

# Logistics MANAGEMENT<sup>®</sup>

September 2013

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STATE OF FREIGHT FORWARDING

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EUROPEAN LOGISTICS 2013

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**22<sup>nd</sup> Annual  
Study of Logistics and  
Transportation Trends:**

# Masters co-create VALUE

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**Masters of Logistics Webcast**  
**Results of the  
22<sup>nd</sup> Annual Study of  
Logistics and Transportation  
Trends**

**Thursday, Sept. 26, 2013  
@ 2:00 p.m. ET**

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# management UPDATE

AN EXECUTIVE SUMMARY OF INDUSTRY NEWS

◆ **LM remembers Jock Menzies.** *Logistics Management* regrets to report that John “Jock” Menzies, president of the American Logistics Aid Network (ALAN), passed away suddenly last month. As head of ALAN, which connects nonprofit relief agency needs with resources in the supply chain business community, Menzies oversaw various logistics-related relief efforts during Hurricane Sandy, the Oklahoma tornado, and the Haiti earthquake, among others. Menzies also served as Chairman and principal of The Terminal Corporation, a 117-year old warehouse, trucking, and distribution services company in the Baltimore, Md., area.

◆ **U.S. CFOs remain bullish.** U.S. financial officers gave the economy its highest score in five years and were significantly more confident about economic growth in 2013, according to the latest *Bank of America Merrill Lynch CFO Outlook* survey. Executives who participated in the survey gave the U.S. economy an average score of 58 out of 100, up from 49 in the previous survey conducted in late 2012. CFOs gave the global economy a score of 51, up from 45. CFOs voiced even stronger optimism about economic growth, with 55 percent expecting expansion in 2013, compared with 39 percent in the previous survey. Only 10 percent said they expect the economy to shrink, down from 24 percent. This confidence comes as U.S. companies continue to do more business in other countries, with 76 percent of CFOs reporting some type of activity in foreign markets.

◆ **USPS upgrades Priority Mail.** The United States Postal Service (USPS) rolled out various upgrades to its Priority Mail offering which it said have the potential to bring in more than half a billion dollars in new revenue in the next year. The new offerings include: scheduled 1-day, 2-day, or 3-day delivery based on package origin and destination; improved USPS tracking for all Priority Mail products; and free insurance for Priority Mail 1-day, 2-day, and 3-day, that will include \$50 or \$100 of insurance depending on the payment method. USPS officials said that these upgrades competitively position the service in the shipping marketplace and gives small businesses and other frequent shippers a continued and compelling reason to do business with them.

◆ **XPO's 3PD acquisition is a done deal.** Non-asset-based 3PL XPO Logistics said last month that its acquisition of 3PD Inc., the largest non-asset, third party provider of heavy goods, last-mile logistics in North America, has officially been completed. “They are a non-asset 3PL like we are and matching shippers with carriers to get freight moved just like XPO does,” said XPO Chairman and CEO Brad Jacobs. “It’s a major milestone in our strategy and accelerates our growth rate and is a strong strategic fit.” In XPO’s base business, Jacobs said that XPO moves a lot of freight from factories and retailers to distribution centers and stores, with 3PD picking up where XPO leaves off.

◆ **Canal gates.** In a major milestone for the Panama Canal Expansion Program, the first four gates for the new locks arrived from port of Trieste, Italy, to the waterway’s Atlantic side on board the semi-submersible vessel STX Sun Rise last month. “The arrival of the new gates marks a great progress for this engineering project,” said Panama Canal Administrator Jorge L. Quijano. “With the expansion, we will further reinforce our position as the maritime and logistics hub of the Americas.” Built by subcontractor Cimolai SpA, the first four gates weigh an average of 3,100 tons and will be installed in the middle chamber of the new locks in the Atlantic side. The steel gates will be transported to their final position using the same self-propelled motorized wheel transporters that are used to load and unload the gates from the ship.

◆ **China expansion charges ahead for UPS.** Last month, UPS opened two new China-based contract logistics distribution facilities in Chengdu and Shanghai as part of its commitment to serve the growing domestic Chinese market. UPS officials said that with these additions the company now has more than 130 distribution facilities in 87 cities in China, adding that these facilities will provide distribution and warehousing services for shippers to reach customers in China. The company added that these facilities are part of the company’s plans to develop a national distribution network in China and boost its international service and increase domestic demands in growing interior and coastal Chinese markets.

*Continued, page 2*

# LM management UPDATE

AN EXECUTIVE SUMMARY OF INDUSTRY NEWS

◆ **Good news for Class I railroads.** The four U.S.-based Class I railroads received good news last month when the U.S. Court of Appeals for the D.C. Circuit dismissed a June 2012 decision that maintained Burlington Northern Santa Fe, Union Pacific, Norfolk Southern, and CSX worked together—or colluded—on fuel surcharges assessed to shippers. When that decision was issued last year, a *Bloomberg* report stated that the railroads asked the U.S. Court of Appeals to reverse the ruling, explaining that it could lead to a cumulative \$10 billion or more in potential damages for roughly 30,000 shippers. While the case may not have gone away completely for the railroads, the U.S. Court of Appeals for the D.C. Circuit in its recent decision remitted the case back to a federal district court in Washington to reconsider its decision following a recent Supreme Court decision centered on class-decertification.

◆ **U.S. Court of Appeals upholds most HOS changes.** Trucking stakeholders holding out hope for the recently enacted motor carrier Hours-of-Service (HOS) regulations to be overturned had their hopes dashed in an August ruling handed down by the U.S. Court of Appeals for the D.C. Circuit. All of the new regulations remain intact except for the court's decision to strike down a provision requiring short-haul drivers to take a 30-minute off duty break. "While we're disappointed that the Court chose to give unlimited deference to the Federal Motor Carrier Safety Administration's agenda-driving rulemaking, the striking down of the short-haul break provision is an important victory," said Dave Osiecki, ATA senior vice president of policy and regulatory affairs.

◆ **Matson makes money.** The ocean cargo business is often referred to as a "dysfunctional family," with most of the members demonstrating some kind of self-destruction associated with mismanaged capacity. But one modest-sized carrier is proving the exception to bad behavior, giving both shippers and shareholders reason to rejoice. According to company reports, Matson Inc. had another solid quarter, driven by continuing strength in its Hawaii trade and a better result in its logistics services area. And while most "mega" carriers lost money this year, this specialized player found a way

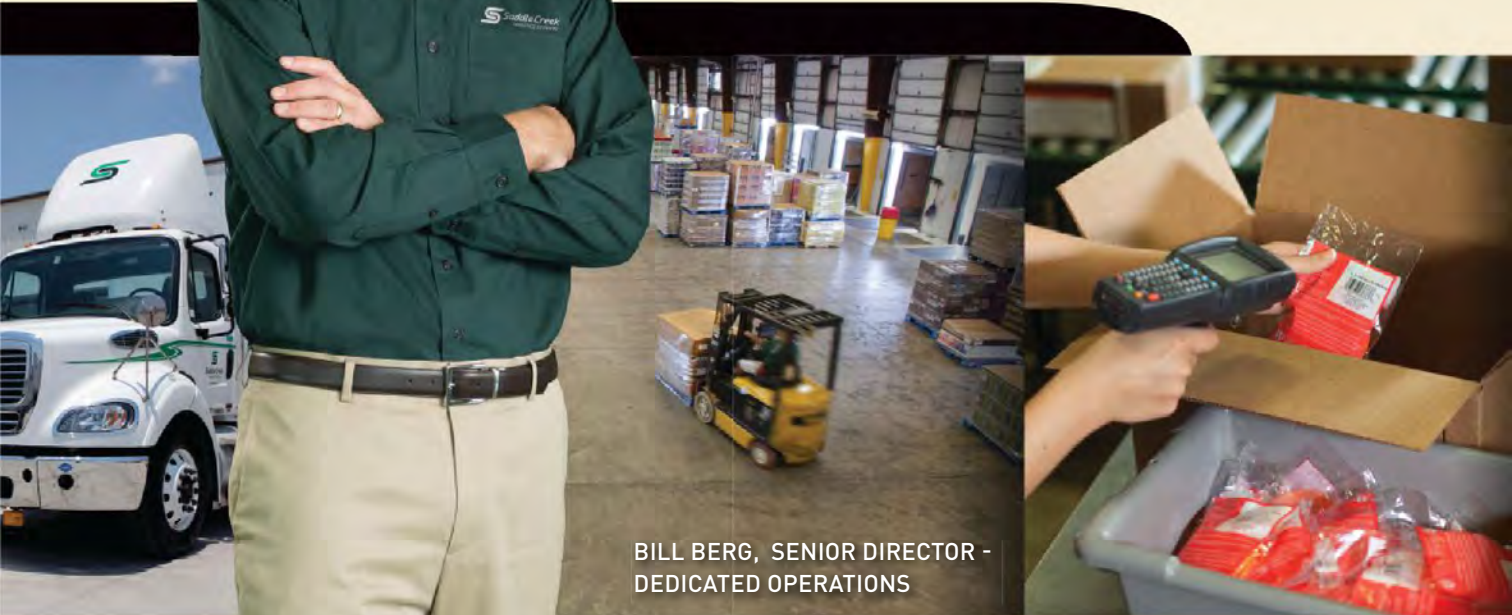
to make some. For the first six months of 2013, Matson reported net income of \$29.2 million, or \$0.68 per diluted share compared with \$11.2 million. Consolidated revenue for the first six months of 2013 was \$811.3 million compared with \$760.3 million in 2012.

◆ **Long Beach leadership search.** While the newly-appointed executive director of the Port of Oakland faces a host of new challenges, the Port of Long Beach is still searching for a replacement. Chris Lytle left the Port of Long Beach in very good shape, said spokesman Art Wong, but it will still take a few months to find a new leader. In the meantime, Al Moro will remain in the acting executive director role. Prior to being named for this position, Moro had served as the chief harbor engineer and assistant managing director of engineering. "The Board of Harbor Commissioners chose Moro because he's not interested in seeking the permanent position," said Wong. "We hope to launch a survey with our stakeholders and determine how to choose a candidate a few months from now."

◆ **Damco continues to invest.** As it remains poised to extend its reach into emerging markets, global freight forwarder and logistics services provider Damco reports total revenues of \$1,531 million for the first half of 2013 and a post tax operating loss of \$2 million. The company says year-on-year growth remains healthy, with airfreight volumes significantly up (+14 percent), outperforming the market. Supply chain management volumes grew 10 percent, while sea-freight volumes contracted slightly, down 1 percent. "In weak markets we continue to invest in building the future with special focus on expanding our geographical coverage and rolling out our new global freight management system" said CEO Rolf Habben-Jansen.

◆ **LM is riding the social media express!** If you are not following *Logistics Management (LM)* in the social network world, now is the time to hop on. [Facebook.com/LogisticsManagement](https://www.facebook.com/LogisticsManagement) and [@LogisticsMgmt](https://twitter.com/LogisticsMgmt) on Twitter are pages you need to bookmark to stay on top of what *LM* is producing in both print and online, and all in real-time! Don't be left behind. *LM's* Twitter feed is approaching the 14,000-follower mark. Help us to keep it growing. □

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22<sup>ND</sup> ANNUAL STUDY OF LOGISTICS  
AND TRANSPORTATION TRENDS

## Masters co-create value

**22** The Masters of Logistics have developed strategic partnerships with carriers that enable them to keep costs low while providing innovative service to their customers—and our data show that this value-added perspective is leading to performance that is significantly better than their competitors.



Cover illustration: Jean-Francois Podevin

### TRANSPORTATION AND BEST PRACTICES/TRENDS

#### Rethinking 3PL contracts

30

In this new era of collaboration, some third-party logistics providers (3PLs) are working with enlightened shippers on a new approach rooted in recognition that better logistics management can have a direct, strategic impact on the bottom line for both parties. Here's one example of how it's being done.



3PL contracts 30

### SUPPLY CHAIN & LOGISTICS TECHNOLOGY

#### Maximizing WMS

35

Our technology correspondent shares how two logistics organizations are getting the most from their warehouse management system (WMS) while gaining shipping efficiencies and streamlining their supply chains along the way.



China/Asia Logistics 40

### GLOBAL LOGISTICS

#### China/Asia Logistics: Build it and they won't leave

40

Threatened by "emerging nation" neighbors that can provide cheaper labor and more cost-effective transportation, China is now pushing back with more inland development to keep pace.

### WAREHOUSE & DC MANAGEMENT

#### Lift Truck Technology: How to listen to a lift truck

46

The lift truck is evolving into a platform for data collection, enabling managers to optimize the equipment, the operator, and the facility.



Lift Truck Technology 46

### TOP 25 SUPPLY CHAINS

#### Learning from leaders

52

The 2013 ranking of supply chain leaders from Gartner highlights the best of the best—large, global companies that are furthest along on the journey toward demand-driven supply chains. Regardless of industry, there are lessons to be learned from these supply chain leaders.

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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](http://logisticsmgmt.com/2013sol)).

### Top 25 Freight Forwarders

#### ► SPECIAL REPORT

#### Top 25 prevail despite market divergence

Market research confirms that the freight forwarding industry is stabilizing, with the market leaders staying on top through mergers, acquisitions, and sticking to core competences—while making subtle adjustments to capture market share in light of shifting demand. **60S**



### EUROPEAN LOGISTICS 2013

#### ◀ SPECIAL REPORT

#### Big challenges, bigger expectations

While the first half of 2013 showed some signs of cautious optimism, the Euro crisis is still hampering the European logistics and transportation landscape. However, measures are currently underway to stabilize the region—including plans for a closer partnership with the U.S. **69S**



### Logistics Management Webcast

#### Results of the 22<sup>nd</sup> Annual Study of Logistics and Transportation Trends Study

Thursday, September 26, 2013 @ 2:00 p.m. ET  
[logisticsmgmt.com/masters2013](http://logisticsmgmt.com/masters2013)

According to the findings of our *22<sup>nd</sup> Annual Study of Logistics and Transportation Trends*, the true Masters of Logistics have developed strategic partnerships with carriers that enable them to keep costs low while providing innovative service to their customers—and our data show that this value-added perspective is leading to performance that is significantly better than their competitors.

Join Group Editorial Director Michael Levans, Mary Collins Holcomb, Ph.D., of the University of Tennessee, and Karl B. Manrodt, Ph.D., of Georgia Southern University, as they reveal all of the findings of our *22<sup>nd</sup> Annual Study of Logistics and Transportation Trends*.





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## Which transportation management camp are you in?

THAT CRISP, FALL BREEZE SIGNALS that it's time to dig into the findings of *Logistics Management's (LM) Annual Study of Logistics and Transportation Trends (Masters of Logistics)*, the clearest breakdown available of transportation spending across modes and the by far the most comprehensive summary of how logistics professionals are managing their operations in current economic conditions.

First, and most importantly, I'd like to thank the 1,263 domestic and global logistics, transportation, and supply chain management professionals who took the time out of their schedules to participate. This is a fairly detailed questionnaire, so the fact that we hit this near-record response tells us that the results are well worth the effort in the eyes of our readers.

This marks the 23rd year that *LM* has partnered with Karl B. Manrodt, Ph.D., of Georgia Southern University, and Mary C. Holcomb, Ph.D., of the University of Tennessee (UT), to capture and deliver this important study. The *LM* editorial staff would like to thank Holcomb and Manrodt for driving and innovating this project over that time. By delivering the results in our pages, through our *Masters of Logistics* webcasts, and live at CSCMP's annual conference, they've helped countless logistics professionals re-engineer their operations for more than two decades—and we'd be a less enlightened profession without their work.

And I'd be remiss if I didn't thank the group of UT graduate students who have the tough job of crunching the numbers, as well the folks at Con-way Inc. who have again lent their financial and intellectual support in presenting the findings.

As Holcomb and Manrodt share on page 22, there appear to be two camps emerging in terms of how logistics operations are approaching freight transportation. According to the authors, what camp you fall into depends on how you view the

concept of transportation "flexibility"—the ability to get the capacity you need at the rate you need when you need it.

One camp is clearly moving toward treating transportation as a "commodity," using a wide range of carriers to get the job done. "This camp believes that if transportation is all the same, who cares who is moving the freight as long as it's getting moved," says Holcomb. Not surprisingly, this group tends to have its purchasing and procurement group more heavily involved in transportation decision making.

The second group view transportation as a value-added service and are developing relationships with a set of carriers who will work with them to provide the needed flexibility. "We started to see this camp emerge in last year's findings," says Manrodt. "But this year we find the value-added approach goes beyond the core carrier program and has evolved into a two-way street, where both parties are committed to the long-term success of the other."

These research findings, along with interviews with directors of logistics and supply chain at *Fortune 100* companies, tell us that there's been a pivotal change in the way transportation is being viewed and managed. "In fact, we're seeing a critical mass emerging at both ends of the commodity/value-add spectrum," says Manrodt, who adds that both sides cite compelling, data-driven reasons for their current positions.

However, our findings do reveal that one camp is outperforming the other in terms of continuous operations improvement and keeping costs in check. It's your homework to find out which one.

**Michael A. Levans**, Group Editorial Director  
*Comments?* E-mail me at [mlevans@peerlessmedia.com](mailto:mlevans@peerlessmedia.com)



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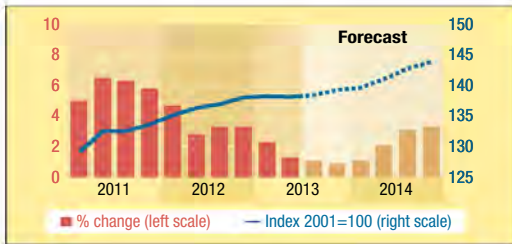


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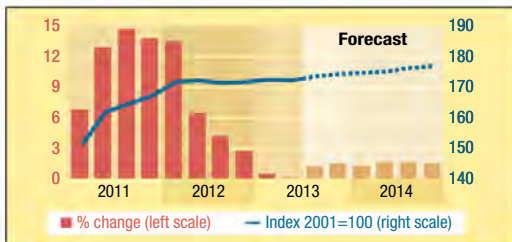
## Pricing across the transportation modes



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
General freight - local	0.0	0.0	2.7
TL	0.1	0.1	0.9
LTL	-0.4	1.7	4.2
Tanker & other specialized freight	0.1	1.3	0.7

### TRUCKING

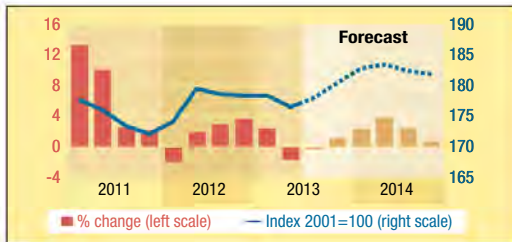
**LTL trucking prices accelerated** 4.4% in the first seven months of 2013 compared to year-ago. Over the same time period, transaction prices also increased in TL service, up 0.6%, special freight trucking, up 0.8%, and local freight, up 2.6%. All told, inflation for the entire trucking industry clocked in at a 1.8% rate. Cost trends, meanwhile, favor buyers in negotiations. Trucking industry costs increased at a slower 0.2% pace in the first half of the year. That occurred thanks to a 5.2% cut in fuel costs and a weak 0.7% increase in hourly wages for drivers. Forecast: LTL tags will be up 3.2% in 2013 and 2.6% in 2014. TL prices will increase 0.7% this year and 1.8% next year.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
General freight - local	0.3	0.3	0.8
Air freight on chartered flights	2.3	-2.7	-2.8
Domestic air courier	-0.7	-1.6	2.6
International air courier	-0.7	-1.6	1.5

### AIR

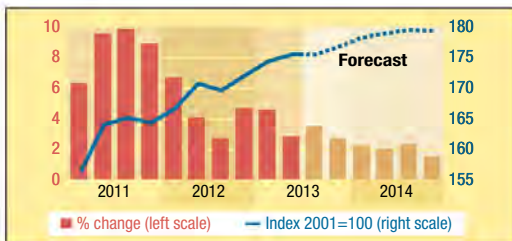
**U.S. airlines increased prices** charged to passengers and air cargo customers by 1.9% in the first seven months of 2013 compared to year-ago. Airlines that specialize in moving cargo also cut their prices by 2.5% over the same period. For hauling cargo in the belly of their planes, however, U.S. airlines managed to increase prices 0.3%. That occurred despite the fact that jet fuel prices fell 5% in the first six months of the year to an average \$3.17 per gallon. With only airline workers' paychecks increasing (up 6.8% in June from year ago), the cost argument to justify price hikes remains weak. Our price forecast for domestic airfreight services is unchanged: up 0.8% in 2013 and up 1.5% in 2014.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Deep sea freight	0.9	-1.4	-1.9
Coastal & intercoastal freight	0.6	0.9	-1.0
Great Lakes/St. Lawrence Seaway	-1.5	-6.7	11.1
Inland water freight	1.0	-2.6	-1.2

### WATER

**Great Lakes-St. Lawrence Seaway** freight transportation prices accelerated 8.3% in the first seven months of 2013 compared to year-ago. Over the same time period, transaction prices for transporting over inland waterways decreased 1.3% and over deep seas fell 0.3%. All told, inflation for the entire water transportation market sailed at a 0.2% pace. Here too, in negotiations between buyers and shipping companies, buyers have cost trends on their side. Thanks to a meager 1.7% hike in the industry's fuel costs, the water transportation industry's total costs increased only 2.2% in the first half of the year. The price forecast remains up 0.4% in 2013 and up 2.4% in 2014.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Rail freight	0.0	0.2	2.5
Intermodal	-0.3	-0.3	3.2
Carload	-0.1	0.2	2.3

### RAIL

**Prices for carload rail** transportation service increased 3.7% in the first seven months of 2013 compared to year-ago. Over the same period, prices for intermodal rail transportation accelerated at a slightly slower 2.6% pace. With carload rail exerting the strongest pull, the rail transportation industry overall reported a 3.5% price hike. One trend supporting higher rail prices has been a shift away from pipelines and toward rail. In the first half of 2013, 1.37 million barrels per day of oil and petroleum products were shipped on railways, up 48% from the same period of 2012. Our rail industry price forecast has been lowered to a 3.4% inflation rate in 2013 and remains unchanged at 2% next year.

Also:

- Port Tracker report expects gains in August and rest of the year, Page 13
- Bill to jack up trucking insurance minimum by 400 percent seen as long shot, Page 14

## YRC Worldwide rebounds from “unmitigated disaster” to near profitability

*CEO Welch says LTL giant continues to make steady progress with its financial turnaround*

By John D. Schulz, Contributing Editor

OVERLAND PARK, Kan.—James Welch, the recently installed CEO of YRC Worldwide, doesn't mince words when describing the company's recent plight that caused it to lose more than \$2.6 billion from 2006 to 2011, the biggest loss ever incurred by a U.S. trucking company.

Welch, a former YRC executive who returned to replace Bill Zollars as YRC chief in December 2011, calls the way the largest Teamsters-covered less-than-truckload (LTL) carrier was being run back then “an unmitigated disaster.” The major source of problems, he said, was the way long-haul units of the former Roadway Express and Yellow Freight companies were being integrated.

**In the second quarter, YRC made investments in newly leased tractors and trailers, completed its rollout of 10,000 mobile handheld productivity devices for city drivers, and completed the second largest network optimization in YRC Freight history.**



“Two years ago, operationally this company wasn't working right,” Welch told *Logistics Management*. “We were handling a bad book of business, and the network wasn't set up right. It's been a big undertaking to get that large of a company turned around, and we knew it would be a long-term process. We continue to make incremental gains every quarter.”

As a way of proving to shippers that YRC is on the right track, the company continued its financial turnaround in the second quarter. While still not profitable, it narrowed its quarterly loss by nearly two-thirds to just under \$40 million, while simultaneously making costly, long-term operational improvements that its new CEO says will assure YRC

of sustained profitability in the future.

“We believe that the new structure will allow us to work more profitably,” Welch said. “We need to realize YRC is a company re-establishing itself as a new company. It's much stronger today than in 2011.”

YRC narrowed its quarterly loss to 39.6 million on \$1.243 billion revenue, compared with a net loss of \$104.2 million on \$1.251 billion revenue in the second quarter of 2012. Consolidated operating income decreased slightly from \$15.5 million to \$14.3 million, or by \$1.2 million. Operating income in 2013 included a \$1.3 million loss on asset disposals compared to a \$6.5 million gain on asset disposals in 2012.

The company reported adjusted earnings before interest, taxes, and debt (EBITDA) for the second quarter of 2013 of \$74.7 million, a \$4.6 million improvement over the \$70.1 million adjusted EBITDA reported for the second quarter of 2012. Included in adjusted EBITDA for the second quarter of 2013 is a \$6.3 million charge related to the network optimization that was implemented at YRC Freight in May 2013.

Welch described the quarter as “steady progress” toward its long-term objective of regaining “a leadership position in the LTL industry.”



Welch compared the company's recent change of operations to "doing engine maintenance on a Boeing 777 at 40,000 feet." There was no luxury of stopping for two weeks while incorporating the change, which involved moving some 800 employees, closing or consolidating terminals, and improving line-haul to reduce fuel, empty miles, and increase efficiency.

"You can't ask 20,000 customers to take a timeout and not move freight," said Welch. "We had to do this while running around the clock. Historically, we've been pretty good at change of operations, and we didn't want to ignore the \$25 million to \$30 million in savings that we were confident of achieving."

Those savings are coming, Welch added, but first comes slightly higher operating costs from the change. "We just faced a lot of headwinds that were a little tougher than expected," he explained. "But we're taking that short-term pain for a long-term gain."

Welch emphasized that new management team is in it for the long term. "We're not managing the company for the short term. We consider 2012 a year of progress and 2013 is a year of performance, but now there is still much more to accomplish."

According to Welch, in the second quarter YRC made investments in newly leased tractors and trailers, completed its rollout of 10,000 mobile handheld productivity devices for city drivers, and completed the second largest network optimization in YRC Freight history. Welch called those expenditures "the first meaningful investment in equipment in four years."

Satish Jindel, principal of trucking analyst firm SJ Consulting, called the investment in rolling stock and scanners a positive sign. "If the company was having trouble breathing, they wouldn't be doing that," he said. "I give credit to both union and management, since management can only do so much. You have to rally the people and have them believe in the management. Management gave them a reason to believe."

By contrast to the long-haul unit's 101.1 operating ratio (OR), YRC regional carriers are operating "exceptionally well" with a 94.3 OR. "Holland, New

Penn, and Reddaway are service leaders," Welch said. "But there's no doubt that YRC Freight (the long-haul unit) is the company with the most potential.

"Would we like improvement to be

faster? Of course we would," Welch added. "But we need to realize YRC is a company re-establishing itself as a new company. It is much stronger today than in 2011."

## OCEAN CARGO

# Port Tracker report expects gains in August and rest of the year

WASHINGTON, D.C.—The monthly *Port Tracker* report from the National Retail Federation (NRF) and Hackett Associates released last month is calling for import volume at major U.S. retail container ports to rise 1.7 percent annually in August. Should this occur, it will be viewed as a welcome sign, as volumes have been down in four of the last five months, according to the report.

While *Port Tracker* is calling for a gain in August, the report said that further gains are expected through the holiday season and the rest of the year, too. "As the economy continues to slowly improve, retailers are stocking up for their most important sales season of the year," said Jonathan Gold, NRF's vice president for supply chain and customs policy. "Merchants have been very cautious so far this year, but our forecasts show that they plan to make up for it in the next few months."

*Port Tracker* noted that 1.36 million twenty-foot equivalent units (TEU) were handled in June for the ports followed by the report, which represents a 2.7 percent decline from May and a 1.8 percent decrease compared to June 2012.

The report said that the first six months of 2013 hit 7.8 million TEU, for a 1.2 percent gain compared to the first six months of 2012. Full-year 2013 TEU volume, which is expected to be at 16.2 million TEU, is forecast to be up 2.4 percent compared to 2012's 15.8 million TEU.



**Port Tracker is calling for a gain in August, and further gains are expected through the holiday season and the rest of the year.**

Hackett Associates Founder Ben Hackett wrote in the recent report that trade at the top U.S. retail ports is positive, confirming his view that the economy is on a slow and steady course of recovery. He added that the report expects first half volumes for West Coast ports to be up 6 percent annually, but he also cautioned that the inventory-to-sales ratio remains a concern as it remains in a still-high range of 128 to 130.

"The question is whether importers are building up stock ahead of expected sales demand or in response to announced freight rate increases," wrote Hackett. "For those with annual contracts, the latter should not matter, but it may be a psychological issue. We do expect to see a bit of a Peak Season in the third quarter before volumes weaken again in the fourth quarter."

In an interview with *Logistics Management*, Hackett said that the rate of growth is decent but not spectacular, which could be do in part to the federal budget sequester.

He added that while consumers are making purchases, it's not happening at a fervent pace. And while overall 2013 growth was lowered from 2.8 percent to 2.4 percent, he pointed out that much of that growth is expected to come from increased activity in the second half of this year.

"A fair amount of that growth is likely to come from back-to-school and the holiday season, but we're keeping our eye on housing starts as well, which we expect to continue to pick up as the year goes on," said Hackett.

Hackett added that August and September could be promising based on the strong import performance into U.S. ports out of China in July.

—Jeff Berman, *Group News Editor*

## TRUCKING

### Bill that would jack up trucking insurance minimum by 400 percent seen as long shot

WASHINGTON—The way the trucking industry and several major shipper groups see it, the candidate for the author of the most ridiculous bill in Congress is Rep. Matt Cartwright (D-Pa.), a rookie congressman who wants to jack up the minimum injury and property damage insurance level for trucking companies by over 400 percent.

Rep. Cartwright, a personal injury attorney before winning his congressional seat last year, says that the current truck insurance minimum has not been changed since the Motor Carrier Act of 1980 deregulated the trucking industry.

Cartwright said he wants it increased from its current \$750,000 to \$4.4 million under the bill—which is considered a long shot to pass the Republican

controlled House of Representatives. Still, Cartwright seems passionate about its merits.

"This legislation is essential to protecting our nation's highways and ensuring victims receive the proper amount of compensation for their losses," Cartwright said in a statement.

The American Trucking Associations and at least one leading industry chief executive strongly disagreed with the freshman congressman, saying current insurance minimums are adequate.

"I think it would be a big industry issue because of the number of small companies that might have to exit the industry because of this," said James Welch, chief executive officer of YRC Worldwide. "I don't see it passing, and I don't think we

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need to go that high. Most of the reputable carriers carry sufficient levels of insurance. It would be a big thing if it were to pass, but I don't think it has much of a chance of passing."

Industry officials say that the market place for trucking insurance is working adequately without Congressional

of 2,300 drivers who currently have streaks in excess of 1 million accident free miles. Hundreds of those drivers have more than 2 million accident free miles, with dozens exceeding the 3 million mile mark.

John Cutler, general counsel for National Shippers Strategic Transportation

interference. They say unsafe carriers generally have to pay higher insurance premiums while the larger, better-capitalized fleets tend to better emphasize safety and have better safety records, and generally pay lower premiums.

For example, the five operating companies that comprise YRC Worldwide currently have in excess

Council (NASSTRAC) and the Health and Personal Care Distribution Conference, called Rep. Cartwright's proposal a solution in search of a problem.

"I have had several inquiries on this from shipper clients, and my advice to them has been: Hardly anything is going anywhere in Congress these days, but let's keep an eye on it," said Cutler, who added that NASSTRAC and the health care conference have yet to take a formal position on the bill.

"We would probably oppose it," Cutler said. "When you think about it, what the guy is saying is that we have this fee that it hasn't been raised or indexed for inflation and times have changed. Well, you can say that about thousands of user fees. How about the fuel tax? That hasn't been raised since 1993. The idea of singling out the trucking industry alone doesn't make any sense to us."

—John D. Schulz,  
Contributing Editor

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Jeff Berman is Group News Editor for the Supply Chain Group publications. If you want to contact Jeff with a news tip or idea, please send an e-mail to [jberman@peerlessmedia.com](mailto:jberman@peerlessmedia.com).



## It's wait and see on HOS changes

IT HASN'T BEEN LONG SINCE THE Federal Motor Carrier Safety Administration's (FMCSA) new motor carrier Hours-of-Service (HOS) rules took effect. Before the July 1 effective date, there was—and still remains—much speculation and conjecture surrounding exactly what the impact of the new rules will eventually be.

Many contend that the new rules will have an incredibly negative impact on logistics and supply operations, citing how reducing the number of hours a trucker can drive, as per the new law, will hinder productivity, on-time performance, and overall service. That line of thinking seems simple enough to follow.

Those in favor of the new regulations put a more significant emphasis on safety, which essentially is the core principle driving this change in the first place. Who is not in favor of safety, right? That is where the Feds are coming from, even if parties like the American Trucking Associations, for example, have mountains of data indicating that fewer hours (i.e. the old rules) on the road equates to safer trucks.

I'm not taking sides here; instead, I'm going to take a big picture approach.

In most transportation circles, the rule changes regarding the 34-hour restart and the reduction in total driving hours per week from 82 to 70 appear to carry the most weight—and could translate into tighter capacity availability and higher rates.

But, again, it still seems too early to tell, or is it?

A recent research note from Cowen and Company analyst Jason Seidl referred to recent conversations with industry stakeholders indicating that “some private carrier fleets have roughly a 10 percent utilization degradation. This is partly due to the fact that drivers must now take 30-minute lunch breaks as opposed to having previously been able to take their lunch while at a delivery or pick-up location.”

Seidl added that while his firm believes that this “utilization degradation” should get better over time as carriers and shippers work together to make deliveries more efficient, he cautioned that there should be some near-term cost impacts as many carriers are looking to assess the impact before attempting to implement broad or selective rate increases.

A recent survey by Transport Capital Partners finds that nearly 40 percent of its carrier respondents are expecting

lower utilization by less than 5 percent, with more than 35 percent expecting lower utilization of less than 5 percent to 10 percent. More than 50 percent said that they are planning to rework routing and load assignments in response to the new rules, and more than 10 percent say they will raise driver pay to compensate for fewer miles.

According to the survey, nearly 80 percent are going to seek shipper cooperation on scheduling or increase detention charges. Not surprisingly, more than 50 percent of carriers say they intend to seek shipper rate increases on affected lanes.

So, how do shippers feel about all of this? A retail shipper, who declined to be identified, explained to *Logistics Management* that things are going as well as can be expected, given the short period that the rules have been in effect.

“A few weeks in now and things are going well so far,” the shipper told me. “This communication around

**In most transportation circles, the rule changes regarding the 34-hour restart and the reduction in total driving hours per week from 82 to 70 appear to carry the most weight—and could translate into tighter capacity availability and higher rates.**

what was coming was pretty well documented from an industry standpoint, and we were able to effectively plan for the impact with both our dedicated and non-dedicated carriers to ensure risk mitigation. We used feedback from our carrier partners on current operations to adjust pickup and delivery times where necessary so that the transition would be seamless to our operation.”

According to the shipper, the real test in terms of impact on capacity will depend on any economic uptick that may take place this year. That's when the shipper believes we'll see the over-the-road market do some “interesting things,” including tightening capacity and pricing volatility for unprepared shippers.

Of course, whether an actual economic uptick occurs later this year remains to be seen. But either way, what happens with HOS—good or bad—will remain one of the most absorbing stories we'll follow. □

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## Shippers can change the game for 3PLs

IT'S BEEN 15 YEARS SINCE I SOLD A SUCCESSFUL third-party logistics business to a group of investors. And I would like to say that the strategy and market approach of the third party logistics provider (3PL) industry has changed greatly in those years, but I can't.

I hear the same three frustrations from industry colleagues who are running 3PLs. First, they say that they're beat up on margins to the point where there's little left for innovative investments. Second, they're pigeonholed into narrow service areas—usually execution focused in spite of having capabilities to help in supply chain and logistics planning and analytical functions. Third, the relationship with a shipper's staff function such as logistics or distribution inhibits contact with the customer executive team.

Worse yet, they say, is when the purchasing department steps in to block all interaction with key client executives in the name of "arms-length" relationships. Despite the billions spent with 3PLs, most shipper organizations consider logistics non-strategic and relegate it to outsourcing with an expectation that any and all dollars spent as an expense, not an investment.



The above described philosophy of shippers regarding the role of 3PLs leads to unintended consequences. More and more, 3PLs tend to price contracts with an eye toward keeping a "black box" of costs and margin hidden from the shipper customer. This creates mutual suspicion in regard to motives and offers little incentive to go above and beyond the letter of the contract.

Today, shippers need to change their behavior in order to alter the response of their 3PLs. To achieve this, shippers need to better align with their service

**If you have a good partner, but a mediocre performing 3PL contract, don't put it out to bid. Change the contract and strengthen the 3PL relationship so it yields what you need.**

providers to jointly address the dynamic business challenges of both sides of the contract.

Logistics managers need to first get clear direction from the business executives on the role and cost of logistics over a multi-year period. A recent candid conversation with a business executive led to the conclusion that, given their market price pressures, they needed to beat inflation and save another 3 percent or more in logistics.

Once this was out on the table, the 3PL was able to bring forth a comprehensive logistics strategy involving significant investments by them and new inventory strategies by the shipper to achieve the shipper's goal. The executive understood that the 3PL needed to make a decent ROI on those investments and that both parties would work collaboratively to "hit the numbers."

The 3PL got the necessary access to C-level executives and a higher margin. Meanwhile, the logistics manager was invited to more internal executive meetings so she could report and provide input on this new, evolving strategic partnership.

In this issue of *Logistics Management*, I offer a case study (see page 30) involving Grocery Haulers Inc., a leading food transportation 3PL. I encourage both shippers and 3PLs to learn from their recent transformative experience with a major shipper customer.

While there are many ways to get to a collaborative agreement, some fundamental principals will apply. First it must be open and transparent. Second, replace across-the-table negotiations (we vs. they) with joint contract language development within stated guard-rails of term, minimum margin, and maximum budget (the collective “we”). Third, be open to changing behaviors of both organizations. It should not just be about the 3PL adapting to poor business practices of their customers. Fourth, commit to ongoing governance driven by data and the free exchange of information on business strategies.

I fully support the old adage “pick your horse and ride it.” By this, I mean if you have a good partner, but a mediocre performing 3PL contract, don’t put it out to bid. Change the contract and strengthen the 3PL

**“The 3PLs I know are all just waiting for a chance to show customers what they can do to reduce costs and improve service while making some money for their investors as well.”**

relationship so it yields what you need.

We need to change the 3PL game starting with the shipper. The 3PLs I know are all just waiting for a chance to show customers what they can do to reduce costs and improve service while making some money for their investors as well. □



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## The foundation of integrated inventory management

THIS IS NO MAGIC BULLET THAT MAKES IT possible for organizations to suddenly excel at end-to-end inventory management: to hold the right amount at the right place at the right time; to maximize enterprise-wide responsiveness to shifting demand; and to ensure crystal clear views of in-transit, in-process, and finished-goods inventories.

However, there is a foundation that almost any company can use to improve performance by balancing stocks across channels and geographies. Here is a brief look at this four-stage superstructure.

### Governance

In an ideal inventory management world, there's one premier decision maker across all channels and departments. Unfortunately, most companies are not structured this way, which is why inventory improvement initiatives need channel neutral policies and authority hierarchies.

Who, for example, owns the vendor agreements, P&L, and final decision-making responsibility when constraints arise? Setting policies upfront—before launching a transformation initiative—can make it easier for companies to effectively move and share inventory in response to rapidly changing business conditions.

### Decision support

Strong decision support technologies and processes are needed to understand allocation alternatives and make smart choices. A good example is cross-channel inventory management analytics, which can help companies balance and predict the impact of stock reductions or stock movements relative to service levels.

Many organizations are starting to use cloud-based capabilities for this reason—effectively positioning a cloud services provider as the hub in a hub-and-spoke system of communication, intelligence gathering, and decision making. Cloud-based solutions can be implemented across all departments, including purchasing, distribution, and point of sale, and can be accessed from any location, computer, or mobile device. This is what you need in order to understand, observe, and benefit from a company-wide inventory balancing initiative.

### Seamless execution

Companies achieve inventory management mastery by

developing the versatility to smoothly allocate—and reallocate—orders, rebalance inventory to meet shifting demand, and smoothly manage inbound and outbound inventory flows regardless of channel.

This requires companies to excel in at least three areas. The first is inventory positioning: Cross-channel analytics can help your organization decide what goes where and when, but the enterprise still needs logistical expertise to turn insights into actions. The second area is collaboration: Working cooperatively across departments, geographies, and channels is key to the implementation of seamless inventory management.

The third area is dynamic order management, the essence of which is the “informed juggling” of inventory constraints, delivery routes, orders, logistics costs, and service targets, and subsequently following through on smart allocation and delivery choices.

### Monitoring and continuous improvement

Continuous improvement is particularly complex in a seamless environment—where a decision that engenders a favorable impact on one area might easily have a negative impact on another area.

It's therefore critical that companies' improvement programs always speak to the overall—organization-wide—inventory management process. In the end, continuous improvement is not about reacting and adjusting, it's about being able to monitor, make predictions about, and enhance all areas of your operations to achieve the best possible balance of low costs and high sales and satisfaction levels.

### Getting started

Achieving fully integrated solutions for seamless inventory management is a long process. Fortunately, it can be approached incrementally. First, a governance model will need to be put in place to ensure that cross-channel integration efforts (e.g., organizational model, KPIs, financial incentives) follow a consistent direction and that formal policies are established.

The next step will involve standardizing all inventory-related processes that have cross-channel implications. Inventory overseers must establish processes that enable cross-channel functions to operate efficiently while

minimizing risk—just as manufacturing and packaging organizations use sales and operations planning to foster communication and create constrained supply plans.

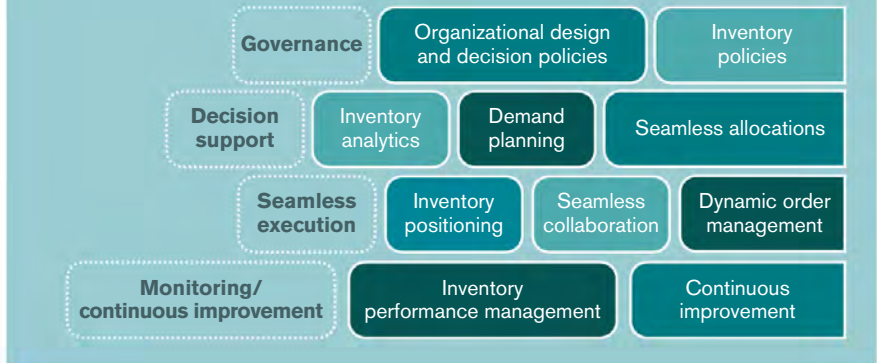
The third stage is to pilot IT and business solutions on a low-risk category or channel for a predetermined amount of time. Conducting pilots before industrializing cross-channel solutions allows you to defer large-scale investments until requirements are more thoroughly understood. Pilots also reduce the chance that rework will be required later.

Armed with the lessons learned during the pilot stage, companies can fully deploy these new capabilities. The new technologies and processes can be strengthened and industrialized to scale as they are being rolled out.

**New territory**

The most potent incentive to launch a seamless inventory initiative might be that very few companies—

**The building blocks of a seamless inventory management foundation**



including your competitors—currently have similar capabilities. Buying and communication channels continue to proliferate, while customer tastes, demand patterns, and logistical barriers shift more frequently. Given these realities, it makes sense that the companies best positioned to profit from these trends will be those with the most seamless—insightful, integrated, responsive—inventory management approaches. □



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## 22<sup>nd</sup> Annual Study of Logistics and Transportation Trends

# Masters co-create VALUE

**The Masters of Logistics have developed strategic partnerships with carriers that enable them to keep costs low while providing innovative service to their customers—and our data show that this value-added perspective is leading to performance that is significantly better than their competitors.**

BY **MARY C. HOLCOMB, PH.D.**, UNIVERSITY OF TENNESSEE & **KARL B. MANRODT, PH.D.**, GEORGIA SOUTHERN UNIVERSITY

**S**ome have said transportation is a street leading to unlimited destinations. On this street, some are headed to a place where transportation is viewed as a commodity. Others have made a dramatic U-turn and are headed towards an end point of long-term

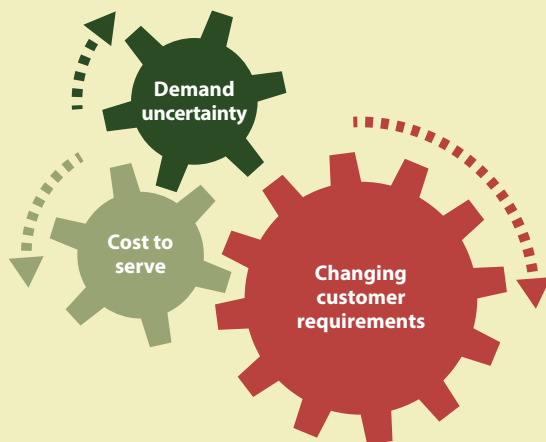
commitment where transportation providers are viewed as critical partners to the success of the firm. Meanwhile, the majority remain in the middle, parked in the off-ramps, wondering why everyone is in a hurry. For those headed to commitment or commodity, the reasons for urgency are apparent and inescapable.

This allegory reflects a trend continued by a group of carriers and shippers towards the co-creation of value, and this group has moved further along the road to positioning transportation as a strategic value-add function. In fact, the results of the *22nd Annual Trends and Issues in Transportation and Logistics (Masters of Logistics)* findings indicate that this “value-added” view of transportation directly relates to better company performance in areas such as profitability, return on assets, competitive position/market share, and customer service.

This year’s findings reveal that the value-added approach to transportation goes beyond the core carrier program: It’s an active two-way street where both parties are committed to the long-term success of the other; a strategic relationship where both parties keep their focus on forging a new way of managing transportation.

In addition to the annual global survey which is the primary source of data presented in this article, the authors, along with survey sponsor Con-way Inc., conducted in-depth interviews with vice presidents and directors of transportation, logistics, and supply chain at *Fortune 100* com-

### The forces of change



Source: *22nd Annual Trends and Issues in Transportation and Logistics (Masters of Logistics)*



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Jean-Francois Podevin

panies as well as discussions with CEOs of the top ranking truckload (TL) and less-than-truckload (LTL) carriers. The interviews provided a wealth of perspective concerning the commoditization of transportation.

The findings in tandem with the interviews point to a pivotal change in the way transportation is being viewed and managed by companies. A critical mass is

emerging at both ends of the “commodity/value add spectrum,” with both sides cite compelling, data-driven reasons for their positioning of transportation. Four of the most frequently mentioned factors that emerged from the study regarding forces that are changing the way transportation and logistics is managed are: business climate; cost to serve; customer service; and functional alignment.

**Business climate:  
Changing, uncontrollable**

Over the past few years, various facets of the business environment have altered how shippers and carriers manage their operations. Participants reported that foremost among these is changing customer requirements, followed by cost to serve and demand uncertainty.

Regardless of size of company or position in the supply chain (e.g. retailer, wholesaler, manufacturer, or supplier), trying to meet the performance expectations and needs of customers is increasingly difficult.

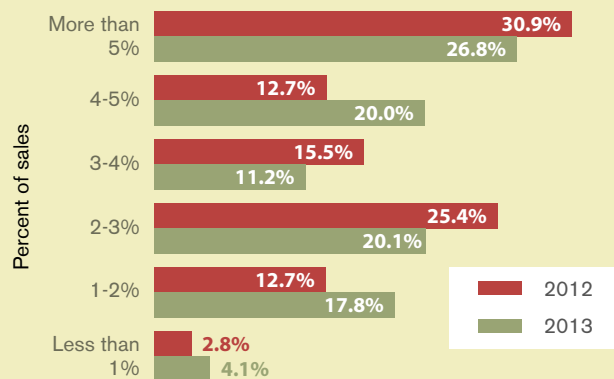
The environment is even challenging for carriers. According to Derek Leathers, president and COO of TL giant Werner Enterprises: “Many trucking companies are dealing with a very high debt load and limited access to credit, equipment is much more expensive, and the residual value of old trucks is low. Added to that, drivers are simply not available.”

What this means for shippers and carriers alike is that flexibility is becoming more critical. The question for shippers is how can they increase their flexibility, especially from transportation providers.

One option would be to use a wide range of carriers. If transportation is all the same, it really doesn't matter who moves the goods. This is the commodity perspective. Or, you could view transportation as a value-added service and work to develop relationships with a set of carriers who will work with you and provide the needed flexibility. Either option provides a response to changing customer requirements. However, the big question is whether or not it's the right one in a few

**Domestic transportation spend as a percent of sales**

(Percent of respondents)



Source: 22nd Annual Trends and Issues in Transportation and Logistics (Masters of Logistics)

years if capacity continues to tighten and transportation costs keep on rising.

**Cost to serve: Transportation's move to the fast lane**

As a derived demand, transportation has reflected inconsistent demand pat-

terns due to changing consumer requirements. The result has been an increase in the cost to serve that is being directly felt in transportation expenditures. This year's study results confirm that transportation costs increased at a brisk rate from the previous year. Companies who spent more than 5 percent of sales on domestic transportation grew from 26.8 percent to 30.9 percent from 2012 to 2013. While this shift was noteworthy, the largest swing occurred for those companies that previously had been spending 1 percent to 2 percent of sales on transportation and are now spending 2 percent to 3 percent, representing a 26.3 percent increase in the companies in this spending category—a difference that can translate into millions of dollars.

Where are transportation dollars being spent? The data indicate that TL continues to dominate the modal picture, commanding 32.2 percent of the transportation budget. TL's portion of the budget has remained essentially unchanged for the past three years suggesting that this mode has reached a sort of equilibrium.

Other data support this conclusion. Some 57.8 percent of companies in this year's study have now completed the move to multiple modes of transportation to meet delivery schedules. An additional 15.7 percent are in the process of implementing this action to gain greater flexibility. “In the past, 3PLs mainly arranged or provided multi-mode capability,” says Brian Mayer, vice president of global logistics and materials management at Eaton Corporation. “Now, for a carrier to be considered a strategic partner they must bring these resources to the table.”

**Allocation of freight dollars by mode**

(Percent of respondents)



Source: 22nd Annual Trends and Issues in Transportation and Logistics (Masters of Logistics)

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The data suggests that LTL, intermodal, and surface parcel are the beneficiaries of this multi-modal approach to meeting transportation needs. In particular LTL, at 21.1 percent of the overall transportation budget, appears to be in somewhat of a resurgence as this mode's share increased for the first time since its high of 28.9 percent in 2007.

**Customer service: Stagnation**

During our interviews, both shippers and carriers frequently mentioned the importance of service. In fact, shippers stated that service was a critical value-add in their strategic carrier relationships. What's driving this focus on service? The data gleaned from this year's study show that, in general, service for the past two years has been stagnate.

Average on-time delivery for the surface transportation modes remained the same as last year, while the percent of correct invoices and equipment availability showed slight declines. Damage rates for all the surface modes, except for parcel, increased dramatically. "With the ever increasing changes in customer requirements, it's hard to increase service," says Tommy Barnes, president of Con-way Multimodal. "To do this, there needs to be some level of stabilization in service requirements."

However, very different results were reported for international modes of transportation. As our data show, on-time deliveries for air freight and ocean improved substantially from 2012 to 2013 as did the percent of correct invoices and equipment availability. This year marks the third consecutive year that ocean has improved its on-time performance.

**Company alignment: Purchasing takes an increasing role**

The way we manage and control transportation is fundamentally changing. Part of this change is driven by where the responsibility for transportation decision-making resides in the company. As Table 3 indicates, transportation and logistics is still the primary func-

tional area with responsibility for managing and controlling transportation processes. However, a closer look at the data shows that when it comes to preparing and requesting quotes and bids, purchasing/procurement either solely, or in combination with transportation/logistics, leads this task in 43.1 percent of companies. Purchasing/procurement is also materially involved in carrier negotiations with 36.2 percent of companies reporting that this functional area either controlled, or jointly led, this activity. As expected, operations planning and carrier performance are primarily directed by transportation/logistics. What is interesting is the percentage of companies in which these core transportation activities are overseen jointly by the two functional areas (19.8 percent and 17.5 percent, respectively).

The data in Table 3 was collected by our large-scale survey and confirms the information we learned through the in-depth interviews: Transportation decision-making seems to be headed in what seems to be opposite directions. In a growing number of companies, pro-

curement/purchasing is becoming much more involved in transportation management. Is this a good or a bad thing?

The overall feeling from the interviews was that when purchasing/procurement is in charge of transportation, this unit often views it as a commodity much like other products or services they acquire. On the other hand, companies that view transportation from a value-added perspective tended to have the function at an organizational level commensurate with sales, manufacturing, etc.

**The "new" Masters of Logistics**

The phrase "Masters of Logistics" was coined during a time when the size of company (based on annual sales revenues) made a significant difference in managing logistics and transportation. Over the years of conducting this study, the impact of the Masters (companies with annual revenues greater than \$3 billion) has ebbed as many of the critical difference-making elements—such as technology and level of supply chain visibility—have become more widely available to companies of all sizes.

**TABLE 1**  
**Key performance indicators for surface transportation modes**

Measure	TL		LTL		Intermodal		Rail		Parcel	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Correct invoice (number of correct invoices / total invoices)	92.5	96.1	94.0	94.6	93.0	96.9	94.8	97.4	93.3	94.9
On-time delivery (number of deliveries received on time/ total deliveries)	94.6	93.9	93.2	93.8	92.3	92.9	89.3	89.2	94.5	94.9
Damage (damaged shipments / total shipments)	2.4	1.0	2.6	1.9	3.5	1.2	4.2	0.7	1.8	1.9
Equipment availability (% of your requests that can be satisfied with available equipment at the time of your request)	92.9	94.0	96.5	97.0	92.6	94.5	95.3	94.1	97.3	98.2
Turndown ratio (total shipments declined / total shipments offered)	3.7	2.5	1.5	0.4	5.1	2.1	4.2	0.7	1.5	0.5

Source: 22nd Annual Trends and Issues in Transportation and Logistics (Masters of Logistics)



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The results of this year's study point towards a shift by the Masters of Logistics that is significantly different from smaller companies. The survey data indicate that the Masters are focusing on continuously improving their transportation processes in order to keep costs low.

Further, the Masters perceive that they are the primary source of innovation in transportation services. The interview data reveal that it's the partnership between the Masters and their strategic carriers that enables them to focus on these two important objectives.

But, let's be clear about this shift. Not every large-size company is moving in this direction. The evidence from the survey shows that in many companies—including a healthy percentage of the Masters—transportation is perceived as a commodity where the services provided have no essential differences, and the selection of a primary carrier relies heavily on price. In addition, the perceived cost of switching to another carrier is low.

One other key trend emerged from the data: The Masters aren't always the Masters of Performance. Smaller and medium size companies, just like a high proportion of the Masters, also reported results that were better than competitors across factors such as firm profitability, return on assets, market share, and customer service levels. In the years to come, we believe that the "new" Masters of Logistics will be dictated by the results they achieve, and

TABLE 2 Key performance indicators for international modes of transportation				
Measure	Air freight		Ocean	
	2013	2012	2013	2012
Correct invoice (number of correct invoices / total invoices)	99.2	88.3	99.4	95.5
On time delivery (number of deliveries received on time/ total deliveries)	97.3	93.3	98.2	92.3
Damage (damaged shipments / total shipments)	1.0	0.3	0.5	0.4
Equipment availability (% of your requests that can be satisfied with available equipment at the time of your request)	98.7	96.4	97.6	93.9
Turndown ratio (total shipments declined / total shipments offered)	.12	0.1	.08	1.5
Turndown ratio (total shipments declined / total shipments offered)	0.1	0.3	1.5	1.2

Source: *22nd Annual Trends and Issues in Transportation and Logistics (Masters of Logistics)*

not by the size of the company.

Analysis of high performing firms found some interesting results, especially around the discussion of commoditization. The majority view transportation and the design and functionality of their transportation services as crucial to their competitive positioning. High performing companies also feel that their primary or core carriers help them acquire new customers through the services they provide.

"We have to deliver more services and be deeper in the customer's business," says Leathers. "To have a successful partnership we have to 'swim upstream' in their supply chain."

However, the focus is more than just transportation effectiveness. High performing companies reported that they are constantly improving transporta-

tion operational efficiency, in addition to continuously refining and improving services in order to keep costs low. "Mutually looking at ways to take costs out of the equation is an expectation of our strategic carrier partners," says Eaton's Mayer.

Barnes, of Con-way Multimodal, agrees with this top shipper. "To deliver value-add service we have to embrace a lean culture that constantly seeks ways to reduce costs while delivering differentiated service."

Are high performing companies and the Masters of Logistics forging a new path to the future through their value-added view of transportation? Certainly the results of the high-performing group hint that this is the case.

It is too early to conclude that this view alone drives company performance that is much better than competitors? The findings from the in-depth interviews suggest that as the business and regulatory environment continues to create adverse operating conditions, strategic relationships between shippers and carriers where transportation is viewed as a value-added function will have a significant impact on the company's performance.

Changes to the hours of service rules, the impact of CSA 2010, the volatility of fuel prices, tightening of carrier capacity, the uncertainty of demand, and changing customer requirements are just a few of the adverse conditions that face transportation in the near future.

The question to be answered in future annual studies is which view of transportation—value-add or commodity—will contribute to better company performance. The answer to this question is right around the bend.

*Mary C. Holcomb, Ph.D., is associate professor at University of Tennessee; Karl B. Manrodt, Ph.D., is a professor at Georgia Southern University. Both are frequent contributors to Logistics Management*

TABLE 3 Who Makes Transportation Decisions?				
	Preparation and solicitation of RFQs	Carrier Negotiations	Operational Planning	Carrier Performance Evaluation
Purchasing / Procurement	16.5%	14.5%	7.4%	8.8%
Transportation / Logistics	50.6%	57.8%	67.9%	68.8%
Jointly by procurement and transportation	26.6%	21.7%	19.8%	17.5%
Other	6.3%	6.0%	4.9%	5.0%

Source: *22nd Annual Trends and Issues in Transportation and Logistics (Masters of Logistics)*

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# Rethinking 3PL contracts

**In this new era of collaboration, some third-party logistics providers (3PLs) are working with enlightened shippers on a new approach rooted in recognition that better logistics management can have a direct impact on the bottom line for both parties. Here's one example of how it's being done.**

BY PETER MOORE AND STEVE SYMMES, SUPPLY CHAIN VISIONS

In conferences and candid discussions, third party logistics provider (3PL) executives have shared their desire to be more strategic with their customers in an effort to add significant value to the relationship.

However, 3PLs are all too often seen by shipper organizations simply as a way to reduce the cost of managing a necessary, but not a terribly interesting part of their business. Some 3PLs are beginning to work with enlightened shippers on a new approach rooted in recognition that better management in logistics can have strategic implications to the shipper's business.

For example, last year, Grocery Haulers Inc. (GHI), a leading food transportation 3PL, began a concerted effort to change its relationship with a current customer, a major food producer. GHI was providing contract carriage and extensive third-party transportation management under multiple agreements at multiple locations for this shipper. The work involved both outsourced fleet operations and the management of common carriers in the dynamic business of fresh food delivery.

Like many 3PLs, GHI team knew they could add even more value to the shipper's operations, but the contracts they had did not encourage continuous improvement and innovation.

With several dedicated carriage, fleet, and transport management contracts coming to an end, GHI and the shipper engaged the authors through Supply Chain Visions, a logistics management consultancy, to take them through a process together that would yield a new, long-term master agreement based on "vested" principles.

Simply put, the vested approach preaches a best-in-class, transparent relationship based upon mutual goal setting and the elimination of nonproductive tactics, habits, and tribulations. "Vested has not only afforded us an opportunity to create a win-win opportunity with our customer, but also with ourselves," says Marisol Culley, chief administrative officer of GHI.

## Getting started

The first step was for the joint shipper-3PL team to perform a compatibility and trust (CaT) survey as a part of a current deal review process to discover if they had a good working relationship at all levels of the companies. "The review provided welcome perspective from the day-to-day business relationship and allowed the parties to decide to cement the relationship further by focusing on discrete areas to improve," says Mike O'Malley, vice president of engineering and operations at GHI.

According to O'Malley, one of the most valuable lessons of a current deal review is the exercise of reviewing the state of the relationship first independently, through self-assessment, and subsequently with customer and service provider representatives together at a day-long retreat. For GHI, the authors found that the survey revealed that GHI continued to be a good fit with the shipper, but that the new agreement would have to have a strong governance component and a mutually beneficial pricing component to drive continuous innovation.

"The process underscored the value that we have always placed on having a transparent relationship with our





customers” says Mark Jacobson, president of GHI. “Vested is not an off-the-shelf solution. It requires the parties to spend time and resources exploring solutions to their existing relationship.”

Supply Chain Visions serves as a center of excellence for vested way resources and was able to provide access to templates as well as draft language as certified deal architects (CDAs) knowledgeable in vested methods. The joint business team comprised of GHI and their customer counterparts in logistics operations, legal, finance, and sales.

### **Encourage innovation**

The first area of focus was to encourage innovation on both sides of the new agreement. O'Malley and the GHI team described the process with the customer as “an investment in our collective futures by reaching our mutual goals and objectives.”

One concrete example is the commitment by both parties to engage two full-time “continuous innovation managers” to focus on the desired outcomes to be best in class and drive costs out of the system. This investment decision, made by both companies, was the result of a realization that they needed to keep full-time attention on innovation including data analysis, freight market trends, as well as equipment utilization.

The innovation managers are now a part of a new governance structure designed to keep the two companies aligned over the length of the contract. As a vested agreement has most of the business arrangement outside the master services agreement (MSA) in schedules and exhibits, the joint

business team is able to manage and amend language as needed to keep the agreement relevant to the ever-changing conditions in logistics.

“It provides us a framework to govern the relationship, has helped us identify mutual goals and objectives, and it provides a platform for identifying best practices in both organizations,” says Eddie Rishty, CFO of GHI. “Perhaps most importantly, it dictates that the customer and service provider must work closely and collaboratively to optimize the output, which in turn develops trusting relationships.”

According to O'Malley, the vested approach challenges the “business as usual” stasis with much more vigor. Members of both teams are driven to examine business processes and activities, and explore more efficient ways to complete the job. Activities are scrutinized with an eye towards reducing expenses, he adds, while maintaining or improving service levels.

### **Joint vision, desired outcomes**

Every shipper wants to know how new collaborative style contracts yield better cost and service models. Implementing a new agreement should begin with both parties agreeing on a joint vision and desired outcomes.

Desired financial and service performance goals are a part of this collaboration. Once GHI knew what the bottom line target was for the shipper, they were able to help craft a solution that could meet that target and allow for them to reach their desired margins as well.

Kate Vitasek of Supply Chain Visions calls this step “skinny dipping.” First, the shipper and then the provider disclose their true financial objectives. This allows them to see what would make the contract successful for each other and begin to address how they get there.

“From a financial perspective, learning the ‘vested rules’ and applying them to a vested agreement has guided both the supplier and shipper to align their interests to maximize the savings from the relationship” says Rishty. This full disclosure of business goals allows the relationship to change from buyer-seller as advisories to one of partners reaching together for financial reward.

Rishty and the GHI executive team describe it as working with vested, where the parties create a unique, revenue sharing pricing model that, while challenging to develop, has the capacity to reward both parties for achieving mutually identified goals and objectives.

### **Crafting the MSA**

The attorneys for both companies can find this contract design a bit challenging, but ultimately it puts the major parts of a contract in the right hands. The attorneys then craft and “own” the MSA, while the business folks develop and own the business arrangement schedules which can remain dynamic and changeable without reopening the MSA.

“Vested permits the parties to construct their legal arrangement premised on core business principles, without being weighed down by the usual focus on ancillary issues,” says Jay

Sabin, general counsel and vice president of Human Resources at GHI.

“The vested coaches will insist that the attorneys learn the contract design right along with the business team so that they’re not a hindrance to the new process. Thus, the attorneys are in a position to support the finished docu-

ment design” says Vitasek.

The finished document with MSA and schedules for key elements such as safety, governance, pricing, and incentives came to reflect the joint work of both companies in forging a plan for success in logistics planning and execution over a multi-year agree-

ment. One significant change was the adoption of a cost per food unit for distribution as a key metric rather than a cost per mile. It changed the way both companies deal with all logistics functions supporting distribution as a critical operations area that can support strategic business goals. It also led to the addition of the scope of work assignments for GHI as the shipper was motivated to add more responsibility to GHI under the new collaborative contract model.



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### **Closing advice**

For shippers, the collaborative contract frees the 3PL to do what they do best and help align their company's financial and service goals with those of the shipper. Ideally, shippers should not experience frustration with a 3PL after a just few years, as innovation should drive continuous productivity gains and improve the relationship on both sides.

However, shippers need to be prepared to make some process changes and be much more transparent about the challenges and opportunities inside their business.

In the meantime, the GHI team had some suggestions for other 3PLs that are looking into a new type of contract with their shipper customers. “Keep an open mind, go through the process as a team, and be prepared to spend a fair amount of time and effort learning the vested way with your partner,” says GHI's Culley.

However, this doesn't happen without executive commitment on both the 3PL and shipper's sides. “It plays a very strong role,” adds Jacobson. “Only with executive level commitment of customer and service provider will the rest of the organization see the benefit of investing the time and energy in developing a vested relationship.”

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*Peter Moore is the columnist for Logistics Management and Program Faculty Member at the University of Tennessee Center for Executive Education. Steven Symmes is a Certified Deal Architect in the Vested Way process and Senior Consultant at SC Visions, a Center of Excellence in Vested Outsourcing.*



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	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
<b>12-Month Average</b>	<b>98.7</b>	<b>97.4</b>	<b>97.2</b>	<b>98.9</b>	<b>98.1</b>	<b>98.0</b>

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

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Respectfully,

**Ronald Lefcourt**

President, Alliance Shippers Inc.



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# Maximizing WMS

**Our technology correspondent shares how two logistics organizations are getting the most from their warehouse management systems (WMS) while gaining shipping efficiencies and streamlining their supply chains along the way.**

BY BRIDGET MCCREA, CONTRIBUTING EDITOR

**T**hese days, it's not enough for a logistics operation to purchase new software, get it up and running, and then hope that it meets or exceeds expectations. There's employee training to plan for, integration with other systems to assess, and a wide range of software functionalities to consider.

Getting the most out of a warehouse management system (WMS), for example, requires a bit of extra elbow grease and initiative to ensure that operations are fully leveraging all that the software has to offer. Ignore one step and you could wind up owning and utilizing a WMS that never lives up to its full potential.

However, even if an organization is not

realizing maximum benefit from its existing WMS, firms are certainly aware of the software's value. According to the *Logistics Management 2013 Technology Usage Study*, 50 percent of logistics operations are currently using the systems—the highest percentage of any supply chain software solution.

And of the 33 percent of logistics professionals who say they plan to buy supply chain software this year, 44 percent will be looking to acquire WMS. For most logistics managers, the key functions a WMS will handle include label printing, warehouse equipment, freight/package rating, and slotting.

Over the next few pages we'll learn how two very different logistics operations

implemented, currently utilize, and are now benefiting from an optimized WMS. One essentially “layered” an optimization option on top of an existing WMS, and the other purchased a new WMS and integrated it with an ERP that was already in place to realize more bang for their buck.

Both companies rely heavily on fast inventory turns to keep their bottom lines healthy, but each also has its own unique set of requirements when it comes to warehouse management. Here are their stories.

### 1. Harvard Drug: Improving inventory turns

Harvard Drug Group, LLC, of Livonia, Mich., has had its WMS in place since 2005, but it wasn't until 2011 that the wholesale distributor of prescription and over-the-counter drugs truly began getting the most out of the system.

With four U.S. warehouses handling its retail, private label, chemical, and veterinarian product distribution, the 550 employee company depends on common carriers, UPS and FedEx to deliver its goods throughout North America on a partial shipment basis.

Up until 2011, Harvard Drug relied on a combination of Excel spreadsheets, homegrown/proprietary software, and its WMS to manage its warehouses. Kerry Porter, vice president of inventory management, says that the setup was inefficient and difficult to manage. Inventory turns were low, fill rates were unsatisfactory, obsolete inventory levels were high, and buyers were juggling spreadsheets in an effort to stock the firm's four warehouses with more than 18,000 products annually.

An inventory and replenishment strategy overhaul was definitely in order. “In our business, inventory turnover is everything,” says Porter. “We're a cash flow dependent entity; the faster we turn inventory the more money we make.”

In 2011, Porter says that Harvard Drug spent about 90 days examining its organizational processes and structures and conducted time studies on what employees were doing with their time and whether those activities added value or not. “We looked at how

we were doing things at the time,” says Porter, “and how we could be doing them better in the future with the help of the software.”

From that exercise, the company was able to identify its key pain points—such as low inventory turns—and develop an RFP for an optimized WMS. Harvard Drug then explored options from several best-of-breed WMS providers. Fast installation and implementation times were the key selection factors, according to Porter, who says the company picked Manhattan Associates' inventory optimization solution.

“We knew that the sooner we could get up and running, the faster we'd start capturing the incremental cash flow that we were seeking,” says Porter.

**Improved efficiencies.** Live since October 2011, Harvard Drug's optimized WMS has produced a number of positive results. The company has experienced an 87 base point improvement in inventory turns year over year and its fill rates are up 430 base points year over year. It's also made an impact on cash flow, according to Porter, who says that capital is up 270 base points year over year, while obsolete inventory has been reduced by about 35 percent.

Some of these improvements were natural offshoots of automating a largely manual, spreadsheet based operation. Ranked by service level, for example, product SKUs can now be tracked according to how quickly or slowly they move in and out of the warehouse. Buyers can easily see these metrics on their computer dashboards and make more accurate decisions around safety stock—thus freeing up cash that in the past would have been spent “overbuying” slower moving SKUs.

Harvard Drug's sales forecasting engine has also improved, namely because the company is using its WMS to determine upcoming demand on a more frequent basis. “When we were buying manually we were using monthly buckets,” says Porter. “We've since moved to a weekly basis.” The company has saved man hours that were once spent manually writing out purchase orders that are now keyed in, reviewed by the appropriate parties, and



According to the *Logistics Management 2013 Technology Usage Study*, 50 percent of logistics operations are currently using WMS—the highest percentage of any supply chain software solution.

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“Our buyers’ efficiencies have improved by about 30 percent due to the automation and optimization,” says Porter. Those efficiencies allowed Harvard Drug to shrink its procurement department by three full-time employees to a current 10 workers. On an organizational level, the optimized WMS helps the company be more nimble and has freed up funds that can now be used to pay down debt or reinvest in its business.

“Besides overhead, our next biggest expense is inventory,” says Porter, who estimates that inventory levels have been reduced by 10 percent to 15 percent since mid-2011. “Anytime we can reduce inventory and start turning SKUs faster, that equates to capital for us.”

**Tackling SMI.** Right now, Porter says Harvard Drug’s WMS is about 80 percent optimized. He adds that the company is now looking at how to optimize the SKUs that don’t turn over so quickly—also known as slow moving inventory (SMI).

“We’re going to start toying around with that to see if there are functions that can be maximized to bring inventory levels down on our slower moving products,” adds Porter.

### 2. Cremer S.A: Gaining Efficiencies with a Centralized WMS

With 39,000 pallets positioned in seven different distribution centers throughout Brazil, Cremer S.A., located in Blumenau, has grown both organically and through acquisitions over the last two years. A provider of health related products, the company supplies first aid, surgery, treatment, and hygiene related goods to hospitals, retailers, dentists, industrial firms, and other customers.

As the company grew, so too did its need for an optimized warehouse solution that would allow it to effectively manage its expansive supply chain. “Increased SKUs, growing inventory, and a greater number of customer requests were resulting in larger and more complex needs within our distribution centers,” says Marcelo Jorge Fernandez, operations and CIO director. “Handling it all was impossible without a WMS.”

Fernandez says that the 3,500-



employee company, which ships about 600,000 SKUs every month, evaluated several WMS options before selecting Infor EAM. He says that the firm’s specific needs included a strong solution with a mild infrastructure network capable of “supporting various websites while still providing a low total cost of ownership.” The company also wanted a scalable system that could provide centralized data management across its various DCs and one that included an algorithm to prioritize storage and picking.

**Making the choice.** The fact that Cremer had been using Infor ERP since 1994—and that it had just upgraded to Info LX in 2012—made the WMS selection process easier, says Fernandez. Already well-versed in the use of the company’s solutions, and armed with ample space available on its IBM servers, Cremer opted for an on-premise installation over a cloud-based WMS. Fernandez says it was the right choice for Cremer, which was interested in fast implementation times. In its Sao Paulo DC, for example, the company was able to install and start using its new WMS within four months—with all of the DC’s data also integrated into Cremer’s ERP system.

As with any new software installation, this one did present its fair share of challenges for Cremer. “Our challenges focused on both processes and people,” says Fernandez. “Software deployments bring forth the processes embedded in the solution and, consequently, some people are not prepared to work within these established processes.”

In many cases, Fernandez says companies ignore the internal process of a distribution center and then wind up

**“All of Cremer’s distribution centers are standardized and using business intelligence tools connected to its WMS to make smart, knowledge-based decisions across the supply chain.”**

—Marcelo Jorge Fernandez, Cremer S.A.  
operations and CIO director

having to retrain staff based on the new processes and procedures. To avoid that trap, he says Cremer took a more proactive approach to the issue. “In our case,” he says, “we trained our people for up to two years in advance to align all of the operations of multiple distribution centers.”

**Measuring the benefits.** According to Fernandez, the WMS has helped Cremer organize and improve its logistics processes and has resulted in 20 percent workforce efficiency gains and a 5 percent reduction in procurement costs due to the introduction of e-procurement processes.

Fernandez says that the company now has full control of the operations within its DCs and that it’s been able to grow—both in sales and head count—without having to adjust its WMS.

**A step further.** As part of its WMS optimization strategy, Cremer also installed 120 Seal Tecnologia mobile data collectors—integrated into its WMS—in its DCs. According to Fernandez, the collectors provide an added level of mobility that’s helped Cremer better control its stock, improve productivity, and prepare dispatches in less time. “Where it used to take us four days to inventory 9,000 items,” says Fernandez. “Now it only takes a day.”

Fernandez is confident that Cremer is maximizing its investment. “We’re experiencing mature use of our WMS,” he says. “All of Cremer’s distribution centers are standardized and using business intelligence tools connected to its WMS to make smart, knowledge-based decisions across the supply chain.”

*Bridget McCrea is a Contributing Editor to Logistics Management*



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# China Logistics: Build it and they won't leave

**Threatened by “emerging nation” neighbors that can provide cheaper labor and more cost-effective transportation, China is now pushing back with even more development to keep pace.**

BY PATRICK BURNSON, EXECUTIVE EDITOR

**C**hina demonstrated more than two decades ago that a “Field of Dreams” strategy could actually attract new trade and commerce. Now that it retains regional market share, the nation is hardly resting on its laurels. Today, leading industry analysts note that, once again, there’s a huge push being made to develop inland ports, airports, and intermodal networks in anticipation of heightened competition by its “emerging” neighbors.

More and more of China’s manufacturing operations are shifting inland. The results of the “Go West” policy—once brushed aside by foreign manufacturers in the early 2000s—can now

be clearly seen in inland locations.

As part of its World Winning Cities program, Jones Lang LaSalle recently released *China 50*, a report on 50 cities across China beyond its Tier One cities that will offer substantial commercial real estate opportunities over the next decade.

“Major centers such as Chengdu, Chongqing, and Wuhan (Central China), and Shenyang (in the North) have sprung up as major manufacturing hubs in the past five years,” says KK Fung, managing director for Jones Lang LaSalle Greater China. “These cities are home to enormous campuses for some of the world’s largest manufacturers across a diverse range

of products and industries, including Ford, Intel, HP, GE, P&G, Siemens, and Samsung.”

And surrounding these manufacturers, adds Kung, are entire ecosystems of foreign and local suppliers, all depending on evolving logistics and transportation infrastructure to remain viable in the future.

### **Massive stimulus**

One ongoing benefit of the rapid growth matched with unilateral political control is China’s investment in its infrastructure. New rail and roadway systems are helping to spur commerce and facilitate the efficient movement of goods and materials throughout the



PORT OF SHANGHAI

country, especially in quickly developing inland provinces that have lacked the transport connections in the past.

Much of this was funded through massive stimulus campaigns and local government borrowing, but firms looking to site inland warehouses or distribution centers will see some payoff in efficiency regardless.

“Several Chinese developers have achieved U.S.-like efficiencies in creating inland-rail-served logistics parks, and are now exploring the potential of replicating their efforts in several strategic locations,” says Michael Kilbaner, head of research for Jones Lang LaSalle China. “And even though the sector is declining internationally, air cargo has been in growth mode in China. In that time, new trade lanes to central China and central Europe have boosted overall volume.”

Kilbaner notes that over the past few years, as production labor has

become progressively more expensive in China and as the government has strategically sought to spur growth in the north or west, manufacturing has migrated away from the coast into newer, lower-cost regions, away from Shenzhen and Guangdong.

“China is now recognizing the profits from years of infrastructure investment,” Kilbaner says. “While much of this was initially directed toward the coastal regions, more funding is beginning to come online in the country’s interior, which further supports a maturing logistics economy and transportation network efficiencies.”

Cities like Chongqing and Chengdu have burgeoning industrial areas and growing populations. Even shifts slightly inland from Shanghai to locations such as Kunshan and Suzhou—both less than 100 miles away—can dramatically cut costs. Yet, there are still huge inroads that need to be made.

Trucking in China, for examples, is highly regulated, lacks sufficient economies of scale, and continues to fall short of the sophistication that U.S. shippers experience on a daily basis.

### **Navigating a tricky landscape**

Connections still drive the leasing and investment market in China, especially for warehouse and logistics space, which does not generate the same volume of local jobs as manufacturing, technology, or professional services enterprises who have an easier time securing new space. There has been some inclination in the past to under-allocate land for warehouse or distribution use, thus leading to a shortage of modern, prime quality inventory.

China’s industrial real estate market is also seeing a welcome move to greater transparency. While the market is certainly still in its developing phase, many of the Tier One cities have been



actively developed and penetrated by international industrial developers since 2003.

Prologis, Global Logistics Properties, and Goodman have all had a presence in China for at least five years and as long as eight years. That experience is vital and can be leveraged by new tenants of either developer.

According to Jones Lang LaSalle,

regardless of the number of years experience that these large players have—or the experience that the up-and-coming international and domestic developers are trying to gain—each faces the same hurdle of a tightly constrained land supply. Acquiring land can take years. Once development starts, much of the space will already be leased upon practical completion. With that, new mar-

ket entrants will not be blessed with a wide range of options to choose from.

Analysts add that care must also be taken should new multinational corporations entering China seek to form contractual leases or build-to-suit relationships with the development arms of local government in industrial zones or enterprises. Often the level of technical sophistication may not be as high as those private developers, nor are these groups motivated to provide the same levels of asset management and property maintenance as a true professional landlord would.

Klaus-Dieter Ruske, global industry leader for PriceWaterhouseCooper's (PwC) Transportation & Logistics division, observes that the Chinese State Council issued new directives aimed at the sustainable development of the country's logistics sector.

In addition to calling for increased investment and the redistribution of logistics resources, the Council ensured that logistics companies would enjoy greater tax relief. Officials declared that in order to grow with this market, it is crucial to identify and tap into the

### The 9 rules for partnering with logistics services providers in China

**R**osemary Coates, president of Blue Silk Consulting, and author of *Nine Rules for Logistics in China*, shares these insights and caveats related to partnering with logistics service providers in this ever complex marketplace.

**Rule 1:** *Be sure to select logistics providers and partners with global networks and standards, and measure them regularly and rigorously.* For distribution within China, verify the capabilities of partners and understand the delivery points.

Companies should not assume that every delivery place can accept trucks, has forklifts, or other equipment. Verify where you plan to deliver—dock, warehouse, or other location—and the equipment available.

**Rule 2:** *Logistics providers should have sufficient IT staff to integrate or interface their systems with any company's systems.* Closely tying IT systems creates a deeper level of partnership that must be monitored and managed. Importers should plan to go to China on a regular basis to review the logistics operations and the associated IT systems.

**Rule 3:** *It's prudent to go through a bidding or RFP process every two to three years.* Even if a shipper does not want to change providers, this will at least provide an opportunity to review the business in depth and determine where improvements can be made.

**Rule 4:** *Consider Central China.* Coates says that wages are lower, and transport infrastructure is rapidly improving in this

region (see main story).

**Rule 5:** *Conduct quarterly business reviews.* These reviews should be multi-dimensional and include quality and productivity measures in addition to activity measures. Both the shipper and the logistics provider should complete the review process in order to provide two-way feedback.

**Rule 6:** *Know Your Incoterms (International Commerce Terms of Sale).* Correct use of Incoterms helps to provide legal certainty between buyers and sellers. To be sure of using Incoterms correctly, shippers should consult the full ICC texts or use a consultant.

**Rule 7:** *Export/import compliance is required.* Add a review of compliance systems and procedures to your checklist for every visit to China. A company's internal audit and trade compliance staff can assist with developing this.

**Rule 8:** *Setting up an effective and efficient domestic Chinese distribution system will take time.* Companies need to consider and vet logistics providers, resellers, and wholesalers.

**Rule 9:** *Visit China often.* There is no substitute for regular, structured visits to vendors and logistics providers in China. Companies should never assume that just because policies and procedures are stated in a contract that any of them will be followed.

—Patrick Burnson, Executive Editor



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PORT OF HONG KONG

potential of the national economy.

A recent PwC study titled *Logistics in China: An All-inclusive Market?* examines the characteristics of China in this regard. The survey is based on interviews with customers of logistics service providers in the automotive, retail, consumer goods, chemicals, mechanical engineering, construction, and plant engineering industries.

"With the data we collected and through our own expert opinions, we aim to support logistics companies and their customers in China in their efforts to stake out a strategic market position," says Ruske.

The study reveals both the potential for entering the market and for expanding existing activities. However, the survey also shows that there is room for improvement in terms of customer satisfaction in all the industries included.

This customer assessment applies equally to all logistics service providers. Both retail and manufacturing companies in China remain very conservative in terms of outsourcing; however, they are still not taking full advantage of the services offered by

logistics service providers.

"Today, logistics entails much more than the simple handling, transport, and storage of goods," says Ruske. "Logistics service providers have long since developed intelligent solutions for the entire supply chain. Shippers, for their part, expect a service provider with a high degree of technological competence—and therein lies the opportunity for experienced logistics providers to expand their inland activities in China."

### Investing in human resources

Recent research conducted by KPMG, a major U.S. auditing firm, reveals that U.S. investment in China's human resources is also crucial to success. Creating better working conditions, say KPMG analysts, can improve profit margins and increase manufacturer's competitive advantage.

"Our China report shows examples of business cases for investing in working conditions, with the payback time ranging from 4 months to 20 months," says Jerwin Tholen, associate director of sustainability at KPMG Climate Change and Sustainability Services.

At the higher end of this range in China, manufacturers may be reluctant to invest if they don't have the commitment from brands to co-invest or at least continue working with them for an extended duration, notes Tholen.

"While the effects of investing in working conditions are strongly dependent on the context in which these take place, such as the country and industry sector, the analysis suggests that workers who are more engaged, and enjoy better working conditions, are more likely to be more productive and stay longer, which helps to pay for those investments" Tholen adds.

In China, where labor supply is becoming increasingly constrained and wages are rising fast, reducing worker turnover is a key competitive advantage for manufacturers. "Improved working conditions can pave the way to a more sophisticated level of manufacturing, in which the focus shifts from costs to skills and adding value," Tholen observes.

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*Patrick Burnson is Executive Editor of Logistics Management*

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# Lift Truck Technology: How to listen to a lift truck

**The lift truck is evolving into a platform for data collection, enabling managers to optimize the equipment, the operator, and the facility.**

BY JOSH BOND, EDITOR AT LARGE

**F**ew fleet managers will be surprised to learn that a modern lift truck can collect data about every facet of its operation, well beyond the simple hour meter. Many are familiar with the concept that microprocessors onboard even the most standard lift trucks are ready to interface with computers, tablets, voice systems, or a warehouse management systems (WMS). What they might not know is that this capability is not reserved solely for massive fleets with deep pockets.

The brains inside modern lift trucks are great for turning them into advanced mobile data collection platforms, but they are also designed to enable small, specific changes to a lift truck's operation, even for a fleet of one. These changes increasingly allow a lift truck owner to shape the lift truck to the application while improving the productivity and uptime of both.

With plug and play technology, a lift truck can even be made to respond

to voice commands. Other solutions enable reach truck forks to rise to the precise level of the pallet opening at the push of a button. By collecting information about a lift truck's travel through a facility, it's also possible to identify areas of traffic congestion, restructure the placement of racking, or pinpoint problems with the floor surface that could lead to excessive damage.

But for all the innovative options, the most important factor to consider before a fleet owner unlocks the potential of the modern lift truck is whether it will create measurable results. "A lot of technology has come onto the scene in the last 10 years, and it can be distracting to a fleet owner who is just trying to procure a piece of equipment," says Scott McLeod, president of Fleetman Consulting, an independent forklift fleet management and procurement consulting company. "As lift truck suppliers try to differentiate themselves, customers should be careful about gimmicks and look for tangible results."





To help readers feel less overwhelmed and more empowered, *Logistics Management* spoke with a collection of lift truck suppliers to learn how a few technology options can be best used to optimize productivity and processes.

### Listening to the lift truck

Borrowing from the automotive industry, diagnostic ports and microprocessors began to creep into lift trucks within the last decade. Lift trucks

are now primarily not governed by mechanical systems, but by electronic ones, with wires replacing levers. Sensors embedded throughout the lift truck can now collect data about every aspect of a lift truck's operation, from lifting and lowering to idle time and average speed.

In an effort to make the most of this available data, the popularity of fleet management technology has grown as well, even if the results of such implementations have been mixed.

The most common culprit of a failed implementation is the inability of the customer to effectively manage all the data the lift truck can produce.

"Data in a variety of platforms, many times not integrated, can be overwhelming to customers if left unattended," says Mark Faiman, product manager, IC, AWP, and GSE products for Toyota Material Handling. "The customer might review reports periodically, but without a conclusion or direction little progress can be made toward improving



DANIEL VASCONCELLOS

## Warehouse/DC Operations: Lift Truck Technology

a process or productivity.”

Thankfully, the technology on lift trucks allows data to be relayed directly to the dealer, who is increasingly called upon to manage that data on behalf of the customer. “When customers buy this technology, probably 80 percent of the time their expectation is that they will somehow get control over it themselves,” says Jonathan Dawley, president of Hyster Company distribution. “Then they find that they really don’t have the time to dig through all the data. The other 20 percent of the time, we are effective in explaining that our fleet management expertise can help them focus on their core competencies.”

For instance, a lift truck can report a fault code to a service technician who can repair the problem before the customer or operator knows something is wrong. An overheated lift truck might need \$20 brushes and one hour of labor. But in the interest of productivity, an operator might turn the lift truck off, reset the fault code, and get

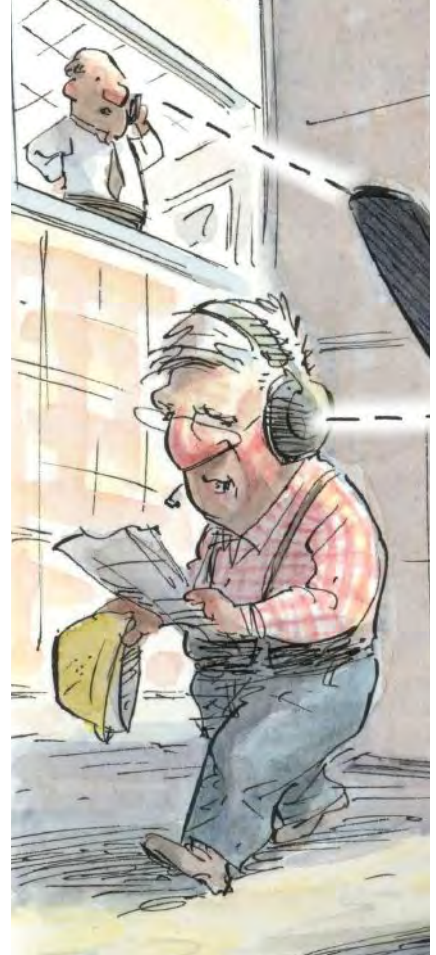
back to work.

“They’ll keep doing that until the equipment fails,” says Scott Craver, product manager of business and information solutions for The Raymond Corporation. “That customer is now looking at a blown \$700 motor and a much lengthier downtime.”

### **Reading between the aisles**

The assortment of sensors on a lift truck is good for tracking what lift trucks do best, which is pick things up and put them down. But the data they collect also paint a picture of processes and pinch points throughout a facility.

“By far, the biggest trend we see is creating business intelligence using the lift truck almost as a sensor in the warehouse,” says Lew Mancini, director of product development for Crown Equipment. “It has to do with the fact that the WMS can see what happens at each bar code scan, but it can’t see what happens between them. The lift truck now has the capability to



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## Warehouse/DC Operations: Lift Truck Technology

collect that information and provide it to management.”

Managers can now identify high traffic points and look at how the facility layout might change to make traffic run more smoothly. And while impact monitors will tell a manager when a collision has occurred, says Craver, a deeper look into the data might reveal that the operator is not entirely to blame for each impact. Damage could also be caused by variances in the dock level or cracks in the floor that can ruin wheels and tires, resulting in big costs.

According to Carver, one customer used this technology to detect that a particular operator tended to have a lot of impacts around 10 a.m. every morning. Someone else had been unloading trucks and putting some heavy materials in the operator's way. While navigating the containers, he would often collide with them. “We adjusted the facility layout, creating a path that improved that operator's speed and productivity while eliminating that

damage,” says Craver. “Some managers might just write him up. Others will look into the data for a huge return on investment.”

### **Beyond picking things up and putting them down**

Even the most rudimentary modern lift trucks come with standard diagnostic ports and microprocessors. “The difference between lift trucks of today versus 10 years ago is that they have a brain,” says Bill Pfleger, president of Yale Distribution for Yale Materials Handling Corporation.

But while the electronics embedded throughout the lift truck are great for sending data out, they also allow commands to be sent in. The operator's controls no longer rely solely on levers and hydraulics, but pass through the central brain of the lift truck. This allows a variety of technologies to directly control various functions of the equipment.

For instance, when integrated with the facility's WMS, an onboard

computer can direct an operator to a pick location. Once the operator reaches the location, whether 100 inches or 400 inches high, he or she can simply press a button on the computer screen to send the forks up at the fastest possible speed before they stop precisely in front of the pallet opening.

Similarly, the lift truck's onboard intelligence can control the process of lowering the mast. By monitoring the forces applied during descent, it's possible to more than double the speed of lowering. “In tall or narrow aisle racking, lowering can account for 25 percent of the overall lift truck cycle,” says Mancini. “By doubling the speed, customers can see a 12 percent or 13 percent improvement in productivity.”

The microprocessors in a lift truck can also enable anti-slip technology that monitors wheel spin and improves traction in applications with slick floors, such as cold storage. The same onboard electronics make it possible to configure a pallet jack to accept voice

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commands, says Dawley.

By integrating with an existing voice picking solution or operating as a standalone module, this voice technology can allow a picker to advance the lift truck while a few steps away in a pick location. Married with some guidance technology borrowed from automated guided vehicles (AGVs), the lift truck can even sense and avoid obstacles as it moves alongside a more productive picker.

### Tailoring the lift truck

Instead of shaping an application around the limitations of an off-the-shelf lift truck, technology enables a lift truck to be highly customized to the application. One example is narrow aisle applications, where traditional wire guidance or rail guidance are enough to keep the lift truck safely away from racking. But radio frequency identification (RFID) technology is capable of communicating a variety of information to the lift truck that can alter its performance, according to Chad Munger, product line manager, warehouse products, for Mitsubishi Caterpillar Forklift America.

For instance, an RFID transponder embedded in the floor of a facility can ensure a lift truck will only lift to a certain height near low-hanging air handling units or conveyors. It can control deceleration at the end of an aisle, or bring the lift truck to a complete stop.

By tracking the speed and direction of travel of the lift truck, RFID can also position the equipment in three dimensions. If moving from one elevated pick location to the next, the operator need only apply the throttle and the system will determine the precise optimal speed to travel forward, lower, then elevate again, ending directly in front of the desired location.

“When an order or command is received, the operator simply navigates to the correct aisle and the lift truck takes over from there,” says Munger. “Through this technology, the WMS can actually manage the equipment, instead of relying on the operator to make each of these decisions about what he’d like to pick next. Even with the most experienced operators, effi-

**“Through [RFID] technology, the WMS can actually manage the equipment, instead of relying on the operator to make each of these decisions about what he’d like to pick next. Even with the most experienced operators, efficiency can improve by as much as 25 percent on a given pick.”**

— Chad Munger, product line manager,  
warehouse products, Mitsubishi Caterpillar  
Forklift America

ciency can improve by as much as 25 percent on a given pick.”

Brandon Lutton, manager of product engineering for UniCarriers Americas Corporation, offers another example of the ways a customer can shape the lift truck to their needs. He recently worked with a customer to integrate onboard scales, which required extensive collaboration between the scale supplier, the onboard computer supplier, the bar code scanner supplier, the customer, and UniCarriers.

In the past, Lutton’s department primarily installed attachments, applied special paint colors, and installed aftermarket parts. These projects typically take two to three weeks from order to application, as compared to three months for the scale customer.

“The amount of changes made for this individual project were greater than what would typically be required for an entire model upgrade,” says Lutton. “I expect these sorts of projects to be more common in the future as customers demand fully integrated lift truck technologies.”

### Tips from the scales

Lutton’s customer is not alone in benefiting from lift truck-mounted scales. The growing trend sees many lift trucks that can now bypass a stationary scale to weigh product on the move. When integrated with the WMS, this can add further visibility and accountability into product movement.

“This helps eliminate lost revenue created by shipping weight discrepan-



cies, which can have a major impact on operation costs,” says Toyota’s Faiman. It can save on labor, fuel, and travel time by eliminating trips to scale stations or having to repack pallets to weigh items, while recovering floor space previously used for scale stations.

“Quite frankly I wish the onboard scale would be standard on every lift truck and not an option,” says McLeod, who says improved safety is an essential byproduct of integrated scales. “It allows a lift truck operator to know he’s operating within safe limits. This is a huge issue as I see it. A lot of the experienced people just do it by feel, but you need to know the capacity of your forklift and you should know what the load weighs along with its corresponding load center.”

As with each of the many lift truck technologies, a scale can be attached to the lift truck for the simple benefit it provides, or fully integrated with the customer’s other technologies for even bigger results. Although the latter option calls for a much more involved project, Craver predicts the combination of data from the WMS, onboard scale, fleet management, and labor management will become more common, in a trend he calls “data fusion.”

Hyster’s Dawley agrees: “There’s a gap there at this point, but I foresee these systems starting to come together, and a complete picture of what is going on in the facility will emerge.”

*Josh Bond is Editor at Large for  
Logistics Management*



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# The 2013 Supply Chain Learning from leaders

BY DEBRA HOFMAN, STAN ARONOW,  
AND KIMBERLY NILLES

**G**artner recently published its 9th annual Supply Chain Top 25, a ranking of the world's leading supply chains. Since the beginning, the ranking has looked to answer one important question: Of the world's largest companies with the most global reach, which are the furthest along on the journey to being demand driven? The ranking continues to draw intense interest from practitioners, academics, and publications around the world—a mark of the growing importance of the supply chain discipline.

Our focus in producing this ranking goes beyond excellence to identify leadership in the supply chain, highlighting best practices to help raise the bar for the supply chain profession as a whole. While there are always some exciting new names on the list, there are some common characteristics that separate the best from the rest. This article discusses the insights and trends we've seen this year from the leaders.

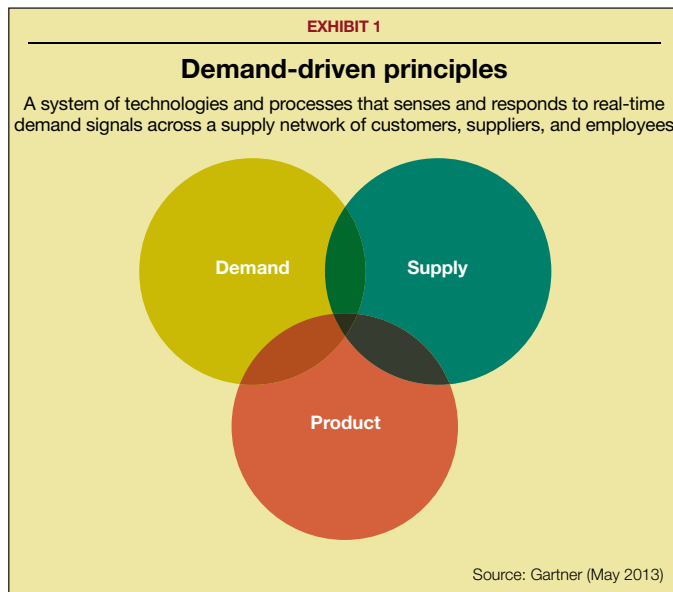
## What is the definition of excellence?

What does it mean to be demand-driven? Exhibit 1 captures the organizational ideal of demand-driven principles as applied to the global supply chain. This model has three overlapping areas of responsibility:

- **Supply management**—Manufacturing, logistics, supply planning, and sourcing.
- **Demand management**—Marketing, sales, demand planning, and service.
- **Product management**—R&D, engineering, and product development.

Excellence is about the visibility, coordination, and reliable processes that link the three areas of supply, demand, and product together (See Exhibit 2, on page 56). When that happens, the business can respond quickly and efficiently to opportunities arising from market or customer demand. Supply chains built to this design manage demand rather than just respond to it, take a networked rather than linear approach to global supply, and embed innovation in operations rather than keep it isolated in the laboratory. The demand-driven model is inherently circular and self-renewing, unlike the push supply chains of our factory-centric industrial past.

Our methodology is provided in detail below. Here are



# Top 25:



The 2013 ranking of supply chain leaders from Gartner highlights the best of the best—large, global companies that are furthest along on the journey toward demand-driven supply chains. While the mix of companies is diverse, there are lessons to be learned from these supply chain leaders.



## The Gartner Supply Chain Top 25 for 2013

Rank	Company	Peer Opinion <sup>1</sup> (172 voters) (25%)	Gartner Opinion <sup>1</sup> (33 voters) (25%)	Three-Year Weighted ROA <sup>2</sup> (25%)	Inventory Turns <sup>3</sup> (15%)	Three-Year Weighted Revenue Growth <sup>4</sup> (10%)	Composite Score <sup>5</sup>
1	Apple	3,203	470	22.3%	82.7	52.5%	9.51
2	McDonald's	1,197	353	15.8%	147.5	5.9%	5.87
3	Amazon.com	3,115	475	1.9%	9.3	33.6%	5.86
4	Unilever	1,469	522	10.5%	6.5	9.0%	5.04
5	Intel	756	515	15.6%	4.2	11.4%	4.97
6	P&G	1,901	493	8.6%	5.8	3.6%	4.91
7	Cisco Systems	1,167	517	8.5%	11.2	7.8%	4.67
8	Samsung Electronics	1,264	298	11.6%	18.5	15.7%	4.35
9	The Coca-Cola Company	1,779	278	11.7%	5.5	14.0%	4.33
10	Colgate-Palmolive	794	324	18.9%	5.2	3.6%	4.27
11	Dell	1,409	342	6.2%	30.7	-0.6%	4.05
12	Inditex	745	221	18.0%	4.2	13.4%	3.85
13	Wal-Mart Stores	1,629	282	8.8%	8.1	4.9%	3.79
14	Nike	955	236	14.1%	4.2	10.6%	3.62
15	Starbucks	808	159	16.5%	4.8	11.5%	3.41
16	PepsiCo	810	314	8.6%	7.8	10.5%	3.41
17	H&M	399	41	28.2%	3.7	6.7%	3.22
18	Caterpillar	714	247	5.8%	2.8	23.4%	2.91
19	3M	999	105	13.3%	4.2	6.9%	2.87
20	Lenovo Group	397	211	2.5%	22.2	29.8%	2.75
21	Nestlé	679	112	13.3%	5.1	-0.6%	2.51
22	Ford Motor	552	231	5.7%	15.1	3.1%	2.51
23	Cummins	74	139	13.3%	5.3	13.5%	2.48
24	Qualcomm	122	45	12.7%	8.5	25.9%	2.37
25	Johnson & Johnson	730	144	9.6%	2.9	3.3%	2.35

Notes:

1. Gartner Opinion and Peer Opinion: Based on each panel's forced-rank ordering against the definition of "DDVN orchestrator"
2. ROA: ((2012 net income / 2012 total assets) \* 50%) + ((2011 net income / 2011 total assets) \* 30%) + ((2010 net income / 2010 total assets) \* 20%)
3. Inventory Turns: 2012 cost of goods sold / 2012 quarterly average inventory
4. Revenue Growth: ((change in revenue 2012-2011) \* 50%) + ((change in revenue 2011-2010) \* 30%) + ((change in revenue 2010-2009) \* 20%)
5. Composite Score: (Peer Opinion \* 25%) + (Gartner Research Opinion \* 25%) + (ROA \* 25%) + (Inventory Turns \* 15%) + (Revenue Growth \* 10%)  
2012 data used where available. Where unavailable, latest available full-year data used. All raw data normalized to a 10-point scale prior to composite calculation.  
"Ranks" for tied composite scores are determined using next decimal point comparison.

Source: Gartner (May 2013)

the basics. Each year, approximately 300 companies are chosen to be ranked. Companies do not apply to be included; rather, we select the companies from publicly available lists using a defined set of criteria, including size and industry sector. Each company gets a composite score, and these scores are then force-ranked to come up with the final list. The composite score is made up of a combination of publicly available financials, as well as an opinion component, providing a balance between objective and subjective perspectives. In completing their

ballots, voters are asked to identify those companies they believe are furthest along the journey toward the demand-driven ideal, as defined in Gartner research and on the voting website.

### Inside the numbers

The Top 5 in the ranking this year include two exciting newcomers, Unilever at #4 and Intel at #5. (See the table above for the complete rankings.) Each has moved steadily up the ranking for the past several years, embodying the essence of what the Top 25 is all about:

they have each stepped up to the leadership podium. By sharing their supply chain practices and the lessons they've learned with the broader supply chain community, they have helped to raise the level of supply chain performance to new heights.

With a wide range of cutting-edge practices, Unilever is at the forefront of the supply chain maturity curve in many areas, from end-to-end segmentation to an impressive ability to design globally and implement locally across every function of its supply chain. More importantly, its supply chain innova-





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## Supply Chain Excellence

tions have been a critical component of the company's ability to retain profitable growth, even in the face of sluggish demand in some of its core markets. Chip giant Intel has made significant investments upstream and downstream to enable the broader computing ecosystem. At the same time, Intel has continued its commitment to sustainability and social responsibility in sourcing, having taken a lead role for several years now in the issue of conflict minerals.

Outstanding financials combined with phenomenally strong votes (Apple was ranked No. 1 again by the peer voters, capturing 75 percent of the highest possible points a company can get across the voting pool) allowed Apple to retain the top position again this year. At the same time, the company known

for its focus on simplicity has expanded its product portfolio to a broader array of sizes and price points to address increasingly robust competition, driving the need for more complexity management in its supply chain.

In the middle of the Top 5 group and switching places this year are McDonald's and Amazon. While Amazon far outpaced McDonald's in the peer vote—Amazon ranked a very close second to Apple's position in the opinion of the supply chain community—the Top 25 ranking is about more than opinion. We incorporate financials into the methodology as a balancing factor, to reflect a company's ability to translate supply chain leadership into corporate performance. While Amazon's revenue growth has been meteoric, its three-year weighted ROA of 1.9 percent reflects a 2012 net income loss. Compare that to McDonald's three-year weighted ROA of 16 percent, revealing a robust 20 percent annual net profit margin. This difference, coupled with still healthy respect from the voting community, nudged McDonald's into the No. 2 slot.

Both have leading practices to share with the supply chain community. McDonald's stands out with strong new product launch capabilities and excellence in execution consistency. Building its digital portfolio of products and fast



crossing lines into new markets, Amazon is a pacesetter across all industries in using its supply chain to set the standard for the customer experience.

Some of the world's top companies populate slots six through 15 in our ranking, with notable contributions to the discipline of supply chain management. Retaining its position as a supply chain innovator, P&G (#6) continues to define new standards of excellence in segmentation, the use of analytics, and leading sustainability efforts. Rising to #7 this year, Cisco leads the way with a supply chain team focused on revenue growth, enabling the company to break into new markets for its hardware, software, and services-based solutions.

Samsung (#8) and Dell (#11) have each taken collaborative efforts to new heights: Samsung in its emerging markets demand channels, and Dell in its supply networks and intra-enterprise ecosystems of partners. Walmart, another long-time powerhouse, rejoins the ranking this year at #13. Pushing the envelope in integrating supply chain with new product launches are Nike (#14) and Starbucks (#15). Coca Cola (#9) retains strong peer recognition in APAC and Europe, and is focused on reducing complexity while it invests in across the board capabilities of its supply chain talent base. Both Colgate-Palmolive (#10)

and Inditex (#12) have modeled a continued emphasis on efficiency as evidenced by their cross-industry leading ROAs. Both also go beyond efficiency: Colgate with its supply chain talent management and advanced S&OP, and Inditex with its well known commercialization and demand sensing capabilities. These efforts are reflected in the steady rise of both companies since they first appeared in our ranking: Colgate has moved up 10 slots since it joined the ranking in 2009, and Inditex has moved up 11 slots since its first showing in 2010.

This year we welcomed three newcomers. Chinese electronics leader Lenovo (#20), now focused on the integration of supply chain with new product design and release; Ford (#22), the first automotive OEM to join the ranking since 2009, returning to profitability and building a foundation for more strategic global demand/capacity alignment, scenario planning, and risk modeling; and semiconductor Qualcomm at #24, with rapid re-planning capabilities and deep collaborative partnerships with key suppliers.

In the ranking virtually since its inception are Pepsi at #16 this year, and healthcare/consumer products giant Johnson&Johnson at #25. Both continue to lead. J&J demonstrated increasing speed in executing on its compelling supply chain vision, and PepsiCo applied the out-of-the-box thinking embedded in its DNA to breakthrough improvements in its manufacturing technologies and logistics capabilities. Third-timer Nestle (#21) continues to expand into new markets with high points from its retail customers and an ongoing focus on supply development. Rising two slots to #19, 3M is now looking to balance its longstanding emphasis on product innovation with a focus on network complexity reduction and improvements on the efficiency side of the business in cost, cycle times, and inventories.

Returning to the ranking for the second time are three companies. First, Swedish retail giant H&M (#17) is bal-

## Supply Chain Excellence

ancing what has been a truly impressive ROA for five years running with a focus on improving transparency into its emerging market supply base, an important step given the latest challenges for the industry as a whole. Second, leading industrial Caterpillar (#18) is focused on manufacturing and supplier network scalability, and commercialization process velocity. And third, engine and power generation player Cummins (#23) continues to focus on optimizing across a highly decentralized structure to deliver global scale, with initiatives in customer collaboration, extended visibility, and segmented supply chain strategies.

### Characteristics of leaders

As we can see from the discussion above, every company develops supply chain strategies and priorities that are uniquely suited to its corporate and market context. While these are useful for others to learn from, in our research we also look for the characteristics they share in common. For many companies, these characteristics are easier to talk about than to actually implement. What differentiates the leaders is that they have moved beyond the words and presentation slides to make the hard changes that are needed throughout the organization.

We've talked about many of these in past articles, and they remain relevant:

- *an outside-in focus*, which requires a fundamental re-orientation not only in mindset, but in the way groups are measured and in the way networks and business processes are designed;
- *embedded innovation*, which ensures that supply chain considerations are taken into account early in the new product development and launch process, and that supply chain design takes into account that new products require different supply chain strategies than existing products;
- *extended supply chains*, in which leaders design and manage their supply chains as extended networks of trading partners, orchestrating activities across the network, aligning the goals of all the players, and ensuring profitable delivery of the final product to the customer; and
- *excellence addicts*, which points to the companies that have figured out how to use metrics effectively: how to

focus on the metrics that matter, and even more importantly, how to interpret and then act on those metrics to achieve a desired outcome, namely to continually improve operational results.

The ability to measure and use metrics effectively warrants more attention. Leaders understand which metrics are critical to their ability to see and make profitable tradeoffs across the end-to-end supply chain. More importantly, they use the metrics effectively: Rather than focusing on one metric at a time,



**What differentiates the leaders is that they have moved beyond the words and presentation slides to make the hard changes that are needed throughout the organization.**

they understand that it's the relationship between the metrics that makes the metrics actionable.

The best also understand that there are different portfolios of metrics for the different goals and levels, and that there must be tight alignment across these levels. At the first level, supply chain executives need only a small number of metrics for informational purposes and to assess the overall performance of their supply chains. In the second tier are the mid-level, cross-supply chain metrics that allow managers to analyze the performance of the end-to-end supply chain and make tradeoff decisions. The third level contains the detailed functional-specific metrics such as procurement, manufacturing, and logistics, allowing deeper root cause analysis and correction.

But what really differentiates the measurement leaders is this: They understand how to align all the levels. They know that the goal of the supply chain is not just to have the lowest transportation cost, or the highest manufacturing asset utilization, or the lowest procurement per unit cost. The goal of the supply chain is a profitable perfect order, balancing service with end-to-end cost. The activities of all its components must be aligned in that direction. This means that wise tradeoffs need to be made across the functions; it also means that the goal should not be "best-in-class" on

every metric. This requires a fundamental and profound shift in mindset and behaviors throughout the organization. Rather than each function setting its own targets, the goals are set for the end-to-end supply chain and then cascaded down. So, for example, the question is not: What was our plant utilization last year and therefore what should it be this year? The question is: What is the right level of plant utilization that will allow us to achieve our end-to-end service and cost goals? Lastly, leaders understand that while the metrics are the same, the targets vary for each of the different supply chains they operate.

### Trends

Each year, our analysts talk to and research the supply chains of hundreds of companies. Through these discussions, we note certain patterns in the trends on which the leaders are focusing their time and efforts. While many of these don't change dramatically from year to year, three warrant mention here.

#### ***A new frontier of performance.***

Many companies are working to build out the foundational components of an end-to-end supply chain across disparate businesses, focusing on improving core supply chain functions, and creating more common processes and systems across them. More advanced companies describe a wide range of initiatives that build on the foundation, including end-to-end supply chain segmentation, simplification, cost-to-serve analytics, multi-tier visibility, and supply network optimization. The leaders are taking it to the next level, stepping further out on the maturity curve of these innovations and deploying the capabilities that are still theory for most. In doing so, they are finding new and creative ways to use these capabilities, exploring synergies and opportunities they hadn't necessarily anticipated in advance. For example, leading companies like Unilever are finding synergies in the intersection between simplification, segmentation, and cost-to-serve: Having already focused on reducing complexity in everything from products to organizational structure, processes, and networks, they're now using cost-to-serve data by segment to optimize rather than simply cut the product/item portfolio, and to ensure profitable

## Supply Chain Excellence

growth. Others like P&G, Lenovo, and Caterpillar are finding synergies between S&OP and new product launches to optimize the commercialization process, or between risk management and segmentation to refine resiliency strategies.

**A new imperative for smarter growth.** This past year, the growth in emerging markets that many companies were depending on to fuel their expansion, has slowed. Developed countries continue to exhibit anemic growth at best and retraction in some markets. Against this backdrop, we might have expected to see many companies retrench and slip back to focusing their supply chains solely and exclusively on delivering cost reductions and efficiency gains to corporate bottom lines. Instead, leaders are embracing a new imperative for growth, realizing they have to get smarter about how they expand. Whether it's through reducing commercialization time, flexing the supply chain on packaging or service dimensions, or providing the engine with which new acquisitions can be quickly and easily absorbed, the conversation at companies like Cisco, Intel, and Starbucks has changed from supply chain being about "blocking and tackling" to it being an enabler of company success.

**Getting to the heart of talent.** Many of the companies we talk to are investing significant time and effort in supply chain specific talent management efforts, covering everything from expanded university relationships and supply chain certification programs to rotational programs, enhanced career progression planning and multi-channel learning options. The leaders are going beyond these talent initiatives to get at the fundamentals of motivation, looking to engage hearts, not just minds, and ignite passion for the work that goes beyond mere compliance. They are connecting the dots between the work people do every day and its contribution to the societies within which they live, recognizing that most people not only need to know how they fit into the larger corporate picture, but thrive within a larger aspirational goal.

### Methodology

The Supply Chain Top 25 ranking comprises two main components: financial and opinion. Public financial data pro-

vides a view into how companies have performed in the past, while the opinion component offers an eye to future potential and reflects future expected leadership, which is a crucial characteristic. These two components are combined into a total composite score.

We derive a master list from a combination of the Fortune Global 500 and the Forbes Global 2000, with a revenue cutoff of \$10 billion. We then pare the combined list down to the manufacturing, retail, and distribution sectors.

**Financial component.** ROA is weighted at 25 percent, inventory turns at 15 percent, and growth at 10 percent. Inventory offers some indication of cost, and ROA provides a general proxy for overall operational efficiency and productivity. Revenue growth, while clearly reflecting myriad market and organizational factors, offers some clues to innovation. Financial data is taken from each company's publicly available financial statements.



**...The goal of the supply chain is not just to have the lowest transportation cost, or the highest manufacturing asset utilization, or the lowest procurement per unit cost... It is a profitable perfect order, balancing service with end-to-end cost. The activities of all its components must be aligned in that direction.**

Since 2009, we've used a three-year weighted average for the ROA and revenue growth metrics (rather than the one-year numbers we had previously used), and a one-year quarterly average for inventory (rather than the end-of-year number we had previously used). The yearly weightings are as follows: 50 percent for 2012, 30 percent for 2011, and 20 percent for 2010.

**Opinion component.** The opinion component of the ranking is designed to provide a forward-looking view that reflects the progress companies are making as they move toward the idealized demand-driven blueprint. It's made up of two components, each of which is equally weighted: a Gartner analyst expert panel and a peer panel.

The goal of the peer panel is to draw on the extensive knowledge of the professionals that, as customers and/or suppliers, interact and have direct experience with the companies being ranked. Any supply chain professional working for a manufacturer or retailer is eligible

to be on the panel, and only one panelist per company is accepted. Excluded from the panel are consultants, technology vendors, and people who don't work in supply chain roles.

We accepted 224 applicants for the peer panel this year, with 172 completing the voting process. Participants came from the most senior levels of the supply chain organization across a broad range of industries. There were 33 Gartner panelists across industry and functional specialties, each of whom drew on his or her primary field research and continuous work with companies.

**Polling procedure.** Peer panel polling was conducted in April 2013 via a Web-based, structured voting process identical to previous years. Panelists are taken through a four page system to get to their final selection of leaders that come closest to the demand-driven ideal, which is provided in the instructions on the

voting website for the convenience of the voters.

Individual votes are tallied across the entire panel, with 25 points earned for a No. 1 ranking, 24 points for a No. 2 ranking and so on. The Gartner analyst panel and the peer panel use the exact same polling procedure.

**Composite score.** All of this information—the three financials and two opinion votes—is normalized onto a 10-point scale and then aggregated, using the aforementioned weighting, into a total composite score. The composite scores are then sorted in descending order to arrive at the final Supply Chain Top 25 ranking.

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## State of Freight Forwarding:

# TOP 25

## prevail despite market divergence

Market research confirms that the freight forwarding industry is stabilizing, with the market leaders staying on top through mergers, acquisitions, and sticking to core competences.

By Patrick Burnson, Executive Editor

**D**espite the uncertain global economy, opportunities are still plentiful for the world's top freight forwarders, with new geographies to cover and value-added, industry specific service offerings to create to meet evolving shipper demand.

Much of this optimism in the market can be attributed to news that the U.S. trade deficit narrowed a whopping 22 percent this past summer to \$34.2 billion after surging close to 10 percent in the spring. The narrowing was expected, but the magnitude was not, says Gregory Daco, senior principal economist, IHS Global Insight. "Total exports rebounded strongly in June, July, and most of August, up 2.2 percent, thanks to stronger goods and services exports," he says.

Draco adds that industrial supplies had a great season on strong fuel and petroleum products exports, while capital goods benefited from strong aircraft—a volatile category—and solid telecommunications equipment, computers, and semiconductors exports.

"Consumer goods also had a good summer, rebounding strongly after a lackluster performance in the spring," says Draco. "Automotive exports, meanwhile, declined after strong gains."

According to IHS data, imports slipped 2.5 percent—or \$5.8 billion—this past summer, with a third of the import drop coming from an expected decline in the oil import bill following a spring surge. Non-petroleum imports also cooled across the board after two strong months. Consumer goods led the declines on a sharp dip in cell phone imports, while non-petroleum industrial supplies and automotive imports also cooled.

Economists say that the foreign trade contribution to real GDP growth in the third quarter is likely to be revised from a 0.8 percentage point drag to a small boost of around 0.2 percentage point.

However, freight forwarders should note that this tidal surge is not one that will lift all boats. Transport Intelligence (Ti), a London-based logistics research and consultancy group, recently published a report that reveals the full extent of the increasing divergence between the air freight and sea freight forwarding markets as global shipper demand shifts.

### Sea freight dominance

Although the overall freight forwarding market grew by 3.1 percent to \$125.85 billion in 2012, Ti's new research suggests that this figure is misleading, as the positive growth was entirely attributed to the sea freight sector.

The report found that while the sea freight forwarding market grew by an impressive 11.5 percent to \$63.23 billion in 2012, the air freight forwarding market declined by 4.2 percent to \$62.62 billion as a result of overcapacity, rising fuel prices, and other operational costs. This has led many shippers to opt for alternative methods for transporting their goods.

However, Cathy Roberson, lead author of the Ti report, introduced a word of caution. "Despite double-digit growth in 2012, the sea freight forwarding market is still vulnerable to long-term overcapacity and erratic rates," she says. "Forwarders have benefited from the modal shifts experienced in 2012, but there could be serious problems if these issues are not addressed."

Roberson says that although the air freight market was weaker in 2012, airlines are removing capacity across the world. "If it wishes to continue its impressive growth, the sea freight sector should not continue to ignore these problems," Roberson adds.

Asia Pacific accounts for the largest freight forwarding market with a 32 percent share, and Ti expects Asia to hold a 37 percent share of the market by 2016. Although its economy is still heavily reliant on exports, domestic demand is growing, and therefore intra-Asian services are becoming more sought after.

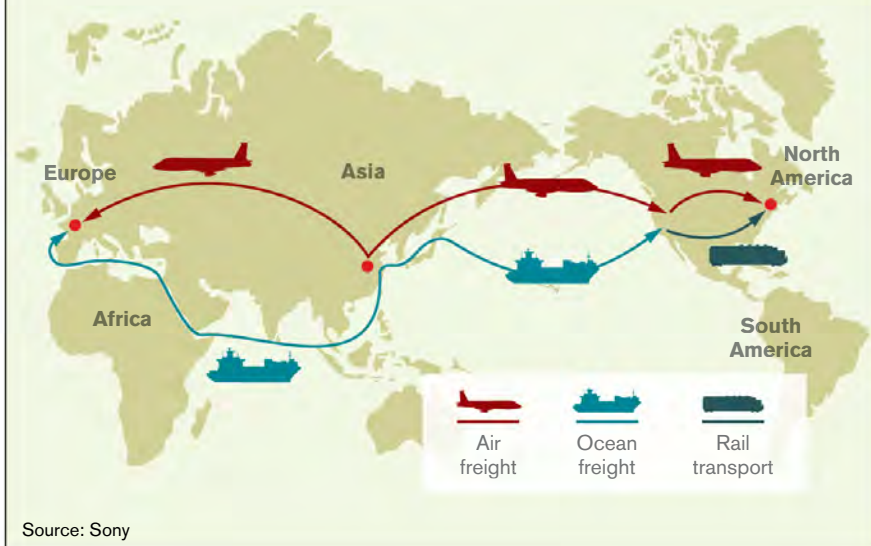
It's anticipated that this will be of particular detriment to the European market, currently the second largest, which will decline from 31 percent to 26 percent in 2013 as a result of its ongoing economic issues.

As a consequence of the new market dynamics, the air and sea sectors have undertaken contrasting strategic focuses to increase volumes and profitability. The air freight sector has experienced a significant decline in volumes due to the modal shifts and, as a result, forwarders are having a hard time filling up aircraft. Therefore, forwarders in the sector have started to focus on higher margin commodities, such as pharmaceuticals and other temperature-controlled goods.

Conversely, Ti notes that sea freight forwarders are expanding their less-than-container-load (LCL) offerings, particularly on Asia Pacific trade lanes. The service offers reduced shipping costs, increased flexibility, and improved transit times over full-container-load (FCL) services. Carriers have also developed expedited multimodal offerings such as sea and road transport to provide a door-to-door service and a combined air and sea service that reduces costs—and still provide the faster transit time of air.



## Shift to ocean and rail transport for North America and European VAIO computers



Industry leaders are switching more to ocean transport. For example, As part of its efforts to reduce the environmental impact of finished goods transportation, Sony is promoting modal shifts from air to ocean, and from truck to rail.

### Resurgent air

Ti's new study suggests that the overall freight forwarding market will grow by 6.8 percent between 2012 and 2016. "Although we expect the sea freight forwarding market to develop more rapidly, we also anticipate that the air freight forwarding market will recover over the

next five years, as shifting trade lanes result in new opportunities in emerging markets," adds Roberson.

Analysts at IBISWorld, an industry research firm based in Santa Monica, Calif., agree that the global air freight industry is poised for a comeback. "Air cargo is essential to international trade, grant-

ing it a degree of demand stability," says Lauren Setar IBISWorld industry analyst. "As a result, air cargo industry revenue is expected to grow at an annualized rate of 2.1 percent in the five years through 2013 to reach \$75.4 billion."

Trade analysts observe that during the global downturn of 2008 and 2009, demand for goods and services weakened worldwide. This low demand led to a fall in production activity from manufacturing giants, like China, and a drop in the quantity of goods traded. Overall, demand for air freight declined considerably due to poor economic conditions in 2009. As a result, air cargo's revenue plummeted 24.6 percent that year.

"However, companies around the world replenished their inventories in 2010, causing a dramatic rise in cargo demand, enabling revenue and profit margins to rebound," says Setar. "Due to greater freight volumes and higher prices, the industry has returned to a more sustainable growth rate, which includes an estimated increase of 2.9 percent in 2013."

Brandon Fried, executive director of the Washington, D.C.-based Airforwarders Association, admits that as manufacturing activity from many of the traditional sourcing countries has decreased due to reduced global demand, freight forwarders have responded by offering less expensive

## Aussie style is key differentiator for new forwarder network

American Worldwide Agencies (AWA), a global network of freight forwarders and agents based in Long Beach, Calif., recently announced that it has grown exponentially since launching its service last year.

The core markets addressed by the forwarder are in the U.S., Australia, and New Zealand. This niche, says AWA, is huge, but underdeveloped.

"Australia's growth certainly looks promising as it works to control its spending and cost of living," notes AWA CEO Andrew Scott. "In fact, Australia's economy will likely grow stronger with the recent Australian dollar (AUD) drop of 10 percent, and it will need to adjust even more to be in line with the global markets."

According to Scott, the region's mining boom on exports will help, but it's having an effect on importers. "As Australia's population expands, they're sourcing more and more goods from the U.S. and other regions, so the supply chain is key," he says.

AWA's "Aussie-One" service is designed to bring together an in-depth knowledge and understanding of the markets supported by a team of regional experts who provide a full scope of services on both ends, Scott adds.

He observes, for example, that Perth to Sydney is the equivalent of Los Angeles to Atlanta in distance, "but with a much smaller population and challenging layers of infrastructure to maneuver through."

The U.S. is Australia's fifth largest merchandise export market and its most important market for services. The U.S. is also Australia's largest import source for services and second largest import source for merchandise. Furthermore, The U.S. is the largest investor in Australia.

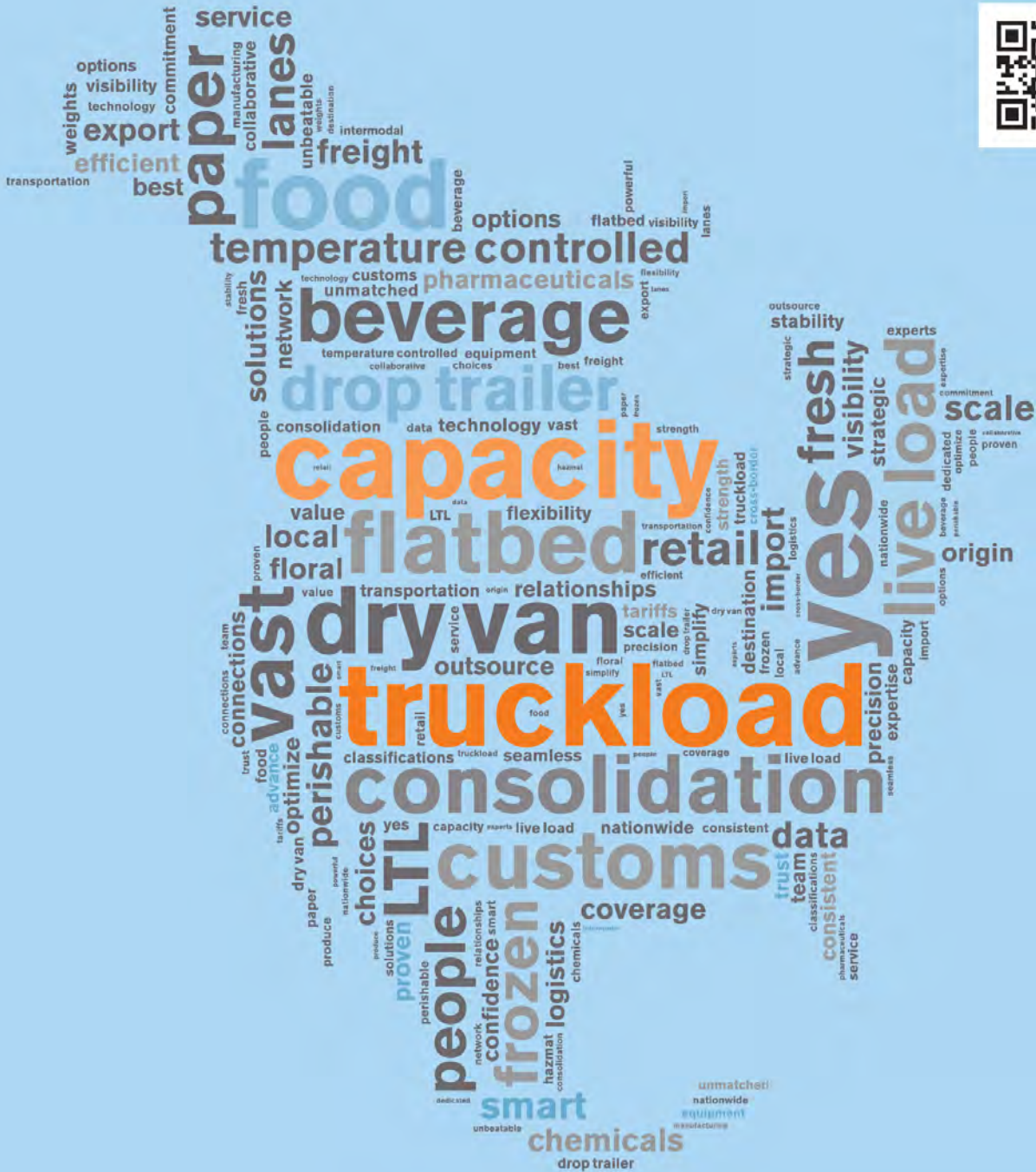
"It's a symbiotic relationship for Americans and Aussies," says Scott. "Forwarders can help shippers on both ends of the transaction."

—Patrick Burnson, Executive Editor





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## Top 25 Global Freight Forwarders

A&A Rank	Provider	Net Revenue (US\$ Millions)	Gross Revenue (US\$ Millions)	Ocean TEUs	Airfreight Metric Tons	A&A Provider Information and Editorial Comments
1	DHL Supply Chain & Global Forwarding	20,900	32,160	2,724,000	2,447,000	DHL Supply Chain (DSC) is by far the world's largest 3PL and contract logistician. Contract logistics revenues were 52% of its gross logistics revenues for 2011. Contract logistics revenues for Exel (DHL Supply Chain - Americas) are \$4.1 billion with 456 warehouses and 111 million square feet of space. Exel/DSC has operations of virtually every kind on every continent.
2	Kuehne + Nagel	6,676	22,181	3,274,000	1,073,000	Kuehne + Nagel is one of the world's leading logistics companies providing logistics services from more than 1,000 locations in over 100 countries. Its strong market position lies in the sea-freight, airfreight, contract logistics and overland businesses, with a clear focus on providing IT-based integrated logistics solutions. With the addition of the ACR group, contract logistics operations more than doubled in 2006 and are 50% of net revenues. The industry breakdown for its contract logistics operations is: Retail 35%, Healthcare 22%, Technological/Telecom 18%, Chemicals 7%, Automotive 6%, Fulfillment 5%, Misc. 5%, and Services 2%.
3	DB Schenker Logistics	6,315	20,704	1,763,000	1,149,000	DB Schenker made significant purchases from 2006 to 2008 to double the size of its operations. The purchases include BAX in 2006, Spain-Tir in 2007, and Romtrans in 2008. Romtrans was the largest forwarding company in Romania with \$140 million in revenue and 1,500 employees. Operations go as far east as Georgia. Spain-Tir had over 700 trucks and 16 million square feet of warehousing space covering the Iberian Peninsula. BAX added significant North America and Asia capacity.
4	Panalpina	1,672	7,358	1,310,000	848,000	Panalpina is a top 10 freight forwarder. It handles more than 1.3 million TEUs per year, more than 800,000 metric tons of airfreight and about 1 million tons of non-containerized break bulk cargo. It has 242 sub-contracted warehouses in 150 countries and is consistently profitable. The life blood of Panalpina is its ongoing financial stability and transparency.
5	CEVA Logistics	6,310	9,602	783,378	550,000	CEVA Logistics is one of the world's largest logistics companies and has been the world's largest automotive 3PL. It has a heavy emphasis on manufacturing and is expanding operations in other sectors. CEVA's industry sectors are Automotive 28%, Consumer/Retail 23%, Technology 22%, Industrial 16%, Energy 6%, and Other 5%. CEVA operates in over 170 countries.
6	Nippon Express	1,625	20,313	706,441	656,797	Nippon Express covers Japan. It's Japan's largest domestic transportation company and its Pelican Express operation is the largest package operation in Japan. About 90% of Nippon's revenues are from domestic Japanese operations. Its international operations in forwarding and contract logistics are tied to its Japanese base. In addition to truck-based operations, Nippon provides harbor and ship transportation, air freight forwarding, and warehousing.
7	Sinotrans	1,183	6,769	7,979,000	397,200	For many years, Sinotrans Limited was completely protected by People's Republic of China law from direct foreign competition until recently. In some ways it is a very transparent company. About 80% of revenues are derived from freight forwarding. Sinotrans handled nearly 8 million TEUs of sea-freight, 397,200 metric tons of airfreight and 14.6 million international express documents/packages in 2011.
8	Expeditors International of Washington	1,896	6,150	892,682	786,620	Expeditors is the largest, and perhaps best-run North American-based freight forwarder. Net revenues have reached \$1.9 billion and produce a gross margin of 31%. 2009 was a difficult year but revenues came back in 2010-11 exceeding 2008 levels. Net revenues are 37% airfreight, 40% customs brokerage, and 23% ocean freight. U.S. and Asia business account for 80% of revenues.
9	SDV/Bolloré Logistics	1,357	6,785	750,000	520,000	Bolloré's logistics business consists of SDV, a quintessentially French transportation and freight forwarding company, which generates 57% of revenue and Bolloré Africa Logistics, a major stevedoring company in Africa, which generates the remainder of logistics revenue. Bolloré Africa Logistics, which has been in Africa for over 50 years, has 250 subsidiaries, about 22,000 employees and operates in 43 countries. SDV is ranked #1 in France by the IATA and #5 in Europe. It operates in 96 countries with a large footprint in Europe, Africa, Asia and the Americas. It has 15 branches in major U.S. cities.
10	UPS Supply Chain Solutions	6,545	8,923	500,000	862,000	UPS is an 800 lb. gorilla of global supply chain services. Revenues for contract logistics were \$2 billion in 2011. Net freight forwarding/NVOCC/customs brokerage revenues were \$4.5 billion. UPS SCS had a profitable year in 2011. UPS SCS contributes \$2 billion+ per year in package business to its big brother. UPS handles about 500,000 TEUs per year as a freight forwarder. Twelve percent of containers are LCL consolidations; 40% are Asia-U.S. Forwarding revenues are 60% air and 40% ocean.
11	DSV	1,835	8,170	727,861	262,362	DSV is primarily a non-asset operation. Nearly half of its operations are European over-the-road, its Air & Sea division makes up about 41% and Solutions (logistics) accounts for the rest. The DSV Group is Denmark's second largest supplier of transport and logistics services.
12	Kintetsu World Express	546	3,321	550,377	1,131,444	Kintetsu World Express' (KWE) largest operations within its global network are in Japan and China, with over 100 offices located in each of those countries. Nearly 50% of its business is airfreight based. Ocean freight and logistics account for 41%. Globally KWE handles over 1.1 million metric tons of airfreight and over 550,000 TEUs of ocean freight annually.
13	Agility	1,357	4,410	550,000	490,000	Agility has expanded its business dramatically from its warehousing base in Kuwait. It is a Middle Eastern leader in integrated supply chain solutions and is organized into three major business groups. Global Integrated Logistics (GIL) is the largest generating approximately 65% of Agility's revenues and having more than 14,000 employees. The majority of GIL's revenues (just under 90%) are generated outside of the U.S. It has core competencies in freight forwarding, contract logistics/warehousing, project logistics, fairs & events, and supply chain management 3PL services.

## Top 25 Global Freight Forwarders *continued*

A&A Rank	Provider	Net Revenue (US\$ Millions)	Gross Revenue (US\$ Millions)	Ocean TEUs	Airfreight Metric Tons	A&A Provider Information and Editorial Comments
14	Hellmann Worldwide Logistics	720	3,593	672,569	439,720	Hellmann Worldwide Logistics is a privately held German company that continues to be competitive against the big guys. It has good freight forwarding and contract logistics operations. Airfreight and sea-freight are over half of the business. Coverage in Asia and China is extensive. Its regional breakdown is Europe 53% (Germany 43%), Asia, 19%, the Americas 18% (U.S. 12%), and Oceania, Middle East, Africa 10%.
15	Pantos Logistics	2,412	2,412	1,625,098	216,653	Pantos Logistics has a full set of tools including air and ocean freight forwarding, rail and road transportation in Korea, warehousing, customs, and express transportation. (DCC assets in South Korea only.) Customers include Korean based companies like LG and internationals like Philips. Pantos is a good international supply chain manager with a large freight forwarding base (1.6 million TEUs and 216,653 airfreight metric tons).
16	UTi Worldwide	1,704	4,914	484,000	410,000	UTi's net revenues increased nearly 10% last year. UTi's contract logistics and distribution operations are 54% of net revenues. UTi has strong forwarding operations in Asia with an emphasis on airfreight and a major drug distribution operation in South Africa. It is expanding its contract logistics operations in Asia particularly in India, which it has designated for major market expansion. UTi's roots are in South Africa and it does very well in British Commonwealth countries.
17	Toll	5,080	6,432	520,000	145,000	Toll's revenues are 66% Australia based where Toll has one of everything in logistics. Toll's mission is to be the most successful provider of integrated solutions to the Asian region providing customers with global reach. Its largest vertical industry is Retail/FMCG, which accounts for 33% of its revenues. Sixty percent of SembCorp was acquired in 2006 by Toll which owns Australia's largest trucking and distribution operations. SembCorp is one of the largest logistics providers in Asia. SembCorp has extensive Asian operations (16 countries) and a sizeable joint venture (St. Anda) in China.
18	Damco	757	2,752	750,000	110,000	Damco is a third-party logistics provider specializing in customized freight forwarding and supply chain solutions. The company has 10,800 employees in over 300 offices across 90 countries and agents in 30 more countries. In 2011, the company had a net turnover of \$2.8 billion, managed more than 2.5 million TEUs in ocean freight and supply chain management volumes, and air freighted more than 110,000 metric tons. Damco is part of the A.P. Moller - Maersk Group.
19	Yusen Logistics	2,445	3,881	450,000	337,130	Yusen does not have the kind of strong domestic base in Japan that characterizes Nippon and others. It has aggressively grown international markets and expanded through organic growth and acquisitions. It started in 2001 by combining purchases and adding a transportation and warehouse network to expanding contract logistics and airfreight operations. Contract logistics and distribution are strong in Europe. In the Americas, seven companies have been combined to create a broad suite of logistics services offered in North, Central, and South America.
20	Geodis	1,765	5,890	420,000	210,000	Geodis is France's largest provider of transportation and logistics services and is one of the top European 3PLs. With third-party logistics revenues of \$5.9 billion and 12,000 employees, Geodis Group covers more than 120 countries worldwide through its subsidiaries including Geodis Logistics, Geodis Wilson, and Geodis Supply Chain Optimisation (which grew out of its December 2008 acquisition of IBM's internal global logistics operations). Most of the Group's revenue is European based and accounts for 60% of total revenue, Asia-Pacific accounts for 20% and the Americas account for the rest.
21	C.H. Robinson Worldwide	1,632	10,336	262,117	50,000	C.H. Robinson continues to be the most profitable tier-one 3PL regularly achieving net income margins greater than 20%. C.H. Robinson dominates domestic transportation management in North America. While 76% of Robinson's net revenues are truck transportation related, it has solid domestic intermodal, international air and ocean, food sourcing, fuel card services and fuel management, and supply chain management. It has also been expanding its TMC operations which focus on large transportation network management. The TMC is now serving the Americas, Europe and Asia.
22	Hyundai GLOVIS	8,588	8,588	466,318	17,408	Hyundai GLOVIS is part of the Hyundai Kia Automotive Group under its parent company Hyundai Motor Co., Ltd. It specializes in the automotive, industrial, and chemicals vertical industries. About 12% of its logistics revenue is Korea-based. The rest is generated by its 14 branch offices.
23	Kerry Logistics	1,240	2,060	620,000	173,000	Kerry Logistics' business portfolio encompasses contract logistics, international freight forwarding, warehousing, transportation, distribution, trading, merchandising, and a wide variety of value-added services and is now managing over 26 million square feet of warehouse space, logistics centers, and port facilities globally. Its Integrated Logistics division, mainly value-added warehousing and distribution, generates 43% of revenue and its International Freight Forwarding division generates 57%.
24	Sankyu	560	2,689	710,000	18,060	Sankyu is an asset based, Japanese 3PL with a strong presence in the Asian market as well as operations in Europe, the U.S., and Brazil. Although Sankyu still does a significant amount of project logistics, the main revenue from its logistics division is from the automotive, chemicals, consumer goods, and retailing verticals. Its Logistics business unit generates 54% of Sankyu's total company revenue.
25	DACHSER	4,700	5,925	321,000	50,000	DACHSER handled 49 million shipments in 2011 - 470,000 airfreight shipments and 321,000 less-than-containerload and containerload ocean shipments. Its largest business segment, DACHSER European Logistics, accounted for 61% of revenue in 2011. Its other business segments include DACHSER Air & Sea Logistics which accounted for 26% of its 2011 revenue and DACHSER Food Logistics, a specialist in warehousing and distribution in the temperature-controlled, non-frozen food segment in Germany, accounted for the rest.

\*Revenues are company reported or Armstrong & Associates, Inc. estimates and have been converted to US \$ using the average exchange rate in order to make non-currency related growth comparisons. Freight forwarders are ranked using a combined overall average based on their individual rankings for gross revenue, ocean TEUs and airfreight metric tons.



alternatives that meet shipper budgets while maintaining their customer deadline commitments.

“This has created an understandable shift to slower, less costly sea freight shipments,” says Fried. “As always, the forwarder multimodal business model is responding to market changes driven by the economy.”

As noted by analysts, many airlines have reduced capacity in response to this lessened demand from the cargo sector. Many passenger airlines, including all those based in the U.S., no longer fly freighter aircraft due to their high cost and the introduction of new, larger planes able to satisfy current cargo demand.

“Many assume that a shift to ocean shipping is strictly a decision based on financial savings, but this is not always the case,” says Fried. “Changing from air to ocean can also be a function of demand and inventory space constraints where customers depend on ships as virtual warehouses constantly feeding distribution centers on arrival.”

Fried concludes that the “uptick” in sea transport is a good indication that the economy is slowly showing signs of improvement. And as demand increases, Fried believes that forwarders will respond by shifting more cargo to air freight.

### Top 25: Who’s on first?

Granular modal observations aside, analysts maintain that the mega-forwarders will just keep rolling along. Momentum, they say, is clearly on their side.

Evan Armstrong, president of the third-party logistics (3PL) services analyst firm Armstrong & Associates, says that no one should be surprised that DHL Supply Chain (DSC) leads the Top 25 Freight Forwarders list again this year. He says that the company is, by far, the world’s largest third party service

provider and contract logistician.

“DHL Global Forwarding (DGF) grew through the acquisition of highly respected companies like Danzas,” says Armstrong. “DHL and Danzas have strong branches in Europe and Asia and currently have 31 global carrier partners with 81 contracts on a multitude of trade lanes and more than 330 gateway facilities. This scope of operations allows its customers to more easily adjust its vendor supply chains as well.”

Kuehne + Nagel (K+N) also benefited through an acquisition, says Armstrong. With the addition of the ACR group, contract logistics operations at K+N more than doubled in 2006 and are 50 percent of net revenues.

“Kuehne + Nagel is one of the world’s leading logistics companies providing services from more than 1,000 locations in over 100 countries,” says Armstrong. “Its strong market position lies in the sea freight, air freight, contract logistics and overland businesses, with a clear focus on providing IT-based integrated solutions.”

The performances of K+N’s sea freight and air freight business units were again the main pillars of success, contends Armstrong. In both areas,

high internal productivity and strict cost management compensated for the costs of investments made in technology and product development and strengthening of niche segments.

Armstrong notes that DB Schenker has also made significant purchases from 2006 to 2008 to double the size of its operations. The purchases include BAX in 2006, Spain-Tir in 2007, and Romtrans in 2008. Romtrans was the largest forwarding company in Romania, with \$140 million in revenue, 1,500 employees, and with operations that go

as far east as Georgia. Spain-Tir had over 700 trucks and 16 million square feet of warehousing space covering the Iberian Peninsula. BAX added significant North America and Asia capacity.

“DB Schenker is significantly expanding its contract logistics operations,” says Armstrong. “Dave Bouchard was added to lead the Americas effort, and Detlef Trefzger leads global contract logistics and is spearheading expansion efforts. And with those two in those positions, North American contract logistics operations are now 42 percent consumer goods, 30 percent High-Tech, 16 percent industrial, and 12 percent automotive.”

Armstrong adds that overall, his company’s research continues to confirm that the freight forwarding industry is continuing to stabilize, with these market leaders staying on top with mergers and acquisitions.

“The most unexpected findings in our study is that everyone is performing as expected,” adds Armstrong. “That doesn’t mean, however, that some companies will not climb up the list by exploiting niche markets with specialized services—that’s the beauty of this business.”

—Patrick Burnson is Executive Editor of Logistics Management

## Global freight forwarding market growth

(2011-12, € Millions)



### Forecast

(2012-16, € Millions)



Source: Transport Intelligence Ltd

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## EUROPEAN LOGISTICS 2013

# BIG challenges, BIGGER expectations

While the first half of 2013 showed some signs of cautious optimism, the Euro crisis is still hampering the European logistics and transportation landscape. However, measures are currently underway to stabilize the region—including plans for a closer partnership with the U.S.

By Dagmar Trepins, European Correspondent

**T**oday, the U.S. and the European Union (EU) together represent nearly 50 percent of the global economy—although they only represent 11.8 percent of the global population.

President Obama announced in his State of the Union speech earlier this year that talks on a comprehensive Transatlantic Trade and Investment Partnership (TTIP) with the EU will be in sharp focus as the year's political agenda rolls on. TTIP, the biggest bilateral trade agreement ever negotiated, is aimed at

cutting tariffs and eliminating trade barriers between the world's two largest economies. The first round of TTIP negotiations took place in July and the second round will follow in October 2013—the goal is to reach an agreement within a few years.

Expectations are high on both sides. The agreement would give U.S. companies greater access to the world's largest economy, increasing the \$458 billion in goods and private services the U.S. exported in 2012 to the EU, its largest export market. According



to a study by the London based Centre for Economic Policy Research, TTIP could bring a potential economic upswing of around 95 billion euros (\$127 billion) for the U.S. economy and around 119 billion euros (\$159 billion) for the EU.

Even if ports, carriers, and third-party logistics providers (3PLs) share the policymakers' hopes for the future, the current situation is more mixed.

Company results for the first half of 2013 show a blend of highs and lows for many of the major actors in the EU logistics and shipping sector. However, the EU Commission, trade associations, and companies are not waiting for future policies, but say that they've already been taking initiatives to boost business on both sides of the Atlantic. These measures range from policy decisions through investments and new business strategies.

### EU Commission proposes "Blue Belt"

To increase trade volumes for EU and non-EU goods within Europe, Siim Kallas, vice president of the EU Commission, just started the "Blue Belt" initiative to ease customs formalities for short sea shipping. "Blue Belt" refers to the blue in the EU flag and is meant to tie the EU states more closely together—it will also make shipping to, from, and within the EU more efficient by eliminating red tape in customs.

Today, EU and non-EU goods are not separated and every piece of cargo must undergo time and cost intensive customs procedures. With the implementation of "Blue Belt," only non-EU goods on board ships calling at both EU and non-EU ports will have to go through European customs clearance. This will provide cost and time advantages that benefit U.S. companies operating in various EU and non-EU states,

as well as the Europeans. It is expected that the Blue Belt measures, that are based on the following two proposals, will be put in place by 2015:

**Easing customs formalities for intra-EU shipping:** Shipping companies, using a regular route within the EU and transporting mainly EU goods, can already benefit from lighter customs procedures under the Regular Shipping Services procedures. New proposals, submitted by the Commission in June 2013, will upgrade this Regular Shipping Services to make the procedures shorter and more flexible. The consultation period for Member States will be shortened to 15, from 45 days, and companies will be able to apply in advance for an authorization for Member States where they may want to do business.

**Easing customs formalities for ships that call in non-EU ports:** Almost 90 percent of ships carry both EU

## TTIP to be a driving force in EU/U.S. relations

Prof. Thomas Wimmer, chairman of the executive board of BVL, Germany's 10,000-member logistics association, is convinced that the pending Transatlantic Trade and Investment Partnership (TTIP) will be a driving force for the logistics industry. But he also sees a need to strengthen the infrastructure and create a framework for high performance logistics on both sides of the Atlantic.



**Logistics Management (LM):** How do you think the Transatlantic Trade and Investment Partnership (TTIP) could boost trade between the U.S. and Europe? What are your expectations concerning the logistics industry?

**Thomas Wimmer:** The TTIP is designed to reduce trade barriers, simplify approval and certification, and standardization processes. When implemented, this is naturally expected to generate major stimuli both in Germany and in the US. The agreement opens up new markets for both sides and could also pave the way for the definition of more technical and technological standards, creating new opportunities for the development of even more efficient value added supply chains.

Provided that agreement is reached on uniform conditions for data protection and the transmission of data, this could also greatly increase transparency in supply chains. This would, in turn, positively affect efficiency and flexibility. Certainty of action in this area is also important for the future development of cloud computing. Whether and to what extent these opportunities will be grasped, however, depends on how intelligently the treaty is formulated.

**LM:** What are the biggest challenges that face Europe's logistics industry and what is your outlook for the rest of 2013?

**Wimmer:** The biggest challenges for logistics, and not only in Europe, include increasing complexity, the pressure of costs, ever-increasing customer expectations, and the lack of skilled employees and qualified personnel for the future. In today's world, logistics takes place in global networks, and the global division of labor between more or less stable players means we have to cope with a high level of volatility. This is particularly evident if we look back at the last five years.

According to the findings of the latest BVL study *Trends and Strategies in Logistics and Supply Chain Management*, these trends will continue to shape logistics in the coming years. An area of further concern is infrastructure. Future success depends on an efficient infrastructure in Europe that ensures mobility not only for people and goods, but also for information and services.

One example for the urgent need for action in this area is the manufacturing industry. Over the last 10 years, growing specialization, geographic relocation of production processes, and changes in consumer behavior have resulted in an over 30 percent increase in freight transport volumes throughout the EU. In order to create the framework for high-performance logistics, it is also important—particularly in the EU—that uniform conditions are put in place with regard to qualification and personnel as well as in the area of national regulations.

—Dagmar Trepins, European Correspondent



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and non-EU goods and stop frequently at EU and non-EU ports. For these ships, the Commission is proposing to significantly improve customs procedures by putting in place a system that can distinguish between EU goods on board that should be swiftly discharged and the non-EU goods on board that must go through the appropriate customs procedures.

For this purpose, the Commission will, before the end of the year, propose to create a harmonized electronic cargo declaration. This new “eManifest” will allow the shipping company to provide in all manifests—intra-EU and extra-EU—information on the status of goods to customs officials.

## European expansion in the U.S. market

Despite the euro crisis and the current weakness in the European economy, business for European logistics providers during the first half of the year 2013 was not as bad as expected. The leading players continued to expand their networks and services.

The Swiss-based Kuehne + Nagel Group reported positive half-year results in 2013. Compared to the previous year's second quarter, the Kuehne + Nagel Group achieved an 8.1 percent increase in earnings before tax. During the first six months of 2013, turnover increased 3.3 percent to 10,394 million Swiss francs and gross profit by 2.6 percent to 3,112 million Swiss francs.

In April, the logistics provider expanded its operations in the Southeastern U.S. and opened a new office in Mobile, Ala., to offer logistics solutions for aerospace companies as well as the oil and gas and marine sectors.

Deutsche Post DHL is also sticking to its successful path. During the second quarter of 2013, revenues produced by the group totaled 13.6 billion Euros between April and June. The slight 0.6 percent dip compared with the same period last year was solely the result of negative exchange rates and other inor-



duisport/Frank Reinhold

**Wilhelmshaven-Duisport shuttle train arrives at the DIT Duisburg.**

ganic effects, according to the mail and logistics company.

During the second quarter, consolidated net profit climbed from 196 million euros in 2012 to 422 million euros in 2013 due in part to one time effects. Supporting its performance in the Americas, DHL inaugurated its expanded \$105 million Americas hub at the Cincinnati/Northern Kentucky (CVG) Airport to meet the growing international shipping demand of large multinational corporations as well as small business customers.

In the meantime, stable revenues and lower profits have been reported by the German rail and logistics group Deutsche Bahn (DB). While revenues for the first six months remained fairly stable at 19.37 billion euros (-0.6 percent), earnings before interest and taxes fell notably by 22.9 percent.

The number of shipments carried by the DB Schenker Logistics business unit in the European land transport sector decreased by 1 percent. The volume of airfreight shipments fell by 2 percent and ocean freight shipments dropped by 1.6 percent. Contract logistics business

developed positively, as revenues rose 6.9 percent in the first half of 2013.

The French SNCF Group revenue totaled 16 billion euros in the first half of 2013, on par with the first half of 2012 at constant scope of consolidation and exchange rates, and reached 1.29 billion euros. SNCF Geodis, the freight transport and logistics business, dropped 2.9 percent in the French and European markets hit by the recession.

## EU air cargo ups and downs

Europe's air cargo market remained under pressure during the first half of this year, although there were some signs of improvement.

According to the recent outlook report by the International Air Transport Association (IATA), European airlines are expected to report profits of \$1.6 billion in 2013, double the previous projection. Consolidation on the North Atlantic market and within Europe is helping to improve financial performance. Based on the airfreight statistics in June, volumes carried out by European airlines improved by 2.6 percent over a year ago.



However, given that the Eurozone economy remains in recession, the improvement in airfreight volumes will rest on fragile ground, the IATA says. Europe's carriers are also worried that the Single European Sky (SES) initiative is not moving fast enough. This initiative of the EU Commission provides a legislative framework to meet future safety, capacity, and efficiency needs at a European rather than at a national level.

The idea is to organize air traffic control according to traffic flows instead of national borders. The SES 2+ package was introduced by the Commission in June to increase the economic, financial, and environmental performance of the system. However, it provoked resistance and strikes in European member countries.

"A lot of states are still not willing to give up national competences and national air traffic control," says Dr. Christoph Franz, chairman and CEO of the Lufthansa Group. "Every intra-EU flight is 50km longer than necessary, which

results in \$6.53 billion in additional costs every year. And don't forget the avoidable CO2 emissions, which add up to 50 million metric tons every year. So the arguments about why we need SES now are extremely convincing."

This year is shaping up to be another challenging year for Europe's leading air cargo carriers. For the first half of 2013, Lufthansa Cargo experienced a 3.5 percent decline in freight and mail traffic to 839,000 metric tons.

"There are clear signs of the weak performance of the global economy in the level of demand," says Lufthansa Cargo CEO and chairman of the executive board Karl Ulrich Garnadt in respect of the half-year figures. At the same time, he announced that there would be further investment in the quality of the freighter network. For example, new routes to the U.S., South America, and China are planned for the winter schedule.

Air France-KLM also reported a de-

cline in cargo business for the first half of 2013. The group reduced capacity by 4.2 percent, but traffic fell sharply (-6.3 percent), resulting in a 1.4 point fall in the load factor to 63 percent.

Commenting on the business globally, Alexandre de Juniac, Air France-KLM chairman and CEO, says that the group's strategic business plan "Transform 2015," which is aimed at reducing unit costs by 10 percent, restoring profitability and strengthening the balance sheet, is fully on track. Nevertheless, revenues remain below target and the turnaround is taking longer than expected.

### Ports set up LNG infrastructure

More stringent International Maritime Organization (IMO) regulations to reduce sulfur dioxide emissions of ships are also going ahead. Beginning January 1, 2015, in the special areas (SECA), which are the Baltic Sea, the North Sea, and the English Channel, the sulfur content of fuel will be lowered to 0.1 percent.

## While TTIP will open doors, providers can't take eyes off emerging markets

Since turning the global freight management company's sites on trade between Europe and the U.S., Geodis Wilson's executive vice president Kim Pedersen says he's bullish on TTIP. However, he also sees a need to respond to a situation in which future growth will be coming from the emerging countries.

**Logistics Management (LM):** The first round of Transatlantic Trade and Investment Partnership (TTIP) negotiations has taken place. How do you think it could boost trade between the U.S. and Europe?

**Kim Pedersen:** The first round mainly covered areas such as energy, raw materials, agricultural goods, and also intellectual property rights, and it was all about identifying the potential benefits for both economical areas. Of course any additional dynamic here would subsequently show its benefits for the transportation sector as well, but it's too early to comment. The second round of negotiations, scheduled for October, might reveal more details. For sure we can say that we are following the debate with interest, as the trade from and to the U.S. in one of our focus areas.

**LM:** How have problems in the Eurozone affected your business in Europe and what is your outlook for 2013 and beyond?

**Pedersen:** Triggered by the economical stagnation in a number of Euro-countries, we have been experiencing a slowdown in the regional transport market for more or less

four years, with a few positive interruptions in between. However, I would like to avoid labeling this as a crisis. What we are experiencing is a "new normal," as I would describe it. We won't come back to a situation similar to before 2008 when everybody was expecting endless growth in the transport flows.

When we talk to our clients, they indicate that the development in the foreseeable future will most likely remain flat in Europe. However, there is still plenty of growth out there, it's just moving to other regions such as Russia, China, India, Brazil, as well as Mexico and Indonesia. These are the markets that on-boarded much of the volumes we have previously handled in Europe. So, it's an obligation as a global transport company to adapt to this situation—or even to take part in designing it, which we certainly do with our international development strategy.

**LM:** How has your business developed in the U.S. market?

**Pedersen:** We have ambitious development targets in this key market, and the signs are all positive. Just recently, our industrial projects unit in Houston signed a new 45 million euro logistics contract with a major oil and gas player, and also in other segments such as automotive and fashion we are making quick progress, for instance with our store opening logistics service.

—Dagmar Trepins, European Correspondent



Ports and shipping companies in Europe are responding. There are several European port initiatives supported by EU funds to provide an appropriate infrastructure for liquefied natural gas (LNG) and onshore power supply. In July 2013, Rotterdam and Gothenburg announced that they received 35 million euros from the European Union to set up LNG bunkering facilities by 2015.

“A major benefit of this collaboration is that we can work together and send a very clear signal to the market that LNG will be available at the largest port in Europe and the largest port in the Nordic region,” says Lars Gustafsson, president of Swedegas. Starting July 1, the port of Rotterdam now officially offers LNG bunkering for inland shipping vessels in the Seinehaven in Rotterdam Botlek.

The location of the first LNG bunkering terminal in the port will be announced later this year. Port of Antwerp also moved forward to facilitate and encourage the use of LNG as a shipping fuel and has teamed up with ship classification bureau Det Norske Veritas (DNV) to ensure the safe and efficient bunkering of LNG by seagoing ships and barges in its port by 2015.

### Hamburg Süd takes steps for sustainability

Leading European carriers like Hamburg Süd are going to be well prepared for LNG and onshore power supply. According to Dr. Ottmar Gast, Chairman of the Executive Board of Hamburg Süd, LNG-powered containerships are on the drawing board, but a full-fledged launch is still a number of years away.

Infrastructure issues as well as technical challenges still remain. Two LNG-powered container ships are on order to be built in the U.S., but these are designed to be operated in domestic trade with a limited number of port calls.

Concerning shore-based power, Hamburg Süd, along with other ocean carriers, is in the middle of planning for the implementation of the new California Air Resource Board rules, which



BLG/bremenports

### Offshore terminal for wind energy components in Bremerhaven.

require ships to be supplied with shore power while in California ports. A team of experts is working on how to comply best with these new requirements, which will come into force on January 1, 2014. Hamburg Süd operates four liner services to and from California, with more than 30 monthly ship calls.

The carrier has been in the forefront of environmental protection initiatives and has won numerous awards from both the Port of Los Angeles and Port of Long Beach for actively managing the reduction in ships' emissions. Looking ahead to the economic outlook for 2014, Dr. Gast says that U.S. seaborne exports in our major trade lanes have slowed, particularly to Brazil.

“However, we are responding by optimizing our network and shifting capacity to areas where demand is still strong,” says Dr. Gast. “For 2014 we see the U.S. Gulf as an area of opportunity where U.S. chemical manufacturers have invested in major production facilities to take advantage of lower U.S. energy costs.”

### Prospects for North European trade

According to the *Global Port Tracker* for Northern Europe that was released by Hackett Associates and the Institute of Shipping and Logistics (ISL) in August, the prospects for trade in this region,

that includes the North Range ports of Rotterdam, Antwerp, Hamburg, Bremen/Bremerhaven, Zeebrugge, and Le Havre, are not looking as optimistic in 2013 as had been predicted.

While Europe's overall import volume is estimated to increase by 3.9 percent in 2013, Northern Europe's import volume is expected to fall 8.9 percent to 12.2 million twenty-foot equivalent units (TEU). The forecast for exports projects a 4.1 percent growth for Europe as a whole, with Northern Europe decreasing by 2.3 percent to 10.59 million TEU. Ben Hackett of Hackett Associates points out that the slowdown in China's growth has as strong an impact on export trade as the recession, which he believes will continue.

With regard to the near future, Hackett cautions: “Don't expect the Northern European economies to recover quickly from their economic doldrums.”

### Booming Baltic region

In terms of intra-European traffic, an increase of 7.8 percent to 9.7 million TEU in 2015 has been forecast by the Dutch consultancy Dynamar, with the highest growth being predicted for the Baltic region. Although year-over-year growth rates throughout European ports that handle intra-Northern European

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services was relatively modest, Baltic ports reported a growth volume of more than 9 percent for the same period.

Referring to the *Baltic Container Yearbook 2013*, published by Baltic Press, container turnover in the Baltic Sea ports increased in 2012 to almost 9.5 million TEU in total. About three million TEU, one third, was handled in the three largest Russian Baltic ports St. Petersburg, Kalingrad, and Ust-Luga, followed by the three main Polish ports Gdansk, Gdynia, and Szczecin-Swinoujscie with almost 1.7 million TEU in total.

While the world economy slumped and sea freight rates collapsed, shipping lines reacted with a number of cost-saving measures to improve their profitability. This apparently has also made room for them to test the market by offering direct calls with larger vessels on the Baltic, taking full advantage of utilizing larger tonnage.

Furthermore, Baltic countries such as Poland have been less affected by the worldwide economic slump. They have the market potential to make the calls cost effective. Therefore, an increasing number of international carriers such as Maersk and CMA CGM are now offering direct ocean vessel calls to the Baltic Sea ports, thus contributing to the growing Baltic trade volumes.

### Port of Rotterdam completes Maasvlakte 2

During the first half of 2013, the Port of Rotterdam successfully completed construction of the port extension project Maasvlakte 2, which increased the port's size by 20 percent. This new port area is accessible by road, rail, and water, and is planned to include industrial parks as well as modern terminals. Despite the scope of the project, it will cost 150 million euros less than initially planned.

Various infrastructure projects are also on schedule at the port. The APM Terminals and RWG container terminals now in construction are planned to be operational by the end of next year.

Through all of this news, Rotterdam has doubled its container capacity by



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opening the new port area and is now eager to fill it up. Throughout the first half of 2013, the number of containers handled by the port increased slightly, up 1 percent, while the tonnage decreased by 2 percent due to the still sluggish economy in Europe.

Feeder transport went down by 6 percent, as feeder connections between the Baltic States and Rotterdam have in part been shifted to ports in Northern Germany. Overcapacity in container shipping is another reason for the decline, say port officials, since ship owners cut costs by making more direct port calls than in the past.

### Liquid bulk drives Port of Antwerp's growth

During the first half of this year, the port of Antwerp handled 95,662,759 metric tons of freight, an increase of 2.0 percent compared to the same period in 2012. While container volumes fell slightly by 1.7 percent in terms of TEU, and 3.7 percent by tons, liquid bulk showed strong growth, up 33 percent, mainly driven by an increase in petroleum derivatives.

The Antwerp oil and chemical sector has benefited in recent years from a steady stream of investments in storage capacity for oil products, chemicals, and gases. During the past 10 years, the volume of oceangoing cargo for tank storage companies rose 151 percent, and

the number of tank storage terminals increased 40 percent to a total of 15.

U.S. companies such as Ineos Oxide, FRX Polymers, Ferro, Praxair, and ExxonMobil are investing steadily in their Antwerp sites. "In combination with the investments recently announced, these half-year figures lead us to be cautiously optimistic," said Port Authority CEO Eddy Bruyninckx.

### Port of Amsterdam corporatized

On April 1, 2013, the Port of Amsterdam became a public enterprise. The Dutch port will move forward as a limited liability company of which the City of Amsterdam is the main shareholder.

Port of Amsterdam is the fourth largest port in Western Europe and a main hub for transshipments and handling energy products. The North Sea Canal Area tranships almost 100 million tons of goods annually, of which 77 million tons are handled in the port.

One of the first initiatives to boost business under the new corporate structure was the port's participation in an economic mission to Texas in July initiated by the Dutch Prime Minister as well as the Infrastructure and Environment Minister along with their Flemish counterparts.

More than 90 Dutch and Flemish companies made the trip that was designed to focus on port development in the energy and petrochemical sectors in the U.S. and discover new opportunities for the ports of Amsterdam, Rotterdam, and Antwerp. The main goal was to profile the Netherlands and Flanders delta area as an integrated economic region and to establish contacts between Dutch, Flemish, and Texas-based companies.

### Port of Hamburg strengthens market position

The Port of Hamburg, the No. 3 ranked European port in terms of volume, achieved above average growth and improved its market position in the first half of 2013. Total throughput in the first six months of 2013 reached 68.1 million tons, up 3.5 percent.



According to port officials, results were positive for imports and exports of general and bulk cargo. Container handling predominates in Hamburg, and so far it has added up to 46.5 million tons in 4.5 million TEU in the first half of 2013, representing a 2.1 percent increase compared to the same period in 2012.

While on the average, the large seaports in the Northern European Range reported downturns of 0.4 percent in total throughput and 1.2 percent in container handling, the Port of Hamburg can look back to above average growth. Hamburg's seaborne cargo throughput also profits from Baltic container services. A total of 1.1 million TEU were transported during the first six months of the year in container traffic between the Port of Hamburg and the Baltic region, representing an increase of 8 percent.

"Hamburg is further extending its position as Germany's largest universal port, and we are delighted that both general and bulk cargo handling contributed to the excellent throughput result," says Axel Mattern, CEO of Port of Hamburg Marketing. "With a volume of 180,000 TEU the U.S. container trade is holding its position as number four in our ranking list of international trade partners in the first half of 2013," adds Mattern.

### New marketing for JadeWeserPort

When the new German deep-water container port JadeWeserPort (JWP) opened in 2012, it led to great expectations for growing container turnover and fast economic revival for the northwestern part of Germany—but that quickly gave way to disillusion. Only two shipping lines are currently servicing JWP, and sales in the freight village "JadeWeserPort Logistics Zone" are slow.

Due to the financial crisis and the impact it has had on container traffic, the port recently announced changes in its marketing concept. While JWP was initially positioned mainly as a transshipment port, the focus will now rest on generating cargo turnover. The newly established marketing company called Container

Terminal Wilhelmshaven JadeWeserPort-Marketing, headed by Andreas Bullwinkel, is looking for new target groups.

Among them are manufacturers, importers, exporters, shipping lines for deep sea, short sea, and feeder services, as well as 3PLs and freight forwarders. Additional

emphasis is put on developing new and attractive freight haulage concepts with railway operators as well as on attracting customers from the hinterland—Northwestern Germany and the northern part of the Netherlands. The new marketing activities will be carried out

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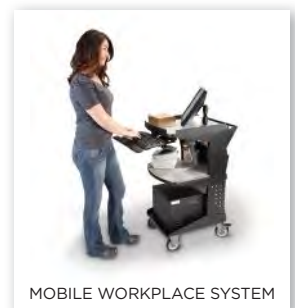
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### Fresh wind for Bremen Ports

After years of successful performance, the Bremen Ports were also hit by the downturn of the world economy. During the first six months of 2013, ocean freight throughput dropped to 39.8 million metric tons—a decline of 9.1 percent year-on-year. Container traffic, which is largely concentrated at the terminal in Bremerhaven, also slipped down 8.9 percent during the same period.

The planned project to deepen parts of the Weser riverbed will be delayed while the European Court of Justice reviews it. The German environmental protection association BUND had launched a lawsuit against the project.

However, Bremen Ports are looking ahead and are investing further in the infrastructure to become a key port for the offshore wind industry. One of

Bremen Port's big "green" port and logistics projects is the Offshore Terminal ABC-Halbinsel in Bremerhaven operated by BLG Logistics Group/WindEnergy Logistics. This terminal provides an area of 100,000 square meters to handle and store large wind energy components measuring up to 1,000 meters. The 900-meter long quay and a dock with a depth of 10.5 meters allow even high-capacity installation vessels to tie up. With the new Offshore Terminal Bremerhaven (OTB) in the south of the city, another offshore terminal is planned to go into operation by 2016. Up to 160 wind turbines can be pre-assembled, stored, and transhipped at the 25-hectare (63-acre) terminal yearly.

### Good connections through Port of Duisburg

Duisport, located in Germany's industrial heart of North Rhine Westphalia, is Europe's largest inland port with a

total volume of 63.3 million metric tons handled in 2012. Part of its expansion strategy, the new intermodal transport terminal, logport III that was built by the Duisport Group in Duisburg-Hohenbudberg, will be starting operations in 2013. Furthermore, this past July, the Port of Duisburg and Port of Antwerp announced that they would be developing the Duisburg-Antwerp axis as one of the most important logistics corridors in Europe.

Port officials say they plan to improve the quality of service by reducing transit time in general and provide the Port of Antwerp with better connections through Duisburg as a central hub in the Western European railway system. To solve the bottleneck for freight trains on the route between Rotterdam and Duisburg, the German federal government, North Rhine-Westphalia, and Deutsche Bahn recently signed a financial agreement for the construction of a third rail line between Emmerich and

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Oberhausen, an important milestone in the extension of the Betuweroute in Germany. The Duisport Group also successfully tested a new train route to Wilhelmshaven.

The “Wilhelmshaven-Duisport-Shuttle” now connects the DIT-Duisburg Intermodal Terminal on the logport site in Rheinhausen with the Eurogate Container Terminal Wilhelm-

shaven in the JadeWeserPort.

*Located in Hamburg, Germany, Dagmar Trepins is a European Correspondent for Logistics Management*

### Online Links

**European Commission: Transatlantic Trade and Investment Partnership (TTIP)**

[ec.europa.eu/trade/policy/in-focus/ttip/](http://ec.europa.eu/trade/policy/in-focus/ttip/)

**European Commission: Blue Belt**

[ec.europa.eu/transport/modes/maritime/news/bluebelt\\_en.htm](http://ec.europa.eu/transport/modes/maritime/news/bluebelt_en.htm)

**Global Port Tracker**

[www.globalporttracker.com](http://www.globalporttracker.com)

**Dynamar B.V.**

[www.dynamar.com/](http://www.dynamar.com/)

**Baltic Container Yearbook 2013**

[baltictransportjournal.com](http://baltictransportjournal.com)

**Port of Rotterdam**

[www.portofrotterdam.com](http://www.portofrotterdam.com)

**Port of Antwerp**

[www.portofantwerp.com](http://www.portofantwerp.com)

**Port of Amsterdam**

[www.portofamsterdam.com/](http://www.portofamsterdam.com/)

**Port of Hamburg**

[www.portofhamburg.com](http://www.portofhamburg.com)

**JadeWeserPort**

[www.jadeweserport.de/](http://www.jadeweserport.de/)

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[www.duisport.de/](http://www.duisport.de/)

**IMO International Maritime Association**

[www.imo.org](http://www.imo.org)

**Hamburg Süd Group**

[www.hamburgsud.com](http://www.hamburgsud.com)

**IATA**

[www.iata.org](http://www.iata.org)

**Lufthansa Cargo**

[lufthansa-cargo.com](http://lufthansa-cargo.com)

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[www.geodiswilson.com](http://www.geodiswilson.com)

**BVL Bundesvereinigung Logistik e.V.**

[www.bvl.de](http://www.bvl.de)

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# Pacific Rim Report

By Patrick Burnson

Patrick Burnson is Executive Editor of *Logistics Management*. If you want to contact Patrick with feedback or a story idea, please send an e-mail to [pburnson@peerlessmedia.com](mailto:pburnson@peerlessmedia.com).



## California's reliance on Pacific Rim trade partners falters

WHILE IT MAY SEEM COUNTERINTUITIVE, California's merchandise export trade with Europe has been up nearly 13 percent over the latest three months, while the state's exports to the Far East declined by 3.2 percent during the same period.

Further complicating this picture is the fact that this occurred despite a 16.9 percent jump in the value of shipments to China.

According to Christopher Thornberg, founding partner of Beacon Economics, this statistical aberration has yet to run its course. "As has been the case since late last summer, a substantial decline in exports of personal computer components has been the primary factor in restraining California's outbound trade," he says. "In the latest three months, the state's exports of those items fell 21 percent from the same period a year earlier."

Thornberg is one of California's most widely renowned economists, who is on record as being the first forecaster on the West Coast—and one of the earliest in the nation—to predict the subprime mortgage market meltdown that began in 2007, as well as the global economic recession that followed.

He now maintains that consumer preference for smartphones and tablets over PCs has prompted a

thorough restructuring of global supply chains in the electronics components sector. The decline hasn't dramatically affected the tech-heavy San Francisco Bay Area economy, however.

Thornberg observes that it is "re-export," products that are shipped in from one nation and then shipped back out to another nation in essentially the same form, that make up the bulk of the decline. For example, U.S. companies often import computer components from Asia and then ship them to Mexico for assembly.

**Economist Christopher Thornberg maintains that consumer preference for smartphones and tablets over PCs has prompted a thorough restructuring of global supply chains in the electronics components sector.**

"Re-exports are typically goods in transit, and their contribution to the state's economy is comparatively negligible," Thornberg says. "They may support a very small number of jobs in the transportation and warehousing sector, and they may profit the firms that orchestrate these transactions, but that's about it."

Beacon Economics' current outlook for the state's exporters is for modest rather than robust growth. The new U.S. competitiveness has allowed exports to remain stable despite grim news on the global front. However, in the short term, the U.S. and California will have to look internally for growth, which is being helped by a resurgent housing market and rising worker incomes.

"It does appear that Europe has found a bottom, and with Japan continuing to stimulate their economy and better numbers on consumer spending from China, we hope that export growth will return by next year," Thornberg says.

Finally, it's important to note that California exporters are still heavily reliant on Pacific Rim trading partners. Mexico remains the state's top export market, despite a 15.4 percent drop in shipments, while Canada retained its rank as the state's second largest customer, although China is quickly closing the gap. Japan and South Korea continue to round out the list of the top five foreign customers for California products. □



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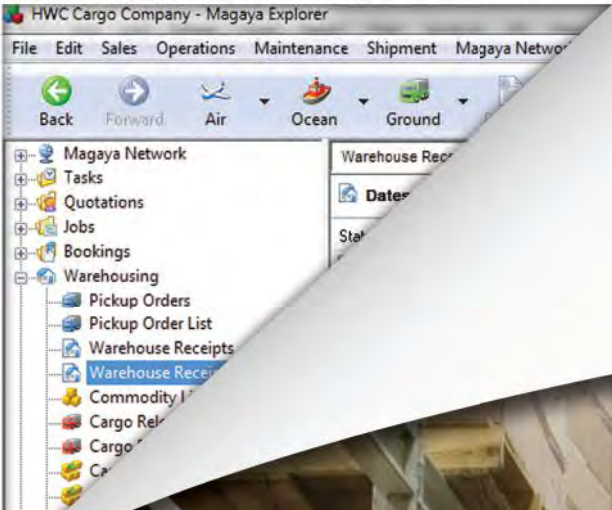
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