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NOVEMBER 2010

# Logistics MANAGEMENT®

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Wayne Johnson, manager of carrier relations, Owens Corning

## 2010 McCULLOUGH/NITL EXECUTIVE OF THE YEAR

# Management UPDATE

AN EXECUTIVE SUMMARY OF INDUSTRY NEWS

**Tough outlook for oil.** Speaking at the Council of Supply Chain Management Professionals Annual Conference in San Diego, noted oil industry expert Chuck Taylor said that for the first time in its history the United States will be forced to increase economic growth while decreasing oil consumption. "This is something that has serious implications for the prosperity of global supply chains," said Taylor. "There are many who say that it can't be done and that we are in for a permanent decline; but I don't agree with that." Meanwhile, diesel prices returned to $3 per gallon territory throughout most of October.

**Signs of a recovery?** Strong third quarter earnings reports from several publicly traded freight transportation and logistics services providers, including UPS and Class I railroads CSX and Union Pacific, pointed to healthy profits and relatively stable volumes, especially when compared to a dismal 2009. While these reports are encouraging, many experts maintain that it's tough to gauge just how much momentum will carry over to sustained growth. Some of the reasons cited include a reduction in inventory stocking, still sluggish consumer spending, and various pieces of pending legislation like hours-of-service and CSA that have the potential to negatively affect supply chain operations for both carriers and shippers.

**DOJ's call for help.** The U.S. Department of Justice may not be through with naming forwarders guilty of price fixing. Indeed, they are calling upon shippers to share information on any anticompetitive conduct they may be aware of by calling the Antitrust Division's National Criminal Enforcement Section at 202-307-6694. So far, the abuse seems to be widespread. According to the charges, the companies carried out the various conspiracies by, among other things, agreeing during meetings and discussions to coordinate various charges and fees on customers purchasing international freight forwarding services for cargo freight destined for air shipment to the U.S. Each company is charged with price fixing in violation of the Sherman Act, which carries a maximum fine of $100 million per offense for corporations. The maximum fine may be increased to twice the gain derived from the crime or twice the loss suffered by the victims of the crime, if either of those amounts is greater than the statutory maximum fine.

**Is UPS rolling out domestic service in China?** Taking steps to keep pace with its global rivals, UPS is aiming to set up domestic service in China, according to a recent *Financial Times* (*FT*) report. According to the *FT*, UPS recently submitted an application for a domestic license to the China State Post Bureau, a local regulator, in order to offer shippers in China domestic next-day delivery service and second and third-day delivery products. A UPS spokeswoman told *LM* that the application process is still ongoing at this point. She also said that UPS has offered domestic services in China to shippers on a contract basis since 2005 and has been looking at adding other domestic services there since that time.

**NRF calls for 2.3 percent gain in holiday sales.** Recent projections from the National Retail Federation indicate that 2010 holiday retail sales will hit $447.1 billion for a 2.3 percent gain over 2009. The NRF said that while this increase is slightly lower than its 10-year average holiday sales increase of 2.5 percent, it still represents a significant improvement from 2009's 0.4 percent increase and 2008's 3.9 percent decline. In recent years, retailers have had to deal with excess merchandise and inventory control during the holiday season to limit their exposure to excess merchandise and unplanned markdowns, according to the NRF. And like in recent years, the NRF explained that retailers are expected to focus on supply chain efficiencies and inventory control to prepare for these possibilities again.

**AASHTO's gas tax solution.** The American Association of State and Highway Transportation Officials (AASHTO) unveiled a proposal for Congress that it said would "convert the

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# Management UPDATE

*continued*

federal tax on gasoline and diesel fuel from a cents-per-gallon basis to a percentage basis, a mechanism that could raise revenues to pay for greater highway and transit investment if the price of fuel rises in future years." According to AASHTO, the gas-tax option outlined would entail an 8.4 percent tax on a gallon of gas instead of the current 18.4-cent gas tax, while the tax on a gallon of diesel would be 10.6 percent instead of the current 24.4 cents. AASHTO added that it estimates the changes would potentially raise an additional $43 billion over six years, assuming the price of gasoline increases as the government projects.

■ **CSX, New Jersey ready with Liberty Corridor Freightway.** Class I railroad carrier CSX, the state of New Jersey, and the Port of New York and New Jersey recently heralded the opening of the Liberty Corridor Freightway. CSX described the Freightway as a major public-private partnership that provides expanded access to the Port of New York and New Jersey. According to CSX, the corridor will enable double-stack intermodal freight to move from the port to inland destinations, increase train capacity, improve service levels, and expedite freight flows to and from inland ports. CSX officials said that with the Freightway now open, intermodal freight will move on CSX trains throughout the U.S. and relieve stress on highways—as one Freightway train carries the equivalent of 250 trucks while emitting one-third of the nitrous oxide and particulate matter.

■ **Rotterdam rises.** Goods throughput in the port of Rotterdam increased over the first nine months of 2010 by 13.4 percent to 321 million tons. "The growth is leveling off, but is still slightly higher than expected," said Hans Smits, chief executive of the Port of Rotterdam Authority. "The port continues to profit from strong European exports, for which a lot of raw materials also need to be imported. Total throughput is now exactly at the 2008 level." According to industry analysts, more Asia-EU trade is a reflection of investment in infrastructure. "Making ports attractive as part of a routing option may be about focusing on responsiveness," said Mary Burns, who heads the Port Performance Research Network at Dalhousie University in Nova Scotia. Speaking at the recently concluded American Association of Port Authorities' annual meeting last month, she noted that "the global economic crisis forced all too re-examine their practices."

■ **MENA growth.** The International Air Transport Association (IATA) called for coordinated efforts to deal with the challenges of growth in the Middle East and North Africa (MENA). "Over the last decade, the carriers of the Middle East and North African region have grown from 5 percent of global traffic to 11 percent," said Giovanni Bisignani, IATA's director general and CEO. "Planned aircraft purchases of $200 billion over the next decade will support this growth into the foreseeable future. This expanding global presence brings with it the challenge of playing a larger role in the global aviation community," he added. According to IATA, the financial situation of the MENA carriers is improving. For 2010, the organization is forecasting a bottom line improvement of $1 billion on the $600 million that the region's carriers lost in 2009.

■ **CEVA CEO calls for green collaboration.** Speaking at the German Logistics Congress last month, John Pattullo, CEO of global 3PL CEVA Logistics, signaled a need for all supply chain and logistics stakeholders to work in tandem to develop global guidelines for sustainable logistics services. Pattullo noted that the logistics sector is responsible for more than five percent of all greenhouse gas emissions. He said: "Sustainable logistics is not necessarily a management top priority, and in today's economy, many customers are unwilling to pay a premium for green transport." He added, "despite these obstacles, the logistics industry must support change towards sustainable services." Pattullo also said that the complex network of regulations is currently an obstacle for logistics companies in establishing a sustainable supply chain.

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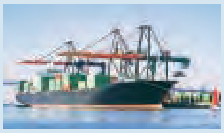

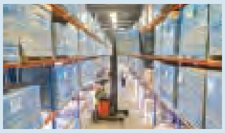

# Management UPDATE

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**Tiger II funding.** The Port of Los Angeles has been awarded $16 million from the U.S. Department of Transportation's National Infrastructure Investment grant program, known as "TIGER II," for its West Basin Railyard project. The port, along with 41 other capital construction projects and 33 planning projects in 40 states, received funding from $600 million awarded nationwide. The port's project will maximize use of rail, thereby making it more efficient and competitive, said spokesmen. Geraldine Knatz, the port's executive director. She noted that it represents a broader strategy: "I'm thankful that our federal government has recognized the national importance of our port by awarding this funding" she said.

**Flags of shame.** The United States Coast Guard (USCG) has recently advised that all foreign flagged vessels operating in United States waters are required to be maintained in compliance with U.S. regulations, international Conventions, and other required standards. So-called "Flags of Convenience" (FOCs) have been linked to a wide range of international crime, terrorism, and human rights violations. The USCG has stated that it now has procedures in place so that if ships have a history of operating in waters subject to U.S. jurisdiction in a substandard condition—outside acceptable standards—they may be denied entry. The move will no doubt win the endorsement of the International Transport Worker's Federation (ITF), which has been campaigning against exploitive vessel operators. "FOCs provide a means of avoiding labor regulation in the country of ownership, and become a vehicle for paying low wages and forcing long hours of work and unsafe working conditions," said ITF press officer, Sam Dawson.

**Commercial warehousing back on the rise.** A new Armstrong & Associates report says that the U.S. commercial warehousing market will hit $50 billion this year. The report notes that combined contract and public warehousing revenues are expected to top 2008 levels by two percent following a 2009 decline. The report adds that the contract and public warehousing market now represents 45 percent of the entire U.S. warehousing market. Richard Armstrong, chairman of Armstrong & Associates, told *LM* that a slowly recovering economy is the main reason for a 2010 rebound in the commercial warehousing market. Included in the report is a list of the top 25 commercial warehousing services providers, which includes 3PLs. It's also comprised of updates on facility sizes, capacity, revenues, pricing, regional variations, and vertical industries.

**And the Silver Kingpin Award goes to...** Mike Bruns, recently retired President and founder of Comtrak Logistics, Inc. is the winner of 2010 Intermodal Association of North America (IANA) Silver Kingpin Award. The annual award recognizes individuals for their significant, long-term contributions to the intermodal industry. According to IANA, its Awards Committee specifically recognized Bruns' contributions to, and visibility within, the intermodal industry though his numerous volunteer and leadership activities. The Committee also noted his significant commitment to the Memphis community and various charitable organizations.

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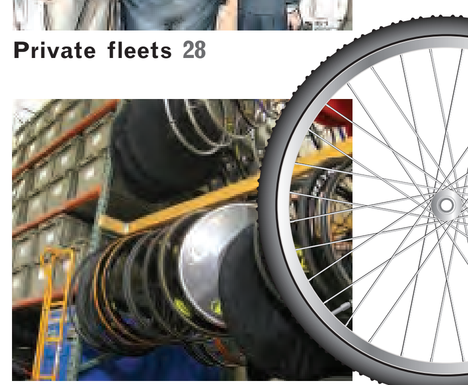

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## 27th Annual Quest for Quality in Review

We take you behind the ballroom doors to give readers a firsthand look at the 27th Annual Quest for Quality Awards dinner that was recently held in San Diego, Calif. More than 120 carrier and 3PL executives were on hand for the festivities. **50**

QUARTERLY TRANSPORTATION MARKET UPDATE: AIR CARGO

## Profits take off...

While the world's airlines are posting an impressive revenue rebound, air cargo analysts claim that volatility caused by too little or too much capacity in the market has resulted in wide swings in rates and overall carrier performance. **54S**

**WEBCAST EVENT**

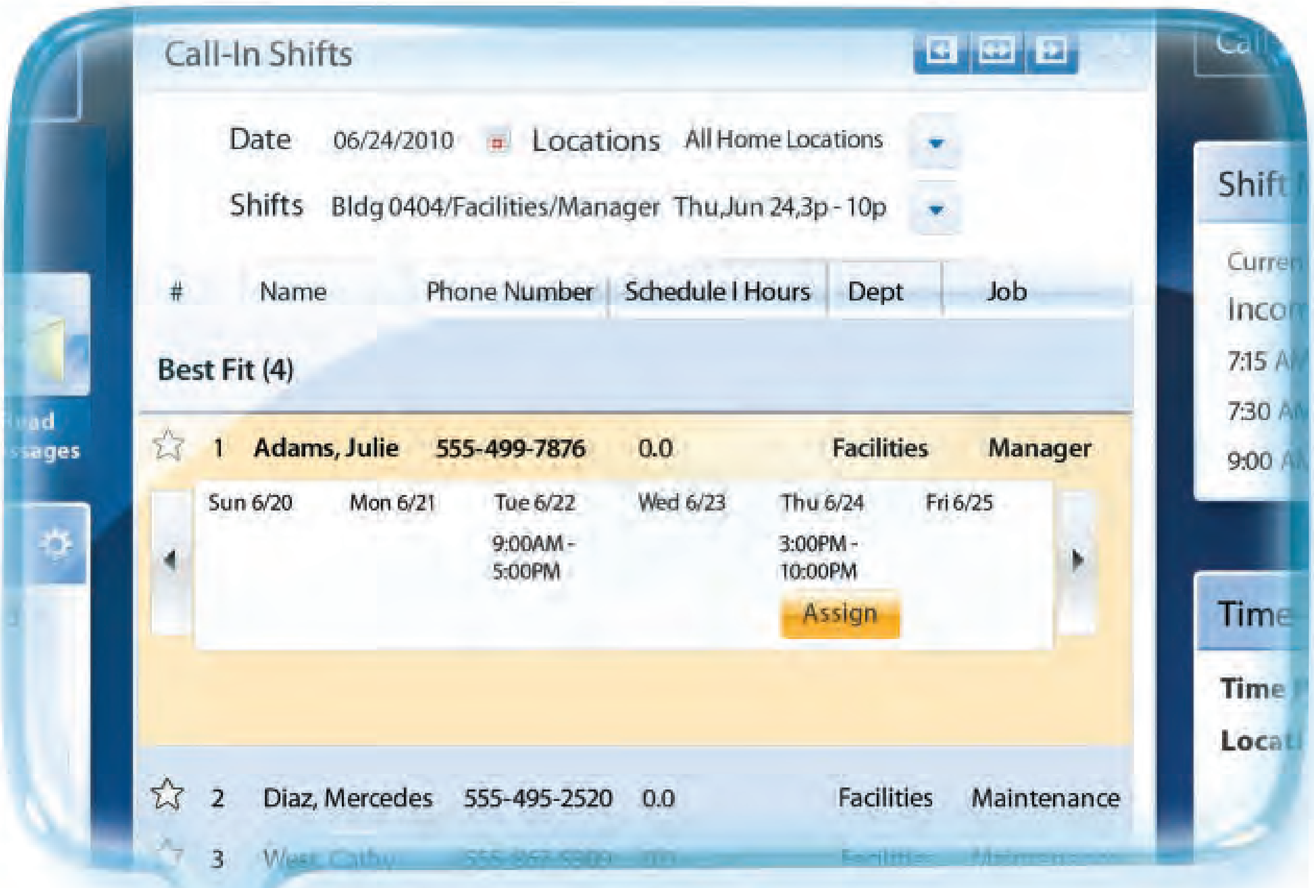
**2010 Warehouse/DC Benchmark Study**

**Tuesday, November 30**
**2:00 PM ET**

**REGISTER:**
**www.logisticsmgmt.com/wdcbenchmark2010**

## Brighter days ahead

Join Group Editorial Director Michael Levans and the research team of Derek Sorensen and Norm Saenz from TranSystems (*LM*'s research partner) as they put context behind *Logistics Management*'s 5th Annual Warehouse & Distribution Center (DC) Operations Survey, our annual study designed to give the market the most up-to-date snapshot of current activities and trends in warehouse and DC operations management.

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# A man who takes the high road

I'M PLEASED TO ANNOUNCE that the National Industrial Transportation League (NITL) and *Logistics Management (LM)* magazine are presenting Wayne Johnson, manager of carrier relations at Owens Corning and Chairman of the NITL Highway Committee, with the 2010 NITL Executive of the Year Award.

This honor, which recognizes an individual for achievement and leadership in the logistics and transportation industry, is co-sponsored by NITL and *LM* and is named after John T. McCullough, a former chief editor of *Distribution* magazine, a predecessor of *LM*. I will be presenting the award to Johnson during the opening ceremony of the NITL's annual meeting on Monday morning, November 15, in Fort Lauderdale, Fla.

While this is only the sixth year that I've had the privilege of presenting this award to a distinguished member of our community, I've noticed a set of common denominators in the character make-up of its recipients over that short period of time.

While McCullough Award winners have built long and prosperous careers in logistics and transportation as shippers, carriers, or service provider executives (and some have spent a little time in all three arenas), each has demonstrated extraordinary patience, has built a reputation for team building and diplomacy, and has made the time to step out of the day-to-day routine to champion causes that will improve logistics and transportation operations for the greater good.

And after reading Executive Editor Patrick Burnson's thoughtful Q&A with Johnson (page 24), I think you'll be able to say, without hesitation, that this executive neatly embodies these winning traits that separate industry leaders from general practitioners.

The interview walks us through Johnson's more than 34 years as a shipper, a carrier executive, a teacher, and a lobbyist speaking before Congress, tirelessly pushing the agenda of transportation reform. We learn that he had transportation seep into his blood early when he was a traffic analyst on the Milwaukee Railroad in Cedar Rapids, Iowa, before he entered college. His spirited debates on rate interpretation with a veteran rate clerk on the line taught him to see both sides of the carrier/shipper relationship—an early lesson that he says set the foundation for the balanced management tactics that he would employ for the next three decades.

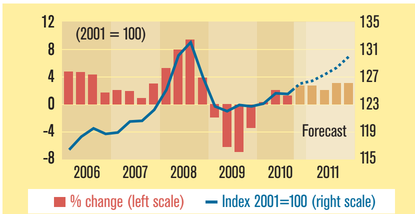
"While he's soft spoken and is very measured in his speech, his message is very powerful," Burnson told me following his conversations with Johnson. "One can feel his passion for the industry almost immediately."

The NITL and *LM* would like to congratulate Johnson on being named this year's winner. "He embodies terrific energy, level-headedness, and a natural, ethical nature," adds Burnson. "But perhaps his most distinguished feature, his colleagues told me, is that he always takes the high road in any task or negotiation—and that's what really sets him apart."

**Michael A. Levans,** Group Editorial Director

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

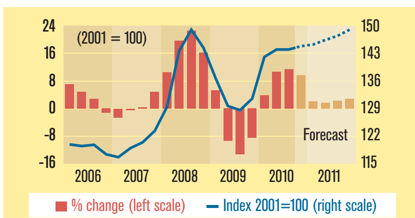
## Pricing Across the Transportation Modes




| % CHANGE VS.: | 1 month ago | 6 mos. ago | 1 yr. ago |
|---|---|---|---|
| General freight - local | 0.0 | -0.7 | -0.1 |
| Truckload | 0.0 | 1.3 | 1.8 |
| Less-than-truckload | -0.1 | -0.9 | 0.3 |
| Tanker & other specialized freight | 0.2 | -0.2 | 1.5 |

### TRUCKING

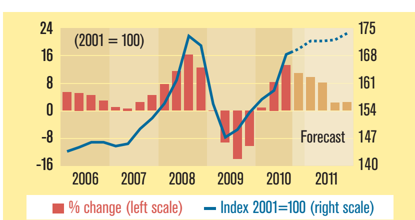
**Aggregating all transaction prices** charged by all types of carriers in the trucking industry suggests inflation stood still from August to September. In the details, we see long-distance LTL carriers of general freight cut their prices 0.14%, local truckers of specialized freight pushed tags up 0.07%, and vans moving households and offices increased their fees 0.6%. All others, however, reported no change in prices and so the total truck industry price index held firm. Even though we forecast a 2.75% annual price increase in 2011, the trucking industry's average prices will end next year still 2.2% below July 2008's peak price level.




| % CHANGE VS.: | 1 month ago | 6 mos. ago | 1 yr. ago |
|---|---|---|---|
| Scheduled air freight | 0.0 | 0.2 | 11.4 |
| Chartered air freight & passenger | -8.0 | 1.2 | 7.2 |
| Domestic air courier | -0.5 | 0.0 | 8.6 |
| International air courier | -0.5 | 1.8 | 8.3 |

### AIR

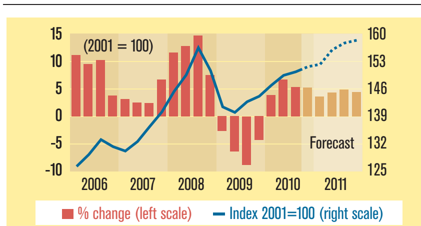
**U.S.-owned airline companies** made no change in the prices they charged for hauling mail in the belly of scheduled flights from August to September. At the same time, airliners increased prices for hauling freight a meager 0.06%. Compared to the same month a year ago, however, prices were up 2.5% for mail and 11.7% for freight. Nonscheduled U.S.-owned air charter companies, meanwhile, cut their prices 8% from a month ago, which nonetheless left prices 7.2% higher than September 2009 levels. Our forecast for airfreight on scheduled flights continues to call for an 8.8% annual price increase in 2010, but shows a weaker 2.2% price increase in 2011.




| % CHANGE VS.: | 1 month ago | 6 mos. ago | 1 yr. ago |
|---|---|---|---|
| Deep-sea freight | 0.1 | 4.6 | 15.0 |
| Coastal & intercoastal freight | -5.3 | 8.9 | 9.0 |
| Grt. Lks.-St. Lawrence Seaway | 0.2 | 1.4 | 5.1 |
| Inland water freight | 1.6 | 8.4 | 10.1 |

### WATER

**Driven entirely by a 5.3% drop** in prices charged for coastal and intercoastal U.S. freight transportation, the water transportation industry reported a 1.2% decline in average transaction prices in September. Despite this monthly price cut, compared to a year ago, water transportation tags increased 11%. That was the third consecutive month of a year-ago price increase exceeding 10%. With the third quarter in the bag, our forecast still points to an annual inflation rate of 8.2% in 2010, followed by a 5.5% hike in 2011. Inflation pressures in the inland waterways freight transportation market will continue to be the biggest concern for shippers.




| % CHANGE VS.: | 1 month ago | 6 mos. ago | 1 yr. ago |
|---|---|---|---|
| Rail freight | 0.0 | 1.3 | 4.5 |
| Intermodal | 0.1 | 0.8 | 4.6 |
| Carload | 0.0 | 1.4 | 4.7 |

### RAIL

**The latest data from railroad operators** indicate there was no change overall for prices in September. Following a 0.6% price cut in August, the new data perhaps underscores the tenuous nature of the current U.S. economic recovery. Still, the rail industry's unprecedented price collapse of 2008-2009 is firmly in the past and we continue to forecast the annualized rate of growth in price inflation from rail operators will hover in the 4% to 5% range through 2011. The rail transportation industry will continue to fare better than other markets, as underlying cost indexes will grow at a slower rate than prices, thus bolstering margins.

*Source: Elizabeth Baatz, Thinking Cap Solutions. E-mail: ebaatz@alertdata.com*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# Shippers bracing for future rate hikes

*LM reader survey reveals that shippers expect rate increases to come soon, but capacity is not as much of a concern—at least for now.*

By Jeff Berman, Group News Editor

AT A TIME WHEN CAPACITY across all modes of freight transportation is tightening, coupled with a slower-than-hoped-for economic recovery, many logistics, supply chain, and transportation managers responding to a *Logistics Management* (*LM*) survey report that they are expecting to pay higher rates throughout the remainder of 2010 and into 2011.

The findings of the survey, completed late in the third quarter, found that 65 percent of the 340 respondents are planning for higher rates, if they are not paying them already. Although shippers acknowledge higher rates are on the way, securing capacity was not as much of an issue, with 64 percent indicating they are currently not having major capacity issues and another 34 percent saying that they are feeling capacity tighten.

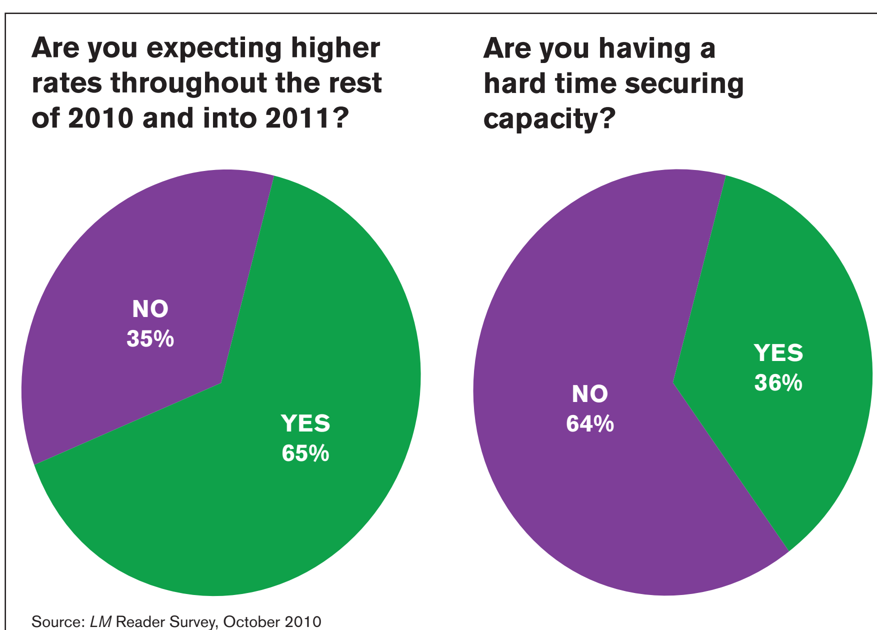
"We have seen some capacity issues in certain areas of the country; however, I think many of the major asset-based trucking companies are pumping the capacity problem up and it's not as severe as they were expecting," said Ralph Folkes, assistant vice president of corporate transportation for L'Oreal USA and a survey respondent.

"It's our view that we have seen a correction in inventory levels that has been viewed as new growth or sustainable growth," added Folkes. "My view is that pricing will take a slight correction down this quarter and in the first quarter of 2011, and then we might gradually see an increase as our markets slowly recover and capacity becomes more of an issue."

While Folkes sees the current capacity situation as being somewhat "built-up" by carriers, other shippers signaled significant concerns that are likely to have them scrambling for capacity sooner than later. Among the most commonly mentioned concerns were CSA 2010, the pending legislation that will dictate how the federal government rates trucking companies and drivers; limited space on bid and dedicated core lanes; as well as concerns that capacity will sharply tighten as a result of improving business conditions and a subsequent rise in demand.

What's more, with Class 8 vehicle production and orders well below typical replacement levels, tight capacity will play a more prominent role in supply chain planning for over-the-road transportation for an extended period.

A recent research note by Stifel Nicolaus analyst John Larkin says that volumes are sequentially flat, with shippers seeing moderating demand as fiscal stimuli have run their course




***LM*'s reader survey found that the majority of respondents are expecting higher rates to show up soon, but most are not having difficulty securing capacity.**

and inventories are being replenished to desired levels by shippers. Capacity, said Larkin, should continue to contract in the face of modest economic growth and the increased life cycle costs associated with Class 8 tractors; while credit markets, which are still tight, should deter major fleet additions and also contribute to ongoing reductions in fleet size.

In the meantime, forthcoming safety regulations like CSA and Hours-of-Service over the next five years have the ability to "dramatically reduce available capacity," according to Larkin. Regarding rates, Larkin noted that pricing power is already shifting from shippers to carriers and should—as the *LM* survey indicates—accelerate as 2011 evolves.

This trend is echoed by Doug Waggoner, CEO of Echo Global Logistics. In a recession, when there's not as much freight to go around, Waggoner contends that carriers do what they can to attract market share to keep trucks moving—and the main lever they have for that is to lower pricing.

"Lower pricing keeps tonnage intact, but it decreases the yield equation," said Waggoner. "Conversely, when the economy improves, it allows carriers to be more selective about what business they take on. The shipper that got the rock bottom rates during the recession will now be told they have to absorb a rate increase. It's not customer friendly, but it's how the game is played."

Eric Starks, president of freight transportation consultancy FTR Associates, agrees with Larkin that a capacity crunch is coming due to freight demand and pending regulatory issues.

"We're already seeing very tight capacity within the marketplace with regards to the number of active trucks moving freight right now and that is a critical issue," said Starks. "There is a difference there because we still have a large number of used pieces of equipment that are idled and not doing any work. And for those in active service it's a tight operating environment with closer to 95 percent of trucks in use [total national fleet utilization based on FTR estimates]. So, it's creating an environment that is difficult and when you add on top the impact of government regulations you're really going to be pushing the envelope for capacity."

**POLITICS**

# Mid-term elections could have major impact on supply chains

WASHINGTON, D.C.—Trucking and rail interests, in particular, watched the mid-term elections with high interest as their industries would be most affected by any tilt toward Republican control.

In the meantime, top industry leaders are bracing for any power shift away from Democratic control of Congress as President Barack Obama desperately tries to stem the tide away from Republican control of either the House or Senate.

In general, transportation interests say that they feel a Democratic-controlled Congress means more regulation, higher taxes, and higher operating costs for their companies. Privately, many transportation company executives say that they're hoping for Republican inroads in the 112th Congress that convenes in January. Even if Republicans can't take control of either the House or Senate, many executives are hoping for enough Republican gains to at least temper what they feel is an overly aggressive regulatory agenda by Democrats.

A wild card in the equation is the chance of a lame-duck session of Congress after the election, but before January. Past lame-duck sessions have proven that anything is possible, largely because some exiting members of Congress have nothing to lose in voting for their favorite pet projects on the way out the door of Washington.

Trucking leaders, in particular, have been proactive in anticipating any possible change in leadership as they have been in the forefront recently of preparing for any regulatory changes affecting their industry—from tighter truck driver hours-of-service to a requirement that all trucks be outfitted with electronic on-board recorders (EOBRs).

In fact, a coalition of five leading trucking companies got behind a recently introduced bill in the Senate that would require EOBRs on all trucks within three years. "Part of our objective is to be forward thinking, to anticipate what the regulatory environment is, and then meet our challenges to move much more freight in a much more congested environment in the future," says Steve Williams, president and CEO of Maverick USA, one of the carriers behind the bill.

"The macro issues are driving this," Williams continued. "This is part of that whole comprehensive look of the regulatory model that needs to be in place so we know how to build our Supply Chain 2.0. This gives us certain expectations of what shippers and carriers need to work on together."

Those "certain expectations" could

**Supply chain and logistics interests are keeping a close eye on mid-term elections as trucking and rail interests could be affected by a tilt toward Republican control.**

possibly be changed if Republicans, as expected, make inroads toward regaining control of either the House or, less likely, the Senate.

First, some math: Democrats currently own a 253-178 edge in the House, with four seats vacant. Republicans need to post a net gain of 39 seats in order to regain control of the House, which they lost on Jan. 5, 2007, after 12 years of Republican control.

Republican strategists are hopeful that they can capitalize on the economic fears of some Americans, the growth of the so-called Tea Party movement, and the usual losses that occur to the party in control of the White House in order to win those 39 net gains.

It's almost certain that the Democrats will lose some seats. Historically, that is nearly always the case when they control the White House. According to Politicsfirst.com, since 1862, the incumbent president's party has lost, on average, 32 seats in the House and two in the Senate during the mid-term elections.

And if history is any guide, the Republicans will make some inroads; but will not gain enough to wrestle control away from the Democrats and House Speaker Nancy Pelosi, D-Calif.

On the Senate side, the math is even rougher for Republicans. Democrats effectively own a 59-41 edge in the Senate, counting independents Joe Lieberman and Bernie Sanders caucusing with Democrats most of the time. There are 34 seats up this election, but only 12 held by Democrats.

That means that Republicans need to hold on to all of their incumbents and also win 10 of 12 Senate seats currently held by Democrats. That would seem unlikely. However, highly respected analyst Charlie Cook of the Cook Report insisted recently that the "Senate was in play," telling CongressDailyAM that a GOP win in the Senate was "certainly possible" but "fairly unlikely."

*—John D. Schulz, Contributing Editor*

RESEARCH

# RILA study hones in on retail supply chains strengths, concerns, and outlook

ARLINGTON, Va.—Finding new opportunities to refine capabilities, increasing efficiencies, and driving down costs are just a few of the current objectives for retail-based shippers, according to the findings of a recent study conducted by The Retail Industry Leaders Association (RILA) and Auburn University.

The study, entitled the *2010 State of the Retail Supply Chain Study*, focuses on current trends, leading practices, and the major issues affecting strategy and planning of retail supply chains. This year's findings are based on feedback from 175 retail supply chain executives through a series of phone, panel, and Web-based interviews.

"Supply chain management has played a strategic role in retail organizations throughout the recession and remains a key driver of business success and competitive advantage in today's challenging market," said Dave Reiff, senior vice president of national distribution for Wal-Mart Stores.

Along with the economic recovery, some of the biggest issues facing retail supply chain executives were infrastructure capacity and condition, transportation rate increases, logistics expertise availability, carrier capacity and availability, and supplier financial stability. The study indicated that these issues represent "a sharp contrast" from the study's 2009 findings, which showed these issues to be the least of respondents' worries, resulting in a shift out of survival mode and into growth mode.

According to Auburn University Professor Brian J. Gibson, Ph.D, infrastructure capacity and condition are coming back to the forefront for retail supply chain executives due to the lack of meaningful progress on that front in 2008 and 2009.

In terms of transportation rates, Gibson explained that some retailers are getting frustrated due to what he described as "saber rattling" by carriers about raising rates—coupled with a lack of sufficient capacity and drivers.

"Carriers feel like they helped retailers survive during the tough times, and now they are turning their backs on [them]," said Gibson. "There are a lot of challenges and issues out there that they have to overcome, but it's interesting that retailers are back to focusing on growth-related supply chain issues."

RILA Executive Vice President of Retail Operations Casey Chroust said that these results reflect the fact that retail supply chain executives are working closer within their own organizations—a move that was crucial toward company survival during the depths of the recession.

Subsequently, Chroust added that this has led to higher expectations for retail supply chain management executives to provide a real balance of excellent service, a high level of reliability, and responsiveness. And as CEOs become more interested and engaged in supply chain processes, supply chains need to deliver on their capabilities and strengths, he said.

Looking to the future, some of the biggest issues on the retail supply chain horizon center largely around business and environmental processes. According to the report, roughly 30 percent of the respondents indicated that both an

**"There are a lot of challenges and issues out there that they have to overcome, but it's interesting that retailers are back to focusing on growth-related supply chain issues."**

—Professor Brian J. Gibson, Ph.D, Auburn University

emphasis on sustainability and related costs as well as rising oil prices and their impact on network design were the two biggest long-term supply chain planning issues. Slightly more than 5 percent said domestic carriers' health and loss of capacity is a major long-term issue.

Other long-term issues cited by respondents include international freight service, multi-channel retail supply chain management, and technology enhancement.

—*Jeff Berman, Group News Editor*

REGULATION

## Five major trucking companies endorse EOBRs for all commercial trucks

WASHINGTON. D.C.—As five leading trucking companies are calling for federal regulations that would require all interstate trucking companies to install electronic on-board recorders (EOBRs) on all their trucks, shippers are being urged to make changes as well.

According to Steve Williams, chairman and CEO of Maverick USA and a former chairman of the American Trucking Associations, shippers need to better manage their supply chains to bring the driver—and his legal hours-of-service—into the overall equation between their operations and the carriers. "Those shippers who understand it and can invest and build around this predictable regulatory doctrine will be the ones who get the trucks," Williams predicts. "The others will find trucks in short supply."



**The proposed bill would require trucks to have EOBRs installed within three years.**

This prediction comes in the wake of the introduction of a Senate bill called the "Commercial Driver Compliance Improvement Act." The bill was introduced by Sens. Mark Pryor (D-Ark.) and Lamar Alexander (R-Tenn.) and would require trucks to have EOBRs installed within three years.

The devices are expected to affect overall truck capacity because drivers would be held to a stricter hours-of-service compliance than is currently possible through the use of paper logs—commonly known among drivers as "comic books."

The companies endorsing the bill are five giants in the truckload sector—Schneider National (second-largest TL carrier by revenue), U.S. Xpress (fourth largest), J.B. Hunt Transportation Services (fifth largest), Knight Transportation (10th largest), and Maverick USA, a major flatbed carrier with more than $300 million in revenue.

These companies are forming an industry coalition called the "Alliance for Driver Safety & Security" geared to urge Congress to pass the bill along with other legislation designed to improve highway safety. The five CEOs are recommending all transportation firms embrace the legislation and support the safety effort.

"Electronic on-board recorders will improve safety on our nation's highways by applying technology to document driver compliance to the hours-of-service rules," says Craig Harper, J.B. Hunt's chief operating officer. "Early evaluation of the Comprehensive Safety Analysis (CSA 2010) data suggests that carriers with higher levels of hours-of-service compliance have lower crash involvement."

> **"Those shippers who understand it and can invest and build around this predictable regulatory doctrine will be the ones who get the trucks."**
>
> —Steve Williams, chairman and CEO of Maverick USA

Trucking officials believe that the use of EOBRs would level the playing field between those in compliance and those who are not. "Our drivers currently using the system love it," said Greer Woodruff, a senior executive at J.B. Hunt. "We look forward to rolling it out and taking advantage of current technology to replace the current paper backed system."

Prices of the devices range from basic models of around $300 to as much as $2,000 for those that have added navigation, communication, texting, and voice mail capabilities, industry officials said.

The Owner-Operator Independent Driver Association (OOIDA) has long opposed the so-called "black boxes" on privacy grounds and because it says there is no link between these devices and highway safety. OOIDA would rather the government require some mandated training or driving training instead of requiring these devices.

*—John D. Schulz, Contributing Editor*

# How can manufacturers really get ahead?

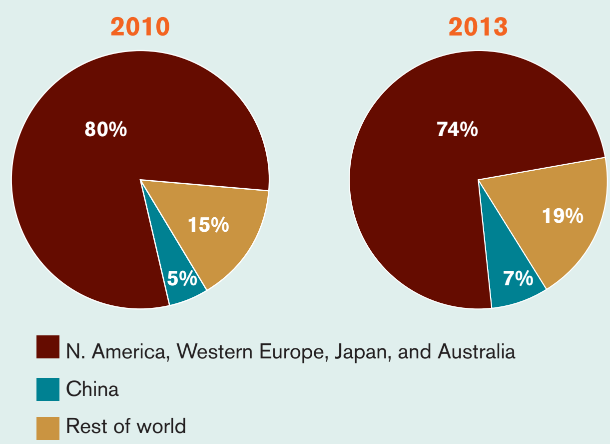
"YOU SEE," EXPLAINS THE Red Queen to Alice in the sequel to *Alice's Adventures in Wonderland*, "it takes all the running you can do to keep in the same place."

This is something that manufacturing companies truly understand. In recent years, many of these organizations have automated new processes, leaned out operations, enhanced product quality, extended their supply chains to more global and low-cost sources, and made inroads to serving customers in emerging markets. Yet, many find themselves more-or-less in the same place: racing to keep up with higher costs, new competitors, more demanding customers, and shorter product life cycles. So, in an environment destined to become even more frenzied, what can manufacturers do to actually get ahead?

The first thing companies must do is not assume that things will get easier. During the next decade, the efficiency and quality gains manufacturers worked so hard to make will likely become little more than table stakes. Just to stay in the same place, companies will also need to tighten controls over all aspects of their production processes; develop supply chain models that consider tax efficiency; and leverage new information technologies like cloud computing. But after that, there are several things they can do to actually pull ahead.

**1. Cater to a more specific customer needs.** Hyper-customization may have started in personal computers, but it now encompasses a far broader range of products. Take the simple nutrition bar. The website of Element Bars, a young Illinois-based company, offers design-your-own products through its dynamic, drag-and-drop interface. Nearly 6,000 variations of fruits, nuts, sweeteners, protein boosts, and packaging can be configured by the customer. To meet more-specific customer needs, companies may also need to minimize product complexity and delay product differentiation. A great example of the latter is Apple's iPhone. With more than a million "apps" to choose from, users can configure their iPhones with the exact tools that they want.

**Manufacturers' distribution of customers in 2010 versus projected for 2013**




Source: Accenture

**2. Excel at rapidly relocating/rebalancing operations.** Global sourcing and location decisions used to focus on chasing low-cost labor—generally in low-cost countries far removed from centers of demand. But now demand is moving more rapidly; so rather than fixating on cheap locations and routinely pulling up stakes, companies may be better off rebalancing regional supply with regional demand by using "total landed cost" as the key bellwether.

Beyond labor costs and quality, that means regularly quantifying the effect of currency swings, responding quickly to shifting energy and transportation costs, and incorporating intangibles such as customer service, language, and political stability into your order management strategies.

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

**3. Collaborate with more strategic partners.** Many manufacturers have increased the number of "strategic partners" they use. But to avoid staying in the same place, they'll need to do more—perhaps adopt a new manufacturing approach that may largely eliminate the "made by us" model. Increased flexibility and competitive differentiation are prime motivators, but the real driver could be a chance to shift from fixed costs to variable costs. That, of course, is often the strategic basis for contract manufacturing, which has helped many consumer electronics firms contend with extremely short product lifecycles and potentially wrenching swings in demand.

**4. Increase shop floor agility.** Business processes—new or time-tested—can never be totally static. Manufacturers know this, which is why many have focused hard on rapid machine reconfigurations, continuous improvement, and Lean Six Sigma initiatives. Yet all these capabilities will have to be turbocharged.

A good way to do this is to excel at predictive analytics. With information technology practically ubiquitous, and computing power and transaction volumes increasing at an accelerated pace, manufacturers of any size must be able to harness data to get smarter about customer behavior, the supply chain, product development, production lines, and talent management.

**5. Differentiate with sustainability.** Environmental and social sustainability remains a high priority among many major companies. One reason is that heightened customer awareness about sustainability is influencing more purchasing decisions. Investors, too, are demanding greater corporate attention to sustainability, as they file shareholder resolutions relating to "responsible" business practices, climate change, health, and safety.

But perhaps the most powerful motivator is the realization that companies really can "do well by doing good." Green initiatives and operational efficiency programs, for example, are entirely compatible. Both help companies minimize waste and reduce their use of water, electric power, transportation, and fuel. This list of manufacturing "to-dos" barely scratches the surface. However, the point should be clear: Manufacturing behaviors that used to be solid differentiators may now constitute little more than the price of admission. Companies that expect to do more than stay in the same place will need new strategies for getting ahead. ☐

# Taking the High Road

**Wayne Johnson, the 2010 NITL Logistics Executive of the Year, remains on the cutting edge of legislative reform. As he enters the next stage of his distinguished career, Johnson chairs the NITL's Highway Committee and continues to share his knowledge with a new generation of shippers.**

BY **PATRICK BURNSON**, EXECUTIVE EDITOR

The first thing one notices about Wayne Johnson is that he's still a man on the move. Given the number of professional responsibilities he has been charged with over the course of his career, this should hardly come as a surprise. But perhaps his most distinguished feature, say his colleagues, is that he always takes the high road in any task or negotiation—a noble characteristic that has earned him the respect of the industry at large.

Johnson is presently the manager of carrier relations for Owens Corning, headquartered in Toledo, Ohio. For over 34 years he has worked in the field of logistics and transportation as a shipper, a carrier executive, and an educator. He has over 29 years of management responsibility with *Fortune 100* companies in the United States and Mexico and worked with Landstar in Philadelphia for five years. Johnson also brings eight years of teaching experience in transportation and accounting to the table.

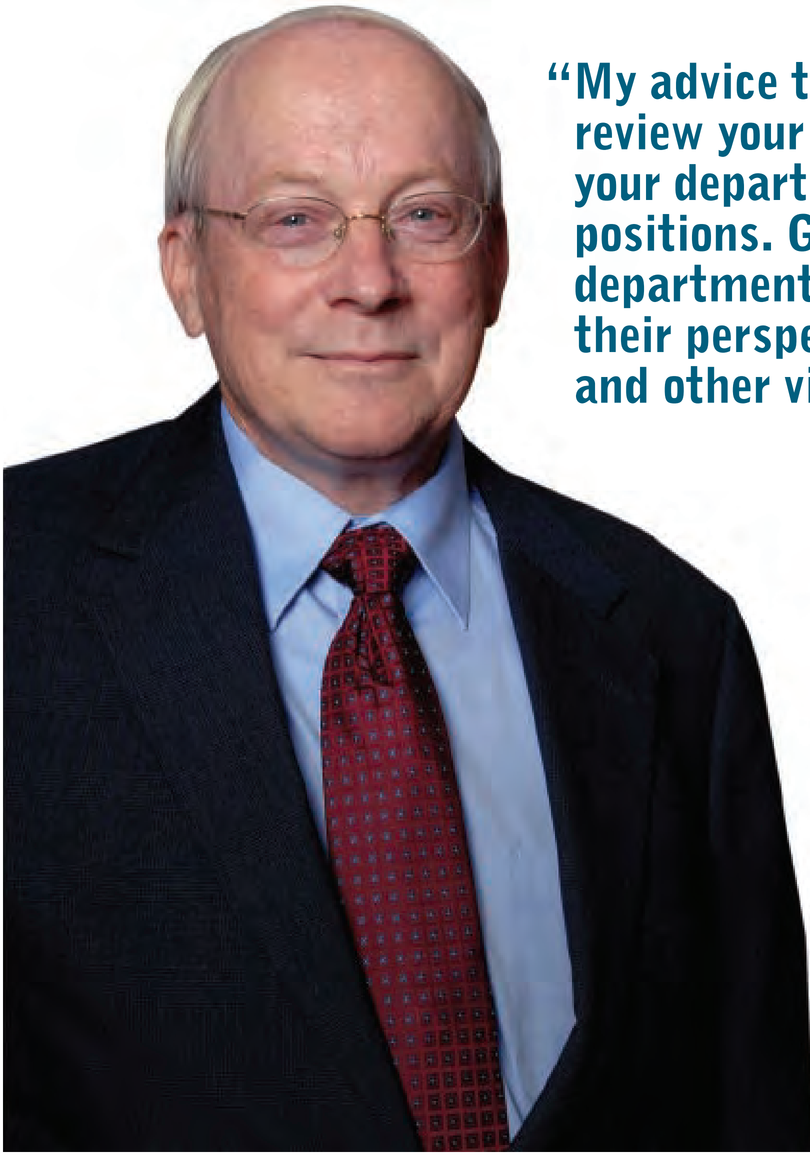
On top of his daily commitments over the years, he's found time to be the Chairman of the National Industrial Transportation League's (NITL) Highway Committee, serve on the League's Board of Directors, and remain an active member of its Rail Committee.

In recognition of his remarkable energy, level-headedness, and ethical nature, the NITL and *Logistics Management* (*LM*) have chosen to present Wayne Johnson with the 2010 NITL Logistics Executive


Wayne Johnson, manager of carrier relations, Owens Corning.

Dave Krieger/Getty Images

★ WAYNE JOHNSON ★



**"My advice to anyone is to always review your position as it relates to your department and/or company positions. Get to know the various departments outside your area and their perspectives on transportation and other vital issues."**

of the Year Award, also known as the McCullough Award. This honor is co-sponsored by NITL and *LM*. The award is named after John T. McCullough, a former chief editor of *Distribution* magazine, a predecessor of *LM*. Johnson will receive the award on Monday, November 15, at the opening ceremonies to NITL's 103rd Annual Meeting & TransComp Exhibition in Fort Lauderdale, Fla.

"Wayne is the go-to guy when it comes to getting anything done," says NITL President Bruce Carlton. "And we always know that he's going to be fully committed to success. Right now, he's leading the way on reforming interstate trucking regulations—and as you will learn after speaking with Wayne, he's passionate about this issue."

In an exclusive interview with *LM* on the eve of this award, Johnson did indeed share his passion for trucking regulations as well as some of the formative "lessons" he's picked up during his storied career.

***Logistics Management:*** **When did you know that a career in logistics was right for you?**

**Johnson:** I knew it was what I wanted to do when I spoke with my Transportation Law and Management professor in my first transportation course at Iowa Wesleyan College. After that discussion, I changed my mind about being a CPA and instead aimed toward a career in transportation with a major in accounting and transportation. After I graduated, I came back and taught that same class at Wesleyan.

***LM:*** **Who were your mentors, and how did they help shape your values and work ethic?**

**Johnson:** The very first mentor was definitely that Transportation Law and Management professor I had in college. Then there was the Milwaukee Railroad rate clerk in Cedar Rapids, Iowa, who challenged me on each and every rate interpretation that came along. As a new traffic analyst, I would call and ask how to interpret various provisions in the old 28300 rail tariffs and how to apply the standing rate increases.

Though I didn't necessarily agree with what she was saying, her interpretation seemed responsible. It wasn't until I began to study for the ICC Practitioners examine that I found the shippers reasoning for not paying the "legal rate," which was called the "lawful rate." This newfound knowledge gave me reason to take our discussions to a new level. Her challenges helped me, as I would continue to scramble for answers to questions she would raise or I would develop during our conversations.

Besides the two I've already mentioned, there is Tom Donas, vice president of transportation at Grain Processing Corporation; Don Mayoras, president at Sun Carriers; Sam Spencer, an agent at Landstar Logistics; and Jeff Brashares, vice president at RES-1. All of these individuals have added positively to my career in transportation.

***LM:* Can you pinpoint any specific early influences that stand out more than the others?**

**Johnson:** Well, the early experience working with the rail clerk was certainly my first lesson on keeping accurate and detailed records of all rail transactions. But I also credit my Chief in the Navy who helped me make E-5 in just two years. In my career there have been many single individuals that have coached me and headed me in the right direction.

***LM:* Can you tell us a little something about your first job and how it influenced your continued growth in this profession?**

**Johnson:** My first full time logistics position wasn't called logistics at all. I was called a "traffic analyst." I came to get this position when I was transferred from a feed mill in Illinois to the corporate headquarters of the same company in Iowa. I was 23 years old and fresh out of the Navy with no college education. So, throwing feed bags, driving a forklift, and loading trucks was better than working at a retail store. At the same time, I started getting my college education by driving 56 miles one way to college three times a week.

As a traffic analyst I was responsible for applying milling-in-transit credits of inbound corn to outbound starch products. I was also responsible for filing supplements to over 300 tariffs. Terms like "exparte," "through rates," and "per diem" were introduced to me and embedded in my mind and used on a daily basis. From there I would learn how to master those terms as I advanced in the world of transportation management and law.

***LM:* What do your regard as your most innovative achievement? Have there been any "best practices" you are credited with initiating?**

**Johnson:** I guess the most notable innovative achievement I can take some credit for is the region-to-region pricing strategy for both rail and truck introduced at a paper company I worked for in Tennessee. This process allowed the company to have only 13 motor carrier rates from 13 origin regions to 13 destination regions that covered the entire United States.

It wasn't too popular with the trucking companies. The regional process also introduced the company's first origin-to-destination region rail rates, which were not too popular with the railroads. The new process challenged the trucking companies and railroads to price competitively throughout a large region of the U.S. that they had yet to reach. And remember, this was happening between 1987 and 1992, when deregulation was grabbing hold and taking its toll on railroads like the Southern Pacific Railroad and many small trucking companies.

***LM:* Every career has its speed bumps. Can you share some of the obstacles you have faced along the way?**

**Johnson:** The obstacles that I encountered were created by certain individuals and the subsequent politics that were created inside the work place. In transportation, you meet all kinds of people with different goals and ambitions, and sometimes their perspectives do not match yours—so something has to give. My advice to anyone is to always review your position as it relates to your department and/or company positions. Get to know the various departments outside your area and their perspective on transportation and other vital issues. Prepare for the future and don't underestimate the changes that may occur.

***LM:* Your new job at Owens Corning must be fascinating, especially because you've had to manage it during one of the worst recessions in U.S. history. What lessons have your learned recently?**

**Johnson:** Two lessons right off the top: Relationships are key; and what goes around comes around. Get to know your company's markets and keep up with changes in those markets. Communicate to your carriers any extreme changes in movement of products that you control so that they can adjust. If they don't change to meet your needs then it's best for both parties to find other partners. Always be professional and keep personal feelings out of the shipper/carrier relationships.

***LM:* What do you see for the next stage in your career?**

**Johnson:** I began that new stage a few months ago at Owens Corning. They understand that working with partners in the supply chain is vital, and I am now charged with facilitating that process.

***LM:* Finally, can you describe how the NITL has helped you and what's currently on your agenda?**

**Johnson:** The NITL allows an individual to get involved and change the logistics and transportation world as we currently know it. A good example is the "size and weight" issue that Congress and the President face today. Through work on the NITL Highway Committee, the NITL Board of Directors, outside associations, and even speaking before Congress, I have not let the issue rest. Now with the help of many, many others, size is at the top of the Western States' agenda as they have asked for an exemption from the national interstate restriction on weight. □

**"Two lessons right off the top: Relationships are key; and what goes around comes around. Get to know your company's markets and keep up with changes in those markets."**

*—Patrick Burnson is Executive Editor of* Logistics Management

# Private Fleet Operations: Maintaining the advantage

**Tech-savvy private fleet operators are able to justify the cost of their complex operations through high service levels, smart maintenance programs, and revenue generating backhaul opportunities that can make even the toughest CFO smile.**

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

Private fleets have always been in the crosshairs of corporate bean counters. After all, if you're in the business of producing widgets, why bother with the additional cost of operating a private fleet of trucks?

Why bother? Well, at more than $300 billion, private fleets make up the largest component of the $680 billion trucking industry. As Coca-Cola, Sysco, Wal-Mart Stores, Pepsi Bottling Group, U.S. Foodservice, Haliburton, Tyson Food, Walgreen's, and other corporations can attest, their private fleets aren't considered mere cost centers. Instead, these savvy logistics operations consider their fleets a strategic operating advantage that can be used to win market share and satisfy finicky customers—and even enhance the role of the private fleet manager and the logistics department within the corporation.

Not that operating a private fleet is easy. Transportation, particularly trucking, has never been more complex. There are regulations galore, from the federal, state, and even local level covering safety, environmental, technical, operational, and other aspects of the industry. Communities and states increasingly look at trucks as easy tax targets; and in the meantime, engines are constantly being designed to run cleaner, but only with increasingly complex maintenance issues.

While the list of issues affecting private fleet operations continues to grow, there remain three core areas that the savviest managers stay focused on en route to maintaining that strategic advantage:

**Service.** Timely deliveries to both internal suppliers and manufacturing centers as well as to customers can set the best private fleets apart from for-hire carriers. At their best, private fleet services can be seen as a defining operational advantage that can be justified to even the toughest internal financial officer.

**Maintenance.** Today's typical, $125,000, Class 8 tractor-trailer is basically a computer on wheels. Engines require ever-complex layers of maintenance to run while emitting as little as 5 percent of the pollutants and particulates that a typical heavy duty truck spewed a decade ago. To keep these trucks in check requires a level of expertise by the private fleet manager that didn't exist 10 years ago. Outsourcing can help in this regard.

**Financial performance.** True, private fleets cost money, but their costs can be mitigated through a series of moves. Today, the best private fleets operate as "blended" operations, with the ability to secure lucrative backhauls. Some private fleets operate very much as for-hire carriers when securing these loads, moves that can easily offset costs of running a private fleet.

Now, let's take a look at each of these core areas one at a time and discover what's setting the best private fleets apart from the rest.

## SERVICE IS KING

America's manufacturers and retailers operate in a hyper-competitive marketplace. Today, it's not enough to be merely first to market. After all, even the best invention is often copied by rivals within weeks and brought to

Dan Vasconcellos

market by competitors claiming to be the leading vendor of a product or service—just think Apple and its iPhone.

Yet, transportation service can help differentiate your operation, and your private fleet is often at the core of that strategy.

Private fleets have long been asked to justify their operations (and higher costs) to upper management—this is certainly not new. However, a new breed of private fleet operators now can use their fleets' exceedingly high levels of service to not only justify their existence, but make the case that sales would suffer without the competitive advantage that private fleets offer.

"The 'sacred cow' status that any private fleet may have had within a corporation has been assigned to the dustbin of history," says Gary Petty, president and CEO of the National Private Truck Council (NPTC) which represents nearly all the elite private fleets in the United States. "Even the most productive and safest private fleet has been asked to justify what they're doing and to quantify the level of service they're providing."

Today, the performance of private fleets is measured in ways unheard of just a few years ago. There are benchmarks on service times, cost, ability to handle extraordinary situations, and other objective industry standards. Petty says that these measurements, often drilled down to competitors in similar industries, is a "big, big trend" among private fleets and enables the best fleets to continually monitor their performance, operationally and financially.

"Transportation hangs out there like any vulnerable component of a company," Petty says. "Transportation people are used to being looked at as a secondary or tertiary value proposition. But any decline in customer service will almost certainly mean an increase in a company's overall costs. A private fleet can be a key differentiator in a company's efficiency and quality of service."

## MAINTAINING MAINTENANCE

Today's trucks are more complex than ever. Besides computers, there are "old line" problems such as changing the oil at correct intervals and maintaining proper tire pressure.

But don't look for mechanics to be wasting time checking tire pressure manually. Today, the best private fleets have devised a system where a truck's tires can be measured in motion with an instant printout available detailing the pressure for all 18 tires. And as the best mangers know, it costs money

even if one of those tires is not suitably inflated.

But tires are just one part of the private fleet truck maintenance puzzle. Just ask The Salvation Army, which serves more than 5,000 communities and 30 million Americans a year. The Army's fleet operations are divided into two sections—east and west of Colorado. The Western fleet has 350 trucks, and, according to Henry Filoteo, business administrator for the Army's Adult Rehabilitation Center, maintenance on those vehicles had been a problem since the organization had been buying used trucks and using outside shops to handle maintenance and breakdowns.

Eventually, the Army decided to replace the Western fleet, first in California, to reduce costs and meet that state's tough emission standards. It bought 54 Kenworth T270 Class 6 trucks to add to its fleet of 350 vehicles operating out of 22 locations. The dealer arranged to set the Army up with a contract maintenance agreement on both its existing fleet and new trucks.

Interestingly, Filoteo says, the person in charge of overseeing the Salvation Army's maintenance at Kenworth was a person the organization had helped get back on his feet many years ago—as is the case with several of its truck drivers.

In California, the Army operates 230 trucks and must meet the toughest air quality standards in the country. It formerly kept capital expenditures low by buying used trucks. But Filoteo says that the practice was not cost-effective in the long run. "The Army usually puts about 30,000 to 35,000 miles a year on its trucks," he says. "But because the trucks were older models, they were usually out of warranty, leading to 30 percent failure rates and high maintenance costs."

So the Army exchanged those sky-high maintenance costs for the higher capital expenditures of buying new trucks. As a result, the Army reduced its overall fleet expenses, thus freeing up more of its donations for charitable purposes and lowering overhead.

## MONEY, MONEY, MONEY

The best private fleets today often can be excused if they operate much like the best for-hire fleets. It's true that they're often operationally identical to the best common carriage fleets such as Schneider National, Swift Transportation, or J.B. Hunt.

Batesville Casket Co., an operation *LM* covered last year, generated nearly $3 million in backhaul revenue in a recent year. Of that amount, $1.1 million was generated from non-Batesville customers.

The challenge for Batesville was to develop the best possible way to obtain external backhauls to offset empty miles and raise some revenue. It chose to operate 53-foot, 102-inch high trailers to help in obtaining those backhauls. Although a 53-foot trailer is not absolutely necessary for raw materials and caskets internally,

that extra capacity really helps in the backhaul, for-hire market.

Having those 53-foot trailer operating on the backhaul makes Batesville's private fleet operate very much like a for-hire carrier—and makes the company very competitive to non-Batesville customers taking advantage of its competitive backhaul rates. This is "found money" that can easily be used to justify the cost of Batesville's private fleet operations.

Increasingly, top executives at companies that operate private fleets say that they recognize the value proposition associated with a well-run fleet. There are productivity and service enhancements only available to private fleet operations.

Tim Yatsko, Wal-Mart's senior vice president and chief strategic officer, was formerly the company's senior vice president of transportation and director of private fleet operations. While he was running Wal-Mart's private fleet a few years ago, Yatsko explained why the retailing giant chose to operate a private fleet.

"It greatly enhances our ability to assist the communities in which we serve," says Yatsko. "Wal-Mart has chosen to run with its private fleet of more than 7,200 trucks because it's cost-effective, offers leverage against common carriers Wal-Mart utilizes, is flexible to meet ever-changing customer

demands, offers maximum network efficiency, and enables Wal-Mart to react quickly in disaster situations such as that caused by Hurricane Katrina five years ago."

Yatsko is hardly alone. Private fleets today are being run by an increasingly shrewd, technologically savvy "new breed" of operators who have knowledge of their company's success from a variety of perspectives—operational, sales, environmental sustainability, and financial, just to name a few.

"Today's private fleet manager is not a one-trick pony," NPTC's Petty says. "They're all part of a leading edge. The first thing you see with these top guys is that their ability to adapt to new technology is way ahead of the curve. They're very sophisticated."

The technology arms race can take many forms. There is a rush to capture real-time, per-run, per-driver scorecard performance because those critical performance measurements are a key matrix to determining value—and justifying cost. According to Petty, the best managers measure everything and try to maximize value.

## BUSINESS IS BLOOMING

One example of a private fleet becoming a true competitive differentiating point is Orscheln Farm & Home, a leading Midwestern retailer of home and farm supplies. It operates a fleet of 54 trucks out of its Moberly, Mo., distribution headquarters, and it prides itself on service to its end users—even the four-legged ones.

At some rural Midwestern locations, Orscheln drivers offer drinks "on the house" for certain creatures. Watering troughs are arranged outside rural stores so that horses belonging to Amish farmers who park their horse-drawn buggies can refresh themselves.

Orscheln executives have found that having their private fleet drivers tend to the Amish horses is a way for the company to "connect" with its customers. It also puts a human face to the company in winning trust and, hopefully, more business. It's also a way of differentiating the company in the marketplace.

There are other ways private fleets enable companies to market themselves better through service—especially when sales windows are in tight time frames.

Continental Floral is a San Antonio-based florist that traces its roots back to 1954. Because the lives of cut flowers are so short and its markets are so diverse, a private fleet is necessary to handle the unusual waves of demand associated with Valentine's Day, Mother's Day, and other floral holidays.

**Continental Floral's private fleet allows the wholesale florist to change a route if a customer misses a truck and gives it the flexibility to add capacity at holiday times.**

Denny Anderson is Continental's director of transportation for its private fleet that logged 2.7 million miles last year. A former truck driver, Anderson is keenly aware of what keeps his drivers happy as he worked his way up from a driver in 1992, to dispatcher in 1995, and now to his current post.

"We used to have a lot of driver turnover," says Anderson. "But after being out on the road, I changed the way everybody looks at drivers. I give them flexibility to be home for anniversaries, birthdays, whatever. As a result, we have retained our core drivers, and no longer have a problem with turnover."

Continental's private fleet allows this wholesale florist to service customers in a way that its competition cannot, Anderson says. It can change a route if a customer misses a truck, and there's the flexibility to add capacity at holiday times.

Anderson says that for-hire carriers often have minimum charges that can be expensive if only a box or two of flowers is shipped; and some for-hire carriers have holiday surcharges as high as 20 percent.

"Our private fleet is constantly proving its worth to us, and has for a long time," Anderson says. "We are just able to stay on top of things better with our private fleet."

Continental leases its 53-foot trailers with Thermo King reefers through PacLease and says it has enjoyed a 1-mpg improvement in fuel economy with the newer trucks. That 1-mpg saving adds more $180,000 to its bottom line due to better fuel economy throughout its system. PacLease provides a maintenance technician on site in San Antonio to further save on repairs.

According to Tom Moore, NPTC's vice president, the Continental story is a perfect example of a private fleet being able to fit into a company's overall strategy and cost structure. The savvy fleet managers understand what its company's sales force is trying to sell, says Moore, and supports that mission.

"And as we see predictions of a coming driver shortage and capacity tightening, private fleets will become even more valuable to a company's overall mission," Moore predicts. □

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

# WMS UPDATE: ROLLING INVENTORY

**Fifteen months ago USA Cycling decided to trade in its manual inventory management system and roll into an on-demand WMS. Today, this fluid organization is now tracking the movement of all of its equipment, clothing, and nutritional goods around the world.**

BY **BRIDGET McCREA**, CONTRIBUTING EDITOR

Keeping track of bikes, wheels, clothing, and equipment as the items travel across the globe is no easy task. Just ask Gregory Cross, director of logistics and operations for USA Cycling in Colorado Springs. Up until last year, Cross and his team used a manual system to manage those and other race-related items as they traveled between the organization's headquarters and its locations in Chula Vista, Calif., Belgium, and Italy.

"From our headquarters in Colorado Springs, we were always trying to figure out how much clothing we needed to have in Belgium and Italy and where to pull those items from," says Cross. "We also loan out a lot of stuff to riders—bikes and wheels—and keeping track of those items as they traveled around the globe was an ongoing challenge for us."

USA Cycling's manual system was inefficient at best. "It wasn't unusual for us to get a call from a rider in Europe, asking us what we wanted him to do with a set of racing wheels that he'd had for a few months because we'd lost track of them," recalls Cross, whose department is charged with distributing the cycling gear to the group's 66,000 members who participate in 2,600 racing events annually.

"We were basically trading spreadsheets around with one another," says Cross, who moved into his current position in January 2009. "My first big assignment was a general 'house cleaning' of the inventory and the implementation of a system for tracking all of this equipment, clothing, and nutritional goods across our many users."

## ON YOUR MARK...

Organized in 1920 as the Amateur Bicycle League of America, USA Cycling also licenses coaches, officials, and mechanics; has over 2,200 affiliated clubs and teams; and is represented nationwide by 34 local associations. And up until mid-2009, the logistics team used spreadsheets to record the distribution and return of the items and then shared the information with other employees via e-mail.


MAVIC

In early-2009, USA Cycling, the official governing body for all disciplines of competitive cycling in the U.S. (including road, track, mountain bike, BMX, and cyclo-cross), made a conscious decision to bring its inventory management system into the new millennium. Cross kicked off the vendor selection process by holding several brainstorming sessions with key management members and employees, all of whom surveyed the various WMS and point-of-sale systems available on the market.

"We even considered some custom options that we could program ourselves," recalls Cross. Members of the organization's "athletic" department (versus its organizational side) also played an integral role in the selection process. "We talked to quite a few of the coaches and found out what they wanted and needed," says Cross. "We also worked closely with our director of athletics to brainstorm ideas and figure out how we wanted this system to behave and operate."

In the end, the organization decided on Red Prairie's on-demand warehouse management system. Cross says that the customization offered by the system, along with its ease of use, sold him on the solution. "We wanted a web-based system that didn't require terminal systems or need to be hardwired to a database," he says. "They laid everything out in a way that really worked for us."

## GET SET...

With no previous system in place, USA Cycling was starting from scratch when it came to inventory management. This, of course, presented a logistical challenge because cyclists were at multiple sites around the world. Location tracking was not possible, and inventory stockouts were calculated based on a collection of spreadsheets and warehouse walkthroughs to estimate the amount of shelved stock.

To ensure accuracy in its new inventory management system (a project that is still a work in progress), Cross and his team had to manually count all of the equipment and clothing, create master lists of the items, and enter them into the system. "Getting the information into the system for the first time was the hardest part of the implementation—in fact, we're still finding items [around the world] that need to be accounted for," explains Cross. "An athlete will say 'oh, I have this bike or piece of clothing' and we have to go enter it into the system manually."

To deal with the challenge of developing a new database from scratch, Cross says the organization focused first on getting physically organized by sorting through the equipment and clothing in stock at its four locations. "As we counted everything, we created the master list of items and uploaded the information to our password-protected site," says Cross. "Once we had everything physically accounted for, it went pretty quickly."

## GO...

Today, the distribution and return of USA Cycling's hard assets is handled much differently than it was in the past. When a shipment of clothing arrives in Colorado Springs, for example, the items are sorted, an item master is created (if it doesn't already exist) and the information is uploaded to the WMS.

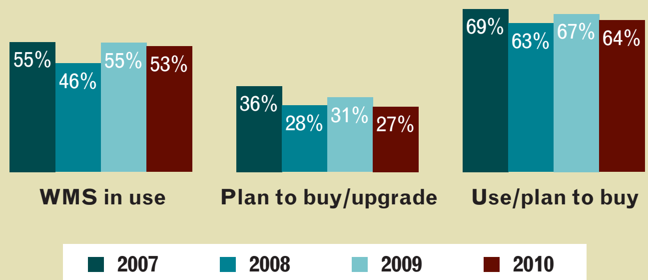
Staff members in Europe or California can immediately view the information, place orders, and/or take other actions. The time savings incurred are significant, says Cross, who previously would have to e-mail those inventory lists to the group's European and California locations.

"Now they can just pull up the system, log in, and see where everything is," says Cross, who then uses the system to issue out items to recipients around the globe. When a team is prepping for an international race, for example, he can easily create shipments of clothing and nutritional items, find out if an athlete has already been issued a uniform, and even track individual sizes—instead of having to ask for that information each time a uniform or jersey is shipped out the door.

"The WMS has become a great way for us to maintain those records, and use them for future shipments," says Cross.

### Key Findings of WMS Survey

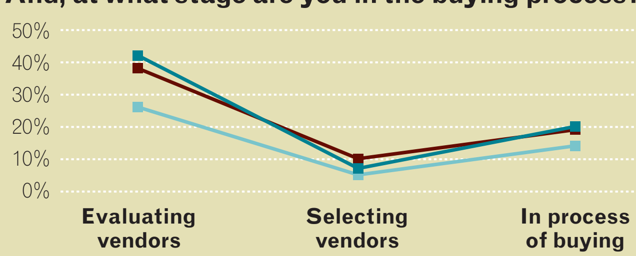
(346 *LM* readers)




**How much do you plan to spend in the next 12 months?**

| | <$100,000 | $100K-$500K | $500K-$1M | $1M+ | Average $ | None |
|---|---|---|---|---|---|---|
| 2007 | 55% | 24% | 7% | 9% | $414,000 | 5% |
| 2008 | 39% | 27% | 14% | 11% | $606,500 | 9% |
| 2009 | 44% | 29% | 10% | 8% | $542,600 | 9% |
| 2010 | 45% | 24% | 8% | 9% | $631,600 | 12% |

**And, at what stage are you in the buying process?**




Source: *LM's* 2010 Software User Survey

USA Cycling has also benefitted from increased visibility and accuracy, with the biggest difference being the ability to “supply what we need when we need it, and know exactly what we have and where it is,” says Cross. “We can rest assured that our cycling teams are well equipped and receiving the necessary support anywhere around the world.”

Because the WMS allows USA Cycling to better manage its assets, the group has minimized the amount of lost equipment and reduced the number of phone calls that sound something like this: “Hey, we have one of your bikes here in Brazil, where do you want it?” Finally, the fact that the WMS required no on-site installation and is accessible to all of USA Cycling’s locations via the web made implementation and use fairly simple for the global organization.

“Our IT department doesn’t have to maintain the system or software, and not having to worry about upgrades or expensive service agreements will save us even more as we grow,” says Cross, whose inventory management headaches have subsided significantly as a result of the on-demand WMS implementation. “Our staff members have all the tools to make key decisions right at their fingertips.”

## FORCING THE PACE

With a successful WMS implementation under his belt, Cross is now looking to streamline USA Cycling’s operations even further, and plans to work with the organization’s in-house IT team to automate more processes.

“We’re talking about expanding the inventory management system to include signage, hardware, and other items that we use at our events,” says Cross. “Using barcodes, for example, we’d be able to see how much of that event equipment was used and returned or not.”

To other logistics managers who are looking to get out of “manual mode” and bring their warehouses up to speed with technology, Cross says the best first move is to find a solution that meets your firm’s needs as specifically as possible. Figure out exactly what you want to track, he says, and what information you want to know about those items in a real-time, accessible format. Then, select a solution that can deliver that information in the format you need.

“Narrow it down by looking at software demonstrations or by testing out the systems first,” says Cross. “Play around with them, see how they work and how they’ll function in your environment. Then make your decision.” ☐

*—Bridget McCrea is a Contributing Editor to* Logistics Management

# Reverse logistics:

**Getting to know your customers is key to keeping the retail supply chain tight, say industry experts. That entails tactical and strategic reverse logistics planning designed for long-term relationships and sustainable revenue generation.**

BY **PATRICK BURNSON,** EXECUTIVE EDITOR

One of the basic tenets of the Boy Scout code is to "leave no trace" when vacating a campsite. The same rule applies to proper supply chain management, according to some former scouts now serving as prominent reverse logistics practitioners.

"We owe it to our community and future generations," says Gary Cullen, chief operating officer of 4PRL, the reverse logistics operation of The Georgetowne Group, a consultancy based in Clarksville, Md. "Consumer buying patterns in the past were more conservative and therefore pushed product obsolescence to a larger window—three to five years for a television, for example," he adds. "But now, consumers want the newest television set on the market. One year it's the flat screen, the next it's got to be 3D."

And just as "secondary markets" exist in the financial world to offer investment alternatives, a similar convention helps manufacturers repurpose their supply chains.

"There are new revenue streams to be explored," says Dale Rogers, the incoming director for Supply Chain Management at Rutgers University. "The secondary markets are effective in diverting a large number of products from landfill and creating numerous jobs, resulting in substantial economic value in the process."

Although not reflected in current government metrics, a conservative estimate is that the secondary market represents 2.28 percent of the 2010 U.S. gross domestic product, says Rogers. "This is easy to understand when you consider that the role that auctions, outlets, dollar stores, and retail salvage goods play in this marketplace. And the secondary market is only going to get larger as a consequence of globalization," he says.

So how can logistics and supply chain managers profit quickly in this scenario? Rogers advises them to design for reverse logistics. For example, engine manufacturers should create packages specifically for that product that are collapsible. "That way," he says, "there can be more loaded in a truckload and save on fuel expenses."

In order to avoid returns, Rogers recommends following Apple's supply chain management example and concentrating on simplicity. He notes that with other electronic products, most are returned "with no fault found." The consumer, it seems, simply sends back the item because the right button wasn't pushed or the right switch wasn't flipped. Apple figured out that by building product with fewer moving parts, there would be fewer complaints. He is also a big proponent of "recycle-ability," reducing the bulk of transportation packaging.

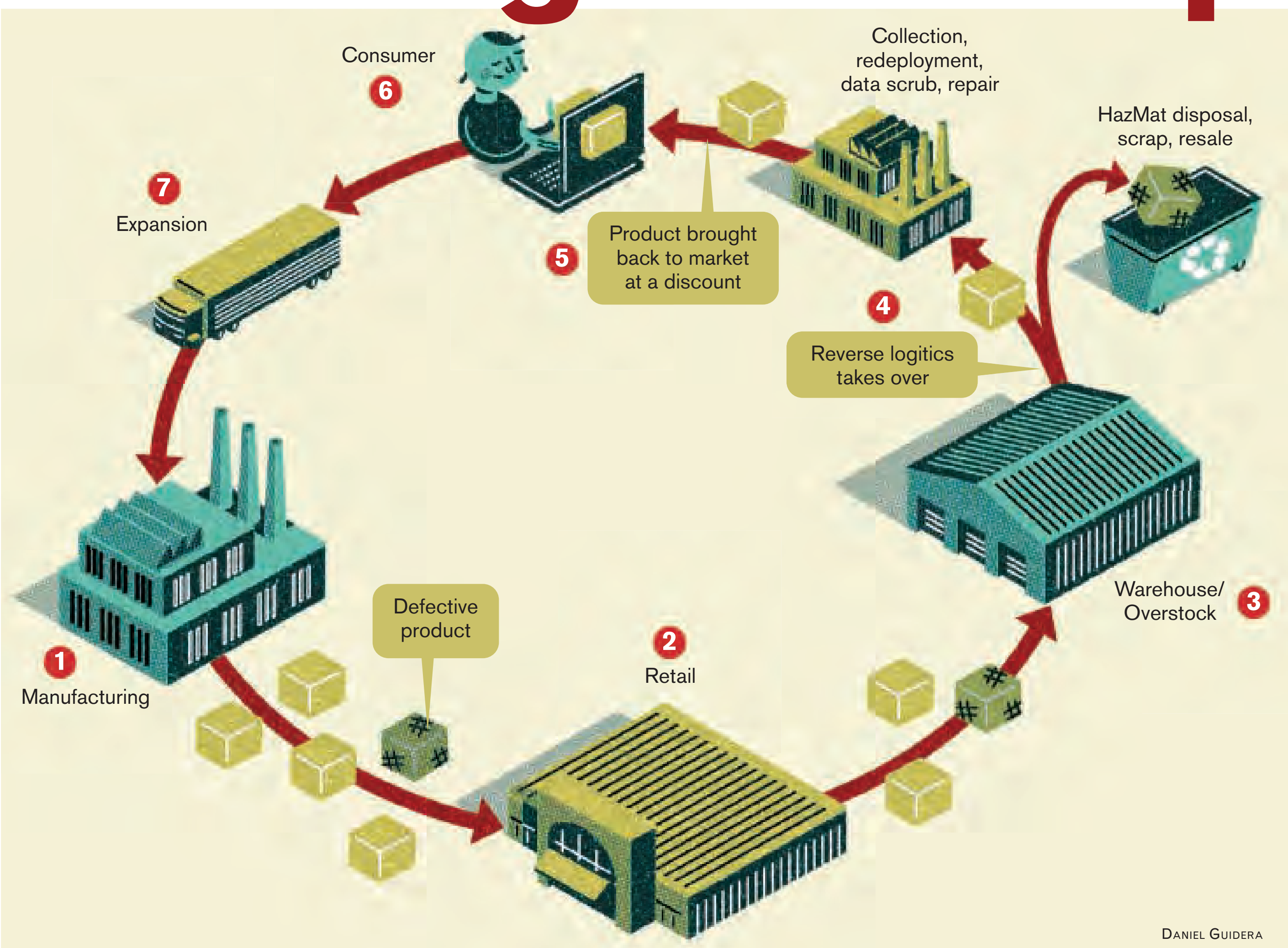
"Let's follow the trend set by furniture manufacturer Herman Miller," says Rogers. "They adhere to the '30-minute rule,' which maintains that any piece of merchandise can be disassembled in 30-minutes or less." He adds that the company's most popular chairs can disassembled in 15 and 7 minutes respectively, and that the company's goal is 30 seconds. "That is a metric that can mobilize and inspire its workers," adds Rogers.

## THE SUSTAINABILITY FACTOR

Speaking at the sustainability session at the recently concluded Council of Supply Chain Management Professionals (CSCMP) Annual Global Conference in San Diego, Calif., 4PRL's Cullen provided several compelling reasons for retail shippers to concentrate on reverse logistics.

"Gone are the days when pretty pictures in the annual report are enough to demonstrate your sustainability and corporate commitment," Cullen says.

# Closing the loop




Daniel Guidera

"Companies must now provide verifiable evidence of social and environmental impacts. Yet in order to justify the continued application of resources, companies must also demonstrate real business results."

In his presentation, "Social Responsibility and Environmental Impact of a Reverse Supply Chain," Cullen cited a recent Aberdeen Group survey showing growing concern over "cradle-to-grave" logistics. "And the consensus of responses was that the grave has to get a whole lot smaller—which a good thing," says Cullen.

In an interview following his presentation, Cullen spoke on how a forward supply chain is only half of the total logistics supply chain, and how the very complex network of third-party service providers' impact expense, sustainability, and corporate environmental citizenship.

"The trend to watch," adds Cullen, "is for more specialization in this area. The traditional 3PLs and/or 4PLs are not ready or eager to jump into the reverse logistics business. We feel that the 4PRL model, which involves customized solutions, is going to set the new standard."

He adds, jokingly, that the bygone television show "Sanford & Son" set the stage for reverse logistics. "But it has become considerably more complex since then," says Cullen. Yet not so complex that a few basic guidelines cannot be followed. Dale Rogers suggests that shippers "listen to consumers" and meet their expectations for sustainability.

"Consumers demand environmentally responsible options to dispose of obsolete products," says Rogers. "And although taking such action can cost a lot in the beginning, shippers can reduce risk and become more efficient by doing so." At the same time, he notes, it's also better for society. "And the happy outcome for retail shippers is that their costs should come down, too," he contends.

"The secondary markets are effective in diverting a large number of products from landfill and creating numerous jobs, resulting in substantial economic value in the process."

—Dale Rogers, Rutgers University

## FALLING IN LINE

According to Rogers, shippers will be able to cut costs by avoiding the extremely strict regulatory directives that are now targeting the global supply chain these days. Fines and penalties vary among nations enforcing these regulations, but Rogers maintains that they are all significant. Among them are:

**Waste Electrical and Electronic Equipment Directive (WEEE).** The WEEE Directive is the European Community directive 2002/96/EC on waste electrical and electronic equipment that sets collection, recycling, and recovery targets for all types of electrical goods. It also defines responsibility for the disposal of electronic equipment on the manufacturers of such equipment. Firms organize collected waste in an ecologically-friendly manner, either by ecological disposal or by the reuse or refurbishment of the collected WEEE.

**Restriction of Hazardous Substances in Electrical and Electronic Equipment Regulations (ROHS).** ROHS bans the placement on the EU market of new electrical and electronic equipment containing more than agreed levels of lead, cadmium, mercury, hexavalent chromium, polybrominated biphenyl (PBB), and polybrominated diphenyl ether (PBDE) flame retardants.

**Electronic Waste Recycling Act of 2003.** This is a California law enacted to reduce the use of certain hazardous substances in certain electronic products sold in the state. According to Rogers, other states are beginning to adopt similar legislation. It covers all CRT, LCD, and plasma display devices contained in televisions, computers, and other electronic equipment with a screen size over four inches measured diagonally. These devices may not contain greater than the allowed concentrations of cadmium, hexavalent chromium, lead, and mercury.

**Extended Producer Responsibility (EPR).** Also known as "Producer Takeback," EPR makes manufacturers take responsibility for the environmentally safe management of their product when it's no longer useful or discarded. Many electronics companies who oppose producer takeback legislation in the U.S. are complying with these same laws in Europe, Japan, and Canada, says Rogers.

At the same time, he argues, shippers can gain by taking such action to avoid being fined or have disruptions in their supply chains.

## GETTING IT DONE

Enterprise software solutions are widespread, but not until recently have integrated, multi-function, end-to-end systems been available for global deployments in the reverse logistics industry.

According to Michael Blumberg, president of Blumberg Advisory Group, many 3PLs and shippers involved in the reverse logistics industry have had fragmented systems, leading to a series of issues for manufacturers, retailers, and third-party service providers. In a new market research study, he found that most respondents were unsatisfied with their current strategies.

"In short, many firms miss opportunities or incur higher costs due to the lack of efficiency and service productivity in their reverse supply chains," Blumberg says. "When examining reverse logistics supply chain operations we learned that more than half of survey respondents rated their current systems as not effective."

Blumberg, who has established himself as an authority on closed loop supply chain management, says that the typical reverse logistics operation experiences five very unique and interdependent problems with respect to operational execution:

1. lack of visibility to the volume, location, and disposition of inventory at various points within the reverse supply chain;

2. inability to meet customer expectations and contractual obligations due to lack of reliable and relevant data;

3. limitations with respect to maximizing asset utilization and resources (e.g., labor, parts, etc.);

4. challenges with respect to benchmarking, optimizing, and improving operational performance;

5. unavailability of knowledge in opportunities to generate income when a customer returns a unit (collections, upgrade, add on, extended warranty).

"These shortcomings in a systemic infrastructure can have dramatic and negative consequences on financial performance and customer satisfaction resulting in lost revenue opportunities,

> **"Consumers demand environmentally responsible options to dispose of obsolete products. And although taking such action can cost a lot in the beginning, shippers can reduce risk and become more efficient by doing so."**
>
> —Gary Cullen, 4PRL

increased operating costs and penalties due to compliance issues, and lower profit margins," Blumberg says.

In short, current execution systems for reverse lifecycle management are typically rigid and often proprietary, thus inhibiting flexibility and increasing cost of ownership. "It is interesting to note," says Blumberg, "that the IT state of the art has not kept up with industry desires to achieve increased economies of scale, efficiency, and productivity which themselves are contributing factors behind these trends."

With the exceptions of a few key software providers, the industry is still in need of more customized solutions, Blumberg maintains. Until then, "uncertainty of supply" will prevail he says. "As it stands now, most companies not only don't know when an item is coming back…they don't even know its condition. That's because the return flow is quite diverse and depends on the end user, and that requires companies to really know their customers."

Once that is established, says Blumberg, companies need to process assets as quickly as possible to make them available for reuse. At the same time, they should be maximizing value of unacceptable assets being returned. This often means determining if an item should be sold as scrap or repurposed for another market.

"And for this, one needs to be flexible," advises Blumberg. "Companies need to maintain capacity through careful management of facilities, processing, and transportation."

Finally, Blumberg says, collaboration is a given. "There has to be multi-party coordination in any aspect of reverse logistics, whether it be source reduction, recycling, substitution, or disposal. That means that several parties are typically involved." ☐

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*—Patrick Burnson is Executive Editor of* Logistics Management

**WEBCAST EVENT**
**TUESDAY, NOVEMBER 30 • 2:00 PM ET**
**REGISTER: www.logisticsmgmt.com/wdcbenchmark2010**

## 2010 WAREHOUSE/DC BENCHMARK STUDY

# BRIGHTER DAYS AHEAD

**Our 5th annual survey reveals that inventory turns have increased, more expansions are on the books, and incentive programs are finally being dusted off. It's time to dive into the results to see how your warehouse and DC operations stack up to some of the top organizations in the country.**

**BY MAIDA NAPOLITANO,** CONTRIBUTING EDITOR

Things are finally looking up. In fact, the results of *Logistics Management*'s 5th Annual Warehouse & Distribution Center (DC) Operations Survey are showing clear signs of recovery. Inventory turns have increased after three years of continued decline; companies report that more expansions are being planned to distribution operations; and more managers are telling us that they're re-installing incentive plans as company coffers are starting to slowly, but surely show signs of new life.

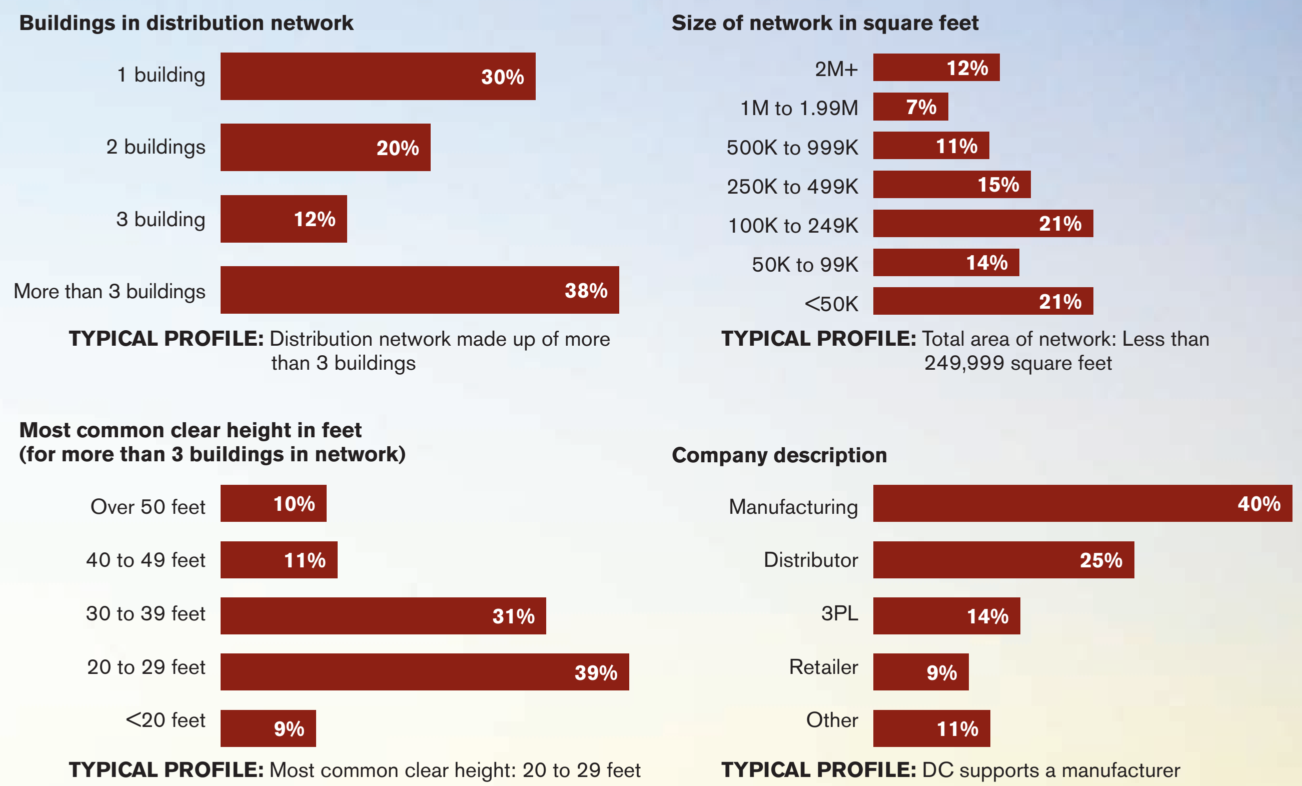
Designed to gauge activities and trends in U.S.-operated warehouses and DCs, our annual survey investigates how today's managers are currently running their distribution operation. In September 2010, a survey was sent via email invitation to *Logistics Management* (*LM*) subscribers. A total of 521 qualified responses were received from CEOs to upper-level logistics and supply chain managers who are personally involved in decisions regarding their company's warehouse and DC operations.

Most participating companies came from the manufacturing sector (40 percent), followed by distributors (25 percent), third-party providers (14 percent), and retailers (9 percent). A wide assortment of products handled in the DC was once again well represented, with food and grocery leading the pack at 15 percent, followed closely by general merchandise at 11 percent, industrial/chemical at 9 percent, and electronics at 8 percent.

In an economic recovery tempered by a lack of consumer confidence and spending, how have managers responded? Most are sticking with conventional, low-cost, tried-and-true solutions for their distribution problems. To realize transportation savings, many are adding satellite DCs and renegotiating freight rates. And to keep a lid on operational costs, a majority of respondents are improving warehouse processes, tightening inventory controls, and adopting "lean and green" strategies.

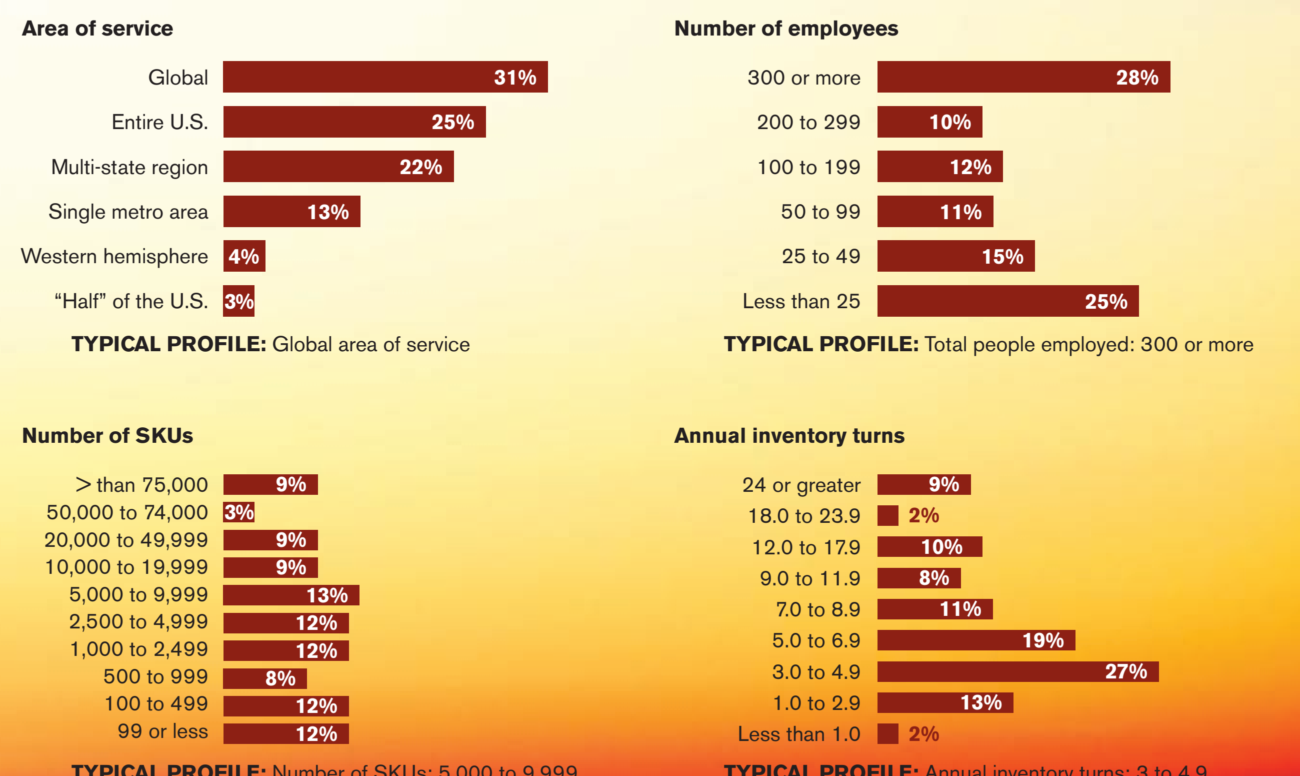
Over the next few pages, we'll share all of the detailed results on how warehouse and DC operations have changed over the past year.

## Figure 1A: Profile of Today's Distribution Network




Source: Peerless Media Research Group

## Figure 1B: Profile of Today's Distribution Network




Source: Peerless Media Research Group

And with yet another year of results in our database, definitive trends in warehousing and supply chain management over the past five years can now be identified. It's time to dive into the results to see how your warehouse and DC operations stack up to some of the top organizations in the country.

## CLEAR TRENDS

One of the clearest trends that we've seen unfold over the past several years is an increase in the number of DCs that make up today's distribution networks (Figure 2). The number of networks with more than three DCs increased from 33 percent in 2007 to 38 percent in 2010.

On the flip side, one-facility networks are decreasing—from 39 percent in 2007 to 30 percent in 2010. "There's a trend to move away from a single distribution point to multiple points closer to your customer base," says Derek Sorensen, senior consultant for TranSystems, a supply chain consulting firm and *LM*'s partner for this survey. "Not only does this move help achieve higher customer service levels in a competitive market, but it also helps to cut down on transportation dollars."

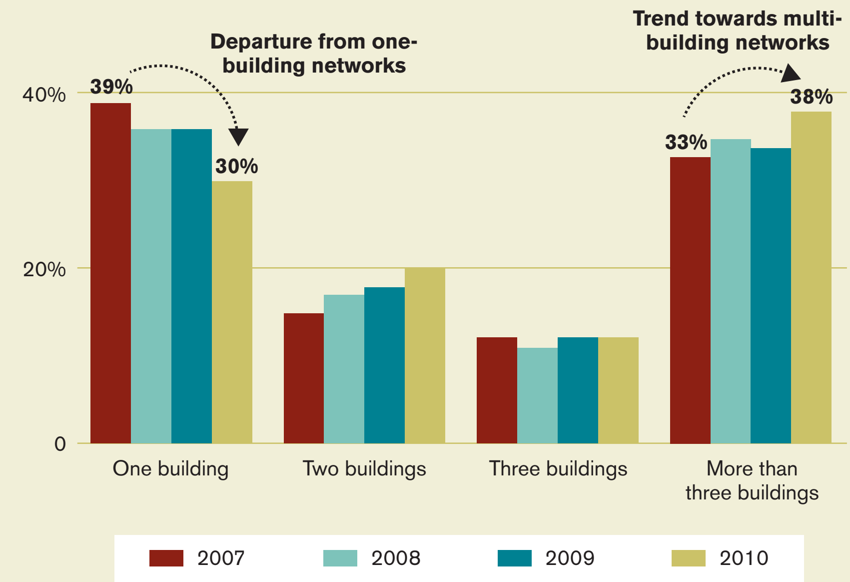
Norm Saenz, an assistant vice president with TranSystems, agrees with Sorensen's assessment, but also points to another phenomenon that's enabling this trend. "While there are companies looking to add DCs, other companies are consolidating and closing facilities to reduce operating costs," says Saenz. "And as a result, there's plenty of available, inexpensive warehouse space in the real estate market today." He adds that many companies are taking advantage of this availability to add satellite facilities for temporary, seasonal storage, and perhaps relieve storage issues in their main DCs.

Another clear trend has been the continued "leaning" of the supply chain as more respondents implemented this strategy—from 39 percent in 2009 to 44 percent in 2010. Why does "lean" remain so popular? According to Saenz, lean has had considerable and proven success in manufacturing; and as a result, it's quickly making its way into warehousing and distribution operations. It's also a low-cost approach that can bring high-value savings through the elimination of waste in the supply chain.

Within the four walls, we asked how they've been keeping operational costs manageable. Seventy-two percent of respondents say they are "improving warehouse processes" (Figure 4, page 46). "The cheapest thing to fix in your warehouse is your processes," says Saenz. Sorensen agrees and suggests you start by looking at those steps that happen every day, a hundred times a day. "If you can save seconds here and there, that translates into real dollars without making a million dollar investment."

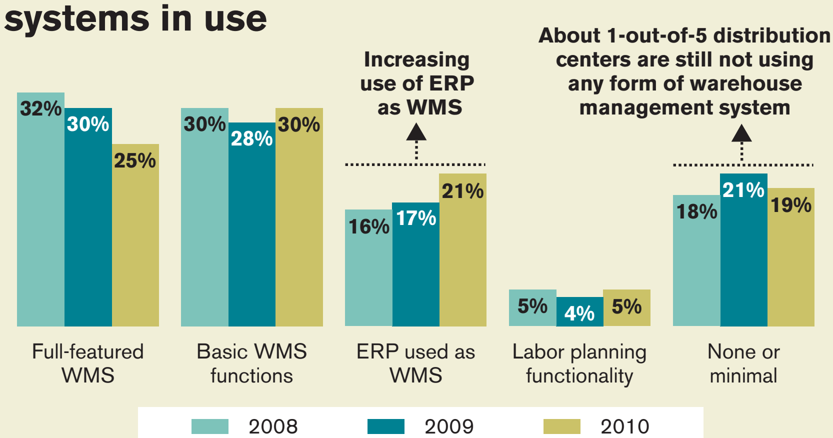
To reduce transportation costs, over 60 percent of respondents have re-negotiated freight rates—a task Sorensen believes companies should be doing regularly—especially when implementing any sort of changes such as opening satellite facilities or reducing truckloads (Figure 5, page 46). "In

**Figure 2: Increase in multi-building networks from 2007 to 2010**



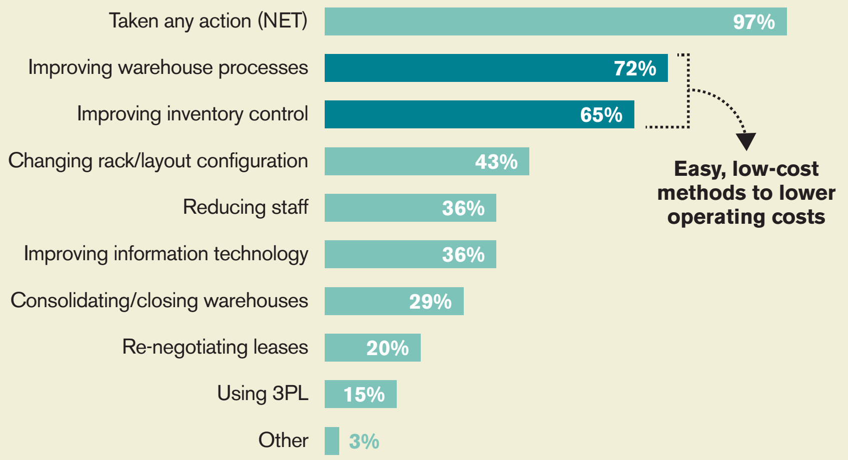

Source: Peerless Media Research Group

**Figure 3: Warehouse management systems in use**



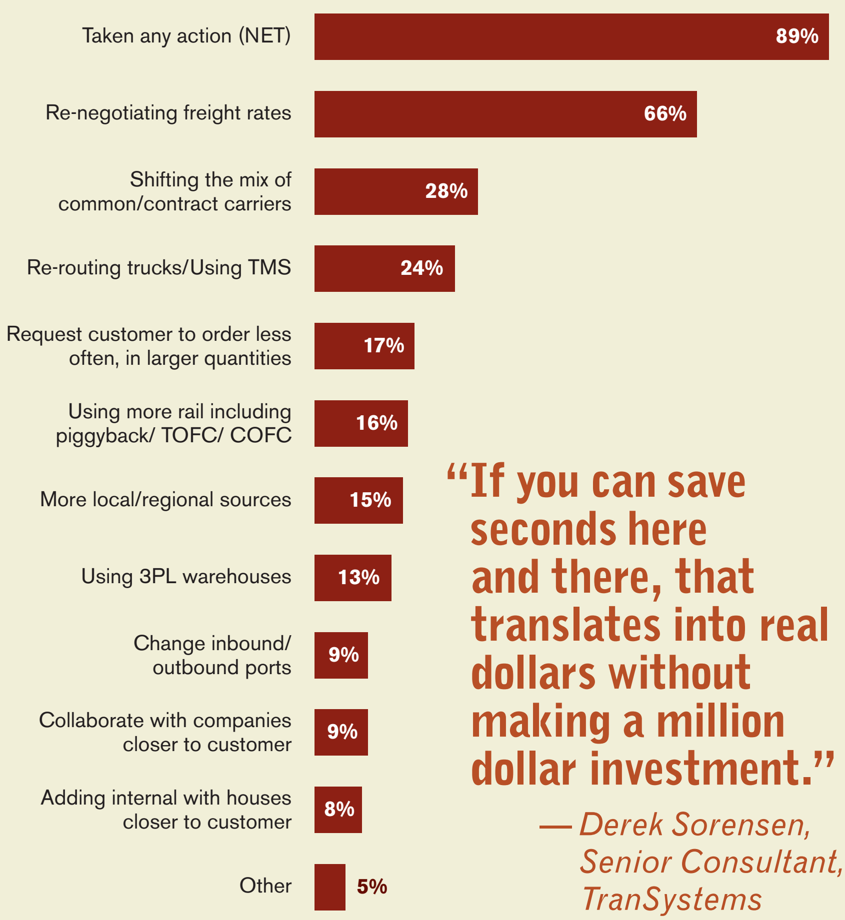

Source: Peerless Media Research Group

## Figure 4: Actions taken to lower operating costs




Source: Peerless Media Research Group

## Figure 5: Actions taken to lower transportation costs




Source: Peerless Media Research Group

> **"If you can save seconds here and there, that translates into real dollars without making a million dollar investment."**
>
> *— Derek Sorensen, Senior Consultant, TranSystems*

such a dynamic business, you would want to stay as current and as up-to-date with your carriers as possible," he says.

"Green" initiatives remain a popular choice with 92 percent of respondents having implemented some kind of environmental initiative (Figure 6). While recycling remains at the top of the initiatives list, there's a considerable increase in facilities that have implemented "lighting fixtures and/or controls (53 percent in 2009 to 66 percent in 2010)." "These lights not only use less energy," says Saenz, "but combined with motion sensors they turn off when they're not needed." Benefiting the environment might be great, but Saenz believes it is cost and utility savings that are driving the adoption of these initiatives.

### THE 2010 DC NETWORK

While the number of buildings may have increased, other properties of the distribution network have stayed essentially the same (Figure 1A and 1B, page 43). Typical building size remains in the range between 100,000 to 249,999 square feet with clear heights of 20 to 29 feet.

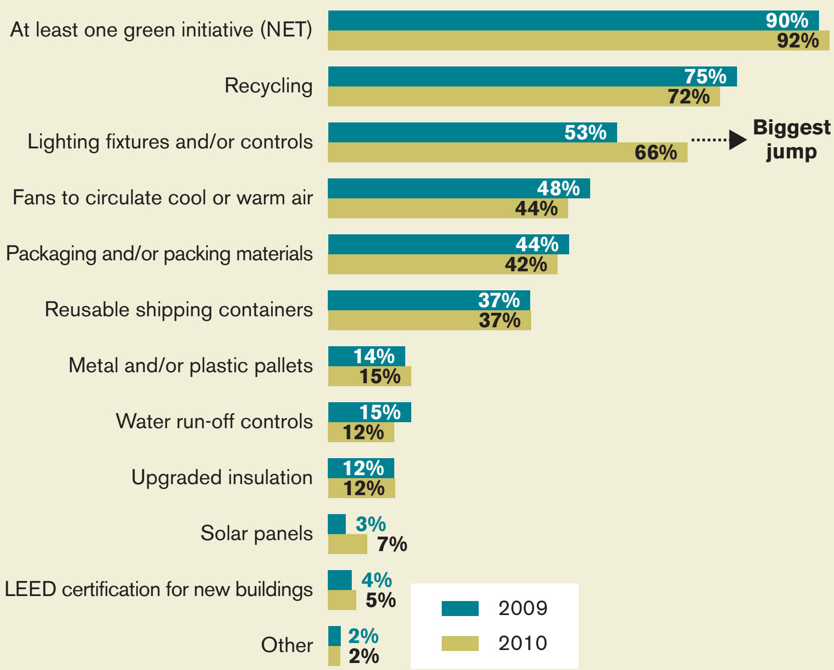
Fifty-six percent of respondents report that they're handling less than 5,000 SKUs, but the overall mean of total SKUs continues to increase—14,600 in 2009 to 15,315 in 2010 (Figure 7). Saenz believes this SKU proliferation is a marketing push, not logistics. "It's marketing looking for the magic bullet trying to figure out the next best thing, trying to be competitive, trying to get sales up," he says. Sorensen agrees: "I doubt there are warehouse managers who want more items, more SKUs in their DCs."

This year, inventory turns are finally on the upswing, with managers keeping less on hand (Figure 7). While increased demand from a recovering economy is partly the cause, Sorensen also speculates that managers may have gotten better at modifying their buying inventory practices to better match the landscape of the new demand that's out there.

### THE NATURE OF OPERATIONS

The use of the DC for value-added services continues to be a common

## Figure 6: Environmental initiatives implemented




Source: Peerless Media Research Group

occurrence. Eighty-three percent of respondents report doing some kind of special labeling (54 percent), promotional packing (33 percent), and kitting for production (29 percent). There's a marked increase in the deferred customization of products from 3 percent in 2009 to 13 percent in 2010.

"By deferring customization, you're letting your customer specify exactly what they want," says Saenz, "rather than building up inventory of items you hope they're going to buy."

## Figure 7: Distribution center size and scope trends

| | Annual inventory turns (mean) | # of SKUs (mean) |
|---|---|---|
| 2007 | 9.8 | 12,500 |
| 2008 | 8.7 | 14,800 |
| 2009 | 8.0 | 14,599 |
| 2010 | 8.4 | 15,315 |

Source: Peerless Media Research Group

The tide has also turned with the giving of incentives (63 percent, up from 60 percent last year). Sorensen believes incentive programs are how managers squeeze the last bit of juice from a smaller workforce. "People want to maintain the workforce they currently have because of the efficiencies that come with that educated work force."

### TECHNOLOGY DOLDRUMS

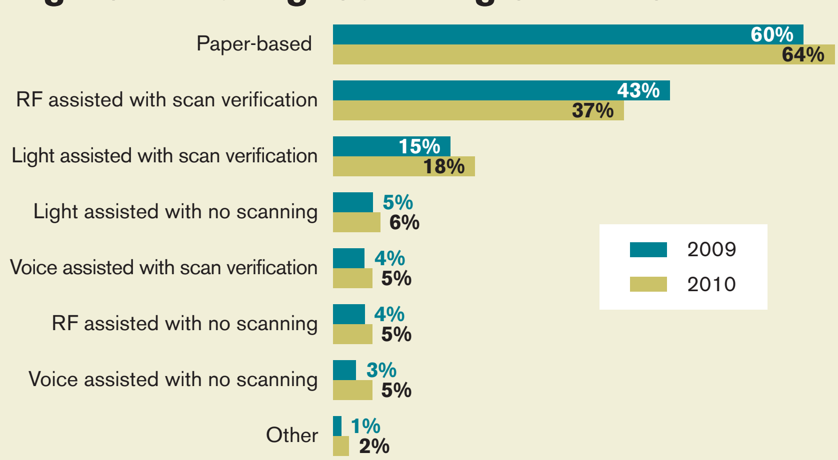
Despite a plethora of new technology, today's DC remains a conventional, paper-based, single-order pick operation. This year there's even more conventional, paper-based picking. In addition, 19 percent of warehouses still have no warehouse management system (WMS) of any kind (Figure 3, page 44).

"Obviously, people are investing less in automation because of the economy," says Saenz. "But the more shocking statistic to me is the fact that paper-based is still so high…and I'm wondering why voice is so low when manufacturing and grocery is our highest percentage of respondents." Grocery, with its full case picking nature, can benefit greatly from voice technology as it keeps workers hands free as they assemble cases on a pallet for an order.

Sorensen points out another interesting trend on picking technologies (Figure 8). Radio frequency, voice, and light-directed picking with no scan verification have all grown slightly in the past year while RF-assisted picking with scanning has taken a tumble from 43 percent in 2009 to 37 percent in 2010.

"Individually, I don't know if we can draw a definitive conclusion, but there's something with those three moving together," says Sorensen. "Perhaps people are getting comfortable with their quality control initiatives and their order accuracies and are cutting

## Figure 8: Picking technologies In use




Source: Peerless Media Research Group

out some of these double checks as a cost initiative to get more productivity out of their workers by eliminating the need to scan—having them do one less step."

From a WMS standpoint, another interesting trend is emerging. More companies are using their ERP as a WMS. Saenz sees this first hand. "A lot of companies are taking their entire ERP system and using it for everything," he says. "I'm not surprised at all…not that I agree that it's the right route. I believe the best-of-breed WMS are still much better." He speculates that ease of integration and the apparent cost control of having just one package are the top two reasons for this trend.



## LOOKING AHEAD

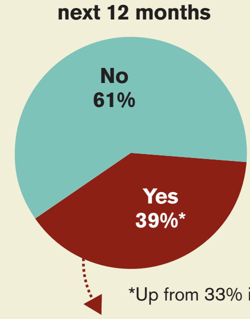
There is no clearer sign for economic recovery than the increased plans for expansion (Figure 9). Thirty-nine percent of respondents report that they are planning on expanding in the next 12 months—that's up from 33 percent last year.

Although most are expanding by increasing number of SKUs (54 percent) and the overall square footage (53 percent), the biggest percentage jump from last year is the "number of buildings," up 48 percent from 41 percent in 2009. "All these things are often interrelated," says Sorensen. "Additional building space may be needed to deal with the purchasing department's move to buy large quantities at a discounted rate or with corporate management who's in the middle of an acquisition and needing space for additional SKUs. Either way, it's best to look at the big picture and be set up as best as you can to weather the storm." ☐

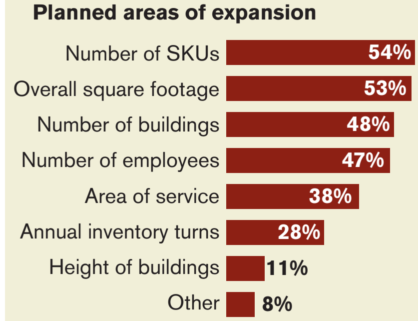
*Maida Napolitano is a Contributing Editor to* Logistics Management

### Figure 9: Likelihood of expansion in the next 12 months

Planning to expand over next 12 months




Planned areas of expansion




Source: Peerless Media Research Group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# 27th Annual Quest for Quality in Review


For more than a quarter century now, *Logistics Management's* Quest for Quality has been regarded in the transportation and logistics industry as the most important measure of customer satisfaction and performance excellence.

To determine the best of the best, *Logistics Management* 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.

This year, 108 providers of transportation and logistics services received the ultimate vote of confidence, posting the highest scores across our lists of critical service criteria. All of those winners were listed, by category, in our August issue. The winners officially accepted their awards on Monday, September 27, in the San Diego Ballroom A at the San Diego Marriott Hotel & Marina.



**Attendees enjoyed a full evening of dining and networking before stepping up to the podium to receive their awards. Following the formal presentation, the room was entertained by Bill Herz, the reknown comedian/magician who's been featured on the The Tonight Show and Late Night with David Letterman.**

**John Healy, left, accepts for the Hub Group.**


# 27th Annual Quest for Quality in Review

The Southwest Airlines group proudly displays their 2010 Quest for Quality Award. Southwest lead the Air Carriers category again this year, posting an impressive 39.50 weighted average.

**Quest for Quality by the numbers:** The Quest for Quality scoring is not based on a simple "popularity" vote. The overall weight evaluation itself is a weighted metric. In fact, the scores take into account the importance readers attach to each performance 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.

## 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

## Core carrier satisfaction ratings

| Mode | % using core carriers | Overall satisfaction score | Core satisfaction score |
|---|---|---|---|
| National LTL | 54% | 32.73 | 37.75 |
| Multiregional LTL | 49% | 32.65 | 37.80 |
| Surface package | 67% | 35.65 | 38.73 |
| Northeast/Mid-Atlantic regional LTL | 41% | 34.57 | 39.39 |
| South/South Central LTL | 40% | 34.69 | 39.66 |
| Midwest/North Central | 38% | 33.75 | 38.94 |
| regional LTL | 37% | 33.34 | 38.70 |
| Western regional LTL | | | |
| Truckload-bulk | 41% | 33.31 | 37.18 |
| Truckload-household goods and high value goods | 33% | 34.21 | 40.51 |
| Truckload-industrial/heavy-haul | 36% | 32.87 | 36.27 |
| Truckload-dry freight | 42% | 32.28 | 36.35 |
| Truckload-expedited | 44% | 34.96 | 39.89 |
| Rail/Intermodal | 57% | 32.02 | 34.14 |
| Intermodal marketing | 57% | 32.45 | 37.22 |
| Ocean carriers | 61% | 31.48 | 35.00 |
| Air express | 62% | 34.03 | 37.38 |
| Air cargo | 40% | 33.60 | 35.73 |

**In addition to rating the performance of individual companies, the Quest for Quality survey also explores shippers' relationships with their core carriers–that select group of vendors to whom readers tender most of their business. Again in 2010, we asked readers to share their core-carrier relationship experiences.**

**The FedEx table was well represented this year. FedEx took home awards in the National LTL, Multiregional LTL, Surface Package, Expedited, 3PL, Air Express, and Airfreight Forwarder categories.**

**The Lynden table had every reason to smile in 2010. Lynden Transport took home a Quest for Quality gold in the Western Regional LTL category, while Lynden Air Freight took home another award in the Airfreight Forwarders category.**

### STATEMENT OF OWNERSHIP, MANAGEMENT AND CIRCULATION

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|---|---|---|
| A. Total no. copies (net press run) | **54,503** | **54,038** |
| B. Legitimate paid and/or requested distribution (by mail or outside the mail) | | |
| 1. Outside County paid/requested mail subscriptions stated on PS Form 3541 | **52,956** | **52,731** |
| 2. In-County paid/requested mail subscriptions stated on PS Form 3541 | None | None |
| 3. Sales through dealers and carriers, street vendors, counter sales and other paid or requested distribution outside USPS | **2** | **15** |
| 4. Requested copies distributed by other mail classes through the USPS | None | None |
| C. Total paid and/or requested circulation | **52,958** | **52,746** |
| D. Nonrequested distribution (by mail and outside the mail) | | |
| 1. Outside County nonrequested copies stated on PS Form 3541 | **970** | **552** |
| 2. In-County nonrequested copies stated on PS Form 3541 | None | None |
| 3. Nonrequested copies distributed through the USPS by other classes of mail | None | None |
| 4. Nonrequested copies distributed outside the mail | **281** | **400** |
| E. Total nonrequested distribution (sum of 15D 1, 2, and 3) | **1,251** | **952** |
| F. Total distribution (sum of 15C and E) | **54,209** | **53,698** |
| G. Copies not distributed | **294** | **340** |
| H. Total (sum of 15F and G) | **54,503** | **54,038** |
| I. Percent paid and/or requested circulation (15C divided by F times 100) | **97.69%** | **98.23%** |

**16.** Publication of Statement of Ownership: Publication required and will be printed in the November 2010 issue of this publication.
**17.** I certify that all information furnished on this form is true and complete. I understand that anyone who furnishes false or misleading information on this form or who omits material or information requested on the form may be subject to criminal sanctions (including fines and imprisonment) and/or civil sanctions (including civil penalties).

*Charles Tanner* (signed), Director of Audience Marketing , 10/1/10

### Peerless Media Statement of Digital Circulation

**1.** Publication Title: Logistics Management

| | Average No. Digital Copies Each Issue During Preceding 12 Months | No. Copies of Single Issue Published Nearest to Filing Date |
|---|---|---|
| Printed Circulation as reported on PS Form 3526, Line 15A | 54,503 | 54,038 |
| Digital Circulation | 17,102 | 17,408 |
| Total Circulation | 71,605 | 71,446 |

*Charles Tanner* (signed), Director of Audience Marketing , 10/1/10

# PROFITS

PETER HORVATH

While the world's airlines are posting an impressive revenue rebound, air cargo analysts claim that volatility caused by too little or too much capacity in the market has resulted in wide swings in rates and overall carrier performance.

**By Karen E. Thuermer, Air Cargo Correspondent**

While the height of the global recession in 2008-2009 saw the airline industry facing unprecedented declines, the dramatic upturn that began in the 4th Quarter of 2009—driven by shipper needs to restock depleted inventory—only draws more attention to the air freight market's volatility.

At first glance, the news appears positive for the carriers. International Air Transport Association (IATA) projects that for 2010, global demand for both passenger and cargo service will expand by 11 percent. IATA forecasts 2010 yields for cargo to grow 7.9 percent, sharply higher than the 4.5 percent previously projected. As of September, IATA now expects the airline industry worldwide to generate net profits of $8.9 billion in 2010, up from its previous forecast of $2.5 billion. Certainly, current airline revenue figures are

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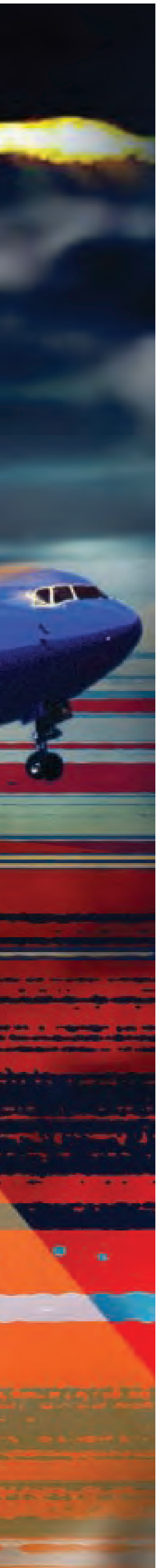
# TAKE OFF...



impressive. In the United States alone, Delta Airlines posted a $467 million second quarter 2010 profit, part of the cumulative $1.45 billion profit reported by the top nine U.S. passenger airlines for that period—and a dramatic turnaround from their net loss of $556 million a year ago. However, the IATA maintains that this recovery is not sustainable and only reflects a post recession rebound; in the meantime, the organization does commend the industry for managing its assets with tight capacity over the past 12 months.

Any way you slice it, it's time for a reality check. The IATA warns that even with this year's improvement, yields are still 8 percent below the pre-crisis levels of 2008. In addition, doubts linger about how long this cyclical upturn will last. "This year is as good as it gets," says Giovanni Bisignani, IATA director general and CEO. "It will be the peak of the cycle and 2011 will be a much tougher year." Bisignani's reasoning for the slow down in the air is directly related to the forces that have kept the current rebound rather tepid: government stimulus monies are ending; new jobs haven't been created; and consumer confidence remains low. "Even if it is sustainable, the profit margins are so razor thin that even increasing profits 3.5 times only generates a 1.6 percent margin," he adds. This is below the 2.5 percent margin of the previous cycle peak in 2007 and far below what it would take just to cover the industry's capital costs."The bounce that we saw this year was to restock inventories," Bisignani adds. "Now consumer spending needs to support demand."

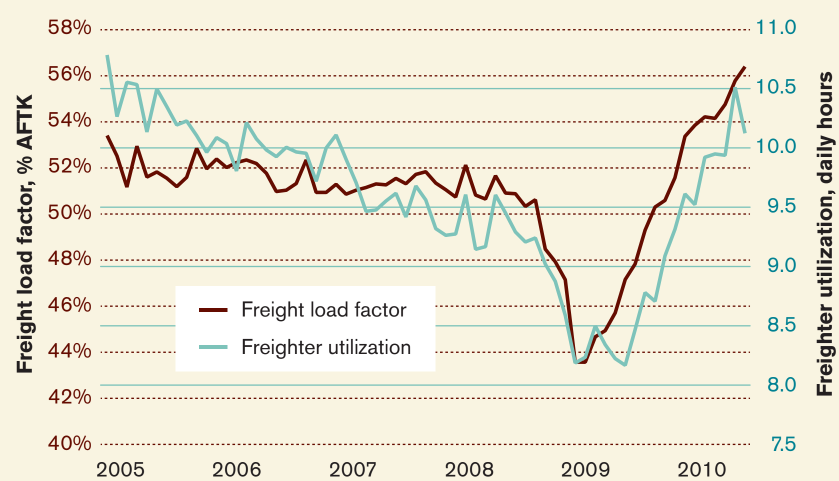
### Volatility swings

Volatility caused by too little or too much capacity in the airfreight market has also resulted in wide swings in overall transportation costs, rates, and on-time performance.

Carriers, particularly those with expansive global footprints and integrated networks, are better able to manage capacity effectively from a cost and an on-time performance perspective. UPS, for example, has relationships with 300 carriers, an integrated network and freight forwarder operations, and alternate routings respond to capacity issues that leverage its dedicated transportation networks in North America and Europe.

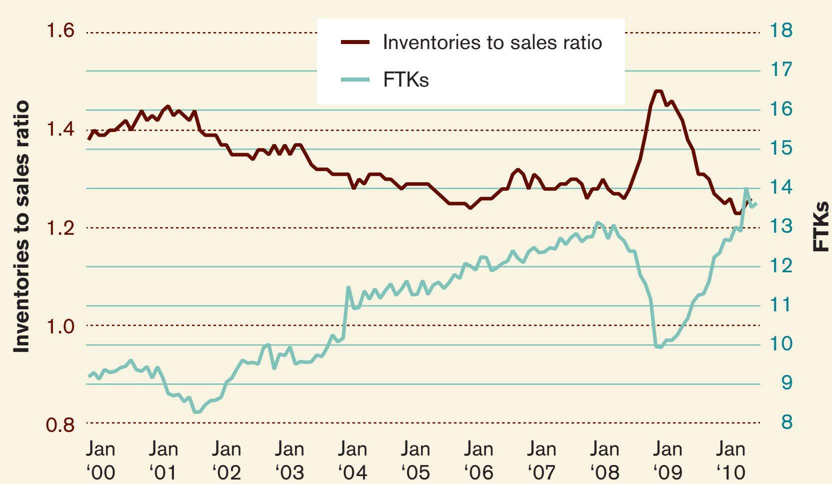
"In addition, UPS continually monitors global

## Utilization of freighters looks much better

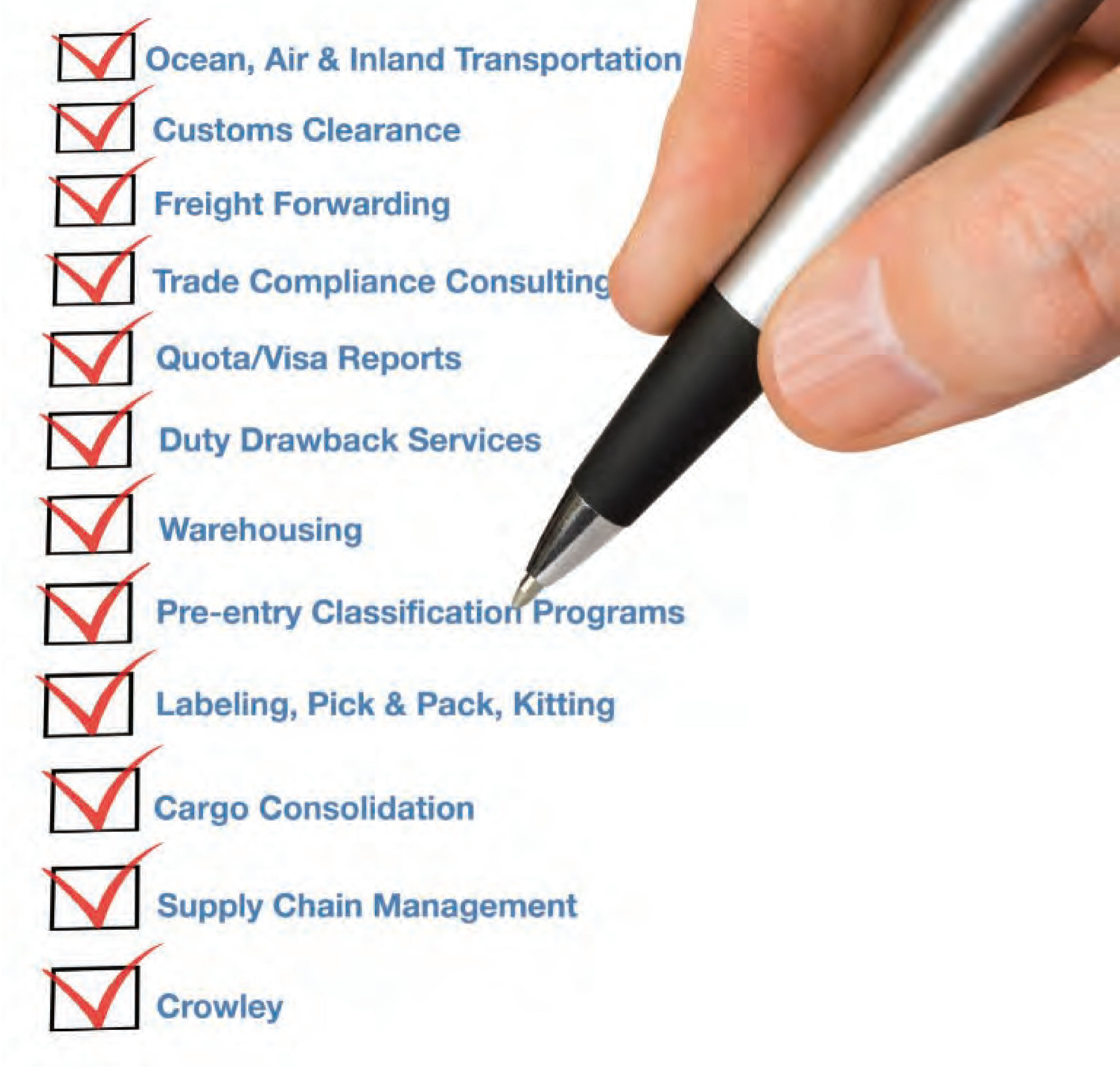



Source: IATA, Boeing

## Business inventory cycle boost ending




Source: U.S. Census Bureau and IATA Cargo eChartbook


Ocean, Air & Inland Transportation
Customs Clearance
Freight Forwarding
Trade Compliance Consulting
Quota/Visa Reports
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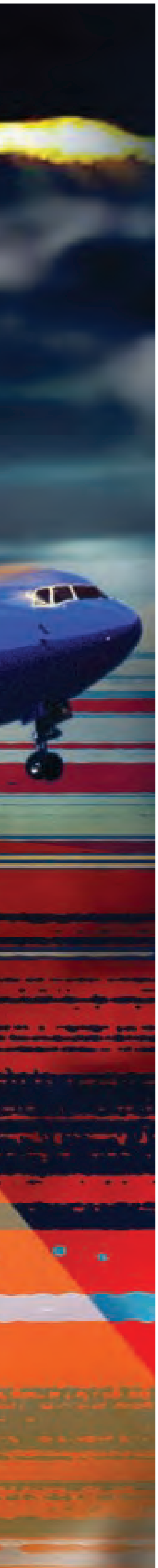
Crowley



"This year bucked all past trends and the upturn continued... Consumer demand for Notebooks, iPads, plasma and LCD TVs, and mobile phones—which continues to be the mainstay of the traffic flow—was back with a vengeance."

*—Pradeep Kumar, senior vice president of cargo, Emirates SkyCargo*

transportation trends," says Scott Aubuchon, UPS marketing director of global air freight. "With global distribution and sourcing trends continually shifting to new and emerging markets, it is important to have timely, efficient, and cost-effective access to these markets."

Volatility in rates continues to be an issue, one that air carriers don't generally like to discuss. However, Pradeep Kumar, senior vice president of cargo at Emirates SkyCargo, sees rates nearly back to pre-crisis levels. He believes this has stabilized airline yields. "Volumes, too, are back to good levels," says Kumar. "Inventories had depleted, so companies were restocking right up until August, which is traditionally a very quiet month in our industry."

With all the replenishing of stock continuing, Kumar says that this August has been the best August Emirates has experienced in years. Beginning with the fourth quarter of 2009, Emirates witnessed an explosion in cargo demand from Asia, particularly to Europe and the United States, as well as to the Middle East and Africa. "This year bucked all past trends and the upturn continued," he says. "Consumer demand for Notebooks, iPads, plasma and LCD TVs, and mobile phones—which continues to be the mainstay of the traffic flow—was back with a vengeance."

Counter to the IATA forecast, Emirates SkyCargo's Kumar predicts a positive outlook for 2011. "With the cyclical nature of this business, we have witnessed that after a great period of volume growth, things slow down for a while before the markets pick up again," Kumar says.

### Global factors

Currencies are another factor affecting the global air cargo business. The depreciation of the Eurozone currencies, coupled with the economic crises in Greece, Spain, and Portugal, will have an effect on imports into the traditionally large consumer market in Europe.

Meanwhile, airfreight has been experiencing higher growth rates in emerging markets than it has in traditional markets such as the United States and the countries in Europe. Asia-Pacific airlines have been the major beneficiary of the very sharp rebound in cargo markets and revenues. China is the key driver with a 9.9 percent GDP growth rate driving exports. "From our point of view, China will remain the main driver for air freight," says Michael Goentgens, Lufthansa Cargo spokesman. "This year we expect, again, a very strong

## Air cargo security: Much ado about nothing?

This year anticipation of the new federal law to mandate 100 percent screening of cargo transported on passenger aircraft has been the 800 pound gorilla in the room for both air carriers and shippers. "It seemed as if no one in the industry could predict the full extent of the challenges the industry might experience," says Mark Mohr, manager of product development and specialty sales for Continental Airlines.

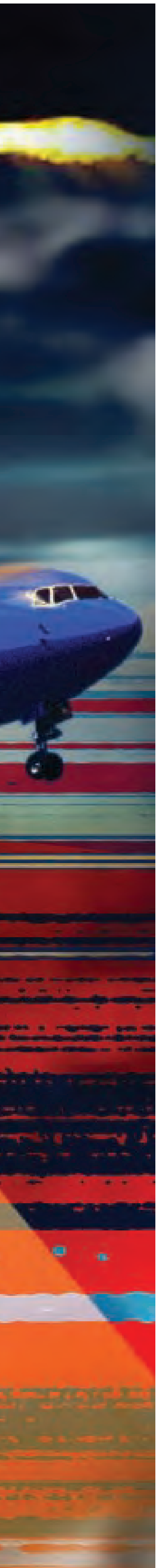
Carriers, in particular, made enormous investments in screening equipment.

Like Y2K, however, when the new rules went into effect on August 1, their impact became negligible.

"Our investment in large aperture x-ray screening equipment at our Newark (EWR) and Houston (IAH) hubs made all the difference in ensuring a smooth cargo flow for our customers as well as our operations," says Mohr.

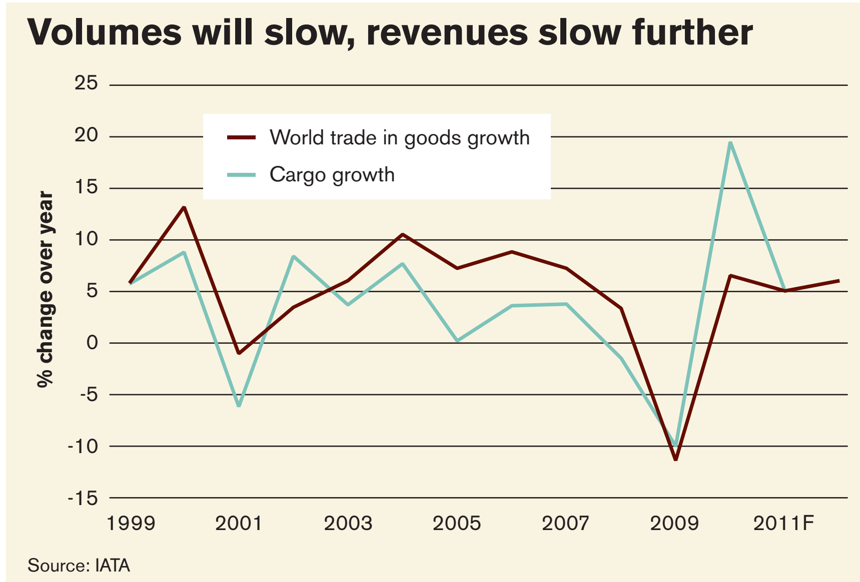
Particularly helping, however, was the TSA Certified Cargo Screening Program (CCSP) that allows the private sector to meet the 100 percent requirement without significant disruptions to the supply chain. Under CCSP, screening can occur at the shippers' or freight forwarders' premises, where the cargo can be screened at the piece level as the TSA requires.

The Airforwarders Association (AfA) warns, however, that major challenges may still lie ahead. These include the lack of approved pallet screening technology, ongoing financial barriers to participation, and the future of air cargo security policy in general.



peak season around Christmas on an even higher level than last year." According to Goentgens, Lufthansa Cargo is making certain it will offer its customers the capacity they need. "This will also include a significant number of charter flights that we organize together with Lufthansa Cargo Charter GmbH," he says.

Carriers around the globe are also responding to South America's rise in growth, although this market has always been important to U.S. passenger carriers American Airlines (AA) and Delta. "Our Latin American division is our largest revenue generating division in our system," says Carmen Taylor, director of cargo sales for Miami, the Caribbean, and Latin America for AACargo. "This includes our southbound and northbound business."



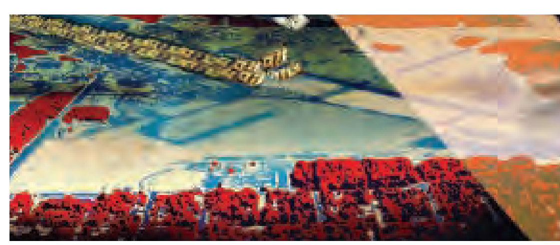
Source: IATA

Like most airlines, AA has suffered from shrinking capacity due to the global economic slowdown. Some of its flights to the Caribbean, Central America, and the northern rim of South America ceased when the carrier retired 32 Airbus aircraft. "We have replaced those with 767-300 aircraft, and have also been adding aircraft," says Taylor.

Manufacturers in North America and Europe are taking a cautionary approach to business inventory rebuilding. With continued high unemployment, consumer spending at a stalemate, coupled with an end to government fiscal stimulus packages, they see the economy slowing again and the need for fewer goods. Manufacturers in other producing countries such as China are also taking more caution in ordering their production volumes. These concerns, as well as other financial factors, are contributing to a shortening of supply chains around the world.

Meanwhile, North American shippers who turned to ocean freight to save costs during the height of the economic slowdown are now using air to reduce possible overstocking. While this might be good news for companies operating main deck freighter aircraft, combination carrier airlines that haul cargo in the belly hold of their aircraft are still reluctant to add additional capacity. "Most of those decisions are based on passenger loads versus cargo needs," comments Mark Mohr, manager of product development and specialty sales for Continental Airlines Cargo. What's more, air freighter operators are reluctant to add capacity to avoid market oversupply, a move that would result in lower yields and the prospect of having to again mothball aircraft just taken out of storage. "Until consumers loosen their purse strings, the industry will adopt a wait-and-see approach," Mohr warns.

IATA indicates that since late last year, capacity has come back to the market at about the same pace as demand growth. Consequently, to meet demand, Cathay Pacific has reinstated its fleet of five 747-400 freight-



"The three new Boeing 747-8f aircraft will operate to our existing schedule, maintaining regular services through Stansted, Hong Kong, Frankfurt, Pudong (Shanghai), Chicago, Delhi, among others."

*—Steve Gunning, managing director, BAWC*


Think.
Apply best practices to your 2011 transportation plan.
Connect.
Extend your network of shippers, carriers and 3PLs.
Question.
Get answers from industry leaders in our open forums.
Strategize.
The insights and information you discover at 2011 Jump Start will define your success in the coming year
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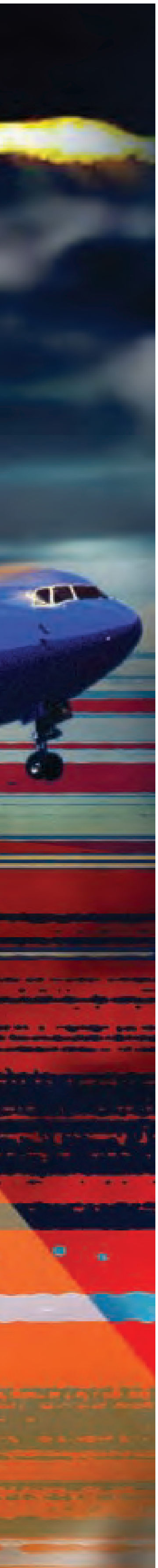
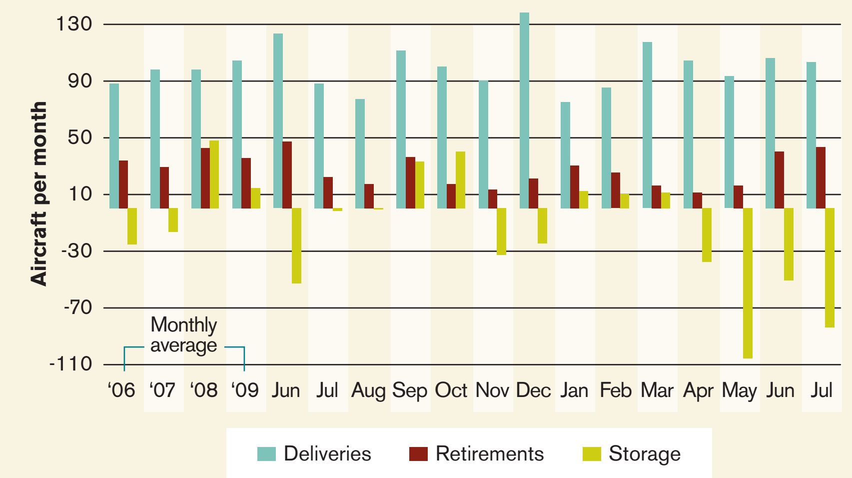


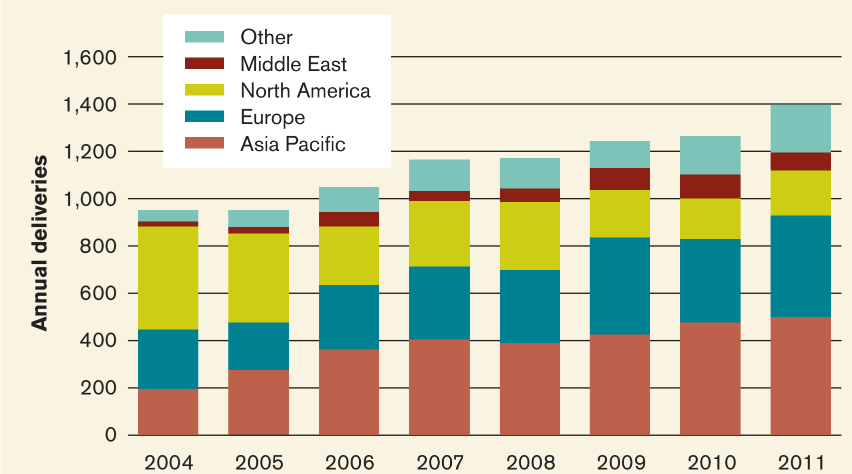
ers it stored in California for 12 months. Lufthansa Cargo pulled the last of four aircraft it parked in California in mid-September. "Two of the airplanes are already back in operation, and one (an MD-11) is currently in for scheduled maintenance in Xiamen, China," comments Goentgens. Another MD-11 will be integrated into Lufthansa Cargo's schedule in November after it completes its maintenance check. British Airways is recalling a 747-400 from desert storage for flights to Dallas for its winter schedule starting October. The airline is also freeing up a Boeing 777 to increase service from six to seven per day between London to JFK. Meanwhile, British Airways World Cargo (BAWC) is getting ready to deploy Boeing's new and very efficient B747-8f freighters, due for delivery at the beginning of 2011. "The three new Boeing 747-8f aircraft will operate to our existing schedule, maintaining regular services through Stansted, Hong Kong, Frankfurt, Pudong (Shanghai), Chicago, Delhi, among others," says Steve Gunning, managing director of BAWC. BAWC officials see the long-haul freighters as providing flexibility and capacity on resilient and growing lanes. The aircraft will be operated via a five-year wet lease agreement with Global Supply Systems (GSS). Emirates, meanwhile, did not park any aircraft during the economic crisis nor cancel routes. It did, however, rationalize capacity, slowed its expansion, and embarked on a stringent cost containment program."As such, when loads picked up we were already there with our existing services to carry them," Kumar says. "When any capacity becomes available, we are able to deploy it on charter operations, such as the many relief flights to Islamabad we have operated." Now, adds Kumar, Emirates is back to its aggressive expansion. This year it launched services to Tokyo, Amsterdam, Prague, Madrid, and Dakar on the passenger side and added Almaty in Kazakhstan, and Kabul in Afghanistan to its existing freighter network. Given Emirates' new routes and additional capacity on existing routes, the carrier is expecting an increase in volumes at the end of the year of about 20 percent over 2009. □

## Capacity now coming out of storage




Source: Ascend

## Delivery of new capacity set to rise




Source: Ascend

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*Karen E. Thuermer is the Air Cargo Correspondent for* Logistics Management

SAGE ADVICE

# Old bait and no plan yields poor results

**By John A. Gentle, DLP**

RECENTLY I HEARD MY pastor talk about fishing and I began thinking about the patience required of fishermen. Without a fish finder, the fisherman really has no idea of what's going on below the surface of the water, let alone if there are any fish present. He really fishes based on faith, confident in the belief that a prize fish awaits him if he is patient, properly prepared, and diligent in applying the skills and strategies that he has acquired during his lifetime.

Now, let's consider this tale: Armed with trusty poles, reels, and tackle boxes full of various kinds of leaders, spinners, lures, hooks, flies, worms, and bobbers, three fishermen get into separate boats and paddle out silently into the mist of the early morning in search of a great experience.

At the desired time and place, each makes a final decision about the attractiveness of the bait; insect activity on or about the surface of the water; the area and pattern to be covered; the cast type and retrieval strategy; as well as the duration of the exposure before any decision is made about changing any one of these approaches.

Meanwhile, below the surface of the lake, several species of fish are bubbling around with varied degrees of interest. Each species approaches nutriment differently; however, the carp, sunfish, and rock bass don't seem particularly fussy and go after anything that moves.

The first fisherman soon realizes that all he can see is his own reflection on the surface of the water. Disappointed, he continues to fish blindly with a bobber, hook, and worm, hoping that he will get lucky and still have a great fishing experience. After several hours and 100 worms, this fisherman misses out on the big experience and settles for a few mosquito bites and heads in.

The second fisherman, wearing his sunglasses, has a clear picture of the area and feels well prepared for an exciting experience; but he too continues to use the wrong bait and presentation. With a few small fish on the string, he also heads back to shore and shares his frustration with the others back at the lodge.

In contrast, the third fisherman has a clear view of life under the surface and realizes that success is predicated on presenting a "valued" lure that will draw even the most cautious fish out from under a submerged hiding place to evaluate the opportunity. Interestingly enough, the prize fish swims past the common "lifeless hooked worm" and seeks to capture his more attractive bait.

Unfortunately, too many shippers are like the first two fishermen. They attempt to find carriers in the very same manner. They are either unable to see the opportunities below the surface and, instead, continue to only see their own reflected values, and/or use the same wrong bait and presentation.

**Prize carriers of preference are constantly making decisions about shippers and receivers; so don't be surprised if they spit out your bait and go after a better value proposition.**

Like deep-dwelling prize fish, the prize carriers understand caution and continue to look for the best value opportunity. They pass up the common worm with its distracting bobber and poisonous lead sinker, and search for something more attractive.

Shippers of preference realize only well-presented propositions attract the prize carriers. They will soon find their reward in a market where superior service providers are becoming scarce. Remember: Strength attracts strength. Prize carriers of preference are constantly making decisions about shippers and receivers; so don't be surprised if they spit out your bait and go after a better value proposition. Tired of carp and sunfish? Don't delay. Check in with your best carriers now and ask them if your program is attractive and has value to them.

And if you don't have any prize carriers, perhaps you already know the answer. Do something about it today. ☐

John A. Gentle is president of John A. Gentle & Associates, LLC, a logistics consulting firm specializing in contract/relationship management and regulatory compliance for shippers, carriers, brokers, and distribution centers. A recipient of several industry awards, he has more than 35 years of experience in transportation and logistics management. He can be reached at jag@RelaTranShips.com


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