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JANUARY 2010

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2010 RATE OUTLOOK
BE ON THE LOOKOUT

Solving the parcel puzzle 26
GTM has arrived 34
5 low-cost DC resolutions 38

2010 Outlook Webcast
Jan. 28th at 2 p.m. ET
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Management UPDATE

AN EXECUTIVE SUMMARY OF INDUSTRY NEWS

■ **Box scanning stalled.** Last month's news that the U.S. Department for Homeland Security (DHS) would not be able to meet its 2012 deadline to implement its goal of 100 percent inbound container scanning was greeted with enthusiasm by the British International Freight Association (BIFA). "The DHS has consistently underestimated the enormity of the task at hand relative to the costs both to the United States government and those of foreign governments," said BIFA director John O'Connell. He added that the DHS also overestimated the limited ability of screening technology to penetrate dense cargo or large quantities of cargo in shipping containers. By the DHS' own calculations, most cargo shipped to the United States originates from only 58 major global ocean gateways. Security analysts suggest that scanning would best be done at these mega-ports rather than hundreds of other niche seaports.

■ **Ground handling procedures to tighten up?** While recent headlines focus on the lack of international ocean container scanning standards, a similar crisis was taking off in the air cargo arena. The Department of Homeland Security Office of Inspector General (IG) report issued last month said that the Transportation Security Administration (TSA)—a DHS agency arm responsible for aviation security—could significantly enhance ground-handling procedures. TSA analysts added that given that more than 10 million pounds of cargo is loaded into the bellies of passenger aircraft daily, the issue is becoming more urgent. TSA had performed more than 7,000 cargo security inspections last year, yet recently discovered numerous holes in their operations. The IG's report contained six recommendations for TSA to implement in order to improve cargo security before it's loaded onto passenger aircraft. Stay tuned.

■ **Slow freight recovery heading our way.** Fitch Ratings says truck and rail freight demand bottomed out in the second quarter of 2009 and it expects increasing demand to continue steadily in 2010. But the ratings agency noted "overall freight demand is not expected to return to pre-recession levels until sometime in 2011 at the earliest" and rates will remain under pressure. Fitch added that railroad rates will see a slightly lower increase range in 2010, closer to 3 percent on average, as demand is expected to be relatively mild at least in the first half, with export volumes likely to outpace domestic demand. The agency added that trucking industry volumes will continue growing mildly in 2010 as U.S economic conditions improve. However Fitch said rates in trucking will remain under pressure, particularly in less-than-truckload, "where the slow rate of volume growth will continue to leave the sector with overcapacity."

■ **Trucking capacity is still imbalanced.** Following the second quarter in which Avondale Partners estimated that less than 0.4 percent of the nation's over-the-road, heavy-duty truck capacity was pulled from the road,

continued, page 2 >>

■ ***LM*'s 2010 Salary Survey and Outlook Webcasts are right around the corner!** Be sure to watch your inbox now that you are back to work in the New Year. During mid-January we'll be sending out the 2010 Salary Survey questionnaires via e-mail. Last year nearly 1,400 readers participated in this highly anticipated study, giving the market the clearest picture available of average logistics salaries around the country—as well as a listing of the titles that rake in the biggest bucks. And don't forget that on Jan. 28 at 2:00 p.m. ET, the 2010 Logistics Outlook Webcast will be presented live. This popular event offers shippers a snapshot of where the U.S. economy is headed and, more importantly, where transportation rates are headed in the coming year. During this interactive event, attendees can ask industry experts questions in real time. Visit **logisticsmgmt.com/2010outlook** to register.

Management UPDATE

continued

the firm said that less than 0.7 percent of the overall capacity exited in the third quarter. While the figures were described by Avondale as "promising," the research firm noted that it's still not enough to cure the current imbalance between capacity and demand. While the number of companies cited in the report that pulled trucks from the road only rose from 370 to 405 from the second quarter to the third quarter, the number of trucks—6,725 in the second quarter and 14,135 in the third quarter—more than doubled sequentially.

■ **Cold ironing for cleaner air.** APL may no longer be headquartered in Oakland, but it used the port as a backdrop to usher in news that it had teamed with the Bay Area Air Quality Management District on a "landmark" $11 million project to cut vessel emissions and improve this city's air quality starting in 2010. Armed with $4.8 million in air quality grants, the world's fifth-largest container carrier said it will retrofit its terminal and vessels to begin cold-ironing next December at the Port of Oakland. "Cold-ironing," which means turning off a ship's 2,000-horsepower diesel generators at berth and connecting instead to electrical sources ashore, enables vessels to maintain power in port while eliminating exhaust emissions.

■ **Port of LA relents.** A second set of modifications to the Port of Los Angeles' tariff to allow truckers to continue operating their existing rigs past the January 1 ban date has been approved—and not a moment too soon. Inbound container volumes continue to decline, and the port is at risk of losing share to other ocean cargo gateways if shippers perceive drayage complications in the future. The tariff modifications are designed to be consistent with a Drayage Truck Rule Advisory issued by the California Air Resources Board in December. The advisory will allow truckers that have purchased a new truck or retrofit with private funds to continue to operate their existing vehicle until April 30, 2010 while waiting for the new truck to be delivered or the retrofit to be installed.

■ **Is the worst over?** Shippers listening to last month's economic forecast event hosted by IHS Global Insight are certainly hoping that the analysts are on target with their prediction that "the worst is over." Billed as "The Top 10 Economic Predictions for 2010," the webcast began with a quick recap by Nigel Gault, the firm's chief U.S. economist, of last year's predictions: "At the time we said that the U.S. recession would be one of the deepest—if not the deepest—in the postwar period." Well, Gault was right. "The single-biggest risk facing the U.S. and world economies at that time was a timid response to the crisis," he said. Fortunately, that did not occur, and this year's IHS forecast suggests that the U.S. recovery will start slowly and then be stuck in the 2-percent to 2.5-percent range.

■ **IMO warms to this subject.** Last month's Copenhagen Climate Summit became a forum for the London-based International Maritime Organization (IMO) to lobby for more oversight with regard to safety, security, facilitation of traffic and protection of the environment. "Since its creation, IMO has developed these skills and is uniquely placed to continue to service the world community from all its perspectives, including those within the objectives of the Copenhagen Conference," said spokesmen at the conference. Spokesmen added that 23 out of the 51 IMO treaty instruments directly address the prevention and control of pollution.

■ **2009's Railroad Facts is on the tracks.** The Association of American Railroads (AAR) annual reference book is filled with facts and statistics on a wide range of topics, including railroad finance, traffic, operations, and equipment, among others. It also includes profiles of Class I railroads, Amtrak, Canadian, and Mexican carriers. This edition is also packed with information on industry revenues, capital investments, and accident rates. Single copies are $20 and discounts are available for larger quantities. Order online at aar.org.

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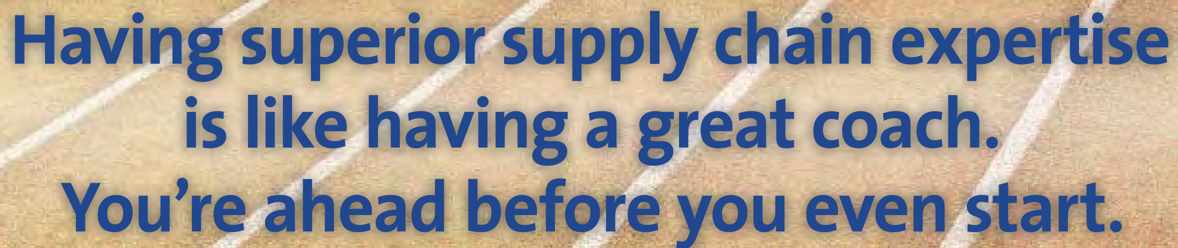

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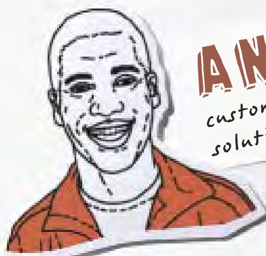

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Contents

January 2010 VOL. 49, NO.1

2010 rate outlook
Be on the lookout

Nobody is predicting a dramatic post-recession bounce as the national economy slowly emerges from its fitful and uneasy hibernation. Nevertheless, a slow but recognizable rebound will be coming. Shippers should be on the lookout for early indications of rate hike activity in the first half of 2010. **22**

cover illustration by chris gall

Logistics MANAGEMENT®

transportation trends
Solving parcel's perplexing puzzle
26 Carrier revenue is recovering and our experts see growth in the coming years. But pricing continues to be more complex than ever for parcel shippers.

global logistics
The rise of vested outsourcing
30 Our researchers found that progressive shippers and 3PLs have evolved to a "next generation" outsourcing model based on mutually desired outcomes.

supply chain technology
GTM has arrived
34 Research finds that shippers are turning to global trade management systems to help them comply with the new 10+2 rules—as they should.

warehouse & DC
5 low-cost warehouse resolutions
38 Here's how to improve the flow of product and information just in time for the uptick in the economy—without draining your budget.

Parcel express 26

Vested outsourcing 30

1 Management update
9 Viewpoint
10 Price trends
13 News & analysis
18 Bohman on pricing
20 Mulani on excellence
56 Sage advice
43S Special Report: Air cargo's painfully slow climb
50S Special Report: 2010 lift truck roundup

webcasts/continuing education

upcoming webcasts

2010 Rate Outlook: Be on the lookout for subtle rate hikes

Thursday, Jan. 28th, 2 p.m ET

While the economic recovery will be slow in coming, our panel of transportation analysts and economists tell us that shippers should keep their eyes open for early signs of rate hike activity in the first half of 2010. Join Group Editorial Director Michael Levans and a panel of leading analysts as they give shippers our annual update on the current state of the truckload, less-than-truckload, rail, air, and ocean markets and help shippers get a better idea of where rates will be heading in 2010.
logisticsmgmt.com/2010outlook

on-demand webcasts

Sustainability results from wireless fleet management systems

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Conducting a successful Lane Bid Project

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upcoming virtual conferences

Supply Chain Security: Best practices and strategy for protecting your global supply chain operations

Thursday, Feb. 25th, 11 a.m.–7 p.m. ET

As supply chains extend around the globe, it's more important than ever to protect your shipments at all steps in the supply chain—from the source to the end consumer, while cargo is in transit and at rest. This virtual conference will provide proven tactics and techniques for assuring the security and integrity of your freight at all points in the supply chain.
logisticsmgmt.com/security2010

bears repeating...

"It is important to note that year-over-year comparisons in 2010 will be much easier to show growth than we had for most of 2009, as the 2008 base of monthly trade we've been comparing against all year hadn't really fallen away sharply until late in 2008 with the financial crisis."

—Paul Bingham, IHS Global Insight Economist

this month's fast facts

1. Research compiled by Pittsburgh-based SJ Consulting research firm shows that the overall LTL market size declined by an estimated 24.5 percent in 2009 compared with 2008 levels.

2. The United States Postal Service (USPS) pared down its list of potential retail branch consolidations to less than 170 from roughly 3,300.

blog takeaway

"So exactly what was achieved at the Copenhagen Summit ? By all reliable accounts, not much. With no solid consensus among participating nations, delegates walked away with what is being optimistically called 'an accord.' What we really have is a soft commitment to limit global temperatures — with no firm target dates. At the same time, the accord allows an international exchange of information on carbon emission cuts, but has no accountability for the billions of dollars used for funding measurable results.
"The Copenhagen Conundrum"
—Patrick Burnson, December 21
logisticsmgmt.com/blog/burnson

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This ad was scheduled to run in the next edition.

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Remembering Ray Bohman

As we were wrapping up our January issue, the transportation and logistics community was hit with tough news: We learned that Ray Bohman, the longtime *Logistics Management* (*LM*) columnist and staunch shipper advocate, passed away on January 2. He was 76 years old.

Ray began writing "Bohman on Pricing" for *LM* in 1988. And in readership study after readership study, his monthly column always ranked as one of the best read pages in the magazine—and his fan base only grew as more shippers migrated to logisticsmgmt.com.

There was little mystery as to why Ray's writing was so appealing: He put complex information into uncomplicated prose; and, in turn, helped thousands of shippers improve their understanding of transportation pricing and operations in the process.

In his columns, he put classifications and tariffs into layman's terms and clearly explained the driving forces behind general rate increases across all modes of freight transportation. He predicted pricing trends in trucking, knew how to untangle contractual matters, and sang the praises of shippers who put transportation management technology to good use.

"Ray was one of the best friends that U.S. shippers ever had," remarked Frank Quinn, editorial director of *Supply Chain Management Review*, who worked with Ray for many years on his columns for *LM*. "And through these columns and articles Ray helped generations of managers become true transportation and logistics professionals."

But the column for *LM* was only a small portion of his total body of work. He was a well-known consultant, book author, and editor of several successful newsletters on freight transportation. He also served as a consultant on freight matters to a number of national trade associations, including the Toy Shippers Association and the National School Supply and Equipment Association. He was also a fixture in the furniture market for more than 50 years, having served as the longtime executive director of the International Furniture Transportation and Logistics Council.

When he wasn't on the road, Ray served as president of The Bohman Group, a transportation consultancy, based in his home office in Chatham, Mass. But wherever Ray was during his wonderful career, it was certain that he was devoting his time to helping logistics professionals better understand transportation's pricing puzzle—and enjoying himself in the process.

"Ray was devoted to making learning fun," says Hank Mullen, a long time friend and colleague who collaborated with Ray on many of his articles. "I remember being at a session not too long ago when a shipper asked Ray if there was one book that could teach him all he needed to know about transportation. Ray said he did not know of such a book, but if he found it please let him know because he wanted to read it."

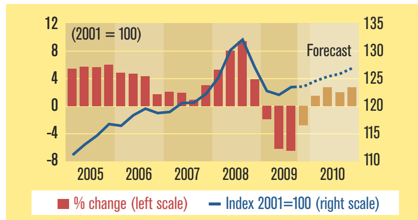
Ray was one of the best friends that U.S. shippers ever had.

Before Christmas we received Ray's column that appears on page 18. We felt it only fitting to run this column as a tribute to Ray and as a final reminder of his legacy to the transportation community—and because Ray would have insisted.

Michael A. Levans, Group Editorial Director

Comments? E-mail me at michael.levans@reedbusiness.com

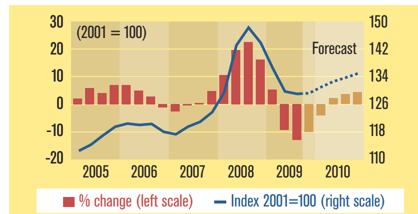
Pricing Across the Transportation Modes



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
General freight - local	-0.4	0.2	-1.9
Truckload	1.0	1.8	-5.2
Less-than-truckload	-1.2	-0.8	0.8
Tanker & other specialized freight	0.8	0.9	-2.3

TRUCKING

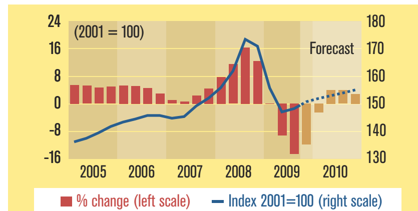
Average prices charged by LTL companies declined 1.2% while TL companies managed a 1% price hike from October to November. But overall, LTL prices held up much better than TL in 2009. Indeed, the LTL market recorded only two quarters of prices falling below year-ago levels and the TL market had four quarters of falling prices. When all the trucking data is added together, we're now estimating truck transportation prices will have fallen 2.8% in the final quarter of 2009 compared to the same quarter a year ago. That's another downward revision. Looking ahead to 2010, we're sticking by the 2.2% annual price hike forecast. Next month we'll take a stab at extending the forecast out another year.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Scheduled air freight	0.0	0.8	-9.8
Chartered air freight & passenger	1.2	7.3	-5.4
Domestic air courier	-1.4	4.9	-9.0
International air courier	-2.9	1.6	-10.8

AIR

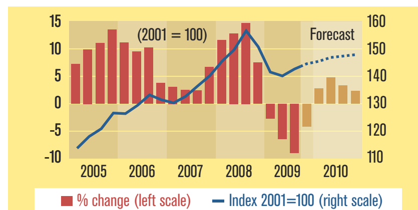
The domestic airline industry (passenger and freight) increased its transaction prices, including surcharges, by 1.8% from October to November. But looking at air freight prices for cargo on scheduled flights, we see airlines took a 0.1% price cut. Nonscheduled air freight charter companies fared better with a 1.3% one-month price increase. The only airline service that saw its prices in November 2009 exceed year-ago levels was domestic air freight charter. Here, prices stood 3.7% higher than November 2008. By contrast, scheduled air freight tags were down 9.8% and international chartered freight prices slumped 22.5%. Our revised forecast for scheduled air freight shows tags up 1.5% in 2010.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Deep-sea freight	0.0	4.3	-17.4
Coastal & intercoastal freight	0.0	7.8	-3.3
Grt. Lks.-St. Lawrence Seaway	-0.4	0.3	-0.3
Inland water freight	-0.9	-3.3	-14.9

WATER

After five consecutive months of price increases, the U.S.-owned water transportation industry reported its average transaction prices declined 0.2% from October to November. Price cuts by vessels running on inland waterways were the main driver. Inland waterways towing transport companies cut their prices by 3.5%. All other inland vessel companies also cut prices by 0.4%. Great Lakes/St. Lawrence Seaway freight transportation saw tags decline 0.4% as well. Where does this leave the price forecast? For now, we are sticking by a conservative outlook with water transport prices increasing in all four quarters of 2010, but at a very slow pace. After a 9.1% annual price drop in 2009, prices are forecast to increase 2% in 2010.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Rail freight	.2	2.7	-4.4
Intermodal	1.8	5.3	-4.4
Carload	.1	2.4	-4.5

RAIL

Intermodal rail prices popped up 1.8% from October to November as carload rail inflation slowed to 0.1% at the same time. Of course, as mentioned last month, intermodal rail has some catching up to do on the pricing front. Intermodal rail companies will have a chance to raise prices again in 2010, if the National Retail Federation's analysis of retail containers coming through U.S. ports holds true. Container import volumes will have registered 31 consecutive months of year-over-year declines by January 2010, but are forecast to turn around finally in February 2010. While the economic recovery may be anemic, after an 5.6% price cut in 2009, we're forecasting rail prices will rebound 3.3% in 2010.

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

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- LTL market declines by 24.5 percent in 2009
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NEWS & ANALYSIS

STB reauthorization bill is formally introduced

Long-awaited bill would revamp STB and provide shippers with more competitive options.

By Jeff Berman, Group News Editor

WASHINGTON—Last month, the Senate Committee on Commerce, Science, and Transportation introduced legislation that would revamp the Surface Transportation Board (STB) and address various issues affecting railroad carriers and shippers to the full Senate.

The bill—entitled the Surface Transportation Board Reauthorization Act of 2009—was kept under wraps for months and was rolled out last month when a draft version circulated. Senator Jay Rockefeller (D-WV), the architect of the legislation and chairman of the Senate committee, is focused on addressing the longstanding concerns of rail shippers regarding rates and service as well as making the railroad industry more competitive.

"After this Committee's extensive bipartisan work with all stakeholders, I am extremely pleased to see we have moved one step closer to improving America's railroad industry—a critical infrastructure to our nation's economic recovery," said Rockefeller in a statement. "For a quarter of a century, I have worked to enact needed rail legislation that would provide real reform and address the shippers' problems. The bill would fix these problems and prepare our rail regulatory structure to encourage a vital, robust rail industry."

The legislation includes a wide-ranging array of action items that could significantly alter processes commonly viewed as "business as usual" in the railroad industry, including:

- raising the number of STB board members from three to five;
- establishing the STB as an independent agency;
- giving the STB investigative authority;
- creating a strong rail customer advocate to help resolve shippers' concerns;
- protecting rail shippers and maintaining reasonable rates in non-competitive situations;
- preventing two or more rail carriers from collaborating on interline rates;
- requiring major railroads to quote "bottleneck rates";
- and improving shipper access to regulatory relief.

Still missing from the legislation is language regarding antitrust exemptions for the railroad industry. Prior to legislation being introduced, there had been a slew of similar railroad

LEGISLATION, *CONTINUED*

legislation in the pipeline, including antitrust legislation passed by House and Senate committees earlier this year.

In June, Senator Rockefeller and his Senate colleague Herb Kohl (D-WI) penned a letter to the Senate explaining that they petitioned Senate Majority Leader Harry Reid and outlined their plans for the Commerce and Judiciary Committees to work together on comprehensive rail competition legislation that reforms the STB and repeals the antitrust exemption in the form of a robust reform package.

Senator Rockefeller said that he will work with Senator Kohl and other members of Congress to add antitrust reforms as it moves to the Senate floor.

"We are delighted there is a bill moving that addresses some of our concerns," said Bob Szabo, president of Consumers United for Rail Equity (CURE), a rail shipper concern. "There are many things we like in this bill…but it does not address all of our concerns. We think it is a vast improvement over current law and policy and so we are very excited about the prospect moving forward."

> **"There are many things we like in this bill...but it does not address all of our concerns."**
>
> **—Bob Szabo, president of Consumers United for Rail Equity (CURE)**

While Szabo and CURE are optimistic about this legislation, Association of American Railroads President and CEO Edward R. Hamberger said that this bill would be the most significant rewrite of the railroad industry's regulatory system since the Staggers Act of 1980—which effectively de-regulated the railroad industry.

Hamberger also noted that under this bill Class I railroads would be required to open their privately owned and maintained rail networks and would face vastly expanded government involvement in railroad operations.

Industry experts told *LM* that while much of this bill centers around pricing and rates, the railroad industry—in its present regulatory framework—has been able to do a good job in reinvesting earnings into the infrastructure needed, which is critical in order to handle future growth. L

TRUCKING

LTL market declines by 24.5 percent in 2009

WASHINGTON—The highly unionized LTL sector, still a critical link for shippers relying on the speed, service, and reliability of hundreds of remaining carriers, has been the hardest hit of all ground transport due to the recession and changing distribution patterns that has favored full truckload moves by non-union operators.

New research compiled by the Pittsburgh-based SJ Consulting research firm shows that the overall LTL market revenue declined by an estimated 24.5 percent in 2009 compared to 2008.

Satish Jindel, principal of SJ Consulting, says that, including fuel surcharges, the LTL sector totaled $25.2 billion in revenue in 2009 compared with $33.3 billion in 2008. Excluding fuel surcharges, the sector posted $22.7 billion in revenue compared with $27.8 billion in 2008. Overall trucking revenue, including private trucking, was estimated to be about $680 billion last year, meaning LTL has declined to about 3 percent of the total trucking industry, its lowest percentage ever.

According to the data, the recession is partly, but not totally, to blame. While LTL revenue was off 24.5 percent from 2008 to 2009, the domestic parcel business (mostly FedEx and UPS) was off just 14 percent to $52.65 billion last year from $61 billion in 2008.

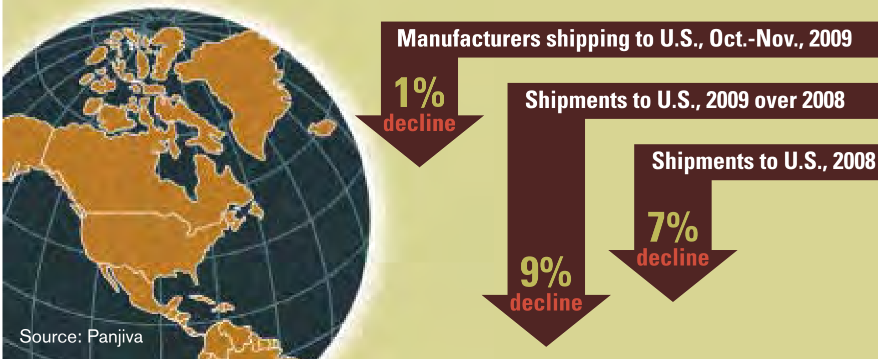
"The LTL industry is not declining because the business isn't there, but rather because the players operating in that sector are being too narrow-minded in their focus," said Jindel. "They are not promoting the growth of that industry. They still think of that business in terms of the LTL regulated mindset."

Jindel charges that the LTL sector

News Capsule

Cause for concern with U.S. shipment data?

Data from Panjiva, a firm with detailed information on global suppliers and manufacturers, cited a 1 percent decline in the number of global manufacturers shipping to the U.S. market from October to November of last year. But the number of actual shipments to the U.S. market was down 9 percent year-over-year, putting it ahead of the 7 percent shipment decline in 2008, when the economy began to topple.



Source: Panjiva

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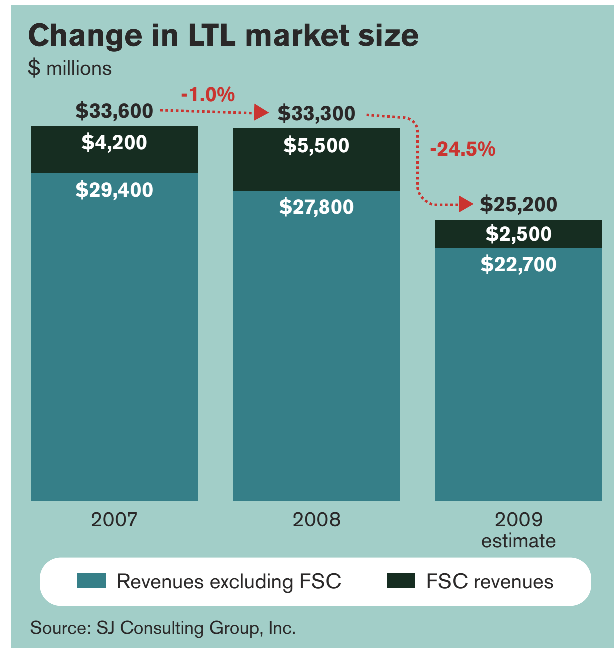
TRUCKING, *CONTINUED*

"has never adjusted to the deregulated era" and continues to price their services the way they did 15 to 20 years ago. "The only reason carriers win market share is because of the thousands of closings of mostly unionized LTL carriers since the industry was deregulated in 1980," said Jindel. "The LTL industry, in my view, has gotten comfortable from picking up the pieces that were dropped off by carriers that have gone out of business."

Leading LTL executives do not totally disagree with some of Jindel's notions, but maintain that they have changed with the times and are always adjusting their services to shippers' needs.

"We still have a very large market and we're constantly trying to focus on offering the right services, whatever our customers' needs are," said Bill Logue, the new president of FedEx Freight (FEF) who will assume the CEO title when long-time FEF chief Douglas G. Duncan retires on Feb. 28. "It's really about offering bundled solutions," Logue said. "At the end of the day, the customer is looking for value, reliability and excellent service."



While admitting that even the shrinking LTL sector has excess capacity these days, Logue admits that it's a "pricing market." Still, he says he believes the essentiality of LTL will still win the day for many customers.

"Our business is all about saying, 'How can I make my business stronger by doing business with you?'" Logue said. "The base of customers we have allows us to find customers with a high-value need."

FedEx Freight has been gaining share and now comprises 14.6 percent of the LTL market, according to SJ Consulting. YRC National is next at 13.3 percent, while Con-way Freight comes in at 11 percent.

John Labrie, president of Con-way Freight, said that what shippers want today is no different than a year ago. "They are demanding exception-free, on time, and fast delivery, and they want it at good rate," he said. "The mix of what matters to them varies and each customer weighs these attributes differently. But the way they make their buying decisions hasn't changed." ■

—John D. Schulz, Contributing Editor

ACQUISITIONS

Transplace acquired by private equity firm

NEW YORK and DALLAS—In what was described as a move to grow its business, Transplace, a non-asset based third-party logistics (3PL), truck brokerage, and technology services provider, has been sold to an affiliate of CI Capital Partners, a New York-based private equity firm.

Financial terms of the transaction were not disclosed. The deal closed on Friday, December 18.

Transplace was established in 2000 as a collaboration among six transportation carriers—J.B. Hunt Transport Services, Covenant Transport, Swift Transportation Co., M.S. Carriers Inc. (which subsequently merged with Swift), U.S. Xpress Enterprises, and Werner Enterprises. When the companies first joined together to establish Transplace, it was viewed as a way to bring shippers and carriers together through a Web-based platform to efficiently collaborate on transportation and logistics planning and execution.

The company is widely viewed as one of the top ten capacity freight brokers and leading 3PLs in the country and generates revenue north of $700 million from about 650 customers across various sectors. It also works with shippers to manage complex logistics and shipping needs via its proprietary Web-based technology platform.

> **"One of the advantages of having a good partner like CI Capital Partners is that there is capital available for acquisitions."**
>
> **—Tom Sanderson, CEO Transplace**

Transplace CEO Tom Sanderson told *LM* that the company's management team has long been interested in finding a good private equity partner that will help move its business forward at a faster pace.

According to Sanderson, the previous ownership did not have a lot of strategic interest in Transplace and were not terribly active participants in the company. He added that they were always open to the idea of a sale and waited until the company progressed to a point where the price they got was

ACQUISITIONS, *CONTINUED*

reasonable.

"One of the advantages of having a good partner like CI Capital Partners is that there is capital available for acquisitions," noted Sanderson. "We think that in this market it's a good time to be a buyer; and certainly there are companies out there that we think will represent good opportunities —whether they expand the range of services we offer, help us enter new geographic territory or industry segments, or even just build additional revenue within the space we already serve."

A noted 3PL industry expert said that the deal does not come as a huge surprise. "Transplace was a great idea in its time, but what happened over the years is that it became important for Werner, J.B. Hunt, and the other companies to be able to do transportation management activities in house as part of their service offerings for customers," said Dick Armstrong, president and CEO of supply chain consultancy Armstrong & Associates.

Armstrong also said that this deal is likely a good one for all involved stakeholders, with the previous ownership likely turning a profit and Transplace getting an owner that might have some other ideas for expanding service offerings. And on the customer side, Armstrong said that this deal may allow Transplace to get involved with other companies to expand its services through such things as international transportation management and freight forwarding.

Transplace CEO Sanderson said that customer reaction to the deal has been very positive, due primarily to the company's management team remaining intact, coupled with the same level of service, and stronger financial backing. L

—Jeff Berman, Group News Editor

MANAGEMENT CHANGE

Pacer CEO Uremovich steps down

CONCORD, Calif.—Freight transportation and logistics services provider Pacer International Inc. announced that Michael E. Uremovich, chairman and chief executive officer, stepped down on December 15.

Michael Uremovich

Company officials did not cite a specific reason for Uremovich's departure, but they have announced that Uremovich will be replaced by Pacer Chief Operating Officer Daniel W. Avramovich.

Uremovich was named Chairman and CEO of Pacer in November 2006. He initially joined Pacer as vice chairman in October 2003 after a previous tenure serving as a consultant for the company.

Avramovich had served as COO since June 2009, where he oversaw Pacer's retail and wholesale intermodal service units, as well as the highway, brokerage, supply chain, and warehouse service units. Avramovich joined Pacer in June 2008 as retail intermodal services president.

"Dan Avramovich has not only proven to be an effective leader for Pacer, he has a clear vision and plan for Pacer's future that has been embraced by our board of directors and leadership team," said Uremovich in a statement. "He brings a breadth of experience as an executive of logistics, rail and intermodal transportation companies, as well as skills in building value-added relationships with customers and vendors, and cohesiveness within our organization."

Uremovich's final months proved to be hectic, with the company entering into a revised credit agreement with a group of financial institutions led by Bank of America. This agreement provides for an asset-based revolving credit facility of up to $125 million, subject to borrowing base availability, with an optional feature that offers an increase of up to $50 million in the credit facility subject to certain conditions.

In August, Pacer closed the sale of certain assets of its specialized heavy-haul trucking operation—Pacer Transport—to subsidiaries of Universal Truckload Services.

Uremovich told *LM* in August that while there was not a true need to sell this unit the company decided that "in the longer term having a flatbed operating division like Pacer Transport did not fit strategically with Pacer's core intermodal and truckload transportation services."

In November, Pacer announced it entered into a new arrangement with Union Pacific Railroad to accelerate its transformation into a fully-integrated door-to-door intermodal service provider. Company officials said this deal provides Pacer with continued access to the entire UP intermodal network, including a multi-year line-haul services expansion that replaces its current terms for domestic big-box shipments that were set to expire in 2011, among other stipulations. L

—Jeff Berman, Group News Editor

"Dan Avramovich has not only proven to be an effective leader for Pacer, he has a clear vision and plan for Pacer's future that has been embraced by our board of directors and leadership team."

—Michael Uremovich, former Pacer CEO

PRICING

Bohman on

GRIs are in effect

OVER THE PAST FEW YEARS, we've learned to count on the nation's two largest publicly traded package carriers—UPS and FedEx—to be the first carriers to go forward with general rate increases (GRIs). And this year is no exception.

UPS announced on November 20 that it would implement an average increase of 4.9 percent in Ground Service package rates and an average net increase of 4.9 percent in all air express and U.S. origin international shipments—all effective on January 4.

On December 3, FedEx gave notice that it too would increase its Ground Service rates by an average 4.9 percent on January 4 as well; however, on packages weighing 71 pounds up to 150 pounds, its rates are now $0.05 less than UPS Ground Service rates.

Now, if you plan to pass on a 4.9 percent increase in what you charge your customers, you probably won't come out whole. Rates on lightweight packages (those weighing 1 pound to 5 pounds) destined to zones 2 through 8 have been hit with an average 6.4 percent increase. And the average increase in rates on packages weighing 1 pound to 10 pounds shipped to zones 2 through 8 are up 6.2 percent on average.

Even if you've properly factored in the above increase, don't forget to consider changes that may be forthcoming in fuel surcharges or increases in accessorial charges that are already in effect.

As far as fuel surcharges (FSC) are concerned, there is no way to predict with any certainty just what changes will be made throughout 2010. If you look for guidance at the forecast made by the Energy Information Administration, it appears that ground FCS will be higher while air FSC will be lower.

Below, check out the examples of increases in accessorial changes that took effect on January 4:

- C.O.D. Tags and Electronic Processing: up from $9.00 to $10.00;
- Large Package Surcharge: increase of $5.00 from $45.00 to $50.00;
- Residential Surcharge: increase Ground by 15 cents, from $2.05 to $2.20;
- UPS Delivery Confirmation, Signature Required, and Adult Signature Required: increase of 25 cents; and
- Delivery Intercept: an increase of $1 from $10 to $11.

Ray Bohman is a long-time contributor to Logisitcs Management

Honk.

in•te•grate (verb) Etymology: Latin *integratus* **1:** to form, coordinate, or blend into a functioning or unified whole. **2:** to combine International and Domestic Logistics Services, with industry-leading web-based tools, to create tailored solutions that deliver results beyond expectations.

trans•group (noun) Etymology: Latin *vectura factio* **1:** The most innovative single-source provider of integrated transportation and logistics solutions anywhere. **2:** the Future of Transport Logistics.

honk (verb) Etymology: Latin *irritatus* **1:** to cause (as a horn) to honk. **2:** action taken by client (tooting one's own horn) after experiencing the results of TransGroup's integrated solutions.

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EXCELLENCE

Pearson on

The three mantras of supply chain planning masters

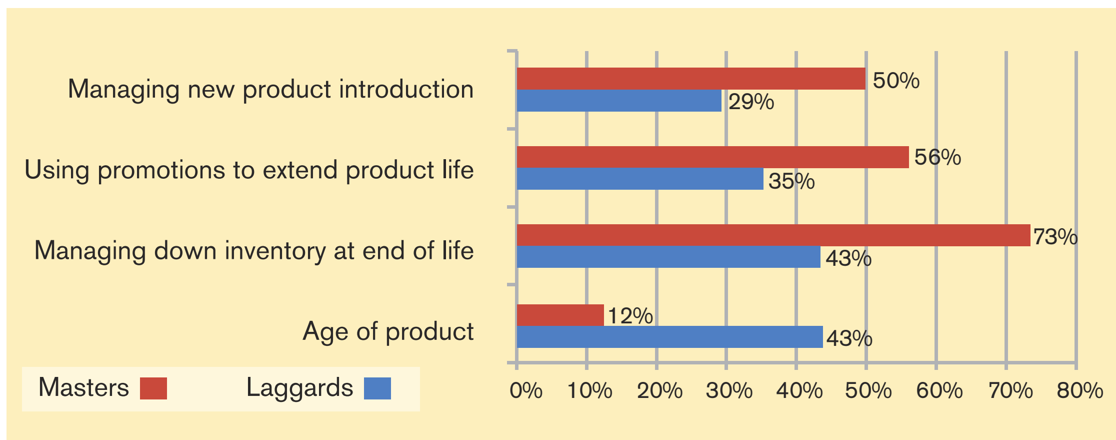
IN THE LAST COLUMN, we summarized the results of an Accenture study on "supply chain planning mastery" and explained how the forecasting and planning acumen of more than 240 companies influences their inventory turns, fill rates, and lead times. We also profiled six planning activities that masters (the 10 percent of survey respondents with the highest cost-effectiveness and customer-service scores) tend to do better than the survey population as a whole:

1. collaborate with key customers and suppliers;
2. create dynamic planning models;
3. excel at demand shaping and demand sensing;
4. perform total product life cycle planning;
5. segment supply chain plans; and
6. leverage new technologies, processes and operating models.

However, we stopped short of discussing big picture strategies for achieving supply chain planning leadership. Following are three of the most vital supply chain planning mantras.

1. Supply chain planning works best as a high-level, enterprise-wide discipline. Planning should not be relegated to a specific department. Instead, it must be a widely embedded capability that transcends "forecasting" and spans business functions. To make this happen, companies may wish to consider several initiatives:

- formally study how supply chain planning data is gathered and applied across the supply chain and across the enterprise;
- review data-gathering/analysis processes and potentially upgrade or replace those processes that don't contribute fully to an integrated (enterprise-wide) supply chain planning mission;
- examine ways to tighten relationships (particularly as they apply to information sharing) with suppliers, customers, and other business partners; and
- identify and implement professional-development programs (e.g., recruitment and training) that help advance the goals above.



Masters are more likely to take a total life cycle planning approach to supply chain planning.

2. Adaptability is key. Companies can often benefit by positioning operational adaptability as more desirable (and attainable) than the ability to generate perfect long-range forecasts. Of course, forecasting is critical to planning—and proper planning is vital.

However, by its very nature, forecasting is more or less imprecise—too many supply chain disruptions cannot be predicted. Instead, the business world's increasing volatility means that companies should strive for highly flexible operating models, processes, and plans that help them respond rapidly

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

to economic, political, and market-driven changes.

3. Speed matters. To deal with mounting contingencies, supply chain planning must happen faster and more frequently and be more tightly integrated with pricing, logistics, and other (internal and external) disciplines. This is the essence of an effective sales and operations planning process, and all key constituencies in each channel segment and product line must play a role.

Sales, finance, marketing, and logistics all need the right information and the ability to make critical decisions based on sharply defined decision criteria. Moreover, as shown in the graphic, each corporate entity must be able to make rapid decisions continually and throughout a product's entire life cycle. All in all, connectivity and collaboration are vital, but if the processes that make connectivity and collaboration happen can't execute quickly, the whole effort will simply add weight rather than value.

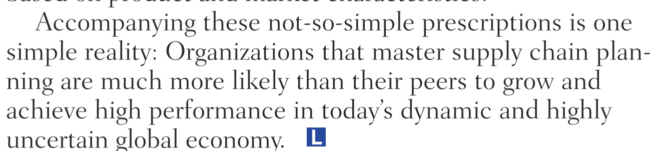
EXCELLENCE IN SUPPLY CHAIN PLANNING FUELS HIGH PERFORMANCE

A growing number of businesses are now global in ways they never were before. Combine globalization with high volatility in fuel prices, currency, market confidence, and other factors, and it becomes doubly clear that many companies' supply chain planning models need to be reinvented.

Basically, organizations need to recognize the increasingly vital role that planning plays in identifying the "tipping points"—when shifts to operating models and strategies are needed to maintain customer service levels without eroding margins and overall profitability.

For many companies, the key to that shift will be predicting, understanding, and shaping demand more effectively by incorporating additional causal factors into their demand modeling. This, in turn, will mean getting involved earlier in developing new products and working more collaboratively with suppliers and customers to plan and forecast on a larger, more responsive scale. New capabilities will most likely follow, including:

- a hybrid centralized-decentralized planning model that creates centers of excellence while gaining input from geographically distant partners and markets;
- comprehensive and formal sales and operations planning processes to manage mounting complexity and prevent emerging global-local disconnects;
- standardized technology platforms and standardized data for maximizing planning effectiveness and inventory visibility; and
- the ability to plan and manage multiple supply chains based on product and market characteristics.



Accompanying these not-so-simple prescriptions is one simple reality: Organizations that master supply chain planning are much more likely than their peers to grow and achieve high performance in today's dynamic and highly uncertain global economy. L

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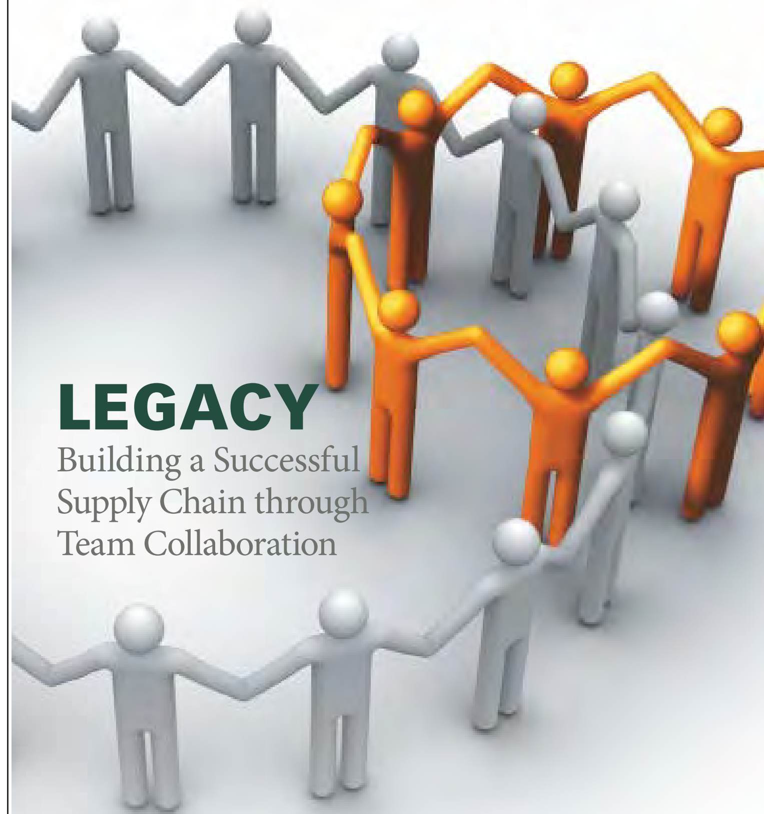

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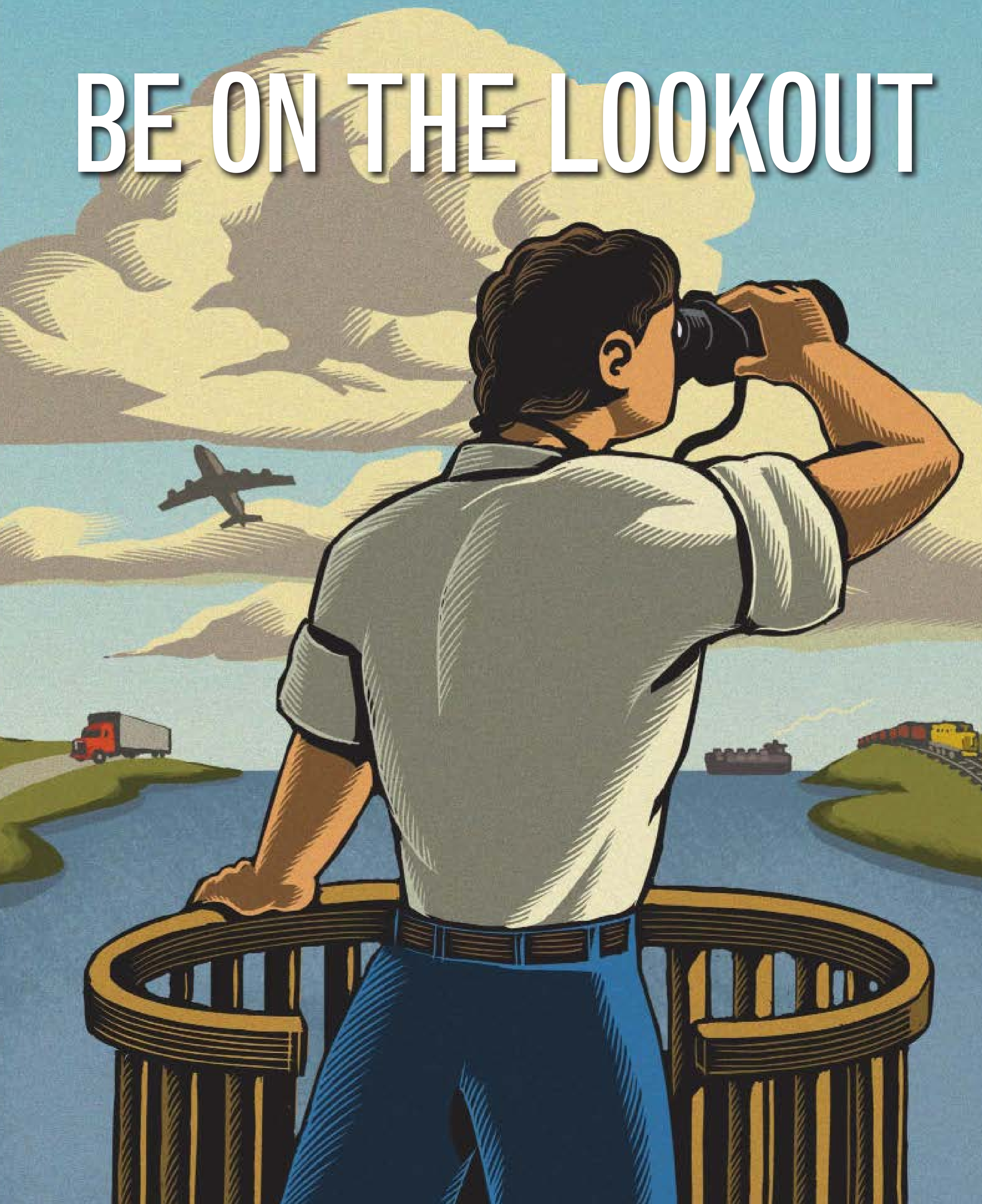


2010 Outlook Webcast
January 28, 2 p.m. EST
logisticsmgmt.com/2010outlook

While the economic recovery will be slow, shippers should keep their eyes open for early signs of rate hike activity in the first half of the year.

BY **JOHN PAUL QUINN**, CONTRIBUTING EDITOR

Nobody is predicting any dramatic post-recession bounce as the national economy slowly emerges from its fitful and uneasy hibernation. On the freight transportation front, carriers in most sectors are still plagued with overcapacity, hoping that consumers will shake off their credit concerns and begin to register the kind of demands for goods that translate into shipping volume growth.

But most observers agree that while the economy may have bottomed out in mid-2009, it will be running along the bottom for some time—and there will be no "hockey stick upturn" in demand for goods and services. Forecasts are that the second half of 2009 saw a GDP advance of 3 percent, but that will probably settle at closer to 2 percent for the entire year.

And although by all accounts a recognizable rebound will be slow in coming, shippers should nevertheless be on the lookout for the first indications of rate hike activity in the first half of 2010. This will reflect a subtle increase in demand, but nothing substantial enough to tip the rate scale in the carrier's favor.

"Shipping volume will pick up slowly through this year, but there will not be the big boom that usually occurs at the beginning of an economic recovery," observes Jim Haughey, director of economics for RBI-US, *Logistics Management*'s parent company. "Keep in mind that although there is still a credit shortage, it is not apparent because there is little borrowing going on. But as the economy improves, many small carriers and shippers won't be able to obtain financing readily."

According to Haughey, shippers should expect small rate increases that will probably happen slowly and could be progressive. "Although this upward pressure on rates will not be excessive," he says, "the direction of rates has begun to turn. Depending on the transportation mode, this would generally be a good time to lock into prices." With that subtle warning in mind, here is how the various sectors are shaping up as we move into 2010.

Illustration by Chriss Gall

TL/LTL: CONTINUED TOUGH TIMES

Any way you slice it, times continue to be tough for truckload (TL) and less-than-truckload (LTL) truckers; and all indications are that this will continue through 2010 with no real rate activity being good news for shippers.

"The second half of 2009 remained a buyer's market in the trucking sector," reports Paul Svindland, director and co-lead of the transportation group at AlixPartners. "There was a little tightening of capacity during the pre-holiday peak season in September and October largely involving imports from Asia, so there were some temporary spot rate increases in trucking," he adds. "But this died down by mid-November instead of the peak holiday volumes continuing on into early December. Truckers were hoping that the spike would continue, but it didn't and demand dropped off."

And as the year began, the conditions as well as the quantity of the parked equipment continued to worry carriers. "Nobody is buying trucks and this is expected to continue," says Chuck Clowdis, managing director for North America at IHS Global Insight. "Equipment is being used longer and there is an abundance of used trucks on the market."

Clowdis also notes that while there have been some bankruptcies, there might have been more. If the diesel price spike in the last half of 2009 was not short-lived and had not quickly returned to reasonable levels, some of the carriers who have survived would not have been able to adjust fuel charges in time to stay solvent.

"Given the overcapacity in the industry and the slackness of the economy, there's no way truckers

can find a reason or a way to raise rates," says Clowdis.

Svindland agrees, adding that since there is still significant capacity, and assuming that fuel prices remain reasonable, rates for truckload, intermodal, and LTL will stay flat in the first half of the year, with perhaps a slight increase in the second half of the year.

"The only lingering caveat has to do with the financial situation of YRC Worldwide, which has almost 20 percent of the LTL market share nationally," Svindland cautions. "If they were to be removed from the scene, then the other LTL carriers would have significantly more pricing power."

RAIL: STILL ON BRAKE

The railroad sector has probably been busier keeping its eyes on the recently released STB reauthorization legislation than it as been shipping freight this past year.

Some major carriers did manage to introduce minor rate increases of 2 percent to 4 percent, but they also downsized personnel and rolling stock and cut back on some local service. However, recently there have been reports of some renewed activity in the yards.

"Several of the rail carriers have called back operational people who were on furlough, which hasn't happened for a while," notes Brooks Bentz, Boston-based partner in Accenture's supply chain management practice. "Also, some locomotives have been returned to service. There is a sense that there is a slight uptick in rail volume developing, but not enough to say it's a definite trend."

Bentz expects carload haulage to stay flat initially, but probably pick up toward the end of the first quarter, and this is expected to result in modest rate increases.

In the view of Svindland at AlixPartners, intermodal continues to have an even worse time than the trucking sector. For a long haul move two or three years ago, there would be as much as a 30 percent price differential in favor of intermodal; but that has dropped radically to as low as 5 percent to 10 percent, and in some lanes trucking rates can even be at parity with intermodal because carriers are so desperate for freight revenue.

OCEAN: ACTIVITY PICKS UP

The ocean sector is the only quarter of the transportation industry that has seen a recognizable pickup in activity and a resultant increase in rates—at least along one sea lane, and even there with qualifications.

Transpacific traffic from Asia to the U.S. has noticeably increased and reportedly saw the strongest freight movement of any mode toward the end of 2009.

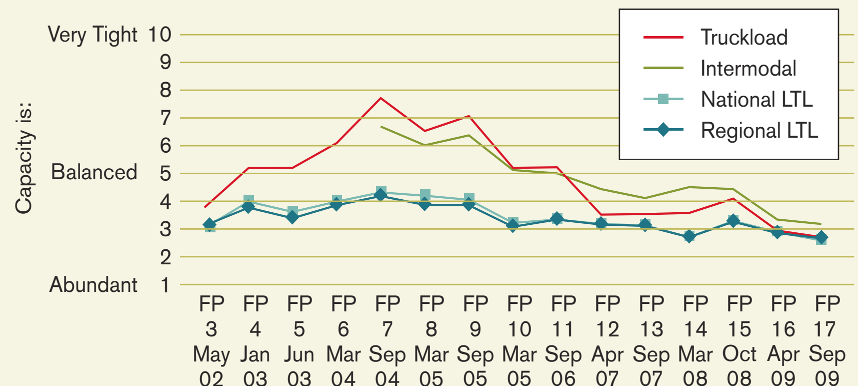
"There was a major reversal of freight rate trends on the Asia to U.S. route during the last half of last year," states Philip Damas, research director at Drewry Shipping in London. "Rates went up as much as 40 percent in some cases, but of course these increases have to be seen in the context of how low they had fallen in these lanes during the recession."

Paul Bingham, managing director of trade and transportation at IHS Global Insight, expects that there will be a modest recovery in ocean rates generally over the next six months; but still lower than before the downturn, and in some cases not much above what shippers were able to negotiate in the depths of the recession.

"There will be continued rate pressure on the carriers, but they will have limited ability to act because of the industry's capacity situation," Bingham says. "Whatever increases they've been able to achieve have been due to their collective discipline to keep 10 percent

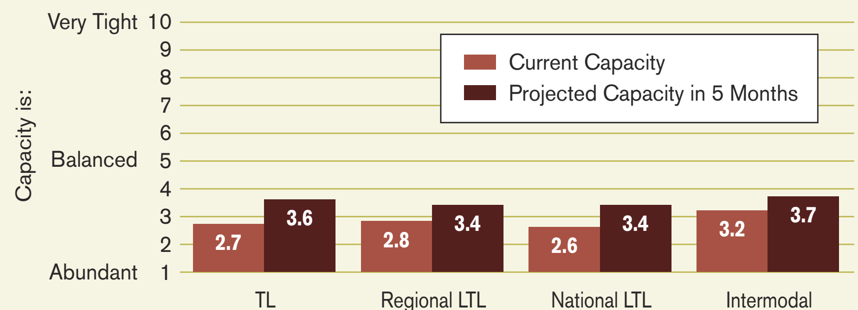
Truck capacity abundant; shippers see only modest tightening

Trucking shipper responses to:
"How would you currently characterize the availability of equipment?"



Capacity rankings remain near all-time lows (abundant)

Current vs. Projected Capacity by Mode



Shippers do not expect a sudden tightening of capacity

Source: Morgan Stanley Freight Pulse Surveys

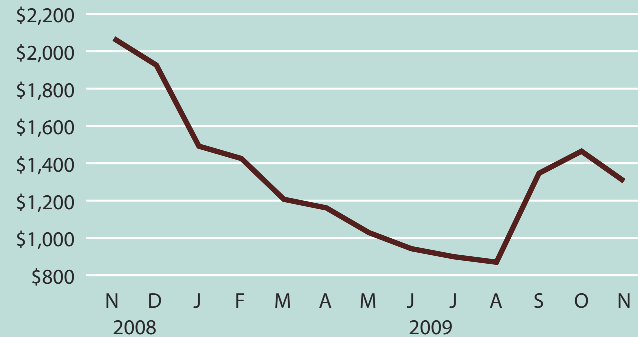
2010 Outlook Webcast
January 27, 2 p.m. EST
logisticsmgmt.com/2010outlook

of their fleets in layup."

According to Bingham, this layup figure goes up each week since the ships that the carriers ordered three years ago are still coming out of shipyards despite their attempts to cancel or delay. "The huge order book for container ships still overhangs the ocean carrier industry," he adds, "and no economic recovery will be strong enough in volume to make up for this excess capacity. This will play out for at least two years and is the bottom line for the ocean rate picture."

Drewry Hong Kong-Los Angeles container rate benchmark (U.S. imports)

In US$ per full 40ft container load, excluding terminal handling charge at origin port.



Source: Drewry Shipping Consultants, derived from Hong Kong non-vessel-operating common carriers.

David Jacoby, president of Boston Strategies International, has this assessment of the capacity overextension of the ocean transport industry: "They built for a bubble and they still have ships undelivered. While their losses have decreased, they're still not profitable. In fact, one major line lost $800 million in the third quarter of 2008, and 'only' $150 million in that period in 2009—more ships are due to be delivered this year."

Jacoby says that carriers will probably push through increases of 1 percent to 2 percent through this year. "However, toward the end of 2010, consumer spending may well taper off and then the overcapacity situation will become even more evident," adds Jacoby. "Keeping this in mind, shippers should be careful about locking into contracts longer than a year."

> **"There will be continued rate pressure on the ocean carriers but they will have limited ability to act because of the industry's capacity situation."**
>
> —Paul Bingham, IHS Global Insight

AIR: FOGGED IN

Air carriers remain fogged in, and the only shippers who will continue to be affected by excessive and fuel-boosted air freight rates are those who simply have no other option.

"There may have been some slight flurry of air traffic toward the end of last year, but that was seasonal activity related to products like electronic gadgetry and high fashion," states Clowdis of IHS Global Insight. "While there will always be goods like pharmaceuticals that have to be flown, that won't fill up the overcapacity. There are out-of-service planes parked on tarmacs and in deserts throughout the world."

Bentz at Accenture estimates that air rates will probably increase 3 percent to 5 percent over the next six months, but if fuel moves up again that would drive them up more accordingly (*Logistics Management* takes a deeper look inside the air market this month on page 43S).

PARCEL: SHIPPERS GET SQUEEZED?

As in other sectors, excess capacity has been driving rates lower over the past year or more in the parcel express market, but there are indications that this will begin to change in 2010.

"There are a number of factors at work here," observes Jerry Hempstead, president of Hempstead Consulting. "Last November was the first anniversary of the DHL withdrawal from the market. When DHL exited there was a rush of shippers to UPS and FedEx. And to get that business from each other, these two carriers most likely did some heavy discounting," he says. "With the anniversary, the two have probably deemed these discounts inappropriate in the current environment and will move to increase rates as contracts expire."

As an indicator of what can be expected, Hempstead cites the statement made last October by UPS CFO Kurt Keuhn who stated flatly: "Our intention is to drive yield improvements from existing customers that did not provide a fully adequate return."

Given the anticipated slowness of the economic recovery, there will be no sudden surge of business for the carriers, meaning that they will seek increased revenues from their existing customer bases.

The United States Postal Service (USPS) announcement that they would not raise prices in 2010 was a bright spot for shippers, but Hempstead believes that by 2011, the USPS will eliminate Saturday delivery to trim costs. Shippers switching to UPS or FedEx for that service will likely have to pay a premium.

"The parcel pricing environment will change this year," Hempstead says. "Since new incremental business will probably be modest if at all, increased carrier revenues will come from lower discounts and higher base prices. Shippers should reassess their situation, renegotiate for the best terms they can, and lock in for as long as possible. The clock is ticking" (See the 2010 Parcel Roundtable on page 26). L

John Paul Quinn is a Contributing Editor to Logistics Management

TRANSPORTATION TRENDS

Parcel express roundtable: Solving parcel's perplexing puzzle

Illustration by Daniel Guidera

BY **PATRICK BURNSON**, EXECUTIVE EDITOR

Carrier revenue was beginning to recover at the end of 2009, and our experts expect positive growth over the coming years. However, pricing in this market segment will continue to be complex for parcel shippers—even more so than in years gone by.

When we conducted this roundtable last January, DHL was exiting the U.S. and our panel of experts was contemplating how a "slugfest" between UPS and FedEx would play out. And while shippers waited to see if service levels would weaken, USPS was waiting in the wings to pick up the pieces. At the time, it seemed that the biggest worry most industry insiders had was whether duopolistic pressure would prevail in a marketplace already under severe strain.

In an effort to determine the new challenges ahead for parcel express shippers in 2010, *Logistics Management* reconvened last year's roundtable participants. We're joined again by Doug Caldwell, vice president of Parcel Research; Gerard (Jerry) Hempstead, a

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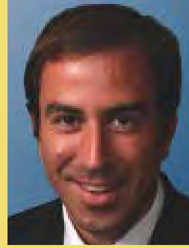
Doug Caldwell

Jerry Hempstead

Rob Martinez


David Ross

former DHL executive who now heads up his own parcel consulting firm; Rob Martinez, president of Navigo Consulting Group who brings a cool statistical vigor to our session; and David Ross, vice president and transportation analyst with the Stifel Nicolaus research team.

Readers will note that when manufacturers and retailers were forced to run down inventory levels at the beginning of last year, the express industry was badly affected. However, the latest quarter shows that revenues are starting to recover, and our experts expect positive growth over the coming years, albeit at low levels. Looking for a common observation? Pricing in this market segment will continue to be complex for parcel shippers—even more so than in years gone by.

***Logistics Management*: When we got together last January, the consensus among analysts was that the overnight express market was in a steep decline. Have we hit bottom yet?**

Doug Caldwell: Well, accessorial charges will continue to take an ever increasing percentage of the total spend. UPS has adjusted both the ground and air fuel surcharge indexes, which could be a mixed bag for shippers because they could end up paying lower fuel surcharges on air shipments but higher on ground shipments.

Overall, we're starting to see some indicators that we may have indeed found the lowest point. The carriers themselves—here in the U.S. and particularly in Europe—were seeing some of our retail and "eTail" clients start to run low on peak season inventories. And at this point, the only way to backfill Asia sourced inventory is by air freight or express parcel.

Gerard Hempstead: I agree with Doug. We will shortly see all those UPS and FedEx contracts with former DHL customers come up for review and most likely re-leveling and rationalizing. Therefore, a top domestic priority for both companies will be to improve package yields.

David Ross: Good point, Jerry. If you recall, the free fall in the overnight express market occurred principally in "FIRE" industries (financial, insurance, and real estate), overnight's biggest customer base. It appears we are nearing bottom but may not be quite there yet. The overnight express market should remain highly cyclical and improve as the economy recovers, but the improvement in ground package service the last few years has caused many customers to trade down (from air to ground) in service level. We believe some of this market share shift is permanent.

Rob Martinez: I'm with you on this one, David. The decline in air volumes is a secular trend that will continue. Pricing is as much as 70 percent less than air services, and ground fuel surcharges are typically less. Apart from declines in overnight shipping due to technologies and other consumer preferences, shippers have been more comfortable with the high level of service provided by ground carriers with 1-day to 5-day service, package tracking, and money back guarantees. Moreover, two-thirds of U.S. Commerce has migrated to a short-haul model with deliveries within 600 miles of origin.

***LM*: With DHL out of the domestic picture now, how has the landscape changed over the past year?**

Martinez: DHL's departure has done little to change the domestic landscape, and its volume had an insignificant impact to overall performance of UPS and FedEx. Many shippers were concerned that without DHL in the market to keep FedEx and UPS honest, pricing would rationalize. However, due to carrier declines in package volumes, revenues, and earnings, we have not yet seen any significant changes with regards to pricing policies.

Hempstead: That's right, Rob. With DHL now out of the way and the competitive landscape primarily defined by FedEx and UPS, the economic engine for earnings growth in 2010 will have to be reducing discounts, increasing base rates, and increasing accessorial charges.

Ross: In fact, the economy contracted so quickly that the benefit UPS, FedEx, and USPS got from DHL's exit was essentially lost in the rounding. DHL only had 5 percent of the U.S. parcel market to begin with, so with general freight volumes down double-digits this past year, there was nowhere to hide for either big carrier.

The pricing picture did not firm up immediately as UPS and FedEx both raced in to grab DHL share; but over time, DHL's exit should improve pricing prospects for both FedEx and UPS. USPS is now the third option—but not always the lower-price alternative.

***LM*: In our 2009 roundtable, all of you were pretty bullish on the prospects of USPS. Can we justify that now?**

Caldwell: I think we can justify that prediction. At least on the package side of the business, the USPS appears to be more than holding their own. Take a look at FedEx SmartPost, which has "last mile" delivery by USPS. That service has grown an incredible 73 percent over the last year to over a million shipments per day. Priority Mail continues to take market share, as shippers downgrade from premium overnight. And their brand new "cube based" pricing is already generating a lot of interest.

Hempstead: Indeed, the USPS has introduced some cleaver pricing this year for transactions that play to their strengths. They are competitive for the most part in transactions that are one pound to five pounds, and the greatest number of shipments available in the marketplace are one pound, and most of these shipments weigh less than one pound. The USPS took a very modest increase for parcels for 2010, although

they don't discount their tariff to the degree the commercial players do.

Ross: We still like the long-term prospects of the USPS in the U.S., but it will certainly take time. Shippers want a viable third option for small package shipping, but the USPS needs to improve not only its network but also its tracking and tracing technology, billing, pricing, and general perception to better compete with FedEx and UPS.

Martinez: I'm still optimistic about the USPS' prospects to grow market share. They offer many unique advantages for shippers, especially to the residence. Products like Priority Mail and First Class Mail Packages offer a terrific value for many shippers, and the fact that USPS does not charge residential add-ons, fuel surcharges, delivery area surcharges and many other accessorial charges is a plus for shippers.

***LM*: What has been the economy's effect on service levels?**

Caldwell: As the carriers started tightening their belts, a big concern of many shippers was that service would start to suffer. Well, at least for now, the carriers have done a very good job of cutting out the fat while avoiding the bone. On-time performance is quite good right now, and that's true for the big four—UPS, FedEx, DHL and TNT—as well as many of the regional and national carriers, such as Purolator and CanPar in Canada, and GLS and ParcelForce in Europe. It's a highly competitive environment, and no carrier can afford to have the "cutting service" tag next to their name.

Hempstead: I agree with Doug in that service has not been hampered at all due to the changes in volumes at the carriers. Some would claim that service has improved because the carriers have less to handle. The service audits of UPS and FedEx over the last year have seen no degradation of service.

Ross: We believe that this is partially due to carriers cutting costs significantly and partially due to increased shipper scrutiny of service levels in this downturn. With the technology investments made every year by UPS and FedEx, we believe service levels should be restored to and even improve upon prior levels.

> **"A top priority among carriers going into 2010 will be margin improvement, and carriers are likely to be less patient in carrying what they consider to be marginal accounts."**
>
> —Doug Caldwell

***LM*: Where are rates headed?**

Ross: Rates are headed higher, and fuel surcharges should continue to be a significant part of the shipper's bill. As long as there is limited competition in the parcel market and the players compete rationally, shippers should expect modest rate increases every year—if for no other reason than to cover the annual labor inflation at UPS due to its Teamsters labor contract.

Martinez: Well, everyone knows by now that carriers have announced 5.9 percent rate increases for express services effective January 2010 (partially offset by 2 percent reduction in fuel surcharges). Including 2010's increase, Express rates will have increased a staggering 32.1 percent since 2006.

And of course, those are the increases that have been "announced." Depending on a shipper's distribution, it's much more likely that the increases will amount to significantly more. Moreover, accessorial charges will continue to increase. FedEx has already announced an additional Delivery Area Surcharge to select remote zip codes for residential shipments as well as new Minimum Billable Weight charges. For example, the FedEx Tri-tube packaging will incur a six-pound minimum weight charge.

Caldwell: A top priority among carriers going into 2010 will be margin improvement, and carriers are likely to be less patient in carrying what they consider to be marginal accounts. For many of our clients, there is a relatively new area that we are focusing on—characteristics analysis and improvement. If you're a shipper and you've pretty much maxed out your discounts, it's a whole new field of opportunity for savings. And the carriers love it—it can be a win for them as well.

Hempstead: I'll add that the toughest thing for the carriers to deal with now is that over the last two years shippers have become more sophisticated in substituting lower cost shipping options to obtain the transportation objective without necessarily compromising the service provided to the recipient.

More and more companies have figured out that the level of service to a zone 2 is exactly the same for ground service as it is for next day air, but at a fraction of the cost. When the economy comes back, hopefully the wasteful use of next day air will not. It's my belief that these shipments that are rationally routed now are gone from the air market basket forever.

***LM*: Finally, what have shippers learned in the past year about cutting costs and mitigating risk?**

Caldwell: The departure of DHL from the U.S. domestic market was a big wake up call for many shippers—even those who weren't using DHL as their primary carrier. Shippers we talk to are starting to take a closer look at risk aversion strategies. If we look back to the mid and late '90s, a common industry practice at the time was to use multiple carriers—perhaps UPS for ground shipments, FedEx for express, and maybe a third carrier for international.

Then beginning around 2001 the trend started shifting toward a single carrier model. The increasing use of so-called "bundled pricing" really drove that trend. Now we're seeing the trend go full circle, back toward the use of multiple carriers, each serving a niche in the supply chain.

Hempstead: As long as there is excess capacity the larger shippers will be able to command a significant discount but perhaps not as good as what we saw this past year. What the commercial carriers are attempting to do is restrain shippers from using the services of the parcel negotiating companies because of the impact the carriers have seen when a professional is employed by a shipper. L

Patrick Burnson is Executive Editor of Logistics Management

The rise of vested outsourcing

BY **KATE VITASEK**, **MIKE LEDYARD**, AND **KARL MANRODT**

Our research team has found that progressive shippers and 3PLs have evolved to a "next generation" outsourcing model based on an agreement of "desired outcomes" that provide mutual benefit. Think you have a great relationship with your 3PL? Think again.

Over the past four years, The University of Tennessee has been researching companies that outsource logistics as part of a research project funded by the United States Air Force. As you can imagine, logistics in the Air Force is a big deal—with some contracts being in excess of $1 billion.

As part of the University of Tennessee's research efforts we've studied good deals, bad deals, and many deals that fall in between. We've studied military deals, commercial deals, and deals spanning all types of industries and services. And from all this work we've concluded that no matter "why" a firm outsources their logistics functions, almost all outsourcing relationships have room for improvement.

The primary finding is that the outsourcing arrangement is often conceived with fundamental flaws in the business model; and in turn we find a relationship, and a contract structure, that's based on what we call "perverse incentives." We like to think of these flaws as ailments that can potentially infect an outsourcing relationship.

In some cases, the ailment can simply cause negative side effects. In these cases, companies and their 3PL partners often battle these issues on a daily basis—and learn how to live with it. In other cases, the ailment remains hidden deeply within the relationship and neither party may even know that the ailment exists. In the worst cases, the ailment is so severe that it eventually causes the death of the relationship and causes the shipper to either bring the outsourced services back in-house or switch vendors.

During the research we uncovered 10 common flaws (or ailments) found in conventional outsourcing arrangements. However, for our purposes here, we're going to dive deeper into two of the 10 most common flaws of outsourcing business models that lead to perverse incentives, then we're going to share some insights into how the change the game of outsourcing.

AILMENT #1: THE OUTSOURCING PARADOX

One of the most interesting of the 10 ailments we uncovered is what we refer to as the "outsourcing paradox." Our research found that many companies fall into a trap of trying to develop the "perfect" set of tasks for their 3PL—with detailed requirements, frequencies, and measures.

The "experts" within the company attempt to develop the "perfect" Statement of Work. The result is an impressive document containing all the possible details on how the work is to be done. However, this "perfect system" is often the first reason that the company will fail in its outsourcing effort. That's because it's the company's perfect system, not one designed by the provider of the services.

For example, during a site visit to a 3PL that provides warehousing of spare parts, we saw approximately eight people servicing a facility that on average had less than 75 spare parts orders per day. When asked why all the resources, the manager responded: "That's what the client requires per our Statement of Work; so I have staffing at that level to meet the contract requirements."

We're continually amazed to find that companies have chosen to outsource to the logistics "experts," yet they insist on defining the requirements and work so tightly that the outsource provider winds up executing the same old inefficient processes.

AILMENT #2: THE ACTIVITY TRAP

A second ailment that we commonly find is what we now call the "activity trap." Traditionally, companies that purchase outsourced services use a transaction-based model, where the service provider is paid for every transaction regardless of whether or not it's needed.

There's simply no incentive for the outsource provider to reduce the number of non-value-added transactions since a reduction of transactions would translate to a reduction of revenue. Even if the outsource provider's profit is a fixed-profit amount, the typical outsource provider will be penalized for investing in process efficiencies to drive costs down.

In fact, the table outlines some typical reactions we've seen as a result of the activity trap from companies that outsource third-party logistics services.

On one recent site visit, we asked the general manager of a 3PL what role the large area full of "orange tagged" pallets played in it services. The manager replied: "That's some of our customer's old inventory I need to move to an outside storage facility." When we dug further, we found out that it was product that was well over five years old—and at the rate it was moving it would last 123 years. We asked why they didn't work with the customer to scrap the material. To this the manager responded: "Why? I charge $18 a pallet per month to store it. I'd lose revenue if I did that."

ENTER VESTED OUTSOURCING

By now at least some readers may be thinking to themselves that they suffer from one of the two ailments cited above. If you do, you might also be asking if there's a better way to manage their 3PL relationships. The simple answer is "yes."

Company outsourcing for 3rd-party logistics services	Service providers' typical reaction under a Transaction-Based Model
I forecast over.	We charge you to store and count your product monthly… the more you have the more we make.
I forecast under.	We charge rush fees to expedite your products to market.
I manage my suppliers poorly.	Your suppliers caused us to rework your product into new packaging. We have to charge you more money to rework.
Inventory working capital is killing me.	We don't own your inventory…we just provide services to you. Actually, we like when you have too much because we charge to hold it.
I specified the wrong shipping requirements.	We ship as we are told. You didn't tell us about the special label.

Source: Vested Outsourcing

Our research has found that progressive companies have evolved to a "next generation" outsourcing model that we call "vested outsourcing"—a new model that challenges traditional outsourcing approaches.

The core of vested outsourcing rests on an agreement on what we call "desired outcomes." Desired outcomes explicitly state the results on which both companies, the shipper and the 3PL, will base their outsource contract. A vested outsourcing partnership clearly defines financial penalties or rewards for not meeting or exceeding agreed-upon desired outcomes.

In a vested outsourcing agreement, regardless of what is being outsourced, the outsourcing partner has the ability to earn additional financial value (more profit) by contractually committing to achieve the desired outcomes. Simply stated: If the outsource provider achieves the desired outcomes it receives a bonus.

It's important to understand that vested outsourcing is not "gainsharing," the concept that shares cost savings. Gainsharing is usually structured to share a portion of cost savings between the parties in the outsourcing agreement and is typically based on productivity measures and on reducing the cost of service for a specified range of activities. Vested outsourcing is much broader than gainsharing. It includes not only the cost-reduction concepts from gainsharing, but also includes the increase in revenue and the benefits received from service level improvements, inventory reductions, and process improvements.

It's also important to understand that vested outsourcing involves much more than doing an activity at a higher level of service. Vested outsourcing is a fundamental paradigm shift in how the outsourcing company and the service providers do business together.

WHAT'S IN IT FOR WE?

Many organizations boast that they have solid partnerships in place with their 3PLs, but our experience and research has found that most of them really want to enhance and push their own self-interest. This is often referred to as the "what's-in-it-for-me" (WIIFM) approach.

The WIIFM attitude is certainly understandable since winning is ingrained in us from early childhood on. When moving toward a vested outsourcing agreement, shippers and 3PLs need to concentrate on creating a culture where both parties are working together to ensure mutual success. Thinking will need to shift from "us versus them" to a "we" philosophy. We refer to this as the "what's-in-it-for-we (WIIFWe) approach, or a true partnership mentality.

With this in mind, a vested outsourcing partnership focuses on identifying desired outcomes and then aligns the interests of all players so that all benefit if the desired outcomes are reached. The relationship becomes more collaborative and expands beyond simply meeting the requirements of the original outsourcing agreement.

BIGGER PIE IS BETTER

This new WIIFWe philosophy strives to increase the size of the entire pie by unlocking a greater opportunity than is currently realized by either party rather than by maximizing the size of the slice for any one player—such as lower costs at the expense of the outsource provider's profits.

WIIFWe tosses the conventional win/lose mentality out the window. A company that is trying to maximize its piece of the pie instead of growing the whole pie is not playing under vested outsourcing rules and most likely will craft an agreement that contains one or more of the ailments mentioned earlier.

Many may think that a win-win approach is too idealistic. Is it really possible? For example, a supplier that performed kitting and assembly had to touch a box 12 times to assemble the package, knowing full well that a redesign could save money, but with no incentive to suggest a change. Under a vested outsourcing partnership, that supplier would have substantial incentives to help the customer redesign the packaging to reduce the total cost. Let's say that the supplier helped design a box that cost 2 cents more to manufacture but reduced the number of touches from 12 to seven. If the touches cost 2 cents each, and the annual quantity is 5 million pieces, the annual net savings would be $400,000. Wouldn't any customer be willing to share that with the provider?

Why would a provider suggest a change like this, one that reduces revenue? After all, the goal is to make as much money as possible, and cutting the revenue stream doesn't seem like a way to accomplish this goal. However, if 3PLs are rewarded for innovative thinking to drive efficiencies, they're more apt to achieve their clients' desired outcomes even when it means their revenue will decline as their margins will increase. In essence, suppliers are rewarded for applying their brainpower, not just paid for executing an activity.

In addition, reducing costs for a client can lead to more business, more locations, new services, referrals, and the ability to leverage the lessons from the experience across the organization to become more efficient. The University of Tennessee and the authors believe that vested outsourcing is a powerful strategy.

Kate Vitasek (kate@scvisions.com) is on the faculty of the University of Tennessee's Center for Executive Education and is founder of Supply Chain Visions. Mike Ledyard (mike@scvisions.com) is a co-founder of Supply Chain Visions. Dr. Karl Manrodt is Associate Professor of Logistics at Georgia Southern University and a frequent contributor to Logistics Management.

Author's note

The authors are making available a free excerpt of their upcoming book on their findings, available at vestedoutsourcing.com. The University of Tennessee Center for Executive Education also has launched a new 2½ day class on the topic of Vested Outsourcing: Buying Results, Not Activities! The next class is March 9-11, 2010. For more information, please visit http://VO.utk.edu, or contact Bric Wheeler, director, at bwheeler@utk.edu or 865-974-8759.

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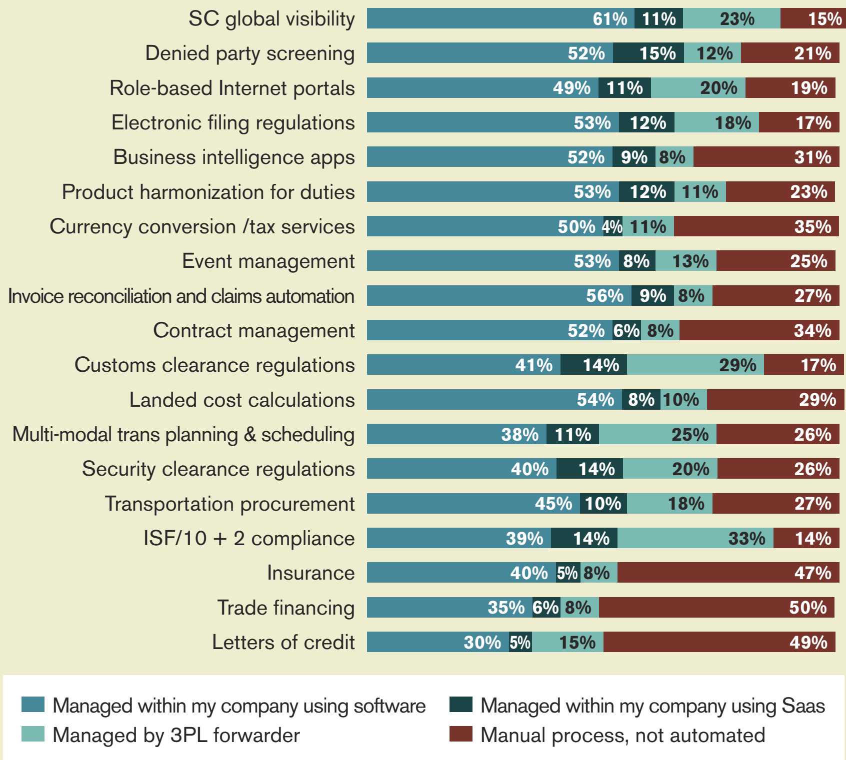
GTM HAS ARRIVED

BY BRIDGET MCCREA, CONTRIBUTING EDITOR

Research shows that shippers are turning to global trade management systems to help them comply with the new 10+2 rules—as they should.

Effective global trade management has long been top of mind for all shippers doing business with foreign partners, but it wasn't until the U.S. Customs and Border Protection (CBP) came out with its "10+2" security filing that many of these shippers sought out technology solutions to help them comply with the myriad rules that the CBP has pushed their way.



Known officially as the Importer Security Filing and Additional Carrier Requirements, 10+2 has been in place since January 2009, with fines for non-compliance being levied since January 2010. It requires importers and carriers to electronically submit additional information on cargo at least 24 hours before ocean freight is loaded onto a vessel bound for the U.S.

The scramble to meet CBP's January mandate resulted in positive growth for the global trade management (GTM) sector in 2009—a year when many companies and sectors saw sales flat-line or drop. William McNeill, a research analyst with AMR in Boston, says a recent survey that his firm conducted revealed that 52 percent of shippers planned to increase GTM spending (and 33 percent intended to maintain current investment levels) over the following 12 months.

"I've never seen that kind of enthusiasm over any software program," says McNeill. "Combine both groups and you wind up with 80 percent of over 160 respondents either investing more in—or maintaining—GTM spending."

The market can credit compliance with driving much of that enthusiasm. Using GTM, shippers are able to streamline processes such as those designed to follow third-party screening rules to ensure that they're not shipping sensitive goods to unauthorized recipients; file the myriad pieces of information now required as a result of 10+2; and avoid delays caused by non-compliance.

"The more borders you cross, the more documents you have to file," McNeill points out. "No one wants to make mistakes because once you get caught up in customs you lose money while your competitors' products sail through the supply chain."

Helping those products "set sail," is a pool of GTM vendors that includes both best-of-breed players (such as Descartes, Kewill, and Management Dynamics to name a few) and large ERP providers (Oracle and SAP, for example). McNeill says the best-of-breeds reign in the market, thanks to their specialized transaction and filing content, and the fact that many of them offer on-demand options.

"GTM users are typically spread out all over, so Web-based applications make sense and give everyone easier access," says McNeill. "In fact, I'd say that in five years the majority of GTMs will be Web-based."

Expect to see the ERP providers stepping up to the plate, says McNeill, with SAP as a "very strong" contender in the GTM market. "Still," he adds, "I would say the best-of-breeds fill a lot of the markets' needs right now." In this article we'll look at how shippers are dealing with the new regulations and give you expert advice on how to get your own operations in compliance with 10+2.

MEETING THE MANDATE

With fines being levied for non-compliance with 10+2, many shippers are scratching their heads over how to quickly implement a GTM and get in compliance with the regulations. One company that was thinking ahead about a year ago is XL Screw Corp., a Lincolnshire, Ill.-based importer of fasteners.

What's the 10 and the 2?

The 10 elements that the shippers are expected to produce are:

- manufacturer or supplier name and address;
- seller name and address;
- buyer name and address;
- "ship to" name and address;
- container stuffing location;
- stuffer name and address;
- importer of record number;
- consignee number(s);
- country of origin;
- and, the commodity's Harmonized Tariff Schedule of the United States (HTSUS) number.

The carrier must provide these two elements:

- vessel stow plan;
- container status messages.

Before 10+2 was introduced, Jikyoon "J.P." Park, director of purchasing, says the company relied on its ocean freight carriers to provide the necessary information to customs within 36 hours after the shipment departs from overseas. "We really didn't worry much about that information, since someone else handled it," says Park.

But soon the burden would be on XL Screw's shoulders to comply with the new rules. "We started looking at our options, including customs brokers, our overseas vendors (which were using freight forwarders) and GTM solutions," says Park. "We wanted the easiest solution for handling this new requirement."

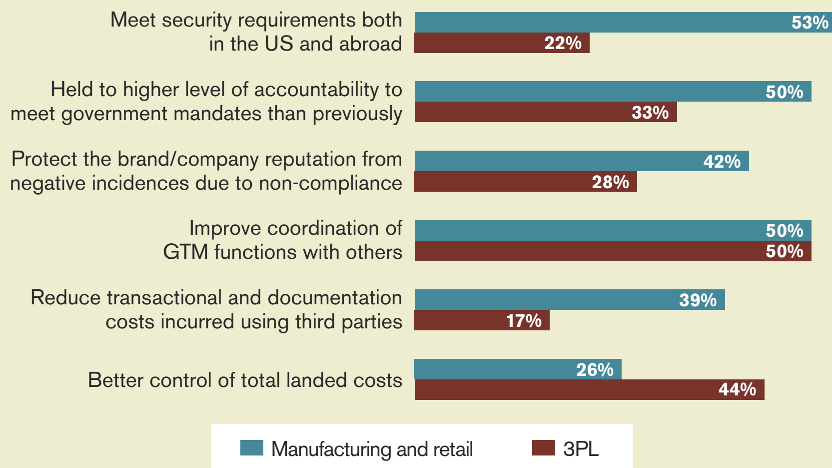
Park says a GTM solution was a natural choice for the company, whose 100 to 300 filings per month warranted an in-house system. After researching a handful of software options, Park says the importer found what it was looking for in Descartes' Global Logistics Network, a Web-based GTM that the firm started testing in February.

"We were in compliance with 10+2 within a month," says Park, who points to XL Screw's status as a CTPAT-approved importer as the primary driving force behind early compliance. "We wanted to be up and running with it as quickly as possible."

The system has proven itself to be a simple answer to 10+2 compliance. Park says the biggest benefit is the ability to enter data for a specific shipment, store it in the system and then use it to populate forms for future shipments. "On some documents," he says, "all I have to do is change the bill of lading number and ship date and it's ready to file."

The fact that companies like XL Screw found the solution to their 10+2 dilemma in a GTM doesn't surprise Adrian Gonzalez, director of ARC Advisory Group's Logistics Executive Council, although he cautions shippers not to view technology as the only answer to the mandate. "Technology is one piece of the puzzle because you not only have to be able to file the forms electronically and in the right format," says Gonzalez, "but you also have to implement process changes, including the manner in which importers and freight carriers interact and share information."

Gonzalez says that those firms that take a "holistic" approach to global trade management—and that don't implement a GTM simply in order to file forms in a more accurately and timely fashion—will realize the highest ROI from their investment. "Don't look at it purely from a compliance standpoint," he advises, "but rather as an opportunity to gain greater visibility across your global supply chain."



Source: AMR Research

THE RIGHT CHOICE

Using a GTM solution to comply with 10+2 may be just scratching the surface of these systems' capabilities, but that hasn't stopped shippers from turning to the makers of these applications for help in complying with the new regulations.

Suzanne Richer, president at Customs & Trade Solutions in Princeton, N.J., says those firms who are still trying to figure out how to comply should start by asking themselves this question: Am I going to file this data myself, or have someone else (a customs broker or freight forwarder, for example) do it for me?

"Once you've made that decision then you have to decide what software program or solution you need to use to get compliant," says Richer, who sees GTM solutions as a viable option for shippers who are looking to streamline that compliance with technology. "GTM can definitely be an asset," she says. "It's a way of building data that can be managed and secured as needed."

However, accuracy of that data is one area where Richer sees shippers facing challenges. "It's ultimately up to the importer to ensure that none of the data changes," she says, "particularly when it involves a supplier that the shipper deals with infrequently."

Such challenges aside, expect to see more companies turning to GTM solutions in 2010 as new rules and regulations are introduced and as the global economy begins its slow recovery. With Web-based options that boast low upfront investment and quick implementation times, GTMs are helping shippers achieve benefits in logistics, compliance, risk mitigation, finance and other areas, says McNeill.

"Five or 10 years ago many carriers were using proprietary software networks, but now they're moving to off-the-shelf GTM software," says McNeill. "Eventually all carriers and freight forwarders will be hooked into these GTM networks, and the shipper that wants to be connected to these entities will have to be there too."

Bridget McCrea is a Contributing Editor to Logistics Management

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5 LOW-COST WAREHOUSE RESOLUTIONS

BY **MAIDA NAPOLITANO**, CONTRIBUTING EDITOR

Our suggestions aim to facilitate the flow of product and information to create additional capacity and resources just in time for the uptick in the economy—without draining what's left in your budget.

We all know that money's tight. In fact, our *2009 Warehouse and DC Operations Survey* showed us quite clearly that DC managers across many industries are being forced to sit on their hands due to capital spending freezes brought on by this horrific economic downturn.

And of course, with no money for new equipment and fancy technology, it's easy for logistics professionals to get lulled into a state of inactivity, allowing operations to get a little flabby around the middle.

But be warned: The latest retail sales figures are starting to tell a more positive story. And with the end of the recession just around the corner, it's now more crucial than ever to make sure your DC is in great shape. So, even if you have to scrape the bottom of that budget barrel, it's time to get creative with what you have because you have no choice—you have to be ready for returning volumes.

What follows are five easy, low-cost ideas that you can implement immediately to help you get your operation back on the right track. All of these steps aim to facilitate the flow of product and information, creating additional capacity and resources just in time for the uptick in the economy.

1 CUT THE WASTE AND GO LEAN

Our *2009 Warehouse and DC Operations Survey* told us that 39 percent of logistics managers who oversee warehouse and DC operations are already going lean—so, why aren't you?

The lean process is a methodology for looking at every piece of your operation and eliminating unnecessary elements. It involves creating a team to map out the operation using value-stream mapping, identifying the activities and resources being used, and specifically targeting those activities that don't give any added value to the product.

Steps are then initiated to reduce or eliminate the activity itself or its drain on resources—be it labor, space or time. "Due to the way lean events are formalized, many companies prefer it because it gives them a structure to work with," says Jack Kuchta, president of Jack Kuchta LLC, a N.J.-based consulting firm specializing in warehouse and DC operations. "It's looking at the current operation in very fine detail to make sure everything is covered."

Geoff Sisko, vice president with Jack Kuchta LLC, recalls how during one value stream mapping project the team had a map on brown paper probably about 50-feet long. "Every single step was in there, and in those steps that people identified as truly wasteful they put a tombstone. Then they talked about ways to eliminate that step or that process."

While there are people who are certified to be lean leaders and are trained to lead a lean event, our experts agree that it may not be necessary to go to such lengths. "It certainly does take a person with a certain amount of dedicated time to do it," says Kuchta, "It also takes somebody who doesn't take ownership of the process and who will not be resistant to change."

Low-cost ideas that usher in a leaner, more productive distribution operation include reducing the number of "touches" when picking an order; rearranging layouts to find more storage space; changing pick paths and picking methods; moving popular items or fast movers closer to docks; spreading them out to eliminate congestion; and identifying and eliminating obsolete inventory.

"Under a lean culture, all employees must understand is that there is no end to the efforts to reduce waste in terms of time, space, or costs," adds Kuchta. "Lean should be viewed as a continuous improvement process."

Before (left) and after (right) pictures of a warehouse retrofitted with T5 fluorescent lighting. *(Pictures courtesy of Sylvania Lighting services.)*

2 SAVE ENERGY AND GO GREEN

A program that's gaining ground is the retrofitting of facilities currently lit with high intensity discharge (HID) lights, such as high pressure sodium (HPS) or metal halide, with new high-efficiency fluorescent (T-5 or T-8) systems.

According to Rick Diehl, director of sales for Sylvania Lighting Services, retailers in general have been actively adopting this technology in their DCs because of the positive effect this new lighting technology has had in their stores. "The retrofit generally yields payback of less than 2 years," reports Diehl. In addition, facilities can expect light energy savings of 50 percent over HID systems, not counting maintenance savings or utility rebates.

Some DCs go even a step further and install T-5 lighting with motion sensors. "Where before the facility may have been all bright all of the time, with motion sensors you now have more dark areas with only a minimum number of lights on for safety," says Sisko. "But when somebody gets into the aisle it all lights up."

According to Kuchta, another rather simple green initiative that's working well right now is the shredding of corrugated to use as dunnage. Because it can become dusty, it's not recommended for consumer products, but it's an ecologically sound way of handling corrugated for one more use while saving on the costs of dunnage supplies.

Here's something else to consider: If you're business will support it, maybe working four 10-hour days is more efficient than working five 8-hour days due to energy usage.

3 CROSS DOCK AND CONTROL INVENTORY

The one thing that most operations can do immediately to virtually eliminate inventory is to increase efforts to cross

dock. With a little bit of planning, cross docking increases the flow of product through the DC by processing inbound items immediately for shipment as soon as they arrive in the DC.

"Unless you have strict first-in-first-out rules," says Sisko, "why put it away into storage when you can replenish directly from the dock?" If you have available dock doors, you might want to take this fast-flow approach even one step further. Consider negotiating with your carriers so that fast-moving, large items, such as LCD televisions or small appliances, can remain in its inbound trailer at the dock as a short term, fast-pick location.

And because inventory is simply a buffer for mistakes in forecasting, it's also a good time to re-examine your forecasting process. Sisko suggests spending time with your customers in route to achieving this step. "Find out what they're going through, because that's going to help you forecast."

Better forecasts may eventually allow you to reduce safety stock levels, especially if your suppliers can provide you the materials on shorter cycles. These days, however, Kuchta warns against reducing safety stock by too much, as mass merchants like Target and Wal-Mart are starting to once again build inventories, especially in consumer products.

"It's all about just managing the inventory better and taking the opportunity to get inventory where they should be for your business," Kuchta adds.

4 MANAGE YOUR LABOR

With companies reducing their workforces as far as they can, it's not a bad idea to start paying better attention to the few who are left.

Sisko notes that this is a good time to cross train people. "Maybe you can have people you can flex, where they start out as pickers then shift to packing, when the packing area gets busy."

Kuchta also suggests shadowing how your workers do their work. Figure out low-cost, ergonomic ways to carry out activities that maximize workers' comfort and improve their productivity. These include designing workstations that can adjust to individuals, adding task lighting, and installing pallet levelers so people aren't bending and stooping.

"Re-slot fast movers to pick locations so pickers don't have to reach as much or bend as much," adds Sisko. "Where nine people may be doing the work of fifteen people, locate products along the pick path closest to the docks so that they don't have to walk the whole warehouse to pick an order."

Even in the short term, these low-cost efforts can have tremendous affect on productivity. "It's all about keeping the people you've got happy and making them the core of your business' future," says Sisko.

Retrofit from HID to T5

Lighting	HID	T5 fluorescent–4 lamp
Lamp type	M400/U	FP54/841/HO/ECO
System watts/fixture	458	236
Estimated lamp life	22,000 hrs at 10 hrs per start	35,000 hrs at 12 hrs per start
Lamp lumens at 8 k hrs	23,500	18,600
Useable light	16,450	16,740
Typical fixture efficiency	70%	90%
CRI	65	85
Color temperature	4,000	4,100
Color shift	yes	no
Depreciation at 8000 hrs	35%	7%
Based upon US average of $0.0932 kilowatt-hour and 250 operating days at 24 hrs/day		

Comparing high intensity discharge lighting with T5 fluorescent.
(Chart courtesy of Sylvania Lighting services.)

5 THINK BEYOND THE BASICS

When all else fails, it's time to think beyond the basics.

For example: Schedule your inbound and outbound carriers so that you don't have a whole staff of people doing nothing and then all of sudden they're scrambling for two hours because all the carriers are arriving at the same time.

"People don't realize that they have the power to assign truckers a time for them to show up at their dock door," says Sisko. "Carriers quickly learn that they have to call for an appointment. If they don't, they get turned around and waste time and money."

You may also want to stop weekend shipping. If your customers don't require it, then why do it? Our experts agree that most companies are more concerned with consistent, error-free, on-time deliveries rather than fast shipment.

"If you say it's going to be there on Tuesday morning, then it should be there on Tuesday morning," says Kuchta. He suggests that if you want to get it there Tuesday, instead of shipping it on a Saturday, you should ship it Friday and keep your weekends free.

"For some businesses, it might be an appropriate time to look at shared services," according to Kuchta. He recommends using a third-party logistics provider (3PL) who can not only handle your distribution, but also the distribution work of several other companies all in the same building. Or take it one step further: If your operation has excess capacity, Kuchta suggests doing some of the 3PL work yourself. "Consider performing storage and processing services for other people and creating your own revenue stream," he adds.

"In the end, you have to be imaginative," advises Sisko. "You have to really look at what you're trying to accomplish and how you are trying to serve your customer and investigate ways of doing work more efficiently." L

Maida Napolitano is a Contributing Editor to Logistics Management

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AIR CARGO'S Painfully Slow Climb

The global recession led to the sizable collapse in demand for air cargo worldwide over the past 12 months. However, the segment is beginning to see the first signs of recovery—but will the latest demand numbers provide enough lift for takeoff?

By Karen E. Thuermer

While in recent months air freight seems to have hit some up drafts, those in the industry still forecast that it will be flying through more turbulence before it finds smoother air.

This is reflected in figures recently released by the International Air Transport Association (IATA), which revised its financial outlook for 2010 in the middle of December to an expected $5.6 billion global net loss—larger than the previously forecast loss of $3.8 billion. For 2009, IATA maintained its forecast of a $11 billion net loss.

"The world's airlines will lose $11 billion in 2009. We are ending an *Annus Horribilis* that brings to a close the 10 challenging years of an aviation *Decennis Horribilis*. Between 2000 and 2009, airlines lost $49.1 billion, which is an average of $5 billion per year," says Giovanni Bisignani, IATA's director general and CEO.

Tony Randgaard, air cargo marketing manager for Continental Airlines Cargo, says it's akin to taking passage on the Titanic. "Just like everybody else, we were treading water in terms of cargo traffic; however it's a devastating pricing environment out there right now," he says.

Ram Menen, divisional senior vice president of cargo for Emirates, describes this year's air freight market as "quite abysmal." "In my last 30 years in the industry I have never seen anything like this," he reports from Dubai, the only region to experience growth this year.

Steve Gunning, managing director of BA World Cargo (BAWC), calls 2009 remarkable by any standard. "It certainly seems like a long time since the heady days of 2007 when we were clearly enjoying the best of the economic cycle," Gunning says.

These air cargo executives are tightening their seatbelts and preparing for the bumpy ride to continue; however, IATA is now predicting that the worse is likely behind them since several of

the key statistics are moving in the right direction. Demand will likely continue to improve and airlines are expected to drive down non-fuel unit costs by 1.3 percent.

And while that may offer the airlines some solace for now, Bisignani offers a cool reminder of some of harsh market realities. "Remember, fuel costs are rising and yields are a continuing disaster. Airlines will remain firmly in the red in 2010 with $5.6 billion in losses," he adds.

It really is the economy

There is no simpler way to define the current environment in the air: The global economic recession was the catalyst for the sizable collapse in demand for air cargo worldwide over the past 12 months. And every data point collected certainly helps validate this statement.

According to Kai Heinicke, regional director of cargo marketing for Boeing Commercial Airplanes, world air cargo traffic volumes measured in revenue tonne-kilometers (RTK's) year to date through June 2009 declined 25 percent compared with the same time period the previous year. The world's largest air cargo market in terms of RTK's, Asia-North America, has declined by 29 percent compared to the same period the previous year.

Predictions for the fourth quarter of 2009—air cargo's peak season—are tenuous at best. Most air cargo executives say they remain cautiously optimistic. Lufthansa Cargo's spokesman Nils Haupt, for example, doubts if an uptick in volumes is sustainable into this year. "It's very difficult to say whether it will last until Christmas or will drop in November as we saw last year," he says.

Gert-Jan Jansen, senior vice president of Seabury Cargo Advisory, contends that even though air cargo might run into positive numbers in the next few months, he predicts there will be some correction. "By our calculations, the total year volume will remain at -14 percent to -17 percent, the forecast we made in March," he says. "The downward trend for yields to -22 percent in the first half of 2009, however, was much more extreme than I dare to think." Jensen estimates that the average airline revenue for 2010 is predicted to be down 40 percent to 50 percent compared to last year.

In mid September, IATA, an organization that represents more than 230 airlines comprising 93 percent of scheduled international air traffic, announced that it predicts airline losses totaling $11 billion in 2009. This loss is $2 billion more than the previously projected $9 billion loss due to rising fuel prices and exceptionally weak yields. Industry revenues for the year are expected to fall by $80 billion from 2008 levels to $455 billion.

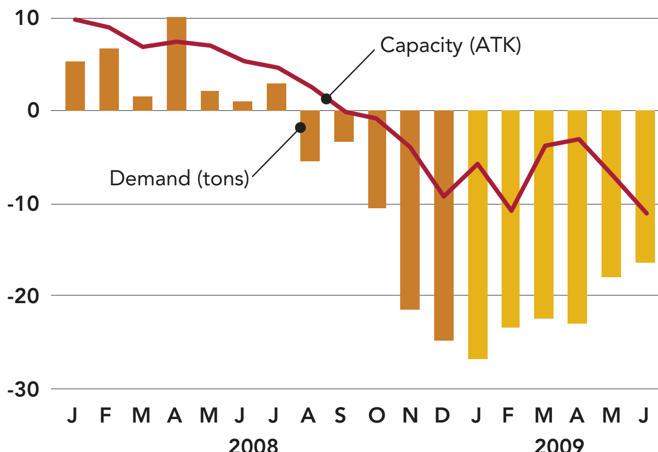
"The bottom line of this crisis, with combined 2008-2009 losses at $27.8 billion, is larger than the impact of 9/11," says IATA's Bisignani ". Industry losses for 2001-2002 were $24.3 billion."

"This is not a short-term shock," Bisignani continues. "Eighty-billion dollars

KEY MEASURES: AIR CARGO MARKET

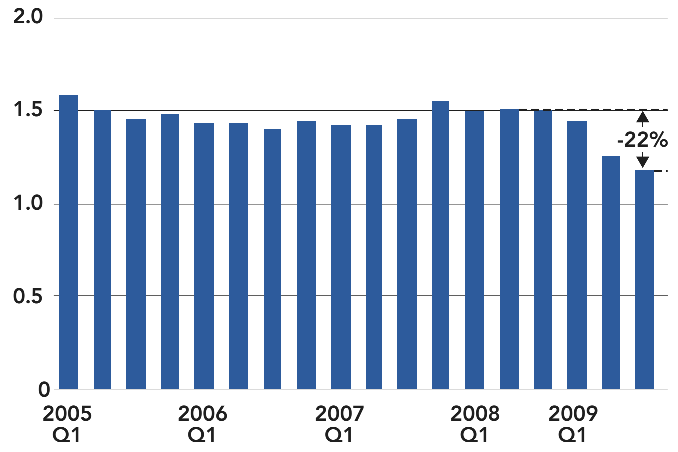
Air cargo market was severely hit by financial and economic crisis with double-digit decline in volume, load factor, and yield

International air trade & air cargo capacity
(YoY Growth, %)



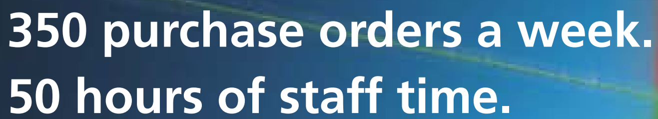
Collapse in demand not compensated by a cut in capacity ...

Gross airline yields 2005-2009H1
(USD/kg, Net Yield)



...leading up to a steep decline in yields in the first half of 2009

Note: Trade growth in weight and based on China and U.S. data until April and Europe data until June; exchange rates have high influence on yield performance over time
Source: Seabury Global Trade Database; CargoIS; KLM website; U.S. Energy Information Administration; Seabury surcharge model; Seabury Capacity Database; Seabury analysis



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will disappear from the industry's top line. That 15 percent of lost revenue will take years to recover." Bisignani surmises that conserving cash, careful capacity management, and cutting costs are the keys to survival. "The global economic storm may be abating, but airlines have not yet found safe harbor. The crisis continues," he adds.

State of demand and rates

Although freight volumes are recovering, yields indicate a different picture. "Yields have come down dramatically due to over capacity in the market," Lufthansa's Haupt reports.

To understand the impact of capacity, one first must consider that more than 30 airlines have gone out of business since last year. In addition, currently 450 freighters, accounting for approximately 24 percent of the world's freighter fleet, are either parked or are in long-term storage. One-third of these are modern generation aircraft—aircraft built since the late 1980s.

Effective October 1, 2009, Lufthansa began operating only 15 aircraft and will have grounded four aircraft. Haupt reveals that Lufthansa does not expect to put these airplanes back into service until 2011 when volumes should be solid again. "With the grounding of four aircraft, we will then be able to increase capacity by 30 percent," Haupt says.

Parking these aircraft has taken some capacity out of the market. But Seabury maintains that, although capacity has been reduced, it needs further drastic reduction in 2009 and 2010 to match the projected drop in demand.

Another way to gauge capacity and where rates may be headed is to look at trade routes and their demand. Seabury reports that the first months of 2009 show year-over-year decline of more than 20 percent, with double digit negative growth for every major trade flow.

Haupt reports that for Lufthansa some trade routes, such as China and niche markets like Africa and South America, show signs of recovery. But volume increases for the U.S. and Europe remain marginal. "This is not very satisfying to us," Haupt adds.

Menen concurs, but he expects markets to start to recover and gain strength as the industry enters the December holiday season. "We're seeing more activity in the China region, which is great as China tends to support a larger part of the world trade," he says, adding that he remains optimistic that the air cargo industry may see some of the ocean captive volumes beginning to move by air as demand remains sporadic and speed to market becomes a very important criteria.

BAWC's Gunning shares similar guarded sentiments. "From a demand

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perspective there are encouraging signs," he says. "The correlation of air freight demand with the Purchasing Managers Index is well understood and it appears that confidence is now recovering, but it's still in the negative zone."

Gunning maintains that, although volumes are down significantly, the acute pain has come through the compounding effect of the decline in freight rates. "It's a devastating pricing environment out there," adds Continental's Randgaard.

But as demand picks up and the supply and demand situation gets more balanced, those in the industry expect rates to start firming up. For freight forwarders and their shipper customers, this means the cost of shipping via air could be going up. "Depending on the origin, we did see some rate movement in the high double digits and as low as 10 percent," remarks Chris Monica, executive vice president of business development for third party logistics provider CEVA Logistics.

Monica is not certain if these rate increases are sustainable. But industry observers contend that if the market comes back stronger than anticipated, capacity on certain routes could be a challenge—and an increase in rates would reflect that.

Some air carriers have already announced rate increases in the range of 20 percent to 30 percent starting in October.

But Jansen maintains that although the number of freighters in service is being reduced, belly capacity is not. "On average, capacity decline is certainly not enough to match that decline in demand," he says. "Therefore, I certainly don't think that going forward things are going to be significantly different from what we've seen so far. It could be worse."

Value for money

Consequently, the biggest single concern for freight forwarders and their subsequent customers is value for money. "Sure, you hear the echo of rates, rates, rates, but experience shows us that long-term relationships and reliability are what bring our customers back," comments Randgaard.

Helping air carriers is their emphasis on premium products, particularly those airlines that do not operate freighters. "We don't see a lot of peak, off-peak fluctuations as you do in that segment," says Randgaard.

But Jansen advises: "If I were a forwarder I would be watching carefully what happens to capacity and where aircraft are flying. This will be an indication of what to expect regarding rates and space availably."

While conventional belief is that air cargo will grow at 5 percent to 6 percent over time, Seabury maintains that this does not seem feasible when analyzing the recent relation between air demand and gross domestic product (GDP). ■

—Karen E. Thuermer is a frequent contributor to Logistics Management

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2010: LOADS OF INNOVATION

While lift truck buyers were cutting back on spending in 2009, lift truck makers forged ahead with plans for hot new product introductions for 2010. This year, sellers have an offer that you simply can't refuse.

By *Tom Andel*, contributing editor

The results of our annual *Lift Truck Buyer Survey* published in the October issue of *Logistics Management* (*LM*) indicated that there wouldn't be many buyers in 2010. Most respondents told us that they'd be sitting on their wallets until the economy was more stable.

But while lift truck buyers were freezing their assets, lift truck makers forged ahead with plans for hot new product introductions in 2010. Well, they didn't have much of a choice since most were well into product development when the recession was officially declared last year.

So, with all the lift truck innovation about to hit the market it begs the question whether or not this year's big product announcements will be the industry's last hurrah—at least for a while.

Nobody is better qualified to answer that question than a lift truck dealer.

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MCFA's new CLT EP7000 line of 80-volt lift trucks combines all the environmental benefits of an electric truck with the capacity and performance of internal combustion trucks.

They're not only the first to feel the mood of the market, but they're the first to see how their OEM partners react to it. So, *LM* posed the question to Loren Swakow, president of Scott Lift Truck Corporation, a Chicago-based Komatsu and Jungheinrich dealer, and a past president (2004) of the Material Handling Equipment Distributors Association (MHEDA).

She says that while 2010 may be the last year lift truck buyers may be seeing a lot of "bells and whistles" coming from the U.S., Europe, and Japan, they shouldn't be surprised to see new players picking up any slack in innovation.

"This may allow China to close the technology gap in their product offerings," she says. "Due to the fact that China doesn't float its currency and it's closely tied to the U.S. dollar, we may see the Chinese products becoming even more affordable in the U.S. compared to the European and Japanese products, which will require more devalued dollars to purchase."

Information and safety

But don't get the impression that Swakow anticipates a market takeover by the Chinese. However, she does believe that the saving grace for all lift truck providers is their ability not only to meet their customers' productivity challenges, but to tackle bigger issues like safety and the environment.

MHEDA's 2009 president agrees. That's Duncan Murphy, who's also president of Riekes Equipment Company, a Yale distributor based in Omaha, Neb. Murphy says he's excited about the information management capabilities the new generation of lift trucks will offer to help end users make more efficient use of assets.

"There're several monitoring devices and metrics reports that are just now being fully appreciated," he says. "Fleet management is evolving from an occasionally used tool to a critical catalyst in reducing costs. Yale's providing a solution that clearly documents continuous cost improvement, and it's opening eyes."

Crown Equipment Corp.'s version of that vision is called InfoLink. This system provides data on lift truck utilization so managers can determine how to best allocate their fleet. It can also indicate whether a piece of equipment is correctly matched to an application.

"There are many ways to look at the data and make decisions about how your operation is running and what you can do to improve it," says Maria Schwietrman, Crown's marketing product manager. "The impact sensing portion of the program contributes to cost savings by reducing operator abuse."

In that same vein, Raymond's iWarehouse Basic system consists of three modules (iVerify, iMetrics, and iImpact) to ensure that only qualified drivers operate the lift trucks on which they are certified and to verify that OSHA-required daily operator checklists were completed electronically.

Mitsubishi Caterpillar Forklift America (MCFA) is adding presence detection as a standard feature on CAT trucks to provide another level of protection. When an operator leaves the seat the transmission automatically disengages to halt travel or hydraulic movement. OEMs are offering features like this to help fill gaps in operator training.

Electrics with IC power

The electric lift trucks of 2010 will give fleet managers plenty of reasons to consider converting from internal combustion (IC) trucks, with operating cost and environmental impact being the two prime drivers. The technology making it viable, 80-volt power, has been employed in Europe for many years. However until now, the U.S. market has stuck with 40 volt.

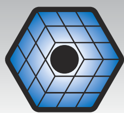
There's a good reason the new generation of 80-volt electric lift trucks will be more successful in 2010. New emission standards established by the California Air Resources Board (CARB) governing large spark ignition engines are now taking effect in California. CARB's aim is to reduce hydrocarbon and nitrogen oxide emissions by 5.7 tons per day in 2010 and 6.2 tons per day in 2020—that's the equivalent of taking 200,000 cars off the road.

Hyundai enters the narrow-aisle market with the launch of its pantograph style reach truck.

According to Scot Aitcheson, vice president of Yale Dealer Sales, all buyers thinking of replacing their IC trucks need to take that into consideration right away—and not just those on the West Coast.

"The OEMs that were properly prepared invested in R&D to make sure their trucks would meet the 2010 standard," says Aitcheson. "Once you spend the time and technology creating such product, it doesn't benefit you not to make it available for the rest of the country. Keep in mind that you have to plant a whole lot of trees to make up for one forklift that's not running as efficiently as it should."

Mark Roessler, corporate general product manager for Linde Material Handling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North America, says the trend toward 80-volt electrics has legs. He bases that on his analysis of Industrial Truck Association (ITA) sales bookings. In fact, it's one of the few categories that hasn't suffered.

"That technology gives you better efficiency and shift life, and those have always been issues with electrics," he says. "In Europe, once you get to the 5,000-6,000 pound range, everything at that capacity and above is pretty much 80 volt."

MCFA is introducing a new series of electric pneumatic trucks ranging from 3,000 to 10,000 pounds in capacity. Paul Fiala, MCFA's manager of product marketing and training, is particularly excited about his company's new 7,000-10,000 pound trucks, featuring 80 volt. "We'll be in a much better position to compete with the IC pneumatic product out there today," he says. "They're much better for the environment."

IC is still cool

IC trucks are still well represented in the class of 2010. In fact Crown, which for decades has been a leader in electrics, just introduced its first IC model, the C-5. Andrew Smith, marketing product manager for Crown, says his company addressed many of those issues that have made IC less appealing than electric trucks.

Features like on-demand cooling and self-clearing take some of the servicing out of the story for the customer, extending service intervals," says Smith. "The John Deere engine we use has an engine oil cooler, and the self-clearing feature can remedy an issue that can cost customers up to $4,800 a year if they're always blowing out their radiator."

And with ESmart, Crown's system for tracking fuel usage, Smith says that operators and managers can see the rate at which fuel is used, whether it be in the economy mode [slower speed] or the productivity mode.

Linde, traditionally active in Class 5 heavy capacity lift trucks, is also expanding its market horizons by introducing 5,000, 5,500, 6,000, and 6,500 pound capacity class 4 cushion tire hydrostatic drive trucks.

Raymond's fork-tip lasers help reach truck operators accurately engage pallets when storing and retrieving loads, reducing product damage.

"Before, we weren't able to help those users that operate their trucks exclusively indoors, especially in high shuttle applications, because our class 5 trucks were too big to meet their space requirements," says Roessler. "The class 4 range we're introducing will allow us to do that."

MCFA's Fiala says his company is making the IC side of their line more attractive as well, by providing an engine protection system to keep the engines lasting longer. It prevents overheating, manages oil pressure and coolant temperatures, and notifies the operator when conditions reach a critical level.

Lift truck buyers have sent a strong message during this recession: they want equipment that will last. That's why more lift truck OEMs are making protective features standard offerings on their higher-end equipment. "Nobody has wanted to get a new truck every five years, so we have to provide more features to help support that," Fiala says. "Things like underbelly screens are now standard on CAT trucks so you don't get debris into the engine compartment and into the radiator, breaking fan blades."

Filling gaps in their lines

Lift truck OEMs are helping their dealers become total solution providers by filling as many voids in their offerings as possible. If it's not IC or electric that you want, perhaps it's a hybrid.

Last year Toyota Material Handling USA (TMHU) introduced its prototype hybrid lift truck. It couples a small Toyota gasoline engine along with a generator and a nickel metal hydride battery to power all drive and hydraulic functions. According to Martin Boyd, TMHU's national product planning and marketing manager, this truck is expected to cut emissions in half but be twice as efficient as traditional IC trucks.

"The continuing research and development behind this hybrid design concept, along with parallel advancements in

Yale's ERC045-070VG series trucks feature AccuTouch e-hydraulic mini-levers for thumb actuated direction selection to minimize operator strain and fatigue.

energy storage systems, such as lithium-ion batteries and super capacitors, has made the reality of a commercially available propane-electric hybrid lift truck possible," Boyd says.

In fact, Toyota's hybrid went on sale in Japan last month. That's a big step toward making what was once "special" a standard offering; and that's just one example of how lift truck OEMs are adding value to products that have for so long been price driven.

Part of MCFA's brand strategy, for example, is to bring more standard features to the CAT products and to steer its Mitsubishi products to more of the standard, low duty, less complex applications that are more price sensitive. It's this kind of brand management strategy that gives lift truck dealers an opportunity to be more comprehensive in their offerings.

But it's really all about filling service gaps. With that understanding, Hyundai brought good news to its dealers by announcing its entry into the already crowded narrow aisle market in the U.S. Hyundai previously only offered a moving-mast truck commonly used in the European market. With the launch of its pantograph style reach truck, Hyundai is working toward providing a full line for its dealers.

"With the market 50 percent and growing amongst Class 1, 2, and 3 trucks, if you don't have these products then your market is significantly smaller versus competitors that can offer them," says Stu Jacover, president of R&J Midwest Equipment, Inc., a Chicago-based Hyundai dealer.

—Tom Andel is a Contributing Editor to Logistics Management

SAGE ADVICE

Do your partners trust you? Why should they?

By John A. Gentle, DLP

Credibility is an interesting word. It has its roots from the Latin "credito," meaning to entrust to another or to believe. Credibility was defined in 1954 as "inspiring or having the capacity for belief." What outward manifestations do you and your company consistently display that allows others to trust you? Or conversely, what actions have sabotaged your efforts to build credibility?

Recently, I read about a community college that had just lost its accreditation for its nursing program. Seems as if the college had been advised of shortcomings two years ago by the accrediting authority; and while it did some work internally, they never communicated their actions and plans back to the authority.

A major shortcoming was the fact that the school had too few instructors without advanced degrees. Advanced degrees means higher costs, something that most organizations are looking to avoid these days. Not hearing anything back from the college over the time period, the authority notified the college two months before the start of school this fall that their accreditation had been withdrawn.

Relationship management is critical to the success of every company. Suppliers are looking for credibility and consistency of approach from you, your team, and your company.

The issue of credibility comes into play because the college chose not to tell its student body of the lost accreditation until two months after school started. Students were outraged—and rightfully so. While the college still had accreditation within the state, their program was not recognized outside the state. So those students who were already in the program and had planned on moving out of state after school are now trapped without credentials.

There are several takeaways from this story. Besides the fact that the school had poor process, the first and foremost issue is trust. Your business partners need to be able to trust you and be able to do so consistently. Trust is not generated from a single act, but comes about over a period of time through a series of demonstrable actions—either good or bad, inadvertent or orchestrated.

The second issue, which was the underlying factor, was that the school apparently didn't have the depth of talent needed to satisfy the accrediting authorities. This is a major problem for all companies. Baby boomers who spent years in the practice of their vocation are being lost at a rapid rate to retirement. This group is being replaced with many intelligent individuals who do not understand the industry but are given short-term development experiences and challenged to take cost out of the department. But sometimes, for more immediate cost savings, a less-seasoned professional is given greater responsibilities and challenged to drive cost out.

Assuming that you actually care about your credibility, the first action that should be undertaken is to talk with your business partners about their perception of you, your team, and your company—yes, all three. And while we would hope that the results are consistent across the board, you may be surprised to learn that they are not.

Someone promises one thing and another department does not fulfill that commitment. Or perhaps you promise something and break your word at a later point in time; or maybe a shortfall in experience has led you to make decision(s) that are detrimental to your carriers and subsequently to your company. After garnering feedback from your carriers, the carries are then asked for examples of what hallmark companies have done to earn their trust.

All of this will be for naught if you don't plan on acting on the information that you have asked for. In fact, if that's the case, it would have been better for you not to have journeyed down this path in the first place.

Relationship management is critical to the success of every company. Suppliers are looking for credibility and consistency of approach from you, your team, and your company. Good suppliers know what to look for and seldom allow themselves to get trapped. If you want good suppliers take heed; if you don't care, you may wind up working with suppliers that don't trust you any more than you trust them. And that's not good for your company or your reputation—a reputation will follow you wherever you go. L

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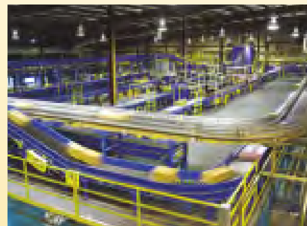

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