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LM EXCLUSIVE: 28th ANNUAL SALARY SURVEY

Pulling away from the pack

Page 28

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April 26, 2:00 p.m. EDT
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Management UPDATE

AN EXECUTIVE SUMMARY OF INDUSTRY NEWS

Diesel prices: Seems like old times. Don't look now, but the price per gallon for diesel fuel is approaching prices that haven't been seen in nearly four years, according to data from the Department of Energy's Energy Information Administration (EIA). Diesel prices topped $4 per gallon in late February and have been there since. The week of March 26—at $4.147 per gallon—marked the highest price since the week of August 25, 2008, when it hit $4.145 per gallon. While this remains below the all-time record of $4.764 per gallon from the week of July 14, 2008, prices appear to be trending in that direction, based in part on an improving U.S. economy.

Are these the droids you're looking for? Amazon.com Inc. announced that is has reached an agreement to acquire Kiva Systems, a developer of mobile-robotic solutions that automate e-commerce order fulfillment and warehouse operations, for $775 million. "For the past 10 years, the Kiva team has been focused on creating innovative material handling technologies," said Mick Mountz, CEO and founder of Kiva Systems in a statement. "I'm delighted that Amazon is supporting our growth so that we can provide even more valuable solutions in the coming years." Kiva Systems' headquarters will remain in North Reading, Mass.

Risky business. Supply chain managers should have learned some valuable lessons from last year's Fukushima earthquake and tsunami in Japan, said industry analysts. Kelly Marchese, a principal with Deloitte's manufacturing operations practice, said that unfortunately, the threshold for risk has not moved much since that tragic event. "We have not seen as much use of analytics as we expected," she said. "This might be a consequence of denial, or a belief that another 'black swan' event is unlikely." But Marchese maintained that the cost of being unprepared for potential supply chain disruptions can be paralyzing. "Not all supply chain disruptions are publicized, in fact, most manufacturers would prefer to keep most of them hushed up; but they happen to most companies on a regular basis," she said. According to Deloitte, there are more than 200 current and emergent risks that may have an impact supply chains.

Air transport needs a break. International Air Transport Association (IATA) is urging U.S. policy makers to improve aviation competitiveness by easing the tax and regulatory burdens on the airline industry. Aviation generates up to $1.3 trillion in annual U.S. economic activity and 10.5 million jobs and accounts for up to 5.2 percent of GDP, according to a Federal Aviation Administration (FAA) study. "The U.S. has one of the most mobile populations on the planet thanks to commercial aviation," said IATA's Director General and CEO Tony Tyler in his remarks to the recently concluded 37th FAA Aviation Forecast Conference. "Policy makers at the state and local level recognize these facts and they work hard to ensure connectivity by attracting air services. But while aviation gets a lot of attention in Washington, it is not always focused on the priority of using aviation as a catalyst for economic activity."

San Fran's nice niche. The U.S. Department of Commerce recently approved the Port of San Francisco's request for reorganizing its Foreign Trade Zone (FTZ) #3 under the new Alternative Site Framework (ASF) program. According to port spokesmen, the ASF program is a more efficient process that requires less paperwork and streamlines the process for businesses to apply for a zone. The program allows existing companies and new companies in San Francisco and San Mateo counties to secure FTZ status within approximately 30 days from when an application is accepted. Without the program the process can take 8 months to 12 months. While San Francisco's waterfront cargo operations are dwarfed by neighboring Oakland, it remains a viable "niche" gateway. Late last year, Secretary of Transportation Ray LaHood announced that the port would be awarded $2.97 million for rail improvements aimed at improving segments of its freight rail track in order to enhance safety, livability, and economic development. □

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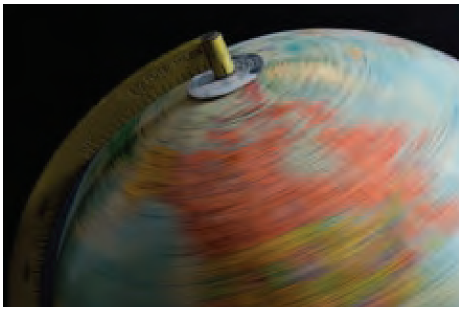

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Logistics MANAGEMENT

Caution Ahead: Fledgling CSA program suffers growing pains

The most ambitious truck safety program in a generation is leaving the industry bewildered over the exact nature of the initiative—which, according to analysts, seems to be changing continuously.

By John D. Schulz, Contributing Editor

CSA, which stands for "Compliance, Safety, Accountability," was rolled out in phases starting in 2011. The program is designed to weed out as many as 5 percent, or 150,000 of the nation's more than 3 million long-haul truck drivers—those "bad apples" that the government is convinced are disproportionately responsible for too many truck-related accidents and deaths.

It uses a complex system to rate the nation's nearly 525,000 DOT-registered interstate trucking entities on seven Behavior Analysis and Safety Improvement Categories, now known as BASICs. The seven BASICs are: unsafe driving; fatigued driving; driver fitness; alcohol and drugs; vehicle maintenance; cargo security; and crash history.

Carriers are given "scores" in each category; the higher the score, the worse the performance. Carriers are then issued warning letters if their scores range above 65, meaning that only 35 percent of the carriers in their class have worse scores. For hazmat carriers the cutoff score is 60.

However, Federal Motor Carrier Safety Administration (FMCSA) Administrator Anne Ferro is already talking about eliminating the cargo security BASICs altogether and replacing it with a hazardous materials score. There are also changes coming in the way driver-only inspections are performed.

Currently, a carrier can be cited for more than 640 infractions under CSA, which replaced SafeStat, the federal government's previous truck safety measurement system. CSA, which is administered by the

FMCSA, claims that the new enforcement program is partly responsible for a 9 percent reduction in roadside safety violations and a 12 percent drop in driver violation rates in the 18 months since CSA started.

A work in progress

To its credit, the trucking industry has largely accepted that CSA is a "work in progress." Most industry officials have accepted it for what it is—a large government program ripe with errors, overreaches, and changes—and have credited FMCSA for being able to listen to industry gripes.

Bob Petrancosta, vice president of safety for Con-way Freight, says that he feels CSA is a worthwhile endeavor and worth the growing pains to get it right. "To FMCSA's credit, they're listening to the industry, enforcement community, and stakeholders," he says.

The threat of eliminating as many as 150,000 drivers at a time of growing freight demand and a tight qualified driver pool is already having an impact on rates.

Longtime trucking analyst John Larkin, managing director for research at Stifel Nicolaus, says flatly that CSA is "not ready for prime time," adding: "FMCSA hasn't done a stellar job of implementing CSA, but that is par for the course for federal programs."

FMCSA officials admit that there's work to do. "FMCSA is in the early stages of efforts to better educate shippers, insurers, and other stakeholders about FMCSA's publicly available motor carrier performance and regulatory compliance data sources," says an FMCSA spokeswoman who spoke on background. She added that the administration is "committed to continually improving and refining" the relevant truck safety statistics "as better technology, new data, and continuing analysis provide the means and opportunity for refinement."

No one is questioning the need for greater truck safety. In fact, truck-related fatalities per 100 million miles traveled are at their second-lowest point since the government began compiling that data in 1975. But in what the industry says is a statistical quirk largely attributable to more trucks on the highways, truck-related fatalities actually rose slightly last year in the first months CSA was implemented.

Truck-related crashes spiked in 2011 by 9.4 percent over 2010's figures according to preliminary DOT figures. The number of truck-related fatalities rose 8.7 percent to 3,675, compared with a record-low of 3,380 in 2010, according to numbers compiled by the National Highway Traffic Safety Administration.

Jury awards in truck fatality cases have exceeded $20 million in some recent cases, so trucking industry officials say it's in their own best interest to run as safely as possible. Here's an update on how the CSA roll out is going so far.

Implementation uneven

FMCSA officials say CSA is improving safety performance and that will be shown in future truck fatality statistics. Roadside inspection violations have declined by 9 percent in the 12 months after the launch of the new safety rating system.

Still, and not surprisingly given Washington's record of large federal government rollouts, the first of CSA's voluminous regulations have been implemented more slowly than first anticipated with much ambiguity and confusion. For one thing, only five of the seven BASIC scores are available on the CSA website (csa.fmcsa.dot.gov.) The cargo security and crash history BASICs, arguably the two most important factors in determining a carrier's safety fitness, are not available to shippers on the website at this time, and there is no definite word on when they will be.

But the biggest issue cited by carriers according to the American Trucking Associations (ATA) relates to the basic scores being made public in the first place. This suggests that the public should use the scores to determine a carrier's fitness and to select carriers even though the FMCSA suggests otherwise.

"Why were the scores revealed if they were not to be used by shippers and brokers?" Larkin asks. It's a legitimate question to which there doesn't seem to be a logical answer. However, there is as a "disclaimer" on the FMCSA website that states that scores should not be used to "draw conclusions about a carrier's overall safety condition."

Effects so far

The threat of eliminating as many as 150,000 drivers at a time of growing freight demand and a tight qualified driver pool is already having an impact on rates, analysts and carriers report.

"The CSA seems to be one of the factors contributing to rate increases that carriers are still receiving even though the economy's growth rate has been disappointing," Larkin says. He adds that "nearly every carrier" talks of difficulty in securing an adequate number of drivers. The exceptions would be those carriers with well-developed driver training schools or relationships with a network of driver training schools, he says.

"It is, of course, always difficult to isolate the impact of one factor in a multi-factor world, but CSA seems to be making the driver shortage more acute by essentially

blackballing those drivers with chronic safety problems," says Larkin, who estimates that is perhaps 2 percent to 3 percent of the driver workforce, or as many as 75,000 drivers.

Combined with possible hours-of-service revisions and the upcoming electronic on-board recorders mandate, CSA is adding to reduced productivity and a smaller driver pool, thereby exacerbating the shortage of capacity issue within trucking, Larkin adds.

The road ahead

Trucking industry officials are continuing to press the FMCSA to fine-tune some of its methodologies, especially how non-preventable accidents and hazmat violations are counted in the scores. However, they were disappointed when FMCSA Administrator Ferro recently delayed plans to implement changes that would have allowed truckers to seek an accountability review of crashes against their safety record.

"If we're going to be held accountable for crash scores, we want to make sure it's a fair representation," says Con-way's Petrancosta. "They made a promise on accountability, but now they seem to be delaying the process."

Going forward, CSA wants to expand its actionable data in its own rating system called SMS, or Statistical Measurement System. The agency says it has enough data to assess about 200,000 of the 525,000 active interstate motor carriers in at least one BASIC category. Those 200,000 carriers are involved in over 90 percent of all interstate commercial motor vehicle crashes, the FMCSA says.

In late March the FMCSA was scheduled to release a preview of SMS that includes enhancements that the agency is proposing to fully implement this summer. This preview will enable motor carriers to review their data and understand the impacts these changes may have on their BASIC percentiles. A new version of SMS will be released to the public this July, the spokeswoman adds.

Additionally, FMCSA is developing a Notice of Proposed Rulemaking (NPRM) for a new process to rate motor carriers called the Safety Fitness Determination. The proposed future process would incorporate roadside performance (via SMS) along with serious violations discovered during investigations to determine carriers that are unfit to operate. The agency plans to have the NPRM published late this year. ☐

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

Managing the labor impacts of CSA

The driver shortage has flared anew in the trucking industry, as if it were part of a just-in-time delivery along with the economic recovery.

There are estimates that CSA could eventually eliminate as many as 150,000 drivers as they are identified as undue risks to their companies. Demographics, tougher drug and alcohol screening, and other factors are also working against the industry as it attempts to put drivers in all its trucks.

With jury awards in wrongful death accidents skyrocketing, nobody in the industry "wants to hire somebody else's problem," as the saying goes. So carriers are increasingly relying on sophisticated labor management systems to manage driver compliance, costs, and maximize their capacity.

"The effects of CSA are still revealing themselves, so it's hard to point to immediate impacts beyond the costs and investments that carriers have undertaken to ensure compliance, update equipment, and train drivers," says Malysa O'Connor, director of the logistics practice group at Kronos, a software company with more than 30 years' experience in labor management systems.

The driver shortage will only worsen over time, which will make CSA's impacts felt even more. O'Connor says an industry already strapped for qualified drivers will face even a more difficult time because of demographics (one in six truck drivers are 55 or older), possible restrictions on hours of service, and tougher background checks of all truck drivers.

"More and more carriers and private fleet operators are looking for ways to attract and retain quality drivers," O'Connor says. "Each day that you don't have a driver in the cab costs you money in lost capacity, potentially lost business, or an inability to secure new business. Most carriers I speak to are looking to speed the time to hire and decrease the cost to hire."

Some trucking companies, such as Con-way, have even started their own driving schools "to build bench strength, and many more are looking to automated hiring solutions to help them identify, assess, prescreen and onboard drivers faster," O'Connor adds.

A recent *Logistics Management* survey conducted by Peerless Media Research Group (PRG) found that it takes 40 days on average to hire a replacement driver—which trucking executives say is more than twice the length of time that they desire. In fact, a new driver can cost as much as $10,000 to recruit and train.

"With margins already thin, faster delivery expectations, and shorter lead times, it's increasingly important that carriers can speed that time to hire, and with automated hiring solutions it can typically be cut in half or more," O'Connor says.

–by John D. Schulz

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VIEWPOINT

Be a life-long learner

As is tradition, the cover of the April issue of *Logistics Management* (*LM*) is devoted to the findings of our *Annual Salary Survey,* a research project that not only fuels our best-read editorial feature of the year, but offers us the foundation for the most highly-anticipated webcast that our editorial team produces.

First I would like to thank the 801 *LM* readers (up from 669 in 2011) who took the time to complete the e-mail survey back in February. Considering just how precious your time is today, the fact that our sample actually grew by 132 respondents certainly validates the importance you place on this project.

I would also like to acknowledge the work that's done by Judd Aschenbrand, research director of Peerless Research Group (PRG), and his team in administering the survey and helping us to put context around the data. The project represents a two month effort; and without PRG's diligence, the most comprehensive survey of current logistics and supply chain salary levels simply wouldn't exist.

As for the findings, a few themes certainly stood out from our 2012 edition. After all of the data had been rolled up, our researchers found that salary increases were mainly flat over the 2011 findings. This year's overall median salary (the midpoint of the entire range of responses) only ticked up by a mere $1,000, from $90,000 in 2011 to $91,000 in 2012.

And as we've found over the many years, it's the median that sets the tone for our more detailed salary breakdowns. "The median quickly told us that any significant salary jumps or corrections from the recession have cooled off," Executive Editor Patrick Burnson told me as he wrapped up this year's story (page 28).

And while there were very few leaps in earnings across the board this year, what we did find is that there remain several common denominators to continued salary growth: technology adoption and a life-long commitment to learning.

The most significant factor, says Burnson, is that our research team is finally beginning to see some younger respondents reporting in this year—and they're looking to apply technology in any way they can. "When gathering our open-ended responses, we found that an aging workforce may be finally giving way to a younger, more highly-trained professional who also happens to be a savvy technologist," says Burnson. And he reports that higher salaries continue to correspond with adoption of today's technological tools in moving freight.

For years this survey has found that those with advanced degrees or managers who engage in continued education have pulled in the higher salaries. This year is certainly no different. The logistics professional with an MBA earns, on average, $24,000 more a year than a shipper with a four-year degree.

Dr. Ted Stank, professor of logistics at University of Tennessee, tells Burnson that education can no longer end at graduation.

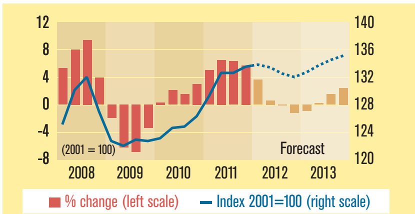
"Key areas such as decision analysis, IT tools, cross-functional and cross-organizational teaming, along with finance will remain in demand… and logistics managers should pursue coursework to prepare for the realities of the world in 3 to 5 years," Stank says.

According to Stank, the key to growing your logistics career can be summed up in just a few words: "Stay thirsty, my friends."

Michael A. Levans, Group Editorial Director

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

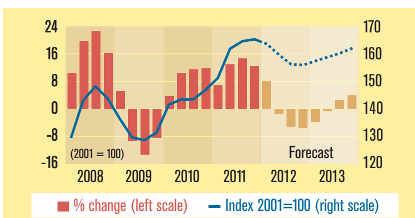
Pricing Across the Transportation Modes



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
General freight - local	-0.4	1.0	0.9
Truckload	0.7	3.4	6.8
Less-than-truckload	0.5	2.3	5.6
Tanker & other specialized freight	0.2	0.5	2.7

TRUCKING

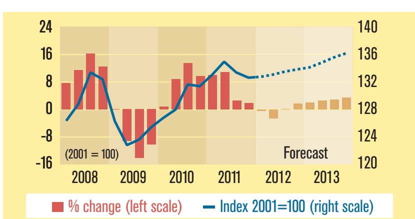
Excluding local truckers and office/household movers, the trucking industry continues to register steady price hikes. Long-distance TL truckers reported the largest price increase in February, up 0.7% from month-ago and up 6.8% from same-month-year-ago. The pace of trucking price escalation, however, did slow at the end of 2011. We think the data now are flashing signals that a peak in price escalation may be near. The 2008-2009 financial crises did yield the strangest, deepest price plunge ever in transportation services, so our business cycle forecast models are in unchartered territory. Though, the current cyclical forecast shows all trucking prices increasing only 0.7% in 2012 and up another meager 0.8% in 2013.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Scheduled air freight	0.8	1.6	11.3
Chartered air freight & passenger	-6.4	-3.2	-6.1
Domestic air courier	-0.6	4.0	8.5
International air courier	-0.2	3.2	7.6

AIR

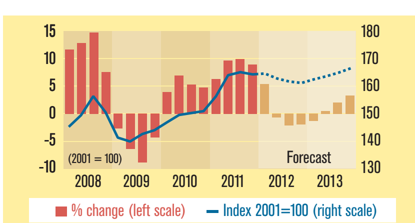
Wholesale prices for jet fuel sold by U.S. refineries jumped 18.8% from February 2011 to February 2012. At the same time, naturally, shippers faced an 11.3% price hike when they used scheduled flights of U.S.-owned airliners to move cargo. U.S. airfreight charter companies, meanwhile, told two distinctly different tales. Charter airlines flying only domestic routes cut prices 14.6% from a year-ago. Prices reported by charters flying international routes soared in the opposite direction, up 16.4%. Apple's iPad and new products from Samsung appear to be boosting demand (and rates) for trans-Pacific air cargo services. Our business cycle forecast for airfreight on scheduled flights calls for a 1.2% price drop in 2012.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Deep-sea freight	1.7	-0.6	-4.0
Coastal & intercoastal freight	0.5	0.5	1.6
Grt. Lks.-St. Lawrence Seaway	10.9	14.2	16.2
Inland water freight	-1.5	1.0	5.4

WATER

Inflation trends in water transportation have seen a cyclical downshift. From a high-octane 10% year-ago gain in the first quarter, average transaction prices for all water transportation services slowed to a 1.8% year-ago increase in the final quarter of 2011. Variances among the lines that contribute to the total price index, however, continue to be striking. In February, vessels plying the Great Lakes and St. Lawrence Seaway increased prices a whopping 10.9% from month-ago. At the same time, U.S.-owned ships in the deep sea category reported prices up only 1.7% and inland water freight registered a 1.5% price cut. Average industry prices overall are forecast to fall 0.3% in 2012 and increase 2.7% in 2013.

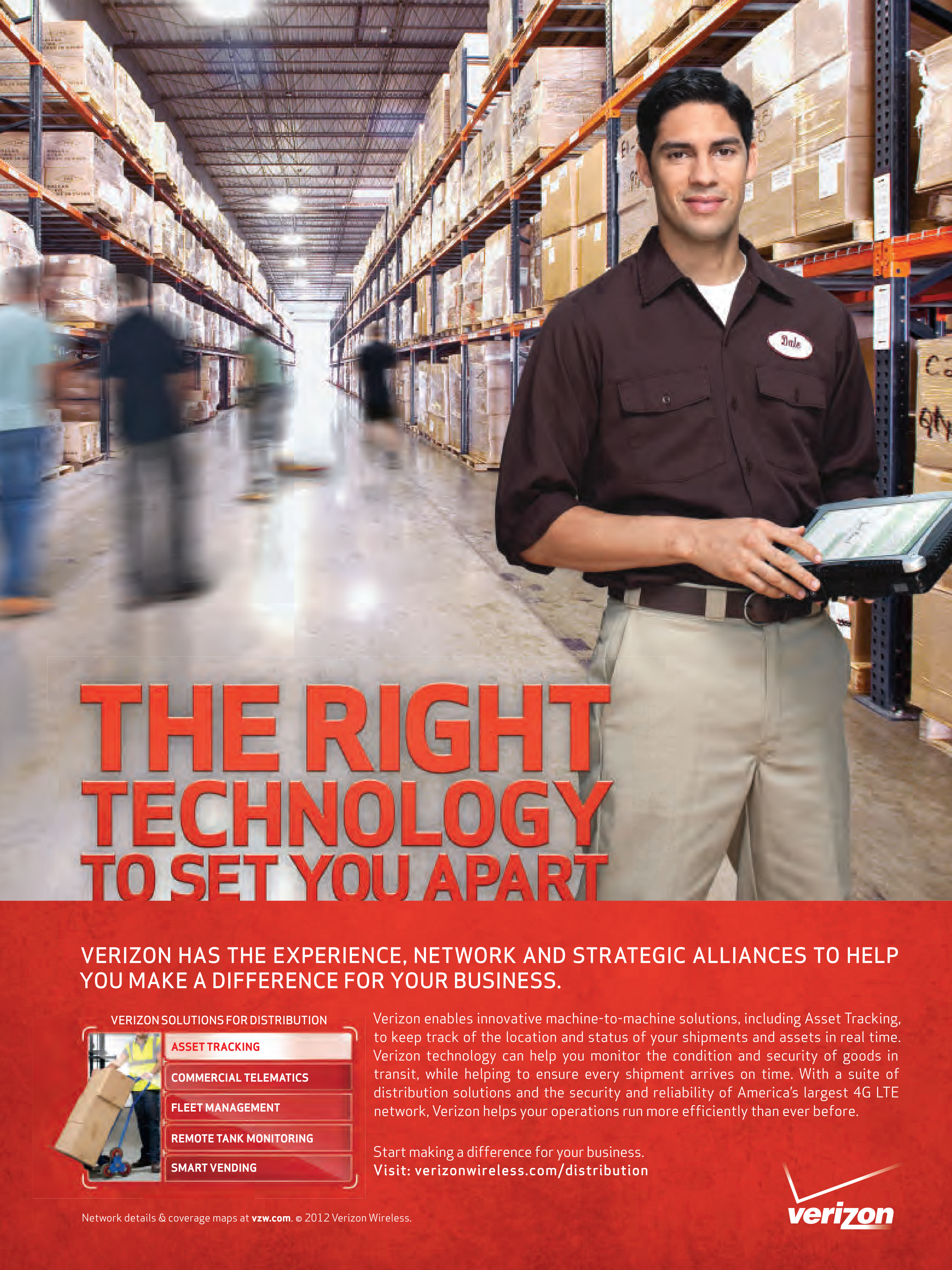


% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Rail freight	0.7	1.2	7.1
Intermodal	1.0	0.3	5.2
Carload	0.7	1.2	7.4

RAIL

The rail industry may be approaching a cyclical slowdown in its price trajectory, but signs are subtle. In the first quarter of 2011, rail industry prices grew 3.5% from the prior quarter and increased 6.3% from same-quarter-year-ago. By the final three months of 2011, prices had declined 0.5% from prior quarter, but still stood 8.9% higher than year-ago levels. The forecast imposes a cyclical downturn on rail prices. Our confidence, however, in this forecast (or its revision) will increase after we have a couple more months of data to confirm (or dispute) a cyclical price downswing. For now, the forecast calls for rail industry prices to inch up 0.1% in 2012 and increase 1.1% in 2013.

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

UPS reaches agreement to acquire TNT's Express business

Deal expected to be completed by third quarter; UPS expects significant synergies in expanding its European and global reach.

By Jeff Berman, Group News Editor

ATLANTA—In what can potentially be viewed as a significant game changer for the global logistics and express delivery sectors, UPS and Netherlands-based TNT NV, a provider of mail and courier services and the fourth largest global parcel operator, said last month that they have reached an agreement in which UPS will acquire TNT Express for roughly $6.77 billion (€5.16 billion). The agreement is an all cash offer of $9.50 per ordinary share for TNT Express.

UPS and TNT officials said this agreement was reached on Thursday, March 15, a day before it said it remained "in constructive discussions" with TNT regarding a potential acquisition to acquire the entire issued share capital of TNT Express.

Officials added that the Executive and Supervisory Boards of TNT Express "unanimously intend to support and recommend the offer." The deal is subject to certain conditions, regulatory clearances, and approvals and is expected to be completed by the third quarter.

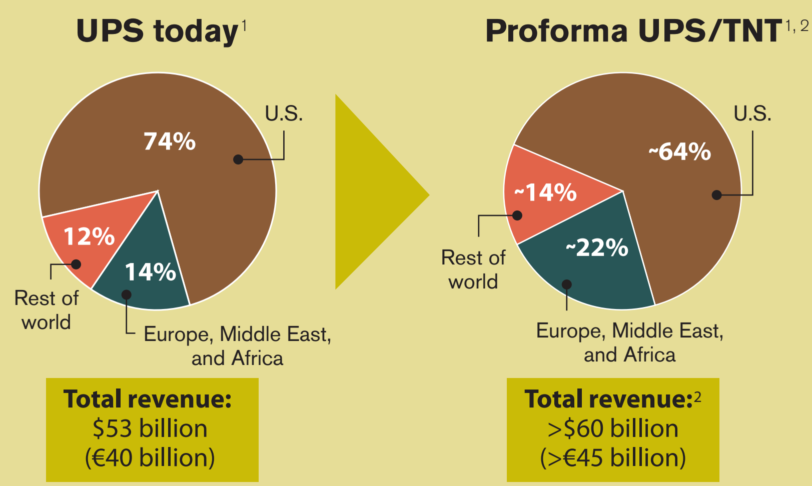
In February, UPS made an unsolicited bid of $6.43 billion (€4.89 billion); however, TNT turned down the offer although the company said they were in discussions.

In December 2010, TNT announced its plans to "demerge" operations by separating its Express and Mail operations into two independent companies, effective January 2011. Company officials said that the main reasons for an internal separation were the increasingly divergent strategic profiles of the two units and the limited existing synergies between them.

Soon after this occurred, UPS said it did not intend to make any large acquisitions in the future, instead indicating that it may be more inclined to focus on small- and medium-sized acquisitions in Europe rather than buying TNT's Express unit.

But that sentiment soon changed. "We intend to leverage the strengths of both companies to enhance the combined growth portfolio and

Enhanced global footprint



Note: TNT figures converted to USD at exchange rat of 1.3116 (source: ECB spot rate as of March 16, 2012.
1 UPS 2011A; TNT Express 2011 annual report.
2 Proforma estimates may change as accounting and reporting are made consistent.
Source: UPS

Proposed TNT Express acquisition significantly increases UPS's non-U.S. revenues, plus increases exposure to fast-growing emerging markets.

believe all stakeholders will benefit," said UPS Chairman and CEO Scott Davis on a call following the announcement of the agreement to acquire TNT Express.

"UPS possesses a large U.S. presence, as well as experience in global supply chain management," said Davis. "TNT Express provides additional small package access points in Europe, the most extensive European express road network, and an expanding presence in emerging markets."

Davis explained that UPS felt it was the right time to make this move, with the demerger of TNT Express from its parent company, Post NL, allowing for a pure play acquisition. And with strategic infrastructure investments in the UPS U.S. network recently completed, including its Louisville-based WorldPort facility, he believes the company is well positioned for growth.

UPS CFO Kurt Kuehn said UPS has been committed to Europe since 1976 and explained that the UPS/TNT combination is a continuation to its long-standing commitment to Europe. UPS currently serves about 60 countries and territories across Europe.

"We continue to see Europe and the entire continent as an attractive area for future growth and therefore seek to invest to build out our service offerings there, especially in areas like express road freight, additional access points, network density, and expanded supply chain solutions in sectors like high-tech and healthcare," said Kuehn.

TNT has grown into a highly respected €7.25 billion company with diverse revenue streams from around the world with operations in more than 200 countries in Europe, the Middle East, Asia Pacific, and Latin America, said Kuehn. He added that TNT has a substantial group of assets, including aircraft, vehicles, hubs, and depots, which cumulatively account for about 1 million deliveries per day handled by its 77,000 employees.

Jerry Hempstead, principal of parcel express analyst firm Hempstead Consulting, said that aside from dropping the number of global express players down to three—UPS/TNT, DHL, and FedEx—it also puts DHL and FedEx at a tremendous disadvantage in the U.S. and Europe, respectively.

"The deal makes UPS the largest carrier by far in Europe and makes FedEx the weak sister in that turf," said Hempstead. "FedEx had less than 10 percent of the European market, while the size and critical mass of UPS/TNT and DHL will make it almost impossible for FedEx to gain the critical mass it needs to gain low enough operating cost to become a significant player." □

RATES

While trucking booms, shippers brace for mid- to single-digit rate hikes

WASHINGTON, D.C.—Trucking is booming. And in case you haven't noticed, just check your last freight bill from your friendly neighborhood freight carrier.

The top 25 truckload (TL) carriers enjoyed a 13.2 percent year-over-year increase in revenue in 2011 according to statistics compiled for *Logistics Management* by SJ Consulting (SJC). About half that increased revenue was due to rising fuel surcharges, but not all the increase can be attributed to just that, said Satish Jindel, principal of SJ Consulting.

"The bigger truckload carriers will be seeking rate increases because there are fewer bigger carriers and the driver market is tight," said Jindel. "That does speak well to increase margins."

The increase among the largest TL carriers showed double-digit gains for 11 of the top 13 members. Swift, which is the largest TL carrier, jumped 14.8 percent to just over $3 billion in revenue. C.R. England, No. 9 on the TL list, jumped 21.4 percent to join the $1 billion carrier club. CRST International, No. 11 on the TL list, enjoyed a 25 percent surge in revenue, partially due to its purchase of Specialized Transportation Inc. (STI) last July.

And these revenue jumps aren't just happening in TL, the $300 billion sector that's by far the largest component of for-hire trucking. The market share of the 10 biggest less-than-truckload (LTL) truckers rose from 68 percent to 73 percent, with 10 LTL carriers now enjoying revenue in excess of $1 billion.

The top 25 LTL carriers enjoyed an 11.7 percent year-over-year rise in revenue in 2011 and now account for the lion's share of the $30.6 billion LTL sector.

Old Dominion Freight Line (ODFL), the most profitable publicly held LTL carrier, enjoyed the biggest jump—25.7 percent—to top $1.7 billion in revenue last year. ODFL has recently said it would like to double its revenue in three years.

Other big gainers were No. 4 UPS Freight (14.8 percent), No. 6 ABF Freight System (14.3 percent), No. 7 Estes Express (15.3 percent), and No. 9 YRC Regional (including Holland, Reddaway, and New Penn), which jumped 15.5 percent, according to SJC figures. Louisiana-based Saia joined the LTL "billion-dollar club," increasing sales 14.1 percent in 2011 to $1.03 billion, and now ranks No. 10 on the LTL list.

According to Jindel, conditions on the LTL side are slightly different than TL because a lot of carriers can handle 10 percent to 15 percent extra business in the next few months. "They built capacity based on peak season, so in the off peak, they have extra capacity; but there is still an opportunity to get rate increases," he said. "Some larger carriers should seek larger increases because they need to recapitalize their businesses and provide decent returns to shareholders."

So what does it mean for shippers? Short version: higher rates now, for sure, and perhaps fewer choices among carriers down the road.

John Larkin, trucking analyst for Stifel Nicolaus, said that much of the low double-digit growth carriers enjoyed were through price increases to erase the rate decreases taken in 2008 and 2009 during the depth of the Great Recession. Rising fuel surcharges, now more than 40 percent in TL and more than 20 percent LTL, are another factor.

"Still, there's a small amount of core growth in Satish's numbers as carriers try to respond to the desire of shippers to consolidate their carrier relationships to a smaller number of larger, better capitalized, better systematized, better equipped, safer, more time definite carriers," Larkin noted.

—John D. Schulz, Contributing Editor

REGULATION

TSA Chief: "Significant" economic benefits to strengthening cargo security

WASHINGTON, D.C.—The man in charge of the government's transportation security says that there are "significant" economic benefits to strengthening the nation's transport network to protect against another terrorist attack.

John Pistole, the fifth head of the Transportation Security Administration (TSA), spoke on March 5 at the National Press Club where he was introduced as "the face of everything we hate about airport security."

An easy-going and self-effacing speaker, Pistole's calm demeanor belies the fact that for most of his professional life he helped track down mobsters for the FBI. Now his sights are set on the next Osama bin Laden wanna-be.

Pistole talked of the "continued evolution" of the TSA and downplayed expectations by saying flatly: "We are not in the business of eliminating all risk associated with traveling from point A to point B. Risk is inherent."

Rather, he said, TSA's objective is "to mitigate risk, to reduce it as much as possible, and to ensure that the potential for anyone to commit a deliberate act against our transportation system is mitigated."

That might be good news for freight carriers and shippers who fear the TSA might someday turn its attention to surface transport. As it is now, surface transportation seems almost an afterthought.

"There are significant economic benefits to strengthening aviation security, most notably in cargo security and our ability to facilitate the secure movement of goods," said Pistole. "The interconnectedness and interdependence of the global economy requires that each link in the global supply chain be as strong as possible whether it's for business or pleasure."

He added that TSA is implementing a risk-based model of cargo screening similar to what it uses to screen 1.8 million air passengers every day.

—John D. Schulz, Contributing Editor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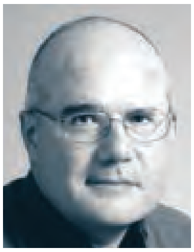
PRICING

Moore on



New tricks for contract negotiation

AFTER MORE THAN 35 years in the industry, I thought I had seen it all. However, I spent a few days last month with some University of Tennessee (UT) colleagues as well as industry and government leaders discussing the evolution of strategic sourcing and collaborative contracting.

Fifteen of us then attended the pilot program on collaborative contracting offered by Jeanette Nyden J.D. at UT's Center for Executive Education in Knoxville—and it did not disappoint. Dr. Nyden has practiced contract negotiation and contract mediation as well as litigation and has written several books on the subject of improving negotiations to get to a mutually profitable and lasting relationship.

Dr. Nyden provided us with the latest practical techniques in what she refers to as "getting to we." For many shippers and carriers, this would indeed be a major redirection in thinking. It involves five interaction characteristics along with some new language in that old transportation services contract.

The first challenge, according to Dr. Nyden's techniques, is creating "transparency." Both parties need to come to the negotiation prepared with real data, business information, and a vision of how this relationship fits the strategy of their business. The intent is to be open about the goals of the deal and honest about its importance to each party.

Dr. Nyden refers to this as "skinny dipping," with the shipper (buyer) shucking their clothes first. This transparency will enable both sides to see how the proposed deal fits with their vision of the business, what investments and commitments will be needed, and where any gaps in service could occur.

The second challenge is "authenticity." One can disclose their business, but still hide their future intent. In all negotiations, each side has to hope that the other party will not surprise them during the term of the contract. Being honest about current and future plans while offering transparency is a great way to build a partnership of mutual interest that tends to extend the length of the ongoing relationship.

Establishing "common knowledge," another of Dr. Nyden's recommendations, remains a challenge for shippers and carriers as most still maintain their own systems to share rates and produce metrics. Technology today will support a single system of record for both parties, and I suggest it be the carrier's system. At a minimum, the ability to access and mine history and operational performance from each other as well as the establishment of a single set of metrics for joint review is critical.

The fourth challenge is the "active discovery of cultural style" of the potential partner and the shipper's organization. Again, there are powerful capability and trust tests that companies can take together or on their own to get a measure of your team and your partner's team. These tools are reliable predictors of the behavior of the company under stress as well as in operational roles with critical service outcomes.

Last—and unfortunately where many shipper and carriers start—is to "align both parties" through a contract. Doing the pre-contract/RFP work, understanding your market and the potential partners in it, reinforces the short-term arms length behavior that is reflected in the annual bid contracts we see in the market.

The new contract language reflecting the collaboration is unique, and examples can be found in both government and industries across a number of services. If your transportation services contract does not start with a shared vision including what performance outcomes are expected and what investments each side will make in the relationship, then I suggest it's time to go back to school and learn some new tricks. ☐

Peter Moore is a Program Faculty Member at the University of Tennessee Center for Executive Education, Adjunct Professor at The University of South Carolina Beaufort, and Partner in Supply Chain Visions, a consultancy. Peter can be reached at pete@scvisions.com.

Legal Notice

If you directly purchased Air Cargo Shipping Services to, from, or within the United States from January 1, 2000 to September 11, 2006, your rights could be affected by Proposed Settlements

What are the Settlements about?

Plaintiffs claim that numerous air cargo carriers and certain of their employees conspired to fix the prices of air cargo shipping services in violation of U.S. antitrust laws. The settling defendants deny liability but have settled to avoid the cost and risk of further litigation and/or a trial. British Airways, Lan and Aerolinhas Brasileiras (Lan/ABSA), Malaysia Airlines, South African Airways, Saudia, Emirates, El Al, and Air Canada have settled these claims and have agreed to pay over $207 million to direct purchasers to, from, or within the United States. The British Airways settlement provides $89.512 million, the Lan/ABSA settlement provides $66 million, the Malaysia Airlines settlement provides $3.2 million, the South African Airways settlement provides $3.29 million, the Saudia settlement provides $14 million, the Emirates settlement provides $7.833 million, the El Al settlement provides $15.8 million, and the Air Canada settlement provides $7.5 million. These are in addition to prior settlements with other air cargo carriers in the case of approximately $278.5 million. In addition, all of these settling defendants, plus settling defendant Salvatore Sanfilippo, have agreed to cooperate with the plaintiffs. The case is continuing against non-settling defendants.

Who is a Class Member?

You are a class member if you purchased air cargo shipping services, directly from one or more defendants, for shipments to, from, or within the United States during the period from January 1, 2000 to September 11, 2006. All you need to know is in the full Notice, including information on who is or is not a class member.

Will I get a payment?

If you are a class member and do not opt out of these settlements, you are eligible to submit a claim and receive a payment. The amount of your payment will be determined by the Plan of Allocation, which is described in the full Notice. You may request a claim form online at www.AirCargoSettlement3.com, or by calling toll-free at 1-888-291-9655. Outside the U.S. and Canada, call 1-614-553-1296 (toll charges apply). You may also request a claim form by writing to Air Cargo Settlement 3, c/o The Garden City Group, Inc., P.O. Box 9380, Dublin, OH 43017-4280, USA.

Completed claim forms must be postmarked no later than July 27, 2012.

What are my rights?

If you do not want to take part in the settlements, you have the right to opt out. To opt out of one or more of the settlements, you must do so by June 1, 2012. Class members have the right to object to the settlements, the Plan of Allocation, and the request for up to 25 percent of the settlement funds in attorneys' fees, up to $2.5 million in reimbursed expenses, and $1 million in future litigation expenses. If you object, you must do so by July 6, 2012. If you do not opt out of a particular settlement, you will be bound by the terms of that settlement and give up your rights to sue regarding the settled claims. You may speak to your own attorney at your own expense for help. For more information, visit www.AirCargoSettlement3.com or call toll-free 1-888-291-9655. Outside the U.S. and Canada, call 1-614-553-1296 (toll charges apply).

A Final Approval Hearing to consider approval of the settlements and the Plan of Allocation will be held at the United States District Court for the Eastern District of New York on July 27, 2012. You may ask to appear at the hearing, but you don't have to attend. For more information, visit www.AirCargoSettlement3.com or call toll-free 1-888-291-9655. Outside the U.S. and Canada, call 1-614-553-1296 (toll charges apply).

This is a Summary, where can I get more information?

You can get complete Settlement information, including a copy of the full Notice, by registering at www.AirCargoSettlement3.com, calling the number below, or writing to Air Cargo Settlement 3, c/o The Garden City Group, Inc., P.O. Box 9380, Dublin, OH 43017-4280, USA.

1-888-291-9655 **www.AirCargoSettlement3.com**

Pearson on

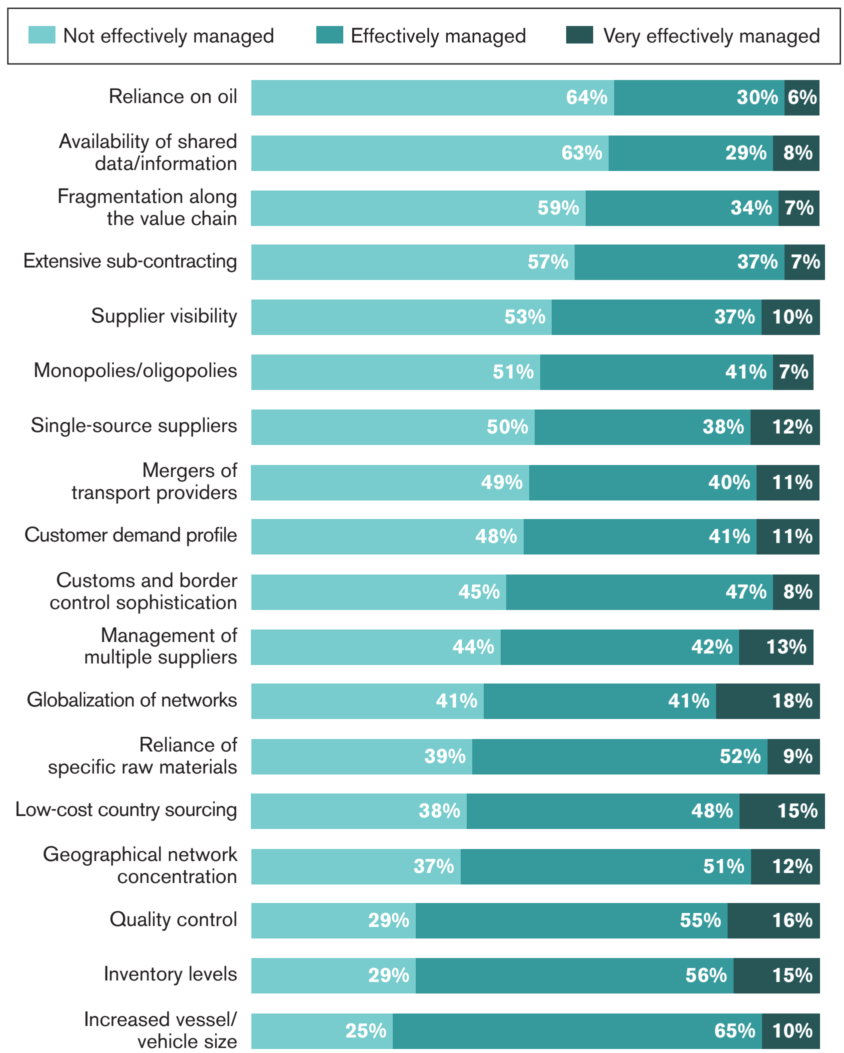
Part I: Insights on supply chain risk

In this first installment of a two-part series, I will look at a variety of risk-focused research efforts. In May, I will offer suggestions for managing supply chain risk—not just responding more effectively but preparing more completely.

RISK—particularly as it applies to supply chain management—certainly seems to be increasing. Consider the inordinate number of recent political upheavals and their potential to disrupt supply chains; or maybe the effects of the recent year's economic turmoil, the increase in cyber intrusions, and widely fluctuating commodity prices. At Accenture, we refer to this confluence of risk factors as "permanent volatility"—multiple events hitting simultaneously, with increasing frequency, intensity, pace, and duration.

The capstone of this risk-research review is a project Accenture conducted with the World Economic Forum (WEF) to work with supply chain leaders from business, government, and academia to understand the nature and implications of risk in the 21st Century. Initiatives undertaken included surveys and executive interviews across myriad industries and regions. We also cite risk-related investigations performed by other groups.

Supply chain vulnerabilities and the success with which they are being managed



Source: *World Economic Forum Supply Chain and Transport Risk Survey 2011*

OBSERVATIONS

Ninety three percent of executives surveyed by the WEF agree that supply chain risk management is a growing priority. Accordingly, most major organizations have put in place some form of enterprise risk management program. In a 2011 survey of almost 400 executives in 10 industries, Accenture found that 80+ percent of respondents have an enterprise risk management program in place or plan to implement one within two years.

Detailed analyses appear to confirm the wisdom of these moves: About one third of WEF interviewees estimated post-disruption losses equal to 5 percent or more of their companies' annual revenues. A longer-term study tracked the impact of 885 supply chain disruptions suffered

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by publicly traded companies from 1992 to 1999: Operating income dropped by 107 percent, return on sales fell by 115 percent, and return on assets decreased by 92 percent.

PRINCIPAL RISK CATEGORIES

WEF researchers identified four primary types of external disruptions.

- *Environmental.* The survey found that 60 percent of WEF participants cited natural disasters as most likely to cause widespread supply chain disruptions. According to a Swiss Reinsurance Company study, worldwide economic losses from natural disasters in 2010 totaled $194 billion. A WEF analysis of 15 multinational companies also found that operating profits caused by supply chain disruptions fell by a third in the quarter following 2011's earthquake and tsunami in Japan.
- *Geopolitical.* A good example of geopolitical risk is terrorism. Since 9/11, the U.S. has spent $1 trillion tax dollars on homeland security. Maritime piracy is another growing concern—estimated to cost the international economy up to $12 billion per year. The International Maritime Bureau reported a 36 percent increase in the number of attacks in the first half of 2011.
- *Economic.* Disruptions of this type cover a huge range of issues, from currency fluctuations and demand shocks to export/import restrictions and supplier failings. Following the 2008 financial crisis, supplier bankruptcy filings in the automotive sector roughly doubled. On the positive side, a study by the World Bank concluded that enhanced capacity in global trade facilitation (from streamlined customs programs, fewer tariff and non-tariff barriers, and more-rational quota systems) would increase world trade of manufacturing goods by almost 10 percent.
- *Technology and infrastructure.* Forty one percent of respondents to the WEF survey stated that their companies have experienced disruptions as a result of unplanned outages of IT or telecommunication systems. And a report by CIBC World Markets estimates that, to avoid future supply chain disruptions, total infrastructure spending may need to reach $30 trillion by 2030.

CRITICAL VULNERABILITIES

The WEF study group also sought to identify those vulnerabilities with the greatest impact on global supply chains, and the extent to which their companies successfully deal with those weaknesses.

Interestingly, four of the group's top five concerns relate to visibility and control, and three of the five deal with managing multiple players and measuring their performance. Visibility and metrics clearly are a problem: More than one quarter of respondents to the WEF survey could not estimate the financial impact of disruptions to their business. ☐

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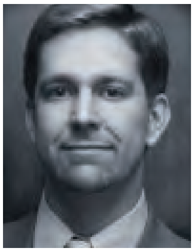

Beware the “scorpion’s tail”

Are oil prices about to send the U.S. back into recession?

FOR LOGISTICS MANAGERS, it’s important to understand what surplus oil production capacity means to oil and fuel prices—and, therefore, your bottom line.

Surplus oil production capacity refers to the amount of oil that can be brought online to meet a surge in demand or to make up for a sudden decline in production. Prices rise sharply when surplus capacity dips below 1.5 percent of total consumption, or when surplus production capacity is declining rapidly toward that level.

In the January *Logistics Management* Annual Rate Outlook webcast, I warned that surplus oil production capacity is likely to fall into the danger zone before the end of the year. The International Energy Agency’s (IEA) most recent *Oil Market Report* (March) supports this conclusion, warning that surplus production capacity has been eroded since the beginning of the year, and that “the market’s relatively slim ‘buffer’ suggests a bumpy ride in the months ahead.”

In Euro terms, the price for a barrel of Brent crude is higher than it has ever been, and West Texas Intermediate (WTI), the benchmark crude quoted by U.S. media outlets, is higher today than it was in March 2008—the year oil prices hit $147 per barrel.

In April 2010, surplus capacity exceeded 4 million barrels per day (mbd), or 4.7 percent of global consumption, and U.S. refineries were paying roughly $75 per barrel. By December 2011, surplus capacity had fallen to 2.24 mbd, consumption increased, and surplus capacity fell to just 2.5 percent. Refiners found themselves paying $106 for that same barrel of oil.

The IEA now estimates that surplus production capacity has fallen to 2 mbd. In Euro terms, the price for a barrel of Brent crude is higher than it has ever been, and West Texas Intermediate (WTI), the benchmark crude quoted by U.S. media outlets, is higher today than it was in March 2008—the year oil prices hit $147 per barrel and the national price for diesel rose to $4.72 per gallon.

A plot of oil prices over time resembles the curve of a scorpion’s tail. Are oil prices now approaching the stinger? Are oil prices about to send the U.S. back into recession?

Such a prediction is difficult because rising oil prices threaten the economy in different ways at different times. It’s hard to foresee precisely how rising oil prices will impact the global economy this time around.

In the run-up to the 2008 oil price spike, rising energy prices drove up inflation, causing the Federal Reserve to increase the lending rate from 1 percent in 2003 to 5.25 percent by 2006. The jump in interest rates proved to be the stinger at the end of the scorpion’s tail.

Rising interest rates caused adjustable rate subprime mortgages to surge, and many borrowers who were already punch-drunk from rising energy costs found themselves on the ropes paying for their mortgages. Defaults began to mount.

Looking back, we now know that the risk of mortgage default is correlated—that having a neighbor default greatly increases the probability that another neighbor will follow suit. Yet, the statistical models employed by investment banks that were packaging mortgages together into collateralized debt obligations were blind to this fact. Consequently, when foreclosures began to rise, banks suddenly found themselves undercapitalized.

In September 2008 Lehman Brothers collapsed, and investment banks essentially stopped lending to one another. The chill that blew through the banking system caused credit to freeze.

As rising energy expenditures continued to eat into disposable income, the foreclosure crisis mounted, and consumer confidence plummeted. Americans tightened their belts. But as spending declined, the economy threatened to enter a deflationary death spiral where declining demand for goods leads to declining output and employment, which causes confidence to further erode and belts to tighten further.

While the Fed’s easy money policy has its down-

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side, the alternative was deflation and depression.

What's different this time around?

For the time being, the rising cost of oil has not had the same impact on energy inflation as it did during the last oil price run. This is in large part attributable to the shale gas boom that has driven natural gas prices down to $3 per thousand cubic feet (Mcf). By contrast, in 2008 prices were nearly $12 per Mcf.

The rising cost of oil has also had a muted impact on the general rate of inflation. To a large degree this is due to the lingering high unemployment rate, which today sits at 8.3 percent. By contrast, the unemployment rate steadily declined between 2003 and late 2007. If the rate of unemployment was 4.5 percent, as it was in 2006, inflation would be high and the Fed would feel significant pressure to raise rates.

The elevated unemployment rate continues to suppress inflationary pressures thus allowing the Federal Reserve to stay true to their January statement that interest rates will not be lifted until 2014. Some believe that the Fed's easy money policy is why oil prices are so high. But last I checked, easy money doesn't search out a single commodity, and oil inflation has far outpaced other commodities like precious metals and agriculture.

Though unemployment is high, the employment situation continues to improve and elevate consumer confidence. Thus, aggregate demand is being maintained despite the increasing portion of disposable income being spent on gasoline.

Aggregate demand is also being buoyed by new vehicle sales, which have risen sharply on both pent up demand and the fact that today's vehicles are far more fuel efficient than those being replaced. By contrast, rising fuel prices contributed to declining sales of inefficient SUVs and other trucks as early as 2006.

There is no hard-and-fast rule governing oil and fuel prices as they pertain to consumer confidence. Regressions run on historical data fail to take into account the myriad and important distinctions between today's economy and the economy that existed during the previous oil price run.

If consumer confidence continues to be firm and interest rates remain low, there is reason to be cautiously optimistic that the U.S. can avoid falling into another oil price induced recession, which is good news. The bad news is that as prices continue to rise, we inch ever closer to the venomous stinger.

The question is, will your supply chain gain or lose competitive advantage as prices inch up? And will you be nimble enough to dodge the scorpion's tail when she strikes? ☐

Webcast: April 26, 2:00 p.m. EDT
www.logisticsmgmt.com/salary2012

LM EXCLUSIVE: 28TH ANNUAL SALARY SURVEY

Pulling away from

BY **PATRICK BURNSON,** EXECUTIVE EDITOR

The highest logistics and supply chain salaries continue to be earned by those who concentrate on adapting new technological advances and maintain a life-long commitment to learning.

According to the findings of *Logistics Management*'s (*LM*) 28th Annual Salary Survey conducted by Peerless Media Research Group (PRG), average earnings and compensation have actually leveled off over the past year.

However, our research team also found that an aging workforce is giving way to younger, more highly trained professionals who also happen to be savvy technologists. For the logistics professionals who have adopted today's technological tools, higher salaries are clearly corresponding.

But our research team warns that the cutting edge skills that newly-hired workers might have coming out of college are going to be obsolete in three years to five years, so they have to determine how to keep improving in key areas such as decision analysis, IT tools, cross-functional and cross-organizational teaming, as well as finance.

Also worth noting, say our researchers, is that now, more than ever, experience pays. Young people joining the workforce should aim to grow within their current organization, rather than chasing after that better offer. In fact, our survey indicates that the long-term pay-off could be substantial.

This year's results, based on 801 qualified *LM* reader respondents, indicate that 64 percent did see a modest salary increase in 2011. Of that number, the average bump was 6 percent.

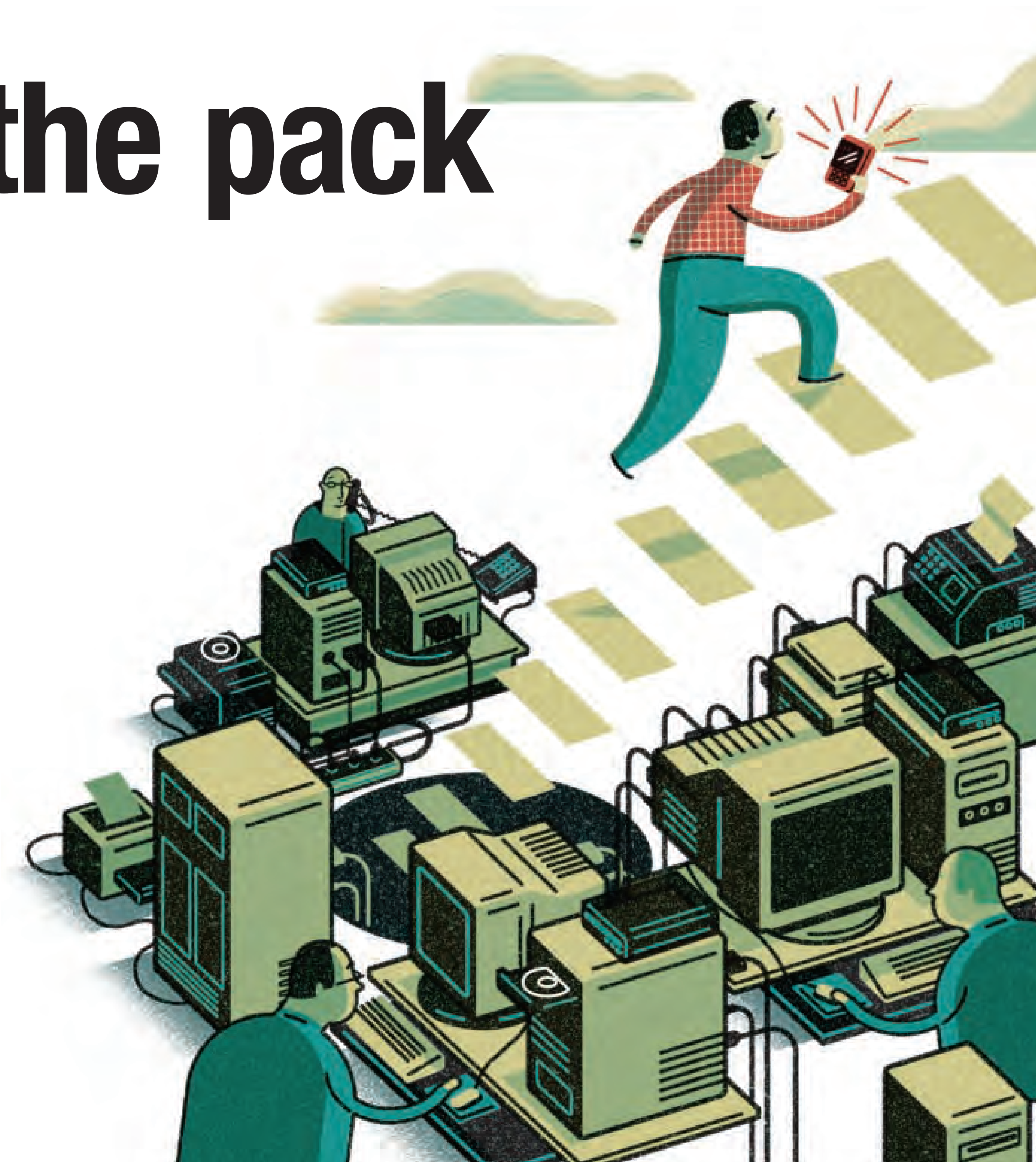
Those respondents with the title of "logistic manager" earned an average salary of $95,479 in 2010 and brought in a slightly higher $96,120 in 2011. For supply chain managers, the average increase was more impressive: up from $100,159 in 2010 to $128,335 in 2011. Corporate or division managers made significant salary gains as well. They earned an average of $157,320 in 2011 versus $138,630 in 2010. The overall median this year bumped up a meager $1,000 to $91,000.

While these raises kept managers ahead of inflation and escalating standard-of-living costs, 6 percent of our respondents reported a salary decrease and 30 percent reported that they received no raise at all.

E-commerce challenges

While younger, more technology-enabled logistics professionals are making their way up the ladder, older logistics managers simply can't afford to be complacent or get "comfortable," our survey indicates.

the pack



Daniel Guidera

Webcast: April 26, 2:00 p.m. EDT
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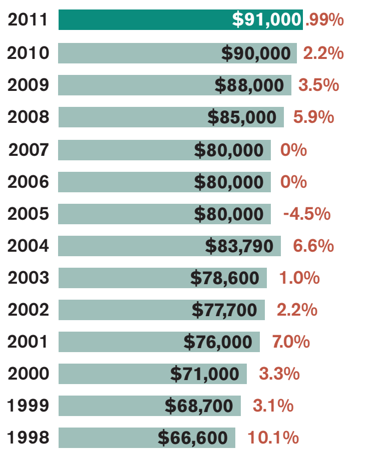
Pay hikes stall

Median salaries inch up

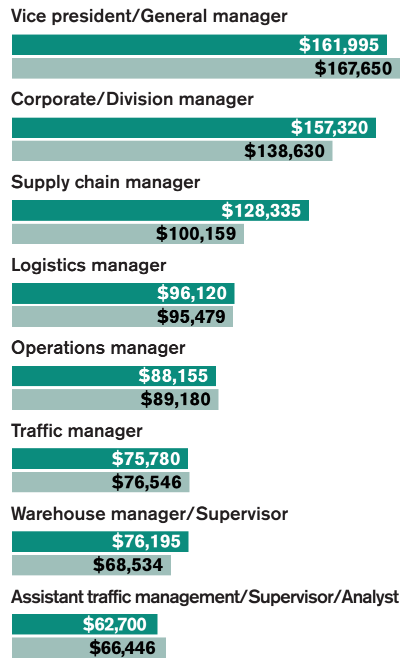


% Percentage change from previous year

Source: Peerless Research Group (PRG)

Job titles matter

Executive roles win better compensation

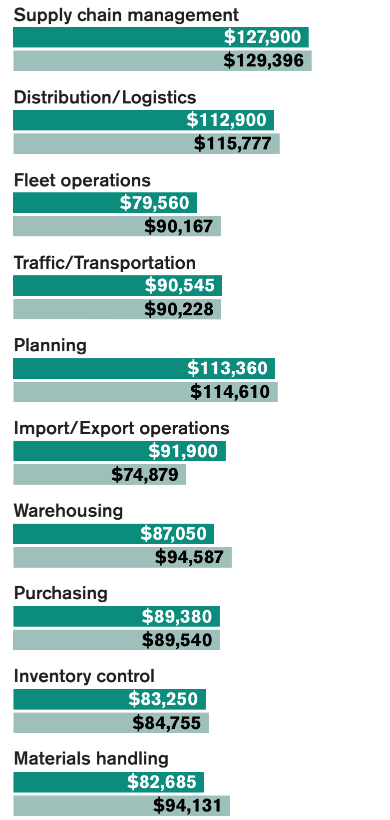


Average salary 2011 Average salary 2010

Source: Peerless Research Group (PRG)

Salary by job function

Big raises cool off



Average salary 2011 Average salary 2010

Source: Peerless Research Group (PRG)

Educators and executive recruiters echoed this sentiment during interviews in the weeks immediately following the release of this year's salary survey data.

"Talent management—recruitment, development, and retention—is an increasing challenge across many fronts in supply chain management as the discipline and business becomes more complex," says Dr. Theodore Stank, professor of logistics at the University of Tennessee.

He says that the move toward e-commerce is just one way that "old dogs" have to learn new tricks, while companies are also struggling to find people with good decision analysis skills in order to use all of the new data available to them.

New research forecasts offshoring of 750,000 more jobs

Corporations in the U.S. and Europe will move an additional 750,000 jobs in IT, finance, and other business services to India and other low-cost geographies by 2016, according to new research from The Hackett Group, Inc.

As noted in *Supply Chain Management Review* late last year, researchers were trying to determine if levels of additional offshoring in these areas would begin to decline by 2014.

This is indeed their conclusion. Furthermore, in the next 8 to 10 years the flow of jobs offshore is likely to cease, as companies simply run out of business services jobs suitable for moving to low-cost countries.

The Hackett Group's offshoring research, which examined available data on 4,700 companies with annual revenue over $1 billion headquartered in the U.S. and Europe, found that by 2016, a total of 2.3 million jobs in finance, IT, procurement, and HR will have moved offshore. This represents about one third of all jobs in these areas. India is by far the most popular destination, with nearly 40 percent of the jobs being offshored headed there.

But The Hackett Group's research sees additional offshoring levels in business services, which are currently at around 150,000 new jobs each year, leveling off or declining after 2014. The Hackett Group's research also found that of the 5.1 million business services jobs remaining onshore at U.S. and European companies in 2012, only about 1.8 million have the potential to be moved offshore, with 750,000 of those moving by 2016. So by the end of the next 8 to 10 years, the traditional model of lifting and shifting work out of Western economies into low cost geographies will cease to be a major factor driving business services job losses in the U.S. and European.

Hackett's research also found that automation and other productivity improvements are another major factor driving job losses in business services at U.S. and European companies. Automation and other productivity improvements will have caused the elimination of 2.2 million business services jobs at these companies between 2006 and 2016, and these factors are currently driving the elimination of around 200,000 jobs annually.

"In the U.S. and Europe, offshoring of business services and the transformation of shared services into Global Business Services, have had a significant negative impact on the jobs outlook for nearly a decade," said The Hackett Group Chief Research Officer Michel Janssen. "That trend will continue to hit us hard in the short-term."

—Patrick Burnson, Executive Editor

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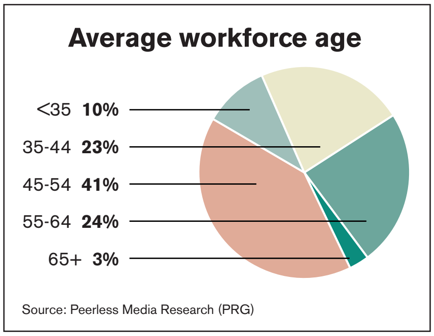
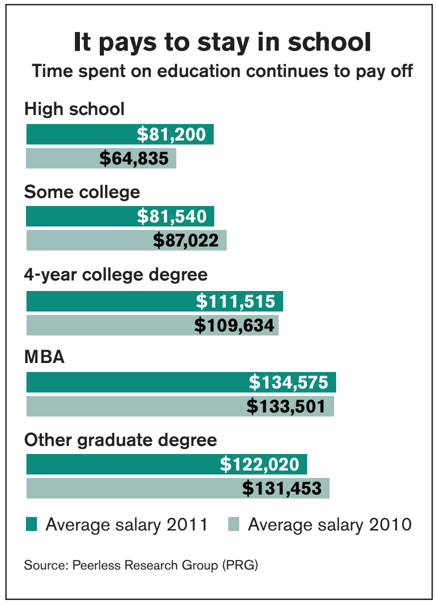
www.logisticsmgmt.com/salary2012



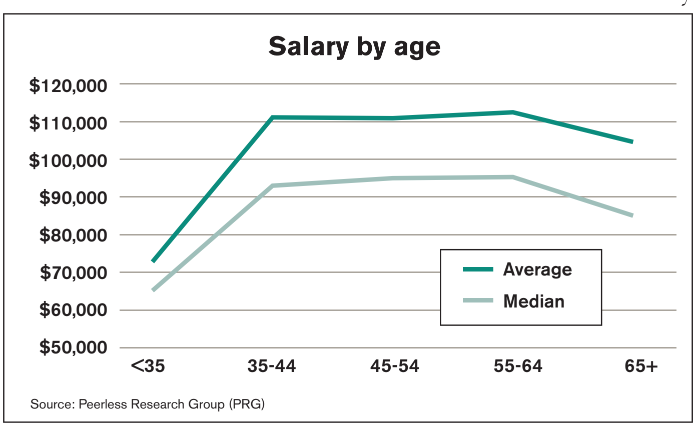


Gender gap remains substantial

Men earned considerably more again this year

Men		Women
$110,300	Average salary	$87,540

Source: Peerless Research Group (PRG)



"Most organizations do not have a well-articulated talent management strategy," says Stank. "Business executives need to ask a number of key questions: What kinds of new people do they need to buy from the market? What can they develop in the people they already have? How do they keep people progressing in their careers to deal with tomorrow's new challenges? The companies that are figuring this out first are winning the war for talent."

The *Logistics Management* and PRG research teams also found that logistics professionals with a skill set including information technology are among the highest paid. This did not surprise Stank. His advice for young and old alike is to "stay thirsty, my friends." He believes that everyone at a management level must be committed to a lifetime of learning.

"Key areas such as decision analysis, IT tools, cross-functional and cross-organizational teaming and interaction, along with finance will remain in demand," says Stank. "Logistics managers should pursue online coursework, executive education, professional certification—all geared toward shoring up gaps in current skill sets and adding new skill sets that are required for their next promotion or for the realities of the world in 3 to 5 years."

Dr. Bruce Arntzen, executive director of the supply chain management program at MIT, says that students who have already worked in supply chain for a few years will benefit much more from the supply chain management program than a student coming right out of undergraduate programs—and they will be rewarded much better financially as well.

"Yesterday, if you had a college degree you had a leg up on the competition," says Arntzen. "Today you need to have a master's degree. Interestingly, about a third of the students who are getting their master's degree in supply chain at MIT already have an MBA or a master's degree in some other field already, so these students will have two."

Meanwhile, adds Arntzen, veterans must resist the idea of becoming "comfortable" in their current positions. "More than anyone else, these people must be the agents of change," he says. "They must embrace new technology and champion its implementation. Otherwise, co-workers and management may suspect that they may be part of the problem rather than the solution."

Experience still matters

That fact that logistics managers in the 65-year-old bracket are still pulling down six-figure salaries demonstrates that experience still matters. As our research indicates, the 55-year-old to 64-year-old group represents today's top earners.

Lynn Failing, vice president of Kimmel

Measuring managers of logistics

Logistics managers had better get a handle on multi-faceted metrics if they expect to bring value to the enterprises they now belong to or hope to join. That's the conclusion of *Performance Excellence: Business Success through Effective Plant Operations Metrics*, a report released by the Manufacturing Enterprise Solutions Association (MESA).

The report says that companies that are piloting or planning to buy manufacturing execution systems or manufacturing operations management systems are looking for highly qualified leadership. However, finding managers capable of taking advantage of multi-faceted metrics such as overall equipment effectiveness are becoming hard to find.

"It requires a very intense concentration on all of the current technologies available to logistics management," says Julie Fraser, principal industry analyst and president of Cambashi, Inc., a UK-based thinktank. "There's an element of demand forecasting that they must explore here, too. But in the end, it's the 'make area' of the supply chain that still deserves the attention."

—Patrick Burnson, Executive Editor

MOL

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GLOBAL

OPERATIONS

KPI	TARGET	OCT. – DEC. 2011
Vessel On-Time Performance	100% Asia-U.S. West Coast 100% Asia-U.S. East Coast 100% Transatlantic 100% Asia-Europe	84% 90% 88% 90%

SAFETY

KPI	TARGET	JAN. – FEB. 2012
Long-Time Operational Stoppage	0	2

ENVIRONMENTAL

KPI	TARGET**	FY2011 1H vs. FY2010 1H
Nitrogen Oxide (NOx) Emissions per TEU-Mile	↓1% Annually to 3.12 grams	↓3% to 3.02 grams
Sulfur Oxide (SOx) Emissions per TEU-Mile	↓1% Annually to 1.99 grams	↑ 1% to 2.03 grams
Carbon Dioxide (CO_2) Emissions per TEU-Mile	↓1% Annually to 137.34 grams	↓3% to 134.31 grams

REGIONAL

OPERATIONS

KPI	TARGET	FEB. 2012
In-Terminal Truck Turn Time	<30 min. Jacksonville / Los Angeles / Oakland	15.0 / 22.2 / 22.0 min.

CUSTOMER SERVICE

KPI	TARGET	FEB. 2012
Lost Calls	Less Than 2%	1.60%
Phone Wait Time	Less Than 20 seconds	16 seconds
Export B/L Documentation Completion Rate	98% Complete 24-hrs After Vessel ETD	98.91%

EDI

KPI	TARGET	JAN. – FEB. 2012
Message Processing Without Failure	90%	99%
EDI Uptime	99%	99%
Customer Setup Time	Within 72-hrs	48-hrs
Customer Scorecard Compliance	95%	99%

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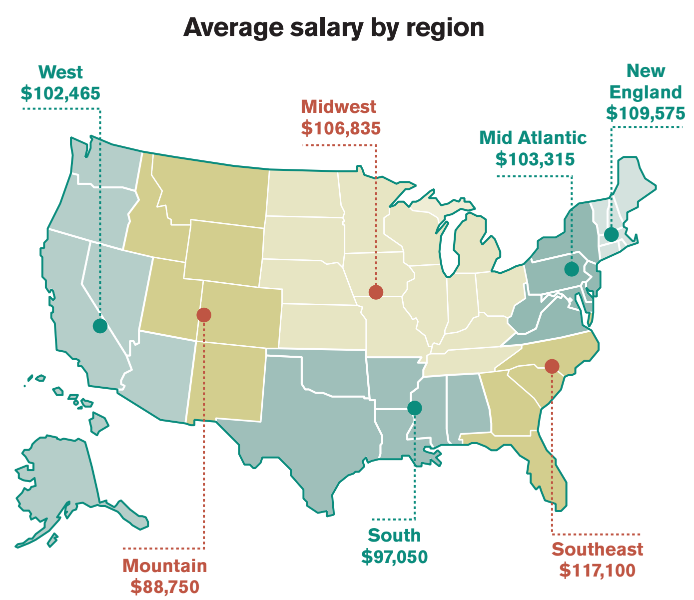
Count On MOL.

Webcast: April 26, 2:00 p.m. EDT
www.logisticsmgmt.com/salary2012



Source: Peerless Research Group (PRG)

& Associates Inc., a national executive search firm specializing in the logistics and supply chain, says that the best supply chain professionals are those who understand the "links" in the supply chain.

"This age group demonstrates the value of remaining passionate about their work," says Failing. "The lesson here is that if you're starting out in planning, try a stint in operations. If you're in procurement, try your hand in IT. If you're in materials management, move over to logistics. Remember that being smart is only half the story. Take the time to learn to be wise…and never stand still."

The same can't be said for moving from one geographic area to another; however, as our survey shows, working in the nation's heartland has some clear economic advantages. Not only is the cost of living lower there, the concentration of manufacturing and heavy industry remains rooted in this region.

While not leading the pack in base salary levels, 36 percent of this year's respondents came from the Midwest, earning an average of $106,835. The Southeast earned the highest average salary at $117,100, New England respondents earned an average $109,575, and the West earned an average $102,465.

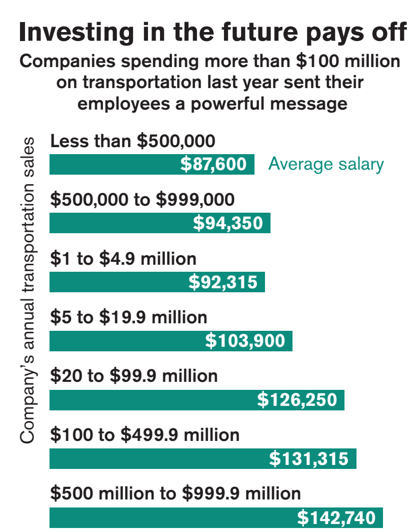
And while our research did not measure the impact of outsourcing the logistics function, many managers told us that nearshoring is a trend that can only drive the demand for domestic expertise.

"Increased awareness of supply chain risks—especially incumbent in long-distant supply chains—will motivate companies to seek to locate production near their customer base. This favors on-shoring," adds Arntzen.

Building a career foundation

Anecdotal evidence gathered by *LM* after the survey was completed confirmed that veterans want to share their experience with younger co-workers.

Barry Smith, supply chain director for Lincoln Electric in Cleveland observes that recent graduates may have unrealistic expectations. "There has been a significant inflation on starting salaries in some areas," he says. "But employers are not going to reward new hires unless they have proven technical expertise."



Source: Peerless Research Group (PRG)

The "entitlement" generation may be in for a rude awakening, says Brad Larsen, transportation and logistics manager for Winegard Company in Burlington, Ind. "Most of my age group had to start out in the trenches and learn on the fly to get where we are today," he says. "After 25 years, we have a good grasp on where things are headed and should be at a good spot in our careers compensation wise."

Larson also maintains that colleges and universities will be "challenged" in preparing fresh graduates to bring value to the companies they join. "Having graduates ready to contribute right away is vital," he says. "But it will be recognized and rewarded."

"Today's young people have to be prepared to climb the corporate ladder," says Art Meyer, warehouse, equipment and purchasing manager for NPL Construction Company in Dallas. "Education is a big advantage, but they really must have a work ethic to succeed and earn the salary they desire."

Allen Masters, head of central stores resource management for the University of Florida in Gainesville, agrees, but says "climbing that ladder" is easier in the private sector, rather than within "a state agency."

Bob Stone, regional sales manager for Right Freight Solutions in Townville, S.C., says that the private sector is providing more incentives for college graduates to pursue a career in logistics. "We never have trouble attracting young people to this business," he says. "But keeping them in one position is difficult. Many of them go through three to four jobs before they settle down."

Getting them to "settle down" might be made easier by providing bonuses based on performance, says Brenda Gautier, director of carrier engagement for MW Logistics, LLC in Dallas. "Given the added responsibilities logistics managers are taking on these days, we expect them to work smarter and be more efficient," she says. "And if they can contribute to the company's bottom line, they should get something beyond their salary at the end of the year." ☐

—Patrick Burnson is Executive Editor of Logistics Management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Dedicated Update: Sleep tight

With capacity already tightening and increasing federal regulations threatening to exacerbate the driver shortage, dedicated trucking is going to continue to grow at double-digit percentage rates—and help shippers get a good night's sleep in the process.

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

Dedicated trucking operations are booming. As the overall economy improves, shippers are increasingly choosing dedicated as a sure-fire way to guarantee capacity while simultaneously assuring themselves of top-notch service with one additional perk—the ability to sleep at night.

"As free-running truckload capacity becomes scarcer and more expensive, dedicated fleets are coming back into vogue," says John Larkin, a leading trucking analyst for Stifel Nicolaus. "A shipper can sleep soundly knowing that his base load volumes are being handled at a high level of service and at a pre-negotiated cost, with perhaps some embedded cost escalators."

As a result, dedicated is growing at near double-digit percentage rates. The logistics and transportation research firm Armstrong & Associates is estimating that dedicated contract carriage will hit $11.5 billion in revenue over the course of 2012, up 9 percent from last year when it grew 10.6 percent.

As the name implies, dedicated trucking involves fleets "dedicating" a certain percentage of its fleets to customers who can lock in capacity through long-term contracts. This guarantees capacity for shippers, gives fleets a consistent base of customers that don't "churn" as much as normal dry van truckload customers, and guarantees drivers a predictable number of miles along very familiar routes that they may drive every day. "It's a win-win-win for shippers, trucking companies, and receivers," says Hank Schmidt, president of Con-way Truckload.

Big boys in the game

The biggest names in dedicated are also among the biggest names in trucking. The dedicated part of J.B. Hunt's business was $907 billion in 2010, according to trucking industry analyst firm SJ Consulting. That was nearly a 20 percent jump over the previous years. Werner Enterprises' dedicated business was $744 billion that year, a 14.5 percent jump. In total, the top 10 dedicated carriers did $5.7 billion in business in 2010, a 12.3 percent jump from the previous year, according to SJ Consulting.

This push for dedicated trucking actually began in 2008 and 2009 when the economy took a nosedive and a lot of one-way truckload companies were forced out of business, industry insiders say. The industry had a lot of idle capacity in the form of trucks parked along the fence.

Most for-hire carriers charge accessorial fees for "high touch" freight—those moves that require multiple stops, nighttime deliveries, lift gates, or highly complicated deliveries. Previously, much of that freight was moved by leasing companies or the logistics arms of other trucking companies.

Then, about three years ago, asset-based companies with trucks just sitting around began to move into dedicated one- and two-stop deliveries to grow accounts with healthy profit margins—as much as 6 percent to 12 percent margin—through long-term contracts that ran as long as three years.

"You get out of the one-way long haul and you keep your drivers happy because they're not on the road for weeks on end," says UPS Freight spokesman Ira Rosenfeld. "As a result, your asset-based carriers are now in the business of providing dedicated truckload business."

With capacity tightening and increasing federal regulations threatening to exacerbate the driver shortage, dedicated trucking is a growing option for many shippers.

"It's growing because shippers are worried about capacity," says Dan England, chairman of C.R. England, a carrier that will soon have about 1,600 trucks out of its total of 4,600 power units in its dedicated unit. "It's also better for our business."

Dedicated operations allow carriers to "take advantage of the benefits of a carrier and shipper working together," says England. "There are so many positives to it."

Daniel Vasconellos

Other industry executives agree. "It allows carriers to maximize their drivers' hours of service if you can work with multiple customers to create a continuous loop of freight, says Con-way's Schmidt. "Everybody's costs go down."

Let's take a look at three key market issues—drivers, regulations, and service levels—and see how they're re-invigorating the growth of dedicated trucking.

Issue #1: Drivers

The driver shortage in truckload is bad and just getting worse. A combination of demographics, increased scrutiny (including mandatory drug and alcohol testing), and the industry's inability to market itself to minorities and women has meant that jobs that can pay as much as $60,000 are going unfilled—even in a time of 8.5 percent unemployment.

But let's not forget that driving a truck, especially on the long hauls, is a tough job. A normal truckload (TL) driver with a 1,200-mile length of haul can be away from home as much as three weeks at a time. That means a lot of missed birthdays and little league games.

Dedicated truck driving, on the other hand, is totally different. Because the average length of haul is much shorter, drivers can be home nearly every night or every other night. The "loops" tend to be predictable, breeding familiarity with dock personnel and customers. Truck drivers can be the regular, familiar "face of the company" instead of some intruder arriving at a strange dock at 2:00 a.m.

Plus, because drivers are paid by the mile, dedicated offers a guaranteed base of pay that is often higher than that of their long-haul brethren. "It's also a little safer because they know the roads," Schmidt adds. "They know where the good truckstops are, and it all rolls up into a better situation for everybody—from the driver to the shipper to the receiver."

UPS Freight Truckload Director Melissa Somsen says driver retention is certainly easier when it comes to dedicated. Less driver turnover means more profit for trucking companies, considering that it costs an average of $4,500 to find, train, and recruit a driver these days. Truckers are doing everything they can to retain drivers, and dedicated operations certainly help.

"From a carrier perspective it's easier to hire drivers when you don't have to keep them on the road for lengthy periods," says Somsen. "For the shipper, they don't have to worry about managing his own fleet and they can spend more time making the best product they can. In fact, a dedicated fleet allows the benefits of a private fleet with none of the headaches."

Issue #2: Regulation

Trucking is clearly in Washington's regulatory sights. The new Compliance, Safety, Accountability (CSA) standards threaten to sideline as many as 150,000 of trucking's 3-million long-haul operators when fully implemented.

On top of CSA, HOS regulations are being tweaked so that drivers may be forced into more mandatory rest periods. Then there are tighter background checks, mandatory drug and alcohol screening, and other increased scrutiny of drivers in the wake of the Patriot Act and other responses to 9/11.

One of the biggest cost pressures is the new government-mandated, fuel-efficient truck engines along with the high cost of replacing a private fleet, common carrier executives say. "It's nice to have that billboard on the side of the truck, but you don't want to spend capital expenditures and manage HOS, insurance, and CSA. Customers tell us that they don't want to worry about their own fleet," says Somsen. "When that happens, asset-based companies are putting them into dedicated operations."

Somsen adds that proposed HOS changes are going to have a "drastic effect" on shippers—unless, of course, capacity is locked in through long-term dedicated contracts. And that's only going to get worse as the dry van truckload market continues to tighten, she says.

Dan Van Alstine, senior vice president and general manager of Schneider National's dedicated unit, which did nearly $700 million in business last year, says his company was focusing on providing value-added services such as reefer, store-to-store direct deliveries, and high-value goods. But Van Alstine says that there are some "interesting dynamics" that are creating growth opportunities for Schneider's dedicated fleet of 4,000 trucks (out of Schneider's overall fleet of 13,500 units). He adds that niche services, such as hauling aggregate and gravel for highway construction, are proving profitable.

Issue #3: Service, service, service

Dedicated carriage can take nearly every imaginable form. There can be team operations that emphasize transit time speed. Cartage can provide ultra-high levels of service with ancillary services such as store set-up and takeaway of old merchandise.

There can also be regional "loops" that carry the freight of two or more shippers who may have operations in the same area that can be linked in pickups and

deliveries. That provides both shippers with very high levels of service, while reducing carriers' empty miles.

"Remember, you can't charge a fuel surcharge on empty miles," says Schmidt. "There's the safety factor, improved fuel mileage, and the service the customer gets. If they don't have product for shelf or capacity, that's a lot of additional expense. You can virtually eliminate those costs with dedicated."

Certain industries—automotive and retail are two—lend themselves more to dedicated business. Con-way's Schmidt says the "biggest opportunity" is blending routes of two or more customers to create a continuous "triangulation" of business.

"The biggest opportunity is to bring dedicated solutions to multiple customers," Schmidt says. "Sometimes if a shipper can change a pick-up time by two hours, that means I can synch up this lane and return the same driver tomorrow. You work with them on dedicated solutions that drive cost down for everybody."

And if potential savings aren't enough to swing a customer over to dedicated, sometimes the service can be. "It's not just savings, but consistency of service. Capacity is a growing issue, especially in the last six-to-nine months," says Schmidt. "A lot of [defunct carriers] have fallen off the tree over that time and capacity is a growing issue."

Shippers are increasingly locating their distribution centers to take advantage of "continuous loops" that dedicated regional service provides. "That way you can serve three or four stores in a big loop, or you can feed the DCs by rail and distribute product as needed by truck. There are all kinds of different ways to skin this cat," Schmidt adds.

Ryder's Dedicated Contract Carriage, which did about $600 million in business last year, has 154 different customers with "sophisticated service requirements," according to Cindy Haas, a Ryder spokeswoman. Ryder markets the services as a "turn-key" operation that allows shippers to control their product and service deliveries without the cost of investing in a private fleet.

"Dedicated is ideal for any business with specialized equipment requirements and multiple or complex transportation and distribution challenges," says Haas. "Whether shippers need to deliver perishable products or high-value freight that requires high security, dedicated helps lower transportation costs and increase efficiency."

Future is bright

By all accounts, top trucking officials agree that dedicated trucking will continue to outpace overall growth in the industry, at least in the near term.

Chuck Hammel, president of Pitt Ohio, a major Northeastern regional LTL carrier, says that what's driving dedicated trucking is the fear of not having capacity coupled with uncertainty of rates. "It's more of a proactive move to avoid being subjected to market conditions," says Hammel. "We've all read the same headlines regarding the driver shortage and capacity limits, and this is one way of insulating yourself from the inevitable."

Hammel says shippers will certainly benefit from capacity guarantees and rate stability, but adds there is a downside. If the economy tanks, shippers will be stuck with a contract they need to honor, and they will not be able to take advantage of lower spot market pricing.

"The benefits and downside to the carriers are much the same," Hammel says. "We also get capacity certainty by knowing that a particular group of trucks with be getting steady work 12 months a year; and for that we give up the opportunity to take advantage of market conditions during periods of rising rates. There are trade offs on both sides of the dedicated trucking model."

Van Alstine of Schneider says that his company regularly evaluates its dedicated business to make sure it's contributing to the bottom line. "We're inspecting those operations that aren't meeting financial needs and have tough conversations with those customers," he says. "Most often we've been able to retain a win-win relationship." □

John D. Schulz is Contributing Editor of Logistics Management


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State of Labor Management Systems (LMS)

Multi-faceted benefits await

Implementation complexities have stood in the way of LMS adoption rates; however, our analysts say that more logistics operations will focus attention on workforce management to balance efficiencies now that the business climate is on the upswing.

BY **BRIDGET McCREA,** CONTRIBUTING EDITOR

Logistics professionals have learned a thing or two during the most recent recession. As a whole, most learned how to work smarter, better, and faster with fewer resources. Technology played a key role in attaining some of the efficiencies, as did sharp eyes on bottom lines, expenditures, and waste.

However, with payroll costs eating up a large portion of any firm's annual budget, labor management systems (LMS) will be one of several supply chain software sectors that logistics managers may look at more closely in 2012. In many cases, these systems are integrated into enterprise-wide solutions, but sometimes they're purchased separately and implemented across one or more key departments.

Over the next few pages we'll look at the state of LMS systems, reveal the key market drivers for this supply chain software segment, and then look closely at how one shipper is using a multi-faceted LMS to do more with less.

Managing labor

LMS manages and tracks the labor activities for distribution-based operations and typically incorporates real-time interaction with warehouse systems. Primarily deployed within the warehouse's four walls, an LMS reports on labor activity and compares that activity against established labor standards and the company's internal, historical data.

Due to the multi-faceted applications, Clint Reiser, a research analyst at ARC Advisory Group, expects the LMS market segment to experience a higher growth rate than the warehouse management systems (WMS) market as a whole this year. "Many suppliers informed us that they view LMS as a product/market segment that presents good growth opportunities," Reiser adds. "Multiple suppliers also mentioned LMS as an area in which they plan to invest product development resources to expand functionality."

A mature market by supply chain software standards, the LMS sector's market penetration currently stands at 45 percent (compared to 80 percent for WMS), according to Dwight Klappich, research vice president for Gartner. He says that 23 percent of logistics professionals surveyed currently have a "fully deployed" LMS and 22 percent have "partially deployed" systems. Another 10 percent of shippers say they are currently exploring their LMS options.

"The numbers aren't too bad, but I wouldn't tell anyone to go out and start up an LMS business right now," says Klappich. A key factor that's holding back adoption rates is the fact that LMS has traditionally been best suited for very large

warehouse and DC operations with hundreds of employees and multiple shifts working seven days a week.

"That company gets the biggest bang for its LMS buck," Klappich explains. "A logistics operation with fewer than 100 employees didn't typically invest the time, effort, and money in an LMS." But that's changing as technology is becoming more affordable and as more lower-cost solutions are being introduced to the marketplace.

Barriers to adoption

Installation and implementation complexities have stood in the way of LMS adoption rates. And while the systems themselves aren't complex, says Klappich, capturing the necessary labor standards and accurate data at the outset is laborious.

Maintaining those standards over time—adding new employees, removing retired workers, and adapting to process changes within the company itself—requires a long-term commitment. "Unlike WMS, LMS isn't a one-time investment and setup," says Klappich. "If the system isn't kept up to snuff, the data won't be very good, the employee tracking will be inaccurate, and the whole system will deteriorate."

Steve Banker, ARC's service director for supply chain management, says LMS has remained "relatively stable" but hasn't been a fast-growing market over the last few years. He says shippers' apparent lack of interest in LMS is puzzling, based on the return on investment (ROI) that such systems typically produce.

"If you combine LMS with engineered labor standards, or getting the right people into the right jobs, and working at a consistent pace throughout the day, the ROI can be terrific," Banker explains.

Another barrier to adoption can be the fact that companies assume that they need to have huge DCs in place before an LMS makes sense. Banker says vendors have picked up on this perception and are taking steps to garner a wider audience for their systems.

"Vendors have been introducing lower-cost solutions that integrate directly with WMS," says Banker. "I've seen warehouses with as few as 25 employees get a good ROI from their LMS."

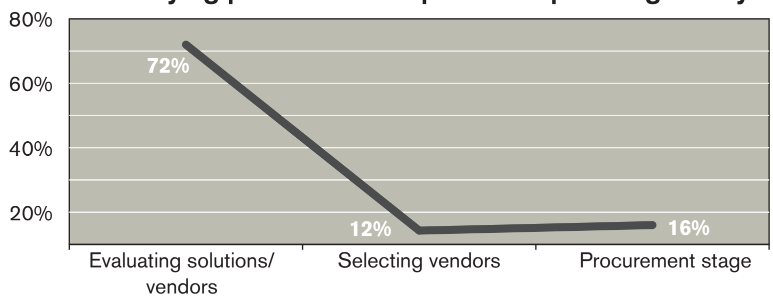
Banker says helping shippers more effectively manage labor scheduling on a short-term (helping warehouse management schedule the right number of workers to handle the day's workload) and long-term (for year-end budgeting exercises) basis will be the next logical step for LMS vendors.

"Warehouse managers that have historical labor costs

LMS spend in 2012

	<$100,000	$100K-$500k	$ 500K-$1M	$1M+	Average $	None
2012*	10%	5%	2%	1%	$241,350	82%

State of buying process for respondents planning to buy:



*First asked in 2012
Source: Peerless Research Group (PRG)/*Logistics Management* 2012 Software Survey

and demand forecast data at their fingertips will be able to do much more accurate budgeting for the coming year," says Banker.

The third-party logistics (3PL) industry is a likely "growth spot" for LMS in 2012, according to Banker, who sees the software as an efficient tracking and reporting mechanism for 3PLs.

"All 3PLs should be using LMS in combination with good engineering standards," says Banker. "That allows shippers to track continuous improvements and operational efficiencies and ensures that the 3PL isn't just passing on costs without worrying about how much labor was involved."

LMS gains ahead

According to Klappich, WMS vendors missed the boat early on when it came to offering solid LMS to their users. As a result, he says that most LMS purchases were made "completely independently of WMS."

That landscape has changed in recent years, as WMS vendors like Manhattan Associates and Red Prairie have stepped up to the plate and bundled LMS into their supply chain packages. Concurrently, best-of-breed vendors like Kronos continued to hone their independent LMS offerings, giving shippers additional automation choices for their labor management operations.

On average, Klappich says shippers using LMS can expect 5 percent to 10 percent labor productivity gains. He cautions, however, that the gains come not from the automation itself (such as a TMS immediately reducing mileage by 10 percent due to route optimization), but as a result of the associated process changes.

"Approach LMS with a big stick and you won't get the benefits you would by identifying your firm's problem areas and then investing in change management, training, warehouse re-slotting, and other continuous improvement programs," Klappich explains. "The 5 percent to 10 percent gains are reaped by the shipper that knows it has to change worker and management behaviors in order to squeeze the best possible ROI from an LMS."

> **"The 5 percent to 10 percent gains are reaped by the shipper that knows it has to change worker and management behaviors in order to squeeze the best possible ROI from an LMS."**
>
> *—Dwight Klappich, Gartner*

Lipari Foods embraces LMS

Figuring out incentive pay levels for employees was a real grind for Lipari Foods' human resources department. More than half of its 750 workers received some type of incentives and a full one-third of them were paid solely based on performance—from drivers who are paid by the mile to warehouse selectors paid by the number of cases picked.

The human resources (HR) department and warehouse managers spent an inordinate amount of time every week manually gathering, reviewing, and calculating the incentive pay records. Tired of poring over spreadsheets, Brian Zilo, director of HR, and his team set out to find an automated solution. "We needed a system that could handle the calculations automatically, and on a weekly basis, without all of that human intervention," says Zilo.

Lipari Foods' labor management woes didn't end there. Founded from the back of its founder's Ford station wagon in the 1950s, the food distribution company had expanded significantly over the years. The company currently operates from a 270,000-square-foot DC and distributes seafood, deli and bakery items, packaging, confections, and snacks to grocery stores in Michigan, Ohio, Indiana, Illinois, and parts of surrounding states.

As it grew, Lipari Foods acquired a collection of manual and automated solutions to track time and attendance, process payroll, and administer employee benefits. At the heart of those operations was a payroll system that the firm had purchased for $66 in 1995.

"We had an obsolete payroll system, a time and attendance program that was sorely outdated, and a labor management system based on spreadsheets and a bit of luck," says Zilo. "It was time to make a move to something better."

In 2007 Lipari Foods began looking at its LMS options. The solution would have to replace the firm's manual processes, give it more visibility into labor data (for tax and legislative changes, in particular), and support key company objectives. Zilo says payroll, time, and attendance were its top automation targets.

After looking at several options the

company decided to install the Kronos Workforce Central suite, which includes timekeeper, human resources, payroll, and workforce management components.

Zilo says the fact that those modules were available under a single umbrella—and in a web-based format—made Kronos Lipari Foods' top choice. Timekeeper, for example, automates the capture and management of employee time and attendance information, while HR handles benefits administration, compensation and performance management, and training tracking.

"We needed an integrated system,"

> **"We had an obsolete payroll system, a time and attendance program that was sorely outdated, and a labor management system based on spreadsheets and a bit of luck. It was time to make a move to something better."**
>
> *—Brian Zilo, Director of HR, Lipari Foods*

Zilo explains. "We didn't want independent systems that couldn't talk to each other or that required complex links to communicate with one another. That was a big factor in our decision."

Even with those initial "wants" addressed, Lipari Foods' new LMS took some time and effort to implement. Gleaning data and information from various manual systems, scrubbing it, and then feeding it into the new, automated databases was labor intensive, says Zilo. Even with those hurdles standing in the way, the company's LMS went live one week early and at a price below original budget expectations.

The system now gives Lipari Foods' HR department and managers complete visibility into the firm's labor data and has eliminated the manual-intensive processes associated with its incentive-based pay programs. The LMS has also helped the distributor scale up its operations without having to add HR personnel.

"We saw a 66 percent increase in employment over a three-year period and we didn't have to increase our department's three-person staff at all," says Zilo. "I was pretty proud of that."

To other logistics operations that might be contemplating an LMS or looking for relief from manual labor processes, Zilo says that any firm with 250 or more workers should definitely consider an automated approach.

"You can do it by the seat of your pants and with a big HR staff," states Zilo, "or you can let technology do the work for you. It's your choice." □

—Bridget McCrea is a Contributing Editor to Logistics Management

Freight Forwarders:

Scores of shippers and their freight intermediaries agree that basic brokerage and forwarding services are keeping pace with demands from new and emerging markets.

BY **PATRICK BURNSON,** EXECUTIVE EDITOR

With U.S. shippers eager to take advantage of new trade agreements and export policies, there's been a rush to find freight forwarders that are capable of meeting these new, often specialized needs.

Analysts note, however, that shippers needn't always buy into a complex, costly solution. Indeed, the adage "less is more" might well be applied in most cases when expanding into emerging markets.

As noted in *Logistics Management* last fall, ("Top 25 Freight Forwarders: Fast forward toward recovery"), shippers are becoming increasingly reliant on trade services market leaders for most of their expanding global distribution needs. According to the London-based think tank Transport Intelligence (Ti), reliance on proven providers is not likely to end any time soon.

"The lack of a peak season last year may have exacerbated that situation," says Ti CEO John Manners-Bell. "Shippers tend to stay with the forwarders who can help them through the bad times, and guide them to into new market opportunities as they become apparent." Meanwhile, Manners-Bell advises a "measured" approach to evaluating forwarders, and urges shippers to collaborate on the metrics contained in the most basic contracts.

Emerging markets in the spotlight

For many of the more specialized shippers, new trade agreements and export policies mean keeping a focus on opportunities in so-called "developing countries."

Global economic uncertainty and Middle East political turmoil are doing little to dim the attraction of emerging markets. According to the *2012 Agility Emerging Markets Logistics Index* released earlier this year, shippers are reducing their dependency on mature economies as they compete to be the trade hubs of the future.

A second-half slowdown in 2011 cooled growth in virtually every region of the world at a time when regimes in Egypt, Libya, Tunisia, and other Middle East countries were collapsing in the face of popular unrest.

In spite of the economic slowdown and political upheaval, output in powerhouse economies such as Brazil, China, and India remains high, and the so-called "Arab Spring" countries are now viewed as more attractive places to do business.

The annual *Emerging Markets Logistics Index* is sponsored by global logistics provider Agility and is compiled by Ti. It spotlights 41 emerging markets and ranks them by their investment potential and progress each year. Attractiveness is measured by: market size and growth, market compatibility (foreign direct investment, security, urbanization and wealth distribution) and market connectedness (international and domestic transport infrastructure).

One of the key takeaways from this year's index, says Manners-Bell, is that shippers may already be paring down

Keeping it simple

the demands once placed routinely on "leading logistics providers" to now use only the bare bones forwarding services they provide. In other words, "less is more" when it comes to the initial penetration of a new market.

GM keeps it simple

This certainly proved to be the case for auto manufacturer General Motors (GM), which awarded DSV—a global 3PL and freight consolidator—with its "2011 Supplier of the Year" award for helping it gain new footholds in overseas markets with basic freight forwarding services.

DSV Air & Sea transports parts for General Motors from Europe, Africa, and the Near East to the production locations and spare parts centers in Europe (Germany, Austria, UK, and Hungary) as well as locations in North America, Asia, and Australia. The services for GM cover the whole chain of order management, supplier management, and of course the physical delivery process from Europe to overseas. In order to be able to position all of the sub-processes as transparently as possible, DSV had developed a customized software solution for GM.

The delivery chain is managed from DSV's GM control tower in Bremen, Germany. Tobias Schmidt, managing director of DSV Air & Sea explains that with the support from its sister division DSV Road, they were able to deliver customized services from one source to GM's global network.

"With our automated processes and interfaces across all parties, we have managed to perform a fully integrated and sustainable event management process along the very sensitive GM supply chain around the globe," says Schmidt.

According to Ti analysts, DSV air freight volumes are currently up by 5 percent, while market growth lags behind at 1 percent. Its sea freight volumes, meanwhile, are up 3 percent, near the market average.

Damco, the forwarding and logistics arm of the A.P. Moller-Maersk Group, also reports "substantial" volume growth in both ocean and air freight markets this year. This too, was in large part due to helping shippers in emerging markets.

"With our automated processes and interfaces across all parties, we have managed to perform a fully integrated and sustainable event management process along the very sensitive GM supply chain around the globe."

—Tobias Schmidt, managing director of DSV Air & Sea

Pyers Tucker, Damco's global head of strategy, says that 66 percent of its employees are located in emerging markets. "We will continue to look for opportunities to further strengthen our business there," he adds. Damco already has offices in 90 countries and a presence in another 30.

Also worth noting, says Tucker, is the fact that the forwarder is looking into Myanmar and will further expand its presence in Africa.

Global forwarder Aramex had a revenue jump of 18 percent so far this year, thanks to surging demand for U.S. goods in the Middle East. According to Fadi Ghandour, the company's founder and chief executive officer, Aramex is trying to take advantage of its regional reach as it embarks on an expansion program in the Gulf Co-operation Council states and their neighboring countries of Lebanon and Jordan.

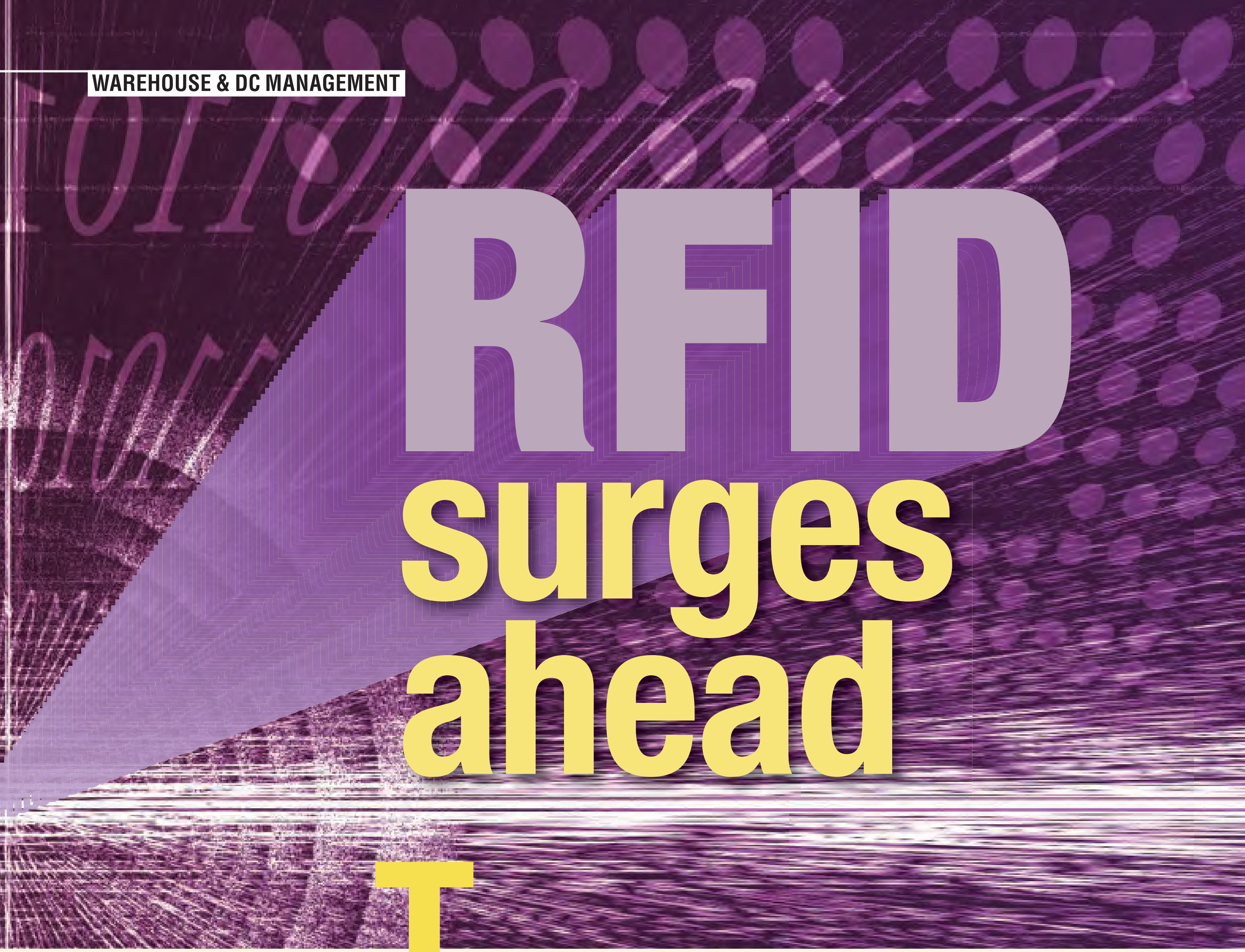
The Middle East's global transportation and logistics services provider is also looking at developing countries and emerging economies with high growth potential. "There is an ongoing trend from companies in the region towards outsourcing logistics services as a way to increase efficiency and manage costs," Ghandour says.

Gene Ota, director of product management for APL Logistics, one of the world's leading providers of global supply chain management services, says the company's forwarding arm is becoming more sensitive to the customized needs of shippers.

"Everyone in this business knows that 'one size does not fit all,'" Ota jokes. "We can't sell the same forwarding solution to a auto parts or garment manufacturer that will satisfy a shipper in the pharma or biomed space."

To that end, APL will even work with non-vessel operators to expedite or consolidate shipments to some of the more remote destinations. "Shippers are asking us to be more flexible and accommodating these days," says Ota. "The negotiating process can be very complex, but in the end, shippers should expect a scalable solution that is just right for them. In other words, it can't be black and white anymore, and the bells and whistles that many third party providers offer can't be force fed to a shipper requiring just the basic forwarding needs," Ota says.

—Patrick Burnson is Executive Editor of Logistics Management



RFID surges ahead

BY **MAIDA NAPOLITANO**, CONTRIBUTING EDITOR

Proponents have changed the conversation and have started tagging at the item level in what the industry is now calling a "source-to-store" approach.

The RFID chatter is getting louder. After conducting successful pilots of item-level RFID initiatives, Walmart, then American Apparel, and now Macy's, Bloomingdales, Dillards, and JCPenney have all announced plans to roll out EPC-enabled RFID technology at the item level in their stores this year.

For the RFID industry, this turn of events has been electrifying. Not only are these premier retailers driving RFID adoption, but they're also propagating the benefits of RFID throughout each of their supply chains. This, in turn, creates opportunities for significant process and usage standardization across the industry with the mass adoption of the technology.

Many have already jumped on the bandwagon. An October 2011 study of 58 suppliers and 56 retailers across North America, conducted by Accenture on behalf of the Voluntary Interindustry Commerce Solutions Association (VICS) and its Item-Level RFID Initiative (ILRI), reports that the technology is at a "tipping point" with more than 50 percent of retailers and suppliers already piloting or implementing item-level RFID within their organization.

Joe Andraski, president and CEO of VICS, has no doubt. "The technology has been around for a while, but it hasn't been used extensively because we haven't done a lot of extensive tagging—until now. Now we're seeing this game change."

Michael Liard, RFID director for VDC Research, has been keeping a close eye on the technology for 12 years and sees the technology itself rapidly evolving and maturing. "We're seeing significant developments in terms of innovation, price points coming down, standards being ratified and passed, and use cases being solidified."

Many credit the groundwork laid by Walmart and the DoD in 2004 where the focus was the EPC tagging of cases and pallets. True, it might not have reached the levels of success they expected, but it became the foundation that proponents have used to change the conversation and start tagging at the item level in what the industry overall is calling a "source-to-store" approach.

Over the next few pages, we'll dig deeper into the ramifications of the widespread use of item-level RFID. We'll explore other current drivers of RFID in warehouses and DCs and look at why some remain skeptical.

More item-level tagging

Now with multiple pilots completed and full roll-outs on tap, the expected benefits of item level tagging have been well-documented. Inventory accuracy has improved to rates above 95 percent; the time required for workers to perform cycle counts in stores has decreased by up to 96 percent; and out-of-stock events have decreased by 50 percent.

According to Andraski, it's the reduction in out-of-stock events that has been the biggest differentiator. "When a shopper goes to retailer X and the product's not there, it's a lost sale and it's also a dissatisfied consumer." In an RFID-enabled supply chain, shoppers would rather go to Macy's or Bloomingdales where they know their favorite products are in stock.

This means more sales, which subsequently means more revenue to all trading partners within that chain. Andraski reports that research has shown increases in sales for stores with EPC tagging between 4 percent and 21 percent and averaging about 6 percent. "That's huge," he adds, "especially in this economy."

What does the adoption of item-level RFID tagging mean to the many warehouses and DCs that support these retailers and their suppliers? It means streamlining DC operations to fully leverage RFID's value. It's leveraging RFID's ability to capture information on multiple items simultaneously and remotely, without line of sight. It's checking an order without opening a carton. It's automatically identifying and counting groups of pallets, cases, and items in one read where barcodes were previously used to manually scan them one at a time.

There is no bigger driver right now than the aforementioned item-level tagging initiated by apparel retailers. Though most of the tagging is limited to the supply chains of replenished apparel such as jeans, underwear, and socks, plans are underway to add more product categories. It's especially straightforward in a closed-loop supply chain when the apparel manufacturer owns its supply chain from end-to-end.

"American Apparel is a perfect example," says VDC's Liard. "They manufacture their clothes; they distribute their clothes; they sell them in their own stores. That organization can use RFID at the point of manufacture, they can use it in the warehouses and DCs, and they use it in the retail store."

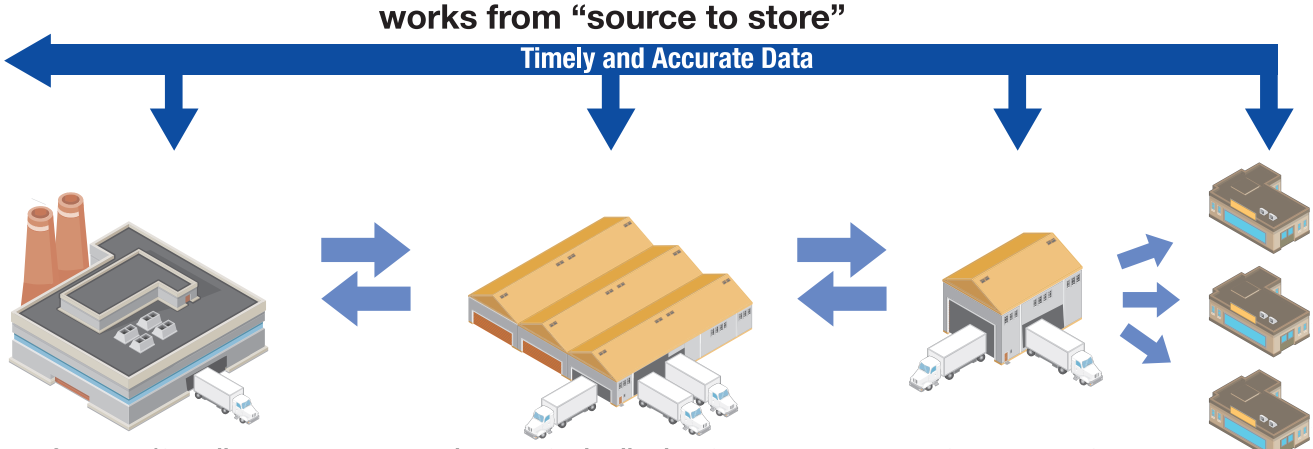
Other item-level tagging initiatives have started as a result of anti-counterfeiting and brand protection programs for other types of products. "They're using RFID at the item level in pharmaceuticals," notes Liard. "As it gets manufactured and goes through the supply chain, there's a chain of custody called 'e-pedigree.'"

Much improved readers and tags

While spotty read performance and stray tags may have previously prevented many from adopting the technology, significant hardware and software developments have changed many minds. Readers have been able to capture tag information from longer distances consistently. Mike Maris, senior director for Motorola, notes how their more ruggedized FX9500 next generation RFID readers have handled increases in volume of items moving through warehouses and the reading of tags in densely packed pallets.

"Based on customer feedback, this

Simplified, high-level schematic of how item-level RFID works from "source to store"



Manufacturers/Suppliers
Factory workers attach an RFID tag to each item's label and verify it using a handheld reader. That data is stored on a company's system linking the tag ID with that item's stock-keeping unit (SKU).

Warehouses & Distribution Centers
Pallets of inbound cartons are read at receiving docks. Workers place inbound cartons on receiving conveyor systems with built-in readers and antennas to read the unique ID number on each item's tag without opening each box. After pick-pack operations, the product is inducted and read in another network of shipping conveyors, updating the system to indicate that specific products have been shipped to a particular retailer.

Customer to Stores
Customers have visibility of orders and are confident in the status provided by the system. Merchandise is automatically received with few disputes and data is shared with the company's enterprise system.

Source: *Logistics Management*

Benefits of RFID

In an October 2011 survey of 58 suppliers and 56 retailers across North America conducted by Accenture on behalf of the Voluntary Interindustry Commerce Solutions Association (VICS) and its Item-Level RFID Initiative (ILRI), both retailers and suppliers ranked "improved inventory visibility" as their top realized benefit of their implemented item-level RFID tagging programs.

Here are more expected tried-and-true benefits for both suppliers and retailers within the four walls of an RFID-enabled warehouse and DC:

- Internal reduction of inventory levels as a result of greater inventory accuracy
- Increased speed and accuracy in material handling operations by substantially reducing the number of touches per carton, resulting in a significant reduction in DC labor cost
- Increased speed of cycle counts, decreasing the labor required while simultaneously increasing the accuracy of the count
- Reduction or elimination of manual item-level audits of carton contents, thus minimizing the time and labor associated with the DC receiving process
- Ability to audit each outbound pick-pack carton quickly to ensure a high degree of outbound accuracy and be able detect errors before they are found by the customer
- Ultimate reduction in the number of claims or chargebacks by retail customers
- Automatic ability to create an automated shipping notice (ASN) based on the products in the container and the time of departure of that container
- Enable the verification of an entire container manifest without needing to unpack the container
- With consistent, highly accurate performance, allow a supplier to completely bypass the retailer's DC, and instead ship direct to stores, avoiding any need to cross-dock that merchandise at the retailer's DC
- Reduction in shrinkage due to customer and employee theft
- Enable continuous quality improvement and thus result in fewer return-related costs and markdowns
- By enabling tracking and tracing, RFID has the potential to reduce the cost of compliance with free trade agreements, governmental mandates and regulations while improving customs processes.

RFID reader offers a greater level of sensitivity—being able to read tags in more challenging environments and on more products—and provide more configuration options that can be tuned within harsh industrial situations," says Maris.

Intermec's latest IF2 network readers, released in early 2011, have longer read ranges and the ability to read more tags, faster. According to Kurt Mensch, Intermec's principal product manager for RFID, its Advanced RFID Extensions (ARX) can determine the motion of tags to identify tags of interest and discriminate surrounding tags. "This feature provides customers and software integrators with a valuable tool to eliminate stray tags as they move through a portal," says Mensch.

Each year it's not uncommon to see smaller, more powerful tags introduced into the market for a growing number of uses. Inlaid in different forms and paper mediums, they can now be easily attached to a wider range of assets—from airplanes to sheets of paper or even loads with liquid and metal—and still be consistently captured by today's readers.

Just a few weeks ago, Omni-ID launched a new tag that combines RFID with e-paper technology. Ed Nabrotzky, Omni-ID's CTO and marketing vice president, calls it "visual RF tagging."

"Visual RF tagging allows wireless tracking of items like other active systems, but adds the element of dynamic visual cues for the worker," says Nabrotzky. The tag combines RFID with a display that can show product locations, pick instructions for an order, or any other human-readable information, allowing the system to instantly communicate to workers new tasks to perform on the fly, such as quality holds or re-routing of orders.

Convergence of technologies

There has also been considerable innovation in how both RFID software and hardware are being used not only in isolation, but also as part of other wireless technologies to minimize inaccuracies while maximizing efficiencies within the DC.

The Sky-Trax RFID system, offered by TotalTrax, automatically captures and tracks the physical movements of a lift truck fleet by "combining different forms of data collection devices—optical, RFID, position based—and load detection sensors, combined with optical positioning and our software," according to Sarah Brisbin, marketing director for TotalTrax.

This "smart truck" dramatically enhances WMS capabilities based on real-time knowledge of the actual location of each lift truck, optimizing operator movements and task interleaving.

For a more affordable RFID deployment, Intermec offers its IP30, which according to Mensch, is the only long-range handheld RFID reader on the market that combines five wireless technologies in one device: RFID, wireless WAN, GPS, Wi-Fi, and Bluetooth. "This flexibility allows a single reader to be used for any application, from asset management inside the warehouse to trailer management in the DC yard," he adds.

To help add to this new momentum, tag costs have been declining and are expected to be driven down with widespread adoption by retailers at the item-level. In fact, just a small decrease in cost can have a substantial impact. A retailer, for example, who ships 100 million units per year can save as much as $1 million with just a penny saved per tag.

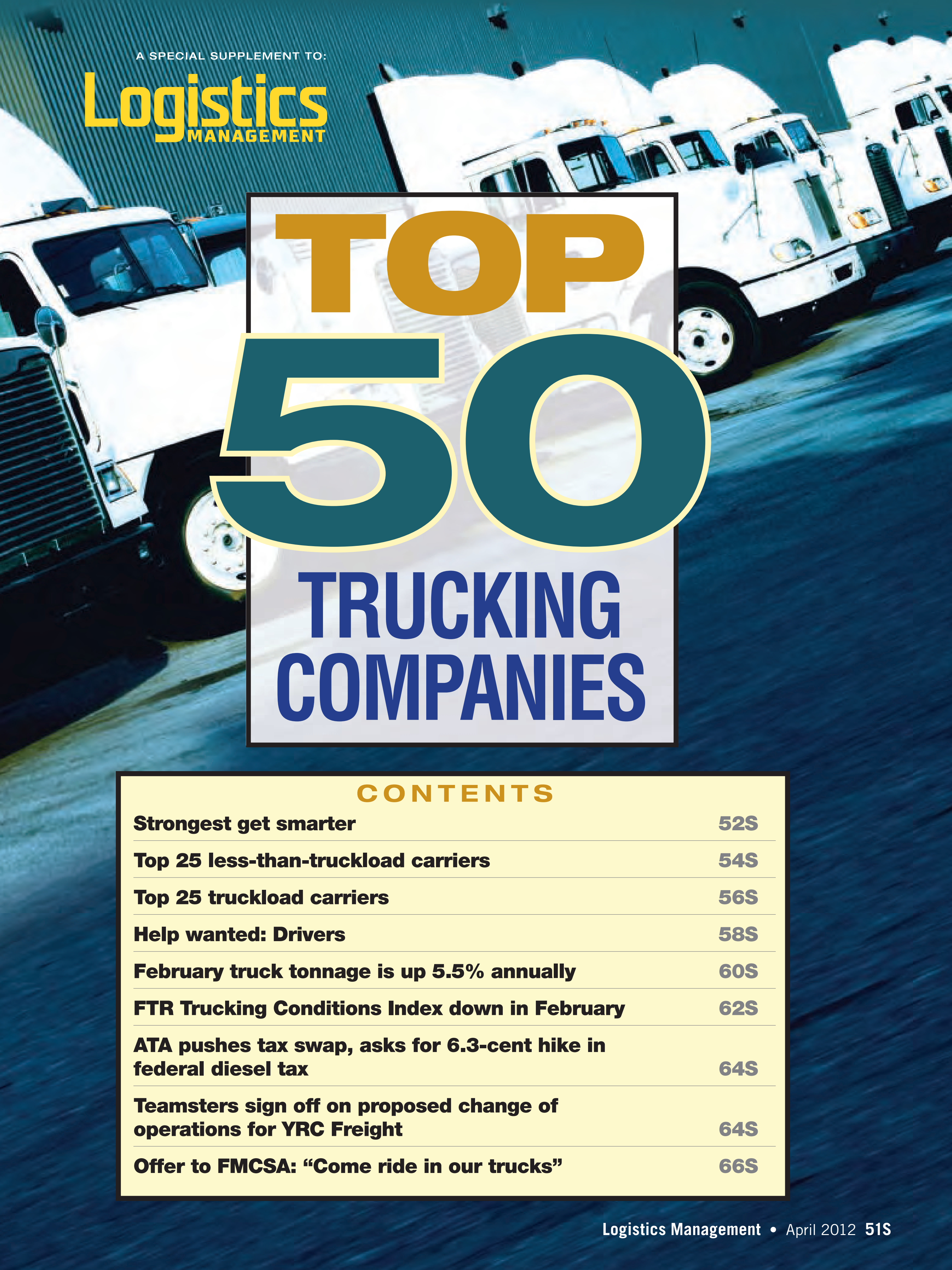
According to Liard, ROI times have shrunk over the last few years. "There is increasing evidence that it's been less than a year."

RFID's Catch-22

While there are more drivers than ever pushing RFID's adoption, not all are convinced. Andraski believes a lack of education is holding back companies from investing and innovating. One of the biggest challenges, he says, is that companies view RFID initiatives as a source of competitive differentiation; thus, it's been a challenge to get users to share their experience and their ROI modeling.

"Others can't learn if they don't share their success story in a public fashion," says Liard. "It's a Catch-22 for RFID." ☐

—Maida Napolitano is a Contributing Editor to Logistics Management



A SPECIAL SUPPLEMENT TO:

Logistics MANAGEMENT

TOP 50 TRUCKING COMPANIES

CONTENTS

TOP 50 TRUCKING COMPANIES

Strongest get SMARTER

The nation's top trucking companies share "high intensity" management teams, financial stability, and IT systems that afford "two-way communication" with shippers—and they're just getting wiser.

By John D. Schulz, Contributing Editor

Emerging from the three-year freight recession that slashed freight capacity and rates, the nation's top trucking companies view themselves as innovators, collaborators, technology leaders, and operational experts—not just as survivors of the Great Recession.

They also say that they've had to be part psychologist to retain drivers, part soothsayer to try and predict the future cost of fuel, and part accountant to keep a keen eye on ever-rising costs wherever possible.

Trucking insiders add that although all trucking companies basically use the same equipment over the same highways with the same pool of drivers, the Top 50 manage to differentiate themselves on many levels. According to John Larkin, longtime trucking analyst for Stifel Nicolaus, it starts at the top.

"When management intensity is high the organization pays attention to the details," says Larkin. "Management at the Top 50 is thinking 3 years to 5 years down the road to make sure that changes in the market and the industry don't leave the company up a creek without a paddle."

Logistics Management's (*LM*) annual listing of the nation's top trucking companies, compiled by leading trucking analyst firm SJ Consulting, runs the gamut of size and scope. There are units the likes of UPS

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TOP 50 TRUCKING COMPANIES

TOP 25 LESS-THAN-TRUCKLOAD CARRIERS—2011 REVENUES

(Includes fuel surcharges)

RANK	CARRIER NAME	2011 REVENUE ($MILLION)	COMMENTS
1	FedEx Freight	$4,710	Combined networks of FedEx Freight and FedEx National LTL
2	Con-way Freight	$3,197	Parent company revenues hit record mark of $5.3 billion in 2011
3	YRC Freight	$3,183	Formerly YRC National, includes YRC Reimer
4	UPS Freight	$2,299	Fastest growing division of UPS in 2011
5	Old Dominion Freight Line	$1,732	Most profitable public LTL carrier
6	ABF Freight System	$1,681	Profitable in 2011 after losses in 2009 and 2010
7	Estes Express Lines	$1,636	Largest private LTL carrier
9	YRC Regional	$1,554	Includes Holland, Reddaway, New Penn
8	R+L Carriers*	$1,207	Only LTL carrier with title sponsorship of a college bowl game
10	Saia Motor Freight Line	$1,030	Launched inside sales division to focus on small shippers
11	Southeastern Freight Lines*	$820	Largest private regional LTL carrier
12	Vitran Express	$686	Acquired Milan Express in Feb. 2011
13	Averitt Express	$557	2012 total company revenue could top $1 billion
14	Roadrunner Transportation	$467	Made four acquisitions of non-LTL companies in 2011
15	AAA Cooper Transportation	$435	Total company revenues grew 11% to $521 million in 2011
16	Central Transport International	$384	Consolidated 30 terminals in network in Nov. 2011
17	New England Motor Freight	$336	Division of the Shevell Group of Companies
18	Dayton Freight Lines*	$321	Largest year-over-year growth of private LTL carriers
19	Pitt Ohio Express	$305	Member of Reliance Network for national coverage
20	A. Duie Pyle*	$267	Opened 15th terminal in Sept. 2011
21	Central Freight Lines*	$207	Last formerly public LTL carrier to be taken private
22	Daylight Transport	$158	Light-asset with concentration on West Coast
23	Oak Harbor Freight Lines	$147	Oldest LTL carrier in the Top 25
24	New Century Transportation	$145	Light-asset load to ride hybrid LTL operation
25	Wilson Trucking	$137	Extended direct coverage to parts of Kentucky in Nov. 2011
	Total Top 25 LTL carrier revenues	**$27,601**	Note: Revenue for LTL operations only, unless otherwise indicated *Revenues primarily LTL and include less than ten percent for truckload and other services

Source: Company reports and SJ Consulting Group estimates. Prepared by SJ Consulting Group, Inc.

Freight and FedEx Freight that are subsidiaries of multibillion corporations; and then there are family- owned companies such as New England Motor Freight, a unit of the Shevell Group overseen by founder, Myron Shevell, a man with six decades of trucking experience.

But what all of these top operators have in common is operational excellence. Here's a look at what's making the Top 50 run like clockwork, and what shippers can expect from the best in class.

Common denominators

All trucking companies basically utilize the same trucks with the same population of drivers and run the same routes. Yet, there are key differentiators that set the best players apart from the rest. The nation's leading trucking executives recently opened up to *LM* to explain what they do best.

Hank Schmidt, president of Con-way Truckload, says one common denominator among the Top 50 carriers is certainly their commitment to safety, among other basics. "It's the ABCs of doing things right," says Schmidt. "That encompasses compliance, having top-notch equipment, hiring the best people, all of that."

Trucking analysts comb all aspects of a carrier's operation and they say that they see certain values, an operational culture of excellence, and other expertise that sets the best apart from the rest. "They all have great information technology systems because you can't manage intensively without the information to make high quality decisions," says Larkin.


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TOP 25 TRUCKLOAD CARRIERS—2011 REVENUES

(Including fuel surcharges)

RANK	CARRIER NAME	2011 REVENUE ($MILLION)	SUBSIDIARIES / COMMENTS
1	Swift Transportation	$3,021	Revenue growth driven by +20% increase in dedicated
2	Schneider National	$2,600	Includes Schneider National, Schneider National Bulk Carriers
3	Werner Enterprises	$1,684	Includes One-way Truckload, Dedicated, and Cross-Border
4	Landstar System*	$1,660	Business Capacity Owner revenue only
5	U.S. Xpress Enterprises	$1,570	Includes U.S. Xpress, Xpress Global Systems, Total Transportation, Arnold Transportation, Abilene Motor Express, Smith Transport
6	J.B. Hunt Transport Services	$1,536	First carrier to top $1 billion in dedicated trucking revenue
7	Prime**	$1,206	First carrier to top $1 billion in temperature-controlled TL revenue
9	C.R. England	$1,007	Includes England North America, England Mexico, England Dedicated
8	Crete Carrier Corp.	$942	Includes Crete Carrier, Shaffer Trucking, Hunt Transportation
10	Greatwide Logistics*	$907	Acquired Overton Transportation in Jan. 2011
11	CRST International	$846	Acquired Specialized Transportation (STI) in July 2011
12	Knight Transportation	$796	Includes Knight Transportation, Knight Refrigerated, Knight Port & Rail Services
13	Ruan Transportation Management Services "	$672	Includes Ruan Dedicated Contract Carriage, Bulk Transportation
14	Covenant Transport Group	$618	Revenue decline of Covenant Transport division offset by 18% revenue increase for Southern Refrigerated Transport
15	Ryder Systems	$601	Dedicated Contract Carriage
16	Anderson Trucking Service	$576	Includes ATS, ATS Specialized, SunBelt Furniture Xpress, Midwest Specialized Transportation, Warren Transportation
17	Stevens Transport	$575	Equipped 100% of fleet with auxiliary power units
18	Celadon Group**	$566	Acquired assets of FFE's dry-van division, Martini Transportation, and Glen Moore in late 2011
19	Con-way Truckload	$532	Truckload division on Con-way, Inc.
20	Heartland Express	$529	Most profitable public truckload carrier
21	Mercer Transportation*	$468	Asset-light flatbed carrier. Largest year-over-year growth in Top 25
22	Marten Transport	$456	Largest public temperature-controlled carrier
23	NFI Industries	$452	NFI Dedicated. Total company revenue was $1 billion in 2011
24	Penske Logistics	$450	Total logistics revenues estimated at $2.6 billion in 2011
25	Interstate Distributor Co.	$444	Acquired by Saltchuk Resources in May 2011
	Total Top 25 truckload carrier revenues	**$24,713**	* Light-Asset Carrier ** Results adjusted to closer resemble calendar quarter

Source: Company Reports and SJ Consulting Group estimates. Prepared by SJ Consulting Group, Inc.

And if you dig a little deeper you also find that all of the Top 50 have a culture that accepts and positively reacts to management intensity. To this point, Larkin adds that the best trucking companies offer "customer communication that is a two-way street in the spirit of collaboration, not the old take-or-leave-it approach under the regulated mindset of the industry prior to deregulation in 1980."

Today's trucking leaders say they have to be part crystal ball reader, part operational genius, and part sales person extraordinaire to survive in an industry where, even in the best of the times, the industry operates on razor-thin profit margins.

"We're always thinking ahead, trying to predict the future," says Steve O'Kane, president of A. Duie Pyle, a leading regional LTL company. "We have been correct often enough to remain not only viable, but healthy, debt-free, and profitable."

Then, there are the operational nuts and bolts—the blocking and tackling—that all the top carriers share. This allows their asset utilization to be high through elimination of empty miles. They also run fleets that are relatively new and highly fuel efficient, allowing their asset life cycle costs to remain relatively low, according to Larkin. "And to fill the cabs of that equipment, they all offer top-notch driver recruiting, training, and retention programs," he adds.

And to top it off, the Top 50 have been able to keep their financial houses in order as well. This fact is especially important now, as the industry appears to be entering a period of tightening capacity and rising freight demand. At the same time, shippers with tight just-in-time inventory replenishment cycles simply can't afford to be without carriers with sufficient financial staying power, analysts say.

"Pricing is reflective of the service provided," adds Larkin. "Their balance sheets are not overly leveraged."

Staying alive to thrive

The fourth quarter of 2008 was generally considered

Biggest CSA problem areas according to carriers

The American Trucking Associations (ATA) says the issues cited by carriers as CSA problem areas include:

- Some states issue more tickets of a certain variety than do others. If a carrier disproportionately operates in such a state, his scores could be very misleading.
- Many small carriers have so few data points in the system that their scores are not revealed at all.
- One size does not fit all for hazardous materials. Right now, a carrier that spills a five-gallon can of paint is lumped together with a hauler of Class 1 hazmat with no differentiation noted.
- Failure to differentiate between non-avoidable accidents (such as being rear-ended) and those accidents where the truck driver is cited as being at fault.

—Source: American Trucking Associations (ATA)

the depth of the freight recession. Even top LTL companies such as Con-way Freight and FedEx Freight suffered their first quarterly losses in company history.

According to Larkin, most of *LM*'s top 50 companies took four steps to remain in business and stay viable: they rooted out all excess cost; avoided "only-price-matters" customers; downsized the operation to fit the "new normal" demand; and slowed capital expenditure programs.

Some LTL carriers' profits were hurt during the downturn as they ratcheted up their discounting in an attempt to take advantage of YRC Worldwide's financial woes. During the depth of the recession, there was a concerted effort by some LTL carriers to "go for the kill" regarding YRC Freight. YRC lost in excess of $2.6 billion in the past five years, more than any trucking company in history, but it's still rolling along.

Like YRC, A. Duie Pyle was born in the 1930s but has remained steadily profitable even in tough times, according to O'Kane, its president. "In Pyle's 87-year history, the moves taken to remain viable have been countless," he says. "Our business and the environment in which we operate both change rapidly, so knowing how to navigate through those changes and making good predictions of what our company needs to do in the future is more of a process than a few landmark decisions."

Others agree that the tortoise wins this race, not the hare. "While a number of companies played pricing games with shippers to gain volume, UPS Freight's success was based upon building market share each year for the past six years," says Paul Hoelting, UPS Freight's senior vice president for sales. "It's success based on a consistent approach focused on value."

Chuck Hammel, president of Pitt Ohio, a top Northeast regional carrier, says that his company has made "plenty" of innovations since its inception in 1979. "Early on we pioneered next-day service when all of the competition was 2 days to 3 days," says Hammel.

"We were an early adopter of using the internet to conduct business, an early adopter of using on-board computing, the first LTL company to introduce mobile apps for smart phones, and the first company to knit together eight private companies to serve all of North America seamlessly (through its Reliance Network)," says Hammel. "In other words, we kept on the cutting edge of changes in the marketplace."

The current challenges

Today, according to analyst Larkin and carrier executives, there are three major issues that affect all the top trucking companies and their levels of profitability:

1. Fuel: The industry is poised to spend a record $170 billion this year on diesel fuel, which has stubbornly remained at the $4-a-gallon level and is threatening to hit $5.

2. Regulations: The new CSA regulations (Compliance, Safety, Accountability) as well as

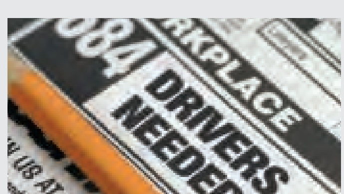
Helped Wanted: Drivers

The push to recruit, train, and retain qualified truck drivers has never been greater among *Logistics Mangagement*'s Top 50 trucking companies.

Demographics, the Obama administration's regulatory crackdown on unsafe drivers, and tougher standards are all working against the industry. Still, Top 50 trucking leaders say that there are innovative and successful ways to stay ahead in the driver game.

"Retaining drivers has not been an issue as we pay well and have a very rich benefit package," says Pitt Ohio President Chuck Hammel. "But hiring new drivers is another story. There simply aren't enough quality drivers to fill the current needs in the industry."

It appears to be a simple equation. Those companies that are the most financially stable are able to pay their drivers the most, alleviating any shortages. "Sitting on top of the food chain we are really not that worried," says UPS Freight's Paul Hoelting. "As an industry, of course, there is worry. But as a specific carrier we are better prepared than our competitors."



A. Duie Pyle's Steve O'Kane has a simple formula: "Treat them right, pay them right, give them good and safe equipment, and continue to grow the business so they get the hours they want and need. Simple formula, but it all starts with treating them correctly."

Analyst John Larkin's solution to drivers is similarly simple: "Recruit and train drivers at a school or poach someone else's drivers." He advises that carriers make the job attractive with the newest equipment, best pay, and bonuses—and make sure drivers get enough miles yet get home on a regular basis.

—John D. Schulz, Contributing Editor

tweaks to the hours-of-service regulations threatens to drive up costs—even on the best-run companies.

3. Drivers: They are already in scant supply due to demographics (one in six truck drivers are 55 or older) and tighter scrutiny. Those companies with sufficient drivers are already being forced to pay more to retain them.

When it comes to fuel, Larkin advises carriers to deal with a national vendor, such as Pilot, to buy fuel at the cheapest possible price. Carriers should also implement all aerodynamic devices, including tractor aerodynamic package, mud flaps, side shirts, tail-cones. He adds that carriers should optimize to the most fuel efficient/low fuel cost route and implement a dynamic fuel optimization program.

"An efficient network and investing in technology improves productivity, which in turn lowers fuel consumption," says UPS Freight's Hoelting.

"We continuously study the fuel price environment," says Pyle's O'Kane. "We hold up to 500,000 gallons in inventory, buying and stockpiling on price weakness, drawing down inventories when prices spike. Additionally, we purchase future contracts, trying to predict price highs and lows."

The industry agrees that drivers ought to be trained to be fuel efficient. The American Trucking Associations (ATA) is on record as favoring speed limiters on new trucks, preventing them from exceeding 65 mph to 68 mph in order to save fuel.

All carriers utilize a sliding fuel surcharge, but not all shippers are paying the fuel surcharge, preferring to cap it at a certain level when diesel spikes. Increasingly, carriers are requesting those shippers pay more to compensate. As Pitt Ohio's Hammel says: "We're addressing customers that have less than standard fuel surcharges and are bringing those customers onto the full scale."

As for the Obama administration's push for greater truck safety, Larkin is advising carriers to wait until rules are published to comply—and be sure what the rules will be.

"There is no reason to be on the bleeding edge trying to be a hero anticipating rules coming down the pipeline, especially if the rules stymie productivity," Larkin says, referring to the still-unpublished final rule on hours of service.

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Capacity and rates?

Capacity is slowly declining, carrier executives and analysts say. Lifecycle equipment ownership costs keep rising due to material price inflation, environmental rules, rising health care costs (at both manufacturers and carriers), safety, and fuel efficiency regulations. Fuel has steadily been increasing in cost, while driver pay and benefits will most certainly continue to rise.

Analyst Larkin says shippers could be facing what he calls "the mother of all capacity shortages." As demand continues to recover, Larkin says that there could be a capacity shortfall that would allow yields to rebound to rates not seen since the middle of the last decade.

All this adds up to bad news for shippers. Rates could rise 3 percent to 4 percent in less-than-truckload (LTL), perhaps even higher in truckload (TL), and perhaps *even* higher on certain lanes where capacity is tightest, analysts and shippers say.

Industry leaders say flatly that price increases are inevitable in 2012, and beyond.

"Undoubtedly, increased regulations in the industry, including CSA, will drive up costs with those carriers ill-equipped to find efficiencies," says UPS's Hoelting. "Those increased costs will be passed on to customers."

"As the driver shortage becomes more severe, and it will, driver pay must increase," predicts A Duie Pyle's O'Kane. "As an industry, we're going to need to increase pay to attract the number of drivers we need for the future."

Pitt Ohio's Hammel says that he's "certain" that rates will go up in the near term. "However, rates can only go so high before a shipper starts to look at adding their own company trucks or look at dedicated trucking," he warns. Once some large shippers switch away from common carrier to private or dedicated carriage, Hammel says, that will free up capacity for the rest of the market.

TL shippers could be in for even higher rates due to their longer lengths of haul and higher percentage cost of diesel. Cass Logistics, which pays around $17 billion in freight bills annually, says its TL pricing index rose 8.6 percent last year and could be in for a similar rise this year. TransCore, another bill payment services company, says that its TL contract rates rose 6.5 percent last year while spot rates rose 7.4 percent.

All this bodes well for carriers who have survived the worst economic downturn in 70 years. As Con-way Truckload's Schmidt says: "Market forces have dictated the survival of the fittest. The ship rises for those who have weathered the storm."

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

February truck tonnage up 5.5 percent annually, says ATA

Seasonally-adjusted (SA) truck tonnage in February was up 0.5 percent after a revised 4.6 percent (from 4 percent) January decline and a 6.4 percent December increase. December represented the biggest annual monthly gain since July 1998 at 10.5 percent. February's SA was 119.3 (2000=100) and was ahead of January's 118.7 and 5.5 percent better than February 2011.

February's month-to-month increase was its sixth in the last seven months, according to ATA data. And the SA index is up 4.3 percent year-to-date compared to the first two months of 2011.

The ATA's not seasonally-adjusted (NSA) index, which represents the change in tonnage actually hauled by fleets before any seasonal adjustment, was up 1.3 percent in February from January at 112.9. It was below December's 116.4. Compared to February 2011, the NSA was up 9.7 percent.

Some analysts maintain that the NSA is more useful because it is comprised of what truckers haul. As defined by the ATA, the NSA index is assembled by adding up all the monthly tonnage data reported by the survey respondents (ATA member carriers) for the latest two months. Then a monthly percent change is calculated and applied to the

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index number for the first month.

"Fleets told us that February was decent and that played out in the numbers," ATA Chief Economist Bob Costello said in a statement. "I'm still expecting continued truck tonnage growth going forward. Rising manufacturing activity and temperate consumer spending should be helped a little from an improving housing market," he said.

Carriers continue to tell *LM* that demand and tonnage remain fairly decent, especially when taking the slowly recovering economy and seasonality components into account.

Strength in manufacturing, somewhat steady retail sales, and signs of a slowly improving housing market are all serving as drivers of truck tonnage volumes. But unlike the past two years there does not seem to be a significant inventory rebuild in place.

But retail inventories have been lean since well before the holiday shipping season, due to the fact that retailers don't want to be caught with extra stock following the holidays (which happened in early 2009). This, in turn, forces them to sell leftover stock at a sharp discount in the first quarter.

What's more, carriers have said that although capacity is tight, they are well-positioned to take on more capacity during the first half of 2012 as they rebuild inventories and the economy slowly improves.

"Since bottoming out in the summer of 2009, tonnage is up a very robust 18.2 percent," Costello said in an ATA video. "Manufacturing has really been driving a lot of this tonnage increase, but there are also signs of life out of the housing sector that really helps flatbed carriers."

Costello said he is concerned over fuel prices, explaining that as consumers spend more on fuel, it leaves less to spend elsewhere. But, he said, that has been balanced out in recent months with employment gains.

Stifel Nicolaus analyst John Larkin observed in a recent research note that freight volumes should grow slightly faster than freight hauling capacity, as carriers will likely hold capacity in check until adequate margins are earned to justify reinvestment in their fleets. He noted this is sorely needed after the industry extended its average fleet age to near record highs through the great freight recession.

—By Jeff Berman, Group News Editor

FTR Trucking Conditions Index down in February

Freight transportation consultancy FTR Associates reported that conditions affecting the trucking market in its Trucking Conditions Index (TCI) were down slightly in February from January.

The TCI, which reflects tightening conditions for hauling capacity and is comprised of various metrics, including capacity, fuel, bankruptcies, cost of capital, and freight, was 5.9 in February, down from January's 6.1 and December's 7.0.

January marked the end of a three-month growth streak for the TCI.

According to FTR, a TCI reading above zero represents an adequate trucking environment, with readings above 10 indicating that volumes, prices, and margins are in a good range for carriers.

"February is normally the softest month of the year in terms of trucking demand. Reasonably favorable conditions for truckers during the winter slack season bode well for later in the year, as demand increases seasonally to more normal levels," said Larry Gross, FTR senior consultant, in a statement. "We expect pricing power to remain squarely on the side of the carrier in 2012."

FTR officials said that the coming months are expected to show sequential strength through the remainder of 2012, with trucking freight volumes expected to grow at rates of 4 percent or better, which in turn will put pressure on available capacity while maintaining pricing power.

As *LM* has reported, there are multiple factors at play which are positive for carriers, including high fuel prices, fairly tight capacity, a limited driver pool, and regulations like CSA and HOS (set to kick in next year) working in tandem to create an environment in which many shippers are chasing the same carriers for freight.

In a previous interview, Gross said that even with mild economic growth, overall conditions are likely to be tempered for shippers, adding that if the recent spate of good economic news translates into more robust economic growth, capacity would tighten significantly and greater upward pressure on freight rates will come as a result.

The firm also said that the rebounding U.S. economy is expected to produce at least a 3.9 percent gain in truck freight that would top overall GDP performance.

—By Jeff Berman, Group News Editor


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ATA pushes tax swap, asks for 6.3-cent hike in federal diesel tax

In an unusual move that is likely to be dead on arrival in an election year, the trucking industry is asking Congress to raise the federal fuel tax on diesel in exchange for dropping a 12 percent federal excise tax on large trucks.

The plan could cost shippers higher freight rates and fuel surcharges, yet the American Trucking Associations (ATA) is pushing for the unusual swap in an attempt to provide a more stable source of revenue for improved infrastructure spending.

The ATA is backing a bipartisan bill in Congress that would provide what the trucking lobby calls a "modest" increase in diesel fuel taxes. The bill—H.R. 4321—has been introduced by Reps. Jim Gerlach (R-Pa.) and Earl Blumenauer (D-Ore.) and endorsed by the ATA. If adopted, new trucks will be more affordable in this country, but diesel fuel taxes would increase.

The federal tax on fuel—23.4 cents for diesel, 18.4 cents for gasoline—has been unchanged since 1993. Because of inflation, the federal fuel tax does not provide enough funding into the Highway Trust Fund, which repeatedly has had to have an injection of funds from the general treasury the past few years in order to remain solvent.

The bill is considered a long shot to pass in an election year, meanwhile Congress has been unwilling or unable to find a stable source of funding for a long-term highway bill. Instead, it recently passed the ninth short-term extension, continuing funding at the old level for the next six months.

ATA President and CEO Bill Graves calls the fuel tax for excise tax swap a good deal and a tradeoff the trucking industry seems willing to make. Graves said that the proposal "would not only reinforce the ailing Highway Trust Fund, but would provide a boost to U.S. manufacturing and speed adoption of environmentally friendly technologies."

Defying conventional wisdom which says no tax increase ever passes in an election year, Graves said the Gerlach-Blumenauer proposal is exactly what the country and the trucking industry needs at this time. "It is exactly the kind of pro-growth, deficit-trimming legislation that lawmakers should be looking at as they seek to address our nation's economic woes," Graves said in a statement.

—John D Schulz, Contributing Editor

Teamsters sign off on proposed change of operations for YRC Freight

YRC Freight, a subsidiary of less-than-truckload transportation services provider YRC Worldwide, had its proposed change of operations plan approved by the Teamsters Union, according to a trucking industry message board and Teamsters for a Democratic Union (TDU).

YRC first rolled out its proposed change of operations plan in early February. The proposed operations changes were initially reported on a trucking industry message board, which had YRCW documentation regarding this initiative.

Among the various action items YRC proposed are:

• reducing corridor hubs and freight handling;

• eliminating and reducing end of line road domiciles;

• eliminating a distribution center;

• reversing specified road primaries;

• closing a sleep road domicile; and

• adding additional sleeper runs to current sleeper domiciles.

YRC said in a statement that the design of the present day freight handling structure within the YRC network is to handle in excess of 70,000 shipments on a daily basis, with a marketing strategy to provide same day, next day, two day, three day, and four day service.

"The reality of the economic climate is that the company is handling, on average, 48,000 shipments per day with a linehaul network domiciled at approximately 150 locations," said YRC. "The vast number of these domicile locations and the excessive number of freight re-handle locations must be restructured to continue the strengthening of the company's financial position to better provide job security to its employees while at the same time growing the business and increasing employment opportunities. This change of operations request is also intended to return YRC to what it does best—provide world class service to its customers in the 500 mile to 3,500 mile market."

TDU reported that the scheduled implementation

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date for the change in operations is April 8.

As per the conditions of the agreement, which were outlined in Teamsters documentation on a trucking industry message board, Gordon Sweeton, Teamsters Vice President, Central Region, stated various conditions of the approved operating agreement to Teamsters' members.

Those conditions include: that employees applying for openings at sister companies will not be turned down as long as they have the ability to pass the pre-employment drug screen and satisfactory driving record and do not have extensive absenteeism; is not in violation of any of the terms of the National Master Freight Agreement or any of its respective Regional Supplemental Agreements; and that YRC will not divert any freight to sister or subsidiary companies.

YRCW executives were not available for comment, but a company spokesperson told *LM* that: "The change was heard and the company is waiting on the official decision from the Committee."

In a recent interview with *LM*, YRC Freight President Jeff Rogers said that by focusing on what YRC Freight does really well—long haul in the 500 mile to 3,500 mile market—and focusing on two- and three-day transit times and taking handles out and doing more direct loading, it will speed up its service and thus reduce freight claims and freight handling.

"It is, in a way, about de-emphasizing or not doing next-day as much, which is not a core focus, and

we want to focus on what we do better," said Rogers.

He explained that YRC has short-haul covered well with its New Penn, Holland, and Reddaway regional LTL units, which he said are the best next-day carriers in their footprints and the best use of company assets.

YRCW CEO James Welch recently told *LM* that he was confident that the changes would be approved.

When Yellow and Roadway were initially integrated in 2009, Welch said that the network was not designed as effectively or as efficiently as it needed to be.

"We are reducing our handling and speeding up transit times and speeding up the two-to-five day service lane business," said Welch.

—By Jeff Berman, Group News Editor

Offer to FMCSA: "Come ride in our trucks"

Con-way Truckload President Herb Schmidt has a standing offer for bureaucrats at the Federal Motor Carrier Safety Administration (FMCSA) who want to tweak the current truck driver hours-of-service (HOS) regulations: Come ride in our trucks.

"My hope is that common sense prevails on HOS," says Schmidt.

"These are well-meaning people writing these regulations, but they need to get out from behind their walnut desks and experience life on the road for one week under current regulations and under their proposed regulations. It will become very clear to them that they have made a significant mistake."

Washington bureaucrats are threatening to tweak the so-called "34-hour restart" provision in a way that carriers say would increase their costs, cause them to hire more drivers, and run more trucks and would not meaningfully increase truck safety.

"Unless there's a hidden agenda, the current HOS rules are working just fine," says Schmidt, citing statistics that show that trucking has never been safer since the current HOS rules were adopted in 2004.

In order to increase the awareness of the industry, Schmidt has a standing offer for FMCSA officials to take a ride in any Con-way Truckload vehicle for a week.

"We can increase safety and productivity if we work together," he says. "We have to work at creating efficiency, not inefficiency."

—John D. Schulz, Contributing Editor

Need a new leader? Think talent, practice, and balanced harmony

By John A. Gentle, DLP

RECENTLY OUR CHURCH CHOIR DIRECTOR retired and a search was immediately undertaken for an interim as well as a full-time replacement. Within a few days, our outgoing director and pastor selected an interim director while a group comprised of choir members and parishioners were sent off to find the full-time replacement—all was well, or so it appeared.

After the first couple of rehearsals and services, the difference between the outgoing director and the new interim director was apparent. Tempo and feeling were changed to songs we knew, and the difference between the new director's accompaniment music and ours were not reconciled. All of this led, of course, to confusion within our choir and the congregation.

The old director had, over time, reverted to playing the piano, but become very adept at conducting the choir through a series of unique cues as he played. The new interim director turned out not to be a "director," but a very nice person who could play the piano and help us learn our parts to the songs during rehearsals. During the church service, however, our choir was on its own as the pianist concentrated totally on playing the piano accompaniment.

However, how a song was practiced during rehearsal was not always how it was played during the service. Four measure introductions surprisingly became three, songs with four verses suddenly ended after two, and songs with three verses were repeated without any advance notice. The critical musical direction, precision, balance, and feeling had been lost, and the congregation joined the choir in the confusion.

In the meantime, the search committee, charged with finding the permanent replacement director, was listening to the music at different churches. Undoubtedly, and perhaps superficially, they were listening to the music selection, how the person sang or played, observing how the choir was conducted, and how it interacted with the director.

While these observations will be helpful in sorting out the candidates, the critical characteristics we're looking for in a new choir director will ironically be the same as those needed for your new logistics leader. These include understanding the critical balance between technical talent, vision, and foresight; analysis and problem solving; judgment; leadership; and interpersonal skills.

As with all teams, the director must recognize that the role is not all about the skill that the leader possesses to play or sing, rather it's about team performance and the need to achieve balance.

Choirs need a good mix of choral basses, tenors, altos, and sopranos to deliver a balanced sound. A choir director, like a logistics leader, needs to assess the artistic talent of the choir and the interests of the congregation in order to select the appropriate program that not only satisfies the vision, but conveys the appropriate message and feeling—and can be artistically executed by everyone. Picking music that no one can sing or understand is alienating and will be short lived.

Executive selection committees must be cognizant of the big picture. They must avoid talented, self-centered individuals and focus on finding a person who understands that the position is not about them, but about the program, its mission, the team, and its ability to consistently deliver superior balanced performance with the appropriate feelings.

Recruiting teams in search of people to lead logistics and supply chain operations must avoid the temptation to hire a person who does not understand the fundamentals and interdependencies of its elements or the keys to leading and managing the internal team.

If the company is committed to promoting from within, then the best approach is to find a team player of talent and vision that enjoys the challenges of logistics. Then the challenge is to methodically nurture that person through warehousing, materials management, and transportation with a focus on team, process fundamentals, and relationship management before advancing that person to ultimately lead the supply chain.

No one likes the sound of a group that can't sing in tune or a director who acts like a one-man band. Think talent, practice, and balanced harmony. □

John A. Gentle is president of John A. Gentle & Associates, LLC, a Supply Chain consulting firm assisting shippers, carriers, 3PLs, and distribution centers in the management of their Logistical disciplines. A recipient of several industry awards, he has more than 40 years of experience in transportation, warehousing, and materials management. He can be reached at jag@RelaTranShips.


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