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SUBWAY'S BIG GREEN IDEA

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Elizabeth Stewart, Subway's sustainability director verizon wireless

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Management UPDATE

AN EXECUTIVE SUMMARY OF INDUSTRY NEWS

NRS Chairman Walsh remembered. *LM* regrets to report that Frank J. Walsh, Chairman of National Retail Services (NRS), a provider of global logistics services for U.S. retailers, recently passed away. Walsh led the transformation of his family's trucking business, which was owned by his father, into a large, global third-party logistics entity. Among his many achievements, Walsh led NRS as it established distribution operations on the West Coast next to the Port of Los Angeles as offshore outsourcing in Asia gained traction in the 1980s. He was also instrumental in collaborating with retailers to develop Electronic Data Interchange (EDI) communication.

Are you really measuring your carbon footprint? According to a recent Accenture survey, only a small number of companies monitor their carbon footprint, let alone have green initiatives in place. Of the 245 supply chain executives surveyed, only about 10 percent "actively model" their carbon footprints, according to Jonathan Wright, Accenture global director for supply chain fulfillment. Companies just aren't putting sustainability high enough on its list of priorities, Wright told *LM*, something that will change if companies place more sustainability-minded executives at the boardroom level. The survey also noted that 38 percent of respondents said they have started at least one green initiative in their private fleets, while 86 percent of the respondents have started at least one initiative in their warehouses—such as natural light, energy-efficient bulbs, and recycling.

Air cargo security on hold. Despite significant progress being made in screening cargo on passenger planes, there are still major challenges ahead on the path to safeguarding air cargo in the U.S. according to the Airforwarders Association (AfA). Testifying last month before the House Homeland Security Subcommittee on Transportation Security and Infrastructure Protection, Brandon Fried, executive director of the AfA, acknowledged the progress made in reaching the 50 percent milestone, but warned that there are three primary challenges still facing the Transportation Security Administration in achieving the 100 percent screening mandate by the August 2010 deadline. "The ease of attaining the first portion of the screening mandate should be both a sign of encouragement and caution," said Fried. "It proves that our industry and its airline partners can collectively rise to any challenge."

Border brawl. The Mexican government has placed tariffs on 90 American agricultural and manufactured exports as payback for the U.S. Congress' decision to officially nix the cross-border trucking pilot program between the U.S. and Mexico. The program was eliminated as part of the recently passed $410 billion Omnibus Appropriations Act, H.R. 1105, which was signed by President Barack Obama. Launched in September 2007, the program permitted up to 100 carefully-screened Mexican trucking companies into the U.S. for international deliveries and to operate beyond the 20-to-25 mile commercial zones along the U.S. Southwest border. But since its inception, the program was plagued by obstacles and set-backs, including a September 2008 Senate vote to terminate the program and a July 2007 amendment that intended to remove funding.

Matson still bullish. While many ocean carriers are pulling capacity and cutting service in

continued, page 4 >>

Management UPDATE

continued

the transpacific, a smaller player is announcing a bold move. Matson Navigation Company announced that it is expanding its presence in China to include the southern port of Xiamen—one of that nation's top 10 ocean gateways. "This is just one more way for us to differentiate our service during challenging economic times," a Matson spokesman told *LM*. With the additional port call in its China to Long Beach Express (CLX), Matson will provide the Xiamen region with a number of service features that have made it popular with U.S. shippers even during a down economic cycle. Analysts noted that fixed-schedule integrity, next day cargo availability on the West Coast, and one-stop intermodal connections are still highly regarded values.

■ **IATA alarmed by economy.** The International Air Transport Association (IATA) called on the cargo supply chain to battle the current air cargo crisis by improving security, delivering a better product, and boosting efficiency. "The industry is in crisis and nobody knows that better than our cargo colleagues," said Giovanni Bisignani, IATA's Director General and CEO, in a message to industry experts attending IATA's World Cargo Symposium in Bangkok last month. "Cargo demand has fallen off a cliff, and after a shocking 22.6 percent decrease in December it dropped a further 23.2 percent in January." As noted in *LM* in recent reports, air cargo represents about 10 percent of industry revenues. As 35 percent of the value of goods traded internationally is transported by air, air cargo is a barometer of global economic health. "The continued decline in cargo markets is a clear sign that we have not yet seen the bottom of this economic crisis," added Bisignani.

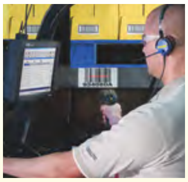
■ **Transpacific rate hike?** As the peak transpacific season approaches, ocean carriers comprising the industry's last rate-fixing cartel will try to charge shippers more. The CEOs of container shipping lines of the Transpacific Stabilization Agreement (TSA) have collectively voiced their intentions to raise rates as 2009-10 service contracts are being negotiated. As to whether any of them will stick is a matter of some conjecture.

At their most recent meeting in Tokyo, the 14 remaining TSA carrier CEOs expressed their intention to avoid any further erosion of the current rate structures by expiring, no later than June 30, 2009, any short term rates that have been reduced over the past four to five months. According to TSA chairman Ronald D. Widdows, some TSA members have not kept faith in ensuring that rates would be consistent with those of others in the trade lane, thereby failing to "arrest the (pricing) volatility." Furthermore, he said, this rogue behavior contributed to more erosion in a number of cargo segments, most significantly in the spot market.

■ **Suez Canal loses traffic.** As if piracy were not enough of a deterrent, several ocean carriers are now avoiding the Suez for the other "P" word: Pricing. Grand Alliance members Hapag-Lloyd, MISC Berhad, Nippon Yusen Kaisha (NYK), and Orient Overseas Container Line (OOCL) announced that they would re-route all eastbound EU3 service vessels around the Cape of Good Hope instead of transiting the Suez Canal. "The decision, which takes place with immediate effect, is in response to high Suez Canal toll fees, which are difficult for carriers to afford in the current economic environment," said an alliance spokesmen, adding that the Grand Alliance will consider re-routing more services if the overall economic situation does not improve.

■ **And the Port Person of the Year Award goes to…** U.S. Congresswoman Jane Harmon (D-CA). The American Association of Port Authorities (AAPA), a trade organization representing public ports in the Western Hemisphere, selected Congresswoman Harman due to "her role in authoring the SAFE Port Act of 2006 and for advancing other significant legislation to ensure the safety and security of America's seaports and the commerce flowing through them." Harmon received the award at the AAPA's Spring Conference in Washington, D.C., last month.

SADDLE CREEK



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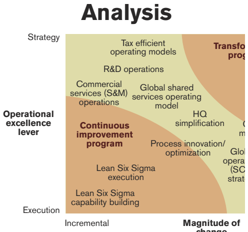

20 **Mulani on Excellence**

Special Supplement

It's unanimous: Trucking is a "scary" industry to be in right now. But top trucking executives say the economic downturn is no time to cut corners on service or operational excellence as they cope with industry overcapacity and shippers expecting rock-bottom rates.

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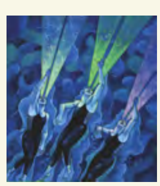

Hear Group News Editor Jeff Berman unveil the nitty-gritty details of *LM*'s 25th Annual Salary Survey and listen as recruiters tell you how to boost your carrer prospects in tough times.
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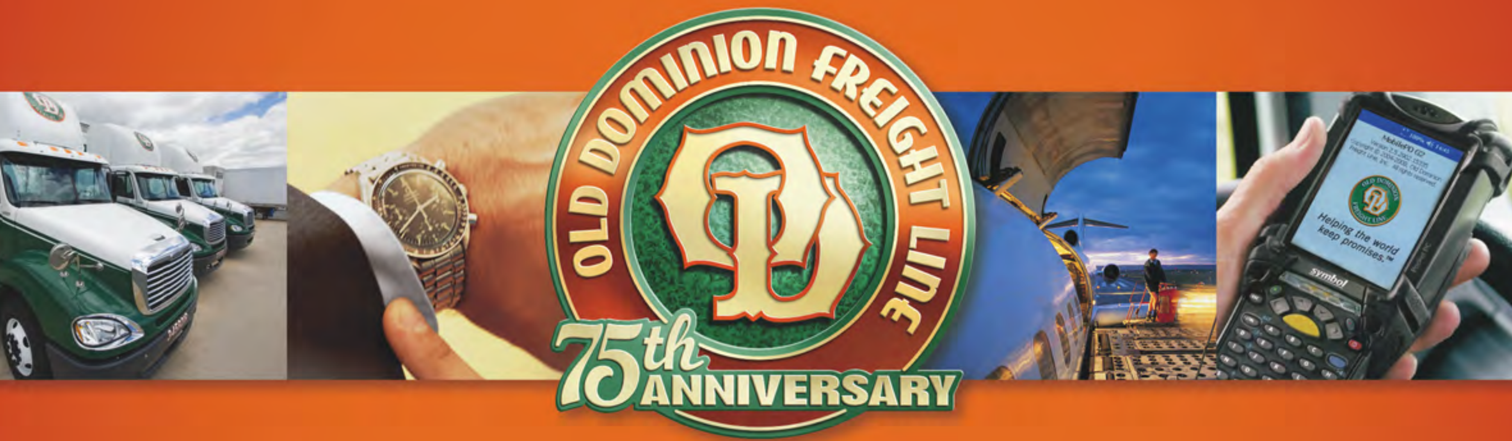


OLD DOMINION FREIGHT LINE
75th ANNIVERSARY

Green in action

WE BROKE THE MOLD with this month's cover story; and quite frankly, I couldn't be more pleased.

Instead of being inundated with more theory on why you should consider "greening" your logistics and transportation operations, this month you're going to learn from a major player that has actually implemented green best practices and is measuring the overwhelming benefits to its logistics operation, as well as its overall fiscal health—to great applause from the corner office I might add.

To deliver this more effectively, we asked this company to tell the tale of its green journey in its own words and actually define what the buzz words mean. What we find, starting on page 22, is one part "how-to" one part "case study" where the practitioner pulled its partners together to script what is the most insightful, "usable" story on green logistics that I've read to date.

What I like most about what's materialized is that Subway, of the now renowned "$5 footlong," shares its first-hand experience from concept, to reality, to benefit, to future planning, and pulls no punches along the way. Elizabeth Stewart, the company's sustainability director, along with IPC, its franchisee-owned purchasing cooperative, and Chainalytics, its green consulting partner, walk shippers through the process step by step, sharing their ground-level view of the challenges of going green and the subsequent solutions.

In turn, readers can feel the pain, but they also gain Subway's first-hand advice on overcoming the issues on the way to putting up some impressive numbers. What does reducing your carbon footprint actually entail? What's inventory's role? What is the overarching benefit of going green? If these questions have ever crossed your mind, you're about to get one step closer to answering them. What I think you'll find is a simple equation: Green = smart business.

Reducing your carbon footprint: Shippers are finding that their travel budgets have been slashed, keeping them away from important in-person continuing education events. With this in mind, *Logistics Management* is adding to its stable of virtual events with the launch of its *2009 Warehouse/DC Best Practices Virtual Conference* which will go live on Thursday, April 30th.

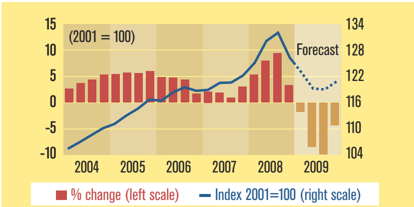
This event is a slight departure from the regular *LM* webcasts many of you already attend. This conference will feature five educational sessions, but will also have live chat, active movement in and out of exhibit booths, along with additional collateral resource centers and online learning. Go to logisticsmgmt.com/warehousevc to register. At press time, over 750 readers already had.

What does reducing your carbon footprint actually entail? What's inventory's role? What is the overarching benefit of going green? If these questions have ever crossed your mind, you're about to get one step closer to answering them.

Michael A. Levans, Group Editorial Director

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

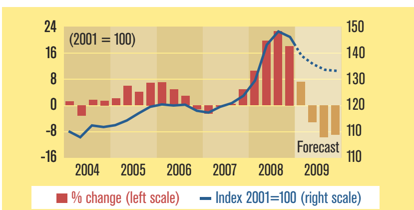
Pricing Across the Transportation Modes



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
General freight - local	0.9	-7.3	-1.2
Truckload	-0.2	-8.2	-3.8
Less-than-truckload	-0.3	-0.2	3.4
Tanker & other specialized freight	0.7	-5.0	-0.3

TRUCKING

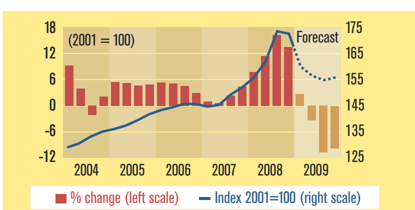
After a surprising 8.1% LTL price hike in January, the latest surveys from the Bureau Labor Statistics shows LTL companies cut their transaction prices only 0.3% in February. Running counter to overwhelming weakness in truck tonnage, LTL prices still stand 3.4% higher than February 2008. TL companies, meanwhile, are bending with the prevailing recessionary winds. Average price tags charged by TL companies fell 0.2% in February, which was the sixth consecutive monthly decline leaving tags 3.8% below February 2008 levels. A look at the overall trucking price index suggests prices will end 2009 close to price levels seen in Q3 of 2007, essentially wiping out the fuel-driven price run-up of the previous year.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Scheduled air freight	-5.9	-7.8	5.9
Chartered air freight & passenger	-2.9	N/A	N/A
Domestic air courier	-3.1	-17.0	-5.8
International air courier	-4.7	-16.5	-5.5

AIR

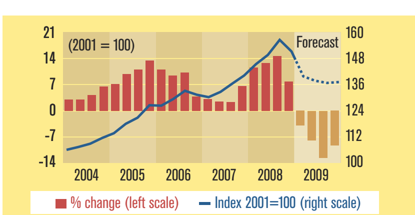
With a sharp 5.9% monthly price cut in February 2009, flying cargo on scheduled flights at last shows vulnerability to the global recession. It has been challenging to forecast a price index reported by the Bureau of Labor Statistics when the recent monthly prices were still jumping up 0.2% in January 2009 and up 2.6% in November 2008. After double-digit fuel-injected price hikes in the final three quarters of 2008, this survey data finally makes more sense. A new, lower take-off point for our forecast allows us to project prices for air cargo on scheduled flights to fall at least 4.5% in 2009. Next month we extend the forecast to 2010, which should yield more insights into the near-term air cargo price outlook.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Deep-sea freight	-11.4	-20.6	-3.6
Coastal & intercoastal freight	2.1	-1.6	-0.9
Grt. Lks.-St. Lawrence Seaway	0.0	0.7	6.1
Inland water freight	-0.4	-3.2	13.5

WATER

U.S. companies that move cargo over water reported a 4.7% monthly price cut in February. That was the fifth consecutive monthly price drop, but this time it was supported almost entirely by a 11.4% price decline reported by deep sea freight companies. Coastal and intercoastal freight transport prices actually increased 2.1%, while inland waterway freight tags fell by a minor 0.4%. The February price cut gave us a new take-off point allowing a much more competitive 5.5% annual decline in water transportation prices in 2009. As the World Bank forecasts the global economy in 2009 will be struggling with its first recession in more than 60 years, there's every reason to suspect U.S. cargo ships will have to cut prices deeper than ever before.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Rail freight	-1.9	-11.4	-4.3
Intermodal	-2.0	-17.1	-8.4
Carload	-2.0	-11.0	-4.0

RAIL

Railroad executives may spin a good story to Wall Street, but pricing trends reported by the U.S. Labor Department reveal how much trouble this industry faces in the recession. Rail prices declined 1.9% in February on the heels of a 4.3% drop in January. Worse still, when we look at rail industry price movements from the same month a year ago, we see tags dropped 4.3% in February and 2.8% in January. When carload and intermodal volume picks up, then prices will rebound quickly no doubt. But the year ahead will be rough for railroad companies as we forecast average prices to decline below year-ago levels in every quarter of the year ahead. Our revised forecast shows rail prices down 8.5% annually in 2009.

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

Senate Committee endorses railroad antitrust legislation

Opinions of industry stakeholders vary on long-term impact of removing antitrust exemptions for railroad industry.

By Jeff Berman, Group News Editor

WASHINGTON—The Senate Judiciary Committee voted by a 14-0 margin last month to pass legislation that would remove antitrust exemptions currently granted to the railroad industry.

The legislation, called The Railroad Antitrust Enforcement Act of 2009 (S. 146), was introduced by Senator Herb Kohl (D-Wisc.) and has been put in front of the House and Senate in various forms in recent years.

Its main objective is to bring the freight rail system under the nation's anti-trust laws and provide needed protection for various rail customers who have suffered from increased rates and decreased quality of service, according to an April 2008 letter by seven U.S. senators to Senate Majority Leader Harry Reid. Under the current limited antitrust exemption, shippers cannot sue railroads over rates and must appeal rate cases to the Surface Transportation Board (STB), noted a research brief from Stifel Nicolaus.

Along with removing antitrust exemptions for the railroad industry, the legislation will also:

- revise provisions prohibiting anticompetitive transactions except for those approved by specified federal agencies acting under certain statutes to eliminate the exemption for certain STB approved transactions;
- empower the Federal Trade Commission (FTC) to regulate and engage in antitrust enforcement regarding collective rate agreements and certain transactions, including railroad mergers and acquisitions;
- revise STB authority to provide that a rail carrier, corporation, or a person participating in an approved transaction is not exempt from specified antitrust laws; and
- permits treble damages against railroad common carriers in antitrust suits to parties injured by antitrust violations without regard to whether such railroads have filed rates or whether a complaint challenging rates has been filed, among others.

The Railroad Antitrust Enforcement Act of 2009 will remove antitrust exemptions for the railroad industry and provide protection for various rail customers that have suffered from increased rates and decreased quality.

As to be expected, there are varying views on the potential impact of this legislation.

On one side are shipper groups, most notably Consumers United for Rail Equity (CURE) that cited in a statement in March that the four largest Class I railroads—Union Pacific, CSX, BNSF, and Norfolk Southern—reported a combined $358 million year-over-year increase in 2008 fourth quarter revenue at a time when the railroads reported lower volumes. CURE contends that this highlights the ability of the railroads "to extract

RAILROAD, *CONTINUED*

greater profits per shipment through their monopoly pricing power."

CURE Executive Counsel Bob Szabo told *LM* that the two main problems with the current lack of antitrust enforcement are paper barriers—or contractual obligations incurred when short lines acquire lines from the larger, connecting carriers—and other bottlenecks that he said gives railroads an unfair and anti-competitive advantage over shippers on rates. If antitrust laws currently applied to railroads and the STB did not allow it to occur, he said these would be viewed as illegal transactions.

Even if antitrust exemptions for the railroad industry are removed, there are some that say that doing so would not necessarily make things better for shippers due to myriad factors.

According to William J. Rennicke, director of Oliver Wyman, a Boston-based management consultancy, one factor is that U.S. railroad freight rates are among the lowest in the world. Coupled with that, said Rennicke, is that the regulatory risk this measure may bring would drive private investors away from the railroad industry.

"The Department of Transportation is predicting an 88 percent increase in railroad freight tonnage by 2035," said Rennicke. "So, if you are going to have private capital come into an industry, investors want to invest in something where they are not going to be blindsided by changes in regulatory structure."

The Association of American Railroads (AAR) also opposed this legislation, stating that it has the potential to create an unprecedented and confusing regulatory scheme that could alter economic oversight of the railroads.

AAR President and CEO Edward R. Hamberger said that other U.S. industries—besides the railroads—operate with limited antitrust exemptions. He added that Congress has specified how to deal with the potential conflict between anti-trust law and economic regulation by an independent federal agency, except in the case of the railroad legislation being considered by the Judiciary Committee.

A *Logistics Management* survey of roughly 70 rail shippers found that 63 percent—or nearly 50 shippers—support the antitrust legislation, and some were succinct in describing how the industry is functioning without antitrust regulation.

"Under the present system, there is no competition by the railroads," one rail shipper told *LM*. "That leads to complacency, which contributes to the poor overall service provided by the railroads. There is little interest to invest in infrastructure and capital goods by the railroad." L

LEGISLATION

Battle royale brewing over card check legislation

WASHINGTON—In mid-March it appeared that four U.S. senators would likely decide the fate of the most controversial piece of labor legislation of the young Obama administration. The Employee Free Choice Act (EFCA) that unions want passed by the current Congress will probably be decided by the votes of Sens. Blanche Lincoln and Mark Prior of Arkansas, and Michael Bennet of Colorado. At one point Republican Senator Arlen Specter of Pennsylvania endorsed the bill, but he changed his tune in late March, saying in a Senate floor speech this legislation could "drive many companies out of business or overseas.

The first three senators are Democrats. Lincoln and Prior represent Arkansas, home of Wal-Mart and a host of non-union trucking companies, including J.B. Hunt, USA Truck, Maverick Transportation USA, and P.A.M. Transportation.

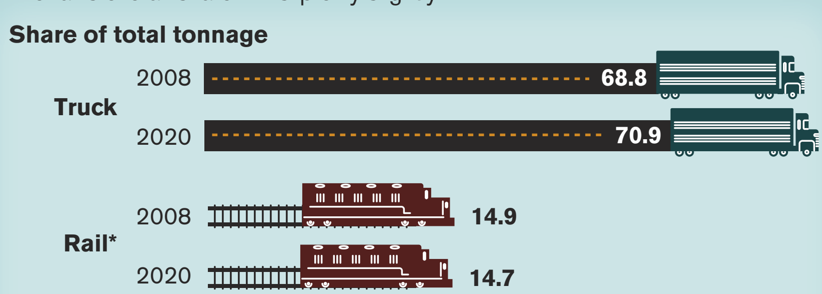
Today, the trucking industry is approximately 95 percent non-union, compared to about 90 percent unionized before the industry was deregulated in 1980. Except for large LTL carriers belonging to YRC Worldwide, Arkansas Best, and UPS Freight, nearly all of the other 214,000 for-hire trucking companies registered with the Department of Transportation are non-union—and would prefer to stay that way.

What the EFCA would do is make it easier for employees to form a union. Under current law, when at least 30 percent of workers sign a card requesting unionization a secret ballot election

News Capsule

The future is bright for freight

Despite the current weakness in demand for freight transportation services caused by the nation's recession, the long-term outlook remains bright for truck and rail freight transportation. Truck's share of total tonnage will rise gradually over the next decade, while rail's overall share will slip only slightly.



*(Rail = carload plus intermodal)

Source: American Trucking Associations, ATA U.S. Freight Transportation Forecast to 2020

LEGISLATION, *CONTINUED*

monitored by the National Labor Relations Board (NLRB) is held in order to certify a collective bargaining union.

Under EFCA, there would be no secret ballot vote. Instead, as soon as 50 percent of workers sign the cards, the NLRB would be required to certify the union. Supporters say the current system favors employers who often can take years to recognize a bargaining union. Opponents say taking away the secret ballot favors union organizers and can lead to intimidation.

David Congdon, CEO of North Carolina-based Old Dominion Freight Line Inc., a non-union carrier that ranks as the nation's seventh-largest LTL carrier, is an outspoken critic of EFCA. Congdon calls it simply "very bad legislation" not just for the trucking industry, but for all U.S. businesses.

I'm afraid of this legislation because it will affect small businesses in all industries. [They] are the backbone of our economy and I think the legislation, as it is proposed, will kill them."

—Chuck Hammel, president of Pitt Ohio Express

Some non-union trucking executives are not worried so much about their companies as much as its impacts on the industry at large. Chuck Hammel, president of LTL Pitt Ohio Express, said his company's overall pay package exceeds that of Teamsters-covered carriers.

"This will be devastating to family businesses," Hammel tells *LM*. "I'm afraid of this legislation because it will affect small businesses in all industries. Small businesses are the backbone of our economy and I think the legislation as it is proposed will kill them."

The U.S. Chamber of Commerce has begun a multimillion-dollar campaign against EFCA. Thomas J. Donohue, president of the 3 million-member Chamber, calls it simply a "union power grab."

However, how things will turn out is anyone's guess. "This is probably one of the most unique political issues I've seen in my lifetime," says Timothy Lynch, senior vice president of the American Trucking Associations. "I am making no predictions." L

—John D. Schulz, Contributing Editor

CARGO SECURITY

Freight forwarders cite serious issues regarding air cargo security screening

WASHINGTON—Despite significant progress being made in screening cargo on passenger planes, there are still major challenges ahead on the path to safeguarding air cargo in this country according to the Airforwarders Association (AfA).

Testifying last month before the House Homeland Security Subcommittee on Transportation Security and Infrastructure Protection, Brandon Fried, executive director of the AfA, acknowledged the progress made in reaching the 50 percent air cargo screening milestone (as mandated by "H.R. 1 Implementing Recommendations of the 9/11 Commission Act), but warned that there are three primary challenges still facing the TSA in achieving the 100 percent screening goal by the August 2010 deadline.

"The ease of attaining the first portion of the screening mandate should be both a sign of encouragement and caution," said Fried. "It proves that our industry and its airline partners can collectively rise to any challenge. However, serious issues have yet to be resolved, including the lack of approved pallet screening technology, ongoing financial barriers to participation, and the future of air cargo security policy in general."

Noted experts, including the Government Accountability Office (GAO), have stated that abandoning a risk-based security program in favor of screening may actually make the nation less safe.

"The ease of attaining the first portion of the screening mandate should be both a sign of encouragement and caution."

—Brandon Fried, executive director, AfA

"The Transportation Security Administration has limited resources, both financially and in terms of personnel, and it is an unwise use of those finite dollars and employees to treat each piece of cargo as if it has the same threat level," said Fried.

In an interview with *LM*, GAO spokesman Stephen M. Lord said TSA does not expect to meet the mandated 100 percent screening deadline as it applies to inbound air cargo.

"In part that is due to existing inbound screening exemptions and challenges it faces in harmonizing security standards with other nations," he said. "We are really focusing on compliance in 2010."

Meanwhile, TSA has taken several key steps to meet the mandate, including establishing a new requirement for 100 percent screening of cargo transported on narrow-body aircraft; revising or eliminating most screening exemptions for domestic cargo; creating the Certified Cargo Screening Program (CCSP) to allow screening to take place at various points in the air cargo supply chain; and establishing a screening technology pilot. L

—Patrick Burnson, Executive Editor

Planning to arbitrate a CCSB Classification decision? Think again.

Since 2003, the federal Surface Transportation Board (STB) has allowed parties dissatisfied with freight classification decisions made by the former National Classification Committee (NCC), and now its successor, the Commodity Classification Standards Board (CCSB), to have such decisions arbitrated. However, no party has opted for arbitration until just recently.

On December 12, 2008, the National Paint and Coating Association (NPCA) filed for arbitration. They were objecting to an earlier decision by the CCSB establishing a multiple scale of ratings (classes), based on density, ranging from class 60 all the way up to class 400. The proceeding was arbitrated by the Transportation Arbitration and Mediation, P.L.L.C., which is based in Washington, D.C. Fritz R. Kahn, well known in the transportation industry, was the arbitrator in the decision that was handed down on January 22, 2009.

In these types of proceedings, the burden of showing that the CCSB's decision was not supported by "substantial evidence" and was not "reasonably explained" is on the claimant, which in this case was the NPCA. The arbitrator ruled that the paint and coating manufacturers had not met its burden and found in favor of the CCSB.

To justify that a product should be subject to a multiple scale of ratings based on density, data gathered by the CCSB must show a wide range of densities. In this case, the CCSB's data showed a range of densities from 2.07 lbs. per cubic foot to 103.85 lbs. per cubic foot, with an average density of 31.26 lbs. per cubic foot. Of course, other factors were considered, namely liability (value per pound), loadability, and stowability, but were found to be within normal ranges. Density, in this case, was clearly the controlling factor, as it is in practically every case involving the establishment of ratings (classes) in the National Motor Freight Classification (NMFC).

Dissatisfied shippers should think twice before going to arbitration. The CCSB is usually very thorough about gathering evidence to support any proposal it initiates. If it is subsequently found that the CCSB's data is insufficient or incorrect and could lead it to a different decision, that information should be brought to the attention of the CCSB, along with a request for reconsideration. They're reasonable people, and if they agree that further consideration is warranted, they would most likely hold the matter open for further public discussion at its next public meeting.

Remember that the prescribed procedures in classification cases are not really characteristic of normal arbitration. "Indeed, the arbitrator is denied the ability to conduct a review of the evidence in the CCSB's public docket. The arbitrator's task simply is to determine whether to affirm the challenged classification action the CCSB has taken," said arbitrator Kahn.

Dissatisfied shippers should think twice before going to arbitration. The CCSB is usually very thorough about gathering evidence to support any proposal it initiates.

Even if a higher rating should be published in the NMFC, you always have the option of approaching your individual carrier or carriers to seek relief either by attempting to negotiate a lower exception rating or a favorable F.A.K. (freight, all kinds) rating.

Keep in mind that if you decide to challenge a CCSB classification decision through arbitration, the burden is on you to show that the CCSB's decision was not supported by "substantial evidence" and was not "reasonably explained." L

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

When to make "exact change"

Supply chain executives are currently facing two distinct road blocks. First, there's the disruption borne of globalization; and second, there's the fallout from the global economic meltdown. As a result, many supply chain executives are now looking for new answers and approaches to operate more effectively—and are replacing their supply chain operating model.

This is not a task to take lightly. However, supply chain executives may be prone to focus more tightly on the nature of their new or revised model than on how those changes will actually be enacted. But making change is really the more critical issue.

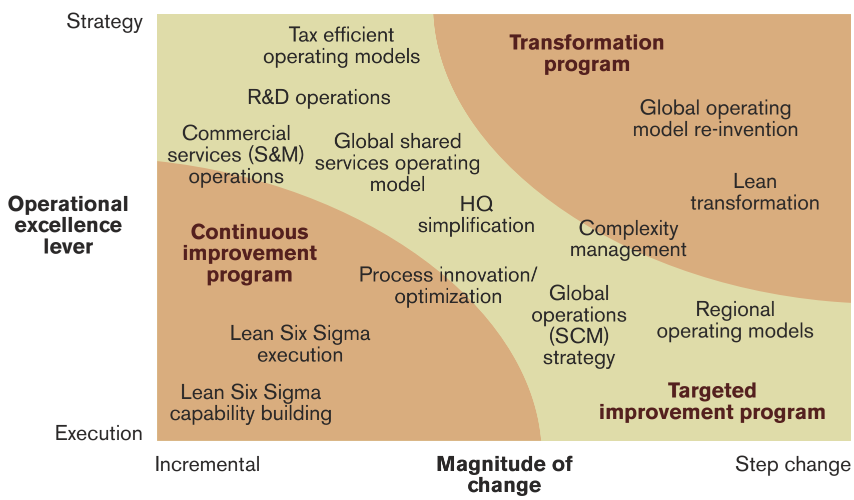
Accenture's view is that while multiple paths to change exist, only one path is optimally suited to any particular company's attainment of operational excellence. After all, companies vary significantly in their ability to accept risk, accommodate change, marshal resources and so forth.

For this reason, it may be helpful for supply chain executives to begin thinking about the change process as much as they think about their new supply chain model. Based on our experience, it is helpful to think about the process in terms of three high-level choices: a continuous improvement program, a transformation program, and a targeted intervention program.

Continuous improvement usually involves a large number of small initiatives that are led by divisional or geographical leaders. Those efforts yield quick benefits and require relatively small investments. The continuous improvement journey best suits an organization that believes it has a solid target operating model defined and that favors decentralization of authority to carry the model out. Common drivers include:

- recent, but not yet optimized, investments in new capabilities;
- awareness of untapped operating potential;
- need to reduce execution costs and improve margins.

Zurich Financial Services used a continuous improvement approach when it set out to become recognized as "One Zurich" in its key markets. Focused on standardizing business processes and methodologies, the initiative helped the company improve its core skills and lay new foundations for profitable growth. Zurich Financial Services estimates that this approach has yielded more than $2 billion in efficiencies.



Choosing the right change journey to operational excellence is as important as deciding what changes need to occur.

Targeted intervention seeks to hone in on the area of greatest need—the action(s) likely to yield a high return on investment. With targeted intervention programs, there is typically a sense of urgency, a compelling reason to change or a newly identified opportunity for growth.

Given these incentives, organizations often decide to make big changes to their operating

(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.

model, but opt to do it one piece at a time to minimize risk.

Often the focal point is supply chain functions or processes, such as creating a new shared services entity or moving select supply chain operations to a tax-favored locale. Two important criteria are a relatively high certainty of a positive outcome and return on investment that is easily measured.

Global Bakery Corp. chose a targeted intervention approach to integrate a key unit with the rest of the business. The primary thrust was folding a business unit strategy into an overall corporate strategy. The company estimates that its efforts helped reduce costs by $75 million, while increasing annual revenue by more than $40 million.

Transformation programs involve change on a grand scale, almost always with complete reinvention of the operating model and big shifts in the organization's structure. Where there is the right DNA and the right C-level leadership to drive the program, transformation is usually the fastest way to get major change implemented. Common drivers include worrisome competitive activity and a recognized need to increase global agility or tap new markets.

Unilever's "One Unilever" program exemplifies transformation, with three broad-based initiatives:

1. Move to a single harmonized IT system—a precursor to supply chain optimization and simplification.

2. Identify restructuring and acquisition opportunities that help create a more focused portfolio of brands and a more competitive cost structure.

3. Implement a pan-country operating model to raise efficiency.

SELECTING THE RIGHT RESPONSE

So how do companies know which of these journeys to take? Accenture's experience is that the path to operational excellence is clearer when companies fully understand the discontinuities (paradigm shifts) driving their change journeys. In effect, they spend a great deal of time examining the impetus for change.

Making clear-eyed assessments of the strengths and weaknesses of their current operating model also helps, because journey choices are determined largely by a company's own characteristics—its capacity for change, the skills and experience of its leadership team, its operating efficiency and the personal characteristics and leanings of its top managers. We have also found that the industry itself may provide clues. For example, most financial institutions choose targeted interventions, whereas retailers tend to choose continuous improvement.

Confronted with an onslaught of discontinuities, more and more businesses are seeking to change the basis upon which they compete; and they face profound choices about how to make those changes happen. Daunting as these choices may be, they are far preferable to the alternative, which is making no decision at all. L

Over the last three years, the quick-serve leader's green logistics strategy has cut carbon emissions by 120,000 metric tons and reduced its oil consumption by 277,000 barrels annually—all while growing its number of stores by 12 percent. And they've only just begun…

SUBWAY'S JOURNEY

BY TINA FITZGERALD, DIRECTOR OF PRODUCE AND SOCIAL ACCOUNTABILITY, IPC;
TIM BROWN, PRINCIPAL, CHAINALYTICS, LLC; AND ELIZABETH STEWART, SUSTAINABILITY DIRECTOR, SUBWAY

In 2006, Subway decided to put a stake in the ground and become the greenest quick-serve restaurant in the world by taking waste and inefficiency out of the system in four areas: energy efficiency, resource conservation, waste reduction, and food safety. Today, the company is well on its way to achieving this goal—and a green logistics and transportation strategy has played a vital role.

Some of the early numbers speak for themselves: Over the last three years, Subway has reduced carbon emissions by 120,000 metric tons and reduced oil consumption by 277,000 barrels annually while its number of North American store locations grew by 12 percent to 24,262.

The company equates its success to its traditional focus on corporate responsibility; and with customer awareness increasing, Subway formalized its many conservation initiatives

TO GREEN

Subway's Sustainability Director Elizabeth Stewart visiting a Subway store in Milford, Conn.

into a greater green strategy.

For example, the company's motto, "Eat Fresh," blends nicely into its green vision. Whether procuring produce locally, or baking bread onsite, many of Subway's overarching corporate ideals about freshness also yield the best green approach. Procuring things locally not only brings the freshest product to customers but also requires less transport, less handling, and subsequently less energy.

The company believes that if it succeeds at creating a supply chain with a broader, more localized supplier base, the results will be evident. It's projected that this move to "localize" will cut carbon emissions by 25 percent—an ultimate long-term goal for Subway.

The company is already making great strides. Recently, it convinced Southwest Baking and Otis Spunkmeyer to add bakery production in Arizona, South Carolina, and Texas, reducing shipping costs on its largest, most transportation-intensive product. While it still procures many items from a single source, procuring locally continues to be a key driver of its green mission.

For many firms, moving toward a green operating environment is now a necessity. Recently, President Obama announced plans to initiate Cap and

Subway by the numbers

Carbon emission cut in three years:	120,000 metric tons
Annual reduction in oil consumption across all SC initiatives:	277,000 barrels
Truck miles saved:	9.3 million
Gallons of diesel saved in distribution& logistcs:	1.6 million
Annual shipments saved:	16, 653
Gallons of water saved annually from low-flow sink aerators:	41 million
Gallons of water saved using recycled materials in napkin production:	60.5 million
Trees saved annually using 100% recycled materials in napkin production:	147,000

Trade allowing eco-friendly companies to exchange carbon offsets for financial gain with companies over industry limits. This program is already active in Europe while a smaller voluntary version called the Chicago Climate Exchange is now active in the U.S.

For others, green is a way toward improved financial performance and supplier relationships. Wal-Mart recently announced that it would be supplied 100 percent by renewable energy (this includes energy for all operations, including stores) like wind sources and clean vehicles, create zero waste, and sell products that sustain the environment. One trip to Bentonville will show you the range of their commitment. In fact, each parking lot light is powered by an attached wind mill. While these initiatives make a significant impact on the environment, they have also resulted in cost reductions.

THE PATH TO GREEN

No matter where you are on your journey to green, there's a defined path you'll need to follow in order to arrive at the desired benefits. Here are the steps Subway took to "green" its supply chain along with some helpful tips the company picked up along the way.

1. Scope your level of "green" strategy. From the start, Subway decided that sustainability should go beyond reducing its carbon footprint to ultimately contributing zero environmental impact. To achieve this, the company realized that it needed to start with re-thinking logistics and purchasing since the company sources and delivers all the components it sells. In the future, Subway will push further into supplier manufacturing footprints to reduce energy consumption and waste on the components that make up its end products.

However, for other companies, defining a level of eco-responsibility should be linked to what the organization can realistically measure and execute. For distribution-centric organizations, transportation efficiencies will have the greatest returns on greenhouse gas (GHG) reductions. Why? Because transportation alone accounts for 29 percent of the U.S. carbon output today and a whopping 70 percent of petroleum usage.

2. Calculating a baseline. While some companies have the bandwidth and capability to focus on GHG emissions not directly related to energy, in most supply chains, energy consumption is king.

Limiting your carbon footprint to energy-related GHG emissions shouldn't limit environmental awareness in other areas, but it will make defining your baseline and measuring your success easier. To create a carbon footprint baseline centered on logistics, you need to:

Define your footprint. How far back in the supply chain should emissions be measured? Subway had to consider whether to start with the supplier that sells lettuce, the farmer that grows the lettuce, or the lettuce seed producer. In its initial phase, the company is measuring emissions from suppliers to distribution centers and from distribution to end-stores.

As baseline results are formalized, it will continue to push farther into raw materials to reduce emissions associated with supply. For production-intensive operations, firms should create a baseline that incorporates energy consumption within the four walls since industrial production contributes 21 percent of GHG.

Calculate your energy consumption. Before considering improvements, you should define your energy consumption and the types of energy you use as different forms of energy release different types of GHG. In Subway's case, it has always been a master at measuring its logistics operations. These key performance indicators (KPIs) on mileage and cube utilization became a good proxy for its fuel consumption.

Think warehousing. Various government agencies have surveys that report the average kilowatt hour per square foot. These standards, while not exact, give a good approximation. For a more accurate analysis, firms can use a bottom-up approach by factoring facility kilowatt usage by specific emissions in their state. Don't underestimate the impact energy differentials have on carbon outcomes. The U.S. Department of Energy reports the carbon content of electricity in North Dakota to be 10 times that of Washington State. Determining where to locate operations can have significant carbon implications.

Calculate transportation. Calculating a full truckload emission is fairly simple; the government provides estimated mile-per-gallon standards on every make and model of truck on the road today. But challenges exist for more complex networks. Many shippers lack visibility into actual routes when using parcel, air, or LTL and therefore can't account for hub and out-of-route miles.

A robust methodology for "shared" transport emissions doesn't exist today, but firms can use estimates based on research parcel carriers have done. Looking ahead, we believe an activity-based carbon content approach is needed. For now, firms should estimate based on mileage records and continue to work with 3PLs and carriers to improve emissions reporting.

Investigate different standard methods. The current GHG protocol seems to have traction as more enterprise

accounting systems use it to track emissions in operations. However, with shipping, current protocols don't thoroughly attribute emissions used from carriers back to shippers.

As companies venture beyond their supply chain to suppliers, other initiatives will take suit. This month, the Carbon Disclosure Project (CDP)—a collaboration of institutional investors and corporate giants—is gathering carbon-emissions data directly from suppliers to establish a standard framework for reporting.

3. Define the structure of your sustainable supply chain. Once you have a carbon footprint baseline and have defined your standards for measuring GHG, you should create a structure for your sustainable supply chain. Since 2006, Subway's supply chain redesign and operational efficiency has saved more than 9 million truck miles, 1.6 million gallons of diesel fuel and nearly 17,000 shipments per year. You can achieve these benefits by:

Considering carbon as a cost in strategic decisions. Similar to capacity or service limits, companies can restrict carbon emissions by defining acceptable network levels. To limit emissions, companies have two choices: A "top down" approach that creates an upper limit on emissions, like reducing GHG 15 percent in three years; or an offset-cost approach that applies an economic value, or social cost, to emissions and treats it like other variables in a cost model. While clearly defined social costs have yet to be widely accepted, research is growing. Companies should run multiple scenarios to determine the impact on capacity, cost, and service.

Evaluating multiple scenarios. Incorporating GHG into decision-making doesn't mean optimizing the network around your carbon footprint. Like mitigating risk, you can evaluate the "range of indifference"—or multiple scenarios within a cost range—when making network decisions. Due to Subway's high inventory turns and small warehouse needs, its warehouse emissions varied less than 1 percent across different network configurations.

The company continues to reduce miles by challenging currently held assumptions across its network. Rather than send one pallet of ham from a supplier to 60 distributors, the company created redistribution points (RDC) to consolidate outbound shipments. Now it sources truckloads of ham, consolidates it with other proteins, and sends full truckloads to regional locations.

4. Incorporate carbon modeling into decision making. Many companies are already embracing efficiency efforts that are quietly, and perhaps unknowingly, reducing emissions. A green logistics strategy is not a far diversion from the long-held best practices of reducing miles, improving asset utilization, and optimizing service levels. To transform your green strategy into reality, you must manage your supply chain by:

Collaborating with suppliers. Subway's green initiative is dependent on supplier improvements. While it doesn't demand quantitative reductions, working together has improved the overall supply chain. One of its most significant carbon reductions came from a realignment of salad packaging. The company's salad packaging supplier moved a facility 1,000 miles closer to its dry redistribution center—annually saving over a million miles and reducing carbon by 1,663 metric tons.

Collaborating in other areas has eliminated logistics waste as well. With an innovative strap, Sysco was able to eliminate shrinkwrap on Subway pallets, thus reducing waste and warehouse handling. To further collaborate, the company has created a supplier scorecard that evaluates supplier sustainability and rewards innovations. One such award was given to Select Product Group for consolidating 900 tissue products down to 12 and improving case configuration for better shipping.

Altering service levels. By reevaluating territories, customer policies, and replenishment practices, you can address customers more effectively and reduce emissions within your existing structure.

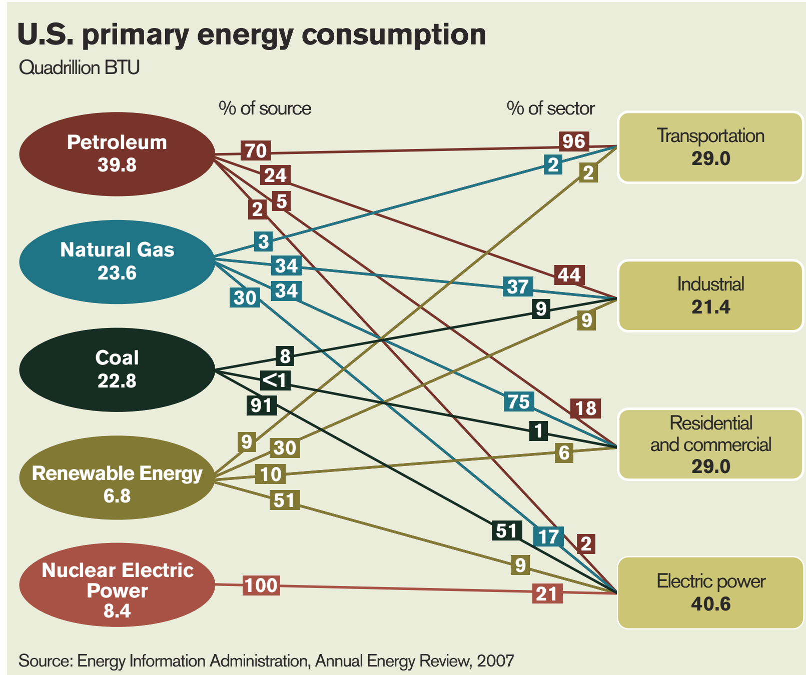
For example, an electronics device manufacturer originally aligned its service and sales territories so a client wanting product in Arkansas would be served from Texas, even though a distribution center existed only a mile across the river in Tennessee. Changing service areas didn't alter its network, but it greatly reduced costs and emissions.

One of the biggest pitfalls is a failure to granularly apply service policies. Many firms often over-serve customers by assigning blanket performance requirements on all customers when only a few demand them. By identifying customers' individual priorities, you can reduce emissions without cutting necessary service requirements.

Subway's significant savings

A GREEN LOGISTICS STRATEGY IS NOT FAR from long-held best practices: reduce miles, improve asset utilization, and optimize service levels. Here are some ways Subway racked up savings thinking green.

- **Reducing miles.** Rather than send one pallet of ham from a supplier to 60 distributors, Subway created redistribution points (RDC) to consolidate outbound shipments. Now it sources truckloads of ham, consolidates it with other proteins, and sends full truckloads to regional locations.
- **Supplier collaboration.** One of Subway's most significant carbon reductions came from a realignment of salad packaging. Its salad packaging supplier moved a facility 1,000 miles closer to Subway's dry redistribution center—annually saving over a million miles and reducing carbon by 1,663 metric tons. Collaborating in other areas has eliminated logistics waste too. With an innovative strap, Sysco was able to eliminate shrink-wrap on Subway pallets, reducing waste and warehouse handling.
- **Rethink inventory strategies.** Subway reaped significant carbon reductions when it challenged the way that proteins were produced and distributed. Working with one of its largest suppliers, Subway relocated a cold distribution warehouse directly adjacent to the supplier's processing, slicing, and packing facility. Now the product could be produced, packaged, and distributed from the same location. The benefit? A 342,840 reduction in miles annually.



Challenge inventory strategies that detract from sustainability. One of Subway's most significant carbon reductions came from rethinking how proteins should be produced and distributed.

Working with one of its largest suppliers, the company relocated a cold distribution warehouse directly adjacent to the supplier's processing, slicing, and packing facility, so the product could be produced, packaged, and distributed from the same location. The benefit was a 342,840 reduction in miles annually.

Rethinking traditional practices can shed light on those that promote oil consumption and counter green strategies. It's important to now keep in mind that:

Lean isn't necessarily green. Small lot sizes, large inventory turns, and frequent replenishments make up the carbon emission trifecta. While lean practices hold true for waste management, they counter sustainability in the supply chain.

Inventory and transportation are no longer equal. Supply chain 101 teaches the equal trade off of inventory and transportation when redesigning a network. That's not true anymore. Maintaining a stocking location is insignificant when compared to the GHG glut of transportation.

Higher service levels correlate to greater emissions. Service levels for higher-priced items and online sales typically result in one-off, direct-to-consumer shipments. While these strategies reduce inventory carrying costs, emissions don't follow suit.

Offshore manufacturing extends the supply chain. Manufacturing offshore means product will be moving over longer distances—not just across the ocean, but also cross-country from the port.

5. Take advantage of transportation's two shades of green. Transportation may be the easiest "greening" your company achieves. Most, if not all, green initiatives in transportation result in significant cost savings, and many tried and true philosophies have been reducing GHG since the emergence of supply chain management.

The link here is obvious: reducing fuel cuts costs and emissions—the two shades of green. ARC Advisory Group recently reported that reducing transport emissions is the "top" green initiative currently being undertaken. To execute a newfound green strategy, transportation managers should:

Consider Smartway partnerships. At press time, 1,250 carriers have joined Smartway. The rigorous testing of these carriers yields significant reductions in emissions. Smartway vehicles are 20 percent more efficient than a long-haul one. Subway's partner, CH Robinson, has received Smartway's highest score for environmental performance. And companies like Wal-Mart, Tyson, and Nike have already become Smartway partners—guaranteeing more than half of their shipments will be delivered by Smartway carriers.

While Chainalytics found that using only Smartway carriers might increase costs 2 percent to 5 percent, using Smartway carriers in heavily trafficked lanes has resulted in reduced costs. We expect the cost differential to dissipate as more regional carriers join to broaden coverage.

Evaluate modal conversions. Converting truckload to intermodal can reduce fuel consumption 13 percent. Other modal conversions, like air-to-ground, ground-to-rail, or even multi-stop, can greatly reduce fuel as well. Overseas manufacturers have reduced emissions by switching to intermodal or box car from ports. Many can improve their modal mix by reconsidering existing service standards and the resulting expedited shipments.

Optimal load building. Most firms have software to better plan loads and routes, but improvements can always be made. Subway teams with transportation suppliers to factor carbon emissions into transportation planning. By sharing warehousing space with other food service companies, the company consolidates inbound and outbound shipments to improve utilization and reduce miles.

WHAT'S AHEAD ON THE JOURNEY?

Subway continues to evaluate the strategic placement of new facilities by pairing environmental impacts with financial savings. This month, the company will open a new dry redistribution center in Indianapolis, saving an additional 597,000 miles a year.

It continues to formalize its programs and work with groups like the Produce Marketing Association and Conserve, the National Restaurant Association's environmental initiative focused on sustainability. In the future, Subway will tackle the deepest parts of its supply chain with product life cycle assessments to help suppliers measure and reduce their footprints, as well as tracking and improving Eco store energy and water savings.

Ultimately, Subway will expand its carbon footprint goal to include quantitative parameters that extend from the grower to store locations to know how much of a footprint the company's foot longs really have. L

Improving 3PL management: Parting is such sweet sorrow

BY **PATRICK BURNSON**, EXECUTIVE EDITOR

Two new research studies reveal that the recession has indeed created a disconnect between shippers and their logistics service providers. How can you close the gap?

Upon first reading Eyefortransport's *North American 3PL Market 2009 Report*, one gets the distinct feeling that there's a growing disconnect between shippers and their logistics service providers.

The survey, conducted over the first two months of 2009, set out to identify the main challenges for North American 3PLs and 3PL users, pinpoint the best potential opportunities in the different geographical regions and verticals for 3PLs, and measure the impact the global economic downturn has had on the 3PL/shipper relationship. According to Katherine O'Reilly, the report's author, interesting results were obtained when comparing the views of 3PL users with those of 3PLs. "The recession has colored the concerns of all respondents this year," she says.

The 558 individual responses were culled from 3PLs, freight forwarders, carriers, warehouse operators, shippers, consultants, and technology providers. From the outset, researchers thought both 3PL and shippers would clearly agree that "poor service" was the main reason for a relationship to fail. But O'Reilly says she was surprised to find a higher rate of disagreement between the shippers and 3PLs on what actually drives failure.

"Our thinking was that the recession would have brought shippers closer to their logistics service providers as they seek crucial advice and the 3PL reaches out to help and retain their customers," she says. "In fact what we saw was more confusion from the 3PLs over what their customers are really looking for and a lack of confidence on the shipper side in their 3PL's ability to help recession-proof their supply chain."

According to O'Reilly, the message is clear: As we go further into economically unstable times, 3PLs that are closer to their business partners—and realign their priorities accordingly—will have a clear advantage

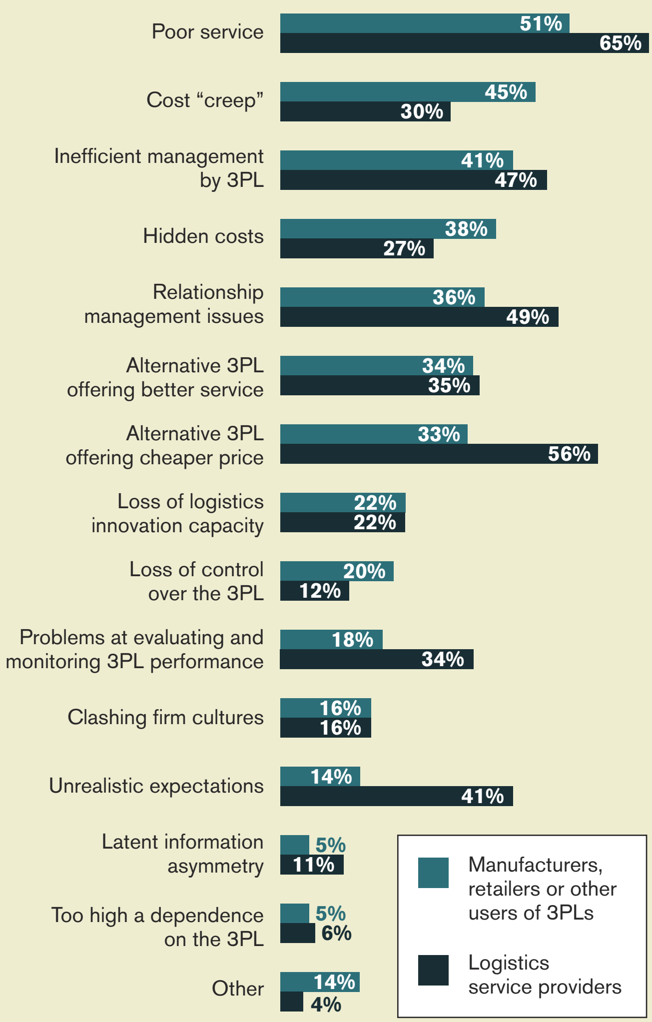
in retaining those accounts.

"Cost-reducing and efficiency-improving projects that may have been secondary to growth initiatives are now front-of-mind concerns for everyone," she adds. While this may seem negative at first glance, the positive element of this observation, says O'Reilly, is that 3PL best practices cannot be ignored. Indeed, there are huge opportunities for shippers to now work with 3PLs to make dramatic improvements, take advantage of the expertise in both organizations, and use economic weakening as a catalyst for innovation.

MAJOR SCALE DIFFERENTIATORS

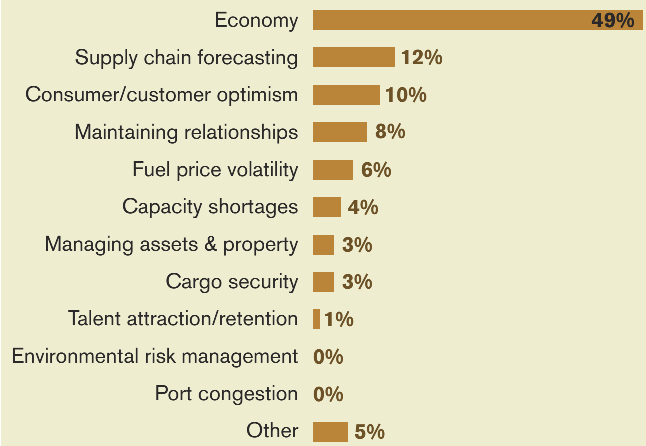
In a separate report recently done by Armstrong & Associates, Inc. called *2009 Trends in 3PL/Customer Relations*, the researchers came to many of the same conclusions as Eyefortransport—but with reservations.

Reasons for non-renewal of 3PL contracts: 3PL users vs. 3PLs



Source: *Eyefortransport*

What are 3PL users' biggest challenges for 2009?



Source: *Eyefortransport*

"There's no question that shippers are putting cost reduction and improved efficiency front-of-mind," says Evan Armstrong, one of the authors of the report. "But a shift from one 3PL to another now weighs heavily on whether shippers are getting tactical or strategic help from their current provider."

According to Armstrong, a shipper's brand loyalty is only as strong as the commitment made by the 3PL. Indeed, long-term, more strategic contracts of three to five years have a renewal rate of 93 percent, while tactical relationships are more vulnerable than ever. "3PLs who can't deliver more than just basic brokerage or truckload lanes are coming under increased pressure in this down economic cycle," says Armstrong. "And those 3PLs that demonstrate significant process improvement will prevail."

The major scale differentiators between 3PLs revolve around supply chain management systems and logistics engineering expertise, notes Armstrong. Several 3PLs have implemented a fully integrated systems "backbone" to support global transportation and warehouse management operations.

"These systems offer Internet visibility and exception handling capabilities combined with transportation management functionality allowing for the daily optimization of thousands of shipments across large geographical areas," says Armstrong. "The same 3PLs can run value-added warehousing operations, perform supply chain network analysis and design, and manage call center and fulfillment operations."

In fact, several 3PLs have expanded their global scope to provide significant coverage in those countries comprising the majority of the world's gross domestic product. According to Armstrong, major 3PLs will continue to integrate the pieces they now have over the next several years, adding that 10 to 12 will offer single-source global solutions with the scale to handle the supply chain needs of large multinational companies. "These types of global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"Cost-reducing and efficiency-improving projects that may have been secondary to growth initiatives are now front-of-mind concerns for everyone."

—Katherine O'Reilly, author of North American 3PL Market 2009 Report

supply chain managers can be expected to become more dominant," says Armstrong.

GE MAKES A MOVE

Is it a strategic or tactical relationship? That is the question. For General Electric's parts distribution manager, Ed Huttenen, it was a little of both.

But Huttenen's recent decision to move from one major 3PL to another was also about regional strengths and speed. Working out of the company's Cranbury, N.J., facility he's charged with keeping GE's parts division nimble and lean. In an interview with *LM*, the 30-year GE veteran touched upon many of the same findings in the Eyefortransport and Armstrong reports.

"As the location dynamics and needs of our customers change, GE parts has to change with it," he says. "The Northeast is a particularly challenging area to win in. So, in opting for TMSi over a global competitor, GE determined that it must improve in velocity and service to meet our customer's growing expectations."

Huttenen says GE needed to leverage the synergies that it had built in other Northeast centers in order for its DCs to operate at full capacity. Fluid communication—both internally and externally—was a vital component of this process, and Huttenen says that his former 3PL was not doing an adequate job. Productivity was suffering, too.

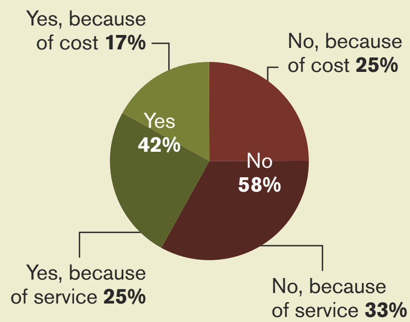
So, after crunching the numbers, he choose to give the business to 3PL provider TMSi. "TMSi has always been responsive and willing to take on challenges," says Huttenen. But the transition was not without some difficulty, he admits. The accuracy and quality of shared data took a few months to get up to full speed; but once that was solved, GE was getting an unexpected bonus. In fact, Huttenen says that several orders of "magnitude improvement" in parts fulfillment were realized.

"The new 3PL partner gave us a team leader, and he pulled in several facility managers to set up the new DC processes and KPIs as well as connecting the new processes to the rest of the network," he says. "They put together a very defined and well thought out training plan for the new facility and its staff."

TMSi placed a leader in charge of training the warehouse team, while Henry Birnbaum, an industry veteran working for GE, excelled at communicating the company's mission to 3PL workers. This, says Huttenen, generated measurable improvement.

Changing 3PLs

Have you recently switched 3PL, or are currently planning to switch to a different 3PL?



Source: *Eyefortransport*

"It just reinforces the fact what when a team fully shares the goals in an open environment and communication is wanted by all, the whole can be far greater than the sum of the parts" says Huttenen.

The benefits, he says, start "from the eyes and actions" of GE's customers. Complaints have decreased tenfold and business has increased 5 percent to date. "And this was achieved in a very tough economy," Hutten adds. "Speed, quality, and accuracy have produced higher turns with less inventory; and now the planning function is able to stock a wider variety of SKUs in the DC and that gives the center a growth plan."

What's the bottom line? All of this contributes positively to how GE is perceived by its customer base. Being regarded as "best in class," says Huttenen, is a position no manufacturer would want to jeopardize. L

—Patrick Burnson is Executive Editor of Logistics Management

When 3PLs and shippers "get it"

As recent studies have indicated, shippers often feel that their 3PLs are not listening closely enough to their concerns to be effective in a crisis. TMSi's regional director Doug James acknowledges this readily, but insists that a partnership with clearly-defined metrics may be the solution.

"Everyone has problems," he says, "and some have been spectacular failures. But there are some big wins out there, too. What's important is this: If the 3PL promises everything from the warehouse floor up to end-user satisfaction, it had better deliver."

Doug Waggoner, CEO of web-based solutions provider Echo Logistics, Inc., makes a similar observation, saying that his company cannot afford to let its guard down now that asset-based carriers are entering the scrum.

"We're not just competing against other 3PLs anymore," he says.

"The shipper wants to know who is providing the added-value of transparency when things go wrong. We seem to be doing that with our proprietary software, but we don't take this service for granted. The shipper certainly won't," Wagner adds.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Right shoring:
A flexible strategy for tough times

BY **AMIT GUPTA** & **GANESAN RAMACHANDRAN**, ACCENTURE

Although far-shore operations can often equate to cost-savings, a better plan is right-shoring, or combining on-shore, near-shore, and far-shore operations into a single, flexible, low-cost, and service-centric approach to supply chain and logisitcs management. Here is a menu of right-shoring options and opportunities.

Controlling manufacturing and distribution costs is doubly important in a down economy. However, if a company's cost-reduction efforts are too aggressive, the result could be alienated or disenfranchised customers—customers that may not return when the economy rebounds. This is potentially the case for companies that over-committed themselves to off-shoring—relocating production (and, concurrently, some warehousing) operations to far-shore, "low-cost" countries.

Are we implying that far-shoring is no longer a viable strategy? Not at all. The point is that worldwide economic problems and changes have drastically altered the cost dynamics associated with manufacturing and distribution network strategies. So much so, in fact, that companies may no longer assume that far-shore operations are less expensive in the long term. After all, companies that are over-invested in far-shore operations are the ones most at risk as crude oil prices fluctuate wildly, labor costs rise in developing countries, and the value of the U.S. dollar shifts unpredictably.

Too much reliance on far-shore operations also makes it more difficult to meet surges in consumer demand. Quality of service—which is always linked to cost of service—could suffer, which is the last thing you need when the economic chips are down. Perhaps more than ever, companies need a low-risk supply chain strategy that balances supply speed and cost effectiveness. Think of this strategy as "right-shoring" or the formulation of flexible, customer-centric strategies that base a product's manufacturing and distribution locations on total landed cost.

Over the next few pages we're going to cover today's most significant influencers of total landed cost as well as a variety of right-shoring approaches that can be considered, evaluated, and blended to ensure flexible, low-cost operations that also meet customer needs.

THE TRUE COSTS OF FAR-SHORE OPERATIONS

Looking back, the genesis of off-shoring sourcing, production, and distribution was a dramatic labor cost differential between U.S. workforces and workforces in countries such as China and India. However, after a decade, it's becoming evident that the potential for cost advantage derived solely from far-shore operations is waning.

Consider that even though labor costs in China are far lower than those in the United States, productivity levels in China are also lower. As a result, savings are not nearly so substantial when the two countries' "labor cost per unit output" is compared. China's double-digit salary increases are also reducing the gap in labor costs.

Still, labor costs are hardly the only factor. As shown in Figure 1, logistics and transportation costs, exchange rates, fluctuating customer demands, and the cost of quality can quickly erode the advantages of a near-sighted, far-shore operating strategy.

Figure 1. Factors affecting operating costs in low-cost countries

Low-cost country	Transit	United States
Raw material costs	Insurance costs	Local handling costs
Storage costs	Port charges	Local transportation costs
Labor costs	Handling costs	Taxes
Quality costs	Security costs	Safety stocks
Overhead	Banking costs	Productivity implications
Obsolescence costs	Transportation costs	Environmental costs
Packaging	Potential demurrage duties	Maintenance costs
Risk of disruption	Handling agency charges	
Exchange rates	Oil	

TRANSPORTATION COSTS

Crude oil prices have fluctuated wildly over the last year. Transportation costs, therefore, have been equally unknowable. Factor in higher costs of warehousing and inventory holding, in-transit insurance/security, duties, customs clearance and documentation, and your potential logistics costs are significantly higher and a great deal less predictable than just a few years ago.

When transportation cost is a significant portion of a product's total landed cost (such as with a low-cost, heavyweight product), the impact is even higher. Tesla Motors—producer of a zero-emissions, electric-powered sports car—recognized this fact and recently moved assembly of battery packs from Thailand to San Carlos, Calif., near its headquarters. Thailand's low labor costs no longer offset the high costs of shipping 1,000-pound battery packs across the Pacific.

FLUCTUATING CUSTOMER DEMAND

One of the biggest challenges faced by today's companies is responding quickly to fluctuating customer demand. Demanding consumers are nothing new; but advancements made in recent years have shortened most product lifecycles. This is true for technology-intensive products such as mobile phones, computers, cars, and electronic gadgets, as well as apparel, sports equipment and fashion accessories—some of the products most commonly produced off-shore.

Stiff competition is part of the same daunting equation: When manufacturing takes place 10,000 miles from the consumer, the time needed to counter competitive moves increases significantly, potentially resulting in lost market share and customer trust. Steps to counter this (e.g. by increasing inventory) only heighten total landed cost.

With a typical transit lead time of 30 days from an Asian country to the U.S., a shipload of containers could even become partially obsolete, as needed changes to packaging, promotion, or even the product itself arise before a shipment arrives. To supplement the surges in demand for a particular item, air freighting becomes more of a necessity, which can further raise costs.

Tesla Motors recently moved assembly of battery packs from Thailand to San Carlos, Calif., near its headquarters. Thailand's low labor costs no longer offset the high costs of shipping 1000-pound battery packs across the Pacific.

COST OF QUALITY

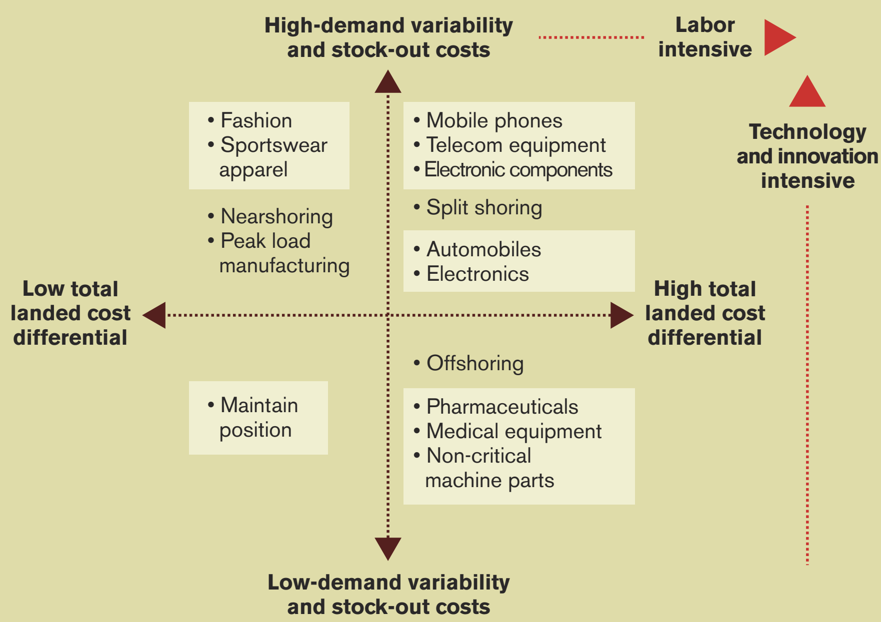
Historically, the U.S. labor force has produced the highest number of innovations, quality products, and products that meet the needs of the largest consumer base in the world. In fact, Toyota leadership had stated that an educated and ethical U.S. workforce was one of the main reasons the company set up a manufacturing base in the state of Mississippi.

While the quality of products coming out of low-cost countries cannot be termed poor, many products rank low in differentiation and innovation. And although off-shore manufacturers work hard to ensure consistent quality, slipups still happen. Recent difficulties faced by pet food companies, toy companies, and software companies point to the potentially fatal cost of low quality. A major issue with product quality can have horrendous consequences.

A MENU OF RIGHT-SHORING OPTIONS AND OPPORTUNITIES

There is now an unprecedentedly high need to balance supply speed (service quality) against cost-effectiveness. In this multi-polar world—characterized by more risk, more exacting

Figure 2. A model for formulating an overarching right-shoring strategy



A description of how various strategies might be assessed to create a single approach that weighs total landed cost differential against demand variability and stock-out costs.

customer demands, and more economic hardships—what can companies do to "keep their balance?"

As noted earlier, one direction is right-shoring; or acknowledging that far-shore operations remain an essential part of your company's global strategy, but that far-shore decisions must be aligned (and potentially combined) with other options to form a single right-shoring strategy. Those other options include:

Operational hedging: This involves managing risks with adjustments to manufacturing, sourcing, and selling locations—creating flexibility in the supply chain and market-facing activities. For existing and new products, such flexibility can help mitigate the impact that large and long-term changes in dollar rates have on revenues and profits.

With existing products, manufacturing facilities can be located near the customer and in low-cost countries, with total landed cost calculations used to decide the percentage of total demand addressed at each manufacturing location. New products pose a different challenge. With the quality of innovation a strong point in the U.S., launching new and better products at a fast pace should be an ongoing focus for U.S. operations.

Early in a new product's life cycle, it is difficult to estimate demand, so the inherent service disadvantages associated with off-shore manufacturing make this a risky proposition. A more practical approach may be to manufacture certain new products locally at first and then shift production to low-cost countries as demand stabilizes.

Near-shoring: Across North America, near-shoring has become more popular since the signing of NAFTA and CAFTA. With wages in most Central American member countries at one-third the level of U.S. wages, sourcing from CAFTA countries could offer a particularly significant cost and proximity advantage.

Split-shoring: Keeping manufacturing processes that are not too labor intensive on-shore is another strategy to consider. For example, the final assembly of foreign-made mobile phone batteries, circuits, cameras, and outer casings could be completed closer to the customer, thereby shortening the time needed to respond to market changes and simplifying customization to meet changing consumer demands.

Peak-load manufacturing: Manufacturing operations could be divided so that some of a company's products and components are manufactured domestically, with others produced overseas. For example, local manufacturing capabilities might be used to accommodate surges in demand while off-shore venues are deployed for longer or more stable production runs.

Figure 2 describes how these various strategies might be assessed to create a single approach that weighs total landed cost differential against demand variability and stock-out costs.

RIGHT SHORING IS KEY TO HIGH PERFORMANCE

A right-shoring strategy—one that cost-effectively meets consumer demands for the right price and the right quality—must be supported with sound information for decision making. This highlights the need for econometric models that can help a company continually evaluate the impact of changing scenarios, such as changes in crude oil prices, shifts in the value of the U.S. dollar, or the influx of European and Asian competitors onto U.S. soil.

All of these scenarios are more or less inevitable. It is the degree of change that is nearly impossible to predict; and this is why right-shoring—the ability to understand and adjust manufacturing and distribution options—is so valuable. In today's economy, companies must be able to rapidly reshape their business approaches as macroeconomic factors change. L

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7TH ANNUAL SOFTWARE SURVEY

Scrutiny rules the day

BY **BRIDGET MCCREA,** CONTRIBUTING EDITOR

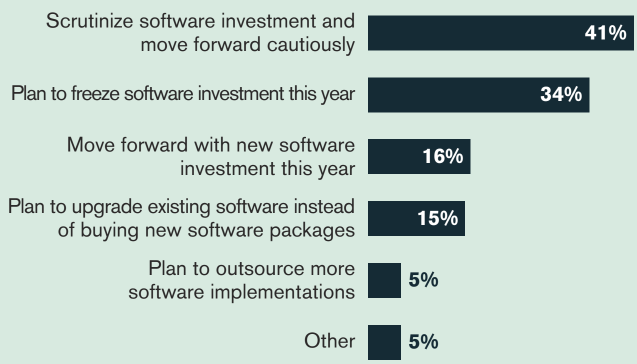
It shouldn't surprise anyone that logistics and supply chain operations are being asked to weigh every penny of SCM software spending in 2009. However, industry analysts insist that you can't employ shrink tactics and expect to grow. What's a cost-conscience shipper to do?

The results of our 7th Annual Software Survey shouldn't come as a surprise to anyone. According to the responses gleaned from just over 400 shippers, tech spending in the SCM space has softened with a portion of respondents reporting that their companies are freezing software investment altogether for 2009.

Among those shippers that are purchasing and upgrading software, many say they are carefully scrutinizing those investments and "moving forward cautiously." However, we did find a percentage of respondents that do plan to buy new or upgrade existing supply chain management software in 2009. This more aggressive, perhaps more forward-thinking group, tells us that they're going to place the biggest emphasis on warehouse management systems (WMS) and transportation management systems (TMS).

Over the next few pages we'll reveal shipper intentions to purchase new software, upgrade existing programs, or even temper their investment in WMS, TMS, Yard Management Systems

How has the current economic climate changed your company's approach to supply chain management software?



(YMS), Global Trade Management (GTM) systems and Enterprise Resource Planning (ERP) systems.

We also bounced our results off of two expert analysts in the SCM sector, Adrian Gonzalez, director of Boston-based ARC Advisory Group's Logistics Executive Council, and Greg Aimi, research director at AMR Research in Boston. While neither of the analysts was taken aback by this year's results, both Gonzalez and Aimi add their unique perspectives to the study's findings and share where they believe the future of SCM spending is headed despite the gloomy economic headwinds.

WAIT-AND-SEE APPROACH

As we mentioned at the top, it certainly shouldn't surprise anyone that logistics and supply chain operations are being asked to cut back on their WMS, TMS, GTM, YMS, and other SCM spending. In fact, the current economy has prompted 41 percent of respondents to more carefully analyze their SCM investments, while 34 percent plan to freeze software investment in 2009. Sixteen percent say they'll move forward with investments in software this year, while 15 percent expect to upgrade existing programs in lieu of buying new packages.

"When things started going south for the economy in the fourth quarter, the big question was: What is IT spending going to look like moving forward?" says ARC's Gonzalez. "With only 16 percent of companies ready to make software investments and over twice that (34 percent) planning to freeze budgets, software vendors are probably concerned." Of the SCM vendors he communicates with, Gonzalez says that most are seeing more "delays" than "cancellations" of orders.

"A lot of shippers are waiting to see what happens in the second quarter of this year," adds Gonzalez. "Customers still expect to move forward, but it's a question of when, with projects being pushed out a bit."

Of the 41 percent of shippers who say they're planning to purchase SCM software sometime in the next 12 months, the bulk (31 percent) will invest in WMS, with 29 percent interested in TMS. Other SCM packages of interest include ERP (18 percent), GTM (13 percent), and YMS (10 percent).

With 32 percent of respondents currently using on-demand supply chain solutions, Gonzalez says he's surprised that more shippers aren't considering this alternative to purchase-and-install systems, particularly for TMS. Among those companies that plan SCM purchases over the next 12 months, just 36 percent are looking at on-demand options. "I really would have expected more companies to be looking at on-demand," says Gonzalez, "which is resonating strongly out in the market right now, particularly for those companies that have tightened their budgets."

BEHIND THE WHEEL

While they may be operating in a global business environment, our survey found that many companies have yet to fully embrace GTM as the answer to mounting regulatory challenges.

According to this year's results, just 15 percent of respondents are using such solutions, while 13 percent plan to purchase or upgrade their GTM this year. Aimi says the numbers are indicative of the fact that global trade management remains a heavily-outsourced function. "GTM hasn't taken off because shippers, and the importers/exporters themselves, just aren't buying it," says Aimi. "Instead, they're allowing their freight forwarders and 3PLs to buy it."

Key drivers of all SCM purchases right now include the need for improved inventory deployment (according to 46 percent of survey participants), real-time control (43 percent), upgrade of existing package (39 percent), label printing (35 percent), and labor management (32 percent). From their new TMS, shippers are looking for functions like routing and scheduling (46 percent), shipment consolidation (38 percent), routing and rating (33 percent), and carrier selection/load tendering (33 percent).

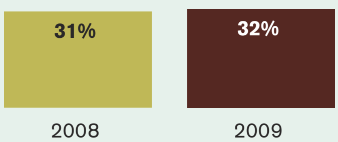
Some shippers expect to extract those functionalities from their ERP systems, which are currently in use by 44 percent of respondents. Eighteen percent plan to purchase or upgrade their ERPs this year, with 45 percent likely to shop for a package that includes a WMS module and 34 percent looking for one that includes a TMS module.

Regardless of which package they may be buying or upgrading, companies are taking a frugal approach to budgeting for their SCM purchases (including license, integration, and training), according to the survey results. The bulk of respondents

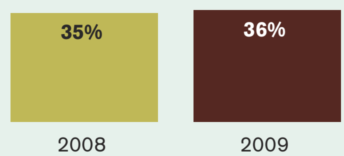
Which of the following types of software do you/ your company currently use for your operations and which will you be purchasing/ upgrading in the next 12 months?

	Currently use	Plan to Purchase Upgrade	Both (NET)
Warehouse Management Systems (WMS)	55%	31%	67%
Transportation Management System (TMS)	36%	29%	54%
Yard Management Systems (YMS)	14%	10%	21%
Global Trade Management Software (GTM)	15%	13%	25%
Enterprise Resource Planning (ERP)	44%	18%	53%
Supply Chain Planning (SCP)	34%	23%	47%

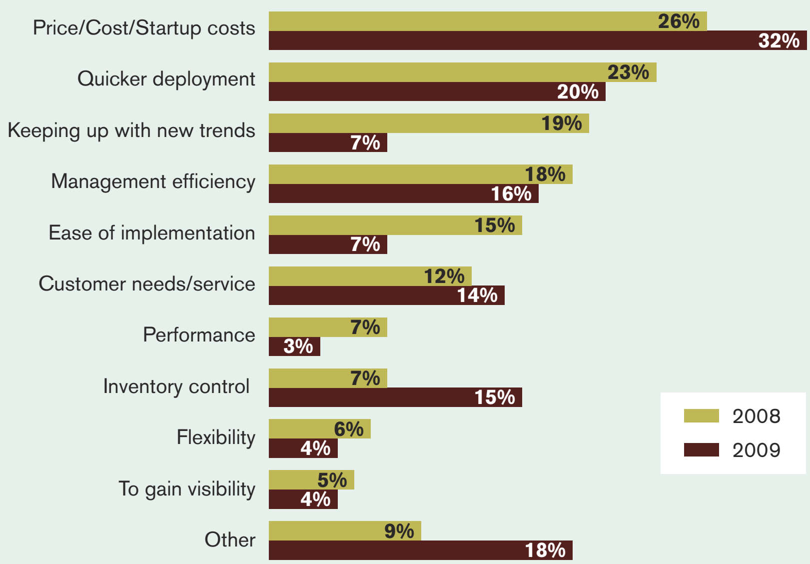
Are you currently utilizing an on-demand supply chain solution?



Percent considering an on-demand solution in supply chain application



If you're planning to purchase a supply chain application within the next 12 months are you considering an on-demand solution? If so, what are the key reasons?



are allocating less than $100,000 for their WMS, YMS, TMS, GTM, ERP, and Supply Chain Planning (SCP) acquisitions. The highest portion of that investment (44 percent) will go to WMS, with YMS (40 percent) and GTM (40 percent) both claiming the second spot on the priority list among those shippers in the sub-$100,000 investment category.

Even those respondents with designs on new packages or upgrades this year appear to be sitting on the fence. For those shippers with WMS on their shopping list, 26 percent of respondents are evaluating vendors, 14 percent are in the process of buying, and 5 percent are selecting vendors. Of TMS buyers or upgraders, 23 percent say they are evaluating vendors, 13 percent are currently buying, and 8 percent are choosing vendors. Fifty-six percent of WMS buyers and 57 percent of TMS buyers say they're "not currently at any stage" of the purchasing process.

QUICK ROI NOW THE NORM

Payback expectations for SCM investments haven't changed much over the last few years, with most respondents (40 percent) looking for ROI within 12 months to 18 months. Twenty-eight percent feel that 6 months to 12 months is a more reasonable timeframe, while 24 percent are willing to wait more than 18 months for payback. For the software installation, the highest percentage of firms (40 percent) handle the task in-house, while 27 percent turn to their software vendors, and 14 percent rely on business management consulting firms.

With so many shippers handling installation in-house, Gonzalez sees a possible opportunity for vendors to fill the gap by beefing up their implementation offerings. "Considering the fact that software vendors are looking to increase their services," he explains, "there could be an opportunity for them to assist that high percentage of customers that are trying to do it themselves."

When comparing supply chain software packages, shippers are most interested in finding products that have the right features for their operations (90 percent); good service/support (83 percent); configurability (81 percent); and compatibility with existing systems (79 percent). When dealing with software suppliers, shippers say their biggest challenges are getting vendors to understand the firm's operational needs (30 percent), accountability/getting the product to do what the vendor promised (24 percent), and implementation/integration (16 percent).

DOWN THE ROAD

With ARC currently updating its SCM market research, Gonzalez says the general consensus points to a weaker year in 2009, compared to 2008, for software spending. To adapt, he says vendors are touting a number of "low-cost, low-risk" packages targeted to today's budget-conscious firms. "Companies are sitting on the sidelines right now, trying to figure out which investments to make," says Gonzalez. "Getting through that barrier requires a good business case and proven ROI."

But just how long can shippers sit on the sidelines and expect to grow and prosper, asks Aimi. For even in stagnant economies, companies have to spend money to make money, attract new customers and increase their bottom lines. Aimi, who says AMR is running into significant challenges itself this year as it works to fill seats at its annual supply chain conference (due to "travel bans" being instituted at firms nationwide), calls many of the budget cuts rash and unjustified.

"Instead of making blind, harsh moves like technology spending freezes, firms should be evaluating the options and deciding exactly what is valuable and what is not," says Aimi, who is hopeful that shippers will adopt this mindset as the year progresses. "Growth comes through innovation, and innovation through process. Firms just can't keep using shrink tactics and expect to grow." L

—Bridget McCrea is a Contributing Editor to Logistics Management

5 reasons to take a second look at fleet managment programs

BY **MAIDA NAPOLITANO**, CONTRIBUTING EDITOR

Today's lift truck fleet management programs have gone beyond simple maintenance and lease agreements. They've become a total service solution meant to comprehensively manage the true costs of total lift truck ownership. Here are five reasons to give fleet management programs a second look.

So, you think you're a fairly savvy warehouse or DC manager, right? When buying or leasing lift trucks you've held back from purchasing too many "after-market" services. In reality, your lift truck fleet is practically a United Nations of trucks from many OEMs that require several different service vendors for repairs and regular maintenance. But you're certain that as long as you keep those trucks running you don't need a fleet management program? Right?

Well, it may be wise to think again.

According to Alan Marder, director of technology solutions for The Raymond Corporation, the purchase and acquisition of a lift truck accounts for only 11 percent of the total cost of ownership over a five-year period. About 80 percent of the total cost is attributed to the operator who's required to run the truck and the maintenance needed to keep it running. Multiply these operating costs by a fleet of trucks that can sometimes run into the hundreds and it's clear that how you manage these "after-market" costs can seriously affect your company's bottom line.

A fleet management program identifies the true cost per hour of operating your lift trucks and helps reduce and monitor these costs by tracking and analyzing a whole gamut of data, so that you—the savvy DC manager—can make intelligent decisions regarding one of your most valuable material handling assets.

And, it's not limited to just lift trucks: Fleet management providers can track and monitor all kinds of warehouse and DC equipment, including batteries, scissor lifts, and golf carts frequently used for personnel transport. For many years, OEMs and independent material handling equipment dealers have always offered some form of fleet management, but these were mostly geared towards the day-to-day upkeep of a fleet of lift trucks via a network of service dealers. As software programs grew in sophistication and the real-time sharing of information over the Internet became more mainstream, software providers started offering fleet management solutions that allowed users to remotely monitor a fleet's movement and operational history. Over the past three to four years, OEMs have partnered with these third-party software suppliers to usher in a new era in fleet management. Under a total solutions fleet management package, they now offer customers not only basic fleet management services, but also access to more accurate data so that management can make decisions regarding their equipment in a real-time, wireless, paperless environment.

In this difficult economy, providers have seen interest in these programs grow as DC managers pay closer attention to an increasing number of service contracts and invoices left unchecked. They've realized that now, more than ever, they will need to put a handle not only on direct costs, but also the indirect costs of equipment ownership.

HOW DOES IT WORK?

The process is comprehensive, but fairly straight forward. First, the fleet management provider dispatches their network of service dealers to survey each truck from every facility. They record their make, model, age, application, hours of use, maintenance and expense history, lease terms or cost of ownership. They analyze this information to understand where the money is being spent, determine the level of utilization, and recommend which trucks their customer should retain, repair, retire, or re-deploy to another facility.

Aside from a comprehensive fleet analysis, other basic fleet management services include maintenance agreements with qualified dealers across the country with discounted customer labor and parts rates; centralized service dispatching from one toll-free number, consolidated billing; fleet leasing and disposal; and web-portal data access to better manage this information.

Operators are paid for three to four times more hours than actual material movement time

Across multiple industries, initial VMS data reveals a very similar and startling pattern of vehicle operation

Typical shift pay	8 hours
Operator logged into truck	4 hours
Truck in motion	2 hours
Truck moving with load	1 hour
One hour of product moved for every 8 hours paid	

This data has been collected from over 20,000 VMS vehicle installations. Of course some operators are higher while some are lower but VMS provides operational visibility and productivity metrics that are not achievable in any other way.

Source: Hyster Fleet/I.D. Systems Vehicle Management System (VMS)

But that's not all. As an option, OEM providers can install a hardware device, also known as a vehicle management system, in the dash of a lift truck, regardless of its make or model, and combine it with a series of sensors, wireless data transfer networks, telemetry software solutions and the Internet. In doing so, you can track the performance of a truck in Dubois, Wyo., from a computer in Mobile, Ala. You can tell where a truck is located and what percentage of time a truck is actually in motion or carrying a load. (See above table.) By installing the same telemetry hardware on the battery chargers, the system can even guide the operator to the best battery available.

It's up to the customer to decide which fleet management service they want. Providers typically charge a nominal fee per truck per month for the sum of services selected.

SO, WHAT'S THE HOLD UP?

With such a wide range of service offerings, why aren't more warehouse and DC managers jumping on the fleet management bandwagon?

"Some managers think they're already managing their fleet, but they're really not," says Raymond's Marder. "They're just defaulting to a calendar schedule of planned maintenance every 30 or 60 days. What if the truck runs only 10 hours this month, does it really need to be serviced?"

Mike McKean, fleet management sales and marketing manager for Toyota Material Handling U.S.A. Inc., agrees with Marder, adding that he believes that some managers are only focused on the acquisition cost. "Once operators use the trucks, managers have no idea if it's running at $10 per hour or as efficient as $1.50 per hour."

According to John Russian, manager of fleet marketing for the Hyster Company, managers just have so much to focus on with the day-to-day rigors of getting goods out the door that no one's mentioned to them just how much benefit can be achieved with a comprehensive fleet management program. Many of these busy managers may not have the slightest idea of what the programs are. "They want somebody to help them manage their trucks, but they don't know enough about fleet management programs to do it," adds Russian.

Well, if you feel as if you've been in the dark, here are five reasons why you should consider a fleet management program.

Reason 1. Fleet management will help you "lean" your fleet. Many materials handling equipment users maintain the mindset that they need to keep more equipment on hand than they actually need—just in case. But equipment costs money, and when it sits idle, it breaks down. The only way to truly know if a truck is being used is by measuring and tracking its utilization.

Leaning of a fleet typically happens within the first year of deploying a fleet management program. What these programs do is actually help to keep you lean. McKean believes savings from leaning a fleet can be anywhere from 10 to 30 percent in that first year. "It depends on how much excess equipment there was and how the equipment was being maintained," says McKean.

Reason 2. Fleet management lowers costs. A fleet service provider always works for its customer's best interest; they're the ones checking the invoices, analyzing the data, as well as keeping checks and balances. McKean explains that if a planned maintenance is invoiced by a service provider at $100 when the negotiated rate was $90, then the system is going to automatically adjust it on behalf of the customer. "They'll never be overcharged for what has originally been agreed upon contractually."

Companies that use consolidated billing, also known as centralized invoicing, report significant savings in administrative costs by dramatically cutting down on the number of invoices they process per year—from hundreds per month to just one per month. With some fleet management programs, maintenance and repair transactions are posted within 24 hours of work completion, allowing fleet managers and supervisors to review invoices and work orders immediately through a web portal.

Companies with large fleets can take advantage of preferred customer discounts on parts and labor from qualified dealers. "It's a simple matter of economies of scale," says Hyster's Russian. "Large fleets can take advantage of special parts pricing, because it's volume-based."

Reason 3. Fleet management promotes safety and operator accountabiliy. Before an operator can drive a truck at the start of each shift, he must complete a daily OSHA checklist. Hyster's telemetry solution, for example, mixes up the questions on the OSHA checklist to prevent operators from giving automatic answers to the same check list. Instead, they are forced to read each question, because it may be out of order the next day. Both systems also verify that a licensed operator is driving the truck.

Raymond's iVerify software is part of the OEM's wireless data management system that can prevent a truck from starting when critical items such as brakes fail. It then sends an automatic e-mail or text message notifying maintenance of both critical and noncritical issues.

Today's state-of-the-art fleet management systems can also immediately alert managers when a lift truck strikes a rack or another vehicle. Hidden throughout a lift truck are various sensors that detect impacts by the driver and automatically send an e-mail or a text message to the supervisor.

If an increasing percentage of avoidable damage is detected, corrective action can be recommended in the way of operator training or by remotely limiting the speed limit of that driver. Because drivers know that they are being monitored, it escalates operator accountability and workers tend to drive more carefully.

Reason 4. Fleet management allows you to compare costs over multiple site locations. Comparing operating data and associated costs among multiple facilities can be invaluable for diagnosing problems and investigating solutions. Let's say you are the manager of 10 facilities: Most fleet management systems allow you to enter a website and request the average costs per hour of each truck in all 10 sites.

You may observe one site with a cost per hour of 75 cents, another with $1.25, and one with $2.50. The $2.50 cost per hour will immediately signal a red flag to the fleet manager to investigate and determine the cause, so it can recommend necessary adjustments.

Reason 5. Data on equipment utilization can be used for better planning of operations. Fleet service groups can use data from equipment usage to recommend when purchasing a new lift truck for a fleet may be more cost-effective than continuing to repair an old one.

Vehicle motion data can be used to monitor utilization for labor allocation in real time. For example, lift trucks in low usage areas can be reassigned to areas with higher activity. In a large facility, the location tracking ability can be used to find specific vehicles requiring maintenance. By keeping an accurate record of costs, a company can plan more on-target budgets for next year. Reports can be generated to show you where you can improve productivity, save time, and reduce operating costs. L

—Maida Napolitano is a Contributing Editor to Logistics Management

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Logistics MANAGEMENT

Only the STRONG will SURVIVE

Trucking is a "scary" industry to be in right now. But top trucking executives say the economic downturn is no time to cut corners on service as they cope with industry overcapacity and shippers expecting rock-bottom rates.

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

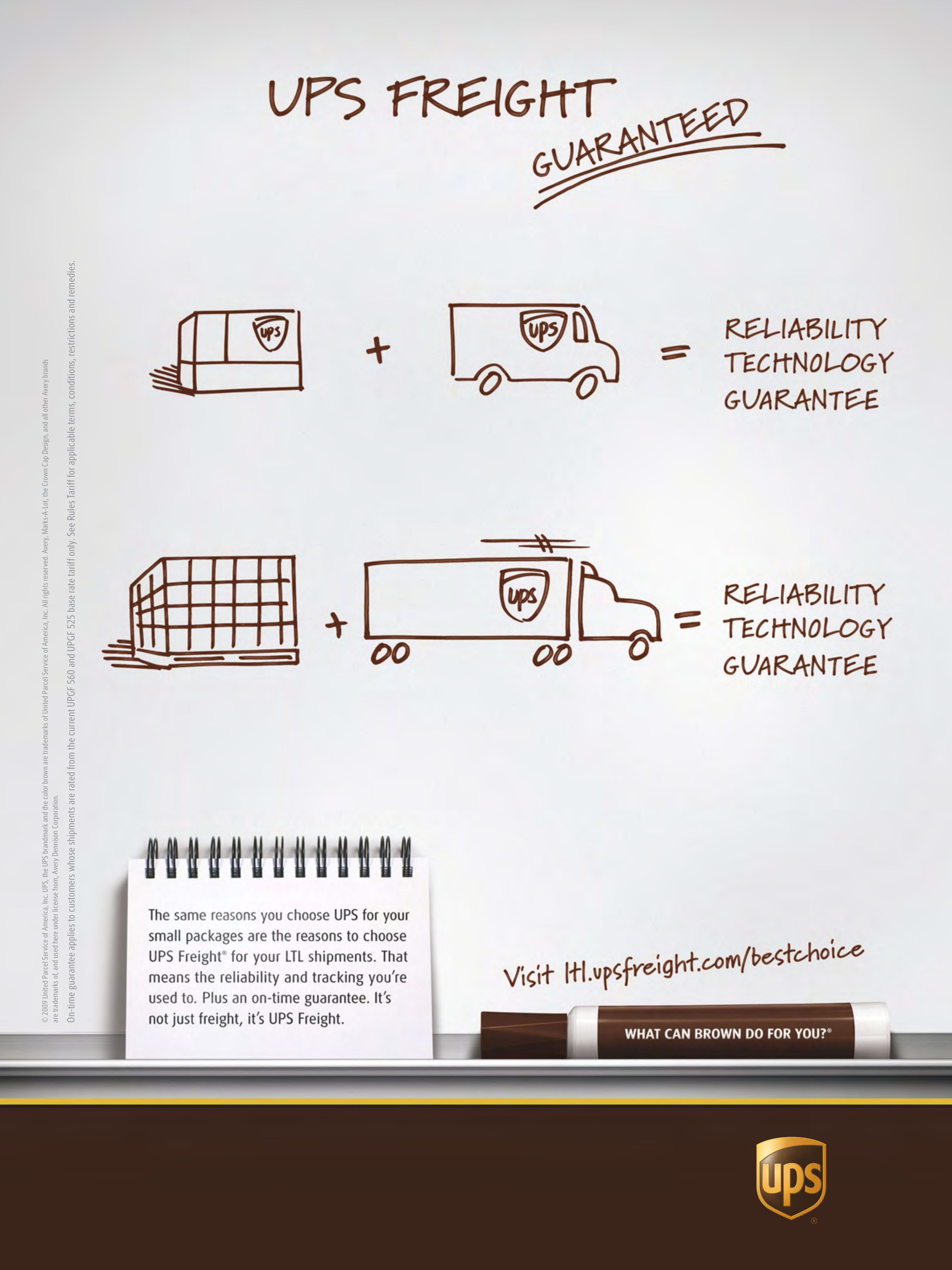
Let's start with some recent history: The current trucking downturn started in mid-2006. At first, carrier executives thought it might be a mild correction following a terrific 4-year period of strong pricing. Then, in mid-September of last year, the slump worsened. Freight demand fell off a cliff and even some of the best-run trucking companies started laying off workers and parking trucks amid the flow of red ink.

"The market is the worst I've seen from a freight demand standpoint," says Satish Jindel, principal of Pittsburgh-based SJ Consulting, which tracks both the less-than-truckload (LTL) and truckload (TL) sectors.

Jindel is not alone in his assessment. Most carrier executives say this is the worst freight downturn they've endured in their lifetimes—and some of those lifetimes have been pretty extensive. "I've been in trucking for more than 55 years," says Myron P. "Mike" Shevell, chairman of the Shevell Group, which includes Top-25 regional LTL carrier New England Motor Freight (NEMF). "This is the worst I've seen since the mid-1970s, before deregulation. It's scary out there right now."

What's driving this market is the overall U.S. economic slump, particularly housing and autos. Shippers and manufacturers are slowly working their way through excess inventory, while freight carriers with high fixed costs have been struggling as volumes sag amid the weak economy. Inventory levels remain high, which could mean decreased manufacturing and retail demand for awhile longer. Although it's possible that a sudden surge could occur later this year, most executives say that they're not counting on that, and a rebound is more likely in 2010.

"Right now this is most challenging environment that I've ever seen and our chairman, Fred Smith, recently said the same thing," says Douglas Duncan, president and



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CEO of FedEx Freight (FEF), the nation's second-largest LTL carrier with $4.5 billion in revenue last year (see adjacent charts). "It's a tough market right now."

After several months of reduced ordering and production levels, carriers are hoping for improved freight volume trends in coming months as inventories are restocked. But so far inventories remain stubbornly high, and that is weighing heavily on demand in both the industrial and retail sectors.

TOP 25 TRUCKLOAD CARRIERS / 2008 Revenues ($ million)

RANK	COMPANY NAME	SUBSIDIARY PORTFOLIO / COMMENTS	2008 REVENUES
1	Schneider National	Truckload, Dedicated, Expedited, Bulk, Regional, Intermodal, Brokerage, Air/Ocean Freight Forwarding, Customs House Brokerage, Transloading and Distribution, Supply Chain Management, Supply Chain Advisory Services	$3,700
2	Swift Transportation	Truckload, Intermodal, Brokerage Services	$3,385
3	Werner Enterprises	One-way Truckload, Dedicated, Cross-Border [Excludes Logistics]	$1,891
4	U.S. Xpress Enterprises	US Xpress, Xpress Global Systems, Xpress Direct, Total Transportation, Arnold Transportation, Abilene Motor Express, C&C Transportation, Smith Transport, Pinner Transport (Acquired May 2008)	$1,825
5	JB Hunt Transport Services	Truckload, Dedicated Contract Services [Excludes Intermodal and ICS]	$1,603
6	Crete Carrier Corp.	Crete Carrier, Shaffer Trucking, Hunt Transportation	$1,110
7	C.R. England	England North American, England Mexico, England Dedicated, England Refrigerated Intermodal, England Logistics (Acquired Transman Logistics in November 2007)	$1,075
8	Prime	Refrigerated, Flatbed, Tanker Services	$920
9	CRST International	CRST Van Expedited, CRST Malone, CRST Logistics	$915
10	National Freight Inc.	NFI Transportation	$822
11	Covenant Transport	Covenant Transport, Southern Refrigerated Transport, Star Transportation	$774
12	Knight Transportation	Truckload, Refrigerated, Brokerage Services	$767
13	Ruan Transportation Management Services	Ruan Dedicated Contract Carriage, Bulk Transportation, Brokerage	$742
14	Anderson Trucking Service	ATS Specialized, ATS Van Transportation, ATS Heavy-Haul	$665
15	Heartland Express	One-way Truckload, Refrigerated	$626
16	Interstate Distributor Co.	IDC - Specialized Services, Heavy Haul, Temperature Controlled, Dedicated	$565
17	Celadon Group Inc.	Celadon Trucking, Celadon Logistics, Jaguar, Celadon Canada	$560
18	Dart Transit	Dart Regional, Dart Intermodal, Dart Dedicated	$558
19	Western Express / Smithway Motor Xpress	Western Express (Truckload Van, Dedicated, Flatbed, Logistics & Expedited), Smithway Motor Xpress	$550
20	Ryder Systems	Dedicated Contract Service	$548
21	Comcar Industries	CT Transportation, Commercial Carrier Corporation, Midwest Coast Transport, Willis Shaw Express, CTL Transportation	$535
22	USA Truck	Domestic Truckload, International (Cross-Border), Dedicated	$519
23	Marten Transport	Marten Truckload [Excludes Logistics and Intermodal	$508
24	Con-way Truckload	Con-way Truckload (Formerly Contract Freighters)	$505
25	FFE Transportation Services	FFE Transportation, American Eagle Lines, Lisa Motor Lines [Includes Truckload, LTL, and Dedicated & Excludes Logistics]	$445

TOTAL TOP 25 CARRIER REVENUES $26,113

Companies have significant revenues from one-way truckload moves
JB Hunt was previously listed as #1 due to inclusion of intermodal and brokerage services, which are excluded for being non-asset based
Source: Company Reports & SJ Consulting Group, Inc. estimates

HOW DOWNGRADING CAN BE PROFITABLE

Providing top-notch service can pay, even in a down market. Douglas G. Duncan says FedEx Freight's new 10:30 a.m. guaranteed service is becoming a hit with air freight shippers, who are downgrading to truck to take advantage of the comparatively bargain rates compared to air cargo.

"Customers will manage their supply chains but it's not a correct assumption that they will always go to a lower service product," Duncan says.

Customers often upgrade their service to help remove inventory. But it works both ways. Truckers are finding that with their 98-plus percent on-time ground service, they can market themselves to air cargo shippers at a fraction of the rates charged by high-cost air carriers.

FedEx Freight has the huge advantage of having access to nearly all of the customers of corporate sibling Federal Express while using similar marketing techniques.

"Both sides are in play," Duncan says. "People asked us, 'Why are you starting a 10:30 a.m. service at a time when everybody is trying to cut costs?'"

One person's downgrade may actually be another's upgrade, Duncan explains.

"You can use an LTL carrier to get to that 10:30 a.m. service window, you might actually be downgrading from air but still be at a cost advantage. Sometimes the service level shippers are moving to may be a downgrade in price, but an actual upgrade in service," Duncan says.

—by John D. Schulz, Contributing Editor

"The carriers, individually and collectively, have no ability to influence demand," says Jindel. "The only thing we can do as an industry is manage supply and capacity. If they take out capacity at a faster rate than demand falls, then pricing will restore and financial stability will be there."

Trucking is full of optimists—one almost has to be in order to survive. What is helping most trucking executives remain optimistic is their belief, born out of past recessions, that when the U.S. economy recovers they will be in better shape to capitalize because of the reduced capacity in the market place.

"There will be prosperity for those who are left standing," says trucking consultant Lana Batts, managing partner with Transport Capital Partners, a consulting firm to the trucking industry. "The question is who is going to be left standing?"

Along those lines, *Logistics Management* recently spent some time with several top executives at leading carriers in both the TL and LTL sectors to discuss four philosophies and operational tenets that overlay their businesses as they ride out the recession. The four common denominators of these highly successful operators are capacity, service, operational excellence, and financial stability. We'll let a few of the industry's leaders take it from here

Capacity: Get the balance right

Nearly all the top carriers are unanimous on one issue: If the industry takes care of capacity, pricing power will naturally follow. That is not good news for shippers, who are currently benefiting from rock-bottom rates and heavy discounting.

Already many of the top truckload carriers have reduced their over-the-road truck capacity by double-digit amounts and through diversification. J.B. Hunt, which now gets just 42 percent of its overall revenue from its truckload and dedicated trucking units, has reduced its over-the-road capacity by parking more than 1,000 trucks, or more than 27 percent of its fleet. Hunt, Swift Transportation, and Werner Enterprises—three of the top five TL fleets—combined have taken more than 6,000 trucks out of service since the start of 2007. That's about 16 percent of their combined fleet capacity taken out of the market since the recession began two years ago.

Even at that rate, some analysts say it's not enough. "Truckload is taking out capacity but it's not keeping pace with supply and demand," Jindel says. "Overcapacity is the problem."

Not everyone agrees. Until recently, Schneider National had been building capacity, adding about 3 percent to its over-the-road fleet from January 2007 until this year. But it has since stopped adding trucks until it sees where the current market winds up, says Mark Rourke, president of Schneider's truckload division, the largest TL carrier with $3.7 billion in revenue last year.

"We're watching our big competitors take trucks out and we've been a bit contrarian to that," Rourke says. "The reward will be there to seize that opportunity when the recovery comes. We're committed to trucking, not just dedicated and intermodal."

On the LTL side, which has higher fixed costs with their extensive terminal networks, not everyone is shedding capacity. NEMF recently purchased nearly 100 trucks and trailers from the liquidation of Northeast rival Jevic Transportation, which ceased operations last May. A. Duie Pyle this month is opening a 54-door terminal in East Brunswick, N.J., anticipating a recovery.

"We are adding capacity, even in the midst of a downturn," says Pyle President Steve O'Kane, adding he wants to be ready for when the recovery occurs. "We believe before the recovery is under way, there may be substantial opportunities for us."

Service: Never let me down

Truckers can cut a lot of corners. They can defer capital expenditures and they can stop buying new trucks. But one area where they absolutely, positively cannot let their customers down is in providing on-time, damage-free pick-ups and deliveries—yet another issue on which all the leading carriers agree.

"The most important factor to staying relevant is not losing focus on our customers," says John Labrie, president of Con-way Freight, the nation's third-largest LTL carrier with just over $3 billion in LTL revenue. "We're absolutely focused on responding to their needs."

Duncan at FedEx Fright agrees, adding that service is nothing short of an absolute: "For us, that's not a difficult decision. Everything I provide is about service, service, and service. If I cut that short, I'd have a

terrible problem on our hands."

Toward that end, UPS Freight recently cut service times on more than 3,000 lanes to help shippers with their cycle times. Averitt Express recently opened four new terminals in Texas to improve its service to and from the Lone Star State.

"The top 50 carriers are doing everything they can to stay in the game," says Phil Pierce, executive vice president for sales and marketing at Averitt Express. "The number one challenge is eliminating cost without impeding quality of service… and we're all looking at how to do that."

Even in this economic downturn, shippers have managed to reduce transportation costs to about 10 percent of Gross Domestic Product, compared to around 18 percent in 1979, the last year before trucking's deregulation. The recession is challenging those efficiencies

"They're trying to shorten and speed up supply chains and use rapid, reliable transportation to offset inventory costs," FEF's Duncan says. "What's happening is the great achievements in supply chain management have been jolted by the economy. But if you take inventory out, that reduces your cash requirements. These cash demands are even more important, and that's why we're focused on even faster networks than ever before."

Operations: Just can't get enough

Con-way has cut its head count by 2,500 positions, or 14 percent of its workforce since the recession began. Similarly, FedEx Freight eliminated the jobs of 900 workers, or about 2.6 percent of its 35,000 employees. But both carriers say they are not eliminating their commitment to operating as efficiently as possible, even in a downturn.

"We optimize our decisions around service first and cost control second," Con-way's Labrie says. "We're working continuously to wring out efficiencies in all phases of operations on a day-to-day basis."

Other executives echo Labrie's laser-focused mission: "We're doing this exact

TOP 25 LESS-THAN-TRUCKLOAD CARRIERS / 2008 Revenues ($ million)

RANK	CARRIER NAME	COMMENTS	2008 REVENUES
1	YRC (formerly Yellow and Roadway)	Adjusted to reflect LTL revenues only	$5,706
2	FedEx Freight	Revenues adjusted to calendar quarters	$4,568
3	Con-Way	Integrated three regional operations into one network	$3,016
4	UPS Freight		$2,062
5	YRC Regional	Adjusted to reflect LTL revenues only. Closed 27 terminals (Feb. '08)	$1,813
6	ABF Freight System*	Expanded regional LTL service during the year	$1,759
7	Old Dominion Freight Line*	Acquired Bullocks Express (Dec. '07) and Bob's Pickup & Delivery (Feb. '08)	$1,538
8	Estes Express Lines*	Organic expansion in Upper Midwest. Company estimate	$1,480
9	Saia Motor Freight Line		$956
10	R+L Carriers*	Organic growth on west coast. SJC Estimate	$864
11	Southeastern Freight Lines*		$740
12	Vitran Express		$611
13	Averitt Express	Member of Reliance Network for national coverage	$588
14	AAA Cooper Transportation*		$519
15	Central Transport International*	Decline due to heavy concentration in automotive sector. SJC Estimate	$456
16	Roadrunner Transportation	Light-asset with full nationwide coverage	$367
17	New England Motor Freight		$322
18	Pitt-Ohio Express	Member of Reliance Network for national coverage	$310
19	Central Freight Lines	Decline due to reduction of footprint in Midwest and Pacific Northwest	$308
20	Dayton Freight Lines*		$247
21	A. Duie Pyle		$236
22	New Century Transportation*	Light-asset load to ride hybrid LTL operation. SJC Estimate	$219
23	Milan Express*		$190
24	Wilson Trucking*		$163
25	Daylight Transport*	Light-asset with concentration on west coast	$159

2008 TOP-25 TOTAL REVENUES $29,195

** Revenues primarily for LTL operations, but include truckload and other services*
Source: Company reports and SJ Consulting Group estimates

thing at Averitt,” says Pierce. “We’re using this time to rethink every process we follow, every purchase we make, and every resource we consume—and we’re getting every associate involved.”

One Averitt worker recently won a 2008 Smart Car convertible, the grand prize in its recent “Smart Car for Smart Thinking” program. The point was to get associates to work together to improve conservation and efficiency and be rewarded for their efforts.

“Operational excellence is tops with us,” Schneider’s Rourke adds. “You can’t afford not to be excellent. We carry that belief regardless of what cycle we’re in.”

Even though fuel is down more than 50 percent from its mid-2008 peak, carriers are conserving. The best carriers are practicing conservation every day through tactics like reduced idling, proper tire pressure, using low-resistance tires, and coaching drivers on fuel-saving driving practices.

“We also drive conservation by engineering our network every day for the highest density and fewest empty miles possible,” says Con-way’s Labrie. He said one recent re-engineering project eliminated 124,000 miles a day from its network, saving 4.9 million gallons of fuel a year. “We have a dynamic network model that we adjust and balance daily to meet service and cost targets.”

David Congdon, president and CEO of Old Dominion Freight Line, the nation’s seventh-largest LTL carrier, adds that operational excellence all boils down to managing costs by “staying on top of it day in and day out. By utilizing technology and systems we have to manage our costs to a ‘T.’ We can do that in real time.”

Chuck Hammel, president of Pitt Ohio Express, the nation’s 18th-largest LTL carrier, says that even though business levels “stink,” it still runs over 98 percent on time. Typically when top line revenue falls, businesses cut costs dramatically and service is usually impacted by those decisions.

“But delivery service is only one aspect of operating a world class logistics provider,” Hammel says. “Pitt Ohio’s real strength lies in our back office functions, and we leverage all of those strengths through our customer solutions group. That is our real strength that we offer the market.

Financial stability: Everything counts

Financial stability is huge, many executives say. NEMF’s Shevell has been around long enough to know that trucking always has been survival of the fittest. Only a handful of the top 50 carriers that existed in 1979, the year before deregulation, even exist today.

The rest, Shevell says, refused to adapt to times like we’re experiencing now.

“We have customers who continually ask us about our balance sheet, our debt load, our ability to withstand these types of economic times,” Shevell says. “That’s when it pays to own our own terminals, have practically a debt-free balance sheet, and not be beholden to lenders at every turn.”

“I’ve been in trucking for more than 55 years. This is the worst I’ve seen since the mid-1970s, before deregulation. It’s scary out there right now.”

—Myron P. “Mike” Shevell, chairman of the Shevell Group

Pitt Ohio’s Hammel says financial stability “is not really getting us many converts, other than maybe a few nervous YRC customers.” But what it is doing is allowing Pitt Ohio to continue to invest in its future “so that we will come out of this recession stronger and in a better market position” than when this downturn began.

“I see very few customers flocking to financially strong companies for that fact alone,” Hammel says. “The best price is always with the weakest carriers. However that comes with risks.”

Increasingly, privately held carriers such as NEMF and Schneider says they are being asked by shippers about their balance sheets. “That’s one of the trends we’re seeing from shippers,” Rourke says. “There are increased requests to understand our financial viability. We’re more open with what we share with shippers because they’re asking more questions.”

NEMF’s Shevell and ODFL’s Congdon, two guys who have seen the ups and downs over many years, both say the best thing carriers can do to maintain financial stability is to understand their costs and price accordingly.

In separate interviews, both used the phrase “death wish” to describe some rivals’ pricing.

“Maintain pricing and yield management,” Congdon says. “You have to price every account on its own merit and how it’s operating. When you’re delivering the highest level of service possible, best in class, you can charge for it. Trying to reduce price to gain volume is a death wish to me.”

The road ahead

Consultant Batts, who formerly was president of the Truckload Carriers Association and a top official of the American Trucking Associations, says traditionally the winners in trucking are those with a history of operating ratios of 95 or better, a solid balance sheet, and a diversified customer base.

But a proper mindset is helpful too. “The best attitude to keep is ‘This too shall pass,’” says Batts. “If you’re in the ‘woe-is-me’ category, you’re always looking backwards. You cannot look forward in that mindset.”

Batts recently performed a survey of more than 100 TL carriers and found that 21 percent were considering liquidating their fleets within six months.

Additionally, 23 percent said they would consider a sale of their fleets within 18 months. This is on top of the additional double-digit capacity that has come out of the market due to closings, voluntary cutbacks, and repossessions in the market the past two years.

Considering that since 2000, some 22 percent of the Top 100 carriers already have closed, 8 percent have been bought out and 2 percent have fallen to below Top-100 status; meaning that nearly one-third of the Top 100 carriers are out of business in less than nine years.

“I think when all is said and done, we’re going to witness some well-known companies fade away in one way or another,” Batts predicts. And that’s bad news for shippers who are currently enjoying bargain rates that may not survive an economic recovery. That’s because of constraints on capacity.

“The survivors are saying that they can make more money raising rates than buying another truck,” Batts says.

“That’s why there’s going to be prosperity for the survivors. The strong will be stronger and the big will be bigger.” L


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SAGE ADVICE

More work for the lucky few

By Wayne Bourne

As they say on the farm, this is a time when the wheat gets separated from the chaff. Or let me be a little more specific: The time has come for the elite logisticians to go to work to keep their jobs. Yes, you heard me. I said "keep their jobs," not get bonuses, not get raises; in fact, they are now working to *keep* their jobs.

It's no secret that due to the prolonged downturn in the global economy, many medium and large corporations are laying off thousands of moderate to very talented logistics personnel, leaving many departments in the hands of the "best of the best"—at least that's how it sounds in theory.

And for those top shippers who remain in their positions it will come with a considerable price tag, including increased responsibility that they may not be ready to handle. They will be required to trim freight and distribution expenses to the absolute bone. At worst, they will need to maintain current service levels; and at best they may actually have to improve service levels while working with carrier partners that are facing an economic free-fall.

The job of the logistician has certainly had its ups and downs in the last three to four years. Like the proverbial roller coaster, just when you think you can see the next turn, you dip precipitously and you find yourself upside down while still traveling at great speeds. The roller coaster is only fun because you know the ride will end soon; however, the shipper's three- to four-year ride is seemingly endless.

This current ride has included out-of-control fuel prices, driver shortages, insurance increases, regulatory mandates, and regional capacity shortages followed by gluts in capacity in the same regions. The industry has also witnessed a sudden increase in bid wars and reverse auctions that have rendered many "long-term" contracts ineffective.

I was thumbing through previous Sage Advice columns to get some ideas for this months' column and was particularly struck by John Gentle's column in January where he very adeptly challenged the level of our reader's relationship management skills. Why did this strike me?

Well, think about the particular skill sets that are necessary now that both sides of the shipper/carrier partnership are experiencing difficulties at the same time. What are they? The answer is easy for those shippers who have been true partners with their carriers or services providers when times were tough. Partnership transcends the external connections between shipper and carrier, it also fixes on the rapport your department has with the internal sourcing relationships within your corporation. Those internal departments create the performance requirements and therefore the demands of the supply chain.

There has never been a better time, or a more pressing need, to involve yourself directly with your internal partners, the groups responsible for sourcing products and materials. Be part of the overall plan. "Plan your work and then work your plan" as an old mentor used to tell me.

Your external partners' assessment of your commitment to the term "partnership" will be obvious to you during the next few months. Now that it really counts, will you be perceived as a true partner? How much your carrier partners will be willing to do for you and what types of concessions they'll make will in large part depend on how professionally you treated them when things were tough for them.

On the bright side, fuel is at the lowest level it's been for some time, and capacity is available in most sectors of the country, resulting in some attractive leverage for shippers. However, as the economy continues to siphon off carrier profits and they are subsequently forced to trim their equipment inventories, it shouldn't come as a surprise when capacity tightens up again. Be aware of the forces that affect not only your capabilities but those of your partners as well.

So, for those of you who still has jobs, congratulations. You made the cut. Your companies certainly did not relish terminating all those people; it had to be done to survive. Now you are challenged with the task of proving that they put their faith in the right person. You will now do what you must to survive. It will be hard, but you will accomplish more with less. And in the long term, sincere partnerships will prove to be very beneficial in these difficult times for those who have truly earned them. L

Wayne Bourne is founder and president of The Bourne Management Group, a consulting firm specializing in supply chain, logistics, and transportation network creation, economics, organizational development, and process analysis. A recipient of several industry awards, he has nearly three decades of experience in transportation and logistics management. Mr. Bourne may be reached at WLB1144@aol.com.

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