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JANUARY 2011

Logistics Management

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2011 RATE OUTLOOK GOING UP!

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Management UPDATE

AN EXECUTIVE SUMMARY OF INDUSTRY NEWS

■ **CSA is off and running.** CSA (Comprehensive Safety Analysis) 2010, a procedure that dictates how the federal government rates trucking companies and drivers, is now live and will be something carriers and shippers need to keep a close eye on. CSA stands to be the toughest safety crackdown on the estimated 3 million long-haul truck drivers and 800,000 carriers in the history of the trucking industry. It's also expected to eliminate as much as 5 percent of trucking capacity as the "worst-of-the-worst" drivers are banned from interstate trucking. CSA uses seven basic standards, as well as on-the-road safety-based inspections resulting in moving violations that factor into its evaluation of unsafe drivers.

■ **YRCW gets favorable court ruling.** A federal judge in the U.S. District Court ruled against ABF Freight Systems in its case against the International Brotherhood of Teamsters, various subsidiaries of YRC Worldwide, and other entities following a ratified labor agreement by YRCW Teamsters members. When it first signaled its intent to take legal action, ABF said that it was on the grounds that these organizations were in violation of the National Master Freight Agreement (NMFA), which serves as the collective bargaining agreement for the majority of U.S.-based trucking employees. "We are disappointed in this outcome and continue to believe that our November 1 lawsuit is strong," said an ABF spokesperson. "We are reviewing the Court's ruling and considering next steps including possibly an appeal of the decision to the United States Court of Appeals for the Eighth Circuit."

■ **POLA/POLB see solid volume growth.** Volumes at the Port of Los Angeles (POLA) and Port of Long Beach (POLB) were solid year-over-year in November and mixed on a sequential basis. POLB imports, which are primarily comprised of consumer goods, came in at 274,480 twenty-foot equivalent units (TEU) in November for a 26.8 percent year-over-year increase, but were down compared to the 303,168 that arrived in October. And exports, which are primarily comprised of raw materials, were up 25.6 percent to 142,628 TEU, down from October's 150,581 TEU.

Total POLB shipments—at 558,307 TEU—were up 30.1 percent compared to a year ago. POLA imports—at 330,710—were up 11.69 percent from last year and down from October's 349,545, while exports—at 170,319—were up 14.19 percent and up from October's 151,048. Total POLA shipments for November—at 666,970—were up 14.95 percent annually but down compared to October's 682,384 TEU.

■ **FedEx reports 18 percent decline in net income.** A combination of factors led to net income for the fiscal second quarter at FedEx to drop 18 percent to \$283 million. FedEx said that net income was down, due to costs pertaining to the company's September announcement regarding the meshing of its FedEx Freight and FedEx National LTL operations, a reserve associated with a legal matter at FedEx Express, the reinstatement of certain employee compensation programs, and higher pension and higher aircraft maintenance expenses. But quarterly revenue was up 12 percent to \$9.63 billion. FedEx CEO Fred Smith said that the company is relentlessly focused on improving yields as part of a company-wide strategy that resulted in annual gains in yields and volumes across all its transportation segments in the quarter.

■ **NITL not happy.** To no one's surprise, The National Industrial Transportation League (NITL) announced its profound disappointment late last month in the Federal Maritime Commission's (FMC) conclusions that were reached in the agency's "Fact Finding Investigation No. 26." The investigation was ordered by the Commission's Chairman, Richard Lidinsky, Jr., in response to a flood of complaints from U.S. importers and exporters who experienced service disruptions, rolled cargoes, abrogated service contracts, and virtually uniform rate and surcharge increases from carriers in the transpacific trades. The turmoil in the two-way Pacific trades occurred over an extended period beginning in late 2009 and well into 2010. Shippers' deep concerns over perceived malpractices by ocean carriers led to widespread calls for this investigation. Two Congressional

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Management UPDATE

continued

hearings before the Coast Guard and Maritime Transportation Subcommittee of the House Transportation and Infrastructure Committee were also held as a result of their complaints.

■ **Report says 2010 retail container volumes expected to be up nearly 15 percent.** Import cargo volumes at U.S.-based retail container ports are expected to see gains on an annual basis in December and for all of 2010, according to the most recent Port Tracker report by the National Retail Federation (NRF) and Hackett Associates. The report said that the first half of 2010 came in at 6.9 million TEU for a 17 percent year-over-year gain, with the full year expected to hit 14.6 million TEU for a 15 percent improvement from 2009's 12.7 million TEU—the slowest year since 2003's 12.5 million TEU. Back in 2008, volumes hit 15.2 million TEU, while the peak in 2007 was 16.5 million TEU.

■ **House votes to extend SAFETEA-LU funding for nine months.** United States House of Representatives voted to extend federal highway and transit funding in the form of a continuing resolution for another nine months, running from January 1, 2011, through September 30, 2011. This measure was part of a \$1.2 trillion federal spending bill, which will now head to the Senate for approval. This continuing resolution is the latest in a series that have been enacted to keep transportation spending afloat since SAFETEA-LU expired on September 30, 2009. This funding, that goes toward surface transportation maintenance, development, and construction, has been kept afloat by multiple continuing resolutions typically ranging from four to seven weeks to keep funding at current levels.

■ **Pacific Rim in focus.** The International Air Transport Association (IATA) announced that its board of governors has selected Tony Tyler, CEO of Hong Kong-based Cathay Pacific Airways, in a unanimous decision to fill the post of IATA director general and CEO following the retirement of the current Director General and CEO, Giovanni Bisignani, next year. For many industry watchers, it represented a long overdue move reflecting the dominance of the Asia Pacific air cargo market.

By IATA's own reckoning, Asia-Pacific airlines reported a 14.9 percent year-on-year increase in international freight demand, translating to an impressive 22 percent annualized growth rate for the region's carriers, reflecting the strong economic recovery particularly in China and India. With a 44 percent share of total freight traffic, the growth experienced by Asia-Pacific airlines played a large role in the uptick seen in overall industry freight volumes.

■ **U.S./Korea make progress on trade pact.** United States and Korea have reached a resolution regarding issues relating to the U.S.-Korea trade agreement. White House officials said that the agreement is an integral part of President Obama's efforts to increase opportunities for U.S. businesses, farmers, and workers through improved access for their products and services in foreign markets and also supports the Administration's goal of doubling U.S. exports by 2015. The White House added that the U.S. International Trade Commission has estimated that the tariff cuts alone in the U.S.-Korea trade agreement would increase U.S. exports by \$10 billion to \$11 billion and would eliminate tariffs on more than 95 percent of industrial and consumer goods within 5 years. This agreement, if approved by Congress, would improve U.S.-Korea relations on many fronts, including automobiles, manufacturing, services, agricultural products, investment, labor rights, and environmental commitments.

■ **Sino-US trade meeting endorsed.** The U.S. Chamber of Commerce has praised the Obama administration's efforts to deliver meaningful outcomes for American business at the bilateral dialogue to promote U.S.-China commercial relations. The governments announced commitments by China to crack down on intellectual property rights violators, legalize software, and reduce market access barriers. This year's U.S.-China Joint Commission on Commerce and Trade (JCCT) was held as Chinese President Hu Jintao prepares to visit Washington this month. "China's commitment to eliminate measures requiring local IP content and technology transfer as conditions to

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Management UPDATE

continued

compete in its marketplace is a step forward," said Myron Brilliant, senior vice president for International Affairs at the U.S. Chamber, following the 21st meeting of the JCCT. But Brilliant maintained that "confidence-building" measures in the commercial sphere—long the bedrock of U.S.-China relations—are the best antidote to rising concerns about the direction of the U.S.-China commercial relationship.

■ **Swift returns to "The Street."** Following its tenure as a publicly traded company from 1990-2007, freight transportation services provider Swift Transportation is now back on the New York Stock Exchange following its initial public offering last month. Media reports indicated that Swift will use proceeds from its IPO, which raised \$806 million, to pay down debt and interest rate swaps. Swift's ticker symbol on the NYSE is SWFT.

■ **Better connection.** INTTRA, an e-commerce platform for the ocean freight industry, began extending its network to enable all forwarders and shippers to gain the benefits of an electronic standardized business process through the INTTRA network, for both less-than-container load and full-container load shipments. With the introduction of INTTRA's NVOCC e-commerce platform, ECU LINE is now connected to the INTTRA network to receive shipping instructions from their shippers. According to the company, this follows a successful pilot program earlier this year with ECU LINE, the Antwerp-based global NVOCC, to receive shipping instructions electronically from its customers on the INTTRA network.

■ **Savannah spurs job growth.** Georgia Ports Authority's (GPA) Executive Director Curtis J. Foltz announced that GPA experienced growth in November 2010, which is consistent with the double-digit growth rates that have been experienced since December 2009. The Port of Savannah's Garden City Terminal handled 124,348 containers or 222,281 twenty-foot equivalent units (TEUs), representing increases of 12.5 percent and 11.5 percent respectively. Fiscal year 2011 overall container volume to

date (July-October 2010) reflects a 19.1-percent increase compared with the same time period in 2010. But perhaps the biggest story of all is that Savannah will see 100 new jobs by 2011, due to the sale of a 689,400 square-foot distribution center in DP Partner's LogistiPort Industrial Park to JLA Home, a global company specializing in home furnishing products.

■ **New Transpacific service.** In a development that represents a contrary trend in ocean cargo shipping, the Horizon Hawk departed Shanghai for Los Angeles last month on the inaugural voyage of the company's new Transpacific Five Star Express (FSX) service. The Hawk was deployed from Ningbo to Shanghai and arrived in Los Angeles before sailing on to Oakland and returning to Guam and China as part of its regular port rotation. According to Horizon officials, this return to international ocean service is the culmination of more than 12 months of strategic planning and timely project execution. Horizon is one of only a handful of remaining U.S. domestic ocean shipping and integrated logistics companies. Up until recently, the Transpacific has been almost the exclusive domain of mega-carriers organized in "talking agreements" on pricing and capacity control.

■ **More MOUs.** In the continuing story surrounding the Panama Canal expansion, the North Carolina State Ports Authority (NCSPA) appears to be writing the latest chapter. Joining scores of other U.S. East Coast cargo gateways in anticipation of the Canal's historic \$5.25 billion expansion, NCSPA CEO Thomas Eagar signed a Memorandum of Understanding (MOU) with Panama Canal Authority (ACP) CEO Alberto Alemán Zubieta. The ACP and NCSPA will work together to generate new business through the promotion of the "all-water-route," the route between Asia and the U.S. East Coast via the Panama Canal. Currently, 65 percent of the container volume at the Port of Wilmington and 60 percent of the breakbulk volume at the Port of Morehead City arrives via the Canal. According to Aaron Ellis, a spokesman for the American Association of Port Authorities, (AAPA), the trend toward signing more MOUs is not likely to end soon.

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Fifty Years Leading
the Industry

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Going up!

Volatile oil and diesel prices, capacity shortages, another looming driver crisis, and an improving economy have lead industry analysts across all modes to one conclusion: Shippers will have to shoulder some of the burden associated with escalating transportation costs this year. **28**

Cover illustration: Chris Gall



Logistics MANAGEMENT®

TRANSPORTATION BEST PRACTICES & TRENDS

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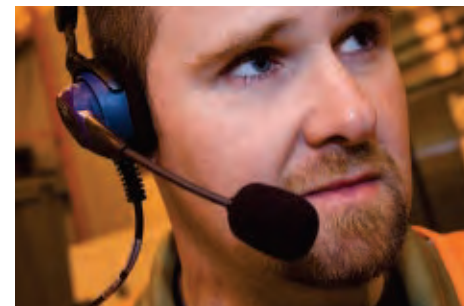
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◀ **SPECIAL REPORT**
LIFT TRUCKS:
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VIRTUAL CONFERENCE

Advances in Supply Chain Software and Technology

Thursday, February 24
 11:00 a.m. - 4:00 p.m. ET

www.logisticsmgmt.com/technology11

Logistics Management and *Supply Chain Management Review* are joining forces to present an information-packed virtual conference tracking *Advances in Supply Chain Software and Technology*. We've put together panels of experts to discuss the exciting new technology available in these critical areas of logistics and SCM—transportation, warehousing, global trade, and third-party logistics services. Attendees will learn what tools and technology are now available and how they can put them to maximum use in their organization.

Advances in Supply Chain Software and Technology will also feature a keynote session on advanced supply chain analytics—the new frontier of supply chain technology.

Conference sessions:

- **The Changing Face of Transportation Management Systems (TMS)**
- **5 Trends Driving Warehouse Management Systems (WMS)**
- **How Global Trade Management (GTM) Is Meeting the Compliance Challenge**
- **The Growing Role of 3PLs in the Technology Equation**

WEBCAST 2011 RATE OUTLOOK

Thursday, January 27 @ 2:00 p.m. ET

REGISTER:

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Join Group Editorial Director Michael Levans, Executive Editor Patrick Burnson, and a panel of leading energy and transportation analysts as they give shippers an updated look at the key drivers behind the increasing transportation rates U.S. logistics professionals will face over the course of 2011.

This panel of top oil and transportation analysts will update shippers on:

- The current state of the U.S. economy
- Where oil and diesel prices are headed and why
- Capacity and rate forecasts for trucking, air cargo, ocean cargo, rail/intermodal, and parcel express

Economic Update: Patrick Burnson, Executive Editor, *LM & SCMR*

Oil & Fuel: Derik Andreoli, doctoral candidate at the University of Washington & Harvard Business School Faculty Affiliate

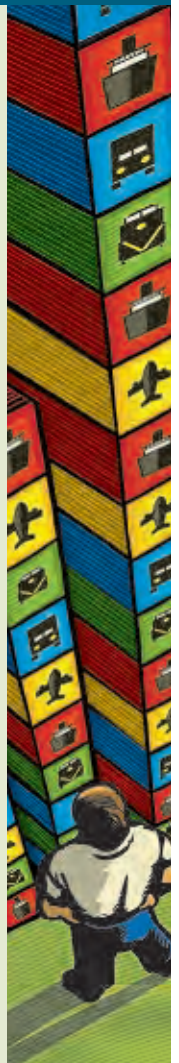
Trucking: John Larkin, managing director, Stifel Nicolaus

Air Cargo: Charles Clowdis, managing director for transportation & supply chain advisory services, IHS Global Insight

Rail/Intermodal: Brooks Bentz, partner, supply chain transportation, Accenture

Ocean Cargo: David Jacoby, president of Boston Strategies International

Parcel Express: Jerry Hempstead, president of Hempstead Consulting



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2011 Rate Outlook: Going up!

I'M CERTAIN THAT THE current economic environment has found many logistics professionals somewhat conflicted.

Drips and drabs of positive news continue to surface on logisticsmgmt.com, showing a slow, but steady improvement in consumer confidence along with indications that manufacturing is finally gaining some momentum. And while savvy shippers may be breathing a sigh of relief based on this data, many are quietly fretting over what an improving economy could mean to their logistics operations.

As we expose in our 2011 Rate Outlook (page 28), the concerns that had been mounting—volatile fuel costs, constraining capacity, higher rates—are certainly justified. This month, Executive Editor Patrick Burnson has done an exceptional job of reporting on how the current economy will affect transportation prices across the modes over the coming 12 months.

Well, the consensus across our panel of analysts has never been more clear: Continued volatility in oil and diesel, evaporating capacity, along with near-debilitating regulatory uncertainties facing the nation's motor carriers, will almost certainly force rates up in every transportation sector.

In my estimation, it's that regulatory limbo that should be sending the coldest shivers through the shipping community. As we've been reporting, the specter of a "natural capacity crunch" driven by a simple economic uptick could be greatly intensified depending on the outcome of unresolved hours-of-service (HOS) and Comprehensive Safety Analysis (CSA 2010) regulations.

The numbers could be staggering. As John Schulz recently reported, during the last great peak in trucking (2004), the industry found itself about 150,000 drivers short. According to analysts interviewed for

the 2011 Rate Outlook, the current uptick in volume could find us 100,000 drivers short this year.

However, depending on any changes to HOS or CSA 2010, that number could reach 300,000 or more out of the driver pool by 2012. "The hardest hit in 2011 will be the truckload sector which has more severe capacity restraints on drivers and equipment than the LTL side," trucking analyst John Larkin tells Burnson.

Concerned? Larkin and a host of transportation analysts will join Burnson in our annual live Rate Outlook webcast on Thursday, January 27 (logisticsmgmt.com/2011outlook). The panel will walk through rate predictions in each mode and will be available for a live Q&A period designed to help shippers get a better handle on what to expect in terms of rate fluctuations over the coming year.



First issue, January 1962

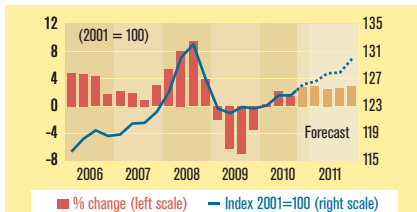
Editors Note: Readers will notice a colorful image on our cover and throughout the pages of *Logistics Management (LM)* over the course of 2011. This issue marks the beginning of our 50th year of publishing *LM*. And while the founding editors—who got things rolling under the title *Traffic Management*—might be pretty

impressed with how the Internet has revolutionized content delivery, I think they'd be comforted to know that many of the same challenges still face shippers today.

Michael A. Levans, Group Editorial Director

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

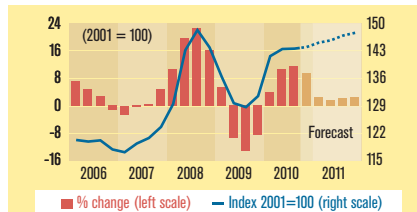
Pricing Across the Transportation Modes



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
General freight - local	0.0	-0.7	-1.3
Truckload	1.3	1.9	4.0
Less-than-truckload	2.2	3.1	3.8
Tanker & other specialized freight	0.2	0.3	2.6

TRUCKING

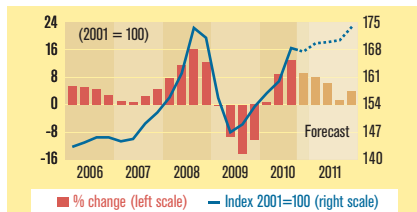
In November, TL prices increased 1.3% from the prior month as LTL prices also gained 2.2%. The rollercoaster ride that sent trucking prices up an unprecedented 11.1% from the first quarter of 2007 to third quarter 2008 only to be followed by a 7.6% price plunge to the second quarter of 2009 appears now as an anomaly for the record books. Over the past six quarters, aggregate trucking industry prices again have bounced around on a calm upward-trending trajectory, mirroring prior 2002-2006 trends. By the time December data rolls in, we expect trucking industry prices will have increased 1.7% in 2010. Our forecast for aggregate trucking industry prices shows a 2.8% gain in 2011.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Scheduled air freight	0.3	0.3	8.4
Chartered air freight & passenger	-1.1	1.6	1.3
Domestic air courier	0.5	-1.3	9.6
International air courier	-1.3	-3.1	9.0

AIR

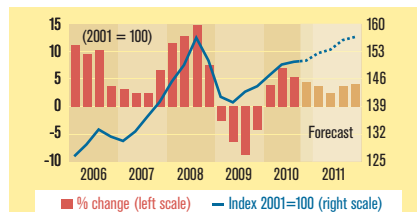
Prices for flying freight in the belly of scheduled flights flown by U.S.-owned airlines also rode a rollercoaster ride, up 26.4% from the first quarter of 2007 to third quarter 2008 and down 13.2% by the third quarter of 2009. By the third quarter of 2010, prices for airfreight on scheduled flights had almost completely regained its losses by flying 11.5% above its 2008 price trough. With 11 out of 12 months of data reported for 2010, it looks like the industry will be reporting an 8.7% annual price hike for the entire year followed by a 2.2% price hike in 2011. Prices for flying freight on chartered planes (again U.S.-owned planes only) appears headed for an 8.9% annual increase in 2010.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Deep-sea freight	2.8	2.9	16.4
Coastal & intercoastal freight	0.0	7.7	8.0
Grt. Lks.-St. Lawrence Seaway	1.1	1.6	4.5
Inland water freight	-9.1	-1.1	-4.6

WATER

U.S.-owned vessels hauling freight over water likewise fell victim to volatile fuel costs and exceptional price swings. Here prices soared 19.8% to a peak price set in the third quarter of 2008 and then fell 15.2% to a low point in the second quarter of 2009. Since then, average prices in the water transportation service industry have regained 14.5% and seem poised to continue on a more traditional and predictable inflationary path. Inland waterways carriers displayed price volatility in November as their prices (excluding towing) fell 10.7%. In the aggregate, however, water transportation prices will end up with a 7.8% price hike in 2010 followed by a 4.7% increase in 2011.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Rail freight	0.1	-0.3	4.4
Intermodal	0.6	0.3	4.4
Carload	0.0	-0.4	4.4

RAIL

Rail operators reported transaction prices soared 20.1% from the first quarter of 2007 to a peak in the third quarter of 2008. Yet the rail industry's peak-to-trough price decline was a relatively modest 10.5% and by the third quarter of 2010, average rail transportation prices stood only 3.9% below those peak price levels that made the record books a mere eight quarters earlier. Our forecast shows a steady upward trajectory for rail prices ahead, and by the end of 2011, rail prices will be setting a new peak. After a 5.1% annual price increase in 2010, we forecast a 3.5% annual increase in 2011. Looked at another way, the final quarter of 2011 will register a 4% price increase from the final quarter of 2010.

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



OIL AND FUEL

Logistics Management is pleased to launch a new column called "Andreoli on Oil & Fuel." This monthly column, written by Derik Andreoli, a doctoral candidate at the University of Washington, will update shippers on the latest news in the oil and fuel markets and explain the interactions between oil, fuel, and the future of logistics and transportation costs. Go to www.logisticsmgmt.com/oilandfuel.

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In from the cold, now let's change the game

AS WE WITNESS THE POLITICAL WINDS CHANGE yet again in Washington, I can't help but see the analogy to LTL negotiation meetings taking place across the U.S. With the easing of the "great recession" we're seeing a significant shift from shipper domination to carrier domination in rate negotiations.

Let's hope that the carriers will at last change the pricing game because shippers failed to do so during their ascendancy.

The U.S. freight market has been under a regime of LTL pricing that was designed to have collective "classification" of freight into groups roughly similar in handling characteristics. Items are rated as dense and/or low value (Class 50) to light and/or valuable (Class 250 or higher).

Hundreds of regulated carriers subscribed to this system through the National Motor Freight Classification (NMFC). To make this work, many carriers also adopted common rules tariffs reflecting similar policies on insurance, fuel, handling rates, billing, and interlining (sharing) loads.

The carriers have reached a point with the common tariff pricing tools and similar rules tariffs that they are granting 85 percent to 90 percent discounts off "base" rates. The next downturn in the economy could see 90+ percent discounts. Let's change the game with a goal of reducing cost of both shipper and carrier operations.

Like our political counterparts, there are voices for change. Colleagues Hank Mullen of Transolve, and Alan Van Boven of Supply Chain Visions are suggesting that transportation professionals throw out the old NMFC system and implement new dynamic pricing models based on dimension, value, variable insurance, fuel, and other factors that make up the real cost of transportation and handling of freight

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(see vestedoutsourcing.com/resources/whitepapers).

These models are closer to the air- and ocean-freight models, with cube-based prices, but they also allow for variation for back-haul, pallets, insurance, and other options. Further, there's talk of cooperation in financial settlement so that shippers and carriers share the same web-based rate table in real time—accessible by the carrier's pricing engine and the shipper's transportation management system (TMS). This would reduce rate subscription, audit, and invoice processing costs.

The new game involves new individual carrier tariffs (joint rate making was made illegal in 2008) and

Let's hope that the carriers will at last change the pricing game because shippers failed to do so during their ascendancy.

contract rates that reflect the customized needs of both the carrier and shipper for that business. A carrier should be able to dynamically fill trucks as an air carrier fills planes or an ocean carrier fills ships, and have the shipper's TMS tap into their mutually accessible confidential rate table with shipper-specific rules to take advantage of pricing and accessorials as needed on any given day of the week.

There has been a buzz about this, and we're aware of new "density" tariffs and "shipper contracts" being created. Web-based TMS products that give direct access to carrier pricing tables already exist. Shippers, carriers, and the supporting companies, including software and financial service providers need to step up now.

When shippers were dominating the pricing discussions over the past two years the carriers I spoke with said they would have to wait for a major shipper to change the game. Now the carriers are in from the cold and able to offer new deals. As with the politicians, I ask, are there any leaders in the house?

Next month we'll look at the impact that the parcel carriers have had on the LTL market and how shippers can leverage this change to maximize service and cost.

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PLM: The “new” strategic corporate asset

FOR MANY SUPPLY CHAIN EXECUTIVES, the mention of product lifecycle management (PLM) may conjure up the thought of an esoteric specialty practiced deep inside the engineering department.

But today's forward thinking supply chain decision makers see PLM as an essential cross-functional discipline for driving innovation, powering growth, managing costs, and improving pricing. The primary reason is focus: PLM's very essence—connecting the threads of a product's life, from development to disposal—parallels that of supply chain management (SCM), whose mission is integrating a product's flow from creation to conclusion.

Like SCM, PLM is not a new concept. However there are a host of new factors that conspire to make it considerably tougher than it once was to identify, design, and update new products and services that can be brought to market quickly, cost-effectively, and with high quality.

A primary factor is globalization. Take into consideration that the rudder of Boeing's new Dreamliner 787 is made by Chinese aircraft systems makers; or that more than half of all product innovations emerging from Procter & Gamble include at least one major component from an external partner.

A related challenge is the increasing collaboration with third parties. Nearly 40 percent of respondents to a recent Accenture survey report that they have outsourced more product development in the previous three years. Working with, and aligning, external product and service providers is clearly a pan-enterprise, supply-chain-relevant activity—not one that is limited to an organization's design or engineering functions.

SCM is further complicated by the growing use of embedded software and systems in products (like the OnStar system in GM vehicles or the wash-cycle programs in Miele washing machines). Mechanical and electrical systems and embedded software must come together, which strongly implies supply chain involvement in areas such as sourcing & procurement, logistics, and service management.

Mark Pearson is the managing director of 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

REPAINTING THE BIG PICTURE

For all the reasons listed above, it's tougher for supply chain executives to plan for growth through innovation. It's harder to hit ever-narrower market windows, and it's harder to launch products with the balance of cost and quality that generates success in new markets. Moreover, no single action—PLM focused or otherwise—will alleviate the problem.

However, an end-to-end strategy that spans multiple solutions and accommodates business processes and data from many functions is certainly essential. In effect, advances in PLM align increasingly with the skill sets resident in supply chain management. Following are five related moves that illustrate this connection:

1) Create an enterprise-wide framework:

A good starting point for optimizing PLM may be breaking down and reevaluating current PLM capabilities: reviewing all processes, applications, metrics, data, and organization issues that underpin product-development process flows. When an objective view of each parts' performance and maturity is completed, a new process may be constructed that positions PLM as a cross-functional discipline that connects all corners of the PLM landscape—not unlike supply chain management.

2) Link the new PLM framework's capabilities to primary priorities: This linkage should emphasize five to 10 metrics that track the effectiveness and efficiency of the company's innovation and product-development outputs. These metrics should transcend any one department or function. They might relate to pipeline throughput, cost of engineering, reuse of platforms or components, or resource utilization. For instance, if plans call for more new products to be developed in lower-cost countries, the PLM framework would link that objective to the corresponding capabilities and metrics in global collaboration.

3) Position PLM as an investment: By deconstructing their PLM capabilities and confirming priorities, companies may be better able to look at PLM as an investment—analyzing trade-offs, projecting paybacks and measuring the impact of projects over time. Following such an exercise, one high-technology company shifted its PLM emphasis to software-based product development

rather than mechanical design.

4) Build a single enterprise PLM roadmap: The objectives of a PLM roadmap include improving the capabilities that underpin the product-development process; identifying and eliminating redundant or conflicting projects; and increasing PLM adoption rates. At one company, this exercise exposed six disconnected investments in just one of the 30 discrete PLM capabilities it identified.

5) Own, review, and update the framework and roadmap: Similar to customer relationship management, supply chain management, and enterprise resource planning, most companies are best off with a single, formal organization to advance and support the PLM journey. The idea is to ensure that PLM becomes part of the company's innovation fabric rather than a one-time project or program.

Critical PLM questions span the supply chain

Concept	Planning	Design	Validation/test	Ramp	Operations	End of life
<ul style="list-style-type: none"> • How do we determine and document the features that consumers really value? • How do I best capture and use innovative ideas? • Can the product be built down to a cost that new consumers in emerging markets can afford? 	<ul style="list-style-type: none"> • What will we design ourselves? • What can we reuse from our portfolio of parts, assemblies, and platforms? • Do we have the resource skills and capacity we need to develop this product? • How do we set and track project and product target costs? 	<ul style="list-style-type: none"> • Which features will we design with mechanical, electrical, integrated circuit and software solutions? • Can 3D virtual prototyping and simulations reveal potential snags in performance, tooling, and manufacturing? 	<ul style="list-style-type: none"> • How do we ensure that the design simulation really demonstrates the product's performance and reliability? • Does our testing plan properly coordinate all design areas: software, mechanical, electrical? 	<ul style="list-style-type: none"> • As production volumes grow, how do we track, analyze, and respond to quality issues? • How do we tie our PLM to our supplier management systems? • What mechanisms do we have for incorporating service and repair data? 	<ul style="list-style-type: none"> • How do we ensure that our PLM, ERP, and SCMR systems are all in sync? • How efficiently can we manage engineering changes for new features and fixes? • How easily can we extend this design to launch new products? 	<ul style="list-style-type: none"> • How much of the product has been designed for recycling? • Has the manufacturer factored in costs of assuming responsibility for end-of-life disposal of electronic parts?

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- **Few satisfied with HOS proposal, p. 22**
- **IBM study hones in on supply chain, p. 24**

Rate hikes are sticking amid sector capacity concerns

With an unprecedented two general rate increases taking effect in the past 12 months, leading LTL carrier executives are reporting that the sector's outlook is beginning to brighten.

By John D. Schulz, Contributing Editor

WASHINGTON, D.C.—It's been quite a while since less-than-truckload (LTL) carrier executives were able to see the word "profit" at the bottom of their financial reports. Some are half-jokingly reporting that they need to go to the dictionary to check the meaning of the word. But sure enough, they've found it, right there between "persistence" and "quarterly net gains."

The beleaguered LTL sector underwent a massive downsizing in 2009. According to figures compiled by trucking market analysts SJ Consulting, the sector shrank some 25 percent from \$33.8 billion in 2008 to \$25.2 billion last year. Some of that business returned in 2010, as preliminary estimates show the sector rising to \$27.5 billion.

When you dig into the numbers you'll find that a significant portion of that lost business in 2009 was driven by the financially-ailing LTL giant YRC Worldwide. Because of closed or sold units, and a reduction in its national footprint, YRC shrank from about a \$10 billion company two years ago to about \$5 billion today.

It wasn't just YRC's downsizing that affected the sector. Parcel giants UPS and FedEx continued to "cherry pick" the

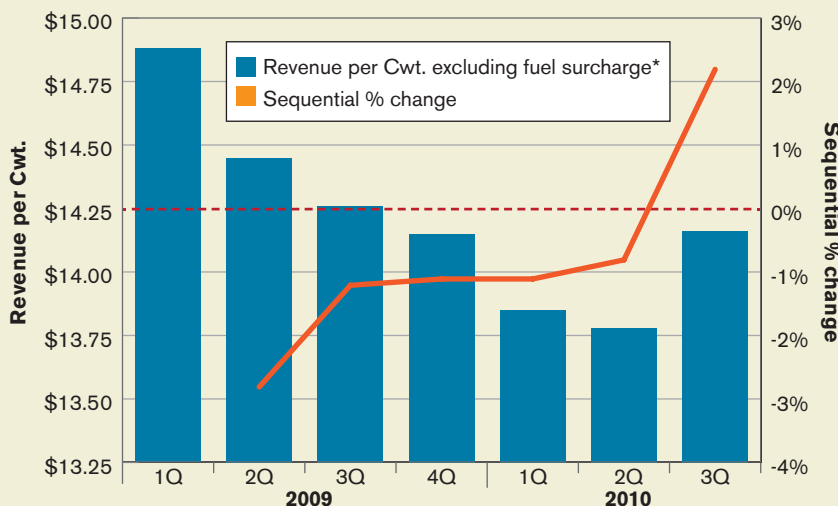
best LTL business, offering deep discounts to its existing parcel shippers. Also, truckload carriers and 3PLs such as C.H. Robinson were offering services that consolidated former LTL shipments into more efficient, cheaper truckload moves.

Yet leading LTL carrier executives are reporting that the sector's outlook is finally brightening. Already, an unprecedented two general rate increases have taken effect in the past 12 months, with a majority of those 5

percent to 6 percent rate hikes sticking with most customers. And with a future likely to include a reduction in drivers' hours of service and greater scrutiny of unsafe drivers, those factors are likely to further squeeze overall truck capacity, analysts say, further aiding the LTL sector.

"I'm somewhat optimistic for 2011," said Chuck Hammel, president of Pittsburgh-based Pitt Ohio Express, a leading regional LTL carrier. "I think the worst is behind

Rate hikes are sticking
(LTL yield trend: 1Q 2009-3Q 2010)



*Weighted average of public LTL carriers
Source: Company reports, SJ Consulting Group, Inc. estimates

us and we should see slow but steady growth.”

Hammel said the major factors influencing LTL carriers right now are an uncertain overall economic future, carriers that are adding capacity, and the pending CSA 2010 regulations, which some carrier executives say has the potential to remove as much as 10 percent of overall truck capacity off the nation’s highways.

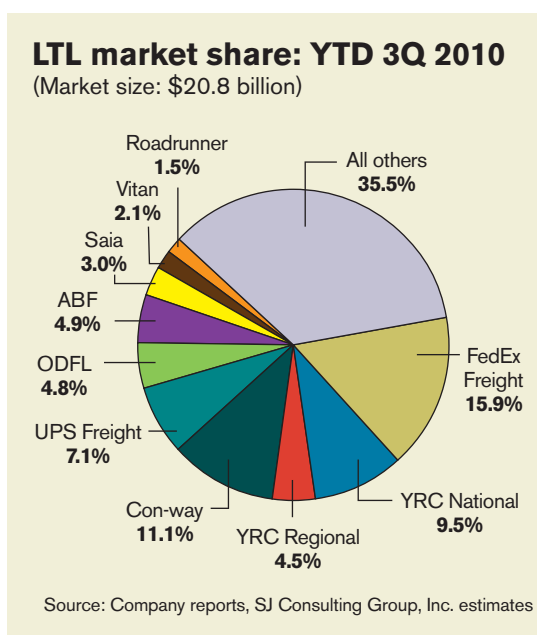
Hammel added that Pitt Ohio has been able to increase overall rates in 2010 between 2 percent and 5 percent, depending on customer, traffic lane, and other freight characteristics. Other LTL carrier executives are reporting similar success, mostly on a customer-by-customer basis.

“I’m not sure what to think regarding capacity moving forward because there seems to be quite a few carriers adding equipment and drivers,” Hammel said. “As long as that continues to happen rates will lag behind demand.”

David Ross, trucking analyst for Stifel Nicolaus, recently noted that third-quarter tonnage for the publicly held LTL carriers—which represents about two-thirds of all LTL tonnage—rose 11 percent year-over-year. Most LTL carriers are reporting what Ross called “solid volume growth” and market share gains over the much-depressed levels from third quarter of 2009.

The biggest market share gainers were FedEx Freight, Old Dominion Freight Line (ODFL), Saia, and Roadrunner, Ross said. The latter two were the only two LTL carriers reporting both above average growth in tonnage and yields, Ross said, noting both carriers have spare capacity in their networks and already are profitable at current rate levels. In fact, ODFL was the only publicly held carrier to report a sub-90 operating ratio (89.9) during the third quarter of 2010.

Despite some overcapacity plaguing the LTL sector, analysts are heartened by the fact that several leading LTL carriers have carried out what Ross calls “an unprecedented second round” of general rate increases that occurred during the peak season between August and October. These increases, which Ross estimated have applied to between



20 percent and 40 percent of the carriers’ overall business, “have been sticking better than normal,” he said.

All this translates into pricing power shifting back to the LTL carriers after several years of “advantage-shipper” rate negotiations. And with the general U.S. economy on the rebound, Ross is predicting price increases of between 4 percent and 5 percent for 2011 and 2012 in the LTL sector.

“This could be better than 2004 pricing because it’s a supply-driven tightness,” Ross told *LM*. “We anticipate very tight capacity in trucking.”

Analysts noted that there are two types of trucking capacity—infrastructure capacity (terminal doors, etc.) and active capacity (trucks, drivers, dockworkers). While there is an oversupply of the first, there is not an oversupply of the latter, Ross said.

“In general, active capacity is fairly tight in the LTL sector,” Ross said. “There are no capacity shortages right now, but supply and demand are pretty close.”

Other incidental indices charting overall economic demand are backing the analysts’ predictions of higher rate expectations in the LTL sector.

Satish Jindel, principal of Pittsburgh-based SJ Consulting, said the overall U.S. economy is what is driving the economic conditions in LTL. But he worries that the economy is growing only because of

artificial, one-time-only government stimuli—not because the nation is actually creating additional wealth.

“I don’t see our economic condition in 2011 being any better than it was in 2010,” Jindel predicted. “I don’t see any noticeable improvement in shipment volumes or tonnage in 2011.” Because of that economic drag, Jindel is predicting LTL rate increases of about 3 percent in 2011, excluding any rise in fuel surcharges (currently running about 23 percent, based on \$3.20 per gallon diesel).

“The only way the LTL industry can make performance better is by taking capacity out to get pricing

up, or by expanding into the territory of other businesses,” Jindel said. “The LTL guys are going to have to attract those 200-pound to 400-pound shipments that UPS or FedEx is taking, or by attracting those 7,000-8,000 pound shipments that the truckload guys have. They have to expand their market.”

PARCEL EXPRESS

USPS preps for Priority Mail Regional Rate Box debut

WASHINGTON, D.C.—In November, the United States Postal Service (USPS) heralded the release of a new service geared specifically for shippers mailing on a regional basis, entitled the Priority Mail Regional Rate Box.

This box is comprised of USPS-supplied packaging in two sizes for its shipper-focused Commercial Base and Commercial Plus customers. This new offering, according to the USPS, offers zone-based pricing with flat rates up to a maximum of 15 pounds for the cubic-size box measurement of .21 cubic feet and a maximum of 20 pounds for the cubic-size measurement of .41 cubic feet, along with reductions in volume

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“Cube-based pricing has already been in place at the USPS, but it was only available for shippers mailing 400 packages per day. Now the threshold is much lower,” said Doug Caldwell, principal of ParcelResearch.

Lowering these thresholds is part of the USPS’ strategy to go after larger mailers, with discounts available at their fingertips, according to USPS Vice President of Shipping Services Gary Reblin.

Among these discounts, which take affect along with the Priority Mail Regional Rate Box on January 2, are a relatively modest 3.2 percent and 2.0 percent across the board increases for Commercial Base and Commercial Plus pricing, as well as lower volume thresholds for Commercial Plus customers to qualify for discounted pricing, which include minimums of 75,000 pieces per year for Priority Mail packages and 5,000 pieces per year for Priority Mail flats, among others.

“We recognize and want to go after the larger mailer and want to have discounts available without any surcharges so they can take advantage of this and be able to plan their yearly spend,” said Reblin. “We think budgeting is a huge advantage to what the USPS offers.”

And a significant part of helping shippers manage budgets was to offer them price points that make

sense, he explained.

When speaking with shippers, Reblin said he heard that the biggest concern with flat rate boxes had to do more their regional mailing habits. He explained that 48 percent of all packages are shipped in Zones 1 through 3, with flat rate boxes going out to Zone 8. The USPS sells this service at an average price between Zones 4 and 5. However, Reblin added that smaller

shippers do not want to pay an average price for Zones 4 through 5 and want something that is better designed for them.

“What we looked to do was take the same concept of ‘if it fits, it ships’ and put the zone price on it so that those regional shippers would say that this is something you can get a good price on for going local Zones 1-2.”

—Jeff Berman, Group News Editor

WASHINGTON

Few satisfied with federal government’s latest HOS proposal

WASHINGTON, D.C.—The federal government, which has been tinkering with truck drivers’ hours of service (HOS) regulations for at least 11 years, is assured of going into 2011 with more unfinished HOS business.

The Federal Motor Carrier Safety Administration’s (FMCSA) latest proposal, issued on December 23, wasn’t exactly what the trucking industry was looking for from its regulatory Santa Claus. Instead of clarity, truckers and shippers got hit with more uncertainty. And instead of easy-to-follow instructions, the industry got a laundry list of rules with exceptions, loopholes, and other provisions that would make Rube Goldberg blush.

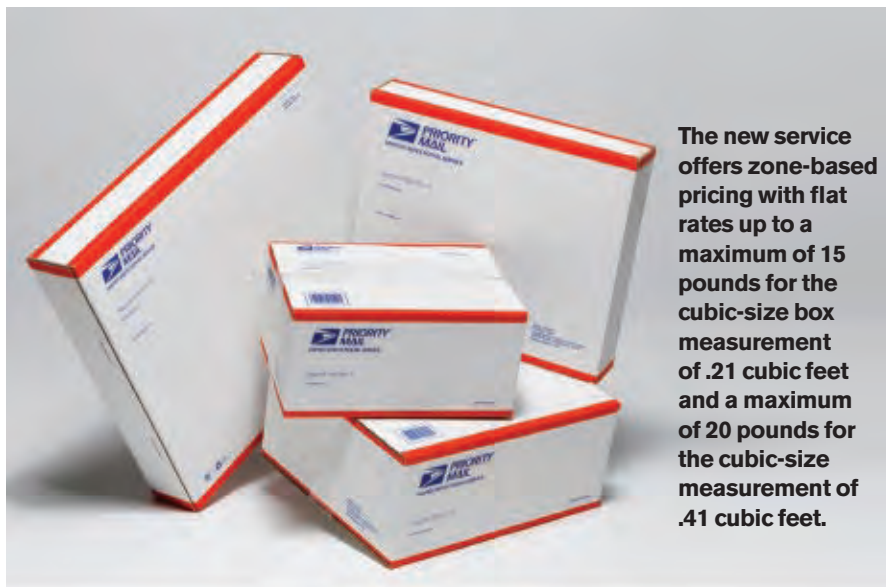
According to American Trucking Associations’ (ATA) President and CEO Bill Graves, the proposal is “overly complex, chock full of unnecessary regulations on professional truck drivers, and, at its core, would substantially reduce productivity.”

In its attempt to finally get the hours of service rules “right” for professional truck drivers, Graves added that the Obama administration “missed the mark in many ways” with its proposal—which was delivered two days before Christmas, when most of the country was looking the other way.

According to Graves, the FMCSA punted on the most basic portion of the rule: How long can a truck driver drive in a day? Instead of issuing a hard-and-fast rule, FMCSA is seeking further public comment on whether daily driving time should be reduced from the current 11 hours to 10 hours. However, FMCSA says it now favors a 10-hour limit, which represents a one-hour reduction from current rules. Instead, FMCSA called for a 60-day comment period before deciding that critical element of the regulations. It also held off on altering the current 60-hour or 70-hour workweek windows.

FMCSA is now leaning toward reducing the maximum daily working-time window by an additional hour and abolishing the 34-hour restart as it exists today—but even that’s complicated.

The new rules would retain a por-



The new service offers zone-based pricing with flat rates up to a maximum of 15 pounds for the cubic-size box measurement of .21 cubic feet and a maximum of 20 pounds for the cubic-size measurement of .41 cubic feet.



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tion of the “34-hour restart” provision by allowing drivers to restart their weekly clock by taking at least 34 consecutive hours off-duty. However, the restart provision would be revised by requiring that it include two consecutive off-duty periods from midnight to 6:00 a.m. Drivers would be allowed to use this restart only once during a seven-day period, essentially creating a mandatory “weekend.”



Other proposed changes include:

- Decreasing daily “on-duty” time from a maximum 14 hours to 13 hours. Drivers would continue to be allowed to drive either 10 hours or 11 hours within a 14-hour window.

- Requiring a minimum 30-minute break after a maximum of seven hours driving or working in order for a driver to continue driving.

- Permitting the standard 14-hour window to be extended to 16 hours twice a week. However, this does not mean an increase in on-duty or driving time, only that the driver would have more time to complete tasks.

Shippers and truckers are hoping that the FMCSA has a large folder for its comments. “The changes proposed will be enormously expensive for trucking and the economy,” said Graves.

When the rule was last changed in 2004, trucking companies spent millions retooling their networks and computer systems to accommodate the extra hour of driving time, even though the overall on-duty time shrunk as the government began to count waiting and unloading time as time “on duty.”

Now shippers and the industry face more delays and cost, as the prospect of that 11th hour of driving appears to be on the cusp of being taken away. Companies that fail to comply could face fines up to \$2,750 per offense, with drivers subject to \$1,000 fines per offense.

According to the ATA, the trucking industry is prepared to deluge FMCSA with statistics, data, and other examples of how the 2004 rules are working for the benefit of shippers, industry, and the general public. For example, the trucking industry’s safety performance while operating under the current HOS rules “has been remarkable,” Graves

said.

In fact, crash-related fatalities are down 33 percent from the 2003 level. Fatality and injury crash rates are also at their lowest level since the DOT began keeping records. “Trucking’s never been safer,” said Graves.

Two years ago, FMCSA estimated that the cost to reduce one hour of driving time would be more than \$2.2 billion. If that extra hour of driving were

eliminated, it’s very likely that ATA and other trucking interests would challenge the ruling in court, officials strongly hinted.

The government’s latest proposal also includes a host of additional restrictions. It more specifically defines when drivers must take their rest, and how they can use their non-driving on-duty time for tasks such as loading and unloading.

“Certain aspects of the rule appear to reduce overall daily work time available to truck drivers, which concerns us,” said John Hausladen, president of the Minnesota Trucking Association. “Lost hours have a huge ripple effect, including slower deliveries, reduced take-home pay for drivers, and lost revenue for trucking companies hoping to expand or replacing older equipment.”

The key issue, however, appears to be what the government will eventually decide on that 11th hour of driving, and what the ripple effects and other unintended consequences would mean for the fragile state of the overall United States economy.

—John D. Schulz, Contributing Editor

SUPPLY CHAIN

IBM study hones in on supply chain complexity and future methods to address related issues

NEW YORK CITY—While operating a global supply chain network has myriad advantages for shippers, it has its challenges as well. Some of these challenges include things like a lack of visibility into various information sources as well as other varying complexities that can influence daily operations and performance.

This was a major takeaway from a recent study published by the IBM Institute for Business Value, entitled *New rules for a new decade, a vision for smarter supply chain management*. For this study, IBM surveyed 664 supply chain management executives in 29 countries.

The study found that “complexity exacerbates the host of challenges these executives must manage on a daily basis.” And at the top of the list for complex items effecting supply chains are global economic turmoil and uncertainty.

The main related challenges for these issues, according to the study’s findings, are volatility or fluctuation in customer demand for things like increased requirements for sustainable products and services and heightened expectations for responsiveness, uncompromising quality, and low cost. Other notable challenges cited in the study were visibility—or the need for



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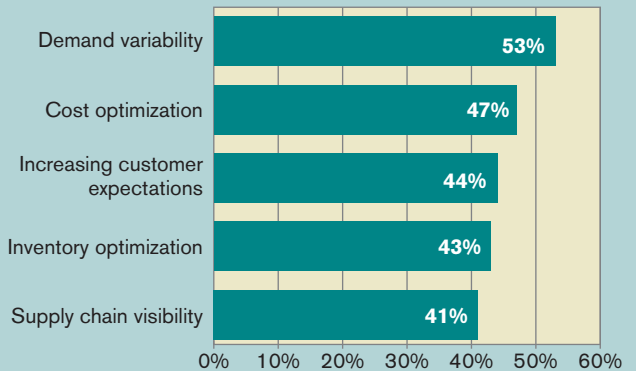
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NEWS & ANALYSIS

Top supply chain challenges

(Survey of 664 supply chain executives in 29 countries)



Source: IBM Institute for Business Value

accurate, time-sensitive information—and value—the pressure for supply chain management and operations to create value on an enterprise level.

“Demand variability was constantly off the charts when analyzing this data,” said Karen Butner, the study’s author and global supply chain management leader for the IBM Institute for Business Value. “Getting customer order demand and customer forecasting with all of the volatility in the marketplace, it was clear that this was the biggest challenge across the industries we surveyed.”

And due to demand variability, Butner explained that all global logistics constraints, whether it’s at ports, rail yards, warehouses and distribution centers, or other global multi-channel environments, all tend to revolve around demand management, forecasting, sales and operations planning.

While it’s clear that there are various sources of complexity and obstacles for supply chain executives to overcome, IBM points out that there are three new rules, which will be required to topple these hurdles throughout the next decade, including:

- know the customer as well as yourself;
- see what others do not; and
- exploit global efficiencies.

“Predictive demand and the types of things shippers are planning to do in the next couple of years...focuses on advanced analytics and anything that leverages intelligence,” said Butner. “In the retail industry, there are consumer buying patterns and market intelligence that can be used, as well as the automotive sector or anything else that depends on consumer.”

Butner added that the level of dynamic optimization referenced in the third rule applies to inventory and network optimization, as well as cost structures. “Anything they can do to find a way in their system to optimize—or in their processes to yield optimal improvements—is being done way beyond that,” said Butner.

—Jeff Berman, Group News Editor

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GOING UP!

Volatile oil and diesel prices, capacity shortages, another looming driver crisis, debilitating regulatory uncertainties, and an improving economy have lead industry analysts across all modes to one conclusion: Shippers will have to shoulder some of the burden associated with escalating transportation costs this year.

BY PATRICK BURNSON, EXECUTIVE EDITOR

The good news is that an economic recovery is clearly underway, with demand in goods and services keeping pace with the modest predictions *Logistics Management* presented six months ago in our 2010 mid-year forecast. But many analysts say that the overall economic picture in 2011 will begin with a whimper rather than a roar.

For shippers, this means tighter “spend management” when it comes to choosing modes and routing as they’ll be called upon to shoulder some of the burden associated with escalating transportation costs this year.

In its most recent survey, the National Association for Business Economics (NABE) projects a sluggish start. “Projections for real GDP growth remain sub-par through the first quarter of 2011, but accelerate gradually through the forecast period,” says NABE President Richard Wobbekind, who also serves as associate dean of the Leeds School of Business at the University of Colorado. “For next year as a whole, GDP growth is expected to be moderate.”

Wobbekind adds that factors restraining growth include ongoing balance sheet restructuring by consumers and businesses, as well as a diminished contribution to GDP growth from

inventory restocking and government stimulus. “Confidence in the expansion’s durability is intact, but NABE panelists remain concerned about high levels of federal debt, a continuing high level of unemployment, increased business regulation, and rising commodity prices,” he says.

Due to an uptick in consumer confidence at the end of last year, the NABE panel made modest revisions to its economic growth predictions for 2010 and 2011. Real GDP is now expected to advance 2.7 percent (year-over-year) in 2010, a figure with which economists outside of the NABE panel seem to be comfortable.

“While spending throughout the retail industry was varied, it appears that the fourth quarter of 2010 gave us a solid start,” says National Retail Federation (NRF) Chief Economist Jack Kleinhenz. “Consumer spending continues to show marked improvement, even though we expect them to proceed with caution.”

This cautionary note was also sounded by Chris Christopher, Jr., senior principal economist at IHS Global Insight. “Our worst-case scenario is a ‘double-dip,’” says Christopher. “And we don’t see that happening. But even our best-case scenario hardly makes consumers want to break out the champagne. It will be a very soft recovery.”

ILLUSTRATION BY CHRIS GALL

FUEL

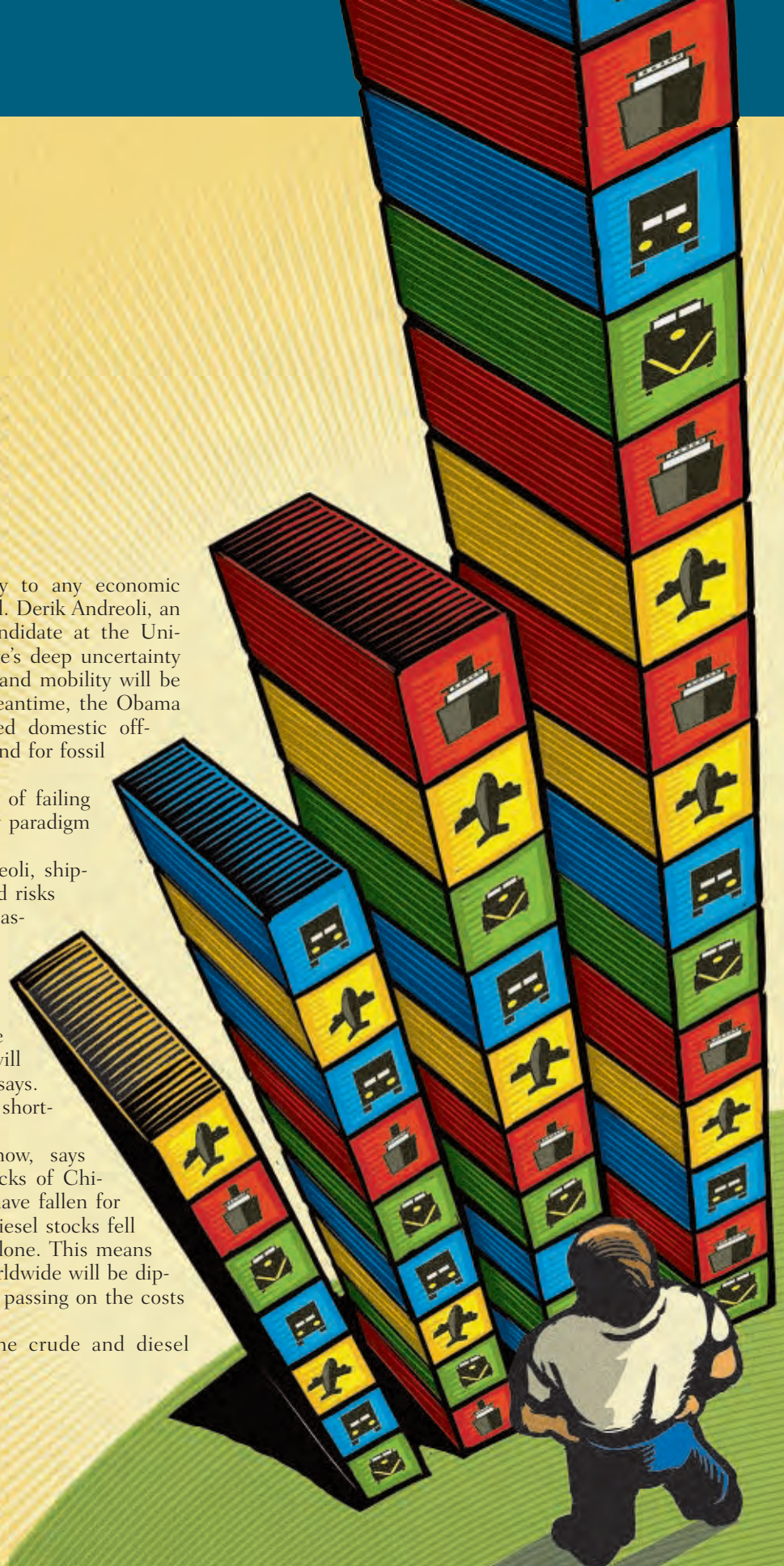
Analysts also agree that key to any economic rebound will be the price of fuel. Derik Andreoli, an energy analyst and doctoral candidate at the University of Washington, says there's deep uncertainty in how energy for power, heat, and mobility will be sourced and paid for. In the meantime, the Obama Administration recently curtailed domestic off-shore drilling while global demand for fossil fuels continues to surge.

"The potential consequences of failing to plan for the unfolding energy paradigm could be catastrophic," he says.

At the same time, says Andreoli, shippers must address energy-related risks to supply chains and the increasing vulnerability of just-in-time models. "On my radar, the hot topic at the current moment is China's diesel shortage and how an increase in demand for diesel imports will affect prices through 2011," he says. "It is unclear whether the diesel shortage will reverse in the spring."

What shippers need to know, says Andreoli, is that refined oil stocks of China's two largest oil companies have fallen for eight consecutive months and diesel stocks fell by double digits in December alone. This means that transportation providers worldwide will be dipping into a common well, while passing on the costs to shippers.

Analysts also expect that the crude and diesel



markets will remain volatile due to the fact that the recession and the temporary drop in the price of crude caused some investments in transport assets to be put on hold. Meanwhile, in its short-term outlook, the U.S. Energy Information Administration (EIA) is calling for 2011 crude oil prices to hit \$85.17 per barrel, thereby setting a new average.

TRUCKING

Stifel Nicolaus analyst John Larkin agrees that energy markets will be tight, and trucking fuel prices will continue to rise. "I believe the EIA's estimation on the price of oil is accurate, and if the LTL capacity remains restrained, shippers will have to accept the rate range given," says Larkin.

Larkin is among the many industry insiders who believes that capacity will come under even more pressure in the second quarter of 2011, with rates rising by as much as 4 percent. "With manufacturing of durable goods ramping up, it's only a matter of time before there's a surge in consumer demand for things like household appliances," he adds.

Larkin isn't only concerned about fuel and capacity issues impacting rates, however. He also points to pending changes in the current hours-of-service rules as well as the new Comprehensive Safety Analysis (CSA 2010) that many trucking analysts and insiders are predicting could push up to 300,000 drivers out of the current labor pool by 2012.

"Taking the hardest hit in 2011 will be the truckload (TL) sector which has more severe capacity restraints on drivers and equipment than the LTL side," adds Larkin.

For Brooks Bentz, a partner in Accenture's supply chain management practice, rumors of capacity issues in trucking are real, but should not push shippers to the edge of panic. "The long-term circumstance is that there's latent capacity in the trucking business that will appear when rates reach a point that make it attractive for that to happen," says Bentz. "This means that those carriers with assets idled by the downturn in volume, or those who have been reluctant or conservative in re-

engaging those assets, will begin to do so as prices make it an attractive business proposition."

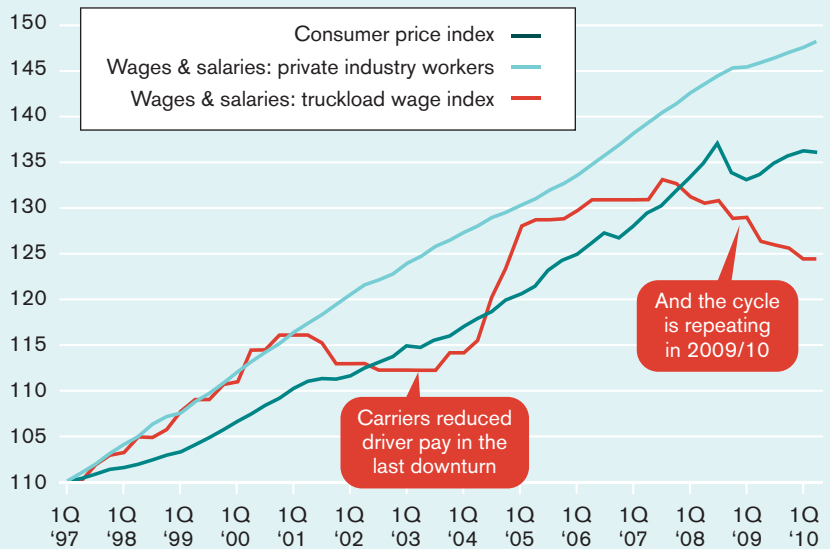
Bentz also notes that trucking has the lowest barriers to entry and the largest number of service providers. "As one of my for-

mer colleagues used to say: 'There's always someone new willing to go bankrupt.'"

RAIL

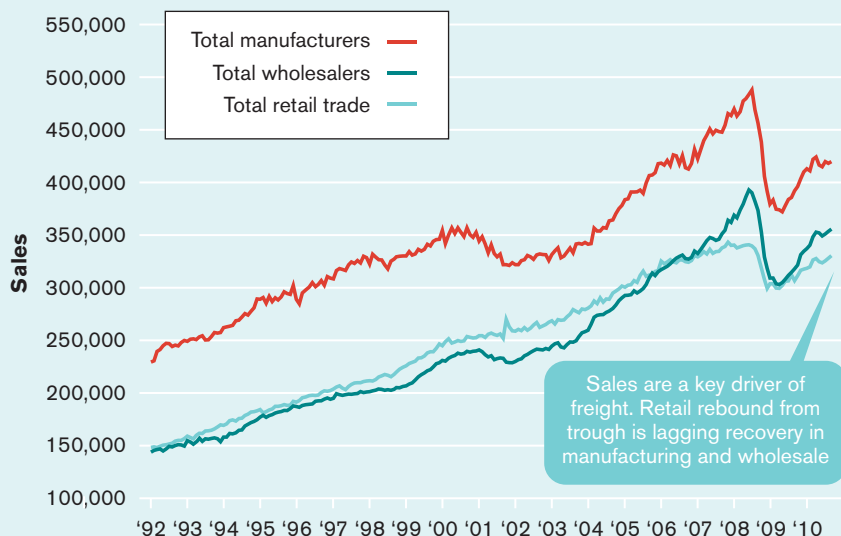
Bentz is equally confident about rail rates, which he sees rising, but

Starting driver pay (per mile) for drivers with 3 years experience vs. inflation



Source: National Survey of Driver Wages and Morgan Stanley Research

Manufacturing and trade sales, seasonally adjusted



Source: US Census, Morgan Stanley Research

not steeply. “The large-scale unfunded mandate to implement Positive Train Control (PTC), coupled with the requirement to upgrade and expand network capacity, is going to require significant infusions of capital that are beyond the present ability of the carriers to privately fund entirely on their own,” he says.

Benefits associated with PTC—such as increased fuel efficiency or locomotive diagnostics—bring added expense, Bentz adds, noting that wireless data systems contribute to operational cost. The consequence could be somewhere in the range of a 3-percent to 4-percent rate hike.

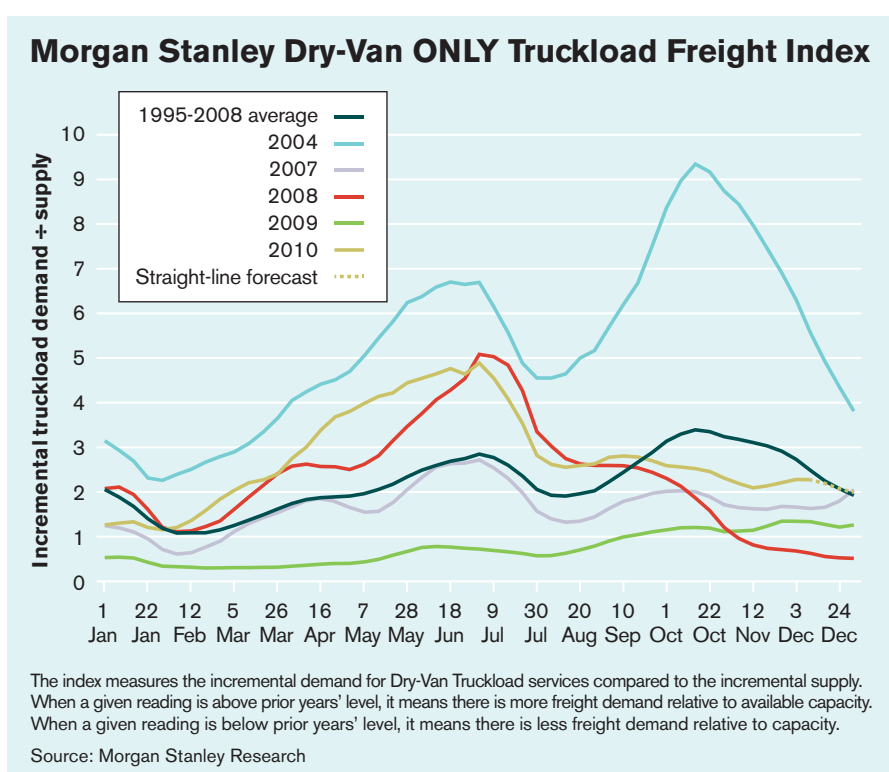
Anthony Hatch, principal of New York-based ABH Consulting, a transportation and financial advisory, says that shippers are considering adding rail service and “wallet share” to ensure capacity in the next cycle. “It will also reduce overall logistics expense, guard against another fuel price spike, and comply with coming carbon emissions changes,” says Hatch. “Rail is on a modal share upswing, and shippers need to be ahead of the coming wave if at all possible.”

However, Hatch says that domestic intermodal growth is entirely dependent on a higher level of service than the rails have ever shown before. “The railroads have proven that they are up to it, but not on a consistent basis,” he adds. “Service levels are also the key to making investors happy, not just from above-GDP volume growth, but by creating operating leverage and making regulators content.”

AIR CARGO

Air cargo shippers may expect to begin bearing some of the burden of higher fuel rates early this year, say some analysts. “There’s no question that escalating prices for fuel will be passed on,” says Charles Clowdis, managing director of transportation for IHS Global Insight. “And having managed their capacity well during the downturn, carriers can get the money to cover their costs.”

Still, even when carriers raise rates



by 2 percent to 3 percent, their margins will remain thin, he adds.

Unlike the ocean cargo sector, says Clowdis, capacity can be reintroduced without much retooling or redeployment. “Air carriers are using the same avionics and equipment parts,” he says, “so getting a plane back in the air is not as tough as getting a ship out of the mothball fleet.”

Over the course of 2011, Clowdis says that large volume air shippers may mitigate some of this cost by chartering dedicated freighters when they can. “Right after last year’s Black Friday, American Eagle began using a direct flight from Shanghai to Pittsburgh,” he notes. “Not every major retailer can get away with that kind of strategy, but if the demand is there, it’s worth looking into.”

And as of right now, demand appears to be surging. According to The International Air Transport Association (IATA), while the U.S. is spending more to boost its economy, Asia, outside of Japan, is barreling forward with high-speed growth, and Europe is tightening

its belt as its currency crisis continues.

“The picture going forward is anything but clear, but for the time being, the recovery seems to be strengthening,” says Giovanni Bisignani, IATA’s director general and CEO.

OCEAN

Along with improved collection of floating bunker and inland fuel charges, all of the major ocean carriers are poised to hike rates by a significant margin in 2011.

Indeed, vessel operators comprising the Transpacific Stabilization Agreement (TSA) have “suggested” rate increases of \$400 per 40-foot container (FEU) for cargo moving to U.S. West Coast ports and \$600 per FEU for all other cargo are likely to be imposed by May 1, 2011.

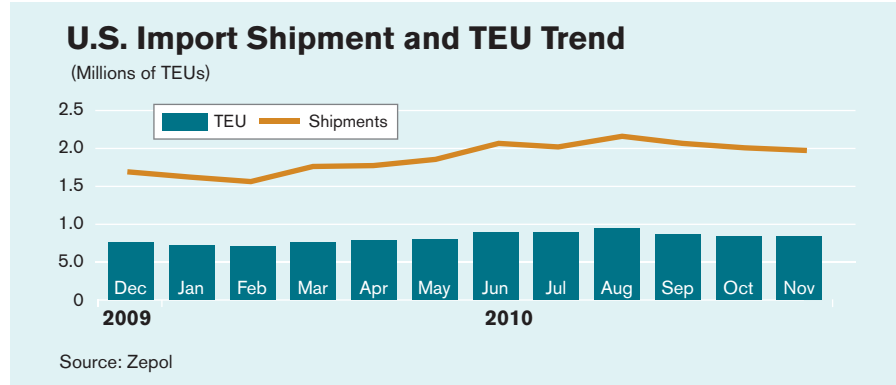
“It’s unfortunate that this is being done before there can be any change to the Shipping Act,” says Michael Berzon, outgoing chairman of the National Industrial Transportation League’s (NITL) ocean cargo committee.

The Shipping Act of 2010, introduced

by Rep. James Oberstar (D-Minn.), would abolish carrier antitrust immunity and prevent carrier executives from convening so-called “discussion groups” used to formalize rate strategy. Unfortunately, for shippers, Oberstar failed to win re-election in last November’s election and there’s considerable doubt that the Act will be resurrected in 2011.

“Carriers can raise rates in lockstep now, without any concern that such behavior represents a violation of anti-trust laws,” says Berzon.

TSA lines have further recommended full recovery of costs for other equipment sizes, and as well as Panama Canal, Alameda Corridor, and other fixed accessorial charges. This comes at a time when the cartel admits that it has had “healthy revenues” over the past two quarters. Still, they say, an early end to the transpacific peak season has left that trade lane lagging relative to other Asia container markets,



would be a bad strategic move,” says Jon Monroe, president of Monroe Consulting in Shanghai. “Shipping through LA/Long Beach is always going to be the fastest route to interior markets in the U.S.”

And with volumes still moving strongly out of China on head-haul routes, other analysts maintain that the rate hike will stick. “This would indicate that global trade has made a

the rates they demand collectively,” he said. Indeed, both carriers have already announced hikes of 4.9 percent for 2011.

Furthermore, Hempstead says, both carriers closely monitor the pricing practices of the other: “So if UPS Ground announces a rate increase, it’s closely followed by our friends in Memphis, and vice versa.”

Of greatest consequence to shippers in this year, says Hempstead, is the way both carriers are calculating dimensional charges. Beginning this month, the dimensional weight will ramp up to 47 pounds and the rate will rise to \$109.91.

While the increase seems reasonable when factoring in the fuel surcharge, says Hempstead, it represents a whopping double-digit hike. “The increase you’re paying over your current charge is actually 18.7 percent,” he says.

Hempstead is also alarmed by the duopoly’s new position on third parties, which is quite simply to ignore them. “Today, if the shipper has employed a third party parcel negotiating company to work on their behalf, both FedEx and UPS will walk away from the deal,” says Hempstead. “They can afford to do this now if it makes a statement.”

Which means, he adds, that this in turn signals at least one positive perception: The nation’s economy may indeed be on the mend. □

Patrick Burnson is Executive Editor of Logistics Management

“Projections for real GDP growth remain sub-par through the first quarter of 2011, but accelerate gradually through the forecast period.”

—Richard Wobbekind,
president of the NABE

while operating costs continue to rise.

Late last year, carriers called for adjustments to store-door delivery rates as warranted to levels that adequately compensate carriers for rising costs in providing those services.

Finally, TSA is recommending a peak season surcharge of \$400 per FEU, effective from June 15, 2011, through November 30, 2011, with those dates subject to adjustment based on changing market conditions.

Can shippers mitigate this cost escalation by relying on “all-water” deployment to U.S. East Coast ports? Most analysts don’t believe that’s a long-term fix. “It might pay off tactically, but it

surprisingly speedy recovery,” says Neil Dekker, an analyst with London-based Drewry Shipping Consultants Limited. “And this has allowed ocean carriers to re-deploy laid-up tonnage and work new-builds into their core east-west services with relatively few problems.”

PARCEL

Arguably, no other supply chain sector reflects the nation’s economy better than the small package industry. And according to Jerry Hempstead, president of Hempstead Consulting, there are only two players in town. “FedEx and UPS control the domestic market completely; and as a consequence, expect

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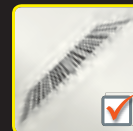
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COGNEX

Bridging the LTL

Our Sage Advice columnist—a 30-year transportation management veteran—offers logistics professionals and carriers time-tested relationship management advice. Let’s hope it’s not too late.

BY JOHN A. GENTLE, DLP, SAGE ADVICE COLUMNIST

Many savvy logistics professionals think about “relationships” as a state of mind that exists between individuals and “relationship management” as a process that describes how companies work together on all levels to create value for each other. Unfortunately, others don’t get it and only pursue relationships when there’s something in it for them—usually financial—or they disregard it entirely.

As children, encouraging parents gave us food and a safe, warm place to live. As we grew into teenagers, our learning experiences over time had a lot to do with sentiment, attractiveness, communication skills, patience, and trust. Those feelings in varying degrees are in play today for each of us personally and professionally.

Over the next few pages we’ll aim to provide logistics professionals with a few ideas on how relationships can be managed to bring about value for companies. We’ll also try to help both sides of the transportation equation come to terms with the fact that relationship management must occur on multiple levels—and over time—if it’s to be considered successful.

LET’S BE FRIENDS

Our first relationship experience as teenagers occurred in the “pre-dating

phase.” Meeting in public with a group of friends was a safe environment without commitments. It’s a little like shippers meeting LTL carriers at a transportation exposition—some interaction, an opportunity to be “wowed.” And based on what was observed, instincts either motivate us forward, away from, or into a state of ambivalence.

After several “dates” we got turned on or off by values, personalities, or shortcomings. Breaking up was common, sometimes sudden and traumatic, and generally not reasoned or communicated well. In fact, it reminds me of how shippers and carriers often deal with each other: “Can you start today? Get out!” It happens quickly and you only find out when there’s no capacity.

I suspect that it’s in this “casual dating” phase when shippers and carriers begin to test and react instinctively to information about the other company’s culture and the actions of their representatives. One carrier says it takes about 5



relationship gap

months to 6 months until you start to see relationships form. One of the things both carriers and shippers quickly test for is “one-sidedness”—better known as the relationship killer. While the strength of the relationship cannot be simply based on the account representative, a good program cannot be built on a marginal account representative.

When a shipper commits to a semi-serious, “going steady” phase, the sales representative and company benefit from the steady business. Communications and meetings between both parties are ideally held on a more routine basis. As I recall, this is an exciting but challenging phase when we begin to rely on the “predictive” nature of our new business friend. Certain benefits now begin to benefit both parties.

says that “discussions that are started based on value and mutual goals are an example of effective relationship management.” The future of the relationship, he says, will be determined by the level of patience demonstrated and how effectively and quickly challenges and communications are handled. Conaway adds: “When both parties have a stake, both should recognize that goal achievement is mutual.”

Shippers that invest in this positive style of relationship management building may also go on to create an LTL carrier council for advice on solving problems, launching new initiatives, or taking on industry issues. For example, the LTL council may recommend how the shipper could reconfigure packaging to improve density, reduce damage and claims, and work with them to establish the ‘load-ready times’ that minimizes driver waiting and idling times while improving service and maintaining cost levels.

This new relationship will also conduct more in-depth business reviews that significantly improve processes, productivity, service, and communications for both. Lastly, these shippers will likely publicly recognize the best-in-class LTL companies and their account representatives.

TAKE IT UP A NOTCH

However, not every shipper is willing to invest in relationship management with LTL carriers to the extent described above. Many don’t understand or they reject the relationship concept because their LTL program may be smaller than other modes and they’re unwilling or simply don’t have



DANIEL VASCONCELLOS

Depending on the seriousness of the relationship, this might be called the “best friends forever (BFF) phase.”

In this crucial phase, the shipper and carrier will test each other’s will and ability to solve problems on multiple levels of the company. Ed Conaway, executive vice president of sales for Con-way Freight

LTL relationships

the resources to fully invest in it.

Another reason may be that supply chain managers and their bosses, impatient for results, are frustrated by the LTL complexities such as contracts, rates, payables, claims, and a more formal management structure.

Additional and disproportionate resources are required to manage LTL compared to other modes. Without a firm commitment by a shipper, relationship development, its success, and its ongoing management at all levels will default to the carrier's corporate and account representative—and in the end, be unsuccessful.

In direct contrast, large third-party logistics (3PL) companies have made a commitment in time, human resources, and systems to capture a thorough understanding of the LTL environment and detail needed by both shippers and carriers for everyone to be successful. In fact, more than one LTL carrier has told me that they would prefer working with a broker because of its knowledge, systems, and commitment to relationship management at all levels.

These LTL-savvy 3PLs are translating the customers' requirements for the carrier and bringing the carrier together with the shipper to resolve problems—a win-win.

There is, however, a misperception that simply having a relationship program and a charismatic account representative can bridge all the problems. Gary Palmer, Sr. director of transportation for hardware giant True Value Co. agrees. "The carrier representative, who has a polished contact demeanor, will win out over a comparably talented person," says Palmer. "But regardless of how great their interpersonal skills are, the business will go to the best service provider."

STRUCTURING THE RELATIONSHIP

Our lifetime experiences remind us that relationships and commitments are very fragile. Four years ago we witnessed many carriers ignoring commitments to harvest

profits; and during the last two years, we've witnessed many shippers ignoring commitments for profitability and drilling deep for cost reductions—even to the extent of putting their carriers at financial peril. For good reasons, both shippers and carriers have felt betrayed by some of their so-called partners.

At the beginning of this article I stressed that relationships have to be developed and maintained at all levels. Having a good relationship with just the account representative is not sufficient. Some of the problems that shippers had four years ago—and will soon have again—could have been based on the fact that their program was built on one dimension, the account representative.

While LTL carriers rely heavily on their account reps to create, build, and maintain the relationship, a direct line of communication with senior management is critical to an effective program. That being said, to understand reasonable expectations, we must understand where relationships fit into our human and business needs.

Based on an adaptation of Maslow's Hierarchy of Needs, we have to remember that whatever the party's intent to create a meaningful relation-

ship, the physiological and safety needs of the other party must first be satisfied. Conversely, if a company or individual is struggling to survive, it will be preoccupied with preservation and will not be able to consider the possibility of relationship development, no less an enhancement.

Given the financial challenges facing many companies today, it's quite understandable that those that are fighting for their very survival will be looking for an opportunity for profitability and not a robust relationship initiative. Yet, without trust, strong communications, and patience, the longevity of maintaining a business relationship is likely to be tenuous at best.

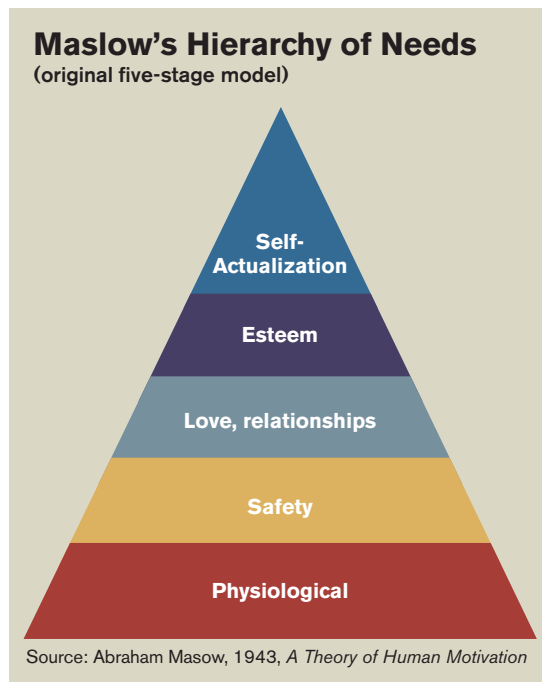
WHO TAKES THE INITIATIVE?

In my conversations with LTL carriers, they indicated that not every shipper actually wants a relationship. One major regional carrier says only one-third of the shippers want to work together. The other two-thirds are indifferent or simply say: "Just do what I tell you."

At the same time, many major shippers feel that carriers and their account representative just want volume; and, if there is to be a relationship initiative to generate improved service and profitability for both companies, then the shipper is going to have to take the initiative, not the carrier.

Regardless of who takes the initiative to build and develop the relationship, getting face time to conduct a meaningful conversation is a big challenge for a shipper that often runs from meeting to meeting. Perhaps the best time to work on relationships is away from the office at a conference or at a company- or carrier-sponsored event. Casual settings can often be more productive and thought provoking.

"The LTL industry still has a highly fragmented and largely unsophisticated shipping community that is unfamiliar with their LTL shipping options," says David Ross, a research analyst with Stifel Nicolaus. Many LTL companies offer a range of delivery options, pool distribution, international services, and even warehousing. But with logistics departments struggling to meet and exceed annual productivity goals in excess of 3 percent, shippers really



A company that is struggling to survive will be preoccupied with preservation and not able to consider relationship development.

LTL relationships

need to take the time to surface and harvest these types of opportunities and not just talk about rates.

Remember, relationships are the third rung on the hierarchy of human/business needs and cannot be addressed until all physiological and safety needs have been satisfied. So, if the primary purpose of your program is to avoid rate increases at the financial expense of your business partner, then your efforts are misguided and it has

nothing to do with relationships.

In the end, the most successful relationships are based on the recognition of common values, trust, a commitment for a long-term relationship, and communications that include honest and frequent performance reviews and mutual goal achievement. They're built and orchestrated at multiple levels, including senior management, operations, and the account representative.

Each business partner must stand

up for the other, do the right thing, and hold each other accountable. Have you conducted a self-assessment of your program and asked your carrier-partners for their assessment of your relationship efforts? How did you do? Did you meet the challenge? □

John A. Gentle, DLP, is a Sage Advice columnist for Logistics Management magazine. He can be reached at JAG@RelaTranShips.com.

Real Carriage Door partners with LTL to extend marketing efforts

Don Rees, owner of Rees Builders, a builder of one-of-a-kind homes since 1976, began to notice increasing demand for swing-out carriage garage doors for his list of custom contracts during the heart of the building boom. Realizing he could turn this need into an extension of his existing business, he launched Real Carriage Door Company in 2005.

However, it was still a one-man business, operating out of his Gig Harbor, Wash., garage; and with the domestic housing market booming at the time, he quickly found himself overwhelmed with orders. While he added more workers and expanded his factory, he was faced with a challenge that was a bit more daunting: who to trust with shipping and distribution.

"I started with Con-way Freight from the very beginning, and was not sure at that time if they could handle the larger network of demand coming in with the new orders," Rees says. "After a bit of research, I determined that they could."

It's a decision that Rees does not regret. Indeed, the advantages of using a single LTL provider proved to be a hedge against the downturn in the housing market three years later. "By 2008, we could see that home-building was coming to a sudden halt, but our custom-built doors were still needed for remodels and replacements," says Rees. "Rather than cut back on production, we decided to ramp it up and take advantage of the weakening economy to gain share and expand our footprint."

And key to that strategy, adds Rees, was reliable, timely delivery of product to even the most remote regions of North America. But there were still some headaches encountered along the way, Rees recalls.

"There was one incident with a driver being turned away from a distribution center in Maine because the dispatcher was suspicious about the freight," says Rees. "We had to get involved with a series of phone calls before he was assured that we were working with a reputable trucking company that could provide all the

paper work associated with financial settlement."

It was then that Rees determined that he could begin to use his supply chain as a marketing tool. Rees, in partnership with Con-way, came up with the idea to manufacture a special label that identified the LTL as their exclusive carrier. This was designed to improve visibility of these unique products, thus decreasing damage and freight claims and improving overall customer service.

"And it's a brand that is widely recognized," says Rees. "Even in cross-border markets." And this point becomes increasingly significant when one considers the growth in businesses like Real Carriage Doors in Canada.

Along with heightened demand in the U.S. Northeast, Rees is now moving more products to Canada, one of our nation's largest trading partners. "The currency imbalance due to the declining value of the U.S. dollar is one factor," says Rees, "but the quality of our products and logistics is certainly another factor that explains it."

TransBorder Freight Data—a subset of official U.S. foreign trade statistics released by the U.S. Census Bureau—indicates that U.S./Canada surface transportation trade totaled \$40.2 billion in November of last year alone, up 15.7 percent compared to November 2009. The value of imports carried by truck was 10.7 percent higher in November 2010 compared to November 2009, while the value of exports carried by truck was 17.4 percent higher during this period.

"There really isn't a region in our hemisphere that we can't serve with our current LTL model," says Rees. "We've considered other alternatives, but the advantages of working with one partner outweigh the complications involved with opting for multiple carriers."

Today, Real Carriage Door Company operates a 16,000-square-foot facility employing more than 20 workers. Hinges, deadbolts, and door handles have also become a staple of its inventory. What hasn't changed, however, is Rees' philosophy regarding craftsmanship and production. "Remain loyal to your customers and business associates, and success will follow," he says.

—Patrick Burnson, Executive Editor



Don Rees, owner of Rees Builders (Right) with Conway-Freight driver.



TMS

The key enabler

Our technology correspondent takes a look at TMS' evolving role, explains the drivers that are pushing development in the sector, and illustrates how new delivery methods could change the face of transportation management.

BY BRIDGET MCCREA, CONTRIBUTING EDITOR

In survey after survey, year after year, analysts continue to find the same, somewhat surprising number: Only about one-third of “eligible” companies—those that would benefit from using a transportation management system (TMS)—are currently using a TMS.

This finding certainly proves that there's plenty of growing room for TMS under the supply chain execution (SCE) umbrella for providers of the technology. And considering that the domestic and global economies are finally entering a slow-but-sure rebound mode, it would stand to reason that more companies should be adopting TMS to ferret out transportation spend reductions, improve route planning and optimization, and achieve better collaboration across the supply chain.

Well, according to Dwight Klappich, research vice president for Gartner, Inc., 2010 actually did see an expansion in the size, functional breadth and depth, and geographical scope of the TMS market, as users sought out technologies to help reduce costs, improve efficiency, and “generally run their freight operations more effectively.” Klappich calls TMS a growing market for shippers of all sizes—from those that spend as little as \$15 million on annual freight, to shippers that spend hundreds of millions of dollars per year on transportation.

“TMS continues to be seen as the key enabler that will

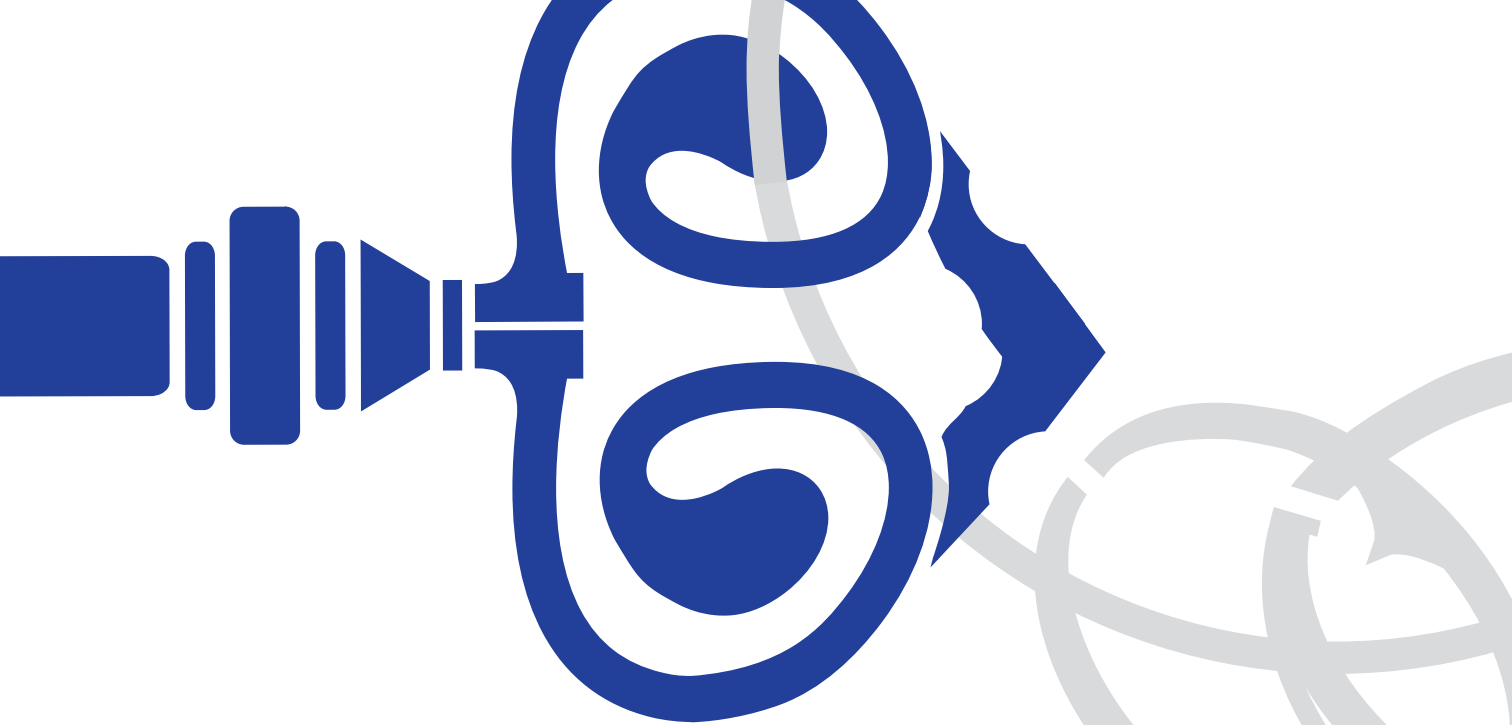
help freight organizations reduce total and empty miles, enable better utilization of freight capacities, minimize unnecessary moves, combine loads to use more economical modes of transportation, and ensure that the least-cost modes and carriers are routinely chosen by users,” says Klappich.”

Over the next few pages we'll look at TMS' evolving role as that “key enabler,” explain the drivers that are pushing development in the sector, and give shippers some insight into the future viability of TMS. We'll also illustrate how far TMS functionality has come and where it's headed in terms of delivery methods.

RIDING THE GROWTH CURVE

Klappich and the Gartner supply chain research team expect the TMS market to maintain growth for several years, with double-digit growth emerging in 2011 and a projected five-year compound annual growth rate (CAGR) of 9.4 percent.

Growth drivers include the basic fact that TMS remains in high demand along with the emergence of alternative delivery methods, such as software as a service (SaaS). The latter gained traction in 2009, mainly due to the weak economic climate that, according to Klappich, favored the short-term cost advantage of SaaS.



Even with a brighter economy ahead, on-demand TMS solutions are projected to continue to drive this sector of the SCE market. Credit the fact that transportation—unlike warehousing or supply chain planning—relies on a multi-enterprise, geographically dispersed network that includes a supplier, shipper, third-party logistics provider (3PL), carrier, and/or customer. All of these entities are involved in the process, and that setup “really lends itself to network-based solutions that favor SaaS,” says Klappich.

Also working in TMS’ favor right now is the fact that a significant capacity crunch could once again rear its head in 2011, pushing more shippers to purchase new or upgrade existing management systems. While finding a carrier at an affordable—or even cheap—rate was fairly easy during the recession, Klappich expects that high capacity trend to reverse as the sluggish economy picks up steam. Increasing fuel costs and upswings in industries like construction could compound the situation further, says Klappich.

“By the end of 2010 we were also seeing some of these issues surface for shippers, but they really didn’t stick,” he explains. “We’re still in the ‘lull’ stage, but the more challenging environment is imminent and has more shippers thinking about the role that a good TMS will play in helping them work through those issues.”

ROAD TO IMPROVEMENT

One doesn’t necessarily relate TMS to a company’s sustainability efforts, but that could change in the near future as more of the software’s vendors integrate green-centric features into their solutions. Carbon footprints—or the total set of greenhouse gas emissions caused by an organization, event, or product—are of particular interest.

“The whole idea of carbon footprint reduction is gaining momentum,” says Erik Van Dort, vice president of Capgemini’s supply chain management practice. “And TMS has historically focused on that issue.”

Future iterations of TMS software, for example, will likely incorporate tools that address issues like sustainability and carbon footprint reduction, says Van Dort, with functions like advanced planning and scheduling that could play a “key role, but currently don’t.” He says that shippers, who are under increased pressure by federal regulations and standards to reduce their operations’ negative environmental impact, are driving that movement. “They want their providers to give them the tools and means to get there,” says Van Dort.

Van Dort sees a growing need for improved visibility as another important TMS driver right now, and he expects that movement to continue in 2011. “The levels of supply chain visibility achieved so far by shippers are pretty

disappointing overall,” he explains, noting that the easier connectivity made possible by shared TMS platforms is one step in the right direction. “Expect visibility to improve as vendors hone their solutions to better address the challenge.”

ANSWERING THE CALL

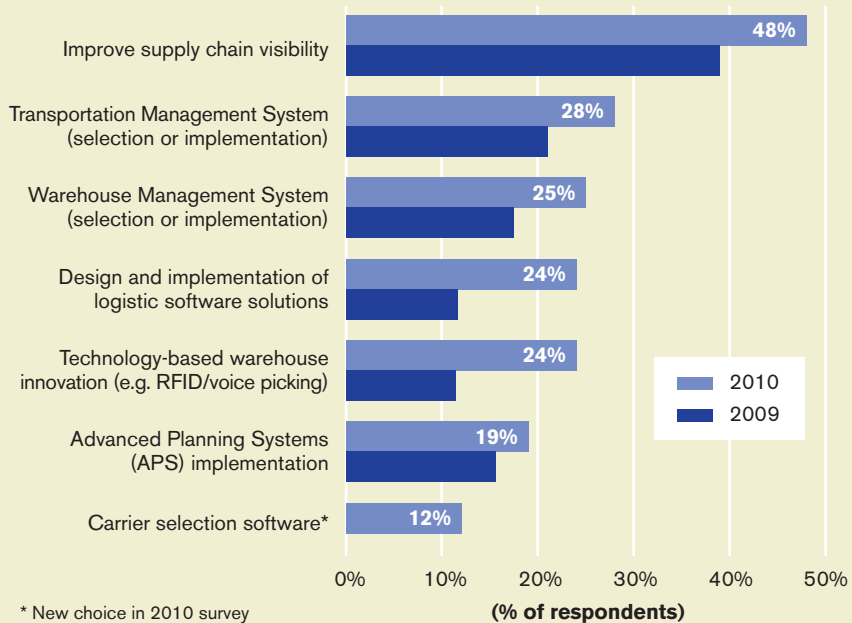
TMS vendors have expanded the breadth and depth of their solutions to the point where most shippers can source most, if not all, their needs from a single vendor, according to Klappich.

At a minimum, most support North American multimodal planning, execution, and settlement. Many vendors also include network design and optimization, freight procurement, asset-based/fleet routing and scheduling (R&S), appointment scheduling, multi-carrier parcel management, and performance management in their solutions.

When selecting among those options, shipper size comes into play. According to Klappich, Gartner sees growing demand from what it calls small to midsize businesses (SMB), or those with less than \$50 million in annual freight spending. But he notes that many of the systems on today’s market are beyond the scope or budgets of many of those smaller shippers.

To answer the call, Klappich expects a new TMS market segment to emerge that is focused on those SMB shippers. That sector, he says, will emphasize ease

Supply chain IT projects 2010 vs. 2009



* New choice in 2010 survey
 Multiple answers per respondent allowed
 Source: Capgemini Consulting

of use, simplicity, time to value, and cost of ownership, and not just on application characteristics. “Although no SMB TMS leader has yet emerged, vendors such as Infor, MercuryGate, and LeanLogistics have shown success in this space, and offer some interesting SMB characteris-

tics,” says Klappich. Infor, for example, offers a “clean and intuitive user interface that would appeal to users where managing freight is only one of their daily tasks.” Klappich points to LeanLogistics’ Vector Planning feature as another attractive point for smaller shippers

because it enables the simple grouping of orders into truckload shipments based on geographical proximity. “This is easy for less sophisticated users to set up and understand,” says Klappich. “MercuryGate is also in the mix, with its ability to leverage domain expertise, functionality, and lower cost of ownership to grow its presence in SMB 3PL organizations.”

ON THE HORIZON

As one of the more mature supply chain software sectors, TMS is expected to continue gaining ground in 2011, with that growth spurred on by the drivers mentioned above. Concurrently, Adrian Gonzalez, director of ARC Advisory’s Logistics Executive Council, says vendors will be working to fill in any “white spaces” left by previous versions, or those areas that current TMS offerings simply don’t address—such as functions that aim to improve contain-

ing and load building, for example. Demand forecasting, including the ability to accurately predict how much of a certain product should be on a retailer’s shelves for an upcoming promotion, could also become a mainstay of the future TMS, says Gonzalez. With a brighter economy ahead, for example, 2009 and 2010 data may not always be the best indicator of future sales.

“Many shippers are doing demand forecasts based on the previous year’s data,” says Gonzalez, “but how can they convert current sales data into more accurate transportation forecasts? That’s an area where a TMS can help.”

Van Dort says Capgemini is optimistic on TMS’ future prospects for 2011 and beyond. Longer-term IT investments are, once again, back on the agenda of most companies, he says, with TMS making up the lion’s share of new supply chain software adoptions. “All shippers and 3PLs are looking for improved visibility in the supply chain,” says Van Dort, “so the solutions that deliver that benefit, plus IT projects like TMS and WMS implementations, are all showing a clear increase.” □

—Bridget McCrea is a Contributing Editor to Logistics Management

There’s an “app” for that!

ARC’s Adrian Gonzalez envisions a time when a logistics manager can use a computer or handheld device to pull up a simple TMS “app,” download an appointment scheduling program, run through a setup wizard, and start using it within a few hours. If it sounds far-fetched, consider the fact that companies like Apple and Google are already offering up apps menu-style across myriad industries. So, asks Gonzalez, why not the supply chain?

“We’re calling this ‘software-as-a-self-service,’ and we see it as the new wave of TMS software,” says Gonzalez. “It’s about taking a TMS and further modularizing it in a way that allows companies to use certain aspects of the software without having to do a complete implementation.”

Gonzalez says vendors like LeanLogistics and OneNetwork are already offering up app-style TMS functions, and he expects more providers to follow suit in 2011. The notion won’t appeal to every shipper, but it may draw in the smaller firm that’s still using spreadsheets and fax machines to manually handle their transportation component.

“We’re not going to see ‘software-as-a-self-service’ being used by large, global operations,” says Gonzalez, “but it’s a great starting point for the small firm that wants to test out a TMS function in one facility.”

—By Bridget McCrea



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2011 CUSTOMS UPDATE

Balancing global priorities

Updated Incoterms, new trade agreements, and increasing demands for improvements in supply chain security are putting more pressure on global logistics managers. Our compliance expert offers an update on the evolving compliance scene and best practices for developing a “value chain” model for overcoming these challenges.

BY SUZANNE RICHER, CONTRIBUTING EDITOR

Global supply chain and customs compliance professionals are now forced to wear many hats; and it appears that the evolving regulatory environment in 2011 will add a few more.

This year will find the introduction of updated Incoterms along with a new South Korea/U.S. trade agreement and continued demands for sustained improvements in supply chain security. And there's little doubt that these mounting challenges will require a focused approach to managing current and emerging global compliance programs.

Taking a strategic approach towards managing global compliance trends supports a strong risk assessment model—and more importantly, adds value to a corporation's bottom line through reduced costs. By installing a series of steps focused on cost savings, regulatory compliance, and an increased awareness of how a product is brought to market, companies can transform their regulatory compliance programs into a “value chain” model that supports a stronger bottom line to the corporation.

Value chains reflect a series of activities similar to an assembly line, where one activity builds upon another, adding value to the product or process. For example, the activity of cutting a diamond may have a low cost, but the activity adds great value to the finished product. Similar to a quality certification, the core of any value chain will be a well-documented process with assessments and auditing of

adherence to the process routine.

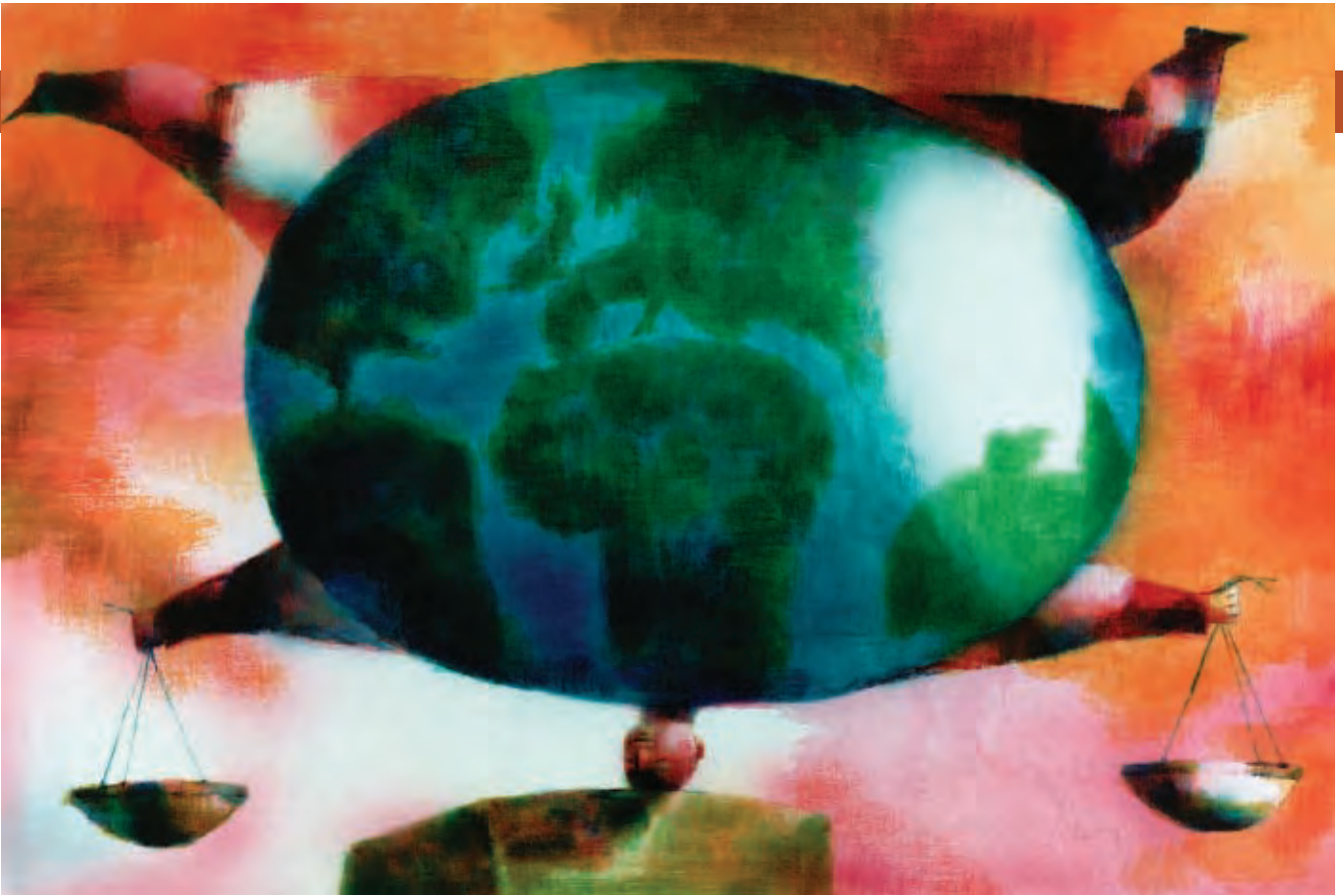
Now, let's review some of the evolving compliance challenges that will be facing corporations in 2011 and offer some best practices for overcoming them. By fully understanding the compliance landscape your logistics team can not only speed freight through borders, but immediately add value to the bottom line.

ADVANCE CARGO DATA: U.S. AND EU PROGRAMS

U.S. Customs and Border Protection (CBP) targets high-risk shipments through the use of electronic data available through the manifest system prior to the movement of cargo from the foreign port.

The introduction of the Importer Security Filing (ISF) data for inbound ocean containers has been fully implemented and is now complemented by CBP's work with the Transportation Security Administration (TSA) for targeting airfreight shipments. While the Certified Cargo Screening Program (CCSP) has only been in place since August 2010, the data elements mirror ISF data and allow CBP to funnel the information through the automated targeting system to flag high-risk shipments for inspection prior to loading.

The European Union (EU) has piggybacked on CBP's work, requiring all shipments entering or exiting the EU to have an electronic declaration to Customs with security data verified.



As of January 1, 2011, the Safety and Security Amendment to the Community Customs Code now requires all member states to apply a uniform set of EU risk-criteria controls during Customs inspections. While the ISF filing is limited to ocean shipments, the EU program is in effect for all modes of transport.

The data elements vary according to the method of transportation and the reliability of the company involved in the transportation. In the U.S., this same standard is referred to as the “Known Shipper” program.

In all cases, the universal goal is to target high-risk shipments through a risk assessment model prior to arrival in the receiving country. Low-risk shipments receive expedited clearance times.

Companies developing a value chain will analyze the required data elements of each country their products passes through, and ensure all data elements are captured and verified before they are shared with the various Customs agencies. This will lower the risk of penalty action for declaring products differently in various regions of the world.

HTS CODE, RISK ASSESSMENT, AND FREE-TRADE AGREEMENTS

One of the key elements in all data risk assessment programs is the description provided to the Customs agency. In the majority of global Customs risk models the Harmonized

Tariff Number (HTS) is preferred to a product description, as this may vary due to different systems and languages.

The HTS code is often referred to as the classification or tariff number and may be described as the Schedule B number by U.S. exporters. In all cases, it’s a universally accepted coding system that identifies the actual product. Not only is this code linked to cargo security criteria, but it also drives the corresponding duty rate and any other government agency (OGA) requirement such as Food & Drug (FDA), Animal and Plant Health Inspection Services (APHIS), or EPA/DOT elements. When a product crosses the border, it must simultaneously clear both Customs and OGA requirements.

The HTS code is further scrutinized when used as the driving force behind free-trade agreements that use “tariff shift” concepts that offer a company reduced duty benefits for properly declaring a product “free-trade eligible.”

Despite all of these benefits and risk elements, most companies are reluctant to provide training on the General Rules of Interpretation (GRI) that drive these risk factors. In many cases, importers and exporters do not have access to the HTS books or rely on electronic systems that get the company close to the correct code.

As Rodney Dangerfield may have said, the HTS code just doesn’t get any respect. Companies with value chain activities recognize the HTS code as the key element in sharing data globally and provide annual training to key employees



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

and new employees entering the compliance or supply chain arena.

CBP suggests that firms without a strong compliance program are 10 times more likely to incorrectly classify a product and pay the wrong amount of duty. This makes it very difficult to request refunds for the overpayments of duty to the government, and it's even more unlikely that the request will be granted in a reasonable period of time.

Leading corporations with established value chains will recognize the importance of HTS codes as they affect customs compliance, cargo security, and preferential treatment under free-trade agreements. A single classification error can affect any one of these areas.

Best practices of compliant firms include developing a value chain improvement mindset that provides training of staff and the application of a single code to their global compliance programs for the greatest costs savings and the reduction of Customs exams worldwide.

INCOTERMS AND GLOBAL CONTRACTS

International Commercial Terms, or Incoterms as they're better known, have been updated for the first time

since 2000. January 1, 2011, begins the use of Incoterms 2010, the terms of sale used for most global contracts.

Reduced to 11 from 13, the new terms offer shippers the opportunity to reduce risk by applying a universally approved definition to contracts with clearly defined buyer and seller obligations.

The biggest challenge remains having a clear understanding of these terms in

all of the departments that are generally affected by the use of these terms. This includes the contracting group, purchasing, accounting, import/export compliance departments, as well as those in supply chain management, shipping, and legal.

The commonly used Delivered Duty Unpaid (DDU) has been eliminated along with three other less utilized terms (DES, DEQ, and DAF) by the Delivered at Place (DAP) and Delivered at Terminal (DAT).

The EU utilizes Incoterms for both domestic as well as international trade while the U.S. continues to shift between Incoterms internationally and domestic terms derived from the Uniform Commercial Code. This major difference accounts for U.S. firms' confusion between an FOB shipment

in the U.S. delivered by truck or air versus the internationally approved FOB Incoterm that is mode of transport specific—a true ocean shipment.

Through a value chain process, global shippers focus on the proper use of trade terms in contracts and purchase orders early in the negotiation process in order to ensure the term and its implications are acted upon through



A U.S. Custom Border Protection officer watches a monitor as he operates a mobile truck x-ray over a seaport container.

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Border Patrol Agents routinely conduct searches of trains entering the US from Canada.

the entire transaction.

Updating systems to reflect these new choices will be the first step in establishing harmony within a company. Firms with best practices in place support training on the use of Incoterms and bring together all departments for a discussion on how to apply the terms and in which circumstances.

ANTI-BRIBERY PROGRAMS

While Incoterms and data elements are the most common causes of border delays, the little discussed behind-the-scene interactions of a company's agents in facilitating trade may lead to multi-million dollar penalties.

Working with Customs brokers and freight forwarders is a normal part of moving product worldwide. While firms may vet these groups based on their experience, service, and delivery time capabilities, a 2011 contract should include a key performance indicator based on "required behavior" of their agent in preventing and avoiding anti-bribery activities.

The Foreign Corrupt Practices Act (FCPA), the U.S. anti-bribery program, continues to result in penalties for U.S. corporations as well as individuals. FCPA requires U.S. companies to vet their overseas agents and service providers to ensure bribes are not used as a method for facilitating trade.

The Organization for Economic Co-operation and Development has

applauded the United States for fighting foreign bribery and confirmed that the U.S. is first in investigating and prosecuting firms who violate these standards.

The Department of Justice (DOJ) leads the way in pursuing prosecutions with 50 individuals charged in 2009 compared to only two in 2004. Corporations have been hit with multi-million dollar penalties in the past five years and shareholders are concerned about the aggressive approach towards prosecuting individuals.

This increased focus has resulted in the U.S. Chamber of Commerce requesting clearer indications of what a violation of FCPA actually entails while pointing out the reality businesses face when operating in countries with endemic corruption, such as Russia. In fact, Russia is consistently ranked by Transparency International as one of the most corrupt countries in the world.

The New Year will bring a greater scrutiny of anti-bribery pursuits when the U.K. Bribery Act goes into effect in April 2011. Most European companies are considering stronger agreements with their freight forwarders on the portion of the journey for which they are responsible and outlining when they are not.

Avoiding the attention of both the Department of Justice and its U.K. counterpart will become more critical this year. Corporations with best

practices initiate and maintain regular training programs on FCPA requirements at all levels of the corporation, providing explicit examples of how doing business globally may lead to unexpected penalties.

DEVELOPING THE VALUE CHAIN

The continued changes within the international supply chain arena call for a renewed approach to building global expertise. Managing local logistics and Customs compliance programs must be offset with an eye toward regional issues and regulations that will have a global impact.

Using a "value chain analysis" approach to build a chain of activities links multiple departments to a focused goal and objective. The result: Each group will know and understand how they build value throughout the supply chain.

Similar to an Olympic relay race, each member of the team is dependent upon the other to properly pass the baton to the next in the hopes of collectively winning the race. A single delay or misstep at any transfer point will alter the timing and outcome of the race, as we've seen teams win or lose by a fraction of a second.

Similarly, corporations with value chain activities ensure the start of the contract, agreement, or shipment begins with requirements that, when carried through, will expedite the movement of the shipment and lower the risk of delay or loss of freight.

Working locally and acting globally is just the beginning. Developing the leaders and experts within the global transaction will require an understanding that one's local actions will affect, for better or for worse, the company's—or its customer's—global presence and bottom line.

A value chain approach will guide each global partner toward a partnership approach where there is true understanding of how each step in the chain builds upon the other. □

—Suzanne Richer is president of Customs & Trade Solutions Inc. and a frequent contributor to Logistics Management. She can be reached at smricher@ctsiaadvisors.com



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London Drugs cures its picking ills

This Canadian retailer tossed its paper-based pick systems and turned to voice to help process SKUs of varying shapes and sizes—the result is improved productivity and 99.97 percent order accuracy.

BY MAIDA NAPOLITANO,
CONTRIBUTING EDITOR



The noisy working environment of London's 500,000-square-foot Distribution Service Centre made noise-canceling headset technology essential.

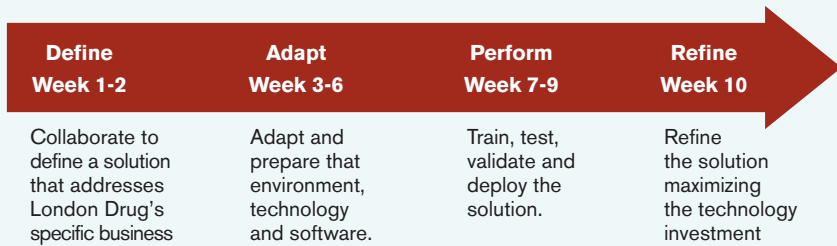
For every company adding voice to its operation for the first time, Bob Heaney, senior research analyst for research firm Aberdeen Group, reports that there are four to five companies already using voice for picking that are planning to roll it out to new areas such as replenishment and putaway.

For voice providers, there's even better news. David Krebs, senior director specializing in mobile and wireless for VDC Research, sees the voice market



PHOTOS BY 2010 VOCOLLECT, INC.

London Drugs implementation timeline



Source: Vitech Business Group

Prior to voice picking, pickers used to have to wait for the Data Centre to print and manually split thousands of labels into the various pick sections then physically deliver the labels to pickers. Now, pickers can immediately start picking.

performing well as we roll into 2011. Though he attributes much of this growth to “pent-up demand among existing users for upgrades and expansions,” he sees an increasing share of the market driven by opportunities in emerging and underpenetrated regional and country markets, specifically in Europe and Asia.

This expansion into other workflows and penetration into global markets is further testament of voice technology's positive impact on warehouse operations and overall accuracy improvements. Because of its hands-and-eyes-free operation, Krebs points out that picking productivity with voice typically improves by 20 percent or more. “Order picking accuracy of well-designed and deployed voice solutions typically reaches, if not exceeds, one error per thousand picks (99.9 percent accuracy), says Krebs.”

It's this quest for increased order picking accuracy that drove Canadian retailer London Drugs from error-prone picking with paper to near-perfect picking with voice. In the next few pages, we witness this retailer's successful transition into voice not only to pursue the perfect order, but also to realize clear savings by eliminating paper labels while improving picker productivity.

NO ORDINARY PHARMACY

London Drugs started out in 1945 as a 1,000-square foot community drugstore on Main Street in Vancouver. Today, this privately-owned Canadian company operates more than 70 retail stores across Western Canada. And while the pharmacy remains at the heart of its business, its stores offer anything and everything: from high-end audio/visual

products, furniture, cosmetics, to computers and pharmaceuticals.

Though having such an extensive product offering may be a panacea to marketing, processing 30,000 SKUs of varying shapes and sizes could quickly become a logistical nightmare. However, London Drugs has clearly stood up to the challenge.

Order fulfillment happens very quickly. Stores have a cutoff time of 7 p.m. to submit their orders. Eleven hours later, these orders are ready to be shipped from the company's two distribution facilities: a state-of-the-art 500,000 square foot Distribution Service Centre (DSC) located in Richmond, British Columbia, and a satellite bulk storage facility, just twenty minutes away.

Lothar Breuers, the DSC's manager for systems and training, explains how they get things done: “Although the wide range of sizes of products does create some challenges for us, we like to use different technologies to help us overcome these issues.” In the

Voice Technology

piece-pick area where fifty percent of the DSC's orders are picked, pick-to-light (PTL) technology is used to pick fast-movers, while horizontal carousel systems equipped with light trees and lighted "pick-to" tables are used to pick slower movers. These sophisticated pick-to-light systems allowed the DSC to pick their fastest and slower-moving items quickly and accurately. However, it was the picking of medium movers and over-sized, non-conveyable, pick-to-pallet items that was still a very manual, error-prone, pick-with-paper operation. Management knew changes needed to be made.

STILL PICKING WITH PAPER

In 2005, the retailer decided to focus its efforts on improving the accuracy of its paper-based order picking operations for about 5,000 piece-pick locations. Although picking with paper allowed the company to achieve impressive productivity metrics, management recognized room for improvement on other critical service levels—specifically accuracy.

Their error rate with paper was about one in every 300 picks (a 99.6 percent accuracy rating), but they knew that they could do better. "Pick errors can be costly to correct," explains Breuers, "but more importantly, they can turn into real customer service issues at our retail stores." In addition, the mate-

rial costs for peel-and-stick labels had been steadily increasing—exceeding \$200,000 CAD annually.

Why not use more pick-to-light? Though accurate, management felt that pick-to-light systems were fixed with relatively high start-up costs. Voice systems, on the other hand, would be less expensive and completely portable. Its hands-free, eyes-free nature allows pickers to handle heavy, oversized cartons with both hands; and, in the end, it was voice that presented London Drugs with a distinct advantage.

PURSuing VOICE

That same year, Breuers and his team brought in a demo system from two different vendors to perform a proof of concept review of the system and to also compare features between two voice providers. Each vendor's system was tested for three weeks, and the team compiled productivity and accuracy statistics and built an ROI case for voice.

From the outset, it was clear that the characteristics of the facility played a role in making the decision. "We have a fairly noisy working environment because we have a lot of conveyors running through our facility. We found Vocollect's noise-canceling technology on its headset was better able to handle our background noise."

The team concluded that Vocollect's

VoiceLink also had more functionality when it came to managing users and equipment. "In our operation, visibility is the name of the game," adds the DSC manager. "We can't have pick sections falling behind and holding up a store deliveries." With VoiceLink, Breuers found that supervisors can monitor how work is progressing, moving pickers around to areas that are falling behind to make sure that each section keeps up with shipment schedules.

GETTING A TEAM TOGETHER

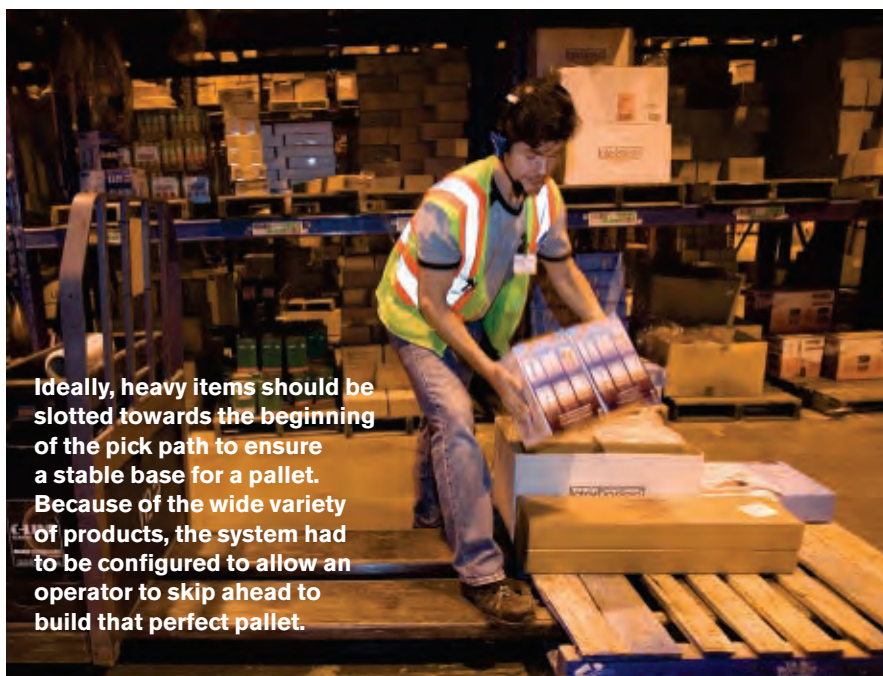
With management's approval, London Drugs kicked off its implementation of voice technology in February 2007. The core implementation team consisted of Breuers; Brian Best, London's director of distribution; Dave Clark, a DSC trainer; Mark Murphy, a technical specialist; and Les Fraser, the company's senior applications engineer. This core team also invited a group of pickers to help smooth out the processes.

Vocollect suggested that the team work with one of its value-added resellers, a Washington-based company called Vitech Business Group, who had extensive expertise in warehousing operations. "Vitech really understood our operation and individual workflows and was able to configure the software to match our particular operational needs," recalls Breuers. "One thing I never like is an integrator that wants me to change my operation to fit the way the software works."

One of Vitech's principals, Richard Stewart, says that the knowledge transfer was the key to the collaboration. "You can gauge the success of a project if, at the end, the customer knows our technology as well as we do—and we know their operation as well as they do."

GEARING UP FOR VOICE

With a team in place, the first step was to ensure that the proper infrastructure was in place to fully support voice technology. RF networks were upgraded and wireless coverage verified in both facilities. Interfaces were developed to connect voice to the company's homegrown AS400-based warehouse management system (WMS). Check digit labels were applied to pick locations, while workflows were reviewed to ensure that the software could be configured to match



Ideally, heavy items should be slotted towards the beginning of the pick path to ensure a stable base for a pallet. Because of the wide variety of products, the system had to be configured to allow an operator to skip ahead to build that perfect pallet.

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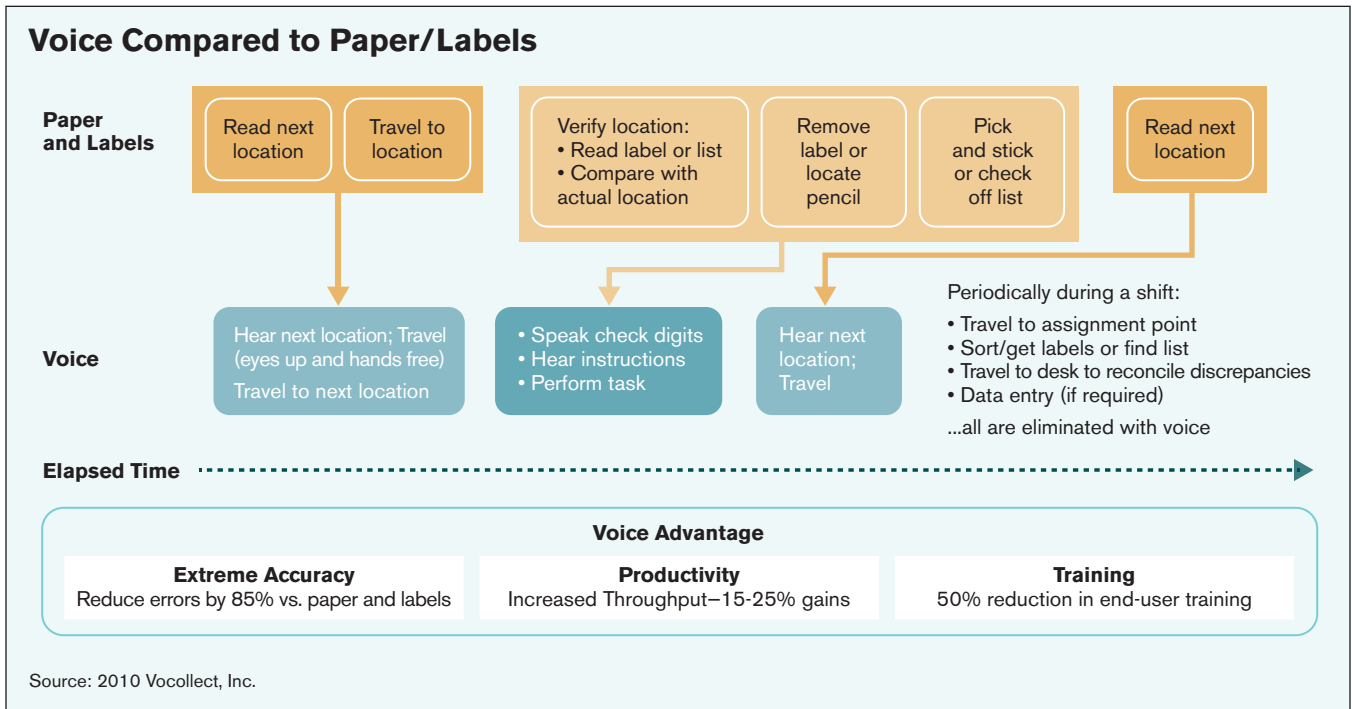
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each specific activity.

The company purchased over 60 Talkman T5 series terminals and enough SRX wireless headsets for 250 pickers over three shifts. Pickers also had the option of a wired headset in case they preferred a lighter weight and fit. In all, the hard cost of the complete system including associated servers and hardware remained in the six-figure range not including internal software development and training costs.

“As with any new technology, there will always be some resistance to change,” says Stewart. “Anything that you can do to break down the barriers to that technology is going to make your ‘go-live’ that much better.”

In May 2007, the voice-picking system went live in the DSC’s pick-to-pallet section. “We always measure the success of each ‘go-live’ event by how little help they need from us, their systems integrator,” says Stewart. “We had scheduled to be there an entire week, but after the second day, we didn’t need to go back.”

HOW LONDON’S VOICE WORKS

During each shift, the WMS sends pick data in real time to the voice system. Prior to voice picking, pickers used to have to wait for the Data Centre to print and manually split thousands of

labels into the various pick sections then physically deliver the labels to pickers. Now, pickers can immediately start picking.

A picker verbally requests a store order. The system directs the picker to the first pick location and asks him to provide a two-digit check digit for that location. Once confirmed, the system will then tell the picker the quantity to pick. After picker confirmation, the system directs the picker to the next location until the order is complete.

“There is no need to scan, as the check digit associated with each pick location ensures that the picker is at the correct pick location,” says Breuers.

But even the best-laid plans could use some tweaking. Ideally, heavy items should be slotted towards the beginning of the pick path to ensure a stable base for a pallet. Because of the wide variety of products, this was not always possible. In turn, the system had to be configured to allow an operator to skip ahead to build that perfect pallet. Pickers could print a modified pick list, showing good base building items as a visual reference.

REAPING THE BENEFITS

Over the past three years, the team at London Drugs reports that it has been

reaping the benefits of their voice system, paying back the upfront costs within 12 months. Despite the fact that it wasn’t the most compelling factor in determining payback, management observed a 5 percent to 10 percent gain in productivity.

“Accuracy was the one area where we have experienced the biggest improvement,” reports Breuers. “With voice, pick errors are almost non-existent, and through our auditing programs, we have seen error rates as low as only 1 error in 3,000 picks, or 99.97 percent accurate. Other benefits include increased work flow visibility, reduction of paper material costs, and immediate distribution of work to pickers.”

With this success under its belt, the company plans to adapt voice to its full-case conveyable picks as a future development step. For now, the immediate plan is to incorporate voice in replenishment picking and their put-away processes. Further progress won’t stop there. “As a company we are continuously looking for opportunities to improve our customer’s experience,” adds Breuers, “even if these opportunities are far upstream from the actual retail store.” □

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Supply Chain SECURITY *in a* high-risk world

An Interview with Barry Brandman of Danbee Investigations

Logistics Management's sister publication, *Supply Chain Management Review (SCMR)*, interviewed security expert Barry Brandman in its July/August 2003 issue, not long after the creation of the Department of Homeland Security. The threats to the security of supply chains have certainly not abated since that interview; if anything, they have only intensified.

So now seems to be the perfect time to revisit the subject of supply chain security. And, once again, Barry Brandman is the go-to guy. Brandman is president of New Jersey-based Danbee Investigations, which provides professional investigative, auditing, and security consulting services to hundreds of major companies.

Brandman has developed a particular expertise in logistics and supply chain management. He's a frequent speaker at industry conferences such as CSCMP and the International Conference on Cargo Security. He also has authored articles on supply chain security for a wide range of publications.

The underlying message in this current interview with Brandman is clear: In a high-risk world, companies must be proactive when it comes to supply chain security; to be otherwise, invites a host of serious and potentially devastating consequences. *SCMR's* Editorial Director Francis J. Quinn conducted the interview.

Q. *Since our last interview almost seven years ago, have North American companies become more proactive about supply chain security? Or, are they still largely in a reactive mode?*

A. I see companies being more proactive today, especially those that have been victimized in the past. When a company has a major theft, fraud, product tampering incident, or any other type of security problem, the human and financial resources needed to deal with it are usually quite significant. It's not a good experience and most executives want to do everything possible to avoid having history repeat itself. Being proactive is the best way to do that.

Q. *As supply chains grow larger and more complex, what added pressure does this put on cargo security integrity?*

A. Security today has become a greater challenge because there are more opportunities in a complex supply chain for theft, smuggling, and product tampering. The objective is to develop, introduce, and then diligently maintain asset protection continuity within each link of your supply chain. This isn't easy or simple to do when you're working with a global logistics network.

One major problem in this regard is that many foreign entities don't accurately represent what their supply chain safeguards really are when questioned by American importers. This is sometimes due to language barriers and other times the result of not understanding how to properly implement security safeguards.

One overseas manufacturer, for example, had assured our importer client that the ocean containers they were shipping to the United States were being properly sealed in accordance with the security standards we had designed for them. While conducting a security audit at their site, however, I witnessed shipments leaving the manufacturing facility without a security seal being affixed to the containers. When I questioned the shipping manager, he explained that because Chinese customs officials occasionally detached the security seals for cargo inspections, the manufacturer simply began handing seals to the drivers and asked them to attach the seals after they passed through China Customs.

While the manufacturer believed that they were adhering to our policy, these shipments were vulnerable to theft and smuggling because drivers had uncontrolled access to the cargo area of every container. Although China Customs only inspected approximately 5 percent of their shipments, this manufacturer completely abandoned the security practice they had previously agreed to follow—instead of consulting with us for a better solution. Consequently, a huge



vulnerability existed.

Our client obviously didn't know that truckers were affixing the security seals until they received our audit report. It was no coincidence that shipments from this manufacturer were regularly arriving to U.S. distribution centers with shortages. Not surprisingly, when we changed their sealing practices, the shortages immediately stopped.

Q. *What are the security threats that companies typically overlook or pay insufficient attention to these days: physical theft, cyber theft, product integrity, terrorism?*

A. Today, successful companies are genuinely concerned about all aspects of their security. Theft of property or proprietary information, product tampering, inventory theft, fraud, sabotage, and terrorism can dramatically affect a company's profitability and reputation in the marketplace.

The problem is that executives oftentimes assume that their company is far better protected than it actually is. Unfortunately, only after they've been victimized do many companies learn how vulnerable they actually were.

Q. *What are some warning signs suggesting that a manufacturer, distributor, supplier, or a logistics provider may be vulnerable when it comes to their security practices?*

A. I find that companies experiencing security problems typically have made one or more of these three mistakes.

One: They have security assessments performed by people who are lacking in any meaningful expertise or experience

PHOTOGRAPHY: GARY PEYTON

in logistics asset protection. As a result, they fail to detect areas of risk and therefore cannot remedy their vulnerabilities.

Two: Their security audits are conducted using generic checklists. Most security programs look better when viewed from a distance. Prior to Sept. 11, 2001, security at American airports appeared adequate. There were guards, video cameras, metal detectors, and other components in place. However, if you had examined the real effectiveness of these safeguards, you would have exposed a number of weaknesses. These vulnerabilities were exploited then and on several occasions since 9/11.

This appearance versus reality problem exists in the private sector as well. Using checklists to superficially evaluate the effectiveness of a company's security program is not a good practice. And many companies have paid the price for failing to recognize this.

A *third* major trouble signal is a failure to make regular improvements—or even conduct basic reviews—to the company's security program. In such cases, the company is not utilizing the very best security practices, and what safeguards that may be in place are typically ineffective.

Q: *Can you give an example of how these missteps play out in the real world?*

A: A good illustration of how they can get a company into trouble can be seen in the litigation between a third party logistics warehousing company and their customer. The customer in this case was a major manufacturer that had become aware that its inventory was being sold in large volume on the black market.

The manufacturer conducted a confidential investigation of the situation, without the 3PL's knowledge. It found that the 3PL's general manager was directly involved with the theft of truckloads of inventory from the distribution center he was responsible for. The customer was outraged and subsequently



“No technology acting alone will adequately protect a supply chain—regardless of how sophisticated it may be.”

sued the 3PL for the stolen inventory and for the investigative and legal expenses incurred, which totaled seven figures.

The 3PL's legal defense was that they had exercised a reasonable standard of care, noting that they had electronic intrusion detection and video systems in place, as well as a guard on premises whenever they were open for business. Plus, they claimed that every time their facility had been audited it had received near-perfect scores for security. On the surface, it appeared that the 3PL had implemented sound protective controls.

The manufacturer's attorneys retained us as their expert witness to objectively analyze the 3PL's security program. What we subsequently found was that their security controls were purely cosmetic and totally ineffective. To begin with, the 3PL's general manager, who was the ring leader, had full control of the intrusion detection and video systems. Because there was

no independent inspection of the opening and closing alarm system reports, or independent viewing of archived video activity at this distribution center, the dishonest GM simply eliminated the evidence of all the thefts that these systems had archived.

The guard service proved to be no deterrent because they reported to the general manager. One of the security officers had suspicions about the GM and reported them to his office. Yet the company providing the guard service did not want to make unsubstantiated accusations because it feared that the GM would terminate the contract if the allegations proved untrue.

With respect to the near-perfect internal audit scores introduced as proof that the 3PL's security controls in place were sound, we had no difficulty undermining their real value. In particular, we pointed out that all of the audits were

conducted by quality control personnel with no real security experience or specialized training.

Additionally, their auditors were using checklists that glossed over many of the important functions that should have been examined far more thoroughly during the onsite assessments. For instance, two of the questions on their checklist were, “do you have a working alarm system and “are the alarm system activity reports regularly reviewed?”

Instead of the QC auditors actually knowing how to test the onsite security technology or personally examining the activity reports, which would have revealed that the intrusion detection system had been repeatedly compromised, they simply asked these questions of the GM. Naturally, the GM answered in a less than candid manner. The auditors simply accepted his statements as being truthful and checked off the boxes on their forms.

In short, the audits were nothing more than an exercise in pencil-whipping that gave executives at the 3PL's corporate offices a false sense of security and left their inventory vulnerable to theft.

After the 3PL's attorneys understood the real value of the protective policies and practices that were in place, they decided to make a settlement with the manufacturer rather than risk a verdict in court.

Q. *What technology is available today to accurately track chain of custody and ensure product integrity? How effective is it?*

A. While progress is certainly being made, I've yet to come across an extremely reliable, cost-effective solution that can track cargo moving through an international supply chain. However, I think this technology will become a reality in the future.

Until such time that electronically reliable, cost-effective technology is on the market, companies need to make certain that they combine the right equipment with best security practices. No technology acting alone will adequately protect a supply chain—regardless of how sophisticated it may be. I think that executives sometimes wait with anticipation for new technology to surface, hoping that it will be a cure-all for their security concerns. The reality is that high-tech devices will always need to be supported by smart practices and procedures.

Also, you don't need the latest technology in every aspect of your supply chain to keep it secure. As an example, if a company in Hong Kong is shipping an intermodal container via ocean liner, they can still have very tight chain of custody providing they utilize a high-security bolt seal, make certain that there are diligent seal control procedures in place, and have inspections conducted at each point in the transit route. Just because the seal doesn't have an embedded smart chip with RF communication doesn't mean that your shipment has to be vulnerable.

Q. *What's the connection between supply chain security and customer retention and loyalty?*

A. As a result of several factors, such as compliance with C-TPAT (Customs-Trade Partnership Against Terrorism), the popularity of just-in-time logistics, and the increased risk of theft and terrorism, there is greater emphasis than ever before on protecting a company's supply chain. Today, global logistics is about speed, reliability, product integrity, and cost containment—all of which directly affect profitability and customer retention. The industry leaders have found that having world-class security programs directly benefit all four of these critical areas.

“The reality is that high-tech devices will always need to be supported by smart practices and procedures.”

Let's examine what could happen to a company that fails to adequately protect their supply chain. If their security is breached, and law enforcement discovers a large quantity of smuggled narcotics in one of their shipments, this company will likely experience a dramatic increase in the number of government inspections of *all* their imports for an extended period of time. This will not only slow down their supply chain and jeopardize delivery deadlines to customers, but also increase their operating costs. Additionally, this company will incur considerable time and expense interacting with law enforcement officials in the aftermath of this incident.

On top of all this, the publicity that could be generated in the media over the incident can negatively affect the company's reputation in the marketplace as well as their stock price. The end result is that current or prospective customers may not be so eager or comfortable doing business with that company.

Q. *What are the potential supply chain impacts of an attempted or actual terrorist attack on cargo destined for the United States?*

A. Intelligence sources have reported that the commercial supply chain remains a prime target

for terrorist organizations because of the volume of shipments sent to the United States as well as the fact that an act of commercial terrorism would have significant consequences.

The last thing any of us want, of course, is another 9/11. The loss of life is obviously everyone's number one concern. However, I believe that an act of terrorism also has the potential to ignite a global financial crisis, especially in these economic times.

To illustrate, let's say the United States government closes our ports for an extended period of time in response

to a terrorist act, and imports are kept waiting in limbo on ships, trucks and planes at our borders, as well as at ports throughout the world, because

they cannot offload their cargo in the States. This would result in a domino effect that would directly affect foreign manufacturers, consolidators, and carriers as well as U.S. importers, distributors, and retailers. In essence, the supply chain would become frozen and the economic consequences would be felt immediately.

Q. *Is mandatory screening on all cargo coming into the United States inevitable?*

A. It's not easy to find the right balance between security, cost, and facilitation. The TSA (Transportation Security Administration) has been attempting to find this balance for the flying public for nearly 10 years and it is still struggling to come up with the right equation. Remember, the U.S. imports over 20 million conveyances each year. Even if we reach the objective of 100 percent cargo screening, the real question becomes how thorough and effective would that screening process actually be?

Q. *Has C-TPAT succeeded in its goal of keeping harmful shipments out of the U.S.?*

A. The C-TPAT program has been extremely successful in two critical areas.

First, there has not been a weapon

of mass destruction smuggled into the United States as a result of the commercial supply chain being breached, despite efforts by terrorist organizations that are determined to do so. I think C-TPAT justifiably deserves a good deal of the credit for this accomplishment. Second, because of C-TPAT, thousands of companies have been motivated to re-evaluate their supply chain security programs and continue to seek ways to better protect their goods. This not only safeguards these corporate entities, but also the American public.

“If C-TPAT didn’t provide tangible security, logistical, and financial benefits, it wouldn’t be replicated by so many other countries and embraced by the business community.”

C-TPAT offers an array of financial and logistical incentives, which is why 10,000 companies have joined the program to date. C-TPAT’s annual conference is sold out within hours of registration being opened and mutual recognition agreements are being signed with other countries who are adopting C-TPAT-like programs.

Very few companies have voluntarily given up their C-TPAT certification and walked away from the program. In fact, most of the firms that are no longer in the program have had their certifications suspended or revoked.

If C-TPAT didn’t provide tangible security, logistical, and financial benefits, it wouldn’t be replicated by so many other countries and embraced by the business community. Remember, C-TPAT is a voluntary program. So 10,000 members in less than 10 years is impressive.

Q. *You have said that employee loyalty has become a greater problem these days. What’s the reason for this and how is this related to security?*

A. Most security experts agree that one of the reasons for the spike in both white and blue collar crime over the last two years is the recession. The economic downturn has resulted

in wage freezes, reduced shift hours, overtime being eliminated, and layoffs. Stock options are worth less and retirement accounts have lost value. Faced with financial pressure, less income, and the threat of job elimination, company loyalty has been negatively affected.

Some of the dishonest workers (both white collar and blue collar) that Danbee Investigations has apprehended over the last two years had no misgivings whatsoever about stealing from their employers, rationalizing that they

were simply taking what they were entitled to. In some cases, there was resentment about the austerity measures that had been put in place, and these employees adopted an “us against them” mentality.

Q. *What’s the single most important action that companies can take today to improve their security and minimize the threat of supply chain disruption?*

A. I think there are actually two key actions.

The first is to become more proactive, rather than being reactive. Don’t wait to be victimized to learn that your security safeguards can be circumvented. The most successful companies today are having comprehensive risk assessments and audits performed to expose their security vulnerabilities before others have the opportunity to exploit them.

Second, I would advise companies to be more realistic in terms of assessing the quality of their existing loss prevention programs. There’s a difference between not being victimized because your security program is very good versus not being victimized simply because you’ve been fortunate. Just because you haven’t had a problem doesn’t necessarily mean that you

have an excellent asset protection program. In today’s high risk world, relying on luck is not a smart security strategy.

Q. *What can supply chain managers do to jump start the conversation—and action—about better supply chain security in their organization?*

A. I think that reducing overhead and increasing company profitability are always compelling points to raise in advocating better security. The example I previously gave about the company having their supply chain breached and unknowingly having their shipments used to transport narcotics is an actual case we handled for a large American importer. The costs associated with all the remedial actions they ended up taking—the legal, consulting, and investigation expenses as well as the interruption to their supply chain—were all unexpected and unbudgeted. Their bottom line took a hit that fiscal quarter.

Much of the same financial exposure exists if a company’s product is stolen or tampered with. Consequently, companies almost always find that being reactive is much costlier than being proactive. Proactive security equates to risk mitigation, the value of which most executives fully appreciate. No one cancels their fire insurance because none of their facilities have recently burned down. They accept the fact that protecting their company from unexpected risks like fire or flooding is a necessary cost of doing business. When you analyze it, that’s exactly what an excellent supply chain security program does while also allowing a company to operate more profitably and with greater efficiency.

In this competitive business environment, the chances are that one or more of your major competitors already understand this and are taking the needed steps to make sure their assets are well protected. If you want to remain competitive, you’ll need to do the same. □

Barry Brandman can be contacted at bbrandman@danbeeinvestigations.com



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LIFT TRUCKS: A closer look at fleet management practices

New lift truck fleet management offerings aim to improve flexibility and efficiency in a dynamic business climate, creating efficiencies in the most unlikely places.

By Josh Bond, Lift Truck Columnist



New tools allow managers to track lift truck activity in real time from anywhere in the facility.

When times were good, lift trucks and their associated costs didn't inspire much scrutiny. These warehouse workhorses chugged along, dropped in and out of the maintenance bay, and were replaced every so often by newer, shinier models.

Lately, as many savvy warehouse/DC managers have keenly noticed, current business conditions tend to reward those who apply a magnifying glass to each and every nook. According to Scott McLeod, president of Fleetman Consulting, Inc., an independent forklift fleet management company, fleet management practices are about due for their moment in the spotlight.

If McLeod is right, and if the assortment of third-party offerings is any indication, site managers and corporate number crunchers will find their warehouse workhorses could stand to slim down. Old habits die hard, but McLeod says he's confident that a thoughtful examination of fleets of all sizes will yield dividends for most organizations.

Down to basics

At its most basic, lift truck fleet management is the practice of using data to modify operational and purchasing practices to achieve flexibility, efficiency, and cost savings. By partnering with the right equipment dealer and/or fleet

management company for partial asset ownership, companies can achieve the flexibility to right-size their fleets on an as-needed basis.

By integrating with warehouse management systems (WMS) software and truck-mounted computers, fleet management offerings can track equipment usage, energy usage, accidental collisions, maintenance records, and certifications creating efficiencies in resource consumption and administration. Implementation can be rapid and returns can be immediate, says McLeod, but buy-in is critical to successful fleet management.

Just as with any rehabilitation program, the first step is admitting there's a problem. "A lot of companies I talk to don't have a handle on where their lift trucks are located, how many they have, or what kind they have," says McLeod. "Problem number one: We have to figure out what they have and what it costs. Lift trucks are assets, and every business cares about return on assets."

Except that, for a long time, most companies didn't care. Historically, a procurement officer at the corporate level would purchase lift trucks, arrange for them to be dropped off at individual sites and then promptly forget about them. It became the ware-

house manager's problem to coordinate usage and maintenance, or to request replacements in intervals dictated by an indifferent capital plan.

"A lot of companies didn't even have lift trucks on their radar because they figure they had bigger fish to fry," says McLeod. "In those situations, fleet decisions were largely reactionary. But they now need to make it a corporate priority to implement a strategic lift truck fleet management plan and have somebody responsible for the success of that program."

Although a manager or corporate leader might identify the need in many situations, optimal fleet management calls for nothing less than a company-wide commitment. By monitoring an operator's every pick, by squeezing every drop from a battery or LP tank, and by ensuring that only the precise amount of hardware is available, fleet management can boost transparency and accountability, often leading to drastic changes in day-to-day operations.

According to McLeod, a good fleet management program should strive to make continual improvements every year in utilization and cost. Every warehouse and DC is different, he says, but every site can improve: "It's a living thing. You have to stop and say, how can we do it better?"



Fleet management monitoring software can increase operator accountability and improve maintenance records.

Flexible fleet

Doing something better and doing it cheaper are rarely one and the same. With fleet management offerings, however, that is precisely the point. According to Nick Adams, business development manager for Mitsubishi Caterpillar Forklift America, financial turmoil in the past 18 months to 24 months has prompted companies to turn over every last stone in search of efficiencies. Still, he says, fleet management has a tendency to be overlooked.

“Companies have been forced to get skinny,” says Adams. “People in charge of fleet maintenance now have three or four other responsibilities. Some folks are saying that there just isn’t the focus at the plant levels.”

For some, the solution lies in transferring responsibility to a third party. One of the best ways to right-size a fleet while managing costs, Adams suggests, is to explore partial equipment ownership or long-term leasing. “In this economy, companies are very cognizant of the risks of asset ownership,” says Adams. By contracting with a third

party, those risks can be avoided for a flat monthly rate. “In exchange for that premium, you’ve got that flexibility.”

Third-party relationships can include long-term leases of equipment as well as long-term agreements for their maintenance, resulting in consistent costs. As a business expands or contracts, so can its fleet—without the usual fear of massive outlays for potentially underused equipment. Even those initial lift truck costs are only 20 percent of the total lifetime cost of ownership, says Adams, with the other 80 percent consisting of fuel, maintenance, and labor.

Patrick DeSutter, director of the fleet management program for NACCO Materials Handling Group, agrees, saying people are tuned in to the total cost of ownership more than ever before. The ability to turn unforeseen costs and long-term commitments into predictable and adaptable fees prompts companies to consider what once may have been out of the question.

Over the last 20 years, DeSutter says the industry’s perspective on fleet management—and outside service contracting in

general—has evolved. “It’s gone from people being very hesitant to sign an agreement or hand over those responsibilities, to people turning over every stone,” he says.

However, some managers who dabble in flexible ownership go about it the wrong way. Joseph LaFergola, marketing manager of business and information solutions for Raymond Corp., says that he often hears of customers who have, say, a 20-truck fleet and add four each year before Christmas to handle increases in order volume.

“Do you really need those trucks, or are you just doing it out of tradition?” asks LaFergola. “Once you start thinking outside the box, you could ask: What if I had only 10 trucks and rented five more during peak times?”

When asked why a manufacturer of lift trucks might want to help customers shed half their fleet, LaFergola says that it does sound a bit counter-intuitive. “But we’re not looking to sell you a bunch of steel, drop it off, and run,” says LaFergola. “We want to help you make your warehouse as efficient as possible.”

In this way, lift truck manufacturers will build customers for life, LaFergola adds, and a regular upgrade schedule will ensure that clients have access to trucks with the newest technology that offer the best efficiency.

The technology

As lift truck technology has improved along with warehouse management tools and wireless hardware, lift truck metrics are now far more comprehensive than simply hours of use. For a fleet management program to work properly, an organization must first have a clear picture of equipment use.

Adams asks: “Are you collecting the data? And once you have it, are you using it to make fleet management decisions? Making decisions without data is not good; but having data and not using it is also not good.”

Data collection in modern fleet management offerings ranges from ultra-detailed telemetry with assorted hardware retrofits to simple monitoring tools. Maria Schwieterman, marketing product manager for Crown Equipment, says that even the most advanced technology is designed with ease of use in mind.

“Customers are looking for tools that will help them improve things and find cost savings,” says Schwieterman. “And they’re looking for easy implementation. They’re not looking for some huge project to undertake.”

Fleet management hardware can include on-board units or software that syncs with existing dash-mounted devices. Browser-based services can even enable staff and managers to monitor data through an iPhone or iPad, further reinforcing the notion that, indeed, there is an app for that.

Depending on the equipment involved, a fleet management program will enable more efficiencies than simply right-sizing a fleet. Accompanying software might keep track of propane use in LP trucks, maximizing each tank and monitoring overall use. Fleet management software can also track compliance items, enabling a company to provide solid documentation about operator certifications and lift truck maintenance records.

The simple process of wirelessly transmitting a pre-shift inspection checklist can save the five or 15 minutes needed to fill out the form by hand and manually deliver it to the proper office. “That can translate to several hundred thousand dollars annually on time; plus that time can be turned into productivity,” says LaFergola.

By tracking individual trucks, the software offers accountability for operators. Managers might ask why a truck is idle for much of the day, or why it’s doing more traveling than lifting. Some offerings even include truck-mounted accelerometers that register impacts and can be calibrated based on the work environment.



Truck-mounted hardware tracks data about whether a truck is idle or in motion, how much energy it uses, and can even produce collision reports including who, when, and where.

For all the fancy details, Schwieterman says the emphasis is on making the data relevant. Software focuses on getting information to end-users and presenting them with key areas as opposed to forcing them to root through data. This allows managers to manage by exception.

“They know there are opportunities, but they don’t know where to find them,” says Schwieterman. “You want a tool that is going to be able to capture as much data as possible, from safety to utilization, to service and personnel. Then you need to streamline the information and adopt processes among the management and staff.”

Ready to take the plunge?

A fleet management overhaul calls for a full-company commitment, which can often be the biggest hurdle of all. McLeod and OEM representatives agree that a fleet management program works best with a corporate champion, not simply a procurement officer.

“If management is not engaged in making a change, then you’re not going to find the support to make a fleet management program successful,” says Schwieterman.

However, there is no shortage of benefits that most managers will gladly welcome, such as the opportunity to replace antiquated administrative systems with user-friendly technol-

ogy. Each organization is different, but DeSutter estimated a fleet management program could be rolled out in 30 days to 60 days, provided there was good employee buy-in, and good asset data at the outset.

DeSutter adds that he recommends at least a preliminary asset survey before presenting a fleet management provider with the equivalent of a shoebox full of receipts.

“It took time to monitor these things,” says Schwieterman. “It was paper-based and things got lost. This tool can let them know what the pulse of their warehouse is.”

LaFergola adds that any opportunity to reduce the unknowns is key. “Without fleet management, I’m really taking a guess at the amount of equipment I need,” says LaFergola. “I’m estimating how many pallets I need to move. I’m estimating the number of work hours. I’m doing a lot of estimating. But I need to know exactly how much equipment I need.”

“We hear some amazing stories, but one of the most common reactions is a manager saying, ‘I had a gut feeling I had too many trucks,’” adds Schwieterman. “They’re making decisions based on gut feelings, and that’s hard to get by upper management these days.”

Josh Bond is the Lift Truck Columnist for the Supply Chain Group



What Sage Advice do you need?

By Wayne Bourne

FELLOW SAGE ADVICE COLUMNIST John Gentle and I have been in this game for a long time. How long is uncertain, as John won't tell me how old he is and I've stopped counting my age after I retired.

However, I figure we have a combined 70 years to 75 years of experience in logistics and transportation. As a result of living that long while maintaining our sanity, *Logistics Management* challenged us to create and maintain this advice column for the industry's newly minted logistics and supply chain professionals.

The objectives were simple: Share some of the difficult logistics management experiences we found along the way and explain how we solved them; offer the inherent benefits of planning your work based on the efficiency of others; teach the value of industry networking and studies; and help shippers take advantage of the heightened recognition and dependence their division has earned in the board room.

The editors also wanted us to help define "true partnerships," how to build them, how to make them endure, and how to use those partnerships to provide your company with the strategic weapons that they truly are.

You will notice that our objectives listed above are often called "soft issues," in that they center on management style, not management specifics. Clearly, the period that we held sway (70s, 80s, and 90s) was inherently manual: yellow pads and index cards, big maps, and lots of telephones. Performance information was often old and inaccurate, and paper PODs were the only way a carrier could get paid. Contracts and tariffs were filed with Uncle Sam, and there were too many carriers in the stable.

We had our issues and we got through them, and you will too. However, yours will be entirely different from ours. As companies try desperately to shorten the supply chain and push inventory ownership back as far as possible, you and your team will face problems we never considered. Technology today and tomorrow is providing

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you with the ability to do some pretty remarkable stuff, like distribution center by-pass, inventory postponement, high performance on-time results, TMS-directed visibility, and paperless freight payments. So, as the hard issues evolve, so too will the tools that will help you manage and simplify them.

What hasn't changed over the years, however, are those "soft issues," the ones that John and I have been writing about for the past few years, including:

- **How to be a trusted partner** not only to the carrier group, but to the disparate management within your own company—not to mention to your own team.
- **How to communicate industry issues to upper management**, especially if it is data that will change your budget forecasts.

- **The importance of having a management savvy mentor** who will help you navigate your way through the political minefield that is "corporate."

- **The absolute necessity of attending conferences and seminars** that add to your knowledgebase.

- **The sharing of your operational concerns** with your carrier partners and learning theirs.

- **How to stay on top of government regulations.** The earliest heads-up you will ever get on elements that add expense to your rates will come from new and enhanced governmental regulation. Because the government works so slowly, you'll have plenty of time to study the potential cost implications.

Those are but a few of the topics that we've covered and are as alive today as they ever were way back when.

This issue marks the beginning of our 5th year of telling our stories, and I never would've bet that I could keep up the challenge for this long. But with that said, I'm going to ask you to chip in a little here.

Send either John or myself an email (gentlejohn@bex.net or wlb1144@yahoo.com) with a topic you would like to learn a little more about. Maybe, just maybe, we've come across that very issue in our past. Are you currently struggling with a process that perhaps we could un-jumble for you?

Thank you for reading Sage Advice over the years and I look forward to hearing from you. Happy New Year.

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