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# Management UPDATE

AN EXECUTIVE SUMMARY OF INDUSTRY NEWS

**FedEx preps to trim staff numbers.** In an effort to improve efficiencies and reduce costs, transportation and logistics bellwether FedEx said last month that it will offer "voluntary buyout incentives to certain U.S.-based employees in mostly non-operational staff groups." Company officials said that they expect the majority of these buyouts to be staff employees at its FedEx Express and FedEx Services groups, adding that analysis is underway to determine which workgroups will be eligible for these incentives, as well as permitted participation levels by functional area. Fiscal 2012 Q3 net income for FedEx at $521 million was up 126 percent year-over-year from $231 million.

**Mixed signals ahead for retailers.** The most recent edition of the monthly Global Port Tracker report published by the National Retail Federation (NRF) and Hackett Associates says that import volume at the nation's major retail container ports will be up 4.8 percent in 2012 compared to 2011 at 15.9 million twenty-foot equivalent units (TEU). The report points to expected upticks in volumes for the holiday shipping season beginning in August, but it is not without some cautionary signs either. "Actual sales will depend on how consumers react to employment levels and other indicators, but retailers are clearly stocking up and hoping for a stronger fall and winter than they saw last year," said Jonathan Gold, NRF's vice president for supply chain and customs policy.

**U.S. manufacturers still bullish.** According to the Q2 2012 Manufacturing Barometer recently released by PwC U.S., the majority of U.S. industrial manufacturers who were surveyed remain optimistic regarding prospects for the U.S. economy, but sentiment about the global economic outlook continues to weaken. The results indicate that overall revenue projections among U.S. industrial manufacturers remain positive, with 88 percent of respondents expecting revenue growth at their companies while only 5 percent expect negative results. In addition, 87 percent of respondents said that they were planning increases in operational spending in the year ahead. "Despite the perception by some of the increasing challenges globally, sentiment regarding the direction of the U.S. economy among U.S. industrial manufacturers remained positive during the second quarter," said Bobby Bono, U.S. industrial manufacturing leader for PwC.

**Capacity crunch at sea?** Ocean cargo carriers are running out of options to hold down capacity, said analysts for Alphaliner. At the start of 2012, MSC seemed poised to launch an additional Asia-Europe string with some of the 15 new ships of above 10,000 twenty-foot equivalent units (TEU) that it was due to receive this year, noted Alphaliner, a Paris-based consultancy. MSC already had 40 ships of this size in its fleet at that time and would have enough ships to mount a five-string service by mid-2012. Thirteen of these ships have already been delivered so far this year, but there are still no signs of any new string. Instead, MSC has taken some extraordinary steps to maintain the delicate supply-demand balance to avoid adding excess capacity in the Asia-Europe trade.

**Another tough quarter for the USPS.** The United States Postal Service (USPS) reported last month that it took a net loss of $5.2 billion in fiscal Q3 compared to a $3.1 billion net loss for the same period a year ago. As reported in *Logistics Management*, major drivers for this loss include high expenses for the legislatively mandated prefunding of retiree health benefits as well as the ongoing volume decline in First Class Mail volumes—due in large part to the ongoing diversion of mail from paper to electronic communications. On a bright note, however, its Shipping and Packages group saw revenues grow 9 percent annually at $3.3 billion, with volumes for this unit at 43 million pieces, up 5.2 percent.

**Fashion forward.** A partnership to promote imports and re-exports of apparel and fashion between Asia, the Colon Free Zone (CFZ), and Latin American destinations was signed by the Panamanian company Exclusive Brands Logistics Corp. (EBL) and Damco Panama. According to spokesmen, the logistics deal is the first of its nature for the fashion industry in

*Continued, page 2*

# Management UPDATE

*Continued*

Panama. The hub will handle approximately 35,000 cubic meters of goods per year. EBL is a leading provider of value-added services, including packing and labeling, to the fashion and apparel industry in the CFZ, the commercial distribution center located at the Atlantic gateway of the Panama Canal. Under the agreement, EBL will provide specialized services for luxury fashion brands, while Damco, the logistics arm of A.P. Moller–Maersk Group and one of the world's leading 3PLs, will provide supply chain, transportation and freight forwarding services.

■ **Judge dismisses ABF's case.** A U.S. District Court last month elected to dismiss a lawsuit by less-than-truckload (LTL) carrier ABF Freight System Inc. against the International Brotherhood of Teamsters, YRC Inc., and other related entities. In November 2010, ABF signaled its intent to take legal action against the International Brotherhood of Teamsters, various subsidiaries of YRC Worldwide and other entities, following a ratified labor agreement by YRCW Teamsters members on the grounds that these organizations are violating the National Master Freight Agreement, which serves as the collective bargaining agreement for the majority of U.S.-based trucking employees. "The case had been around for nearly two years and never really got off the ground," wrote Stifel Nicolaus analyst David Ross in a recent research note. "ABF can now focus on negotiating a labor agreement with the Teamsters that is more reflective of market rates as its current labor contract expires March 31, 2013."

■ ***LM* is riding the social media express.** If you are not following *Logistics Management* in the social network world, now is the time to get on board. Facebook.com/Logistics Management and @LogisticsMgmt on Twitter are pages you need to bookmark to stay on top of what *LM* is producing in both print and online, and all in real-time. Don't be left behind. *LM*'s Twitter feed just cracked the 8,000 follower mark. Join us!

■ **Domino effect in India.** While the full impact of India's massive power outage has yet to be measured in the global supply chain, analysts say it won't be long before significant disruption is felt. According to Linda Conrad, director of strategic business risk management for Zurich Services, the breakdown of peak-hour power in Asia's third-largest economy is certain to be a drag on goods and services. "The power grid failure can have a 'domino effect' on businesses, communications, and IT systems," she said. "Furthermore, this will weaken supply chain infrastructures including all forms of transportation, which could have a major affect on multiple industries." With emergency workers and energy professionals still searching for clues to India's electricity grid collapse, supply chain leaders should consider risk mitigation strategies now, said Conrad.

■ **New UPS scanner.** UPS has rolled out what it calls a "wearable" scanning system that augments and speeds up how packages are loaded onto vehicles by its employees as well as the delivery of visibility information to customers. UPS said that the new device, which was produced by Motorola Solutions, is comprised of a hands-free imager worn on a finger and a small terminal worn on an employee's wrist or hip, with the ring imager automatically scanning packages based on label-sensing technology. This process, they said, enables employees to more quickly image barcodes.

■ **It's all in the family at BDP International.** When a *Reuters* report stated in April that global third-party logistics (3PL) services provider BDP International was in talks with private equity firms to make the company available for sale, BDP quickly denied that was happening. Roughly four months later BDP again reiterated that a sale is not in the works, with the company saying in August it has reached a decision to retain full family ownership of the company. The company said that following a comprehensive seven month review of the private equity market, its owners, the Bolte family, and its board of directors have decided to retain full ownership of the company.

*Continued, page 4*

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# Management UPDATE

*Continued*

■ **What's the infrastructure plan?** The National Industrial Transportation League (NITL) called on President Barack Obama and presumptive Republican candidate Mitt Romney last month to offer up their views on U.S. transportation infrastructure, with an onus on freight transportation, along with their views on the following: the rising costs of energy; greenhouse gas emissions; and security impacts on transportation. In a letter to Obama, NITL President and CEO Bruce Carlton asked what new initiatives might be expected in his second term if re-elected, and in his letter to Romney he requested details on what his Administration would undertake to address the same issues. "It is important to the future of the economic health of our nation that we understand how both candidates will address these vital areas," said Carlton. And in the respective letters to Obama and Romney he said:"Infrastructure in all modes is in dire need of additional capacity and simple maintenance. Bold new leadership and new ideas on effective ways to meet these national challenges must be offered beyond the current reauthorization measure."

■ **E-commerce surge.** According to IHS Global Insight, the first half of 2012 marked another record breaking performance for e-commerce retail sales. "On a seasonally adjusted basis, the second quarter's gain pushed sales to their highest level and claimed more share of total retail sales," said Chris Christopher Jr., senior principal economist at IHS Global Insight. "Currently, e-commerce retail sales account for 5.1 percent of all retail sales." The rise of online retail sales is placing tremendous demand for residential parcel delivery services from companies such as UPS and FedEx. IHS Global Insight projects e-commerce retail sales to increase about 17 percent during 2012 to reach somewhere in the $230 billion range—another record breaking year.

■ **Hold that tiger.** Deutsche Post DHL recently unveiled details about the company's plans to build on its significant presence in the Asia-Pacific region and to further expand its competitive position in China. While Asia-Pacific already accounts for almost 20 percent of the company's DHL revenues today, CEO Frank Appel revealed the group's growth target for the next five years: By 2017, revenues generated in Asia-Pacific should contribute around one-third to the DHL top line. "We are well positioned for prolonged profitable growth across the region," said Appel.

■ **Port party.** Mobile, Ala., has long been known for its charm, history, Southern hospitality—and more recently for attracting major international businesses like Airbus and ThyssenKrupp. Evidence of these and the Port City's many other attributes can be witnessed firsthand Oct. 21–25, when hundreds of seaport industry and related transportation professionals descend on Mobile for the American Association of Port Authorities' (AAPA) 101st Annual Convention, presented by the Alabama State Port Authority (ASPA). Two governors, a noted Wall Street financial strategist, a top-ranked design firm vice president, and a host of port and maritime industry leaders will lead the convention's business sessions while a busy exhibition hall and other activities will keep registrants busy and engaged.

■ **Manufacturing growth is hindered by regulations?** A new report from NERA Economic Consulting on behalf of the Manufacturers Alliance for Productivity and Innovation (MAPI) finds that U.S. manufacturers are significantly affected by the escalation in the volume and cost of compliance with federal regulations. In the report, *Macroeconomic Impacts of Federal Regulation of the Manufacturing Sector*, NERA examined the qualitative and quantitative impact of federal regulations on the U.S. economy as a whole and the manufacturing sector in particular. Stephen Gold, president and CEO of MAPI, said the report affirmed suspicions he and many manufacturers held about the impact of regulations on growth. "In fact," said Gold, "I didn't realize costs are growing as fast as they are." Gold said that the report illustrates a pressing need for the government to adopt a holistic approach to regulatory impact. Too often, he said, regulations are considered and implemented in a vacuum without a full understanding of their "layering" in practice and the resulting "distortion." □

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Cover: Jeff Fusco/Getty Images

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**21ST ANNUAL STUDY OF LOGISTICS & TRANSPORTATION TRENDS**

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According to the findings of our 21st Annual Study of Logistics and Transportation Trends, the Masters of Logistics—those with sales greater than $3 billion—are now working closer than ever with their carrier and logistics services partners to "co-create" services in order to differentiate their offerings in the marketplace.

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**Mary Collins Holcomb**, Ph.D., the University of Tennessee

**Karl B. Manrodt**, Ph.D, Georgia Southern University

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# Masters of Logistics add value through partnerships

BEFORE WE DIVE INTO the findings of the *21st Annual Study of Logistics and Transportations Trends* (a.k.a *The Masters of Logistics*), we'd like to thank a few of the players that help us make this in-depth assessment of the current state of logistics and transportation management operations a reality.

First and foremost, we need to thank the 1,370 domestic and global logistics, transportation, and supply chain management professionals who took the time out of their hectic schedules to participate. We realize that it takes more than a few minutes to complete the questionnaire, and the fact that we hit a near record response rate tells us that the results we glean from this level of detail is worth the effort in the eyes of our readers.

Always, a special thanks goes out to Karl B. Manrodt, Ph.D., of Georgia Southern University and Mary C. Holcomb, Ph.D., of the University of Tennessee (UT) for continuing to drive and innovate this research project for over two decades. And of course, I'd be remiss if I didn't thank the group of UT graduate students who help crunch the numbers as well as the teams at Conway Inc. and Ernst & Young who lend their financial and intellectual support.

So, what are some of the key findings of the highly anticipated study? According to Holcomb and Manrodt, one result that quickly surfaced was that the group we've titled the Masters of Logistics—those companies with sales greater than $3 billion—are once again taking the lead in implementing new management methods and technological strategies after a few years of falling into the "norm."

"During the recession years we found that the competitive gap that was created by the Masters through their innovation essentially closed as companies of all sizes shrunk into a cost-cutting cocoon," says Manrodt. "During that time, being the biggest didn't translate into being the best, and we weren't seeing any statistical significant difference between small-, medium-, or large-sized companies."

But attitudes have certainly changed, and quickly. "Following those years of intense cost cutting, particularly in transportation spending, the 2012 study results point towards companies shifting some of their focus to maximizing profitability and asset utilization while improving core carrier relationships," says Holcomb. "In essence, we've found that shippers again believe that you have to spend money to make money."

**It's the Masters that are leading the way in investing time and money by better partnering with their core carriers in order to differentiate their offerings.**

And it's the Masters that are leading the way in investing time and money by better partnering with their core carriers in order to differentiate their offerings in the marketplace. "If fact, we've found that the Masters think differently when it comes to actualizing this concept, as they view their people, carrier relationships, and processes as key elements in differentiating their organizations in the marketplace," says Mandrodt.

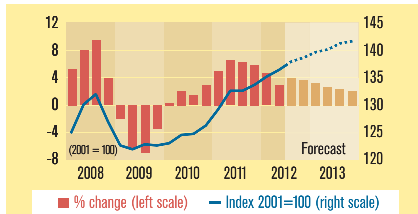
But the re-emergence of the Masters is just one significant data point from our 2012 findings. Starting on page 34, Mandrodt and Holcomb put this year's findings into context. And if you still have questions for our research team, join us in our webcast event on Thurs., September 27, at 2:00 p.m. ET (register at **logisticsmgmt.com/masters2012**).

How do your logistics operations stack up against the Masters?

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

PRICE TRENDS

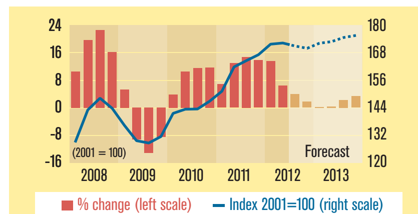
## *Pricing Across the Transportation Modes*




| % CHANGE VS.: | 1 month ago | 6 mos. ago | 1 yr. ago |
|---|---|---|---|
| General freight - local | 0.0 | -0.4 | 0.8 |
| Truckload | -0.6 | 0.9 | 3.3 |
| Less-than-truckload | 1.1 | 2.1 | 5.0 |
| Tanker & other specialized freight | -0.3 | -0.1 | -0.1 |

### TRUCKING

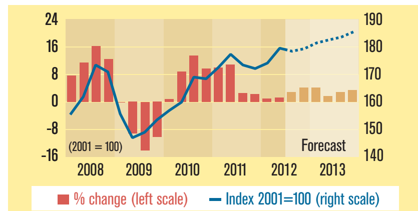
**LTL transaction prices increased** 1.1% in July, effectively wiping out any pleasing inflation-vacation memory following the 2% price cut in June. In the truckload market, average prices continued falling 0.6% in July on the heels of a 1% price drop in the previous month. Prices for specialized trucking services also declined two months in a row, down 0.3% in July and down 0.9% in June. Summertime price cuts are not uncommon. Nonetheless, the inexorable, yet relatively modest, price acceleration of the past 12 months is likely to continue ahead. Reviewing trucking inflation trends in aggregate, our average annual inflation forecast for trucking now sits at 3.8% for 2012 and 2.6% for 2013.




| % CHANGE VS.: | 1 month ago | 6 mos. ago | 1 yr. ago |
|---|---|---|---|
| Scheduled air freight | -0.4 | -0.1 | 4.1 |
| Chartered air freight & passenger | 0.7 | 2.8 | 3.1 |
| Domestic air courier | -1.7 | -0.2 | 4.4 |
| International air courier | -2.6 | -1.1 | 2.8 |

### AIR

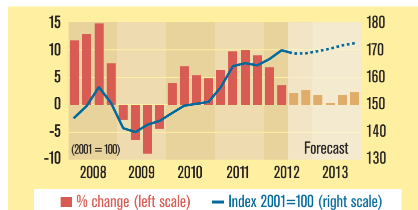
**Price data from U.S.-owned airliners** hauling mail and cargo on scheduled flights have undergone significant revision. More complete survey data from Bureau of Labor Statistics now peg transaction prices for this market as having increased in both March and April, up 0.2% and 0.5%, respectively. Then, beginning in May 2012, BLS surveys show prices falling for three months in a row, down between 0.2% and 0.4% each month. Looking at the entire first seven months of 2012 reveals prices up 9% compared to the same period in 2011. We now forecast average prices for cargo service via scheduled flights of U.S.-owned airliners to increase 6.2% in 2012. The 2013 inflation outlook remains 1.5%.




| % CHANGE VS.: | 1 month ago | 6 mos. ago | 1 yr. ago |
|---|---|---|---|
| Deep-sea freight | -0.4 | 5.2 | -1.0 |
| Coastal & intercoastal freight | 0.7 | 6.5 | 7.4 |
| Grt.Lks.-St. Lawrence Seaway | -0.6 | -7.3 | 5.5 |
| Inland water freight | -2.7 | -0.7 | 1.7 |

### WATER

**Falling for the second month in a row**, average transaction prices reported by all U.S.-owned water transportation service providers declined 0.3% in July. This time, barges and others plying inland waterways reported a 3.2% price cut while inland water towing prices inched down only 0.75%. Coastal and intercoastal freight transport providers also reported their nineteenth consecutive monthly price increase. Reviewing the first seven months of 2012, the biggest inflation push actually has come from the Great Lakes-St. Lawrence Seaway market, where average transaction prices were up 12.9% above same period year-ago. The annual inflation forecast for all water transportation services remains 2.3% in 2012 and 3% in 2013.




| % CHANGE VS.: | 1 month ago | 6 mos. ago | 1 yr. ago |
|---|---|---|---|
| Rail freight | -0.7 | 2.3 | 2.4 |
| Intermodal | -1.4 | 1.1 | 0.5 |
| Carload | -0.7 | 2.6 | 2.7 |

### RAIL

**For the first time in nine months,** monthly transaction price cuts were reported in July by both carload and intermodal rail freight service providers. Carload tags dropped 0.7% as intermodal prices also fell back by 1.4%. Declines in carload shipments of coal and grain no doubt contributed to shifting some pricing power away from rail operators and toward shippers. That said, in reviewing first seven months of 2012 compared to same-period-year-ago, we see carload rail prices up 4.9% and intermodal tags up only 2.9%. Altogether, rail industry prices were up 4.7% in the first seven months of 2012, slowing from 8.3% in the first seven months of 2011. The annual inflation forecast remains 3.7% in 2012 and 1.5% in 2013.

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

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inside

- Truckers accusing FMCSA of "sham" analysis
- Second quarter intermodal volumes are on the right track, says IANA
- WMS market shows strong growth in 2011, says ARC

NEWS & ANALYSIS

# Teamsters warn UPS they will "hold their feet to fire" in contract talks

*Even though the current contract does not expire until Aug. 1, 2013, formal talks are set to open on Sept. 27 in Washington, D.C.*

By John D. Schulz, Contributing Editor

WASHINGTON, D.C.—The biggest labor contract in transportation comes up for renewal next year when 250,000 Teamsters at UPS negotiate a new deal with the world's largest and most profitable transport company.

Every one of UPS' millions of shippers should be aware of the time line of the talks, and the potential economic impact that the settlement will have on their shipping costs.

Already, the foreshadowing has begun—even though the current contract does not expire until 12:01 a.m. on Aug. 1, 2013. Formal talks are set to open on Sept. 27 in Washington, D.C. The exact site has yet to be determined. The plan is to address non-economic issues this year, setting the stage to negotiate economic issues in 2013.

Further complicating this year's talks at UPS' package division, its largest, will be the expiration of the contract covering an additional 15,000 Teamsters at UPS Freight, its long-haul heavy freight division. That contract will be negotiated by separate management and labor teams even though both contracts expire at the same time.

A UPS spokesman refused to discuss the company's goals or disclose any negotiation details in the press. The spokesman only said that its overarching philosophy was to negotiate a deal that rewards its workers for what they do while allowing the company to remain competitive in a challenging industry. He added that UPS wants a contract that is good for its employees, customers, and shareholders.

Currently, fully experienced UPS full-time workers earn about $31 an hour ($75,000 annually) before overtime and fringes. Counting benefits, each of UPS' 125,000 or so full-time employees costs the company around $100,000 in wages, health care, and pension.

But a sticking point for the union is the welfare of an additional 125,000 part-time UPS employees who start as low as $8.50 an hour. After decades of employment, those part-timers can top out at $19 an hour, which is a sore point for the Teamsters. The union wants UPS to create as many as 30,000 full-time jobs a year and is expected to press that in the upcoming talks.

UPS is the Teamsters' largest employer, by far. The 250,000

**Editors Note:** *The Information Technology scores printed in this year's Northeast LTL Quest for Quality section were incorrect. The correct scores are as follows:*

| | |
|---|---|
| **A. Duie Pyle** | 8.42 |
| **New Penn** | 8.16 |
| **Pitt Ohio** | 7.74 |
| **Ward Transport Logistics** | 7.70 |

Teamsters at UPS dwarfs the 60,000 or so Teamsters in its freight division, mostly at YRC Worldwide and ABF Freight System. That contract expires next March 31, and will be negotiated separately from the UPS deals.

No question, UPS is healthy. Headed into contract negotiations, UPS recently announced that it made $1.12 billion after-tax profit for the second quarter on $13.35 billion in revenue. Shareholders made $1.15 per share, a 7.5 percent improvement over last year.

UPS is on track to earn more than last year's $5 billion net income. Operating profit for U.S. domestic package jumped more than 12 percent, package volume is up 3.5 percent, Next Day Air and Second Day Air are up 5 and 8.6 percent respectively and average revenue per package increased 0.6 percent. Not only is UPS delivering more packages, it is making more money on every package it delivers.

At UPS, its domestic package unit is responsible for 63 percent of the company's profits. Ken Paff, organizer for Teamsters for a Democratic Union, says he wants Teamsters negotiators to keep those numbers in mind as the union heads into contract negotiations this year.

"It comes down to the members," Paff told *Logistics Mangement*. "The members have to be willing to say no. They have to be willing to hold the company's feet to the fire. There has to be a big enough stink by the members." □

REGULATION

## Truckers accusing FMCSA of "sham" analysis in latest HOS tweak

WASHINGTON, D.C.—Trucking interests are back in court challenging the government's latest attempt to reduce the hours a truck driver can legally work—and they are getting some help from some of the largest shippers in the nation.

As many as 15 industry groups, including such heavyweights as the U.S. Chamber of Commerce and the National Retail Federation (NRF), have joined trucking interests in the cause of retaining the current hours of service rules—basically 70 hours of driving in an eight-hour week, with a maximum 11 hours of driving per day.

The American Trucking Associations (ATA), in a brief filed in late July in the U.S. Court of Appeals for the D.C. Circuit, said the Federal Motor Carrier Safety Administration's (FMCSA) latest attempt to rein in drivers' hours of service (HOS) was based on a "sham" analysis.

FMCSA wants to change provisions in the 34-hour restart, which allows drivers to "reset" their workweek after 34 consecutive hours off duty. Under the proposed changes, drivers would be able to reset their work week only once every seven days—and the rest period would have to include two spans from 1 a.m. to 5 a.m.

The government also wants to impose two mandatory 15-minute rest breaks. These provisions, trucking interests say, are arbitrary, capricious, and not based on sound science.

The cost-benefit analysis used in the rule, the ATA said in its brief, is based on a "sham" analysis because of faulty assumptions in the government's study. "FMCSA stacked the deck in favor of its preferred outcome by basing its cost-benefit calculations on a host of transparently unjustifiable assumptions," ATA said in its court brief.

The ATA also is challenging the government's claim that 13 percent of truck crashes are caused by fatigue.

Truckers are getting some big league help in their case. The NRF and its National Council of Chain Restaurants division joined a coalition of manufacturers, shippers, and transportation providers and filed an amicus brief opposing the new HOS provisions.

"The retail industry is at the crossroads of the supply chain, interconnecting manufacturers and suppliers with vendors and customers," said NRF President and CEO Matthew Shay.

"It is the retail industry's responsibility to get products to market and into consumers' hands in a safe and timely manner. It is a responsibility that we hold dear. Any new regulation that impedes that ability increases our transportation costs, increases consumer prices, and jeopardizes the fragile economic recovery."

Shay added that the Obama administration failed to take into account the "serious economic ramifications faced by the broader supply chain community" when drafting these rules."

**"FMCSA stacked the deck in favor of its preferred outcome by basing its cost-benefit calculations on a host of transparently unjustifiable assumptions."**

*—ATA court brief*

He said that his group believes that the new requirements will not only drive up costs, make trucking less safe, and increase congestion, but will ultimately hurt job growth and the economy.

"Any change in supply chain policy should be based solely on science and fact," Shay said.

The joint brief also supports another FMCSA decision that preserved the 14-hour driving window and 11-hour on-time driving requirement—this aspect of the regulation is being challenged in court by Public Citizen.

The proposed rule would keep the 11-hour driving day, but would reduce the driver's overall on-duty workweek to 70 hours within a seven-day period. In addition, drivers would not be able to work eight hours without taking a mandatory 30-minute break, which could be broken up into two 15-minute breaks.

If upheld by the court, the new regs are scheduled to go into effect next July.

*—By John D. Schulz, Contributing Editor*

FREIGHT

## Second quarter intermodal volumes are on the right track, says IANA

CALVERTON, Md.—Much like the first quarter, intermodal volumes in the second quarter remained on a steady growth path, according to the most recent edition of the Intermodal Market Trends & Statistics report from the Intermodal Association of North America (IANA).

Second quarter intermodal loadings—at 3,716,321—were up 5.2 percent annually and IANA officials said it marks the best quarterly result in a year, with the annual growth rate topping the first quarter's 2.9 percent gain.

In the second quarter, three of the four major intermodal equipment categories tracked by IANA also showed growth on an annual basis. Domestic containers—at 1,383,599—were up 12.5 percent, while trailers fell 10.2 percent to 381,151. All domestic equipment—at 1,764,750—was up 6.7 percent.

But the real intermodal star for the second quarter was international containers, which was up 3.9 percent at 1,951,571. Despite an ordinary annual growth rate, IANA said that this output represents international's highest second quarter volume in absolute terms since 2008.

IANA said that quarterly international growth was "roughly in line" with overall container imports, noting that port-released figures suggest that U.S. container imports were up almost 4 percent in the second quarter, with gains on the West Coast and East Coast at about 3 percent and 5 percent, respectively. While up North, the Ports of Prince Rupert and Vancouver posted nearly 20 percent year-over-year gains in the quarter, said IANA.

Addressing the 12.5 percent gain for domestic containers, IANA noted that it is less than the 14.9 percent annual uptick in the first quarter, but said that it is still "remarkable" when taking the softening economic climate into consideration. As an example, it observed how first quarter job growth at nearly 700,000 dwarfed the second quarter's 328,000.

Other factors contributing to

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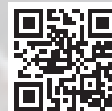
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continued gains on the domestic side include improving rail service, with average intermodal train speeds of 32 mph in the first half of 2011 topping the first half of 2011 at 31 mph, as well as lower terminal dwell times which are now near recession lows when volume declines lessened congestion.

Another factor highlighted by IANA is tight trucking capacity, with many truckers not willing to invest in new equipment and is playing a role in shippers turning to intermodal.

"The growth in domestic intermodal traffic is expected to continue for the remainder of this year and into 2013 without interruption," said IANA President and CEO Joni Casey in an interview. "Factors influencing this trend are: consistent service metrics; increased terminal velocity; tight over-the-road trucking capacity; fluctuating fuel prices; and regulatory burdens on motor carriers."

Casey added that on the domestic side, railroads anticipate continued growth of intermodal moves, noting that shorter haul markets offer additional potential. And as imports pick up, albeit it marginally, she said there will be more opportunities for transloads from the West Coast that will move by rail.

*—Jeff Berman, Group News Editor*

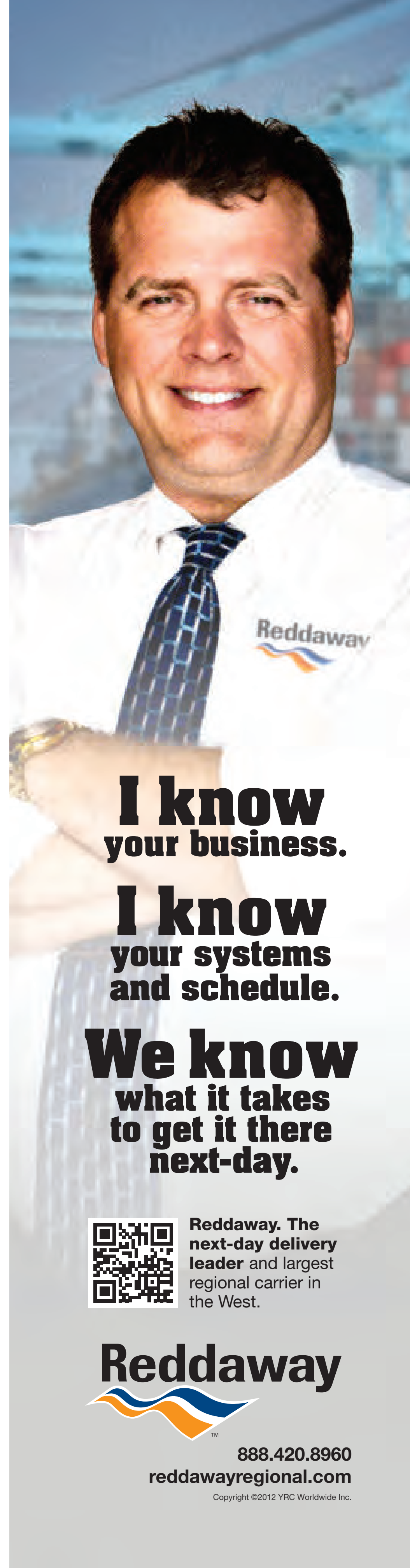
SOFTWARE

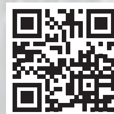
## WMS market shows strong growth in 2011, says ARC

DEDHAM, Mass.—The warehouse management systems (WMS) market saw significant growth in 2011, increasing by 10 percent, according to data from ARC Advisory Services.

Reasons for the growth in the WMS market were widespread, according to ARC. In its report, entitled *Warehouse Management Systems Worldwide Outlook*, ARC noted that WMS revenues for add-on functionality like labor management systems and warehouse analytics have been growing at impressive rates. They explained that many WMS suppliers are offering a wide-range of available WMS add-ons, and other suppliers are developing add-on functionality to extend their current WMS offerings.

According to ARC, more suppliers offering add-on services will provide new opportunities for cross-selling into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their respective installed base, and also offer customers the option to purchase add-ons from their incumbent WMS suppliers.

The firm said it is forecasting "above average growth rates" for the add-ons as more suppliers extend product lines to include additional add-on options.

"We estimate the 2011 WMS market at nearly $1.3 billion," said ARC Enterprise Software Analyst and principal author of the report Clint Reiser. "Suppliers noted high levels of growth in both the Latin America and Asia markets, while sales of add-on functionality, analytics, labor management, and optimization functionality remain robust. For end user industries, discrete manufacturing experienced strong growth last year, but I believe this is in large part due to a delayed rebound from the recent global recession."

Going forward, Reiser said that ARC expects strong growth in food and beverage due to traceability requirements and in retail due to adaptation to ecommerce fulfillment requirement. "I don't expect growth to remain as strong as we experienced last year because I believe that growth was enhanced by the post-recession rebound," said Reiser.

The report added that e-commerce expansion and multichannel retail are increasing demand for WMS services and technology, which support piece pick, pack, labeling, and other process changes driven by the high labor requirements of e-commerce fulfillment.

*—Jeff Berman, Group News Editor*

TRANSPORTATION INFRASTRUCTURE

## DOT rolls out Freight Policy Council

WASHINGTON, D.C.—United States Department of Transportation (DOT) Secretary Ray LaHood has introduced a new effort focused on national domestic freight initiatives.

Entitled the Freight Policy Council, DOT said its objective is to focus on improving the condition and performance of the national freight network to better ensure the ability of the U.S. to compete in the global economy.

It added that the Freight Policy Council will develop a national intermodal plan for improving the efficiency of freight movement and also work with states to encourage development of a forward-looking state freight strategy.

"Our freight system is the lifeblood of the American economy, moving goods quickly and efficiently to benefit both businesses and consumers across the country," said LaHood.

"With the launch of the Freight Policy Council, we have an opportunity to make not only our freight system, but all modes of transportation, stronger and better connected."

This effort comes on the heels of the recently passed national transportation bill Moving Ahead for Progress in the 21st Century (MAP-21).

It calls for the development of a National Freight Strategic Plan that encourages state freight plans and advisory committees, and provides incentives for states that fund projects that are focused on reducing congestion, increasing productivity while improving the safety, security, and resilience of freight transportation. The Freight Policy Council will implement provisions of this bill, according to DOT.

DOT also said that the Freight Policy Council will be led by Deputy Transportation Secretary John Porcari and DOT leadership from highways, rail, ports, and airports, as well as economic policy experts in the White House. The freight and logistics sectors, along with consumers and other stakeholders will serve as advisors, while states will be asked to offer proposals for improving the freight system in their respective locales.

Transportation infrastructure experts

told *Logistics Management* that the Freight Policy Council has the potential to make a significant impact.

"Creation of a high-level, multimodal Freight Policy Council will go far in ensuring MAP-21's freight provisions increase efficiency across all modes of the national freight network," said Coalition for America's Gateways and Corridors (CAGTC) Chairman Mortimer Downey. "Establishment of this Council signals a praiseworthy commitment to our national economy and global economic competitiveness."

CAGTC Executive Director Leslie Blakey explained that one of the most significant aspects of this announcement is that the DOT clearly determined to interpret the MAP21 mandate for a National Strategic Freight Plan as a multimodal endeavor and not limited to highways.

"This is what we encouraged them to do, but MAP21 left it ambiguous and they could have chosen to go with a much narrower approach," said Blakey.

"Also, the high-level commitment explicit in this announcement is a great sign that they're not going to delay during the coming months, despite the election fog."

DOT highlighted that it's making strong investments through its freight and loan programs, including more than $953 million in TIGER funding dedicated to 50 freight-related projects as well as the Railroad Rehabilitation & Improvement Financing Program that provides up to $35 billion in loans and loan guarantees.

DOT also said that through MAP-21, freight projects can qualify for $1.75 billion through the Transportation Infrastructure Finance and Innovation Act for the next two years.

*—Jeff Berman, Group News Editor*

OCEAN CARGO

## Difficult European economy makes for rough sailing, says Global Port Tracker report

WASHINGTON,D.C.—Europe's economy faces the same mounting challenges that it has for months, with no clear remedy in sight. That was a major theme of the most recent edition of the Global Port Tracker report from Hackett Associates and the Bremen Institute of Shipping Economics and Logistics.

"The latest two months of container flows have affected our trade model and shifted the European imports from 1.5 percent growth to a 2.1 percent drop in North Europe and a 1.2 percent decrease in the Mediterranean and Black Sea region," said Ben Hackett, president of Hackett Associates, in a statement. The lack of confidence in the handling of the Euro and sovereign debt crisis has caused the consumer to hunker down."

According to the report—which surveyed le Havre, Antwerp, Zeebrugge, Rotterdam, Bremen/Bremerhaven, and Hamburg—European exports are forecasted to increase by 2.4 percent in 2012, with anticipated gains of 2.5 percent in North Europe and 2.5 percent in the Mediterranean and Black Sea region. The report also expects a 2 percent gain in total imports over the next six months, which is up compared to a 0.3 decrease for the same timeframe a year ago. Exports are projected to see a 0.1 percent gain compared to a 7.9 percent jump during the same period in 2011.

Looking at cumulative export volumes for the surveyed ports on a quarterly basis, the report explained that export volumes were up 0.4 percent compared to the first quarter, which translates into a 3.6 percent annual decline. The report also noted that only two of the next four quarters are expected to show growth from quarter to quarter or annually, with all changes expected to be in the single digit range.

In his analysis of the report, Hackett wrote that European economic data "makes for depressing reading," pointing out that most of its main economic data indicates a recession is likely. These figures include consumer and production manager's confidence, trade volumes, and production indices, among others. He added that import volumes are in a state of disarray, with some Peak Season and annual flows that will show negative growth.

"On the European side, things have slowed down dramatically," said Hackett. "There is a lack of confidence [as noted in economic metrics] and GDP is down and sales are weak. It's clear that there is a slowdown, while nothing has really been done to solve the key issues like the Euro crisis and sovereign debt crisis. So, the next 12 months are going to be critical."

While Europe is still dealing with myriad issues, Hackett said that conditions in the U.S. are more positive. The reason for this is that there is still growth on the import side at nearly 5 percent even with volumes down from previous levels, which he said was expected. On the export side, Midwest droughts have affected freight flows, too.

And with depressed volumes and faltering economic conditions, Hackett observed that there is still too much ocean capacity at the moment, with carriers electing to keep vessels in rotation even though demand is down.

"Carriers are dropping some voyages for a week and taking out capacity that way, but to address the situation more seriously they really need to lay up ships or scrap some," added Hackett. "As long as they don't do that at some point, the pressure gets to be too much…and they will get back into the price wars."

But that is already proving to be problematic for ocean carriers as rates are consistently declining. Europe-based rates have dropped the last three weeks, and there remains weakness on the Trans-Pacific lanes as well.

Should the situation in Europe continue to worsen, it could have a trickle down effect on the U.S. economy in the form of lower consumer confidence, Hackett explained. This would likely lead to a higher personal savings rate in the U.S., with the after-effect of lower trade levels.

*—Jeff Berman, Group News Edit*

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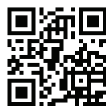

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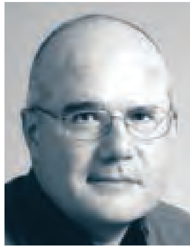

# Pricing models for 3PLs

AS SHIPPERS CONSIDER ENTRY into an outsourcing arrangement for freight management, they quickly discover a range of pricing options from various service providers. These service providers have a variety of business models that drive their market offers, and shippers need to understand what these models are so they can evaluate not just the offer, but the potential for long-term satisfaction with the contract.

A shipper that discovers that the third-party logistics provider (3PL) has made larger margins than expected often attempts to terminate early; on the flip side, shippers that find out that 3PL margins are too slim to support their service needs will also try to terminate early.

I tell shippers to consider three main 3PL freight management business models: execution; arbitrage; and dynamic transparent. While there are variations, these descriptions should help sort out what the provider is selling during the evaluation stage.

***Execution*** refers to the outsourcing of the execution of carrier rates already negotiated by the shipper. The shipper relies upon their own market strength and negotiating skills, but turns over dispatch, tracking, audit, settlement, and claims administration to the 3PL. This model often works in combination with warehousing, but not necessarily. In this case, the contract is transactional and transparent. The value-add is in simplified administrative steps for the shipper and aggregation of data that the shipper might not be able to process well. Transparency implies that the shipper knows what to do with the information and is capable of providing part of the shared management responsibilities.

***Arbitrage*** includes an arrangement where the 3PL pays the carrier and charges a higher negotiated rate to the shipper. These are less transparent, and freight brokers rely on this model for at least one transport mode managed for their shipper clients.

The 3PL/broker is in a position to propose lower management fees as they plan to make margin in the market aggregating several shippers' volumes in their offers to carriers. The shipper needs to understand this business model and insist on openness at least in the business proposal stage. I have seen numerous shipper/3PL contracts end early and in litigation where the arbitrage was not made clear up front.

***Dynamic transparent*** refers to models where the volume and market strength of the 3PL are leveraged to assist the shipper to make a more successful network fit with carriers. The 3PL should be capable of disaggregating the freight cost elements with the carrier to optimize for their multiple shipper clients.

At the same time, the 3PL provides transparency to their process and costs and agrees to a fix fee or margin for transactions. With establishment of a cost baseline there are opportunities for innovation and further leverage incentives; and as a rule, I suggest that the base transaction margin is conservative relative to the market, but that the 3PL has the opportunity to make multiples of the market margin through innovation.

**A shipper that discovers that the 3PL has made larger margins than expected often attempts to terminate early.**

This model incents all parties to be creative, including the carrier. The carrier gains by having a single 3PL team with which to optimize operations, invoicing, claims, and sales coordination. The disaggregation of costs allows the 3PL to work with the carrier to modify operations to drive out mutual costs, hence the "dynamic" reference. The 3PL can do this with the opportunity to improve margin without the loss of perceived fairness that leads to early cancellation and litigation.

Each model has its place, and all can benefit the shipper. However, the shipper needs to identify what kind of business model will work best for their operations. ☐

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

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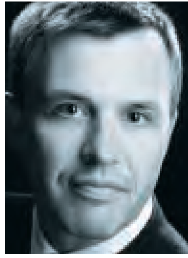


# Principles and practitioners of Open Innovation

TODAY MORE THAN EVER, innovation is a top priority. Sixty-two percent of executives questioned in a recent Accenture survey noted that their business strategy is "largely" or "totally" dependent on innovation. Nowadays, however, companies don't only need to innovate, they also need collaborators—partners—to help make innovation happen.

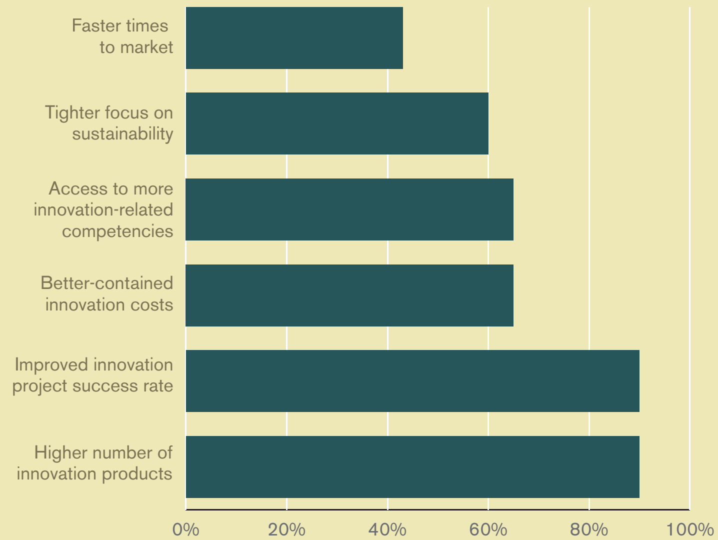
Not only that, they need to focus their innovation energies on business processes, technology applications, and customer engagement strategies, as well as on new products and services. These are the basic principles that define Open Innovation, a concept introduced by Henry Chesbrough in 2003. According to Dr. Chesbrough, innovation is most fruitful when collaboration extends beyond company walls to other companies and business partners, as well as individuals—experts, retirees, end consumers—and research organizations—universities and private labs.

### Innovation and the supply chain

Not long ago, Accenture and the i7 Institute for Innovation and Competitiveness set out to learn how companies perceive and apply Open Innovation. Twenty companies were studied, with case studies written to profile each organization's innovation journey.

Supply chain management was one of the research effort's centerpieces. A good example is the procurement function that, according to researchers, frequently takes the lead in Open Innovation initiatives. Since 2007, General Mills has used Open Innovation to introduce more than 40 products. Yoplait Smoothies—kits with real frozen fruits and frozen Yoplait yogurt chips, blended with milk to make a smoothie—were the result of long-time supplier collaborations.

Manufacturing and distribution also ranked high on researchers' Open Innovation list. Logoplaste, a Portuguese manufacturer of plastic packages for food and household products, embraced Open Innovation after several years of exposure to customers' online Open Innovation platforms. Logoplaste has established plants near customer sites so that logistical issues can be minimized and Logoplaste's products can be incorporated easily into customers' manufacturing processes.




Logoplaste also works with customers to develop innovative types of packaging. In 2007, one customer, Arla Foods, won two food manufacture excellence awards and Logoplaste's contribution to reductions in packaging volumes was a key factor.

In a similar vein, Danone Baby Nutrition worked closely with one of its packaging suppliers to develop "eaZypack"—a composite box that includes a double compartment and an integrated

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spoon in the lid. This enables a parent to portion the infant formula while carrying his/her baby in one arm. eaZypack's UK launch with the Cow & Gate brand was a success and the concept has since been rolled out in many countries.

Open Innovation's value in product design came to the fore when Kimberly Clark de Mexico worked with Velcro on an innovation for Huggies diapers. The two sides developed a second fastener

**Supply chain management was one of the research effort's centerpieces. A good example is the procurement function that, according to researchers, frequently takes the lead in Open Innovation initiatives.**

for a closing system. Both companies dedicated a team to the project for two years. The partners were safeguarded by a non-disclosure agreement and both brands were advertised on the final product packaging. In addition to benefiting from increased sales, Kimberly Clark de Mexico acquired new know-how, while Velcro gained valuable exposure to a new market.

A final Open Innovation example is the Total Appearance Research BYK-Gardner AkzoNobelMerck (TARBAM) project. The mission here was to develop a product for precisely measuring the color and texture of a car's paint. AkzoNobel provided color and texture matching, BYX brought paint and coatings experience, and Merck contributed specific quality control and texture-measurement expertise.

The collaboration resulted in a portable device that does multi-angle color and texture characterization, color measurement, and evaluation of visual sparkle and graininess. All three companies benefited by acquiring new skills for reducing design and production costs, slashing time to market, and boosting sales.

### Doing your best by working with the best

More and more rewards are accruing not just to premier innovators, but to exceptional collaborators. And the benefits enjoyed by these practitioners of Open Innovation are as varied as the relationships they've launched:

- Shorter times to market.
- Lower development costs.
- Improved ability to manage and even mitigate risk.
- Better intellectual property protection.
- New opportunities to pursue and promote sustainability.

And of course, Open Innovation can enhance companies' bottom lines. After all, rapidly producing high-quality, customer-relevant products has a way of hiking revenues, increasing margins, and raising overall profitability. □

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Burnson on

# Brazil's ambitious agenda

A NUMBER OF SUPPLY CHAIN SUMMITS, forums, and conferences have focused on Brazil this year—and for good reason. The country is chief among rapid-growth markets (RGMs), not only in this hemisphere, but around the world.

According to Alexis Karklins-Marchay, co-leader of the Emerging Markets Center at Ernst & Young, while slower expansion in Brazil and other RGMs is likely in the remaining months of 2012, it will "only be a blip" before returning to significant growth by next January. Mark Pearson, managing director of Accenture's Supply Chain Management practice, says that by 2020 Brazil could reach five million households earning $30,000 or more per annum. Pearson adds that economic data and projections are a key starting point for companies seeking to expand their sales, sourcing, or manufacturing presence in rapid-growth countries like Brazil. But, far more "granular analyses" are needed to make growth manageable as well as profitable, he argues.

Meanwhile, supply chain managers will be weighing their options when it comes to shipping and sourcing from the well-established manufacturing sectors in Brazil's southeast and the industrial clusters in Manaus, the capital of the Amazonas state, in the North.

Even though Brazil is South America's largest exporter and importer, U.S. multinationals must still work around the country's tariff and non-tariff barriers. Analysts with Transport Intelligence (Ti) in London, report that the country's trade administration is fairly good, although businesses complain that customs procedures are burdensome. The country's border administration is fair, too, although transport infrastructure—in particular, railroads, roads, and ports—is relatively underdeveloped.

But Ti analysts say that the telecommunications infrastructure is more than adequate for today's shippers. The country boasts an open and competitive air transport sector, too. In fact, Brazil is the world's largest producer of regional jets.

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Other economic statistics are similarly impressive.

- Brazil ranks third in production of shoes and soft drinks, fourth in commercial aircraft, eighth in steel, and tenth in automobiles.
- The country is home to Latin America's largest forestry based industry, and boasts the world's fifth-biggest rubber industry and the seventh largest paper and pulp industry.
- Brazil is the world's sixth-largest market for cosmetics, with annual sales of $9 billion.
- The textile sector is made up of 30,000 companies which generate annual sales of approximately $21 billion.
- The country contains 22 percent of the world's arable land surface.

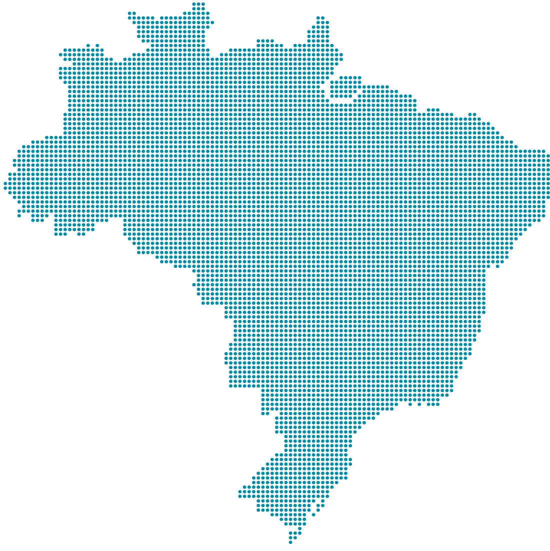
**Brazil is an example of how one giant sovereign state and its supply chain stakeholders are shaping destiny with ambitious plans of their own.**

If there is one caveat these days, it is that border security remains weak. This problem is hardly unique in South America, and Brazilian trade authorities are adamant about solving it.

### Infrastructure a work in progress

So, given this complex risk/reward scenario, is it any wonder that aggressive global players are seizing the advantage? Strong demand from China for Brazilian commodities such as steel and iron ore has resulted in that nation becoming Brazil's top export trade partner, surpassing the United States. Furthermore, Brazil is pursuing an energetic policy to expand its supply chain infrastructure across the continent for greater access to Asian markets.

As it stands now, Brazil's port system desperately needs updating and expansion as many ocean cargo gateways are experiencing serious congestion in the country. Indeed, Ti analysts note that of the 34 public maritime ports under



the jurisdiction of the Special Secretariat of Ports of the Presidency (SEP), 16 are managed directly by the state and local governments—a bureaucratic nightmare. The other 18 are administered by "dock" companies, which are joint stock companies whose major shareholder is the federal government. Adding to this confusion is the fact that the SEP also is responsible for formulating policy and implementing measures, programs, and projects to support the development of infrastructure of seaports.

Because of the poor state of the ports, many private alternatives have been built in order for companies to move their commodities to market quicker, Ti analysts observe. For example, Brazil's mining mogul, Eike Batista, announced plans to build one of the world's largest ports. The project has attracted both local and foreign investors. Batista came up with the idea of building a new port after experiencing constant delays in getting iron ore from his mines onto ships bound for China.

The port will include a cement causeway that will stretch about 1.8 miles into the ocean. It will have a four-lane highway, pipelines and conveyor belts that will move raw materials onto vessels heading to China. The Acu Super Port, nicknamed "highway to China," will be completed this year at a cost of about $2.7 billion. The port will be a 10-berth terminal off the Brazilian coast.

Work is also underway to improve rail and road access to the Port of Santos, which up until recently has been a choke point for goods moving in and out of the southeast.

Grupo Libra, the first private company to manage a sea terminal in Brazil, recently completed a dredging project at Santos' navigation channel. Analysts say the company will likely make similar improvements in Rio de Janeiro, where it holds several terminal concessions.

The Port of Rio Grande—a southern gateway having a strategic importance that goes beyond the limits of its national borders—is another resource worth tracking. According to port administrator Jaime Ramis, it will soon become "the hub for the region," including Argentina, Paraguay, Uruguay, and Bolivia. Indeed, the Port of Rio Grande is able to accept 8,500 twenty-foot equivalent units, while the average in Brazilian ports is 2,300 TEUs. It is also preparing to become a logistics center for the southern end of Brazil's hydrocarbons offshore deposits and booming oil industry.

Despite Brazil's vast network of navigable rivers, inland waterways currently account for only 13 percent of waterborne traffic. That, too, is changing, however. The Agencia Nacional de Transportes Aquaviarios, the federal agency that regulates inland waterway, has been aggressively promoting private investment for the past decade. And there have been encouraging signs that international companies are preparing to expand operations into this cost-efficient distribution mode.

**Brazil Shaping its Own Destiny**

As we have surmised before, the Panama Canal may not be the global transportation "game changer" many expect. Brazil is an example of how one giant sovereign state and its supply chain stakeholders are shaping destiny with ambitious plans of their own. Witness the string of new highways planned to extend Brazil's reach from the Atlantic to the Pacific via landbridge to Peru. Odebrecht, the Brazilian firm that built part of the existing highways, plans to invest $10 billion on infrastructure in Peru over the next five years on a range of power, water and road projects.

The project is being dubbed "InterOceanica," and analysts suggest that this inevitable byproduct of South American integration will make Brazil the leader in boosting the continent's trade with China and the rest of Asia.

Finally, because risk mitigation is now top-of-mind with most U.S. supply chain managers, this could be another reason to invest closer to home. Sudden and dramatic supply chain disruptions in Japan (earthquake)Thailand (floods), and India (blackouts) may make this hemispheric neighbor even more attractive as a way to "hedge bets" with a more sustainable sourcing strategy. □

# YARD MANAGEMENT: Supervalu feasts on yard visibility

Beth Kroutch, general manager for Supervalu's Lancaster, Pa., distribution center

JEFF FUSCO/GETTY IMAGES

**One of the nation's largest food retailers turned to technology to streamline its yard operations, improve docking capabilities, and shave a significant number of man hours from its daily processes—all while adding a critical layer of supply chain visibility.**

BY **BRIDGET MCCREA**, CONTRIBUTING EDITOR

With more than 1,100 traditional retail food stores that wear popular names like Acme, Albertsons, and Jewel-Osco under its corporate umbrella, Supervalu, Inc., of Eden Prairie, Minn., depends heavily on a smooth-running supply chain to get its food from the warehouse to the customer's dinner table. The company also operates 397 hard-discount food stores under the Save-A-Lot banner and licenses another 939 Save-A-Lot stores to independent operators.

An integral component of Supervalu's supply chain sits just outside of its distribution center door in the yard, where a steady stream of trucks and drivers flow in and out of the company's gates on a daily basis. "We're shipping almost 1,000 loads per week here," says Beth Kroutch, general manager for the company's 1.7 million-square-foot Lancaster, Pa., distribution center (DC). "That results in a high volume of both inbound and outbound traffic in the yard."

But up until recently, orchestrating that traffic volume was a manual process. Over the next few pages we'll look at how Supervalu turned to technology to streamline its yard operations, improve its docking capabilities, and shave a significant number of man hours from its daily routine.

### Managing high freight volumes

From its Lancaster DC, Supervalu services corporate retail customers, independent store chains, and single stores. Orders are submitted electronically and fulfilled with inventory that's housed in the DC.

"It's kind of like a grocery list, but on a larger scale," says Kroutch.

Up until last year, Kroutch and the team at SuperValu used a manual process for managing its high volume of traffic in and out of the Lancaster yard.

Orders are then shipped to the stores in dry or refrigerated vehicles, which are unloaded by the drivers who then return to the DC to pick up new loads.

Up until last year, Kroutch and the team at SuperValu used a manual process for managing its high volume of traffic and logistical operations that supported this system. Shipping office employees would write out the details about the loads, the trailer sizes, how they needed to be moved, and any other pertinent information by hand, on paper.

The information slips were placed in a mailbox that was situated on the outside of the building. Jockeys drove up, opened the mailbox, accessed the directions, and then decided among themselves who would handle which moves for the day.

While it functioned, the process was both time consuming and labor intensive. Even worse, it provided nearly zero visibility across departments, because the person holding the paper instructions for the day literally held all of the cards. Load movements were often inefficient and issues took a lot of time to correct based on the lack of visibility across the firm's shipping operations.

"We knew that we needed to get more efficient with our moves, particularly when it came to trucks backing into the doors and timely movement of completed loads away from them," says Kroutch, adding that size sensitivity—from the trailer perspective—also came into play. "We needed a solution that would help manage drop trailers from vendors, give us visibility over yard assets, and help us become more efficient," she adds.

Finding a solution that addressed all of those needs took about a year, during which time Kroutch, along with the company's vice president of logistics, its vice president of transportation, and several other decision makers, culled through yard management system (YMS) options. As one of its first steps, the team developed "must have" criteria for the solution, identified its expected ROI, and figured out the system requirements for such solutions.

"We spent roughly a year going through those exercises to ensure that we picked the solution that was right for our operations," says Kroutch. Key criteria used during the selection process included ease of implementation and the ability to deliver real-time information to and from Supervalu's yard. After examining solutions from four different YMS vendors, the selection team decided that PINC Solutions' Advanced Yard Management offering would best fit its needs.

Kroutch says that the web-based YMS option made it particularly attractive for Supervalu, which was looking for a quick implementation time and minimal stress for its internal IT staff. The fact that the system would allow the company to extend capabilities to third parties sealed the deal.

"We really liked the fact that the YMS would allow us to grant visibility out to our vendors and help us partner with other carriers," says Kroutch. "So we'd not only be able to manage within the fence line of the yard, which was our primary goal, but also track equipment outside of that boundary line."

## Super users

In many cases, YMS is implemented as part of a larger warehouse management system (WMS), says Steve Banker, director of supply chain solutions at software analyst firm ARC Advisory Group.

Because of this, growth in the YMS market isn't typically tracked or broken out separately in order to ascertain adoption rates among shippers. Banker says shippers tend to realize different benefits from their YMS investments, depending on their individual operations and the type of solution that they select.

Phase one alone has saved Supervalu's Lancaster DC more then 80 wasted man hours out in the yard and an additional 40 hours for its logistics and shipping departments—a total of 120 saved hours.

A YMS that is attached to a WMS, for example, focuses on moving warehouse workers as efficiently as possible to the dock doors, where they then load and/or unload trucks. One that's associated with a transportation management system (TMS), on the other hand, centers on scheduling trucks in order to gain the most efficiencies.

Finally, standalone YMS, such as the system Supervalu put into place, helps users find assets in a yard and move trucks from yard to dock door more efficiently. In Supervalu's case, Banker says a major payback comes when truck jockeys no longer have to scour the yard for their respective trucks.

"Labor isn't sitting around, waiting for instructions," says Banker, "and there's less chance that a truck will show up and have to wait five or six hours for a dock door to open up."

Not long after the 30-day YMS implementation wrapped up, Supervalu was already realizing those and other benefits. At its vendor's suggestion, the company cultivated a group of seven "super users" who received intensive training on the system, and who then worked one-on-one with other employees to bring the entire logistics team up to speed on the YMS.

The super users also fielded questions and addressed any issues that came up during the two months immediately following implementation. "Breaking some of our personnel from their old habits of doing things manually and moving into a more system-based program was one of the biggest issues," says Kroutch. "That took about 60 days to work through, but worked out just fine."

## No more paper

Kroutch is happy to report that the days when personnel from Supervalu's Lancaster shipping office had to whip out their pens and paper to get its jockeys set up for a day of work are long gone.

Phase one of the company's YMS implementation is complete and those jockeys now receive automated messages stating: "We need these trailers at these doors." The jockeys now know where the trailers are and no longer have to scour the yard looking for them.

Supervalu now knows where each trailer is, which trailers have moved, what trailers haven't been moved for a day or so, and how they're currently utilizing those trailers. "All of that data can be retrieved quickly using the YMS," says Kroutch.

Phase one alone has saved Supervalu's Lancaster DC more then 80 wasted man hours out in the yard and an additional 40 hours for its logistics and shipping departments—a total of 120 saved hours. "That means we can actually cut down on the number of trailers we have from a capital perspective," says Kroutch, noting that a major intangible benefit is the visibility that the company now has over its yard assets—something it previously lacked.

The latest phase of Supervalu's YMS rollout gave the company a tracking system that integrates with its WMS to identify exactly when its own fleet, private food carriers, or third-party carriers are entering its yard with purchase orders. "Having that information at our fingertips and in real-time, has really helped our receiving function," says Kroutch, who envisions a time when the company can leverage its YMS across its entire supply chain and use it to collaborate in real-time with all of its business partners and carriers.

"We want to get to that next phase of carrier partnering, which would allow us to get our tags on different carriers and create even more visibility outside of the yard fence line," says Kroutch, who hints that another large Supervalu DC in Minneapolis is currently considering the new YMS.

With two successful implementation phases behind her and another one around the corner, Kroutch says that she's very pleased with the solution, particularly the hour-savings that it has provided the company. "That was one of our key deliverables," she says, "and we realized it within a fairly short period of time."

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*Bridget McCrea is a Contributing Editor of* Logistics Management

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## 21st Annual Study of Logistics and Transportation Trends

# Masters find value in partnerships

**Today, shippers and carriers are co-creating services in order to differentiate their offerings in the marketplace. The Masters of Logistics are leading the way in this new, highly productive process and are significantly improving their competitive position.**

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

They're at it again. Over the past two decades of conducting this study, we have often found that it's the Masters of Logistics—those with sales greater than $3 billion—who are the first to implement new transportation management methods and approaches, put new technology to use, or move more quickly than smaller organizations to integrate internal systems.

However, in the past few years, the competitive gap that was created by the Masters through these actions essentially closed—in other words, there wasn't a statistically significant difference between small-, medium-, or large-sized companies. During that time, being the "biggest" simply didn't translate into being the "best" in terms of logistics and transportation practice.

The results of this year's study suggest that the Masters are again taking the lead when it comes to creating value through the delivery of differentiated service; in fact, we found that the Masters think differently when it comes to actualizing this concept as they view their people and processes as key elements in differentiating their organization in the marketplace. That is to say, the Masters perceive that they are better than their competition in terms of delivering service that distinguishes between customer groups at a lower total cost.

This year's results indicate that the Masters clearly believe that rewarding performance of logistics and supply chain personnel results in exceptional customer service that sets them apart from competitors. Further, the Masters strongly agree that innovation in logistics and transportation services improves their competitive position.

But this is a just one element of what we learned while dissecting the results of this year's study. Some 1,370 domestic and global logistics, transportation, and supply chain management professionals participated in the study (a record turnout), offering insights on trends and issues relevant to today's busy managers.

In addition to the University of Tennessee, the research was conducted in partnership with Con-way Inc., Ernst & Young, and *Logistics Management*. Participants accounted for an estimated $30.1 billion in domestic transportation expenditures and over $20.5 billion in international transportation. The Masters of Logistics represented 27.8 percent of the study participants. Medium-sized firms, with between $500 million and $3 billion in annual revenue, were 20.6 percent of respondents. The majority of respondents (51.6 percent) were smaller firms with reported annual revenue less than $500 million.

Respondent companies represent a broad and diverse set of fifteen industry sectors ranging from pharmaceuticals to food. Since the beginning of the study, the core group of participants has been in the manufacturing sector—this year they made up 42.6 percent of the total. Consumer products companies represent the largest sub-sector of that group at 15 percent.

The results identify the emergence of an idea advocated for over a decade, and one which is being put into place by the Masters of Logistics: Use logistics and transportation services to differentiate yourself in the marketplace. As one would suspect, being able to deliver differentiated service is

not possible without a value-creating partnership between the shipper and its strategic carriers; in turn, this has created a unique balance of power between the two parties.

### Setting the baseline

Overall transportation spending as a percent of sales increased from 2011 to 2012. The data in Figure 1 on page 36 shows that companies who spent more than 5 percent of sales on domestic transportation increased year-over-year, rising from 21.2 percent to 26.7 percent in 2012.

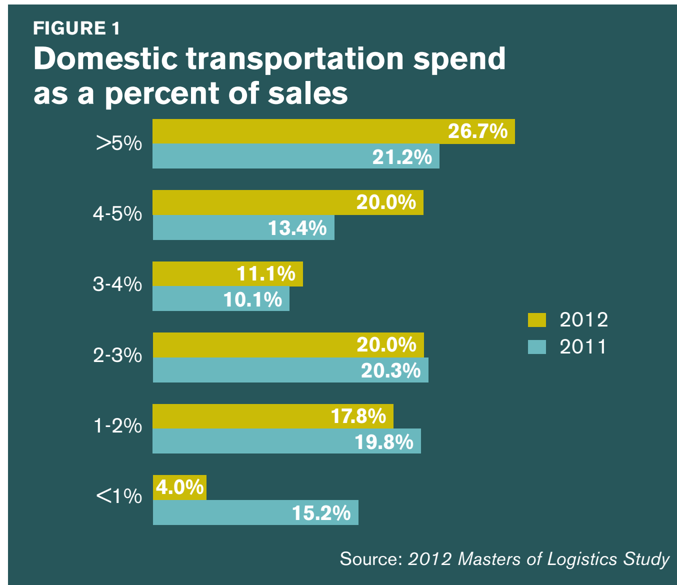
Respondents reporting transportation spending greater that 3 percent of sales increased from 44.7 percent in 2011 to 47.8 percent this year. These increases occurred at a time when many in the profession considered the supply and demand for transportation to be somewhat balanced.

The increases in transportation spend, however, are not equally reflected across companies relative to size. The Masters' domestic transportation spend as a percent of sales for 2012 was 2 percent to 3 percent on average—a decline from 2011 when it was 3 percent to 4 percent. Both small- and medium-sized companies reported increases in 2012, while the majority spent more than 4 percent of sales for transportation services. This is contrasted to 2011 when most small firms spent less than 3 percent of sales on this activity and medium-sized companies spent between 3 percent to 4 percent on average.

Why the change? One indicator is the change in strategic direction for many companies. Following several years of

intense cost cutting, particularly in transportation spending, the 2012 study results point towards companies shifting some of their focus to maximizing profitability and asset utilization.

In the meantime, the percentage of respondents who reported that their primary objective is reducing costs has shrunk each of the past three years—findings that reveal that shippers again believe that you have to spend money to make money.



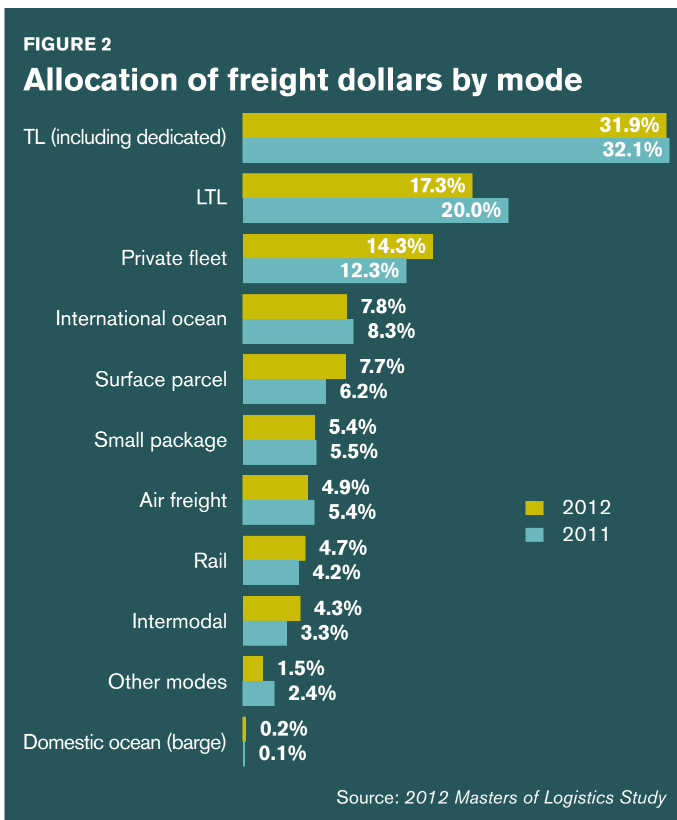

### Transportation is critical in value creation

Being able to rapidly respond to changing customer requirements is becoming increasingly critical for both shippers and carriers. Today, more than ever, transportation plays a key role in helping companies attain that necessary level of responsiveness.

Our study indicates that some 71.6 percent of respondents are either capable or highly capable of adjusting transportation operations in response to changing conditions—and this ability to alter and adapt is greater for transportation than for logistics operations.

According to Tony Ross, Ernst & Young's senior manager of advisory services, transportation costs as part of cost-to-serve have not been identified to the level necessary to identify the value being created. "But as we get more granular by using 'total delivered cost' as the value creation metric, we can measure the cost and value in not only our ability to be adaptive and responsive, but understand if those actions were the right ones to meet customer service requirements and profit margins," says Ross.

The need to create more value is reflected in how shippers are utilizing the various modal combinations. As shown in Figure 2, truckload (TL) still accounts for the largest share of the transportation budget. In addition to being highly responsive to changing conditions, TL enables companies to address concerns about fuel costs that ultimately impact the cost to serve and the total landed cost.




LTL accounted for 17.3 percent of the transportation budget in 2012, representing the second largest modal expenditure for firms. However, this is a decline of 2.7 percentage points from 2011. The decline in LTL was the largest change reported for any of the modes for 2012. We found that part of this decline in spending was used to boost the budget for private fleet. After a slight dip in the percent of the transportation budget in 2011, the expenditures for private fleets are almost on par with the 2010 level.

Rail's portion of the transportation budget remained essentially the same year-over-year while intermodal increased in 2012 accounting for 4.3 percent of total spend. In general the budget is allocated among several key modes of transportation.

"In today's environment, shippers and manufacturers are looking to the multimodal strategy, as there is some concern about the balance of supply and demand in the transportation space," says Tommy Barnes, president of Con-way Multimodal. "Companies, both shippers and carriers, are looking for a way to use the right capacity in the right geographical places. Using a multimodal strategy can fill that gap."

What are shippers doing to increase the value mix? As shown in Figure 3, the top five initiatives are ones that have appeared on this list consistently over the past few years. Of the leading

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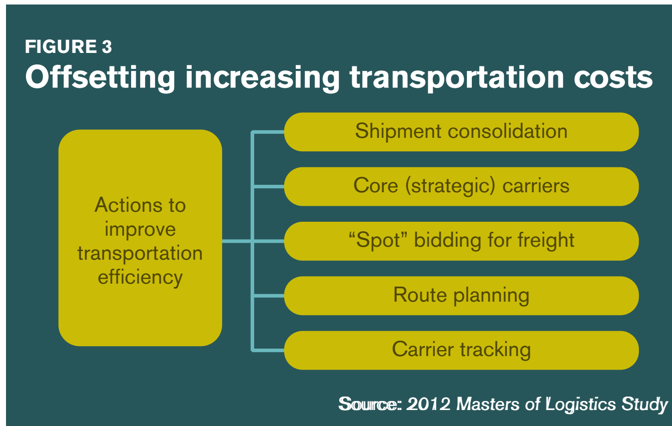
actions being utilized to increase the value mix, perhaps the most promising one is the use of core or strategic carriers.

To be successful, both shippers and carriers must be fully committed to the relationship. The list of the top five initiatives also reveals that there aren't a lot of new actions being taken to stretch the transportation dollar.




Several actions that were ranked below these top five are a mix of operations, tactics, and strategy and include items such as: differential customer service levels; intermodal shipments; use of dedicated transportation; and load planning. The efficiency initiatives suggest that shippers are making use of multiple methods to keep transportation costs in check.

"Logistics and transportation efficiencies will help create a competitive advantage for small- and large-sized shippers," says Barnes. "The efficiencies can drive logistics and transportation productivity and eliminate risk, thus allowing organizations to focus on customer/supplier value."

## Changing the power equation

Many factors have caused shippers to change the way they manage logistics and supply chain activities. The main influences according to the results from this year's study are:

- ability to respond to changing customer requirements;
- energy (fuel) prices;
- cost to serve (specifically distribution);
- inventory reduction;
- and total landed costs.

The results of this year's study suggest that the nature of the relationship between carriers and shippers has fundamentally shifted. Over the years, academics and practitioners alike have advocated a balance of power as the means to achieve better performance for both factions.

The question of interest has been whether and under what conditions the competitive behavior of both groups would lead to some sort of equilibrium. By all indications that time has arrived.

Study participants are in strong agreement that being better than their competitors in terms of service would significantly improve their competitive position. There is also an awareness that while logistics and transportation service will differentiate them in the marketplace, it does not allow them to charge customers a premium price—hence the need for carriers and shippers to work together to create the former without incurring the latter.

Many of the Masters are spearheading the move to deliver value-creating service that distinguishes them in the marketplace. "Within the Masters, those that are the leaders are leveraging the best tools possible on a daily, weekly, monthly, quarterly, and annual basis," says Ross. "This means doing a transportation procurement assessment and using collaborative optimization at least annually. It means reviewing the optimal 'ship from' locations bi-annually. It means analyzing asset allocation to be the best locations for maximum utilization, in addition to the regular route/lane optimization and capacity analysis. Finally, it means every mile needs to be examined for value—do not leave money in the back of the trailer."

## Mixed performance results

The data presented in Table 1 show that TL and LTL reported basically the same performance relative to on-time delivery. The likeness ends there, however, as TL performed better on percent

TABLE 1

**Key performance indicators for surface transportation modes**

| | TL | | LTL | | Intermodal | | Rail | | Parcel | |
|---|---|---|---|---|---|---|---|---|---|---|
| Measure | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| Correct invoice (number of correct invoices / total invoices) | 96.1 | 96.2 | 94.6 | 89.6 | 96.9 | 94.2 | 97.4 | 90.9 | 94.9 | 91.8 |
| On-time delivery (number of deliveries received on-time/ total deliveries) | 93.9 | 95.9 | 93.8 | 90.7 | 92.9 | 90.7 | 89.2 | 85.9 | 94.9 | 97.1 |
| Damage (damaged shipments / total shipments) | 1.0 | 1.9 | 1.9 | 4.0 | 1.2 | 1.9 | 0.7 | 2.9 | 1.9 | 2.6 |
| Equipment availability (% of your requests that can be satisfied with available equipment at the time of your request) | 94 | 92.4 | 97 | 95.2 | 94.3 | 96.5 | 94.1 | 95.9 | 98.2 | 99.1 |
| Turndown ratio (total shipments declined / total shipments offered) | 2.5 | 4.6 | 0.4 | 2.5 | 2.1 | 4.7 | 0.7 | 6.2 | 0.5 | 0.7 |

Source: *2012 Masters of Logistics Study*

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of correct invoices and damage as compared to LTL.

With an 89.2 percent on-time delivery record, rail has the worst performance of the seven modes reporting this statistic. (See Table 2 for air freight and ocean.) While performance for this metric improved from the previous year, it still lags significantly behind the other modes. Intermodal also reveals one its areas of weakness, as its on-time performance trails TL and LTL.

Compared to the 2011 performance data, some significant changes have occurred—most of which are positive. For LTL and rail, on-time delivery substantially improved from 2011 to 2012. These same modes also posted meaningful increases in performance for correct invoices and damage.

In a business environment where eliminating waste is a key initiative, the decline in the rate of damage for freight is an appreciated outcome. On the negative side, on-time delivery for TL declined year-over-year. In 2011, TL on-time performance was 95.9 percent. As Table 1 indicates that metric fell to 93.9 percent for 2012.

The same mixed results were also reported for the international transportation modes. On-time delivery for ocean was in the same range as intermodal, while air freight's performance was similar to trucking.

Of particular interest was the percent of correct invoices for air freight. This metric was significantly lower than any of the other modes, and it represented a major decline in performance from the previous year. Ocean, on the other hand, turned in a substantial improvement in performance for correct invoice and damage for 2012 as compared to last year.

Getting performance to the required level is the basic foundation upon which differentiated service is built. Without the ability to perform as required differentiated service will lose either some, or all, of its value. Coupled with this is the need to provide that service based on strategy and market segmentation—this is a fundamental key to delivering service at the "right price."

Two primary observations can be made regarding the data in Table 3. First, the absolute difference in performance between best and average customers is fairly low. Namely the level of service a best customer receives compared to an average customer is not significant.

The small gap represents an opportunity for delivering differentiated service, which in turn could possibly result in cost savings as the "right" service levels are provided to the best and average customers. Second, the difference between best and average customers has remained relatively unchanged, with the one exception of over/short/damage where respondents have reported dramatic improvements over the past three years.

What are the Masters doing? Interestingly, except for on-time delivery, the gap between best and average customers is greater for the Masters compared to all of the respondents. In this case, differentiated service is being realized.

TABLE 2

**Key performance indicators for international modes of transportation**

| | Air freight | | Ocean | |
|---|---|---|---|---|
| **Measure** | **2012** | **2011** | **2012** | **2011** |
| Correct invoice (number of correct invoices / total invoices) | 88.3 | 93.6 | 95.5 | 90.8 |
| On-time delivery (number of deliveries received on-time/ total deliveries) | 93.3 | 96 | 92.3 | 90.5 |
| Damage (damaged shipments / total shipments) | 0.3 | 1.5 | 0.4 | 2.8 |
| Equipment availability (% of your requests that can be satisfied with available equipment at the time of your request) | 96.4 | 96.7 | 93.9 | 95.6 |
| Turndown ratio (total shipments declined / total shipments offered) | 0.1 | 0.3 | 1.5 | 1.2 |

Source: *2012 Masters of Logistics Study*

## Value in the driver's seat

The study results show an emerging trend by the Masters of Logistics to set themselves apart from their competitors through differentiated service. Transportation plays a critical role in enabling the firm to deliver differentiated service of which a prominent feature is being able to respond to changing condition. As such, it positions transportation as a vital part of value creation.

Findings from the study also indicate that logistics is less capable of adapting and altering in response to changing supply and demand conditions. While other factors have certainly affected the relationship between carriers and shippers, it is irrefutable that the value created through differentiated service is a driver in moving these two groups towards a different type of association.

The balance of power that currently exists between carriers and shippers—primarily the Masters of Logistics—defines this as a unique time. However, questions remain to be answered: Will other companies follow the lead of the Masters? And if so, will the balance of power be a lasting change?

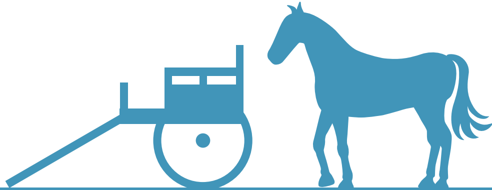
*—Mary C. Holcomb, Ph.D., and Karl B. Manrodt, Ph.D., are annual contributors to* Logistics Management

TABLE 3

**Key performance indicators by type of customer**

| | Best customer | | | Average customer | | |
|---|---|---|---|---|---|---|
| **Measure** | **2012** | **2011** | **2010** | **2012** | **2011** | **2010** |
| On-time delivery | 96.9 | 96.8 | 96.3 | 94.1 | 93.8 | 92.3 |
| Over / short / damage | 0.3 | 1.4 | 2.2 | 0.5 | 2.3 | 3.6 |
| Correct invoice | 98.1 | 97.6 | 98.2 | 97.0 | 96.3 | 96.8 |
| Shipments that result in some form of a customer complaint | 1.1 | 1.9 | 2.6 | 1.6 | 2.4 | 4.1 |
| Perfect order | 96.2 | 96.1 | 96.3 | 93.7 | 94.1 | 94.3 |
| Backorders | 2.0 | 2.4 | 4.3 | 3.0 | 3.3 | 6.2 |

Source: *2012 Masters of Logistics Study*



# THE PROBLEM WITH A LOT OF SUPPLY CHAIN SOLUTIONS IS THAT THEY DON'T FIRST DEFINE THE PROBLEM.

Today, global logistics providers must have the tools to manage customer supply chains. A global office network, transportation and distribution services, integrative IT platforms, and so on. With these tools in place, one might think that is enough. It isn't. However, they all have to be in the "cart."

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# 3 rules to change 3PL contracts

**Our "Pricing" columnist contends that it's time for shippers and their 3PL partners to fundamentally change their approach to contract creation in an effort to yield more sustainable relationships.**

BY **PETER MOORE** AND **STEVE SYMMES**

At a recent industry workshop on third-party logistics provider (3PL) contracting, there were about a hundred participants split evenly between buyers and suppliers of services.

The desired outcomes of the buyers of services included learning how to increase transparency to costs and further drive efficiencies across their supply chain organization. On the flip side, the 3PL participants wanted to know how to engage the C-level shipper executives and put themselves in a better position to add value to their customers and be viewed as less of a commodity.

Within weeks of that meeting we were asked to review a current multi-year contract between an industry-leading manufacturer and the 3PL in their largest market. This was a chance to apply the combined ideas of "vested outsourcing"—a hybrid contracting model with mutual profit improvement built in—and what we learned in the workshop to improve this critical relationship where the shipper was asking if it was time to put the deal back out to bid after only three years.

Like many shippers, they were frustrated with the lack of innovation and risk-taking on the part of their 3PL. Previous studies lead by Georgia Tech have identified that after an initial contract period a major gap in expected capabilities—particularly in technology and visibility—often emerges in a majority of 3PL contracts.

When the "honeymoon" ends there seems to be just a transaction-based relationship, even though the intent was to drive innovation and expand capabilities. Far from getting to talk to the C-level execs, the 3PL often finds that they are marginalized even from their counterparts in the buyer's supply chain organization and frustrations run high for everyone involved.

We looked at a number of deal reviews and have read dozens of contracts. Workshops and interviews with buyers and providers bear out a few things.

First, 3PL contracts should not be based upon expanding traditional warehousing and/or transportation contracts.

Second, 3PL services are in a unique position to be transparent and to clearly articulate quantitatively the value they add through innovation. Third, shippers and 3PLs need a new contract structure that is a hybrid of performance-based contracts and business partnership agreements.

The result of this new approach for the buyer of 3PL services is to reduce anxiety about the performance/price ratio. Transparency, incentives, and metrics tied to business outcomes will encourage innovation while ensuring high levels of daily performance. This fresh way of thinking also provides opportunities for the 3PL to move "up market" through demonstration of value to the customer's executives.

On this second point, I can remember getting a call as a 3PL founder from the CEO and CFO of my largest customer. They wanted to invite my key team members to lunch in their executive dining room to thank us for delivering the highest return on investment of any initiatives at the company that year. The message here for 3PLs is clear: Do it right and you don't have to worry about the C-level sales calls—they will call you.

### Three rules for change

The research that created vested outsourcing identified two major categories of requirements for a successful contracting experience for both buyer and seller.

First, there needs to be compatibility and trust between the two organizations, or a collaborative open relationship. The relationship can be tested through tools developed by Professors Ledlow and Manrodt of Georgia Southern University that measure trust, innovation, communication, team orientation, and focus at the individual and the organizational levels. With a good reading on strengths and weakness in these attributes of the relationship, an agreement can be designed to leverage the relationship.

Second, a new agreement structure is needed that includes a "master services agreement" that covers the legal elements and properly structured business requirement attachments that address the key parts of a living, breathing, and easily modified agreement. Successful agreements include a statement of intent, clear desired outcomes, a statement of objectives, how the business will be governed, and a flexible pricing model.

When applying the rules and elements of a vested deal, we have learned that 3PL contracts benefit from some specific provisions. We will examine three of these rules and then

point out some common failings by 3PL buyers in outsourcing logistics-related services.

**1) Develop a win-win business model.** A business model is based on achievement of desired outcomes—not based on performing transactions. Establish and maintain through the contract a true "partnership" mentality with a desire to develop a "win-win" business model.

The new business model is based on mutual self-interest. Both parties need to spell out their business goals including a profit margin for the 3PL. When outsourcing logistics, you need to think beyond the short-term bottom line and keep in mind that the 3PL needs to make investments in people, equipment, and process redesign that require an attractive rate of return commensurate with their risk.

Unfortunately, many shipper executives view outsourcing as a quick-fix solution to resolving balance sheet or labor problems. The danger in focusing on the cheapest offer is that it inevitably leads to tradeoffs in quality or service—and especially in the willingness and ability of the 3PL to implement innovative solutions

For the 3PL, it's necessary to break some old business models or paradigms. A common one is the paradigm that says you always get paid back in one year. This old paradigm can kill the 3PL's ability to "wow" the buyer executives with your commitment to their success through new technology and equipment they need, but that they would never spend capital on.

**2) Develop a new pricing model.** The first requirement of an effective pricing model is that it's jointly developed and not a spreadsheet designed by procurement that 3PLs fill in during the RFP process. Pricing comes after down-selection and is based upon principles of transparency, reward for innovation, and allocation of risk to the party best able to mitigate the risk.

While there is no "typical" 3PL contract, the ones that seem to work best have been cost-plus or fixed fee for routine tasks at a less than spectacular margin and the opportunity to make three times or four times average margins only through delivery of innovative solutions that help achieve that desired outcomes. The prioritization of innovations comes from the business model that clearly states desired outcomes; and as we will discuss, innovation ideas should be explored jointly and the value of the improvements shared.

**3PL services are in a unique position to be transparent and to clearly articulate quantitatively the value they add through innovation.**

**3) Governance.** The critical difference in a new 3PL relationship is transparency, not just in costs but also in performance measurement. First, everyone uses the same numbers. Second, there may be lots of operating metrics, but just a few relationship metrics focused on the desired outcomes.

For example, if a desired outcome is that the 3PL will enable the expansion of the buyers business into Western Canada, then the executives of the two companies need to share information about that expansion progression and not worry about two shipments that were an hour late last month.

This means that the stakeholders who participate in governance meetings should change by level or function, and the senior meetings, often quarterly business reviews, need to include business people from across the buyer and provider organizations.

### A-O-Z

When viewing the long list of ailments that the University of Tennessee research found in many outsourcing deals, three have been found to be particularly common in 3PL contracts. We've labeled them A-O-Z.

**A) The Activity Trap:** Traditionally, companies purchasing outsourced services have used a transaction-based model where the service provider is paid for every transaction—regardless of whether or not it is needed.

Businesses are in business to make money and providers of outsourcing services are no different. The more transactions they perform, the more money they make. There is simply no incentive for them to reduce the number of non-value-added transactions because it would result in a reduction of revenue. Make sure your outsourcing agreement is not based on pushing the cash register button every time a specified activity is performed, especially when that activity is not value added.

**O) The Outsourcing Paradox:** This ailment typically begins with the "experts" at the buyer developing the "perfect" set of tasks, frequencies, and measures for the engagement of a service provider. The result is an impressive document containing all the possible details on how the work is to be done.

At last, the perfect system, correct? However, this "perfect system" can actually sow the seeds of failure of the outsourcing effort. The reason: It's the company's perfect system, not one designed by the provider of the services who's supposed to be the experts at getting the job done.

The most visible example of this paradox at many 3PL warehouses is the multitude of order/shipping systems we find in the 3PL's customer service area. In order to keep things simple for themselves and to not commit to integration with a 3PL, shippers often insist that the 3PL install their software on dedicated machines with customized labels and documents to manage orders.

This requires, at a minimum, double data entry and dedicated space, special instructions, and unique processes opening the door to service failures and precluding optimization of resources—the very reason the management of logistics is outsourced.

**Z) Zero Sum Game:** Buyers that play this game believe, mistakenly, that if something is good for the 3PL provider then it's automatically bad for

them. Many organizations fail to understand that the sum of the parts, when combined effectively, can actually exceed the whole.

Dr. John Nash's Nobel Prize winning research commonly referred to as "game theory" proved this. The theory's basic premise is that when individuals or organizations play a game together—or work together to solve a problem—the results are always better than if they had played against each other or worked separately.

**Shippers and 3PLs need a new contract structure that is a hybrid of performance-based contracts and business partnership agreements.**

### Stand back a moment

These lists of needed elements and common ailments are by no means exhaustive. What we have found, however, is that in most discussions these subjects frequently come up.

To stand back a moment, let's understand that the global market is changing many of our jobs. As logistics professionals we now need to lead a network of customers and providers in a new way of interacting. Each part of our extended network or supply chain, whether it's a buyer or provider of services, will want to protect his or her interest.

Getting the combined buyer and provider network to work for the good of all has to also be in their own business interest. It's critical to the success of all that the service providers' entrepreneurial capabilities and potential for innovation be encouraged. After all that is why we are outsourcing.

As Dr. Nash postulated and the recent research out of the University of Tennessee demonstrates, we can build a relationship by first confirming compatibility and trust and then leverage that to create a written code of economic behavior to enable wealth creation across our network while delivering extraordinary service to our mutual customers.

*Peter Moore is a member of the program faculty at the University of Tennessee Center for Executive Education, Adjunct Professor of Business at the University of South Carolina Beaufort, and partner in Supply Chain Visions, a consultancy (pete@scvisions.com). **Steve Symmes** is a senior consultant at Supply Chain Visions and is a certified deal architect in vested outsourcing (steve_symmes@scvisions.com).*

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# ASIA: Challenges and opportunities in market integration

**The merging of leading Asian economies is proceeding quickly, giving U.S. shippers more trade alternatives. Here's our current analysis of this dynamic region.**

BY **PATRICK BURNSON,** EXECUTIVE EDITOR

While the EU appears to be increasingly fragmented, today's global shippers are viewing parts of Asia as a "single market." Indeed, the latest report from specialist research company Transport Intelligence (Ti) suggests that opportunities for U.S. companies will only get better in this dynamic commercial arena.

"Economic growth throughout Asia moderated in 2011 due to weaker demand in developed markets and the impact of the Eurozone crisis," says Ti CEO John Manners-Bell. "However, investment overall increased slightly and consumption remained buoyant."

China remained the strongest economy in the region, growing at roughly twice the pace of large countries such as Indonesia, Malaysia, the Philippines, and Thailand. Korea and Taiwan both grew at slower rates, as weak investment compounded the effects of slower exports. Vietnam's economy grew in the mid-single digits due to strong growth in industrial output and consumption.

Real GDP in China grew only 7.6 percent year-on-year in the second quarter of 2012, its slowest pace in three years, observes IHS Global Insight Economist Sara Johnson. While the current slowdown in China is not nearly as severe as it was in 2008 and 2009, she says that in many ways China is more "vulnerable" now.

"Credit markets are overstretched, house prices are still unsustainably high, commercial banks are weak, and local government debt is high," says Johnson. "All this suggests that growth this year and next will only be in the 7.5 percent to 8 percent range. On the other hand, given the recent aggressive policy response by the central bank and government, the odds of a hard landing are no more than 25 percent."

Japan's economy, meanwhile, bounced back after its crippling earthquake and tsunami, and a period of contraction.

Rebuilt supply chains and investment added to the growth. However a strong yen continued to have a negative effect on exports and led to an increasing migration of manufacturing to its neighbors.

Ti analysts say that Indonesia is expected to be one of the strongest economies in the region, with retail sales growing at 25 percent a year. Malaysia and Thailand are expected to recover from supply chain disruptions, although will be hit hard by weak export markets in Europe.

"With Western markets stagnating," observes Manners-Bell, "many economies in the region are looking to intra-regional trade for stronger growth prospects."

**Look before you leap**

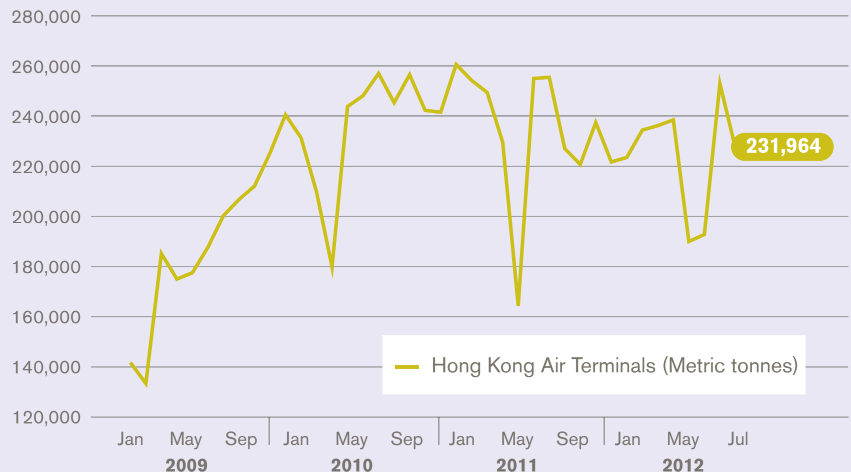
Given the recent history of supply chain disruption in the region, U.S. shippers seeking to enter the Asia Pacific markets are advised to proceed with caution. Just when automobile factories had begun to recover from the Japanese tsunami in 2011, the high-tech sector took a huge hit when Thailand was dealing with catastrophic flooding.

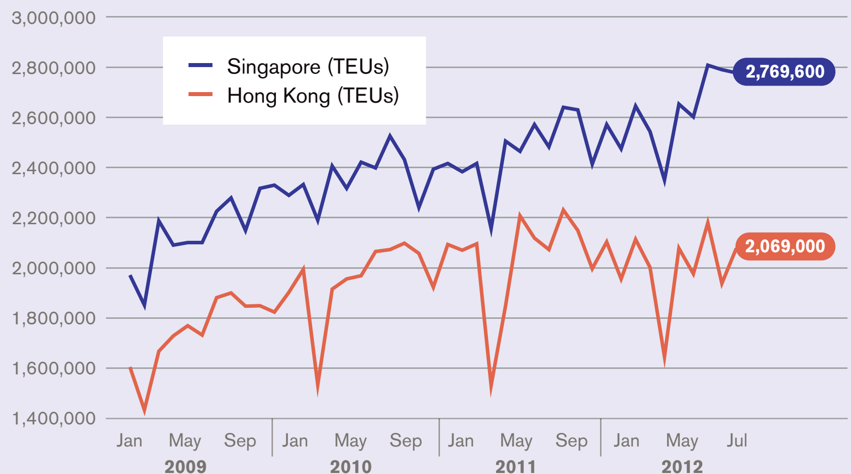
This year it was India—Asia's third largest economy—that gained the spotlight and added scrutiny of risk mitigation analysts. That nation's massive power outage this past summer should serve as "wake up call" for many multinationals, says analysts.

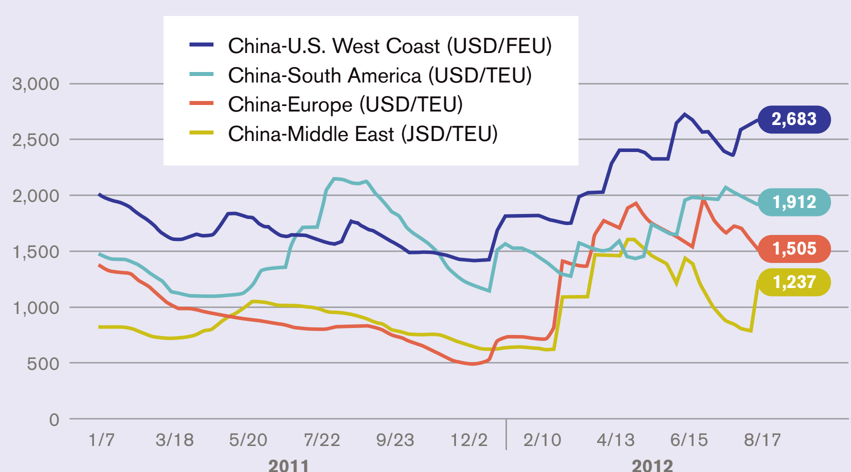
"The power grid failure can have a 'domino effect' on businesses, communications, and IT systems," says Linda Conrad, director of strategic business risk management for Zurich Services. "Furthermore, this will weaken supply chain infrastructures including all forms of transportation, which could have a major effect on multiple industries."

With emergency workers and energy professionals still searching for clues to India's electricity grid collapse, logistics managers should consider risk mitigation strategies now, says Conrad. "As we learned from natural disasters in Japan and Thailand, the ripple effect can be devastating on second- and third-tier suppliers," she says. "Companies that are over-exposed in India now might consider some supply chain alternatives for 2013."

Conrad notes that many countries including the U.S. outsource call centers and IT services to countries like India. She says an outage like this can cause serious damage to businesses that



rely on those services such as hotel chains and technical support.

### Rethinking outsourcing

It appears that the tide has begun to turn on the flow of manufacturing jobs from the U.S. to the Asia Pacific.

According to a new study from The Hackett Group, Inc., some companies are already reshoring a portion of their manufacturing capacity, and this trend is expected to reach a crucial tipping point over the next two to three years.

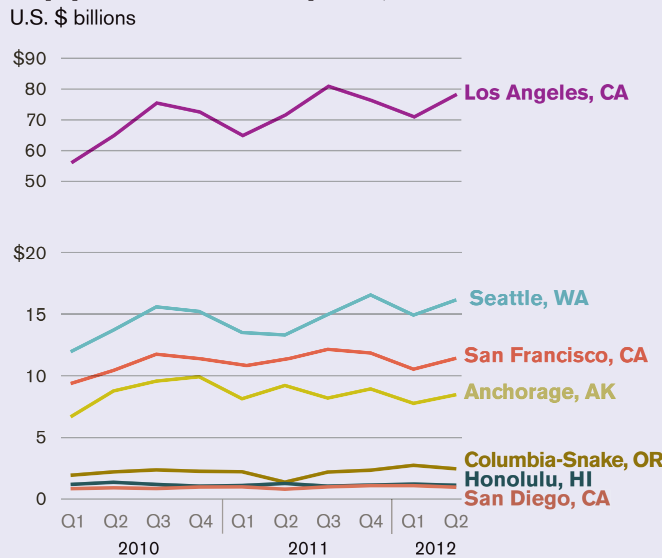
"The total landed cost gap between the two regions continues to shrink, driven in part by rising wage inflation in China and continued productivity improvements in the U.S.," says David P. Sievers, principal and strategy and operations leader for The Hackett Group.

At the moment, China remains a manufacturing powerhouse, with nearly 75 percent of the companies surveyed having some manufacturing capability in China for at least three years, either directly or through contract manufacturers. The Hackett Group estimates that Chinese manufactured exports to the U.S. currently support between 15 million and 20 million jobs in China.

But reshoring is expected to become more viable with each passing year, as the total landed cost gap of manufacturing offshore shrinks, say some analysts. The Hackett Group's research found that the cost gap between the U.S. and China has shrunk by nearly 50 percent over the past eight years, and is expected to stand at just 16 percent by 2013. This trend is not only driven by escalating labor costs, but also by rising fuel prices globally, which affects shipping costs.

"This is good news for the American worker as growth in the U.S. manufacturing sector keeps more high-paying jobs at home," says Sievers.

For Rosemary Coates, president of Blue Silk Consulting, some U.S. companies may simply be getting tired of exercising the diligence needed to start a business in China. "That doesn't mean shipping and transportation providers will not be needed in the Asia Pacfic, however," says Coates. "On the contrary, with greater inter-regional trade, U.S. shippers may be hedging their bets by doing business with several neighboring countries at once."




### Mixed forecast

Asia Pacific's rapid-growth markets (RGMs) started to slow sharply since the beginning of this year, but this will only be a "temporary blip," according to Ernst & Young's quarterly Rapid Growth Markets Forecast (RGMF). The analysts are particularly bullish on the recovery of Vietnam and Thailand.

"RGMs—particularly in Asia—have the necessary tools available to ease both fiscal and monetary policy allowing growth to resume towards the end of the year," says Carl Astorri, senior economic adviser to Ernst & Young's RGMF.

He says that RGMs are well placed to weather the major risks facing the global economy at the present time, given that they have the space to relax fiscal and monetary policy. "This has already happened in some RGMs—especially in India and China—and it's likely that there will be further easing of monetary policy in the months ahead, particularly if the global economy deteriorates further."

Analysts at Ti also forecast that the Asia Pacific contract logistics market will grow at a compound annual growth rate of 13.9 percent between now and 2015. Growth will be strongest in China and the market is expected to double in size by 2015.

"China will become the largest market in the region overtaking Japan, which will see the lowest level of growth," says Ti analyst Cathy Roberson. "However, the region remains susceptible to any deterioration in the global economy as exports and subsequently domestic demand would have a significant impact on the contract logistics industry."

The Association of Asia Pacific Airlines noted a slight decline of 0.8 percent compared to July 2011, while Asian ports continued to report mixed results with Hong Kong's twenty-foot equivalent units (TEUs) declining almost 7 percent, but Singapore reporting a 9 percent increase. The mixed port data may indicate increasing demand among the Southeastern Asian countries as foreign investment continues to be infused into this region.

While domestic demand in the region generally remained strong, external demand declined. Exports to Europe fell considerably, resulting in a decline in manufacturing activity and acted as a drag on growth within the region.

Zepol Corporation, a leading trade intelligence company, reports that U.S. exports to Asia have been ramping up, thereby benefitting a number of major seaports. But U.S. manufacturers are continuing to lose market share. At the same time, industry analysts note that Asian countries have negotiated more than 160 trade agreements among themselves, while the U.S. has signed only three with regional countries—Singapore, Australia, and most recently South Korea.

The Trans-Pacific Partnership Agreement currently under negotiation by nine countries may alter this scenario. Australia, New Zealand, Chile, Peru, Singapore, Malaysia, Vietnam, Brunei, and the U.S. are seeking to create a trade agreement that could be seen as a model within the Asia-Pacific region. If successful, even more new members may be added. Japan and China are likely to seek entry, too. ☐

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# NATURE'S BEST deploys best of both worlds

**In the midst of tremendous growth, one of the leading distributors of natural and organic products successfully reinvented its supply chain by leveraging a new voice-enabled WMS.**

BY **MAIDA NAPOLITANO**, CONTRIBUTING EDITOR

Warehouse management systems (WMS) and voice-directed solutions have independently changed the world of warehousing and distribution, driving up accuracy rates and increasing productivity. About a decade ago, providers of both technologies decided to forge a partnership, offering users a voice-integrated solution that combined the hands-free, eyes-free benefit of voice with the real-time processing and execution of a robust WMS.

Over the years, that partnership has grown stronger, with voice providers offering its WMS partners new and improved interface tools, reducing the time to implement voice-enabled flows in DC operations from weeks to mere days. "The latest interface solutions for voice create substantially more flexibility and speed to implement new applications," says Mike Miller, voice provider Vocollect's senior director of consulting services. "As many as five applications can be up and running within a 10-day time frame, allowing users to add voice to other areas of the warehouse and increase the speed by which they are able to do that."

In fact, a direct interface with voice is now part of the base offerings of many Tier 1 WMS providers. "The addition of voice-enabled workflows has afforded users the flexibility to run their operations via voice, RF, or a combination thereof," adds Adam Klein, product director for WMS provider Manhattan Associates. "With roughly 50 successful joint implementations across multiple industries and geographies, customers ultimately benefit from industry best practice and lessons learned from these joint projects."

For Nature's Best, a privately-held distributor of natural and organic products, this voice-WMS partnership was key to the transformation of its operation from a predominantly mechanized system with multiple conveyors to a voice-enabled, conventional system with nary a conveyor in sight.

It was a daunting task. "We are a family-valued organization in a big industry where customers demand on-time dispatch, fresh product, and perfect orders," says Brian McCarthy, senior vice president of operations at Nature's Best. "We basically threw out what we've been doing for the past 40 years and systematically reinvented our supply chain—while keeping it seamless to our customers."

In the midst of tremendous growth, the company successfully expanded its mission—and passion—to bring to market health and wellness to its customers through the natural and organic movement. In the next few pages we'll follow how Nature's Best overhauled its operation, opened two DCs, and deployed voice-enabled WMS solutions to execute a more accurate and productive supply chain.

### Organic takes off

Headquartered in Brea, Calif., Nature's Best distributes over 20,000 SKUs of certified organic, natural, and specialty products to independent retailer markets throughout the Western, Central, and Southern regions of the continental U.S., Hawaii, Alaska, and Asia.

Voice-directed picking of full cases using low-level double pallet jack in ambient area.

Photo courtesy of Nature's Best

The operation consists of three unique temperature areas (ambient, cooler, and freezer) with both each-pick and case-pick zones. In 2005, it was tied together with a largely accounting-based ERP system that had limited warehouse management functionality. Using wearable voice equipment that communicated via middleware to this ERP-based WMS, pickers would pick product from static single racks onto a mezzanine conveyor system. Conveyors would then transport and sort product at the shipping dock, where more workers would again "touch" the product by unloading cartons from the conveyor onto shipping pallets.

As the industry matured and the push for "natural and organic" became more mainstream, competition grew, interest in the product grew, and the company's SKU base also grew. "Every time we had to expand, the conveyor system just became too inflexible and capitalization for new mechanization was very expensive," says McCarthy. It was at that point that he and the Nature's Best logistics team knew they needed to explore more effective solutions.

## Reinventing the supply chain

With such rapid growth, there was an overall sense of urgency to find a supply chain solution that could increase efficiency and a distribution model that could be easily replicated in additional DC expansions.

After much thought, McCarthy and his team decided to purge all conveyors and opt for a more conventional "pick directly to pallet" approach in which voice would be an indispensable component.

Why pick to pallet with voice? "It fits our business model beautifully," explains McCarthy. "It's flexible, it's scalable, it's nimble, and it doesn't require massive amounts of training. I don't have to have five mechanics standing by in case a gear breaks." Manhattan's Klein adds that voice is especially ideal in the freezer area where pickers are physically constrained by heavy jackets and gloves, making it difficult to manage an RF device.

To implement this new methodology, the company first needed to deploy a new WMS. In 2005, the team began a

Photo courtesy of Nature's Best

**Voice-directed picking of eaches to totes in cooler area.**

rigorous selection process for a new WMS provider. They went on multiple site tours and attended educational exchanges, speaking to users with similar operations in the same industry.

After much due diligence, they narrowed it down to three major players before eventually choosing Manhattan's WMS software in early 2006. Along with a low cost of ownership, the base package could deliver almost everything the operation needed with minimal customization, while still providing the required direct interface to both voice and RF.

In 2006, after narrowing down candidate sites, McCarthy and his team selected Chino, Calif., as the site for the new facility. Construction on the new 410,000 square-foot DC began in 2007, with inventory being loaded in late 2007.

"Because Manhattan is a fully capable partner of ours, they did not need our assistance for integration or implementation of the voice solution," says Ed Dumas, Vocollect's senior strategic business consultant. Manhattan's Klein agreed and reported that aside from the addition of a few access points in the colder areas, implementation went off without a hitch. The operation was live in early 2008.

## Vehicle-mounted voice

For almost two years, the wearable voice terminals with tethered headsets consistently delivered on accuracy gains and significant labor savings—due to zero mispicks—at the Chino facility, resulting in a 12-month return on its voice investment.

In 2009, however, Vocollect approached the company to see if they would be interested in beta testing its new vehicle-mounted voice terminals, known as Vehicle Mount Talkman, equipped with Bluetooth wireless headsets.

For Nature's Best, this was a no-brainer. "Changing out batteries added seconds, even minutes, on our standards," says McCarthy. "That, multiplied with the total pickers, could cost hundreds, if not thousands of labor hours a year." Vehicle-mounted voice devices would now eliminate these issues because the terminal is mounted onto the pallet jack and draws its power from the jack.

"All we issue out now are the wireless Bluetooth headsets," notes McCarthy. According to Vocollect's Dumas, the wireless headsets keep users untethered, allowing a total freedom of movement of about 10 meters. In 2009, they rolled out vehicle-mounted voice terminals in both each- and case-pick zones for the ambient areas of the Chino DC.

## Organic operation

Nature's Best's supply chain operates with no room for error and delays. If retailers put in their orders by the cutoff time today, its trucks will deliver them to stores the very next day. Receiving is accomplished very early in the morning to allow for longer shipping windows; and by starting the shipping processes earlier, trucks can make it to as far as Seattle by the next morning.

A typical RF device is used to scan product in receiving, inventory control, put away, and replenishment. To pick, Nature's Best uses a low-level, double length pallet jack that allows the picker to pick from the floor to 10 feet, versus the conventional floor to 6 feet. "It gives us an additional 33 percent net pick face in the same pick bay, and it reduces travel from an aisle perspective because you can pick more SKUs per bay," says McCarthy.

It's also equipped to handle two pallets at a time, allowing pickers to traverse the warehouse one time, yet pick for two pallets. At each pick location, pickers read back a check digit on the location label to confirm that they are at the correct location and confirm that they put the product on the correct pallet by reading the check digit on one of the two pallets.

Each-picks are picked first to totes. Case pickers then put the totes onto their pallet jack and continue to pick the rest of the lines for those pallets. Pickers then transport completed pallets directly to the dock.

**Benefits came naturally**

Over the years, the company has been enjoying the benefits of its voice-enabled WMS solution. Although accuracy rates were already above 98 percent, the solution raised the bar further by an additional six-tenths of a percentage point.

> **"We basically threw out what we've been doing for the past 40 years and systematically reinvented our supply chain—while keeping it seamless to our customers."**
>
> *— Brian McCarthy, Nature's Best*

The vehicle-mounted devices saved the company over 1,400 labor hours and thousands of dollars in annual maintenance and asset costs. And with a hands-free, eyes-free solution, the company experiences lower accident rates and has reduced training cycle times by about 50 percent.

With the new WMS and conveyor-free picking methodology, the number of "touches" on a product has reduced dramatically, by about 75 percent. At the same time, inventory accuracy increased 14 percent, while also improving out of stocks. Slotting optimization also improved space utilization, maximizing the cube of the storage modules.

In anticipation of additional growth, Nature's Best continued to reinvent its supply chain by opening a second 308,000 square-foot facility in Flower Mound, Texas, last year. From design to "go live" it took just nine months. And as every new distribution center comes online, McCarthy anticipates forging ahead, copying and pasting the same voice-enabled WMS and incorporating lessons learned from the previous DC. ☐


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[1] Data as of 7/31/12 [2] Fiscal Year 2011 – 2012

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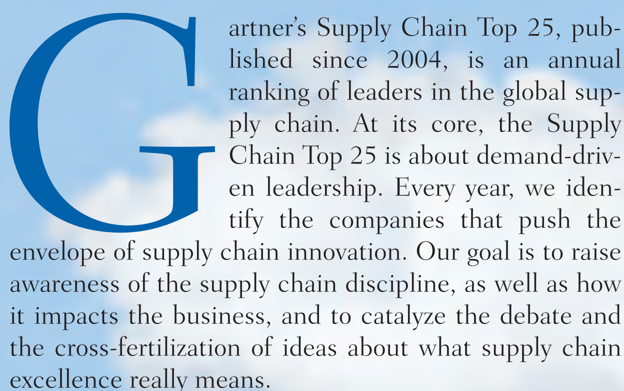
# The supply chain TOP 25
# Raising the Bar

BY DEBRA HOFMAN AND STAN ARONOW, GARTNER, INC.

**The 2012 ranking of supply chain leaders from Gartner includes a broad mix of global companies—a few new to the list, but most having recorded multiple appearances. These leaders share certain characteristics that drive day-to-day performance while solidifying the foundation for future growth. Their standout performance is raising the supply chain leadership bar for companies everywhere.**

Gartner's Supply Chain Top 25, published since 2004, is an annual ranking of leaders in the global supply chain. At its core, the Supply Chain Top 25 is about demand-driven leadership. Every year, we identify the companies that push the envelope of supply chain innovation. Our goal is to raise awareness of the supply chain discipline, as well as how it impacts the business, and to catalyze the debate and the cross-fertilization of ideas about what supply chain excellence really means.



### What Is the definition of excellence?

Our methodology, detailed below, is based on a composite score for each company that is made up of a set of financials combined with an opinion component, providing a balance between objective and subjective components. In completing their ballots, voters are asked to identify those companies they believe are furthest along the journey toward the demand-driven ideal, as defined in Gartner research and on the voting website.

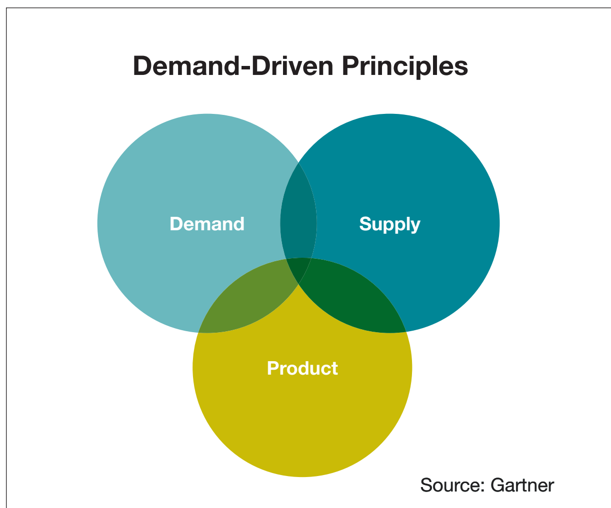
What does it mean to be demand-driven? The chart, on page 56 captures the organizational ideal of demand-driven principles as applied to the global supply chain. This model has three overlapping areas of responsibility:

- **Supply management**—Planning, sourcing, manufacturing, logistics.
- **Demand management**—Marketing, sales, and service.
- **Product management**—R&D, engineering, and product development.

Excellence is a matter of visibility, communication, and reliable processes that link all three of these functional areas together. When these processes work together, the business can respond quickly and efficiently to opportunities arising from market or customer demand. Defining characteristics of supply chains built to this design include the ability to manage demand rather than just respond to it, a networked rather than linear approach to global supply, and the ability to embed innovation in operations rather than keep it isolated in the laboratory. The demand-driven model is inherently circular and self-renewing, unlike the push supply chains of our factory-centric industrial past.

### Inside the numbers

In the 2012 ranking, the top five contenders include three perennials and two relative newcomers. (See table on page 57 for the complete rankings.) First is Apple, maintaining its No. 1 position despite some bumps this year, using first-to-market advantage, scale and brand to wield supply chain as a competitive weapon. Already a stellar performer on the financial metrics we use for the ranking and well-respected in the voting portion of the methodology, Apple astoundingly raised the bar even further,




getting to a near-perfect score.

Both Dell and Procter & Gamble have been in the top 5 every year of the ranking. Dell, having paved the way with its configure-to-order model, has transformed itself and developed a sophisticated go-to-market strategy that tailors supply chains by segment. Procter & Gamble, an iconic supply chain thought leader, has an unparalleled ability to orchestrate demand and connect the supply chain to the shelf and its customers' moments of truth. P&G continues to push the envelope of innovation and performance.

**The companies populating our Supply Chain Top 25 ranking are an impressive group and all have some best practice aspect of their supply chain operations that is applicable to the rest of the community of practice.**

Amazon and McDonald's were both new to the ranking in 2010 and have moved steadily up since then. With a three-year weighted average revenue growth approaching 40 percent, Amazon delivers consistently reliable product supply to its shoppers—no small feat given the range of products it offers, the complexity of its network, and its continued expansion into new channels and services. McDonald's, back to double digit growth this year, gets a lot of respect from peers for its ability to deliver growth in same-store profitability while managing a more complex product portfolio driven by its McCafe line.

Movers and shakers in the middle of the ranking include Unilever (10), Intel (7), and Nike (14), three companies that have been steadily rising on the list and leading the way for others in their global supply chain transformations with impressive results. Coca-Cola, known for its "last mile" distribution prowess, returns at No. 6 with strong peer recognition and ROA—even while it navigates the integration of its bottlers in North America. Cisco returns at No. 8, setting the pace with a robust risk management program and collaboration up and downstream in its value chain. Ranked ninth, Walmart remains a mainstay. And despite some challenges in the past year in Mexico, the company continues to get a lot of respect from peer voters for its contributions to supply chain best practices over the years.

Colgate rises to No. 11 this year on consistently industry-leading, double-digit return on assets and a strong governance model. Long a recognized leader in direct store delivery, PepsiCo (12) is collaborating with retail partners to reduce out-of-stocks at the shelf and increase the visibility and accuracy of its demand signal. Samsung (13), well known for its advanced S&OP process, continues with strong growth and profitability in a tough market. Inditex, the European-based retailer best known for its Zara brand and the tight integration between product design and supply chain, returns for the third time to the ranking at No. 15.

Rounding out the list in the 16-25 section we see a combination of newcomers, the newly-returning, and old-timers who continue to lead the way in supply chain. We're excited to welcome two heavy industrials among the newcomers: Caterpillar (20), an early leader in the concept of segmentation with its well-known "lane strategy," and Cummins (23) a major player in the engine and power generation markets recognized for its best-in-class parts and service network. Leading industrials are traditionally strong in upstream supply management, including the agility required to profitably balance their long and complex supply chains against volatile demand. We look forward to seeing them share best practices with the supply chain community through the Top 25.

Two remaining newcomers come from the consumer and retail sectors. H&M, the successful Swedish retail apparel group, joins the list for the first time this year at No. 17, with a consistently high-flying ROA on top of a proprietary distribution network of centrally controlled stores. Kimberly Clark, joining at No. 25, has brought an innovative approach to logistics partnerships to North America and is now focusing on continued improvements in on-shelf availability and predictive demand planning.

Johnson & Johnson (22), the only life sciences company on the list, returns with a compelling vision for an ambitious supply chain transformation program.

## The Gartner Supply Chain Top 25 for 2012

| Rank | Company | Peer Opinion[1] (173 voters) (25%) | Gartner Opinion[1] (37 voters) (25%) | Three-Year Weighted ROA[2] (25%) | Inventory Turns[3] (15%) | Three-Year Weighted Revenue Growth[4] (10%) | Composite Score[5] |
|---|---|---|---|---|---|---|---|
| 1 | Apple | 3241 | 651 | 20.2% | 74.1 | 51.5% | 9.69 |
| 2 | Amazon | 2713 | 435 | 4.4% | 10.0 | 37.7% | 5.40 |
| 3 | McDonald's | 1121 | 283 | 16.0% | 142.4 | 7.2% | 5.37 |
| 4 | Dell | 2131 | 546 | 6.8% | 35.6 | 2.7% | 5.30 |
| 5 | P&G | 1940 | 622 | 9.2% | 5.5 | 2.5% | 5.05 |
| 6 | The Coca-Cola Company | 1818 | 372 | 13.0% | 5.8 | 19.7% | 4.85 |
| 7 | Intel | 1006 | 406 | 16.2% | 5.0 | 17.8% | 4.63 |
| 8 | Cisco Systems | 1243 | 582 | 8.4% | 11.0 | 5.5% | 4.46 |
| 9 | Wal-Mart Stores | 1874 | 410 | 8.8% | 8.3 | 4.2% | 4.24 |
| 10 | Unilever | 1043 | 534 | 10.2% | 6.0 | 5.5% | 4.21 |
| 11 | Colgate-Palmolive | 697 | 342 | 19.6% | 5.3 | 4.2% | 4.17 |
| 12 | PepsiCo | 917 | 427 | 10.2% | 7.7 | 17.6% | 4.05 |
| 13 | Samsung | 1014 | 291 | 9.4% | 17.1 | 15.9% | 3.67 |
| 14 | Nike | 1073 | 278 | 13.3% | 4.6 | 5.2% | 3.55 |
| 15 | Inditex | 397 | 225 | 17.3% | 4.0 | 10.3% | 3.37 |
| 16 | Starbucks | 940 | 191 | 14.3% | 6.2 | 6.3% | 3.28 |
| 17 | H&M | 385 | 24 | 28.6% | 3.6 | 5.7% | 3.09 |
| 18 | Nestle | 651 | 196 | 15.9% | 4.9 | -9.5% | 3.06 |
| 19 | Research In Motion (RIM) | 254 | 104 | 17.0% | 11.3 | 13.3% | 3.00 |
| 20 | Caterpillar | 876 | 226 | 4.6% | 3.4 | 22.7% | 2.67 |
| 21 | 3M | 856 | 70 | 13.2% | 4.4 | 8.4% | 2.65 |
| 22 | Johnson & Johnson | 798 | 176 | 10.7% | 3.2 | 2.1% | 2.55 |
| 23 | Cummins | 142 | 52 | 11.9% | 6.0 | 20.0% | 2.22 |
| 24 | HP | 598 | 192 | 6.2% | 13.7 | 2.8% | 2.22 |
| 25 | Kimberly-Clark | 463 | 182 | 8.9% | 6.1 | 3.5% | 2.21 |

1. Gartner Opinion and Peer Opinion: Based on each panel's forced-rank ordering against the definition of "DDVN orchestrator"
2. ROA: ((2011 net income / 2011 total assets) * 50%) + ((2010 net income / 2010 total assets) * 30%) + ((2009 net income / 2009 total assets) * 20%)
3. Inventory Turns: 2011 cost of goods sold / 2011 quarterly average inventory
4. Revenue Growth: ((change in revenue 2011-2010) * 50%) + ((change in revenue 2010-2009) * 30%) + ((change in revenue 2009-2008) * 20%)
5. Composite Score: (Peer Opinion * 25%) + (Gartner Research Opinion * 25%) + (ROA * 25%) + (Inventory Turns * 15%) + (Revenue Growth * 10%)

2011 data used where available. Where unavailable, latest available full-year data used. All raw data normalized to a 10-point scale prior to composite calculation.

Source: Gartner (May 2012)

Hewlett-Packard (24), another perennial, runs one of the most complex supply chains in high tech, and is reaping the cost benefits from being the first PC OEM to move from coastal to Western China. Research in Motion (RIM), the maker of BlackBerry mobile devices, fell to No. 19 this year, after a difficult 2011. Given that our methodology relies on financial metrics for 50 percent of each company's score, this fall is not a surprise. Yet RIM also took a hit in the voting portion of the score, despite its impressive Value Chain Express strategy.

New to the ranking last year and coming back strongly this year are Starbucks (16), with a return to growth and a focus on supply chain talent; Nestle (18), focusing on supplier development and raw material sourcing strategies; and 3M (21), best known for product innovation and returning to double-digit growth and ROA.

The companies populating our Supply Chain Top 25 ranking this year are an impressive group and all have some best practice aspect of their supply chain operations that is applicable to the rest of the community of practice. In addition to each supply chain's unique value proposition, there are commonalities that we see across

them in terms of underlying characteristics and trends on where they are focusing their transformation efforts.

### Characteristics of leaders

At Gartner, we've been researching and writing about the importance of being demand-driven since 2003. Since that time, we've published hundreds of pieces on the transformation to a demand-driven value network. We continue to research these concepts and advise companies as they recognize the value of becoming a demand-driven organization.

**Leaders understand the balance between operational excellence and innovation excellence.**

While every supply chain organization develops unique strategies and focuses on differentiated initiatives, we've found in our research that there are certain key characteristics that define the leaders. We have talked about some of these in past articles, and they remain important foundational elements to being demand-driven. But they are not easy to attain, and what differentiates the leaders in the Top 25 is that they are further along the journey than others. Demand-driven leaders go beyond best practices to build a foundation for growth and continual learning that constitutes an engine for superior competition.

These are among the key characteristics of the leaders we've observed:

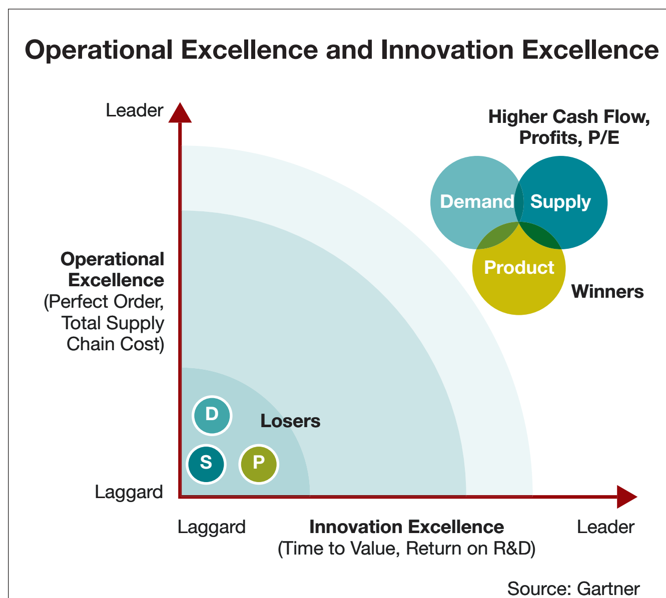
***Outside-in focus.*** The concept of developing and maintaining an outside-in focus is almost synonymous with the phrase "demand driven." The galvanizing principle here is to design the supply chain starting with the customer experience, and work back upstream through the supply chain. While the concept is relatively simple, its implementation is anything but. It requires a fundamental re-orientation not only in mindset, but in the way groups are measured and in the way networks and business processes are designed. An outside-in focus is not synonymous with a customer focus: companies can be—and often are—focused on the customer from the inside-out, as witnessed in service metrics such as on-time shipments or fill rates.

***Embedded innovation in supply chain.*** In our Demand Driven Value Network model, first published in 2004, the inclusion of a "product" circle to accompany supply and demand carried an explicit message about the importance of connecting traditional notions of supply chain with the new product development and launch process. The point is to ensure that new products are brought to market that satisfy the total customer experience profitably and effectively. Leaders understand the balance between operational excellence and innovation excellence. Supply chain considerations must be taken into account early on in the new product development and launch process. And the fact that new products require different supply chain strategies than existing products must be taken into account in the supply chain design process.

***Extended supply chains as networks.*** Leaders take the notion of the organization as value chain one step further, designing and managing their supply chains as the extended networks of trading partners—customers' customers, suppliers' suppliers, logistics providers, contract manufacturers, third-party warehouses, etc. —that they really are. What they're doing is orchestrating a set of activities across the network, aligning goals based on each player's value proposition that will result in the desired outcome from that network—the profitable delivery of final product to a customer.

***Excellence addicts.*** All companies measure. What most still struggle with is how to focus on the metrics that matter—and even more importantly, how to interpret and then act on those metrics to achieve a desired outcome, namely to improve operational results. From our years of research in this area, we find that most organizations are, in fact, awash in supply chain metrics. They find themselves so caught up in the tactical aspects of measuring—defining, collecting, sorting, translating, rationalizing differenc-

**Operational Excellence and Innovation Excellence**




Source: Gartner

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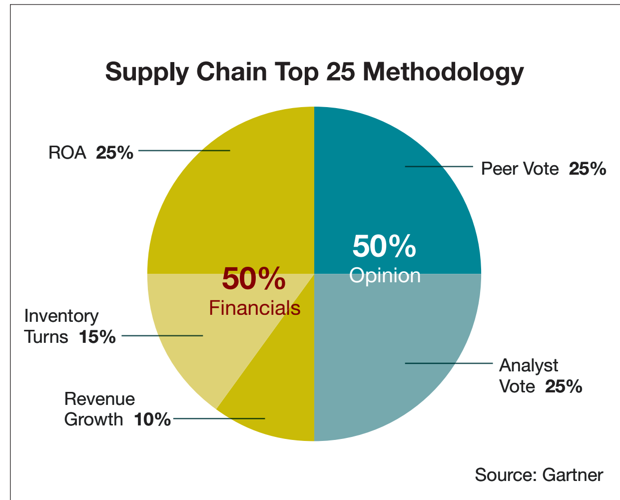
es—that it becomes an end in itself, and suddenly they realize they've lost sight of the bigger picture.

The best companies—the ones we call "excellence addicts"—have a very different approach to metrics. First, they know what to measure. But they also understand that the whole is greater than the sum of the parts, that it is, in fact, a system, and that the purpose of the metrics is to make the entire system work better. When individuals in these companies get together to discuss and interpret a set of numbers, the conversation isn't about whose fault something is; it's about where things broke down in the system, how to fix them, and then how to take it to the next level. They are ruthless in constantly examining their own processes to push the envelope of performance.




## Three trends evident

Each year, our analysts talk to and research the supply chains of hundreds of companies. Through these discussions, we note the trends: What are the leaders focusing on, where are they investing time and effort, and what can be applied broadly? Overall, we've seen companies continuing to invest in resources and assets for growth, a trend that started last year and is continuing. The global economic recovery has been uneven and halting in some cases, but, companies' outlooks are increasingly expansionary in terms of the markets they serve and the products they offer.

There are three trends to note:

***1. Supply chain risk management and resilience.*** Despite investing for growth, companies also know that the potential for disruption at anytime remains real. Many are looking to improve the resiliency of their supply chains to mitigate this risk. In turbulent times, and in the face of growing complexity and risk, leading companies need sustainable, resilient supply chains that support profitability and drive industry leadership. This requires managers to re-evaluate the layout of their supply network designs to make them more resilient to future catastrophes. It may also include designing products that allow more flexibility in supply and manufacturing, increasing long-term alternative sources of raw materials and logistics capabilities, and expanding outsourced manufacturing capacity. Leading companies such as Intel, P&G and Unilever improved multitier supply chain visibility and advanced network management capabilities to be agile in the face of disruptions. Overall, leaders have remained focused throughout the past year on building resiliency into their global supply chains. We see this continuing to be a highly valued supply chain characteristic.

***2. Simplification.*** Many companies tell us that they have exhausted easily gained efficiencies within their existing supply networks and product portfolios. Further improvement will require structural changes to streamline the flow of supply, and eliminate less profitable product and portfolio complexity. Supply chain leaders are adopting complexity optimization strategies to eliminate infrequently used product features, service offerings, suppliers and distribution network capacity that does not add sufficient value to customers. Supply chain segmentation has emerged as a critical enabler of supply chain simplification, and while this is a concept that has been around for a few years, leaders are aggressively adopting it to reduce complexity.

***3. A shift toward multi-local operations.*** Manufacturers and retailers have long sought ways to balance the trade-off in their supply network designs between global economies of scale and the demand for local responsiveness. Leading companies are reassessing their sourcing and manufacturing networks, and rebalancing their supply network strategies in favor of multi-local design, supply and support. More specifically, they are shifting from a centralized model, where these functions support global markets, to a regionalized approach, where capabilities are placed locally, but architected globally.

## Top 25 methodology

One of the reasons this list has worked over the years is its transparent methodology. From the beginning we have sought direct feedback from supply chain professionals and incorporated suggested changes into the methodology where possible. As a result, the list reflects not only what Gartner analysts think about supply chain leadership, but what the community as a whole respects.

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

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

We derive a master list of companies from a combination of the Fortune Global 500 and the Forbes Global 2000, with a revenue cutoff of $10 billion. We then pare the combined list down to the manufacturing, retail and distribution sectors, thus eliminating certain industries, such as financial services and insurance, which do not have physical supply chains.

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

The weighting within the financials is the same as last year. Prior to 2010, inventory was weighted at 25 percent. We had considered dropping it altogether. As much as inventory is a time-honored supply chain metric—one of the few "real" supply chain metrics on a company's balance sheet—there have always been issues with it, not the least of which is that higher turns don't always point to the better supply chain. At the same time, it's a metric that's widely known and understood, both inside and outside the supply chain community. Despite the issues, it's not entirely invalid as an indicator, particularly if combined with other metrics. Therefore, we decided to leave inventory in, but reduce its weighting.

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

The shift to three-year averages was put in place to accomplish two goals. The first was to smooth the spikes and valleys in annual metrics, which often aren't truly reflective of supply chain health, that result from events such as acquisitions or divestitures. It also accomplishes a second, equally important goal: to better capture the lag between when a supply chain initiative is put in place (a network redesign or a new demand planning and forecasting system, for example) and when the impact can be expected to show up in financial statement metrics, such as ROA and growth.

Inventory, on the other hand, is a metric that's much closer to supply chain activity, and we expect it to reflect initiatives within the same year. The reason we moved to a quarterly average was to get a better picture of actual inventory holdings throughout the year, rather than the snapshot, end-of-year view provided on the balance sheet in a company's annual report.

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

P&G, an iconic supply chain thought leader, has an unparalleled ability to orchestrate demand and connect the supply chain to the shelf and its customers' moments of truth.

The goal of the peer panel is to draw on the extensive knowledge of the professionals that, as customers and/or suppliers, interact and have direct experience with the companies being ranked. Any supply chain professional working for a manufacturer or retailer is eligible to be on the panel, and only one panelist per company is accepted. Excluded from the panel are consultants, technology vendors, and people who don't work in supply chain roles (such as public relations, marketing, or finance).

We accepted 246 applicants for the peer panel this year, with 173 completing the voting process. Participants came from the most senior levels of the supply chain organization across a broad range of industries. There were 37 Gartner panelists across industry and functional specialties, each of whom drew on his or her primary field research and continuous work with companies.

Organizations must receive votes from both panels to be included in the ranking. Therefore, a company that had a composite score fall within the Supply Chain Top 25 solely based on the financial metrics would not be included in the ranking.

The regional breakdown of voters continued to be a particular emphasis for us, and we made significant progress this year. In the past, North American voters made up 80 percent of the total, despite many efforts

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to get a more even regional distribution. Last year, we made some inroads toward increasing the percentage of voters from Europe and Asia/Pacific. This year, the improvement was even more robust, providing a more balanced global view of supply chain leadership, with 43 percent from North America, 33 percent from Europe, and 24 percent from Asia/Pacific. We expect this trend to continue towards fully balanced regional representation.

The goal of the Supply Chain Top 25 is to help raise the bar for leadership in the global supply chain.

**Polling procedure**: Peer panel polling was conducted in April 2012 via a Web-based, structured voting process identical to previous years. Panelists are taken through a four-page system to get to their final selection of leaders that come closest to the demand-driven ideal, which is provided in the instructions on the voting website for the convenience of the voters.

Here's a breakdown of the voting system:

• The first page provides instructions and a description of the demand-driven ideal.

• The second page asks for demographic information.

• The third page provides panelists with a complete list of the companies to be considered. We ask them to choose 30 to 50 that, in their opinion, most closely fit the demand-driven ideal.

• After the subset of leaders is chosen, the form refreshes, bringing just the chosen companies to a list. Panelists are then asked to force-rank the companies from No. 1 to No. 25, with No. 1 being the company most closely fitting the ideal.

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

By definition, each person's expertise is deep in some areas and limited in others. Despite that, panelists aren't expected to conduct external research to place their votes. The polling system is designed to accommodate differences in knowledge, relying on what author James Surowiecki calls the "wisdom of crowds" to provide the mechanism that taps into each person's core kernel of knowledge and aggregates it into a larger whole.

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

### Raising the leadership bar

The goal of the Supply Chain Top 25 is to help raise the bar for leadership in the global supply chain. Companies that move fastest into global markets with innovative products—coupled with supply chains that are customer-driven, adaptable to change and resilient to disruption—will be the winners. We look forward to continuing to share the lessons learned, providing a platform for informed and provocative debate, and helping the supply chain community provide vital contributions to the global economy. □

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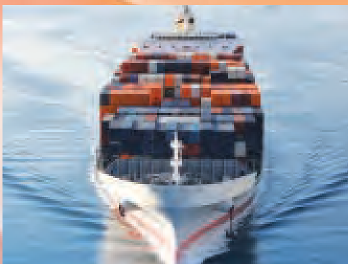
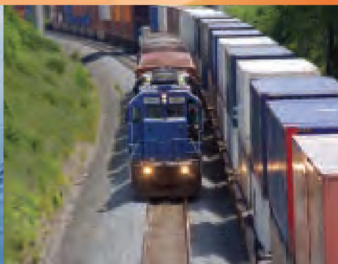

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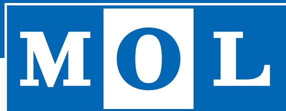
**SPECIAL REPORT:**
**Top 25 Freight Forwarders**

A SPECIAL SUPPLEMENT TO:
Logistics MANAGEMENT

# THRIVING in the COMPLEXITY

By Patrick Burnson
Executive Editor

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## GLOBAL

### OPERATIONS

| KPI | TARGET | APR.–JUN. 2012 |
|---|---|---|
| Vessel On-Time Performance (East-West, North-South, Intra Asia) | 100% Asia-U.S. West Coast | 85% |
| | 100% Asia-U.S. East Coast | 93% |
| | 100% Transatlantic | 100% |
| | 100% Asia-Europe | 96% |
| | 100% Asia-Mediterranean | 66% |
| | 100% Asia-ECSA (CSW) | 77% |
| | 100% Asia-Mexico/WCSA (CWL) | 100% |
| | 100% Intra Asia (CHS, HS3, CBE, CBW) | 99% |

### SAFETY

| KPI | TARGET | JAN.–JUL. 2012 |
|---|---|---|
| Long-Time Operational Stoppage | 0 | 4 |

### ENVIRONMENTAL

| KPI | TARGET** | FY2011 vs. FY2010 |
|---|---|---|
| Carbon Dioxide ($CO_2$) Emissions per TEU-Mile | ↓1% Annually | ↓2.1% |
| Nitrogen Oxide (NOx) Emissions per TEU-Mile | ↓1% Annually | ↓2.1% |
| Sulfur Oxide (SOx) Emissions per TEU-Mile | ↓1% Annually | ↑2.6% |

## REGIONAL

### OPERATIONS

| KPI | TARGET | JUL. 2012 |
|---|---|---|
| In-Terminal Truck Turn Time | <30 min. Jacksonville / Los Angeles / Oakland | 17.0 / 24.7 / 21.0 min. |
| Missed Vessel Connections Due to Rail Errors | Less Than 1% for U.S. to Asia Export | 1.3% |

| KPI | TARGET | APR.–JUN. 2012 |
|---|---|---|
| Intermodal Transit On-Time Performance | 90% Asia Origin to U.S. Inland Destination | 88% |

### CUSTOMER SERVICE

| KPI | TARGET | JUL. 2012 |
|---|---|---|
| Lost Calls | Less Than 2% | 1.39% |
| Phone Wait Time | Less Than 20 seconds | 15 seconds |
| Export B/L Documentation Completion Rate | 98% Complete 24-hrs After Vessel ETD | 99.00% |
| Documentation Accuracy | 99.50% U.S. to Asia / Asia to U.S. | 99.51% / 97.50% |

### EDI

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

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*Global KPIs are international; regional KPIs are North American.
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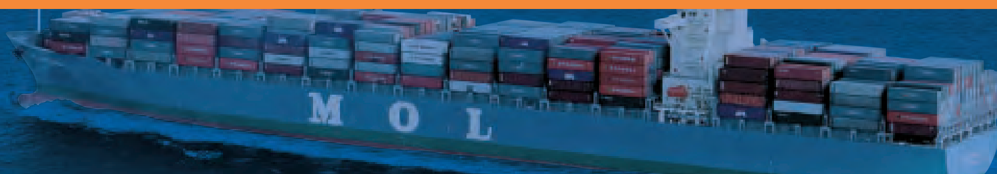


SPECIAL REPORT: Top 25 Freight Forwarders

**With the Eurozone in full free fall, the continent's forwarding giants continue to dominate the global market. This disconnect can be explained, say analysts, by the fact that these leaders adhere to one fundamental business practice: building upon established worldwide networks.**

When Deutsche Post DHL recently unveiled details about the company's plans to build on its significant presence in the Asia-Pacific region and to further expand its competitive position in China, analysts were hardly caught off guard.

"DHL Global Forwarding grew through the acquisition of highly respected companies like Danzas—and both companies are legacy branches in Europe and Asia," says Dick Armstrong, chairman of the supply chain and third party logistics consultancy Armstrong & Associates. And for the second year in a row, DHL Global Forwarding shows up first in Armstrong & Associates' list of top 25 freight forwarders by revenue.

According to Armstrong, DHL has been able to keep its lead due to its broad scope of services that allows its customers to more easily adjust to vendor supply chains. "Contract logistics revenues were 52 percent of its gross logistics revenues for 2011," says Armstrong. "Contract logistics revenues for Exel [part of DHL's supply chain operations] are $4.1 billion with 456 warehouses and 111 million square feet of space. Exel has operations of virtually every kind on every continent."

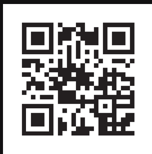
Armstrong adds that in combination with its strong ocean freight services, the company is well placed to capitalize on the expected acceleration of transport and trade of products within Asia, as well as between Asia and other emerging markets in the Middle East, Africa, and Latin America.

"The Asia-Pacific region already accounts for almost 20 percent of the DHL's revenues today," says CEO Frank Appel, adding that by 2017, revenues generated in Asia Pacific should contribute around one-third to the DHL top line. "We are well positioned for prolonged profitable growth across the region," says Appel.

## Measured but consistent growth

Last year at this time, forwarders were forecasted to move quickly to take advantage of the burgeoning economic recovery. Some big players took a more measured approach, however.

UPS Supply Chain Solutions, for example, dropped from 5th to 10th place this year. Nonetheless, says Armstrong, UPS is the "800-pound gorilla" of global supply chain services. "It's important to remember that UPS does not break out its numbers along the pure 'freight forwarding' silo," he says. "They are a highly diversified 3PL, and the company has redesigned its supply chain operations to concentrate on high-tech, medical, and some retail/consumer goods customers—operations that are well integrated between value-added and package delivery services," adds Armstrong. "Revenues per employee run $175,000 to $180,000."



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## Top 25 Global Freight Forwarders

| A&A Rank | Provider | Net Revenue (US$ Millions) | Gross Revenue (US$ Millions) | Ocean TEUs | Airfreight Metric Tons | A&A Provider Information and Editorial Comments |
|---|---|---|---|---|---|---|
| 1 | DHL Supply Chain & Global Forwarding | 20,900 | 32,160 | 2,724,000 | 2,447,000 | DHL Supply Chain (DSC) is by far the world's largest 3PL and contract logistician. Contract logistics revenues were 52% of its gross logistics revenues for 2011. |
| 2 | Kuehne + Nagel | 6,676 | 22,181 | 3,274,000 | 1,073,000 | Kuehne + Nagel is one of the world's leading logistics companies providing logistics services from more than 1,000 locations in over 100 countries. Its strong market position lies in the seafreight, airfreight, contract logistics, and overland businesses, with a clear focus on providing IT-based integrated logistics solutions. |
| 3 | DB Schenker Logistics | 6,315 | 20,704 | 1,763,000 | 1,149,000 | DB Schenker made significant purchases from 2006 to 2008 to double the size of its operations. The purchases include BAX in 2006, Spain-Tir in 2007 and Romtrans in 2008. Romtrans was the largest forwarding company in Romania with $140 million in revenue and 1,500 employees. |
| 4 | Panalpina | 1,672 | 7,358 | 1,310,000 | 848,000 | Panalpina is a top 10 freight forwarder. It handles more than 1.3 million TEUs per year, more than 800,000 metric tons of airfreight and about 1 million tons of non-containerized break bulk cargo. It has 242 sub-contracted warehouses in 150 countries and is consistently profitable. The life blood of Panalpina is its ongoing financial stability and transparency. |
| 5 | CEVA Logistics | 6,310 | 9,602 | 783,378 | 550,000 | CEVA Logistics is one of the world's largest logistics companies and has been the world's largest automotive 3PL. It has a heavy emphasis on manufacturing and is expanding operations in other sectors. CEVA's industry sectors are Automotive 28%, Consumer/Retail 23%, Technology 22%, Industrial 16%, Energy 6% and Other 5%. CEVA operates in over 170 countries. |
| 6 | Nippon Express | 1,625 | 20,313 | 706,441 | 656,797 | Nippon Express covers Japan. It's Japan's largest domestic transportation company and its Pelican Express operation is the largest package operation in Japan. About 90% of Nippon's revenues are from domestic Japanese operations. |
| 7 | Sinotrans | 1,183 | 6,769 | 7,979,000 | 397,200 | For many years, Sinotrans Limited was completely protected by People's Republic of China law from direct foreign competition until recently. In some ways it is a very transparent company. About 80% of revenues are derived from freight forwarding. Sinotrans handled nearly 8 million TEUs of seafreight, 397,200 metric tons of airfreight and 14.6 million international express documents/packages in 2011. |
| 8 | Expeditors International of Washington | 1,896 | 6,150 | 892,682 | 786,620 | Expeditors is the largest, best run North American-based freight forwarder. Net revenues have reached $1.9 billion and produce a gross margin of 31%. 2009 was a difficult year, but revenues came back in 2010-11 exceeding 2008 levels. Net revenues are 37% airfreight, 40% customs brokerage and 23% ocean freight. |
| 9 | SDV/Bolloré Logistics | 1,357 | 6,785 | 750,000 | 520,000 | Bolloré's logistics business consists of SDV, a quintessentially French transportation and freight forwarding company, which generates 57% of revenue and Bolloré Africa Logistics, a major stevedoring company in Africa, which generates the remainder of logistics revenue. |
| 10 | UPS Supply Chain Solutions | 6,545 | 8,923 | 500,000 | 862,000 | UPS is an 800 lb. gorilla of global supply chain services. Revenues for contract logistics were $2 billion in 2011. Net freight forwarding/NVOCC/customs brokerage revenues were $4.5 billion. UPS SCS had a profitable year in 2011. UPS SCS contributes $2 billion+ per year in package business to its big brother. UPS handles about 500,000 TEUs per year as a freight forwarder. |
| 11 | DSV | 1,835 | 8,170 | 727,861 | 262,362 | DSV is primarily a non-asset operation. EBITS are 5.6%. Nearly half of its operations are European over-the-road, its Air & Sea division makes up about 41% and Solutions (logistics) accounts for the rest. The DSV Group is Denmark's second largest supplier of transport and logistics services. |
| 12 | Kintetsu World Express | 546 | 3,321 | 550,377 | 1,131,444 | Kintetsu World Express' (KWE) largest operations within its global network are in Japan and China, with over 100 offices located in each of those countries. Nearly 50% of its business is airfreight based. Ocean freight and logistics account for 41%. |
| 13 | Agility | 1,357 | 4,410 | 550,000 | 490,000 | Agility has expanded its business dramatically from its warehousing base in Kuwait. It is a Middle Eastern leader in integrated supply chain solutions and is organized into three major business groups. Global Integrated Logistics (GIL) is the largest generating approximately 65% of Agility's revenues and having more than 14,000 employees. The majority of GIL's revenues (just under 90%) are generated outside of the U.S. |

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

*Continued on Page 72S*

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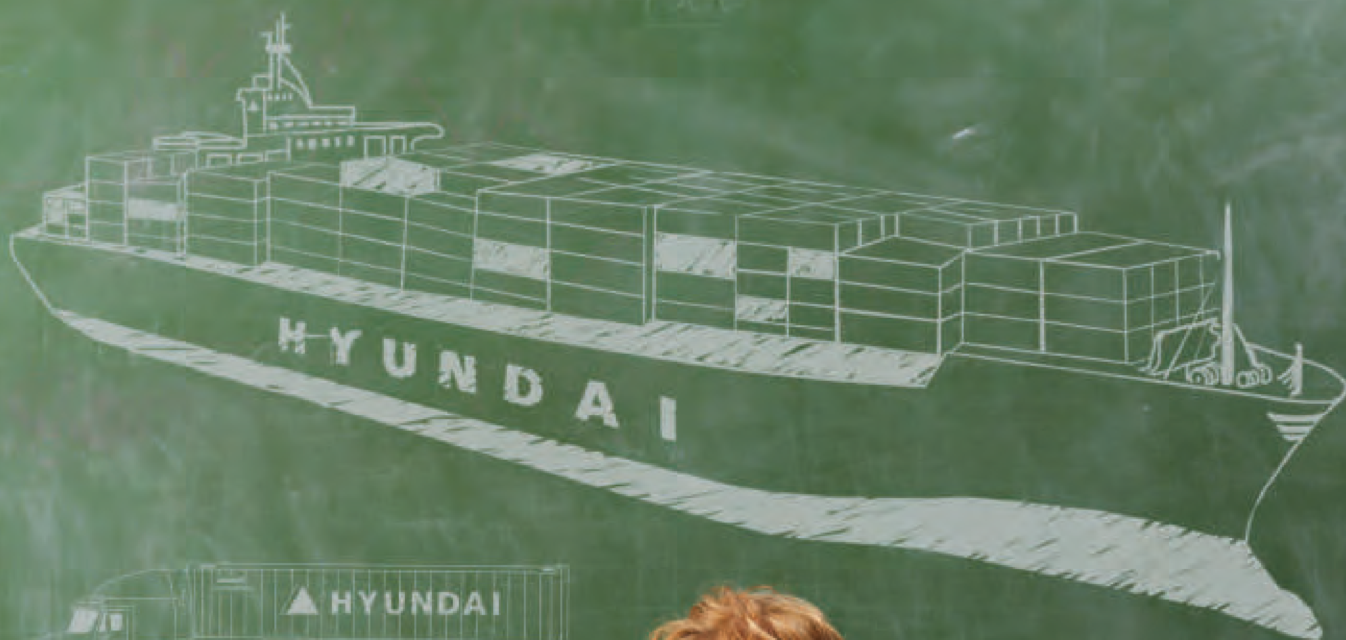


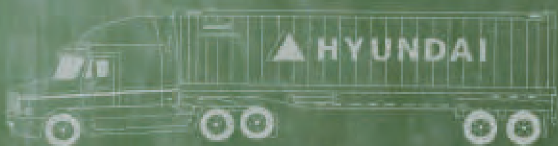


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## Top 25 Global Freight Forwarders (continued)

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

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

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In March 2012, UPS announced the purchase of Netherlands-based TNT Express, the largest European express carrier with 18 percent market share. The purchase will complete a successful expansion by UPS into Europe and add a blanket of coverage in Europe, the Middle East, Africa, and the Asia-Pacific. The sale price is estimated at $6.8 billion; but for UPS, the deal opens significant market opportunities particularly in spare parts and medical logistics.

Closer to home, Armstrong says that "election-year politics" will have a negative impact on Expeditors International—the leading domestic forwarder in 2012—as there are still too many regulatory obstacles in the works.

"Expeditors is the largest, best run North American-based freight forwarder," says Armstrong. According to Armstrong's report, net revenues have reached $1.9 billion and produce a gross margin of 31 percent. While 2009 was a difficult year, Expeditors revenues came back in 2010 and 2011 exceeding 2008 levels.

At the same time, however, Expeditors is the largest forwarder/NVOCC in the Asia/U.S. lane. It handles over 890,000 twenty-foot equivalent units (TEUs) per year globally, with nearly 50 percent being shipped from Asia to the U.S. Expeditors' European operations are primarily in airfreight and constitute about 13 percent of revenues. "Expeditors limits its participation in value-added warehousing and distribution," says Armstrong, adding that it's a company with very sound fundamentals.

"While Asia remains a hot market, many middlemen will be mitigating risk by moving goods within NAFTA networks over the next few years. I'm sure this will be reflected in the revenue rankings in 2013."

*—Dick Armstrong, chairman, Armstrong & Associates*

### Will energy hinder growth?

While diesel and other fuel rates had been in decline during the first half of 2012, the top 25 freight forwarders will continue to factor in this vital metric, says Armstrong. Again, he fault's the "lack of political will" with keeping the U.S. dependent on foreign energy sources for the short term.

"While Asia remains a hot market, many middlemen will be mitigating risk by moving goods within NAFTA networks over the next few years," he says. "I'm sure this will be reflected in the

## Damco gets high marks for being green

Besides being among the top 25 global forwarders, Damco has recently been recognized as "clearing and forwarding agent of the year" by International Produce Limited (IPL), part of the Walmart group.

According to James Hammond, Damco's perishables business development manager, part of the forwarder's mission has been to keep IPL's supply chain lean but sustainable. "While focusing on transport cost will remain a priority, IPL insists that there be 'on-shelf availability' at all times," says Hammond. "When a consumer wants a perishable product, it should always be within reach at the store."

The range of such products includes flowers from Kenya, pineapples from Ghana, and bananas from Cameroon. The global forwarding giant also recently helped IPL roll out their direct sourcing strategy this year in Morocco—one of their largest non-European source countries.

"This requires having reefer specialists on both sides of the supply chain," says Hammond. "It's been a key differentiator for us as a forwarder."

Besides prevailing over the obvious logistical challenges, Damco was praised by the shipper for helping it measure its "carbon footprint."

Hammond says this has been a creative advantage. "It involves breaking out services among rail, truck, air, and ocean providers, thereby evaluating the environmental impact," he says. "We even measure the emissions from different ocean ports."

And it appears to be working, says IPL Operations Director Jason Kelly. "To date this year, we have reduced road miles alone by 11 percent," he says.

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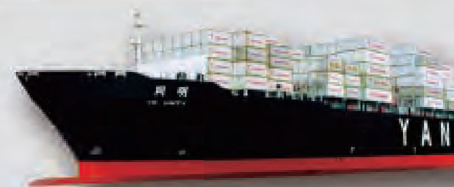

revenue rankings in 2013."

Derik Andreoli, Ph.D.c., a senior analyst at Mercator International LLC and *Logistics Management*'s popular Oil & Fuel columnist, agrees, noting that the volatility of energy expenses will be a given for the remainder of this year.

"Oil and fuel markets are extremely complex, and forecasting price moves requires insight into both supply and demand for oil, diesel, gasoline, and dollars," says Andreoli. "Since late last spring, crude oil prices have fallen by a staggering 22 percent. This decline was largely due to the rapidly evolving opinion among Wall Street oil traders that tight oil markets were set to soften."

But he observes that this sentiment is certainly not out of line with the news flowing from Europe or the recent lackluster performances of emerging markets—especially China.

"As Greece continues to dance with default and expulsion from the Eurozone, Moody's has downgraded France's credit rating, and bond yields across Portugal, Italy, Greece, and Spain have skyrocketed," he says. "As borrowing becomes more expensive, the only choices that are available are to cut spending or leave the Euro. Neither of these options is attractive."

Andreoli adds that the problem with austerity is that spending—be it by the government, consumers, or businesses—greases the wheels of growth. The problem with leaving the Euro is that the value of the drachma would plummet, causing Greece to muddle through a prolonged recession.

"The irony, of course, is that the underperformance of Eurozone economies has kept the value of the Euro suppressed against the level that it would be if every Eurozone economy performed similarly to Germany," says Andreoli. "As a consequence, Germany's exports remain cheaper than they would otherwise be."

Andreoli adds that as the Eurozone skirts recession, European oil demand will remain suppressed. So too are European imports from China and other emerging markets, which suppresses economic activity in these countries. "Of course, Middle East and North Africa oil consumption was also significantly reduced as the Arab Spring chopped away at economic activity leaving a wide swath of economic disruption across the region," says Andreoli.

**Make way for contenders**

Global forwarders contending to make the top 25 next year will face a number of barriers, but niche players can still capture significant market share, says Asa Chang, CEO of Encompass Global Logistics, an upstart forwarder headquartered in Hong Kong.

According to Chang, by investing in human resources and the latest technology, even a mid-sized middleman can compete in the global arena. "Our concentration on production and operations management in the Far East, the U.S., and Australasia is a key differentiator," he says. "We have built up a core network focusing on this trade triangle, and we have confidence in the potential and sustainability of these economies."

"Since late last spring, crude oil prices have fallen by a staggering 22 percent. This decline was largely due to the rapidly evolving opinion among Wall Street oil traders that tight oil markets were set to soften."

*—Derik Andreoli, senior analyst, Mercator International LLC*

Chang adds that smaller, more flexible forwarders are also able to aim at satisfying the shipper through the primary stages of supply chain, such as sourcing. "Rather than defer purchase of new technology, we have embraced it and use it for customized service throughout our scope of work," he says.

Another advantage favoring the small forwarder is that management can "empower" staff to make immediate decisions for the shipper, says Chang. He notes that this kind of "on-the-spot" dynamic creates more velocity in the supply chain. "By building a long-term relationship with the shippers, we're demonstrating that we can handle multinational and multicultural challenges just like the big forwarders. More importantly, though, is that we show we can get through these turbulent times together."

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*Patrick Burnson is Executive Editor of* Logistics Management

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# *Quo vadis, Europe?*

# European logistics industry looks beyond the crisis

Despite economic and financial uncertainties, the first half of 2012 has been moderately successful for many leading European carriers, ports, and 3PLs.

**By Dagmar Trepins, European Correspondent**

The list of economic woes throughout Europe continues to grow: there's a slowdown in production; increasing unemployment rates; and a fear of rising financial debts and the long-term impact that will have on the overall economy.

In the meantime, consumer spending has plummeted or shifted to non-premium products causing additional price pressure on manufacturers and service providers. Fuel costs have stabilized to a certain degree, but they're still painfully high.

And while economic conditions in the Eurozone are demanding, European logistics providers, carriers, and ports continue to report that they're still striving for improvement in infrastructure, efficiency, service, and sustainability. In short, business must go on despite all of these mounting concerns.

Statistical data from July, collected through the Organization for Economic Co-operation and Development's recent "International Transport Forum," highlight concerns over possible declines in the EU-27. The figures show that total seagoing foreign trade (in tons) remains 5 percent below pre-crisis levels in the EU-27, while air cargo volumes are 4 percent below this level.

In France and the United Kingdom, trade by sea and air are still below the pre-crisis peaks, while Germany's economy has been resisting the general trend towards

stagnation. Total German seagoing trade grew 12 percent from July 2008 to March 2012, while air cargo volume increased 19 percent during the same time. Germany's economy has benefited from its traditionally strong manufacturing export trade.

There is no doubt that the Eurozone crisis is affecting business confidence and thus the growth prospects of the logistics industry. This report will highlight how logistics providers, carriers, and ports in Europe are facing the challenges.

### Third-party providers back on track

Despite economic and financial uncertainties, the first half-year of 2012 has been moderately successful for most of the leading European logistics providers.

**DB Schenker:** Executives at DB Mobility Logistics AG say they're confident about 2012. Revenues increased by 3.3 percent, or €616 million, to €19.5 billion during the first half of 2012. Adjusted results from operations (adjusted EBIT) surged by 16.6 percent, or €188 million, to €1.3 billion.

DB's business unit DB Schenker Logistics reported a gain of 0.5 percent in the number of shipments in European land transport in the first half of 2012 compared to the same period of 2011. In contrast, airfreight volumes fell by 7.9 percent, while volumes of ocean freight developed far more favorably, showing a substantial gain of 10.6 percent.

In contract logistics, revenue was up 19.4 percent, underlining the company's good performance. At the beginning of this year, the Coca-Cola Company awarded DB Schenker Logistics two contracts for their warehousing and transportation operations in Poland. Previously, Coca-Cola had operated its own satellite Distribution Centers for finished goods, which have now been integrated into existing DB Schenker warehouses.

**Kuehne + Nagel (KN):** The Swiss giant has announced that it's "back on track" after a weak start to the business year. In its half-year results 2012, the company reported that turnover increased by 2.8 percent to CHF 10.062 billion ($10.25 billion). Gross profits improved by 2.6 percent to CHF 3.032 billion ($3.1 billion) while operational results (EBITDA) declined by 9.6 percent to CHF 454 million ($464 million).

"In the first half of 2012, muted consumption in all parts of the world and increased market volatility influenced the global logistics business," said Reinhard Lange, CEO of Kuehne + Nagel International AG. "Softened demand affected in particular the trade from Asia to Europe and North America and slowed down volume development in sea freight and airfreight. Nevertheless, we achieved above market volume growth in both segments. Our industry-specific logistics solutions positively contributed to this development."

KN's sea freight volume grew eight percent, but operational results declined 10.9 percent, mainly caused by carrier rate increases that have cut margins. In air freight, KN continued to focus on industry-specific solutions such as perishables logistics, resulting in a tonnage increase of about one percent compared to the previous year's period, while operational results declined 10.9 percent.

**SNCF Geodis:** The global logistics provider Geodis, a wholly-owned subsidiary of SNCF, posted an operating income of €14.3 million, up 5.9 percent year-on-year, and a 1.1 percent increase in revenue. However at constant exchange rates and scope of consolidation, revenue dropped 1.5 percent in the first half of 2012. Continued cost-cutting plans and sales growth by acquisitions and new contracts positively influenced the results.

Geodis started well during the first six months of 2012 with a new logistics and distribution contract with Mattel in Southern Europe, the opening of a new logistics platform near Moscow, and the acquisition of MF Cargo in Hungary. Company officials say that they've seen "strong company momentum in Eastern Europe and Asia which has limited the impact of the crisis on the results in their first half-year report."

**Deutsche Post DHL:** The German powerhouse reported revenues of €13.7bn for the second quarter of 2012, 7.3 percent above the previous year's level. The positive development, supported by favorable exchange rate effects, was largely due to the strong performance of the DHL divisions, which performed particularly well in Asia, and a double-digit growth in volume and revenues of the company's parcel business.

**In the first half of 2012, Port of Hamburg reported a total throughput of 65.8 million tons, up 2.7 percent.**

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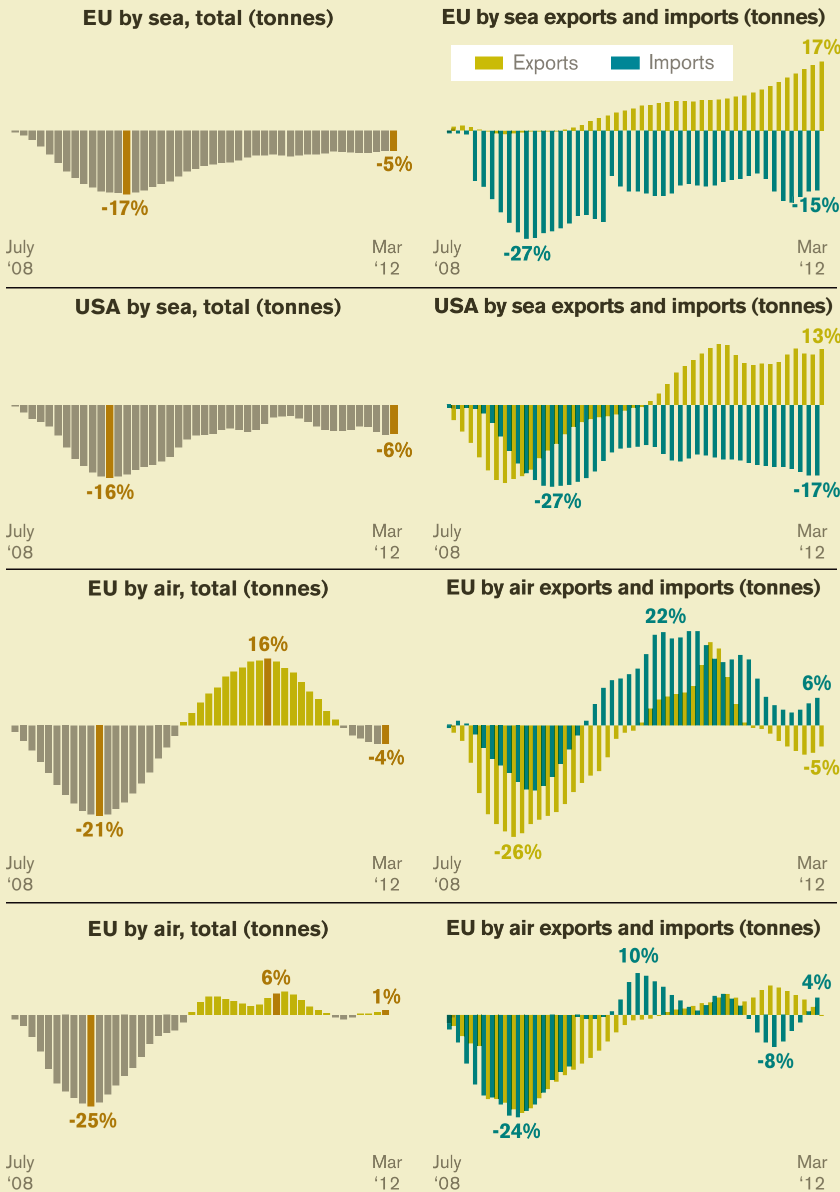


Despite further strides in its drive to improve profitability, a one-time VAT back-payment negatively affected earnings in the mail division in the second quarter. Group EBIT fell 3 percent to €543 million during the same period (2011: €562 million).

On the other hand, DHL Express recorded positive one-time effects that resulted from the dissolution of reserves that had been set up in 2008 as part of the restructuring of the group's business in the U.S. as well as from the disposal of company units that were not part of the core business.

## European ports keeping up the pace

Ports have historically been the first indicators of economic trends. The pictures of empty ports in Europe a few years ago are still fresh in mind, as the ports have just recovered from the recession. However, the results from the first half of 2012 from some of Europe's leading ports were not as bad as expected, and investments in port structure and capacity are going on.

**Port of Hamburg:** In the first half of 2012, Port of Hamburg reported a total throughput of 65.8 million tons, up 2.7 percent. At 45 million tons, or 4.4 million TEU, the container throughput achieved an increase of 1.9 percent, while exports accounted for around 97 percent of the Port of Hamburg's total first-half growth.

During the first six months, Hamburg's trade with America increased by 24.4 percent to 572,000 TEU, mainly driven by new and expanded liner services from Canada via the U.S. East and West coasts and to South America. U.S. trade showed particularly strong growth (+81.1 percent), with the total throughput of cargo via Hamburg amounting to 197,000 TEU.

With this news, the U.S. jumped from ninth to fourth place among Port of Hamburg's top trading partners in container traffic. Along with the new liner service connections, the recovering U.S. economy made an impact on German exports and positively influenced Hamburg's container trade with North America.

And despite the uncertain economic development in world trade, Claudia Roller, CEO of Port of Hamburg Marketing, is expecting an overall yearly growth rate between 1 and 2 percent for the port's container throughout in 2012.

**Port of Antwerp:** The Port of Antwerp handled 93.82m metric tons of freight during the first six months of 2012, representing a decline of 2.1 percent compared with the same period in 2011 mainly due to the Belgian

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**DB Schenker Logistics reported a gain of 0.5 percent in the number of shipments in European land transport in the first half of 2012 compared to the same period of 2011.**

Refining Corporation (BRC) suspending its activities.

The container volume expanded slightly during the past half year, demonstrating that the port of Antwerp has been able to maintain its position in the difficult economic situation during the past few months. In terms of tonnage, container volume grew 0.8 percent in the first quarter of this year, while the volume of standard containers was down 0.4 percent to 4.36 million TEU.

**JadeWeserPort:** When the port authority of JadeWeserPort announced in 2005 that Germany's only tide-independent deep-water port would open by the end of 2009 or the beginning 2010, there was a lot of optimism in the port community. But construction problems, particularly at the quayside, have led to unexpected opening delays. Officials now confirmed that the port will open on September 21, 2012, at partial capacity and at full capacity one year later.

The new container port is located at Wilhelmshaven's Jade bay on Germany's North Sea coast. With a water depth of 18 meters, the port can serve the largest container ships including the Triple-E class (18,000 TEU) with draughts down to 16.50m fully loaded independent of the tide. The port is equipped with modern quay facilities for transshipment of bulk cargo, containers, reefers, food, general cargo, and project shipments.

**Port of Rotterdam:** Europe's leading container hub, Rotterdam has also become a major hub for U.S. exports of wood pellets. In 2011, around 800,000 metric tons of biomass were transported

## Geodis Wilson's Kim Pedersen discusses Europe's ongoing economic woes

Geodis Wilson, the freight forwarding arm of the Geodis Group, is strongly linked with the U.S. and European markets. Chief Marketing Officer Kim Pedersen outlines the economic development in Europe and its impact on the company's strategy.

***Logistics Management:* Has the financial crisis in Europe already had an impact on your business?**

**Kim Pedersen:** As the logistics business is firmly interwoven with the global manufacturing sector, obviously we can see an impact. However the degree of impact varies from market to market and is not consistent across Europe as a whole. So, even though the European consumer market is closely linked to supply chains that originate in Asia, there are still signs of growth, for instance in increased air freight traffic coming out of Asia.

On the other hand we see that the effect of the financial downturn in Europe has affected the retail industry, for example, more seriously. Retail is certainly facing more difficulties than the pharmaceutical industry. Overall, for us, the outlook is still stable and positive.

***LM:* How is Geodis Wilson coping with the current economic situation and what are your expectations and concerns regarding the future of the Eurozone?**

**Pedersen:** For a number of years Geodis Wilson has adopted a business development strategy that focuses on industrial sectors and product innovation rather than on geographical regions alone. During phases of regional economic slow-down this policy has certainly helped to keep the business growing, as is reflected in our group's half-year results.

Nevertheless, we are a group with a strong footprint in Europe, so we cannot ignore the fact that many companies in the Eurozone will act more and more conservatively as the economic outlook becomes less and less predictable. The key is to follow industry development and to be proactive in the sectors where growth is more apparent. In Europe, for example, a lot of our clients are still experiencing a stable market, but at the same time they're identifying growth potential for their industries in Brazil, India, and China. It's important to be as agile as our customers need to be, to adapt accordingly and to deliver supply chain models 'ahead of the game.'

***LM:* Geodis Wilson is expanding its services in the U.S. market. Are there any new developments?**

**Pedersen:** We recently invested in the contract logistics sector in the U.S., with a focus on lead time improvements, for instance through key technologies such as radio frequency mechanisms and pick-and-pack systems. And, in line with our strategy of providing industry-specific solutions, we set up new products for shop-opening logistics for the fashion and lifestyle segment, particularly in big cities. We recently expanded this to Mexico City as well.

*—Dagmar Trepins, European Correspondent*

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to Rotterdam, with most of it—600,000 tons—coming from North America.

According to Bioenergy Insight, export of wood pellets from North America to Europe reached a record level of two million tons in 2011—three times the 2008 figure. In Europe, the Netherlands, Belgium, and the UK are the biggest importers. The energy sector in the Netherlands burns about 10 percent biomass in coal-fired power plants, while a new policy for the use of biomass in power plants still needs to be established in the Netherlands.

### Ocean carriers on course

Cost cutting and restructuring plans are part of the strategy for almost all leading European carriers. However, investments in acquisitions and sustainability are also on their agenda, as the following examples clearly illustrate.

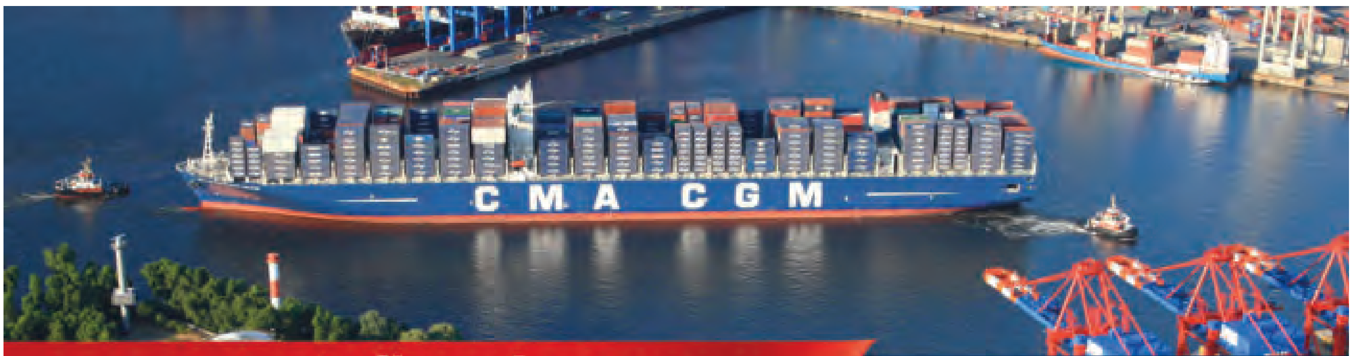
**Maersk:** AP Moller-Maersk's five-year plan of focusing on four core strategic businesses is starting to pay off, according to the company's CEO Nils S. Andersen. Because the strategy was launched in August of last year, the Group invested more than $12 billion in its four core businesses.

"The strategy and the attention to the four core strategic businesses has brought encouraging results," says Anderson. "Basically, Maersk Oil and APM Terminals are ahead of schedule and Maersk Drilling is progressing according to schedule. Of course, the development in container freight rates and profitability for Maersk Line has disappointed us, but we have taken a step back, initiated a restructuring plan, and are working to get freight rates back to sustainable levels."

In 2008, Maersk Line streamlined its organization and increased its focus on the market. In 2009, costs were cut by two billion dollars, increasing competitiveness and leading to record results in 2010.

**Hamburg Süd:** Despite cost cuts, Germany's carrier Hamburg Süd is going ahead with its commitment to environmental protection. The shipping group recently announced that it's aiming to reduce the carbon dioxide equivalent ($CO_2e$) emissions of its owned and chartered container vessels by 26 percent per unit of transport capacity by 2020.

Besides carbon dioxide, the unit of measurement $CO_2e$ takes account of other climate gases (e.g., methane) produced in the combustion process in line with their effect on the climate. To reach this ambitious target, Hamburg Süd is taking a variety of measures, such as investing in the energy efficiency of owned ships, increasing average vessel size, and chartering energy-efficient ships, accompanied by an improved and comprehensive environmental information system.

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### Air freight loosing altitude

The International Air Transport Association's global air traffic results for June also show ongoing slowing of growth. Continued economic woes and waning consumer confidence in Europe led air freight in this region to decline 1.1 percent compared to June 2011, even as capacity grew 1.8 percent. This development also affected the leading European carriers and their first half-year results.

**Lufthansa Cargo:** Germany's biggest cargo carrier transported 864,490 metric tons of freight and mail in the first six months of 2012, representing a 9.2 percent decline in volume compared to the same time last year. The load factor slipped marginally during the same period, falling 0.7 percentage points to 68.4 percent. "There can be no talk as yet of a real crisis," says Executive Board Chairman & CEO Karl Ulrich Garnadt. "Extreme volatility has been a hallmark of our industry for some time now, and we know how we have to deal with it."

**Air France-KLM and Swiss:** Europe's Air France-KLM says restructuring charges were partly responsible for a first-half net loss of €1.26 billion, up from a loss of €564 million in the first six months of last year. Revenue increased 5.2 percent to €12.15 billion and the operating loss widened by €115 million to €663 million. The group also saw a 5.5 percent decrease in cargo volume in July. Capacity dropped 2.5 percent, while its load factor fell 2.5 percent from July 2011 to 61.6 percent.

Swiss International Air Lines (Group) also reported a big decline. Its operating profit fell 53 percent to CHF 61 million for the first six months of 2012. The decline is attributable to a still difficult economic and business environment, the continuing pressure on yields in Europe, the strength of the Swiss franc, and high fuel prices, the carrier explained.

The first half results for the air freight business of Swiss WorldCargo showed only slight changes from the prior year. The cargo load factor by volume remained unchanged at 79.3 percent, while total cargo sales were up 3.4 percent in terms of revenue ton kilometers. "The crisis in our industry is hitting us, too, and we see no sign of upturn here anytime soon," says Swiss CEO Harry Hohmeister.

—*Dagmar Trepins is* Logistic Management's *European Correspondent*

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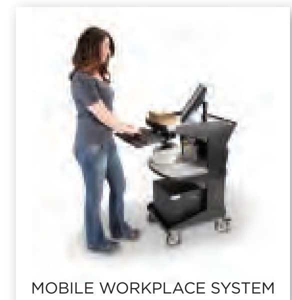

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SAGE ADVICE

# The secret to selecting the best logistics puzzlers

**By John A. Gentle, DLP**

ONCE YOU RETIRE FROM THE TRADITIONAL 7:00 a.m. to 8:00 p.m. work days, new hobbies and picture puzzles become a part of everyday life. Sounds boring? Well, it's just the opposite.

Ron and Linda Arnett, highly skilled "puzzlers" with extraordinary insight and sequential awareness, recently introduced me to picture puzzles. Their tutelage provided me with a greater appreciation of the challenges logisticians face in determining the fine points of vendor qualification criteria, assembling the best pre-qualified providers, and selecting the players who can do the precise points of detailed tasks both effortlessly and consistently.

This is what I've learned about puzzles and what expert logisticians recognize:

1. *You don't buy a puzzle without a complete picture.* Clearly identifying the picture of success is vital to assembling any puzzle problem. The picture, with all its levels of detail and complexity, provides clues as to how the information can be collected, segregated into smaller tasks, the resources required to solve it, and which groups will be tasked with the assembly.

2. *Not all puzzle problems are alike or have simple, well-defined borders.* The more challenging and intriguing ones have irregular borders that require unorthodox approaches or the coordination of multiple puzzlers and elements.

3. *Coordination is critical.* You cannot assume that groups will not overreach, hoard, or deny others access to critical info/shapes/colors.

4. *Sorting parts and players into groups is very basic.* Unique shading, superimposed images, subtle lines and shapes, however, create additional challenges and opportunities for differentiation.

5. *Not all puzzles problems have conventional and convenient interlocking pieces.* They can be free standing, often look alike, and sometimes simply abut the other pieces.

6. *Force fitting does not work.* Missing pieces are obvious and render the puzzle worthless.

7. *Putting a small identifiable element of the puzzle problem together is nice, but it should be considered a small victory.* Until all sub groups are assembled the puzzle is incomplete and meaningless.

So what does this mean to logistics professionals? First, your team needs to be patient, detail oriented, skilled, organized, and should cooperate in a manner that allows the picture to develop in a timely manner. Second, you must identify the unique characteristics needed and then screen every potential business partner beyond the basics. Just finding companies that have years of experience in trucking or warehousing is simply not good enough.

What is important is the strength and depth of the culture of their company; their guiding principles; the quality of all of their processes; and the talent and commitment of every operational group—not just their customer service department whose job it is to make you smile or feel good when things go awry.

**Your team needs to be patient, detail oriented, skilled, organized, and should cooperate in a manner that allows the picture to develop in a timely manner.**

Finding the right companies only happens when you ask the right in-depth questions in your RFQ and you take the time to visit and speak personally with only those companies with operational teams that are in a strong position to earn your business. While supplier sales and ownership are certainly important, it's the operational teams that have to solve the puzzles on a daily basis and need to be measured for strength and depth.

Keep in mind that great logistic partners are skilled puzzlers. They're accustomed to dealing with irregularities every day, they look for the big picture in their approach, and they work proactively and effortlessly with their colleagues instead of wandering aimlessly and inefficiently searching for clues.

Anyone can put a small "kids" picture puzzle together. Complex logistics problems are full of clues and require in-depth talent from your team and from your suppliers working together to unlock their secrets and assemble a winning picture. Take the time to find and keep the best puzzlers. ☐

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

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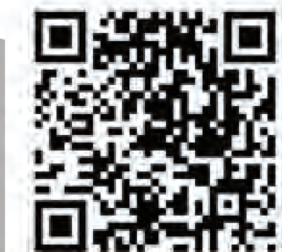

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