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Logistics Management®

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27th Annual
Quest for Quality

Rising above the rest

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Quarterly transportation market update:

LTL's big rebound 58S

Management UPDATE

AN EXECUTIVE SUMMARY OF INDUSTRY NEWS

Earnings on the upswing. Despite some indications that the economic recovery may be slowing down, second quarter earnings from publicly-traded transportation and logistics companies put that theory to rest. Citing things like tightening capacity, improved pricing, and strong inventory build-up through the first half of the year, many companies, including CSX and J.B. Hunt, among others, posted record-breaking numbers for Q2.

Rising rail figures. More good news surfaced in the domestic rail sector this past month as Norfolk Southern Corporation reported second-quarter 2010 net income earnings. According to spokesmen, the company's earnings totaled $392 million, an increase of 59 percent, compared with $247 million for second-quarter 2009. Diluted earnings per share were $1.04, up 58 percent, compared with $0.66 per diluted share earned in the second quarter of 2009. "This is our fourth straight quarter of volume growth, and we are optimistic about continued year-over-year increases in rail traffic," said CEO Wick Moorman. Second-quarter railway operating revenues improved 31 percent to $2.4 billion, compared with the second quarter of 2009, primarily as the result of a 22 percent increase in traffic volume.

Air cargo jumps. The International Air Transport Association (IATA) announced international scheduled traffic statistics for June, showing continued strong demand growth as the industry recovers from the impact of the global financial crisis. Compared to June 2009, international scheduled freight traffic showed a 26.5 percent improvement. Capacity increased only slightly above demand improvements during the month, keeping load factors in line with historical highs of 53.8 percent for freight. "The industry continues to recover faster than expected, but with sharp regional differences. Europe is recovering at half the speed of Asia," said Giovanni Bisignani, IATA's director general and CEO. Outside of Europe, all regions reported double-digit growth in air cargo. "Business confidence remains high and there is no indication that the recovery will stall any time soon." said Bisignani.

UPS expands Carbon Neutral shipping program. As a follow-up to a sustainability push launched last October, UPS recently announced it's expanding its Carbon Neutral shipping program to 35 countries and territories throughout Asia, Europe, and the Americas. The UPS Carbon Neutral Program offers shippers the ability to offset the CO2 emissions generated by the transport of packages within certain regions for various services. Company officials said that in the U.S. fees range from $0.05 for a ground package, $0.20 for an air package, and up to $0.75 for an international package. Outside of the U.S., a small flat fee will vary slightly by country depending on the type of service selected and origin and destination of the shipment.

BTS Freight Transportation Services Index takes a hit. The Department of Transportation's Bureau of Transportation Statistics (BTS) reported that its Freight Transportation Services Index (TSI)—the measure of month-to-month changes in the output of services provided by the for-hire freight transportation industries—fell 0.4 percent in May, following two months of sequential increases. The BTS also noted that the Freight TSI at 97.7 was up 4.4 percent year-over-year. May 2009 marked the lowest level for the Freight TSI since June 1997, while the Freight TSI is down 13.5 percent from its historic peak of 112.9 in May 2006.

Port Tracker calls for continued, but smaller-gains. While the forecast for import cargo volume at U.S.-based retail container ports remains positive, the amount by which volumes rise on a monthly basis is expected to narrow in the coming months, according to the most recent Port Tracker report by the National Retail Federation and Hackett Associates. The report said July volumes are expected to rise by 16 percent year-over-year. Retail container volumes saw declining volumes for 28 months through November 2009. "Consumers have become a bit scared again, according to the most recent Consumer Confidence index reading, which was down significantly," said Ben Hackett, founder of Hackett Associates. "It is an indication of hesitancy by consumers and their willingness to spend more, as opposed to just working down debt."

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Management UPDATE

continued

■ **What peak season?** While shippers may be heartened to hear that fewer ocean cargo vessels are being scrapped and newbuildings are ramping up, some analysts are beginning to doubt if demand will sustain growth. The good news released recently by Alphaliner concerning more carrier activity has been countered by Drewry Shipping Consultants' *Container Forecaster*, which posits the idea that a "peak season" may fail to materialize. "By no means do we see a precipitous fall, but there will be an impact," said Neil Dekker, editor of the quarterly Container Forecaster. "The danger of a weaker recovery has been concealed by the fact that ocean carriers believe that they have entered a real recovery phase," added Dekker.

■ **Deeper water for LA.** The Port of Los Angeles began the final phase of its 13-year, $370 million Main Channel Deepening Project (MCDP). After a five-year break in the project to identify and environmentally assess additional disposal sites for the soil dredged up by deepening the port's main waterways, a barge containing roughly 4,000 tons of boulders and fill material began to discharge its payload at a designated outer harbor location. The site, directly west of Angel's Gate, will be a containment area to hold clean dredge material and expand the port's thriving outer harbor shallow water habitat by an additional 50 acres. According to port spokesman, completing the final phase of the MCDP over the next three years is critical to future trade growth and job creation at the Port of Los Angeles, especially in light of the completion of the Panama Canal expansion in 2014.

■ **Obama taps UPS chief** UPS Chairman and CEO Scott Davis was named by President Barack Obama to serve on Obama's Export Council—part of the White House's goal of doubling U.S. exports in the next five years. The President's Export Council advises the President on government policies and programs that affect U.S. trade performance, while also providing a forum for discussing and resolving trade-related problems among businesses, industrial, agricultural, labor, and government sectors.

■ **Con-way Truckload 'doubles up' on trailers.** A new offering from the carrier enables shippers to better utilize trailer space, as well as more effectively secure freight to prevent shipment damage. Entitled DoubleStack, the offering is comprised of a racking system that enables freight to be loaded on two separate, adjustable levels throughout the length of the trailer, which Con-way officials said accommodates shipments of different dimensions along with better utilizing trailer space. DoubleStack also has custom-designed strapping mechanisms that tie down shipments so they do not move during transit and also provide protection against damage.

■ **Targeting BRIC.** Choice Logistics, a global specialist in customized third-party, high-tech service parts logistics, has announced significant expansion of its strategic stocking location (SSL) network in Brazil, Russia, India, and China (BRIC). Choice reports that it will offer logistics solutions in each country based on its unique import/export guidelines to support the efficient flow of parts. The company has more than 400 SSLs supporting clients globally today. "Choice Logistics is aggressively expanding its network around the world to support the needs of our client base, and BRIC is an integral component of this strategy," said Michael Notarangeli, vice president of field operations for Choice.

■ **Get back to supply chain basics.** Join Group Editorial Director Michael Levans, Editorial Director Frank Quinn, and Executive Editor Patrick Burnson for an exclusive virtual conference entitled *Supply Chain Fundamentals: The Building Blocks of Success.* The conference concentrates on those core supply chain activities that translate directly to higher productivity and lower costs. Our keynote session and conference workshops focus on the basics of the four key components of supply chain management: Purchasing, Transportation Management, Warehouse/DC Management, and Reverse Logistics. The conference is available now on demand at logisticsmgmt.com/fundamentals.

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COVER STORY

Rising above the rest

Which carriers and third-party providers soared above the crowd in terms of service performance over the past year? Our readers have cast their votes, and now it's time to reveal the winners of the coveted Quest for Quality Awards.

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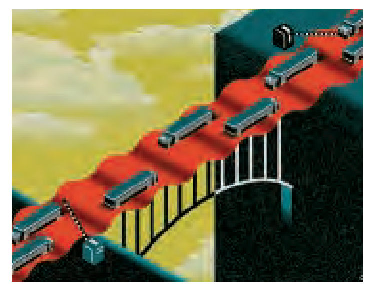
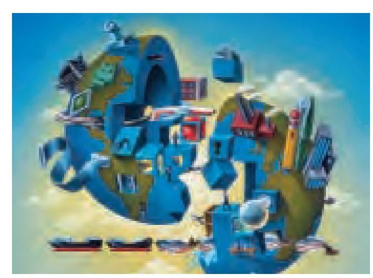
cover illustration by Stuart Briers



Freight forwarding 40



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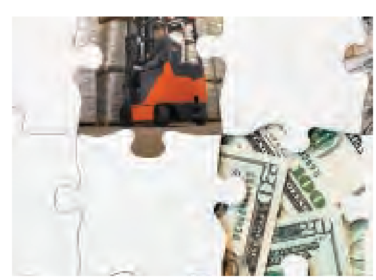

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Peerless MEDIA, LLC

Rising above the rest

OUTSTANDING SERVICE PROVIDERS often get overlooked when times are good and business is firing on all cylinders. But when the economy slows down and business runs into a long and dismal trough, the spotlight shines in a different direction—on to those organizations that are not only able to keep their heads above water fiscally, but remain capable of executing outstanding customer service despite the difficult terrain.

This year, *Logistics Management (LM)* is especially proud to help shine that light on the 108 carriers and logistics service providers that are being presented with a 2010 Quest for Quality Award. While facing some of the toughest operational challenges ever seen by the transportation and logistics service market, this select group has earned the ultimate vote of shipper confidence by posting the highest scores across our critical service criteria.

In fact, the *LM* editorial staff was in complete agreement: Coming away with Quest for Quality gold this year just may be one of the most significant accomplishments this group may ever attain in terms of operational excellence.

The so-called Great Freight Recession (2007-2009) succeeded in battering every segment of the global logistics system as shipment volumes plummeted across all the modes. And while many service providers struggled just to survive, shippers continued to put more and more pressure on them, demanding closer partnerships and even more complex service commitments as companies scrambled to re-design distribution networks in an effort to maximize efficiencies and minimize miles.

However, according to the 5,426 respondents, the carriers and providers honored this year (pages 20-40) were equal to the challenge.

And while the Quest for is designed to reveal the superstars, it also gives the industry a quick glance at how service levels are perceived across all the modes and segments. It's interesting to note that overall 2010 weighted average scores—the baseline from which our winners are selected—dropped anywhere between one point and three points across all of this year's categories.

This may not sound overly significant, but it does mark the second year in a row that these baselines have dropped across the board, signifying that even the best of the best have not been able to avoid the sting of a tough economy, as reflected in the tougher scoring.

While facing some of the toughest operational challenges ever seen, this select group has earned the ultimate vote of shipper confidence by posting the highest scores across our critical service criteria.

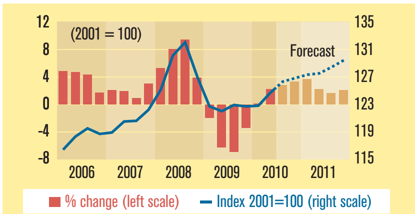
But now it's time to celebrate the winners of the 2010 Quest for Quality Awards. And as your pore through the results, please keep in mind that this initiative represents over six months of surveying and number crunching by our Peerless Media research staff. In fact, it's the single biggest research project we conduct over the course of a year.

This survey has set the gold standard for excellence for 27 years, and I hope it helps you better measure all of your transportation and logistics services options in the coming year.

Michael A. Levans, Group Editorial Director

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

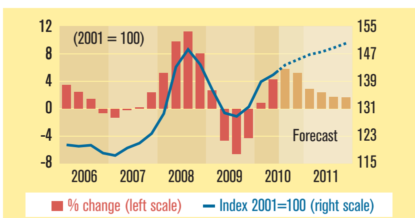
Pricing Across the Transportation Modes



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
General freight - local	0.0	0.0	0.2
Truckload	-0.2	2.6	3.1
Less-than-truckload	-0.3	3.7	1.0
Tanker & other specialized freight	-0.9	0.6	1.7

TRUCKING

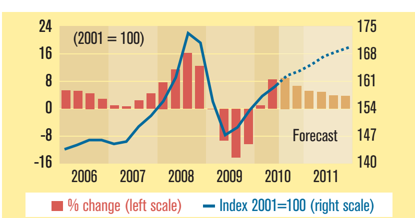
The U.S. economy hasn't provided much lift in the way of higher prices for trucking companies. In June 2009, aggregate transaction prices charged by truckers decreased 0.3%, even with fuel surcharges added. Looking at the entire 12-month period ending June 2010 compared to previous 12 months, prices were down 2.1%. Those May-to-June monthly price declines ran rampant with movers of specialized freight, both local and long-distance, cutting tags 2.2% and 0.6%, respectively. LTL and TL truckers who haul general freight long-distances likewise reported 0.3% and 0.2% respective price declines. Driven by growing demand for LTL services, our forecast now calls for all trucking prices to increase 2.1% in 2010 and 2.4% in 2011.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Scheduled air freight	-0.4	3.4	12.1
Chartered air freight & passenger	8.7	-4.3	9.4
Domestic air courier	1.4	2.8	16.6
International air courier	3.2	4.7	14.3

AIR

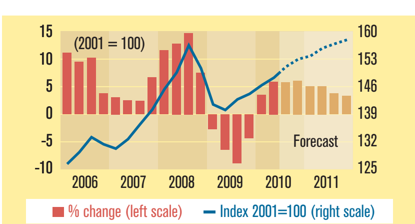
U.S. airlines have been boosting passenger prices without too much trouble (except first class fares, which fell more than 13% from May to June). Not so for air cargo. Prices charged for flying cargo in the belly of planes on scheduled flights stumbled from a month ago, down 0.5% for cargo and down 0.7% for mail. In the 12 months ending June 2009 compared to previous 12 months, these prices have fallen 3.3%. However, a fairly typical post-recession trajectory for air cargo prices has already been established from price hikes set earlier in 2010. Average prices for moving product on scheduled flights (via U.S-owned airliners) now are forecast to fly at an annual inflation rate of 8% in 2010 and 4.3% in 2011.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Deep-sea freight	0.0	6.7	16.0
Coastal & intercoastal freight	0.1	-0.6	7.9
Grt. Lks.-St. Lawrence Seaway	-0.6	-5.4	3.7
Inland water freight	-2.4	-2.5	2.0

WATER

After hitting a low point in July 2009, spot prices for shipping a 40-foot container from Hong Kong to Los Angeles soared to a five-year peak in July 2010, according to Drewry Shipping Consultants. Though less volatile, U.S.-owned vessels, likewise, report that their average transaction prices fell 17.6% from September 2008 to May 2009 and since then jumped 10%. Our forecast for moving cargo on U.S.-owned barges and ships calls for prices in the deep sea category to increase 11% in 2010 before rising 7% again in 2011; to remain flat this year in the inland waterways group and then float up 3.6% next year; and to fall 5.9% in 2010 followed by a 15.5% price jump in 2011 in the Great Lakes/St. Lawrence Seaway category



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Rail freight	1.4	2.9	6.9
Intermodal	-0.2	2.7	9.0
Carload	1.6	2.9	6.9

RAIL

A shortage of containers that plagues the world's container-ship industry also bedevils U.S. railroads. But with the U.S. economic recovery proceeding in fits and starts, U.S. rail industry prices have also been moving in fits and starts. Transaction prices for intermodal rail service, for example, jumped 2.7% in May 2010, and then fell back 0.2% in June. Carload rail prices, meanwhile, grew 1.6% in both May and June. Looking at price trends for the rail industry overall, rail prices generally have been rising at a steady quarterly pace ever since hitting bottom in the second quarter of 2009. Commensurate with revisions to the water transportation forecasts, we now predict average rail industry tags will be up 5.3% in 2010 and 4.3% in 2011.

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

Fluctuating fuel prices force shippers to plan

Recent LM *survey finds broad disparities in surcharges; analysts say transportation budgeting now requires more careful planning and forecasting.*

By Jeff Berman, Group News Editor

WASHINGTON, D.C.—When it comes to the current state of diesel prices, the only thing anyone knows with any certainty is that nobody knows anything at all.

The current price per gallon for diesel fuel, according to the Department of Energy's Energy Information Administration (EIA), is roughly $2.95 per gallon. Diesel prices have not been north of $3 per gallon since late April, according to EIA data.

And while diesel prices remain under $3 per gallon, prices are currently 35 cents to 40 cents higher than a year ago at this time when the economy was still largely sputtering and demand was down. The high point for this year was $3.127 during the week of May 10, and prices have been down nearly 20 cents per gallon since then.

Current diesel prices appear to be in line with the EIA's most recent Short-Term Energy Outlook, which is calling for 2010 average diesel prices to come in at $2.96 per gallon in 2010 and $3.11 in 2011. The EIA is also calling for 2010 crude oil prices to average $78.75 per barrel in 2010, slightly higher than the current price of $74.74, with 2011 prices currently forecasted to ring in at $82.50. In April, crude hit nearly $87 per barrel, marking its highest price in nearly 20 months.

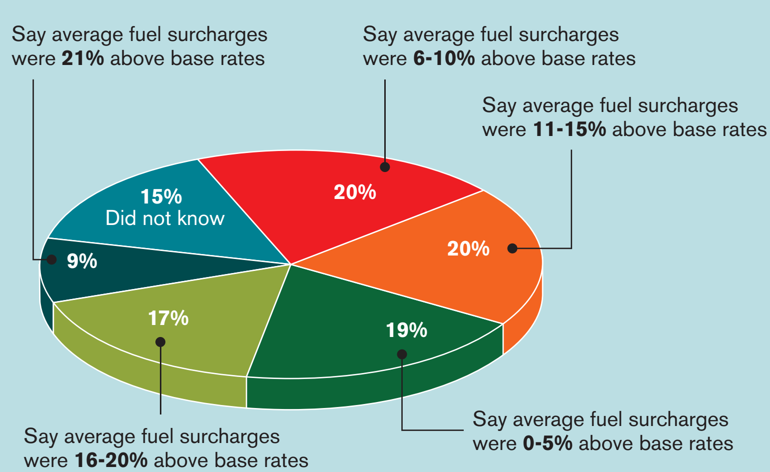
While diesel prices appear to be in check to a large degree for the time being, many industry observers maintain that there is no real rhyme or reason in terms of fluctuating fuel prices.

"There has never been a period of volatility in fuel prices like there has been in the last year," said Mike Regan, president of TranzAct Technologies, a freight payment and audit provider. "The fact that prices are down is no indication that the prices are going to stay down or rise sharply."

With such uncertainty, Regan said that it's imperative for shippers to develop fuel budgets for different potential scenarios that have the ability to dramatically alter planning such as a Middle East conflict or China's mild economic downturn.

According to Derek Leathers, chief operating officer of Werner Enterprises, even with the ongoing uncertainty regarding oil and diesel prices, Werner is planning for "fairly stable"

Concensus: Wide surcharge disparity



Source: *Logistics Management* reader survey, July 2010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pump prices for the rest of this year. "We don't see $4.75 prices per gallon [like in 2008] returning between now and the end of the year," said Leathers. "At the same time, though, we don't know where prices are going to go, so whatever we can do to be more efficient and burn less fuel is a better approach."

As oil prices ride the wave of fluctuating prices, a recent *Logistics Management* reader survey of more than 150 logistics, supply chain, and transportation managers found interesting disparities regarding how much shippers' average fuel surcharges were above their base rates.

"We don't know where prices are going to go, so whatever we can do to be more efficient and burn less fuel is a better approach."
—Derek Leathers, COO, Werner Enterprises

Twenty percent of respondents reported that their average fuel surcharges were 6 percent to 10 percent above base, while another 20 percent said that their average fuel surcharges were 11 percent to 15 percent above. We also found 9 percent reporting that they're seeing average fuel surcharges 21 percent or more above base.

LTL shippers overall said that their average percentage fuel surcharge was 13.83 percent, while truckload shippers reported that their average was 17.05 percent. However, 84 percent of respondents told us that they expect to pay higher fuel surcharges in the coming months. And if prices do rise in the future, 65 percent of respondents plan to raise or adjust their freight budgets to cover higher than expected prices.

"In general we are seeing little blips [in price changes], and the biggest challenge for anyone in the business is that when there are movements in fuel prices we are still vulnerable to movements that have no basis for rationality," said Art Van Bodegraven, president of logistics consultancy Van Bodegraven Associates.

What's more, Van Bodegraven said that it's not going to be easy to model price increases. "Price increases are going to happen and will need to be watched like a hawk," he said. Making the increases difficult to model are issues affecting oil and gas like drilling and offshoring. Keeping your distribution networks flexible, added Van Bodegraven, is going to be paramount due to the uncertainties.

TRUCKING

LTL rate outlook: Double-digit increases possible

WASHINGTON, D.C—Less-than-truckload (LTL) shippers, who enjoyed rock-bottom rates as a result of a competitive price war against financially ailing YRC Worldwide, should be prepared to pay significantly higher rates over the next 12 months, analysts and carrier executives say,

How much higher? At least 4 percent to 5 percent for the contracts coming due the rest of this year, and perhaps double-digit rate increases in coming years.

"Absolutely…I see double-digit rate increases in the next two years," says Myron P. "Mike" Shevell, chairman of the Shevell Group, which operates Northeast regional carrier New England Motor Freight (NEMF). "If we don't see that type of increase, there will be a substantial number of carriers closing their doors or being unable to invest in their business."

Another top carrier executive, Con-way Freight President John Labrie, says: "We expect rates to continue to go north. The issue is more one of pace—how quickly will rates increase—rather than a question of whether or not that will happen."

David Ross, trucking analyst with Stifel Nicolaus, agrees with Shevell and Labrie. He's predicting LTL rate increases of 4 percent to 5 percent over the next 12 months, on average. But he says depending on geographic lane and a customer's importance to a carrier's overall freight network, some rates could rise as much as 25 percent.

"LTL rates hit rock bottom last year when FedEx Freight and Con-way were very aggressive in pricing while trying to put YRC Worldwide out of business," Ross told *LM*. "They now realize that that is an unsustainable strategy. Some of those carriers are aggressively going back to their customers and saying, ‘If you want us to stay in business as an industry, we need help with rates.’ So, on regular contract business, the LTL side is having a little more traction than the TL guys in getting rate increases.”

Of course, some of those rate increases are coming off a low floor. An analysis by rate analyst firm SJ Consulting shows that year-over-year LTL rates for revenue/hundredweight in the first quarter of this year were 6.7 percent lower than the 2009 first quarter for the large publicly held carriers. That was on top of a 5.5 percent year-over-year decline in the 2009 fourth quarter compared with the year-ago period.

Two major factors are influencing LTL pricing right now—demand and capacity. Demand is rising in the industrial and retail sectors, the two largest sectors for LTL. On top of that, the LTL carriers have been judicious in managing capacity, not adding trucks and drivers until they are sure the economic rebound warrants it.

“In the past, the LTL guys inflicted pains on themselves by adding capacity that sometimes caused problems,” said Satish Jindel, principal of SJ Consulting. “That eroded pricing. Some carriers also tried to divert business from YRC in an attempt to push YRC off the cliff, which so far hasn’t happened.”

“The issue is more one of pace—how quickly will rates increase—rather than a question of whether or not that will happen.”

—John Labrie, president, Con-way Freight

YRC has lost in excess of $2 billion in the last three years, the largest cumulative loss in the history of the U.S. trucking industry. Yet, it remains in business. Ross is pessimistic over YRC’s future, and says that the first quarter next year could be a telling one for YRC, a company that traces its origins back 85 years.

“It’s midnight, they’re in an Amazon rainforest, and they have no compass,” Ross told *LM* when asked about YRC’s long-term chances.

YRC, which has shrunk from the nation’s largest trucking company at $10 billion to about $5 billion currently, is burning through cash at an alarming rate. It has sold terminals, real estate, cut geographic coverage, closed underperforming units, obtained 15 percent wage givebacks from its 40,000 Teamsters, and obtained a pension freeze—and it’s still losing money. “If YRC went out, I do think rates would rise in the 10 percent range,” Ross added.

—John D. Schulz, Contributing Editor

PARCEL INCREASE

USPS rolls out proposed price changes

WASHINGTON, D.C.—Faced with the possibility of a projected $7 billion shortfall for Fiscal Year 2011, the United States Postal Service (USPS) said last month that it's proposing price increases to get on the right track to better financial footing.

In a filing with the Postal Regulatory Commission (PRC), the USPS is proposing 4 percent to 6 percent price increases for various products, including its 18 market dominant products. These changes, if approved by the PRC, would take effect on January 2, 2011. The PRC's decision is due in early October.

USPS officials said that these price changes would generate $2.3 billion for the last three quarters of fiscal year 2011 and an estimated $3 billion for the full 12 months of fiscal year 2012.

Due largely to an ongoing diversion to electronic alternatives, including e-mailing business documents and online purchasing orders, the USPS has faced significant revenue generating challenges for more than three years. It has seen mail volume drop by more than 25.6 billion pieces—or 12.7 percent—in the last fiscal year, with total volume currently at 177 billion pieces. And the USPS is also working to restructure retiree health benefits for as many as 800,000 retirees, even though it only has an active work force of 596,000 career employees. Left uncorrected, that bill will reach $4 billion next year.

"We are doing this because the Postal Service faces a serious risk of insolvency," said Stephen Kearney, senior vice president of customer relations for the USPS. "We are facing this problem because of a massive drop in mail volume and the fact that the bulk of our costs are fixed by laws, contracts, or regulations. Our operating flexibility is severely limited right now. Our network is expanding by a million delivery points every year, and we are subject to a lot of legal requirements that limit our ability to reduce service commensurate with the decline in demand."

This proposed price increase is part of a plan rolled out by the USPS in March that addressed key areas that would make it a more financially viable entity, including adjusting delivery days to better reflect current mail volumes and permitting the USPS to introduce more products to meet changing customer needs.

Also part of this plan is to enact what the USPS calls a "modest" rate increase in 2011. USPS officials have said its price cap of 0.6 percent, which is based on the Consumer Price Index, is insufficient to cover its extraordinary losses. Under the Postal Act of 2006, prices are capped at the rate of inflation, although it allows for increases beyond the Consumer Price Index. And to get those increases, the USPS must prove "exceptional or extraordinary circumstances" in order for the PRC to consider prices above the rate of inflation.

"Our overall approach to this price change was a moderate increase," said Maura Robinson, USPS' vice president of pricing. "For products that are not covering their costs, we are taking steps toward improving profitability."

In her comments on the proposed 23 percent increase for Standard Mail Parcels (13 ounces or less), Robinson said it is for lightweight parcels and geared toward improving profitability for what is currently an underperforming product.

"This increase [for Standard Mail parcels] is huge," said Jerry Hempstead, principal of Orlando-based Hempstead Consulting. "It is unconscionable, and the USPS is saying it has to raise it that much for the product to become profitable. For shippers, this is huge, unexpected, and unplanned for in your budget increase."

—Jeff Berman, Group News Editor

TRANSPORTATION INFRASTRUCTURE

AASHTO report outlines future needs for U.S. surface transportation

WASHINGTON, D.C.—Although the current surface transportation reauthorization is funded for the remainder of 2010, it does not by any stretch indicate that the nation's transportation infrastructure is on solid footing. In fact, it is quite the opposite, according to a recent report released by the American Association of State Highway and Transportation Officials (AASHTO).

The report, entitled *Unlocking Freight*, paints a dire portrait of what ails transportation infrastructure in the United States. And AASHTO said that the situation is so dire that the current U.S. transportation system is facing a crisis, with highways, railroads, ports, waterways, and airports requiring investment significantly above current levels to maintain and improve their performance.

What's more, AASHTO said that the need to significantly move freight across the U.S. and globally will increase substantially in the 21st century.

"Our goal [with this report] is to send a clear message to America's lawmakers and the public in general that the transportation system that supports the movement of freight all across the country is facing the potential for a crisis," said AASHTO Media Relations Manager Tony Dorsey. "Our highways, railroads, ports, and waterways need more investments and improvements.

And with transportation infrastructure investment not getting the attention necessary to prepare for future population growth and freight demand, Dorsey said the timing of this report is intended to put the spotlight on the issue now as lawmakers begin to debate for a new six-year surface transportation authorization bill.

"Lawmakers need to know that greater investment, better planning and more highway and rail capacity are needed to address these problems along with problems at the country's ports and waterways," said Dorsey.

In terms of the current and future issues regarding the current transportation systems, the report notes that that the U.S. population is expected to grow from 308 million in 2010 to 420 million by 2050, which translates into more food, clothing, and commodities, and subsequently more transportation infrastructure capacity.

AASHTO also said that by 2020 the U.S. trucking industry will be moving 3 billion more tons of freight than it's currently hauling, which will require another 1.8 million trucks on the road to meet this demand. And in 40 years, the report said that overall freight demand will double from today's 15 billion tons to 30 billion tons by 2050, with truck and rail freight increasing 41 and 38 percent, respectively, from today's levels.

"This report outlines what's at stake if we fail to invest to meet the growing demands on our transportation infrastructure," said Pennsylvania Governor Edward Rendell in a statement. "This includes the roads, rails, and seaports we need to move raw materials and goods to market and keep our economy globally competitive. We know that the capacity of our nation's roads, rails, and seaports is simply not keeping pace with demand."

—*Jeff Berman, Group News Editor*

Pearson on

Consumer-centric supply chain strategies for the "new normal"

THE ECONOMY IS SLOWLY recovering. Consumers are gradually making more purchases. Businesses are tentatively raising inventories and cautiously making new investments in resources and infrastructure. Are these simply signs of an unsteady upturn? Or is it possible that all this timidity may actually become the norm?

The answer is probably a combination of both. However, it is clear that a new normal—characterized by increased wariness, deliberation, and carefully thought out baby steps—may well be setting in. On the business side, think of the new normal as a greater emphasis on cost consciousness, stability, risk management, and corporate responsibility.

On the consumer side, these same attributes also apply: Cost is key, but products perceived as having greater long-term value are currying increased favor. Car owners, for example, are keeping their vehicles longer, rather than trading them in for new models. As a result, service and support are more highly valued.

Companies that dawdle—perhaps waiting for an economic upturn to strengthen their supply chains—will miss out on a great many opportunities. After all, caution may be a core characteristic of the new normal, but indecision, inaction, and inadequate information will never be in style.

In addition, ostentation is losing some cachet, although this doesn't mean that all luxury goods are in decline. There will always be a market for innovative products, as well as ultra-high-quality goods and services.

It would be a mistake, of course, to over-generalize about the new normal—particularly across geographies. However, the importance of a customized (i.e., local and segmented) perspective only supports what could be the most basic of all the new normal's tenets: a more intensive focus on the customer.

In net, new normal customers may be harder to court and, as noted above, chances are good that they will be supremely interested in value, service, and low-risk purchases and support. To thrive in the new normal era, here are a few consumer-centric, supply-chain-focused strategies that retailers and manufacturers may wish to consider.

Capitalize on the changing landscape: Many companies struggle during times of economic turmoil, and their exposed weaknesses provide opportunities for more resilient competitors to expand in less penetrated areas and sell through new channels. Organizations should comb through competitors' balance sheets, look for windows of opportunity, and leverage the strengths of their own brands and financial health. Those that have been challenged most by the economic downturn should consider quick incentives to their largest customers to avoid erosion in market share.

Change product mix/assortment: Value-based products have become a top priority for consumers with fewer dollars to spend. Companies may wish to respond by assessing current trends—product by product and market by market—in order to identify winners and losers. Adjustments then can be made to grab market share of the newly identified "preferred" products that cost-conscious consumers are buying. Supply chain plans should reflect these changes, starting with demand and forecast adjustments and extending to flexible, dynamic plans for distribution, production, and raw-materials procurement.

Consider packaging innovations: Product innovation is usually associated with an increase in overall costs rather than with cost reduction. However, as consumers hunt for value, they become more receptive to packaging changes that demonstrate waste reduction. Manufactur-

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ers can respond to consumer frugality by providing packaging that reduces total product cost without tarnishing brand quality.

Adjust inventory policies: Manufacturers and retailers must be able to rapidly realign inventory policies with changing consumer preferences. For example, small investments in processes and tools that support safety-stock adjustments may become more justifiable. Same with new attention to informed allocation and replenishment decisions. In short, the New Normal venerates improvements in working capital.

Re-evaluate transportation and logistics: This could be an ideal time to revisit transportation capacity requirements and policies. Based on your findings, that could mean new routing schemes, new justification for outsourcing, or perhaps a reason to negotiate lower rates from major carriers in exchange for stronger capacity commitments.

Emphasize responsiveness: More than a few companies have already invested in truly integrated planning capabilities—the ability to drive distribution, production, sourcing, and transportation programs from a single and responsive view of demand. This may sound unrealistic to many organizations, but dramatic reductions in cost and risk, combined with increases in planning accuracy and service quality, make exploring the concept worthwhile.

Welcome to the "new normal"

Traditional planning	Flexible, dynamic planing	Exemplars of new planning
Driven off historical performance and internal operations	Grounded in market expectations and external trends	Best Buy, Statoil, Swedish Match
Deterministic, base core approach	Probabilistic scenarios including risk factors	Shell
Schedule-driven annual exercise	Monitoring of external environment, event triggered reforcasting	Cemex, Tesco
Weak link to operations	Planning tightly integrated to front line	Statoil, Zara
Labor-intensive data collection, ad hoc	Advanced analytics with real-time data integration into decision-making	Best Buy, Harrah's UPS
Static, one-size fits all capital allocation	Dynamic capital allocation, centralized stewardship, but decentralized evaluation	American Express, Constellation Energy
Limited consideration of intangible assets	Intangible assets linked to financial outcomes	American Express, Marriott, UPS
Emphasis on short-term profit	Broader planning scope covering balance sheet and cash flow	Shell, UPS
Outputs restricted to internal processes	Outputs leveraged to communicate future value to investors	Swiss Re

Flexible, dynamic planning approaches will characterize the new normal era.

PROCEED CAUTIOUSLY BUT DECISIVELY

Across the New Normal landscape, superior supply chains could have more potential than ever to positively influence growth and profitability. To make that happen, ongoing gains in efficiency will still be important; but it will be essential to work closely with business partners to create integrated operations that are bound by a unified consumer-centric vision.

Optimal decisions about how to allocate resources will also be key, and that calls for more-comprehensive sales and operations planning processes.

Companies that dawdle—perhaps waiting for an economic upturn to strengthen their supply chains—will miss out on a great many of the above-mentioned opportunities. After all, caution may be a core characteristic of the new normal, but indecision, inaction, and inadequate information will never be in style. □

Which carriers and third-party providers soared above the crowd in terms of service performance over the past year? Our readers have cast their votes, and now it's time to reveal the winners of the coveted Quest for Quality Awards.

STUART BRIER

Rising above the rest

BY ***LOGISTICS MANAGEMENT*** STAFF

The editorial staff of *Logistics Management* (*LM*) is thrilled to offer the shipping community the results of the 27th Annual Quest for Quality Awards. This year, 108 providers of transportation and logistics services have received the ultimate vote of confidence, posting the highest scores across our lists of critical service criteria.

For more than a quarter century now, *LM's* Quest for Quality has been regarded in the transportation and logistics industry as the most important measure of customer satisfaction and performance excellence. To determine the best of the best, *LM* readers rate carriers and third-party logistics (3PL) companies strictly on the basis of service quality.

And considering the environment in which carriers and 3PLs found themselves operating over the past year, the staff agrees that walking away with a Quest for Quality Award in 2010 just may be one of the greatest accomplishments a transportation and logistics provider has ever achieved.

The Great Freight Recession—which began in December of 2007 and continued into late 2009—had a negative impact on every single segment of the global logistics system as shipment volumes plummeted. And while many carriers struggled to keep their heads above water, the savviest shippers continued to put more pressure on the carrier and 3PL community, demanding closer partnerships and deeper service commitments as they restructured distribution networks to maximize efficiency and minimize miles.

At the same time, those cutting-edge shippers were looking for greener operations plans from their carriers along with improved technology and real-time data flows to afford more complete global visibility from their 3PLs—a tall order considering the business conditions.

What you'll find over the following pages are the carriers and 3PLs that shippers believe have been equal to the task. Quest for Quality winners are voted on by the readers of *Logistics Management*—the customers that put these carriers and providers to the test around the clock in countries throughout the world.

If fact, this year we had 5,426 logistics and supply chain decision makers wage their votes. The result is eight lists that feature 108 transportation and logistics services provider organizations that have risen above the rest.

UP, UP, AND AWAY...

But before we hand over any awards, let's take a more detailed look at how we arrive at our list of recipients. One of the best things about the Quest for Quality is that it allows shippers to vote in the genre of services they actually use and fully understand; in turn, they can vote for the providers that they feel have best delivered on quality service in specific niches.

To determine who wins the vote, *LM* readers evaluate companies in all modes, choosing the top performers in categories including motor carriers, railroad and intermodal services, ocean carriers, airlines, freight forwarders, and third party/contract logistics services. From January through May of

Performance attributes' importance

Company Type	On-time performance	Value	Information technology	Customer service	Equipment and operations
National/multiregional LTL and surface package carriers	4.7	4.0	2.0	2.6	1.7
Air cargo carriers/air express carriers/freight forwarders	4.7	3.9	2.1	2.7	1.6
Ocean carriers	4.5	4.1	1.9	2.7	1.8
Truckload/van lines/expedited	4.5	3.7	1.6	2.9	2.3
Rail/Intermodal service providers	4.4	4.0	1.6	2.5	2.5

	Carrier selection/ negotiation	Order fulfillment	Transportation/ distribution	Inventory management	Logistics information systems
3PL	4.7	3.3	3.3	2.2	2.5

Source: *Logistics Management*, Peerless Media Research Group

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

this year, *LM* and our Peerless Media Research Group surveyed readers who are qualified buyers of logistics and transportation services.

This year our research group received 5,426 total responses. In order to be a "winner," a company had to receive at least 5 percent of the category vote. The result of this overall effort is a crystal clear look at not only the overall winner in any given category, but a broad list of companies that finished well above the average. Here's how we do it.

Transportation service providers are rated on *LM's* five key criteria: On-time Performance, Value, Customer Service, Information Technology, and Equipment & Operations. Due to the nature of services offered by third-party players, a different set of criteria is used to judge this category.

Third-party logistics providers are rated on the following attributes: Carrier Selection & Negotiation, Order Fulfillment, Transportation & Distribution, Inventory Management, and Logistics Information Systems. The evaluation itself is a weighted metric. The scores take into account the importance readers attach to each attribute. Each year, readers are first asked to rank the attributes in each category on a five-point scale, with 5 representing the highest value and 1 representing the lowest value.

Our research team then uses those attributes' rankings to create weighted scores in each category. For example, readers have historically placed the single highest value on On-time Performance—and they've done so again in 2010. If you look at the table on page 21, you'll see that it was rated between 4.5 and 4.7 across the various categories.

The second most critical attribute again this year was Value, followed by Customer Service. As we found in 2009, shippers are putting equal weight on Equipment & Operations and Information Technology offerings. This is a bit of a surprise considering how many shippers have told us over the past year that they're scraping manual/paper-based systems and looking to their providers for more solutions.

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

To produce a weighted score, the research team then multiplies the provider's average scores for each attribute by the attribute's ranking. Next, the weighted scores are calculated for all five attributes for a given vendor and added together to create an aggregate number. Companies score a quality win when their total scores exceed the average total weighted score in their category. But, remember, providers must receive a minimum number of reader responses to qualify for a win—at least 5 percent of the total base for the category.

NATIONAL LTL

Ready for an updraft

EVEN IF YOU HAD CHOSEN to turn a deaf ear to the trucking industry news over the past year it would have been extremely difficult to tune out the plight of the less-than-truckload (LTL) market.

Many LTL carriers simply struggled to maintain their fixed costs as demand levels fell more than 30 percent during the peak of the recession. The vast majority of LTLs simply had to hunker down and enter survival mode in 2009. However, there's good news on the horizon for the LTL market, as reports show that shipment volumes are rising, overcapacity is easing, and some LTL carrier executives are reporting brisk demand for their services during the first half of 2010.

There's even more good news for the eight carriers list below. According to the readers of *Logistics Management,* not only did these carriers successfully make it through the biggest freight downturn ever recorded, but they were able to deliver world class service during the most trying of times.

Leading the way in the National LTL category this year we find FedEx National posting an impressive 34.52, 1.79 points above the 32.73 weighted average. Con-way Freight steps into the winners circle for the second year in a row in this category by posting a score of 33.84.

In the Multiregional LTL category, FedEx Freight posted the leading score (36.04), followed by Old Dominion Freight Line (33.33). It's good to see Old Dominion back on the list after missing the cut the past four years. UPS squeaked by FedEx for the second year in a row in the Surface Package category, posting a 37.70.

National LTL

Weighted scores

	On-time performance	Value	Information technology	Customer service	Equipment and operations	Weighted score
FedEx National LTL	11.01	8.83	4.81	5.78	4.10	34.52
Con-Way Freight	10.99	8.53	4.48	5.87	3.96	33.84
AVERAGE	**10.36**	**8.34**	**4.54**	**5.64**	**3.85**	**32.73**

Source: *Logistics Management*, Peerless Media Research Group

Multiregional LTL

Weighted scores

	On-time performance	Value	Information technology	Customer service	Equipment and operations	Weighted score
FedEx Freight	11.88	8.80	5.04	6.12	4.21	36.04
Old Dominion Freight Line	10.76	8.65	4.30	5.80	3.82	33.33
UPS Freight	10.51	8.55	4.68	5.63	3.92	33.29
R&L Carriers	10.57	9.08	4.14	5.51	3.75	33.04
AVERAGE	**10.38**	**8.61**	**4.35**	**5.54**	**3.76**	**32.65**

Source: *Logistics Management*, Peerless Media Research Group

Surface package carriers

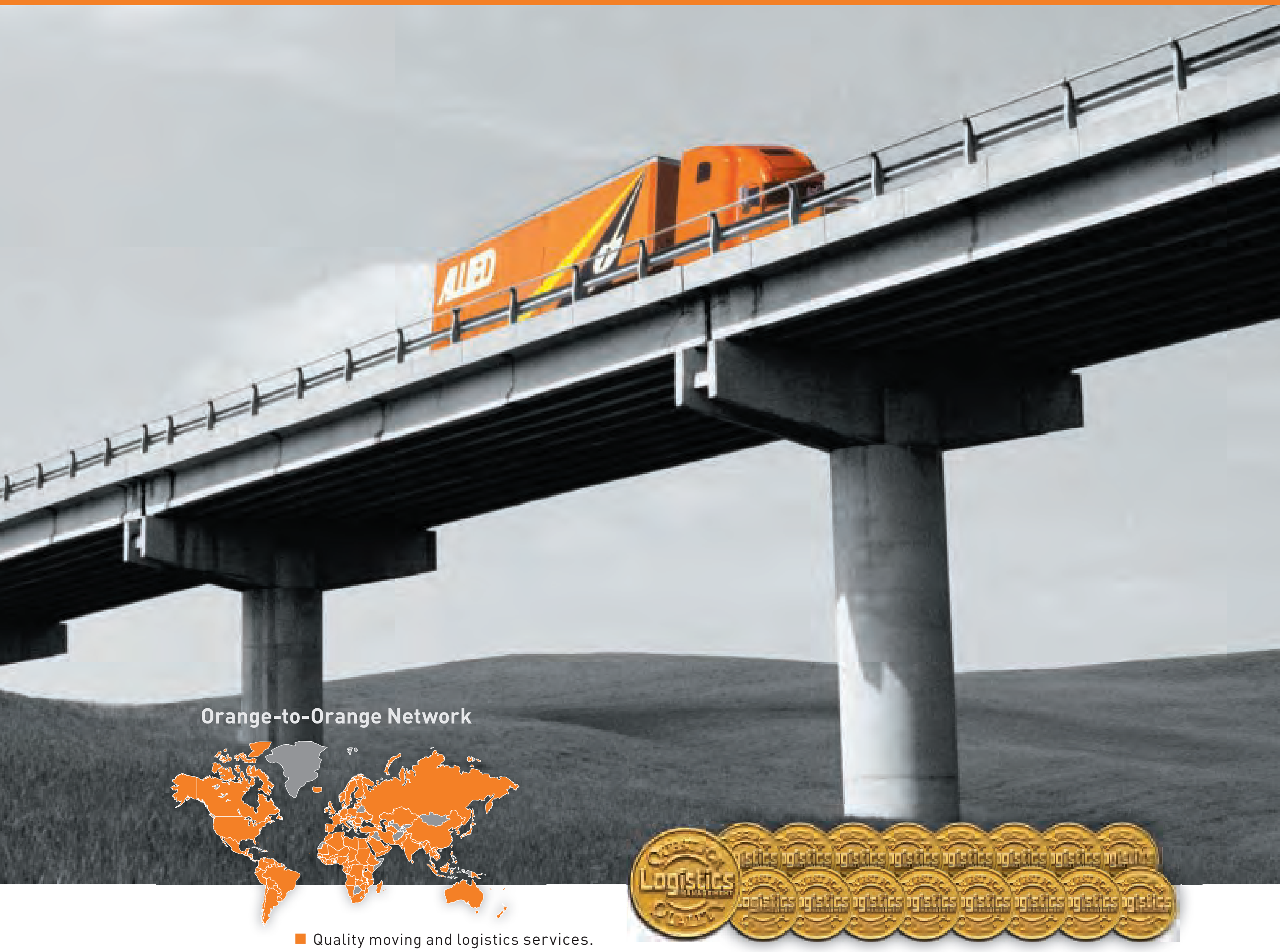
Weighted scores

	On-time performance	Value	Information technology	Customer service	Equipment and operations	Weighted score
UPS	12.25	9.53	5.25	6.08	4.39	37.70
FedEx Ground	12.10	9.52	5.13	6.14	4.34	37.23
AVERAGE	**11.67**	**9.37**	**4.78**	**5.68**	**4.15**	**35.65**

Source: *Logistics Management*, Peerless Media Research Group

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

Allied wins its 17th Quest for Quality award.



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REGIONAL LTL

Steady through tough winds

THE REGIONAL LTL MARKET was certainly not immune to the plight of its broader-reaching National and Multinational brethren. However, *Logistics Management* readers tell us that at least eight Regional LTL carriers were able to keep their service performance levels well above the rest over the course of 2009.

Leading the way in the Northeast/Mid-Atlantic region once again are A. Duie Pyle (36.18) and Pitt Ohio (36.09) in a close race. In the South/South Central region, Southeastern Freight Lines scored the highest, posting an impressive 36.82.

While in the Midwest/North Central Region Dayton Freight Lines got back into the winner's circle with a 34.84. Lyndon Transport takes home gold for the fifth year in a row in the Western region.

Northeast/Mid-Atlantic regional LTL

Weighted scores

	On-time performance	Value	Information technology	Customer service	Equipment and operations	Weighted score
A. Duie Pyle	12.20	8.85	4.64	6.35	4.15	36.18
Pitt Ohio	12.03	9.36	4.52	6.08	4.11	36.09
Ward Transport Logistics	11.56	9.10	4.37	6.03	3.96	35.01
AVERAGE	**11.47**	**8.84**	**4.34**	**5.97**	**3.95**	**34.57**

Source: *Logistics Management*, Peerless Media Research Group

South/South Central regional LTL

Weighted scores

	On-time performance	Value	Information technology	Customer service	Equipment and operations	Weighted score
Southeastern Freight Lines	12.16	9.80	4.52	6.18	4.16	36.82
Averitt Express	11.61	8.91	4.51	5.88	4.15	35.06
AVERAGE	**11.39**	**9.16**	**4.30**	**5.87**	**3.96**	**34.69**

Source: *Logistics Management*, Peerless Media Research Group

Midwest/North Central regional LTL

Weighted scores

	On-time performance	Value	Information technology	Customer service	Equipment and operations	Weighted score
Dayton Freight Lines	11.10	9.62	4.11	6.11	3.88	34.82
USF Holland	11.09	9.10	4.35	5.85	3.88	34.27
AVERAGE	**10.74**	**9.31**	**4.11**	**5.77**	**3.81**	**33.75**

Source: *Logistics Management*, Peerless Media Research Group

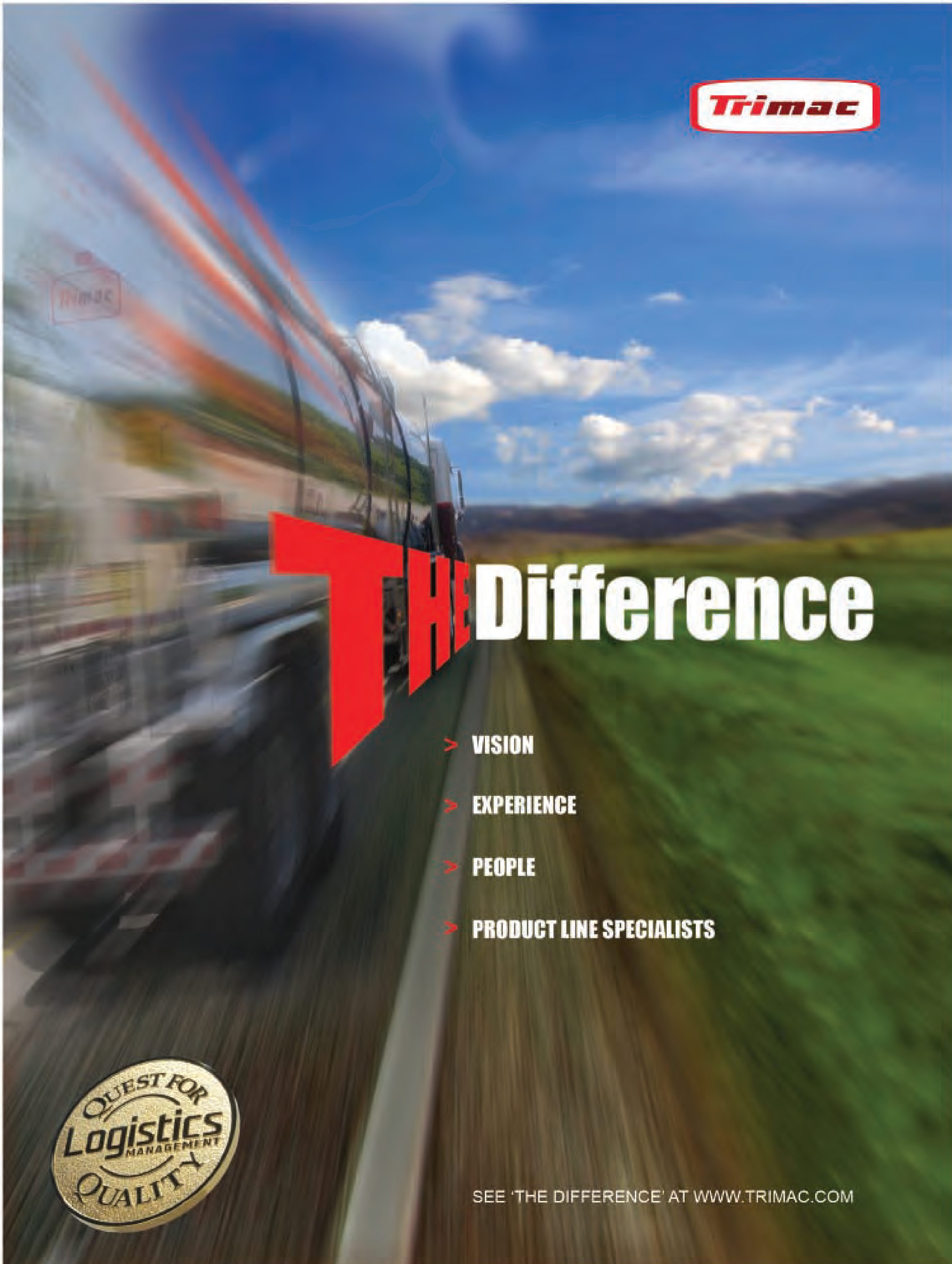
Western regional LTL carriers

Weighted scores

	On-time performance	Value	Information technology	Customer service	Equipment and operations	Weighted score
Lynden Transport	11.75	8.73	4.80	6.38	4.02	35.68
Oak Harbor Freight Lines	11.85	9.28	3.96	6.16	4.00	35.24
AVERAGE	**10.94**	**8.76**	**4.08**	**5.76**	**3.81**	**33.34**

Source: *Logistics Management*, Peerless Media Research Group

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

Fast and nimble

THE TRUCKLOAD (TL) market has always been pretty nimble. When the freight downturn started to hit in earnest in early 2007, the TL sector was one of the first to respond by quickly shedding capacity at break-neck speed.

And when volumes and rates both dropped, the TL sector found itself diversifying to a point that it broke away from its typecast role in the dry van freight game and dipped its toes into other transportation segments—even hauling smaller, "kick-on" loads. Today, TL carriers are realizing that it pays to diversify.

By all reports, the TL sector is already rebounding from the dismal freight recession; and according to *LM* readers, here are the 28 long-haul carriers that were able to stay true to their service promises over the past year.

Industrial and heavy-haul carriers

Weighted scores

	On-time performance	Value	Information technology	Customer service	Equipment and operations	Weighted score
Mullen Trucking	10.80	9.62	3.20	6.96	5.06	35.64
Prime, Inc	10.38	8.02	3.60	6.77	5.56	34.33
Roehl Transport	10.35	8.46	3.28	6.63	5.59	34.30
Tri-State Motor Transit	10.80	8.33	3.20	6.53	5.18	34.03
Landstar Carrier Group	10.00	8.26	3.49	6.53	5.31	33.59
AVERAGE	**10.01**	**7.97**	**3.30**	**6.34**	**5.25**	**32.87**

Source: *Logistics Management*, Peerless Media Research Group

Dry freight carriers

Weighted Scores

	On-time performance	Value	Information technology	Customer service	Equipment and operations	Weighted score
USF Glen Moore	11.25	8.72	3.54	6.92	5.26	35.69
CRST Van Expedited	10.88	8.94	3.34	6.55	5.19	34.89
Heartland Express	10.80	7.86	3.57	6.54	5.52	34.30
Con-way Truckload Services	10.54	7.92	3.61	6.64	5.41	34.12
Landstar Carrier Group	10.89	8.06	3.26	6.58	5.33	34.11
Crete Carrier Corp.	9.79	7.74	3.45	6.25	5.30	32.53
AVERAGE	**9.88**	**7.72**	**3.38**	**6.20**	**5.11**	**32.28**

Source: *Logistics Management*, Peerless Media Research Group

Expedited motor carriers

Weighted scores

	On-time performance	Value	Information technology	Customer service	Equipment and operations	Weighted score
Pitt Ohio Express	11.57	9.20	3.93	7.21	5.65	37.56
FedEx Custom Critical	12.28	7.35	4.30	7.34	5.91	37.19
A.Duie Pyle, Pyle Priority	11.42	8.79	3.69	7.08	5.70	36.68
USF Holland	11.25	9.13	3.67	6.51	5.57	36.13
UPS	10.75	8.35	4.06	6.46	5.71	35.33
Landstar Express America	11.33	7.89	3.52	6.70	5.79	35.23
OD Expedited	10.29	8.33	3.96	7.11	5.41	35.08
AVERAGE	**10.80**	**8.24**	**3.80**	**6.63**	**5.48**	**34.96**

Source: *Logistics Management*, Peerless Media Research Group

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

Bulk motor carriers

Weighted scores

	On-time performance	Value	Information technology	Customer service	Equipment and operations	Weighted score
Ruan Transport	11.14	8.63	3.58	6.90	5.80	36.07
Trimac Transportation	11.08	8.25	3.45	7.14	5.84	35.75
Groendyke Transport, Inc.	11.00	8.22	3.40	6.16	5.18	33.96
Prime, Inc.	10.21	7.97	3.63	6.47	5.66	33.94
Bulkmatic Transport	10.42	8.27	3.20	6.34	5.55	33.78
Superior Carriers	10.80	7.14	3.43	6.84	5.26	33.46
AVERAGE	**10.30**	**7.92**	**3.37**	**6.34**	**5.37**	**33.31**

Source: *Logistics Management*, Peerless Media Research Group

Household goods and high-value goods carriers

Weighted scores

	On-time performance	Value	Information technology	Customer service	Equipment and operations	Weighted score
United Van Lines	11.14	8.02	3.82	7.41	6.22	36.62
Allied Van Lines	10.76	8.24	3.27	7.04	5.70	35.01
Suddath Companies	10.50	8.63	3.73	6.77	5.37	35.00
Atlas Van Lines	10.69	8.46	2.97	7.04	5.59	34.74
AVERAGE	**10.33**	**8.01**	**3.36**	**6.92**	**5.59**	**34.21**

Source: *Logistics Management*, Peerless Media Research Group

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

FIND OUT WHAT THESE SUCCESSFUL BUSINESSES ALREADY KNOW

FORTUNE 200 NON-PERISHABLE FOOD PRODUCER SAVED **29%** IN THE **FIRST YEAR OF** IMPLEMENTATION.

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- Transportation Bid Management
- Environmental Improvement Programs
- Complete Supply Chain Visibility
- Reverse Logistics
- Web Based Tools: *PO Management, Vendor and Supplier Web Portals, Reporting*
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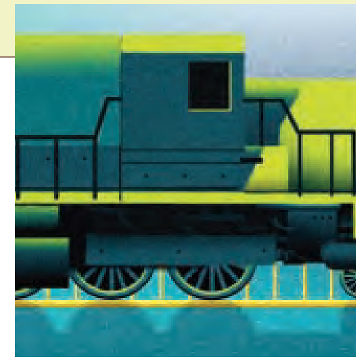


RAIL

Staying on track

WHILE THE RECESSION FINALLY caught up to the rail industry over the course of 2009, it appears that carriers are on track to make a steady, sustainable recovery. As Group News Editor Jeff Berman reported in our annual report last month, the first half of 2010 saw strong first quarter earnings and volumes ticking well ahead of where they were a year ago.

But while the recent volume numbers are encouraging for the front office, it's important to keep in mind that the early 2010 volume numbers are still lagging 2008 levels by roughly 10 percent to 12 percent on the carload side and 7 percent to 10 percent on the intermodal side. However, it appears that the railroads are starting to make up this ground and are even ready to step up operations and infrastructure investment designed to continue to improve shipper relations.

According to *LM* readers, there are plenty of rail and intermodal service providers that are doing just fine with their customer relations despite the continued reports of shipper concerns over escalating rates. In fact, readers tell us that five Rail/intermodal services providers have made the grade this year along with seven Intermodal Marketing organizations.

Leading the way in Rail/Intermodal for 2010 is Triple Crown Services with a score of 34.74. Triple Crown posted category-high marks in On-time performance (10.61), Value (9.89), and Equipment & Operations (5.74). This year marks the fifth straight Quest for Quality Award for Triple Crown, BNSF Railway (33.32), and Norfolk Southern (33.06).

In the Intermodal Marketing category this year, J.B. Hunt posted the highest score for the second year in a row (34.08), followed closely by CSX Intermodal (33.82), C.H. Robinson (33.49), and Hub Group (33.48). It's interesting to note that while this market tends to be one of the more scrutinized in terms of service by shippers, the weighted averages stayed pretty much level with 2009 scores.

Rail/intermodal service providers

Weighted scores

	On-time performance	Value	Information technology	Customer service	Equipment and operations	Weighted score
Triple Crown Services	10.61	9.89	3.20	5.30	5.74	34.74
BNSF Railway	10.35	8.44	3.48	5.46	5.58	33.32
Norfolk Southern	10.25	8.44	3.43	5.25	5.70	33.06
CSX Transportation	9.63	8.38	3.59	5.19	5.56	32.35
Union Pacific	9.81	8.15	3.54	5.14	5.52	32.17
AVERAGE	**9.80**	**8.35**	**3.34**	**5.12**	**5.41**	**32.02**

Source: *Logistics Management*, Peerless Media Research Group

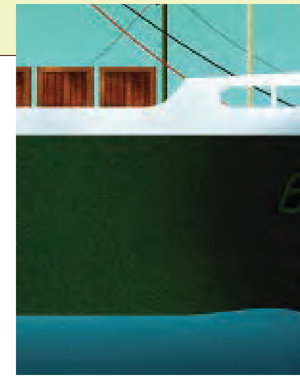
Intermodal marketing companies

Weighted scores

	On-time performance	Value	Information technology	Customer service	Equipment and operations	Weighted score
J.B. Hunt Intermodal	10.25	9.04	3.47	5.46	5.87	34.09
CSX Intermodal	10.00	9.29	3.59	5.52	5.43	33.82
C.H. Robinson	9.63	9.21	3.50	5.73	5.43	33.49
Hub Group	9.70	9.15	3.60	5.35	5.68	33.48
Exel	9.86	8.55	3.14	5.71	5.36	32.63
Alliance Shippers	9.68	8.57	3.26	5.69	5.33	32.53
Landstar Logistics	9.68	8.70	3.37	5.44	5.30	32.49
AVERAGE	**9.54**	**8.75**	**3.35**	**5.39**	**5.41**	**32.45**

Source: *Logistics Management*, Peerless Media Research Group

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



OCEAN CARRIERS

Reaching new heights

OCEAN CARRIER EXECUTIVES couldn't wait for 2009 to end. Over that perilous year on the high seas, carriers were getting beat up on rates as containers and chassis were easy to locate, there was record over capacity, and shippers made their way to the negotiating table with a boat load of leverage—and they were more than willing to use it.

While shippers are going to have to plan their routes and budgets more strategically, carrier executives can finally take a deep breath.

How quickly times have changed. As Executive Editor Patrick Burnson reported last month in our annual report, shippers are now scrambling for space and are going to get squeezed on rates when they find it. In his daily reporting on logisticsmgmt.com, Burnson has been documenting the shortage of containers caused by the exceptional high demand for ocean services since the Chinese New Year back in February. Analysts say that the shortage has now reached "critical levels."

In the meantime, spot prices for transpacific shipping services have grown by more than 180 percent during the past 12 months to reach a five-year high—something the analysts are describing as a "mini container-shipping boom." And while shippers are going to have to plan their routes and budgets more strategically, carrier executives can finally take a deep breath—especially the select group that *LM* readers have placed in the Quest for Quality winners circle.

This year we find 14 ocean carriers scoring better then the overall weighted average of 31.48 to bring home the gold. Setting the pace this year is Wallenius Wilhelmsen with a score of 33.95. The carrier put up top marks in Value (9.23) and Customer Service (6.53) on its way to pole position.

However, it was a very tight race year, with the top six carriers being separated by less than a full point. Pulling in just behind Wallenius we find Matson Navigation (33.69). Matson put up the best On-time Performance number in the category (11.33) and finds itself on the winner's podium for the eighth straight year. Meanwhile, Maersk Line took top honors in Information Technology (4.28) and Equipment & Operations (4.22) this year.

Ocean carriers

Weighted scores

	On-time performance	Value	Information technology	Customer service	Equipment and operations	Weighted score
Wallenius Wilhelmsen	10.50	9.23	3.80	6.53	3.90	33.95
Matson Navigation	11.33	8.34	4.24	5.76	4.02	33.69
Horizon Lines	10.67	9.04	4.02	5.72	3.86	33.32
Seaboard Marine	10.93	8.95	3.80	5.65	3.93	33.25
Maersk Line	10.68	8.31	4.28	5.75	4.22	33.24
Crowley Liner Services	10.35	8.91	3.80	5.94	4.06	33.06
Hamburg-Sud	10.53	8.98	3.62	5.71	4.01	32.86
"K" Line America Inc.	10.71	8.42	3.80	5.98	3.79	32.69
OOCL	10.46	8.96	3.96	5.44	3.78	32.59
APL	10.39	8.35	4.12	5.57	4.08	32.52
Hanjin Shipping	10.07	8.81	3.92	5.73	3.89	32.42
Sea Star Line	9.47	8.92	3.69	5.85	4.20	32.14
Evergreen Line	10.03	8.88	3.92	5.36	3.89	32.08
Atlantic Container Line	9.90	8.31	3.80	5.88	3.93	31.82
AVERAGE	**9.92**	**8.48**	**3.80**	**5.45**	**3.84**	**31.48**

Source: *Logistics Management*, Peerless Media Research Group

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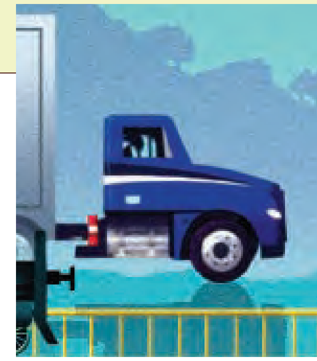

3PL

Gaining altitude

AS THE 2009 REVENUE picture for the global logistics and transportation sector slowly revealed itself over the first half of the year, we reported that even the burgeoning superstars of the industry—third party logistics providers (3PLs)—failed to escape the crushing blow levied by the Great Freight Recession.

Business is picking up for global and domestic 3PLs overall.

According to Armstrong & Associates' *2010 U.S. and Global Third-Party Logistics Analysis*, 2009 was not a pretty year for 3PLs at home or abroad.

As Executive Editor Patrick Burnson reported in last month's annual report, U.S. 3PL market gross revenues decreased 16 percent in 2009, with the international transportation management segment of the 3PL services market taking the biggest hit. Its gross revenue fell 23.7 percent as total U.S. import and export ocean twenty-equivalent units (TEUs) dropped 12.3 percent. And as prices dove in the face of soft demand, net revenues for airfreight shrank by 18.9 percent

But like every other service sector that we measure in the Quest for Quality, business is picking up for global and domestic 3PLs overall. In fact, we've reported that first quarter 2010 results have included double digit improvements in the international transportation management sector; while Richard Armstrong, author of the 2010 analysis, is boldly predicting a market recovery that will restore the 3PL market to 2007 levels.

There's even more positive news in store for the management teams of the 3PLs listed on this page. According to *LM* readers, these providers were able to maintain world-class service levels in the face of sinking revenue levels.

For the second year in a row Unyson Logistics (Hub Group) outpaced the field by more than eight points, posting a very impressive 43.87—the single highest weighted score of the 2010 Quest for Quality survey. FedEx Supply Chain Services followed right behind Unyson with a solid 34.89, taking a close second in Carrier Selection/Negotiation (8.43) and Inventory Management (4.90).

UPS Supply Chain Solutions put up the second most notable score in Order Fulfillment (7.82), while ADP Logistics (A. Duie Pyle) racked up the second best score in the important Transportation Distribution attribute category (8.16).

Of note, 2010 marks the fifth year in a row that Averitt Express Supply Chain Solutions (32.86) has won Quest for Quality gold in this category, while this marks the second year in a row that Ryder Supply Chain Solutions (33.03), FedEx Supply Chain Services, UPS Supply Chain Solutions, and Excel (32.75) will step up to the podium to accept an award.

Third-party logistics companies

Weighted scores

	Carrier selection/ negotiation	Order fulfillment	Transportation distribution	Inventory management	Logistics information systems	Weighted score
Unyson Logistics (Hub Group)	10.63	9.67	9.84	6.36	7.38	43.87
FedEx Supply Chain Services	8.43	7.68	7.85	4.90	6.03	34.89
ADP Logistics (A. Duie Pyle)	8.28	7.43	8.16	4.71	5.47	34.05
UPS Supply Chain Solutions	8.00	7.67	7.61	4.78	5.69	33.75
Agility	7.89	7.82	7.46	4.89	5.48	33.53
Transplace	8.50	7.18	7.54	4.40	5.63	33.25
Ryder Supply Chain Solutions	8.26	7.17	7.81	4.71	5.08	33.03
Averitt Express Supply Chain Solutions	7.89	7.47	7.70	4.68	5.13	32.86
Pilot Freight Services	7.89	7.33	7.50	4.66	5.44	32.82
Echo Global Logistics	8.21	7.50	6.89	4.61	5.57	32.77
Exel	7.90	7.30	7.36	4.60	5.58	32.75
APL Logistics	8.10	6.91	7.49	4.56	5.42	32.48
AVERAGE	**7.97**	**7.18**	**7.38**	**4.64**	**5.27**	**32.44**

Source: *Logistics Management*, Peerless Media Research Group

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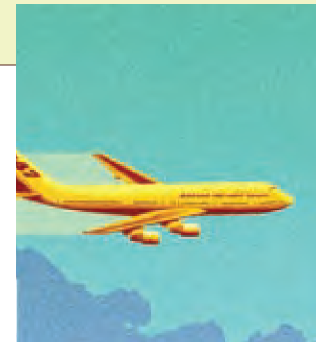

AIR CARRIERS

Up, up, and away...

TALK ABOUT A TURNAROUND. All of sudden the air has smoothed and the ash has cleared, and air cargo carriers are back up at a much more comfortable operating altitude—and yes, this has happened relatively quickly.

As Karen Thuermer, our air freight correspondent, reported last month in our annual report, it was only back in March that the International Air Transport Association (IATA) projected a $2.8 billion loss in 2010 for the industry. The IATA has corrected it's forecast since then and now predicts a $2.5 billion profit, with cargo volume growth now projected to hit 18.5 percent from the previously forecast 12 percent. To top it off, IATA expects airline revenues to reach $545 billion, up from $483 billion in 2009.

However, the IATA warns that the air recovery "remains fragile," with net margins still hovering around 0.5 percent. And while the IATA remains cautious, global air cargo executives are welcoming any positive news as they enter a new era of market and currency volatility, security and regulatory challenges, and fluctuating oil and fuel markets.

But even though the air cargo market is just now pulling out of one of the toughest operational periods in history, *LM* readers have justly rewarded those air carriers that were able to keep their wings up and their service flying high over the past year.

This year we find nine air cargo winners making the trip back to the podium from our 2009 survey and three that have climbed back after missing the cut over the past few years. Southwest Airlines leads the pack again with a very impressive 39.50. Southwest put up top marks in On-time Performance (13.13), Value (10.76), and Equipment & Operations (4.00).

Virgin Atlantic pulled up to gate second posting a 37.68 and tied with Southwest for top honors in Customer Service (6.98), while Singapore Airlines offered the leading Information Technology (5.12). The readers of *LM* welcome Alaska Air Cargo (34.99), US Airways (34.41), and American Air Cargo (33.60) back to winners circle this year after falling just short over the past several years.

Air cargo carriers

Weighted scores

	On-time performance	Value	Information technology	Customer service	Equipment and operations	Weighted score
Southwest Airlines	13.13	10.76	4.64	6.98	4.00	39.50
Virgin Atlantic	12.29	9.60	5.08	6.98	3.73	37.68
Singapore Airlines (SIA)	12.48	9.10	5.12	6.85	3.84	37.40
Nippon Cargo Airlines	12.28	9.10	4.58	6.05	3.64	35.65
Alaska Air Cargo	12.09	8.83	4.67	5.54	3.87	34.99
Japan Airlines	11.84	8.42	4.81	6.08	3.78	34.93
Lufthansa	11.83	8.28	4.94	6.03	3.83	34.90
KLM	11.22	9.05	4.68	6.16	3.73	34.85
US Airways	11.28	9.14	4.67	5.69	3.63	34.41
Emirates SkyCargo	11.31	9.05	4.54	5.61	3.75	34.27
EVA Cargo	11.19	8.69	4.83	5.79	3.58	34.07
American Air Cargo	10.97	8.43	4.53	6.18	3.56	33.67
AVERAGE	**11.01**	**8.51**	**4.60**	**5.87**	**3.60**	**33.60**

Source: *Logistics Management*, Peerless Media Research Group

Air express carriers

Weighted scores

	On-time performance	Value	Information technology	Customer service	Equipment and operations	Weighted score
FedEx Express	12.25	8.73	5.43	6.37	4.06	36.83
UPS	11.54	8.71	5.31	6.12	3.99	35.68
AVERAGE	**11.11**	**8.56**	**4.84**	**5.77**	**3.76**	**34.03**

Source: *Logistics Management*, Peerless Media Research Group

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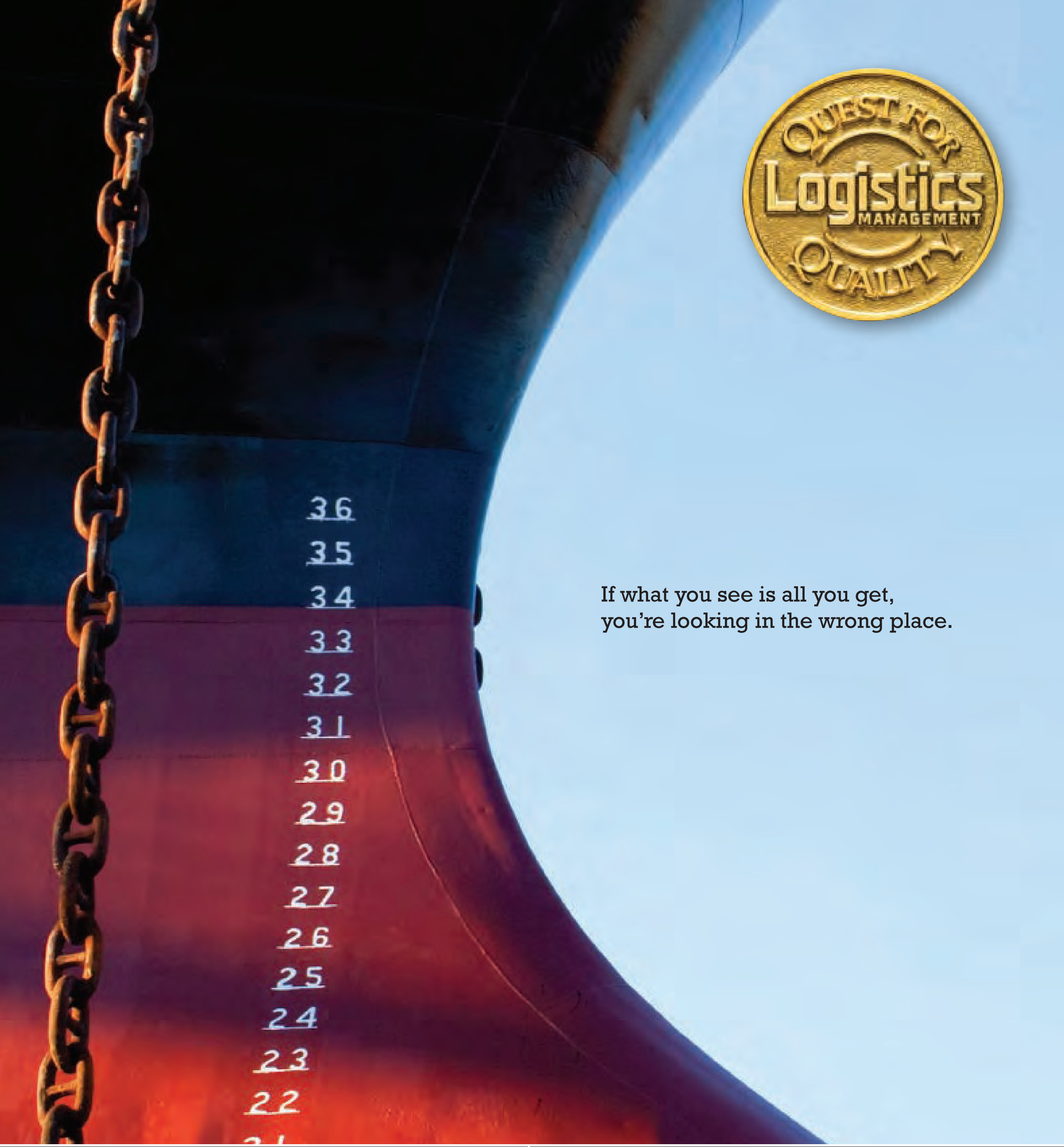
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If what you see is all you get,
you're looking in the wrong place.

FREIGHT FORWARDERS

Clearing skies ahead

THE HEALTH OF THE OVERALL freight forwarvder market has been historically linked to the state of the global economy. Way back in early 2008—a period of time that seems like ancient history—ocean and air freight volumes were increasing at double digit rates, while the freight forwarders, along with the ocean and air cargo carriers that answered their calls, were enjoying what Shakespeare would have called "their salad days."

During the second half of 2008 the global economy hit the breaks and global freight forwarders were quickly ushered into a new era. The U.S. economy grew even weaker, the sub-prime debt crisis reverberated around the world, and consumer confidence sunk to new lows. In turn, freight volumes fell off the proverbial cliff.

It was around that time that many manufacturers and retailers quickly realized that they had built up too much inventory and cancelled orders with their overseas suppliers—a sudden move that produced what some analysts called the "inventory overhang" effect.

The impact of the global freight recession on freight forwarders was substantial. In fact, it was reported in *LM* that Expeditors International, the largest U.S. freight forwarder, saw gross revenues decrease 27 percent and net revenue decrease 14 percent during the deepest trough of the freight recession.

However, fortunes are quickly beginning to reverse for global freight volumes, as ocean capacity continues to tighten—thanks in part to a critical container shortage—and air freight numbers have taken a rather quick turn for the better. For the freight forwarding community overall, the skies are certainly beginning to clear.

But no matter how hard the global economy became to navigate, our readers tell us that there were 10 freight forwarders that were able to offer world-class service despite tough operational times. This year we find BDP International taking the top spot with an impressive 37.38. While BDP only took first in Equipment & Operations (4.05), its scores were strong enough across the board to give it the pole position.

Pilot Freight Services led the pack in Value (9.57) and Customer Service (6.75), UPS SonicAir posted the high mark in On-time Performance (12.39), while FedEx Trade Networks took first in Information Technology (5.26).

2010 Quest for Quality: *Editor's Note*

The editorial staff of *Logistics Management* would like to thank the 5,426 readers who took time out of their busy days to complete and submit the 2010 Quest for Quality ballots. Your time, effort, and insight have helped *Logistics Management* maintain the Quest for Quality as the premier benchmark study for logistics and transportation quality and service during the past 27 years.

In accordance with tradition, *Logistics Management* will hold an awards dinner during the Council of Supply Chain Management Professionals (CSCMP) Annual Conference. This year's event will take place on September 27, 2010, in the San Diego Ballroom A at the San Diego Marriott Hotel & Marina, San Diego, Calif., from 6:30 p.m. to 10:30 p.m.

The Quest for Quality Awards Dinner is one of the most anticipated evenings on the logistics and supply chain yearly calendar. Our editorial staff will be on hand to congratulate the 2010 Quest for Quality winners. For more information on attending please go to **www.logisticsmgmt.com/Q4Q2010.**

Airfreight forwarders

Weighted scores

	On-time performance	Value	Information technology	Customer service	Equipment and operations	Weighted score
BDP International	12.16	9.51	5.18	6.48	4.05	37.38
Pilot Freight Services	11.75	9.57	4.92	6.75	3.88	36.87
UPS SonicAir	12.39	8.91	5.04	6.48	3.92	36.75
Lynden Air Freight	12.12	8.97	4.83	6.48	3.84	36.24
FedEx Trade Networks	11.59	8.59	5.26	6.44	3.99	35.87
UTi Worldwide	11.28	8.73	4.60	6.43	3.91	34.95
Nippon Express USA	11.05	8.42	4.43	6.04	3.70	33.63
Kintetsu World Express	10.39	8.62	4.31	6.25	3.67	33.24
AIT Worldwide Logistics	11.03	8.42	3.94	6.16	3.20	32.74
Expeditors International Express	10.63	7.97	4.76	5.89	3.45	32.70
AVERAGE	**10.42**	**8.22**	**4.43**	**5.84**	**3.51**	**32.42**

Source: *Logistics Management*, Peerless Media Research Group

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

FREIGHT FORWARDING: TRAVERSING THE RED TAPE

Moving freight across the U.S./Canadian border can be more problematic than most shippers realize. Our recent research study reveals the myriad complexities of the customs clearance process—and the downfalls of making the trip alone.

BY **PATRICK BURNSON,** EXECUTIVE EDITOR

A gentle surge in U.S. manufacturing and more emphasis on "near shoring" indicates that trade with Canada will continue to grow this year, major forwarders say. This is a trend confirmed by economists at the Toronto-based CIBC World Markets who report that Canada will remain the biggest trading partner for the U.S. for years to come.

Demand for U.S. goods is surging, says CIBC, with wholesale trade inventories climbing 1.7 percent to $52.4 billion this past May—the largest percentage increase since January 2007. "The volume of cross-border growth is impressive," says CIBC analyst Rob Shotte. "The inventory-to-sales ratio is a measure of the time, in months, required to exhaust inventories if sales were to remain at their current level. Overall, 16 of the 25 wholesale trade industries reported higher inventory levels."

The impact of the current environment for U.S. shippers has been significant, Shotte adds. U.S. wholesalers in construction, forestry, mining, industrial machinery, equipment, and supplies posted the biggest inventory gains in dollar terms, followed by agricultural wholesalers when shipping into Canada, CIBC notes in a recent report.

One of the world's premier trade services companies concurs with this observation. "A combination of forces are at work when examining this uptick," says Amy Magnus, district manager for A.N. Deringer. "Business has been good, and seems to be getting better. But U.S. exporters trying to go it alone may still find some unexpected barriers and choke points."

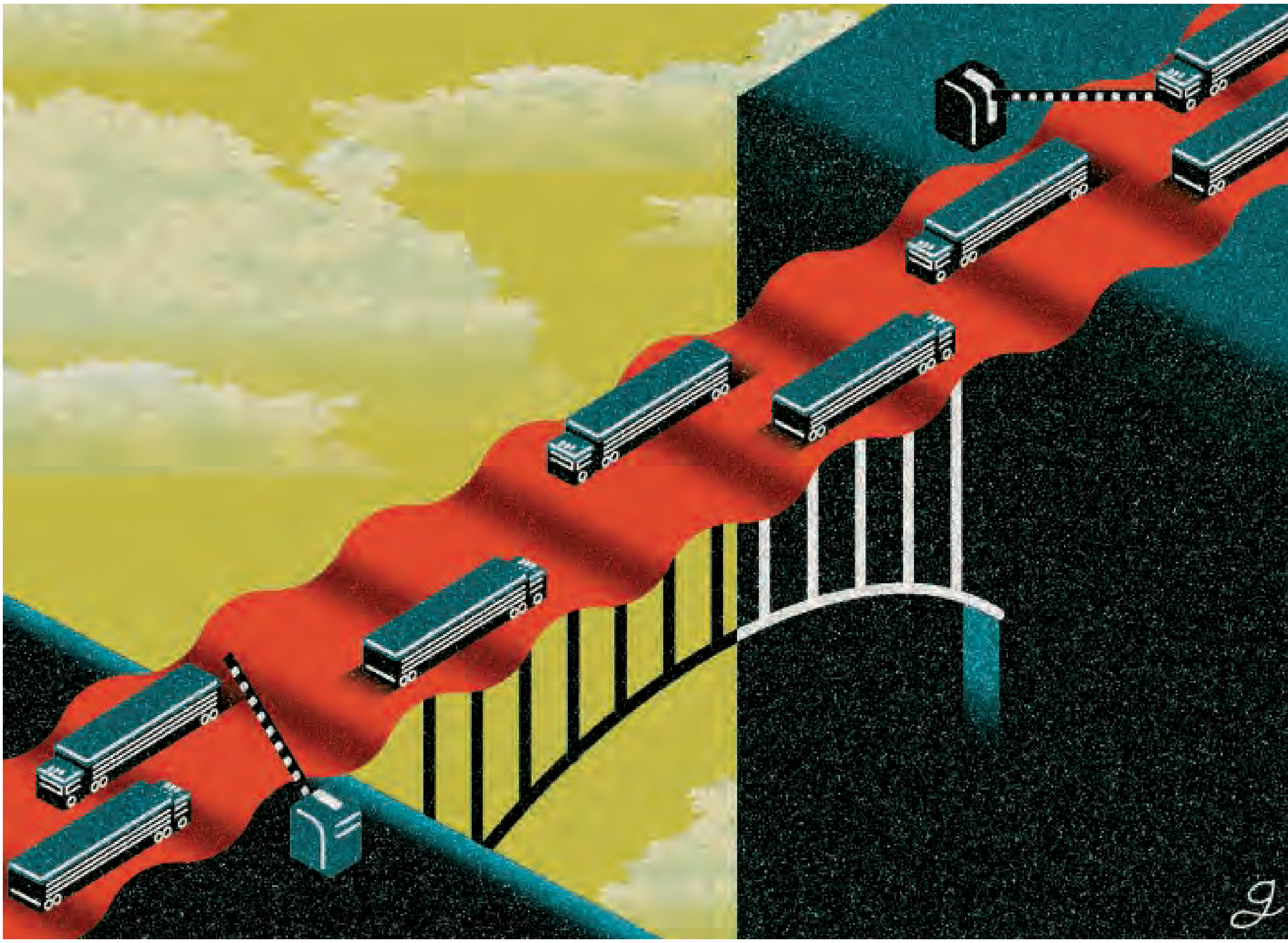
Shippers responding to a cross-border operations survey conducted this past April by *Logistics Management* (*LM*) were mostly in agreement with Magnus' observation, noting that shifting from purely domestic operations to international distribution poses unique challenges. "Timing will be especially crucial," says a logistics manager for a large paper manufacturer responding to the survey. "I assume there will be a learning curve unless the forwarders apply their expertise well."

According the Magnus, cross-border shipping may seem less daunting to U.S. manufacturers who have yet to explore overseas markets, but they should by no means assume that it's uncomplicated. "One might succeed with many shipments at first only to discover a major problem with Customs," she says. "If you want some measure of certainty in this business, it's best to do it with someone who does it every day."

Magnus, who also serves as a director with the National Customs Brokers and Freight Forwarders Association (NCBFAA) in Washington, D.C., says that the barriers to entry for U.S. exporters is significant, and shippers who are searching for a forwarder today should go with "someone with a proven track record."

RECURRENT NEEDS

The *LM* research project revealed that companies shipping between the U.S. and Canada have recurrent



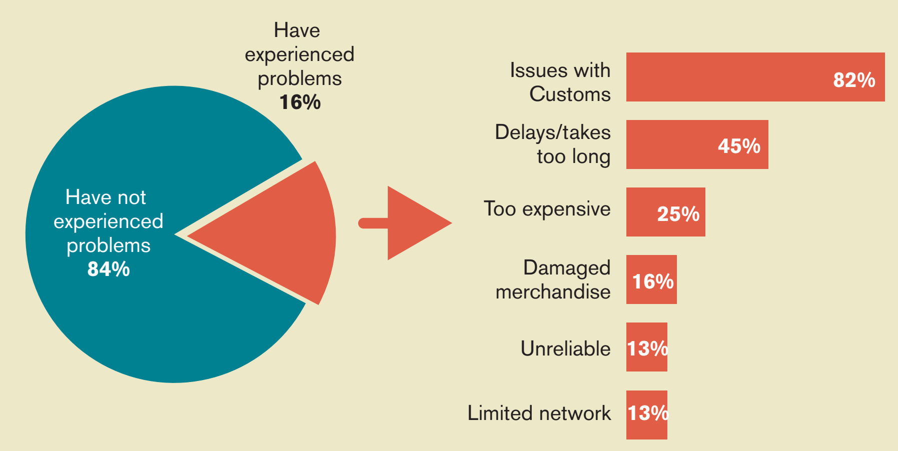
DANIEL GUIDERA

needs, and dispatch across the border regularly. In total, 388 logistics, supply chain and operations managers working in manufacturing, retail, or wholesale responded to the survey. Nearly nine out of 10 (84 percent) respondents say that they ship across the border at least once a month, and more than a half (53 percent) transport more frequently, at least once a week.

Taking into account all shipments made by responding businesses, 7 percent of total loads cross the U.S./Canadian border. Furthermore, say our researchers, for nearly all of these companies, the level of their shipping activity to/from Canada will either increase or remain the same during the next few years. These shippers are also telling us that their cross-border moves will grow by an average of 11 percent in that time frame.

Embedded in these statistics is a telling observation: "Shipments are regularly delivered to either their own warehouses or centers for distribution," says an *LM* research analyst. "Alternatively, these facilities are often bypassed and shipments are sent directly to customers."

Problems experienced shipping across the border



Source: Peerless Media Research Group

And with the devil being in these details, a significant glitch can occur out of nowhere, according to Magnus. "Everything might be going fine for a shipper until one day a Customs agent can't find the advanced manifest, or he notices that the goods are targeted for an inspection by the Federal Food and Drug Administration (FDA).

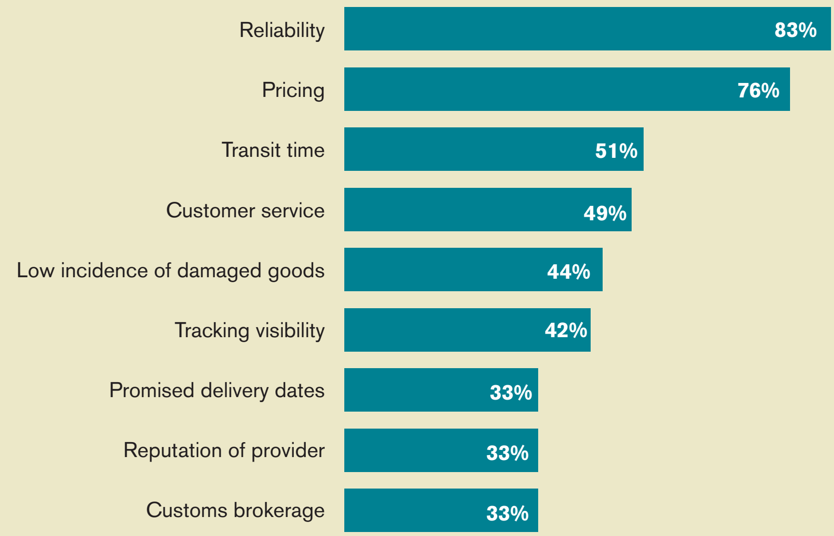
These hang ups can be expensive, and then there's the added cost of inspection."

A shipper of wood products told our research team that transparency was a key component of his operations, especially since his shipments are prone to FDA delays. His company, which employs up to 250 workers during the peak shipping cycle, would not dream of going it alone. "Increased visibility into the status of our shipments is always something we are looking for," he says. "Our customers require our shipments to be on-time, every time."

Mary Peglow, a broker/forwarder with Mid-America Overseas, Inc., and president of the Chicago Customs Brokers and Forwarders Association, notes that the FDA is not the only agency paper product shippers must contend with. "Because of the Lacey Act, the USDA (United States Department of Agriculture) is really cracking down on goods moving in both directions," she says.

The Lacey Act combats trafficking of "illegal" wildlife, fish, and plants. The new legislation now makes it unlawful to move certain plants and plant products without an import declaration across the border.

Features considered highly important when evaluating freight forwarders



Source: Peerless Media Research Group

PAY NOW OR PAY LATER

Fortunately, say our researchers, most U.S. shippers follow the advice given by the NCBFAA. According to our research findings, most manufacturers (79 percent) now use or would consider using a freight forwarding logistics provider to handle their shipping arrangements when it's time to cross the border.

Our findings also reveal that it's common for businesses to use the same freight provider to handle their domestic as well as U.S./Canada cargo. In fact, more than a half count on the same carrier for these assignments.

While the benefits of using a third party to organize distribution and shipping needs are realized in process proficiencies as well as convenience and savings, companies not using freight forwarders are less certain about cost, our research report states. Those not employing third parties also fear losing control over logistics functions or claim to have the expertise in-house to manage logistics tasks.

While the majority of those surveyed claim they have yet to experience border-related complications, roughly one in six companies have, in fact, encountered problems at Customs. Most difficulties experienced result in delays and added shipping costs.

For most who have suffered through troubles at Customs, setbacks are said to occur often, fairly regularly, or at the very least, some of the time. "And some of the time is one time too many," says a responding shipper based in Buffalo, N.Y. "The consequences can be steep, and delays can lead to additional expenses as well as jeopardize service to customers."

According to the *LM* study, lengthy delivery timelines and damaged goods are further problems shippers have experienced in their U.S./Canada shipments. And given these harsh implications, researchers say that shippers may be apt to force forwarders to take rather drastic measures on occasion. For example,

U.S./Canada: Closer than you think

The U.S. and Canada enjoy an economic partnership unique in the world. The two nations share the world's largest and most comprehensive trading relationship, which supports millions of jobs in each country.

In 2009, total trade between the two countries exceeded $560 billion. And, according to the U.S. Department of Commerce, the two-way trade that crosses the Ambassador Bridge between Detroit, Mich., and Windsor, Ontario, alone equals all U.S. exports to Japan.

"Canada's importance to the U.S. is not just a border-state phenomenon," says Mitch Sanders, a Department of Commerce information officer. "Canada is the leading export market for 36 of the 50 U.S. states, and ranked in the top three for another 10 states. In fact, Canada is a larger market for U.S. goods than all 27 countries of the European community combined, whose population is more than 15 times that of Canada."

Canada and the U.S. also have one of the world's largest investment relationships. The U.S. is Canada's largest foreign investor, and Statistics Canada, (the nation's chief statistical agency) reports that at the end of 2009, the stock of U.S. foreign direct investment in Canada was $289 billion, or about 59 percent of total foreign direct investment in Canada.

U.S. investment is primarily in Canada's mining and smelting industries, petroleum, chemicals, the manufacture of machinery and transportation equipment, and finance.

manufacturers can demand that individual shipments be tracked and monitored more closely, or suggest that carriers be changed if their shipping methods are not wholly transparent.

NO BIG SURPRISES

It should come as small surprise, therefore, to learn that the overarching conclusions in the *LM* research study is that U.S. exporters are increasingly reliant upon third-party logistics providers and freight forwarding services to manage their cross-border moves.

Shipments for these businesses span the variety of freight requirements. While the majority is using less than-truckload (LTL) services for their cross-border shipments, more than half of *LM* survey respondents are also depending on truckload (TL) and small package carrier solutions as well.

A spokesperson for Purolator Courier Ltd., Canada's largest overnight courier company, adds that for many shippers, Canadian-based commerce is more than just another part of their business…it's a critical enterprise. They say that nearly one out of three prepare key business strategies based on their U.S./Canada operations, adding that "it's important that the outcome of these plans yield successful returns."

And the *LM* research study shows that modifications to Canadian warehousing strategies and cross-border shipping philosophies have led shippers to reduce the number of carriers they use, consolidate distribution points, or close Canadian DCs and manufacturing facilities.

Results have also proven favorable for manufacturers and traders who have started shipping direct from the U.S. or have opted for providers with stronger, more widespread distribution networks. Some shippers have also switched to a freight service that offers greater visibility into the transportation chain.

"We have decided to ship the majority of our products to Canada via pool consolidations," says a respondent of agricultural commodities. "This has resulted in reduced costs and better control over the export/import process."

For responding shippers operating Canadian-based DCs, nearly one-half (45 percent) stock a full product line in these facilities. Furthermore, more than a quarter of these companies (27 percent) operate their own distribution centers in Canada. While nearly 45 percent operate one site, more than a quarter fully maintains three or more locations.

"The advantages and benefits of running a distribution facility in Canada, however, may be unknown to many," reports one of our research analysts. "Six out of 10 have conducted evaluations to understand the costs associated with running a distribution center there, but four out of 10—a surprisingly high percentage—have not conducted these analyses." ☐

—Patrick Burnson is Executive Editor of Logistics Management

YMS: Harmony

Today's yard management systems offer improved synchronization of the first- and last-mile activities outside the four walls—and shippers are beginning to listen to the benefits.

BY **BRIDGET MCCREA,** CONTRIBUTING EDITOR

When considering the supply chain software market, acronyms like WMS, TMS, and GTM get a lot of attention from shippers looking to gain visibility over shipments while saving both time and money through automation. Often missing from the list, however, is YMS, or the yard management systems that track and report on what goes on outside the warehouse walls and away from the dock doors.

At their core, yard management systems handle the scheduling of inbound and outbound freight appointments while effectively managing yard resources. Unlike WMS and TMS—that focus on warehouse management and transportation management—YMS gets down and dirty, and is most commonly credited with increasing efficiency and throughput runs associated with a shipper's distribution yard and docks.

"Basically, the YMS handles appointment scheduling and dock door management on the receiving and inbound side," says Mike Pujda, project manager at supply chain consultancy Tompkins Associates in Raleigh, N.C. "For inbound activity, the YMS handles the arrival event and vehicle check-in."

Once shipments are onsite, YMS tracks their movement and flow in and out of the dock doors, thus providing visibility into what is available for immediate unloading—and what's not. "When you have this information on hand, you can make the most effective decisions regarding prioritization of shipments and trailer movement," says Pujda. "Then you can turn around and do the same thing for outbound shipments, only in reverse."

When shippers have yard information at their fingertips in a real-time manner, says Pujda, they not only gain visibility, but they also save time and money. Over the next few pages, we'll take a look at the latest developments in YMS and help shippers get a handle on this often-overlooked link in the supply chain management process that can help boost your bottom line and save valuable man hours.

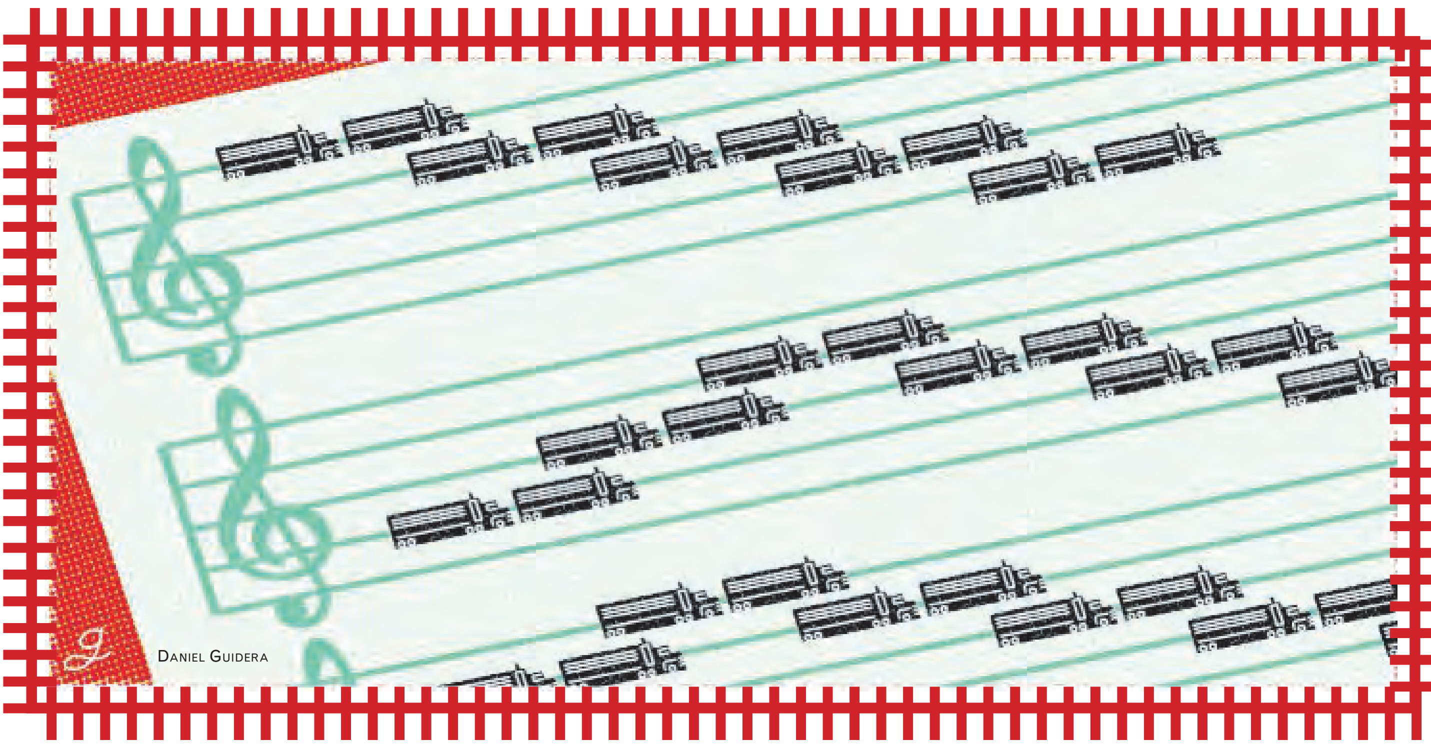
TAKING CENTER STAGE

With economic conditions remaining in the "unfavorable" zone for many companies, shippers across the board continue to look for new ways to squeeze efficiencies out of their operations. According to a March 2010 report from transportation research firm AutoDiversity Management (ADMi), many shippers have started looking at those areas that traditionally have low operating margins, and therefore have lower returns than other larger scale supply chain cost savings initiatives.

One of the areas where ADMi is seeing a lot of activity and investment right now is yard management, a function that the firm defines as managing the first- and last-mile activities that involve any number of changes of custody locations, ports, containers, trucking activity, cross-docks, manufacturing points, distribution centers, and motor vehicle storage yards. And while the term "yard management systems" sounds all encompassing and promising, the reality is that just 44 percent of companies utilize specific yard management systems, according to Marc Brazeau, principal consultant with ADMi.

Yet when asked which technology platforms currently "touch your yard and facility operations," a recent ADMi survey found that 90 percent of respondents reported that they utilize some sort of WMS, while 70 percent rely on a TMS. Sixty-six percent have an enterprise resource planning system (ERP) that integrates operational administration across functional departments, and roughly 50 percent have a customer relationship management (CRM) or manufacturing execution system (MES).

in the yard



The fact that a much lower percentage of shippers are using YMS versus other supply chain underscores "the potential for efficiency and cost improvements for respondents currently without YMS," says Brazeau.

Supply chain software vendors, however, have recognized the fact that shippers need help closing those first-mile and last-mile gaps and have gone to market with a number of solutions that they believe will answer the call on several fronts.

While YMS was traditionally developed by only the best-of-breed providers, today's market includes options from ERP providers like SAP and Oracle as well as from supply-chain-centric firms like Manhattan Associates and RedPrairie. Smaller players like Fluensee.com and CDC Software are also making a mark, while more technologically diverse companies like Zebra have jumped into the game by acquiring smaller, best-of-breed YMS providers like WhereNet.

GOING SOLO OR STICKING WITH THE BAND?

Whether YMS is more effective as a standalone entity or as part of a larger system has yet to be determined. Steve Banker, director of supply chain solutions for analyst firm ARC Advisory Group, says that it's "pretty common" for YMS to be tied to WMS, namely because the two can work in sync to alleviate issues like dock door constraints and limitations.

A shipment being tracked through the warehouse, for example, can be easily prepped for loading and delivery when the WMS and YMS can seamlessly "talk" to each other. Expect to see more YMS embedded into WMS in the future, says Banker, who adds that such options are particularly attractive for shippers who want to "invest in a WMS and get a YMS without paying anything extra."

But are those integrated YMS options powerful and multi-functional enough to provide solid benefits for shippers? Dwight Klappich, vice president at research giant Gartner, says the answer to that question lies in just how tightly the YMS is integrated with the

TMS or WMS, particularly when it comes to functions like dock scheduling.

"If you link this process to the WMS, then your YMS will be tied to the processes going on inside the warehouse," says Klappich. "On the other hand, a YMS that's tied more closely to the TMS allows for easy linking to dock schedules and appointments from a carrier standpoint."

Ideally, Klappich says shippers would be able to integrate their YMS with their TMS and WMS, and be able to "look at dock scheduling from both sides." He says Gartner refers to this setup as supply chain execution convergence, and points out that RedPrairie's YMS option "is furthest along, based on the fact that the company has strong solutions on both sides—TMS and WMS."

TURNING UP THE VOLUME

While it may be true that less than 50 percent of shippers are currently using YMS, many more are considering future implementations.

Driving that trend, says Tompkins' Pujda, is the need for more visibility over inbound and outbound freight, as well as better scheduling capabilities. "The shipper that can effectively extend its facilities out to its carrier base and create an environment where dock door scheduling becomes easier and more accurate, for example, is able to better schedule its labor and even prioritize shipments," he adds.

According to Klappich, what's driving the YMS market is the fact that shippers are trying to increase the velocity of their entire logistics process. "The yard has always been a bottleneck, with the carrier coming in and having to get in a line behind 50 other trucks that are also waiting to get to the 10 docks," says Klappich. "Companies in seasonal businesses are particularly good candidates for YMS since the systems can effectively track goods that might be held in one trailer for a period of time and then cross-docked."

Take the company that sells Christmas lights to retailers, for example. When the tractor-trailer loads of products come into the yard in the months leading up to the holiday, says Klappich, the shipper turns the lights around and gets them out the door, rather than stocking them in the warehouse. YMS keeps track of those trucks when they're stored in the yard, and then enables fast, accurate cross docking and more efficient supply chain management.

"The more advanced shippers are moving toward this 'flow concept' that was once opportunistic but is now doable because the yard has become an important aspect of the supply chain," Klappich explains. "Their main goal is always efficiency, as shippers don't want to needlessly unload product, or wait to unload items that can't be located. These are inefficiencies that they can't afford right now."

TOO MANY NOTES TO HIT

When researching the YMS space, ADMi found that smaller shippers appear to be leading the charge to improve visibility out in the yard. This may be because they've already

Tracking trailers with RFID

Four technologies are used to track the location of trailers and other assets in a yard management solution.

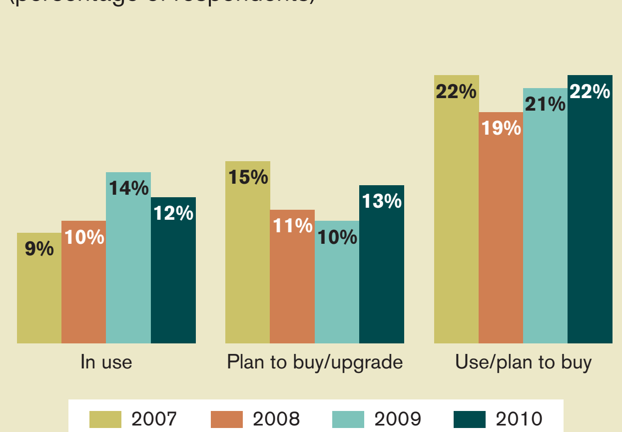
1) Passive RFID, including EPC-style tags, are primarily used to identify a trailer or container. Since these tags don't have a battery, they can't broadcast their location. Instead, yard vehicles equipped with an onboard RFID reader can read the tags on trailers as the operator drives through an area.

2) Active RFID tags include a battery. With onboard power, these tags broadcast their location in real time to a network of access points in the yard.

3) GPS is emerging as a solution for tracking assets across very large outdoor areas where the cost of installing an infrastructure of access points would be prohibitive.

4) Sensor technology, combined with an active RFID or GPS tag, allows a user to not only track the location of a trailer or asset in the yard, but also to monitor environmental conditions that may have an impact on the asset, such as humidity or temperature.

YMS usage by shippers
(percentage of respondents)



Source: *Logistics Management* 2010 Software Survey

What stage of the YMS buying stage are you in?

Source: *Logistics Management* 2010 Software Survey

addressed the higher priority issues within their supply chain networks, according to Brazeau, and are now positioned to address yard throughput issues.

The fact that smaller shippers are gaining that "last mile" visibility could bode well for such firms as the economy recovers, Brazeau reports. "Smaller companies may be better positioned to take advantage of a near-term economic recovery, as well as the lead in yard management best practices."

Expect to see more innovations like RFID being integrated into YMS systems, says ARC's Banker, who is already seeing that movement take hold among European companies.

Also on tap is more supply chain executive convergence, according to Klappich, who envisions a time when companies synchronize and orchestrate end-to-end supply chains—yard included—with technology. "The yard is a cog in the wheel that helps shippers achieve this type of integration by driving both throughput and efficiency, and by making shipments move in and out that much faster," adds Klappich. □

—Bridget McCrea is a Contributing Editor to Logistics Management

YMS providers

C3 Solutions	HighJump	RedPrairie
CDC Software	InSync	Retalix
ClearTrack	Manhattan Associates	SAP
Cypress Inland	Oracle	Sterling Commerce
Exotrac	PINC Solutions	YardView
Fluensee.com	RACO Industries	Zebra Enterprise Solutions

Major U.S. Army depot utilizes YMS and automatic identification to track inventory

How do you track mobile assets that might be stored anywhere among the 1,200 buildings and yards in a complex that covers 59-square miles?

That was the problem facing the Sierra Army Depot (SIAD) in northern California that serves as a multi-functional logistics center for the storage, maintenance, assembly and containerization of thousands of operational stocks and other major end items on behalf of a wide set of customers.

If those assets are inadvertently misplaced or their location mis-recorded, it can take days or even weeks of manpower to search the vast area to retrieve them.

The solution: SIAD is implementing an asset management and real-time locating system from Savi Technology that will utilize asset management software in conjunction with RFID tags, readers, and handhelds that utilize GPS technology to improve visibility, accountability and the annual inventorying of assets.

The result: By tagging important assets as they move through the complex, the solution will help personnel reduce hours spent searching for critical containers, major supplies and equipment as they move on, through, and off the facilities, thus improving operational efficiency and cutting costs.

The solution also improves asset inventory utilization, and—via automated alerts—speeds the monitoring of environmental conditions of medical equipment and supplies stored in special containers required for rapid deployment into the field of operations.

When it's fully deployed, the solution will provide the ability to tag and accurately track items that belong to the depot and remove tags when the assets leave the facility. Sensor technology will be utilized to provide visibility of serialized items. RFID and other automatic identification technologies will be leveraged to enhance the management of inventory and assets.

Finally, the data collected by the system will allow the Army to analyze the current processes at the facility and recommend improvements.

—Bob Trebilcock, is a frequent contributor to Logistics Management

4PLs emerge

BY **PATRICK BURNSON,** EXECUTIVE EDITOR

What does a well-established multinational truck manufacturer have in common with a relatively new telecommunications equipment provider? Quite a bit if you are examining their respective global distribution strategies.

Navistar Inc. and Vology Data Systems are both undergoing transformational changes as each builds upon existing relationships with time-tested logistics partners. In fact, the following two case studies demonstrate that working to transform your existing 3PL into your 4PL makes sense if it's done with "cultural integration" as a primary goal.

NAVISTAR'S GLOBAL CHALLENGE

When Ed Melching, Navistar's director of global logistics, began searching for a partner capable of supporting the company's five-year plan to re-engineer and improve performance in its supply chain, he didn't have to look far. His existing two-year contract with a 3PL was a starting point for global expansion.

"There are normal growing pains in any partnership," he says. "But at the beginning, we spent a lot of time on alignment of vision, mission and strategy, governance, ensuring executive support for the steering teams, and taking an 'open book' approach to the relationship where both of us would be rewarded when we were successful."

He adds that it was important that the global truck and engine manufacturer had "skin in the game" with its own outlay of capital investment. But that didn't mean the process would be easy. Over the next few years, Navistar will be concentrating on global growth markets focused on India, Brazil, South Africa, Australia, and China.

To accommodate this aggressive move, the company is now seeking to deploy an advanced "strategic collaboration model" for continuous supply chain improvement throughout the world—and it plans to rely on its global logistics provider partner more than ever. The objective is to achieve a 25 percent reduction in supply chain spend by 2013, while establishing a team with advanced management skills to drive continuous improvement into overall global operations.

"So far, 19 new projects have been identified and implemented, delivering validated savings in the millions of dollars with the help of our current 3PL," says Melching. "One project that had immediate impact was a domestic freight transportation study. Its findings recommended a core carrier program that took our LTL supplier base from 26 to seven," he adds.

But there were some speed bumps along the way to removing cost, he admits. When projected savings weren't initially realized, the team conducted a "Kaizen" (Japanese for "improvement" or "change for the better") to develop a lean practice and uncover root causes of failure. With the help of his 3PL, Melching says that the problem was identified and fixed some six months later. "Now that we are back on track, we've realized a cool $1 million in savings so far," he says.

In this larger "global network manager" role, Menlo Worldwide Logistics has expanded its 3PL relationship with Navistar by deploying this more strategic collaboration model designed to help the manufacturer with ongoing supply chain improvement. If fact, Melching and the provider refer to it as a pure "4PL" relationship—a term coined some years back by analysts at Accenture to define a situation where a 3PL goes beyond traditional logistics offerings and applies deeper analytical skills to assist in continued supply chain support for the shipper.

For Navistar, this move represents a decision to forego old ways and adopt a new model that embraces uncommon levels of collaboration with an outside resource. To be successful in this transition, Melching says that his team will need to rethink traditional supply chain assumptions, instill lean methodologies and processes for removing waste and inefficiency, and create a platform for change based on clear, validated key performance metrics.

According to Melching, a major milestone in this expanded relationship with its 3PL has been the launching of five "transformation platforms." He defined these as comprising logistics IT strategy; sourcing strategy; global network strategy; lean material flow strategy; and perhaps most importantly finished vehicle distribution strategy.

First coined by the U.S. military, a "transformation platform" is a strategy designed to give logisticians improved situational awareness. As one might imagine, tracking this process is essential. "Goals are based on SMART (specific, measurable, achievable, relevant, time-related) targets and measurement against validated key performance indicators," explains Melching.

He also has advice for shippers wishing to make the same move as Navistar, "We knew what we were getting into when we started," he says, adding that not all shippers may have that luxury. "Our analysis suggested they were a good fit, strategically, tactically, and culturally.

Traditional 3PL services like transportation and logistics don't cut it when a company wants to enlarge its global footprint. That's when value-added, strategic advice of a 4PL may be needed. But who gets the call?

VOLOGY MANAGES GROWTH

For Oldsmar, Fla.-based Vology Data Systems, reducing the supply chain spend was not the most urgent need. In fact, while most companies were focused on surviving the recession, the pre-owned networking and telecommunications equipment provider was experiencing a major business boom. From October 2009 through March 2010, the company experienced a 40 percent surge in business.

"But that presents its own set of unique challenges," says Joy Perkins, director of operations at Vology. "We needed to make sure that our global orders were filled quickly and customers were satisfied…all while we're expanding into new markets at a rapid pace, particularly in the Middle East."

She also notes that a contract with the U.S. military required regular shipments to distant locations like Afghanistan. So while the armed forces were concentrating on keeping "boots on the ground," Vology was intent on removing steps in its warehouse operations.

After considerable diligence, Vology turned to UPS Supply Chain Solutions to provide advice on its warehouse redesign. In only two and a half months, the 4PL worked with Vology to redesign its own facility and streamline its operation.

The result, says Perkins, was a substantially reduced footpath, a more efficient pick and pack process, and more space for storing inventory. Overall, the changes increased the facility's capacity by about 70 percent. "We reduced our production area from 20,000 square feet to 6,000 square feet, so we could save the rest of the space for pure storage," says Perkins.

The changes eliminated the need to build a new warehouse or hire new employees since the more efficient layout was able to accommodate the growth. Now Vology can nearly double its current capacity before growing out of its facility.

What's more, inventory flows efficiently from one area to another. Approximately 40 percent of Vology's inbound volume arrives, gets tested, and is sent out to a customer on the same day, so the process must be quick and seamless. Then, to meet the tight deadlines, approximately 35 percent to 40 percent of Vology's shipments are sent via express services to their final destinations.

"We're all about urgency," says Perkins. "And our shipments now arrive at their destinations on deadline more than 99 percent of the time."

Additionally, Vology invested in the building's aesthetics to create a cleaner, more efficient production area that reflects its pursuit of being regarded as a world-class operation. "It may sound superficial, but aesthetics are important to us," adds Perkins. "It creates an impression of simplicity and efficiency. We wanted to partner with someone who had the same values."

With hundreds of international orders a week, Perkins and her team determined that it was also vital that the shipping process could measure up. Vology needed a 4PL that could go beyond shipping to handle other issues like customs clearance and brokerage for all of its international shipments.

"We needed a 4PL who could broker everything," says Perkins. "To us, the only difference between a domestic package and an international one is that we have to add a commercial invoice."

Perkins decided to turn to her current provider's paperless invoice system to manage complicated customs procedures electronically, rather than manually completing paper invoice forms in triplicate. The service helps Vology save time and trees, while reducing paperwork errors—the number one reason for delays at Customs.

Tracking is also top priority for Vology. It now relies on UPS to provide complete visibility into its global supply chain. Perkins says that her partner's tracking software helps keep inventory moving and accelerates the billing process. Additionally, Vology can bill for an item as soon as it has a tracking number.

"We receive enormous amounts of inventory and we have to turn it around quickly," said Perkins. "That's why tracking is so important. Sales people can sell things that are en route, and the receiving team can project what's coming in and plan staff accordingly." ☐

—Patrick Burnson is Executive Editor of Logistics Management

Lift trucks: Solving the financial puzzle

Own, lease, or rent? According to lift truck consultants, the method that businesses pay for lift trucks tends to be a sound economic indicator. Here's how distributors are working to solve the complex needs of today's fleet owner.

BY **TOM ANDEL**

If an analyst told you that a market was in recovery, you'd probably think that was good news. Not so fast. If you were talking about the lift truck market you'd have to get beyond the complexity first. In fact, some business analysts see recovery being as problematic as the recession when it comes to lift trucks.

George Keen is one of those. Keen's a senior consultant with Currie Management Consultants, a Worcester, Mass.-based firm that specializes in distributor business enhancement strategies. Keen sees the lift truck market as a remarkably complex puzzle, as challenging to understand for sellers as it is for buyers.

According to Keen, customers' purchasing philosophy and behaviors evolve over time as a market matures. The problem with lift trucks is that although they are mature products, they employ some of the most leading-edge technologies around—from computers and sensors to alternative power sources.

This leads to unpredictable buying patterns and competing approaches to selling. Depending on their needs, buyers may make their lift truck selection based on product innovation, price, total value, or total cost of ownership. Keen sees these as phases.

"Not all lift truck customers change at the same time, so distributors need to evaluate which customer is in each buying phase and then respond to them in an appropriate fashion," says Keen. "While we have seen customers go from just choosing a brand to being very concerned about price, many have moved on to the 'total cost of ownership' where they really care about the residual value at the end of their ownership, the cost of maintenance, and the serious issue of non-productive down time."

Wherever you are in this procurement cycle, business conditions have also changed how equipment distributors deal with customers. Today in the lift truck market, there are new, compelling reasons to own equipment, to lease it, and even to rent. Let's take a look at each of those decisions.

THE CASE FOR OWNING

With the recent business slowdown, there's a glut of underutilized lift trucks on the market. As they come off lease ,they flood the used market, creating attractive buying options for many small companies.

Keen says that these buyers will lean into used equipment as a hedge against cost. While this is bad news for sellers of new vehicles, it's great news for servicing dealers offering maintenance programs.

Other buyers will purchase used lift trucks to fill their current needs while saving up for equipment that will suit their long-term strategies. At the same time, some dealers will discount and promote used equipment to get cash from their over invested rental fleet and older used inventory.

But while there may be an abundance of used forklifts for sale, the quality quotient may be on the way down.

"I've seen a sharp decline in good, low-hour, late-model forklifts on the market sold as 'new-lift alternatives' since the third quarter of 2009 into the first quarter of 2010," says Matt McClelland, materials handling consultant at Johnson Lift Hyster, a distributor that serves the greater Los Angeles area. "While the glut of used trucks has had a negative effect on new forklift sales…this will level back out in the next six to eight months due to a lack of good, used equipment."

Roger Troost, president of Morrison Industrial Equipment, a Grand Rapids, Mich.-based Mitsubishi-Caterpillar distributor, has a slightly different interpretation of what's happening on the used equipment market. Troost says that he's seen the wholesale value for used trucks strengthen—which indicates that the used-truck glut has stopped and that those great values are no longer there.

That doesn't mean that warehouse and DC managers will stop buying late-model, low-hour, off-lease units in favor of new equipment. "I think as long as underutilized and low residual off-lease units move into the used market the smart buyers will continue to lease used versus new," says Troost.

However, Bruce Pelynio, president and CEO of Heli Americas, a Memphis-based distributor for China's Anhui Heli lift trucks, says that the maker of his line of trucks is counting on growth in the long-term ownership market here the U.S. "I think the lease versus buy ratio will shift," says Pelynio. "People used to lease cars every three years and just flip them because they could get a $199 payment for a Cadillac. Those days are gone because nobody wants the residuals any more—the capital isn't available to do that."

THE CASE FOR LEASING

Leasing gives customers access to technologies they might not be able to afford when buying a lift truck outright. It also changes a customer's mindset from price to cost of ownership—especially if the lease comes with a maintenance package. That's why George Keen tells dealers to understand their customer's procurement phase.

"Just when you think all customers evolve from left to right, we get new products like the hybrid fuels, AC, and other fuel options. Customers are back to looking for the best product not best price," says Keen. "Dealers will need to be paying good attention to the customers' buying phase and not just throwing quotations out to every person thinking of buying new trucks. For example, throwing a low-ball quote out to a prospect who is concerned about cost of ownership will only lose you money."

On the customer side, Matt McClelland's advice to fleet managers is to look at solutions in three-year to five-year terms instead of a payment-to-payment basis.

"A lot of the solutions I have been offering as a consultant have a high perceived investment cost, but I usually can show savings in 20 months or less," says McClelland. "But some fleet managers look at the payment and decide to save $5 per month instead of $15,000 over 5 years. The technology to help companies save thousands over that long term lease is usually in the payment."

THE CASE FOR RENTAL

There are opportunities arising from the recent economic struggles of both buyers and sellers of capital equipment. Lift truck fleets with low utilization and high financing costs may be causing cash flow problems and owners may be tempted to dump that equipment on the rental market.

At the same time, dealers are seeing an increase in short term rentals (STRs) from clients who do not have enough money in their capital budgets for an immediate purchase or lease. In this case, an STR can help them meet their needs until the next capital budget.

Alternatively, large fleet owners may be receptive to dealers offering to "re-purchase" their fleet and rent it back to them through a long-term rental (LTR). This would free up cash from those assets.

"Although the dealer would need the financial position to make this offer, the long-term return could be very good," Keen explains. "They capture all the parts, service, and rental business and they also have total control of the account for X years, and should have good control at time of conversion. But dealers will need to be smart and creative in finding out how to deliver good value inside profitable contracts."

Just as leasing helps fleet owners stay on top of technology's evolution, rental can do the same, but for a shorter term. At the same time, it helps the fleet manager negotiate the uncertainty of these economic times.

"I would suggest fleet managers can be less reactive to an upswing or downturn in the market by buying more strategically," says Paul Hollowell, vice president of rental operations for Modern Group Ltd., a Hyster distributor that covers the Northeast. "They can do that by purchasing less than the immediate need for lift trucks and renting equipment as a prudent alternative."

The rise in STRs reported by distributors contacted for this article shows that these fleet managers are filling application gaps before committing to long-term leases or purchases. In the meantime these distributors and the OEMs they represent are busy preparing to meet that commitment. □

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LTL breaks out

After hitting rock bottom, LTL carriers are now shifting out of "survival" mode and rolling quickly into an environment that will present shippers with tighter capacity and higher rates. Here are the three forces that are fueling the mode's financial revival.

WHITNEY SHERMAN

By John D. Schulz, Contributing Editor

Satish Jindel, principal of the trucking analyst firm SJ Consulting, says that shippers should think of the less-than-truckload (LTL) industry as a guy sitting in the middle seat on an airplane.

On the aisle next to him are the small-package carriers like UPS and FedEx seeking more space to utilize their latest technological gadgets and vast customer lists. In the window seat are the aggressive non-union truckload giants like Schneider National and Swift Transportation, anxious to utilize their excess capacity with ever-smaller loads to help fill their trucks with "kick-on" freight.

"Both of those guys are elbowing the LTL sector sitting in the middle seat," says Jindel. "But they can only go in one direction. The truckload guy can't push into the window, and the parcel guy can't push into the aisle. LTL can only push back on both sides."

And as Jindel's analogy suggests, the beleaguered LTL industry may be down, but it's certainly not out.

Yes, the market has shrunk. Due to the recession and changing shipper freight patterns, the LTL sector shriveled to $25.8 billion in total revenue last year, down from $33.4 billion in revenue in 2008. Considering that the entire trucking sector enjoyed $688 billion revenue last year (including the gigantic $300 billion private trucking sector), LTL revenue totals ring in at just under 4 percent of the entire trucking pie.

However, that's a very valuable 4 percent. LTL carriers are able to generate higher rates than truckload

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carriers. LTL carriers are also in an enviable position when you consider that their market has significant barriers to entry due to the their expensive and difficult-to-replicate hub-and-spoke networks of terminals.

In fact, virtually every new carrier that has entered the trucking space since deregulation in 1980 has gone into the non-union truckload sector, not LTL. Those barriers to entry are significant. Because of that, and other factors, LTL executives say they have a better chance than their truckload brethren in obtaining significant rate increases as the industry tries to recover from its worst three-year period since the Great Depression.

"It's tough times out there—the past three years have shown nothing in terms of profits," says Myron P. "Mike" Shevell, a 60-year trucking veteran and chairman of the Shevell Group, which includes the $311 million Northeast LTL giant New England Motor Freight. "Every carrier I know is either losing money or close to losing money and there's only a handful making a profit. Because of that, we and every carrier I know are out for major rate increases."

The concentration of pricing power is much greater in the LTL sector, where the top 10 carriers control as much as 75 percent of the market.

To be sure, the LTL sector is not without its challenges. When the recession hit trucking three years ago, the truckload sector was able to reduce capacity much more quickly than LTL, which has significantly higher fixed costs because of its network of terminals.

"When you have a terminal utilizing only 60 percent of its capacity, it's not as if you can close that terminal and relocate all that freight to another terminal 100 miles away that might be at 40 percent capacity," Jindel says. "You have to keep both terminals open to provide service, even though both are operating at less-than-optimum capacity levels."

Because they are largely unionized, LTL carriers have had a more difficult time laying off workers during slack economic times, compared with truckload carriers. Large truckload carriers such as J.B. Hunt and Werner Enterprises were able to quickly park as many as 15 percent of their over-the-road fleet during the depth of the recession. LTL carriers could not.

That's because of the nature of LTL operations. A typical LTL truck makes as many as 35 stops during a workday to different customers. If, say, 10 of those customers are not shipping freight, that LTL carrier still has to maintain that route to the other 25 customers.

But, once again, there is a flip side that favors LTL. The concentration of pricing power is much greater in the LTL sector, where the top 10 carriers control as much as 75 percent of the market. That compares to the highly fragmented TL sector where the top 10 carriers control less than 4 percent of the market, according to figures compiled by SJ Consulting and trucking analyst firms.

"Because of that concentration, the LTL guys find it much easier to get rate increases," says David Ross, trucking analyst with Stifel Nicolaus, a research and investment firm based in Baltimore. "Right now the LTL guys are having a little more traction than the truckload guys in obtaining contractual rate increases."

The fuel question

Fuel is the unknown in everyone's budgeting equation. Whether it's a household trying to budget for gasoline for the family minivan or a large shipper trying to factor in his company's fuel surcharges for the next 12 months, fuel presents an open-ended "X" factor.

David Congdon, president and CEO of Old Dominion Freight Line, the nation's eighth-largest LTL carrier with $1.15 billion in revenue last year, calls the game of trying to guess next quarter's fuel prices "a giant crapshoot." And he's right.

Earlier this year, the Department of Energy forecast diesel prices to remain in the $2.80 to $3 per gallon range for the rest of the year, with crude oil prices hovering between $70 and $80 per barrel during that span. Surprisingly, at least so far, that forecast has been proven right.

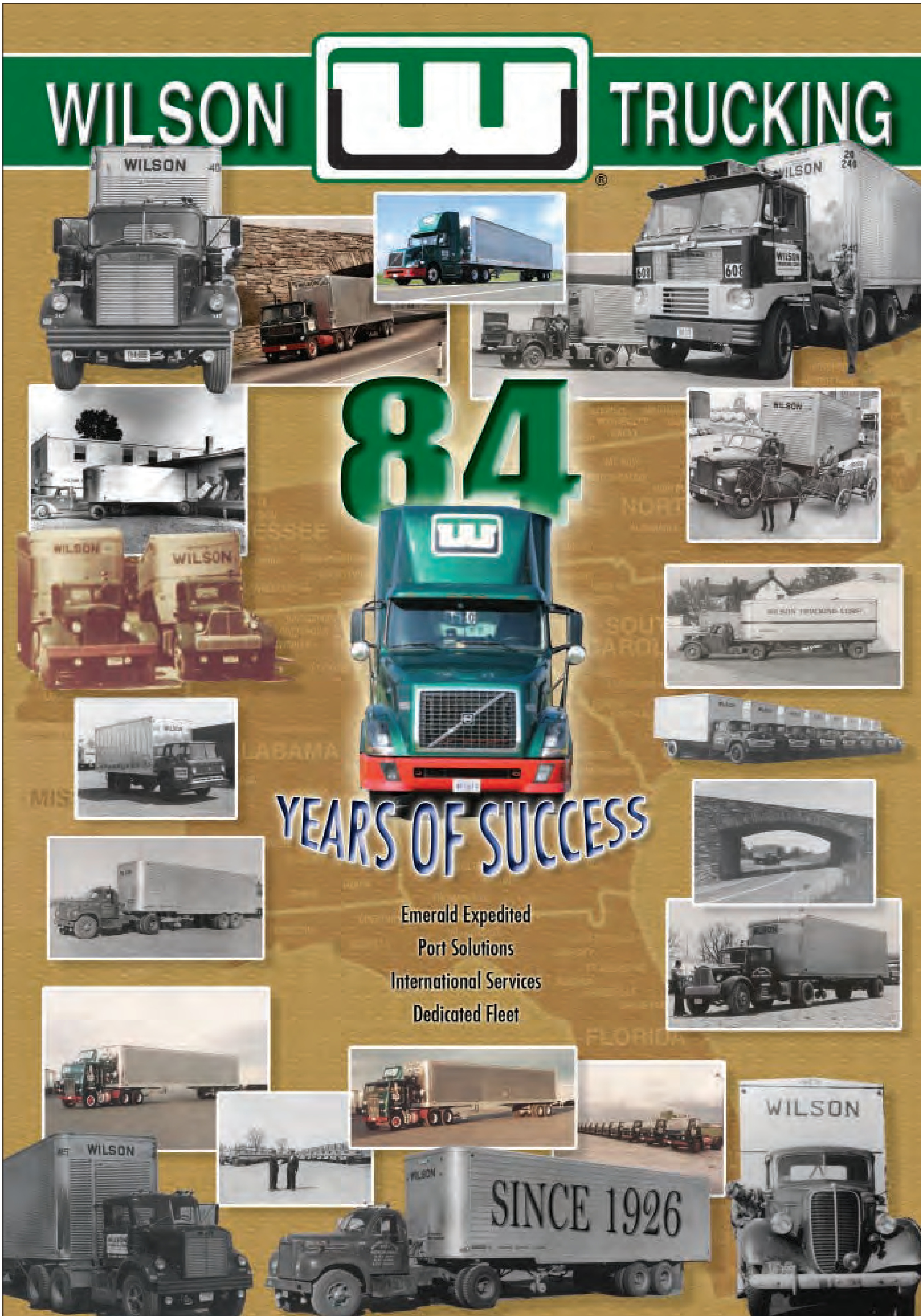
But that's not to say they will stay that way. Let's not forget that the price of crude oil fluctuated wildly, from an all-time high of $140 a barrel in mid-1998 to a low of just $30 a barrel just six months later.

"That's a tough one to answer," Con-way Freight President John Labrie said when asked about where fuel prices are heading. "We don't try to predict the movement of a commodity that we have zero control over. Our focus is on running the business and managing every expense as efficiently and reliably as we can for our customers, regardless of what happens to fuel prices."

In his excellent report on fuel and "peak oil" production in June's *Logistics Management*, Derik Andreoli, co-founder of the think tank Energy Transitions Northwest, warned against complacency regarding fuel. While supplies are plentiful and reliable now, that is not guaranteed going forward. The world is one oil shock away from the threat of another global recession—whether that shock emanates from an Iranian-led blockade of the Straits of Hormuz, another Middle East skirmish, or the whims of African dictators who seemingly answer to no one.

As Andreoli noted, the amount of crude that is exported from reliable, stable, Western-friendly nations such as Canada, Mexico, and the U.K. is relatively flat. But demand for greater amounts of imported oil continues, as the U.S. now imports nearly 70 percent of its crude. That increases our dependence on such unstable oil exporting countries such as the Democratic Republic of the Congo, Iraq, Sudan, and Angola. That's a fact "that does not impart warm and fuzzy feelings," as Andreoli wrote in his article.

Currently, the fuel surcharge for most LTL carriers are running about 20 percent of a shipper's freight bill, except to and from the East Coast and California where they are about 22 percent. But, of course, those surcharges fluctuate and are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wildly negotiable, according to shippers and carriers.

"Fuel surcharges are a battle," says NEMF's Shevell. "Right now our position is if we don't get the fuel surcharges we're not going to haul it. Shippers have to give us a profit margin. A decade ago fuel surcharges were helping the carriers; but then shippers beat us up on those surcharges to the point where there was no place left where the carriers could make money. You can't do that, unless you want an industry that is so weak that it can't survive."

The capacity question

Shippers need only remember back to the economic recovery of 2002 following the 9/11 attacks to recall tightened LTL capacity.

The bankruptcy of the $3 billion LTL giant Consolidated Freightways on Labor Day of 2002 created stress on the overall system, which then resulted in a period from 2002 through 2006 of carrier pricing power unheard of since deregulation in 1980. Carriers routinely sought—and received—annual rates increases in the 6-percent to 8-percent range, depending on geographic lane.

Could it happen again? There are some similarities, to be sure.

The economy is on the rebound, although how strong is an open question. Instead of Consolidated Freightways, it's $5.5 billion giant YRC Worldwide that is on the financial ropes this time. No one for certain knows YRC's future. But its closure certainly would be the catalyst for rate increases in the 10-percent range, according to analyst Ross.

But even without a YRC bankruptcy, carrier executives are warning shippers of serious capacity shortages ahead. "Demand for freight services has exceeded our expectations the first half of the year," says Con-way's Labrie. "That's mostly a function of the economy being stronger than people gave it credit for in the first half, particularly with big companies."

NEMF's Shevell is predicting "a major, major shortage of capable truck drivers" once the government's new CSA 2010 initiative begins in earnest—which will be in 2011. Under those regulations, rules will be tightened to weed out unsafe drivers because both carriers and shippers will be able to obtain past driving records to a much greater degree. It's also possible the government could reduce a driver's legal number of hours of service, further tightening capacity.

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>
> *—Myron Shevell*

The rate question

Trucking analyst John Larkin of Stifel Nicolaus cites these factors, as well as the lack of suitable intermodal alternatives in short-haul lanes and the proliferation of highway congestion as all factors that combine to tighten available LTL over-the-road truck capacity.

This collection of constraining factors cause Larkin to predict that "supply and demand could further tighten dramatically" provided there is continuing economic growth, or even modest economic growth, over the next several years.

"That tightening of supply and demand would almost certainly shift pricing power to the carriers and away from the shippers," Larkin said.

For those reasons and others, analysts are increasingly bullish on LTL's ability to obtain consistent rate increases. That's one of the reasons that longtime trucking analyst Ed Wolfe, principal of Wolfe Trahan research firm, recently upgraded ABF Freight System parent Arkansas Best Corp. as an "outperform" compared to the overall stock market. In a note to investors, Wolfe said he expected trucking stocks to benefit "from tightening supply and continued inventory restocking."

Jindel of SJ Consulting is predicting LTL rate increases in the 3-percent to 5-percent range over the next 12 months. Ross of Stifel Nicolaus agrees, but says that those increases will vary and are coming off a very low floor when discounts were surging a year ago. Ross says it's possible some shippers could see 25 percent rate increases on some lanes, if capacity were to severely tighten.

"It seems like everyone in the carrier community has been trying to raise rates, which is a much different environment than it had been in the past couple of years," says Con-way's Labrie. "We're working to improve yield like everyone else. That's created a different dynamic. With a stronger economy and the fact that our volume growth has been greater than expected, the environment's become more supportive of stable pricing. But it's no less competitive out there and there's still excess supply in the market."

But Labrie says Con-way's business "is holding up well," even with rate adjustments. Chuck Hammel, president of Pitt Ohio, a leading Northeast regional carrier, reports the same with his company. Others say it's sporadic.

"We've seen the growth in spurts," says UPS Freight spokesman Ira Rosenfeld. "There are pockets, especially in the Midwest, where we're seeing real gains. Rates are beginning to stabilize as excess capacity is leaving the marketplace."

However, Rosenfeld said that excess LTL capacity is still an issue. "Until there is some traumatic event in the industry to change that capacity situation, or with the economy, we don't see any dramatic change in that," he says.

Carriers say the time for bargain rates in LTL is over. They say they need significant rate increases to help recapitalize their business. "How are we going to retool our trucks when we're not making any profits? It's not a curse to make a profit," adds NEMF's Shevell.

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


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The shift is on...

By Wayne Bourne

THAT HIGH PITCHED GRINDING NOISE YOU HEAR—the sound of metal on metal—is the undeniable sound of the pendulum that I have been using as my economic metaphor during the past few years. It's beginning to its journey back over to the carrier's side.

The pendulum has been solidly positioned on the shipper side of the arc for the past three or four years. During that period, capacity was high, truckload volume was thin at best, and, as a result, rates shot down into rock-bottom territory. We also witnessed the piling-on effect of frequent on-line biding that forced carriers to re-bid for lanes that they had just won and had therefore built into their network for lane balancing.

Yes, it was a good time for shippers—and good for them. Rates were low and capacity was plentiful. And as expected, it was a very trying time for carriers. As was the case in the past when shippers where in control, the carrier base thinned out with some carriers cashing it in and ceasing operations while others simply trimmed down their fleets in what might be termed as the "great right-sizing" of our generation.

Furthermore, those carriers that did not reduce their rolling stock certainly did not add incremental units to their fleet. And with that, capacity was matching the demands made by the faltering economy fairly well.

So, for those savvy shippers who actually take my advice, I will refer you back to my August 2009 column that I called "Rounding third and heading for home." In that column, I predicted a fairly decent retail holiday season for 2009 with a significant rebounding during the first and second quarters of 2010. I also implied that this holiday, the upcoming 2010 season, would more closely resemble 2006 than 2009 in total loads offered.

From what I'm reading, and from what the retailers and carriers that I follow are reporting, my prognostications are fairly accurate. The point I was trying to make in that August 2009 column was pretty straightforward: It was never a question of what was going to happen, it was only a question of when. This type of rebound has occurred dozens of times in the carrier/shipper game, and it was going to happen again—albeit at a slightly altered pace.

So, with all the historical data and all the warnings that you've heard about the rebounding economy and the reductions in the fleets, you surely must know what will happen next. Shippers are about to witness more rate increases and further capacity shortages in growing pockets of the major shipping lanes, especially on the West Coast.

Since you could see this coming down the road, what plans have you made to accommodate the fallout and preserve the promises that our marketing departments have made to our customers? Now might be a good time to sit down with your core carriers and ask them what their plans are for an extremely important fourth quarter.

You need to revisit the promises that were made, the rates that were agreed to, and the driver/equipment commitment that was made many months ago when things didn't look too rosy for the carrier. It's time to ask your core carriers what they plan to do with any excess capacity and whether or not rates will be different from the committed levels. Will the transit performance be equal to your requirements?

You need to be completely aware of how the carrier views this particular partnership. Keep in mind that the carrier's memories of recent developments are very fresh. He will remember the lanes that he held for many years, the ones he recently lost for 2 cents a mile; the commitments that never materialized; the costly extras that you demanded; and the time-consuming bidding and re-bidding on lanes already awarded.

John Gentle and I have been extending this partnership theme in this column for more than four years. We have been trying to share examples of how transportation professionals can measure the definition of partnership and their place within that definition.

Neither carrier nor shipper wants anything more elaborate than an honest, transparent, mutually beneficial, and bilateral contract agreement that provides discernable benefits to each party. Shippers need to keep their promises, carriers need to take some bad with the good; and at the end of the day the relationship needs to be profitable for both sides. ☐

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.