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Mid-Year Rate Outlook Webcast:
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More than 35,000 miles of highways and interstates are in

New Jersey

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Although companies locate in New Jersey for many reasons, the ability to ship goods to market quickly and efficiently is especially crucial. The state was recently ranked #1 in the country for transportation, warehousing and highway connectivity and #2 for railroad service.* New Jersey also has the largest port complex on the eastern seaboard with facilities in Newark and Elizabeth, supplemented by major ports on the Delaware River. These ports handle more than 620 million tons of freight, valued at over $850 billion annually. And, with two major airports—Newark Liberty and Atlantic City International—New Jersey serves as an intermodal gateway for trade across the country and around the world.

As the third largest industrial real estate market in the country (with nearly 800 million square feet of space), New Jersey offers a wide range of choices. The state has more than 23,000 establishments devoted to warehousing, logistics and distribution; 3,000 warehouse facilities have ceiling heights over 20 feet.

A number of major firms that store and move their products, as well as the thousands of logistics firms that serve them, are located in New Jersey. Contact us at 866-534-7789, we'll put you in touch with one of our Account Executives so you can learn more about why New Jersey is the right place for your business.

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LM/0709

Management UPDATE

AN EXECUTIVE SUMMARY OF INDUSTRY NEWS

Oil prices on the upswing. Coming off a year in which diesel prices hit nearly $5 per gallon and the price of a barrel of oil was approaching $150, it was nice to finally see some relief towards the end of 2008 and into early 2009. But it looks like the fun is over, as diesel continues to make a new upward climb, with weekly diesel prices showing steady increases and barrel prices approaching $80. Continued increases are likely to put a wrench in the overall recovery of the economy, as higher fuel prices will result in higher goods and transportation costs.

AES substandard. Shippers are still complaining about the confusion caused by Customs & Border Protection (CBP) enforcement policies. While the economy took center stage at last month's annual meeting of the Agriculture Transportation Coalitions (Agtc) in San Francisco, shippers were also expressing considerable concern about the New Automated Export System Regulations (AES). "We are doing everything in our power to comply," said Don Lake, an executive with Dunavant Cotton, "But without industry standards, it's still difficult to avoid getting in trouble with Customs." Currently, the CBP guidance is broken into various categories of non-compliance including non-filing and late-filing. Ag shippers are fine with this, said Dunavant, but other aspects of the law have been problematic.

MOL misquoted. MOL was quick to shoot down the false news service report that it would get out of the box business to focus on other parts of its operations. Yet, the fact that such a story would run at all caused some alarm in the industry. "We immediately sent out a letter to our customers assuring that this was not the case," a spokesman for MOL (America) Inc. told *Logistics Management* in an interview. "We have included an accurate version of the remarks made to the news service." The letter said that statements "allegedly" made by MOL CFO Kenichi Yonetani regarding the possibility of spinning-off its container shipping business and consolidating it with another carrier were taken completely out of context.

I have two words for you: Global trade. According to UPS CEO Scott Davis, global trade is the key to economic recovery. At a speech made in Detroit last month, Davis said global trade is a "positive force at a time when we are operating without a map and without precedent." He added that up to 57 million Americans are working for companies engaged in global trade, with one out of every five manufacturing jobs linked to the exports of goods and services. And if global trade is to help overcome the global recession, the world must address three imperatives: the creation of a system of trade that not only is fair and rational but compassionate; deploying technology to reduce the friction that today slows down the flow of commerce; and moving immediately to rebuild transportation infrastructures.

FedEx holds top spot for service. Strong customer satisfaction pushed FedEx into the top spot in the Express Delivery category of the University of Michigan's American Customer Satisfaction Index (ACSI) in the first quarter. The parcel carrier also ranked first among 81 companies whose customers are surveyed in the ACSI. FedEx has occupied the top Express Delivery spot in this survey for 12 straight years and 13 of the last 15 years.

continued, page 4 >>

Mid-Year Rate Outlook 2009 Webcast: July 29, 2009, at 2 p.m. ET. In case you haven't noticed, the U.S. economy overall remains disappointingly weak, and prospects for any meaningful improvement remains mixed. So, what does all this news mean to your freight rates over the next six months? Join Group Editorial Director Michael Levans and an all-star cast of industry analysts on July 29, 2009, at 2 p.m. ET as they put the general economic picture into perspective for shippers and help explain the affect the economy is currently having on your rates for the second half of 2009. **Register now at logisticsmgmt.com/midyear09.**

Management UPDATE

continued

Dying on the vine. A report from *The Wall Street Journal* said that New Vine Logistics, a Napa, Calif., provider of wine-shipping services for major winemakers, has suspended operations amid financial problems, potentially putting some consumers' wine orders in limbo. The report said New Vine stopped receiving and processing new orders after a prolonged push to raise new financing failed. New Vine handled shipping and fulfillment for direct orders by consumers for about 200 wineries and other wine merchants. The *WSJ* added that New Vine's difficulties raise questions about the viability of providing such services. The company is one of the largest of a handful of logistics firms that entered the field, seeking to capitalize on various California state laws permitting consumers to order wines directly from winemakers.

Culture clash? When A.P. Moller/Maersk Group merges its supply chain management activities branded as Maersk Logistics and its freight forwarding activities branded as Damco this September, shippers should not expect a change in corporate culture. That was the message imparted during an exclusive interview with *Logistics Management* last month. Company spokesmen said the combining of three strong brands in Damco, Maersk Customs Services, and Maersk Logistics under the brand DAMCO is designed to deliver end-to-end services. In the meantime, the supply chain services will continue to be delivered under the Maersk Logistics brand, while the forwarding services will continue to be delivered under the Damco brand.

Continued air cargo slump. The International Air Transport Association (IATA) revised its airline financial forecast for 2009 to a global loss of $9 billion, noting that it is nearly twice as high as the association's March estimate of a $4.7 billion loss. IATA also revised its loss estimate for 2008 to $10.4 billion from the previous estimate of $8.5 billion. "There is no modern precedent for today's economic meltdown," said Giovanni Bisignani, IATA's director general and CEO. During his "State of the Industry" address at the 65th IATA Annual General Meeting and World Air Transport Summit, Bisignani painted a bleak picture. "Recession is the most significant factor on the industry's bottom line," he said.

Ag not so agitated. At the annual meeting of the Agriculture Transportation Coalitions in San Francisco last month, shippers were told that the worst may be over for cargo vessel operators. But that may not be an entirely positive message, as prices are likely to get a boost during the coming peak season. That was good news/bad news for those shippers attending the annual meeting as they brace for a new rate structure to be introduced on the transpacific and other key trade lanes. "We don't think that there will be any container lines going out of business," said Edward Zaninelli, vice president Trans-Pacific Westbound Trade, OOCL. "But we will see more slot-sharing and consolidation, and rates have got to go up, that's a given," he added.

Bench strength. The Federal Maritime Commission (FMC) may have a new commissioner this summer, bringing the agency closer to full strength. Following the news released last week that Joseph Brennan had been designated Acting Chairman of the Federal Maritime Commission by President Barack Obama, the administration announced that one of three vacant seats may be filled soon. Pending Congressional confirmation, the new commissioner will be Richard Lidinsky Jr. As reported in *Logistics Management*, Commissioner Harold Creel Jr. plans to retire at the end of June. That would leave the FMC with Brennan and Rebecca Dye as the only two on a five-seat forum. It has been over three years since the Commission was operating with a full bench.

***Logistics Management* is all a-"Twitter."** Along with everybody else, we have become disciples of Twitter. Check out our daily news postings, print items, blogs, and more at **www.twitter.com/LogisticsMgmt**. Don't be left out. Come and join us!

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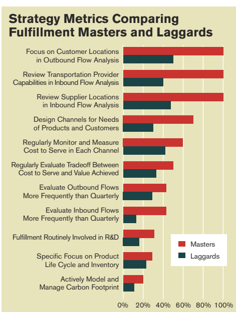

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VIEWPOINT

A symbiotic solution

Chances are good that you've already pored over the highlights from the 20th Annual State of Logistics Report (SoL) that was released back on June 17. I would also bet that there was very little in that report that surprised you if you only digested the top line data.

If you missed it, I'll cut to the chase. Over the course of 2008, the cost of the U.S. business logistics system fell 3.5 percent, that's the first drop in six years. Total spending on logistics fell to $1.3 trillion in 2008, or a decrease of $49 billion over 2007 spending—which, by the way, is still the second highest number on record. And, after inching up past the 10 percent mark in 2007, logistics costs dipped down to 9.4 percent of the nominal Gross Domestic Product (GDP) in 2008.

Carriers and providers have been battered by the global recession and many are struggling to survive; but hey, rates are at historic lows. Anyone surprised?

But wait; there's more background to this complex picture. In fact, Executive Editor Patrick Burnson does a terrific job of reporting the relevant details from the report (page 24) and digs deeper into the startling statistic that inventory carrying costs fell by 13 percent last year—clearly accounting for most of the decline. But more importantly, Burnson also spent some time with Roz Wilson, a 25-year industry veteran and author of the much anticipated SoL report, in an effort to put some context around the deluge of data.

While she gave up any effort to reveal a sliver lining to the 2008 numbers for carriers and service providers, Wilson does offer a few words of advice for shippers who may now need to approach these "partners" from a slightly different angle.

In fact, her sentiments around "collaboration" and "symbiosis" (the living together of unlike organisms) echo those that John Gentle and Wayne Bourne, our Sage Advice columnists, have been advocating in these pages over the past two years. Today, you need to bring a level of compassion to the table when you're working with your carriers—especially while they're taking it on the chin.

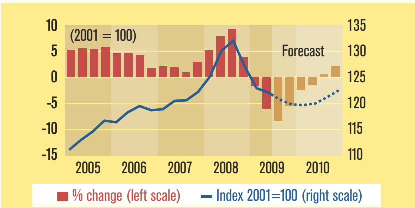
"The second half of 2009 is no time for shippers to squeeze more margin out of already beleaguered carriers," Wilson tells us. Rather, she believes that shippers need to make some sacrifices to mitigate carrier losses and help return them to profitability. This idea may border on "radical" for many, but is certainly food for thought if you're able to see past the next six months and into a time when the slow, but inevitable rebound will start to eat away at the capacity and flexibility you're currently enjoying.

Wilson believes that shippers need to make some sacrifices to mitigate carrier losses and help return them to profitability. This idea may border on radical for many.

"Do whatever you can to help your supply chain partners," adds Wilson as she wrapped up her interview with Burnson. "Shippers can take time to review contracts, renegotiate rates, and lock in carriers now; but they shouldn't lose sight of the dependence we have on one another. Don't burn your bridges." I'd call that a symbiotic solution for tough times.

Michael A. Levans, Group Editorial Director

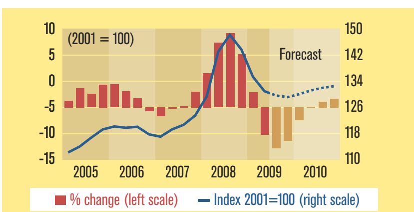
Comments? E-mail me at michael.levans@reedbusiness.com



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
General freight - local	1.7	-1.1	-5.9
Truckload	0.5	-4.5	-8.7
Less-than-truckload	0.3	3.9	-4.2
Tanker & other specialized freight	-1.9	-1.9	-4.2

TRUCKING

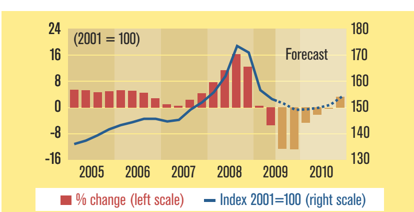
Local trucking companies that haul specialized freight (excluding household movers) cut their transaction prices by a startling 5.4% from April to May. Pushed by that sharp drop, the overall trucking industry reports prices in May fell 0.2% from a month ago and 6.1% from May 2008. Long-distance rigs carrying general freight haven't been immune from the deflation virus. From year-ago price levels, TL tags were down 8.7% and LTL were down 4.2%. Our aggregate trucking forecast now shows prices down 5.6% in 2009 and down again 0.4% in 2010. As U.S. consumers continue austerity measures, shippers with clout will enjoy great negotiation power with truckers though at least the first quarter of 2010.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Scheduled air freight	-1.7	-9.2	-8.8
Chartered air freight & passenger	-4.6	N/A	N/A
Domestic air courier	0.3	-3.8	-11.5
International air courier	0.0	-3.8	-11.5

AIR

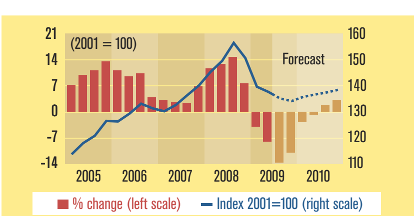
According to surveys of U.S.-owned airline companies, May 2009 brought another round of price cuts. Shippers flying cargo in the belly of scheduled airline flights or on chartered planes saw average transaction prices drop by 1.7% and 4.6%, respectively, from a month ago. That 1.7% price cut for airfreight on scheduled flights was the eighth decline in nine months and left price tags sitting 8.8% below year-ago levels. Our forecast shows these prices continuing to decline through Q4 of 2009, albeit more slowly now compared to the sharp cuts seen at the end of 2008 and early 2009. The forecast calls for a 6.9% price drop in 2009 and a meager 0.1% gain in 2010.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Deep-sea freight	-0.6	-12.9	-12.3
Coastal & intercoastal freight	0.8	-1.3	0.4
Grt. Lks.-St. Lawrence Seaway	-2.6	-5.9	-2.3
Inland water freight	-1.5	-9.6	-2.3

WATER

Transaction prices reported by Bureau of Labor Statistics for U.S. water transportation services show overall prices are falling from year-ago levels at an ever-increasing pace. In May 2009, water transport tags dropped 5.8% from a year ago. Our forecast shows average prices falling in September 2009 at a 13.9% year-ago pace. Looking deeper, we see year-ago deflation rates for shipping on inland waterways down 2.3% in May 2009 and then plunging 23.4% in October. Deep-sea transportation prices, meanwhile, were down 12.3% in May and are predicted to be falling at a 23.9% pace in September. A buyer's market this year and most of next year will prevail.



% CHANGE VS.:	1 month ago	6 mos. ago	1 yr. ago
Rail freight	1.3	-5.3	-7.0
Intermodal	1.4	-6.1	-15.3
Carload	1.3	-5.4	-6.2

RAIL

The railroad industry has shown nascent signs of stemming the ravages of recessionary price cuts. In May, both intermodal and carload rail prices increased 1.3% from the previous month. That was the second month in a row for price hikes, after a string of seven consecutive months of price declines. We're betting the rail industry will be forced by the recession to give back those price hikes in June, but given how out-of-the-norm the trends are these days, the forecast exercise here seems more like a game of darts. The next couple months will tell us a lot about where to reset the trend lines of the future.

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

inside

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- ATA says increased tolling on highways threatens recovery
- Peak season will mean higher transpacific rates

NEWS & ANALYSIS

Oberstar unveils plan for surface transportation authorization

With an eye on freight, the Chairman calls for improving economic productivity by facilitating international trade and relieving congestion at major trade gateways and corridors. How this will be funded remains a mystery.

By Jeff Berman, Group News Editor

WASHINGTON—House Transportation and Infrastructure Committee Chairman James L. Oberstar formally rolled out his plan for a new approach to surface transportation authorization last month.

In his whitepaper, "The Surface Transportation Authorization Act of 2009: A Blueprint for Investment and Reform," Oberstar outlines myriad ways to remedy the nation's transportation system. "While once the envy of the world, [the U.S. transportation system] is losing its battle against time, growth, weather, and wear."

What is needed now, according to Oberstar, is a National Transportation Strategic Plan that is intermodal in nature and national in scope. A major theme of his plan calls for a national transportation policy, as opposed to the Department of Transportation's (DOT) current policies that are administered by separate departments—each of which focuses on a single mode of transportation.

"Since completion of the Interstate Highway System, our national transportation policy has lacked strategic focus," notes Oberstar. "Although States and metropolitan regions are required to develop long-range transportation plans for highway, transit, and rail investment, there has been no attempt to aggregate these plans and establish a National Transportation Strategic Plan."

Some of the main objectives of the Surface Transportation Authorization Act of 2009 include:

- consolidating the majority of highway funding in four core formula categories designed to bring our highway and bridge systems to a state of good repair;
- improving highway safety;
- reducing congestion and greenhouse gas emissions and improve air quality;
- creating a National Infrastructure Bank to better leverage limited transportation dollars.

"This plan restructures programs within the DOT…and moves from a highly prescriptive program to a performance and outcomes-based surface transportation program," said Oberstar.

In terms of funding, the plan is calling for $450 million over six years. According to Oberstar, that's the minimum amount needed to stop the decline in the U.S. surface transportation system, make improvements, and restore the country's mobility and economic productivity. This proposed funding level represents 38 percent over the current funding level of $326 billion and 57 percent more than the original level granted by SAFETEA-LU.

The ways in which this plan would be financed appear to be the biggest obstacle so far. As *Logistics Management* has previously reported, the Highway Trust Fund (HTF) is on the brink of insolvency, with a $5 billion to $7 billion shortfall predicted by the time the current bill expires.

The Oberstar plan notes that the

The bill calls for improving economic productivity by facilitating international trade and relieving congestion at major trade gateways and corridors

SURFACE TRANSPORTATION, *CONTINUED*

current user fees supporting the HTF are not enough to maintain existing infrastructure—coupled with the fact that the motor vehicle fuel tax has not been raised since 1993. The Obama administration has repeatedly stated raising the gas tax is not an option at this point.

The current user fees generate only enough revenue to finance $35.1 billion of investments from this year's $53 billion funding level; and without additional revenues a six-year surface transportation authorization bill could fund only $236 billion in highway, highway safety, and transit investment—that's $90 billion less than the current investment level over the next six years ($326 billion), according to the plan.

"The major point here is to come up with a way to reach that funding target," said Payson Peabody, a tax attorney with Washington, D.C.-based law firm Dykema Gossett PLLC. "Oberstar recognizes a short-term fix is not necessarily going to solve the short-term problems we have."

Peabody added there are really only two choices: a broad-based tax increase or tolling and expanded use of public private partnerships.

With an eye on freight, the bill calls for improving economic productivity by facilitating international trade and relieving congestion at major trade gateways and corridors. It notes this could be done by having the DOT, in conjunction with the National Infrastructure Bank, providing grants, loans, and other financial tools to States to finance projects of national significance.

"At this point, we are looking at this bill schematically and saying a lot of the right pieces are there," said Janet Kavinoky, director of transportation infrastructure at the U.S. Chamber of Commerce. "We are pleased to see freight projects of national and regional significance mentioned. But we need to use caution, because it is not until we see legislative language to understand what the actual focus is of the programs, as well as how the resources are allocated. Right now, it looks promising, and the U.S. Chamber is pleased that a lot of the principles we asked for were included."

PARCEL EXPRESS

UPS and pilots union reach accord on cost savings efforts

LOUISVILLE, Ky.—Staving off a potential scenario in which up to 300 pilots may have been furloughed, UPS and its pilots union—the Independent Pilots Association (IPA)—said last month that they have come to terms on cost-cutting measures totaling $131 million over the next three years.

This news follows reports in recent weeks that noted UPS has a $40 million cost savings goal for 2009, adding that UPS and the IPA inked a memorandum of understanding on April 9 to meet a June 8 deadline for a total of $131 million in savings, which includes savings of $38 million and $53 million in 2010 and 2011, respectively.

UPS officials said that through a series of voluntary steps, the IPA has identified nearly $90 million in savings to date. Even though this falls short of the three-year, $131 million goal, UPS and the IPA said there won't be any pilot furloughs through April 1, 2010. And, they say the IPA is working to produce more savings.

A UPS statement indicated that voluntary pilot savings generated later this year could potentially eliminate any proposed layoffs. And it added that savings identified by the IPA have been produced through voluntary programs, including: pilots taking short- and long-term leaves of absence; military leaves; job-sharing; reductions in flight-pay guarantees; early retirement; and sick bank contributions.

"These steps were taken to actively manage our business throughout the economic downturn so that we remain strong," said Patti Hobbs, UPS Airlines strategic communications manager. "One thing we needed to do was to make sure we were getting cost-savings from all areas due to the volume reductions that had occurred."

News Capsule

Lackluster 3PL market

After 11 sluggish months in 2008, revenues for 3PLs tumbled in December 2008 and have remained depressed well into 2009. Recent research from Armstrong & Associates indicates that 60 percent of 3PLs are reporting lower gross revenue for this year, and gross revenue for 3PLs is down 8.8 percent in 2009. The report also predicts that 2009 will be the first recorded negative gross revenue growth year since Armstrong began tracking it in 1996.

Source: Armstrong & Associates, Inc

PARCEL EXPRESS, *CONTINUED*

While UPS and the IPA are currently about $40 million short of the $131 million savings goal, Hobbs said both organizations are committed to meeting this objective. She went on to say this deal is an innovative agreement that averts pilot furloughs while also ensuring UPS remains competitive during the economic downturn. Of the 2,900 UPS IPA members, Hobbs said about 1,900—or two-thirds—stepped up to make a contribution to meet these savings objectives.

"It's better to have a job with less pay in this tough economic time, just like the rest of the working public than no jobs at all," said Jerry Hempstead, principal of Orlando-based Hempstead Consulting. "Keep in mind that DHL exited the domestic market, which has resulted in pilots being let go, and FedEx is suffering down volumes and deteriorating margins as well. The pilots have done the right thing and perhaps will be asked to do more in the not too distant future if the economy does not start restoring packages into the network."

—Jeff Berman, Group News Editor

UPS officials said that through a series of voluntary steps, the IPA has identified nearly $90 million in savings to date.

TRUCKING

ATA says increased tolling on highways threatens recovery

WASHINGTON—How would you like to enter a grocery store, pay for a bag of groceries, proceed to your vehicle and then, upon exiting the grocery parking lot, be charged again for that same bag of groceries?

That scenario is akin to the trucking industry's argument against expanded use of highway tolls.

Once exclusively reserved for building highways and bridges, tolls have been expanded recently to help cash-strapped states balance their budgets. With the 24.4-cent per-gallon fuel tax unchanged since 1993, and the costs of highway and bridge maintenance skyrocketing in recent years, increased tolling has become a popular method to raise millions of dollars by states reluctant to raise their own fuel taxes.

"It's interesting to see how the American people get around using the word 'tax,'" says Charles "Shorty" Whittington, the chairman of the American Trucking Associations (ATA) who also heads Grammer Industries, an Indiana-based carrier that specializes in hazardous materials hauling.

According to Whittington, politicians reluctant to use the word "tax" seem to have no problems raising tolls, which fall under the category of "user fees," not taxes. However, the problem from the trucking industry's viewpoint is that this is actually a form of double taxation.

"Additional tolling on our National Highway System is nothing more than an ill-conceived quick fix for transportation funding shortfalls."

—Bill Graves, ATA

"The problem we have is these are taxes we've already paid to build these roads," Whittington told *LM*. "Now they are taxing us again to use them. If this double-taxation continues, they are going to create another tea party," he added, referring to the Boston Tea Party that sparked the American Revolution.

Some politicians are listening. In fact, the ATA is supporting the "Freedom from Tolls Act" that was introduced by Sen. Kay Bailey Hutchison, R-Texas and is designed to limit the spread of tolling on federal highways. The bill (S.1115) would prohibit states, private entities, and private-public partnerships from adding tolls on existing federal highways, bridges, or tunnels built with federal funding.

In 2006, the trucking industry paid $37.4 billion in federal and state highway taxes. That amounts to nearly $8,000 per truck, or 36.5 percent of the total amount paid. Meanwhile, trucks represent only 12.5 percent of the vehicles on the road. In addition, the trucking industry paid $17.8 billion in federal highway-use taxes and $19.6 billion in state highway-use taxes.

The trucking lobby doesn't mind paying for use of the roads—once. The issue they're having is paying tolls that were designed for original construction bonds that long ago have

TRUCKING, *CONTINUED*

been paid.

"Highway users have paid for these highways through fuel taxes," said ATA President and CEO Bill Graves. "Additional tolling on our National Highway System is nothing more than an ill-conceived quick fix for transportation funding shortfalls.

—John D. Schulz, Contributing Editor

OCEAN SHIPPING

Peak season will mean higher transpacific rates

SAN FRANCISCO—Shippers were told at a recent industry forum that the worst may be over for cargo vessel operators. But that may not be an entirely positive, as prices are likely to get a boost during the coming peak season.

That was the good news/bad news for those shippers attending the annual meeting of the Agriculture Transportation Coalition in San Francisco last month, as they braced for a new rate structure to be introduced on the transpacific and other key trade lanes.

"We don't think that there will be any container lines going out of business," said Edward Zaninelli, vice president transpacific westbound trade, OOCL. "There are too many 'Catch-22s' for that to happen. But we will see more slot-sharing and consolidation, and rates have got to go up…that's a given."

Meanwhile, the fleet of idled container vessels owned by OOCL and other carriers is shrinking as many of the larger ships are being brought back into service to handle the seasonal rise in cargo volumes.

According to ASX-Alphaliner, the Paris-based consultantcy, the idled carrier-owned fleet has fallen from a peak of 241 ships of 1.04 million twenty-foot equivalent units (TEU) in March to 199 vessels of 790,000 TEU. Among the trends to watch, said Zaninelli, will be for carriers using more all-water services that avoid both the Suez and Panama Canals. "We'll see more 'slow steaming' around the Cape and Horn as vessel operators seek ways to save on fuel costs, which are rising again," he said.

And that figures into the higher rate equation, too. Rising crude prices mean a boost in bunker fuel prices, but it's the currency imbalance that really hurts the carriers, explained Zaninelli. "The weak dollar has just been killing us," he said. "Revenue is below cost in all trade lanes now, and the recovery is just beginning. Asia and the U.S. will be the first economic zones to see growth in 2010, but the EU is going to take longer."

Carriers are positioning themselves for this slow rebound by brining ships out of lay-ups, he said, but it's a time-consuming process. Zaninelli also noted that shippers will see some "funny marriages" as various nation states cooperate on vessel sharing. "When China [with China Shipping Lines] and Taiwan [with Evergreen] agree to get together, you'll know it's a new era," he said.

—Patrick Burnson, Executive Editor

Bohman on

Getting to know F.O.B. terms

JUST ABOUT every domestic commercial purchase order is subject to written terms of sale called F.O.B. (Free on Board) terms. You've heard them stated many times, such as "F.O.B. factory" or "F.O.B. warehouse."

F.O.B. terms determine when title to goods passes from the seller to the buyer. However, I'm sure you often hear something like the following stated: "F.O.B. plant, freight collect." While these two terms are generally uttered in the same breath, they each have a different meaning.

As mentioned above, F.O.B. determines when title to the goods passes from seller to buyer, while "freight collect," "freight prepaid," or "freight prepaid and add" indicates who pays the freight charges—the seller, the buyer, or a designated third party.

Let's look closer at F.O.B. terms. If the terms of sale, normally set by the seller, are "F.O.B. factory," the seller is responsible for placing the goods on a conveyance such as a trailer, container, or a rail car at its expense.

Once it does that and the carrier signs the bill of lading, the title passes to the buyer. From that point on, the buyer, now the owner of the goods, assumes all the inherent risks and burdens in transportation, including loss or damage. Should the goods be damaged in transit and it is later determined they were improperly or inadequately packaged, the buyer would have a right of action against the seller.

There are many, many different F.O.B. terms such as "F.O.B. factory," "F.O.B. warehouse," "F.O.B. mine," and so on. The terms you want to watch out for are F.O.B followed by the name of a city, like "F.O.B. Chicago." If the buyer has a consolidation point on the opposite side of Chicago, the seller would be required to transport the goods across town to the consolidation point at the seller's expense.

While it's the seller that normally sets F.O.B. terms, if the buyer is a major customer and has a great deal of leverage, there's nothing to stop the buyer from trying to change the F.O.B. terms to its advantage. An example might be trying to get the seller to retain title to the goods until they reach destination. Under "F.O.B. destination" terms, the seller would assume all the essential risks and burdens in transportation including loss or damage until the goods are delivered at destination.

Bear in mind that F.O.B. terms generally apply on domestic transportation. When you are shipping or receiving goods from overseas, international terms, called Incoterms, apply.

As far as terms like "freight collect," "freight prepaid," "freight prepaid and add," or "freight prepaid bill to a named third party" are concerned, while generally uttered in the same breath with F.O.B. terms, these are separate from such terms; but like F.O.B. terms, these too can be negotiated. L

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Mantras of fulfillment masters

IN A WORLD where customers can change suppliers at the click of a mouse, fulfillment mastery—the ability to cost-efficiently receive, compile, and deliver orders "on time and in full" (OTIF)—has become more vital than ever.

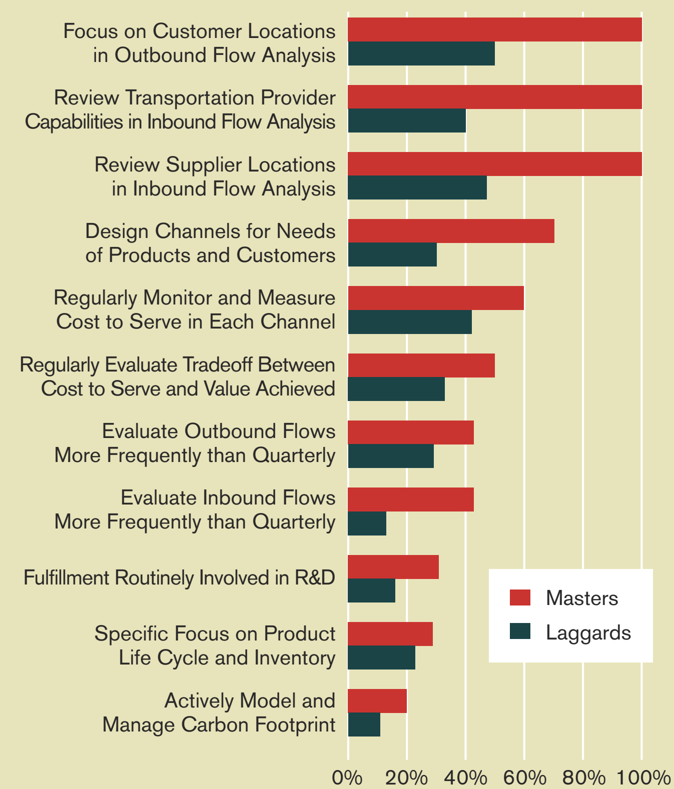
But what capabilities actually contribute most directly to fulfillment mastery? And if a company is able to build such a capability, what impact does that have on its financial performance? In short, is the gain worth the pain?

To learn the answers, Accenture recently surveyed 240 fulfillment executives from around the world. What we discovered is that companies' fulfillment performance might generally be termed "good but not great." On the receiving end, survey respondents get 90 percent of orders on time and in full. Respondents' performance on behalf of their customers is slightly better: They deliver 95 percent of their customers' orders in full and on time. Days of supply for finished goods inventory average 15 days.

Such accomplishments are decent to say the least. However, they fall well short of the performance levels attained by the roughly 10 percent of companies Accenture defines as "fulfillment masters." According to our research, masters achieve 98 percent on-time, in-full delivery. And they do so with 50 percent less inventory and outbound transportation costs that are less than half that of the respondent population as a whole (2 percent of total revenue versus 5 percent). Bottom line: Masters enjoy higher service levels for growing the business and lower costs for operating the business.

It should also be noted that masters demonstrate high levels of sophistication in every element of fulfillment—from fulfillment strategy (how they design and adjust their fulfillment operations), through operational excellence (how well they execute the strategy), and technology (how effectively they use IT to improve operations). In the remainder of this article, we examine the skills and capabilities associated with mastering fulfillment strategy. Next month, we'll do the same with operations and technology.

Strategy Metrics Comparing Fulfillment Masters and Laggards



HOW MASTERS CREATE DYNAMIC FULFILLMENT OPERATIONS

One of the key distinctions between fulfillment masters and laggards is the ability to build dynamic and responsive supply chains that can be

Narendra Mulani leads Accenture's Supply Chain Management service line. He has worked across a diverse set of retail, technology, and products clients, and continues to have responsibility for Accenture's global relationship with Procter & Gamble. He has been with Accenture since 1997.

adjusted rapidly to meet changing market conditions (shifting customer demands and competitive moves; changes in suppliers; fluctuations in fuel prices and interest rates, etc.).

Toward this end, masters design their supply chains by continuously reassessing cost and service factors, adjusting their fulfillment methods, regularly reviewing their channels to customers, emphasizing selectivity in their choice of supply chain partners, and actively modeling and managing their carbon footprint.

Consider flexibility as it relates to inbound flows: Masters typically pay close attention to the capabilities of transportation providers and supplier locations. As part of their inbound flow analysis, every one of the masters we surveyed regularly reviews both transportation firm capability and supplier locations. By comparison, less than half of the laggards evaluate supplier locations and only 40 percent scrutinize transportation providers. Masters are also more rigorous than laggards about monitoring key elements of outbound flow. One hundred percent of surveyed masters evaluate customer locations when analyzing their outbound flow, compared to only half the laggards.

Fulfillment masters are also more likely to actively manage cost to serve in each distribution channel (only a minority of laggards do this). And half the masters we studied regularly evaluate the tradeoff between cost to serve and value achieved, compared to only one-third of the laggards. In addition, masters are routinely involved in the R&D process—thus ensuring that efficiencies, constraints, and available value-adding activities are incorporated into product design.

Lastly, we determined that masters more fully leverage third party logistics firms. Some 80 percent said their 3PLs have boosted flexibility, while a lower percentage of the laggards—63 percent—said the same.

The case of a major elevator manufacturer illustrates the payoff from possessing sophisticated capabilities in fulfillment strategy. To improve operating margins, the company's North American division moved U.S. production to Mexico, which forced a reassessment of its U.S. distribution network. After evaluating the network, the company designed a new supply chain that cut the company's transportation costs by 13 percent. Total fulfillment savings reached nearly $5 million while fulfillment service levels doubled.

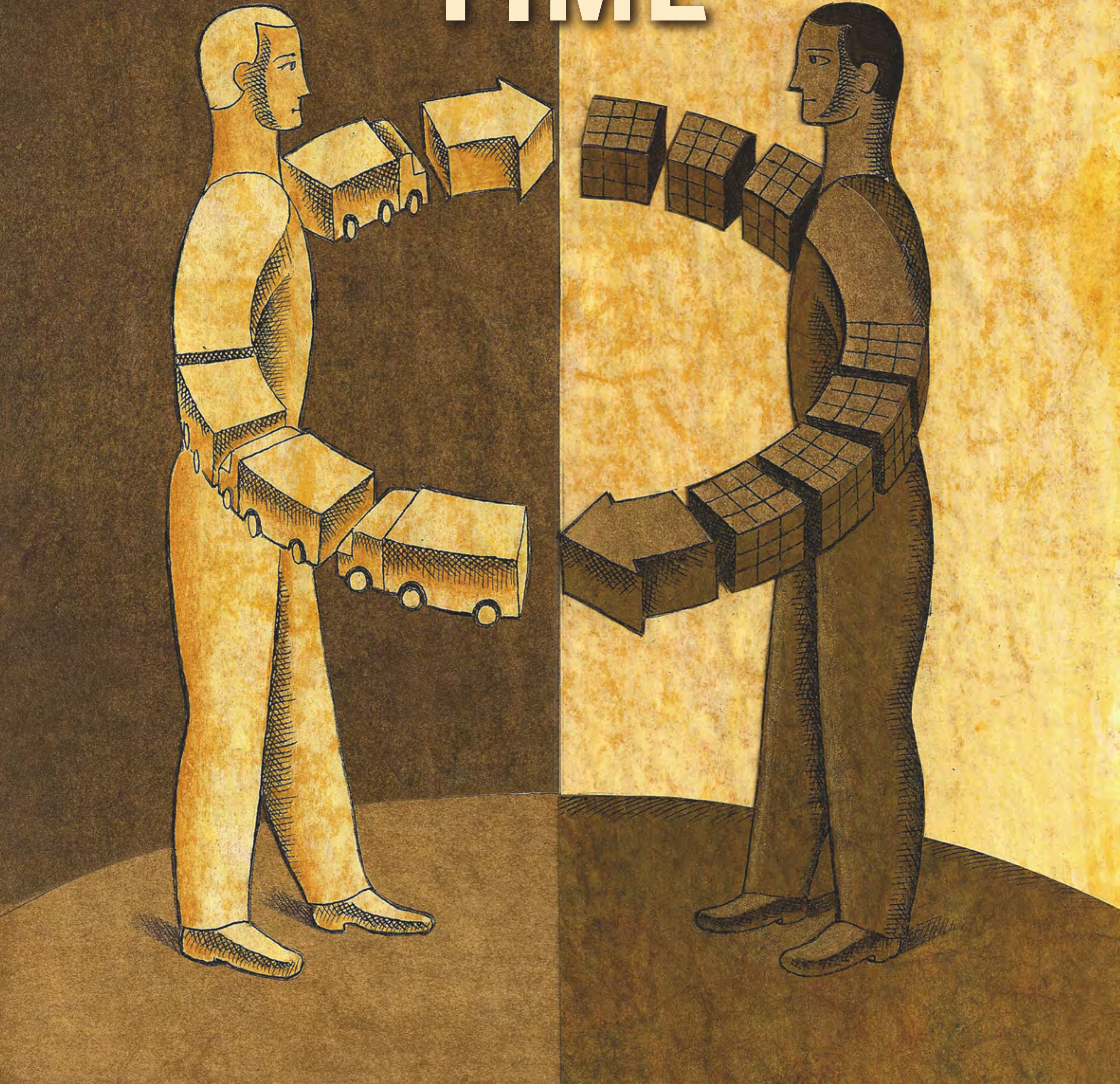
Clearly, fulfillment masters have reached a higher plane when it comes to strategy development. It is also evident that a high level of enlightenment about cost and service benefits has resulted.

Next month, we plan to explore how fulfillment masters put their strategies to work, with operations and technologies of karmic proportions. L

2009 ANNUAL REPORT

2009 STATE OF LOGISTICS

COLLABORATION TIME



The 20th Annual State of Logistics Report finds that conditions have worsened beyond last year's forecast. But as dismal as the numbers are, shippers are advised to renegotiate rates and lock in carriers now. Above all, the two parties shouldn't lose sight of the dependence they have on one another.

BY **PATRICK BURNSON,** EXECUTIVE EDITOR

The 19th Annual State of Logistics Report (SoL) published last July seems like ancient history now, with its cautiously optimistic news that lower energy costs coupled with a tepid rise in consumer confidence might work to restore the diminishing fortunes of carriers and providers.

According to the 20th Annual SoL, business logistics costs fell to 9.4 percent of U.S. Gross Domestic Product (GDP) in 2008 after rising over 50 percent during the previous five years. This number is down from 10.1 percent of GDP in 2007.

For consumers, the new numbers indicate that the final, delivered cost of goods in the U.S. may have declined slightly. In fact, total U.S. logistics costs dropped to $1.3 trillion last year, a decrease of $49 billion from 2007—but still the second highest number on record. Furthermore, interest rates plummeted in 2008 and were more than 50 percent lower than they were in 2007, giving freight forwarders and other intermediaries easier access to financing. In a perfect world, that means less risk for shippers.

But we have not hit bottom yet, says Rosalyn Wilson, an independent consultant and author of the 20th Annual SoL, which is sponsored by the Council of Supply Chain Management Professionals (CSCMP). Over the course of 2008, Wilson reports that total logistics costs continued to drop, with fewer asset-based carriers and third-party logistics providers (3PLs) willing to invest in long-term strategies for growth. And they did so at their own peril, she asserts.

A NECESSARY SYMBIOSIS

In 2008, inventory carrying costs plunged 13 percent and were the driving force behind the year's drop in logistics costs, says Wilson. The decrease in carrying costs was due to both a 2.2 percent decline in inventories and an 11.2 percent decrease in the inventory carrying rate. Warehousing costs, however, rose 9.5 percent with warehouse managers reporting that inventory turns were down substantially from earlier years as stock spent more time in warehouses.

"I tell everyone to 'mind their relationships' and work toward a common goal."

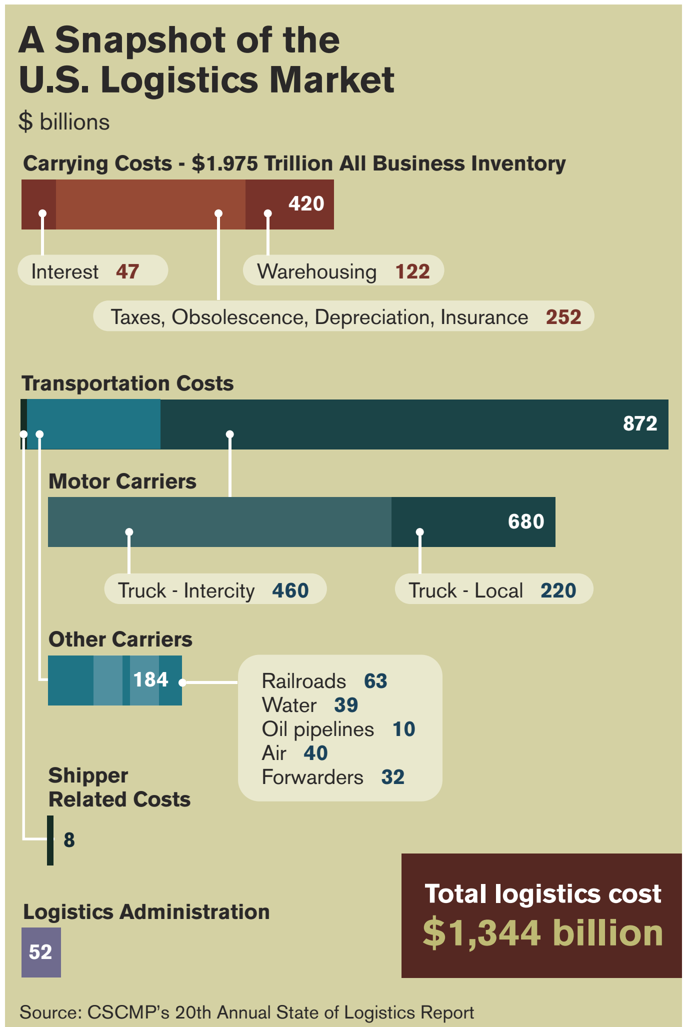
—Rosalyn Wilson, report author

Trucking, which comprises 78 percent of the transportation spend component, increased 1.3 percent compared to roughly 4.4 percent for rail, air, and ocean modes. Truckload capacity dropped at unprecedented rates, with freight volumes declining faster than capacity, offering little incentive to keep fleets active. And even though transportation costs were only up 2 percent over 2007 levels, this was not enough to offset the steep decline in inventory carrying costs.

According to Wilson, the second half of 2009 is no time for shippers to squeeze more margin out of beleaguered carriers. Rather, some sacrifice should be considered to mitigate their losses and help them return to profitability. "Collaboration has never been more important," she says. "I tell everyone to 'mind their relationships,' and work toward a common goal. This can't be done if shippers are abandoning their offshore operations or running businesses on an even leaner basis. It's not sustainable, and can only mean a slower recovery."

In the meantime, says Wilson, "make nice to the carriers.” She advises shippers to be good to them now when they are truly hurting so that they’ll be able to provide the capacity shippers will need down the road. Her report notes that right now the attrition rate is mounting, as carriers consolidate or abandon some routes entirely. Booking freight from Memphis to St. Louis or Baton Rouge, she says, may become much more difficult.

“While the numbers look pretty bad for carriers and 3PLs, I’m telling everyone to consider what we said when I was a girl scout leader,” says Wilson. “Every great challenge offers the opportunity to excel.” Which means taking a more active role in nurturing supply chain relationships, she says.



HARD TIMES ON THE HIGHWAYS

According to Wilson, it’s a good time to be asset free, as she points to non-vessel operators (NVOs) and 3PL companies as being among the most stable. Some, she says, are even profitable.

“This is a nice 3PL world,” she says, “and pretty much conforms to what we predicted last year. A lot of trucking companies continued to fail or just got out of the business. That doesn’t mean that some will not come back when the economy improves, but for the time being, the barriers to entry are significant.”

The driver shortage—a crisis a few years ago—may resurface again because of regulatory compliance, and Wilson believes fuel prices will begin steadily climbing for the rest of the year (See “Mid-year rate outlook,” Page 34). And until that scenario is altered by more demand, spot rates will continue to be “outrageously” low.

“Right now, motor carriers are just getting 50 percent of what they should be charging,” she says. “But their attitude is one in which some cash is better than no cash. In other words, they are just chasing the money.” That means that shippers may one day begin chasing the capacity, she adds.

As readers of *Logistics Management* know, this trend has not surfaced suddenly. Over the past three to five years, says Wilson, shippers have seen the blurring of lines between regional and local trucking companies, and a shorter length of haul in general. All transport sectors have been contracting as manufacturers opt for more regional distribution centers.

“There’s been a major long-term change in sourcing decisions,” says Wilson, with logistics professionals considering a much wider range of variables. “As a consequence, many of the existing players are as lean as they can get without going bust. Every mode has to begin looking for some form of investment in the future, especially trucking.”

“Right now, motor carriers are just getting 50 percent of what they should be charging. But their attitude is one in which some cash is better than no cash.”

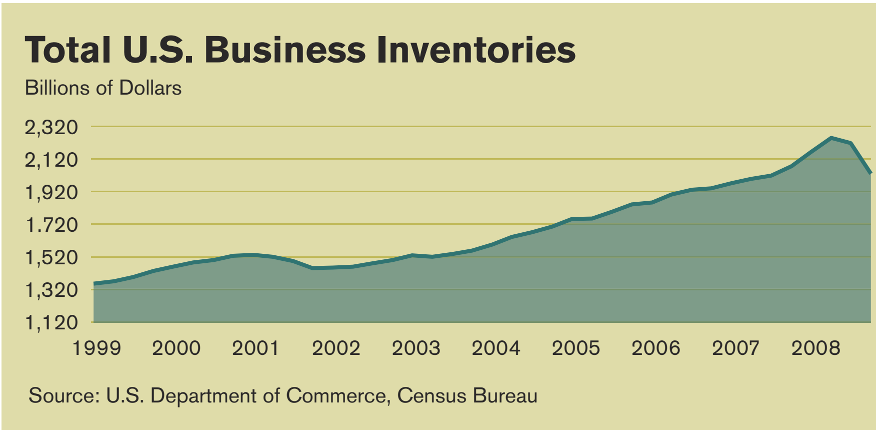
—Rosalyn Wilson, report author

DARK SKIES AND ROUGH SEAS

Wilson agrees with industry experts who insist that air cargo rates may have hit bottom.

The International Air Transport Association (IATA) revised its airline financial forecast for 2009 to a global loss of $9 billion this past June, noting that it is nearly twice as high as the association’s March estimate of a $4.7 billion loss. IATA also revised its loss estimate for 2008 to $10.4 billion from the previous estimate of $8.5 billion.

“There is no modern precedent for today’s economic meltdown,” says Giovanni Bisignani, IATA’s director general and CEO. In his “State of the Industry” address to 500 of the industry’s



top leaders gathered in Kuala Lumpur during the 65th IATA Annual General Meeting and World Air Transport Summit, Bisignani painted a bleak picture.

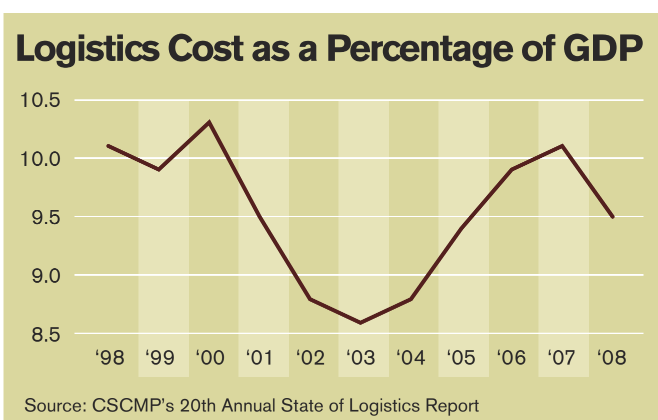
IATA's revised forecast sees revenues declining an unprecedented 15 percent ($80 billion) from $528 billion in 2008 to $448 billion in 2009.

Air cargo demand is expected to decline by 17 percent by the end of the year. In 2009, airlines are forecast to carry 33.3 million tons of freight, compared to 40.1 million tons in 2008. Passenger demand is expected to contract by 8 percent to 2.06 billion travelers compared to 2.24 billion in 2008. The revenue impact of falling demand will be further exaggerated by large falls in yields—11 percent for cargo.

On the ocean-borne side, Wilson says that new vessel deployment schedules are beginning to take shape, routing cargo on an "all-water" course from Asia through the Suez before calling on U.S. East Coast ports. Other analysts have noted that the falling value of the dollar also contributed to this pattern, as traders realized the obvious benefit of off-loading some goods in the EU before reaching U.S. destinations at New York, Charleston, and Savannah.

The Panama Canal, too, has experienced a resurgence of traffic, bringing more cargo to Houston and other U.S. Gulf ports. The Canal's expansion project will build a new lane of traffic along the Panama Canal through the construction of a new set of locks, which will double capacity and allow for increased traffic and wider ships. With expansion plans on schedule for 2014, this alternative will prove to be even more attractive to operators of the newest "mega" vessels—ships that have not been able to transit the historic passage in the past.

Furthermore, the International Longshore Union, (ILA) comprising most of East Coast dockside labor, has been working with terminal operators and port authorities to manage a more sustainable relationship built upon mutual benefit. Organized and non-union workers alike have a substantial stake in keeping these gateways viable, and unlike their counterparts across the continent, they know it.



SIGNS OF RECOVERY

Like many financial analysts, Wilson is predicting a slow and painful economic rebound in 2010. A gentle uplift in the housing market along with a return of some consumer confidence will be evident in the U.S. in the early part of next year, with the rest of the world catching up 6 months to 12 months later.

Until that happens, however, Wilson strongly recommends a return to "proactive rather than reactive" behavior. She advises shippers to increase their use of intermodal and to restructure their distribution networks to maximize efficiency and minimize miles.

She shares the sentiments of many other industry analysts who have been championing investment in IT and "real-time" data flows to increase visibility and enhance productivity. And yes, there's more pressure to "go green" at the same time.

"While shippers invest in new distribution technologies, they should also spend money now on greening their supply chains," she says. "This will save them a lot of added expense in the future, and is the right thing to do anyway."

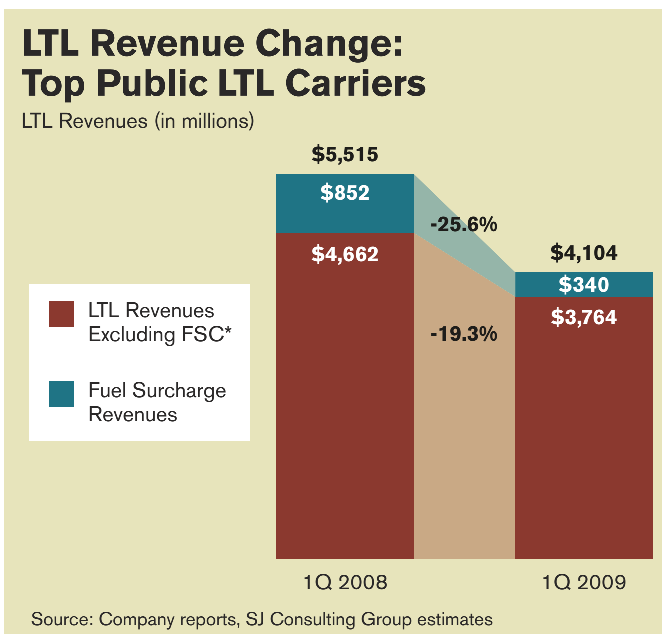
And while they are at it, says Wilson, shippers should review sourcing strategies and the impact of a "reverse globalization" model, checking total landed cost. Meanwhile, she advises shippers to develop contingency plans for their suppliers and their supplier's suppliers.

"In other words, do whatever you can to help your supply chain partners," she adds. "Shippers can take this time to review contracts, renegotiate rates, and lock in carriers now, but they shouldn't lose sight of the dependence we have on one another. Don't burn your bridges." L

NOW YOU SEE IT...

It's hardly a magic trick, but the beleaguered less-than-truckload (LTL) industry is shrinking before our eyes.

Buffeted by overcapacity in the worst freight environment in more than 30 years, LTL revenue among the eight largest carriers in the sector fell by 25.6 percent in the first quarter of this year. Excluding fuel surcharges, LTL revenue fell by 19.3 percent for that elite group of eight which includes YRC Worldwide (National and Regional), Con-way, ABF Freight System, Vitran Express, FedEx Freight, Old Dominion Freight Line, Saia, and UPS Freight.



LTL Revenue Change: Top Public LTL Carriers

Source: Company reports, SJ Consulting Group estimates

In fact, this group accounts for about 70 percent of revenue in the $34.5 billion LTL sector—which accounts for about 13 percent of all for-hire trucking revenue. But the sector is not growing overall: In fact it has remained flat for a decade and now has two competing camps nipping at its heels.

First, TL carriers such as Schneider National and Swift have lowered their weight threshold for LTL pickups in hopes of gaining additional freight. At the other end, consolidators and 3PLs such as C.H. Robinson are converting LTL freight by consolidating freight into larger, cheaper truckload moves.

In most years, a seasonal uptick in volume normally occurs in springtime: Not this year. Recently, LTL giants Arkansas Best (parent of ABF) and YRC Worldwide both filed government reports stating April volumes finished the month worse than expected—and the news has affected profit margins.

In the aggregate, those eight LTL giants suffered average declines in operating margins of 1035 basis points in the first quarter. Some of the losses have been astounding. YRC Worldwide, which has a 27 percent LTL market share, lost $257 million in the first quarter. That makes YRC's losses over the last nine quarters a staggering $1.869 billion—large enough for the LTL giant to consider applying for $1 billion in bailout funds from the federal government's Troubled Assets and Relief Program (TARP).

YRC's future is not so much in the hands of its management and customers as it is its lenders. Its worst-case scenario is what happened to Consolidated Freightways, another large unionized long-haul LTL carrier. After years of losses, CF closed suddenly on Labor Day 2002 after its lenders simply said, "No more."

"I believe market consolidation is a good thing," Con-way Freight President John Labrie said recently. "Consolidation reduces excess capacity and improves conditions for the remaining players. You just have to make sure you are a relevant remaining player."

YRC's situation is affecting the rest of the LTL carriers on more than one level. On one hand, should the $9 billion LTL giant go under, that would immediately eliminate the sector's overcapacity by a stunning amount. According to trucking analyst John Larkin of Stifel Nicolaus, there's already been an 8 percent short-term reduction in LTL capacity. Larkin says perhaps another 6 percent of capacity reduction is necessary in order to get pricing aligned with demand.

But on the other hand, some analysts say that YRC's precarious condition is hampering rivals' long-term planning. "They are counting on their problems being solved by changes to YRC's condition or for the economy to return," says Satish Jindel, principal of SJ Consulting. "That limits them from managing the business for today. They don't have control of their own business to return to profitability."

All this is positive for shippers. Analysts say year-over-year LTL contracts are being renewed with rates falling as much as 2 percent to 3 percent, excluding fuel surcharges. Despite LTL carriers' announcements of general rate increases averaging 2.6 percent, nearly none of that has stuck in the marketplace. Real LTL rates actually fell 1.5 percent in the first quarter, according to *LM*'s Price Trends columnist Elizabeth Baatz. Continued LTL rate decreases can be expected for the rest of the year, analysts predict.

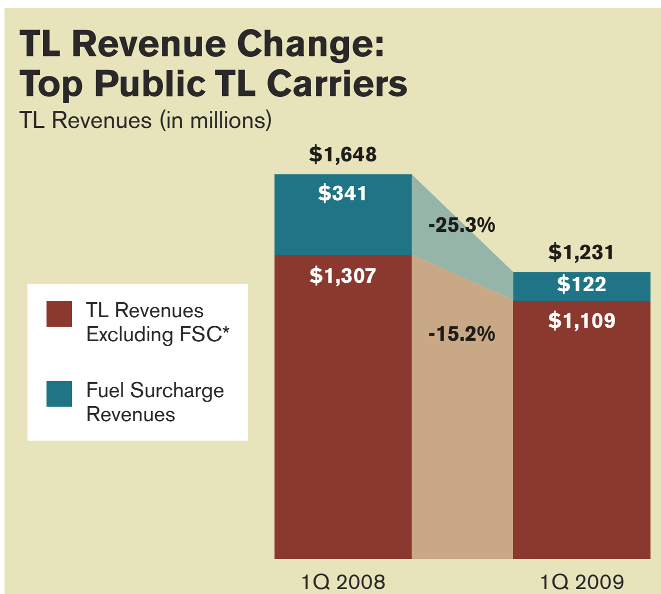
—John D. Schulz, Contributing Editor

RECOVERY? *WHAT* RECOVERY?

Truckload (TL) is normally viewed as the engine that drives innovation in the trucking industry. Today it's a shrinking giant. TL carriers reduced capacity by an estimated 7 percent last year as it coped with a serious recession that has caused double-digit drops in tonnage demand. That reduction in capacity was an attempt by TL carriers to reduce their high fixed costs in an era of declining demand.

Accounting for 87 percent of all for-hire trucking revenue, the non-union TL sector has proven to be an agile provider whose strength has been the ability to align capacity and resources where shippers need them to be. So, when the current trucking downturn began in August 2006, the TL sector reacted by shedding capacity and parking trucks at what normally would be considered an alarming rate.

Over the last two years, trucking analysts estimate that 18 percent of capacity has come out of TL in an attempt to align supply and demand. This was done to help reduce overcapacity, which has resulted in bargain rates for shippers who have been able to negotiate single-digit rate decreases in their annual contract renewals.



Source: Company reports, SJ Consulting Group estimates

Because of declining rates, some leading TL carriers have diversified away from pure dry van freight into other transport segments. J.B. Hunt, once the largest over-the-road truckload carrier, now gets less than 25 percent over its overall revenue from dry van freight. Instead, it has diversified into intermodal, dedicated contract services, and other options for shippers. This trend is expected to continue, especially if high diesel prices make intermodal rail more attractive to shippers.

"The big guys in truckload have fared better than the big guys in the LTL sector," says Satish Jindel, principal of SJ Consulting. "One reason is they have taken out capacity. They are replacing their three-year-old tractors, but not adding to their fleets."

According to trucking analyst John Larkin of Stifel Nicolaus, J.B. Hunt's total truck count has been reduced by 36 percent over the last two full calendar years. Werner Enterprises, the nation's fourth-largest TL carrier, shaved 14 percent of its over-the-road fleet. Covenant Transport, the nation's 11th-largest TL carrier, took out 8 percent, including a whopping 44 percent of its owner-operators.

But even that capacity reduction may not be enough—and shippers may continue to win mid-single digit percentage rate reductions in their TL contracts for this year, analysts predict, due to a sharp decline in freight demand. The Cass Freight Shipment Index was down 25 percent in April from year-ago levels, and the American Trucking Associations' Truck Tonnage Index for May was off 11.0 percent from year-ago levels.

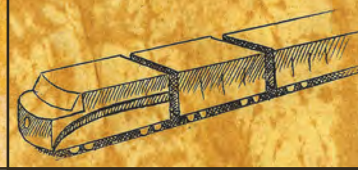
Analyst Ed Wolfe of Wolfe Research produced a shipper survey conducted in mid-April that showed despite reduced inventory levels, traffic managers are pushing out inventory re-stocking further than when polled just three months earlier. Over 70 percent of shippers polled said they don't expect to even begin restocking inventory before the second half 2009. And 34 percent said they don't expect to begin restocking inventory until 2010.

Intermodal options have risen for cost-conscious shippers as well. While overall intermodal volumes declined 16.4 percent in the first quarter, purely domestic intermodal moves rose 4.6 percent. All this is causing some analysts to predict as much as a 3 percent to 5 percent reduction in TL rates this year, depending on lane and a shipper's particular volume and carriers.

Still, analysts are expecting a recovery to occur in the TL sector first. "The stimulus package will begin to put more infrastructure-related freight on the road," Jindel predicts.

But don't look for any surge in TL capacity anytime soon. After posting a record year of more than 256,000 sales in 2006, overall Class 8 sales could be as low as 75,000 this year, according to FTR Associates, a consulting firm. If that 75,000 number is correct, analyst Larkin says that's well below the normal replacement rate, which would aid in further capacity reductions and would certainly stem the decline in TL rates.

—John D. Schulz, Contributing Editor



RECESSION CATCHES UP

A year ago, most freight transportation modes were already mired in the dire economic conditions affecting supply chain operations. One exception was the railroad industry.

Even though other modes—trucking and ocean—saw sinking volumes and earnings, the railroads kept humming along, with strong pricing power and financial returns despite slipping volumes that were similar to the record-breaking volumes of 2006 and 2007.

All told, U.S. railroad volumes for 2008 were the fourth-highest on record behind 2005, 2006, and 2007, according to the Association of American Railroads (AAR).

Fast forward a year later, however, and it looks like the recession has finally caught up to the railroad carriers. Today's situation finds volumes down on a weekly basis, hovering around 250,000 to 270,000 weekly carloads for Class I railroad carriers—numbers that are well below average.

One thing that remains the same is that there is no shortage of acrimony between rail carriers and shippers. As in past years, shippers still contend that rail rates are too high and service quality is too low. Meanwhile, rail carriers continue to plead their case for their pricing structure, pointing to the need for increased infrastructure to meet future freight projections. This is, of course, coupled with the fact that they are on the hook financially for track upgrades and improvements, and just barely earn above their cost of capital.

Some rail shippers continue to turn a deaf ear to the rail industry's position, maintaining railroads are still having their way by charging high rates while offering minimal service. Meanwhile, the carriers contend that these complaints are hollow, stating that until the past five years rail rates were largely down or flat year-over-year.

"Shippers continue to be very frustrated by the railroads, and the railroads are not being sensitive to the needs of shippers in this economic downturn," says Bob Szabo, executive counsel for Consumers United for Rail Equity (CURE). "They continue to raise their prices despite the fact that the economy is down."

U.S. Rail Cargo Volumes

2008

Total carloads **16,752,709**

2.2% decrease from 2007

Total intermodal loadings **11,517,240**

4.2% increase from 2007

January-May 2009

Total carloads **7,007,839**

20.2% decrease from the first five months of 2008

Total intermodal loadings **4,834,893**

16.6% decrease from the first five months of 2008

Source: American Association of Railroads (AAR)

Szabo also wonders how rail rates can be up at a time when volumes remain down, adding that this is occurring through monopoly pricing power. But he did admit that while many shippers still have service issues, they are not at the frightfully low levels they were when railroads were at full capacity.

One thing shippers need to understand when it comes to pricing, according to William Rennicke, director of management consultancy Oliver Wyman, is that the physical infrastructure needs of railroads puts them in market competitive situations where there is only one available carrier, and they offer a portfolio of prices—commonly known as differential pricing—to get the required rate of return needed to recapitalize railroad systems.

"There are freight projections that show huge growth in the future," said Rennicke. "And railroads want to come out of the downturn with capacity, which can be added very quickly. This is why there is a need to continue and maintain investments in infrastructure for things like passing sidings on single track lines and improving clearances for double-stacking."

This is reflected in the amount of infrastructure investments Class I railroads have made in recent years, according to AAR data. In fact, 2008 was a record year for investment at $10.2 billion while 2006 and 2007 hit $8 billion and $9.4 billion, respectively.

These figures reflect that the railroads are taking their commitment to improvements seriously. But as we have seen in the past, it will likely never be perfect, as evidenced by the ongoing rancor between railroads and shippers.

—Jeff Berman, Group News Editor

IS THE WORST FINALLY OVER?

Just how bad has container shipping been doing lately? MOL was quick to shoot down the false news service report that it would get out of the business to focus on other parts of its operations; but the fact that the story ran at all caused some alarm in the industry.

Meanwhile, container shipping analysts and industry leaders are telling shippers that the worst may be over. While it's a little early in the recovery game, there are indications that they just may be on to something. "We don't think that there will be any container lines going out of business any time soon," says Edward Zaninelli, vice president of transpacific westbound trade for OOCL. "There are too many 'Catch-22s' for that to happen. But we will see more slot-sharing and consolidation, and rates have got to go up…that's a given."

Indeed, the fleet of idled container vessels owned by OOCL and other carriers is shrinking as many of the larger ships are being brought back into service to handle the seasonal rise in cargo volumes. According to ASX-Alphaliner, the idled carrier-owned fleet has fallen from a peak of 241 ships of 1.04 million twenty-foot-equivalent units (TEU) in March to 199 vessels of 790,000 TEU.

Among the trends to watch, says Zaninelli, will be for carriers using more all-water services which avoid both the Suez and Panama Canals. "We'll see more 'slow steaming' around the Cape and Horn as vessel operators seek ways to save on fuel costs, which will be rising again," he says.

And according to Zaninelli, that figures into to the higher rate equation, too, he adds. Rising crude prices mean a boost in bunker fuel prices, but it's the currency imbalance that really hurts the carriers, explains Zaninelli. "The weak dollar has just been killing us," he says. "Revenue is below cost in all trade lanes now, and the recovery is just beginning. Asia and the U.S. will be the first economic zones to see growth in 2010, but the EU is going to take longer."

Carriers are positioning themselves for this slow rebound by bringing ships out of lay-ups, he says, but it's a time-consuming process. Zaninelli also notes that shippers will see some "funny marriages" as various nation states cooperate on vessel sharing to grab more market share. "When China [with China Shipping Lines] and Taiwan [with Evergreen] agree to get together, you know the situation has become desperate," he says.

According to AXS-Alphaliner analysts, Maersk Line is back in the market share lead after falling behind a few years ago. "The AP Moller-Maersk fleet will have doubled its capacity since December 2004," notes Stephen Fletcher, commercial director for AXS-Alphaliner, part of AXSMarine.

He says that in the first four months of 2009, the Danish company's containership fleet grew by 6.3 percent to put its market share at 16.3 percent. Over the same period, he adds, MSC's fleet capacity increased by 4.2 percent, while CMA CGM's rose by 2 percent. The world's top three grew their combined market share from 32.1 percent to 34.1 percent in 2007. But the message, says Fletcher, is not entirely positive, as prices are likely "to get a boost" during peak season.

—Patrick Burnson, Executive Editor

AXS-Alphaliner Top 30 operated fleets (June 2009)

Rank	Operator	TEU	Share
1	APM-Maersk	2,047,925	15.2%
2	Mediterranean Shg Co	1,524,495	11.3%
3	CMA CGM Group	983,710	7.3%
4	Evergreen Line	615,921	4.6%
5	APL	508,816	3.8%
6	COSCO Container L.	503,901	3.8%
7	Hapag-Lloyd	491,854	3.7%
8	CSCL	460,785	3.4%
9	NYK	415,246	3.1%
10	Hanjin Shipping	380,789	2.8%
11	OOCL	347,251	2.6%
12	MOL	344,061	2.6%
13	Hamburg Süd Group	333,188	2.5%
14	K Line	324,663	2.4%
15	Yang Ming Line	318,035	2.4%
16	CSAV Group	282,027	2.1%
17	Hyundai M.M.	278,559	2.1%
18	Zim	270,549	2.0%
19	PIL (Pacific Int. Line)	189,535	1.4%
20	UASC	157,107	1.2%
21	Wan Hai Lines	125,002	0.9%
22	MISC Berhad	99,473	0.7%
23	IRIS Lines	96,929	0.7%
24	RCL (Regional Container L.)	55,742	0.4%
25	Grimaldi (Napoli)	49,606	0.4%
26	CCNI	48,778	0.4%
27	Sea Consortium	45,665	0.3%
28	TS Lines	44,965	0.3%
29	Swire Shipping	39,572	0.3%
30	Maruba + CLAN	38,362	0.3%

All information above is given as guidance only and in good faith without guarantee

DEMAND STALLED

The figures may not initially appear good, but the fact that air freight demand has stabilized for five consecutive months in the -20 percent range may indicate that the industry has seen the worst of the economic downturn.

Still, Giovanni Bisignani, IATA director general and CEO for Montreal-based International Air Transport Association (IATA), calls these figures shockingly low. "Until inventories adjust to more normal levels, air freight volumes will likely continue to bounce along the bottom," he says.

The current economic crisis is an obvious contributor to these woes. But in studying the problem, Arlington, Va.-based consultancy firm MergeGlobal, points out that the air freight share of intercontinental trade flows has been decreasing over the past 10 years. "The migration of traffic from air to ocean services is having the biggest impact," says Brian Clancy, MergeGlobal's managing director. "Apparel, toys, and machinery have led the modal shift to ocean."

Driving this trend has been increasing fuel costs, higher ocean service reliability, and declining commodity unit values. According to Clancy, shippers make modal choices based on total distribution costs at the commodity level—a combination of transport and inventory related costs. "As fuel prices skyrocketed in recent years, air transport became too expensive for many traditional air commodities," he adds.

Meanwhile unit values of most commodities are declining, primarily due to productivity improvements and new technologies. As a result, more managers have shifted their focus to cutting transportation costs. U.S. Department of Commerce and MergeGlobal analysis indicates that the weighted average unit value of products being shipped by air rose from $77 to $98 during the 2002-2007 period.

"This provides further evidence that the bottom end of the demand curve has diverted to sea freight," Clancy says. "Since unit values are a key driver of inventory carrying costs, and thus total distribution costs, this trend also highlights the critical importance of the service dimension in air freight shipments."

Several joint venture businesses have been set up by ocean liners and less-than-truckload (LTL) carriers to shorten door-to-door transit time, improve reliability, and enhance freight visibility—thus creating a viable alternative to air services for certain products. Consequently, shippers are diverting to truck within North America and container shipping for intercontinental moves.

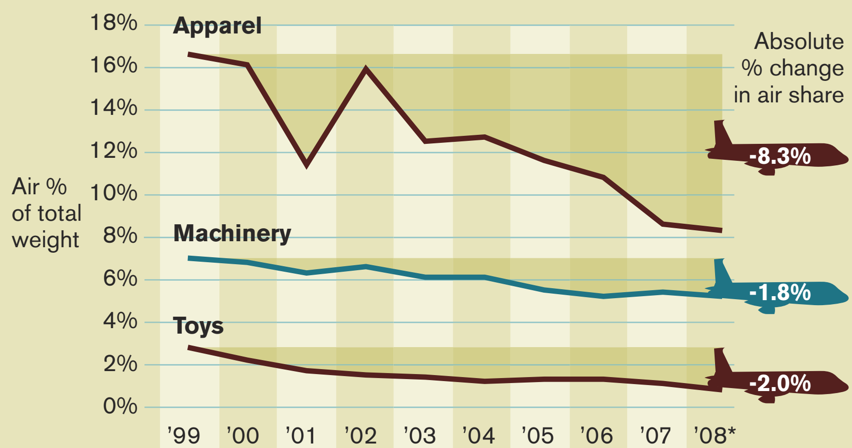
There is a silver lining for shippers using air cargo: The prices have fallen and air carriers are improving service levels to retain business. But with 20 percent of the world's freighter fleet grounded, resulting in significant less available belly capacity, carriers find it difficult to provide destination coverage and frequent flights. Bisignani adds that airlines remain constrained by old rules that restrict basic commercial freedoms such as access to markets and capital.

"To manage through this ongoing crisis, every player in the air transport value chain must be prepared to drive change," Bisignani adds. MergeGlobal contends that freight forwarders must adjust to an air freight market that has become more price-sensitive and service-focused. Clancy surmises, however, that given market forces, integrated carriers are better positioned to capture traffic relative to other carrier segments in the industry.

—Karen E. Thuermer, Contributing Editor

Apparel, Toys and Machinery Lead the Modal Shift to Ocean

Air Freight Share Trend of Top Airborne Commodities: Asia to U.S.



* Total weight in 2008 is annualized based on data for first 11 months
Source: U.S. Department of Commerce, MergeGlobal analysis

WEBCAST July 29 at 2:00 PM EDT
www.logisticsmgmt.com/midyear09

MID-YEAR RATE OUTLOOK: IS OPPORTUNITY FADING?

All modal paths still lead to this conclusion: too much capacity, too little freight. For now, the shipper retains a strong buyers' market advantage, but that could all change by the end of the year.

BY **JOHN PAUL QUINN**, CONTRIBUTING EDITOR

Simply stated, all transport modes are in stall. In fact, it's a grim scenario of fundamental down-side economics for carriers, with ocean lines mothballing fleets and truckers looking out at parking lots full of units that haven't been on the road for months.

There isn't much happening in the air either, with a lot of DC-8s in hangars; and on the ground, the parcel competition is a gloves-off battle royal for business among FedEx, UPS, and the now deregulated USPS that has started flexing its rate-bargaining muscles.

The only anomalous and uncertain rate situation lies in the less-than-truckload (LTL) sector. While presently overcapacity persists, the variable here is the precarious financial condition of YRC Worldwide, a carrier that represents about 25 percent of the national capacity, and which has asked for government relief. YRC's situation has raised serious concerns since a sudden loss of that much capacity could shift LTL rate dynamics in favor of carriers.

Aside from this specific case, few observers anticipate much change in traffic-flow volume in any sector anytime soon—which definitely bodes well for those shippers who have something to ship.

"This is still a buyers' market in terms of rates, but it may begin to turn toward the end of this year," says James Haughey, director of economics for RBI-US, *Logistics Management*'s parent company. "We have a substantial reduction of freight regardless of mode, so maybe by the fall if shippers are producing a dollar of product for every dollar of sales instead of drawing on inventory, then incoming and outgoing shipments may begin to pick up."

ON THE ROAD AND RAILS

For carriers in the trucking sector, the second half will continue to be a buyers' market, according to Paul Svindland of advisory firm AlixPartners, with overcapacity reaching levels never before experienced in the industry's collective memory.

"The latest capacity statistics indicate that some 150,000 units are currently idle," says Svindland. "To put that into perspective, that is ten times the number of trucking units in the entire fleet of Swift Transportation. Since supply so heavily outweighs demand, downward rate pressure will most likely continue at least through year-end."

The picture is fairly grim for truckers, Svindland observes. If diesel prices go up rapidly that could spell the demise of some trucking companies that are hanging on now due to the fact that diesel costs have been low.

He also notes that the trends in the intermodal sector for all intents and purposes parallel those in the truckload (TL) market. With TL rates as low as they are now, they're more and more competitive with intermodal; so intermodal will lose some volume due to the rate-cutting across various transport sectors.

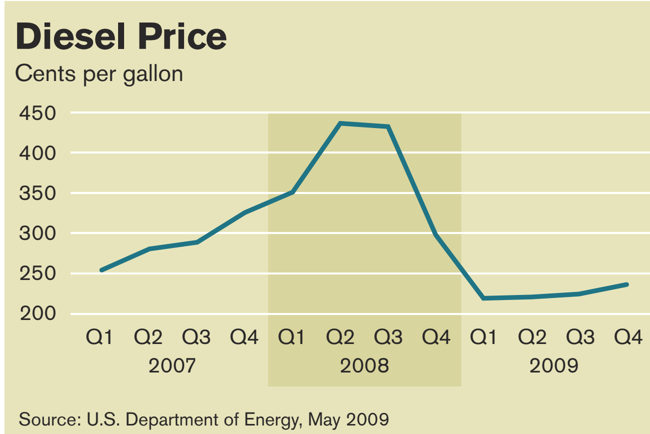
But as far as bargaining with trucking carriers is concerned, there are some prudent, discretionary guidelines to follow. "Last summer, some carriers made no secret as to what they will do when the market turns in their favor," notes Charles Clowdis, managing director for North America at economic and financial analysis firm Global Insight. "So, a shipper shouldn't force a situation of a carrier losing six cents for every dollar he's paid. That's a short-term tactic that leaves the shipper open to retaliatory action, which some carriers have already intimated they will do."

ON WATER, IN THE AIR

On the sea lanes especially, rates took a real dive in the second quarter; and even if oil prices were to rise, rates have already fallen by such magnitude that new surcharges could not possibly offset the situation.

"The benchmark container freight rate is traditionally pegged to the Hong Kong-Los Angeles run," says Philip Damas, research director at Drewry Shipping in London. "We have reached an all-time low of less than $1,000 for a 40-foot container as opposed to $1,800 a year ago, so we are in uncharted waters."

Damas believes that with rates at these unprecedented depths, some steamship companies may not survive. "If you're a shipper you have to be wary of choosing a very low price deal because your carrier may not be around at the end of the contract period," he warns. "The good news is that ocean rates are down; the caveat is you have to be careful about the solvency of who you're doing business with."



And air freight, as the costliest transport mode, continues to lose business to land carriers. "We project that domestic air freight will be off 2.9 percent in the second half, while ground parcel will be up 1.5 percent, a primarily rate-based migration," observes Ted Scherck at The Colography Group, an advisory firm for parcel shippers. "Capacity, particularly in the air with UPS parking its DC-8 fleet and FedEx deferring new aircraft deliveries, is being pulled out of the market at a consistent pace with declines in tonnage.

According to Scherck, shippers should understand that there is some stability of pricing coming back into the market and this could expand and become universal throughout sectors. Many carriers are coming to the point where they won't move traffic below cost, and are cutting costs to match their traffic. They have become more efficient at this and have been helped by a significant tailwind in the form of fuel prices dropping from last year's levels.

Parcel shippers should be aware that there are some significant opportunities available, and analysts agree that they should take advantage of them while timing is still on their side.

"Carriers are doing two things tactically, and both are good for shippers," notes Jerry Hempstead of parcel advisory Hempstead Consulting. "If one of their shippers puts his business out for bids they will aggressively renegotiate pricing to hold onto that account. And secondly, where carriers see a chance for new volume or incremental business, they're offering extraordinary discounts at levels we haven't seen in a decade."

But Hempstead cautions that this situation won't last forever, because once the economy eventually turns, the parcel carriers will probably be the first sector to spot it. "As soon as they see their piece counts going up, they'll tighten their pricing reins," he says.

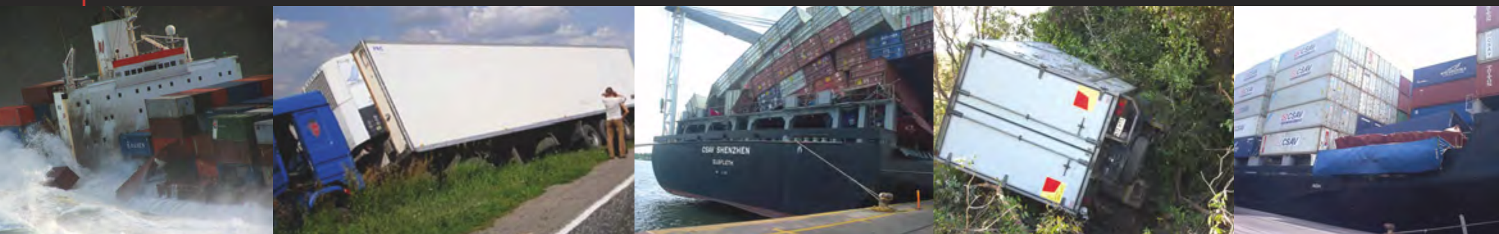
ROAD AHEAD

Shippers shouldn't expect any surprises in the second half, most observers agree. There may be a few signs of carriers discreetly reasserting themselves, but no major change in the overall predominance of a buyers' market.

"There may be some cautious aggression by carriers toward year-end, but we don't see a sellers' market by any stretch of the imagination," says Scherck at Colography. "But it won't be a total buyers' market either—so it's wait and see." The real question, adds Scherck, is whether we're seeing just a pause in the economy's decline or if we're actually experiencing the bottom. "That's the sleeper in the equation. Will all of this global stimulus result in actual shipments? No one knows and everybody is cautious," he says.

RBI's Haughey sums it up this way: "Every mode will still be operating with surplus capacity into next year, and the price risk to shippers is minimal. Their worry won't be rates, but whether they have anything to ship and somebody to sell it to." L

John Paul Quinn is a Contributing Editor to Logistics Management



CARGO INSURANCE & LIABILITY:

TWO CAUTIONARY TALES

BY BRENT WM. PRIMUS, J.D.

Our legal expert shares a couple of eye-opening accounts pertaining to the most critical areas of logistics and transportation law. What you don't know may shock you—and cost you.

Two of the most critical areas of the law relating to transportation and logistics are insurance and a shipper's, carrier's, or intermediary's exposure to liability. In this installment of our ongoing series that we call "Logistics and the Law," we'll take a look at one particular aspect of each of these two broad topics.

With respect to insurance, we will focus on cargo insurance. With regard to the exposure for liability, we will look at what lawyers call "vicarious liability" for accidents on the highway. To set the stage for this, I will relate two stories: The first one is fictional and light-hearted, while the second one is very real and very serious.

TALE ONE: SO, YOU THINK YOUR FREIGHT IS INSURED?

Chapter One: Once upon a time there was a traffic manager named Joe who worked for Acme Widget Corporation. The corporate office was located in Chicago.

One day Joe received a telephone call from the corporate office letting him know that the company had decided to move its headquarters to Atlanta, Ga. As part of this move, Joe was to make arrangements for the transportation of the company's mainframe computer. Joe was also told that the computer was worth $800,000, so he had better be careful.

Joe got right on the project and called Trusty Trucking who he had dealt with for years shipping widgets. He gave the dispatcher the origin of Chicago, the destination of Atlanta, and the weight of the computer—1,000 pounds—to get a rate. After quoting a rate that Joe approved, he remembered to tell the dispatcher that the computer was worth $800,000, to which the dispatcher responded: "Don't worry! We have $1,000,000 in cargo insurance."

On the appointed day the truck arrived, loaded the computer, and headed off down the highway to Atlanta. While driving through southern Illinois, the driver entered a turn at too high a speed. The truck and trailer left the road and rolled down an embankment. Fortunately, the driver was not hurt, but the computer was totally destroyed.

As soon as he heard of the loss, Joe filed a claim with the trucking company for $800,000 for the total loss of the computer and anxiously awaited a reply. A few weeks later, Joe received a letter from the trucking company stating, "Please find attached our check in full payment of your claim." When Joe looked at the check he was dismayed to see that the check was only in the amount of $100.

Joe immediately called the claims department and demanded to know why the check was for $100 rather than $800,000. To this the claims person replied: "That's because we have a limitation in our tariff of 10 cents a pound for used machinery." Joe replied, "But the dispatcher told me you had $1,000,000 in cargo insurance." The claims person then said, "Well, that's true, we do have a $1,000,000 cargo liability insurance policy, but that only applies if we are liable; and, since we have a valid limit of liability in our tariff, we are only liable to you for $100. Sorry."

Chapter Two: A year later, Joe is sitting in his new office in Atlanta (yes, he did manage to keep his job) when he received a telephone call from the corporate office: "Joe, we've had some focus group meetings and we have decided to move our headquarters to sunny California. As part of this, we would like you to make arrangements to move our new mainframe computer and, by the way, this time, don't screw up!"

Joe again called Trusty Trucking to make arrangements for the movement. This time Joe said, "We need $1,000,000 in insurance and I don't want any of that tariff limitation garbage either." The dispatcher replied, "Don't worry, we will write you a special tariff provision so that you have full Carmack liability."

Joe said fine, and on the appointed day the truck arrived to haul the computer to California. Moving day was beautiful, with a clear blue sky and not a cloud to be seen as the truck was making its way along I-40. Suddenly, out of nowhere, and totally unforeseeable, a bolt of lightning struck the trailer. Every circuit in the computer was "fried," resulting in a total loss.

When Joe heard about this he first had a very strong cup of coffee. He then proceeded to file a claim with the trucking company. Sometime later he received another letter from the trucking company, but when he opened the envelope there was only the letter, no check. The letter read: "We are denying your claim as this loss was occasioned by an act of God."

Again, Joe called the claims department and demanded an explanation: "I thought you told me I was getting full Carmack liability."

To this the claims person replied: "Yes, we do have full Carmack liability, however, the law is very clear that there are five exceptions to a carrier's liability under Carmack (the federal statute codifying the common law of a carrier's liability—49 USC 14706 for motor carriers and 49 USC 11706 for rail carriers). These are (i) act of the public authority, (ii) act of the public enemy, (iii) act of the shipper, (iv) inherent vice or nature of the goods, and (v) an act of God, which certainly includes a bolt of lightning. The carrier also has to be free of negligence, which we are because this was totally unforeseeable. And yes, we still have a $1,000,000 cargo liability insurance policy, but, again, we are not liable. Sorry."

Analysis: So what can a transportation professional learn from this story? First, it's critical to know and understand the difference between a shipper's interest cargo insurance policy purchased by a shipper and a cargo liability insurance policy held by a carrier.

The cargo liability insurance will only pay out to the shipper if the carrier is liable for the loss or damage to the cargo. This means that if the carrier is not liable due to a common law defense such as an "act of God" or a valid limit of liability in a carrier's tariff, there is no coverage that will pay the shipper. Conversely, a shipper's interest cargo insurance policy, while subject to the exclusions and deductibles of the policy itself, will pay regardless of the carrier's liability.

What this means on a day-to-day basis is that when negotiating rates with a motor carrier, a shipper must also negotiate a limit of liability that will cover all or most of the products regularly shipped. Since a carrier will charge a higher rate for a higher limit of liability, an analysis needs to be done to see if it may be more economical to purchase a shipper's interest cargo insurance policy than to pay a carrier a higher rate for a higher limit of liability.

It must also be kept in mind that while "acts of God" may not occur every day, they certainly do occur. Accordingly, for high value products it may not be prudent to rely upon a carrier's liability. Further, carriers do go out of business from time to time or, even if still in business, may be financially unable to pay a loss in excess of the carrier's cargo liability insurance coverage.

The above discussion applies to motor carriers and, to a certain extent, rail carriers. However, in the world of ocean shipping it has long been the practice of knowledgeable commercial shippers to obtain their own cargo insurance. This is because the Carriage of Goods by Sea Act (COGSA) provides for 17 exceptions to an ocean carrier's liability including my colleague Bill Augello's favorite, "errors

"Transportation, Logistics, and the Law: *On-line! On-demand!*"

Brent Primus

Join Brent Wm. Primus, C.E.O. of Primus Law Office, P.A., for this new one-of-a-kind learning resource brought to you by *Logistics Management*. Section 8 covers insurance (Tale one) and Section 9 covers exposure to liability (Tale two). The entire course is designed for those "actually doing the work" and is based on Bill Augello's landmark text explaining the current laws governing transportation. This critical knowledge of the laws affecting the supply chain will enable you to minimize risks, increase the profits for your company, and enable you to advance your own professional career. Learn how to meet the challenges facing shippers, carriers, and intermediaries in a "deregulated" environment including carriers' limits of liability for cargo loss and damage, cargo insurance, contracts and bills of lading, intermediaries and brokers, seals and security, freight charges and billing disputes, international and intermodal shipments and how to use international treaties, federal laws and regulations, and court decisions in your day-to-day business. Go to **www.logisticsmgmt.com/law** where you can view a two minute "invitation" describing the course and also "attend" for free the introduction portion of the actual seminar.

This course has been approved for 6.5 hours of Continuing Education Credits by The Certified Claims Professional Accreditation Council and for 6.5 credit hours of MCLE by the State Bar of California.

of navigation." Further, COGSA has a liability limit of $500 per package or "customary freight unit."

TALE TWO: $24 MILLION AWARD IN FATAL TRUCK CRASH

The story: The following appeared in the *Chicago Tribune* on March 24, 2009: "A Will County jury has awarded nearly $24 million to families of two people killed and another seriously injured when a truck crashed into a line of cars on Interstate Highway 55 near Plainfield in April 2004. Jurors on Friday issued the judgment—the highest verdict amount in a civil case in Will County in at least 50 years—against C.H. Robinson Worldwide, a Minnesota freight broker that had contracted with the truck driver, De An Henry of Utah."

Analysis: This short news blurb tells the tale of the latest case, Sperl v. Henry, in a recent series of cases beginning with the decision of the U.S. District Court in Schramm v. Foster in 2004. At that time, Bill Augello wrote an article for the trade press entitled "Maryland Judge Drops Bombshell!" Indeed, it was a bombshell.

Shippers and intermediaries have long had exposure to liability for accidents on the highway. Examples are improper loading resulting in a vehicle overturning or requiring a delivery time which could not be met within the legal speed limits.

However, the Schramm Court expanded this exposure exponentially when it denied the Defendant C.H. Robinson's Motion for Summary Judgment and said that he would allow the case to go to the jury. The case then settled.

In Schramm, the Judge did not hold that C.H. Robinson was negligent, but rather held that there were some facts present in the case upon which a jury could permissibly find that C.H. Robinson had been negligent in selecting the carrier. These facts included the SafeStat scores of the trucking company and the fact that it did not have a "satisfactory" U.S. DOT safety rating.

Shortly after Schramm, another court found in the case of Puckrein v. BFI, Inc. that a shipper was liable for a highway accident, once more based on its choice of carrier. In that case, the trucking company did not have either an operating permit or the required highway liability insurance and the shipper had made no inquiries as to the status of either.

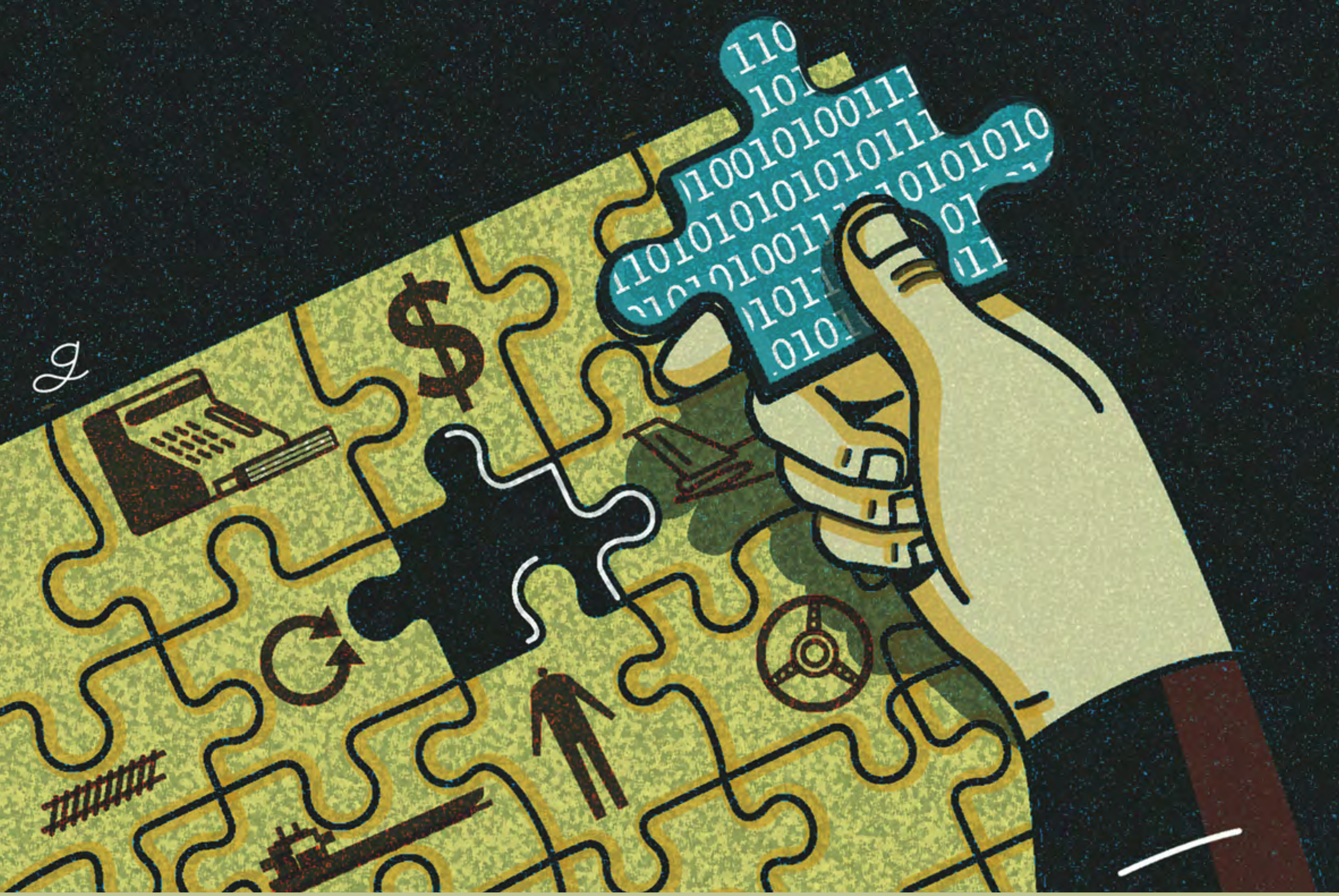
Other similar cases have followed since then. A detailed discussion of the facts in these cases or an analysis of the various principles of vicarious liability involved is far beyond the scope of this article. However, there are three important points to be learned.

First, a broker must be sure not to hold themselves out directly or indirectly to the public as a carrier. Second, whenever one hires a carrier, they must take reasonable steps to determine that the carrier they are hiring is one that can be reasonably entrusted to conduct operations on the public highways. Third, no matter how careful one is, accidents do happen so the appropriate liability insurance that would provide coverage for situations such as this should be obtained.

It must also be kept in mind that while discussions of cases such as these tend to focus on the exposure of brokers and shippers, the same principles hold true for anyone hiring a trucking company—whether it be a motor carrier selecting an interline partner or an intermodal marketing company (IMC) hiring a drayage operator for a five mile move from a rail terminal to a customer's dock.

Whenever one hires a carrier, they must take reasonable steps to determine that the carrier they are hiring is one that can be reasonably entrusted to conduct operations on the public highways.

Brent Wm. Primus, J.D., currently serves as the General Counsel for the Freight Transportation Consultants Association, Senior Editor of transportlawtexts, inc., and CEO of Primus Law Office, P.A. Your questions are welcome at brent@transportlawtexts.com.



STATE OF ERP:

To plug or not to plug

BY **BRIDGET MCCREA**, CONTRIBUTING EDITOR

ERPs have made a strong push into the SCM space, which begs the question of whether shippers are better off purchasing their WMS and TMS from their company-wide software provider or a best-of-breed player. Here are some steps to help shippers arrive at the best decision.

The Enterprise Resource Planning (ERP) community faced its share of challenges in 2008, but is already off to a good start this year. Comprised of vendors that offer company-wide computer software systems used to manage and coordinate all the resources, information, and functions of a business from shared data stores, the sector grew its top-line revenues in 2008 to $35.8 billion, compared to $34.4 billion the year before.

"The first half of the year was relatively strong," says Jim Shepherd, senior vice president at AMR Research, "with maintenance revenue proving extremely valuable during the height of the economic turmoil."

As the ERP vendors buy and build deep industry functionality in areas like supply chain management (SCM), Shepherd says their available market continues to expand with the concept of a single vendor, pre-integrated suite of packaged business applications gaining popularity in non-manufacturing markets such as retail, financial services, and the public sector.

"ERP vendors are now the leaders in supply chain management software as well," says Shepherd. "Through a combination of internal development and acquisition, they've wound up as the revenue leaders in SCM and a number of other markets, including CRM and human resources."

Shepherd, who estimates that the ERP sector has grown at a rate of 8.1 percent annually over the last 10 years, says vendors continue to move from offering single, internally developed product lines to providing a broad portfolio of products targeted at specific industry and departmental buyers, supply chain professionals included. Oracle and SAP dominate the market among large global companies, while competition for small to midsized customers continues to intensify among vendors like Infor, Epicor, QAD, CDC Software, Microsoft, and Lawson.

The fact that the ERPs have made such a strong push into the SCM space begs the question of whether shippers are better off purchasing their WMS and TMS from their company-wide software provider, or if they would benefit more with a best-of-breed player that specializes in SCM. Over the next few pages, we'll help shippers make that decision, and hear from a shipper who is happy with its decision to have its ERP handle the company's supply chain operations.

MAKING THE COMPARISON

Dwight Klappich doesn't necessarily want 22-inch woofers in his car, nor does he need the most expensive stereo system; but he does want to be able to tune into his favorite station—or, plug in his iPod—and listen while driving. "I really don't need the best," says Klappich, research vice president at Gartner. "I just need good enough."

The same concept applies in the SCM space, says Klappich, where "good enough" works for some shippers, but not all. "There's always going to be a market where the level of sophistication and complexity of business process dictates a need for a more robust TMS or WMS, as offered by best-of-breed vendors," says Klappich. "For everyone else, the ERP options will be suitable." To figure out which side of the fence your company stands on, Shepherd says to consider whether your current ERP vendor offers a supply chain application that satisfies your firm's requirements. "If the answer is yes," he says, "then it will be easier and less expensive over the long haul to use your ERP's application, namely because you eliminate the expense associated with integration."

Take WMS for example. Such systems generally require a large amount of integration with the firm's accounting systems. Purchase a best-of-breed software solution, says Shepherd, and you could find yourself spending an inordinate amount of time and money on making that integration happen. But buy the application being offered by your ERP, he explains, and you can eliminate that expense because the WMS will already be fully integrated with your ERP's accounting system."

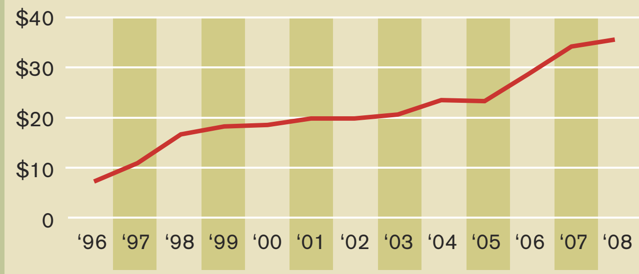
Where best-of-breed SCM players tend to shine is in meeting specialized requirements of specific shippers. Knowing that, Shepherd advises companies to consider whether their ERP vendors offer those specialized functionalities, particularly those that are developed specifically for logistics providers. "ERPs were developed for manufacturers, and were later expanded to address other industries," says Shepherd. "If the ERP vendor doesn't satisfy those specialized needs, then it will probably make sense to use a third-party product."

Before making the decision between an ERP-developed SCM application and one offered by a third party, Adrian Gonzalez, director of Boston-based ARC Advisory Group's Logistics Executive Council, says shippers should consider the problem that needs to be solved and the business process that needs to be streamlined via technology. "Talk to your operations and IT people," says Gonzalez. "Evaluate different providers, and pick the vendor and solution that meets your criteria. In some cases it will be a firm that specializes in SCM solutions, and in other cases the scales may tip toward your ERP provider."

POWERING UP

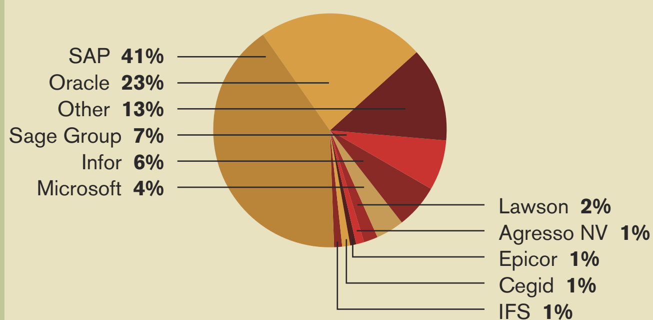
Founded in 1959, Generac Power Systems of Waukesha, Wis., prides itself in being able to respond quickly when a residential, commercial, or industrial customer's power goes out. It was the first company to engineer affordable, home standby generators, and also the first to develop an engine specifically for the rigors of generator use.

ERP revenue
1996-2008 ($ billions)



Source: AMR Research, 2009

Top 10 ERP Vendors by 2007 Total Revenue Share



Source: AMR Research, 2008

Up until three years ago, Generac's shipping strategy centered on sending out product to its powerless customers as the orders came in. Hurricane season, for example, often found the firm scrambling to fill orders from frantic, power-less customers in Florida. "There was almost no transportation planning involved whatsoever," says Brian Randleman, the company's logistics manager. "We were an execution-type company: if we had a product, we shipped it out."

That changed in 2006 when Generac began shopping around for a WMS and TMS. Already using an ERP system from Infor, the company "decided that the ERP itself wasn't managing our supply chain requirements," says Randleman, who developed a list of Generac's business and functional requirements before considering solutions from six different WMS and TMS vendors.

Generac, which was shipping from three plants via LTL and some flatbed carriers, had a few goals in mind for its new supply chain system. For starters, Randleman says the company was looking to participate in a "pool-based" transportation system, which finds different shippers "filling" a trailer as a group, rather than using LTL shipments individually. A new finished goods DC using the WMS would execute this new strategy, and nearly 80 percent of all shipments would originate there now. To

participate, Generac required a TMS system that could track its loads from the warehouse to final delivery.

Generac found the answer in the SCM solutions offered by its existing ERP vendor. "Not only did we already have a relationship with Infor, but its WMS and TMS offerings met our supply chain requirements," says Randleman.

Once the TMS and WMS were in place, Generac had to switch from 47 years of a "ship it as the orders come in" mentality, to a planning-based approach. As a result, the company has been able to reduce its manpower needs in the warehouse and improve its fill rates, inventory control, and customer satisfaction ratings. On-time ship rates are now over 90 percent—up from 35 to 40 percent three years ago. Generac has also moved from a "fill everything as soon as possible" strategy to a more optimized approach. "Just because we get an order today doesn't necessarily mean we have to ship it today," says Randleman. "Using our supply chain solutions, we can optimize our logistics to achieve the best possible savings while still meeting customer demands."

In the warehouse, Generac has equipped workers with scanners that allow one person to receive and put away products with a single action. "We can also do inventory cycle counting that we couldn't do before, so we know where the product is at all times," explains Randleman "We now have all of the functionality that we need to operate our business efficiently, while providing our customers with the best product as quickly as possible."

Application segments of ERP vendors based on total revenue, 2007

2007 Revenue Rank	Company	Total Company Application Revenue 2007 ($M)	Enterprise Mgmt. and Other ($M)	Human Capital Mgmt. ($M)	Supply Chain Mgmt. ($M)	Product Lifecycle Mgmt. ($M)	Customer Mgmt. ($M)	Supply Mgmt. ($M)
1	SAP	14,033	7,612	1,842	842	495	2,722	520
2	Oracle	7,853	3,183	1,649	656	117	1,916	332
3	Sage Group	2,315	1,783	301	46	0	185	0
4	Infor	2,208	1,811	110	177	22	66	22
5	Microsoft	1,215	661	109	85	0	360	0
6	Lawson	810	429	146	105	32	0	97
7	Agresso NV	505	313	88	53	0	12	40
8	Epicor	430	232	26	120	4	34	13
9	Cegid	362	344	18	0	0	0	0
10	IFS	353	145	21	46	78	28	35
11	Exact Software	328	328	0	0	0	0	0
12	Activant	295	93	0	116	0	87	0
13	Deltek Systems	278	211	50	0	0	17	0
14	QAD	263	188	0	62	0	13	1
15	CDC Software	245	122	0	61	0	61	0
16	Glovia	212	165	11	9	0	28	0
Subtotal		**31,705**	**17,619**	**4,371**	**2,377**	**749**	**5,529**	**1,060**
Other ERP Vendors		**2,664**	**1,026**	**440**	**373**	**8**	**743**	**74**
Total		**34,369**	**18,645**	**4,812**	**2,750**	**756**	**6,272**	**1,134**

Source: AMR Research, 2008

WHAT'S TO COME?

As the ERPs make their way through 2009, expect to see their SCM offerings strengthen. "The ERPs continue to make investments and inroads in this space," says Brad Wyland, senior research analyst at Aberdeen Group in Boston. "The theory being that the ERPs have their customers handcuffed, so they might as well expand outside of their traditional footprints to bring in more business."

But don't expect the best-of-breed players to stand by and watch the behemoths take over their space.

"ERPs are facing a lot of pressure from the vendors that specialize in the SCM space," says Wyland. "In fact, the best-of-breeds continue to be easier to integrate than they were in the past, and are more viable that they've ever been."

The ERP market as a whole will continue to face challenges in 2009, according to Shepherd, who says that the annual growth rate of 8.1 percent will inevitably result in pent-up demand. "Existing implementations will be getting even older, calling into question the need for replacement, and deferred upgrades will need consideration," says Shepherd.

"Given their strong maintenance bases, and the fact that they have already been through the pain of cutbacks, the current fraternity of ERP vendors will likely be around to benefit." L

Bridget McCrea is a Contributing Editor to Logistics Management

ERP application revenue estimate by application segment, 2007-2012

Application Segment	Revenue 2007 ($M)	Revenue 2008 ($M)	Revenue 2009 ($M)	Revenue 2010 ($M)	Revenue 2011 ($M)	Revenue 2012 ($M)	Five-Year CAGR
Core ERP	19,556	20,677	22,115	23,727	26,099	28,709	8%
Human Capital Management	4,812	5,722	6,295	7,386	8,124	8,937	13%
Supply Chain Management	2,750	3,243	3,777	4,154	4,570	5,027	13%
Product Lifecycle Management	619	763	839	923	1016	1,117	13%
Customer Management	5,499	6,485	7,554	8,447	9,292	10,221	13%
Supply Management*	1,134	1,259	1,385	1,523	1,676	1,843	10%
Total	**34,369**	**38,150**	**41,965**	**46,161**	**50,777**	**55,855**	**10%**

Source: AMR Research, 2008
* Formerly Sourcing and Procurement

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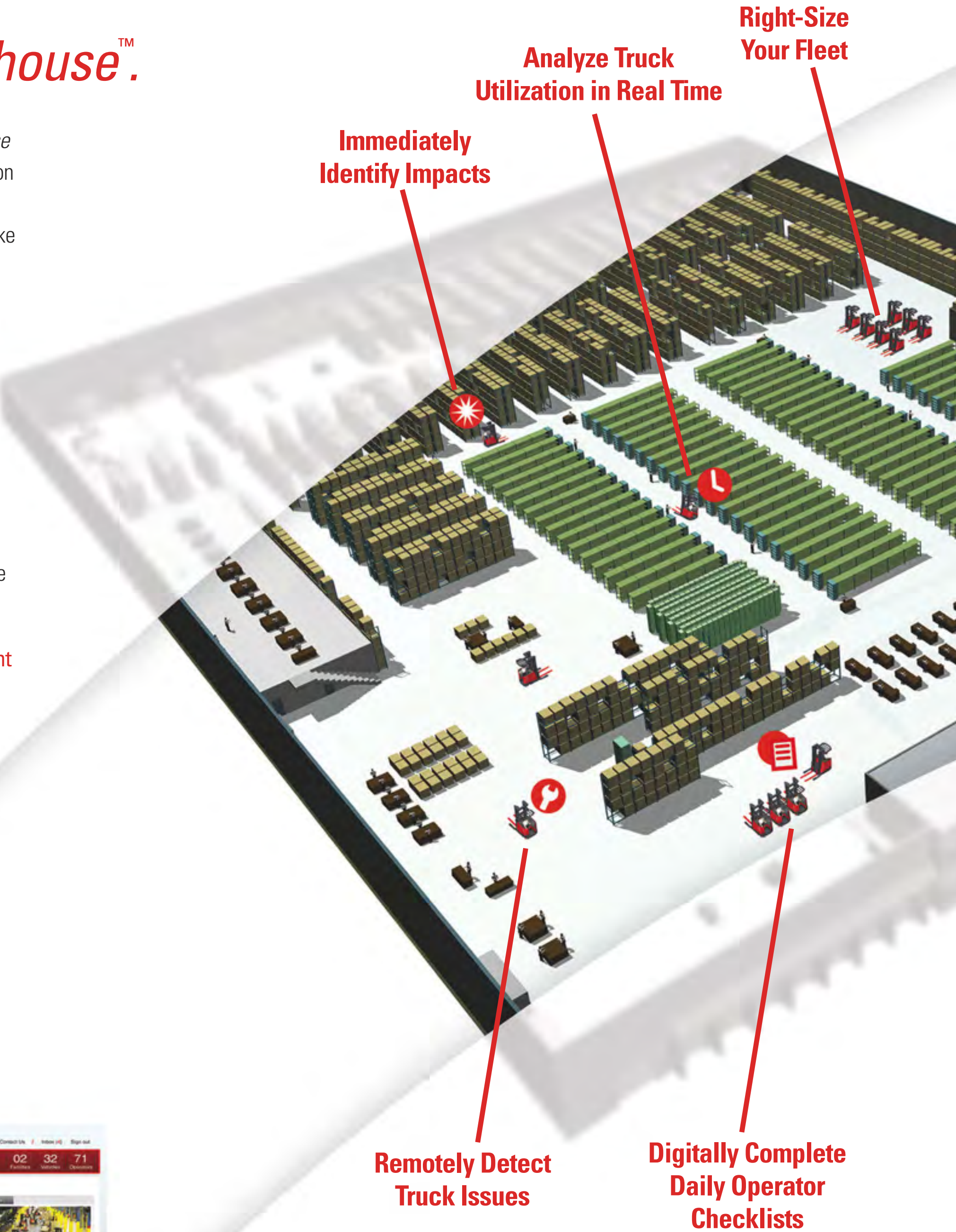

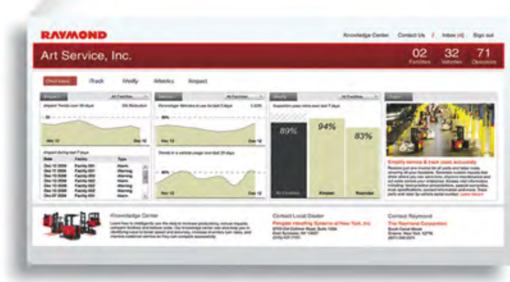

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Voice broadens its horizons

BY **MAIDA NAPOLITANO**, CONTRIBUTING EDITOR

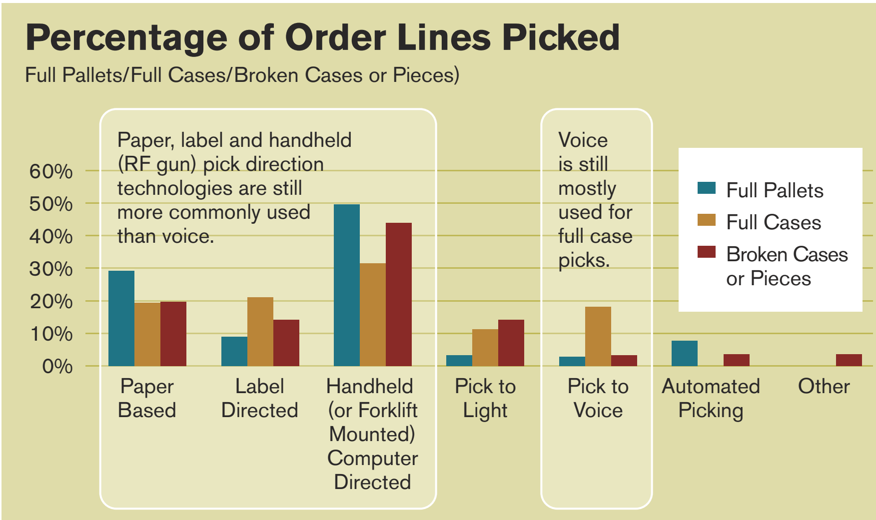
Over the last five years, voice technology went from "bleeding edge" to "leading edge" to ultimately joining the ranks of other affordable, reliable technologies for use in picking operations. Here's where it's going and how it's being applied by two savvy DC managers.

PHOTOS ABOVE COURTESY OF FOX RACING (BELOW) AND PERFORMANCE FOOD GROUP (ABOVE)

The verdict is in and there's very little debate: Voice-directed picking has proven time and again that it can help companies make significant strides in productivity, accuracy, and safety improvement. By converting pick lists to voice commands and transmitting them to workers via headsets linked to wearable, mobile computers over wireless networks, voice allows workers to free their hands and eyes for the most important task at hand—the picking of product. And by all accounts, interest in voice, especially in grocery and retail verticals, is not expected to wane anytime soon.

According to Eric Lamphier, senior director of product management for Manhattan Associates, his company's voice implementations are going global with the majority of the demand coming from private, non-3PL sectors. "The grocery/food customers have certainly been leaders when it comes to implementing the technology, as full case, pick-to-pallet operation remains a very good fit for voice," says Lamphier, adding that the healthcare and pharmaceutical sectors are rapidly following.

Tom Singer, principal at supply chain services provider Tompkins Associates, agrees with Lamphier's assessment,



This chart is based on a 2009 benchmarking survey conducted by the Supply Chain Consortium based on 270 participating retail, manufacturing, and wholesale/distribution companies.

but puts forth another theory for voice's growing popularity. "Over the past few years," says Singer, "top tier solution providers like Manhattan and Red Prairie have been collaborating with vendors and voice developers offering direct interface, out-of-the-box voice solutions." Users simply pay a licensing fee for their pick engines to become voice-enabled.

According to both Singer and Lamphier, perhaps the latest technological development with voice responsible for driving its growth is the introduction of multi-modal devices. "What it gives you is the ability for dual use," says Singer. "Pickers can work in a voice-only mode when doing straight picking, but switch to the screen or display when doing cycle counts and replenishments."

With this progress in mind, let's examine two fairly recent applications of voice that are putting many of these new developments to use on the warehouse/DC floor. First, we feature how the introduction of a voice-enabled, warehouse management system (WMS) paved the way for Fox Racing's multichannel distribution center to drastically speed up its piece-picking. Second, we'll meet the team at Performance Food Group whose rapid adoption of voice in 18 facilities over a 15-month period increased accuracy levels in their full case, pick-to-pallet operations.

FOX RACING DOUBLES PICK RATES

Headquartered in Morgan Hill, Calif., Fox Racing is in the business of manufacturing and distributing high-quality apparel and gear for motocross, BMX, wakeboarding, surfing, and mountain biking enthusiasts in the U.S. and abroad. Over the past three decades, the company has grown into a multichannel business, distributing merchandise to motocross dealers and department stores in addition to stocking its own fleet of six retail stores plus an online store.

In early 2008, plans were underway for a new WMS installation, creating an opportune time for the company to reconfigure a low-tech picking process riddled with inefficiencies. With 85 percent of its volume picked in piece quantities, the company had been picking multiple orders with paper pick lists into grocery shopping carts for years. Robby Dhesi, Fox Racing's director of distribution, summed up the operation in two words: "A mess."

Picking six to eight orders at a time, each picker had to manually track which product goes with which order while trying to separate them in the four corners of the shopping cart, the top child seat rack, and the bottom rack designed for large or heavy items.

As if that wasn't enough, paper pick lists had the tendency to simply disappear. "We wouldn't know until the end of the day," recalls Dhesi, "There was no traceability." To top it all off, error rates were very high. "We used to get about 15 to 20 carts of mispicks at the end of each day," adds Dhesi.

Fox Racing's project team knew things had to change. They decided to look at three different technologies: picking with a radio frequency (RF) gun, picking with pick-to-light, and voice-directed picking. The RF gun was quickly ruled out. "We wanted to shoot for 100 percent accuracy," says Dhesi, "so we wanted our pickers to scan each product's UPC." Most of the brand's merchandise came in polybags; but due the glare from the bag, they needed to scan it multiple times before the gun would register. In addition, pickers would have had to constantly move their guns in and out of their holsters, read instructions on the display, and then scan location codes.

Although pick-to-light could admittedly be faster than voice, it didn't have the flexibility that they needed in a business that was constantly changing. Dhesi also felt that with "pure" pick-to-light there was no way to verify accuracy.

A pilot demonstration involving a voice-enabled WMS from HighJump in partnership with Vocollect convinced the team that picking with voice would not only be the best fit, but it would also be the most cost efficient. "With voice we got the best of both worlds," says Dhesi. "Voice nearly matches the productivity of pick-to-light and the accuracy of an RF gun."

In Fox Racing's new voice-directed picking operation, a picker is directed to a location where he speaks the location's check digit as an initial verification, and then the last three digits of the UPC as a second verification. Using new picking carts, pickers work on multiple orders at a time, placing product directly into its shipping carton. To ensure that the correct product goes to the correct carton, each picker would speak and verify the check digit on the shipping carton.

The system took less than for four weeks to implement, and within the first 30 days the team had doubled their picking rates from 70 lines per hour to 150—a 114 percent improvement—and cut the number of pickers from 35 to 18. With paper, the operation used 23 checking and packing stations to reach an accuracy rate of 99.82 percent. Voice reduced the number of checking stations to six, while increasing accuracy rates to 99.99 percent.

To top it off, training time has been reduced from a full day to less than two hours with pickers achieving full productivity by the end of the second day of use. According to Dhesi, Fox achieved payback in six months—six months earlier than projected.

PFG RAISES THE STANDARD

As the third largest food distribution company in the country, Performance Food Group (PFG) operates a nationwide broadline distribution business with 18 operating companies, now known as Performance Foodservice, which markets and distributes food and food-related products to independent "mom and pop" type restaurants as well as chain restaurants, schools and other institutions.

To manage operations across so many DCs, PFG had built a centralized IT infrastructure using a Wide Area Network (WAN) based in its company headquarters in Richmond, Va. This centralized approach removes the burden of IT-related tasks from each DC, so that each DC manager can instead focus on preserving and maintaining a consistently high standard of quality service to its customers. By early 2007, Jeff Williamson, PFG's senior vice president of operations, was looking to raise its broadline division's standard even higher

Williamson and his team had been using RF terminals for receiving, putaway, replenishment, and cycle counting, but for order selection, they had been picking with paper labels. They plan to continue using these paper labels, as it aids their selectors in stacking the cases onto the pallets in appropriate stop sequence and helps the drivers in distinguishing product intended for specific deliveries. Picking with paper labels had already allowed the company to achieve impressive productivity metrics, through the use of engineered labor standards and incentives, but the

> **"Our intention was to prevent or reduce mispicks, as well as to reduce or eliminate the number of truck shorts related to the product not making it to the truck."**
> **—Jeff Williamson, PFG's senior vice president of operations**

company recognized that there was still much room for improvement on other critical service levels.

PFG Broadline was specifically looking to increase accuracy by reducing truck shorts and mispicks. Williamson explains how "truck shorts" are instances when the customer did not get what they ordered for one of two reasons: either a product does not get on the truck because the selector did not pick it, or a product does not get to the customer because the delivery driver mistakenly gave the case away at a prior stop. A mispick is defined as picking an item different from what was ordered.

"With voice technology, our intention was to prevent or reduce mispicks, as well as to reduce or eliminate the number of truck shorts related to the product not making it to the truck," he explains. In short, PFG's decision to use voice selection was based entirely on improving their picking accuracy with no adverse effect on their productivity.

By September 2007, PFG had launched a pilot program using Voxware 3 software and LXE's mobile, voice-only units. "We rolled out our very first post-pilot location in January 2008," says Williamson. "We did about one facility a month and completed the last three of the 18 facilities in early 2009."

Implementation went smoothly with the voice software easily interfacing with PFG's existing centralized IT infrastructure, enabling the management of voice-directed operations across multiple DCs from a single, centralized location.

Today, information is communicated and updated to all workers in real time. When a selector indicates that an item is short, the system sends a signal immediately to the lift truck operator telling him to do a replenishment. When the replenishment is complete, it sends a message back to the selector's headset indicating that the replenishment is complete, so he can go back and complete his order.

As a result, truck shorts were reduced by 60 percent. Picking accuracy rose from 99.90 percent before voice to 99.97 percent after voice. PFG achieved a nine month return on its investment, while experiencing side benefits of fewer training hours, shorter learning curves, and more selectors working at higher productivity levels. L

Maida Napolitano is a Contributing Editor to Logistics Management

SPECIAL REPORT: European Logistics

Turbulence over EUROPE

OUR EUROPEAN CORRESPONDENT BRINGS U.S. AIR SHIPPERS UP TO DATE ON CARGO VOLUMES, EMINENT MERGERS AND ACQUISITIONS, AND THE CHALLENGES AHEAD FOR CARRIERS AND SHIPPERS HEADING INTO 2010.

By **Dagmar Trepins**,
European Correspondent

Like the U.S. market, European air cargo traffic experienced a major setback due to the collapse of financial markets, a worldwide recession, and high fuel prices. According to the International Air Transport Association (IATA) statistics, European carriers have seen a double-digit freight decline of 23.3 percent in April 2009 compared to the previous year's levels; and they are expected to post losses of U.S. $1.8 billion with collapsing demand for premium services in all the major markets served by the region's carriers.

"Freight remains at shockingly low levels," said Giovanni Bisignani, IATA's director general and CEO. "The worst may be over. However, we have not yet seen any signs that recovery is imminent. Improving efficiency everywhere will be the theme for 2009," he says, adding that he's anticipating a return to growth by 2010 at the earliest.

Cargo volumes drop for major European airlines
The bottom line is pretty clear at this stage: All major carriers were hit by the economic downturn and reported declining cargo volumes.

Air France-KLM, Europe's biggest airfreight carrier, reported a sharp decline in cargo volume. Starting on January 1, 2009 and on through the year, the group has integrated the cargo activity of the Dutch carrier Martinair. Including Martinair, freight traffic in May 2009 fell slightly (-1.0 percent). Excluding Martinair, it fell 18 percent from the previous year. As trading conditions in the first half of the year remain challenging, the carrier group plans an 11 percent reduction in cargo capacity for summer 2009. Air France-KLM's closest competitor, Lufthansa, has slipped into the red on account of the weak passenger and cargo business in the first months of the year. It reported a first quarter operating loss of €44 million, compared to a profit of €172 million in the same period last year.

Lufthansa's freight segment was particularly hard hit by the economic situation, shrinking by 23 percent. An especially sharp slump in demand has been seen in the automotive industry, a major German export branch currently faced with reduced work-time, extended vacations, and plant closures. "All in all, Lufthansa Cargo pulled through in an adverse environment thanks to systematic sales, capacity, and cost management," says Lufthansa Cargo Board Member for Finances and Human Resources Dr. Roland Busch.

> "Freight remains at shockingly low levels. The worst may be over. However, we have not yet seen any signs that recovery is imminent. Improving efficiency everywhere will be the theme for 2009."
>
> —Giovanni Bisignani, IATA's director general and CEO

In January 2009, the carrier launched a program to cut freighter capacities as well as staff and material costs. At the same time, the carrier expanded its services by commencing twice-a-week, direct-freighter flights from Milan, Italy, to New York and Chicago. From mid-June on, Lufthansa Cargo also gained additional capacity through the new Boeing 777-200LRF freighters in the AeroLogic fleet. Aerologic cargo carrier is a joint venture set up by DHL Express and Lufthansa Cargo and based in Germany's emerging air cargo hub Leipzig/Halle. It plans to use the aircraft for flights to North America and Asia.

Europe's third largest carrier, British Airways World Cargo, also reported a decline in cargo business as freight traffic was down 9.5 percent in May 2009 compared to the previous year. The fourth quarter in particular saw a very sharp drop in volumes, with a decline of 15.5 percent from last year's levels. Last year was also a challenge for Cargolux, Europe's largest all-cargo airline. The company ended the year with an operational profit of U.S. $55 million. Tonnage carried grew slightly by 0.1 percent to 703,601 tons, while freight ton kilometers decreased by 2.3 percent to 5.4 million.

A battle of mergers and acquisitions

With ongoing market concentration, the big carriers are using the economic slowdown to expand their market shares through acquisitions, while smaller, troubled airlines are looking for a savior.

In December, Austrian Airlines (AUA) took off into a new future with Lufthansa. The German carrier, which also owns Swiss International Airlines, agreed to buy the 41.56 percent share in Austrian Airlines AG held by Österreichische Industrieholding AG (ÖIAG). The European Commission will extend its review of the deal until July 1.

ÖIAG has offered to cut back the AUA fleet in a bid to win EC approval, while Lufthansa also offered to cut flights to satisfy EC anti-trust regulators. In June 2009, the European Commission gave the green light for Brussels Airlines and Lufthansa's tie-up. The decision paves the way for Lufthansa to acquire an initial 45 percent stake in SN Airholding SA/NV, the parent company of Brussels Airlines.

Clearance from the EU competition authority will also give Lufthansa an option to buy the remaining 55 percent stake in Brussels Airlines in 2011 and thereby complete the takeover of the Belgian carrier once it has secured the necessary traffic rights. The transaction is expected to be finalized by the end of June.

In the battle to gain European leadership, Air France-KLM started a new strategic partnership in January by taking over a 25 percent minority stake in Alitalia. The group completed its acquisition in March of this year through the subscription to a reserved capital increase for an amount of some €323 million. At the end of 2008, KLM became full owner of the Dutch carrier Martinair, after the European Commission approved the transaction of A.P.Moller-Maersk Group's 50 percent holdings in KLM, which already held a 50 percent stake in Martinair.

In May 2009, Air France-KLM and Delta Air Lines launched a new trans-Atlantic global joint venture. The airlines will cooperate on routes between North America and Africa, the Middle East, and India, as well as on flights between Europe and several countries in Latin America.

While Lufthansa and Air France-KLM are expanding, Europe's third-largest carrier, British Airways (BA), is trying to close its deals with American Airlines and Spain's airline Iberia. BA came under pressure after talks on a potential merger with the Australian carrier Qantas were called off in December. Some analysts predicted that the BA/AA alliance might also fail, since two past applications for anti-trust approval by U.S. authorities have already been rejected and BA has been asked to provide more information about the planned partnership, including the impact on Heathrow, cargo operations, and the service in Asian and Latin American markets.

But BA CEO Willie Walsh is optimistic: "I'm confident about both deals," he recently announced to the press. With a strong focus on the U.S. market, a second Chicago freighter service was added in April this year to the British Airways World Cargo network. As part of the summer schedule, the additional Boeing 747-400F service doubles weekly frequency to and from Chicago and operates on the London Stansted-Frankfurt-Chicago-Atlanta route.

Despite economic slowdown, the Luxembourg-based airline Cargolux is expanding its services to the U.S. and Canada. The cargo carrier started regular services to Miami and Houston and launched a third weekly flight to Atlanta with a Boeing 747-400 freighter aircraft to lift an additional 70 tons of cargo to Hartsfield-

Jackson airport each week. Since April 2009, Cargolux also offers a new weekly B747-400 freighter service to Toronto/Ontario.

Cargolux President and CEO Ulrich Ogiermann is convinced that the air cargo market will change shape significantly in the next few years: "Only those with a sound concept will be able to weather this storm," he says. "Our commercial decision making process is optimized to cater for this flexibility, and this is a valuable ability in the current environment. Of course we have thoroughly prepared contingencies and are willing to make difficult decisions should these be needed."

New challenges for European airports

European airports were also hit by the economic slowdown and saw a downward turn in cargo traffic.

Slightly less than 100,000 metric tons of cargo was transported via Amsterdam's Schiphol Airport in May 2009. This represents a fall of 23.9 percent compared with the volume transported in May 2008. Total cargo tonnage transported by passenger aircraft dropped by nearly 8.8 percent, and the cargo volume transported by full freighters fell by almost 34.7 percent.

With ongoing market concentration, the big carriers are using the economic slowdown to expand their market shares through acquisitions, while smaller, troubled airlines are looking for a savior.

In December 2008, the Dutch airport agreed to a long-term industrial alliance with Aéroports de Paris, which recently commissioned a new cargo terminal with a total surface of 14,700 sqm at Paris-Orly airport. The two leading European airports acquired an 8 percent stake in each other's share capital and will work together more closely in infrastructure, airport operations, international, and sustainable developments, and other projects.

After a three-month sequence of gradually declining figures, air cargo tonnage at BAA airports Heathrow, Gatwick, and Stansted fell by 15.1 percent in December 2008. BAA reported a drop of 9.5 percent in cargo traffic passing through its airports Heathrow, Gatwick, Stansted, Southampton, Glasgow, Edinburgh, and Aberdeen from June 2008 to May 2009.

BAA, which owns seven of the country's largest airports, may have to sell three of its airports because of concerns about its market dominance. The Competition Commission has reaffirmed its opinion that Britain's largest airport owner should sell off Gatwick, Stansted, and Edinburgh. However, the government's decision to go ahead with a third runway at Heathrow airport was good news for BAA's Chief Colin Matthews.

Germany's largest airport, Frankfurt (Fraport), is also suffering from the weakening economy and the decline in exports. With 146,259 metric tons in May 2009, Fraport's airfreight slowdown narrowed to 17.1 percent. Airfreight throughput reached 674,258 metric tons, down 22.5 percent for the first five months of the year 2009.

Frankfurt's operator, Fraport AG, launched a research project together with partners to develop an "AirCargo RailCenter" and put it into operation. The project, which will run through 2010 and is being supported by the German Ministry of Industry and Technology (BMWi), is aimed at shifting air cargo traffic to rail. Environmental concerns, forced by restrictions on night flights, are becoming a big issue for Germany's airport, giving it an incentive to come up with intermodal solutions.

Another rail project is planned by Euro Carex to create a pan-European high-speed rail service for air cargo and express between the terminals at Paris Roissy-Charles de Gaulle, Liège, and Amsterdam Schiphol airports. In December 2008, the governments of France, Belgium, and the Netherlands pledged more than €90 million towards the construction of the rail terminals. The first Euro Carex trains are planned to begin operating in March 2012.

Integrators hubs expanding

Cargo volume at Cologne Bonn Airport, Germany's second biggest cargo airport, is also on the decline. After a major customer, DHL, switched over to Leipzig/Halle, cargo volume went down to 587,000 metric tons in 2008 compared to 719,000 tons in 2007.

For the first quarter of the year 2009, the airport reported a drop of cargo volume by nearly 11 percent. "However, in 2010 at the latest, once FedEx starts operations at their new cargo hub, things will certainly pick up again," says Airport CEO Michael Garvens, referring to the Airport's €70 million investment in the FedEx construction project. "In 2009, the new Cargo Center will also be opened. This hall, an investment of some €25 million, will offer ideal conditions for the daily cargo business of medium-sized transport companies," he added.

In the middle of Germany, Leipzig/Halle airport is moving ahead as an international cargo hub. This is particularly due to cargo flights operated by DHL and Lufthansa Cargo, now that the DHL hub has become fully operational. The amount of freight handled at Leipzig/Halle Airport for the first quarter of 2009 rose to 113,356 metric tons, an increase of 72 percent compared to last year.

In December, the airport operator, Mitteldeutsche Airport Holding, and Lufthansa Cargo started a strategic partnership to jointly develop the airport in central Germany into a leading airfreight base in Europe. "Along with Frankfurt, Leipzig/Halle Airport is our most important freighter hub which we intend to expand gradually. Our partnership with Mitteldeutsche Airport Holding is a milestone in that policy and it underlines our long-term strategy," says Lufthansa Cargo Board Member Karl-Heinz Köpfle.

Aside from Leipzig/Halle Airport, the strategic partnership will also benefit its PortGround affiliate company. Dierk Näther, managing director of the two subsidiaries of Mitteldeutsche Airport Holding, noted: "Lufthansa Cargo ranks among the Airport's most important customers. With its move into the World Cargo Center, PortGround will additionally take over freight handling for the cargo carrier in Leipzig. That will strengthen and further expand the existing, successful cooperation between our companies." In an intercontinental joint venture with DHL Express, Lufthansa Cargo has connected Leipzig/Halle Airport with logistics centers in Asia and the United States. L

VIEW FROM THE TOP

FROM THE PUBLISHER

Brian Ceraolo

Logistics Management

Dear Logistics Management Reader:

This has been a challenging year—to say the least. Now, more than ever, we want to make sure we're providing more relevant market information and analysis to help you navigate your company's logistics operation through these tumultuous times.

To achieve this goal, *Logistics Management (LM)* has continued to invest in our magazine. We're now fully staffed with four full-time editors and eight regular contributing editors who provide the market pertinent and insightful news, features, and columns every month. In fact, we actually produced more reports and industry-specific research projects in the first six months of 2009 than we did in 2008. And we have continued to bring you the "extras" that keep *LM* the market leading publication.

As you'll experience over the next few pages, this issue offers one of those terrific "extras," a section we call View from the Top. The View from the Top offers an open letter directly to you from top-level executives at many of the carriers and service providers you work with on a daily basis. These professionals have taken the time out of their hectic schedules to write these pages and provide you with their unique perspective on the current state of the industry.

They also aim to enlighten you as to how their organizations are working to meet your present logistics needs during these challenging times. I'm sure you'll find their insight and company initiatives highly valuable.

As always, please feel free to drop me a line at bceraolo@reedbusiness.com and let me know what you think about this year's section or if there's anything else we can be doing to help you in your logistics role.

Please enjoy our View from the Top.

My best,

Brian Ceraolo
Group Publisher

VIEW FROM THE TOP

Breaking barriers

How to overcome adversity in a male-dominated industry

Recent market research findings suggest that women globally make up less than 20% of executive-level positions within the transportation industry. As more and more women enter into logistics careers, they are increasingly challenging the prevailing gender imbalances historically seen in the transportation marketplace. While bridging the gender gap is still a significant concern for women working in this industry, I also believe that it has served as one of the catalysts to their career success – including my own.

When the industry found me in August of 1997, I immediately discovered that I would have to work extremely hard to earn respect and recognition in order to break down many of the barriers with which women contend in this male-dominated environment. I was hired during the infamous UPS strike, when AIT was scrambling to service the unprecedented influx of customers the company suddenly experienced overnight. The entire auditorium at AIT's corporate headquarters in Itasca, Illinois, was filled with paper invoices – it was total mayhem.

From the moment I walked through the door, my strength of character and convictions were put to the ultimate test. While these barriers could absolutely be considered a detriment, I considered them an advantage, particularly from a motivational standpoint.

In the face of the so-called "boys club" aspect of this business, I took many arrows and faced countless roadblocks in my personal quest for success. However, dodging those business hurdles and challenging the adversity quickly became the driving force behind my accomplishments – they ignited the fire within me to deliver results, prove the naysayers wrong, and elevate my career to new heights.

Since my tenure with AIT began 12 years ago, the accounting services department at AIT has virtually gone paperless and we have made countless enhancements to our AS400 operating system. These enhancements have enabled the structure for an automated communications process, which has dramatically transformed the ways in which we conduct our day-to-day business.

Unfortunately, the "glass ceiling" concept has not vanished from our business. Women still struggle in trying to land leadership positions within the highest ranks of logistics organizations, where the disparity between men and women is most often seen.

However, more and more forward-thinking, driven and visionary women have entered into the field, and recent years have shown signs of progress in making logistics more gender-equitable industry. There is no reason why women should be discouraged from pursuing their career ambitions in logistics professions, as evidenced by the millions who are flourishing in their jobs each and every day.

Sheri Wozniak is director of accounting services for AIT Worldwide Logistics.
www.aitworldwide.com

we deliver.

AIT® WORLDWIDE LOGISTICS

VIEW FROM THE TOP

Craig Fiander
Vice President, Marketing
PC*MILER Solutions
ALK Technologies, Inc.

Technology That Drives Transportation™

Technology plays an important role in maintaining efficient operations of most successful businesses and is especially important for the transportation industry. Because transportation costs are a critical component of a shipper's bottom line, we encourage them to negotiate freight rates using the same mileage as more than 93% of the top motor carriers.

In the 23 years since its introduction, PC*MILER® has grown with the industries it serves by creating forums for the exchange of ideas. Our goal is to listen to our customers and develop new products that will best serve their needs. We are excited about our latest solution, PC*MILER Web Services, which delivers all PC*MILER features and functionality, à la carte via a simple web interface.

PC*MILER 23 is the first routing and mileage solution to include carbon emissions and intermodal analysis functionality, allowing carriers, shippers and 3PLs to consider environmental impact as they make multi-modal decisions. PC*MILER|Rail, utilized by all Class 1 Railroads, is widely deployed for rate and fuel surcharge determination, rail car mileage auditing, carrier selection, and ad valorem tax reporting.

Providing drivers with voice guided driving directions and safe routes from dock-to-dock is more important than ever. CoPilot® Truck, the ultimate tool for drivers and fleet managers, is the only turn-by-turn GPS navigation system to provide industry standard PC*MILER-based truck-specific routing. More efficient drivers enhance the efficiency of the entire supply chain.

PC*MILER is the transportation and logistics industry's leading routing, mileage and mapping software solution. From in-vehicle navigation to transportation management, technology helps companies better manage their shipments ultimately improving the way they do business.

PC*MILER. Quite Simply, the Industry Standard.

To learn more about PC*MILER Solutions:
call 1.800.377.MILE (6453) or visit www.pcmiler.com

ALK Technologies

VIEW FROM THE TOP

AmericanAirlinesCargo℠

AA Cargo expands weight limit for the EZBook℠ online booking feature

AA Cargo's newly enhanced EZBook℠ feature allows customers to book their ExpediteFS℠ express freight shipments up to 300 kilograms (or 660 pounds) and 75 cubic feet online—and receive a space confirmation instantly. If a shipment fits the parameters, it will automatically book on the requested flight and provide the confirmation needed.

"Customer usage of EZBook has continued to increase since it was launched in 2007. Its popularity has been the driving force behind our decision to increase the weight parameters for the service," said Joe Reedy, vice president of AA Cargo Sales and Marketing. "We continually strive to improve the customer experience by enhancing our products and online technologies. This expansion gives our customers the ability to book and confirm space online for some of their larger ExpediteFS shipments."

EZBook and ExpediteFS – A great combination

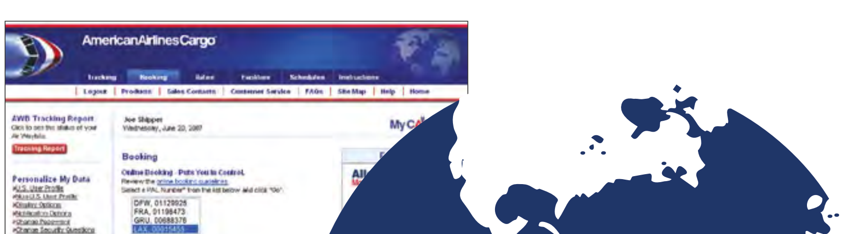
The benefits of the enhanced EZBook just add to the ease and confidence of working with AA Cargo's ExpediteFS product. In addition, customers have the ability see a comprehensive list of routing options available for AA Cargo's ExpediteFS product within specific weight and booking parameters. Customers have come to rely on ExpediteFS features such as:

- 100% flown-as-booked guarantee
- Priority boarding on every flight
- Quicker hub connections for U.S. domestic transfers
- Shortened connection times for international transfers
- Complete tracking from origin to destination, including connecting flights

To start taking advantage of EZBook, to learn about its features or see a complete list of locations served, please visit **www.AACargo.com.**

Express freight shipments up to 300 kilograms will never receive a space rejection—when booked online.

EZBook and Expeditefs℠



VIEW FROM THE TOP

CATHAY PACIFIC CARGO

SHIPPING TEMPERATURE-SENSITIVE PHARMACEUTICALS

Cathay Pacific Cargo's PHARMALIFT is a cold-chain management solution based firmly on knowledge and control: knowledge of the potential problems at all levels, and control of the process via communications and the use of the cargo computer system as a management tool.

PHARMALIFT ensures priority handling, coordinated ground processes, multiple checkpoints throughout the shipment journey, and temperatures controlled by Cathay Pacific staff.

One of the areas Cathay Pacific has strongly emphasised during the development of PHARMALIFT is that staff at all levels must be fully conversant with how the system must be managed. Reservations, ground-handling agents, ramp staff, load-control personnel, cockpit crew and staff at transit stations and destinations all have to be "in the loop" when it comes to ensuring that containers are properly prepared and carried.

Cathay Pacific PHARMALIFT offers, at no cost to customers, online temperature tracking, ensuring a high level of shipment visibility for operations control, as well as reassurance for customers.

For details of Cathay Pacific's PHARMALIFT, please visit www.cathaypacificcargo.com or www.dragonaircargo.com

How C.H. Robinson Makes Companies More Competitive

The current business climate seems chaotic and challenging for many businesses. At C.H. Robinson Worldwide, Inc., we continue to focus on our customers, listen, and support them on these significant themes:

1. Customers need to cut costs
2. They have fewer personnel to deal with greater challenges
3. They don't want to invest in, or can't obtain, IT resources
4. They need support with green/ sustainability initiatives

Here is how we are responding:

Cutting Costs

The more areas a customer allows us to focus upon, the more dollars, time, and resources that could be potentially saved. Transportation is a primary area and one where many have found savings. However, there are many other buckets to tend to, and a strategic, comprehensive, and holistic approach to supply chain productivity—balancing effectiveness and efficiency with customer service expectations—yields the greatest savings.

Personnel

Many customers have reduced workforces, while others have redeployed personnel into their areas of maximum competitive impact. In addition, shippers cite lack of adequately prepared logistics and supply chain personnel as one of their pressing needs. There is a need for skilled professionals to enable organizations to establish nimble, flexible supply chains that can successfully compete globally.

Jim Butts, Senior Vice President of Transportation

At C.H. Robinson, we're committed to recruiting the most skilled people available and training, retaining, and developing them to assist our customers. Our people are excellent at the fundamentals, sound in their practices and execution, detailed in their service, and empowered to provide customers with world-class solutions. They become valuable business resources and invaluable contributors to our customers.

Information Technology Investments

Customers continually come to us for better information, enhanced reporting, vendor scorecards, improved metrics, and visibility into their supply chains. Our IT serves as the backbone for many of our customers' complete transportation management and Outsource Solutions. For all of our shippers and contract carriers, technology provides visibility into status updates, delivery notifications, and back-office details. Convenience, simplification, customized processes, and ease of doing business are key deliverables.

Green/Sustainability Initiatives

C.H. Robinson Company started in 1905 as a produce distributor. To us, sustainability has always been much more than an issue or initiative. As a third party transportation and logistics provider (3PL), we help our customers and our industry increase efficiencies. Our produce programs provide healthy products and reduce the distance from farm to table. We also give back to our communities, because the success of our industry depends on their health and success.

In our role as a 3PL, we help contract carriers maximize the usage of their available capacity, reduce empty miles, and increase fleet productivity.

We also help shippers optimize their shipments and increase the availability of alternate, more efficient modes. By providing network analysis, we help customers achieve greater efficiencies within their own networks, reducing wasteful practices and using best practices and relevant metrics to benchmark their progress.

At C.H. Robinson, we are moving forward with our customers and contract carriers, providing the strategic resources that will support their success. They know that they can count on us to provide the transportation services, Ideas in Action, and resources that go Beyond Brokerage℠ to turn their supply chains into competitive advantages.

C.H. ROBINSON WORLDWIDE, INC.

www.chrobinson.com | 800.323.7587

VIEW FROM THE TOP

Con-way Freight — Best-in-class LTL Performance

For more than 25 years, Con-way Freight has given its customers fast, reliable less-than-truckload (LTL) performance, comprehensive coverage and service excellence from a seasoned team of transportation professionals. Con-way Freight provides worldwide LTL service including full coverage throughout the U.S. and Canada, cross-border service to and from Mexico, Europe, Asia, the Caribbean and domestic offshore markets.

Customers who ship with Con-way Freight get:

- **Confidence** — improved exception-free delivery due to less handling
- **Reliability** — better on-time service performance from our simplified network
- **Performance** — faster transit times delivered through an optimized single network
- **Coverage** — 99.9% direct delivery to markets of all sizes, with more direct delivery points than any other single U.S. carrier
- **Peace of mind** — state-of-the-art online shipping tools for visibility and efficiency

Con-way Freight continues to lead the industry with innovative offerings — most recently with the introduction of **True LTL℠** Pricing, a capped pricing model for large LTL shipments, providing guaranteed delivery and reliable same-day pickup.

Learn more about our competitive advantage — visit www.con-way.com/freight today.

Con-way® FREIGHT

Never Settle for Less.

VIEW FROM THE TOP

THE TRANSPORTATION SOLUTION™

CRST® INTERNATIONAL

When it comes to today's complicated supply chain environment, it's important to look at the big picture. CRST is more than just trucking. We offer a full range of services to solve every transportation problem. Our team puts nearly six generations of expertise to work on your toughest supply chain challenges. Our focus on every aspect of product transfer, from long hauls to supply chain logistics, is what has allowed our five operating companies to drive the industry.

With more than 3,500 drivers, **CRST Van Expedited** operates the trucking industry's largest fleet of team drivers. The company provides customers with irregular or scheduled routes in long haul, short haul, air cargo and dedicated fleets with secure, on-time, damage-free delivery.

CRST Malone is an industry leader in the management of flatbed freight with 1,600 trucks, independent contractors and drivers covering 48 states and 130 million miles annually. The company also has one of the industry's largest fleets with removable side kit equipment that provides weather protection for freight such as aluminum and high end steel.

John M. Smith
President & CEO

> *"When it comes to serving customers, CRST's mission is clear: Never promise more than we can deliver; Always deliver more than we promise."*

CRST Dedicated Services provides customers with services ranging from a totally dedicated fleet to a single-source transportation network. Our services are available in any number of equipment types–van, solo or teams, to flatbed to bulk containers.

CRST Capacity Solutions provides supplemental truck capacity to the Carrier Group of companies, including CRST Van Expedited, CRST Malone and CRST Dedicated Services, during peak shipping seasons or anytime additional truck capacity is needed. This capacity is always available through our affiliation with a network of quality contract carriers.

Finally, as a full-service third party logistics provider, **CRST Logistics** helps its customers manage freight transportation and ensure that their valuable product moves from loading dock to loading dock in the most efficient way possible. CRST Logistics is a non-asset based-company. It utilizes a pool of transportation resources to organize, simplify and drive costs from your supply chain.

When it comes to serving customers, CRST's mission is clear: Never promise more than we can deliver; Always deliver more than we promise. Look to CRST International for service that goes beyond simply responding to your needs to a partnership that helps make your job easier.

VIEW FROM THE TOP

Green Delivers Green ($)

Collaborative Distribution – A New Model for CPG Distribution

Imagine taking a cab to the airport. You sit in traffic for most of the way and, upon arrival, fork over most of the cash in your wallet to pay for the trip. As you walk into the departures building you bump into five people from your town who also arrived by cab and realize, together, that you could have paid less (and burned less fuel) to ride a shared shuttle van.

Unlikely, you think? The same thing happens every day across America as CPG products make their way to the warehouses of the country's largest retailers. Different products all going to the exact same location, but each following its own individual line of supply and, in the process, blocking up our roads, burning fuel and emitting noxious gases that threaten our ability to populate our planet.

It's time to retire this outdated model. The way to do that is **collaborative distribution**. That's when CPG manufacturers store products in the same warehouse and ride in the same truck as products from other companies whose loads are destined for the same retailer warehouse. In this model, everyone saves and the amount of energy used to transport the goods is substantially reduced, along with pollution and congestion.

To Implement Collaborative Distribution Requires New Ways of Thinking, Doing

CPG manufacturers may need to move their inventory to co-locate with like vendors shipping to the same customers. Also, they must allow their goods to be shipped with other companies, even competitors.

Retailers must get their different buying groups to consolidate orders and agree to receive these different products on the same days.

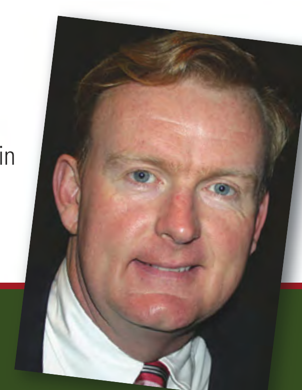
Third-party logistics providers (3PLs) will need to alter their pricing to reflect the efficiencies of collaborative distribution and determine an equitable way to share the savings.

Collaborative distribution won't be easy. But we all need to wake up to the ineffectiveness of what we're doing now, and the opportunity to take a whole new direction.

Kane and Collaborative Distribution

To position our customers to take advantage of this next wave of supply chain efficiency, Kane Is Able, Inc. has dedicated 1 million square feet of space for collaborative distribution at our super-regional distribution center for the Northeast in Scranton, PA. That's a good chunk of our 8.5 million square feet of space nationally.

Want to get started with collaborative distribution? Let's talk.



kane
is able
The CPG Logistics Specialists

Contact Chris Kane
at 888-356-5263 or
ckane@kaneisable.com
www.kaneisable.com

VIEW FROM THE TOP

Helping the world keep promises.™

As Old Dominion Freight Line celebrates its 75th anniversary, it gives us the opportunity to look back and appreciate the many accomplishments in our company's history. It's a time to reflect on the changes we have seen in our industry, our country and the global economy.

Today our nation and the world are in a difficult economic situation. It's a state many have never seen before. However, as a company that was started during the Great Depression, OD has weathered the storms of many economic downturns and prospered nevertheless. Through these cycles, OD has remained a stable force in the transportation industry. We have done so by keeping the promises we make to our customers, employees and shareholders.

We have grown from a single truck servicing one lane to an organization that provides a myriad of transportation, logistics and technological services through our four major product groups: OD•Domestic, OD•Expedited, OD•Global and OD•Technology. At OD, we pride ourselves on establishing long-lasting, mutually beneficial relationships with all our customers. Our primary job in building those relationships is to continually help our customers keep the promises they make to their customers.

Corporate Office
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Thomasville, NC 27360

336.889.5000
800.432.6335
Fax 336.822.5239
odfl.com

We are sincere in our belief that each shipment we handle represents a promise between us, our customer and everyone in the supply chain. Our value proposition is to deliver exceptional, consistent, claims-free service at a fair price and to honor the promises we make to our customers. The reliability of our service has enabled our customers to keep their supply chains functioning efficiently regardless of the economic atmosphere.

In support of our commitment to service, we continue to invest in our technology infrastructure, which represents a significant differentiating factor from many of our competitors. In addition to providing our customers with access to manage their supply chain, our technology enables our employees to provide better customer service, work more efficiently and reduce our costs.

As we celebrate our 75th year of business and look to the future, we believe Old Dominion's potential for substantial long-term growth is more compelling than ever, despite – and to some extent, because of – the current economic environment. While 2008 showed no one is immune to the economic cycle, it also demonstrated the strength of our unique value proposition, our industry leading operating fundamentals, and our commitment to building the company for the long term.

On a final note, we must recognize all the people who make up the OD family and thank them for their hard work, past and future. Our industry leading position is a clear indication of the caliber of our employees. Without these great people, we could not continue to provide our high quality and value-driven service that is *Helping the world keep promises.™*

OD • DOMESTIC | OD • EXPEDITED | OD • GLOBAL | OD • TECHNOLOGY

Helping the world keep promises.™

800.432.6335 / odfl.com

VIEW FROM THE TOP

Sustaining a Future for the Planet, People and Profitability

Walter C. Rakowich
CEO, ProLogis

ProLogis was founded on a single goal: to create value by focusing on service and forging long-term relationships with customers. That goal has been a key driver of our success for nearly 20 years.

Today, ProLogis continues to own and manage one of the most extensive platforms of distribution space on the planet: 4,500 customers and 475 million square feet in North America, Europe and Asia.

We attribute our success to the customers we have come to know and keep. Through them, we have learned the value of service – and the importance of giving back.

Like many companies today, we are managing the challenges of global recession, disruption of the credit markets and our own rebuilding. We remain steadfast in our goal to create value. In 2009, we reaffirmed our ongoing commitment to sustainability and the delivery of long-term "triple bottom line" benefits to the planet, the communities in which we operate and all of our stakeholders. Our focus for sustainability comprises environmental stewardship, social responsibility and business excellence. Current programs include further reducing the carbon generated by our business operations, increasing volunteer activities within our communities, and innovating new and environmentally friendly business offerings, such as solar rooftop installations that supply renewable energy to local utilities.

For the next 20 years and beyond, we look forward to creating more value in what we do. Thank you for helping us make it possible.

Walter C. Rakowich

sustainability

www.prologis.com/sustainability

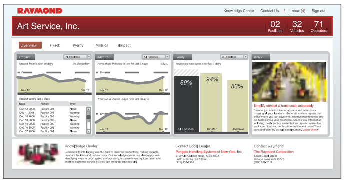
ProLogis®

We've got you covered.

Kaiser Distribution Center, Fontana, California

Moving Products
Better, Smarter, Faster

For almost 90 years, The Raymond Corporation has been the North American leader in material handling solutions.



Raymond's history of innovation for warehousing and distribution operations is unmatched, beginning in the 1930s with the invention of the first hydraulic hand pallet truck. Soon after, Raymond introduced the first double-faced wooden pallet, making it easier and more efficient to transfer goods — forever changing the material handling world.

Thousands of users of material handling equipment are now more productive and profitable because of reliable *Raymond*® lift trucks. Throughout the years, Raymond has taken a leadership role in creating new solutions for warehouses to enhance productivity while lowering the cost of operations, including:

- First narrow aisle lift truck in the 1950s
- First AC-powered *Reach-Fork*® truck in 2001
- *iWarehouse*™ fleet optimization system in 2008

Currently, research and testing of hydrogen fuel cell-powered lift trucks is conducted in Raymond's own manufacturing facility to evaluate the viability of hydrogen as an alternative energy source for electric lift trucks.

Raymond prides itself in providing solutions for a range of industries — food processing, retail, grocery, 3PL, health care, pharmaceuticals, and more — and offering flexible solutions that impact all levels of operation. Our trucks are used by nine out of ten Fortune 500 companies, making us a leader in the highly sophisticated material handling industry — a key driver of the U.S. economy.

Raymond is committed to continuously finding and developing innovative solutions that enable customers to move products better, smarter and faster.

RAYMOND
Above. And beyond.®

22 South Canal Street
Greene, New York 13778-0130
800-235-7200
www.raymondcorp.com

VIEW FROM THE TOP

Georgia Institute of Technology

Georgia Tech Supply Chain & Logistics Institute

Mr. Harvey M. Donaldson
Director

The Supply Chain & Logistics Institute (SCL) is a unit of the H. Milton Stewart School of Industrial and Systems Engineering at Georgia Tech. The Stewart School is the largest Industrial Engineering program in the United States (more than sixty faculty members, 1000 undergraduate students and 400 graduate students). For seventeen consecutive years, U.S. News and World Report has ranked the Stewart School as the best undergraduate and graduate industrial engineering program in the United States.

The Georgia Tech Supply Chain & Logistics Institute (SCL) provides global leadership for research and education in supply chain engineering. While SCL has resources and programs in supply chain management, its primary focus is on development of new tools for analysis, design and management of logistics processes, and new concepts and strategies for the practice of supply chain engineering.

Leaders in Logistics
SCL's premier industry research program, Leaders in Logistics, provides a unique opportunity for select business and governmental organizations engaged in supply chain practice to interact with SCL's faculty, students, and one another. Annual Membership includes research project and education/outreach activities. In 2008, there are 13 member companies that participate in the program.

Supply Chain and Logistics Education
SCL offers an extensive curriculum of open-enrollment supply chain professional and management education short courses. The curriculum, offered in both on-campus and online formats, includes comprehensive week-long courses in logistics, transportation, warehousing and supply chain management and more specialized courses in a wide range of topics from material handing to supply chain finance to logistics optimization. Courses often include site visits and facility tours. Since 1992, more than 6,500 logistics professionals have attended the program with more than 600 participants earning SCL's Logistics Professional & Management Certificates from Georgia Tech. In addition, the H. Milton Stewart School of Industrial and Systems Engineering offers a one-year full-time masters degree program in industrial engineering (supply chain engineering option) as well as a part-time Executive Masters in International Logistics (EMIL) for mid-career executives.

Supply Chain Executive Forum
The Supply Chain Executive Forum (SCEF) provides executives from leading supply chain organizations the opportunity to meet twice a year to discuss new and compelling ways to streamline operations and enhance profitability, and integrate supply chain strategy with corporate strategy. In 2008, SCEF has more than 28 participating member companies.

International Outreach
Now in its ninth year of successful operations, the TLI Asia Pacific Institute is an alliance between the National University of Singapore (NUS), the Singapore Economic Development Board and Georgia Tech. The Singapore-based Institute draws on the resources of both Georgia Tech and NUS to initiate research, education and industry programs specifically focused on Asia Pacific links in global supply chains. This program offers a dual-master's degree and over the past six years has graduated more than 100 graduates who are working in global logistics around the world. In addition to TLI Asia Pacific, SCL's global logistics programs include alliances with university and government research centers in Australia, China, Chile, Europe and South Africa.

Research Centers & Sponsors
SCL's research utilizes the outstanding faculty and graduate student resources of the Stewart School. More than twenty Stewart School faculty members focus their research on supply chain and logistics problems. SCL research activities are organized around eight major research centers of excellence: Supply Chain Strategy, Warehousing & Distribution, Global Transportation, Manufacturing Logistics. Health Care Logistics, Resource Scheduling, Humanitarian Logistics, and China Logistics.

SCL Supply Chain & Logistics Institute Georgia Tech

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2/4/08

The H. Milton Stewart School of Industrial and Systems Engineering

VIEW FROM THE TOP

TMSi LOGISTICS

Dear Logistics Management Readers,

Ron Cain
Chairman & CEO

At **TMSi Logistics**, we believe that investing in a values-driven culture is the key to creating a successful and sustainable business model. Every workplace has a culture – If you don't devise the right corporate culture, one will be created for you. Therefore, if you're going to have a culture, it's up to management to make sure you have the right one.

In good economic times, most businesses can maintain a sufficient profit margin. The businesses that are profitable in a struggling economy, however, are those that have identified internal and external strategies for growth, sustainability, and longevity. The difference between companies that can weather an economic storm and those that cannot is a business model driven by values, rather than dollar signs. Values-driven organizations ultimately achieve a higher level of performance that increases cost savings, improves service levels, and supports sustainability for continued business growth and success.

The most resilient companies display the following characteristics:

- A shared set of values
- A commitment to the common good
- A high level of staff engagement, and
- A shared vision of the future

To achieve these characteristics, TMSi Logistics offers **LEGACY**, a proven corporate values system designed to support a values-driven culture. **LEGACY** has been developed to meet the unique needs of the logistics industry and the clients it serves. **LEGACY** enables TMSi to help clients achieve resiliency through trying economic times, encourage responsibility through employee engagement and leadership development, and increase efficiency while lowering costs. There are many reasons why I am so eager to talk about **LEGACY**, but the three I find most important are:

1. A values-driven culture sets the tone of operations everyday,
2. Labor expenses represent about two-thirds of the cost of producing a good or service. Spending that much on your employees without a plan for how they'll work together represents a significant investment failure, and
3. A positive corporate culture that builds a strong future means that people stay productive and happy in their work

LEGACY is also the cornerstone of development for TMSi's leadership team, providing the tools necessary to evolve into highly functional teams for increased productivity and effectiveness. **LEGACY** allows us to help clients decrease costs and increase revenue through reduced downtime, faster turnaround, and superior dedication to the task at hand. Our leadership team uses **LEGACY** to enhance our performance-based culture while continuing to improve service levels and increase cost savings for clients across industries. **LEGACY** is also pivotal in developing TMSi's social responsibility by encouraging staff to take part in community service and enrichment to improve generations to come.

Thanks for taking an interest in the work that we do. I am always eager to talk about **LEGACY**, our values-driven culture and how it can positively impact your supply chain. I invite you to contact me directly at 603-373-7233 or e-mail me at ronc@tmsilog.com.

Sincerely,
Ron Cain, *Chairman and CEO*

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TMSi LOGISTICS

TMSi Logistics: *Distribution, Technology, and Integrated Logistics*

VIEW FROM THE TOP

VANTIX

Ross Grier
General Manager

Today's Logistics Managers are facing a storm of supply chain challenges never before seen in our industry. Constantly changing carrier rosters, hidden shipping costs, widely fluctuating fuel costs and other obstacles are making it harder than ever to run an efficient and profitable supply chain.

At Vantix, we're ready to help in any way possible. For more than 10 years, we've been providing industry-leading supply chain logistics solutions for companies in many different industries. Some of the specific ways that we can help you include:

Comprehensive supply chain expertise – We offer a number of highly customizable supply chain logistics solutions to best fit your specific needs in such areas as:

- Transportation Management
- Shipment Optimization and Visibility
- Warehouse and Inventory Management
- Supply Chain Design and Optimization

Advanced, customizable technologies – Our extensive IT investments enable us to analyze larger sets of logistics data and develop smarter, more accurate solutions concerning routes, shipments, delivery times and other factors that may be unique to your business.

Superior industry relationships – We work with more than 3,000 leading carriers, giving us unparalleled network flexibility to make the best decision for both the shipper and the carrier. Plus, we go a step further in protecting our customers, requiring our broker partners to carry a $100,000 bond (10X higher than the industry average).

Comprehensive supply chain expertise. Advanced, customizable technologies. Superior industry relationships. All combined to deliver smarter logistics solutions for you. That's the Vantix difference.

To learn more about how Vantix can help optimize your supply chain and reduce landed costs with absolute confidence, please contact Sales at (800) 737-5423 Ext. 5032 or visit our website at www.vantixlogistics.com.

Thank you,

Ross Grier

Ross Grier
General Manager

VIEW FROM THE TOP

Making logistics more cost-effective

The HWY 905 solution

Four years ago I was invited to the annual logistics conference of one of our major customers. We presented the cost savings we had achieved in prior years and how that measured up against other companies. At that time, the cost of logistics was about .03 of sales.

After our presentation, the CEO asked us to reduce logistics costs by $60 million more. This seemed impossible to us – but we took on the challenge. We discovered that much of the customer's current logistics expenses were in outbound transportation. Their current IT systems did not have the ability to plan, schedule and execute consolidated shipments, or to pick the best carriers, modes and routes.

We realized we could achieve much of the savings by properly planning and optimizing loads, but it would have to be done manually. Over the next two years we modified the legacy system to perform these functions – and were able to reduce the cost of logistics to under .015.

I realized that with the knowledge of logistics execution and cost savings Vigna had gained, we could develop one integrated system that would address warehouse and transportation management, freight payment, alert management, chargeback, track and trace, and reporting. By spring 2007 we had built a deployable system we called **HWY905**™.

In January 2008 we piloted the new system at a small facility on the West Coast. By the fall we had implemented it in four facilities.

After studying the expenses tied to our customer's legacy system, Vigna proposed to completely replace it, as well as provide application hosting services and meet all security and disaster recovery requirements. We are on schedule to complete that project by September 2009, giving our customer a system with the most efficient functions to run the best operations at the least cost.

Vigna will offer the **HWY905**™ system with all solutions included for one low cost – a major market advantage for us. **HWY905**™ can be implemented with training in a typical facility with an Internet connection in an average of three weeks.

Vigna's philosophy is "take a humble and sincere approach to each customer's needs, and do what is in the best interest of the customer." Each of my employees is empowered to do what it takes to get the job done!

Srini Vaidy
President & CEO
Vigna, Inc.

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VIEW FROM THE TOP

WERNER ENTERPRISES
SPECIALIZED CARRIER

WERNER GLOBAL LOGISTICS
Local Logistics, Applied Worldwide

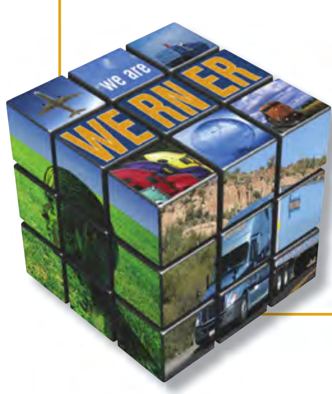
Derek Leathers

Chief Operating Officer of Werner Enterprises and President of Werner Global Logistics

In today's economy, shippers must look beyond traditional cost saving strategies and partner with the right companies to truly eliminate supply chain inefficiencies. Werner Global Logistics understands that, which is why we are committed to having a truly diversified portfolio that delivers exceptional service and value at the lowest possible cost.

With a solid foundation and over 50 years of transportation experience through our parent company, Werner Enterprises, Werner Global Logistics is uniquely qualified to provide door-to-door service for companies of all sizes and industries as they compete in today's global marketplace. Each year, we successfully manage over 200,000 international shipments across all modes of transportation. From the point of origin to the point of destination throughout Asia and North America, Werner Global Logistics will analyze customer's needs, design a solution, implement the design and deliver their goods on-time, every time.

Using our proprietary supply chain management system, SMART and its applications, as well as our experienced logistics experts, Werner Global Logistics can manage all activities including operations, procurement, optimization and analytics. Our experts work closely with customers and perform a no-cost logistics network assessment to determine where inefficiencies may exist and design solutions that provide long term combinations of costs, supply, service and risk aversion.



As one of the first North American companies to establish a wholly owned foreign entity in logistics, NVOCC, warehousing and trading in China, Werner Global Logistics brings flexibility and the freedom to integrate best-in-class providers across the supply chain in the locations that make sense for our customers' business.

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SAGE ADVICE

Who's in control here?

By John A. Gentle, DLP

You must be kidding! Who approved that? Are these phrases that you've uttered when you learned that you're over budget because costly changes had been made in the supply chain or customer service guide without your knowledge?

It's a challenge to accurately forecast and successfully execute a bid/negotiation program with your carrier base; but when changes occur indirectly within your company without your knowledge, and it negatively impacts your Key Result Areas (KRAs), that's not only frustrating but it's a warning sign that your transportation team has been passive in terms of its internal leadership.

Scratching your head? Here are some examples:

1. The carriers are reporting that the warehouse leaders have decided to reduce a shift to control cost and require your carriers to make appointments. If the drivers are late they must go to the back of the line. Your cost effective carriers now don't want to go back to those plants.

2. An initiative to significantly reduce inbound transportation has hit a snag at a plant. The plant has decided not to proceed with your project because they don't have a budget for the pump and the electricity needed to operate a special unit that you negotiated for. So, your planned transportation annual savings initiative of $500,000 was scrapped because the plant wouldn't budget for $15,000/year in additional energy.

3. Other plant initiatives to reduce inbound freight are on hold because one plant wanted to split the savings but their accountant said "no." The second plant insists that only their local carrier knows how the plant works and any other carrier (especially a lower cost carrier) will cripple their operation. Company cost savings are lost.

4. The marketing team has announced a new package design. Unfortunately the new design takes up more weight and cube than the last one. In turn, the damage claims have increased and the transportation cost per pound has increased by 5 percent. This negated the savings that you had committed.

5. You've missed a meeting with the purchasing team and they have decided that they don't want to upset their suppliers by asking them to break out freight from their purchase price. This initiative would have allowed the company to force the supplier to adjust price or allow us to shop the freight and reduce cost.

6. In an endeavor to enhance the service offering, the marketing team sent out a letter to all customers increasing the number of stops on the truck. This reduces the minimum release and increases the CPU allowance. Now, the accessorial and linehaul costs are higher and may lead to a loss of purchasing power if your house carriers lose out to CPU carriers.

So, how could some of these situations be avoided or at least mitigated? It has become my belief overtime, and reinforced since I retired, that the transportation leader must be the most active member of the supply chain and almost to the point of acting as its de facto leader.

> **The transportation leader must be the most active member of the supply chain and almost to the point of acting as its de facto leader.**

The examples cited above could have been avoided if there was a "greater good" policy rule in place. My counsel is that transportation leaders must write this policy/rule with guidelines, protocols, and with sufficient illustrations to demonstrate how everyone in the company wins. I would start selling it to the controller's office.

Relative to the customer service guide, I am surprised at how many companies don't have a formal document that clearly outlines in writing the company's service options and commitments relative to servicing customer orders as well as what customers are expected to do to avail themselves of certain services.

The absence, or incompleteness, of this formal working document leads to excessive and unpredictable transportation costs. Here, too, the transportation leader must take the lead position with the marketing team to help them create and manage this platform. You just cannot assume that people understand the ramifications of their actions.

The best thing to do is to frame and lead the discussions, helping the parties recognize the cost and practical implications of their thoughts and how they can transition from that point if they decide to change their minds in the future. Transportation leaders must the lead dog on every team. It's hard to explain what just happened to your KRAs when your view is being blocked by a fuzzy tail. L

John A. Gentle is president of John A. Gentle & Associates, LLC, a logistics consulting firm specializing in contract/relationship management and regulatory compliance for shippers, carriers, brokers, and distribution centers. A recipient of several industry awards, he has more than 35 years of experience in transportation and logistics management. He can be reached at jag@RelaTranShips.com.