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18th Annual Masters of Logistics Study

ON EQUAL GROUND

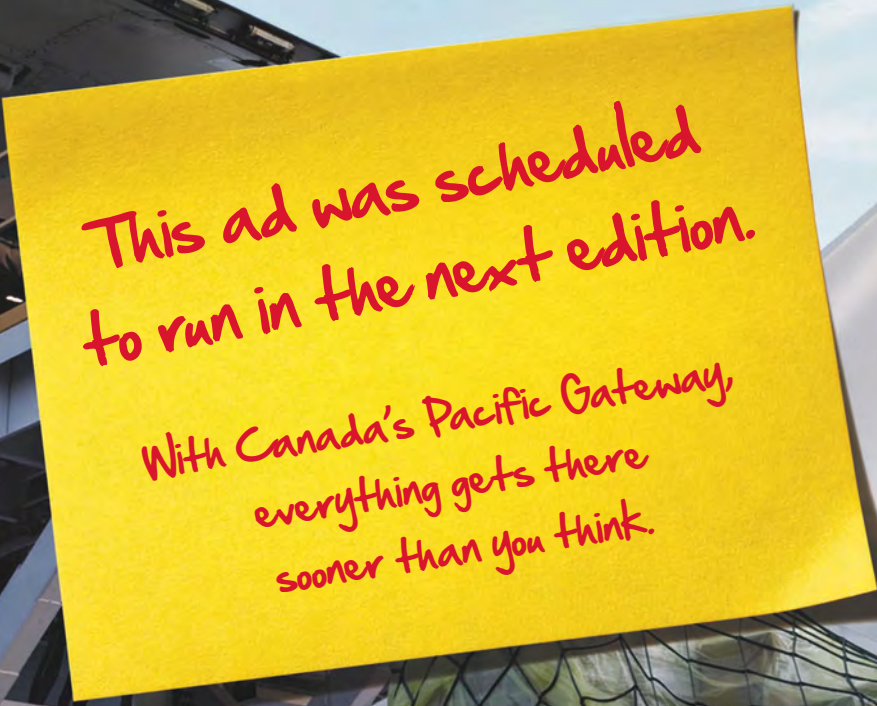
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Ocean sea change? 30
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Masters of Logistics Webcast
logisticsmgmt.com/masters09
Sept. 29th 2 p.m. EST



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Management UPDATE

AN EXECUTIVE SUMMARY OF INDUSTRY NEWS

■ **DHL ordered to pay up.** Media reports indicate that DHL Express USA will hand over \$9.4 million amidst claims it shipped items to Iran, Sudan, and Syria, which is in direct violation of federal law. The U.S. Departments of Treasury and Commerce said that DHL violated laws that allow the export of only certain types of items to those countries, including informational materials and goods valued at less than \$100, according to a *Wall Street Journal* report. The report added that DHL violated those laws from 2002 to 2007 by exporting packages containing items like computer software, oil-field equipment, auto parts, and electronics equipment. The Treasury and Commerce Departments also said that DHL broke the law by failing to properly monitor what was inside thousands of other packages heading to those countries.

■ **Air cargo remains in "intensive care."** Some relative improvement in the cargo sector was reported by The International Air Transport Association (IATA) last month. "Demand may look better, but the bottom line has not improved," said Giovanni Bisignani, IATA's director general and CEO. "We have seen little change to the unprecedented fall in yields and revenues...and the road to recovery will be both slow and volatile. In the meantime, the industry remains in intensive care." The 11.3 percent decline in cargo demand for July was also a relative improvement over the -16.5 percent recorded in June and the -19.3 percent average for the first seven months of the year.

■ **Ship scrapping soars.** According to maritime analysts, the number of container vessels sold for demolition so far this year has reached record highs. Industry researchers at Paris-based Alphaliner announced that the number of scrapped vessels has exceeded 275,000 twenty-foot equivalent units (TEU), with increasing numbers of larger ships among them. A total of 148 ships have been scrapped this year, of which 85 were controlled by carriers while 63 were disposed by NVOs (Non-Vessel Operators). Carriers have led the move to scrap elderly tonnage, including a few ships larger than 4,000 TEU, making them the largest cellular ships ever demolished. MSC has been the most active carrier in the scrap market, with 20 owned ships sold this year for demolition.

■ **Intermodal volumes still singing the blues.** While the economy has shown recent glimmers of improvement, it has not caught up to the intermodal market, at least according to the Intermodal Association of North America's (IANA) quarterly Market Trends report. IANA reported that total intermodal container and trailer loadings—at 2,829,971—were down 18.7 percent in the first quarter. Nearly all intermodal metrics tracked by IANA were in the red for the quarter, with the lone exception being domestic containers, which were up 0.9 percent at 969,231. This category saw better growth in 2008 when it was up 7 percent for the year—growth that was largely attributed to high oil and gas prices.

continued, page 2 >>

■ **LM's 18th Annual Masters of Logistics study goes live on September 29th at 2 p.m!** LM's Group Editorial Director Michael Levans, Dr. Mary Holcomb of the University of Tennessee, and Dr. Karl Manrodt of Georgia Southern University are getting ready to put the findings of this annual research project into perspective in a live webcast. The study, which benchmarks distribution costs and logistics practices, finds that the playing field on which the true Masters of Logistics and their counterparts play has started to level due to the economic conditions. LM sponsored the study that was conducted by Georgia Southern University, the University of Tennessee, SAP, and the consultancy Capgemini. An overview of the results begins on page 24, but for more on what the findings mean for shippers, tune in on September 29th at 2 p.m. Register at logisticsmgmt.com/masters09.

Management UPDATE

continued

It also appears that the recession has made a dent in domestic container loadings based on the second quarter's output and a 0.1 percent gain in the first quarter.

■ **USPS forecast: rain, sleet, gloom of night.** Facing myriad economic headwinds, the United States Postal Service (USPS) reported a \$2.4 billion net loss for the fiscal third quarter. This loss exceeds the second quarter's \$1.9 billion shortfall. For the third quarter, USPS revenue was down \$1.6 billion. Along with the recession, the USPS said a large driver for the quarterly loss stems from the shift from traditional mail delivery to electronic communication alternatives, including e-mailing business documents and online purchase ordering. The USPS projects a net loss of more than \$7 billion by the end of the fiscal year even though the federal agency says it's on track to reach its 2009 goal of more than \$6 billion in total cost reductions.

■ **Rude welcome for new PRC chief.** The Postal Regulatory Commission (PRC), an independent federal agency that exercises regulatory oversight over the United States Postal Service, announced that Ruth Goldway has taken over as Chairman, replacing Dan Blair. Goldway begins her new position at a time when the USPS is in rough financial condition; however, industry analysts say that she sees packages and shipping services as a very important part of the future for the USPS. According to reports, Goldway is working hard at better understanding the current issues and is keeping an open mind concerning future USPS endeavors.

■ **You can check out any time you like...** Leading California economists and major employers released a new study analyzing the state's crippling fuel costs and its impact on logistics management. According to the comprehensive report done in behalf of "Fueling California," a new nonprofit consumer alliance, the issue has a direct bearing on "job flight." The report notes that because California must

import its fuel, rather than produce it, shippers pay a higher premium to operate there. The state's seaports, for example, are receiving fewer inbound cargo vessel calls because drayage operators must pay more for truck fuel. According to alliance spokesmen, this analysis will determine "what makes California different" than other states in terms of fuel standards and policies. The complete study can be downloaded at www.fuelingcalifornia.org.

■ **Panama Canal update.** A critical milestone for the Canal Expansion Program was reached last month when the Panama Canal Authority (ACP) received Grupo Unidos por el Canal's (GUPC) performance and payment bonds and signed the contract. ACP Executive Manager Jorge de la Guardia then issued the Notice to Commence work. The scope of work included in the contract encompasses the design and construction of the Canal's new set of locks and water-saving basins on both the Pacific and Atlantic ends of the Canal. "This event marks both an end and a beginning for the Canal Expansion Program," said Jorge de la Guardia. "The fair, rigorous, and transparent contracting process for the new set of locks has concluded...and a new partnership with Grupo Unidos por el Canal has begun."

■ **Hey, remember RFID?** According to ABI Research, total RFID revenue (including transponders, readers, software, and services) is expected to top \$5.6 billion this year. That projection represents an increase of \$240 million, or 4.25 percent, over 2008 revenue. What's more, ABI Research expects strong RFID growth for supply chain management item-level tracking in the next five years. Overall, ABI anticipates annual growth to remain steady over the next five years, with the total market experiencing an 11 percent compound annual growth rate (CAGR) through 2014. Analysts expect the market to reach more than \$9.2 billion in 2014, or approximately \$7.62 billion with consumer automobile applications excluded.

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Management UPDATE

continued

■ **M&A activity sinking.** As was the case in the first quarter, transportation and logistics merger and acquisition (M&A) activity was down significantly in the second quarter, according to data from Pricewaterhouse-Coopers (PwC). The firm said there were 11 announced M&A deals in the transportation and logistics sectors worth \$50 million or more. This is down from 18 deals in the first quarter and off significantly from the fourth and third quarters of 2008, which hit 43 and 46 deals respectively. Average deal value also declined in the second quarter, with 11 deals at a total value \$1.4 billion announced during the second quarter, following 20 deals valued at \$3.1 billion in the first quarter. This cumulative output for the first half of 2009, said PwC, puts 2009 M&A activity on pace to be 67 percent down from 2008, when 189 deals valuing \$96 billion were announced.

■ **Mexico gets more multimodal.** APL Logistics and Con-way Freight announced that their OceanGuaranteed service for less-than-containerload cargo from Asia will now reach all major metropolitan markets in Mexico. Spokesmen said that this represents the biggest expansion yet of the three-year-old program that combines ocean and truck transportation to deliver cargo to a shipper's door. As reported in *LM*, OceanGuaranteed debuted in 2006 as a China-to-U.S. service and expanded last year into Canada. With the addition of Mexico, origin ports in Asia are now connected for the first time to every major North American market via day-definite delivery.

■ **Retail shippers salute Seattle.** The Port of Seattle's "Clean Truck Plan," which is included in the Northwest Ports Clean Air Strategy, won a ringing endorsement from the National Retail Federation (NRF). "The Port of Seattle has taken the right approach working with its stakeholders to develop a plan that will improve harbor truck-related emissions without imposing significant supply chain costs on the port's

customers," said Jonathan Gold, NRF's vice president of supply chain and customs policy. Gold added that the NRF urged the Commission not to change direction or endorse policies designed to restructure the harbor drayage market "in the name of clean air." The NRF, the world's largest retail trade association, added that the Clean Truck Plan should continue to focus on replacing the trucks and not the individuals who drive the trucks.

■ **NAFTA tension mounts.** The recently-concluded 2009 North American Leaders' Summit yielded few answers for shippers concerned about the free movement of goods on highways—and provided even less information on the current ban on Mexican trucks. "We are in a wait-and-see mode," said Clayton Boyce, spokesman for the American Trucking Associations, in Washington, DC. "But we expect the DoT (U.S. Department of Transportation) to issue a position next month." Meanwhile, shippers are hoping that Mexico President Felipe Calderon's plea for fairness will prevail over the political interests of the U.S. Teamster's Union and other powerful lobbyist to extend the ban indefinitely.

■ **End of an era.** An iconic brand came to an end when A.P. Moller-Maersk announced that it would stop making ships in its money-losing Odense Steel Shipyard in Denmark. The company, which owns Maersk Line and extensive oil and gas production facilities in the North Sea, said it will also put its Lithuanian Baltija Shipyard up for sale—an operation that will become obsolete after the closure of the Odense yard. According to Moller-Maersk's chief executive Nils Andersen, the closing of the Odense Shipyard is the first tangible sign that the Danish shipping giant is taking steps to follow through with its strategy to only invest in profitable enterprises. The company plans to sell the industrial, design, and engineering facilities associated with both shipyards. ■

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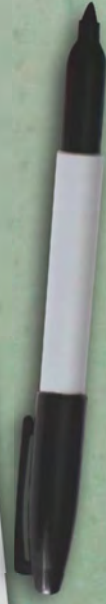
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LOCATIONS OF TRUCKLOAD STOPS



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18th Annual Masters of Logistics Study On Equal Ground

Our annual study of logistics and transportation trends suggests that the economy has been a great equalizer in supply chain performance. In fact, the significant operational lead that the Masters had built up over the past two years has been largely eroded as companies of all sizes focus solely on surviving these difficult economic times.

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Cover illustration by Neil Brennan



Logistics MANAGEMENT®

transportation trends: ocean shipping

Cool, calm, correction

30 As the global rate structure stabilizes for ocean carriers, what can shippers expect by way of specialized service and available capacity? Our panel of industry experts gives readers a look forward.

global logistics

Sourcing successfully in the new China

34 Economic changes have altered China's sourcing landscape. There is no evidence, though, that China's role as a major sourcing hub is diminishing. Our expert reveals what these sourcing shifts mean to your operation.

supply chain technology

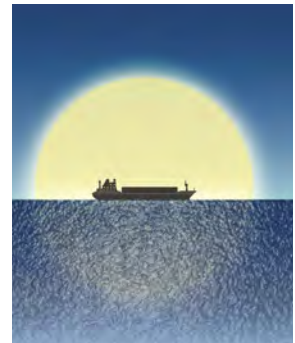
Inventory Optimization: Game of strategy

38 IO technology provides significant ROI, and it isn't as complex as it once was. However, it's yet to gain significant traction. We set the record straight on this emerging technology.

warehouse & dc

Site Selection: 5 trends for the new economy

42 Site selection experts have identified a handful of trends affecting how and where DCs are now being located. By responding to these trends, companies can better position themselves for the economic recovery.



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20 Bohman on Pricing
22 Mulani on Excellence

56 Sage Advice
49s Special Report:
Alternative Ports

webcasts/continuing education

upcoming webcasts

Focus on the Fleet: Optimizing Workforce Management

LIVE - September 9, 2009 at 2 p.m. ET
logisticsmgmt.com/pbowes

The 18th Annual Masters of Logistics:

Results of our annual logistics trends study
LIVE - September 29, 2009 at 2 p.m. ET
logisticsmgmt.com/masters09

on-demand webcasts

2009 Mid-Year Logistics Rate Outlook

Now Available On-Demand,
original broadcast July 29, 2009
logisticsmgmt.com/midyear09

upcoming virtual conferences

Logistics Management & Supply Chain Management Review Virtual Conference

The Next Generation Supply Chain
(Global Supply Chain Conference – GSCC)
Available October 27 & 28, 2009
11 a.m.– 7 p.m. ET
logisticsmgmt.com/GSCC

on-demand virtual conferences

Logistics Management & Supply Chain Management Review Virtual Conference: Is Your Supply Chain Ready for the Recovery?

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bears repeating...

“It seems like oil prices are going up for no reason. We should be scared to death, but at the same time shippers cannot overreact to oil costs and economic conditions at a time like this.”-

—ART VAN BODEGRAVEN, PARTNER AT THE PROGRESS GROUP

this month's

fast facts

- 1 **Truck tonnage** was down 10.4 percent year-over-year in July 2009
- 2 **Total dollars billed** by 3PLs was up 7% from Q1 to Q2
- 3 **For the week ending August 22**, rail car-load freight was down 16.1 percent over 2008

If you weren't online, you missed this...

USPS takes further steps to reduce costs, but is still on pace to lose more than \$6B in 2009. Will Saturday mail be a thing of the past?

blog takeaway

“Unfortunately, the [transportation] infrastructure problem isn't going to go away anytime soon and will only continue to get worse until our leaders put forth legislation to address the issue. Fixing the problem will require some tough decisions, especially when it comes to figuring out how to finance the Highway Bill. This crisis is the continuing decay of our nation's transportation infrastructure.”

“Town Hall Meetings and the Highway Transportation Bill” —Mike Regan, August 26, 2009
Logisticsmgmt.com/blog/regan

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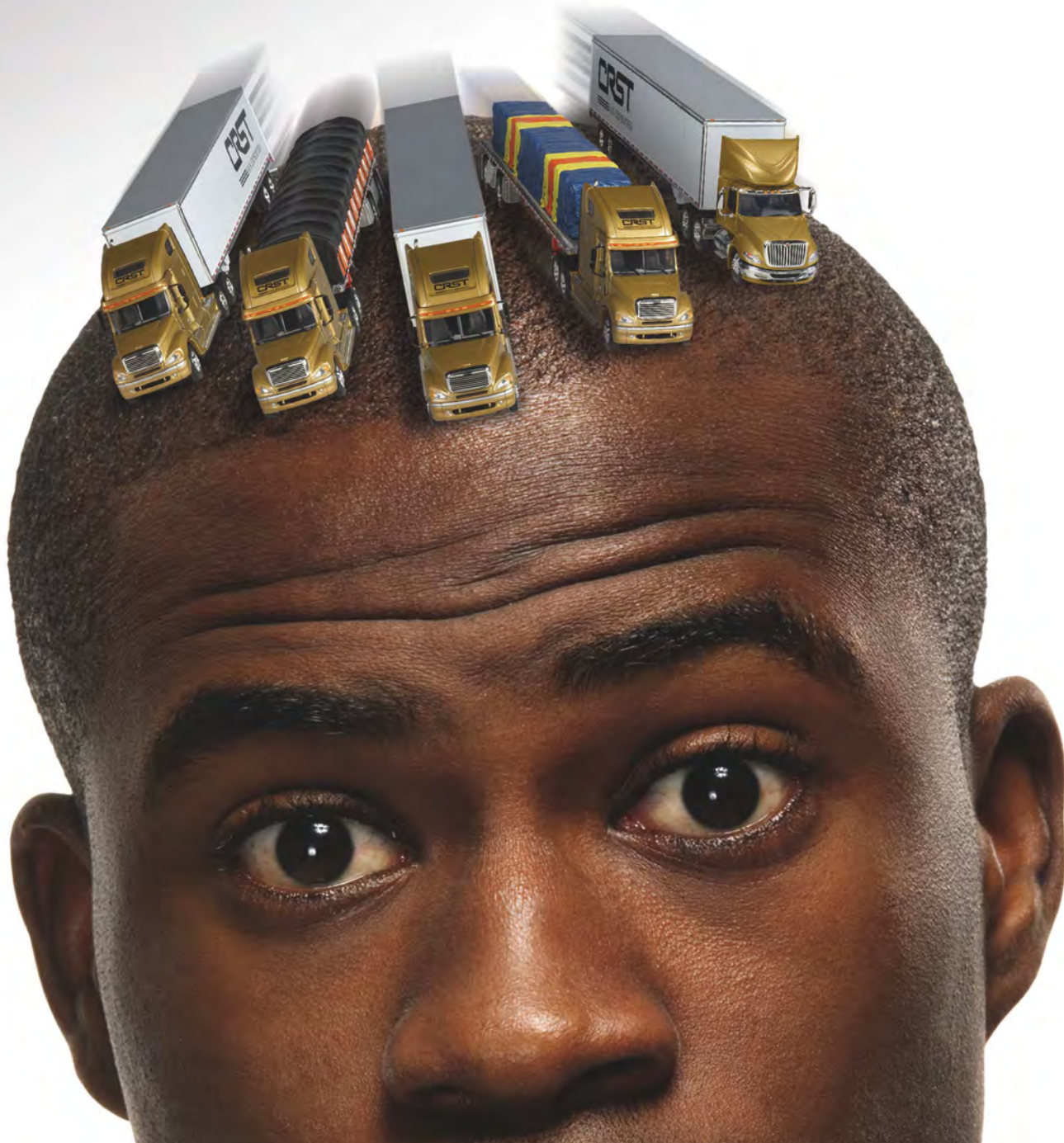
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Global Logistics

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John Poulin
CHIEF EXECUTIVE OFFICER
REED BUSINESS INFORMATION

Jeff DeBalko
PRESIDENT, BUSINESS MEDIA

Jane Volland
VICE PRESIDENT OF FINANCE

EDITORIAL OFFICE

225 WYMAN STREET
WALTHAM, MA 02451
PHONE: 781-734-8509
FAX: 781-734-8076
E-MAIL:
LM@reedbusiness.com

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Masters excel at cost containment

SEPTEMBER KICKS OFF with the results of our 18th Annual Masters of Logistics study, our report of trends and issues in logistics and transportation management—and the clearest snapshot the industry has of how shippers and carriers are operating in these unprecedented times. The story begins on page 24.

It's also become our single most anticipated report of the year, and for good reason. On top of giving us a current operations "report card," the study identifies emerging trends and offers shippers benchmarking data on logistics best practices gleaned from some of the world's leading organizations. In fact, our survey sample this year includes over 830 domestic and international logistics and supply chain managers representing an estimated \$28.4 billion in total transportation expenditures and nearly \$14.5 billion in international logistics spending.

To crunch this data, *LM* has once again collaborated with the esteemed research team of Mary Collins Holcomb, Ph.D., of the University of Tennessee, and Karl Manrodt, Ph.D., of Georgia Southern University. Mary and Karl, along with support from our friends at JDA Software and Capgemini, have done another terrific job of putting context around the data.

So, what are the overall findings? Well, if our research team were to grade this sample of shippers for transportation cost containment they would give an "A." For starters, the 2009 data show us that the poor economic climate has resulted in "transportation spend as a percent of sales" figures that are pretty much in line with 2008 findings.

The data also reveal an overall move to lower transportation spending as indicated by the increasing number of companies that are spending 1 percent to 2 percent and less than 1 percent of sales on transportation.

These findings certainly validate that transportation has been a primary target for most companies en route to overall cost containment. But more importantly, the results are further proof that logistic managers have been equal to the task and willing to help where they can. "In light of this uncertainty we are seeing many shippers proactively managing the primary aspect of volatility that they can control—contracted freight rates," says Capgemini's Belinda Griffin, one of our research team members.

One of the more interesting findings this year came in the analysis of how the Masters current logistics operations compare with the rest of our respondents. The bottom line: the economy has been a "great equalizer" in logistics and transportation performance. "We found that the significant performance and organizational structural differences between the Masters and other firms that was built over the past two years has largely been eroded as everyone has become solely focused on surviving these difficult economic times," writes our team.

However, the data on the Masters does reveal that they're taking steps to get ready for a rapid turnaround when the economy begins to grow, including the addition of new technology and more dedicated transportation planning.

If you're interested in learning more on how the Masters are preparing you'll need to tune into our Masters webcast on Tuesday, Sept. 29th (logisticsmgmt.com/mat09) for full details.

Michael A. Levans, Group Editorial Director

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



A Story of Pants



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Purchased by a shopper at a mall in Southern California, and soon to be worn to a barbecue.

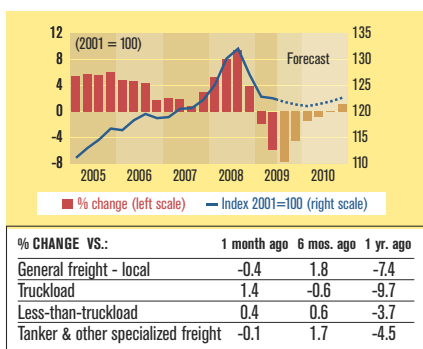
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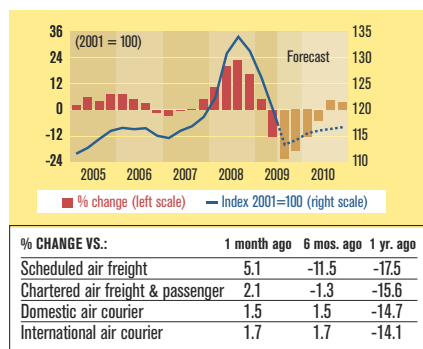
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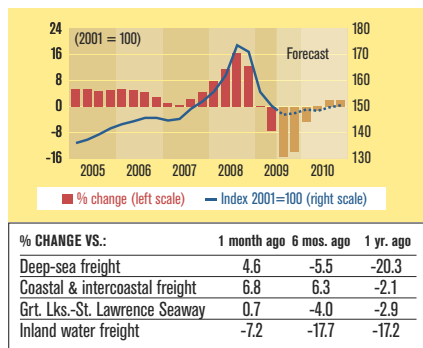
TRUCKING

Latest Labor Department surveys of TL carriers reveal average transaction prices for long-distance TL service climbed a surprising 1.4% from June to July. LTL carriers also increased prices 0.4%. The American Trucking Associations' truck tonnage index bounced down in June and up in July, but with no one expecting freight tonnage to rise significantly or consistently, what's the impetus for TL's sudden price boost? An educated guess: the stubborn credit freeze has forced many into bankruptcy. As competition weakens, surviving truckers gain leverage for price hikes. We'll have new industry cost insights available soon that will provide an anchor for revised price forecasts ahead.



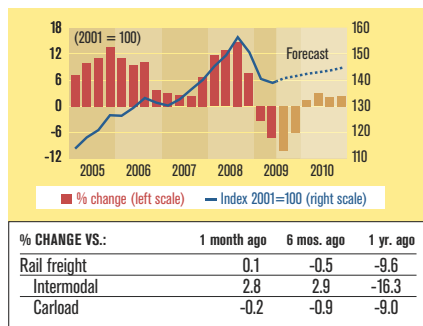
AIR

In June, the airline industry cut its transaction prices for flying cargo in the belly of planes on scheduled flights a record-breaking 11.5%, so it's no surprise that prices rebounded in July. But prices for cargo on scheduled flights increased only 5.1% and sit 17.5% below 2008 levels. Air charter companies flying cargo on domestic routes also reported prices up 3.6% from June to July. But, U.S.-chartered planes flying international routes cut prices by 1.4%. Domestic and international air courier companies reported recession-defying monthly price hikes of 1.5% and 1.7%, respectively. Still, they may lament that year-ago prices were 14% higher. With new cost data, forecast revisions can be expected here too.



WATER

While cargo volumes at U.S. ports declined to the lowest levels in seven years, somehow owners of U.S.-owned deep-sea vessels had enough clout to report a 4.6% price increase in July. Owners of barges and other vessels moving cargo on inland waterways didn't fare so well, cutting their average transaction prices by 7.2%. That was the largest one-month price cut since an 8.3% price drop in November 2005. Overall, water transportation prices increased 2.5% from June to July, but remain 16% below peak price levels set September 2008. Our forecast showed water transport prices hitting bottom in Q3 of 2009, before gently re-establishing an inflationary trend. The price deflation floor may have been hit early. Next month's forecast will provide some clarity.



RAIL

As intercity TL companies boosted their prices in July, intermodal rail prices followed suit, up 2.8%. Unlike struggling truckers, this was the third monthly price hike in a row for intermodal rail service. All told, thanks to a 0.2% price cut for carload service, rail industry average prices were up 0.1%. Nonetheless, intermodal rail inflation does raise the specter of much more aggressive price hikes ahead when the economy does finally recover. Our current forecast doesn't presume that scenario. Instead, we're calling for relatively flat pricing through 2009 followed by a manageable 2% annual price increase for rail transport in 2010. A new demand model will help calibrate forecast revisions next month.

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



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- Teamsters exec says New Penn may be merged into YRC Worldwide
- Appointment of Elliott to STB is good news for shippers

Survey indicates shippers are bracing for higher fuel prices

Despite price relief over much of the last year, shippers expect to increase freight budgets to meet future price hikes.

By Jeff Berman, Group News Editor

WALTHAM, Mass.—What a difference a year makes: With diesel costs accounting for a significant chunk of transportation budgets, it's safe to assume that shippers have been pleased to see oil prices significantly down from last year's record highs of \$147.27 per barrel and \$5 per-gallon diesel.

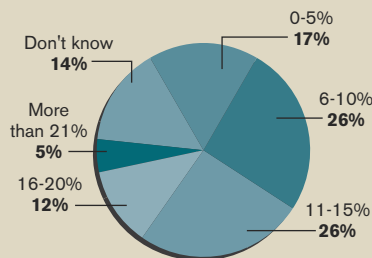
While prices have been down for most of this year—oil is currently around \$73 per barrel and diesel has been fluctuating between \$2.50 and \$2.70 per gallon—it doesn't mean that shippers are out of the woods. In fact, some say there is greater uncertainty now than ever before because inventories are high and the economy is still in a recession.

A recent *Logistics Management* (LM) survey of roughly 130 logistics, supply chain, and transportation managers found disparities when it comes to how much shippers' average fuel surcharges are above their base rates considering the recent price levels.

According to the survey, 5 percent of respondents said their average fuel surcharges are more than 21 percent above their base rates, followed by 12 percent at 16 percent to 20 percent; 26 percent at 11 percent to 15 percent; another 26

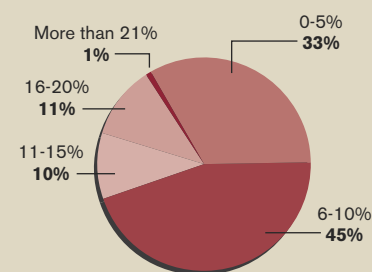
How much is your average fuel surcharge above your base rates?

Average surcharge (Percentage of respondents)



By how much do you plan to raise your 2010 budget to cover rising fuel costs?

Planned increase (Percentage of respondents)



Source: *Logistics Management* reader poll

percent at 6 percent to 10 percent; 17 percent at 0 percent to 5 percent; and 14 percent reporting that they didn't know how much their average fuel surcharges were above

their base rates.

What's more, 61 percent of respondents indicated that if fuel prices rise, they intend to raise or adjust their freight budget to cover higher than budgeted fuel prices. In turn, 85 percent expect to pay higher fuel surcharges to motor carriers in the coming months.

The LM survey revealed that the average fuel surcharge percentage for truckload shippers was 15.4 percent and 9.7 percent for less-than-truckload (LTL) shippers.

Even though oil prices appear more digestible on the surface than they did a year ago, the price per barrel of oil was as low as \$33 per barrel in December although diesel has remained below \$3 per gallon since early November, according to the Energy Information Administration (EIA).

"It seems like oil prices are going up for no reason," said Art Van Bodegraven, a partner at The Progress Group in Alpharetta, Ga. "We should be scared to death, but at the same time shippers and their supply chains cannot overreact to oil costs and economic conditions at a time like this."

Recent data from consultancy Ernst & Young suggests that while oil is currently between \$60 and \$70 per barrel, its recent run-up has made oil prices \$20 to \$25 higher than market demand supported. And with relatively low demand and no marked change in production, Ernst & Young maintains that this run-up can be attributed to an

LM RESEARCH, CONTINUED

“Shippers have the direction of fuel costs right. The recent pickup in crude prices will add modestly to fuel surcharges in the last half of the year.”

—James Haughey, Chief Economist, Reed Construction Data

anticipated economic recovery.

“Shippers have the direction of fuel costs right,” said James Haughey, Chief Economist of Reed Construction Data, a corporate sibling of LM.

“The recent pickup in crude prices will add modestly to fuel surcharges in the last half of the year. While the oil supply is now generous at current prices and crude and product inventories are

high, oil traders are adding to their supplies, anticipating that worldwide economic conditions will keep the price somewhat above the current level,” said Haughey, who stressed that this is not 2008 all over again.

“Reserve oil production capacity is now much higher, and this will limit the price rise ahead compared to the huge price spike last year,” he added.

Even with Haughey’s prognosis that fuel prices will not spike like they did a year ago, a shipper told LM that more alternative energy options—like electricity and natural gas—are still needed.

“The only option to truly manage fuel prices in the mid- or long-term is to create other options that involve alternative fuel vehicles or hedging prices, which only works to a certain extent,” said the shipper.

“With a surplus of inventories and a drop-off in economic activity throughout the world, it’s hard to determine why the price per barrel has basically doubled since the end of last year. That is why we need alternatives,” the shipper added. ■

LTL TRUCKING

Teamsters exec says New Penn may be merged into YRC Worldwide

WASHINGTON—A letter from Tyson Johnson, co-chairman of the Teamsters National Freight Industry Negotiating Subcommittee (TNFINC) to Teamsters members of New Penn, a regional LTL subsidiary of YRC Worldwide (YRCW), suggested that YRCW plans to merge New Penn into YRCW.

In his letter to New Penn Teamsters, Johnson said that YRCW called

for an “emergency meeting” with the TNFINC. The meeting took place on August 11.

“Because the merger could cost hundreds of Teamsters jobs, the majority of New Penn local unions have also requested a vote by New Penn members,” wrote Johnson. “During a conference call with New Penn local union leaders the next day, local leaders reiterated their desire for a re-vote.”

While the most recent concessions

by YRCW and Holland Teamsters passed by a 58-42 percent majority on August 7, New Penn Teamsters rejected the concession package. Those votes were counted separately, because those workers are not part of the same bargaining unit. New Penn Teamsters at Chicago locals 705 and 710 and Local 179 in Joliet, Ill., rejected the concessions, too, and are covered by their own separate contracts.

In his letter, Johnson added that the TNFINC is asking its New Penn members to vote again. The ballots, that were mailed in mid-August will be counted on September 9.

YRCW said the New Penn bargaining units that did not yet ratify this labor agreement represents less than 10 percent of its Teamsters’ employees. And they added that there are no immediate plans to merge New Penn into YRCW.

“The company and the Teamsters are addressing employee concerns for these smaller bargaining units to reconsider the modifications,” said YRCW. “The company has not filed any change of operations affecting the network status of New Penn. New Penn continues to provide superior regional, next-day transportation services to its customers.”

News Capsule

Global air cargo poised for brighter skies

While rising jet fuel prices and financial uncertainty plagued air cargo growth in 2007 and 2008, volumes are expected to triple compared to current levels over the next 20 years, according to data from Boeing.



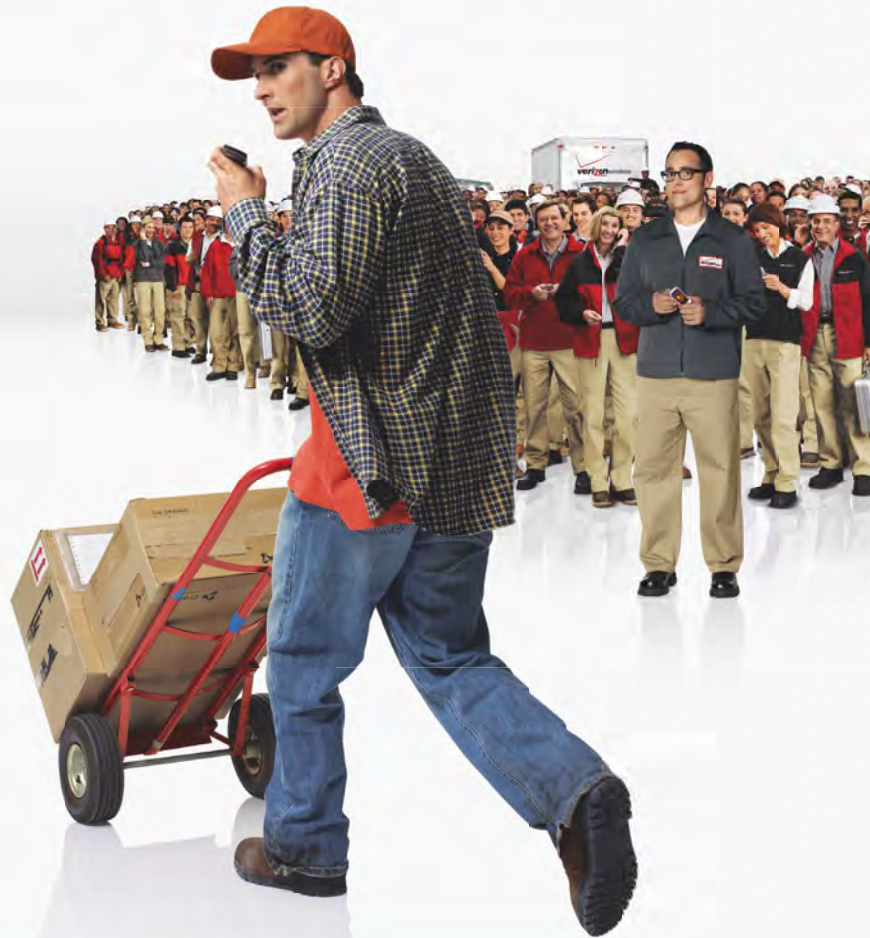
Air cargo traffic will expand at an average annual rate of **5.8%** over the next two decades

Source: Boeing Company’s World Air Cargo Forecast



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NEWS & ANALYSIS

LTL TRUCKING, CONTINUED

This follows a recent vote by YRCW Teamsters and its Holland regional subsidiary to approve a 5 percent wage and pension concession package that is estimated to save the company approximately \$45 million a month for the remainder of 2009 and up to \$50 million a month in 2010. These concessions came after a previous 10 percent wage concession and pension freeze that took effect on January 1—a move that's estimated to save YRCW approximately \$250 million annually.

"New Penn may be the most profitable company among all of YRCW's units," said Satish Jindel, principal SJ Consulting. "The Teamsters may be looking to get this message [of New Penn merging into YRCW] out with the hope of them getting help from the New Penn members for a vote to get a concession that enhances the ability of New Penn to get sold if the Teamster concessions are in place."



Jindel added that Johnson has done a terrific job of "working rank and file local leadership" to get these concessions for YRCW, adding that Johnson has "brought the union this far to help YRCW continue to have extra life." Jin-

del said that he has not seen Teamsters do this much for any union carrier during his 20 years of following the LTL market. **L**

—Jeff Berman, Group News Editor and John D. Schulz, Contributing Editor

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RAILROAD REGULATION

Appointment of Elliott to STB is good news for rail shippers

WASHINGTON—The appointment and confirmation of Daniel R. Elliott III as new chairman of the Surface Transportation Board (STB) immediately does three things to heighten rail shippers' optimism.

First, it swings the three member STB from a Democratic minority to a 2-1 majority; second, captive-rate shippers could be winning more decisions at the STB; and third, Elliott's pro-labor background might mean STB decisions will no longer be rubber-stamped in favor of the industry.

Elliott was formerly associate general counsel at the United Transportation Union (UTU), the nation's largest rail union. He is the first rail labor executive to chair the STB, formed in 1995 as successor to the defunct Interstate Commerce Commission (ICC).

The STB is the only federal agency from which railroads must seek approval to merge, abandon track, and lease or sell lines. In regulating such transactions, the STB sets levels of labor protection.

For nearly all its existence, the STB was known as a favorable, pro-rail agency. Many former STB officials, including ex-chairman Linda Morgan, have moved into lucrative posts in the rail sector following their government careers. That pro-rail bias could change under Elliott, according to former ICC and STB officials.

"The appointment will result in a decided shift from the pro-railroad position that we've seen under every STB chairman since Linda Morgan (in 1995) to one of a minimum of neutrality," said Fritz Kahn, a former ICC chairman.

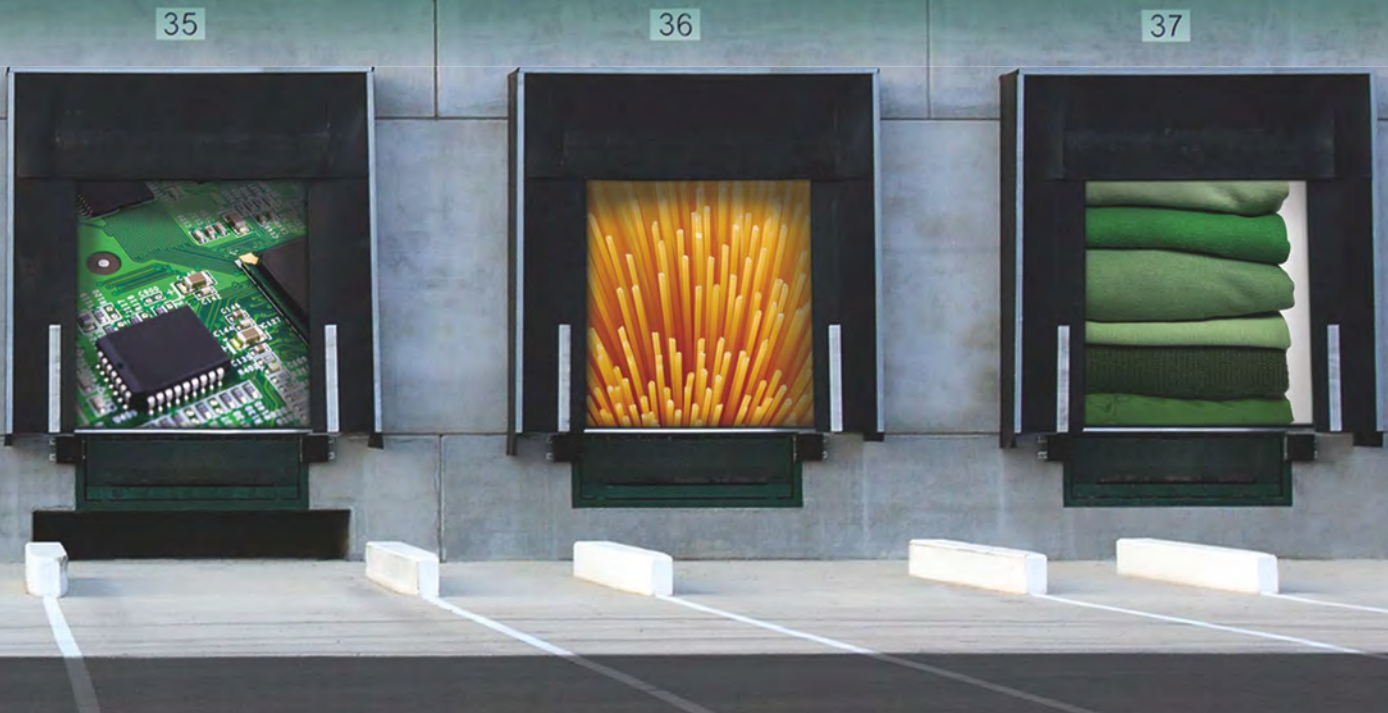
The naming of Elliott was "obviously" good news for shippers who might be mulling future rate cases before the STB, Kahn said. He warned, however, that Elliott's ascension doesn't mean that shippers would prevail every time they petition the STB.

With Elliott and Mulvey comprising a 2-1 Democratic majority at the STB, rail shippers can expect to see "far greater balanced and decided decisions" out of the STB than any time since the agency was created in 1996, Kahn added.

Elliott is the second UTU official nominated by President Barack Obama into a top transport post. He follows Joe Szabo, formerly UTU Illinois legislative director, who is the new Federal Railroad Administrator. ■

—John D. Schulz, Contributing Editor

ProLogis has it covered.



Bohman on



CCSB revises procedures

ON DECEMBER 27, 2007, the trucking industry's longstanding National Classification Committee (NCC), which had the responsibility of keeping the National Motor Freight Classification (NMFC) current, ceased to exist. It was sunsetted after the federal Surface Transportation Board (STB) revoked its antitrust immunity, thereby prohibiting its member motor carriers from establishing classification descriptions, ratings (classes), rules, or protective packaging requirements collectively.

To keep the NMFC alive, a new organization was formed by the National Motor Freight Traffic Association, owner of the NMFC. It is called the Commodity Classification Standards Board (CCSB) and its members are classification specialists and are not carrier employees. They perform the same functions that the NCC did for years.

Now, after nearly a year and a half, the CCSB has decided to revise some of the procedures it and the NCC operated under for many, many years.

On June 2 in Alexandria, Va., the CCSB approved the proposed amendments to its *National Motor Freight Classification Procedures, Policies, and Directives*. The procedural amendments became effective on July 1, 2009. Here are some of the key changes that were adopted:

1. Public dockets will now be issued no less than 45 days prior to a CCSB public meeting versus not less than 60 days previously.

2. On its own motion, the CCSB may vote to reconsider a docketed proposal upon which disposition has been made, but it must do so within 30 days of its initial disposition.

3. For the first time, the CCSB will make a charge for rendering a classification interpretation. In the past, such interpretations were provided free of charge. That provision took effect on April 1.

4. Besides holding its regular public meetings (currently three a year), the CCSB now has the authority to hold special meetings to consider and vote on docketed proposals. Such meetings will be open to the public.

5. Upon request, the CCSB shall assist anyone wishing to file a proposal.

6. The proponent(s) of a proposal may withdraw it at any time prior to its approval or disapproval.

7. Rules published in the NMFC are presently required to be consistent with "CCSB/NCC" precedent and current motor carrier practices, but henceforth will be required to be consistent with "classification" precedent and current motor carrier practice.



8. The CCSB is now authorized to file proposals to amend the NMFC.

9. Proposals for amending the NMFC must be submitted in writing to the Chairman of the CCSB.

10. Notices of disposition of docketed proposals shall be made by mail or email, but will no longer be sent by fax.

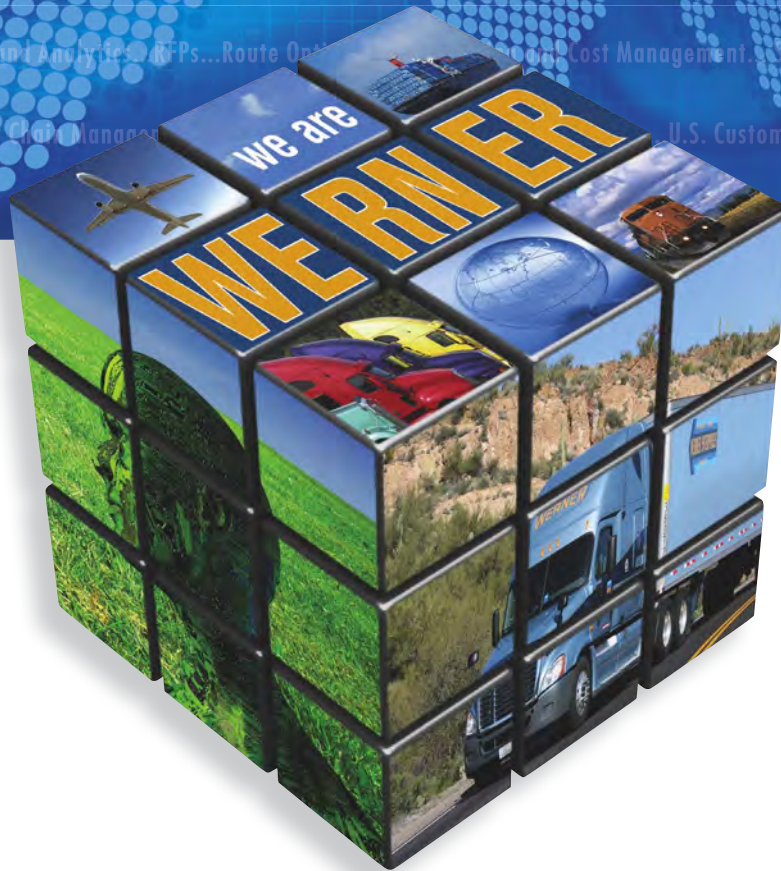
It would be my suggestion that you access CCSB's website (www.nmfta.org) and print out the revised CCSB procedures contained in the disposition of CCSB Docketed 2009-2, Section III, and keep them with your copy of the National Motor Freight Classification. You'll thereby have them handy in the event you should need to refer to them in the future.

The next meeting of the CCSB will take place on October 20, 2009 in Alexandria, Va. **L**

Ray Bohman, a well-known author and consultant, is editor of several highly successful newsletters on transportation and is a consultant to a number of national trade associations. He is president of The Bohman Group, consultants and publishers in the freight-transportation field. His offices are located at 116 Deer Meadow Lane, Chatham, MA 02633. Phone: (508) 945-2272.

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Mulani on



Superstars in service management

PERHAPS YOU'VE SEEN THE STATISTICS: At many industrial and service companies, after-sale services account for 10 percent to 40 percent of revenue and up to 50 percent of inventory investment.

However, you may not be aware that a large percentage of companies—perhaps even your own—continue to underestimate the importance and value of superior service management.

Consider the results of a recent Accenture research effort focused solely on service management. Only 42 percent of the survey's executive respondents consider service management a key contributor to the overall customer experience. And barely half said their service management organization is extremely important to the company's overall business.

Companies' performance of service management functions was also found lacking. Comparatively few of the surveyed organizations...

- Have end-to-end service solutions: advanced, integrated capabilities for developing and selling parts; linking service and solutions; and coordinating asset management/maintenance, repair and operations (MRO) solutions.
- Leverage a flexible service delivery model that enables them to tailor after-sale services by customer or customer segments.
- Take maximum advantage of service-related data that could help them manage and deploy parts, people, facilities, and partners.
- Maximize customer transparency: deep insights into customer needs, wants, and other information that can be critical to pricing parts and services and creating the right messaging.

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.

SERVICE MANAGEMENT MASTERS AND LAGGARDS

A lot of companies clearly need more-sophisticated service management capabilities. But where should those organizations begin? What practices and capabilities should they deem most relevant to excelling in service management?

Readers may recall that we completed a related research project in the fulfillment arena (profiled in *Logistics Management's* July and August issues). Similar to that effort, we now sought to profile the capabilities of service management masters

	Survey Average	Masters	Laggards
Fixed right the first time	80%	95%	65%
Work orders over 90 days	10%	4.5%	20%
Work orders past original due date	15%	5 %	21.5%
SKU fill rate	80%	95%	20%
Broken calls due to parts, tooling or unavailable information	10%	5%	20%
SKU-level forecast accuracy for A & B parts	80%	90%	60%
Obsolescence of gross service-parts inventory	10%	5%	20%
Warranty costs as percent of sales	10%	3%	25%
Spares inventory turns	8	22.5	3.5
Days sales outstanding (DSO)	30	10	55

Service management performance across the entire survey population and segmented by masters and laggards.

by distinguishing those that finished in the top 10 percent of the survey sample based on approximately 20 service management metrics.

We also identified respondents that finished in the bottom 10 percent—a group we refer to as service management “laggards.” Not surprisingly, masters significantly outperformed laggards (as well as survey respondents as a whole) in the 10 bottom-line-relevant areas profiled in the graphic.

CHARACTERISTICS OF SERVICE MANAGEMENT MASTERS

In studying the survey responses of service management masters and laggards, we found they also differ significantly with respect to how they manage their service operations. The conclusion: Superior service management performance correlates strongly with seven specific

Only 42 percent of the survey's executive respondents consider service management a key contributor to the overall customer experience.

practices and capabilities:

1. Service management philosophy, organization structure and offerings. Masters are likely to run after-sale service operations as a distinct unit with full profit-and-loss accountability. Masters also tend to offer a wider range of after-sale and asset management/MRO services.

2. Service delivery model. Masters are particularly ambitious about the post-sale services they provide to customers—serving customers wherever they are, on time, with high quality, and at optimal cost to the company.

3. Service offering portfolio. More than twice as many masters as laggards have a clearly defined portfolio of both after-sale and asset management/MRO service offerings that cover all their services and solutions.

4. Partner relationships. Service management masters excel at working with and coordinating supply chain partners. Most masters have a well-defined and well-articulated partner strategy that is tightly aligned to their overall strategy.

5. Resource planning. Masters gather, use, and leverage a far greater range of data than do laggards. This helps them better leverage their service people, parts, facilities, and partners.

6. Service transparency. Masters have high levels of visibility into the performance of service resources. Laggards have a more difficult time understanding the health and operational goings-on of their service operations.

7. Pricing and customer insight. The ability to price services optimally is crucial. Masters consistently recognize and leverage the factors that drive returns on their service business.

The above list is not exhaustive. For example, a profitable service business also requires C-level buy-in—top-tier

acknowledgement that a service business cannot be the core-business' under-supported stepchild.

Our survey also points to the need for a well-organized operation with the skills and tools to define product offerings and set prices; tightly control costs and

service levels; and team with a sales organization to jointly market a complete solution.

Next month, however, we will look most closely at the above seven areas and explain how masters outperform laggards and—more importantly—the competition. **L**

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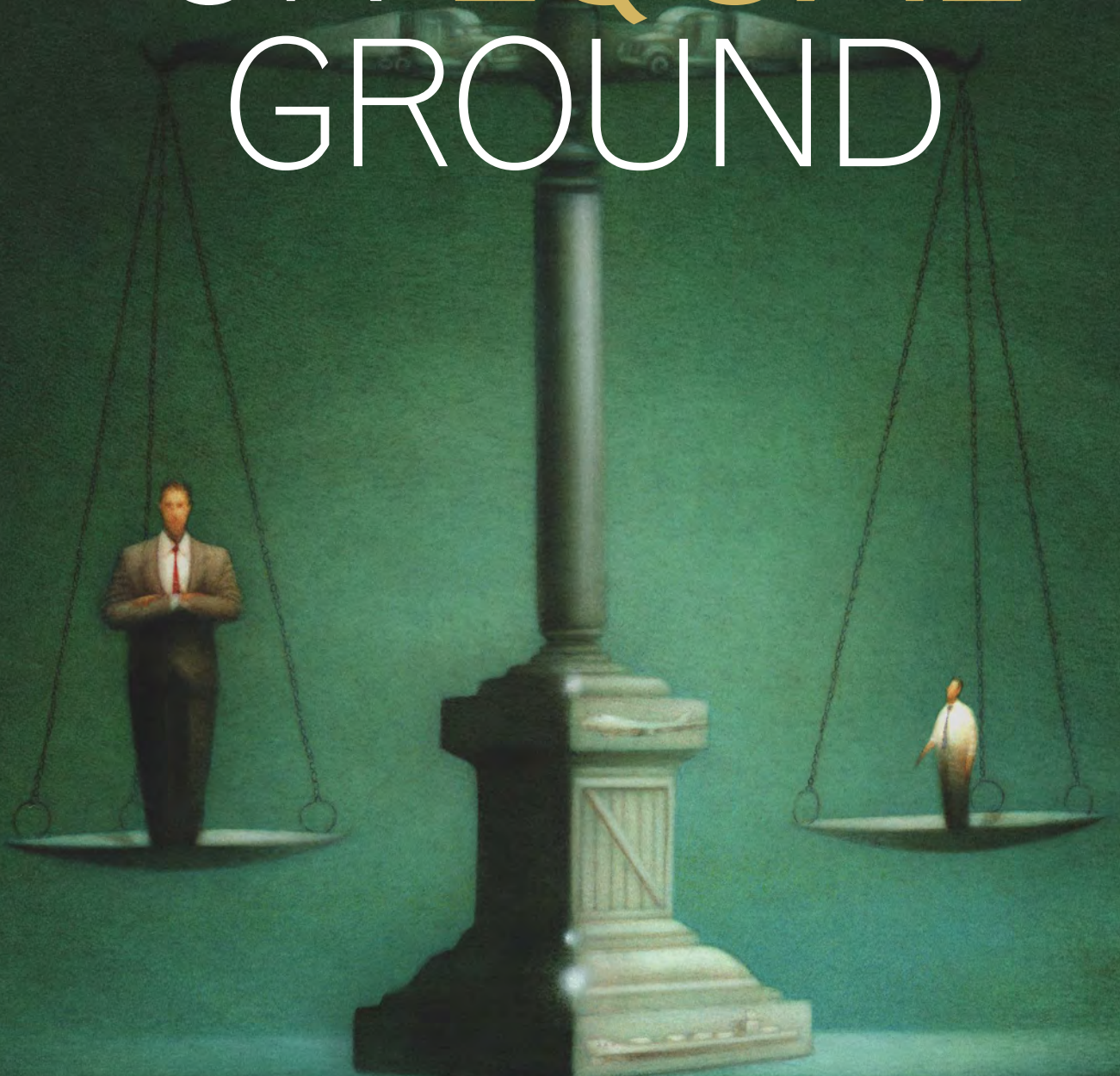
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18th Annual Masters of Logistics Study

ON EQUAL GROUND



BY **MARY COLLINS HOLCOMB, PH.D.**, ASSOCIATE PROFESSOR, UNIVERSITY OF TENNESSEE
KARL MANDRODT, ASSOCIATE PROFESSOR, GEORGIA SOUTHERN UNIVERSITY

Our annual study of logistics and transportation trends suggests that the economy has been a great equalizer in supply chain performance. In fact, the significant operational lead that the Masters had built up over the past two years has been largely eroded.

Masters of Logistics Webcast

logisticsmgmt.com/masters09 • Sept. 29th 2 p.m. EST

By now we know the story: There's unpredictable demand, increased customer scrutiny, fuel and commodity price volatility, and excessive inventory in the supply chain.

We know that everyone involved in logistics and supply chain management has been affected by this seismic shift on the continent. Yet, how much of an impact has it made on logistics and transportation operations, especially on our Masters of Logistics?

Our 18th annual study suggests that the economy has been a tremendous equalizer. The significant performance and organizational structural differences between the Masters (firms with sales greater than \$3 billion) and other firms that was built over the past two years has been largely eroded as everyone has become focused solely on surviving these difficult economic times. Adding to this headache, companies of all sizes have been expanding to new markets and making substantial changes to their organizational structure.

Is there a bright spot? The study data suggests that the Masters have completed, or are in the process of completing, initiatives that will position them to build sustainable competitive supply chain advantage in the future. In other words, while the Masters are weathering the storm along with their smaller counterparts, they are putting into place a foundation for a rapid turnaround when the economy begins to grow.

MANAGING TRANSPORTATION IN UNPARALLELED TIMES

For the past 18 years, the Masters study has identified emerging trends in the field of logistics and provided benchmarking data on transportation and distribution. As in the past, this year's study was conducted by Georgia Southern University and the University of Tennessee in partnership with Capgemini, JDA Software, and *Logistics Management* magazine.

Over 830 domestic and global logistics, transportation, and supply chain

professionals participated in this year's study. Those respondents accounted for an estimated \$28.4 billion in transportation expenditures, and nearly \$14.5 billion in international transportation. The companies represented in the analysis range from small to very large. This year, 43.8 percent of respondents reported that their companies have less than \$250 million in annual sales while 22.5 percent of the respondent pool reported that their companies' annual sales were greater than \$3 billion. The latter group has been defined as the Masters of Logistics.

More than 14 industry sectors from energy/chemical/mining to retailing participated in this year's study, with the core group of participants in the manufacturing sector (47.5 percent). Consumer products and general manufacturing represented the largest sub-sectors of this group (18.2 and 17.2 percent, respectively). The next largest sector participating in this year's study is retail, accounting for 12.8 percent of the total participants.

While the findings presented here are for North America, the global reach of the study has enabled the analysis of logistics and transportation trends for various regions of the world including Europe and Asia. The data suggest that significant differences exist in the how companies in different regions of the world manage their supply chains. These differences range from strategic focus to operational performance. The regional results will be published at a later date.

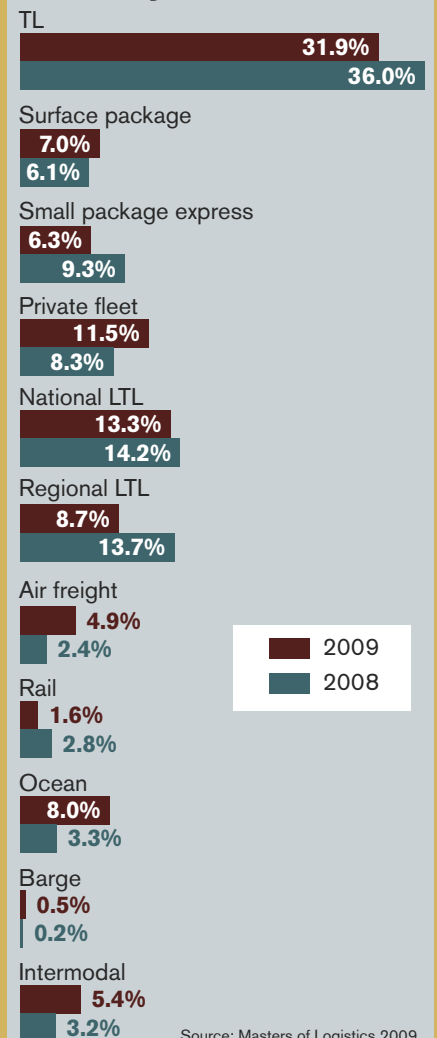
The data for 2009 show that the impact of the economy has resulted in transportation spend as a percent of sales that is somewhat similar to 2008. While the data for 2009 show that the percentage of firms spending more than 5 percent of sales on domestic transportation has risen slightly from 17.6 percent in 2008 to 21.0 percent in 2009, this increase is not statistically significant.

The data also point to a small shift in reduced spending on transportation as

indicated by the increasing number of firms that are spending 1 percent to 2 percent and less than 1 percent of sales on transportation (Page 26). Interestingly, in the aggregate, the number of respondents spending more than 3 percent of sales on transportation is very similar for both years (45.1 in 2009 versus 43.2 in 2008). Transportation has been a prime target for companies in their relentless quest to reduce costs in every area.

Variability in demand can make all

Percent of freight dollars shifted by mode from 2008



Source: Masters of Logistics 2009



facets of transportation, logistics, and supply chain planning and execution very difficult. It is a major concern in the synchronization and coordination of activities and has been credited with creating unnecessary costs at every level in the supply chain.

Adding to the challenge are two other significant factors: increased customer service demands and fuel price volatility. Together these factors represent conditions that can only be tackled through better internal and external integration.

“In light of this uncertainty we are seeing many shippers proactively managing the primary aspect of volatility that they can control—contracted freight rates,” comments Capgemini’s Belinda Griffin. “Specifically we are seeing a lot of transportation managers teaming up with their procurement departments to aggressively re-negotiate rates in order to take advantage of the excess capacity that exists right now in the freight market.”

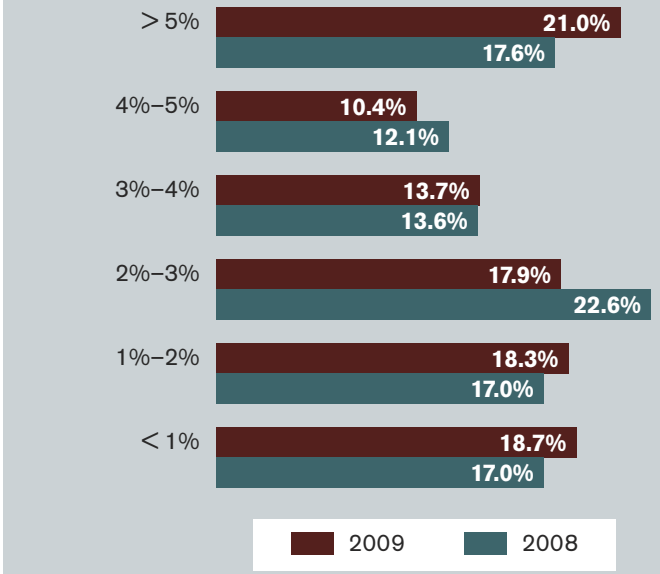
“We’re finding that given these challenges, companies are returning to ‘tried and true’ transportation management strategies,” adds JDA’s Dawn Salvucci-Favier. “Optimization is once again at the top of the list for transportation executives in order to reduce transportation expenses.”

TRUCKLOAD LOSES SHARE OF BUDGET

In 2008, the truckload (TL) sector commanded an impressive share of the transportation budget, with 36 percent of every dollar being spent on the mode. Although TL still represents the biggest portion of the transportation budget for 2009, it has lost share along with regional LTL (Page 25).

Competition for freight among the various surface transportation modes was fierce as freight volumes declined dramatically in the second half

Transportation spend as a percent of sales



of 2008 and continued to slide in 2009. Despite attempts by the TL sector to aggressively remove capacity from the market, demand declined even faster resulting in excess capacity. This excess capacity has resulted in bids that will produce significant savings for shippers. The outlook for next year based on the study data is that the percentage of the transportation budget spent on

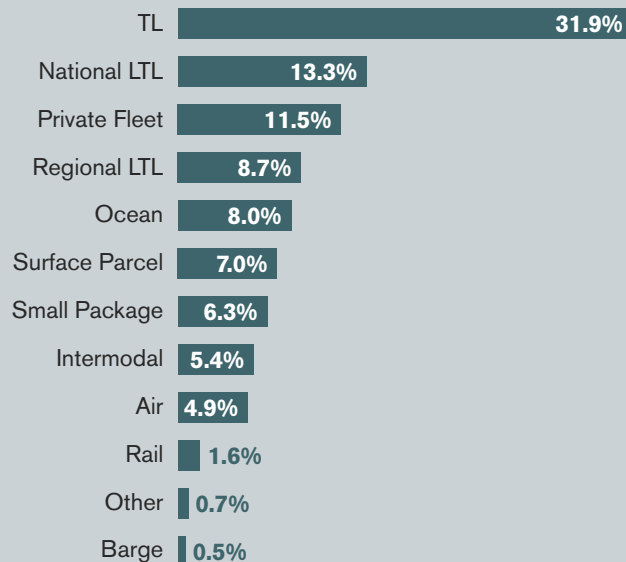
TL will continue to decline in the 1 percent to 5 percent range.

One of the modes that benefited from the decline in TL and regional LTL budget share was intermodal. Salvucci-Favier notes that the increase in intermodal transportation can be attributed to several factors, including intermodal service levels becoming more predictable and stable at a lower cost than other surface transportation options. “Intermodal also represents a ‘green’ option to over-the-road transportation that many shippers find appealing.”

The study results suggest that companies are positioning themselves to achieve sizeable gains in efficiency in the coming year. This is supported by several findings including the increased use of core carriers by companies. Some 36.2 percent of respondents reported that their use of core carriers has increased. Another 31 percent of participants said that their use of core carriers has remained the same, while only 10.3 percent of respondents stated that they do not use core carriers.

Percent of 2009 budget spent on transportation by mode

Mean of respondents



STABLE AT THE CORE

What advantages do core carriers provide? The study results show that core carriers provide shippers with four critical essentials: stable prices, improved service levels, committed capacity, and reduced transportation rates.

Savvy managers indicate that they want to establish strong carrier partnerships that will position them for both good and bad economic times. When the economy rebounds shippers can be assured that their core carriers will have capacity available for them.

Shippers are also looking to their core carriers to help them be more efficient and effective during these difficult

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economic times. Many have asked their core carriers to reduce rates in exchange for a priority on freight volume. The data from the study suggest that improved service levels will be an important contribution by the core carriers as on-time deliveries have declined and shipment complaints and damage have increased during the past year.

Another factor that will affect transportation cost is that firms are poised to renegotiate outbound transportation contracts as conditions warrant. Approximately 31 percent of study participants have this capability. It's interesting to note that the Masters, as well as medium to small size firms (with regard to sales revenue), are building flexibility in their transportation contracts. The bigger proportion (39.7 percent), however, still renegotiates contracts on a traditional annual cycle.

INTERNATIONAL SPENDING DECLINED

As economic conditions across the globe worsened, spending in international transportation also declined. From 2008 to 2009, the percentage of firms that spent more than 5 percent of sales revenue on international transportation declined by approximately 15 percent.

"The global trends that have been noted with respect to international shipping have certainly been observed not just in North America but also in Europe," says Ramon Veldhuijzen, global logistics and fulfillment leader with Cargemini. "For example, flows through the Port of Rotterdam, one of the major transport hubs for Europe, are down 13 percent in the first half of 2009 compared to the same period of 2008."

The fact that there was no significant shift in domestic transportation spend as a percent of sales signals that transportation managers have been fairly successful in assisting the firm in cost containment.

Correct invoice mean response

Number of correct invoices/total invoices

Mode of transportation	2009	2008
TL	97.3%	96.8%
National LTL	93.1%	94.1%
Regional LTL	93.7%	93.9%
Rail	96.0%	98.2%
Express Package	96.4%	94.7%

Equipment availability mean response

Percent of your requests that can be satisfied with available equipment at the time of your request

Mode of transportation	2009	2008
TL	96.5%	95.4%
National LTL	97.7%	98.96%
Regional LTL	97.1%	99.2%
Rail	96.8%	96.9%
Express Package	99.0%	98.4%

On-time delivery ratio mean response

Number of on-time shipments/total shipments

Mode of transportation	2009	2008
TL	97.2%	95.2%
National LTL	92.8%	94.5%
Regional LTL	94.4%	95.8%
Rail	86.0%	88.8%
Express Package	96.1%	97.0%

Further evidence that international transportation spending declined is the reporting of companies that spend less than 1 percent of sales revenue in this area—40.9 percent in 2009 compared to 38.8 percent in 2008. Interestingly, the percent of the transportation budget spent on ocean more than doubled from the previous year increasing from 3.3 percent in 2008 to 8.0 percent in 2009.

Where is international transportation spending headed long term? A lot

depends on Cap and Trade legislation and potential increased tariffs on imports to account for their carbon footprint. Companies that were early adopters of the offshore model have begun to rethink the economic and inventory impact of their sourcing strategies and have begun looking at near-shore alternatives.

TOP PERFORMER: TRUCKLOAD

Service performance across all modes continues its roller-coaster ride. The low was experienced in 2004 when a service meltdown occurred in all of the modes and continued up to the 2007 study when service woes were the prevailing headline.

In 2007, however, there were small improvements in on-time delivery posted by truckload (TL) and regional less-than-truckload (LTL) carriers, and even more impressive service gains posted by the railroads. The 2008 study indicated that the on-time service for TL and regional LTL carriers remained essentially unchanged from the previous year.

Railroads continued to improve in 2009 with an average on-time delivery performance of 88.8 percent. This level of service had not been reported for railroads since 2005. But unfortunately they were not able to sustain this performance in 2009, as on-time delivery dropped to 86 percent—the biggest decline posted for all the modes.

Railroads were not the only ones to struggle with on-time deliveries. This metric declined slightly for all of the selected modes except for TL, which posted a small gain. This increase in service vaulted TL to "best performance" for on-time delivery.

Both national LTL and regional LTL reported declines in on-time delivery performance. "Given the overcapacity of supply in the trucking sector, this result was somewhat surprising," says Michael Levans, editorial director of *Logistics Management*. "Most motor carriers would prefer to compete on the basis of service rather than price. The results suggest that price may have been the primary consideration this year."

Service shows promise and pain

Measure	TL		National LTL		Regional LTL		Rail		Express Package	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
On-time delivery	97.2	95.2	92.8	94.5	94.4	95.8	86.0	88.8	96.1	97.0
Correct invoice	97.3	96.8	93.1	94.1	93.7	93.9	96.0	98.2	96.4	94.7
Damage	1.1	2.1	3.2	2.4	3.2	2.7	1.1	1.1	2.9	2.7
Equipment availability	96.5	95.4	97.7	99.0	97.1	99.2	96.8	96.9	99.0	98.4
Turndown ratio	1.1	3.6	1.0	1.1	0.5	1.0	1.0	3.2	0.8	1.7

INVOICE ACCURACY MIXED, EQUIPMENT AVAILABILITY DOWN

Invoice accuracy, which had improved for the selected modes in 2008—with the exception of express package—posted mixed results for 2009. TL and express package reported some improvement in the percentage of correct invoices from the previous year while national LTL and rail showed moderate declines. Regional LTLs remained unchanged year-to-year.

Billing errors for railroads increased, returning to the poor performance level posted in 2006. “Fuel surcharges and accessorial charges continue to create invoicing problems for shippers and

though the TL sector reduced capacity it still had an oversupply for the demand. This aided in improving equipment availability for the sector by 1.1 percentage points from 2008 to 2009.

Economic conditions were also reflected in the turndown ratio for 2009. All of the modes reported improvement in the turndown ratio; the TL and railroad sectors posted record gains. In 2008, the TL sector reported a turndown ratio of 3.6 percent. There was a remarkable turnaround in performance for this metric in 2009 as the turndown ratio fell to 1.1 percent. The same dramatic improvement was noted for railroads. In 2008 they had a 3.2 percent

analyzed—the Masters (above \$3 billion in revenue), the Contenders (\$500 million to \$3 billion in revenue), and the Challengers (less than \$500 million in revenue)—than in the previous two years. This year’s study reveals that the three groups have more similar strategic, tactical, and operating practices than in the past. This is especially true in transportation where all companies—including the Masters—are expending a great deal of effort to improve efficiency without sacrificing service. Actions such as improved shipment consolidation, increased use of dedicated transportation, and improved route planning have been initiated by firms of all sizes.

“In light of this uncertainty, we are seeing many shippers proactively managing the primary aspect of volatility they can control—contracted freight rates.”

— Belinda Griffin, Cargemini

carriers,” says JDA’s Salvucci-Favier. “While the integration of freight payment technology and processes has reduced this problem somewhat, there is still a lot of work to be done in this area to improve performance.”

Equipment availability for national and regional LTLs declined from 2008 to 2009. There was continued consolidation within this industry sector over the past year, and many carriers reduced capacity as demand continued to decline. In addition, many LTL carriers expanded the scope of their services in an attempt to gain more business.

These factors may have contributed to the decline in equipment availability for these modes. As noted earlier, even

turndown ratio; in 2009 this dropped to 1.0 percent.

ARE THE MASTERS STILL THE MASTERS?

For the past two years the group known as the Master of Logistics has been building transportation, logistics, and supply chain capabilities that resulted in performance that was significantly different than other companies. The data from the 2009 study suggest that the economic downturn has been a great equalizer in terms of transportation, logistics, and supply chain management practices.

There are fewer statistically significant differences among the three groups

WHAT DOES THE FUTURE HOLD?

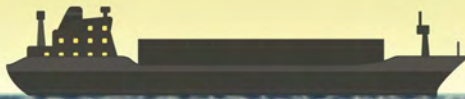
It is too early to declare that the gap between the Masters of Logistics and the others has been closed. The economic downturn has had a deeply profound impact on every size business.

The initiatives that the Masters are currently implementing will help position them in a manner that will build sustainable competitive advantage over smaller sized firms.

The Masters are working on projects that will reduce time to market, reduce costs, and improve speed and execution of supply chain activities. The question is whether they will be able to leverage the results of these efforts into significantly better performance next year. Check in with us as we continue to analyze the data and share the findings. Over the next several months additional reports and findings can be found at logisticsmgmt.com and transportation-trends.com. **L**

Mary Holcomb and Karl Manrodt frequently contribute to Logistics Management

OCEAN SHIPPING: COOL, CALM CORRECTION



BY PATRICK BURNSON, EXECUTIVE EDITOR

As the global rate structure stabilizes for ocean carriers, what can shippers expect by way of specialized service and available capacity? Our panel of industry experts provides an overview of current market trends and a working rate forecast to help shippers set future strategy.

Peak Season is an oxymoron this year, as volumes fell far below the demand cycle of years past. But carriers seized the opportunity nonetheless, by rationalizing service and pulling in capacity in the most lanes with heightened traffic.

Meanwhile, shippers are being charged more for value-added services irrespective of shipping and sourcing imperatives, and the rates seem to be sticking. As supply chains become leaner, ocean shippers are now looking for market intelligence that can offer transactional advantages as well as strategic direction as they're gearing up for their 2010 planning—and that's just what we set out to offer.

Our panel of international ocean carriage specialists consists of: Jon Monroe, president of Shanghai-

based Monroe Consulting.; Philip Damas, division director of Drewry Supply Chain Consultants in London; Michael Berzon, president of Mar-Log Inc., a supply chain optimization consultancy specializing in international trade and chairman of the Washington, D.C.-based National Industrial Transportation League's ocean cargo committee; and Paul Bingham, managing director with IHS Global Insight Inc. in Washington, DC, who has 26 years of experience providing trade and transportation economic analysis.

The spirited give-and-take nature of the discourse should give shippers an idea of how collective and individual carrier behavior will affect their own global operations.

Logistics Management: With so many carriers scrapping tonnage and canceling new orders, will shippers have the capacity when the economy recovers?

Paul Bingham: The simple answer is yes. The pace of the recovery in trade will not see shipper volumes overtake containership fleet capacity. The large overhang in worldwide container capacity, even accounting for increased scrapping and order cancellations, will continue to exceed underlying container trade demand for several years.

Jon Monroe: But no one expects the economy to rebound anytime soon. While the economy will recover, we may not see the same level of volumes that we saw in 2007 for many years—and let us not forget that the EU market has dropped as well. It may be well into the middle of the coming decade before there is a shift in the supply and demand equation in the Pacific. What we are seeing is not a correction but a restructuring of the buying habits of America; and if this turns out to be the case, we may have ships sitting idle for some time.

Philip Damas: The problem is not whether there will be enough capacity, but whether enough ocean carriers will survive and whether the capacity will be operated where required, rather than laid up and mothballed.

LM: Can shippers expect any new capacity coming online?

Michael Berzon: Many carriers are trying to minimize overhead, given the reduced revenues during this recession, by trying to defer or cancel new capacity. Others are going ahead with their earlier orders on the assumption that the new tonnage will be needed when conditions start to return to earlier volume levels.

What capacity is being mothballed can eventually be returned to service to meet demand. During these periods, as demand pushes the supply of space, we would expect rates to increase. In those trade lanes that are particularly squeezed, one can expect

lines with capacity to enter them in order to achieve market share in a now profitable trade lane.

Damas: I'll be blunt: With the huge orderbook for new containerships, we forecast that there will be at least 20 percent global over-capacity in 2010, 2011, and probably also in 2012.

LM: In the meantime, what's happening to the existing price structure?

Damas: The Drewry Hong Kong-Los Angeles container rate benchmark for week 28 was \$871 per 40-foot container, a 57 percent fall from this time last year. Pricing structures for freight rates have collapsed as volumes fell and overcapacity increased. The relationship between freight rates and carrier costs in this sector has vanished. In fact, ocean carriers are currently trading with negative cash flows and often not even covering their variable costs.

Bingham: Supply and demand dynamics have worked with falling prices encouraging more scrapping and lay-up of vessel capacity. With the bottom of the recession and trade demand declines having been reached, the market is now just starting to recover, especially with the rationalized service offerings and vessel lay-ups, though at levels well below those necessary for carrier financial health.

LM: Would you say rates have hit bottom?

Monroe: I would say that rates have hit bottom. In fact, the carriers, after having negotiated in good faith, are now renegotiating by trying to implement a second GRI (General Rate Increase). While everyone sympathizes with the carrier's plight, no one is happy to go back to the drawing board after they already calculated their costs for the year. So, it's a tug of war between carrier and customer to stabilize the pricing structure.

Berzon: Obviously, given the reduced volume cargo and a high degree of capacity, prices are at historic lows. However, there are signs of increases in a number of trades.

The Transpacific Stabilization Agreement (TSA), which serves the Asia/U.S. trade, has set a significant target price increase. They still do not understand that shippers are aware that different carriers have different cost structures. In addition, within a fleet, different ships have different economics.

LM: Bunker fuel rates are always a concern. Will surcharges keep pace with demand in the future?

Berzon: The problem with surcharges is that the basis of determining them has been historically non-transparent. Some carriers, to their credit, have attempted to disclose the formula for calculating them. When prices rise, as they did last year, the high surcharge level tends to stay in place long after fuel prices have fallen. Bunker surcharge formulas can be jointly developed by a shipper and a carrier and included in a service contract.

Monroe: I share Michael's view. It will always be a supply and demand structure, meaning commercial consideration may force the carriers to compromise on the bunker. But if the carriers do not get their proposed GRI, don't count on it.

Bingham: Agreed. If the carriers show discipline, surcharges could keep pace with demand in the future. This would mean surcharges would be used to represent the neutral pass through of variable costs that they're intended to be. However, it may also be that carriers fall to the temptation to use the application and setting of rates of bunker surcharges to become a mechanism for hidden rate competition, in which case they won't keep pace with demand.

LM: U.S. West Coast ports have been losing share in recent months, with more direct calls being made to Canada and Mexico. Is this a trend?

Monroe: Yes and no. Many companies started shifting their distribution to the East Coast from the West Coast. Especially after inland rates

took the big hike over the past three years. So while carriers and importers started to move from Southern California, the port of LA/Long Beach was already losing business to the East Coast.

I think there are few trends, only reactions...and those reactions will be based upon the real cost of distribution. As to how the Canada and Mexico ports will affect the West Coast: It will probably shift business away. However, if West Coast inland rail costs were to go down, ocean carriers will call there again. So I don't see a trend, only reactions based upon finding the lowest cost to market.

Bingham: Unwanted growth in global containership fleet capacity makes the addition of more direct calls possible, and an alternative to laying the ships up. With the exception of the two weekly calls at Prince Rupert, new calls in Canada are serving the Canadian market. Likewise, the Mexico calls are not driven by U.S. trade diversion through Mexican ports but the underlying Mexican trade.

The long-term trend will be a continued rationalization of selection of port gateways by shippers, driven by inland distribution networks that are partly influenced by patterns of consumption, locations of distribution centers, and intermodal rail and trucking rates. Some U.S. Atlantic Coast ports have gained share (despite declining volume) in the recession in advance of the expansion of the Panama Canal, with low all-water service rates combined with improved inland connections from these ports.

LM: How have market conditions affected intermodal?

Berzon: As far as intermodal freight is concerned, recent increases in costs for operating in and out of the U.S. West Coast is forcing transportation decision makers to look for alternatives. This includes Canada's Prince Rupert that now has excellent rail service to the Midwest and is a day shorter in sailing time from many Asian ports.

Mexico is also making improvements in their port and rail infrastructure which should become viable in a

few years. There is also the fact that when the Panama Canal expansion is finished early in the next decade, that will present still another alternative. Of course there will always be significant traffic through these ports to serve large local markets.

LM: Carriers are also telling us that they'll be "slow steaming" on more routes around the capes rather than through the Canals. Any truth to this?

Berzon: That question is best answered by the carriers based on the agreement they have with their customer for time, place, and price for service. It's not unusual for some shippers to look for "slower" services, usually carriers that call at many ports on extended routes. The carrier benefits from carrying the cargo and the shipper benefits from having inventory in transit which frees up space in landside warehouses—it's a win-win situation.

Bingham: We can confirm that slow steaming is now quite common while the number of services diverted around the Cape routes instead of transiting the Canals is very limited. The fact that any east-west services previously operated through the Canals would divert that far is a measure of the overcapacity in the industry, the relatively low bunker costs, and the lack of discounting of Canal tolls.

LM: Barriers to entry are high, but do you see any new players entering the business? An integrator perhaps?

Monroe: I can't say it would be a smart thing to do. But you're correct, barriers to entry are high and the operational costs are high as well. I just don't see it. Where is the money?

Bingham: Though ships can be acquired very cheaply right now, it's hard to imagine any company being attracted to enter the sector as a new operator with such an overhang of capacity and consequential poor outlook for significant rate recovery. It's possible that a new player could buy into an existing carrier in poor financial shape to set the stage for a possible larger role several years down

the road, but even that seems unlikely given that the integrators and other potential players are not in strong financial shape in their original markets either during the recession.

Berzon: Well, before we see new players entering the ocean liner business we will likely first see some mergers among existing ocean carriers and a few current players departing. Anything beyond that is pure speculation.

LM: Considering everything we discussed, what advice can you offer to ocean shippers heading into 2010?

Damas: Shippers must pay more attention than ever before to risks in transportation procurement. The risk of carrier bankruptcies, intermediary bankruptcies, unexpected termination of ocean services, cargo theft, and cargo liens are just some of the high-risk areas this and next year.

Actually, I'm sure many shippers would prefer to go back to the time when the key risk was infrastructure congestion and delays. As Drewry said in its recent report on risk management in international transport and logistics, savvy shippers are implementing formal risk management plans to mitigate new risks and respond to unavoidable risks.

Bingham: Shippers should closely watch recovery of the economy and trade volume growth to understand the demand conditions in which they will be purchasing services. They should also closely watch the collective management of container capacity by the industry to see if some carriers add service capacity back so quickly in attempts to grab market share that utilization actually falls. Then the shippers will know whether the supply demand balance of deployed capacity remains in their favor even as recovery in the economy and increases in volumes take hold.

Monroe: Put your head down and look for stability. But do not look for lower costs. They are as low as they will get now. Work on stabilizing and securing your inbound supply chain. ■

Patrick Burnson is Executive Editor of Logistics Management



Like a duck to water

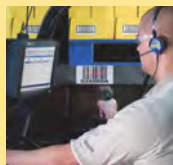
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Sourcing successfully

IN THE NEW

BY JONATHAN WRIGHT, GLOBAL DIRECTOR OF SUPPLY CHAIN FULFILLMENT, ACCENTURE

Market and economic changes have altered China's sourcing landscape. However, there is no strong evidence that China's role as a major sourcing and manufacturing hub is diminishing. Our expert reveals what these sourcing shifts mean to your supply chain operation.

Back in April, *Logistics Management* and Accenture collaborated on an article entitled "Right Shoring: A flexible supply chain strategy for tough times." The story's premise was that operational excellence stems most directly from a company's ability to react quickly—but not impulsively—to global market changes and macro-economic shifts. Using sourcing to make our point, we explained that blending on-shore, near-shore, and far-shore operations often serves companies better than acquiring materials solely from distant, low-cost countries.

One case example was China, whose sourcing profile is somewhat different from several years ago. Contributing to the country's ongoing advantage are immense manufacturing capacities and labor availability as well as low (albeit rising) labor costs. However, China's productivity levels are also lower,

which neutralizes the labor advantage somewhat.

In addition, North American and European companies are discovering that sourcing solely from distant venues (such as China) can over-expose them to the brutal effects of fluctuating oil prices and unpredictable currency swings. Monolithic far-shore sourcing strategies also make it difficult to respond quickly to rapid shifts in customer demand. Together, these realizations have begun to change how China is positioned in the global sourcing saga.

However, the April article did not touch on the many changes engendered by the above shifts. Are more U.S. and European companies finding alternatives to China-based sourcing? And what are the supply chain management implications for companies with China-focused sourcing investments or aspirations? Following are some insights and ideas.

CHINA REMAINS A TIER ONE SUPPLIER

No company or country maintains an indefinite, unassailable competitive edge; and China is no different. For a while, China seemed to come about as close as any country ever has to being a one-stop shop. But things have changed and to its credit, China is adapting.

As shown in Figure 1, labor-intensive items such as clothing and textiles used to represent the bulk of products sourced from China. Today, products with higher technology content are among its top exports. However, even with these shifts, it's imperative to remember that China's role as a critical worldwide source of goods and materials is not in jeopardy.

Companies, customers, and commodities come and go, but China continues to be one of the best and most robust sourcing opportunities there is—with plenty of opportunities and solid players. Consider five reasons why China represents as large (or larger) a sourcing opportunity as ever before:

1. Dips in the global economy have left China with a lot of excess manufacturing capacity (50 percent or more in some industries). This could make now an excellent time for global companies to step up sourcing activities. Compare the situation to a down stock market, which is often the ideal time to buy strong but undervalued companies.

2. Dramatic overcapacity also exists in ocean freight. Hundreds of vessels are currently floating fallow in Hong Kong's harbors. No one expects this situation to turn around quickly, which means the time could be right to lock in ocean shipment contracts.

3. China's market (domestic) growth is about as promising as any economy in the world. Most companies' sourcing decisions need to consider these growth prospects, along with the potential to serve those markets with easily available components and materials (i.e., those sourced in China or thereabouts).

4. Although China's labor costs are rising, they are still significantly cheaper than Western countries. Moreover, increasing labor costs may

be suppressed by China's constant push toward the establishment of new resources and facilities in outlying areas of the country—where labor costs are naturally lower. The challenge, of course, is that obtaining goods from more rural communities in China adds more time and distance to the sourcing equation.

5. Most of China's leading suppliers have dramatically improved their product/service quality by implementing control mechanisms and systems, renewing manufacturing lines, and increasing the talent pool. Chinese companies are more open to continuous improvement methodologies as well as collaboration within and across industries, with overseas partners, and with third parties. This receptivity to teamwork and improvement clearly makes China more desirable from a sourcing perspective.

TRENDS IN SUCCESSFUL SOURCING

China's role as a premier source of components and materials may not be in jeopardy. However, the evolution of global business and the tenuous state of the world economy demand that western companies reexamine their sourcing strategies and operations in China.

One reason is that a fair number of Chinese suppliers have been hurt by customer bankruptcies or (somewhat less lethally) customers' inability to pay on time. As a result, some Chinese suppliers are demanding more stringent payment terms, particularly from new customers.

Other suppliers, however, are seeking to attract customers by taking a more flexible approach to payment terms. No matter which way a supplier is inclined, it strongly behooves buyers to understand the financial health and evolving policies of suppliers.

Price negotiations with Chinese suppliers also require high degrees of sophistication and preparation. Irrespective of their China-sourcing experience, companies should ensure that contracts and proposed changes are well-researched (fact-based) and sustainable. Obtaining short-term price reductions from a Chinese supplier without any commitment to a long-term partnership will

increase the risk of the supplier walking away from an agreement when the economy turns around.

Tools such as price indexing (allowing limited periodic changes in line with raw material prices) can be very effective in this context. However, there are still many Chinese suppliers that are not well-versed in price-indexing on contracts. Prospective customers should be ready to provide detailed explanations and illustrations of price-indexing to demonstrate its win-win potential.

This may also be a good time to consider working with highly reputable, large logistics providers. Entities like DHL, FedEx, and UPS are structured to help businesses of all sizes source quickly and reliably. And the added costs associated with not doing it yourself are largely neutralized by reduced assets and overhead as well as the likelihood of achieving greater convenience, reliability, security, consistency, and scalability.

Moreover, transport costs within and out of China are relatively low and represent only a small portion of total landed costs when shipping globally. All told, the incremental cost-bump associated with a top-quality third party is relatively small.

Companies seeking a major sourcing presence in China may also wish to develop international procurement organizations (IPOs) rather than accept the limitations generally associated with less-effective trading agents, joint ventures, and wholly owned foreign enterprises. Think of IPOs as extensions of a company's global procurement organization—shared services entities staffed with specialized sourcing teams that also perform dedicated order- and logistics-management functions.

IPOs often represent a company's best chance to reduce sourcing costs and limit sourcing cycle times. They also put local capabilities "on the ground," ensuring greater proximity to supply markets and better responsiveness to local opportunities. Plus, the presence of an international procurement organization helps guarantee that all forms of procurement information are communicated to corporate business units worldwide.

Permanently eliminating costs from

Growth Rate (VARG over Y04 and Y05)

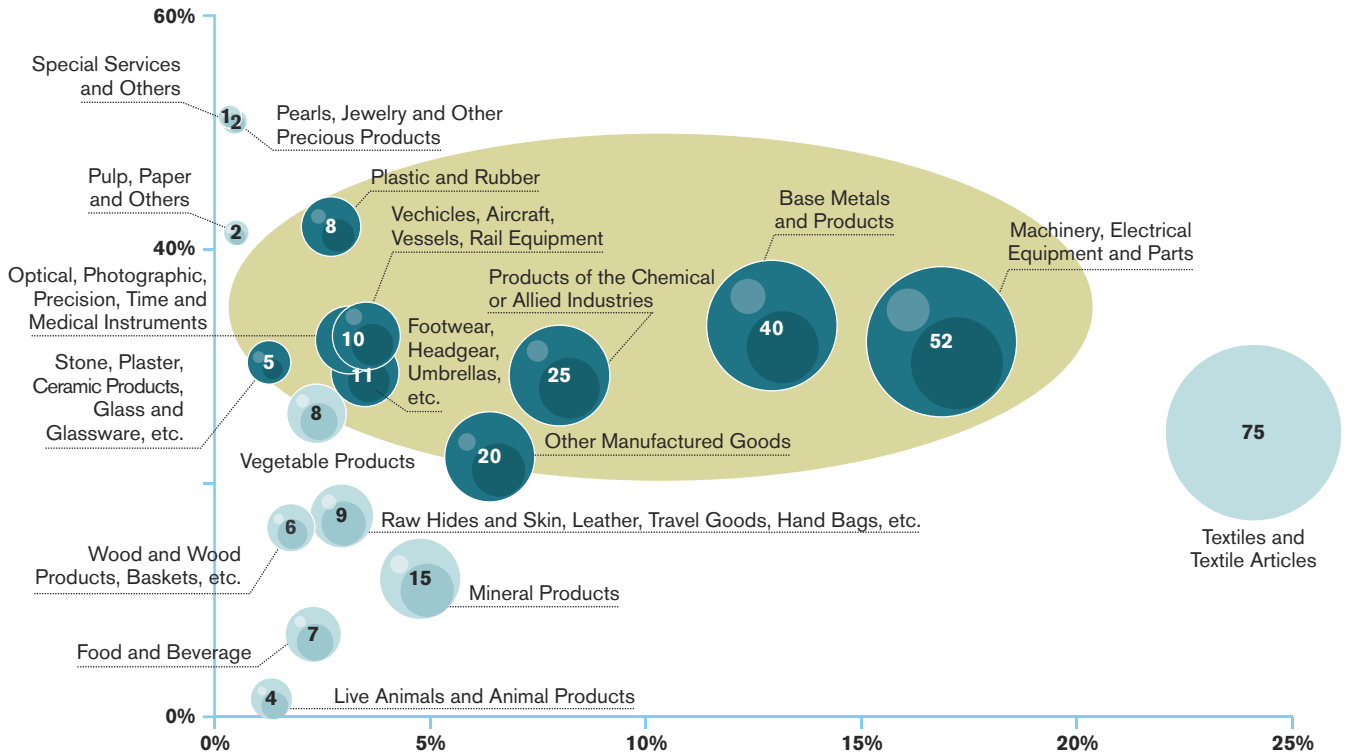


Fig. 1. China is exporting more high-quality and technology products than ever. The size of the bubbles reflects the value of China's 2005 exports in \$ billions; blue bubbles represent products and categories with high-quality and technology requirements. The X-axis is the percent of total exports for each category, and the Y-axis is the year-over-year growth rate of that category.

supply chain operations, as well as from the cost of acquired goods, is also vital. Good deals on commodities and logistics contracts are fine (increasingly essential, in fact), but they generally aren't ways to reduce costs for good. Where will your sustained cost reductions come from?

Other keys to sourcing success include maximizing flexibility and creating a mind set of continuous improvement—two business behaviors that help ensure a company's ability to take advantage of opportunities as they arise. Consider that shifts in fuel prices, markets, and economies are global ubiqui-

ties, but that within China, changes in tariffs, rebate rates, and costs are just as constant.

There is also the challenge of myriad languages and subcultures (estimates are that up to 200 different languages are spoken across China). All this means that companies must constantly assess and revise their global sourcing approaches by:

Enhancing planning and forecasting mechanisms to maximize responsiveness. Insiders believe that forecast accuracy approaching 70 percent is typically associated with high performance.

Segmenting the supplier base. Consider letting a third party source the more predictable items and focus in-house experts on more complex categories such as capital equipment or direct production materials.

Lastly, few companies would disagree that high performance in global sourcing requires comprehensive performance metrics—identifying and measuring the business behaviors that contribute most directly to total cost of ownership. Acquisition and logistics

costs may be the most obvious measures, but numerous other things also affect performance, including costs associated with customs, tariffs, and duties; obsolescence; lost sales due to poor product quality or unacceptable service; warranty and service; and the ramifications of longer times to market.

THE BAR HAS NEVER BEEN HIGHER

Market and economic changes have altered China's sourcing landscape. However, there is no strong evidence that China's role as a major sourcing and manufacturing hub is diminishing. Clearly, the country's role is changing. But as a top tier venue for sourcing and selling, China may have more to offer than ever before. Global sourcers and marketers may need to "refine their searches," but no forward thinking organization will conclude that the Tiger has been caged. **L**

Jonathan Wright is Global Director of Accenture's Supply Chain Fulfillment practice.

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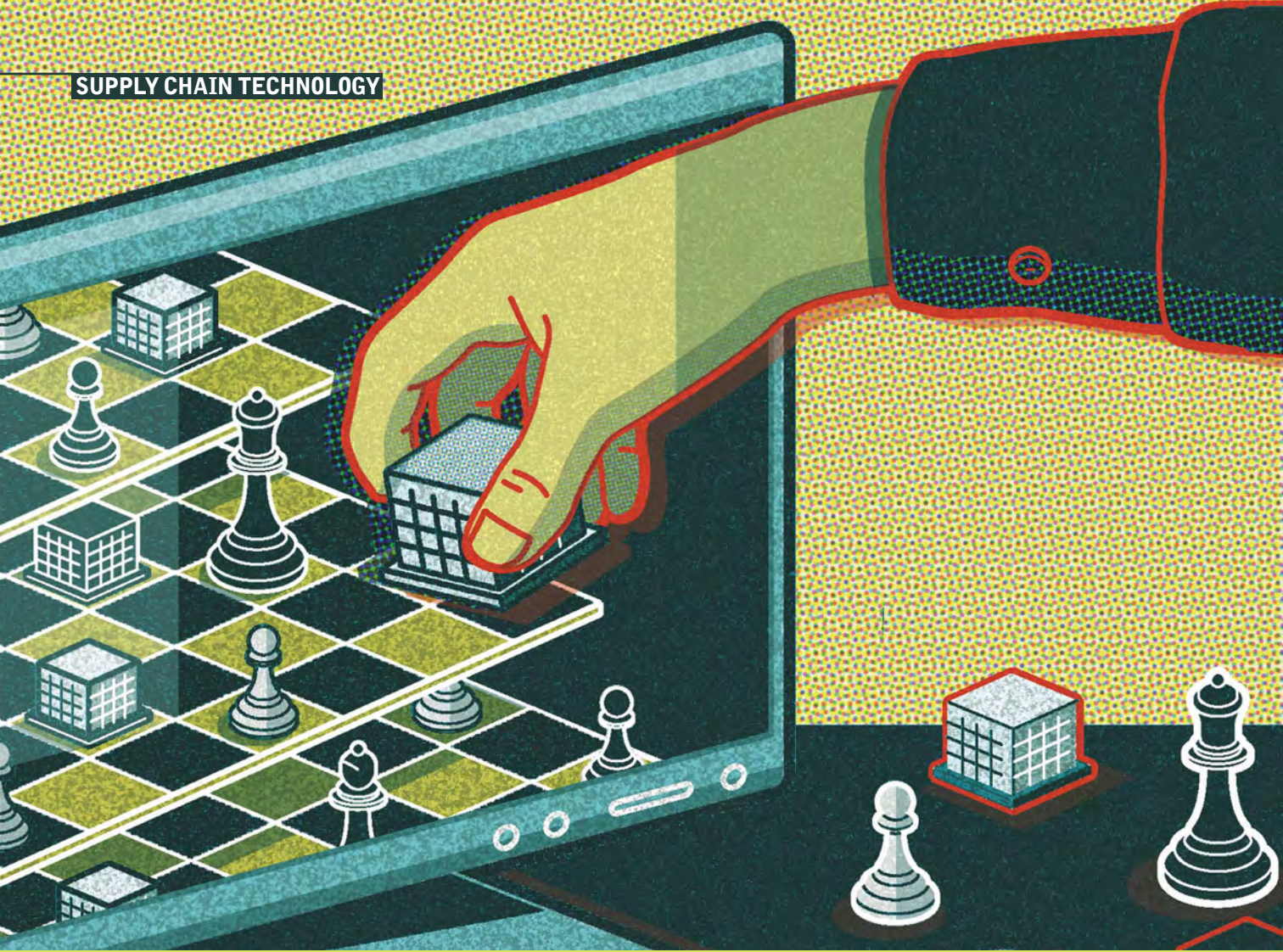


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INVENTORY OPTIMIZATION: Game of strategy

BY BRIDGET MCCREA, CONTRIBUTING EDITOR

IO technology provides significant ROI, and it isn't as complex as it once was. However, it's yet to gain significant traction among logistics professionals. Our tech correspondent sets the record straight on IO and explains how Dell made a strategic move to put it to good use.

In good times, it's simple enough for shippers to stock up on products that may or may not “fly off the shelves” in a timely fashion. When things get tight, however, inventory management becomes crucial as companies can't afford to tie up precious dollars in stagnant stock. In other words: today, the leaner the better.

Inventory management can be challenging for organizations of all sizes, especially for those with multi-echelon distribution networks where inventory resides in multiple

locations. Enter inventory optimization (IO), a supply chain software option that's come into its own by helping firms achieve optimal product deployment and improve operational performance by calculating more accurate inventory targets.

Marketed by vendors like Oracle, IBM, JDA, Optiant, SmartOps, SmartTurn, and ToolsGroup, just to name a few, IO software has become an important tool to aid manufacturers and retailers in managing their overall supply chain

inventories more efficiently or by helping companies better understand the impact that specific business decisions have on overall inventory investment.

“Inventory optimization technology has moved beyond its previous ‘black box’ perceptions and has increasingly been adopted and deployed by leading-edge companies,” says Simon Ellis, practice director for supply chain strategies at the analyst firm IDC Manufacturing Insights. “Decision processes such as overall sales, inventory, and operations planning (SI&OP); profitable proximity sourcing; and new product innovation can all be aided by this technology as well,” he adds.

Sure, this sounds great on paper; but how do logistics and supply chain professionals go about assessing whether now is the right time to make the investment in a tech-based inventory management system? Over the next few pages we’ll examine the benefits and challenges that shippers can expect when investing in inventory optimization software. We’ll also assess the technology’s current status in the marketplace and then look behind the walls of a cutting edge supply chain operator that’s currently reaping the rewards of its IO investment.

GAINING TRACTION?

Inventory optimization software is starting to gain some traction in the marketplace, especially now when more companies are racing to find ways to work smarter, better, and faster—but it’s yet to catch fire.

In a recent survey of manufacturers using inventory optimization solutions, Ellis says Manufacturing Insights found that, depending on the specific inventory problem, return on investment for IO can be “significant and meaningful.” Deployment typically takes four to six months, with key inventory and related benefits evident in less than 12 months.

Typical business questions that an inventory optimization application can address, according to Ellis, include:

- How much inventory should I hold of each product?
- Where is the most cost-efficient point to store that inventory?
- My products are often

seasonal or cyclical in terms of demand, so how do I most efficiently plan and deploy overall inventory?

- What business policies are driving inventory investment across the entire supply chain?

- If I must improve service, how much incremental inventory investment will I need?

- Conversely, if I decrease service levels, how much inventory can I free up?

With the answers to these questions in hand, Noha Tohamy, vice president of research for AMR Research, says that companies will be better equipped to meet the challenges they’re facing in today’s business environment. “The economy has increased the focus on inventory optimization, as every shipper wants to minimize or optimize working capital,” says Tohamy. And despite the rising interest in IO, Tohamy says “we have just scratched the surface from an adoption standpoint.”

Ellis concurs, adding that while he expects investment in such applications to grow over the next three years, inventory optimization is “still a relatively small category.”

Steve Banker, Boston-based ARC Advisory Group’s director of supply chain management, says inventory optimization applications’ lack of traction at this stage can be blamed on the fact that the category itself isn’t very well understood. Plus, he states, existing demand management systems are constantly

Companies are actively re-evaluating Inventory Management

Looking at Inventory Process or Policy Changes

91%

Looking at Inventory Technology Enhancements

61%

Source: Aberdeen Group, May 2009

being upgraded and enhanced, which means it’s only a matter of time before shippers gain inventory optimization capabilities from their existing vendors.

“Companies know that they can just wait around and eventually—the next time they upgrade their supply chain software—they’ll get the optimization functionality with it,” says Banker.

“Users are going to their vendors of conventional inventory optimization tools to see if there’s a way to buy software services from them,” says Tohamy, who adds that standalone inventory optimization systems from vendors like SmartOps or Optiant can require multi-million dollar investments to cover both the license and the consulting services.

To circumvent such a large investment, Tohamy says some companies are focusing on the tactical side of the inventory management issue by sourcing goods from low-cost countries, assessing supplier bases on a quarterly or biannual basis, and/or ensuring that organizational goals are properly aligned with inventory management goals across all networks, suppliers, DCs and customers.

“If you have regional DCs that are incentivized to keep inventory low, regardless of whether it’s in the overall company’s best interest...then you won’t be able to optimize inventory levels across your entire multi-echelon network,” says Tohamy.

Inventory Optimization Vendors

Axxom Software AG (www.axxom.com)

IBM/ILOG/LogicTools (www.ibm.com)

i2Technologies (www.i2.com)

Optiant (www.optiant.com)

Oracle (www.oracle.com)

SmartOps (www.smartops.com)

ToolsGroup (www.toolsgroup.com)

Source: IDC Manufacturing Insights

DELL PUTS IO TO USE

Well known for its innovative manufacturing and distribution strategies, Dell is one shipper benefiting from a global inventory optimization implementation that took place in mid-2008. Based in Round Rock, Texas, and serving a worldwide customer base, the company designs, develops,

manufactures, markets, and supports desktop PCs and workstations, notebook computers, servers, networking products, and storage solutions.

Always looking for ways to work smarter, better, and faster, Dell kicked off its inventory management improvement efforts in 2007 with two inventory optimization pilots, including one that spanned the firm's North American operations. "At the time, we were concerned less about the accuracy of the data and more about inventory management and setting policies across our various locations," says Ramesh Rajagopalan, enterprise architect for Dell's global supply chain.

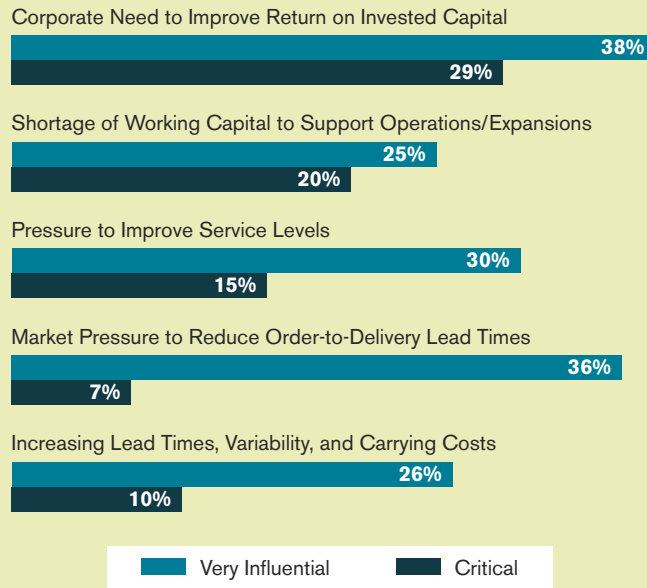
A regionally-specific pilot followed that revealed various misaligned areas within Dell's inventory management system. "In some areas we had too much inventory, and in other parts we had too little," recalls Rajagopalan, adding that the exercise also revealed that replenishment cycles weren't always coordinated with consumption.

Armed with those conclusions—and the prediction that inventory could be reduced from \$6 million to \$3.5 million, and without affecting service levels—Rajagopalan approached senior management about investing in i2's inventory optimization, a software that was selected based on its "vigorous analytic capabilities," he says. After getting the go ahead, he and his team selected two of Dell's largest parts suppliers and rolled it out to those vendors in February 2008.

Implementation—which Dell refers to as a "process pilot"—took about 90 days, and was focused primarily on managing suppliers and replenishment processes via a constant inventory policy. Over time, that policy would allow Dell to set inventory policies by individual part numbers—and at specific locations across the globe—while managing supplier replenishment based on those target numbers.

By the end of 2008, Rajagopalan

Key pressures to improve Inventory Management



Source: Aberdeen Group, May 2009

was able to show senior management a one-time reduction of inventory of 55 percent of parts from the two initial vendors. The solution was slowly rolled out to the remainder of Dell's supplier base, allowing the manufacturer to more closely integrate with its vendors via a collaborative platform that didn't previously exist.

More importantly, the manufacturer now has a tool that can analyze its supply chain activities and utilize the findings to ferret out root causes and identify potential problems. Having that information in hand helps Dell make good decisions regarding its inventory management, even if it simply means updating materials requirement planning (MRP) and notifying suppliers of those updates.

"There are many simple actions that you can take and that go a long way in effectively managing business processes," says Rajagopalan. "While the inventory optimization tool itself is the enabler, the real benefits for us have come from the simple, corrective actions that produce significant results across the supply chain."

SIGNIFICANT AND GROWING

In its recent inventory management survey, Aberdeen Group of Boston found

that 91 percent of companies are currently reviewing opportunities for improving inventory performance through process changes. Sixty-one percent say they've made—or, have been asked to make—inventory-related technology recommendations within the previous six months.

Whether the need for improved inventory management techniques is being driven by the economy or by companies' growing awareness of the impact that inventory has on the bottom line, the need for solutions that address the issue continues.

Nari Viswanathan, vice president/principal analyst of supply chain with Aberdeen, says the technology vendors that focus less on the technology itself and more on the people and processes involved with inventory optimization

are the ones that will gain traction in the marketplace over the next few years. "You can get some incremental benefit by maintaining customer service levels while reducing inventory," he says, "but the biggest advantages come from making structural changes within your supply chain."

While the inventory optimization market is relatively small compared to overall supply chain management (SCM) spending, IDC's Ellis says it's still a "significant and growing" segment. Based on Manufacturing Insights' IT spending taxonomy and vendor tracking, Ellis estimates the current global market for inventory optimization to be about \$60 million.

"We believe that over the next five years the segment will experience healthy growth in the 10 percent per year range," says Ellis. "Inventory optimization technology provides significant value, and the technology itself isn't as complex as it once was. Any company that's not at least looking at these options right now is doing itself a disservice." **L**

Bridget McCrea is a Contributing Editor to Logistics Management

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SITE SELECTION: 5 trends for the new economy

BY MAIDA NAPOLITANO, CONTRIBUTING EDITOR



Site selection experts from both real estate and supply chain think tanks have identified a handful of trends that are affecting how and where DCs are now being located. By proactively responding to these trends, companies can better position themselves for the next wave of economic recovery.

These days, hardly anybody in charge of warehouse/DC site selection is spending money or looking to expand a distribution network. In fact, almost everyone's playing defense—looking for ways to reduce costs.

A more likely site-selection scenario today is one where managers are closely studying supply chains that may have become bloated from years of continued growth. They're checking for redundant facilities

and considering whether consolidation makes more sense. They're not necessarily expanding their distribution network footprint, instead they're closing DCs and opening new ones at sites that make the most business and economic sense—perhaps near ports or closer to customers.

In the next few pages, site selection experts from both real estate and supply chain think tanks identify five trends that are affecting how and where DCs are

being located in the new economy. By proactively responding to these trends, companies can better position themselves for the next wave of economic recovery. So, if you're one of those managers choosing to stay ahead of the curve, you should start taking notes.

HANDFUL OF TRENDS

1. Growing demand in emerging global markets. Despite a slow global economy, Steve Ellet, a principal with Chainalytics, an Atlanta-based supply chain consulting firm, sees emerging markets around the world still growing at a faster pace than traditional established markets. Many experts point to emerging markets in Asia and Eastern Europe as leading the way, with China and India as the most dominant growth markets because of their large populations and growing upper and middle class.

According to Ellet, global companies will need to build networks and open sites to fulfill the demand in these markets—the catch is that they're doing it in unfamiliar geographies. Working closely with local political representatives can help overcome this hurdle.

2. Emerging logistics hubs and the expansion of the Panama Canal. It stands to reason that because certain markets are emerging, so too are the logistics hubs supporting them. Adam Bruns, managing editor for *Site Selection* magazine, points out how port expansion activities are in full swing in areas such as Novorossiysk (Russia), Laem Chabang (Thailand), and Manzanillo (Panama). He cites the "Russian energy market, Asian imports, and the increasingly interdependent economic heft of emerging economies" as examples of key drivers for these expansions.

But perhaps the biggest trend that Bruns says will be affecting site selection

decisions for years to come will be the completion of the Panama Canal expansion in 2014. "Because of that project, big shifts are expected to occur in the distribution and transportation of cargo," he says.

The expansion is expected to allow super-cargo container vessels carrying 14,000 containers (which is triple the capacity of the largest ships crossing the canal today) to traverse the 50-mile waterway. The number of DCs in close proximity to the Gulf Coast and East Coast ports, and away from overcrowded West Coast ports, are expected to grow dramatically. How much will depend on whether these ports can make the necessary changes in time to accom-

The biggest trend that will be affecting site selection decisions for years to come will be the completion of the Panama Canal expansion in 2014.

modate the larger ships.

3. Navigating more stringent financing hurdles. Three years ago, financing a new DC or plant was almost a given. Today, Tony Kepano, senior vice president of corporate services for CB Richard Ellis, observes that just because you have a need doesn't necessarily mean that it's going to be easily financed.

Commercial sites are typically assessed as Tier 1, Tier 2, or Tier 3 based on how financial markets are viewing these sites. The deeper the market—as in New Jersey which is considered Tier 1—the less risk for banks to finance it. Adding a Tier 3 site may seem attractive in terms of reducing transportation costs, but these savings may be erased by the much higher cost of capital that banks are associating with that Tier 3 location. Because of this, Kepano emphasizes how it's now more critical than ever to integrate the financing piece into the site selection decision-making process.

4. Opting for more flexibility with 3PLs. Companies that are wary

about the economy are shying away from building their own facilities and running their own DCs. Chainalytics' Ellet describes how some that are lucky enough to be expanding prefer to contract with third-party logistics providers (3PLs) when opening a new distribution point. According to Ellet, 3PLs give companies the flexibility to penetrate a specific geographic region without spending much-needed capital; yet they allow the company to take advantage of the reduced freight rates that come by entering the region.

5. Downward pressure on rents and a "flight-to-quality." Jules Nissim, senior director for Cushman & Wakefield of New Jersey Inc., notes how certain submarkets are overbuilt

with so many speculative buildings that the situation is putting downward pressure on rents. Where rents have dropped off dramatically from two to three years ago,

companies that are doing well are certainly taking advantage.

"They want to become more efficient," says Nissim, "It's a flight-to-quality and they're leaving their older facilities and relocating to state-of-the-art facilities." Nissim points out that most are looking for 32-foot to 36-foot clear buildings to maximize cube for storage, plenty of trailer parking, along with eco-friendly T5 or T8 lighting to save utility costs.

CONVATEC RETHINKS THE NETWORK

Keeping these five trends in mind, let's now examine a recent network site selection project undertaken by ConvaTec, the Princeton, N.J.-based medical device manufacturer that's now in the midst of rebuilding its European distribution network closer to customers, with the help of Chainalytics.

Specializing in ostomy and wound care products, ConvaTec used to be a division of Bristol Myers Squibb (BMS). But in August 2008, this

Figure 1. 2008 Top Metros by number of projects

Tier 1: Metros with population over 1 million			
Rank	Metro	State(s)	Count
1	Houston-Baytown-Sugarland	Texas	179
2	Dallas-Forth Worth-Arlington	Texas	156
3	Chicago-Naperville-Joliet	Ill./Ind./Wisc.	138
4	Cincinnati-Middletown	Ohio/Ky./Ind.	124
5	Detroit-Warren-Livonia	Mich.	108
6	New York-Newark-Edison	N.Y./N.J./Pa.	99
7	Pittsburgh	Pa.	79
8	Columbus	Ohio	77
9	Cleveland-Elyria-Mentor	Ohio	67
10	Charlotte-Gastonia-Concord	N.C./S.C.	60
10	Washington-Arlington-Alexandria	D.C./Va.	60
Tier 2: Metros with population 200,000 to 1 million			
Rank	Metro	State(s)	Count
1	Dayton	Ohio	41
2	Akron	Ohio	39
3	Toledo	Ohio	38
4	Allentown-Bethlehem-Easton	Pa./N.J.	29
5	Des Moines	Iowa	28
6	Grand Rapids-Wyoming	Mich.	27
7	Greensboro-High Point	N.C.	24
7	Tulsa	Okla.	24
7	Youngstown-Warren-Boardman	Ohio/Pa.	24
10	Omaha-Council Bluffs	Neb./Iowa	23
Tier 3: Metros with population less than 200,000			
Rank	Metro	State(s)	Count
1	Sioux City	Iowa/Neb./S.D.	20
2	Springfield	Ohio	10
3	Danville	Va.	9
3	Decatur	Ala.	9
5	Florence	S.C.	8
6	Jackson	Mich.	7
6	Wheeling	W.Va./Ohio	7
8	Blacksburg-Christianburg-Radford	Va.	6
8	Bowling Green	Ky.	6
8	Dubuque	Iowa	6
8	Elkhart-Goshen	Ind.	6
8	Muskegon-Norton Shores	Mich.	6
8	Owensboro	Ky.	6
8	Tuscaloosa	Ala.	6

Figure 1 lists *Site Selection* magazine's 2008 top 10 metropolitan area rankings based on corporate facility projects for Tier 1, Tier 2, and Tier 3 population groupings (March 2009).

well-performing business unit, with sales of more than \$1.5 billion dollars, was sold to a private equity firm and became a stand-alone company.

It had previously shared distribution services with two other BMS divisions. But for ConvaTec to now succeed on its own, Todd Smith, the firm's vice president of global supply chain, knew he needed to move quickly to put the company's own distribution network in place. This was particularly apparent in Europe where products were stored and distributed from 14 DCs across 14 countries using 14 different 3PLs.

Another twist kept matters interesting: A month after being sold, ConvaTec was merged with a smaller European-based medical device company called Unomedical that specialized in catheters and medical tubing devices. The merger added seven more DCs to the network for a total of 21. "Not only did we have to figure out what to do with our own network, but we had to combine theirs as well," explains Smith. "And right off the bat we knew, based on our level of sales and volumes, that we could not possibly sustain that amount of infrastructure."

So, in July 2008, even before any deal had closed, wheels were already set in motion to strategize a plan for the company's rebirth. ConvaTec hired Chainalytics to create an optimized European distribution network and answer two critical questions: How many distribution centers did the company need? Where should it put them?

Chainalytics gathered inbound and outbound freight rates and routes and contracted pricing from existing 3PL providers to build a model of ConvaTec's existing distribution network that the team validated against actual costs—and then used it to test different scenarios. Tim Brown, a Chainalytics' principal who helped develop the model, adds that all the scenarios were compared using the same criteria, with cost and service performance being the most critical (See Figure 2).

Fewer DCs meant that they were farther away from customers creating higher outbound costs. However, more DCs meant higher warehousing and inventory costs but lower outbound

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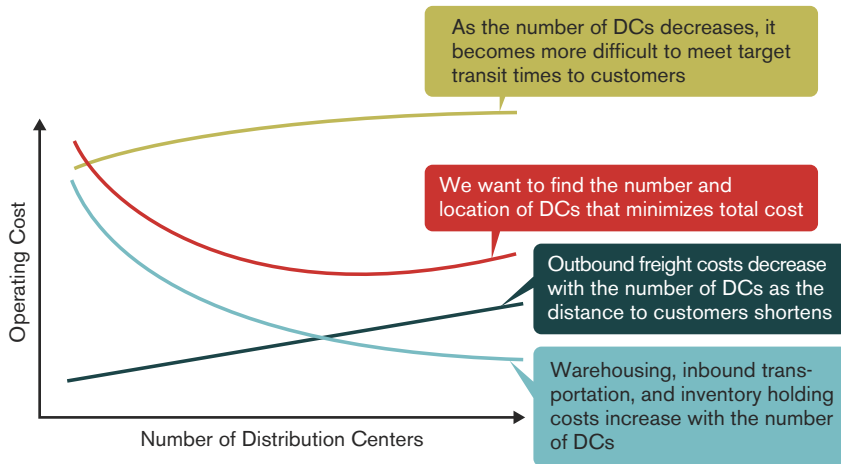
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102nd Annual Meeting, and TIA's Fall Meeting.



Figure 2



Theoretical network costs model showing relationship of costs and service level to the number of distribution centers. (Chart courtesy of ConvaTec.)

costs. After numerous iterations, the team agreed that an eight-DC solution would meet their needs.

From the very beginning, it was clear that they would continue to use

3PLs. “We had no desire to make the capital investments necessary to open our own DCs,” explains Smith. Thus, with this ideal network in place, the team put together an RFP and sent it to 3PL players that had a major presence across Europe.

Chainalytics then re-ran the model with the actual pricing provided by each bidder. After much deliberation, ConvaTec selected Movianto, a 3PL provider based in Stuttgart, Germany, to operate all but two of the eight DCs. ConvaTec decided to stay with its existing providers in Italy and Russia, while Movianto already operated their Germany DC. The team then selected five new sites in France, Spain, the U.K., Denmark, and Eastern Europe.

In France, DC operations were moved from a southwest region to one located in Paris in the midst of major customers. In Spain, they relocated from Barcelona to Madrid, allowing the company to also serve customers in nearby Portugal with reasonable transit times.



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Sage advice from our site selection experts

Steve Ellet, principal, Chainalytics

On pushing for the continuous analysis of network models: "The effort to do these large scale network models can get quite significant. Once you do one, put a team around it and keep it fresh to justify the effort. Every month look at how you're doing and compare it to what you actually said you were going to do in the plan."

Tony Kepano, senior vice president of Corporate Services, CB Richard Ellis

On communities, states, and their tax incentives: "When you're in a flourishing economy, incentives are much easier

to come by. When things are tight and there's not a lot of tax dollars to float around, there's going to be an impact on local communities' ability to offer the incentives that they had promised in the past. Practice due diligence to ensure that they can deliver on these promises."

Todd Smith, vice president of global supply chains, ConvaTec

On building site selection models: "Don't try to be too precise because ultimately there are a number of intangibles you still have to consider. Some of these projects can get really bogged down with data. Avoid trying to tie and

tie everything to the last penny when it's really not worth it."

Jules Nissim, senior director, Cushman & Wakefield of New Jersey Inc.

On the site selection process: "Look at every aspect that impacts the business. Consider the taxes and tax base of the town. Understand the business climate in the town, the community, and the state. Determine current and future tax components. Study transportation costs, the road networks, and proximity to ports. Check the availability and quality of labor along with growth trends of a particular region. Investigate available real estate opportunities."

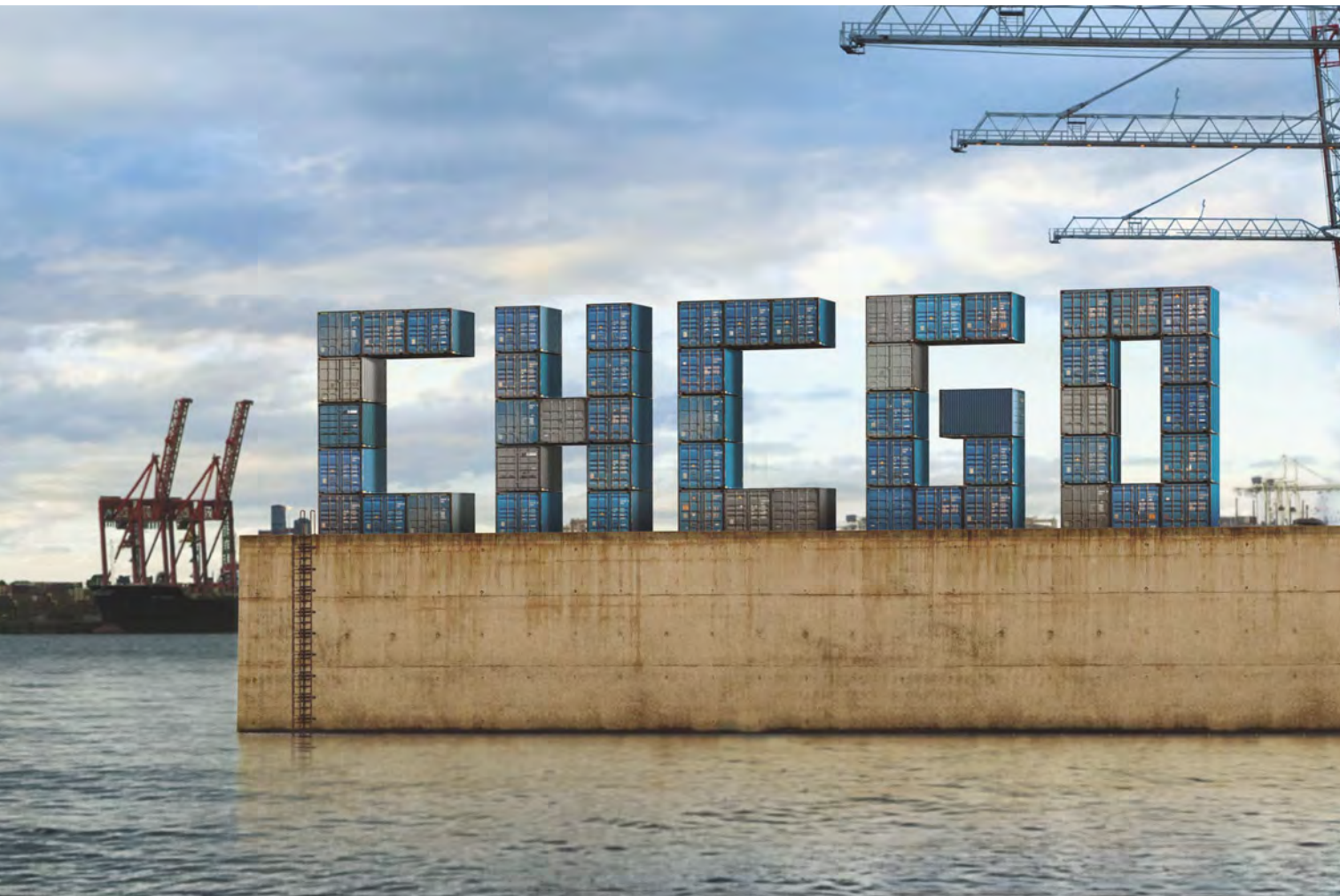
ConvaTec plans to complete migration to the remaining three sites by the first quarter of 2010.

By using multiple facilities with one 3PL, the company achieved some lever-

age from a contracting standpoint. Once in place, the new network is estimated to save 10 percent in total logistics costs. But perhaps the biggest side benefit from this reconfiguration, according

to Smith, is that eight DCs are clearly more manageable than 21. ■

Maida Napolitano is a Contributing Editor to Logistics Management



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Shipping analysts suggest that there's been a sea change in how ocean-borne cargo will be distributed in future years. In fact, the ports that were once considered "alternative" may very well become legitimate threats to the established "Mega Ports."

NEW CARGO CONTENDERS

By **Patrick Burnson**, Executive Editor

With signs that the deep global recession may finally be coming to an end, shipping analysts suggest that there's been a sea change in how ocean-borne cargo will be distributed in future years.

The impact this will have on North American seaports will be significant, say analysts, favoring those with the best multimodal infrastructure and financing. Many of these ports have been considered "alternatives" in the past, but are now regarded as legitimate threats to established first-call "Mega Ports."

The subtle shift among the top ten cargo gateways in the American Association of Port Authorities (AAPA) rankings may tell only part of the story. "If you look carefully at the leaders, it becomes

clear that container throughput has been down across the board," says Aaron Ellis, a spokesman for the AAPA. "It's a zero-sum game," he adds, noting that "one port's loss is another port's gain."

At the same time, observes Ellis, when some carriers reconfigure a deployment loop they'll try to maximize the call by using the biggest vessels in their fleets. "So the ports with widest channels and deep-draft drafts are at an advantage," he says.

But that doesn't mean a handful of resourceful "alternative" ports won't be chasing market share. Indeed, some of the most aggressive players are positioning themselves for the economic rebound.

Panama Canal impact

The most obvious and pressing concern for shippers today is how a major new hemispheric development will change the

The Port of New Orleans' proximity to the Midwest via a 14,500-mile inland waterway system, six Class One railroads, and the interstate highway system makes it the gateway of choice for cargoes such as steel, rubber, coffee, containers, and manufactured goods.



The Port of Charleston, with the deepest water on the South Atlantic coast, has navigational and operational advantages in light of the extended agreement and expansion of the Panama Canal that is currently underway.

minimal is slated to open in 2014. Stribling highlighted the port's navigational and operational advantages in light of the extended agreement and expansion of the Panama Canal that is underway, noting that the port has an excellent inland access to a growing cargo base.

Over the past decade, MSC has exploded onto the Charleston shipping scene. The company's existing presence in the port includes services to the west Mediterranean, South America, Caribbean, Africa, and Europe.

Gulf players

Another indication that small ports can vie with bigger global gateways surfaced last spring with news that Florida is aggressively wooing new business.

Just 11 days after signing a history-making pact with the Panama Canal Authority, Port Manatee's good fortune was stroked again—this time by Florida Gov. Charlie Crist's signature on a bill exempting Developments of Regional Impact (DRI) within three miles of the port's boundary.

"The governor's support creates huge momentum to advance Port Manatee's future in containerized shipping," says David McDonald, the port's executive director. Prior to the governor's action, each of Florida's 14 deepwater seaports only benefited from state DRI exemptions for developments within their physical boundaries. The new law extends port DRI exemption privileges to within a three-mile radius of each port, sparing qualified developments the long process of permitting and speeding new projects forward.

In Florida, development projects reaching certain thresholds regarding acreage, square footage, land use, and parking spaces can trigger a DRI review. The process is lengthy and includes reviews by local, regional, and state planning agencies. Gov. Crist's authorization of the new DRI exemption law further enhances the

way ports will do business. This was made clear when the Panama Canal Authority (ACP) and the Maryland Port Administration (MPA) announced a Memorandum of Understanding (MOU) agreement to increase economic growth and commercial activity between the two entities.

Signed by ACP Administrator/CEO Alberto Alemán Zubieta and MPA Executive Director James White, the MOU will help spur trade, facilitate information sharing and promote the use of the all-water route—the shipping route to Asia from the U.S. East Coast via the Canal. The MPA oversees the six public marine terminals of the Port of Baltimore. "We're expecting a new influx of vessels to East Coast ports in 2014," says Richard Scher, spokesman for the Maryland Port Administration. "We hope to capture some of that business, too."

As part of the MOU, the ACP and MPA will conduct joint activities and share best practices. Specific areas of focus will include research and data interchange, technical advancements, and personnel training programs. The agreement exhibits each organization's dedication to meeting the anticipated increased levels of international trade.


The Canal expansion program is also expected to bring larger ships to the U.S. East Coast, and the MPA is undertaking

its own efforts to increase capacity. For example, The MPA is exploring the possible use of a public-private partnership to operate its Seagirt Marine Terminal and also fund a 50-foot berth. The MPA's goal is to have that berth in operation when the Panama Canal expansion project is completed in 2014. The Port of Baltimore is currently one of only two U.S. East Coast ports with a 50-foot draft.

The Canal expansion figures prominently in the plans of the South Carolina State Ports Authority (SCSPA), and the Port of Charleston more specifically. Just this spring, Mediterranean Shipping Company (MSC), the world's second-largest container carrier, signed a new agreement for business in Charleston through 2017.

"This signals MSC's confidence in Charleston's ability to handle their needs now and well into the future," said Fred Stribling, the SCSPA's vice president of marketing and sales. "We enjoy a strong, productive relationship with MSC, and we anticipate a growing MSC presence in the Port of Charleston."

Charleston, with the deepest water on the South Atlantic coast, routinely handles MSC vessels with design drafts of up to 47 feet and capacity for 6,700 20-foot equivalent units (TEUs). The first phase of a new, 280-acre container ter-

A photograph of the Tower Bridge in London at sunset. The bridge is illuminated with warm lights, and the sky is a deep orange. The River Thames is visible in the foreground, and modern buildings are in the background.

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port's ability to attract new industries and distribution centers to the new Port Manatee Encouragement Zone—a 3,700-acre region of land locally “incentivized” for commercial development.

The governor's action follows the passage last May of a Manatee County ordinance exempting 50 percent of local transportation impact fees on developments within the county and the encouragement zone. Other Manatee County economic incentives provide qualified developments further impact fee relief of up to 100 percent.

Port Manatee had earlier signed a Memorandum of Understanding with the Panama Canal Authority to share information and participate in joint marketing efforts to mutually increase business opportunities for each organization. “We're the closest deepwater port to the Panama

Canal,” says Steve Tyndal, senior director of trade development and special projects.

If and when trade relations are restored with Cuba, adds Tyndal, the port will have another regional advantage due to its proximity to that nation. The two-year accord elevates Port Manatee's profile within shipping circles to attract containerized cargo to the port and in new developments to the encouragement zone.

The Port of New Orleans, which is at the center of the world's busiest port complex—Louisiana's Lower Mississippi River—is also worth watching, say industry analysts. Its proximity to the American Midwest via a 14,500-mile inland waterway system, six Class One railroads, and the interstate highway system makes New Orleans the gateway of choice for the movement of cargoes such as steel, rubber,

coffee, containers and manufactured goods.

This became especially evident when the MCS Stella recently called at the port's Napoleon Avenue Container Terminal, and moved a record number of containers. “We're excited about the trends of increasing volumes,” says Jeff Hakala, vice president of New Orleans Terminals.

In fact, the Stella's arrival coincided with a particularly busy stretch for the Port of New Orleans last spring when a total of 31 cargo vessels, including 15 container ships, called the port. The 15 container calls included vessels from Hapag-Lloyd, Seaboard Marine, Maersk, and Osprey Lines.

Northwest option

Last year's Republican vice presidential nominee, Sarah Palin, may have misspoke when she said Alaskans could “see Russia”

NORTH AMERICAN CONTAINER PORT 2007 RANKING BY TEU VOLUME

Rank	Port (State/Province)	Country	2007 TEUs	2006 TEUs	Absolute Change	Percent Change	2006 Rank
1	Los Angeles (CA)	United States	8,355,039	8,469,980	-114,941	-1.4%	1
2	Long Beach (CA)	United States	7,316,465	7,289,365	27,100	0.4%	2
3	New York/New Jersey	United States	5,299,105	5,092,806	206,299	4.1%	3
4	Savannah (GA)	United States	2,604,312	2,160,168	444,144	20.6%	6
5	Oakland (CA)	United States	2,388,182	2,391,598	-3,416	-0.1%	4
6	Vancouver (BC)	Canada	2,307,289	2,207,748	99,541	4.5%	5
7	Hampton Roads (VA)	United States	2,128,366	2,046,285	82,081	4.0%	8
8	Seattle (WA)	United States	1,973,504	1,987,360	-13,856	-0.7%	9
9	Tacoma (WA)	United States	1,924,934	2,067,186	-142,252	-6.9%	7
10	Houston (TX)	United States	1,768,627	1,606,786	161,841	10.1%	12
11	San Juan (PR) (fy)	United States	1,684,883	1,695,134	-10,251	-0.6%	12
12	Charleston (SC)	United States	1,635,534	1,754,376	-118,843	-6.8%	11
13	Montreal (QU)	Canada	1,473,914	1,363,021	110,893	8.1%	14
14	Manzanillo (COL)	Mexico	1,409,782	1,409,614	168	0.0%	13
15	Honolulu (HI) (fy)	United States	1,124,388	1,125,382	-994	-0.1%	15
16	Port Everglades (FL) (fy)	United States	985,095	948,687	36,408	3.8%	16
17	Miami (FL) (fy)	United States	828,349	884,945	-56,596	-6.4%	17
18	Veracruz (VER)	Mexico	716,046	729,717	-13,671	-1.9%	18
19	Jacksonville (FL) (fy)	United States	697,494	710,073	-12,579	-1.8%	19
20	Baltimore (MD)	United States	612,877	610,466	2,411	0.4%	20

Abbreviations: TEU= Twenty-foot Equivalent unit. fy = Fiscal year. Reported figures represent total loaded and empty containers and include those moving in domestic and foreign trade.

Sources: AAPA survey; Secretaría de Comunicaciones y Transporte, Coordinación General de Puertos y Marina Mercante ; various Websites

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from its shores. But shipping industry analysts say the governor was right about one thing: the state's main port is seizing more international business from Russia and other hemispheric neighbors.

In addition to containerized freight, the port handles most of Alaska's refined petroleum products, including 100 percent of the jet fuel for Elmendorf Air Force Base and over 80 percent for Ted Stevens Anchorage International Airport. Ships from Asia call frequently, transporting construction materials and bulk cement, and the port serves as the primary export facility for the state's largest petroleum refinery as well.

Anchorage is served twice weekly by two major carriers that originate in Tacoma, Wash. Totem Ocean Trailer Express (TOTE) is a roll on-roll off carrier, and Horizon Lines is a lift on-lift off carrier. One additional container vessel per week occurs seasonally. Bulk shipments are both domestic and foreign and involve

imports of basic commodities such as cement, refined petroleum products, and construction materials.

Another memorable moment in the public forum last year occurred when some analysts suggested a "northwest passage" due to global warming would be transforming container vessel deployments. While they were wrong about this alarming forecast, it's certainly true that more ships are headed north.

Led by a surge in container traffic through the Fairview Terminal, the Port of Prince Rupert handled 10,587,848 tons in 2008, a slight increase over 2007, despite the economic downturn that has resulted in declining traffic through most other North American West Coast ports.

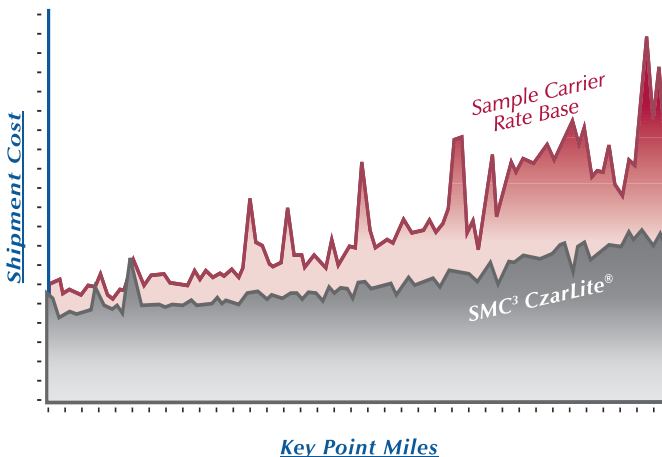
Fairview Terminal handled 181,890 TEUs from 78 vessels in its first full year of operations, following the facility's opening in late October, 2007. The terminal's throughput for the first six months was 42,555 TEUs before jump-

ing more than 300 percent in the second half of 2008 with 139,335 TEUs as a result of the addition of the second COSCO/CKYH Alliance service put in last July. In the fourth quarter, the terminal operated at greater than 60 percent of its 500,000 TEU capacity with a throughput of 79,106 TEUs.

"The opening of the Fairview Container Terminal in 2007 was an important step toward connecting the Canadian economy to the developing economies of Asia," says Dale MacLean, the port's Board of Directors chair. "The new express gateway is providing shippers with unparalleled speed and reliability, a competitive advantage in their supply chain management, while the Fairview Terminal has created a solid foundation for economic activity in Western Canada and a stimulus for new investment across the region." ■

Patrick Burnson is Executive Editor of Logistics Management

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SUPPLY CHAIN GROUP
Brian Ceraolo
732-970-1070

PUBLISHER
Brian Ceraolo
732-970-1070

PRODUCTION MANAGER
Kelly Jones
781-734-8328

DIRECTOR OF ONLINE SALES
Paul Zampitella
781-734-8541

SALES OFFICES

East Coast

Paul Kenny
REED BUSINESS INFORMATION
1018 W. 9th Ave.
King of Prussia, PA 19406
Phone: 610-205-1153
pkenny@reedbusiness.com

Midwest/ Eastern Canada

Jeffrey Giersch
REED BUSINESS INFORMATION
W169 N10776 Redwood Lane
Germantown, WI 53022
Phone: 262-251-7395
jeff.giersch@reedbusiness.com

West Coast

Michael Tangney
REED BUSINESS INFORMATION
8878 S. Barrons Blvd.
Highlands Ranch, CO 80129
Phone: 303-265-6587
mtangney@reedbusiness.com

Europe & United Kingdom

Hamilton Pearman
32 rue du mai 1945
94 510 la Queue en Brie, France
Phone: 011 331 45 93 08 58
hpearman@wanadoo.fr

Asia

Quentin Chan
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Can you put out the fire?

By John A. Gentle, DLP

IMAGINE YOU'RE A FIREFIGHTER called to a home engulfed in flames. You race to the house, hook up the hoses, and turn on the water only to find that this is one of several low pressure hydrants in this area.

Finally your team manages to find and hook up to a high pressure water hydrant main on an adjacent street. The search takes too long and the house is lost. Your team is dejected and is now fighting off jeers from the family and neighbors. Such was the case recently in a municipality near ours. The public outrage was deafening: Who is to blame? The fire department? The mayor? The public works department?

The review panel reported that the fire department received the order and responded in good time, deployed its resources properly, and operated within "defined processes"—not their fault. The Mayor, who previously ordered color coded hydrants (signifying high or low pressure), actually had all the hydrants painted green to beautify the city. He said, "not my fault."

And the public works department said its primary job is to perform maintenance on all city hydrants and to keep good records, but mostly in handwritten books kept by their crews.

At best, I would classify this fractured effort the result of unconscious incompetence.

Unfortunately, there are too many similarities between municipalities and companies as they attempt to serve their customer base. In this case, there were specific flaws in process effectiveness and ownership; database structure and its completeness, timeliness, and intradepartmental access; false/theoretical capacity, risk management, and testing; and poor intradepartmental communications.

While any one of these shortfalls could be the focus of a Sage Advice column, let's take a quick swipe at each. We'll treat the transportation team

as the fire department because, in most cases, the transportation team has always been expected to pull the company's fat out of the fire. The planning department resembles the public works department because it knows where all the sources of supply are located. And the Mayor is like the marketing/sales team thinking of ideas to make the product and service attractive to clients—but generally indifferent about the unintended consequences.

It's inconceivable that any organization would knowingly react to emergencies relying on an incomplete database and be vindicated by a review panel which suggested it operated within a purported "defined process." Process needs to be tested for shortcomings.

So, your logistics team cannot be like the city with its disjointed operations that claims it has a process; but acts blindly and like a hero overcoming the incompetence of others. So what separates your team from the

disjointed efforts of the city in my example above? Here are seven things to test for:

1. When is the last time that you looked to see how many shipments were re-consigned because the customer database showed the wrong "ship to" address?
2. When was the last time you took your operating system down and demonstrated that you could manually—and cost effectively—assign and fax tender shipments to carriers and deliver on time?
3. Have you tested your ability to operate your process remotely with 80 percent of your staff operating from home? Did the last pandemic worry you?
4. When was the last time you reviewed the customer service and logistics processes and responsibilities/accountabilities at ground level? Were you in agreement?
5. When is the last time you asked for and received a review of the performance audit of your TMS and other operating systems?
6. Does the logistics team consistently celebrate "heroism"? It may be nice to recognize people that go over and above, but often it masks process flaws.
7. The next time something significant goes awry, will people wonder if you should have known better and whether you worked for a dysfunctional municipality in your former life? ■

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.

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