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Logistics MANAGEMENT®

August 2013

30th QUEST FOR QUALITY AWARDS

Simply the best

Page 30

QUARTERLY TRANSPORTATION MARKET UPDATE

Ocean: Will the "greening" of fleets trump overcapacity challenges? 75S

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TONIGHT'S DESSERT DIDN'T START 45 MINUTES AGO. IT STARTED 15 YEARS AGO. Since 1998, Whirlpool Corporation has partnered with Penske Logistics to get their appliances to you. Our network of 11 distribution centers has reduced costs by 14% and now moves over 18 million units annually. Working together, our two proud companies have created one of the world's most efficient supply chains. Whirlpool makes the appliances. We set the table.
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LM management UPDATE

AN EXECUTIVE SUMMARY OF INDUSTRY NEWS

◆ **UPS sees slight earnings gains.** Following an earnings pre-announcement in mid-July, when it lowered its second quarter and full-year earnings guidance, UPS said that second quarter revenue increased 1.2 percent annually to $13.51 billion, with operating profit down 2.8 percent at $1.74 billion. Net income—at $1.071 billion—was down 4 percent. "Market conditions and shipper preferences clearly affected our freight forwarding and international business," said UPS Chairman and CEO Scott Davis. "Customers around the world continue to put greater emphasis on costs, rather than time of transit. We believe this change is cyclical as in the last few quarters there has been a trough in the innovation cycle." Davis said that demand for new high-tech products traditionally drives demand for express bulk package airfreight out of Asia, and he added that some of the modal trade-downs may be permanent as more international trade is being conducted regionally and supply chains are becoming more efficient.

◆ **TIA report says 3PL revenues see Q1 gains.** As a whole, market conditions in the third-party logistics (3PL) sector appear to be holding up well, despite the uneven nature of the economy, according to the first quarter *2013 TIA 3PL Market Report* by the Transportation Intermediaries Association (TIA). Total revenue in the first quarter for all TIA member study participants—at roughly $2.27 billion—was up 3 percent compared to the first quarter of 2012, and total shipments saw a 3.2 percent annual increase. First quarter invoice amount per shipment—at $1,739—dipped 0.2 percent annually, and profit margin—at 13.6 percent—was off by 0.7 percent. According to the report, nearly 98 percent of 3PL revenue cited came from truckload, intermodal, or less-than-truckload at 72 percent, 18 percent, and 8 percent, respectively, with each of these modes seeing annual gains in shipments.

◆ **Diesel prices heading back up.** Through July 23, the average price per gallon for diesel increased for three straight weeks for a cumulative 8.6 cents. These gains erased the 7.3 cent cumulative decline which occurred over the previous three weeks. Citing heighted tension in the Middle East, which has seen oil prices shift back to more than $100 per barrel, coupled with summer driving season, many supply chain stakeholders are anticipating prolonged pain at the pump. Shippers have told *Logistics Management* (*LM*) that adjusting budgets is only part of the solution when it comes to dealing—and living—with fuel price fluctuation. When asked if they expect to pay higher fuel surcharges in the coming months, a recent *LM* reader study of roughly 420 shippers found that 39.1 percent said yes they did, 44.1 percent said they did not expect to have to pay higher fuel surcharges, with 16.8 percent stating that they were unsure.

◆ **Oakland regroups.** The Oakland Board of Port Commissioners unanimously approved a litigation settlement agreement with SSA Terminals, LLC, and SSA Terminals (Oakland), LLC (collectively, "SSAT"), one of the port's major long-term seaport tenants. The settlement involves four of the Port's seven marine terminals, and will create operationally the third largest terminal on the U.S. West Coast. In terms of size and operational efficiencies, this new "mega-terminal" will be more in line with competing terminals, allowing the port to sustain and attract more maritime cargo, which currently supports approximately 40 percent of the 73,000 jobs the port generates annually in the region. Meanwhile, the port's new executive director, Chris Lytle, had his first day on the job. Lytle is the former executive director of the Port of Long Beach, the second busiest container port in North America.

◆ **XPO Logistics set to acquire 3PD.** The acquisition train continues to roll along for non asset-based 3PL XPO Logistics, with the most recent stop being July's announcement that it plans to acquire 3PD Inc., the largest non-asset, third-party provider of heavy goods, last-mile logistics in North America. This transaction represents the largest financial outlay made by XPO since its Chairman and CEO Brad Jacobs and his firm Jacobs Private Equity and a group of investors made a $150 million commitment into Express-1 Expedited Solutions, a non-asset-based third party logistics transportation provider, and subsequently re-named the company XPO Logistics, in mid-2011. "They are a non-asset 3PL like we are and matching shippers with carriers to get freight moved just like XPO does," XPO

Continued, page 4

LM management UPDATE

AN EXECUTIVE SUMMARY OF INDUSTRY NEWS

Chairman and CEO Brad Jacobs told *LM*. "It's a major milestone in our strategy, accelerates our growth rate, and is a strong strategic fit."

◆ **Dubai rocks.** Construction has started on Emirates SkyCargo's new terminal and supporting facilities at Dubai World Central Al Maktoum International Airport, which is set to become the home of its freighter operations beginning May 2014. In addition to the cargo terminal, various facilities and infrastructure will be built, including 46 truck docks and 80 truck parking spaces, 12 aircraft stands, while additional interface facilities, including east and west cross docks, will be built at Dubai International Airport. The construction company Amana Steel Buildings Contracting was awarded the contract and recently started with the foundation work for the cargo terminal, with the first phase to be completed this December.

◆ **Blast off.** With the start this fall of the widening and deepening of its 3.5 mile channel, Port Canaveral is also pursuing the development of an inland port near the north end of Brevard County, a region that has lost thousands of space-related jobs and is suffering the economic repercussions. Dedicated barges will carry cargo from Port Canaveral to inland transfer points and connect to the Florida East Coast Railway. The project involves reactivation of a rail spur in Port St. John, located just south of the city of Titusville. The port is planning for the potential of containerized cargo via the domestic marine highway or international feeder service from other ports to Central Florida distribution hubs and consumer markets.

◆ **Suez concern.** Recent political unrest in Egypt has again raised the specter of the Suez Canal closing. However, if it were to be suddenly shut down tomorrow, it would not be catastrophic for the container industry. According to analysts at London-based Drewry Maritime Research, vessel schedules could be immediately adjusted to minimize delays. The low probability of the Suez Canal closing has increased due to the threat of terrorist activity, concede analysts. However, many contend that there are still more than enough container ships to cope with the extra distance of sailing between Asia and Europe around the Cape of Good Hope, with transit times remaining a little longer due to their reserves of speed. As calculated last spring, average container vessel speed only has to be increased to 22 knots in each direction to avoid the loss of time.

◆ **Emerging markets chugging along.** Only a few years ago, there was talk of emerging markets decoupling from the developed economies and becoming the locomotives of global growth. Since 2010, however, the slowdown in growth in some of the larger emerging markets (Brazil and India) has been dramatic and worrisome. Far from offsetting the lackluster growth in the U.S. and recession in Europe, the swoon in emerging markets has worsened the global malaise. At 3.6 percentage points in 2012, the gap between emerging market and developed market growth was the narrowest in 10 years. According to IHS Chief Economist Nariman Behravesh, however, the good news is that the fundamentals in many mature economies are solid and improving, although any significant pickup in growth is unlikely before the end of 2013. This delay means the current global growth slump will probably hit its nadir this year, before the new locomotives start to gain traction.

◆ **Fiercer competition.** In the not-so-distant past, the great cargo seaports in our global marketplace were fairly fixed destinations, with little incentive to change. Several disruptive developments on the horizon will alter that scenario. Rich Thompson, managing director of JLL's Ports Airports and Global Infrastructure group, told *LM* that shippers should expect to see fierce competition among ocean cargo gateways in the near future. "Steamship lines are transitioning to larger and larger ships given the economies of scale involved," he noted. "The ports must be able to accommodate these larger ships by establishing an environment for connectivity and more efficient throughput. This changes the focus from port capacity to throughput capacity." That means better automation, longer gate hours, and better IT. But it also means having a more complete integrated vertical real estate solution to connect to the port system, added Thompson. ☐

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Yusen Logistics

To Our Valued Customers:

We are proud and honored to have been selected as one of the top five providers in the "Quest for Quality" Intermodal Marketing category for the second consecutive year. This acknowledgement truly reflects your recognition of our ongoing commitment to excellence and ultimately to your – our customers' - success.

The Yusen Logistics family of employees knows and appreciates that you have a variety of choices in selecting your logistics provider. Whether it's our world class customer service, the breadth of services we offer or our Global capabilities, we do not take for granted the trust and confidence you place in our team each and every day. We will continue to strive to exceed your expectations and we look forward to earning your continued support for years to come.

Thank you for honoring us again this year with this prestigious award.

Sincerely,

Michael Liantonio
Senior Vice President and GM
Transportation Division, Yusen Logistics (Americas), Inc.

QUARTERLY TRANSPORTATION MARKET UPDATE: OCEAN

SPECIAL REPORT

Will the "greening" of fleets trump overcapacity challenges?

Logistics managers expect that, as ocean carriers' cash flow gets tighter, the charter market will increasingly be used for newer, fuel-efficient vessels. The payoff for shippers will be sustainable service. 75S

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State of Logistics 2013: New order, new opportunities

According to the findings of the *24th Annual State of Logistics Report*, the new state of logistics translates into new opportunities for shrewd managers who can leverage their unique skills and solid transportation relationships into value for their companies.

The editorial staff puts this year's report into perspective for shippers and then neatly summarizes the state of each mode—ocean, truck (TL & LTL), air, and rail—in this annual "must read" special report (**logisticsmgmt.com/2013sol**).

WEB EXCLUSIVE

State of Cargo Security: Higher stakes in the risk vs. reward scenario

Global logistics professionals are increasingly encouraged to undergo a systematic analysis of their exposure to risk and total landed cost related to a variety of procurement strategies. Often overlooked, however, is the financial health of their sub-tier suppliers.
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Join Peerless Media's Group Editorial Director Michael Levans as he gathers five top supply chain management software and technology analysts to share insight into some of hottest technologies and trends that are driving logistics transformation.

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- **John Hill**, St. Onge
- **David Krebs**, VDC Resarch Group
- **Tom Wrobleski**, CapGemini Consulting
- **Ian Hobkirk**, Commonwealth Supply Chain Advisors

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Perfect Shipment® Intermodal Results 2012 vs 2013

	Fiscal Year: 2012			Fiscal Year: 2013		
	Origin Pickup	Railroad Linehaul	Destination Delivery	Origin Pickup	Railroad Linehaul	Destination Delivery
July	98.8	96.3	96.6	98.9	98.0	97.8
August	98.7	96.3	96.8	99.0	98.5	97.9
September	98.8	96.9	95.3	99.0	98.4	97.6
October	98.7	97.8	95.8	98.8	98.4	97.5
November	98.6	96.5	97.3	98.7	98.1	97.5
December	98.8	96.9	95.3	99.0	98.4	98.0
January	98.9	97.8	97.8	99.0	98.7	97.9
February	98.3	98.2	98.2	99.0	98.5	98.0
March	98.6	98.5	97.2	98.9	98.1	98.4
April	98.5	98.3	98.1	99.1	97.0	98.7
May	98.9	97.4	98.1	99.1	97.7	98.3
June	98.6	98.2	97.8	98.7	97.5	97.9
12-Month Average	**98.7**	**97.4**	**97.2**	**98.9**	**98.1**	**98.0**

To our valued customers:

Alliance Shippers Inc.’s Perfect Shipment Program® is our operating process for providing on-time pick-up, railroad linehaul, and on-time delivery for all of our customers’ shipments to either themselves or their customers in the railroad intermodal mode. The data reflected on this page is a comparison of our on-time performance in the three aforementioned categories for our fiscal year 2012 versus our fiscal year 2013.

Two years ago, Alliance Shippers Inc. set a goal to reach a percentile of at least 98% of on-time performance in each of the three segments that go into a railroad intermodal truckload shipment. For our fiscal year 2013, we have attained that goal.

I want to thank the thousands of trucking companies who are integral in this process who pick-up and/or deliver our customers’ business. I want to thank all the United States railroads for providing outstanding service in order for Alliance Shippers Inc. to reach our goals that allows us to fulfill our customers’ service expectations.

In today’s modern transportation world a company has to have the highest level of information technology, which Alliance Shippers Inc. has, a company “culture of service” and a roster of employees who are not only highly professional in their business responsibilities, but have practical experience in the railroad intermodal industry.

I congratulate all of the Alliance Shippers Inc. employees for their contributions in attaining this 98% achievement for fiscal year 2013.

There is an old saying that says “without a customer you have no business.” All of us at Alliance Shippers Inc. want to thank our customers for allowing us to provide service to them and their companies.

Respectfully,

Ronald Lefcourt
President, Alliance Shippers Inc.

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Peerless MEDIA, LLC

Quest for Quality: Simply the best

It's my distinct honor to present the logistics and transportation community with the results of the *30th Annual Quest for Quality Survey*. The publication in your hands marks the culmination of a six-month research project conducted by Peerless Research Group (PRG) that's become known over three decades as the single most important measure of customer satisfaction and service performance excellence available in the logistics and transportation industry.

Over that time, *Logistics Management* (*LM*) has used its August issue to officially announce the results of the *Quest for Quality Survey* and celebrate the carriers, third-party logistics providers (3PL), and U.S. ports that have earned the ultimate vote of shipper confidence by receiving the highest scores across our service performance criteria.

But what makes the survey stand out in the market is the fact that the lists of winners you're about to see have been determined by *LM* readers—the buyers of logistics and transportation services who put these carriers and service providers to work around the clock and around the globe.

In fact, the most important element of the *Quest for Quality Survey* is that it allows shippers to vote in the type of services that they use on a regular basis and rank those carriers and providers that they work with every day.

"The voting is by invite only," says Judd Aschenbrand, PRG's director of research. "In order to evaluate a provider, the voter must have experience with that specific provider at some point over the past 12 months. So, the *Quest for Quality Survey* goes beyond name recognition and popularity and is based on the merits and performance of the service provider."

This year our research group received 6,179 total responses—1,470 more than last year. This terrific level of response resulted in 129 transportation and logistics service providers walking away with Quest for Quality gold this year.

We've made a couple subtle tweaks this year in an effort to better represent the levels of services offered by 3PLs. With the help of Evan Armstrong and the team at Armstrong & Associates, the leading 3PL market analyst firm, we split the 3PL questionnaire into two categories: transportation management and value-added warehousing and distribution operations.

"Customers evaluate and select 3PLs based on their core competencies," says Armstrong. "While larger 3PLs have integrated capabilities, the majority tends to be either transportation management or value-added warehousing and distribution operations centric. Therefore, it makes sense to evaluate providers separately in each segment."

Last year we re-established our Ports category, and we're pleased to be delivering the *Quest for Quality Survey* scores of the top North American Ports once again this year—and for many years to come. The positive response from shippers and the ports themselves following last year's results re-confirmed our belief that as these critical players continue to expand their portfolio of offerings they're becoming an even more integral part of the global supply chain solution.

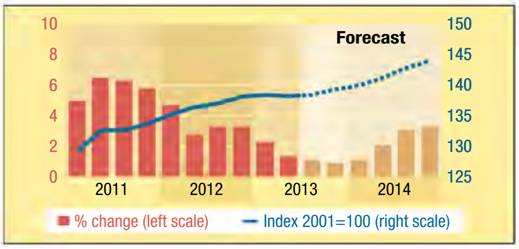
But now it's time to recognize and celebrate the winners of the 2013 Quest for Quality Awards. The lists that begin on page 30 represent those carriers and service providers that *LM* readers believe have gone above and beyond over the past 12 months to earn Quest for Quality Gold.

Michael A. Levans, Group Editorial Director
Comments? E-mail me at
mlevans@peerlessmedia.com

priceTRENDS

Pricing across the transportation modes

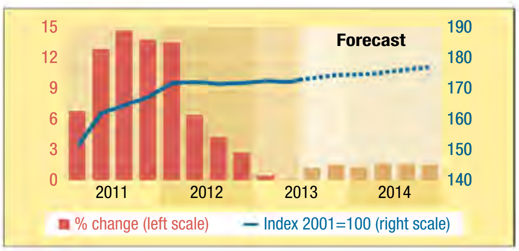
TRUCKING



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
General freight - local	0.0	-0.5	2.7
TL	0.0	-0.2	0.3
LTL	2.2	1.0	5.6
Tanker & other specialized freight	-0.1	0.3	0.8

In the latest survey of truckers, average transaction prices increased 0.5% from month-ago and 1.9% from same-month-year-ago. The only reason industry-wide trucking prices increased at all was due to LTL's inflationary fuel. LTL fleet operators report average prices revved up 2.2% from month-ago and 5.6% from same-month-year-ago. Signaling yet another downshift in trucking's inflation trajectory, all other segments of this market saw prices stall or fall in June 2013. In fact, in the second quarter of 2013, average prices overall declined 0.1% from same-period-year-ago. That's the first quarterly price cut in over three years. We now forecast trucking prices to accelerate at slower 1.4% pace this year and 2.4% next year.

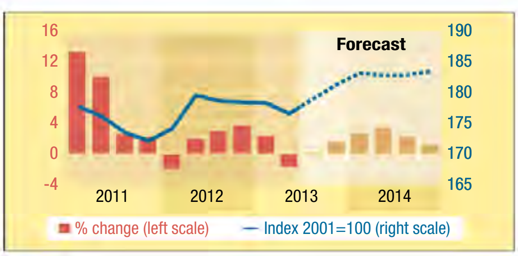
AIR



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Air freight on scheduled flights	-0.1	0.4	0.2
Air freight on chartered flights	0.5	-5.3	-5.1
Domestic air courier	-0.9	2.0	1.6
International air courier	-0.9	0.9	0.0

Still struggling to exert pricing power, new surveys of U.S.-owned firms flying freight on non-scheduled (chartered) planes show same-month-year-ago respective price cuts of 5.9% and 3.3% for domestic and international service. Meanwhile, airliners coasted another month with minimal price changes for flying cargo in the belly of planes on scheduled flights. Average prices for this service dipped 0.1% on the heels of May's meager 0.1% price hike. As a result, in the second quarter of 2013, prices increased only 0.07% from same-period-year-ago. Revised downward slightly, we see average prices for cargo service via scheduled flights increasing 0.8% in 2013 and 1.5% in 2014.

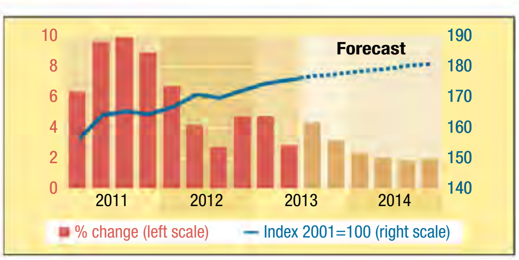
WATER



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Deep sea freight	-0.3	-2.2	-2.9
Coastal & intercoastal freight	0.5	0.9	-1.6
Great Lakes/St. Lawrence Seaway	1.9	3.3	11.4
Inland water freight	-0.7	-6.1	-3.0

Leading an inflation retreat, barges plying inland waterways reported their third consecutive monthly price cut in June. Thus, in the second quarter of 2013, inland waterway freight prices dropped 2.5% from same-period-year-ago. At the same time, U.S.-owned vessels transporting in deep seas report prices dipped 2.3% while coastal and intercoastal freight prices likewise floated down 1.9%. Sailing against the current, meanwhile, Great Lakes/St. Lawrence Seaway freight prices pushed up 8.1%. Our annual inflation forecast for all waterborne freight transportation services has been revised downward again. We now predict prices to increase 0.6% this year and 2.4% next year.

RAIL



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Rail freight	-0.6	1.3	1.7
Intermodal	-0.1	0.8	1.9
Carload	-0.7	1.5	1.7

While carload rail freight traffic increased 1.2% from May to June 2013, carload rail prices declined 0.7% at the same time. Meanwhile, intermodal rail prices have fallen for all three months in the second quarter of 2013. When reviewing quarterly price charts, a slowdown in the inflation trend for rail transportation remains the most salient feature. In the quarters ending June 2011 and June 2012, rail transportation prices accelerated from year-ago levels at a 9.6% and 4.1% pace, respectively. Now, in the latest June 2013 accounts, railroads pushed through an even slower 2.8% price increase. The forecast for rail transportation inflation remains 3.7% in 2013 and 2% in 2014.

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Also:

- Congress seeks to find path from freight transport "patchwork" to seamless "network," Page 16
- Driver turnover rates increase in first quarter, according to ATA data, Page 17
- AAR's Hamberger tells Senate panel 2015 PTC deadline may not be feasible, Page 18
- Peru seeks to strengthen its "cold chain" with North America, Page 20

2013 Peak Season prospects remain mixed

Despite similar forecasts to last year, slightly more than half of the shippers recently surveyed by Peerless Research Group expect a more active Peak Season.

By Jeff Berman, Group News Editor

FRAMINGHAM, Mass.—A slow economic recovery, fairly stagnant import volumes, cautious consumer spending, low GDP growth, sufficient inventory levels, and stubbornly high unemployment are culprits that are putting a crimp in what used to be Peak Season.

Over the past few years, there were suggestions—or even hope—that Peak Season was back based on fairly strong first half economic performances spurred by aggressive inventory rebuilds. But again, the prospects for a traditional peak appear to be fleeting.

We're now seeing fairly flat annual volume growth in most modes of freight transportation through the first half of 2013. Opinions on whether or not a Peak Season will occur this year appear to be mixed, according to the findings of a recent *Logistics Management* (*LM*) reader survey conducted by Peerless Research Group (PRG).

The survey, which polled 267 buyers of domestic and global freight transportation and logistics services, found that 51.1 percent expect a more active Peak Season compared to last year, with 38.5 percent expecting it to be the same, and 10.5 percent think it will be less active.

Interestingly enough, despite similar economic conditions compared to a year ago, this year's survey trumps 2012's on the "optimism" front, which found only 40 percent expecting a more active Peak Season last year. Those respondents that expect a true peak cited things like an improving housing market, improved access to capacity, and an uptick in some economic indicator such as consumer confidence.

What's more, the National Retail Federation is calling for 2013 retail sales to be up 3.4 percent annually in 2013.

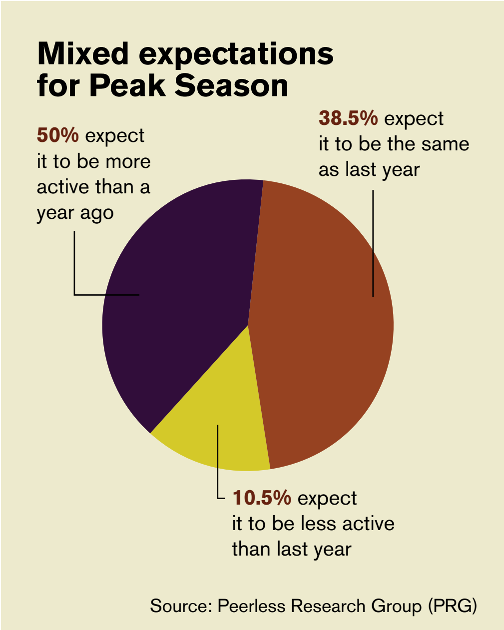
"The economy is beginning to grow and people are spending money," a retail shipper respondent told us. "Companies are starting to forecast and build for their Peak Seasons rather than wait and lose revenue because product was not where it should have been when needed."

Another shipper explained that business trends over the past five months are better than last year at this time, which he said serves as an indication that overall annual volumes will be at a higher level for this year's Peak Season than last year. Shippers that say they're not expecting much in the way of a meaningful Peak Season pointed to flat economic conditions as the primary reason.

Ben Hackett, founder of maritime consultancy Hackett Associates, said that it's fair to assume that Peak Season may be somewhat tempered again this year, explaining that consumers continue to maintain a modicum of confidence and importers have been building up their inventories.

But that does not mean everything is going great either, Hackett cautioned, telling *LM* that U.S. consumer demand still remains weak at a 1 percent growth rate even though the GDP is slightly above 2 percent.

"The inventory-to-sales ratio has also gone up and is close to pre-recession levels that were last seen around 2006," added Hackett. "That's a potential warning sign, and it also means there's enough inventory in stores which do not require importers to have a big Peak Season."



Half of survey respondents said they expect Peak Season to be more active than last year.

CEVA Logistics CEO Marv Schlanger was somewhat more optimistic in terms of his expectations for Peak Season. "I would say that I'm cautiously optimistic," he said. "There is a little momentum in the U.S. economy with a somewhat brighter employment outlook, the auto market is very strong, and now there's some life in housing. Those are pretty good principles to start from and would lead me to believe this year will be better than the last few years, but it is still a little too early to tell at this point."

INFRASTRUCTURE

Congress seeks to find path from freight transport "patchwork" to seamless "network"

WASHINGTON, D.C.—How does this country get from its current "patchwork" of individual modal networks to a coordinated "network" of streamlined efficiency to aid, instead of hamper, our freight and logistics supply chain system?

That's a great question, and Congress appears to want to know.

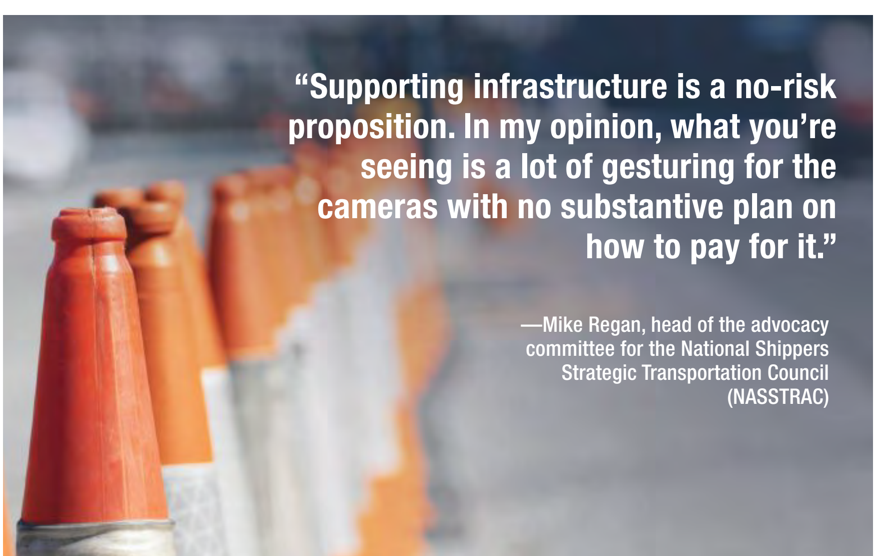
Prior to leaving town for its lengthy summer recess, top Congressional representatives on an important transportation committee visited a FedEx hub and a leading intermodal port to get a feel for the importance of logistics to the overall U.S. economy.

Led by Rep. John J. Duncan, Jr. (R-Tenn.), chairman of the House Transportation and Infrastructure's "Panel on 21st Century Freight Transportation," the group toured a FedEx hub in Memphis as well as the Port of Memphis and met with representatives of the region's freight transportation community.

After visiting the Port of Memphis, the fourth largest inland port in the U.S., the panel also received briefings on inland waterways issues in general. After that tour, the group crossed the Mississippi River to West Memphis, Ark., to meet with various representatives of the Arkansas and Tennessee transportation and business communities to discuss freight transportation challenges.

"The movement of goods across our nation may not always grab headlines, but the efficiency of freight transportation impacts the lives of every American on a daily basis," Duncan said.

He noted that transportation accounts for up to 10 percent of a product's total cost, so bottlenecks and limitations in the transportation system can significantly drive up the cost of everything consumers buy.



While the tour was largely viewed as a photo opportunity, logisticians and advocates of a smoother, more efficient domestic transportation system said that while such "listening sessions" are useful to a degree, the real work for these congressmen and women remains when they return to their desks in September.

"Supporting infrastructure is a no-risk proposition," said Mike Regan, head of the advocacy committee for the National Shippers Strategic Transportation Council (NASSTRAC). "In my opinion, what you're seeing is a lot of gesturing for the cameras with no substantive plan on how to pay for it."

Regan should know. He helped organize a one-day "fly-in" last year to help educate Congress on the importance of sufficiently funding a long-term transportation bill. What he and other NASSTRAC members got was a 20-month highway bill that basically froze highway funding at previous spending levels.

While that 20-month bill was better than the nine previous stop-gap funding measures of six-months or less in duration, Regan said it's far from what the country needs to adequately address its crumbling infrastructure needs. That bill expires Sept. 30, 2014, and the groundwork already is being laid for a comprehensive, multi-year bill that addresses spending needs with adequate and innovative revenue sources.

"The issue is putting that support into a tangible action plan that can be sold to the voters," Regan explained. "For all the pontification by Congress on this issue, my answer is: So what? What's going to happen? How are we going to pay for it?"

What's needed, Regan and others are telling Congress behind the scenes, is a long-term highway bill (ideally 4 years to 6 years), with adequate funding levels, that will allow road builders and local planners to sufficiently plan for the future.

"First of all, we need a long-term solution," Regan said. "These continuing resolutions and short-term funding methodologies don't help us find a long-term solution. We don't decide today to build a road tomorrow. It's a three-, five-, sometimes 10-year process. We need a long-term fix."

—John D. Schulz, Contributing Editor

TRUCKING

Driver turnover rates increase in first quarter, according to ATA data

WASHINGTON, D.C.—Regardless of some tangible evidence of economic improvement, one related area continuing to come up short is the finding, hiring, and retaining of qualified truck drivers.

In the first quarter edition of its *Trucking Activity Report*, the American Trucking Associations (ATA) said that the turnover rate for large and small truckload carriers actually rose, citing an improving economy and stiff competition for well-trained drivers.

First quarter turnover for large truckload fleets—that have at least $30 million in annual revenue—hit 97 percent, which tops the fourth quarter's 90 percent and represents the highest quarter since the third quarter of 2012, which reached 104 percent. The 97 percent turnover rate was slightly below the 2012 cumulative average of 98 percent.

The turnover rate for smaller truckload fleets hit 82 percent in the first quarter, up from 76 percent in the fourth quarter, matching the 2012 average and below the most recent high of 94 percent in the third quarter of 2012. And on the less-than-truckload side, which the ATA said is typically far less volatile than other trucking segments, first quarter turnover increased 15 percent over the 10 percent increase in the fourth quarter.

"Our data shows that competition for drivers across the industry remains high," said ATA's Chief Economist Bob Costello. "It is our fear that this competition for drivers may be exacerbated by losses in productivity caused by recent regulatory changes such as the new hours-of-service rules. If the economy continues to improve as we expect it to, we'll see competition for drivers intensify, which will increase not just the turnover rate and exacerbate the driver shortage, but will push costs for fleets higher as well."

As *Logistics Management* has reported, driver turnover and tight capacity are

two things that clearly go hand in hand in the trucking industry, especially during the current tight market conditions that have been spurred on by a relatively slow economic recovery and the December 2010 implementation of CSA, as well as the July 1 changes to truck driver hours-of-service (HOS).

Projections from freight transportation forecasting consultancy FTR Associates estimate that this problem is likely to get worse, and by 2014 the driver shortage could be in the range of 250,000. If this number is realized, Stifel Nicolaus analyst John Larkin said that it would create a capacity shortage that would quickly translate into "fairly sizable rate increases," steeper than what occurred during the slow growth period over the last couple of years.

While the driver turnover rate, especially for large carriers, remains high, it could reach even greater heights should the economy see material gains.

"If the economy were to recover quickly, there could be some unintended consequences," said Derek Leathers, president and chief operating officer of Werner Enterprises. "The driver shortage would be much tighter and more acute and make things that much tougher for carriers. We simply won't be able to fill enough trucks to haul the freight produced if things take off."

The Werner executive added that current math does not support it, given the fact that the average age of the U.S. truck driver is close to 50, coupled with the hundreds of thousands of drivers age 60 or above that are retiring.

—Jeff Berman, Group News Editor

RAIL

AAR's Hamberger tells Senate panel 2015 PTC deadline may not be feasible

WASHINGTON—While the deadline for railroads to install Positive Train Control (PTC) technology is December 2015, the top executive of the Association of American Railroads (AAR) recently told a Senate Commerce Committee that target may be somewhat overly ambitious.

The objective of PTC systems is to prevent train-to-train collisions, overspeed derailments, and incursions into roadway work limits. PTC sends and receives a continuous stream of data transmitted by wireless signals about the location, speed, and direction of trains, according to the Federal Railroad Administration (FRA).

PTC systems, added the FRA, utilize advanced technologies including digital radio links, global positioning systems and wayside computer control systems that aid dispatchers and train crews in safely managing train movements.

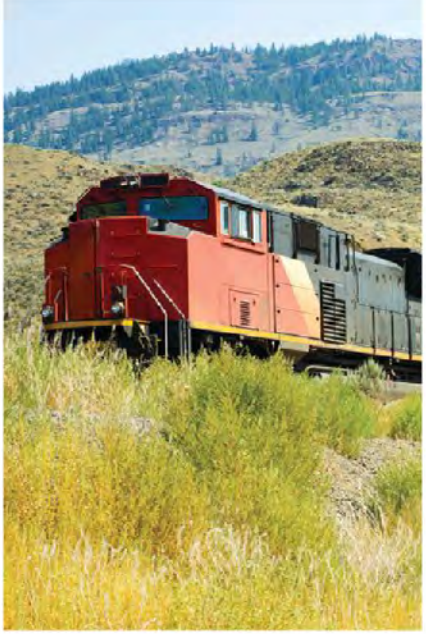
A mandate for PTC systems was included in House and Senate legislation-H.R. 2095/S.1889, The Rail Safety and Improvement Act of 2008. The legislation was passed shortly after a Sept.

12, 2008, collision between a freight train and a commuter train in Los Angeles. It calls for passenger and certain hazmat rail lines to take effect by 2015 and authorizes $250 million in Federal grants.

"A lot of progress toward implementing PTC has been made to date, and railroads are working extremely hard to meet the 2015 deadline, collaborating with federal regulators and suppliers all throughout the process," AAR President and CEO Ed Hamberger told the panel. "There will be a lot of PTC implemented throughout the nation's rail network by 2015, but there will not be a fully interoperable system in place by then."

Hamberger went on to explain that roughly $2.8 billion has been spent since 2008 on implementing PTC technology in an effort to meet the December 2015 deadline as mandated by the Rail Safety Improvement Act. But because of technological and non-technological challenges that have arisen throughout the implementation process, freight railroads have determined it will not be possible to have a fully interoperable nationwide PTC system up and running by the 2015 deadline.

Further adding to the PTC-related challenges, said Hamberger, is the Federal Communications Commission's (FCC) regulatory process for constructing and placing PTC antenna structures, with railroads needing to install more



than 20,000 new antenna structures nationwide to transmit PTC signals.

The AAR said that according to the FCC, all PTC antenna structures are subject to the National Environmental Protection Act and National Historic Preservation Act, and under FCC rules, every PTC antenna could be subject to a separate environmental evaluation process. This is problematic, because each of the 20,000-plus antennas needs to be reviewed separately.

"It is safe to assume that PTC deployment will be further delayed," added Hamberger.

PTC has been commonly referred to as the "unfunded mandate" in railroad circles. A major concern of freight railroads has been that PTC rules finalized in January 2010 that required PTC on sections of tracking where the cost is not justified, according to a March 2011 *Wall Street Journal* report.

A report on PTC prepared for the AAR by management consultancy Oliver Wyman stated that without external funding, the PTC requirement will remove capital away from capacity expansion and other programs required by railroads at a time when the economic recovery is going to require additional railroad infrastructure.

The report added that the $5 billion cumulative PTC investment required by Class I railroads equals what the Class I carriers have doled out over the last four years, coupled with them having to spend hundreds of millions of dollars per year to maintain the PTC system.

Oliver Wyman Managing Director Bill Rennicke told *Logistics Management* that the PTC legislation is essentially a safety mandate, which ultimately will be paid for by shippers in the form of increased rates.

—Jeff Berman, Group News Editor

COLD CHAIN

Peru seeks to strengthen its "cold chain" with North America

MIAMI—As noted elsewhere in this issue, (Focus on South America, page 62) the southern hemisphere is attracting more attention from U.S. shippers intent on sourcing from some of the more developed countries in the region. This is especially true of high-end perishable commodities like fruits and vegetables

During last month's Peru Investors Forum in Miami, the Port of Miami met with representatives from Peru to discuss options for increased trade between the South American country and this leading

U.S. cargo gateway.

Over the past several years, Port of Miami and officials from Peru along with importers, growers, and customs brokers have been working toward meeting the demands of U.S. consumers for fresh produce during winter months.

In the past, certain Peruvian products could only enter the U.S. via certain northeastern ports; however, on October 1 a new pilot program will go into effect allowing cold treatment products to be imported directly to the Port of Miami.

Thanks to the efforts of U.S. Customs and Border Patrol, the U.S. Department of Agriculture, and the Florida Perishables Coalition, grapes and blueberries will travel directly from Peru to the Port of Miami. The produce will be cold treated prior to its departure from Peru and will arrive ready for immediate distribution and sale.

Cold treatment is a process performed on fruits and vegetables that entails sustained refrigeration sufficient to kill pests associated with imported fruits and vegetables.

According to Port of Miami's Executive Director Bill Johnson, this produce will be able to reach 70 percent of the U.S. population in four days or less.

"This opens up opportunities for both our countries and we look forward to increasing bilateral trade," said Johnson.

Meanwhile, outdated infrastructure in Peru's highly centralized seaport system is a major challenge facing the country's supply network, according to the Foreign Commerce Society of Peru.

The agency has recently emphasized the need for modernizing the ports so Peru can sustain its economic growth and keep pace with its neighbors.

According to Business Monitor International (BMI), customs officials at the Peruvian port of General San Martín do not use electronic devices for basic procedures as filling out merchandise declarations.

"This has caused a bottleneck of merchandise, which is impeding the competitiveness of Peruvian exporters," BMI said.

Necessary infrastructure changes to improve the supply network—and take advantage of the U.S.-Peru free trade agreement—include increasing storage zones, providing updated technology, and improving Peru's regional ports. This would help to "decentralize" the system, added BMI.

—Patrick Burnson, Executive Editor

Newsroom Notes
with Jeff Berman

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Marketplace Fairness Act may raise prices, but won't curtail e-commerce activity

E-COMMERCE HAS BEEN A BOON FOR CONSUMERS for many reasons, including being able to "shop" from home, not having to go to the mall, and ease of use. There's also the matter of not having to pay sales taxes, which serves as a benefit to many consumers, especially during these uneven economic times.

But the days of consumers not having to pay taxes for online purchases may soon come to an end due to a piece of legislation recently passed by the U.S. Senate entitled the Marketplace Fairness Act. According to marketplacefairness.org, this bill grants states the authority to compel online and catalog retailers ("remote sellers"), no matter where they are located, to collect sales tax at the time of a transaction—exactly like local retailers are already required to do.

The site added that the Marketplace Fairness Act requires that states simplify their sales tax laws in order to ease those concerns and make multistate sales tax collection easier.

Just how much of an impact—if any—will be felt from this bill should it be signed into law remains to be seen. However, given the increasing growth of e-commerce, and the increased bottom line for parcel bellwethers UPS and FedEx, it stands to reason that the effects of the bill could be minimal even though we consumers may have to pay a little bit more for that hockey stick or new shirt we order online.

That was the prevailing sentiment from Rob Martinez, president and CEO of Shipware Systems Corp., a parcel shipping technology services company. "While Fred Smith of FedEx, Scott Davis of UPS, and other parcel industry executives have been quite vocal on some legislative issues, I don't see much regarding online sales taxes," he recently said. "UPS and FedEx have obviously benefited from the growth in e-commerce in recent years, and continue to do so. With the USPS, parcel services are growing and are profitable. I'm surprised these companies are not actively lobbying to squash proposals for online taxes."

Alternatively, Martinez surmised that UPS and FedEx might have realized that online sales taxes may eventually mirror sales taxes in cash-strapped states. Martinez added that he believes that the online sales tax will not have much of an impact on e-commerce growth in the future, due to the fact that consumers shop online for the benefit of saving time, lower cost of goods, home delivery, free shipping, and easy return policies.

Jerry Hempstead, president of parcel shipping analyst firm Hempstead Consulting, noted that while online purchasing has taken off because of its convenience, people have become accustomed to being taxed. "People should be outraged that our elected officials are enabling this new tax on us, but my opinion is that the tax will not drive people back into retail stores," he said. "People enjoy the tremendous convenience of online shopping."

> **"People should be outraged that our elected officials are enabling this new tax on us, but my opinion is that the tax will not drive people back into retail stores. People enjoy the tremendous convenience of online shopping."**
>
> *—Jerry Hempstead, president, Hempstead Consulting*

If the Marketplace Fairness Act does get signed into law, it's hard to imagine any type of material decrease in e-commerce activity. What's more, the growth of e-commerce has seen more than a few retailers revolutionize their order fulfillment and shipping processes just to get into the e-commerce game—all steps that are essentially necessary to survive, compete, and to grow. □

Moore on Pricing

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Shippers and carriers need to get smart on LTL costs

In the past months, ABF Freight System and UPS Freight announced 5.9 percent general rate increases, effective May 28 and June 10, respectively. Con-way Freight will raise its LTL rates 5.9 percent on June 24. On June 10, FedEx Freight announced a 4.5 percent GRI in non-contract base rates effective July 1, and other large carriers are expected to follow suit over the next several weeks.

However, these reported jumps in prices seem curious to shippers who are experiencing price deflation as competition heats up in consumer markets.

A shortage of capacity does not seem to be the problem. The trucking industry continues to buy new equipment and appears to be expecting growth. New Class 8 truck orders are 27.7 percent higher than last year, according to freight transportation research firm FTR Associates, and hiring is 3 percent above last year according to the U.S. Bureau of Labor Statistics. This indicates that capacity is increasing, and therefore more competition should be popping up to solicit more freight from shippers.

Carriers appear to be attempting to increase operation margins from 96.4 percent back to the 93 percent range that they enjoyed in 2008. Many shippers are pushing back as they simply can't pass these increases on to their customers, and they don't necessarily see improved services at the level that will help them win more business.

However, we are seeing new ideas emerging in the LTL pricing market. The increased use of density pricing is an example. Density pricing, based on a combination of weight and cube, allows shippers and carriers to work together on packaging and pallets to find savings for both parties.

Density deals with two critical variables in freight transport: space capacity and weight capacity usage of the carrier's equipment. As the dimensions and the weight are known quantities, it can serve as a more efficient determination of freight price. Depending on how much capacity you're using, the trucker can charge you a portion.

Of course there are many more variables, including time, distance, and insured value being just three. And for sophisticated shippers and carriers, the negotiation of contracts involves balancing each of the elements affecting their freight.

"You need to improve efficiencies, know your costs, and arrive at a fair and equitable rate for the service you're providing," says Old Dominion's CEO David Congdon. These words don't just apply to smart carriers, but to shippers as well. This simply means that the market needs to change the way it thinks about LTL freight pricing.

LTL pricing is not a simple table with applicable discounts, as many rate bureaus would have you believe. Both parties need to put aside these tables and unbundle rates into component costs. Together, they need to begin to test adjustments to the operational drivers of these costs. This means fully understanding who pays for insurance, how long trucks were held for unloading, who will load and unload, pickup hours, accessorial service needs, density of the freight, and a dozen or more other variables.

> **LTL pricing is not a simple table with applicable discounts, as many rate bureaus would have you believe.**

The goal should be transparency and flexibility to help both the carrier and shipper save money.

Of course, the 800-pound gorilla in the room is the transportation management systems (TMS) we now use for freight pricing and payment. Most of these are simplistic when it comes to freight price look-up, and many will not hold dimensions needed for density pricing calculations—at this point, they're seeking one number for each load that can be applied based upon tables. New work is emerging here as well, with cloud based software services providing the ability to manipulate and confirm price changes in real time and provide variables in many price elements.

It's clear that the market will need these tools to allow better deal making and easier freight audit and payment in order to ring out more profit for carriers. Both parties need to strive for what FedEx Freight CEO William Logue calls "the right volume at the right rate into the right network." Only then can we see productivity gains improve margins for carriers rather than price increases well above the general inflation rate. □

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Pearson on Excellence

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Global growth requires more than emerging markets

A LOT OF GLOBAL COMPANIES ARE HOPING that emerging markets will prop up their bottom lines. They could be disappointed.

India's growth rate in 2012 was the lowest it's been in a decade. Economic expansion in Brazil is also slowing. Even China is losing some steam, with industrial production and import levels trending down. Other hotspots still exist, but they may not be enough to provide all of the financial sustenance companies need.

So, if new markets are getting old, what global growth strategy might be more fruitful? How about a formal plan for understanding and catering to changing consumer behaviors?

Consider a recent Accenture survey of 20 sectors that are particularly beholden to new buying patterns, such as video on demand, fair trade goods, low-cost airlines, and digital music. Accenture is forecasting a 20 percent compound annual growth rate for these industry types. That's 3.5 times faster than the projected growth of emerging economies.

Simply put, huge numbers of consumers are altering their buying behaviors. Millions are becoming more networked—using digital technologies to obtain products and services and advise their friends and family members.

Other large groups are looking for unique shopping experiences. Still more are embracing collaboration and social responsibility—buying local and considering the environment before purchasing. Companies that can identify, speak to, and serve populations like these are likely to grow more quickly than their less insightful peers. Many also share three characteristics: analytics expertise, adaptive mindsets, and agile organizations.

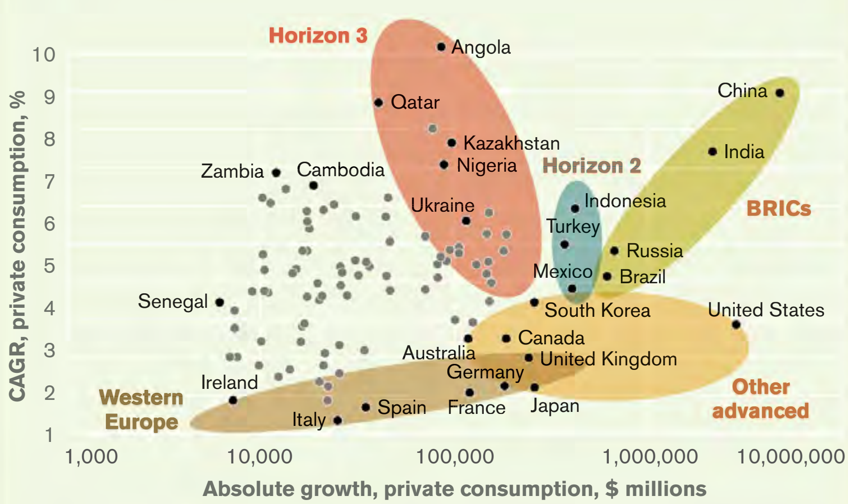
Analytics expertise

Analytics-enabled insights are key to helping companies understand customers and improve customer experiences. Consider gaming company Activision Blizzard which, in 2012, partnered with several analytics firms to perform gaming assessments.

One firm captures data on 190,000 games and 250 million consumers daily—data that Activision Blizzard can use to make better game-development decisions. The second firm specializes in behavioral analytics, which helps Activision Blizzard "balance and optimize" games in real time.

Activision Blizzard has been particularly successful using analytics to thrive in the mobile games market. For one game—Skylanders Cloud Patrol—analyses revealed that users were seldom changing from one character to another. The company responded by tailoring the game to give each character specific powers. Activision Blizzard also has used analytics to customize games by country.

Growth of many BRIC markets slows



Source: Oxford Economics; Accenture analysis

Growth is slowing in most BRIC countries, but economic and consumer spending remains strong in "Horizon 2" markets such as Indonesia, Mexico, and Turkey. Still, strategies that work to identify and serve changing consumer groups could prove more fruitful than relying solely on emerging markets.

Adaptive mindsets

Companies that align themselves with shifting consumer patterns embrace disruption because they are "psychologically" receptive to perpetual change. These organizations are also good at detecting threats and formulating innovative responses.

Several years ago, a thorough examination of its industry spurred Hertz to court a segment at the edge of its mainstream business—the urban consumer who spurns car ownership in favor of car sharing.

Hertz On Demand began modestly in 2008, offering electric cars, luxury cars, and other options for round-the-clock, short-term usage with hourly rental fees that include gas, insurance, and roadside assistance. Hertz also addressed the new segment via acquisitions, acquiring Paris-based Eileo, a developer of car-sharing technology, and Flexicar, a leading car-sharing company in Australia. By 2012, Hertz On Demand had 130,000 members and projected revenues of more than $30 million.

Agile organizations

Companies need flexible organizational structures to take their consumer insights and create new, scalable offerings. A good example is eBay's ability to continue benefiting from the expanding segment of consumers who use online platforms to buy and sell products.

In 2000, the newly launched PayPal averaged about 50 times more payments per day than eBay's proprietary online payment offering. In 2002, eBay acquired PayPal and worked the acquisition into its business model. By 2011, PayPal accounted for 38 percent of eBay's total revenues.

In 2007, eBay expanded its portfolio of consumer-seller businesses by acquiring StubHub, the fan-to-fan event-ticket reseller. Like PayPal, StubHub's growth soon began to outpace that of eBay's auction site. Despite its increasing relationships with sports teams and venues, StubHub's growth is still generated mostly by individual and part-time resellers. And by smoothly working StubHub into its business model, eBay has benefited greatly.

Each of the above-mentioned companies recognized the potential of identifying changing consumer affinities. They also made sure that their operations were fully able to leverage the resulting opportunities. This ability to understand and take advantage of consumer shifts may not be the only way to stay prosperous, but it might be the most enduring. After all, a given market's attractiveness ebbs and flows. But change is forever. ☐

Andreoli on OIL+FUEL

Derik Andreoli, Ph.D.c. is the Senior Analyst at Mercator International, LLC. He welcomes any comments or questions, and can be contacted at dandreoli@mercatorintl.com.

Diesel/natural gas price differential narrowed in first half of 2013

One needs to look no further than the futures market for evidence that analysts' forecasts are rarely correct. In every trade, the buyer believes that prices will rise, and the seller believes the exact opposite. Not often do you see an analyst publicly reflect on a prior forecast—except, of course, when their goal is to make a "victory lap."

There is value, however, in revisiting forecasts because critical reflection helps the analyst to refine assumptions and provides insight into complex relationships between dynamic variables.

As individuals we do this regularly in everyday life. For example, I was recently introduced to archery. Only after purchasing all the equipment did I learn that the system of shooter, bow, and arrow is significantly complex—and that the particular arrows I purchased were too stiff for my bow. Through research I came to understand the complexity of the system; and this, in turn, allowed me to troubleshoot the problem.

Oil and natural gas markets are similarly complex, and predicting precisely where oil and gas prices are going to be at some predetermined point in the future could be accurately described as a fool's errand. However, it's an essential exercise for anyone who is considering investment in natural gas powered trucks.

Luckily for analysts like me, success in forecasting is graded on a curve. Hitting the target consistently is worth something even if the arrow does not regularly find the bull's-eye.

Over the last year and a half, the domestic natural gas market has been a frequent topic covered in this column. I have consistently asserted that the extremely low prices are transitory, though the timing and the magnitude of the inevitable price increase remain stubbornly elusive. At the beginning of the year I forecasted that the price differential would narrow as natural gas prices rise and diesel prices remain flat.

On the diesel side, my forecast is rooted in a complex model designed to predict global surplus oil production capacity. This model allows various supply and demand scenarios to be evaluated. And under the most likely set of macroeconomic conditions, surplus production capacity was expected to increase moderately through the year. This increase was expected to be high enough to reduce price volatility, but not high enough to bring prices down. This forecast proved to be right for the right reasons. Consider that a "victory lap."

The domestic natural gas market is significantly more complex than oil and diesel markets, and there are a large number of important "unknowable unknowns." The most important of which is the marginal cost to produce a unit of natural gas through hydraulic fracturing. Estimates of breakeven prices range from $4.70 per Mcf for wells with low production decline rates to $9.00 per well for wells with high decline rates or low initial flow rates.

At the beginning of the year, the second important "unknowable unknown" was the staying power of the natural gas glut, which pushed prices down from $5.69 per Mcf in January 2010 to $1.89 per Mcf by April 2012. At the time, the trend in rig counts provided strong indication that the glut would be temporary. Rig counts had declined nearly 50 percent, from 811 in January 2012 to 429 in January 2013.

According to the data crunchers at the Energy Information Administration, "the average spot natural gas prices at most major trading points increased 40 percent to 60 percent during the first half of 2013 compared to the same period in 2012." Two processes are at work here: Low prices have caused growth in supply to slow and growth in demand to accelerate.

While my arrow clearly hit the target—natural gas prices increased as predicted—my aim was high. I had expected prices to rise north of $5 per Mcf, but the average price only just barely broke $4 per Mcf for a brief period, and over the first half of 2013 averaged only $3.75. With hindsight, I see that in my analysis, I had overestimated the slowdown of supply growth.

Looking forward, I expect the diesel/natural gas price differential to continue to contract through the end of the year. On the natural gas side, rig counts have averaged just 355 over the last three months. By comparison, 1,461 rigs were drilling for natural gas in April 2008.

On the diesel side, oil production in the U.S. and Iraq continues to grow rapidly while emerging market demand will continue its lackluster performance.

Learning from my earlier forecast, I expect natural gas prices to average $4 to $4.25 per Mcf through the second half of the year. At this price level the incentive to drill new wells will remain slight. Consequently, there is a possibility for a dramatic reversal in gas storage from relative glut to scarcity sometime over the next 12 months. □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Which carriers, third-party logistics providers, and U.S. ports will walk the red carpet to receive their award for outstanding service performance over the past year? Our readers have cast their votes, and now it's time to introduce this year's winners of the coveted Quest for Quality Awards.

BY ***LOGISTICS MANAGEMENT*** **STAFF**

The editorial staff of *Logistics Management* (*LM*) is proud to unveil the results of the 30th Annual Quest for Quality Awards. This year, 129 providers of transportation and logistics services have received the ultimate vote of confidence, posting the highest scores across our lists of critical service criteria.

For three decades, *LM*'s *Quest for Quality Survey* has been regarded in the transportation and logistics industry as the most important measure of customer satisfaction and performance excellence. To determine the best of the best, qualified *LM* readers rate carriers, third-party logistics (3PL) service providers, and U.S. port operators strictly on the basis of service quality, making it the only survey of its kind in the market.

To determine who wins the vote, *LM* readers evaluate companies in all modes and service disciplines, choosing the top performers in categories including motor carriers, railroad and intermodal services, ocean carriers, airlines, freight forwarders, ports, and third

30th Annual Quest for Quality

Perfomance attributes' importance

Importance ratings are captured on a 5-point scale: 5 = Most important/1 = Least important

	On-time performance	Value	Information technology	Customer service	Equipment & operations
Truckload	**4.70**	**4.28**	**3.24**	**3.94**	**3.78**
Highly/Very important (5, 4)	95%	87%	48%	71%	67%
Rail/Intermodal	**4.63**	**4.25**	**3.10**	**3.69**	**3.68**
Highly/Very important (5, 4)	95%	87%	40%	62%	64%
Ocean carriers	**4.60**	**4.30**	**3.62**	**4.12**	**3.87**
Highly/Very important (5, 4)	94%	85%	65%	80%	71%
LTL	**4.72**	**4.31**	**3.45**	**3.93**	**3.45**
Highly/Very important (5, 4)	96%	90%	55%	68%	57%
Air carriers & Freight forwarders	**4.75**	**4.28**	**3.52**	**4.02**	**3.40**
Highly/Very important (5, 4)	96%	88%	58%	71%	56%

	Ease of doing business	Value	Ocean carrier network	Intermodal network	Equipment & operations
Ports	**4.24**	**4.04**	**3.85**	**3.85**	**4.08**
Highly/Very important (5, 4)	83%	75%	70%	70%	80%

	Carrier selection/ Negotiation	Order fulfillment	Transportation/ Distribution	Inventory management	Logistics information systems
3PL - Transportation management solutions	**4.49**	**4.18**	**4.48**	**3.53**	**4.16**
Highly/Very important (5, 4)	89%	79%	89%	60%	79%

	Customer service/ Value added services	Order fulfillment	Transportation/ Distribution	Inventory management	Logistics information systems
3PL - Value added warehousing & distribution	**4.55**	**4.22**	**4.37**	**3.71**	**4.14**
Highly/Very important (5, 4)	91%	79%	85%	66%	82%

Source: *Logistics Management*, Peerless Research Group (PRG)

All scores are weighted. Weighted scores are determined by multiplying the average raw scores by the average importance of each attribute (5 = most important; 1 = least important).

METAL ILLUSTRATION BY: JEAN FRANCOIS PODEVIN

party/contract logistics services. From January through May of this year, *LM* and Peerless Research Group (PRG), a division of Peerless Media, surveyed readers who are qualified buyers of logistics and transportation services.

This year our research group received 6,179 total responses—1,470 more than last year. In order to be a "winner," a company had to receive at least five percent of the category vote. The result of this overall effort offers the logistics market a crystal clear look at not only the overall winner in any given category, but a broad list of companies that finished above the average.

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

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Transportation & Distribution, Inventory Management, and Logistics Information Systems.

This year we split 3PL into two categories in our ballot questionnaires with the help Armstrong & Associates Inc., the leading third-party logistics analyst firm in the market. "Customers evaluate and select 3PLs based upon their core competencies," says Armstrong. "While larger 3PLs have integrated capabilities, the majority tends to be either transportation management or value-added warehousing and distribution operations centric. Therefore, it makes sense to evaluate providers separately in each segment."

Last year we re-established our Ports category, using Ease of Doing Business, Value, Ocean Carrier Network, Intermodal Network, and Equipment & Operations as the five key criteria to measure service success. We're pleased to be delivering the scores of the top North American Ports once again this year—and for many years to come.

Evaluating the "best of the best"

The evaluation itself is a weighted metric. The scores take into account the importance readers attach to each attribute. Each year, readers are first asked to rank the attributes in each category on a five-point scale, with 5 representing the highest value and 1 representing the lowest value.

The PRG research team then uses those attributes' rankings to create weighted scores in each category. For example, readers have historically placed the single highest value on the On-time Performance attribute—and they've done so again in 2013. In fact, the attribute was rated between 4.60 and 4.75 across the various carrier categories.

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

To produce a weighted score, the research team then multiplies the provider's average scores for each attribute by the attribute's ranking. Next, the weighted scores are calculated for all five attributes for a given vendor and added together to create an aggregate number.

Companies score a quality win when their total scores exceed the average total weighted score in their category. But remember, providers must receive a minimum number of reader responses to qualify for a win—at least five percent of the total base for the category.

NATIONAL LTL

Pulling away from the pack

WHILE THE NATIONAL LTL market had been slowly, but surely, pulling itself out of its recession-induced slump, the sector now seems to have hit a bit of a leveling-off period in terms of growth. In fact, revenue has been fairly flat across the board due to some longer-haul LTL freight being siphoned off by truckload carriers at the heavy end and by parcel carriers being increasingly aggressive in the 70-pound to 500-pound range.

However, as our John Schulz reported in last month's extensive State of Logistics Report, this trying period for the sector has certainly helped shippers separate some of the stronger-performing carriers from the underachievers who are trying to compete with the best and win back that freight they may have lost to the TL and parcel players over the past few years.

And while it's been a tough road back for many LTLs, we're happy to report that *Logistics Management* readers have certainly been able to identity a group of long-haul carriers that have stood out among their peers in terms of overall service performance despite the mounting challenges.

In our National LTL category this year we find FedEx Freight posting the top overall weighed average score of 47.11. FedEx Freight lead the way in all but one attribute category, putting up 11.90 in On-time Performance, 9.31 in Value, 8.48 in Information Technology, and 8.53 in Equipment & Operations. Con-way Freight, another perennial strong performer according to our readers, put up an impressive 45.85 weighted average and made top marks in Customer Service (8.96).

FedEx Freight also posted the top score in the Muli-regional category this year with a lofty 47.80 overall weighted average. Once again, the carrier dominated the category posting highest marks in On-time Performance (11.94), Information Technology (8.59), Customer Service (9.32), and Equipment & Operations (8.47). Old Dominion Freight Line posted the second highest weighted average (46.69), while UPS Freight made its way back into the winners' circle in this category with a 45.24.

In the hotly contested Surface Package category this year, UPS takes the top spot by just a few tenths of a point after FedEx Ground put up the top score last year. Year after year, this category is almost too close to call. UPS logged top numbers in On-time Performance (12.51), Information Technology (9.12), and Equipment & Operations (8.82), while FedEx Ground put up top scores in Value (10.18) and Customer Service (9.41).

National LTL

(Bold indicates leader in attribute category)

	On-time performance	Value	Information technology	Customer service	Equipment & operations	Weighted score
FedEx Freight	**11.90**	**9.31**	**8.48**	8.90	**8.53**	**47.11**
Con-way Freight	11.58	9.03	7.99	**8.96**	8.29	45.85
AVERAGE	**10.98**	**8.96**	**7.92**	**8.68**	**7.92**	**44.46**

Multi-regional LTL

	On-time performance	Value	Information technology	Customer service	Equipment & operations	Weighted score
FedEx Freight	**11.94**	9.47	**8.59**	**9.32**	**8.47**	**47.80**
Old Dominion Freight Line	11.76	**9.70**	7.82	9.24	8.17	46.69
UPS Freight	11.04	9.16	8.35	8.63	8.06	45.24
AVERAGE	**10.80**	**9.28**	**7.64**	**8.54**	**7.75**	**44.01**

Surface package carriers

	On-time performance	Value	Information technology	Customer service	Equipment & operations	Weighted score
UPS	**12.51**	10.05	**9.12**	9.13	**8.82**	**49.62**
FedEx Ground	12.25	**10.18**	8.95	**9.41**	8.80	49.58
AVERAGE	**11.91**	**10.19**	**8.49**	**8.86**	**8.52**	**47.97**

Source: *Logistics Management*, Peerless Research Group (PRG)

REGIONAL LTL

Taking the lead with forward thinking

WHILE REVENUE NUMBERS have flattened a bit, the Regional LTL category continues to represent some of the most forward-thinking carriers in trucking. Competition is stiff, so every regional carrier is looking to get a step ahead by improving tracking technology and getting closer to shipper customers through more consultative customer service.

According to readers, the 12 carriers listed below are executing service improvements and continuing to meet increasing freight demands. Leading the Northeast/Mid-Atlantic is New Penn (47.17). Pitt Ohio scored a 10.11 in Value and a 7.85 in Information Technology to top those categories. A. Duie Pyle led Equipment & Operations with an 8.15.

Southeastern Freight Lines was in front in the South/South Central region (48.17). In the Midwest/North Central region, Dayton Freight Lines (48.66) and Holland (46.74) are joined by newcomer Lakeview Motor Express (45.31). In the West, we see three repeat winners from last year: Peninsula Truck Lines (47.31), Lynden Transport (44.87), and Mountain Valley Express (43.51). They're joined by Reddaway (43.65), a carrier that just missed the cut last year.

Northeast/Mid-Atlantic regional

(Bold indicates leader in attribute category)

	On-time performance	Value	Information technology	Customer service	Equipment & operations	Weighted score
New Penn	**12.21**	9.73	7.68	**9.45**	8.10	**47.17**
Pitt Ohio	11.48	**10.11**	**7.85**	9.35	8.13	46.91
A. Duie Pyle	12.10	9.68	7.63	8.89	**8.15**	46.45
AVERAGE	**11.36**	**9.66**	**7.36**	**8.88**	**7.85**	**45.11**

South/South Central regional

	On-time performance	Value	Information technology	Customer service	Equipment & operations	Weighted score
Southeastern Freight Lines	**12.22**	**10.32**	7.77	**9.52**	**8.33**	**48.17**
Holland	11.75	10.01	**7.78**	9.33	7.94	46.80
AVERAGE	**11.64**	**10.10**	**7.58**	**9.14**	**8.04**	**46.50**

Midwest/North Central regional

	On-time performance	Value	Information technology	Customer service	Equipment & operations	Weighted score
Dayton Freight Lines	**12.25**	**10.48**	**7.93**	**9.67**	**8.32**	**48.66**
Holland	11.80	10.19	7.67	9.25	7.82	46.74
Lakeville Motor Express	11.05	9.99	7.29	9.14	7.84	45.31
AVERAGE	**10.87**	**9.93**	**7.31**	**8.73**	**7.58**	**44.42**

Western regional

	On-time performance	Value	Information technology	Customer service	Equipment & operations	Weighted score
Peninsula Truck Lines	11.26	**10.78**	**7.84**	**9.29**	**8.15**	**47.31**
Lynden Transport	**11.80**	9.58	7.09	8.73	7.67	44.87
Reddaway	10.99	9.08	7.39	8.66	7.53	43.65
Mountain Valley Express	11.18	10.14	6.29	8.35	7.55	43.51
AVERAGE	**10.68**	**9.22**	**6.81**	**8.29**	**7.35**	**42.35**

Source: *Logistics Management*, Peerless Research Group (PRG)

TRUCKLOAD

Long-haul leaders manage volatility

THE TRUCKLOAD (TL) business is volatile by nature. Freight demand spikes and falls with fickle customer demands as well as the normal cyclicality and seasonality of business. As our John Schulz recently reported, the past three years have been even more volatile. "Coming out of the 2008-2009 recession in which many TL carriers idled thousands of trucks, the sector has slowly rebuilt capacity to where it was six years ago," says Schulz. "Where it goes from here is anyone's guess."

The one thing *LM* readers say they do know is that that these 36 carriers have offered world-class service this year.

Industrial & heavy haul carriers

(Bold indicates leader in attribute category)

	On-time performance	Value	Information technology	Customer service	Equipment & operations	Weighted score
Prime, Inc.	**12.22**	9.46	**8.42**	**10.16**	**10.15**	**50.41**
Tri-State Motor Transit	11.21	9.99	7.36	10.03	8.93	47.52
Melton Truck Lines	11.41	9.63	7.41	9.57	9.24	47.26
Pacer	11.11	**10.51**	7.02	9.31	8.25	46.19
CRST Malone	10.97	9.10	7.29	9.36	9.45	46.16
Roehl Transport	11.59	9.42	7.13	8.93	8.98	46.05
Landstar	11.17	9.88	6.80	8.75	8.85	45.45
AVERAGE	**11.06**	**9.42**	**6.94**	**9.16**	**8.88**	**45.45**

Dry freight carriers

	On-time performance	Value	Information technology	Customer service	Equipment & operations	Weighted score
Heartland Express	**11.92**	9.48	**7.71**	9.24	**10.03**	**48.38**
J.B. Hunt Transport Services	11.03	**9.92**	7.65	9.04	9.18	46.82
Averitt Express	11.60	9.78	7.13	9.11	8.93	46.55
Werner Enterprises	11.37	8.73	**7.71**	**9.47**	9.21	46.51
ECM Transport/Pitt Ohio Truckload	11.34	9.42	7.29	9.11	9.32	46.48
Con-way Truckload Services	11.33	9.11	7.61	9.05	9.20	46.29
Dart Transit Co.	11.13	9.69	7.20	8.71	9.26	45.99
Greatwide Logistics	10.68	9.63	7.07	8.60	9.28	45.26
Covenant Transport	10.46	9.40	7.38	8.73	9.21	45.17
AVERAGE	**10.82**	**9.28**	**7.31**	**8.83**	**8.86**	**45.11**

Expedited motor carriers

	On-time performance	Value	Information technology	Customer service	Equipment & operations	Weighted score
FedEx Custom Critical	**12.97**	8.52	**8.69**	9.60	**9.94**	**49.72**
Holland	12.01	**10.88**	7.74	9.54	9.05	49.23
OD Expedited	11.75	10.04	7.73	9.70	9.83	49.04
Panther Expedited	12.76	8.92	7.99	**9.85**	9.29	48.81
UPS	11.80	9.53	8.66	9.13	9.34	48.47
A.Duie Pyle, Pyle Priority	11.97	9.60	7.51	9.61	9.31	48.01
Pitt Ohio Fast Track	11.75	10.29	7.25	9.31	8.99	47.60
Dayton Freight	11.75	10.27	7.44	8.76	9.12	47.34
ABF Freight System	11.92	9.10	7.59	9.68	9.02	47.31
AVERAGE	**11.65**	**9.41**	**7.66**	**9.16**	**9.02**	**46.90**

Source: *Logistics Management*, Peerless Research Group (PRG)

Bulk motor carriers

(Bold indicates leader in attribute category)

	On-time performance	Value	Information technology	Customer service	Equipment & operations	Weighted score
Schneider National Bulk Carriers	11.17	9.45	**7.41**	9.17	9.42	**46.63**
Miller Transporters, Inc.	**11.47**	**9.80**	6.70	9.15	9.15	46.27
Superior Carriers	11.39	9.24	6.89	8.79	9.77	46.07
Ace Transportation	11.31	9.68	7.00	8.83	9.22	46.04
Ruan Transport Management Systems	11.07	9.67	7.08	**9.34**	8.82	45.98
Bulkmatic Transport	11.21	8.93	6.89	8.70	**9.92**	45.65
AVERAGE	**11.00**	**9.38**	**6.99**	**8.81**	**9.11**	**45.27**

Household & high value goods carriers

	On-time performance	Value	Information technology	Customer service	Equipment & operations	Weighted score
North American Van Lines	11.44	**10.34**	**7.18**	8.70	**9.04**	**46.71**
Mayflower Transit	10.97	9.58	7.16	8.87	8.95	45.53
Allied Van Lines	**11.81**	9.04	6.77	**9.08**	8.75	45.45
United Van Lines	11.07	8.71	6.36	8.83	8.91	43.87
Graebel Van Lines	11.16	8.56	6.48	9.01	8.64	43.85
AVERAGE	**11.05**	**9.04**	**6.44**	**8.57**	**8.66**	**43.76**

Source: *Logistics Management*, Peerless Research Group (PRG)

RAIL/INTERMODAL

Full steam ahead

DESPITE AN UNEVEN ECONOMY and an atmosphere of political uncertainly that has put several freight transportation modes on shaky ground, shippers continue to find that rail and intermodal service providers are chugging forward, improving service, and creating value despite the well-publicized challenges.

As Group News Editor Jeff Berman reported in June as part of his *Annual Rail/Intermodal Roundtable*, even though rail carload and intermodal volumes have still not caught up to 2006 levels, they're certainly heading in the right direction. "What's more, those volume levels are on solid footing," says Berman, "with North American Class I railroads upping the ante annually on their respective capital investment plans, setting their sites on building out networks, and acquiring new equipment."

While the market has watched the commodity mix on the carload side change in recent years, railroads have shown their versatility in creating high-value services in new and emerging markets, while intermodal—especially on the domestic side—continues to chug along at a healthy clip despite the still unsettled economic news.

Our top rail analysts contend that as more shippers face challenges in securing motor freight capacity, it appears certain that they'll be more willing to make the secular shift from truck to rail, and figure out how to manage those longer transit times.

"However, railroads must continue investing in line-haul and terminal capacity to accommodate this intermodal growth—that's probably the biggest obstacle over the long term," says Accenture's Brooks Bentz. "But any way you look at it, the conversion of highway traffic to rail has a huge upside, not only for shippers, but also for truck lines seeking to reduce operating expenses."

According to the readers of *Logistics Management*, the continued investment momentum is certainly paying off for the 10 service providers that will be stepping up to the podium to receive Quest for Quality gold this year.

In the Rail/Intermodal Service category this year we find perennial top performer Triple Crown Services posting a top weighted average of 47.44, with Union Pacific pulling up on its heels with a weighted average of 46.38. Triple Crown put up top marks in On-time Performance (11.75), Value (10.44), and Customer Service (9.12), while BNSF logged highest scores in Information Technology (8.03) and Equipment & Operations (9.11).

In this year's Intermodal Marketing category we have five companies walking away with Quest for Quality gold. J.B. Hunt Intermodal posted an impressive 49.45 weighted average to lead the category. J.B. Hunt posted best marks in Information Technology (8.05), Customer Service (9.78), and Equipment & Operations (10.06). Yusen Logistics, which posted a notable 49.02 weighted average, placed the highest in On-time Performance (12.53) and Value (10.20).

Rail/Intermodal service providers

(Bold indicates leader in attribute category)

	On-time performance	Value	Information technology	Customer service	Equipment & operations	Weighted score
Triple Crown Services	**11.75**	**10.44**	7.20	**9.12**	8.93	**47.44**
Union Pacific	11.07	9.20	8.00	9.01	9.10	46.38
BNSF Railway	11.05	9.32	**8.03**	8.65	**9.11**	46.16
Norfolk Southern	10.56	9.16	7.70	9.03	8.82	45.28
CSX Transportation	10.87	8.94	7.73	8.76	8.85	45.16
AVERAGE	**10.70**	**9.20**	**7.51**	**8.74**	**8.73**	**44.87**

Intermodal marketing companies

	On-time performance	Value	Information technology	Customer service	Equipment & operations	Weighted score
J.B. Hunt Intermodal	11.57	9.99	**8.05**	**9.78**	**10.06**	**49.45**
Yusen Logistics	**12.53**	**10.20**	7.55	9.67	9.07	49.02
Hub Group	10.85	10.18	7.97	9.26	8.98	47.22
Matson Logistics	11.13	9.48	7.08	9.64	9.56	46.89
Alliance Shippers	10.21	9.56	7.08	9.35	9.48	45.87
AVERAGE	**10.64**	**9.66**	**7.56**	**9.10**	**8.90**	**45.87**

Source: *Logistics Management*, Peerless Research Group (PRG)

OCEAN CARRIERS

Finding success on the high seas

AS EXECUTIVE Editor Patrick Burnson documents in this month's Special Report (page 75), the business dynamics of ocean shipping continue to change for carriers as global supply chain practices become more strategic—putting pressure on those shippers looking to coordinate more modes in new regions around the world.

Despite the shift in demand, carriers continue to introduce new capacity into major global trade lanes—and shippers have been able to leverage rates to their advantage. But analysts say that trend may soon be reversed if vessel owners show a willingness to sacrifice volumes to protect further pricing erosion. Of course, the arrival of a Peak Season—if there actually is one—will certainly tell the tale this year.

Peak Season in the past two years has proven particularly disappointing to ocean carriers and forwarders, and many ocean service providers fear another non-event. In fact, our analysts are forecasting that demand on the eastbound transpacific will grow at a similar rate to last year, at a little under 3 percent. And with abundant capacity there's little reason, from a shipping perspective, for shippers to plan for Peak Season sooner.

For now, ocean carriers will need to do as much as they can to mange the capacity they've deployed to meet the forecast demand. And according to *LM* readers, the 12 carriers listed below have not only done a good job of managing through the challenging business environment, but they've also maintained world-class service levels over the past 12 months.

Leading the way on this year's list of Quest for Quality winners is Hamburg-Sud with an impressive 47.00 overall weighed average, the second year in a row that the German carrier has entered the winners' circle. Hamburg-Sud posted top marks in Information Technology (8.02) and tied with Seaboard Marine and APL for the highest score in Customer Service (9.31).

Hapag-Lloyd pulled in with a notable 46.94 weighted average this year, putting up the best scores in On-time Performance (11.38) and Equipment & Operations (9.05), while COSCO scored the top mark in Value with a 10.25. Along with Hamburg-Sud, *Logistics Management* readers welcomed Hapag-Lloyd, Seaboard Marine, Hanjin Shipping, MOL, "K" Line, and Maersk back to the winner's circle for a second year in a row.

Despite the shift in demand, carriers continue to introduce new capacity into major global trade lanes—and shippers have been able to leverage rates to their advantage.

Ocean carriers

(Bold indicates leader in attribute category)

	On-time performance	Value	Information technology	Customer service	Equipment & operations	Weighted score
Hamburg-Sud	10.90	9.98	**8.02**	**9.31**	8.79	**47.00**
Hapag-Lloyd	**11.38**	9.56	7.95	9.00	**9.05**	46.94
OOCL	11.13	9.70	7.79	8.99	8.77	46.38
Seaboard Marine	10.44	9.35	7.99	**9.31**	8.62	45.71
Hanjin Shipping	10.73	9.32	7.82	8.90	8.82	45.61
APL	10.57	8.76	7.89	**9.31**	8.97	45.50
MOL	10.59	9.21	7.77	9.00	8.76	45.33
COSCO	10.39	**10.25**	7.64	8.54	8.40	45.23
"K" Line America, Inc.	10.81	9.16	7.50	9.12	8.58	45.18
Maersk Line	10.96	9.15	7.83	8.24	8.89	45.08
Matson	10.77	9.25	7.70	8.84	8.40	44.96
Atlantic Container Line	10.23	9.28	7.48	8.83	8.87	44.70
AVERAGE	**10.46**	**9.41**	**7.54**	**8.70**	**8.55**	**44.65**

Source: *Logistics Management*, Peerless Research Group (PRG)

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PORTS

Balancing service success

U.S. PORTS ARE PLANNING and investing in a balanced portfolio of services to prepare for continued volume growth. According to the readers of *Logistics Management*, these 13 U.S. gateways are currently leading the charge in offering word-class customer service.

Ports: Northeast & Mid-Atlantic

(Bold indicates leader in attribute category)

	Ease of doing business	Value	Ocean carrier network	Intermodal network	Equipment & operations	Weighted score
Port of Virginia	**10.66**	**9.86**	**8.78**	**8.94**	9.21	**47.46**
Port of Balitimore	9.86	9.32	7.95	8.12	**9.64**	44.89
AVERAGE	**9.39**	**8.97**	**8.68**	**8.45**	**9.20**	**44.69**

Ports: South

	Ease of doing business	Value	Ocean carrier network	Intermodal network	Equipment & operations	Weighted score
Port of Savannah	10.57	**10.04**	**9.39**	**9.08**	9.89	**48.98**
Port of Charleston	**10.75**	9.57	9.29	8.83	**9.96**	48.39
AVERAGE	**9.90**	**9.47**	**8.86**	**8.56**	**9.62**	**46.41**

Ports: Gulf Coast

	Ease of doing business	Value	Ocean carrier network	Intermodal network	Equipment & operations	Weighted score
Tampa Port Authority	**11.02**	9.23	**9.90**	**9.35**	**10.20**	**49.71**
Port of Houston	10.24	**9.60**	8.66	8.96	9.67	47.13
Port of Galveston	9.54	8.81	8.18	8.98	**10.20**	45.72
AVERAGE	**9.55**	**9.15**	**8.28**	**8.55**	**9.38**	**44.91**

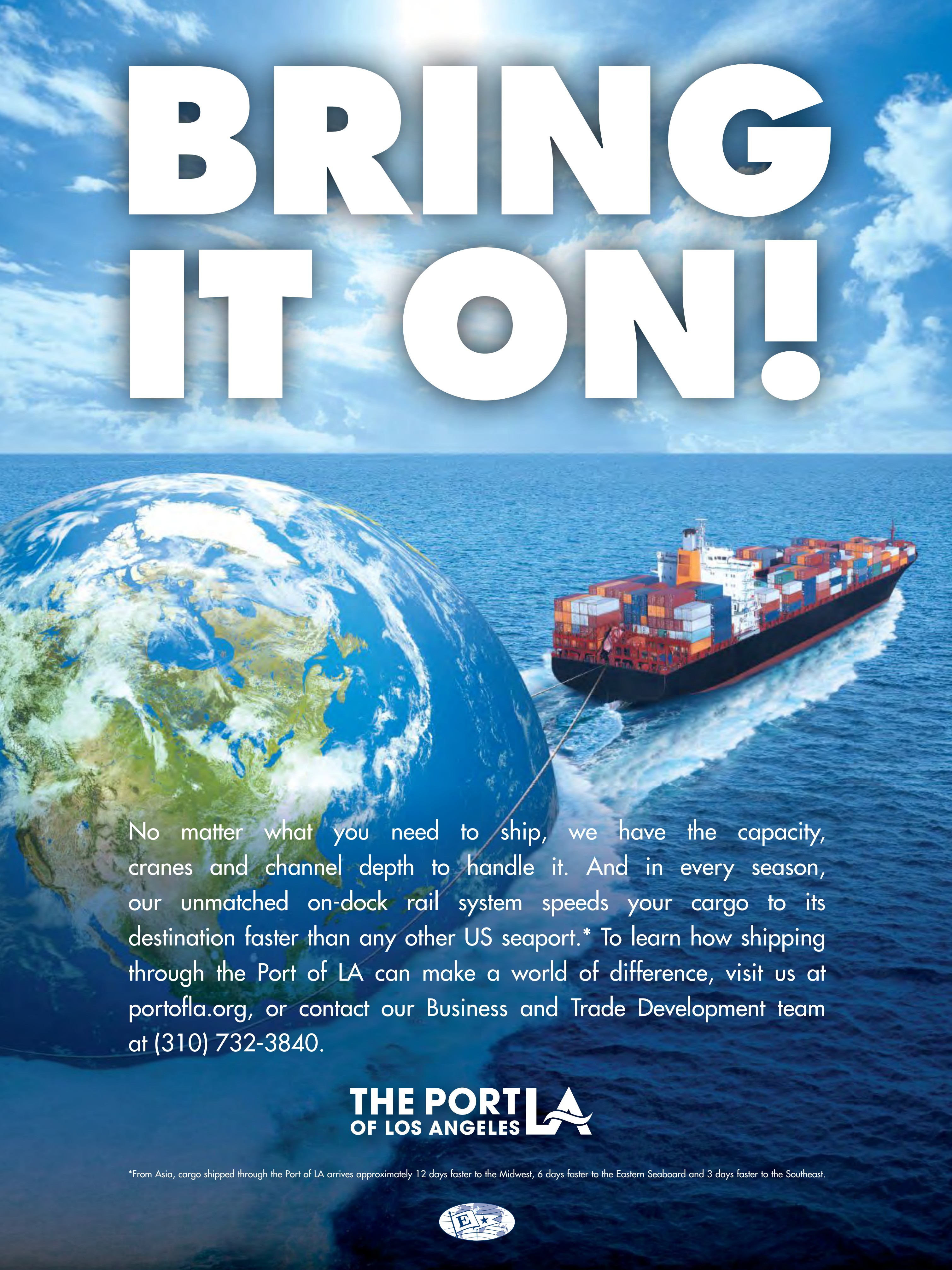
Ports: Great Lakes Region

	Ease of doing business	Value	Ocean carrier network	Intermodal network	Equipment & operations	Weighted score
Port of Chicago	**9.62**	**9.09**	**8.86**	**9.63**	**9.18**	**46.37**
AVERAGE	**9.30**	**8.90**	**8.79**	**9.19**	**8.94**	**45.12**

Ports: West Coast

	Ease of doing business	Value	Ocean carrier network	Intermodal network	Equipment & operations	Weighted score
Prince Rupert Port Authority	9.29	**10.50**	9.41	9.12	**9.79**	**48.11**
Port of Tacoma	**10.53**	10.25	8.66	8.43	9.73	47.59
Port of Seattle	10.21	9.85	8.84	8.38	9.50	46.78
Port of Oakland	10.06	8.89	9.24	8.70	9.44	46.33
Port of Los Angeles	9.00	8.47	**9.95**	**9.45**	9.39	46.26
Port of Long Beach	9.05	8.36	9.88	9.28	9.39	46.26
AVERAGE	**9.56**	**9.03**	**9.33**	**8.90**	**9.43**	**46.26**

Source: *Logistics Management*, Peerless Research Group (PRG)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3PL

Dynamic service leaders take center stage

While every carrier and service provider measured in the Quest for Quality is under pressure from shippers to expand and diversify their offerings while maintaining world-class service, no sector is feeling it as much as third party logistics providers (3PL).

According to Armstrong and Associates, the market's leading 3PL analyst firm and the consulting group we worked with to create the two categories below, U.S. shippers are now looking to lean on their domestic 3PLs to give them the same level of services in new emerging markets.

As we've been reporting, the concept of "mega cities" in developing countries with above average per capita income rates of growth such as Shanghai, Bangkok, Mumbai, Hanoi, Jakarta, and Sao Paulo are going to drive consumer demand for finished goods globally. Forward-looking U.S. based 3PLs have already invested heavily in expanding international operations to meet the new challenges.

According to the readers of *Logistics Management*, the 23 service providers listed below have been up to the test, offering services across the board from transportation management, to value-added warehousing and distribution solutions, to helping shippers successfully reach out of their comfort zone.

3PL: Transportation management solutions

(Bold indicates leader in attribute category)

	Carrier selection/ Negotiation	Order fulfillment	Transportation distribution	Inventory management	Logistics information systems	Weighted score
Penske Logistics	11.23	**10.87**	**12.54**	9.41	11.09	**55.14**
Cardinal Logistics Management	**11.97**	**10.87**	10.45	**9.71**	**11.44**	54.44
FedEx Supply Chain Services	11.23	10.78	11.49	8.24	10.63	52.36
CEVA Logistics	10.71	**10.87**	11.20	8.83	10.17	51.77
UPS Supply Chain Solutions	10.69	10.19	11.20	8.99	9.79	50.85
AIT Worldwide Logistics	10.90	10.03	10.45	7.94	**11.44**	50.77
OHL	11.23	10.75	10.08	8.83	9.24	50.12
Transplace	10.90	9.75	11.52	7.06	10.40	49.64
C.H. Robinson Worldwide	10.59	9.99	10.75	8.20	10.06	49.59
BNSF Logistics	10.20	9.61	11.40	7.94	9.36	48.52
DSV	10.66	9.06	11.20	7.06	10.40	48.38
Pilot Freight Services	10.66	**10.87**	10.75	8.47	7.49	48.24
Schneider Logistics	10.78	9.29	10.24	7.94	9.36	47.61
Con-way Multimodal	10.78	9.32	10.34	7.35	9.60	47.39
Access America Transport	10.10	9.06	9.71	8.24	9.98	47.09
Landstar	10.33	9.47	10.01	7.94	9.28	47.04
DB Schenker	9.88	10.15	10.18	7.65	8.91	46.77
AVERAGE	**10.24**	**9.35**	**10.15**	**7.73**	**9.27**	**46.74**

3PL: Value-added warehousing and distribution solutions

	Customer service/ Value added services	Order fulfillment	Transportation distribution	Inventory management	Logistics information systems	Weighted score
FedEx Supply Chain Services	**11.94**	**11.33**	**11.40**	**9.38**	**11.10**	**55.16**
UPS Supply Chain Solutions	11.28	10.66	11.32	9.17	10.05	52.48
Expeditors	11.38	10.13	10.68	9.28	10.65	52.11
Landstar	11.38	10.32	10.93	8.66	10.05	51.33
DHL Solutions	10.75	10.55	10.73	8.66	10.12	50.81
CEVA Logistics	11.09	9.97	10.30	9.28	9.66	50.30
AVERAGE	**10.68**	**10.07**	**10.36**	**8.68**	**9.64**	**49.44**

Source: *Logistics Management*, Peerless Research Group (PRG)

AIR CARRIERS/FREIGHT FORWARDERS

Service improvement story in the air

As *Logistics Management* has been reporting, the global outlook for the airline industry in terms of profit and revenue has recently brightened—just a little—according to reports form the International Air Transport Association (IATA). And even while margins remain razor thin, 2013 is projected to be the third strongest year for the airlines since 2001.

"This is a very tough business," says Tony Tyler, IATA's director general and CEO. "The day-to-day challenges of keeping revenues ahead of costs remain monumental." Macroeconomic factors have also contributed, Tyler adds. Oil prices are expected to average $108 per barrel, a little below the $111.8 average for 2012 due to increasing supply from North America. Meanwhile, the outlook for global economic growth has deteriorated slightly since March as the recession in Europe proves to be deeper than expected.

However, industry analysts contend that while profitability remains a struggle, there's been a solid performance improvement story to tell in the sector over the last seven to eight years, with a more efficient use of assets carrying the theme.

And while global shippers are

Air cargo carriers

(Bold indicates leader in attribute category)

	On-time performance	Value	Information technology	Customer service	Equipment & operations	Weighted score
Southwest Airlines	12.56	**11.03**	8.45	10.29	**9.11**	**51.44**
KLM	12.17	10.46	**9.15**	**10.45**	8.36	50.60
Lufthansa	**12.77**	10.18	8.53	9.82	8.74	50.03
Japan Airlines	12.21	9.10	9.05	10.34	8.61	49.31
Singapore Airlines (SIA)	11.88	9.91	9.00	9.83	8.00	48.61
Cargolux	11.88	9.76	7.96	10.34	8.58	48.51
Emirates SkyCargo	11.54	9.84	8.60	9.73	8.69	48.41
British Airways	11.57	10.03	8.49	9.08	8.18	47.35
Cathay Pacific	11.61	10.30	7.95	9.38	7.74	46.98
United Cargo	11.98	10.15	7.92	8.82	7.90	46.77
AVERAGE	**11.55**	**9.67**	**8.07**	**9.28**	**8.06**	**46.63**

Air express carriers

	On-time performance	Value	Information technology	Customer service	Equipment & operations	Weighted score
FedEx Express	**12.54**	**9.89**	**9.17**	**9.55**	**8.84**	**49.98**
UPS	11.98	9.56	8.75	9.10	8.49	47.88
AVERAGE	**11.54**	**9.61**	**8.29**	**8.78**	**8.15**	**46.37**

Freight forwarders

	On-time performance	Value	Information technology	Customer service	Equipment & operations	Weighted score
UPS SonicAir	11.81	**10.06**	8.66	**10.32**	8.55	**49.40**
FedEx Trade Networks	**12.16**	9.68	**8.97**	9.59	**8.69**	49.09
Expeditors	11.70	9.39	7.93	9.60	7.57	46.18
AVERAGE	**11.04**	**9.25**	**7.68**	**9.07**	**7.58**	**44.62**

Source: *Logistics Management*, Peerless Research Group (PRG)

pushing the limits of these service improvements, we've also learned that their freight forwarding partners, those key agents responsible for much of the organization of airborne freight, are responding to the new global demand and have adjusted their business models in response to carrier challenge as well as adverse economic demands.

According to Brandon Fried, executive director of the Airforwarders Association, few rarely focus on one single transport mode anymore, and most offer ancillary services formerly reserved for third party logistics providers. "For example, forwarders once specializing only in next day air cargo may now offer various air service levels and ocean shipping to fit tight customer budgets," says Fried.

According to the readers of *Logistics Management*, the air cargo carri ers and freight forwarders listed this year have certainly met the pressing global demands over the past 12 months and continue to reinvent themselves while maintaining world-class service.

2013 Quest for Quality
A note from the editors:

The editorial staff of *Logistics Management* would like to thank readers who took time out of their busy days to complete and submit the 2013 Quest for Quality ballots. Your time, effort, and insight produced 6,179 responses and have helped *Logistics Management* maintain the Quest for Quality as the premier benchmark study for logistics and transportation quality and service for 30 years.

Questionnaires for this year's Quest for Quality Survey were sent February through May. Sample members were selected for each category and were sent an invitation via email asking for their participation in this year's survey. The invitation included a URL linked to a dedicated website which contained the questionnaire. Responses were collected and tallied by a third party, independent data collection facility.

2013 Quest for Quality Awards Dinner set for October 23

For 30 years, *Logistics Management*'s Quest for Quality has been regarded in the transportation and logistics industry as the most important measure of customer satisfaction and performance excellence—and the annual Quest for Quality Awards Dinner has been widely considered the best evening of the year for carrier and 3PL executive networking.

This year's awards dinner will take place on Wednesday, October 23, 2013, at the Hyatt Regency Denver from 6:00 p.m. to 10:30 p.m., the final evening of the Council of Supply Chain Management Professionals (CSCMP) Annual Conference. Our editorial staff will be in attendance to present the 2013 Quest for Quality Awards to the 129 winners.

Following cocktails, dinner, and the awards presentation, our guests will be treated to a performance by comedian Keith Alberstadt. Alberstadt has appeared on *The Late Show* with David Letterman, *Last Comic Standing*, *The Bob and Tom Show*, and is a contributing writer to *Saturday Night Live*, *Fallon*, and more.

This year's entertainment: comedian Keith Alberstadt.

Attendees will enjoy a full evening of dining and networking before stepping up to the podium to receive their awards. Following the presentations, the room will be treated to a performance by comedian Keith Alberstadt who has appeared on *The Late Show* with David Letterman and *Last Comic Standing*.

Edward Don serves up savings

Foodservice equipment and supply company leverages its technology partnership to secure capacity, simplify rates, and cut 12 percent from its transportation spending. Here's how they did it.

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

Sometimes it's possible to teach an old shipper new tricks. Just take the case of Chicago-based Edward Don & Co., a 92-year-old foodservice equipment and supply company whose corporate slogan is "Everything but the food."

Edward Don operates nationwide from its six full-service distribution centers (DCs) using its own fleet plus a network of national carriers. And although it stocks over 12,000 items in its DCs, the company sources 50,000 items from a network of over 3,000 suppliers. Often, the logistics operation will instruct suppliers to ship direct to the customer, bypassing their DCs to expedite delivery and to save handling and transportation costs.

However, just few years ago Edward Don's efficiency was being challenged by a series of logistics issues. Its competitive bid process was skewered, complex, and not always data driven. Jennifer Blattner, the company's corporate traffic manager, recalls negotiating rates separately with a series of trucking partners, but was unsure that it was always securing the best rate. When there were problems, it was difficult to ascertain the cause because carriers rarely were held accountable.

For shipments direct from vendor to customers, the process was even more uneven. Vendors were not always encouraged to seek out the most favorable trucking rates, and there was no single set of guidelines for securing trucking partners, making compliance haphazard. And when exceptions to normal delivery times occurred, there was very little recourse.

The solution came in the form of a thorough self-examination. Blattner and the logistics team discovered that they had to change the way the company procured logistics. However, what began as an attempt to realize savings on its LTL freight bill actually expanded into a fully functional logistics solution.

Back in 2007, Edward Don was already using TranzAct Technologies' Freedom Logistics program to handle its bill-payment. But under Blattner's direction and with the support of upper management, the company expanded its use of the tool in order to take full advantage of its LTL procurement and management capabilities.

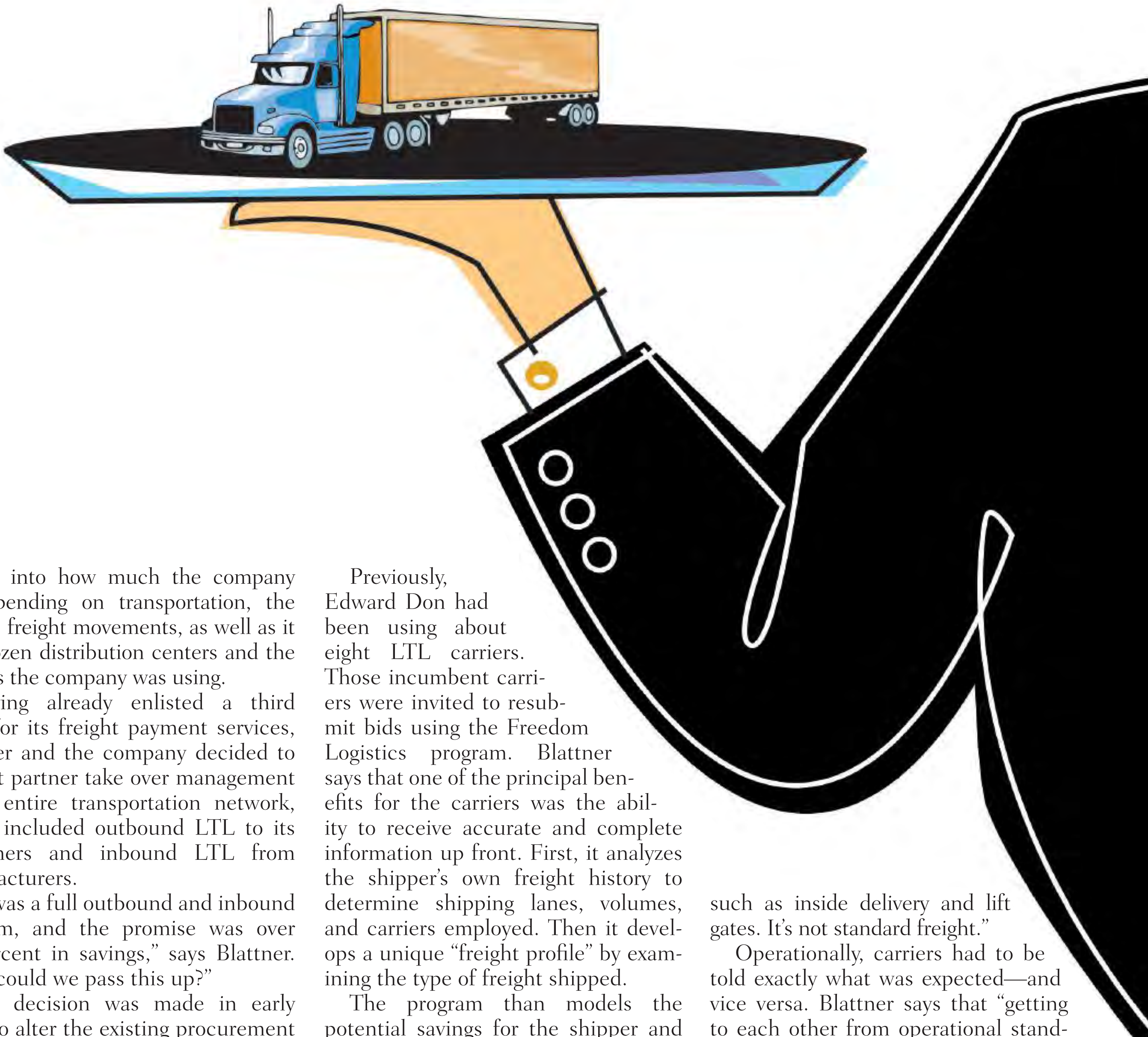
"We had been managing our own LTL carrier contracts forever," recalls Blattner. "We didn't ship a lot of outbound LTL to customers, most of our freight spend was inbound, but we do a lot of drop shipments. I thought we had a good handle on things, but we started to look at whole pie, not just a piece of it."

Like a lot of shippers and corporate traffic managers, Blattner decided to delve deeper into her company's operations. She wanted to know exactly how carriers were hired, their strengths and weakness, and, perhaps most importantly, in which geographic areas special carriers offered the strongest chance of rate savings.

Her story, and how she and the company achieved sustainable freight spending efficiencies over the past six years, is a terrific example of how a shipper with complex distribution needs can partner with a third-party in an effort to put the latest technologies to work to achieve new savings in transport operations.

Finding the solution

In 2007, Blattner decided that it was time to take a top-to-bottom look at Edward Don's logistics needs. She dove



deeper into how much the company was spending on transportation, the various freight movements, as well as it half-dozen distribution centers and the carriers the company was using.

Having already enlisted a third party for its freight payment services, Blattner and the company decided to let that partner take over management of its entire transportation network, which included outbound LTL to its customers and inbound LTL from manufacturers.

"It was a full outbound and inbound program, and the promise was over 10 percent in savings," says Blattner. "How could we pass this up?"

The decision was made in early 2008 to alter the existing procurement strategy. Edward Don first chose to change the master tariff covering all its carriers, a moved that involved collaboration with its carrier partners. All of its LTL carrier representatives were invited to Chicago for three days of meetings to explain the changes.

"It was all or nothing," recalls Blattner.

The carriers' national sales reps then met with their local sales team and representatives of Edward Don's six DCs to get input from that critical level. "That was extremely important," says Blattner. "We manage it from corporate level, but the day-to-day problems at handled at the DC level. We wanted those people to still own that part of the operation with their local reps."

Previously, Edward Don had been using about eight LTL carriers. Those incumbent carriers were invited to resubmit bids using the Freedom Logistics program. Blattner says that one of the principal benefits for the carriers was the ability to receive accurate and complete information up front. First, it analyzes the shipper's own freight history to determine shipping lanes, volumes, and carriers employed. Then it develops a unique "freight profile" by examining the type of freight shipped.

The program than models the potential savings for the shipper and develops a request for procurement (RFP) before choosing the most efficient mode and carrier. After conducting that review, the eight incumbent LTL carriers Edward Don had been using were retained after they submitted new bids. "They were retained, but on different levels," says Blattner.

Following the process, about three or four new LTL carriers were added to Edward Don's network. From a systems operations standpoint, says Blattner, the change was pretty smooth. "But bringing on new carriers was a learning curve," she admits. "We understand that change is hard for everyone, and here are nuances to our business. Our customers are restaurants, schools, hospitals and institutions, and they often require specialized delivery services, such as inside delivery and lift gates. It's not standard freight."

Operationally, carriers had to be told exactly what was expected—and vice versa. Blattner says that "getting to each other from operational standpoint" was the biggest hurdle. That was overcome through the diligence of Edward Don's DC personnel becoming open to working with new carriers, and their new ways of conducting business and operations.

According to Blattner, the savings were significant. Last year, company officials reported that they saved 7 percent on their LTL freight spend, while its savings over five years have been nearly 12 percent on a sustained basis. "I'm really not surprised by the results, but I'm definitely pleased by it," says Blattner.

Significant information advantage

Besides creating efficiencies on the inbound and manufacturing end, Edward Don's use of the Freedom Logistics program has offered other

A look inside Edward Don's warehouse dock and rack area at its distribution center in Woodridge, Ill. The location is the company's largest.

cash saving advantages. The company has put other tools furnished with the Freedom Logistics program to work to shorten its order-to-cash cycle as well as monitor both carrier and supplier performance-to-plan.

The rating tool helped Edward Don determine the most efficient weight rating of shipments. It can also provide accurate transit times. The web-based rating/routing engine and optimizer identifies the preferred mode and carriers to use for a given shipment—both cost and service comparisons are available. The information can also be extended to other customers within, or external to, Edward Don's operation.

According to Blattner, the company doesn't use the tools on a day-to-day basis for its everyday freight. Instead, it uses it for vendors when using drop shipments. And since supplier-direct shipment is a common occurrence, the company extended the use of the rating software to its suppliers so they could route direct shipments to customers and employ the company's preferred carriers and enjoy their preferential rates.

Instead of those vendors getting rates from just one carrier, it uses the new freight rating tool to get their own freight estimates. "Our accounting group then uses it to apply freight charges to vendor invoices," says Blattner.

Yet another tool in the program keeps a 16-month rolling history of freight invoices. Edward Don uses it as an analytical tool, pulling all pertinent information to analyze vendors to see if they're using the most efficient carriers. "This simply allows us to work with vendors to use the most efficient carrier," adds Blattner.

In this delicate area, Blattner says she uses a "three strikes and you're out" approach. If she discovers vendors are not using the carrier with the best freight rate, she gives them one strike. "If you do it three times in a row, three strikes and you're out and you get penalized."

Edward Don also uses the program to perform auditing on the back end. Routine freight charges are paid automatically by TranzAct, "but if there is anything they can't audit, we can see it on web site and approve it," says Blattner. "It's very timely information and we can take that and run our own analysis on the back end."

For example, Edward Don can take its rating information and compare it with SAP information. For instance, vendors who don't fulfill an entire purchase order with one shipment can be highlighted through use of the data analysis. "This particular feature has been extremely beneficial," says Blattner.

Vendors who had been shipping one item in a shipment were also asked to combine into larger volumes. This resulted in hard savings because Edward Don worked with so many different vendors.

Blattner adds that having complete access to data was useful in other ways as well. She found that it was a complete analytical tool, not just a freight payment mechanism. Through her carrier partners, Blattner was able to analyze and improve Edward Don's supply chain network on an ongoing basis, creating new efficiencies in her network—and new savings for the budget.

The technology provider also supplies Edwad Don with a shipper-branded web-based inquiry for suppliers to receive routing instructions—as part of this process they're supplied with the preferred routing minus the carriers' cost. The company then uses TranzAct's StarBrite reporting tool to audit performance-to-plan to ensure that their suppliers use the proper carriers. In the event they don't comply with the routing instructions, the company will charge the suppliers back for the difference between the company's rate and the actual movement rate.

To accelerate its order-to-cash cycle, Edward Don extended use of the rating methodology to its accounting department. Accounting employs the tool on supplier-direct shipments to determine what the pre-paid shipment cost for the invoice should be, and that amount is added to the invoice.

If Edward Don waited for the carrier freight bill to arrive before it produced the invoice for the product there would be a substantial delay. Now it has the ability to receive the freight bill, match it to the order, and transcribe the shipment costs before the invoice could be completed and sent.

Employing these tools to pre-determine shipping costs allows Edward Don to invoice the customer immediately. According to Blattner, the reporting system has been particularly important to the company during the past several years when staff reductions occurred.

"I think it makes my job easier, but it's opened our eyes to some other things," Blattner adds. "I used to make more work for myself, but now the work I'm doing is improving our company's performance overall."

John D. Schulz is a Contributing Editor to Logistics Management

Q&A with the Bahrain Economic Development Board

There's no secret behind major US companies' decision to make their Gulf base in Bahrain. We talked to Vivian Jamal, Executive Director of the BEDB, to discover more.

Q Why do US logistics companies choose Bahrain as their base in the Gulf?

Many logistics companies find Bahrain's combination of a central geographic position in the Gulf, liberal business environment and excellent infrastructure gives them the perfect base for accessing the region's growing markets.

Trade is surging in the Gulf and is likely to continue to do so, backed by a young population's rising consumption and robust government expenditure programs.

In Bahrain, we have realized for many years that our proximity to the Kingdom of Saudi Arabia, Kuwait, Qatar, the United Arab Emirates, Jordan and Iraq has a commercial advantage to logistics companies choosing to base themselves here. To give you an example, Saudi Arabia, the Gulf's largest economy, is just a 30-minute drive across the King Fahd Causeway.

We have sought to foster our advantage. So we have focused a lot of our economic development over the past 30 years on liberalizing regulation and improving our transport infrastructure.

Q What has Bahrain done to meet the specific needs of logistics companies?

Bahrain has built the most attractive infrastructure anywhere in the Gulf. We have invested in a modern seaport, airport and road links. We have integrated these so that you benefit from faster, streamlined processing of trade goods. Indeed, Bahrain offers the shortest transit anywhere in the Gulf between seaport, airport and logistics processing zones.

In 2009, we completed our new Khalifa bin Salman Port, which is ideally placed to serve the northern Gulf markets of Saudi Arabia, Qatar, Kuwait and Iraq. With a throughput capacity of up to 1.1 million 20-foot equivalent units (TEUs), this port can handle ships travelling directly from North America.

Next to the port, in 2010 we opened the Salman Industrial City, which incorporates key industrial facilities such as the Bahrain International Investment Park, Bahrain Investment Wharf and Hidd Industrial Zone. It is right by our international airport and the King Fahd Causeway.

Finally, we are expanding Bahrain International Airport's cargo facilities. International cargo carrier DHL has depended on the airport as the base for its regional distribution center for Eastern Europe, the Middle East and North Africa since 1978.

Q In general terms, why is Bahrain an attractive regional base for US companies?

The Kingdom's open and transparent business environment has attracted many US companies. We offer transparent regulations, low costs, zero taxation, exemption from duty on imported plant machinery and a highly-skilled workforce – as well as allowing direct foreign ownership. In fact, Bahrain was ranked the 12th most liberal business environment globally, and first in the Middle East & North Africa region, according to the 2013 Index of Economic Freedom by the Heritage Foundation.

Notably, we also benefit from a large number of free-trade agreements. In particular, we signed an agreement with the US in 2004, which came into force in 2006, and serves as a foundation for growing bilateral trade between the two countries. US companies exported $1.73 billion of goods and services to Bahrain in 2011. Additionally, as part of the Gulf Cooperation Council we are party to numerous other trade agreements, and we are currently negotiating agreements on the council's behalf with the European Union, China, Japan and Australia.

Q Which US companies use operations in Bahrain for exporting to the wider Gulf region?

Bahrain provides a regional home for well-known US export-oriented companies including GE, Kimberly-Clark, Mondelez (formerly Kraft Foods), UPS and Westpoint. Looking beyond the logistics sector, more than 180 US companies now have a presence here.

There's no secret behind our success. Logistics companies here enjoy a geographically central location, excellent infrastructure and a positive regulatory environment.

How the Bahrain EDB can help your company

In 2012 the EDB enabled 40 international businesses to establish operations across sectors including manufacturing, logistics, renewable energy and financial and professional services. We would be delighted to work with yours.

Uncover more about the Bahrain EDB at www.bahrainedb.com. Contact us on +1 (202) 417-1456 or nathan.regan@bahrainedb.com

Wireless & Mobility: 8 trends taking us closer to visibility

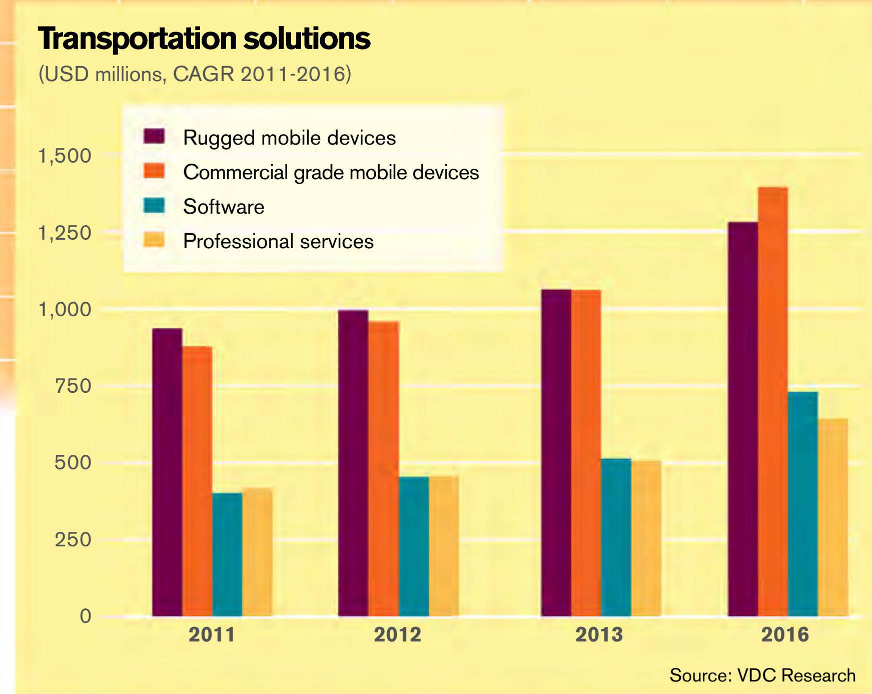
Top industry analysts define the leading wireless and mobility trends that are helping logistics professionals work smarter and faster in an increasingly competitive business environment.

BY **BRIDGET MCCREA**, CONTRIBUTING EDITOR

When analyst David Krebs assesses wireless and mobile penetration across various industries, the logistics and transportation markets stand out as segments that consistently invest in equipment and solutions that help them operate in an increasingly untethered world.

Whether they're equipping delivery drivers with ruggedized devices, using handheld computers to track inventory, or relying on mobile devices to monitor the temperature of refrigerated goods as they make their way through the supply chain, it seems that today's logistics professionals have come to both understand and appreciate the value of a wireless world.

"Some of the largest mobile and wireless deployments we've seen to date have been instituted by the logistics and transportation segment," says Krebs, vice president of enterprise mobility and connected devices at VDC Research. That positive momentum is pushing the industry closer and closer to a "completely wireless, real-time supply chain nirvana" and helping companies work smarter, better, and faster in an increasingly competitive business environment.



Over the next couple pages we'll explore the eight leading wireless and mobility trends taking place in the industry, and then we'll identify how shippers can effectively leverage these trends to their advantage.

Trend tracking

Supply chain operations around the world have certainly benefited from the ongoing release of new wireless products and applications designed to streamline logistics and transportation management. Where it is providing better transparency, prompting shippers to discard their historically-wired ways, or allowing smaller companies to affordably beef up their IT infrastructures, mobility is having a major impact across the supply chain.

After interviewing the market's leading analysts, *Logistics Management* came up with these eight trends that all shippers should be aware of in 2013 and beyond:

1 Wireless now accommodates a sharper focus on efficiency and transparency. Shippers are under constant pressure to reduce supply chain costs as part of larger, company-wide cost reduction strategies. Even minimal increases in fuel and labor costs, for example, can throw a firm's bottom line out of whack when these expenses are multiplied across the entire supply chain.

To offset this challenge, companies are turning to wireless solutions that provide tracking and tracing capabilities that result in improved efficiency and transparency. "There is a vested interest by organizations to ensure that their operations are performing at maximum efficiency," Krebs points out, noting that manual processes—many of which are still in use—simply don't cut it anymore. High-tech options like wireless proof-of-delivery solutions for trucks, for example, can help shippers gain both efficiency and transparency outside of the four walls of the warehouse.

2 The end user is dictating mobile consumption and driving the market. Knowing how efficient and effective it can be to work without wires, today's shippers are putting pressure on equipment and software vendors to build more devices and solutions that operate wirelessly. That pressure has extended out to the end-to-end supply chain, where vendors are scrambling to accommodate the requests.

"At the end of the day, if you're a vendor and your mobile device doesn't run applications, then it isn't helpful," states Simon Ellis, practice director at IDC Manufacturing Insights. Over time, Ellis expects more providers to create mobile versions of their applications and mobile-enabled equipment that is both appealing and useful for end users who are striving to gain visibility across the entire supply chain.

3 Mobile solutions are pushing shippers out of their "manual" comfort zones. Because they don't require hard wiring or elaborate IT infrastructures, today's wireless solutions—many of which can be run in the cloud—are helping shippers of all sizes make the jump from manual, fax-based systems to highly automated solutions literally overnight.

Krebs recently worked with a company that moved its fleet of 3,500 trucks over to ruggedized handheld devices that drivers now use to capture, track, and report proof of delivery information in real-time. Previously, the company was using a partly manual and partly Nextel phone solution on an intermittent basis for the same task.

"This particular application proves that there are some cool things happening in the wireless market," says Krebs, "but the fact that it took place in the last 12 months to 18 months also shows that a lot integration and automation upgrades still need to happen among shippers."

Because they don't require hard wiring or elaborate IT infrastructures, today's wireless solutions—many of which can be run in the cloud—are helping shippers of all sizes make the jump from manual, fax-based systems to highly automated solutions literally overnight.

4 The smart phone is carving out a place for itself in the supply chain. Sure, they're still not as physically robust as their ruggedized counterparts, but today's smart phones—whether they are provided by the company or brought in by workers on a "BYOD" (bring your own device) basis—are staking a bigger claim in supply chain operations these days.

And while consumer devices like the iPhone aren't made to withstand the wear and tear inflicted by warehouse workers, truck drivers, and delivery personnel, their vendors are beginning to introduce more robust equipment and protection options.

"You can put a bumper around a smart phone, but you can't save it from all of the damage, particularly in an outdoor environment," says Krebs. "The idea that consumer products can incorporate features like fall, water, and dust protection in the future certainly isn't inconceivable."

5 Wireless helps shippers create a more cohesive workforce outside of the four walls of the warehouse. Few would argue the positive impact that today's mobile devices and capabilities have had on human communication and collaboration. The same holds true in the logistics organization, where drivers using mobile devices and solutions no longer have to go to the dispatcher to pick up their "instructions" for the day, and then follow them independently with little or no other intervention.

"Mobility creates tighter communication across the supply chain and between the individuals who are out in the field and the folks who are developing strategies back at corporate headquarters," says Ann Dozier, vice president of consumer products, retail, and distribution for Capgemini Consulting. "Those higher levels of communication and collaboration translate into improved customer service," says Dozier, "and a workforce that's more focused on a point in time, versus a slip of paper."

6 Smaller, more nimble shippers are using wireless to ramp up and improve their technology infrastructures. There's little doubt that mobile allows companies to become more successful overall thanks to the expedited information sharing, portability, and connectivity that it offers shippers. Dozier sees smaller firms taking a bigger interest in developing wireless supply chains—in particular, those that aren't currently tied into large, enterprise-wide, wired technologies.

In fact, she says one of the biggest obstacles that larger organizations run into when implementing wireless solutions is the fact that they've already invested significant dollars in wired systems. "When you don't have large investments in current technology," says Dozier, "it's actually easier to move forward with mobile initiatives."

7 The mobile device and applications are being paired up with the individual worker in mind. Smart phones, tablets, and ruggedized devices aren't homogeneous and neither are the individuals who use these products on a daily basis. Dozier says that both shippers and vendors have awakened to this fact, and notes that both entities are taking more time to match the right user up with the correct device.

"Shippers have to recognize that there are different devices for different people," Dozier says, "and look hard at what device, data, and applications someone may need to be able to the job." As part of this trend, Dozier says many vendors are now working to separate their devices from the associated applications and are moving away from the age-old strategy of integrating technology into their devices on the assembly line.

8 Mobile devices are still only as good as the information that's available. Looking back at how much supply chain visibility shippers have gained over the past two years—and how much they will gain over the coming two years—Ellis says much of that positive impact comes from the continued growth of wireless and mobile in the space. But none of that would be possible without the information itself, says Ellis, who points out that mobile devices are only consuming the information that's being made available to them.

"You can have the best mobile device in the world, but the information is still the information," says Ellis. "Mobility serves purely as a more flexible access point and a way for shippers to get at the information that they need to make the best possible business decisions."

Wireless crystal ball

Going forward, all of the analysts interviewed for this article say mobility will play an increasingly important role in supply chain management.

Being able to "cut the wires," it seems, can create substantial benefit across the supply chain and allow shippers more freedom to optimize their operations and improve visibility. No longer relegated to a desk, rolling computer stand, or electrical socket, supply chain professionals continue to leverage mobile devices and applications nearly as quickly as vendors produce them.

Ellis says that there's no end in sight to the wireless supply chain movement. "We expect a nice upward tick in the use of mobile and an emphasis on better and smarter devices," says Ellis. "It will be a steady, upward march for wireless as its adoption levels rise, the business case for it becomes clearer, and the number of available mobile tools grows."

Bridget McCrea is a Contributing Editor to Logistics Management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South America: Proceed with care

Before entering this vibrant marketplace, trade experts advise logistics managers to conduct a very careful examination of the region's transportation and regulatory infrastructure.

BY **PATRICK BURNSON,** EXECUTIVE EDITOR

The 2013 A.T. Kearney Foreign Direct Investment Confidence Index (FDICI), a regular measure of senior executive sentiment at the world's largest companies, indicates that Latin America remains attractive to U.S. shippers and manufacturers. Furthermore, key emerging economies in the Americas are making a strong showing in the investment landscape this year, with Chile and Argentina joining Brazil in the top 25.

"Rather than a temporary safe haven during economic upheaval, emerging markets—particularly in Latin America—are developing into a complement, instead of an alternative, to the developed world," notes Erik Peterson, managing director of A.T. Kearney's Global Business Policy Council.

Brazil maintained its third place position in the FDICI this year. In 2011, its foreign direct investment (FDI) hit $66.7 billion, its highest level ever and a 37 percent increase since 2010. More inflows are likely on the way, with the 2014 World Cup and 2016 Olympics needing transportation and infrastructure investments of more than $200 billion. However, manufacturing remains the recipient of nearly half of Brazil's FDI, with European, Scandinavian, and Chinese investors all adding billions to its economy.

But before entering this vibrant marketplace, trade experts advise logistics managers to conduct a careful examination of the region's transportation and regulatory infrastructure. "Given sociopolitical and economic forces that seem only to be racking up new surprises each year in the region, investors in developed economies and emerging countries alike will need to find nimble strategies to deal with this shifting landscape," says Peterson.

Infrastructure investment needed

The benefits of logistics investments in South America have been addressed recently by the Inter-American Development Bank's Department of Infrastructure and Environment.

Jean-Paul Rodrigue, professor in the department of global studies and geography at Hofstra University, observes that transportation is an inherently crucial factor in supporting trade activities as well as providing opportunities for economic development. He argues that transport infrastructure capacity may have limited value if not supported by a proportional level of reliability and timeliness in freight distribution supported by transport services.

"Latin American and Caribbean ports have seen remarkable growth of containerized traffic handled with the development and expansion of port infrastructure," says Rodrigue. "The conventional role of a resource exporter, such as agricultural and mining products, is being expanded through an increasing sophistication of imports and exports."

Rodrigue says port facilities and their hinterland have responded with infrastructure investments with a well-founded anticipation of additional traffic growth. "Transport infrastructure capacity must be accompanied with freight logistics reliability, effectiveness, and resilience," he adds.

However, Latin America's port infrastructure is still rated "below average" by the World Bank. Channel capacity at most ports is insufficient, with productivity and berthing delays a continuing issue. And, Latin America's exports are growing, but their share of domestic GDP is low, notes Walter Kemmsies, chief economist at the at the coastal and civil engineering firm Moffatt & Nichol.

"Infrastructure investment lowers costs and can raise downstream industrial exports while lowering commodity price inflation," Kemmsies says. "The Panama Canal expansion and other infrastructure are needed to raise the share of contribution and global economic activity."

Big 3: Brazil, Chile, Argentina

Mallory Alexander International Logistics, a global 3PL with corporate headquarters in Memphis, has examined

Laszlo Kubinyi

the relative strengths and weaknesses of the transport networks in the three major South American trading nations.

Brazil strongly depends on the highway system, with more than 56 percent of its freight moving on its highways per annum. But according to B. Lee Mallory, the 3PL's, executive vice president, only 26 percent of the highways are in excellent or good condition.

"Concentration of rail in the country is in Sao Paulo, Minas Gerais, and Rio Grande do Sul," observes Mallory. "This mode is used chiefly to move raw materials, but increased privatization and expansion of rail will alter this significantly."

Ocean cargo shipping is clearly destined to grow exponentially in Brazil, as it currently represents only 1 percent of total cargo moved in the country. For that to happen quickly depends on how fast new road access to harbors and warehousing can be achieved. Air cargo, too, is expected to ramp up, say analysts, especially now that a new regulatory agency—*Agencia Nacional de Aviacao Civil*—has been created.

One of the chief barriers to entry, however, may not be related to sea or air freight transportation. Regulatory restrictions are often the greatest challenge, say logistics leaders. "The best markets, such as Brazil, still put big obstacles in high bureaucratic institutions with complex tax structures," says Jaime Cabrera, vice president, Latin America for ICAT Logistics, a global, agency-based freight forwarder.

Gustavo Paschoa, sales, marketing, and engineering director for Penske Logistics in South America, agrees with Cabrera, but says Brazil is seeing improvement. "At the end of last year, a new law for drivers was implemented that improved regulations and benefits," says Paschoa. "This is an essential law in Brazil, especially in the long term. But in the short-term, it's been a great adjustment for shippers, increasing transportation costs even further."

Because Brazil is a member of the regional trade agreement known as *Mercosur*, any bilateral deal must affect all countries in this trade community, notes Paschoa. Even without this regional trade agreement, he says, Brazil has created a good environment for U.S. shippers to start their operations there.

"Large companies from the U.S., Europe, and Asia are announcing new facilities and assembly lines in Brazil, with the objective of entering our market and providing services and goods for the entire South American region using the near-sourcing concept to create more flexibility and competitiveness in the region," says Paschoa.

Chile, meanwhile, enjoys a high level of foreign trade, with exports accounting for 40 percent of GDP. Furthermore, the nation claims to have more bilateral or regional trade agreements than any other country in the region. Due to heavy government regulation, however, analysts say that there are still some significant barriers to international competitiveness. "The railroads in Chile, for example, remain under state control," says Mallory. "Ports, too, are owned by the state, but with recent changes in the law, there are now 10 independent companies that are fully responsible for management, development, financial administration, and assets."

Highway networks in Chile remain fragmented, though most roads are well maintained. And due to the country's mountainous geography, aviation is very important. Chile has 370 useable airports, but only 62 have paved runways. "The need for increased professionalization and more efficient technology has been identified as the challenge for the industry," Mallory adds.

Argentina has a solid infrastructure system in comparison with other Latin American nations, but many areas need significant improvement. For example, the majority of Argentine roads are two-lane national and provincial routes. At the same time, Argentine rail lines have not been well maintained over the past several decades, with many key segments inoperable today.

"Despite these challenges, Argentina's rail freight traffic has increased by more than 10 percent in each of the past five years," says Mallory. "As a result of improved utilization and efficiencies, the cost of rail transportation has dropped by 25 percent."

Most of Argentina's major ports are located on the Atlantic coast, with little freight transported along the domestic waterways. Air cargo represents only 1 percent of the total cargo transported in the country, although that may change if the government is successful in privatizing some of the nation's 142 airports. So far, only 33 major airports have been turned over to private companies to operate.

Edgar Blanco, research director at the MIT Center for Transportation and Logistics, says Argentina's government has other issues on its plate, however. "The macro-economic climate in this country is still in bad shape," he says. "It's good to see that transportation infrastructure is finally getting the attention it deserves, but there are bigger political issues to resolve before U.S. shippers will do much more business there."

Patrick Burnson is Executive Editor of Logistics Management

BD: Investing in future supply chain leaders

Left to right: Larry Smith, vice president for global supply chain; Mary Groskin, supply chain development associate; Devin Maguire, supply chain project manager; Ewald Parolari, senior director for supply chain operations.

We follow how the medical technology giant structured its development program to generate seasoned managers and collaborative decision-makers. If you're looking to grow top-notch supply chain talent you may want to pay attention.

BY **MAIDA NAPOLITANO**, CONTRIBUTING EDITOR

Finding effective supply chain leaders is a challenge. Above and beyond smarts and great people skills, today's professionals need to be innovative, collaborative, influential, metrics-driven, tech-savvy, fair, and inspiring. They must possess a true understanding of the supply chain as a collection of interdependent functions—not as silos of operations—that must work together to ultimately give the company a competitive advantage.

It's a challenge that's taken very seriously by global medical technology leader Becton Dickinson and Company (BD) and its supply chain

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organization. Ranked third by analyst firm Gartner in its annual *Healthcare Supply Chain Top 25* for two years in a row, BD's supply chain has always made every effort to find and develop the best talent to lead its operations at all levels.

One such initiative is the company's Supply Chain Development Program (SCDP). The mission of the SCDP is to specifically enhance BD's leadership base by recruiting entry-level associates who aspire to become future supply chain leaders. This two year rotational program is designed to offer leadership development and valuable hands-on work experience to associates in an environment where they can rotate through the different departments and functions within BD's supply chain group.

Only the very best candidates who demonstrate strong interest in the supply chain are selected from graduates of some of the top supply chain management university programs in the country.

"These college graduates enter BD with a 'theoretical' understanding of the supply chain," says Ewald Parolari, BD's senior director for supply chain operations and one of the founders of the program. "By the time they come out of the development program, they've got the theoretical and the real world melded together, and they are providing great ideas because they're looking at the supply chain from different perspectives compared to those who have been in only one position for their entire career."

Larry Smith, BD's vice president for global supply chain and co-founder of this program, agrees. "We want people who can think holistically across the whole supply chain continuum—from taking the order to delivery. What better way to do it than to spend the time and actually work in other parts of the supply chain where they can get a much better understanding and feel for how these functions all fit together."

Over the next few pages, we'll follow how BD structures its development program to generate seasoned managers and decision-makers who can one day drive capabilities for collaboration and develop innovative solutions for the efficient delivery of product to customers. If you're looking for good talent for your supply chain, it's best to pay attention.

How it started

Rotational development programs are not unique, and many *Fortune 500* corporations offer similar types of programs. "This has been a proven way to bring new talent into a company," explains Smith. "In fact, within BD, manufacturing, IT, HR, and procurement all have similar, but separate rotational development programs. However, we collaborate and share best practices across all the programs."

It wasn't until 2004 that a development program that was specific to the supply chain was formally established at BD in partnership with two major universities—Penn State and Rutgers. These institutions offer undergraduate degrees in supply chain with course offerings in logistics, transportation management, and project management.

"Recently, we also started working with Rider University in New Jersey," adds Smith. "Their program is relatively new, but BD, along with several other locally based companies, is helping Rider develop a curriculum for new supply chain undergraduate degree programs. Supporting local universities is something we encourage."

In 2005, both Smith and Parolari wanted to take the development of these entry-level associates to the next level. "We wanted to give them a broader, quicker assimilation across the whole supply chain so that they would be more valuable not only to themselves, but also more valuable to BD," explains Smith. They began structuring a formal program that would have participants rotating through four or five different functions of the supply chain.

The group had always hired several interns for two months in the summer and one or two students for six-month co-op programs. These interns and co-op associates now became feeders into this newly established supply chain development program. "If you do very well in the internship or co-op program, it typically leads to a supply chain development position," explains Parolari.

In 2008, they also put together a supply chain competency model for each of the major functional areas. From entry-level to the VP level, a list of competencies was developed, tracking the expertise and knowledge level required to reach the required competency. Managers use an assessment model to work with associates to help them understand what development areas they need to focus on to be more successful and further their career goals.

"There are currently eight associates who are either enrolled or are graduates of the program within BD," reports Parolari. "Typically two or three are added every year." Following successful completion, program associates can then apply and interview for traditional full-time positions within the supply chain group.

How it works

BD sends teams of people during each university's recruiting periods to interview for the internships and co-op programs. Because BD is looking to hire only the best of the best for this program, it's highly selective. A bachelor's degree in supply chain management or industrial engineering is preferred, along with a high GPA and previous internship experience.

BD's supply chain project manager, Devin Maguire, who completed the program in 2010 and now actively participates in the recruitment process, strongly emphasizes the importance of working well with others. "You are

The mission of the Supply Chain Development Program is to enhance BD's leadership base by recruiting entry-level associates who aspire to become future supply chain leaders.

spending six months in five different rotations. You're going to be working with a number of different people, and you must be able to communicate and work well as part of a team."

Once selected, the participants follow a very structured program. "What we try to do is follow the exact flow of a product as it moves through the supply chain," says Parolari. "So you start in customer service, distribution, transportation, then either the master data area or the planning area with the businesses." For each function, not only are associates exposed to transactional, day-to-day operations and systems, but they also take on continuous improvement projects.

The customer service rotation offers associates an introduction into BD's product offerings and customers. Mary Groskin, a supply chain development associate who just recently completed the program, went through a four-month rotation in customer service. "It helped me gain product knowledge as well as acquire an introduction into our SAP system and how it supports order management," she says.

> **"What we try to do is follow the exact flow of a product as it moves through the supply chain. So you start in customer service, distribution, transportation, then either the master data area or the planning area with the businesses."**
>
> *—Ewald Parolari, senior director for supply chain operations*

The distribution rotation exposes associates to BD's distribution centers (DCs) and fulfillment operations. With BD opening a new East Coast DC in North Carolina during his rotation, Maguire had plenty to do—from rack labeling projects to systems testing: "We had to test SAP and make sure that it was seamlessly running with our WMS."

The transportation rotation allows associates to conduct day-to-day transportation planning with its transportation management system (TMS). Groskin planned domestic shipments and learned how to resolve transportation-related issues. "I also completed a truckload consolidation project where I investigated LTL shipments to find consolidation opportunities," she says. "Additionally, I worked on improving ocean carrier selection strategies."

BD's other management tool: LMS

Ewald Parolari, BD's senior director of supply chain operations, shares how his leadership team leverages the LMS (labor management system) to manage day-to-day operations and drive efficiencies into BD's supply chain.

***Logistics Management (LM)*: What made BD decide to install LMS in all three of its largest DCs?**

Ewald Parolari: In 2006, our third party logistics (3PL) partner, Genco ATC, approached us on the benefits of LMS. That meeting generated multiple discussions between Genco and BD on how we can use LMS to improve productivity while proving continuous improvement project savings. LMS would also give us "eyes" into our 3PL's labor and enable us to challenge, quite frankly, the productivity levels at all three of the DCs. Genco also agreed to pay for the systems and set up a gain-share type of deal. So, any productivity savings that the LMS would drive would be used to help pay for the systems. In two of the DCs, we paid it off in two years—in the other one we paid it off in less than three years.

***LM:* How important is the LMS in managing the DCs?**

Parolari: In my opinion, LMS is mandatory in order to run an efficient and effective DC. Without LMS, we would have no idea where our productivity levels are and it would be difficult for us to know how we were doing. It's also at the crux of a number of programs that we are currently running here at BD.

***LM:* How are you currently using your LMS?**

Parolari: We use LMS in a variety of ways. For planning and budgeting, LMS helps determine how much direct and indirect labor we need at each step of the operation. It allows us to benchmark throughputs against industry standards. If we drive a 3 percent productivity improvement or a business anticipates a 5 percent increase in volume, the LMS can help determine the impact on the budget so we can do some effective planning.

Ewald Parolari

For day-to-day operations management, it allows the real-time capacity planning of daily workloads, including the shifting of labor between functions. It can track current productivity to see if an operation is running close to standards. We can better manage temp workforce for surge capacity. It also tracks nonproductive time—which we challenge our 3PL to reduce on an annual basis.

LMS also drives the analysis for our continuous improvement (CI) projects. One of our CI projects is our cost-to-serve program. In conjunction with LMS, this program allows us to determine the cost to move a case for Customer A versus Customer B. It identifies less profitable customers so we can initiate programs that will drive productivity and improve profitability. Without some kind of tool to actually analyze the variations in volumes, we wouldn't know what the cost implications would be.

—Maida Napolitano, Contributing Editor

"We've had discussions with our supply chain leaders in Asia, Latin America, and Europe about how to establish similar programs."

—Larry Smith, vice president for global supply chain and co-founder of the program

The planning rotation allows associates to interact with managers from other businesses. Under BD Diagnostics' Preanalytical Systems unit, Maguire performed demand planning for the company's manufacturing plant and also worked on creating a seasonal forecast model for products. In the BD Medical Surgical Systems unit, Groskin reduced the demand variability at BD's manufacturing plants.

Silver lining

According to Smith, associates who have completed the program have been so highly regarded that they often get other offers from within the rest of BD.

"These are people who have been well trained and are obviously the top students coming out of college, so it's natural that other groups in BD want them," says Smith. "We have become a net exporter of talent to the rest of the organization, which is quite positive. But we can't afford to share everyone. We need to keep some of the talent here to make sure we are always meeting or exceeding the needs of our customers."

Parolari certainly agrees. "While it makes it a little more challenging for us, it has actually become a benefit when we talk to the businesses who hired some of our associates. It makes communication and collaboration between both groups a lot easier because they already know our issues as they have spent time in the supply chain."

Through their exposure to the different groups, Maguire and Groskin saw themselves networking and building relationships. "The various groups appreciated what we did for them," says Maguire. "Now as project managers, when we need a deliverable from them, it's easier for us to collaborate."

Looking to the future

As the company continues to grow around the world, Smith says BD intends to continue to grow the program. "We've had discussions with our supply chain leaders in Asia, Latin America, and Europe about how to establish similar programs there."

"There's no doubt in my mind that many of these associates who completed the program will eventually be holding high-level management positions," says Parolari. "They're already better decision makers, and they understand what the impact is going to be on customer service or downstream on transportation. It's no longer a silo, it's more holistic business decision making."

Maida Napolitano is an engineering consultant and a Contributing Editor to Logistics Management

Special Report

Quarterly Transportation Market Update: Ocean

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Will the "greening" of fleets trump overcapacity challenges?

Logistics managers expect that, as ocean carriers' cash flow gets tighter, the charter market will increasingly be used for newer, fuel-efficient vessels. The payoff for shippers will be sustainable service.

By Patrick Burnson, Executive Editor

With rates finally stabilizing, ocean cargo carriers may be able to relax a bit this year. Meanwhile, shippers are getting more customized service in all the trade lanes. And with older vessels being replaced with newer, more fuel-efficient models, everyone is breathing a bit easier.

While cleaning up their fleets with new "green" ships, ocean carriers continued to enjoy modest success in increasing freight rates from Northern Europe to the East Coast of North America in June. Meanwhile, market feedback indicates that the improvement continued in July, following the partially successful implementation of General Rate Increases (GRIs) of around $150 per twenty-foot equivalent unit (TEU) and $200 per forty-foot equivalent unit (FEU) at the beginning of the

month. According to Drewry's *Container Freight Rate Insight*, the average "all-in" freight rate from Rotterdam to New York, based on forwarder buy rates for spot cargo, increased by 5 percent between May and June.

"This is surprising, given the poor trade lane supply-demand fundamentals," says Martin Dixon, research manager at Drewry Supply Chain Advisors in London. "But the fundamentals cover the whole of the East Coast of North America, whereas the trade lane's schedules tend to be separated between Canada, the U.S. East Coast, and the U.S. Gulf of Mexico, where the current dynamics of each are very different. The St. Lawrence Seaway is now ice-free, thereby enjoying a seasonal pick-up in traffic, for example."

GRIs on the transpacific are sticking as well, say analysts. Ocean cargo carriers comprising the Transpacific Stabilization Agreement (TSA) have announced a guideline Peak Season surcharge of $400 per FEU from Asia to all U.S. destinations, effective August 1.

According to TSA executive administrator Brian Conrad, each carrier plans their individual vessel and equipment allocations to meet back-to-school and holiday retail cargo demand. "Positive signals on consumer confidence for second-half 2013, and healthy consumer spending data in the second quarter, suggest a likely bump for Asian imports in coming months, and container shipping lines in the TSA are preparing for a potentially healthy Peak Season," says Conrad.

TSA lines reported gains from the most recent round of Asia-U.S. freight increases taken on July 1, but said results still fall short of overall revenue objectives for 2013-2014 service contracts, so they will be weighing the need for further initiatives later this summer and early fall.

As forecasted in *Logistics Management*, shippers have been bracing for the rate hikes for several months now. "It is hard to say at this point what the size and the timing of the Peak Season will be," adds Conrad. "But lines are expecting a defined peak period and want to be prepared. That means having the necessary vessel and equipment assets in place, the right mix of services, and their costs adequately covered to quickly address contingencies."

Peter Sand, chief shipping analyst for The Baltic and International Maritime Council in Copenhagen (BIMCO), observes that the traditional Peak Season has undergone severe change since the Great Recession, however.

"The U.S. consumer market is determining different peaks now," says Sand. "Back-to-school, black Friday, and the Christmas holiday are still valid, but there is now less pressure on a season that was once unique."

Greening fleets

The greening of ocean cargo transport may very well be the unifying element in an industry recently rocked by volatile and unpredictable demand cycles, say analysts.

Claus Hemmingsen, partner and member of the executive board at A.P. Møller- Mærsk, says that the world's largest carrier has increased efficiency and productivity while building more fuel-efficient vessels.

This ultimately means less "scrapping" of ships that have abbreviated life spans due to poor design. "We are exceeding our own expectations," says Hemmingsen. "When we invest in new terminal and port operations, too, we put sustainability at the top of the agenda."

The World Shipping Council (WSC) maintains that initiatives like those launched by Maersk and other major carriers comprising its membership make ocean cargo shipping easily the most carbon-efficient mode of transportation.

"The industry currently has a compelling incentive to reduce fuel consumption, and therefore carbon emissions, because fuel is already, by far, the largest cost of liner operations," says Chris Koch WSC president and CEO. "We estimate that at current prices, the liner shipping industry alone is probably spending roughly $50 billion a year on fuel for vessels serving the U.S. international trade."

This observation is mirrored in a recent report of the International Maritime Expert Working Group, which indicates that international maritime shipping accounts for 2.7 percent of annual global greenhouse gas emissions. And according to analysis by the Swedish Network for Transport and the Environment, shipping also produces fewer exhaust gas emissions—including nitrogen oxides, hydrocarbons, particulates, carbon monoxide, and sulfur dioxide—for each ton transported one mile compared to air or road transport.

Other notes of interest provided by the WSC include:

• A ton of goods can be shipped from the Port of Melbourne, Australia, to the Port of Long Beach, a distance of 7,935 miles, while generating fewer CO2 emissions than are generated when transporting the same cargo in the U.S. by truck from Dallas to Long Beach, a distance of 1,442 miles.

Global trade data is flat in June but should pick up in coming months, says Panjiva

NEW YORK CITY—While global trade growth patterns remain in tact, trade activity was mostly stuck in neutral in June, according to data released this week by Panjiva, an online search engine with detailed information on global suppliers and manufacturers.

U.S.-bound waterborne shipments—at 1,124,466—were down 2 percent annually from May to June and up 2 percent annually. This is in line with seasonal activity in recent years, with a 2 percent May to June gain in 2012, a 1 percent decline in 2011 and a 2 percent gain in 2010.

Panjiva said that the number of global manufacturers shipping to the U.S in June—at 174,178—was up 1 percent from May to June and up 17 percent compared to June 2012.

"June is coming off of a pretty strong April and May and is typically a flat month, being either slightly up or down," Panjiva CEO Josh Green said. "That said, these numbers are not terribly surprising. Being flat is OK heading into back to school and the holiday shopping seasons in the second half of the year, which should translate into pretty steady gains over the next few months."

When asked about the 17 percent annual spike in the number of global manufacturers shipping to the U.S. in June, Green said it is representative of "real growth" which began to occur around the end of 2012 and may also represent a diversification in the supply base with some manufacturers looking outside of China, too, to make sure they have sources in various places.

What's more, aside from China, Green said sourcing activity in Southeast Asia is doing quite well, especially in some labor-intensive industries.

"We are seeing some of the higher value-add manufacturing and technology-intensive manufacturing remain in China, though, as the sourcing destination of choice," Green said. "Part of that has to do with the capabilities built up there are so strong that it is hard to replicate those capabilities elsewhere."

Looking at things on a domestic basis, Green said the U.S. economy is doing well as are trade flows associated with the U.S. economy, too.

"I am bullish about the holiday season, and in the medium-term the real question marks will be around China and how it manages the economic challenges it is facing in the months and years ahead," Green explained.

—Jeff Berman, Group News Editor

• A ton of goods can be moved from the port of Ho Chi Minh City, Vietnam, to Tianjin, China, a distance of 2,067 miles, generating fewer CO2 emissions than would be generated if the same goods were trucked from Wuhan in Central China to Tianjin, a distance of just 614 miles.

• The wine industry recently found that a bottle of French wine served in a New York restaurant will have a lower carbon transportation footprint than a bottle of California wine served in that restaurant.

Koch maintains the these points add up to one major conclusion: "The size and global nature of the shipping industry makes it important for the industry to continuously work to reduce its environmental impact, and there is evidence that the industry has made significant progress," says Koch.

Where's the ROI?

But in the end, do shippers really care? That compelling question was posited last May in the *2013 Executive Survey on Supply Chain Sustainability* survey conducted by AlixParnters, a global research firm based in New York. More than 150 C-level executives from a broad range of industries in the U.S. and Europe responded.

The findings of the survey reveal that even though most supply chain executives agree that sustainability is becoming an increasingly important issue among customers and senior management, cost still trumps environmental impact as a driver of behavior. "Still, companies that can implement cost-effective supply chain sustainability improvement strategies and market them to customers will have a competitive advantage," says

Port Tracker report says import activity to remain slow in summer months

NEW YORK CITY—Barring a sudden shift in economic activity, U.S.-bound import activity is expected to remain along its current trend lines of slow growth, according to the monthly *Global Port Tracker North America* report from the National Retail Federation (NRF) and Hackett Associates.

The report is calling for a 1.1 percent annual gain for imports in July, continuing the ongoing trend of a relatively slow summer, but it noted that could change with increased import activity heading into the holiday season in the fall.

The ports surveyed in the report include: Los Angeles/Long Beach, Oakland, Tacoma, Seattle, Houston, New York/New Jersey, Hampton Roads, Charleston, and Savannah, Miami, and Fort Lauerdale, Fla.-based Port Everglades.

"With the economy recovering slowly, retailers have been cautious with imports this summer, but it's clear that they expect an upturn later in the year," said Jonathan Gold, NRF's vice president for supply chain and customs policy, in a statement. "Import numbers have been close to flat since spring, but we expect to see stronger increases this fall."

The *Port Tracker* report said 1.38 million TEU (twenty-foot equivalent units) were handled in May (the most recent month for which full data is available) for the ports followed by *Port Tracker*, which represents a 1.2 percent gain from April and a mere 0.6 percent increase compared to May 2012.

The report said that the first six months of 2013 hit 7.8 million TEU, matching previous estimates, and is up 1.2 percent compared to the first six months of 2012. Full-year 2012 TEU volume at 15.9 million TEU was up 7.3 percent annually.

In his comments in the report, Hackett Associates Founder Ben Hackett said that he still expects the annual containerized import growth rate for all ports covered in the report to be north of 3 percent and possibly as high as 4 percent with the caveat that it is dependent on economic measures taken in Washington.

"Consumers continue to maintain a modicum of confidence and importers have been building up their inventories," wrote Hackett. "The impact of the 'sequester' budget cuts is making its mark with reduced GDP in the second quarter, but it remains well in positive territory and does not suffer from the same problems we see in Europe."

But that does not mean everything is going great either, he cautioned, telling *LM* that U.S. consumer demand still remains weak at a 1 percent growth rate even though the GDP is slightly above 2 percent.

"The inventory-to-sales ratio has also gone up and is close to pre-recession levels that were last seen around 2006," Hackett explained. "That is a potential warning sign and it also means there is enough inventory in stores which do not require importers to have a big Peak Season."

And with current inventory levels ostensibly sufficient, Hackett added that it is hindering any reason to increase those levels.

—Jeff Berman, Group News Editor

Foster Finely, a managing director at AlixParnters.

Although 72 percent of respondents say their companies have corporate policies or sets of objectives regarding sustainability, 84 percent say lower costs are more important to customers than improved environmental impact. Some 70 percent indicate that they would pay no more than 2 percent more for sustainable initiatives.

European companies responding to the survey say they're more likely to emphasize sustainability, with 88 percent of respondents from Europe having sustainability policies already in place. Similarly, 33 percent of European executives surveyed say green initiatives on "supply chain sustainability" were "extremely important" or "very important."

"Yet no matter where companies are based or how important their executives said they feel sustainability to be, the majority (53 percent) of respondents say green initiative policies or objectives do, in fact, affect supply chain operations moderately or a great deal," says Finley. "Just 14 percent said green concerns affect supply chain operations very little or not at all."

Executives also expressed concern about return on investment in green supply chain practices. Less than a third (31 percent) of American executives surveyed said they'd be willing to invest in green logistics initiatives that do not produce positive financial returns. In Europe, however, more than double that number—62 percent—reported willingness to invest.

Nevertheless, certain sustainable supply chain opportunities are seen as having greater potential for financial return than others are, with freight consolidation and network optimization—both cited by 53 percent of executives surveyed—topping the list. Similarly, third-party logistics and trucking (49 percent each) are seen by executives as the segments in which the most cost-competitive sustainable innovations can be found—not ocean cargo.

"For companies willing to spend on sustainable technologies, nearly 60 percent require a cost payback within 18 months or less," says Finley. "Just 17 percent are willing to wait longer to see a return on their investment. That lack of return on investment is the largest obstacle to achieving greater supply chain sustainability, cited by 65 percent of executives we asked."

Lack of return on investment is followed by implementation costs, which was cited by 59 percent of respondents. For all of those reasons, active investment in sustainable supply chain projects remains a question mark for many company executives.

Sharing the risk

But how does one align special interests among carriers, shippers, and 3PLs to gain and measure ROI? Business for Social Responsibility (BSR), an innovative non-profit association, is close to doing just that. BSR's Clean Cargo Working Group (CCWG) is a global, business-to-business initiative dedicated to improving the environmental performance of marine container transport.

Angie Farrag, the group's associate director of transport and logistics, explains that CCWG creates practical tools for evaluating and reporting the

Taking the Lead in Green: Clean Cargo member companies

While the ocean carriers and 3PLs comprising CCWG represents a "who's who" of the ocean cargo sector, many of the participating shippers are arguably brand leaders in their respective industries:

American Eagle Outfitters, Inc.	Hanjin Shipping	MOL
APL	Hapag Lloyd	NIKE, Inc.
BDP International	Heineken N.V.	Nordstrom, Inc.
CMA CGM	Hyundai Merchant Marine	NYK Line
COSCON	IKEA	OOCL
CSAV	JF Hillebrand	Phillips-Van Heusen Corp.
DAMCO	Kohl's	Polo Ralph Lauren Corp.
DB Schenker	Kuehne + Nagel Inc.	Tchibo GmBH
DHL Deutsche Post	Marks & Spencer	United Arab Shipping Co.
Electrolux	Matson	Walmart Stores, Inc.
Hamburg Sud	Maersk	Yang Ming Marine Transport Corp.

environmental impacts of global goods transportation, thereby helping ocean freight carriers track and benchmark their performance and easily report to customers in a standard format.

"This helps shippers review and compare carriers' environmental performance when reporting and making informed buying decisions," says Farrag.

"Our tools represent the industry standard for measuring and reporting ocean carriers' environmental performance on carbon-dioxide emissions."

As part of its objectives, Clean Cargo works to collect emissions data annually from its carriers throughout their entire fleet. Shippers receive this data in a scorecard format that highlights average fleet emissions on a trade-lane basis.

BSR was curious to know how shippers use this data, and they responded as follows:

- **CO2 emissions:** Clean Cargo shippers use the Clean Cargo scorecard mainly to report on their CO2 emissions, but sulfur-oxide (SOx) and nitrogen-oxide (NOx) emissions are becoming increasingly important.
- **Carbon footprint calculation:** Eighty percent of all interviewed shippers joined Clean Cargo because their companies wanted to access the primary data of ocean carriers in order to identify their baseline emissions in ocean transportation, calculate their carbon footprint, and set emissions reduction targets with a more accurate methodology.
- **Intermodal transport comparison:** Shippers highlighted that access to Clean Cargo data enables them to compare different modes of transportation and make informed decisions where it may be possible to shift certain flows to ones with lower emissions—from air freight to ships or from road to trains or inland water transport.

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"Electrolux started to calculate its carbon emission from transportation a couple of years ago, and found out that emissions are at least as high as energy use from Group-combined operations," says Gorm Kjærbøll, global ocean contracting manager for the Electrolux Group. "This reinforced the importance of working

"Shippers and carriers are working more closely now than ever before, and the environmental concerns are shared by all. The shipping community can also use a common platform to prevail over regulatory obstacles before they are put into place."

—Peter Livey, head of trade management, Hyundai Merchant Marine

to reduce the company's transportation footprint through initiatives like Clean Cargo."

Sarah Flagg, global head of sustainable logistics for Damco International, maintains that industry initiatives like Clean Cargo are the most effective way to collaborate with both carriers and shippers.

"It enables us to work directly with the companies that operate the equipment, move the goods, and own the data," says Flagg. "The ocean carriers understand the issues and the potential solutions better than anyone else."

Carrier members, like Peter Livey, head of trade management at Hyundai Merchant Marine, agree that collaboration is key, but reading from the metrics table is critical. "Some of the current standards are unrealistic," he says. "Unless the shippers' top management supports it and gets agreement on the procurement level, it's difficult to achieve."

However, Livey concedes that "harmonization" even among peer stakeholders is a move forward. "Standards enable engagement vertically and horizontally," he says. "Shippers and carriers are working more closely now than ever before, and the environmental concerns are shared by all. The shipping community can also use a common platform to prevail over regulatory obstacles before they are put into place."

And top shipping analysts agree, noting that this may represent another big payoff: long-term profits for shippers of oceanborne cargo and the companies that provide it.

Patrick Burnson is Executive Editor of Logistics Management

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SINGAPORE AIRLINES CARGO

Pacific Rim Report

By Patrick Burnson

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The Singapore surge

WITH BOTH CHINA AND INDIA LOSING GROUND within the Association of Southeast Asian Nations (ASEAN) this past year, it appears that tiny Singapore is regaining business from U.S. multinationals seeking a stable shipping and sourcing alternative.

China has recently been hard hit by a credit squeeze and a collapse in export growth. Meanwhile, India's economy has entered a period of economic turbulence, with structurally high inflation as well as large fiscal and current account deficits. But because Singapore made logistics a priority long ago, it remains on the cutting edge of globalization.

What has been the secret to Singapore's resiliency? A great seaport and airport are two obvious answers, but its strategic location is key, if not paramount.

Singapore Economic Development Board President Kelvin Wong recently told me that multinationals are keen to capture the Pacific Rim opportunities, but that the Asian geography is very complex, with little standardization of regulations, business practices, and infrastructure development.

"In order to effectively distribute to these emerging end markets, logistics companies and manufacturers need to build up their pan-Asian expertise in areas such as customs and transportation networks," says Wong.

The combination of a strong talent pool, access to service providers and consulting firms and supply chain research capabilities add to the attractiveness of Singapore. Consider the following:

Third-party logistics providers (3PLs): Singapore is a prime location for major 3PL firms, with 20 of the top 25 global logistics players conducting operations there—with most of them setting up regional or global headquarters on the island. For example, UPS has a 300-person Asia Pacific headquarters in Singapore with the local team overseeing regional decision making that covers 15 countries including China and India.

Kuehne+Nagel's 26-man competence center in Singapore has worked on regional and global contracts with customers such as General Electric, Philips Healthcare, P&G, and British America Tobacco. Solutions provided could include distribution network optimization, inventory optimization, and transportation route planning.

Strategy & management consulting firms: Consulting firms like McKinsey & Company, Boston Consulting Group, and Accenture have been investing steadily in Singapore as a base for reports and research on pan-Asian supply chain trends and forecasts.

Tax consulting firms: Both PricewaterhouseCoopers and KPMG use Singapore to offer "value chain transformation" solutions with capabilities including tax, supply chain management, and risk management to support organizations to align their tax, legal, and operating models during supply chain transformation.

"In order to effectively distribute to these emerging end markets, logistics companies and manufacturers need to build up their pan-Asian expertise in areas such as customs and transportation networks"

— Kelvin Wong, Singapore Economic Development Board president

Carriers: The presence of leading air and ocean carriers using Singapore as a hub to serve their regional needs have enabled manufacturers to negotiate and secure global freight deals. Examples include Maersk Line, OOCL, Cargolux, and Lufthansa.

In addition, carriers like NOL and NYK have also established their global contracting teams or pricing control centers there.

Education: Singapore's location has also proven to be a strong attraction to logistics and supply chain intellectual property and represents a hub where talent is harnessed and developed to drive success in Asia. It's home to a strong base of qualified talent with academic background in industrial systems engineering, decision sciences, operations research, and operations management.

China and India represent the foundation for emerging national economies (BRICs), and no one is counting them out in the supply chain arena. However, shippers with an eye for constancy and reliable resources understand why the World Bank ranks Singapore number one in logistics capability. □