survive a flash fire.

Only individuals who are disciplined and have consistently practiced fire drills actually know the alternate exits and will survive a flash fire.

Last year I challenged everyone to think about all the things that could possibly jeopardize your logistics operations. I also asked our readers to strongly consider the plans that you have in place to overcome those individual challenges.

For those of you who didn't take the time to start identifying those needs or are not sure that this is a good investment of time…perhaps this article can convince you that the pathway to success is paved by executing a well-defined and superior process consistently in the same tempo day in and day out. L

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Logistics MANAGEMENT

QUARTERLY TRANSPORTATION MARKET UPDATE: LTL

RUNNING on EMPTY

Carriers are hoping to ride out a "horrific" year in pricing and demand while shippers are seeking stable carriers in their flight to quality. How this drama will play out is anyone's guess.

by **John D. Schulz**, *Contributing Editor*

David Ross, a trucking analyst with Stiefel Nicolas in Baltimore, opened his mental thesaurus to come up with a few adjectives to best describe the current state of the less-than-truckload (LTL) industry.

He took a moment, and then ran down the following list: "atrocious, awful, dreadful, horrible, really nasty, ugly." Yes, that pretty much covers it. On the flip side, however, many shippers can only think of one word to best describe their LTL service and rate options for 2009: Wonderful.

Shippers should be feeling practically giddy since their LTL carriers—desperate to fill their empty trucks in the worst freight environment since the industry was deregulated in 1980—are increasingly engaged in price wars on many lanes. At the same time, carriers are offering ever-more innovative and non-traditional services while maintaining their core networks at 98 percent (or more) on-time reliability.

In fact, shippers who are renewing their LTL contracts this year can expect flat-to-declining real rates and sharply lower fuel surcharges from their carriers. In the mean time, carriers are adjusting their networks to attract the most profitable freight they can find in geographic areas where they have the best freight balance and lane density.

"It will be a buyer's market for LTL in 2009," says Satish Jindel, principal of SJ Consulting, an organization that has tracked the LTL sector for nearly 20 years. "The U.S. economy won't provide additional growth for demand…and at this stage, LTL customers are becoming price sensitive."

Jindel has analyzed LTL demand and

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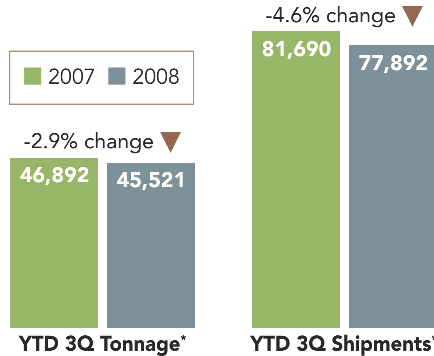
compared it with the number of trucks and terminals the industry operates and has come to a stunning conclusion. There is currently as much as 25 percent excess capacity in the LTL industry. Ironically, that's just about exactly the market share of YRC Worldwide, the LTL giant that one analyst recently called the "800-pound gorilla" in the sector.

Currently a $9.6 billion concern, YRC owns approximately a quarter of the market (see adjacent chart) in the $34.4 billion LTL sector. That sector has been basically flat for nearly 10 years as shippers and 3PLs are discovering less costly ways to move the same freight. "The market conditions are as tough as they have ever been," says Jim Fields, chief operating officer of Pitt Ohio Express. "We're fighting cost increase pressures from suppliers on one side and we're being challenged for revenue and margins from our customers on the other side," says Fields.

"There's just too much capacity," Jindel adds. "Unlike truckload where the big carriers are taking out capacity and the smaller guys are closing down, the LTL sector has kept capacity about the same. You even have some privately held LTL carriers adding terminals." Steve O'Kane, president of privately held A. Duie Pyle, is doing exactly that.

YTD 3Q comparison of LTL carriers

Shipments and tonnage (000)



**Count includes YRC, FDX Freight, Conway Freight, ABF Freight, ODFL, Saia, and Vitran*

Source: SJ Consulting Group, Inc.

Next month, O'Kane says Pyle is opening a 54-door terminal in New Brunswick, N.J., to prepare for the inevitable recovery. "Unfortunately, the economy is going to drive some capacity out of the market place and some of the competition may well fall under the weight of their own debt in these challenging times. We want to be positioned to ensure we have capacity, and take advantage of whatever opportunities are created in the market place to gain new customers."

What no LTL carrier can do at this stage in the game is sacrifice service, executives say. "Shippers want transportation that enhances their service and, at the same time, lowers their overall costs," says Phil Pierce, executive vice president for sales and marketing for Averitt Express, a regional LTL carrier. "It's not just a matter of getting freight from Point A to Point B any more, it's about finding the most cost-effective and efficient way to get it there."

Bad news and more bad news

Less-than-truckload, which accounts for only about 5 percent of the total $760 billion freight market, has inherent advantages for industrial and retail shippers alike. For one thing, LTL terminal networks are virtually impossible to replicate. Because of the cost of real estate for terminals and other factors, there have

Adam Aguilar, Dana Burleigh, Mick Noce and Brian Alexander of Unyson Logistics, A Hub Group Company

not been any significant new entrants in the market place for more than a decade.

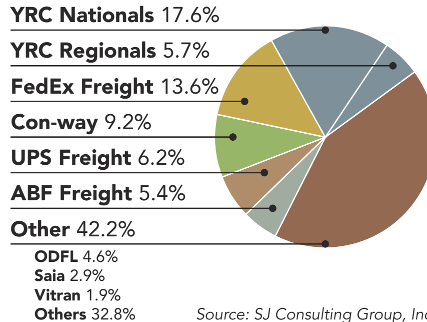
That's the good news for the overall LTL market. The bad news is that the market is flat even in good economic times. In today's environment, LTL's overall share is declining by close to 5 percent year over year.

That's largely because shippers have been increasingly consolidating LTL shipments into larger and cheaper TL moves. That has caused shipment weights to rise and shipment counts to fall and has resulted in generally weak pricing and yield for even the strongest players in the sector. In fact, LTL shipments among the major carriers dropped 4.6 percent in last year's third quarter as the recession deepened (see adjacent chart).

"Pricing is horrific," says Myron P. "Mike" Shevell, chairman of the Shevell Group, which includes Northeast LTL carrier New England Motor Freight (NEMF). "I've been in this business for more than 60 years and this is the worst I've seen it in 30 years."

Analysts tend agree with Shevell. Noel Perry, an economist with more than 30 years experience in both the trucking and rail industries and now a senior consultant with FTR Associates, says the country is in the "eye" of the deep recession. But he cautions

TTM 2008 LTL market share
2008 LTL market size: $33.84 billion



Source: SJ Consulting Group, Inc.

that the end of a recession does not mean immediate updates in transport demand.

"We need to clear the excess of housing, cars, and bad credit before demand takes off again," Perry warns. "So grit your teeth and hope for a bad 2009." And it appears that Perry is getting his wish. U.S. manufacturing in December fell at its fastest pace in nearly 30 years, according to the Institute for Supply Management's index.

Perry has a dire prediction that trucking, especially LTL, will get "progressively worse" this year before the start of a turnaround in 2010. Shevell and others tend to agree.

The YRC dilemma

The biggest question in the market remains YRC Worldwide which has posted losses in four of the past six quarters and is in the midst of massive downsizing, operation mergers, renegotiations, and payoffs of more than $2 billion of long-term debt which has been heavily weighing on the $9.6 billion company.

In the wake of double-digit tonnage declines at both its national and regional units, YRC recently won a 10 percent wage concession from its 40,000 Teamsters members who are also forgoing 3.5 percent cost-of-living adjustments through 2013. That amounts to annual savings of nearly $250 million.

In February, YRC was given a life line after it renegotiated debt with lenders and extended a credit agreement through April

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2012. That's a long enough time frame to support its merging of its long-haul Yellow and Roadway units, according to YRC President and CEO Bill Zollars. "We're very pleased with the support that we've received from our lenders and the spirit with which they've negotiated amended terms," Zollars said in a Feb. 13 letter to shippers obtained by *LM*. "Completion of the amendments reflects our lenders' support of our plans and our ability to execute them."

The new credit amendment helps YRC's financial liquidity, Zollars said. In addition, its new asset-backed securitization (ABS), which matures annually, recently was renewed. That allows for an additional $500 million in financing.

YRC has also been selling terminals to raise cash, and in some cases is still using those terminals in lease-back arrangements. The first real estate proceeds netted $150 million. Another $150 million in asset sales will strengthen YRC's cash position and also help in debt repayment, according to Zollars.

All this is designed to buy YRC some time to realize the anticipated $250 million or so in its Roadway-Yellow integration and other cost-savings. It recently cut 3,750 jobs associated with its Yellow and Roadway long-haul units; but even with these changes it's losing money.

David Silver, an analyst with London-based Benchmark Journal research firm, has an "avoid" rating on YRC, even with the wage concession agreement. "While this will help the bottom line throughout 2009, the weakness in tonnage demand and management's troubles in refinancing its debt will more than offset that benefit," Silver wrote in a YRC analysis to investors.

Lee Clair of Norbridge consulting firm says YRC has "significant problems" regarding debt and other issues. "What their outcome is will have a tremendous impact on the rest of the market," Clair says. "It's fluid and changing every day. How much capacity comes out is important because there is significant overcapacity."

While the jury is still out on YRC's chances of survival, most analysts believe the LTL giant falls into the category of being "too big to fail." And while its fate is still a big unknown, there are indications it might become a more profitable company on a smaller scale.

"YRC needs to look at itself the way a landscaper looks at a hedge," says Jindel of SJ Consulting. "YRC needs to trim itself down to become smaller and healthier. Down the road, just like a hedge, that trimming will make itself greener. That's green, as in money."

How do LTLs stay profitable?

While 2009 may not be a banner year for the LTLs, some progressive companies have already taken steps to improve profitability.

FedEx Freight this year began a guaranteed 10:30 a.m. service for an extra $75 per shipment fee. UPS Freight is shaving transit times by a day or more along thousands of city-pair lanes. ABF Freight System is continuing to hone its Regional Performance Model (RPM) which has helped the traditionally long-haul LTL carrier capture some regional freight. Averitt expanded truckload services into five states and opened four terminals in Texas in addition to adding its intermodal and ocean offerings.

With fuel prices falling, analysts and executives say LTL companies should be able to reinstitute some of the cost controls that were initiated over the past year. Controlling costs will be vital until demand recovers. Late last year, Con-way Freight began closing 40 of its 343 terminals and eliminating about 200 jobs to cut $35 million in annual costs. The carrier also took about 5 percent of its capacity out of its network, but officials emphasized that the move will in no way will compromise service. In fact, Con-way officials emphasize, their steamlined network is designed to optimize service.

John Labrie, president of Con-way Freight, said that carriers cannot afford even one bad experience with a shipper who is counting on truckers for that final, vital supply chain link. "We're providing customers with better service today than at any time in my 18 years with the company," says Labrie.

Today's uncertain economy has obviously made shippers skittish about dealing with financially marginal carriers, Labrie and others say. "More and more big shippers are concerned about the financial liability of carriers," Labrie says. "That topic comes up more and more. They are thinking about that in relation to supply chain disruption."

There is some bright news, however. Fuel continues to benefit carriers. It started dropping late in the third quarter of 2008, just as freight demand began to suffer. This is definitely helping shippers, who were paying LTL fuel surcharges as high as 38 percent last July. In January of this year, those fuel surcharges had dropped to around 14 percent, carrier executives said.

"Fuel is a help, but now you have no freight to put on the trucks," NEMF's Shevell says. "Demand has dropped off dramatically. But fuel savings has probably saved the real marginal carriers."

Gazing toward the future

No matter how the drama plays out, Norbridge's Clair says LTL carriers must restructure their networks, which were built incrementally as companies grew. But now in a flat-to-shrinking market, the key to profits is how well carriers restructure these networks, take out obsolete terminals, and put in larger ones to take out costs and improve services.

Pricing is another problem. Clair calls LTL pricing "a remnant of regulation that does not reflect anything other than regulation." He says carriers have significant opportunities to become more aggressive on pricing in selective areas where they want to deploy their most important assets and alter rates in areas where their costs are much higher.

Changes in the way parcel giants UPS and FedEx price their hundredweight services may also help LTL pricing. UPS has increased the minimum per-package weight from 15 to 20 pounds, which amounts to a stiff rate increase in its hundredweight services. That offers LTL carriers a chance to win back that service, Jindel says. "I'd be focused on controlling operating costs, building density by lanes, and investing in marketing," Jindel says. "They need to be cutting their capital expenditures to zero. But their marketing and sales efforts must be responsive to needs of shippers seeking lower costs."

But it can't all be about costs, Con-way's Labrie emphasized. "Most companies provide differentiation around service or the customer experience. They can't afford to risk that. Shippers are very concerned that their carriers do not put them at risk. That plays right into our hands. We want to assure that our customers win in the market place."

Still, the death watch is on for some borderline carriers. "Unless you're financially strong like we are and basically debt-free with major cash reserves, you're not going to be around," predicts NEMF's Shevell. "It's death waiting at the doorstep."

The consensus is demand may return to normal in the second half of this year. "While we remain optimistic, our experience thus far in 2009 is that just isn't a reality," says Averitt's Pierce.

John D. Schulz, is a Contributing Editor to *Logistics Management*

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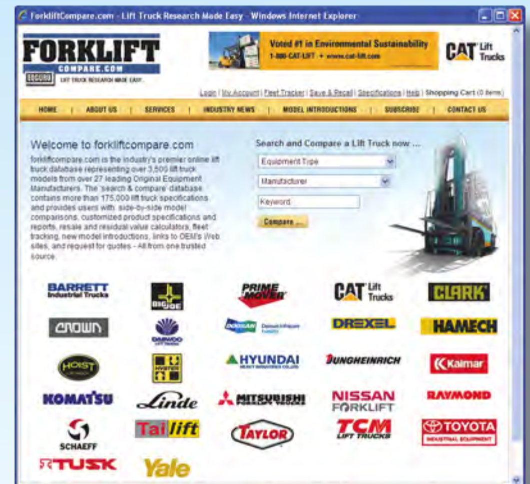

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