

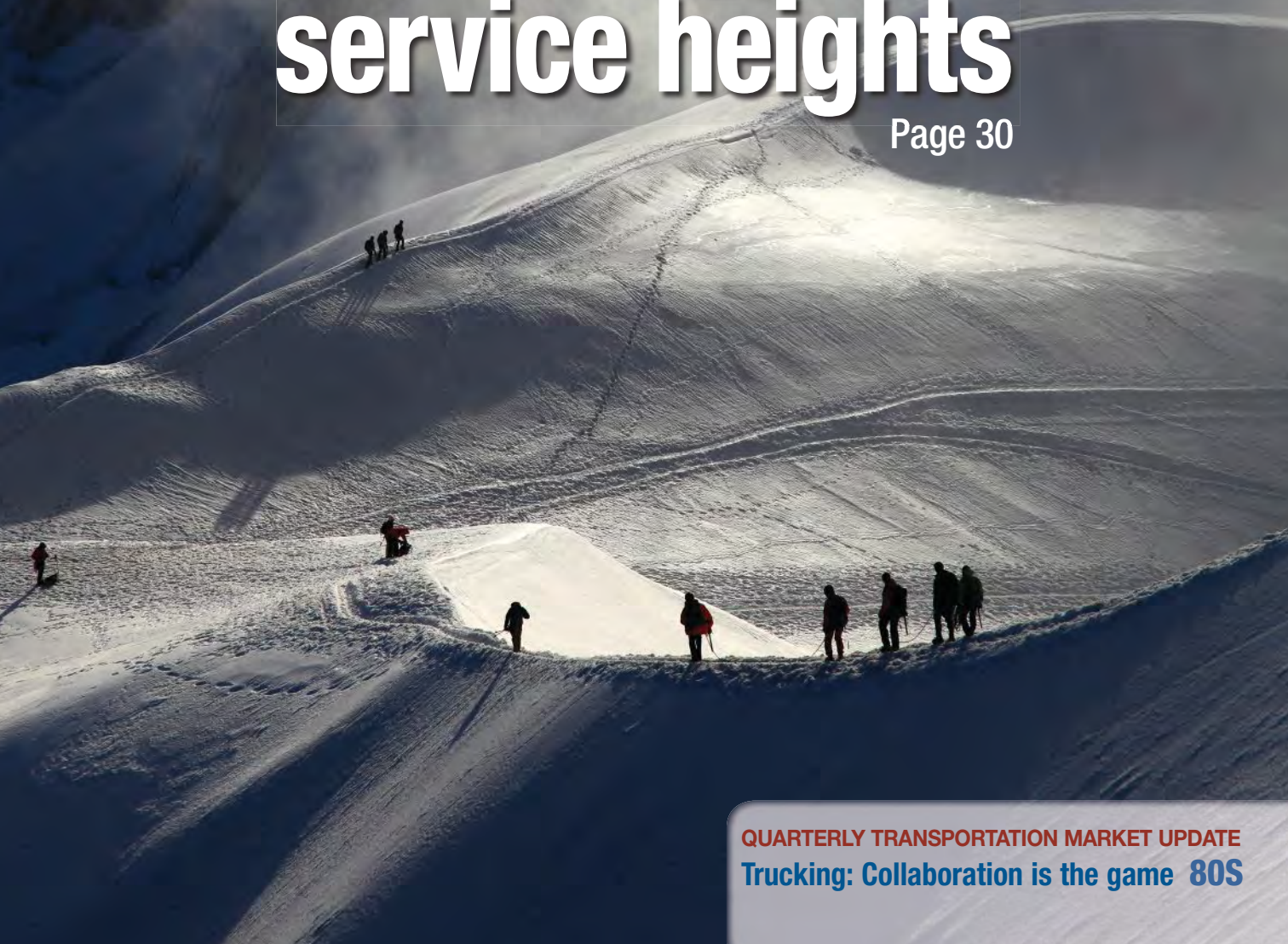


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31st **QUEST FOR QUALITY AWARDS**

Reaching new service heights

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QUARTERLY TRANSPORTATION MARKET UPDATE
Trucking: Collaboration is the game **80S**

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LM management UPDATE

AN EXECUTIVE SUMMARY OF INDUSTRY NEWS

◆ **Q1 driver turnover is flat.** The American Trucking Associations (ATA) said that for the first quarter of 2014 the driver turnover rate at large truckload carriers inched up 1 percent to an annualized rate of 92 percent and remained above the 90 percent for the ninth quarter in a row. Even with the current trends of high turnover for large truckload carriers, ATA Chief Economist Bob Costello said that things are not nearly as bad as they could be. “While high, turnover at large truckload carriers is lower than other years when the driver shortage was as acute,” Costello said. In 2005, turnover averaged 130 percent. In 2006, another year with a tight driver market, turnover averaged 117 percent for this group of carriers. “Today, the industry has in the range of 30,000 to 35,000 unfilled truck driver jobs,” Costello said. “As the industry starts to haul more because demand goes up, we’ll need to add more drivers—nearly 100,000 annually over the next decade—in order to keep pace.”

◆ **Growth is in the cards for trucking.** Trucking volumes look to continue to lead the way among freight transportation modes for the foreseeable future. That point was driven home in the most recent edition of the American Trucking Associations’ *American Trucking Trends 2014*. The report stated that total freight tonnage will see growth of 23.5 percent from 2013 to 2025, with freight revenues heading up 72 percent during that same period. And trucking’s share of freight tonnage will grow from 69.1 percent in 2013 to 71.4 percent in 2025, while truckload volume will grow 3.5 percent a year through 2019, then 1.2 percent annually from 2020 to 2025. However, the report predicts truckload carriers will make greater use of intermodal rail for intermediate- and long-distance hauls.

◆ **Air cargo demand spikes due to port unrest.** A sharp spike in air cargo demand has been evident ever since the International Longshore and Warehouse Union (ILWU) and Pacific Maritime Association (PMA) began negotiating a new contract several months ago. According to Brandon Fried, executive director of the Airforwarders Association, some of that business may never return to the waterfront. “We are seeing a very significant shift back to air now, especially with components of the perishable market,” he says. “The disruptions at the ports are a concern...especially now that drayage has become

part of the equation.” The air cargo industry suffered when the air controllers were fired in the 1980s, Fried admits. “And 9/11 dealt a serious blow to this sector for a long time, too. But we’ve recovered from those setbacks, and it appears that air carriers are poised to capture more freight for a long time.”

◆ **IANA goes it alone.** The Intermodal Association of North America (IANA) has announced a series of enhancements and additions to the Intermodal Expo taking place in Long Beach next month (Sept 21-23). It will be a stand alone event for the first time in 11 years. Plans are underway for increased opportunities for attendee interaction, and the group has more than doubled the number of educational sessions over previous years. To do this, IANA has established partnerships with the Association of American Railroads, FTR Associates, and the Transportation Intermediaries Association (TIA) to develop a series of industry-specific educational sessions that will be organized into topical tracks. In addition, this year’s Expo will also host the West Coast Connie Awards dinner. Established in 1972 by the Containerization & Intermodal Institute, the Connie Award recognizes individuals who have made extraordinary contributions to the evolution of containerized shipping and intermodalism.

◆ **UPS rolls out major expansion plans in Brazil.** In an effort to increase territorial coverage, improve transit time, and augment service quality in Brazil, UPS recently announced that it has made significant service expansions with the opening of nine new operating facilities in the state of São Paulo. The new locations, said UPS, will be strategically located in the cities of São Carlos, Ribeirão Preto, Franca, Bauru, São José dos Campos, São José do Rio Preto, Botucatu, Araçatuba, and Presidente Prudente, and are expected to be completed by May 2015. UPS said these new locations will increase the company’s Brazil network by 78 percent and will reach more than 200 cities.

◆ **Big Brown may be gearing up for more European investment, too.** A *Reuters* report released in early July stated that UPS intends to invest \$1 billion into its European operations in the next three to five years, primarily with an emphasis on expanding its logistics centers. CFO Kurt Kuehn said that a large portion of the \$1 billion investment

LM management UPDATE

AN EXECUTIVE SUMMARY OF INDUSTRY NEWS

will be allocated to the German market, which he said is one of company's fastest growing markets. He added that this European strategy will be unveiled in November, explaining that it's comprised of acquisitions mainly in the healthcare sector, in which the transportation of medicines stands as a "logistical challenge" due to changes in temperature. Susan Rosenberg, PR director at UPS, told *LM* that this development does not reflect any significant change in the company's existing capital planning going forward.

◆ **USPS takes steps to boost Priority Mail rates.**

In an effort to grow its Priority Mail offering, the U.S. Postal Service (USPS) said that it has filed notice with the Postal Regulatory Commission to change prices for Priority Mail. Priority Mail is described by the USPS as its flagship Shipping Services product and represented \$6.4 billion in USPS revenue for fiscal year 2013. USPS said that these changes would include a reduction in prices on average for businesses and other customers that use USPS' shipper-focused Commercial Plus and Commercial Base online shipping services and a modest increase for Priority Mail prices of roughly 1.7 percent on average.

◆ **Global trade is trending in right direction.** Data from Panjiva, an online search engine with detailed information on global suppliers and manufacturers, showed that global trade growth is in a good position, with more than half of 2014 complete. U.S.-bound waterborne shipments in June—at 1,195,872—were up 6 percent annually. Panjiva CEO Josh Green told *LM* that these numbers show that overall global trade conditions have been solid for the first half of 2014 and are in line with what Panjiva has seen in the global economy as a whole. "There are a few things affecting global trade," he explained. "First is the consumer side, with jobs numbers looking good, and it's promising as far as where consumer sentiment is heading, since that drives imports. Consumers are going to drive trajectory of global trade for the last half of the year, particularly as we move to the holiday season."

◆ **Piracy an increasing threat in ASEAN.** Dryad Maritime, a maritime security consultancy, is warning of an increasing threat from Southeast Asia piracy following the release of their second quarter figures that show that the area continues to experience the highest number of maritime crime incidents in 2014. According to the public policy think-tank the Nautilus

Institute for Security and Sustainability (NISS), the increase in piracy in Southeast Asia is attributed to a number of causes, including over-fishing; poor maritime regulation; organized crime syndicates; widespread poverty; and politically motivated groups. In addition, the NISS says that the rise in trade in Southeast Asian waters adds further incentive for pirates. Overall trade in Association of Southeast Nations (ASEAN) increased by 16.8 per cent to \$2.1 trillion in 2011 from 2010. In particular, ASEAN exports of mineral fuels and oils as well as their distilled products were worth \$228 billion in 2011.

◆ **Ag shipper survey results are in.** The results of the The Agriculture Transportation Coalition (AgTC) *2014 Ocean Carrier Performance Survey* were announced at the 26th Annual Meeting in San Francisco last month with OOCL taking first place honors. Hamburg Sud and Evergreen finished closely behind in the voting, and were also recognized for their superior performance. Each year, the AgTC surveys the broad and diverse cross-section of its members, the U.S. agriculture and forest products exporters and importers from all geographic locations, to determine the ocean carrier performance. All annual survey responses are aggregated, and the individual responses discarded, to ensure confidentiality of each shipper's response.

◆ **NCBFAA says more info needed.** In a recent letter to Federal Maritime Commission (FMC) Chairman Mario Cordero, the National Customs Brokers and Forwarders Association of America (NCBFAA) asked the FMC to consider procedures addressing port disruptions resulting from unusual occurrences or labor-related difficulties. Early last year, the NCBFAA requested that Chairman Cordero's predecessor, Richard Lidinsky, likewise consider procedures to mitigate challenges during maritime labor unrest and severe weather conditions. "We are aware that the Commission did recently issue an advisory to the industry concerning the possibility of port congestion surcharges and when any cargo would be affected by such surcharges," the letter noted. "However, carrier-provided tariff publications in this regard to date have been so indefinite as to be inconsistent with the Commission's regulations pertaining to the need to provide the public with accurate, reliable, and useful information concerning the charges to be assessed." □



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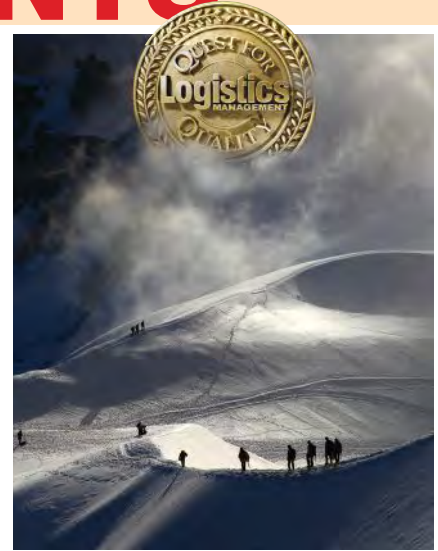
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31ST ANNUAL QUEST FOR QUALITY AWARDS

Reaching new service heights

30 Which carriers, third-party logistics providers, and U.S. ports have reached the summit of service excellence over the past year? Our readers have cast their votes, and now it's time to introduce this year's winners of the coveted Quest for Quality Awards.

TRANSPORTATION AND BEST PRACTICES

2014 Ocean Cargo Roundtable: Mega carriers plying shifting seas

56

The P3 Network was nixed in June, and now the world's largest ocean cargo carriers are facing a vexing dilemma: how to reorganize global services and still make money. Meanwhile, shippers will be forced to manage other huge carrier partnerships during this Peak Season.



Ocean cargo 56

SUPPLY CHAIN & LOGISTICS TECHNOLOGY

ERP's great intersection

62

With ERP vendors gaining ground in the supply chain execution market, top analysts suggest that best-of-breed providers are going to need to step up their game. We dissect the intersection of ERP and supply chain management software and discuss how the cloud could drive further progress.



ERP 62

GLOBAL LOGISTICS

Emerging markets: Gaining traction

66

Long regarded as upstarts, today's emerging markets are demanding respect as they vie for genuine contention in today's global marketplace. These climbers are concentrating on their logistical advantages to capture market share and attract new investment.



Emerging markets 66

WAREHOUSE & DC MANAGEMENT

Lift truck maintenance: Real time is real money

72


Once seen as a necessary evil, lift truck maintenance costs prove ripe for efficiencies that save money and boost productivity. We look into new best practices and technologies that help introduce discipline into fleet management.

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QUARTERLY TRANSPORTATION MARKET UPDATE

Trucking 2014: Collaboration is the game



Carriers are enjoying a solid 2014, but warn of a pending capacity crunch as driver availability worsens amid tighter federal regulations. Bottom line: Shippers who choose not to collaborate with their carriers and streamline operations will most certainly be hit with higher rates. Page **80S**

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The great convergence



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Webcast, four top technology analysts offer their unique insight into how the convergence of automation, data, and labor is moving us toward this utopian vision.

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2014 State of the 3PL Market

Top 50 3PLs: Finding a healthy balance



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31st Annual Quest for Quality: Reaching new service heights

ONCE AGAIN IT'S OUR HONOR to present the logistics and transportation community with the results of the *Annual Quest for Quality Survey*.

The report we're sharing this month is the culmination of an intensive, six-month research project conducted by *Logistics Management (LM)* and Peerless Research Group (PRG) that's become known for over 30 years as the single most important measure of customer satisfaction and service performance excellence available in the logistics and transportation industry.

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

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

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

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

This year our research group received

7,451 total responses—1,272 more than 2013. This near-record level of response resulted in 155 transportation and logistics service providers walking away with a coveted Quest for Quality Award this year.

Last year, *LM*, in collaboration with PRG and leading 3PL market analyst firm Armstrong and Associates, made a few changes in an effort to better represent the levels of services offered by 3PLs. With the help of Armstrong's analyst team, we split the 3PL questionnaire into two categories: transportation management and value-added warehousing and distribution operations.

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

The move was well received by readers and service providers, and now offers the market a more precise look at which service providers are leading the way in these specific service areas—and which excel in our five vital service attributes.

It's time to recognize and celebrate the winners of the 2014 Quest for Quality Awards. The lists that begin on page 30 represent those carriers and service providers that *LM* readers believe have gone above and beyond over the last 12 months to earn Quest for Quality Gold.

Michael A. Levans, Group Editorial Director
Comments? E-mail me at mlevans@peerlessmedia.com
Follow me on Twitter: @MikeLeva

price TRENDS

Pricing across the transportation modes

DATA CENTER

peerlessmedia.com/datacenter



For timely and accurate insights on markups and costs in the transportation services market, there is no better resource than the **Negotiators' Benchmark Databook** from *Logistics Management* and *ALERTdata.com*. Updated with the latest statistics every month, there are five U.S. logistics market databooks available now:

- Truck Transportation
- Air Transportation
- Waterborne
- Rail Transportation
- 3PL/Warehousing Services

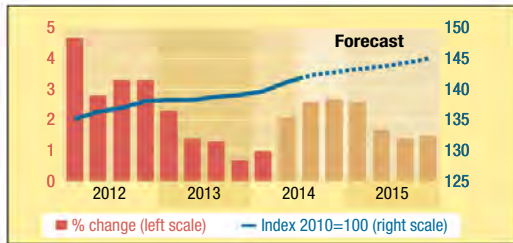
Each **Negotiators' Benchmark Databook** has helpful summary pages and also reports on detailed cost categories in labor, materials, fuel, and purchased services. Index data and spending (per \$100 of sales) data provide insights into price/cost escalation and estimated mark-ups. With 10 years of monthly data, you'll see long-term trends as well as the most recent turning points in prices, costs, and margins.

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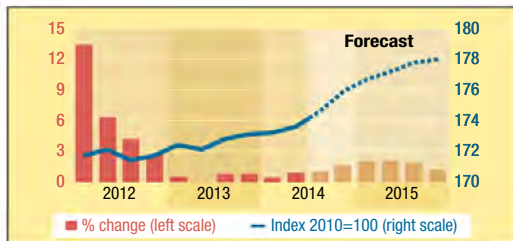
Logistics
MANAGEMENT



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
General freight - local	0.0	0.0	0.0
TL	0.1	2.9	2.6
LTL	-0.3	3.0	5.0
Tanker & other specialized freight	0.0	0.5	0.8

TRUCKING

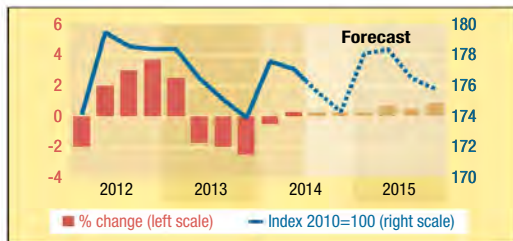
Driven by a 0.3% one-month price cut offered by LTL operators, average transaction prices in the overall U.S. trucking industry dipped in June, down 0.1%. Declining prices, however, are temporary phenomena and may not survive the statistics' revision process when late survey returns are added to the database. Indeed, in Q2 of 2014, LTL tags accelerated at a 3.1% rate from the previous quarter and 5.9% from same-quarter-year-ago. TL prices also increased, but at a slower 1.4% to 2.1% pace. Trucking's underlying operational costs have been growing more slowly than prices. As a result, we estimate the industry's average margins have improved roughly 5% over the past 12 months.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Air freight on scheduled flights	-0.3	0.3	1.0
Air freight on chartered flights	-2.4	-9.1	1.9
Domestic air courier	0.0	4.3	4.8
International air courier	-0.2	4.8	5.4

AIR

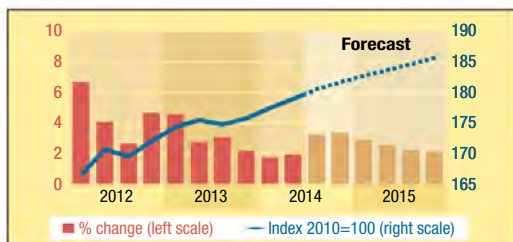
Price hikes in air cargo services appear to be in a holding pattern according to the latest surveys of U.S.-owned firms. Airliners moving cargo in the belly of scheduled flights report cutting their average prices down 0.3% in June, reversing the prior month's 0.4% increase. Prices for chartered (non-scheduled) cargo services, meanwhile, declined 2.4% from a month-ago. Chartered planes on domestic routes—where prices were down 3.4% from month-ago and up 4.7% from same-month-year-ago—left the most distinct inflation contrails. Looking at the entire U.S. airline industry, we estimate costs have increased 3.3% over the past 12 months, resulting in roughly an 8% decline in margins.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Deep sea freight	0.3	2.8	7.3
Coastal & intercoastal freight	0.1	3.5	-5.2
Great Lakes - St. Lawrence Seaway	-1.5	-0.4	-0.4
Inland water freight	-1.8	-5.1	-8.0

WATER

A dreaded one-two punch is taking a toll on waterborne transportation providers over the past 12 months. One, average industry prices have dropped 1.2%, and two, operating costs have increased 1.8%. The price deflation trend is being endured by owners of barges floating U.S. waterways as well as by ships plying the Great Lakes/St. Lawrence Seaway, where prices are down 6.3% and 3.9%, respectively. U.S. owners of vessels transporting in deep seas have managed to push prices up 7% in Q2 of 2014 and up 2.8% over the past 12 months. Our analysis of the overall waterborne transportation market suggests that the industry's average mark-up has dropped \$2.73 for every \$100 worth of services sold.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Rail freight	-0.2	1.9	2.4
Intermodal	-0.7	1.9	2.0
Carload	0.0	2.1	2.5

RAIL

The U.S. rail industry's relatively charmed economic life has stood in stark contrast to competing modes, but a shift due to higher costs may be underway. In Q2 of 2014, average prices in the carload rail market increased 1% from the previous quarter and 2% from the same-quarter one year ago. At the same time, intermodal rail service prices accelerated 0.4% and 2.3%. By the middle of this year, rail industry transaction prices reported a steady 2.3% annual inflation rate. Will these price hikes satisfy rail owners ahead? Recently, capacity utilization in the industry returned to its highest level since March 2008. Production labor costs, also, have been growing at a strong 3.2% annual rate.



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Also:

- 2013 U.S. 3PL revenue sees 3.2 percent annual increase to \$146.4 billion, reports Armstrong, Page 14
- DOT Secretary Foxx rips Congress's short-term extension as gimmicky "Band-Aid", Page 16
- White House rolls out Build America Investment Initiative, Page 18
- E-commerce survey asks: Need for green or need for speed?, Page 19

Survey bullish on Peak Season despite West Coast port labor strife

Even with potential labor gridlock on the horizon, the findings of our recent reader survey found that there's increased optimism toward 2014 Peak Season.

By Jeff Berman, Group News Editor

FRAMINGHAM, Mass.—When it comes to freight transportation and logistics market changes over the past few years, there have been a few constant themes: an uncertain economic outlook; low GDP output; fairly low inventory levels; varying levels of employment in the U.S.; as well as slowly recovering housing and automotive markets.

Another emerging trend over that time has been the absence of a traditional Peak Season due to the aforementioned issues. However, based on our reporting over the past few months, things have the potential to be somewhat different when it comes to the shape of this year's Peak.

One major reason has to do with the ongoing contract negotiations between the Pacific Maritime Association and the International Longshore Warehouse Union (ILWU) that center on wages, benefits, and job security for the roughly 14,000 port workers that are ILWU members in California, Washington, and Oregon. Contract talks are ongoing.

These negotiations, as reported by *Logistics Management (LM)*, have resulted in shippers being proactive in the event of a possible port strike that could result in delays for hundreds of millions of dollars in cargo for West Coast ports and the

economy—as was the case during an 10-day work stoppage in 2002.

Should something similar occur this time around, it stands to reason that shippers have learned from the past, based on very high import numbers at the nation's two largest ports in Los Angeles (POLA) and Long Beach (POLB)—which together handle more than 40 percent of U.S. incoming container traffic moving through West Coast ports. In June, POLA and POLB saw annual import gains of 16.5 percent and 8.8 percent, respectively.

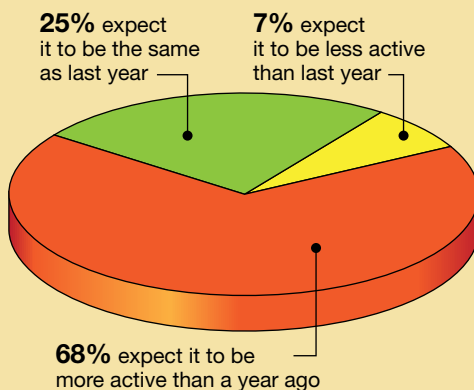
Even with potential labor gridlock on the horizon, the findings of a recent *LM* reader survey reveal that there's now increased optimism towards a 2014 Peak Season.

The survey, which polled 103 buyers of domestic and global freight transportation and logistics services, found that 68.1 percent expect a more active Peak Season compared to 2013, with 25 percent expecting it to be the same, and 6.9 percent calling for it to be less active. The optimism is apparent considering that in 2013 barely more than half of the survey's respondents (51 percent) expected a more active Peak Season.

What's more, the survey found that the impact of Peak Season on day-to-day operations is not to be understated, with 45.8 percent of respondents describing the impact as very significant, 44.4 percent calling it somewhat significant, and a mere 9.7 percent viewing it as not very significant.

Among the reasons cited by respondents for increased Peak Season activity were increasing volumes and a better general overall outlook for the U.S. economy. However, capacity-related issues, said some respondents, could possibly stand in the way.

Higher expectations for Peak Season



Source: Peerless Research Group (PRG)

A bulk ingredients distributor said that there seems to be a general shortage of equipment already, adding that he doesn't have a hard time envisioning that could lead to certain lanes in the fall getting "ugly." A retail shipper observed that there's a fair amount of anecdotal evidence in the market pointing to the fact that many carriers are reaching capacity before his company's Peak Season truly arrives.

"The Peak Season really has been a question mark in recent years," said Philip Sanfield, director of media relations at the Port of Los Angeles. "There are many factors at play with the economy, shipping alliances, and the port labor talks. There's a bit of uncertainty as to how things will shake out at this point."

Ben Hackett, founder of maritime consultancy Hackett Associates, said that with a fair amount of inventory coming into the U.S. earlier than usual—as evidenced by early volume gains at the ports of Los Angeles and Long Beach—this year's Peak Season is likely to resemble those in past years and be flat.

"That is what it feels like at the moment, with inventories up earlier than usual at this point of the year," said Hackett. "The inventory-to-sales ratio will continue to decline as a result of higher consumer spending and the impact of potential West Coast port disruptions. While there may not be a major Peak Season due to the high levels of inventory, goods will continue to flow," he said. □

overall economy being fairly sluggish as well as slow Asia-to-U.S. trade volumes and lower than expected growth for freight forwarding and ocean freight," Armstrong explained. "We're starting to see a little bit of that turn around this year, but growth is still pretty light in those segments."

Each of the four 3PL segments tracked by Armstrong saw net revenue growth from 2012 to 2013, which shows that market growth is still occurring and was described as cyclical by Armstrong. In the past, he said that the 3PL sector has grown about three times as fast as GDP; however now the market is at a point where it's "getting big enough" and will likely grow at a lower rate unless there's some significant economic activity.

For the DTM market, which features the sector's largest player, C.H. Robinson Worldwide, as well as others such as Echo Global Logistics and Transplace, Armstrong said that this sector tends to be comprised of companies with fairly established service offerings. "Many of these companies have grown and developed significant service offerings," he noted. "This is for many customers across multiple segments and we've really seen this grow over the last five years."

THIRD-PARTY LOGISTICS

2013 U.S. 3PL revenue sees 3.2 percent annual increase to \$146.4 billion, reports Armstrong

WEST ALLIS, Wis.—Despite various factors working against it, U.S. 2013 third-party logistics (3PL) gross revenue again saw annual gains, up 3.2 percent over 2012 at \$146.4 billion, according to data from 3PL consultancy Armstrong & Associates.

According to Evan Armstrong, president of the firm, while global trade and economic activity serve as the "ultimate drivers" of 3PL market growth, the maturity of competitive service offerings and the size of major players contribute to slower growth rates.

Individual market segments showed that domestic transportation management (DTM) gross revenue at \$49.2 billion was up 8.4 percent year-over-year; international transportation management gross revenue at \$46.2 billion was down 0.3 percent year-over-year; dedicated contract carriage (DCC) gross revenue at \$12.0 billion was up 3.3 percent year-over-year; and value-added warehousing and distribution (VAWD) gross revenue at \$35.9 billion was up 0.3 percent year-over-year.

Armstrong told *LM* that his

firm is expecting overall results in 2014 to be up 5.2 percent over 2013 to an estimated \$154 billion, representing a better growth year.

"Last year, growth in the sector was fairly anemic, with a lot of it due to the





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As for brokerage in the DTM space, Armstrong said that the increased competition among so many players has resulted in better performance for customers compared to the past. “Back then, if a load did not generate enough margin for a broker, the broker would tell the shipper the load could not be handled,” he said. “But now, many leading freight brokers will move the load at a loss just to make sure they are providing good service levels for customers.”

On the international side, Armstrong

said that this segment will only do as well as the Asia-to-U.S. trade lane is doing. And in Asia, he said that there’s currently more of a focus on intra-Asia and fulfillment and distribution within Asian countries and less focus on exports.

Overall, Armstrong adds that the 3PL sector is doing well, with business growing for many due to upward trends in near-shoring, industrial manufacturing, oil and gas production, and healthcare device manufacturing.

—Jeff Berman, *Group News Editor*

Governors of both parties in the U.S. joined Foxx in ripping yet another short-term funding punt by Congress.

“It’s stupid is what it is,” Connecticut Gov. Daniel Malloy (D) recently told the *Wall Street Journal*. “If you can fix it until May 2015, why can’t you fix it for a longer period of time? It’s brinksmanship.”

From the Republican side, Utah Gov. Gary Herbert echoed the same sentiment. He’s hinting that it’s time to raise the federal tax on fuel—18.4 cents a gallon on gasoline, 24.4 cents on diesel, unchanged since 1993. “I think there needs to be some consideration about adjustments for inflation,” Herbert told the *Wall Street Journal*.

In Washington, Foxx said that the inaction of Congress on this issue is an embarrassment for both parties—and damaging to the nation as a whole.

“Until Congress passes a long-term bill, I’m urging the American people to say no more delays, no more gimmicks, no more short-term patches or Band-Aids,” said Foxx, a former mayor of Charlotte, N.C. “Build our country, put us to work and get America moving again and help future generations move forward in the process.”

Foxx warned that if Washington continues to only think short term, it will endanger the economic recovery with an outdated transport system.

“If we’re only building for the present, we are building for the past,” add Foxx. “That’s just the reality. It’s a sad commentary that we are, in effect, managing a declining system.”

At current spending levels, according to the American Society of Civil Engineers, the U.S. will fall almost \$850 billion short of transportation funding needs by 2020. “We need a transportation reset, and we need it big,” Foxx said. “We have 100,000 bridges old enough to qualify for Medicare.”

—John D. Schulz, *Contributing Editor*

INFRASTRUCTURE

DOT Secretary Foxx rips Congress’s short-term extension as gimmicky “Band-Aid”

WASHINGTON, D.C.—Even as Congress was putting the finishing touches on a 10-month short-term funding extension to the federal aid highway bill, Transportation Secretary Anthony Foxx was ripping the measure as a short-term “gimmick” that once again fails to adequately fund U.S. infrastructure needs in the long run.

“If this short-term patch passes, it will not be time to celebrate,” Foxx told the National Press Club in a July 21 speech, shortly before Congress was scheduled to start its five-week summer recess. “It’s hard to imagine Congress will not push the snooze button on this issue again until crunch time.”

The 10-month, \$8.9 billion authorization Congress was working on merely kicks the funding can down the road once again. This punt is the 27th short-term funding extension of the highway bill in the last five years—and Foxx warned that these easy political fixes have to stop.

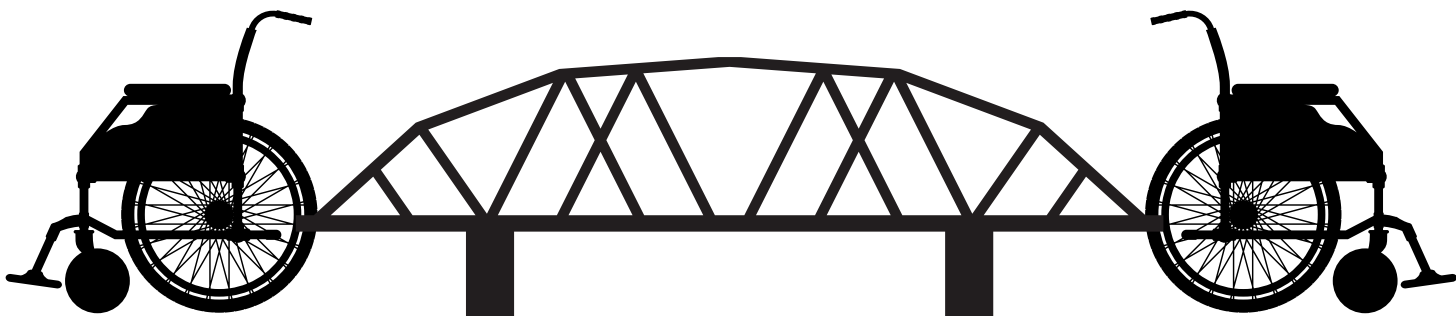
“Come May 2015, if we’re not careful, we’ll be right back here again with the

shot clock set to expire, looking for an easy solution to patches for a few more months, leaving the real conversation to another time,” Foxx said.

Backing President Obama’s “Grow America Act” that increases federal funding on transportation by \$22 billion over four years, Foxx said that these short-term fixes are “killing our transportation system softly,” and hurting the economic recovery.

Other officials, foreign and domestic, agree. Recently Christine Lagarde, managing director of the International Monetary Fund (IMF) called on the world’s most industrialized nations—including the U.S.—to step up public investment on infrastructure to help the fragile world economic recovery.

“In the current context of a weak growth outlook and low borrowing costs, a judicious stimulation of public investment can give growth the necessary impetus, above all in advanced economies,” Lagarde recently told a world economic conference in Aix-en-Provence, France.



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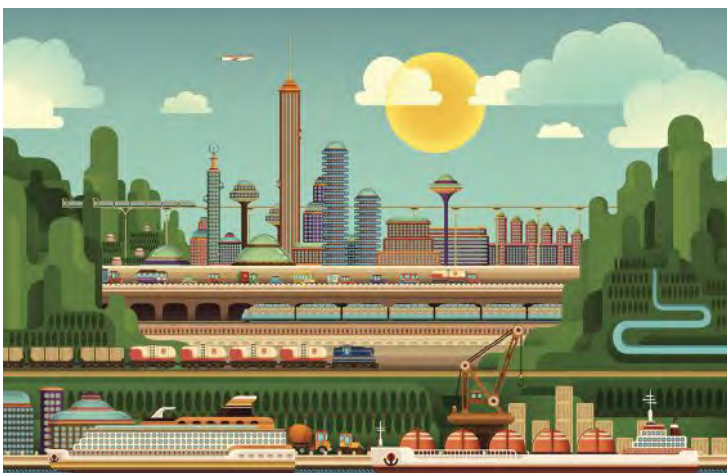
TRANSPORTATION POLICY

White House rolls out Build America Investment Initiative

WASHINGTON, D.C.—It's not a secret that the Obama administration is keen on rebuilding America's transportation infrastructure, which has long been known as the backbone of the nation's economy. It's also not a secret that the current state of U.S. infrastructure is in very, very rough shape.

What's more, the American Society of Civil Engineers' *2013 Report Card for America's Infrastructure* gave the nation's transportation skeleton an overall grade of D+, a notch above the D it received in the last report

in 2009. That said, the White House has made it clear that it's losing its patience with Congress sitting on its hands while



the nation's infrastructure continues to crumble.

Speaking at the Port of Wilmington, Del. in July, President Obama said that he will sign a Presidential Memorandum to establish the Build America Investment Initiative, a plan that will increase infrastructure investment and economic growth by engaging with state and local governments and private sector investors to encourage collaboration, expand public-private partnerships (PPP), and leverage private capital's potential to work in tandem with government funding.

Obama was blunt in assessing what ails the nation's domestic transportation issues. "First-class infrastructure attracts investment and it

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creates first-class jobs," he said. "Unfortunately, right now, our investment in transportation lags behind a lot of other countries. China is doing more. Germany is doing more. They're putting money back into building the infrastructure needed to grow over the long term."

Obama also referenced how Congress appears to be on the verge of keeping the Highway Trust Fund intact through May 2015 (see story on page 16) with what essentially amounts to a Band-Aid bill that will eventually leave things in a state of flux when the end of May rolls around—which he accurately observed is "not normally how you fund infrastructure."

As for how to finance the Build America Investment Initiative, Obama said

it would be paid for in part by closing loopholes for companies shipping profits overseas and avoiding paying their fair share in taxes.

"I'm happy to see that President Obama's campaign for increased transportation investment is going to a new level," said Mort Downey, founding chairman of the Coalition for America's Gateways and Trade Corridors (CAGTC) and senior advisor at infrastructure firm Parsons-Brinkerhoff. "The current Congressional effort to find a temporary fix for Highway Trust Fund shortfalls is only a Band-Aid, and the Administration's focus is correctly on the need for long-term action and adequate resources."

—President Obama

—Jeff Berman, Group News Editor

"Unfortunately, right now, our investment in transportation lags behind a lot of other countries. China is doing more. Germany is doing more. They're putting money back into building the infrastructure needed to grow over the long term."

PARCEL EXPRESS

E-commerce survey asks: Need for green or need for speed?

FRAMINGHAM, Mass.—A recent survey has found that more than half of e-commerce consumers (54 percent) are willing to pay at least 5 percent higher prices for products ordered online if they are delivered sustainably, and 76 percent would wait at least one extra day for climate-friendly transport.

These are among the findings of the *Need for Green or Need for Speed Survey* commissioned by consulting firm West Monroe Partners. The survey went on to reveal that although consumers seem positive about greener delivery, they're largely unaware such delivery options exist. Further, retailers supply virtually no green shipping choices in the course

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of e-commerce transactions.

In a recent interview, Yves Leclerc, managing director of supply chain for West Monroe, said that the results were surprising and challenge the assumption that same-day delivery is the “holy grail”

of e-commerce.

“This would lead us to believe that, if presented with the option, consumers would pay a premium or wait longer,” said Leclerc. “The challenge today is for businesses to present the option and

some visibility into the carbon footprint of various shipping methods. Based on the survey, if those options exist they will drive consumer behaviors.”

Leclerc said that previous research has suggested that the carbon footprint of picking, packing, and shipping an item next-day is as much as 30 times greater than if the consumer simply drove to the store to buy the same item. Inside a distribution facility, the benefits of being able to postpone fulfillment enables consolidation resulting in fewer miles per stop.

“Green shipping or sustainable shipping is not just about five-day versus next-day shipping,” Leclerc clarified. “It’s the total logistics transaction from the consumer order to delivery. Packaging, returnable containers, inventory holding strategy, consolidation, last-mile methodologies, all of it is folded into the concept of green shipping.”

Leclerc went on to suggest that regulatory impacts in coming years will likely force corporations to pursue greener logistics, perhaps including electric- or natural gas-powered vehicles for last-mile delivery.

“And now we know what the consumer actually wants as opposed to assuming they want next- or same-day shipping,” Leclerc said. “We might now be facing the perfect storm where consumers, businesses, and lawmakers are on the same page. I would expect to see a lot of improvement in corporate America’s approach to green and sustainable efforts.”

In addition, the survey sought to understand how price tolerance varies across different demographics like age, income, educational level, and geography. Interestingly, annual income was not an influential factor in consumers’ willingness to pay more for sustainable delivery.

In fact, respondents who earn more than \$100,000 a year were slightly less likely to accept higher prices for climate-friendly transport. “Just because consumers may have more disposable income,” he said, “they are not necessarily willing to part with it in the interests of sustainability.”

—Josh Bond, Editor at Large

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



It's risky business forecasting future environmental impact on the economy

THERE HAS BEEN A FAIR AMOUNT MENTIONED in mainstream media recently about climate change and how it has the potential to be a threat to U.S. business.

A recent *Wall Street Journal* article cited how Henry Paulson, the U.S. Treasury Secretary, Michael Bloomberg, former Mayor of New York, and hedge-fund billionaire Tom Steyer have banded together to issue a bipartisan report titled *Risky Business*.

The report stresses the point that “climate change could cost the country billions of dollars over the next two decades.” Paulson adds that there’s now a need “to depoliticize the climate change debate and instead focus on how it poses an economic threat to U.S. business.”

The trio notes various findings, including how, within the next 15 years, higher sea levels, storm surges, and hurricanes could raise the annual financial tally for coastal damage along the East Coast and Gulf of Mexico to \$35 billion.

They add that unless farmers adapt their crops, some Midwestern and Southern agricultural areas could see a decline in yields exceeding 10 percent over the next two decades due to increased drought and flooding.

Even though the report stresses the negative impact on business, it also points out how some members of Congress are still skeptical that climate change will have anywhere near the impact that the report is suggesting. The authors of the report write that the U.S. Chamber of Commerce and various energy companies are against new carbon emissions limits that would have an impact on coal-fired plants, adding that these EPA-mandated regulations “will lead to job losses, impose heavy costs on the utilities industry, and raise electricity prices.”

Another article, this one appearing in the *New York Times* and written by Paulson, stated that the same mistakes the U.S. made in handling the 2008 bursting of the credit bubble—which served as a prelude to the Great Recession—have the potential to be repeated in a form that poses enormous risks to our environment and economy.

Paulson went on to say that it’s a “crisis we can’t afford to ignore, but we can see the crash coming, and yet we’re sitting on our hands rather than altering course.”

What’s his plan to augment the current situation? Putting a price on emissions of carbon dioxide—or a carbon tax—and creating incentives to develop new cleaner energy technologies.

Paulson cites the *Risky Business* report, explaining that there’s a need to craft national policy that uses

market forces to provide incentives for the technological advances required to address climate change.

“We can do this by placing a tax on carbon dioxide emissions,” Paulson writes. “Many respected economists, of all ideological persuasions, support this approach. A price on carbon would change the behavior of both individuals and businesses. At the same time, all fossil fuel subsidies should be phased out. Renewable energy can outcompete dirty fuels once pollution costs are accounted for.”

Not ready for prime time

I asked Kevin Smith, president and CEO of Sustainable Supply Chain Consulting, what the ramifications of the *Risky Business* report could be for business and the supply chain.

“CO₂ generated by the burning of fossil fuels certainly affects things, so we should try to reduce emissions to the best of our ability,” says Smith. “Alternative energy sources, while interesting, are not generally ready for prime time, yet. Brighter people than I have suggested that electric vehicles are simply a stop-gap until true renewable energy sources like hydrogen can be tapped. By the way, electric vehicles get charges with energy largely generated by coal burning power plants.”

Smith adds that the President is apparently on a tear to limit coal burning, clean or otherwise. “However, the problems there are multi-fold,” he says. “First, most of our energy for electricity in the U.S. comes from coal. The coal industry employs a lot of people from miners, truckers, railroads, power plant operators, and the people who provide transmission lines. Can we trash that part of the economy without an alternative?”

In our conversation, Smith also outlined numerous things that businesses can do to help the environment, including better routing, fuller loads, and aerodynamic designs for trucks as a few things that reduce carbon emissions and highway congestion.

In his final synopsis, Smith notes that considering climate change as a business risk seems like a great idea. “Individual businesses will probably do a good job of reducing carbon emissions if there is a benefit for them rather than some grand political agenda,” he says. “Broad strokes of the sword in the good name of climate change may have an unintended fall-out if businesses are forced to cope with egregious rules and regulations.” □

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Keep a weather eye on ocean markets

IN 2013 WE SAW MULTIPLE attempts by carriers to firm up ocean freight pricing in trans-Pacific lanes. In the meantime, trans-Suez lanes were regularly defeated by rapid additions to available ship capacity in other key lanes as prices started to look better.

This increased capacity response in major routes led to more price discounting, and the result was a series of fluctuations of as much as 30 percent in major east-west lanes—while in the background were the many post-Panamax “mega” ships entering the market, putting even more pressure on prices.

In 2014 we find the appearance of improved market response by the carriers as they try to negotiate more sharing capacity agreements and are being more cautious in discounting.

The recent rejection by the Chinese of the proposed mega-capacity sharing partnership known as P3 between Maersk, MSC, and CMA CGM will perhaps forestall carrier attempts to reduce capacity variability that plagued the market in 2013 by coordinating—some might say colluding—on capacity availability in major lanes through vessel capacity scheduling. For shippers, the P3 and similar agreements that will come online are something to watch closely.

Carriers argue that customer service improves when they share each other’s capacity, enabling more possible embarkation dates for shippers. Further, they argue that there’s more efficient use of vessels with resulting fuel efficiencies and reduced carbon emissions per ton transported.

In practice, brokers and NVOCC’s fill this role normally by matching shippers with the best schedule and rate available. Therefore, one effect of capacity sharing partnerships is that shippers are told that they can deal directly with the carrier and still get a choice of sailings and ports. The broker and third-party community might find this a bit alarming, as the threat of disintermediation has been hanging over this old industry for many years.

Importers and exporters have relied upon intermediaries to help them navigate the complexities of interna-

tional shipping for centuries. This relationship, and the independent third party industry roles, will continue to be assumed by the carrier and by automation. However, one important role is the continuous monitoring of the volatile ocean and intermodal markets.

The ability of carriers to directly sell to shippers with a portfolio of in-house services has improved carrier margins—while increasing the cost for shippers to switch.

As a service provider learns of the unique characteristics of a shipper’s products and service needs, the shipper increasingly relies on that provider and may not switch unless compelled to do so.

Carriers argue that customer service improves when they share each other’s capacity, enabling more possible embarkation dates for shippers. Further, they argue that there’s more efficient use of vessels with resulting fuel efficiencies and reduced carbon emissions per ton transported.

Integration of digital messaging further increases the cost of changing, while the addition of cross-carrier capacity partnerships will further the desire of carriers to be a one-stop shop.

Today, the smart importer/exporter is paying attention to the ocean market. Shippers need to keep an eye on capacity increases; port capacity and depth changes; Panama Canal expansion news and any reports revolving around the proposed Nicaragua canal; the development of cross-capacity partnerships; price change announcements; and, of course, the financial performance of the carriers.

Shippers should also keep on top of the news revolving around third parties, such as any changes in ownership, financial performance, changes in management, and further investment in technology and service portfolios.

International shippers know that the market continues to be volatile, and this is certainly no time to take your eyes off the rapidly changing conditions. □

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Supply chain control towers are taking off

SIMPLY LISTING A TYPICAL COMPANY'S supply chain challenges could consume this column. However, there's a small group of capabilities that are critical for supply chains in today's volatile environment. One is *end-to-end collaboration*—getting everyone on the same page. Another is *organizational alignment*—putting the right skills in the right place at the right time. A third is *dynamic decision making*—knowing what to do when it's most important. The last is *maximum agility*—executing smart, rapid responses to external or internal events.

There is a singular initiative that simultaneously enables each of these capabilities: At Accenture, we call it a supply chain control tower.

Comparisons to a tower that manages air traffic may be cliché, but are accurate. Similar to the airport spire, a supply chain control tower monitors activity, gathers and processes information, and coordinates actions from a central location. And somewhat similar to the airport facility, three capabilities are paramount in and around the supply chain control tower:

- **Visibility:** With real-time access to enterprise-wide information—demand, orders, inventory, shipments, capacity levels—control towers help to know about *now*.

- **Analytics:** Control towers interpret visibility data—conducting root cause analysis, triggering alerts, detecting tipping points—and use analytics to understand why an event has occurred possible responses.

- **Execution:** With the control tower as a hub, each part of the supply chain knows when and how it's affected by another. Control tower assets,

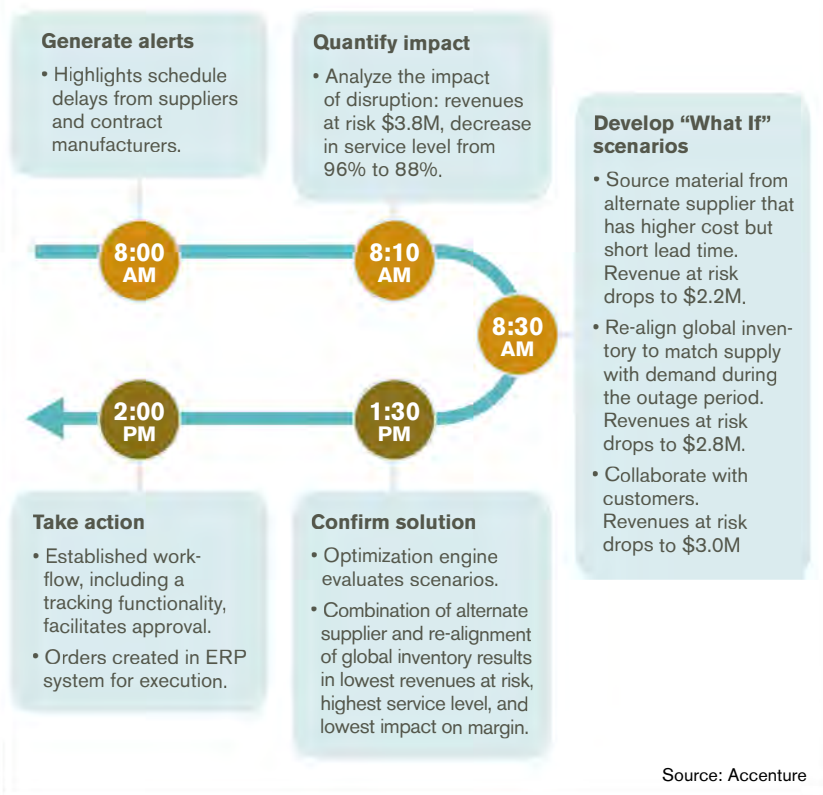
both human and automated, disseminate information and action plans across the supply chain and monitor activity to ensure compliance.

Supply chain control towers can be designed for several business outcomes. What follows are three hypotheticals.

Optimize transportation

A chemical company implements a control tower to centralize order fulfillment operations and improve transportation performance. When a customer places an order, the company's ERP system generates out-

How a control tower can help an electronics company improve responsiveness



bound delivery orders just as it did before the control tower was implemented. But instead of orders being routed to local transportation planners at various sites, transport planning is now performed within the control tower.

Using advanced analytics, control tower planners create shipment plans that consolidate routing and assign carriers. They then tender shipments to carriers and advise each location of its plan. During transport, the control tower provides en-route visibility and monitors delivery status. And when a carrier submits a freight bill, the control tower expedites audit, dispute resolution, and payment processes via a shared service center.

Improve responsiveness

An electronics manufacturer has six North American DCs that ship directly to retail stores. With manufacturing operations and suppliers based mostly in Asia, the company decided to build a control tower to help acquire faster, more accurate information on production plans and suppliers' inventory positions. The company's new supply chain control tower generates alerts about expected shortfalls and delays in production runs at suppliers and contract manufacturers.

Using analytics and scenario-modeling, it also gauges the potential impact of these events on supply plans, production schedules, service levels, and revenues and margins. Through the control tower, various actions, such as sourcing from alternate suppliers, realigning global inventory, and modifying production schedules are assessed, and the optimal choices are executed.

Support business strategy

Control tower reports show that the logistics costs of a U.S. consumer goods company are rising, and that on-time-deliveries are slipping in their eastern region. A logistics dashboard in the control tower identifies transportation—particularly planning and network design—as a major contributor. The tower also reveals that distribution capacity in the eastern region has not kept pace with demand.

Instead of launching a one-off project, company executives have the control tower team formulate a short-term strategy to

optimize product flows to reduce overall transportation costs and meet service-level targets and a long-term and a greenfield strategy to redesign the network to shut down two West Coast distribution centers and open two new ones in the eastern region. The result: Extensive cost reduc-

tions and improved service levels.

Alignment; collaboration; rapid response; and organizational agility. These elements are indispensable for supply chain leadership. And you may also need a control tower to help land them properly. □

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



Cognitive Dissonance and Natural Gas Markets: Low prices now, but what next?

IT'S NATURAL TO BECOME MORE CONFIDENT and comfortable upon making a real-world observation that resonates with some theory or hypothesis that you hold. This is especially true, at least for me, when it comes to markets.

The term “cognitive dissonance” describes the opposite effect. Cognitive dissonance describes the mental stress and discomfort experienced by an individual who is confronted with two true, but apparently contradictory observations. In analyzing oil and gas markets, I am constantly put in the uncomfortable state of cognitive dissonance, and this feeling pushes me to look deeper to find the source of the discord.

The recent plunge in natural gas spot and front month future prices—from around \$4.50 per million BTU (mmBTU) in mid-June to approximately \$3.75 per mmBTU in mid-July—does not jive with the amount of natural gas in storage, our buffer against unpredictable winter demand. Storage now stands at a level which is 20 percent below the previous five-year low and more than 25 percent below the five-year average low experienced at this point in the build-up season.

So, what gives? Why are traders pushing natural gas prices down when the volume of natural gas in storage is at historical lows?

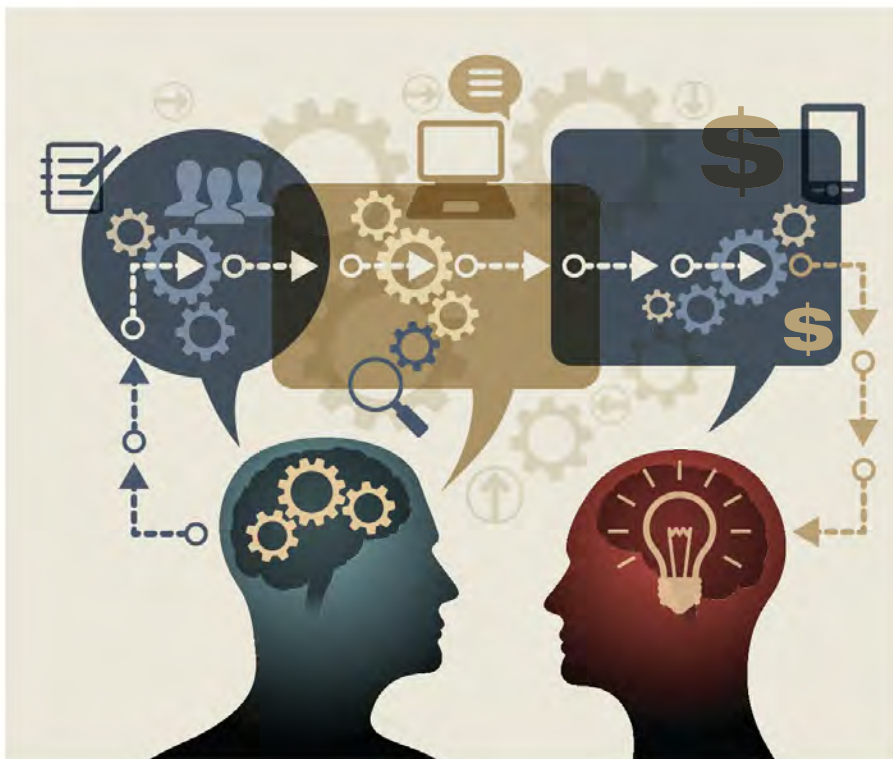
The answer is simple. Weekly net additions to storage have been running at record and near record rates. Over the last 11 weeks, net additions set new highs on seven occasions, and on the four occasions that new highs were not reached additions were 20 percent above average. In other words, for the last three months, the growth rate of storage volumes has sent a signal to traders that there's a high likelihood that storage levels will be very close to the historical norm by the beginning of the winter draw-down season.

While this explanation brings harmony to one case of cognitive dissonance, it brings about another altogether. How is it that net additions are growing at such a pace when drilling rates remain at levels that are so low?

According to Baker Hughes data, the number of natural gas drilling rigs in operation has declined 80 percent since the peak hit on September 12, 2008. More importantly, the number of active rigs drilling for natural gas is down 14 percent over last year's levels. Considering that throughout 2013 the amount of natural gas in storage fell from glut-levels to the lowest level since 2003, the decline in the number of drilling rigs certainly doesn't resonate with record weekly net additions and a 17 percent price decline.

The three-part explanation is straightforward. First, an increasing share of natural gas production is coming from what are considered by Baker Hughes to be oil wells. Indeed, it is a rare well that does not produce both liquid and gaseous hydrocarbons. So, as domestic oil production continues to surge, so too does the production of “associated gas.”

Not all of this gas is captured and brought to market, though. In places like the Bakken, many new wells are too far from existing natural gas processing plants and



pipelines—consequently the associated gas is flared at the wellhead. Approximately 30 percent of the gas produced in the Bakken is flared today, but new legislation has been enacted that aims to reduce this waste.

Second, and more importantly, gas producers are becoming ever more efficient. This is due in part to their choice of well sites and in part due to technological advances. The length of lateral wells is increasing, thus each well is becoming more productive.

Productivity gains over the previous nine months—as measured in monthly additions from the average drilling rig—are impressive, ranging from 7 percent in the Haynesville formation to 72 percent in the Permian Basin. In the most prolific gas producing shale play, the Marcellus, productivity gains are up 13 percent.

The third driver of rising natural gas storage volumes is the weather. This summer, a “polar vortex” of sorts caused natural gas demand to be much lower than normal. What the January polar vortex taketh, the July polar vortex returneth.

For the time being, sense can be made of the low and falling natural gas prices. If net additions to the quantity of natural gas in storage continue along as they have been, underground storage should rise to a comfortable level before the next draw-down season commences at the end

of the year. Of course, there is still plenty of time left for a heat wave or two to bring down net additions to storage.

So, while the recent price decline can be explained, the long-term challenge remains. At some point, as average annual demand for the commodity continues to increase and as LNG export facilities are brought online, demand will at some point break through the critical value, and drilling rates will need to rise. I suspect that this will happen sooner than later as a consequence of ever-increasing legacy decline rates.

Legacy wells are older wells that are in decline. Due to the nature of hydraulic fracturing, fracked wells have short lifespans and steep decline curves. Consequently, some number of new wells must be drilled just to maintain flat production, and that number is growing rapidly.

By way of example, legacy production declines in the Marcellus amounted to 171 million cubic feet per day in October 2013. By July, legacy declines had more than doubled to 395 million cubic feet.

A similar trend is occurring in the Eagle Ford and Permian basins. Legacy declines are declining significantly in only the Haynesville. Overall, though, accelerating legacy declines present a clear and present threat to net production. Enjoy the low prices while you can, because they too will come to an end. □

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June	98.7%	96.9%	97.5%	94.7%	97.9%	96.7%
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	2013	2014	2013	2014	2013	2014



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Deck

Reaching new service heights

Which carriers, third-party logistics providers, and U.S. ports have reached the summit of service excellence over the past year? Our readers have cast their votes, and now it's time to introduce this year's winners of the coveted Quest for Quality Awards.

BY LOGISTICS MANAGEMENT STAFF

The editorial staff of *Logistics Management* (LM) is proud to unveil the results of the 31st Annual Quest for Quality Awards. This year, a record 155 providers of transportation and logistics services have received the ultimate vote of confidence, posting the highest scores across our lists of critical service criteria.

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

To determine who wins the vote, *LM* readers evaluate companies in all

Performance attributes' importance

Importance ratings are captured on a 5 point scale: 5 = Highly important/1 = Not important

	Carrier selection/ Negotiation	Order fulfillment	Transportation/ Distribution	Inventory management	Logistics information systems
3PL - Transportation management solutions	4.46	4.15	4.40	3.46	4.11
Rated highly important (5,4)	89%	79%	88%	56%	76%
	Customer service/ Value-added services	Order fulfillment	Transportation/ Distribution	Inventory management	Logistics information systems
3PL - Value added warehousing & distribution	4.57	4.27	4.45	3.72	4.18
Rated highly important (5,4)	90%	82%	89%	64%	78%
	On-time performance	Value	Information technology	Customer service	Equipment & operations
Truckload	4.69	4.26	3.26	3.96	3.74
Rated highly important (5,4)	95%	86%	49%	72%	68%
Rail and intermodal	4.70	4.41	3.48	4.05	3.96
Rated highly important (5,4)	95%	92%	58%	77%	72%
Ocean carriers	4.71	4.39	3.74	4.16	3.93
Rated highly important (5,4)	94%	89%	68%	80%	72%
LTL	4.76	4.37	3.52	3.96	3.51
Rated highly important (5,4)	97%	91%	58%	72%	60%
Freight forwarders	4.79	4.29	3.65	4.17	3.51
Rated highly important (5,4)	97%	87%	64%	78%	60%
	Ease of doing business	Value	Ocean carrier network	Intermodal network	Equipment & operations
Sea ports	4.31	4.23	4.02	3.95	4.21
Rated highly important (5,4)	85%	82%	74%	74%	82%

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

modes and service disciplines, choosing the top performers in categories including motor carriers, railroad and intermodal services, ocean carriers, airlines, freight forwarders, and third party/contract logistics services. From January through May of this year, *LM* and Peerless Research Group (PRG), a division of Peerless Media, surveyed readers who are qualified buyers of logistics and transportation services.

This year our research group received 7,451 total responses—1,272 more than last year. In order to be a “winner,” a company had to receive at least five percent of the category vote. The result of this overall effort offers the logistics market a crystal clear look at not only the overall winner in any given category, but a broad list of companies that finished above the average.

Transportation service providers are

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



31st Annual Quest for Quality

REACHING NEW SERVICE HEIGHTS

Logistics Information Systems.

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

Two years ago we re-established our Ports category, using Ease of Doing Business; Value; Ocean Carrier Network; Intermodal Network; and Equipment & Operations as the five key criteria to measure service success. We're

pleased to be delivering the scores of the top North American Ports once again this year—and for many years to come.

Evaluating the "best of the best"

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

The PRG research team then uses those attributes' rankings to create weighted scores in each category. For example, readers have historically placed the single highest value on the On-time Performance attribute—and they've done so again in 2014. In fact, the attribute was rated between 4.79 and 4.69 across the various carrier categories.

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

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

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

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31st Annual Quest for Quality

NATIONAL/MULTI-REGIONAL LTL

Gaining momentum

As we wrap up the first half of 2014, the longer-haul less-than-truckload (LTL) sector is seeing a lot working in its favor, including better-than-expected volume levels. The sector is also enjoying a financial renaissance, one that Contributing Editor John Schulz says has the leading LTL carrier executives “breathing a collective sigh of relief.”

After five years of mediocre results coming out of the Great Recession, LTL carriers report that they are finally getting some rate increases to cover the ever-rising costs of doing business. And while the sector is seeing some welcomed relief on the

balance sheet, navigating through HOS and CSA rules—and keeping qualified drivers in cabs as a consequence of these rules—is no easy task. However, according to *LM* readers, the long-haul LTLs below are doing a stellar job of juggling the challenges while maintaining world-class service levels.

In this year’s National LTL category we find Con-way Freight leading the pack posting a 46.76, followed by FedEx Freight (46.52) and a new entrant to the category, The Reliance Network (45.47). Con-way led the way in On-time Performance (11.60), Customer

Service (9.21), and Equipment & Operations (8.72). The Reliance Network posted the top score in Value (10.47), while FedEx Freight led the way in Information Technology (8.55).

In Multi-Regional we find three stalwart carriers winning the gold. Old Dominion Freight Line put up the top average this year (48.24), followed by FedEx Freight (47.28) and UPS Freight (44.90).

And, in the annual two-horse race for top service scores in Surface Package, UPS and FedEx Ground both posted winning numbers this year, with UPS slightly edging out its top competitor with a 49.76 weighted average.

National LTL

(Bold indicates leader in attribute category)

	On-time performance	Value	Information technology	Customer service	Equipment & operations	Weighted score
Con-way Freight	11.60	9.19	8.03	9.21	8.72	46.76
FedEx Freight	11.51	9.25	8.55	8.60	8.62	46.52
The Reliance Network	10.78	10.47	7.33	9.10	7.78	45.47
AVERAGE	10.80	9.04	7.91	8.67	8.15	44.57

Multi-Regional LTL

(Bold indicates leader in attribute category)

	On-time performance	Value	Information technology	Customer service	Equipment & operations	Weighted score
Old Dominion Freight Line	12.10	9.82	8.24	9.58	8.50	48.24
FedEx Freight	11.47	9.38	8.64	9.10	8.69	47.28
UPS Freight	10.56	9.10	8.50	8.52	8.22	44.90
AVERAGE	10.55	9.30	7.76	8.56	7.90	44.07

Surface package carriers

(Bold indicates leader in attribute category)

	On-time performance	Value	Information technology	Customer service	Equipment & operations	Weighted score
UPS	12.32	10.06	9.32	8.99	9.08	49.76
FedEx Ground	11.96	9.88	9.08	9.02	8.88	48.83
AVERAGE	11.77	10.10	8.72	8.68	8.69	47.97

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



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REGIONAL LTL

Overcoming challenges with top service

The challenges faced by its longer-haul less-than-truckload (LTL) brethren are only magnified for carriers in the Regional LTL sector.

And while they all work tirelessly to successfully manage the onslaught of increased regulation and related operational challenges, the Regional

LTL carriers listed below have done the best job over the past 12 months of maintaining top service levels in the eyes of *LM* readers.

Northeast LTL

(Bold indicates leader in attribute category)

	On-time performance	Value	Information technology	Customer service	Equipment & operations	Weighted score
A. Duie Pyle	12.38	10.54	8.57	9.97	8.79	50.24
Kane Is Able	11.31	9.99	8.05	10.18	9.03	48.55
New Penn	12.07	9.72	8.08	9.41	8.06	47.34
Pitt Ohio	11.76	10.12	7.86	8.88	8.01	46.63
AVERAGE	11.40	10.04	7.70	9.12	8.07	46.34

South/South Central LTL

(Bold indicates leader in attribute category)

	On-time performance	Value	Information technology	Customer service	Equipment & operations	Weighted score
Southeastern Freight Lines	11.97	10.82	8.50	9.56	8.66	49.50
Holland	11.64	10.36	8.03	9.43	8.37	47.82
Averitt Express	11.52	10.13	7.83	9.12	8.47	47.08
AVERAGE	11.23	10.09	7.65	8.99	8.16	46.13

Midwest/North Central LTL

(Bold indicates leader in attribute category)

	On-time performance	Value	Information technology	Customer service	Equipment & operations	Weighted score
Dayton Freight Lines	11.86	10.58	7.85	9.83	8.52	48.63
Holland	11.45	10.07	7.87	9.41	8.32	47.12
Lakeville Motor Express	10.82	10.42	7.04	8.89	7.85	45.02
AVERAGE	10.48	9.68	7.23	8.72	7.71	43.82

Western LTL

(Bold indicates leader in attribute category)

	On-time performance	Value	Information technology	Customer service	Equipment & operations	Weighted score
Lynden Transport	13.29	10.56	8.55	11.36	9.25	53.01
Peninsula Truck Lines	12.69	10.93	8.21	9.24	8.78	49.85
Oak Harbor Freight Lines	12.25	10.78	7.52	9.85	8.57	48.98
American Fast Freight	11.90	10.56	8.00	9.24	8.62	48.32
AVERAGE	11.69	10.18	7.81	9.36	8.43	47.46

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



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31st Annual Quest for Quality

TRUCKLOAD

Leading the way in long-haul

Despite mounting operational pressures, *LM* readers tell us that the following 38 TL carriers continue to offer top service.

Bulk motor

(Bold indicates leader in attribute category)

	On-time performance	Value	Information technology	Customer service	Equipment & operations	Weighted score
Ruan Transport	11.91	10.02	7.86	9.79	9.70	49.28
Miller Transporters, Inc.	11.65	9.55	7.49	10.12	9.28	48.09
Bulkmatic Transport	11.99	9.62	7.15	9.35	9.57	47.68
Superior Carriers	11.78	9.44	6.82	9.72	9.29	47.05
Groendyke Transport, Inc.	11.39	8.93	7.38	10.00	9.35	47.05
Schwerman Trucking Co.	11.60	9.32	7.34	9.16	9.24	46.65
AVERAGE	11.14	9.31	7.20	9.23	9.18	46.06

Dry freight

(Bold indicates leader in attribute category)

	On-time performance	Value	Information technology	Customer service	Equipment & operations	Weighted score
Anderson Trucking Services	11.97	9.59	6.93	10.26	10.20	48.94
Averitt Express	11.51	9.80	7.47	9.50	9.21	47.49
ECM Transport/PITT OHIO Truckload	11.94	9.64	7.01	9.46	9.05	47.10
NFI	11.04	9.59	7.27	9.75	8.92	46.56
Crete Carrier Corp.	11.33	9.23	7.21	9.61	8.78	46.16
Transport America	10.77	9.51	7.14	9.37	8.85	45.63
Marten Transport	10.35	9.32	7.48	8.91	8.84	44.89
Schneider National	10.59	9.29	7.40	8.88	8.69	44.86
Con-way Truckload Services	10.97	8.93	7.18	8.80	8.56	44.43
Landstar Transportation	10.91	8.97	6.52	9.36	8.42	44.17
Stevens Transport	10.21	8.25	7.67	9.02	8.88	44.03
AVERAGE	10.51	9.07	6.96	8.69	8.53	43.76

Expedited motor

(Bold indicates leader in attribute category)

	On-time performance	Value	Information technology	Customer service	Equipment & operations	Weighted score
Schneider Expedited Services	11.86	9.83	8.53	10.23	9.97	50.42
CRST Van Expedited	12.25	10.09	7.95	9.90	9.58	49.77
FedEx Custom Critical	12.40	8.88	8.66	9.86	9.92	49.71
OD Expedited	12.26	9.97	7.92	10.18	9.07	49.40
Averitt Express	11.65	10.65	7.97	9.55	9.55	49.36
Dayton Freight	11.86	10.20	7.20	9.74	9.04	48.04
A.Duie Pyle, Pyle Priority	11.43	10.04	7.59	9.49	9.07	47.62
Panther Expedited	12.01	8.88	7.91	9.67	9.07	47.54
New Penn	12.00	9.71	7.35	9.21	8.64	46.91
ABF Freight System	11.44	8.99	7.79	9.59	8.94	46.75
UPS	11.49	9.12	8.11	8.78	9.15	46.66
Reddaway	10.90	9.77	7.96	8.97	8.95	46.55
AVERAGE	11.36	9.34	7.70	9.21	8.93	46.55

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

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TRUCKLOAD

Industrial and heavy haul

(Bold indicates leader in attribute category)

	On-time performance	Value	Information technology	Customer service	Equipment & operations	Weighted score
Melton Truck Lines	12.12	10.22	7.34	10.56	9.97	50.21
Tri-State Motor Transit	11.94	10.07	7.50	10.56	8.73	48.79
Anderson Trucking Services	11.65	9.51	6.64	9.83	9.49	47.12
Roehl Transport	11.63	9.45	7.30	9.43	9.05	46.86
Landstar Carrier Group	11.66	9.24	7.17	9.56	9.05	46.69
Prime, Inc	11.32	8.99	7.43	9.19	8.68	45.61
AVERAGE	11.19	9.37	6.98	9.26	8.70	45.50

Household goods and high value goods

(Bold indicates leader in attribute category)

	On-time performance	Value	Information technology	Customer service	Equipment & operations	Weighted score
Arpin Van Lines	11.14	10.95	7.97	9.90	9.08	49.04
North American Van Lines	10.89	9.59	6.99	9.44	8.87	45.77
Mayflower Transit	11.12	9.21	6.83	9.53	8.42	45.10
AVERAGE	11.06	9.25	6.84	9.16	8.77	45.08

Source: Logistics Management, Peerless Research Group (PRG)



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31st Annual Quest for Quality

RAIL/INTERMODAL

Going above and beyond on the rails

Through record-high investments and a sharp focus on service, rail and intermodal providers are still delivering on their service promise to shippers—and doing it with improved efficiency, say *LM* readers.

As Group News Editor Jeff Berman reported in his 2014 *Rail/Intermodal Roundtable* that appeared in our June issue, perhaps the most impressive fact revolving around the rail/intermodal success story is the flexibility that the sector has illustrated, as it's been able to roll with the economic changes and demand trends since the depths of the Great Recession.

And since that time, the modes have made steady annual gains and are on track to meet or exceed pre-recession volumes on the intermodal side—with carload volumes not that far behind.

“Amid a flurry of concerns over the regulatory framework of the industry

as well as safety concerns, the railroads continue to do their part, making annual record-level capital investments in their infrastructure and network to meet shipper objectives for things like improved transit time gains and increased network efficiency,” says Berman.

However, in the midst of this storied progress, rail carriers still face an array of mounting challenges, including recovering from weather-related service issues caused from this past winter; the possibility of re-regulation; and increasing pushback from shippers that are less than pleased with rates as underlying demand for service remains strong.

How rail and intermodal service providers manage through these unfolding challenges is yet to be seen, but what we can report this month is that the 12 service providers listed below have gone above and beyond to deliver world-class service for the readers of *LM*.

Leading the way in the 2014 Rail/Intermodal category this year we find Swift Transportation (47.07) putting up the highest weighted score. Swift posted top marks in Value (10.10), Customer Service (9.18), and Equipment & Operations (9.42). Pulling in just behind is Norfolk Southern (NS) with a weighted score of 45.91. NS took the lead in two attributes this year, posting a category-high 10.85 in On-time Performance and 7.91 in Information Technology.

In this year's Intermodal Marketing category we find CSX Intermodal posting an impressive 50.02 weighted score. CSX leads the way in Value (10.73), Information Technology (8.46), and Customer Service (10.24). Pulling in first in terms of On-time Performance is Dart Intermodal (12.09), and taking the top spot in Equipment & Operations is J.B. Hunt Intermodal (9.54).

Rail/Intermodal

(Bold indicates leader in attribute category)

	On-time performance	Value	Information technology	Customer service	Equipment & operations	Weighted score
Swift Transportation	10.51	10.10	7.86	9.18	9.42	47.07
Norfolk Southern	10.85	9.54	7.91	8.88	8.73	45.91
Union Pacific	10.54	8.91	7.81	8.49	9.02	44.78
CSX Transportation	10.47	9.34	7.40	8.89	8.40	44.50
Kansas City Southern	10.67	9.00	6.79	8.87	8.32	43.65
Triple Crown Services	10.14	9.70	7.19	8.10	8.45	43.58
AVERAGE	10.19	9.04	7.39	8.41	8.49	43.53

Intermodal marketing

(Bold indicates leader in attribute category)

	On-time performance	Value	Information technology	Customer service	Equipment & operations	Weighted score
CSX Intermodal	11.46	10.73	8.46	10.24	9.13	50.02
J.B. Hunt Intermodal	11.03	10.37	7.77	9.04	9.54	47.75
Schneider Intermodal Services	10.97	10.26	7.73	9.33	9.13	47.42
Dart Intermodal	12.09	10.58	6.96	8.91	8.71	47.25
Hub Group	10.99	10.00	7.73	8.39	8.95	46.07
Clipper Express	10.58	10.47	7.83	9.11	7.92	45.91
AVERAGE	10.78	9.84	7.56	9.03	8.66	45.88

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



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31st Annual Quest for Quality

PORTS

Preparing to exceed service needs

As we've reported over the last year, even the most dominant U.S. ports can't afford to become complacent in the face of several factors currently converging.

With the Panama Canal expansion planned to meet its deadline in late 2015, the top port players are working to accommodate the projected increase in the number of super-sized container vessels. In the meantime, smaller, niche ports are ratcheting up their games to catch residual volumes.

Meanwhile, even more strategic complexity for both ports and shippers will

be introduced with further consolidation of ocean carrier services. Even though the proposed P3 Network was recently nixed, that by no means put an end to the formation of future carrier alliances.

In mid-July, two of the world's biggest carriers—Maersk Line and Mediterranean Shipping Co (MSC)—created the 2M Network based on a 10-year contract deal to share vessels on some of the world's busiest trade routes.

Analysts say the creation of any new alliance will find a review of services and a revised list of port calls, but the

shift in initial deployments tend to be subtle. Over time, however that could change. According to industry analysts, in any massive freight aggregation situation, only the large ocean cargo gateways would receive more business—leaving smaller seaports battling one another for direct inbound carrier calls.

While much is yet to be determined in the nation's ports over next year, we can report with certainty that the facilities listed below have met and often exceeded service expectations for *LM* readers over the past 12 months.

Northeast and Mid-Atlantic ports

(Bold indicates leader in attribute category)

	Ease of doing business	Value	Ocean carrier network	Intermodal network	Equipment & operations	Weighted score
Port of Virginia	11.04	10.51	10.18	9.81	10.24	51.78
Port of Wilmington, DE	10.19	9.40	10.72	9.88	10.95	51.13
New Bedford Harbor	10.06	9.52	10.05	9.88	10.53	50.02
Port of Baltimore	10.38	9.64	9.80	9.31	10.22	49.36
Philadelphia Regional Port Authority	10.63	9.06	9.59	9.12	9.72	48.11
Port of Wilmington, NC	11.41	9.21	8.79	7.90	10.40	47.71
AVERAGE	9.62	9.20	9.56	8.87	9.48	46.73

South ports

(Bold indicates leader in attribute category)

	Ease of doing business	Value	Ocean carrier network	Intermodal network	Equipment & operations	Weighted score
Port of Charleston	11.19	10.81	10.01	9.19	10.34	51.53
Port of Savannah	10.68	10.38	9.83	9.37	10.46	50.71
Port of Palm Beach	10.06	9.67	8.61	9.38	11.43	49.15
AVERAGE	10.36	10.01	9.37	8.96	10.11	48.81

Gulf ports

(Bold indicates leader in attribute category)

	Ease of doing business	Value	Ocean carrier network	Intermodal network	Equipment & operations	Weighted score
Port of Beaumont	11.08	11.00	10.45	7.90	11.79	52.22
Port of Houston	10.91	10.08	9.88	9.36	10.25	50.48
Port of Port Arthur	10.34	9.52	10.05	9.88	10.53	50.31
Port Manatee	9.24	10.58	8.04	8.56	11.79	48.20
AVERAGE	9.95	9.58	9.01	9.02	10.09	47.65

Source: Logistics Management, Peerless Research Group (PRG)



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PORTS

Great Lakes ports

(Bold indicates leader in attribute category)

	Ease of doing business	Value	Ocean carrier network	Intermodal network	Equipment & operations	Weighted score
Cleveland-Cuyahoga County Port Authority	10.78	10.15	11.26	9.22	11.79	53.19
Port of Duluth-Superior	11.21	9.52	10.05	9.88	10.53	51.17
Port of Milwaukee	10.78	11.63	8.04	8.89	11.58	50.91
Port of Montreal	9.98	9.70	9.83	9.44	9.36	48.30
AVERAGE	9.81	9.56	9.59	9.36	9.76	48.09

West Coast ports

(Bold indicates leader in attribute category)

	Ease of doing business	Value	Ocean carrier network	Intermodal network	Equipment & operations	Weighted score
Port of Seattle	10.72	9.80	10.62	9.82	9.59	50.54
Port of Tacoma	10.83	9.95	10.21	9.55	9.24	49.77
Port of Long Beach	9.62	9.33	10.65	10.14	9.90	49.64
AVERAGE	9.81	9.32	10.18	9.66	9.45	48.42

Source: Logistics Management, Peerless Research Group (PRG)

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31st Annual Quest for Quality

OCEAN CARRIERS

Keeping service high despite rough seas

Earlier in the year, Executive Editor Patrick Burnson issued the forecast that 2014 would be the year ocean cargo carriers finally return to profitability.

He reported that pent-up demand, depleted inventories, and a greater overall sense of economic security are converging on the high seas. In the meantime, ocean cargo carriers will be determined not to miss this opportunity to make rate hikes stick.

Now that we're more than halfway through the year, industry analysts still agree with Burnson—and logistics managers are scrambling to readjust forecasts and budgets accordingly.

As we reported in the spring, trans-Pacific cargo demand posted steady growth coming off a healthy holiday season in the first quarter, and container lines serving the Asia-U.S. trade lane say that the gains are so far reflected in freight rates. Based off the recent news, it certainly appears that momentum will

continue to build.

At press time, many shippers were still concerned about the progress—or lack thereof—in West Coast labor relations; however, ocean carriers have expressed optimism by announcing a proposed rate hike.

The world's largest ocean carriers are looking to reorganize and improve global services while working toward recovering revenue to remain vital.

On July 15, container lines in the Transpacific Stabilization Agreement (TSA) moved ahead with a second phase of the revenue recovery plan by implementing a previously announced \$200 per 40-foot container (FEU) general rate increase and peak season surcharge for cargo moving to Pacific Southwest ports in California. The bump follows a

similar increase taken on July 1.

Now, the world's largest ocean carriers are looking to reorganize and improve global services while working toward recovering revenue to remain vital. And according to the readers of *LM*, the following 15 carriers have done a terrific job of balancing this delicate task.

Pulling into port with the highest weighted score among our winners this year is Matson Navigation (49.52). Matson put up top marks in On-time Performance (11.99) and Information Technology (9.16). Wallenius Wilhelmsen had an impressive performance this year, posting high scores in Value (10.54), Customer Service (10.05), and Equipment & Operations (10.15).

Repeat winners from 2013 include Maersk Line (47.69), Atlantic Container Line (47.12), Hanjin Shipping (46.67), OOCL (46.44), Hamburg-Sud (46.44), Hapag-Lloyd (45.75), and Seaboard Marine (45.41).

Ocean carriers

(Bold indicates leader in attribute category)

	On-time performance	Value	Information technology	Customer service	Equipment & operations	Weighted score
Matson Navigation	11.99	8.56	9.16	9.98	9.83	49.52
Wallenius Wilhelmsen	11.59	10.54	7.17	10.05	10.15	49.50
Sea Star Line	11.62	9.79	8.55	9.60	8.77	48.33
Maersk Line	11.47	9.33	8.72	8.99	9.18	47.69
Atlantic Container Line	10.94	9.95	8.08	9.39	8.75	47.12
Hanjin Shipping	10.81	10.15	8.11	8.82	8.78	46.67
OOCL	11.10	9.47	7.92	8.89	9.06	46.44
Hamburg-Sud	10.94	9.58	8.16	8.82	8.93	46.44
Yang Ming Line	10.60	10.17	7.93	9.03	8.70	46.43
Horizon Lines	11.30	9.72	7.73	8.91	8.42	46.09
Hapag-Lloyd	10.94	9.28	7.96	8.77	8.81	45.75
NYK Line	10.70	9.41	8.02	8.55	8.97	45.65
Evergreen Line	10.51	9.54	7.68	9.11	8.75	45.59
Seaboard Marine	10.06	9.01	7.67	9.36	9.31	45.41
Crowley Liner Services	10.18	9.54	7.21	9.06	9.22	45.21
AVERAGE	10.53	9.43	7.75	8.69	8.64	45.03

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



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31st Annual Quest for Quality

3PL

3PLs finding balance, hitting service goals

According to Evan Armstrong, president of 3PL consulting firm Armstrong and Associates, U.S. 3PL gross revenue in 2013 saw annual gains, up 3.2 percent over 2012 at \$146.4 billion. He says that while global trade and economic activity serve as the “ultimate drivers” of market growth, the

maturity of competitive service offerings and the size of major players are contributing to slower growth rates.

In the past, Armstrong says that the 3PL sector has grown about three times as fast as GDP. However, the market is now at a point where it is “getting big enough” and will likely grow at a rate less

than three times GDP unless there’s significant economic activity to the upside.

Also key to growth, he says, is the ability of 3PLs to extend their services beyond the basics, providing opportunities to increase their value and resolve additional challenges. According to *LM* readers, these 26 providers have done just that.

3PL: Transportation management solutions

(Bold indicates leader in attribute category)

	Carrier Selection/ Negotiation	Order fulfillment	Transportation distribution	Inventory management	Logistics information systems	Weighted score
Unyson Logistics	12.92	11.58	12.63	9.11	11.69	57.93
Averitt Express Supply Chain Solutions	11.15	10.61	10.76	8.40	9.98	50.90
Landstar	10.46	10.48	11.08	8.65	9.79	50.46
Ryder Supply Chain Solutions	11.02	10.14	10.45	7.41	9.86	48.89
FedEx Supply Chain	10.38	10.09	10.42	7.64	9.94	48.47
BDP International	10.98	10.94	9.60	7.35	9.59	48.46
Con-way Multimodal	10.70	8.89	10.51	8.52	9.76	48.39
UTi Worldwide	9.97	9.96	10.85	7.84	8.99	47.62
UPS Supply Chain Solutions	10.21	9.80	10.15	7.41	9.88	47.46
Cardinal Logistics Management	10.04	9.96	9.60	7.27	10.09	46.95
DHL Supply Chain	9.73	9.31	10.40	7.87	9.18	46.49
Menlo Worldwide Logistics	10.51	8.72	10.80	7.96	8.22	46.21
C.H. Robinson Worldwide	9.75	9.28	10.80	6.87	8.85	45.54
AVERAGE	9.84	9.32	9.93	7.31	9.09	45.50

3PL: Value added warehousing and distribution solutions

(Bold indicates leader in attribute category)

	Carrier Selection/ Negotiation	Order fulfillment	Transportation distribution	Inventory management	Logistics information systems	Weighted score
Geodis Wilson	11.22	10.68	10.57	9.30	9.55	51.32
Menlo Worldwide Logistics	11.25	10.44	11.33	8.68	8.82	50.52
FedEx Supply Chain	11.25	10.55	10.61	8.05	10.02	50.47
Exel	10.37	10.58	10.01	8.96	10.15	50.08
DHL Supply Chain	9.96	10.87	11.19	8.68	9.22	49.92
Expeditors	11.24	10.16	10.30	8.40	9.75	49.86
Ryder Supply Chain Solutions	10.88	9.96	10.88	8.45	9.67	49.84
Hellmann Worldwide Logistics	10.19	10.25	10.88	8.56	9.61	49.49
UTi Worldwide	10.88	10.30	10.54	8.24	9.10	49.05
DSC Logistics	9.97	9.76	10.81	9.30	9.20	49.03
Averitt Express Supply Chain Solutions	10.55	9.25	10.68	8.37	9.75	48.60
UPS Supply Chain Solutions	10.66	10.14	10.49	7.51	9.61	48.42
Penske Logistics	10.36	10.44	9.71	8.27	9.20	47.97
AVERAGE	10.168	9.637	9.956	7.952	9.075	46.788

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

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31st Annual Quest for Quality

AIR CARRIERS/FREIGHT FORWARDERS

Serving up top service in the air

As noted in the 25th Annual State of Logistics Report, the air freight industry has been facing chronic overcapacity and deteriorating yields—and data surfacing in new research mirror these findings.

Even though the overall air freight logistics index has improved 4.4 points from June 2013, the June 2014 data contained in the Stifel Logistics Confidence Index suggests that the air freight market still remains fragile,

declining 1.9 points to 53.8.

Regardless of the operational headwinds facing air carriers and the challenges that trickle down to the freight intermediaries that place the world's cargo on board, the following 22 service providers have gone above and beyond to provide top service.

Air cargo

(Bold indicates leader in attribute category)

	On-time performance	Value	Information technology	Customer service	Equipment & operations	Weighted score
Southwest Airlines Cargo	12.97	11.97	9.41	11.12	9.79	55.26
Lufthansa	12.57	9.65	9.22	9.99	9.09	50.52
Swiss WorldCargo	12.27	10.73	8.52	10.08	8.42	50.02
Virgin Atlantic	12.86	10.09	7.94	10.16	8.47	49.53
KLM	11.67	9.62	8.83	10.15	8.71	48.98
Emirates SkyCargo	12.06	10.26	8.96	9.07	8.46	48.80
Japan Airlines	11.89	9.89	8.25	9.86	8.46	48.34
Alaska Air Cargo	11.26	9.65	7.79	9.90	8.56	47.16
Lan Cargo	10.91	9.81	8.14	9.38	8.48	46.72
Singapore Airlines (SIA)	11.53	9.61	8.21	8.88	8.46	46.69
AVERAGE	11.43	9.52	8.22	9.19	8.28	46.65

Air express

(Bold indicates leader in attribute category)

	On-time performance	Value	Information technology	Customer service	Equipment & operations	Weighted score
FedEx Express	12.31	9.63	9.42	9.82	8.83	50.03
UPS	11.88	9.66	9.30	9.48	8.76	49.08
AVERAGE	11.55	9.63	8.71	9.18	8.38	47.45

Air freight forwarders

(Bold indicates leader in attribute category)

	On-time performance	Value	Information technology	Customer service	Equipment & operations	Weighted score
UPS SonicAir	11.78	10.40	9.35	10.03	8.99	50.56
Pilot Freight Services	11.93	10.93	8.21	10.43	8.22	49.71
FedEx Trade Networks	12.08	9.57	9.29	9.86	8.89	49.69
Expeditors	12.13	9.56	9.07	10.25	8.16	49.17
SEKO Logistics	12.06	9.89	7.78	10.60	8.09	48.41
Yusen Logistics	11.71	10.14	8.13	10.05	8.19	48.21
AIT Worldwide Logistics	11.33	9.68	7.94	10.31	8.12	47.39
Kintetsu World Express	11.07	9.44	8.67	9.84	8.28	47.30
A.N. Deringer	11.02	9.84	8.27	9.32	8.27	46.73
BDP International	11.18	9.75	8.45	8.97	8.19	46.53
AVERAGE	11.07	9.37	8.09	9.33	7.95	45.82

Source: Logistics Management, Peerless Research Group (PRG)

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31st Annual Quest for Quality



2014 Quest for Quality Awards Dinner set for September 24

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

This year's awards dinner will take place on Wednesday, September 24, 2014, at 6.00 p.m. at the San Antonio Grand Hyatt—the final evening of the Council of Supply Chain Management Professionals (CSCMP) Annual Conference. Our editorial staff will be in attendance to present the 2014 Quest for Quality Awards to the 155 winners.

Following cocktails, dinner, and the awards presentation, our guests will be treated to comedian Greg Hahn. A favorite on the nationally syndicated *Bob and Tom Radio Show*, Greg has appeared on *Late Night* with Conan O'Brien, Comedy Central, CBS, ABC, FOX, MTV and CMT.

▼ This year's entertainment: comedian Greg Hahn.



2014 Quest for Quality Awards: Editor's Note

The editorial staff of *Logistics Management* would like to thank the readers who took time out of their busy schedules to complete and submit the 2014 Quest for Quality ballots. This year, 7,451 readers offered their valuable insight and helped *Logistics Management* maintain the Quest for Quality as the premier benchmark study of logistics and transportation service excellence for 31 years.

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

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The P3 Network was nixed in June, and now the world's largest ocean cargo carriers are facing a vexing dilemma: how to reorganize global services and still make money. Meanwhile, shippers will be forced to manage other huge carrier partnerships during this peak season.

2014 Ocean Cargo Roundtable

Mega carriers plying

BY PATRICK BURNSON, EXECUTIVE EDITOR

Ask a shipper, carrier representative, or industry analyst about what has changed in today's dynamic ocean cargo marketplace, and you're likely to get three very different answers. But there are also areas of agreement that can be just as valuable to logistics managers charged with the forecasting and procurement of freight services on the ever-shifting high seas.

Joining us in the our 2014 Ocean Cargo Roundtable discussion are Don Pisano, ocean cargo chairman for the National Industrial Transportation League and vice president in charge of imports for the American Coffee Corporation; Brian Conrad, Transpacific Stabilization Agreement (TSA) executive administrator; and Dan Smith, principal with The Tioga Group, Inc., a prominent industry consultancy. Here are their latest astute observations on the current state of the market.

Logistics Management (LM): *While the P3 Network failed to materialize, the G6 collaboration remains on the table and there's talk of other carrier alliances being formed this year. What impact will this have on global shippers?*

Dan Smith: The freshly announced Maersk-MSK vessel sharing agreement, called the 2M Network, is a good example of both a less ambitious strategy and of the carriers' determination to find economies of scale wherever they can. The more global G6 initiative may be followed by numerous lane-specific alliances and vessel sharing agreements (VSAs).

Brian Conrad: Vessel sharing arrangements are nothing new, but they've gotten larger due to the sustained overcapacity situation. Carriers ordered vessels based on assumptions of a quicker recovery in global trade growth and on the urgent need to manage costs through greater economies of scale.

Roughly a third of global container lines posted profits in 2013, most from cost-cutting, not top line growth. In the trans-Pacific, no major carrier operated profitably last year and the trade as a whole has seen only five profit-

able quarters in the past five years.

Dan Pisano: I agree with Dan and Brian, and add that increasing efficiency and cost-saving measures are in everyone's interest. For shippers, this means that collaboration—not manipulation—is the key moving forward.



Shifting seas

LM: Collaboration between mega-shippers and carriers is also a consistent theme these days. Are beneficial cargo owners (BCOs) really calling the shots?

Pisano: Certainly in containerized shipping, volume matters. I'm not sure that translates into the mega-shippers calling the shots all the time, as there are always two parties to any negotiation.

Conrad: Obviously from a carrier perspective, the market dictates levels of service provided at a particular price point. Different carriers have different marketing emphases, some with an 80 percent BCO cargo base, others with 80 percent of their cargo mix tendered by intermediaries.

What's changing is that after a sustained period of financial losses in the container sector, carriers are under increasing pressure from their lenders, corporate parents, and government backers to at least be self-sustaining. This suggests that, as lines approach diminishing returns in their ability to reduce costs or increase efficiencies, the days of premium service at bargain basement rates are coming to a close.

Smith: BCOs or their agents, such as 3PLs and NVOCCs, can certainly call the shots if they choose, and should call the shots in their own interest. In this respect, "collaboration" might be a mild term for shippers exerting more influence past the negotiation stage.

LM: With the Panama Canal moving toward completion, will carriers be reconfiguring their deployments through 2015? Which ports are most likely to profit?

Smith: I would not expect to see any significant changes in deployments until the new locks are actually finished and have been operating for long enough to prove their reliability, which could be mid-2016. From every indication, carriers will increase vessel sizes cautiously to keep utilization high

because the Canal fees are based on vessel capacity, not on how many containers are aboard.

There have been very few orders for new vessels in the neo-Panamax class. Carriers will cascade post-Panamax vessels in the 5,000 TEU to 7,000 TEU range from other services as traffic growth permits. Alliances will look for opportunities to combine volumes to fill larger vessels, but will have to reduce the number of services to do

"There have been very few orders for new vessels in the neo-Panamax class. Carriers will cascade post-Panamax vessels in the 5,000 TEU to 7,000 TEU range from other services as traffic growth permits. Alliances will look for opportunities to combine volumes to fill larger vessels, but will have to reduce the number of services to do so."

—Dan Smith, The Tioga Group



so. Some shippers may not like the tradeoffs.

Pisano: I expect some reconfiguring will take place, but the Suez Canal will remain a viable option for companies like ours shipping from East Coast ports.

LM: Some experts in the shipping community are also considering the proposed Nicaraguan Canal as a viable alternative. Any thought on how this might alter carrier calls?

Pisano: It's not quite on our radar screen yet, and there a lot of obstacles to consider. It's projected cost is over \$40 billion, and even if fully funded,

it will take at least five years to complete. There's also mounting internal concerns in Nicaragua about jurisdiction, foreign influence, as well as environmental protection.

Smith: Actually, it seems unlikely that a Nicaraguan Canal could be financed, built, and operating in less than a decade, so the issue is highly conjectural. The announced route is longer than the Panama Canal, but more northerly. There are some port

combinations for which this could be an advantage. Changes in port calls, if any, would likely affect the Caribbean transshipment ports.

LM: Considering all the issues shifting markets on the high seas, which trade lanes will capture most of the mega-carrier traffic?

Conrad: As of now, the largest ships on order are intended for Asia-Europe. Given the expected global overcapacity situation, it's also assumed that the ships that they displace in those trades will cascade into the trans-Pacific. So far, however, the average trans-Pacific vessel size remains at around 8,500 TEU. This reflects overall size increases to the West Coast and all-water via Suez, mitigated by the Panamax limitation of about 4,600 TEU via Panama that will continue into early 2016.

Smith: The greatest single focus is on Asia-Europe, where the long distances produce the greatest economies of scale for the largest ships. Every carrier is trying to be a truly global carrier, either on their own or through alliances and vessel sharing agreements. That means that the mega-carriers will eventually try to bring big-ship economics to every lane that has enough volume.

Pisano: I agree with Dan. Shippers



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certainly see the trans-Pacific capturing some of this capacity eventually. The East Coast and Gulf ports are likely to start first, but we don't see any megaships being deployed in the north-south trade.

LM: Any thoughts on rates? What challenges will ocean carriers face regarding fuel prices for the remaining months of 2014? Are there other hidden costs shippers should be aware of?

Pisano: We expect ocean rates to be fairly stable through the end of the year with ample capacity to meet current demand. We don't expect fuel to spike unless we have a significant flare up in the Middle East. However, we're currently more concerned on the domestic front with truck availability and see prices trending higher.

I'll add that as a commodity importer, we're very concerned about mounting costs associated with government directed examinations and the future costs associated with complying with government regulations resulting from the Food Safety Modernization Act.

Conrad: Asia-U.S. freight rates have broadly stabilized at around 80 percent of their pre-recession levels in mid-2008, although within that longer-term trend there has been considerable short-term seasonal volatility.

Bunker fuel prices have stabilized as well, but above the \$600 per metric ton level, which is historically toward the high end. Apart from fuel, container lines are operating leaner container fleets, more often leasing than purchasing equipment to reduce their asset exposure. Inland rail and truck rates are also rising in the U.S.

Smith: With all the publicity regarding fuel costs, there is not much hidden anymore. Bunker prices were on a roller coaster, and carriers were taking unusual steps and buying fuel

in unusual places such as Eastern Russia to cope. The weekly fluctuations are large enough to have serious implications for carrier profitability.

The expanded emissions control areas off the U.S. and Canada will also require greater use of low-sulfur fuel, at greater cost. With excess vessel capacity, the carriers will have to rely

“Bunker fuel prices have stabilized as well, but above the \$600 per metric ton level, which is historically toward the high end. Apart from fuel, container lines are operating leaner container fleets, more often leasing than purchasing equipment to reduce their asset exposure. Inland rail and truck rates are also rising in the U.S.”

—Brian Conrad, TSA



on surcharges rather than overall rate increases to keep up with fuel costs.

LM: What strides are ports and carriers making toward fostering more seamless intermodal networks?

Smith: There are still a lot of seams in the system, and there are multiple initiatives working to iron out those seams. To be truly seamless you need both capacity and good connections. Some ports have some catching up to do, especially the East Coast ports hoping for new Panama Canal traffic. Those ports have been increasing rail and highway capabilities any way they

can, with some good progress being made.

Other ports are increasing terminal capacity, either by building new terminals or rebuilding old ones. Long Beach, Oakland, and Seattle all have terminal improvements in progress or planned that will have to be matched by highway and rail capac-

ity increases when those new terminals are ready. Perhaps what's most impressive is that every major U.S. container port recognizes the need for strong inland connections and is trying to fill that need.

Conrad: Indeed, continued progress on terminal automation will help, and here carriers will be looking to see what further improvements result from the new West Coast longshore contract. Larger ships are going to require improved coordination in loading and discharge, as well as faster turn times and expanded shifts to match trucks to equipment and move them on to inland connections or local destinations as quickly as possible.

Equipment interchange is another area where increased cooperation and communication are essential. Smoother handoffs and returns of well-maintained containers and chassis will go a long way toward reducing both delays and costs over time.

Pisano: I believe that lawmakers in Washington have finally realized that our infrastructure has been neglected for decades and that our nation demands long-term investment in ports, intermodal connectors, and projects that support the movement of goods.

Patrick Burnson is Executive Editor of Logistics Management

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ERP's great intersection

With ERP vendors gaining traction in the supply chain execution market, top analysts suggest that best-of-breed providers are going to need to step up their game. We dissect the intersection of ERP and supply chain management software and discuss how the cloud could drive further progress.

BY BRIDGET McCREA, CONTRIBUTING EDITOR

The intersection of enterprise resource planning (ERP) and supply chain execution software is blurring, according to Gartner Inc.'s *2014 Supply Chain Users Wants and Needs Study*.

The study, which highlights user expectations for supply chain performance and investment strategies for the upcoming year, unveiled a "very strong" tendency for shippers to use ERP-based supply chain software—as long as those solutions met the shippers' basic needs. According to Dwight Klappich, research vice president for Gartner, 43 percent of respondents said they were "strongly committed" to the ERP platform and 27 percent said they were "pretty committed."

"Right there," says Klappich, "you have 70 percent of roughly 550 managers surveyed revealing a commitment to an ERP platform and also looking at those platforms from a supply chain management standpoint."

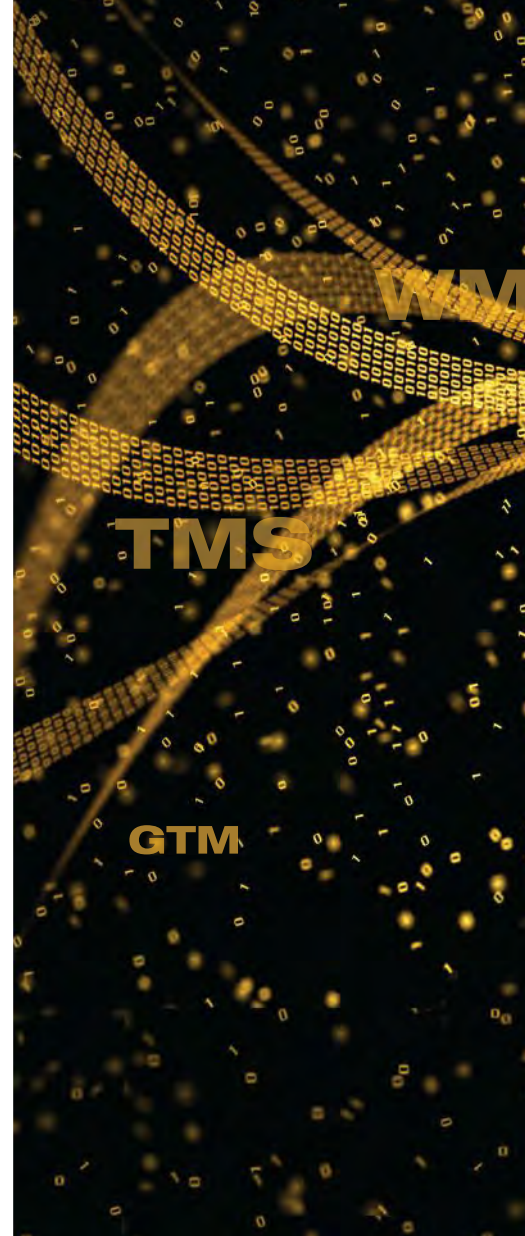
Credit the fact that ERP vendors have really "upped their game" on the supply chain front, says Klappich, with helping to drive those results. He points to SAP, Oracle, and Infor as the three fastest-growing warehouse management systems (WMS) provid-

ers in the space. "These three vendors have added as many clients in the past 12 months as the rest of the WMS market—roughly 25 vendors total—combined," says Klappich.

Another key driver of this trend is the fact that many shippers think that if their ERPs offer a "good enough" version of a WMS, then it's just easier to fold the supply chain management component under the larger enterprise umbrella. "Shippers know that they *could* have something better if they wanted to, but if their ERP vendor serves their needs then they'll go with the latter," says Klappich.

The same philosophy doesn't always hold true on the transportation management systems (TMS) side of the equation, says Klappich, where Oracle leads the ERP pack and vendors like SAP have yet to catch up in terms of offerings and functionality.

Where ERP vendors are beginning to make new traction is within the global trade management (GTM) space. "Even though the best-of-breed software providers remain strong with GTM, there are shippers out there that just need basic capabilities around global trade compliance," Klappich points out. "Those shippers are using



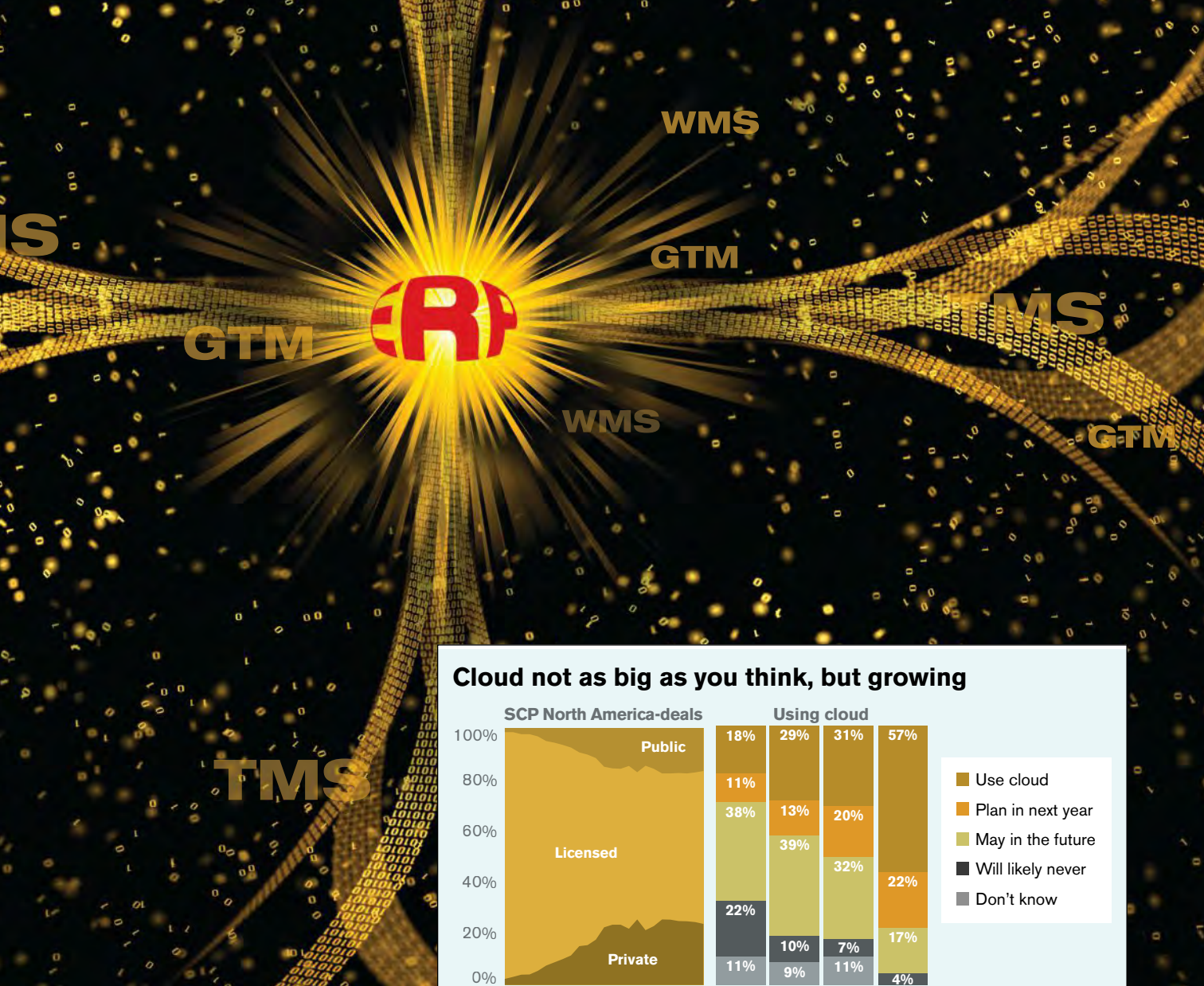
their ERPs' offerings as opposed to introducing a new vendor to the mix."

Over the next few pages we'll continue to explore the intersection of ERP and supply chain management software, look at what other drivers are coming into play, discuss how the cloud is having an impact, and talk to analysts about the future trends for the key vendors in this space.

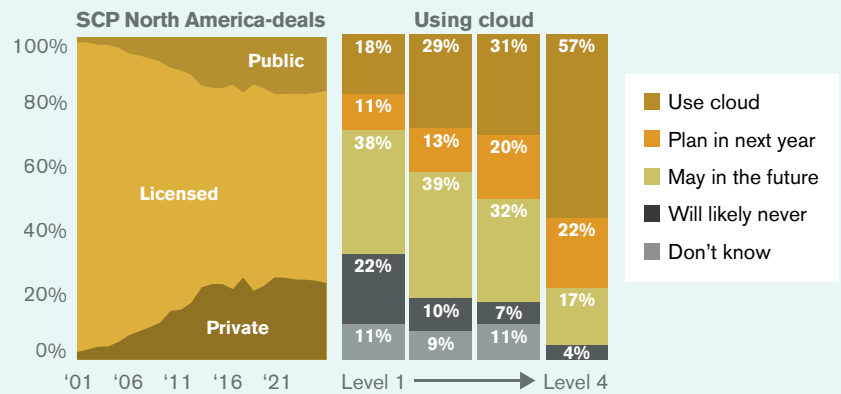
Planning for success

Singling out Oracle and SAP as the two ERP providers that are currently making the most headway in the supply chain execution space, Steve Banker, director of supply chain solutions for ARC Advisory Group, says SAP, in particular, is gaining TMS market share.

Banker says that the supply chain planning (SCP) space is also growing,



Cloud not as big as you think, but growing



Source: Gartner

despite the fact that in the past most ERPs couldn't work in this "constrained" space. "They had to use giant, in-memory applications database solutions that were separate from ERP in order to provide supply chain planning," says Banker.

That scenario is changing. Vendors like SAP, for example, are taking advantage of the rapidly-advancing technology and talking about stopping the support of its SCM advanced planning and optimization (APO), says Banker.

"At some point, the planning will just be part of SAP's core ERP solution," Banker predicts, noting that this is by far the most interesting development currently underway in the ERP-SCP space. "There used to be a sort of artificial wall between supply chain planning and

ERP, but it's breaking down now, thanks to advancements in technology."

Banker has also picked up on a growing interest in cloud-based solutions—a trend that's largely being driven by Wall Street's interest in cloud revenues. "One of the largest providers of ERP supply chain solutions is going to make a big push with potential buyers, telling them to go down the cloud route versus taking the licensed software approach," Banker says. "That's going to help make the cloud decision more attractive than it's been in the past."

Despite the fact that huge software providers are infiltrating their space, the best-of-breed supply chain software

providers continue to gain market share, says Banker, who points to Manhattan as one vendor that has had a "very good year" so far in 2014.

"I don't see best-of-breed going away," says Banker. "And while some of the ERP supply chain applications are very robust and comparable to the best-of-breed platforms, in general it's the operational types that tend to favor such options while the financial and IT types have a bias toward ERP solutions."

Comparing ERP versus best-of-breed supply chain offerings, Banker says it's becoming increasingly important to be able to offer a supply chain "platform" versus just a single type of

software. “Whether you’re a best-of-breed vendor or an ERP, you’d better be able to offer WMS, TMS, and various other types of supply chain solutions,” says Banker.

With that in mind, adds Banker, at this point it’s not so much about best-of-breed versus ERP, it’s more about larger best-of-breeds and bigger ERPs that offer platforms with the goal of distancing themselves from smaller players in the market.

Heading into the cloud?

Chris McDivitt, vice president and supply chain technologies leader for Capgemini North America, says he continues to see more shippers adding supply chain management capabilities software to their lists when shopping for ERPs.

“There is greater consideration of looking at ERP and SCM capabilities together these days,” says McDivitt.

Also garnering more interest are cloud-based SaaS solutions that—at least for now—are more evolved with best-of-breed vendors versus large ERP providers. “From the shipper perspective, cloud SaaS is popping up more and more as a requirement,” McDivitt says, “leveraging collaboration and visibility capabilities across the supply chain network on the planning and TMS side versus the WMS side.”

McDivitt sees the growth of omni-channel distribution as another driver of the ERP-SCM connection. “Omni-channel is causing the ERP providers to look at expanding their capabilities,” he points out. “As they evolve their ERP solutions framework, it’s just natural to also grow and integrate the capabilities that are surrounding it—planning, WMS, and TMS included.”

Klappich says that for the most part, both new and existing ERP

users continue to take the traditional, licensed software acquisition route. He says that there are several reasons for this traditional approach. For starters, most are able to easily “bolt on” WMS, TMS, or other applications to their existing ERPs—a capability that keeps many of them tied to on-premise options.

“They already have the infrastructure

Carving a future path

Looking ahead, Klappich sees WMS playing a more prominent role in the intersection of ERP and SCM. “That’s the next application where we’ll see the ERPs taking a dominant position,” he says, noting, like Banker, that the best-of-breed vendors will continue to play a key role in the WMS space.

“The best-of-breed providers will have to be creative,” says Klappich. “They’ll have to stay ahead and keep introducing new innovations.”

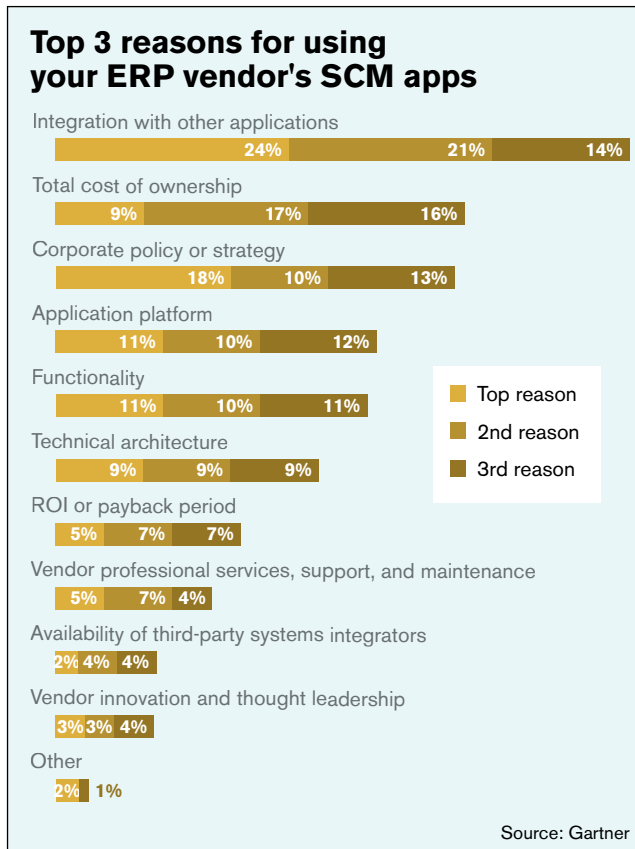
Comparing the ERP versus best-of-breed decision to the car-buying process, Klappich says that for some people, the least expensive yet reliable vehicle is enough. At the other end of the spectrum, some drivers want to be able to go from zero-to-60 in a split second and have all of the bells and whistles that come with higher-end, luxury models.

“The Honda Accord—comparable to the Oracle or SAP supply chain offering—covers a much larger market in terms of customers who just need a solid, reliable option,” says Klappich. “The best-of-breed, on the other hand, can command a significant premium with a more specialized, customizable software package.”

Somewhere in the middle of those two extremes are the Manhattans and JDAs of the software world, which Klappich compares to the BMW or Mercedes-Benz. This is the market that will need to innovate the most, he says.

“It becomes incumbent upon them to be the first out with new functionality and to stay out in the forefront,” says Klappich. “These vendors can’t be hyper-conservative. SAP and Oracle can wait for a market to mature and lose a handful of customers in the process, but these smaller, mid-range players can’t afford to.”

Bridget McCreia is Contributing Editor to Logistics Management



in place for their ERPs, so adding a TMS in the cloud would just add complexity versus putting the TMS into the same instance where they’re running everything else,” says Klappich. “This scenario has slowed down some shippers’ adoption of cloud.”

Right now, Klappich says Oracle is the vendor that’s made the most progress in the cloud with its TMS. “But not with its other offerings,” he points out. Oracle either hosts the TMS for a client or works with several partners that handle the hosting for users. “So Oracle is in the cloud,” remarks Klappich, “but it’s still just a small percentage of customers that are using this option.”



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Emerging Markets: Gaining traction

Long regarded as upstarts, today's emerging markets are demanding respect as they vie for genuine contention in today's global marketplace. These climbers are concentrating on their logistical advantages to capture market share and attract new investment.

BY **PATRICK BURNSON**, EXECUTIVE EDITOR

Over the past five years, emerging markets have maintained their “growth dynamic,” observes John Manners-Bell, CEO of the London-based think tank Transport Intelligence (Ti). At the same time, however, none of the upstarts have remained immune from profound economic and political upheavals. Furthermore, the Eurozone crisis and political gridlock in the U.S. make it more difficult for aspirational nations to realize their destinies. “Yet it’s extraordinary that emerging markets have continued to grow so robustly,” says Manners-Bell.

Indeed, Ti is forecasting emerging market expansion at 6 percent in the next five years, far out-stripping progress in the developed world. It’s for this reason, say Ti analysts, that emerging markets remain so relevant to the global economy—and more specifically to the global logistics industry.

Working in partnership with global third-party logistics provider (3PL) Agility, Ti recently released *The Agility Emerging Markets Logistics Index*. This body of work contains country rankings, major trade lanes by volume and mode of transport,

and, finally, a survey of trade and logistics professionals.

“In 2013, slowing growth in China, India, Brazil, and other emerging economies prompted a reappraisal of their prospects and potential,” says Essa Al-Saleh, CEO and president of Agility. “Many countries in the index are at a crossroads, facing difficult policy choices. Others are threatened by unrest or intractable social problems.”

Among the major conclusions drawn from this survey are that logistics and trade professionals remain overwhelmingly upbeat about prospects for emerging markets in 2014, but are a bit more guarded than they were a year ago.

Of the more than 800 shippers interviewed this year, nearly 74 percent said that prospects for emerging markets were either “very good” or “good,” as compared with 75 percent who said so in 2013. However, the percentage of shippers who saw emerging market prospects as “very good” fell from 22 percent to about 17 percent.

Not surprisingly, the Asia Pacific enjoys the brightest outlook. Nearly 58 percent of respondents believe that emerging markets in this region will grow fastest in 2014. Latin



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American markets were the choice for roughly 25 percent of respondents.

“Shippers continue to see the greatest potential for growth in non-Asian emerging markets in extractive industries, including mining, minerals, gas, and oil,” says Ti analyst Cathy Roberson. “In Asia Pacific, where China in particular is trying to develop a more balanced economy powered by both exports and consumption, retail, and consumer goods were identified as having the greatest potential.”

An overwhelming percentage of respondents, more than 63 percent, “agree” or “agree strongly” that manufacturing production will move away from China to other emerging mar-

“Major differentiating factors between emerging nations can be the reliability of the infrastructure, safety, and political stability, which can result in unpredictable delays and factory shut downs.”

—*Sebastien Breteau, founder and CEO, AsiaInspection*

kets countries. Vietnam, India, Mexico, and Indonesia were seen as the top alternative destinations. “Growth, trade volume, and investment are far more important than security and lack of corruption when it comes to factors driving the emergence of an economy,” adds Roberson.

Survey respondents believe supply chain risks vary by region. In the Asia Pacific, the top risks identified were natural disasters and economic shocks. In Latin America, corruption and poor infrastructure were the leading worries. Government instability and terrorism were top concerns for the Middle East and North Africa. In Sub-Saharan Africa, poor infrastructure and government instability were seen as the greatest risks.

Risk versus resilience

AsiaInspection, a global provider of quality control services for businesses importing from Asia, Africa, Southern Europe, and Latin America, maintains that shippers should pay more attention to risk irrespective of region.

The Hong Kong-based consultancy has just released its 2014 Q2 Barometer,

a quarterly synopsis on outsourced manufacturing and quality control measures indicating that supply chain transparency is far from adequate nearly everywhere in the emerging markets matrix.

“Major differentiating factors between emerging nations can be the reliability of the infrastructure, safety, and political stability, which can result in unpredictable delays and factory shut downs,” says Sebastien Breteau, founder and CEO of AsiaInspection.

“In India, certain provinces provide subsidies to select industries, so knowing where these are located can get you a better deal,” says Breteau. “When sourcing in Vietnam, be aware that there can be a big difference in

“Make sure you know if you’re dealing with the factory or a trading company,” adds Breteau. “In parts of Mexico, particularly those likely to host the cheapest factories, it can be especially dangerous. Furthermore, the level of English can be quite poor, even among the managerial staff.”

For FM Global, one of the world’s largest commercial property insurers, mitigating risk means evaluating emerging nation resilience. The Johnston, R.I.-based consultancy has just released its 2014 *FM Global Resilience Index*, showing Norway, Switzerland, and Canada to be the top three nations most resilient to supply chain disruption.

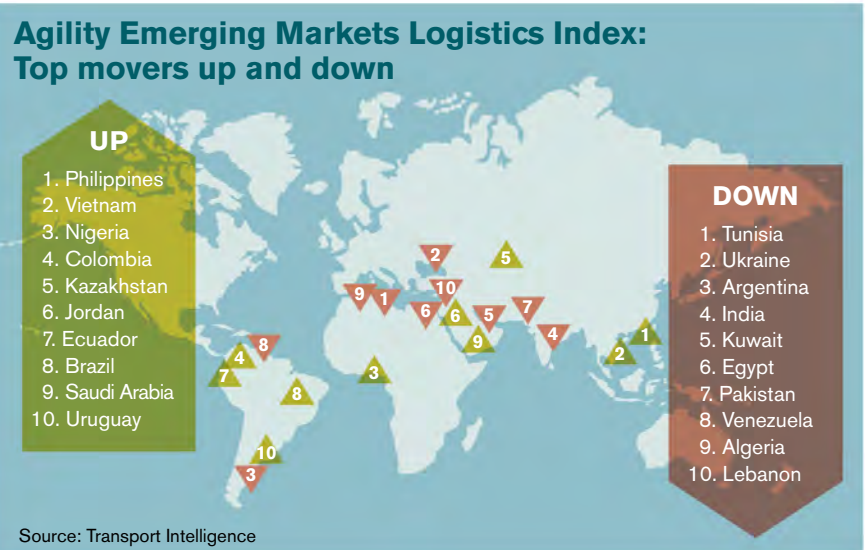
“Natural disasters, political unrest, and a lack of global uniformity in safety codes and standards can all have an impact on business continuity, competitiveness, and reputation,” says Jonathan Hall, executive vice president of FM Global.

“As supply chains become more global, complex, and interdependent, it’s essential for decision makers to have concrete facts and intelligence about where their facilities and their suppliers’ facilities are located.”

FM Global commissioned analytics and advisory firm Oxford Metrica to develop these rankings with the aim of bolstering intelligent dialogue around building resilience and avoiding supply chain disruption. The data comes from

quality between samples and actual production.”

AsiaInspection advises logistics managers to tie the final payment to an inspection certificate, ensuring that the actual manufactured goods match the agreed upon samples. For example, many Vietnamese factories do not sell direct, but through a trading company with whom they may not have long-term commitments.



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CEOs are also challenged to decipher some very mixed signals about the global economy. Last year, the advanced economies were struggling, while the emerging economies surged. This year, the advanced economies are mending, while growth in some of the emerging economies is decelerating.

China's regions rank 61, 66, and 75, with Shanghai finishing particularly low as a result of poor risk quality due to acute natural hazards. The biggest gains since 2013 are in Bosnia and Herzegovina, climbing 19 places due to improvements in the country's political risk and in the quality of local suppliers. Conversely, Bangladesh declined significantly because of poor natural hazard risk management and fire risk management.

Rewarding leadership

However, where there's emerging market risk there's emerging market reward, say analysts at global consulting giant PwC. They note in a recent report that the global economic recovery continues to be fragile, but with immediate pressures easing.

"CEOs are feeling more optimistic

and gradually switching from survival mode to growth mode," says Dennis Nally, chairman of PwC International.

As the latest PwC *Annual Global CEO Survey* shows, the changes they're making within their organiza-

tions now have less to do with sheltering from economic headwinds and more to do with preparing for the future.

According to the latest survey, the number of CEOs who believe that the global economy will improve over the next 12 months has doubled to 44 percent, compared to the previous year. Only 7 percent—compared with 28 percent last year—think that things will get worse in the year ahead. CEOs are also feeling better about their own companies' prospects, with 39 percent now very confident of revenue growth in 2014.

However, CEOs are also challenged to decipher some very mixed signals about the global economy. Last year, the advanced economies were struggling, while the emerging economies surged. This year, the advanced econo-

mies are mending, while growth in some of the emerging economies is decelerating.

"The BRICS aren't a single brick," says Nally. "China remains robust, thanks to vast foreign exchange reserves and extensive reform measures introduced by the central government. But Brazil is suffering from a huge debt hangover and India has been slow to open up its markets."

Meanwhile, Russia is unduly reliant on commodity exports and South Africa's growth has been impeded by heavy regulation. The business leaders in PwC's survey have sensed the change in the weather. Last year, 53 percent of CEOs in Latin America were very confident that they could increase their company's revenues over the next 12 months. This year, only 43 percent feel so sanguine.

Meanwhile CEOs in the Middle East have become more upbeat, with 69 percent saying that they believe they can boost revenues—up from 53 percent in 2013. CEOs in Western Europe are also feeling more heartened, although they remain less confident than CEOs in other regions. There's been a similar shift in regional views about the outlook for the next three years.

And though CEOs are more worried about sluggish growth in the advanced economies than a slowdown in the emerging economies, the gap is surprisingly small. The hidden costs of doing business in some emerging economies are likewise becoming more apparent.

Institutional inefficiencies are one key source of concern. But CEOs in Africa, Latin America, and the Middle East are also more apprehensive about infrastructure problems, supply chain disruptions, and bribery and corruption than those in the rest of the world.

Patrick Burnson is Executive Editor of Logistics Management

Emerging economies launch development bank

Last month's summit meeting of leaders from the BRICS in Brazil yielded a surprise for many U.S. shippers evaluating emerging nations: The rise of a the "New Development Bank" (NDB) intended to compete with the World Bank and its private lending arm, the International Finance Corporation (IFC).

This new international development bank and multi-billion emergency lending pool will be setup by Brazil, Russia, India, China, and South Africa, and may make it easier and quicker for developing countries to gain access to large-scale financing for infrastructure projects.

The BRICS will also set up a \$100 billion joint U.S. dollar currency reserve pool, called

the Contingent Reserve Arrangement (CRA), in order to provide emergency cash to BRICS countries faced with short-term currency crises or balance-of-payments problems.

The CRA's mission parallels that of the International Monetary Fund. It will provide emergency funds to governments faced with a sudden shortage of hard currency—especially of U.S. dollars, the dominant currency in global trade and finance.

Developing country financial crises can occur when international investors suddenly pull large amounts of hard currency out of a country because of concerns over its banking system's solvency, a change in interest rates, or other financial factors.

—Patrick Burnson, Executive Editor

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Lift Truck Maintenance: Real time is real money

Once seen as a necessary evil, lift truck maintenance costs prove ripe for efficiencies that save money and boost productivity. We look into new best practices and technologies that help introduce discipline into fleet management.

BY JOSH BOND, EDITOR AT LARGE

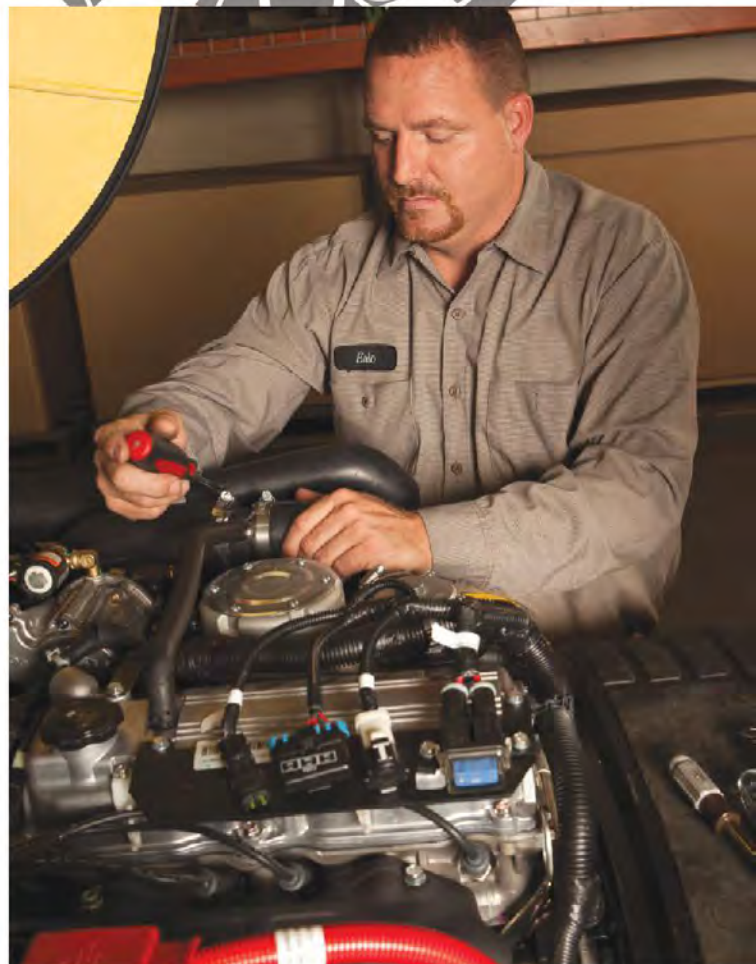
Traditional thinking about lift truck maintenance is rapidly breaking down. In the face of readily available data and proven techniques for cutting waste from costs once assumed to be unavoidable, fleet managers and service providers are working to introduce discipline to fleet maintenance practices.

The transition is evident in the popularity of outsourced maintenance arrangements. According to the *2014 Lift Truck User Survey*, conducted by sister publication *Modern Materials Handling*, only a third of fleet maintenance is handled by in-house staff, 42 percent is outsourced to lift truck dealers, and another 21 percent is outsourced to third-party contractors.

The appeal of outsourcing includes the customer's ability to focus on core competencies as opposed to managing its own parts, technician training, and service events. However, it's not as simple as signing a contract and walking away.

"To wash your hands of fleet maintenance is to say you want to ignore waste," says Mike McKean, fleet management sales and marketing manager for Toyota Material Handling USA. "You've got 40 other things to do that don't involve what it takes to run a fleet. There are operations

Planned maintenance can prevent the huge waste associated with only repairing as needed.





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In-house maintenance is rarely to most efficient approach, but outsourcing maintenance doesn't guarantee success.

where they are so busy and so lean that they are very grateful just to have a forklift or a technician to do repairs.”

Some companies with in-house technicians like knowing someone is on hand to address a forklift when it goes down. “These are the kind of companies who typically don't track utilization in the first place,” says McKean, who adds that this approach is typically based on reactionary rather than planned maintenance (PM). “They think they have some sort of PM plan, but they probably tend to run equipment to death and repair as needed.”

The industry is moving to a point where data and well-coordinated service allows predictive maintenance. Jerry Sytsma, general manager at Rapidparts, an affiliate of Mitsubishi Caterpillar Forklift America, says the goal is to move from diagnostics to prognostics.

Quality of service, cost of service, and downtime are



Visibility into each service event can reveal the root cause of costs that previously seemed unavoidable.

the three key concerns, says Sytsma, adding that they are weighted fairly evenly. But while many fleet expenses are understood as little more than top-level budget lines, it's visibility into individual events that highlights the best opportunities for improvement.

Accounting for accountability

Outsourcing maintenance is not a guaranteed fix for a fleet's maintenance shortcomings, nor is it a guaranteed cash cow for the dealer or third party. The structure of an agreement should promote accountability—and subsequent changes in behavior—for both stakeholders.

Sytsma offered the example of a large customer who regularly battled with its lift truck dealer over warranty claims related to transmission failures. After installing sensors that enabled remote monitoring, the dealer was able to collect data about each instance that a lift truck operator switched from forward to reverse without coming to a full stop.

The system logged more than 2,000 events on an operator-by-operator basis each time they switched gears at 3 miles per hour or more. Within 30 days, Sytsma says, virtually all transmission failures halted.

This story illustrates how data can take the guesswork out of identifying costs and their root causes, in turn benefiting the customer and service provider. In years past, it was difficult to get a sense of the true cost of maintenance, if identifying that cost was even a priority.

It was also a challenge to vet and verify the performance of a service provider. Although a lift truck dealer is most likely to have technicians with up-to-date training, these sorts of capabilities should not be assumed.

One of the best performance indicators, says Sytsma, is first-time repair rate, or the



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ratio of service events that are successfully resolved on the technician's first visit. "It's a great way to measure either the technician's capabilities or the dealer's commitment to parts inventory," he says. "If a technician has to come back between travel, setup, and downtime, that can create 20 percent to 50 percent inefficiency right off the bat. One in five times is not bad, but if it takes two trips 75 percent of the time...that's a problem."

Pairing lift truck operators with a dedicated piece of equipment is an effective way of boosting accountability while addressing preventable damage, according to Russell Wells, senior national accounts manager at Kenco Fleet Services.

Some fleet management technologies enable immediate coupling of service work orders with pre-shift checklists to track damage back to an individual. "Any fleet should rely on operators to keep a keen eye for torn seats, hydraulic leaks, bent forks, you name it," says Wells. "This can drastically reduce abuse. We have seen sites reduce these costs by nearly 100 percent."

To take accountability a step further, some who have outsourced lift truck maintenance, HVAC maintenance, or other services are looking to unite all services and related metrics under a single third party.

Pat DeSutter, director of fleet management for Hyster, notes a proliferation of third parties aimed at organizing service providers. "Large customers with many locations like working with a single partner who can provide a system solution to oversee all of these categories," says DeSutter. "Available technology makes it possible to bring all the data together, and we've even seen previously specialized service providers working to manage it all."



As lift trucks have become more sophisticated, so has the process of training technicians and diagnosing problems.

Buyer buy-in

An overarching third-party maintenance provider might also make life easier for purchasers, but just as with the connection between operators and technicians, purchasers can't be too removed from the impacts of their decisions.

"Often they make one decision for an asset and then they are no longer involved," says Toyota's McKean. "A customer might lease a forklift with a full maintenance plan and walk away. They enjoy locked-in payments with the only other expenses being variable and avoidable damage not covered in the contract. That's old school."

According to McKean, a better way to manage a fleet is through a PM program based on utilization. "This will provide data to lean the fleet and understand peak or seasonal periods

where short-term rentals make more sense than a long-term, under-utilized lease."

Based on accurate utilization data, McKean says that most companies will find their fleets are larger than needed. "There's probably an easy 10 percent fleet reduction once you start measuring," he says. "But you can never prove that until you get data in front of management."

A proactive, real-time approach to fleet costs can help address small problems before they become big issues. Over time, trends can help inform budgets based on consumption, not calendars. "How can you budget for your fleet when you don't know what your real costs are?" asks Wells. "That might not be a 'real' number, but is instead based on something you did before."

Uptime and cost-per-hour used to be the main metrics for maintenance, according to Steven LaFevers, telematics solutions manager for Yale Materials Handling. "That's not nearly enough now," he says.

That approach will suggest that during slow times a fleet enjoys a better cost per hour, which worsens during busy times. According to LaFevers, when looking at cost drivers, it's important to find the root cause—and there is value in drilling down into the operation by operator, by utilization across units for like activities, and other key details.

"Fleet management is not just about the cost of the lift truck, but its use as well," says LaFevers. "There's a pitch and a swing; data gives you the pitch, but you better be ready to swing."

By collecting and analyzing data, a business can make more informed decisions on the way to breaking everything down to cost per hour—which is not a matter of dividing annual maintenance spend by the hours on a lease. Instead, each part should be accounted for.

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Any fleet maintenance program should include accountability for operators, purchasers, and service providers.

“Customers can get to the point where they have the OEM recommended parts stock list that allows them to not have as much capital investment or space tied up in inventory,” Wells says. “With only needed parts on hand, we’ve seen inventories cut by as much as half.”

First, Hyster’s DeSutter recommends the creation of a good, clean inventory of assets by department and usage. “Sit down with the controller, maintenance management, or facilities management and make them all part of the process,” he says. “What do you want to manage? Is it possible to know how long an asset is down, the repair time associated with that event and the parts consumed? The goal is to improve uptime, thus productivity and throughput. It can be a different kind of conversation than execution and procurement are used to, but common ground for a huge spend should not be hard to establish.”

Diagnosing the problem, seeking care

With common ground defined within an organization, the process of securing

the right service provider can be greatly simplified. While it’s not necessary for either the customer or the dealer to use technology and telematics, any data collected will help prevent waste and downtime.

“A lot of the time, downtime is just waiting on approvals for service,” LaFavers says. “With detailed information, you can make those decisions quickly and optimally. The business justification now takes seconds. Otherwise, it might be a series of weekly gut-level decisions to see if you have the money or if the lift truck is worth it.”

Clark Simpson, product marketing engineer for Clark Material Handling, warns that even with visibility and a capable partner, outsourced maintenance agreements still present the opportunity for pitfalls.

“A customer might contract fleet maintenance by the month, but the worry is they are giving the service provider a blank check,” Simpson says. “Instead, some will accept the lowest bid and then it’s in the third party’s best interest to do the least amount of work. This can be kind of an ugly deal.”

Within each service event, the issue of proper diagnosis is another key hurdle. “Often a service provider doesn’t get paid to diagnose,” says Simpson. “For instance, a wiring issue can eat up several hours of a technician’s time, resulting in a big cost the provider hadn’t planned for.”

The increasing complexity of lift trucks compounds the problem. In years past, checking the spark plug or fuel would be enough to get a lift truck back up and running. “Just within one OEM it has changed from a simple carburetor to four different fuel systems,” Simpson adds. “You have crank sensors, map sensors, O² sensors. Each can cause a no-go and there might not be easy ways to spot them.”

When bundled with leases, fleet maintenance programs can include some very troublesome fine print. For example, some lessees have suffered at the end of a lease when a unit needs \$2,000 of repairs to reach the agreed-upon residual. A 10-truck user could be looking at \$10,000 to \$15,000 at end of lease, which the dealer might forgive in exchange for renewing a deal.

“Both customers and dealers should understand transparency as a way to gain trust,” says MCFCA’s Sytsma. “This profession, whether automotive or for lift trucks, has a public perception that customers can never really know if they’re paying too much.”

McKean suggests three initial steps to improve the likelihood of success. First, check an existing maintenance plan for efficiency and quantify the maintenance spend. Second, analyze if dedicated in-house labor is cost effective as compared to as-needed labor. Third, look to demo a telematics system to see what additional data reveals.

Josh Bond is Editor at Large for Logistics Management

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Trucking 2014: Collaboration is the game

Carriers are enjoying a solid 2014, but warn of a pending capacity crunch as driver availability worsens amid tighter federal regulations. Bottom line: Shippers who choose not to collaborate with their carriers and streamline operations will most certainly be hit with higher rates.

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Special Report

By John D. Schulz, Contributing Editor

The trucking industry is enjoying a financial renaissance of sorts, and its leading carrier executives are saying it's about time. After five years of so-so results following the Great Recession, carriers report that they're finally getting some rate increases to cover the ever-rising costs of doing business.

"It's good, but not great," says Chuck Hammel, president of the stalwart regional less-than-truckload (LTL) carrier Pitt Ohio. He says capacity is "running between balanced and tight," with rate increases largely dependent upon a shipper's individual freight profile.

Bill Logue, president and CEO of FedEx Freight, the largest single LTL carrier in the nation, said in 2010 that his objective was to get his company back to its historic double-digit margins. In its most recent quarter, FedEx Freight posted a 51 percent increase in operating income—or a \$41 million boost—pushing the company closer to that internal profit goal.

Top carrier executives agree that their increased profitability may be a harbinger of future years. "From an overall freight perspective, our focus is now on a good balance between yield and volume," said Logue.

On the volume side, the American Trucking Associations' (ATA) latest shipment statistics include an 8.9 percent year-over-year surge in LTL shipments and a 4.6 percent year-over-year volume increase for truckload (TL) freight. Top industry executives say that those increases are likely to continue right into 2015.

On the TL side, Mark Rourke, president of truckload services for Schneider National, the nation's second-largest TL carrier, calls its second quarter demand "well above average" following a tough winter. "It's too late in the year to be called a weather catch-up situation," says Rourke. "Demand has not dropped at all."

Independent analysts back up these carrier views. In her recent *State of Logistics Report*, logistics industry analyst Rosalyn Wilson called trucking demands in the first five months of this year the strongest since the end of the Great Recession in 2009.

Steve Williams, president and CEO of Arkansas-

based Maverick USA, a major flatbed carrier that operates 1,300 company-owned tractors, says he could easily add 300-400 additional power units—if he could find drivers. He is not alone.

"Capacity problems are being experienced in both the trucking and rail industries as volumes grow," says Wilson. "The impact of productivity-reducing truck regulations has exacerbated the driver shortage, which further limits capacity despite the strong growth in the size of the truck fleet in 2014."

Over the next few pages we'll examine three major factors pushing up trucking rates and show how they'll affect your shipping decisions over the next few years.

1. Driver shortage

In a nutshell, the driver shortage is bad and getting worse. By most estimates, the industry could use between 20,000 and 50,000 additional drivers right now to augment the 3.6 million or so long-haul drivers currently on the highway. However, that shortage could reach as much as 150,000 in a few years, according to estimates by economist Noel Perry of FTR Associates.

According to David Ross, trucking analyst with investment banking firm Stifel, the lack of drivers is effectively the major capacity constraint in the trucking industry, not capital.

"In the conversations we've had recently with carriers, it is not all about the money," says Ross. "Carriers paying \$45,000, \$65,000, and \$85,000 in annual salary all have unseated trucks. For some dedicated fleets, the driver shortage has become such a problem that shippers have started awarding retention bonuses or pay increases to the drivers.

Carriers are trying everything. Some have started their own internal driving schools, while others, such as Con-way, have stepped up recruiting ex-military personnel returning from Afghanistan and Iraq. Some have instituted sign-on bonuses as high as \$5,000 for drivers who stay with their company as little as one year.

Long-haul TL carriers have tweaked their networks to satisfy demands to get drivers home more frequently. Most have also entered the short-haul—under 500 miles—regional TL market and have expanded dedicated operations to satisfy those



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demands. But despite higher pay across the board, the driver shortage continues to worsen because more drivers are retiring than entering the industry, regulations are getting tougher, and drug and alcohol testing is increasing.

“Getting trucks seated is very difficult,” says Rourke of Schneider, a carrier that utilizes about 11,100 drivers for its 9,700 trucks hauling 30,600 trailers. “Capacity is always difficult, but it certainly has ratcheted up in difficulty.”

Schneider is plagued not so much by driver turnover—in an industry where 100 percent turnover in a year is the norm—but by lack of available compliant drivers. About 21 percent of Schneider’s drivers are ex-military, a stat that has helped with compliance. But to work on attracting new blood, the company has reconfigured its network to get drivers home more predictably and has added more dedicated runs.

Despite higher pay across the board, the driver shortage continues to worsen because more drivers are retiring than entering the industry, regulations are getting tougher, and drug and alcohol testing is increasing.

However, the shortage remains. “If I thought 10 years ago we could get drivers home weekly, I would have thought we’ve solved the world’s problems,” Rourke explains. “But expectations have changed. Now weekly has become daily.”

The big advantage LTL companies have is their hub-and-spoke networks that allow drivers to be home nearly every night. Most LTL carriers also utilize a “feeder” system that identifies dockworkers that might be prime candidates for new drivers. But TL carriers don’t use many docks, because they travel mainly from point to point directly, so that feeder system is not available to them.

“We have an excellent driver development program from dock employees who look at FedEx as a career,” Logue adds. “We can self-feed our driving requirements. Our system is designed to get drivers home every night, so we have an advantage there.”

The driver shortage is also the chief catalyst in the surge in intermodal rail freight. Trucking companies are increasingly reluctant to use a driver on a long-haul route with solid rail connections—say, Chicago to Los Angeles or Chicago to Portland—because that driver can better be utilized elsewhere.

2. Mounting regulation

Shorter hours of service (HOS); increased testing for drug and alcohol abuse; electronic on-board recorders to catch mileage cheats; and who knows what’s next.

Truckers say that if the federal government had set out on a plan to place a lid on trucking capacity, the last few years of regulatory overload could not have done a better job.

U.S. Chamber of Commerce President and CEO Thomas Donohue, formerly head of the ATA calls it a “regulatory tsunami.” Truckload carriers say that the effect of the new HOS regulations, requiring at least two 30-minute breaks for most drivers, has effectively reduced their productivity.

According to a recent two part study conducted by Mary Holcomb, Ph.D., associate professor at the University of Tennessee, and Joseph Tillman, chief researcher of TSquared Logistics, with the assistance of *Logistics Management*, the actual cut in productivity has been much greater than originally figured.

Not surprisingly, the study of 891 participants, made up of both shippers and carriers, reported that the type of truck transport most affected by the rule change is long-haul moves, followed by dedicated and short-haul moves.

Early in the implementation of the HOS rule change, many shippers thought that the impact on productivity would be in the 1 percent to 4 percent range. According to the results of the most recent study conducted in June, the reality is much more grim: Respondents now expect the loss will be somewhere between 3 percent and 9 percent, with many more shippers anticipating that the deficit to be in the upper end of that range.

“It’s clear that the estimates of the impact on productivity were significantly under projected,” says Holcomb.

And there are more regulations coming. Electronic on-board recorders, that are backed by most large carriers, should be mandatory in the next two or three years. The ATA says EOBRs will “level the playing field” against those who cheat. The ATA is probably right, but there are also industry estimates that as many as two-thirds of drivers cheat on their paper logs. If enforcement becomes more rigid through electronic means, that likely will mean a further tightening of capacity.

Truckers are also bracing for a proposed rule on speed limiters that would hold carriers to around

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63 mph to 68 mph. Considering some trucks currently operate between 70 mph and 75 mph, that is yet another hit on productivity. Sleep apnea testing may also become a requirement, causing the driver availability issue to worsen further.

3. Spot vs. contract rates disconnect

Nowhere is the dichotomy in trucking more evident than when you examine the gap between spot and contract rates. While contract rates are up between 2 percent to 4 percent over 2013, spot, or non-contract rates, have surged between 10 percent and 15 percent in the same time.

Spot rates are a harbinger because they track what is happening in the most recent weeks, as opposed to contracts that typically last a year or longer. According to DAT Trendlines, a data service that tracks spot rates, the national average spot van rate is near a record high of about \$2.10 per mile.

Analysts say that this clearly indicates higher rates for everyone. Contract rates often “lag” the spot market because contract renewals come up only every year or so. The higher spot rates would seem to be driven by higher manufacturing output,

retention, but price performance is exceeding what we had expected doing this year.”

Carriers say nearly every customer is concerned about capacity. And with the U.S. industrial economy on a steady uptick, and issues about drivers front and center in everyone’s mind, increasingly carriers say shippers are willing to pay more to get ever-tightening capacity.

Increasingly, reliability and capacity are taking on a greater role at contract renewal time, carrier executives say. “A customer bases what’s important on quality and reliability,” FedEx Freight’s Logue says. “They want to make sure you can handle their volumes, and you are flexible and reliable. Those are the first things in any rate discussion in most cases—then pricing comes into play.”

What’s the bottom line?

According to John Larkin, the veteran trucking analyst for Stifel, the best trucking companies “are morphing into supply chain optimizers to for their customers.” And they’re doing this by offering services a customer may need to run an efficient supply chain.

Whether it’s full TL, LTL, intermodal, or some combination of all three, carrier executives says shippers that collaboratively work with carriers to aid their ease of doing business are nearly certain to get priority when it comes to peak periods of freight demand.

With volumes back to where they were after slumping 25 percent in the depth of the Great Recession, carriers can afford to be increasingly choosy about their customers. As FedEx Freight’s Logue says: “Everyone is focused so that the industry doesn’t go back to that kind of environment we saw five years ago.”

What’s the bottom line for shippers? Rates are rising, and will continue in an upward track for at least the next two or three years. Shippers who choose not to collaborate with their carriers will feel the brunt of higher freight rates. However, when you peel back all of the layers, hardly anyone using truck services is immune in today’s regulated environment.

John D. Schulz is a Contributing Editor for Logistics Management

Rates are rising, and will continue in an upward track for at least the next two or three years. Shippers who choose not to collaborate with their carriers will feel the brunt of higher freight rates.

construction, and agricultural products, which overall is good news for the overall economy.

Economist FTR’s Perry is predicting that contract rates will soon be following the spot market lead. He’s reporting that second quarter contract rates were rising even as spot rates stabilized, and is now predicting that the trend will continue at least through the end of summer. In a recent analysis, he “sees no sustained softening of capacity conditions through 2016.” So, shippers should brace for stiff rate increases for at least the next two years.

Of course, how much rates will rise depends on every shipper’s freight profile. Freight that is “driver friendly” with few delays in loading and unloading will be given a break, carrier executives say, because every minute of delay is costly in the new HOS environment.

On the TL side, Schneider’s Rourke sees “very solid” contract renewals. Although he declined to give specific rate increases, he says that it’s “not only



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Pacific Rim Report

By Patrick Burnson

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



Long Beach in the limelight

WHEN THE INTERMODAL ASSOCIATION of North America (IANA) stages its annual Expo next month, much of the limelight will be placed on the vibrant and fast growing host city of Long Beach.

The port here—and that of its San Pedro Bay neighbor Los Angeles—has been getting some bad publicity of late, but shippers recognize that it remains a vital Pacific Rim multimodal gateway. Now that the media focus has moved from dockside labor disruptions, it's time to concentrate on the positive strides Long Beach is making as an environmental steward and generator of jobs.

The first job we should talk about, of course, is that given to newly-named chief executive Jon Slingerup. He's a veteran corporate executive with extensive experience in global logistics and environmental technologies, including a distinguished decade with FedEx Canada.

Transforming FedEx from a small, regional domestic courier into Canada's leading international express logistics company was one of his major career achievements, and he faces yet another daunting challenge today: port differentiation.

For Long Beach, that seems to be about establishing itself as the greenest port in the world. The Harbor Commissioners who selected Slingerup stated that his environmental track record was as important as his demonstrated leadership in developing advanced cargo-handling technology and infrastructure.

At the same time, commissioners have approved two incentives that officials expect will bring additional cargo to the port while also encouraging the use of air pollution-reducing shore power and on-dock rail.

The incentives are designed to help Long Beach compete with other West Coast ports that have already cut fees to grow their business. By encouraging the use of shore power or another approved system for cutting at-berth ship emissions, and by bringing more cargo via on-dock rail, the port's programs seek to increase trade while also reducing air pollution.

In one incentive, the port will

waive "dockage" charges—essentially giving free parking—for cargo ships that both slow down near the port and plug into shore power or use another approved pollution-cutting technology at berth. The Vessel Dockage Waiver Program augments other port and state programs that require and encourage slow-steaming and shore power.

Also approved was a \$5-per-container unit incentive that shipping lines can earn for each new loaded container they bring through Long Beach. The requirement is that each container must travel inland by "on-dock rail," which helps to eliminate truck trips on local roadways by rail-hauling the containers from the wharf.

"We're really in competition with Vancouver, with Prince Rupert, and with Lazaro Cardenas, where costs are much lower than San Pedro Bay," says Doug Drummond, Long Beach's harbor commission president, referencing seaports in Canada and Mexico. "These incentives are important because they have to do with increasing cargo for our port—and are hitting at a time when cargo across the board is increasing."

The Vessel Dockage Waiver Program requires the vessel operator to slow down within 40 nautical miles of the port. The operator is also required then to use shore power at berth or a certified alternative. By waiving the dockage fees in such cases, the port will forgo an estimated \$3.3 million to \$4.9 million a year.

However, the measure is expected to attract additional cargo to Long Beach and help to offset the costs with an increase in revenue from other fees. The incentive builds upon a port program in which most ships reduce speeds near port as well as a state program where at least half of all ships must use shore power or an equivalent at berth.

The port's Incremental On-Dock Intermodal Incentive Program will pay \$5 per loaded 20-foot-equivalent container unit for new cargo above the 2013 baseline level that is also rail-hauled either out of, or into, the port. If vessels bring in an additional 20 percent more cargo over two years, it would generate an additional \$22 million in revenue. □



Jon Slingerup, chief executive, Port of Long Beach

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